IR Meeting on Financial Results for FY2026 Q2: Questions and Answers

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[Moderator]	Yusuke Nagai	Head of Investor Relations Department

<Questioner 1>

Through collaboration with SCSK, Net One Systems and Sakana AI, I believe you could offer distinctive services in the cybersecurity field that other companies cannot. SCSK's order backlog increased by 15% year on year in the first-half results. How much has security-related demand contributed to this increase? Also, how do you expect the recent rise in demand for security to affect long-term profit growth?

<Ueno>

Both SCSK and Net One Systems have established strengths in security, and we expect to create synergies between the two companies. Inquiries have been increasing recently, and customer needs are growing. SCSK is also strengthening its security business organization to contribute to customers' safe and secure operations.

We believe that Sakana AI's AI research and development capabilities and technological expertise, combined with SCSK's ability to integrate AI into systems and implement it in the business front-lines, can be effective in the security and governance areas as well as the other areas, and we are exploring various options. We are not yet at the stage of being able to provide specific, quantitative effects, but we aim to translate these efforts into results going forward.

<Questioner 1>

Could you share any policies you can currently disclose regarding the next Medium-Term Management Plan (hereinafter, the next MTMP), such as the ROE target, plans to reduce interest-bearing debt and asset replacement, in light of the external environment, including rising interest rates?

<Ueno>

The direction of the next MTMP is to achieve transformational growth by maintaining the current pace of growth and creating a further chain of growth. We believe that, under Medium-Term Management Plan 2026 (hereinafter, the current MTMP), we have established the business foundation needed to achieve that.

We are currently discussing quantitative plans internally, including whether to set a numerical ROE target, and we will provide further details when we are ready to announce the plan. We recognize the need to balance growth and shareholder returns in order to meet shareholders' expectations. Within that framework, we also intend to actively pursue growth investments that can generate returns commensurate with rising interest rates and provide sufficient economic viability.

<Questioner 2>

Could you explain the details of the JPY30.0 billion buffer, which is described as covering potential downside in gain and loss related to asset replacement and possible valuation losses at fiscal year-end? In the Automotive Group, asset replacement and extraordinary profits and losses have increased compared with the previous plan. Is this related to the buffer?

<Morooka>

The buffer is purely precautionary and is not tied to any specific project.

We have also reviewed the assumptions for asset replacement that were factored into the initial forecast. We believe the likelihood of realizing the asset replacement gains in the Automotive Group is high, and we have incorporated them into the segment forecast. On the other hand, we have excluded from the forecast some transactions that may not be completed by the end of this fiscal year.

We see a certain degree of upside in profits and losses related to asset replacement. However, the timing of realization and the amount of asset recovery may change, and some projects are about to enter full-scale negotiations with counterparties. We have therefore set the buffer with the potential downside in mind.

In addition, changes in the business environment, such as rising interest rates, could result in valuation losses in the year-end valuation of assets. We have set the buffer to cover these factors collectively.

<Questioner 2>

In the Eight Growth Areas, it appears that significant organic growth is planned for the second half of FY2026. Which businesses will drive growth in the second half, and which businesses can be expected to sustain organic growth in the next fiscal year and beyond?

<Fuse>

One of the businesses that will drive organic growth in the second half is the real estate business. Because of the timing of profit recognition, we expect to recognize more profit in the second half of this fiscal year than in the same period of the previous year.

<Ueno>

We expect aircraft leasing, as well as the digital business centered on SCSK, to continue driving profit in the next fiscal year and beyond. In addition, we expect real estate, as well as Energy Transformation, particularly the power generation business, to continue contributing to earnings in the next fiscal year and beyond.

<Questioner 3>

Could you explain the current situation in the Steel Group and the Automotive Group, separately for the Middle East business and the other businesses?

