



# Approach to ESG

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30<sup>th</sup> June 2020



SUMITOMO MITSUI  
FINANCIAL GROUP

# Agenda

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# **I . ESG : Our Approach**

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# 1-1. Recent developments

Committed accelerating Sustainability management through establishment of the “SMBC Group Statement on Sustainability” and

**SMBC Group  
GREEN × GLOBE 2030**

## Establish sustainability management



## Background of the Statement on Sustainability

### Background

Looking back across our Sumitomo and Mitsui history, we will drive forward our efforts to make sustainability a reality.

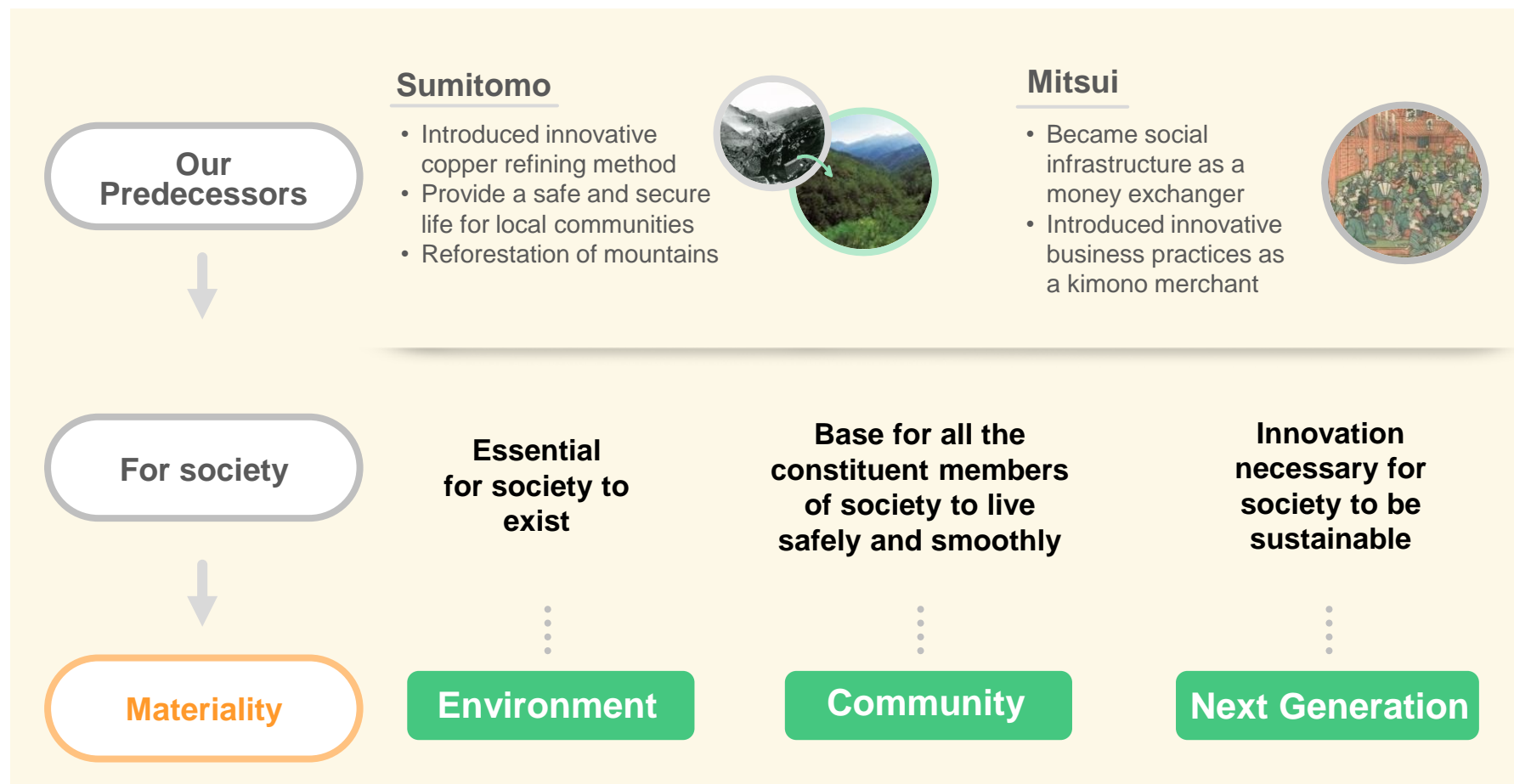
### What we aim for

To **engage and act together with customers and other stakeholders** to contribute to the global transformation into a better society