<Morooka>

In our initial forecast, we factored in a negative impact on profit of approximately JPY23.0 billion, assuming that the Strait of Hormuz would remain closed until the end of June 2026 and that business activities would take a certain amount of time to recover. We assumed that the main segments affected would be Steel, Automotive and Chemical Solutions.

In the forecast that we announced today, we have conservatively revised our forecast on the assumption that the current disruption will continue until the end of March 2027, and the business impact among the three business differs from what we assumed in the initial forecast. In Steel, because the disruption in the Middle East is lasting longer than expected, the negative impact on profit is larger than initially assumed. On the other hand, in the Automotive and Chemical Solutions businesses, we expect the negative impact to be smaller than initially anticipated. We expect the total impact across these three businesses to be approximately 20% smaller than initially assumed.

In Automotive, we have revised the full-year forecast upward because sales volume in Q1 exceeded our expectations amid heightened local demand for real assets. However, as we had anticipated,

local demand has declined since Q2, and we have formulated the revised forecast on the assumption that demand will not recover throughout the second half.
In Steel, we have assumed a larger profit decline than initially expected as the impact is prolonged. On the other hand, the business environment in North America is showing signs of improvement: some operators are increasing their rig counts, and prices have risen slightly, reflecting in part a decrease in imported materials in the U.S.

<Questioner 4>
The Agribusiness appears to continue to struggle. Could you tell us about the current business environment and any signs of improvement?

<Fuse>
In the Agribusiness, underlying profit in the first half of this fiscal year was JPY1.7 billion, an increase from JPY0.3 billion in the same period of the previous year. On the other hand, we have revised the full-year forecast downward to JPY4.3 billion from the initial forecast of JPY5.6 billion.
In the first half, profit increased year on year, driven by the improvement in earnings in the crop protection distribution business in South America, despite a decline in revenue and the recording of an allowance for doubtful accounts at our European operations.
As for the full-year forecast, the high-demand season falls in the second half, so profit is expected to be higher than in the first half. However, we have lowered the forecast as a result of the allowance for doubtful accounts in Europe and the downward revision of the Brazil business. The downward revision of the Brazil business is mainly attributable to intensifying price competition and a higher cost ratio resulting from the external procurement of soybean seeds. In Brazil, as grain market conditions remain sluggish and we expect the high-interest-rate environment to continue to some extent, we will focus on maintaining and strengthening our business foundation for the time being.

<Questioner 4>
With interest rates rising sharply in Japan, it may become difficult to continue acquiring properties in the real estate business, particularly domestically. Given that the domestic business accounts for a large share of real estate earnings, do you plan to continue to accelerate acquisitions and turnover in Japan in the next MTMP as well? Also, how do you assess the risks?

<Ueno>

In the domestic real estate business, there is still a pipeline of properties to be sold in order to improve asset efficiency. In parallel, we are also developing new projects, and we believe that the asset turnover model, in which we develop and launch such projects and then sell them, will be a sustainable business model.

As interest rates rise, the real estate market as a whole may be affected. However, we will focus on high-quality projects where we have the network, knowledge and experience and where we can add value.

<Questioner 5>

Under the strategic categorization, invested capital in the businesses categorized as Restructuring is expected to remain at JPY1.3 trillion even at the end of FY2026. Could you tell us your thinking on the scale of invested capital in the Restructuring category toward the next MTMP?

<Morooka>

The Restructuring category consists mainly of businesses that, in management's view, while we monitor progress against their turnaround plans, may require some capital restructuring or exit, depending on the circumstances.,.

Construction & Mining Systems and Agribusiness, which are part of the Eight Growth Areas, are currently categorized as Restructuring. However, since the categorization is made on a strategic business unit (SBU) basis, the category also includes businesses that are generating profit steadily when viewed individually.

Although there are not as many as before, there are always some businesses that need improvement. Turning them around and reducing invested capital are very important for raising the Company's overall profit level. We intend to continue working on these with a sense of speed in the next MTMP as well.