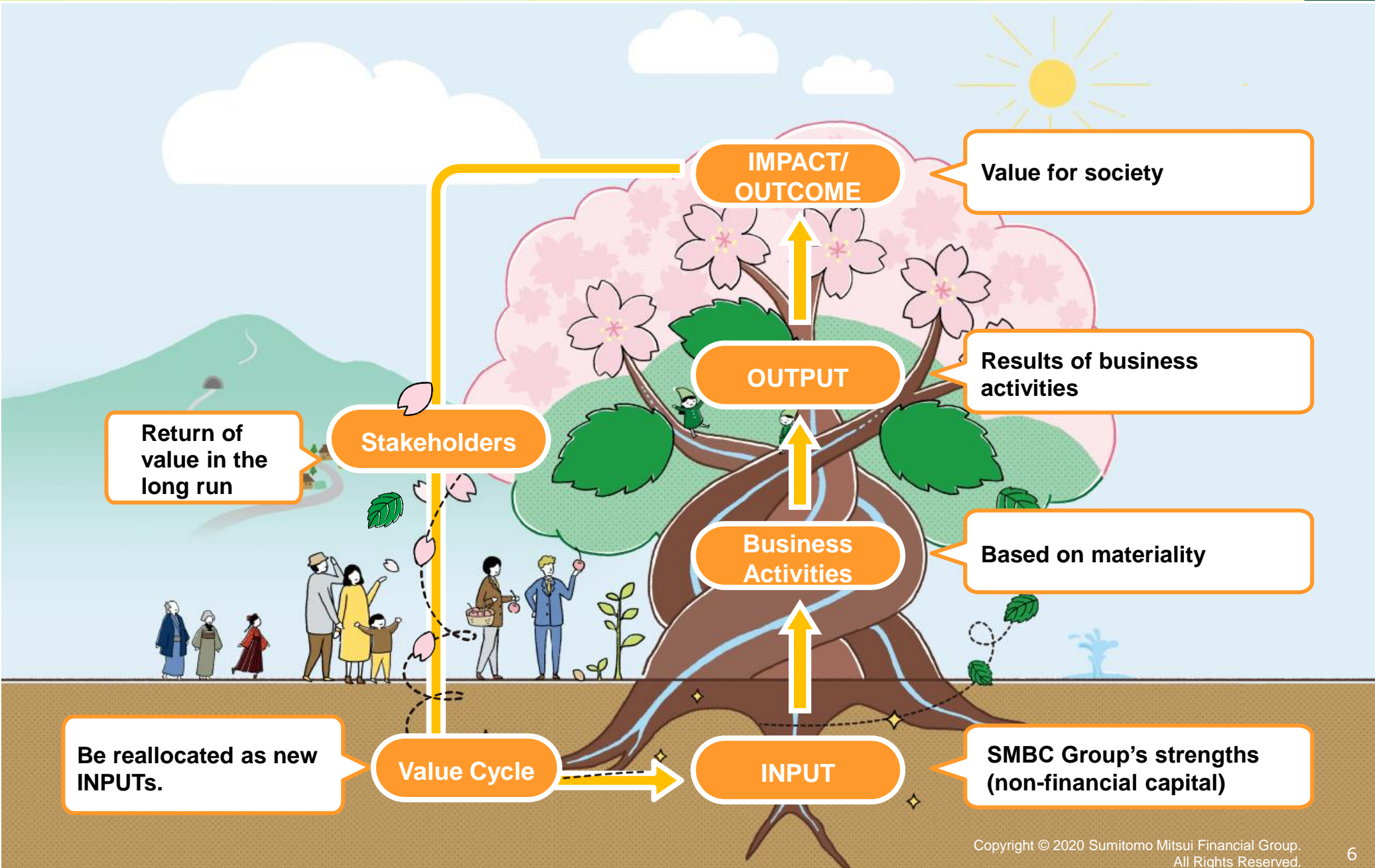
## Long-term KPI : “SMBC Group GREEN×GLOBE 2030”