<Questioner 5>

Regarding the Digital and AI Strategy (hereinafter, DAIS), could you tell us the scale of profit contribution expected from Pillar 2 and Pillar 3, which are the growth of the Sumitomo Corporation Group and the creation of new revenue sources?

<Ueno>

As the outcome of DAIS as a whole, we have set a target of improving ROIC by 1 percentage point in 2030. Based on the current invested capital, a 1% improvement in ROIC would correspond to a profit increase of roughly JPY100.0 billion, and we aim to achieve this through the initiatives under Pillars 1, 2 and 3.

For Pillar 1, SCSK plans to double its profit from the FY2025 level by FY2030. For Pillar 2, it will take a little more time to monetize, but initiatives are progressing in various areas, including the maintenance of railway and airport infrastructure, and we expect to monetize them by 2030. For Pillar 3, we expect profit contribution beyond SCSK's standalone growth, including in the mobility field, where we have announced a collaboration.

By steadily advancing these initiatives, we aim to improve the Company-wide ROIC by 1 percentage point, and to exceed it.

<Questioner 6>

How do you assess the sustainability of asset replacement in the next MTMP? Regarding investments in particular, could you indicate the direction of the areas in which you will focus? Will they be Digital and Leasing, in which you made focused investments in the current MTMP, or real estate and power generation assets, in which you advanced replacement and investment as asset-turnover businesses? Do you expect large investments in other areas among the Eight Growth Areas, or in areas outside the Eight Growth Areas?

As for asset replacement, the cumulative total over the current MTMP is expected to exceed JPY1 trillion. However, we assume that, with rising interest rates, it will become harder for prospective buyers to offer high prices. Can we expect a similar scale of asset replacement going forward?

<Ueno>

We will decide the priority of investment areas going forward by taking future growth potential into consideration. However, we believe that the four areas of Digital, Leasing, Real Estate and Energy Solutions are potential candidates for further allocation of management resources.

As for the sustainability of asset replacement, we intend to continue shifting management resources to businesses with high asset efficiency.

When selling assets, it may become harder to find buyers who can offer attractive prices as interest rates rise. Taking real estate and power generation assets as examples, however, assets that we have been involved in and brought to completion have created additional value that buyers are willing to purchase, even as costs rise. We will invest funds in such areas.

<Questioner 6>

The Energy Transformation Business Group (hereinafter, EX Group) has revised its profit forecast upward this fiscal year and is performing very strongly. In particular, regarding the overseas IPP business, which has contributed to the upward revision and is positioned as an asset-turnover business, can we expect a similar level of profitability throughout the three years of the next MTMP even as interest rates rise?

Also, regarding the gas trading business, which has also driven the upward revision, profit levels seem to depend on market conditions. How do you assess a sustainable level of profit?

<Morooka>

For the past few years, we have been asked every year whether the EX Group's performance can be sustained in the next fiscal year and beyond. Looking at the trend in underlying profit, it was approximately JPY100.0 billion in FY2024 and JPY88.0 billion in FY2025, and we expect JPY133.0 billion in FY2026.

This performance has been pushed up by asset turnover in the IPP and IWPP businesses, and we have been able to sell at higher-than-expected prices. Although the profit level may moderate somewhat from the next fiscal year onward, we are continuously developing multiple power generation projects, and we believe the earnings contribution from asset turnover is sustainable.

As for the gas trading business, the profit scale is affected by market conditions at the time. However, price differences between regions and seasons exist structurally in supply and demand. We have been expanding our earnings base by enhancing our trading capabilities and broadening our geographic coverage, such as by establishing a London base for our U.S. gas trading business. Through these efforts, we expect continued profit contribution going forward.

<Questioner 6>

Is it correct to understand that the reason asset turnover of power generation assets in the overseas IPP business can continue even in a period of rising interest rates is that the rise in power generation asset prices is larger than the rise in interest rates, and that Sumitomo Corporation's value-adding capabilities are recognized, allowing it to continue selling at high prices?

<Ueno>

Yes, and in addition, strong demand for electricity is also a factor. Many operators want to enter the power business now in anticipation of further increases in power prices in the future. We will continue asset turnover by selling part or all of our interests in individual projects to such operators.

<Questioner 7>

With FY2026 profit reaching JPY700.0 billion before the buffer, could you share any thinking you can currently provide on financial targets, such as balance sheet related indicators (e.g., the D/E ratio), which will serve as the starting point for the next MTMP?

Regarding the asset replacement plan, a plan of JPY1.2 trillion over the three years through FY2028, a period different from that of the next MTMP, has been presented. Is it correct to understand that, in light of the outlook for the end of FY2026, you will present targets that incorporate the asset replacement plan through FY2028, with further acceleration or expansion?

<Morooka>

Regarding the D/E ratio, we have presented a plan to return it to the end-FY2024 level by the end of FY2028 through asset replacement and other measures. However, as we have explained, we would like to achieve this as far ahead of schedule as possible, which remains our plan .

For asset replacement, we plan JPY600.0 billion in FY2026, of which JPY400.0 billion is planned for the second half, representing a very large recovery of funds. Some business divestitures will also contribute to lowering the D/E ratio through a reduction in debt following deconsolidation, and the asset replacement plan as a whole is progressing smoothly.

Although the D/E ratio was somewhat high at 0.81x at the end of September, we expect it to decline to slightly above 0.6x by the end of the fiscal year by executing the asset replacement plan. As many of you have pointed out, interest rates are rising, and we believe funds should be recovered as early as possible. We intend to accelerate the asset replacement.

<Questioner 7>

I understand that, with rising interest rates, the time required to recover investments is now costing more than before. In this changing environment, I believe investments should be made with the business model and recovery period in mind, rather than simply focusing on the field of business to invest in. I feel that a major change from the past in Sumitomo Corporation's investments in recent years is that you have made acquisitions that contribute to profit immediately after execution. How do you think about your future business model and the time horizon for investment recovery?

<Ueno>

We have not limited ourselves to investments that can be recovered in the short term, but the large investments we have executed were acquisitions in existing business areas, and they contributed to earnings immediately. On the other hand, it usually takes time to recover the investment in real estate projects that we develop starting from land acquisition and in power generation assets that

we develop in various regions.
However, demand for electricity will remain strong in the future, and given this macro environment and structure, we intend to continue pursuing projects that are economically viable even if they take time. We have strengths in the short, medium and long term, and we would like to consider the optimal combination while taking into account economic benefits and capital efficiency.

<Questioner 8>
Could you tell us about the current status of the telecommunications business in Ethiopia? When do you plan to achieve full-year positive EBITDA?

<Fuse>
The telecommunication business in Ethiopia continues to show steady operational progress, and losses are narrowing. In the first-half results, foreign exchange valuation losses decreased as the depreciation of the local currency slowed compared with the same period of the previous year.
On the operational side, we track the number of 90-day active customers, which is increasing steadily. In addition, following administrative guidance that prohibits below-cost pricing in order to promote healthy competition in the telecommunications industry, we have achieved continuous increases in average revenue per user, and revenue has doubled year on year.
Recently, we have achieved positive monthly EBITDA. We cannot state clearly when we will achieve full-year profitability, but we will continue to work toward it.

<Questioner 8>
You expect profit growth of approximately JPY100.0 billion year on year this fiscal year. What scale of profit growth do you currently envisage for the next fiscal year and beyond?

<Ueno>
We cannot give a specific amount, but we expect the profit contribution from the investments we made last fiscal year and this fiscal year to expand steadily. We also expect a reasonable profit contribution from the divestiture and turnaround of challenged businesses. Adding the diminishing impact of the situation in the Middle East, monetization through the promotion of DAIS, and profit contribution from new growth drivers, we believe steady growth is achievable.
While the figures will require further review, those compiled from the business groups for the next fiscal year and beyond at this point indicate solid growth.

<Questioner 9>

Could you tell us about the sustainability of the Mineral Resources Group's strong performance in the next fiscal year and beyond, as well as any risk factors?

<Fuse>

In the first-half results, underlying profit was JPY61.0 billion, a significant increase from the same period of the previous year. Although there was a tailwind from rising resource prices, margin expansion in the aluminum business and strong precious metals trading in the commodity business also contributed.

We have also revised the full-year underlying profit forecast upward to JPY114.0 billion, reflecting the outperformance of the aluminum and commodity businesses in the first half. The full-year forecast is based on current resource prices and does not assume overly optimistic price levels, so we currently expect to land in line with the forecast.

<Questioner 9>

In the Mineral Resources Group, the share of earnings from mid- and downstream businesses appears to have expanded significantly. Could you tell us your thinking on future investments, including upstream?

<Ueno>

In the past, we had the portfolio that most earnings came from upstream, and profit increased significantly when resource prices soared. On the other hand, mid- and downstream businesses have a very stable earnings base. These include the commodity business, which handles commodity products such as precious metals, and the aluminum business, which involves the smelting and processing of alumina. In the U.S., while import volumes are restricted by tariffs, the aluminum smelting business using inexpensive domestic scrap as feedstock is also earning profit. We expect earnings from these mid- and downstream businesses to account for more than 50% of the Group's earnings this fiscal year.

Our upstream strategy continues to center on copper. However, few high-quality copper interests remain untapped, so our strategy is to enter, together with G Mining, small- and medium-sized copper mines where we can add value with our expertise. We have already made several investments in line with this approach. The Quebrada Blanca 2 project, in which we made a large investment, is also increasing its production, and we will also continue to focus on this project.

<Questioner 10>

Could you tell us about the situation in the Steel Group, particularly the North American energy tubular business? The presentation materials describe improving supply-demand conditions in the North American energy tubular business. Could you explain the pricing and supply-demand situation?

<Fuse>

The number of rigs, an indicator of demand for energy tubular products, is on an upward trend. The number of oil rigs is increasing amid higher oil prices stemming from the situation in the Middle East. In addition, the number of gas rigs also remain solid, reflecting growing power demand for data centers.

On the supply side, imports have declined, partly because of the imposition of tariffs, and spare supply capacity at domestic mills has also decreased. As a result, supply and demand have tightened, and tubular product prices are trending upward.

Consequently, the North American energy tubular business has partially offset the decline in the Middle East, and the outlook for the Steel Group as a whole has been left unchanged.

<Questioner 10>

Could you explain the background to the year-on-year profit increase and the upward revision of the forecast in the Transportation & Construction Systems Group, as well as the outlook for the business environment, particularly for the leasing and construction equipment businesses?

<Morooka>

In the first half, underlying profit increased by JPY13.0 billion year on year, with both the transportation and construction equipment businesses contributing.

In the leasing business, the environment for aircraft leasing remains strong. The environment is underpinned by a shortage of aircraft supply, and both lease income and gains on the sale of aircraft through asset turnover remain favorable. Businesses other than aircraft leasing, such as engine leasing, helicopter leasing and real estate leasing at Kenedix, are also performing well. The shipping market is also strong, and the upward revision from the initial forecast reflects the strong business environment and market conditions for ships.

In construction equipment, profits also increased year on year in the first half, and we have maintained the initial forecast. The U.S., equipment rental market in which Sunstate operates is recovering, driven by robust demand for data center construction. In addition, under the new CEO, operations and management have been improved, and utilization rates and rental rates have risen.

The business is being managed effectively well and its performance remains strong. The maintenance and product support businesses for mining machinery also continue to perform well, and sales have grown compared with the previous year. Overall, the favorable business environment continues.

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