- JPY 10 tn** Green Finance by 2030
- 1.5mn people** Financial education by 2030
- Evaluate social impact** of social contribution activities
- Increase awareness of SDGs** in both front office staffs and customers (conduct surveys)
- Reduce CO<sub>2</sub> emissions **by 30%** by 2030 (SMBC)

# 1-2. Materiality

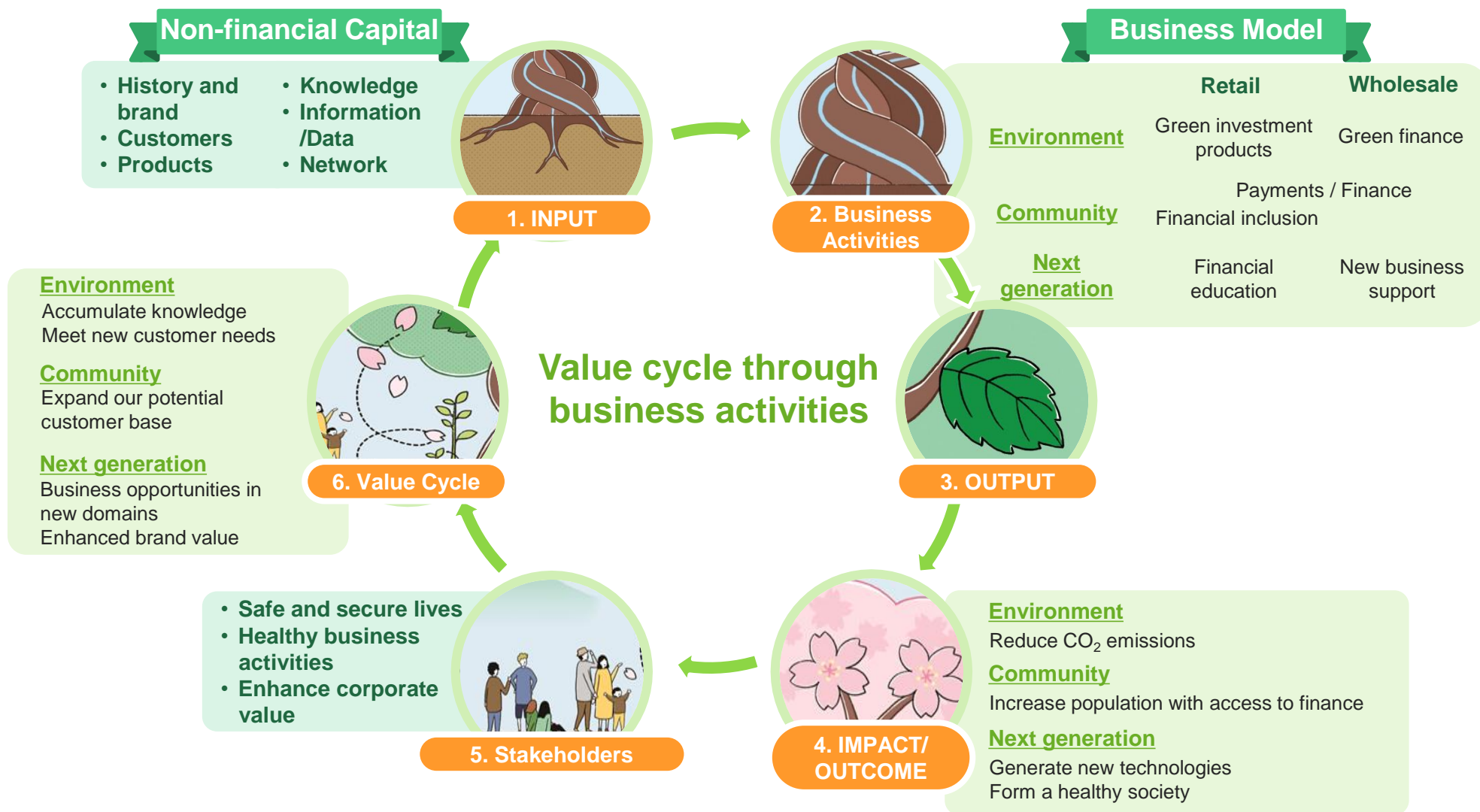


# 1-3. Value Creation Model (1)





# 1-3. Value Creation Model (2)



## 2-1. TCFD / Policies by sector

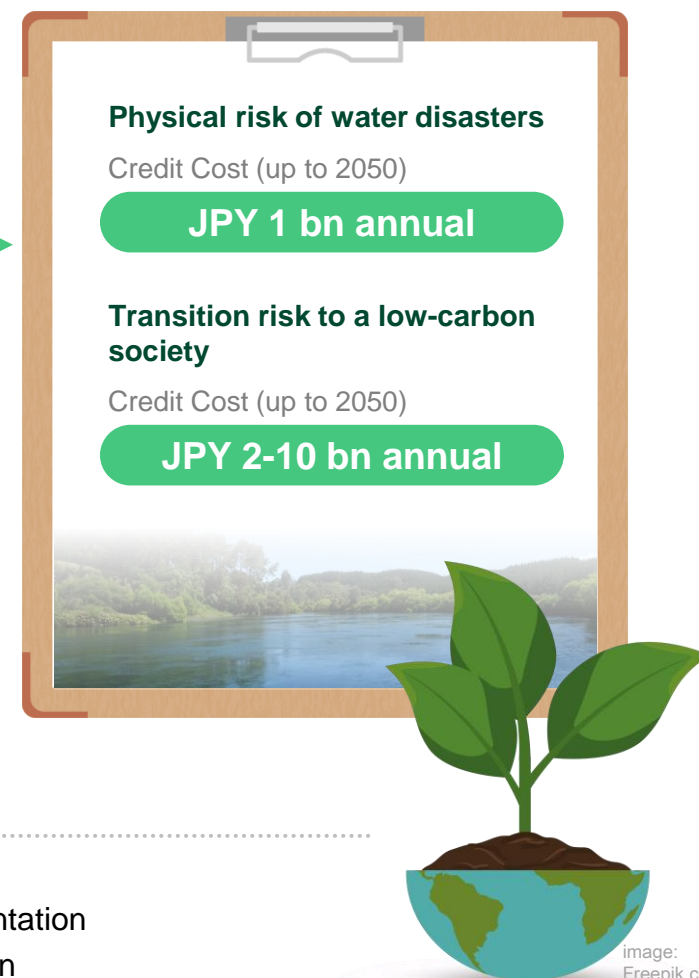
### Environment

Proactive in environmental issues : first global financial group to disclose the impact of climate-related risks.

#### Response to the TCFD Recommendations

We have announced to support TCFD in December 2017

Governance	<ul style="list-style-type: none"> <li>Enhancement of the "Group Environmental Policy"</li> <li>Report Climate change risks to the Management Committee and the Risk Committee</li> </ul>
Strategy	<ul style="list-style-type: none"> <li>Conduct climate change scenario analysis</li> <li>Estimated carbon-related asset exposure ratio(7.8%)</li> <li>Aggressive approach towards renewable energy finance and green bond issuance</li> </ul>
Risk Management	<ul style="list-style-type: none"> <li>Identify climate change risk as one of the top risks, and conduct impact analysis through stress tests</li> <li>Conduct environmental and social risk assessments based on the Equator Principles</li> <li>Formulate a policy toward sectors that have impact on climate change</li> </ul>
Indicators and Targets	<ul style="list-style-type: none"> <li>JPY 10 trillion : Green Finance</li> <li>Reduce CO<sub>2</sub> emissions by 30%</li> </ul>



#### Lending policies by sector

- Coal-fired power generation
- Hydro power generation Add
- Oil & Gas Add
- Coal mining
- Tobacco manufacturing Add
- Natural conservation areas Add
- Palm oil plantation
- Deforestation
- Weapon manufacturing



## 2-2. GREEN×GLOBE Partners / Financial Education

Community

Next  
Generation

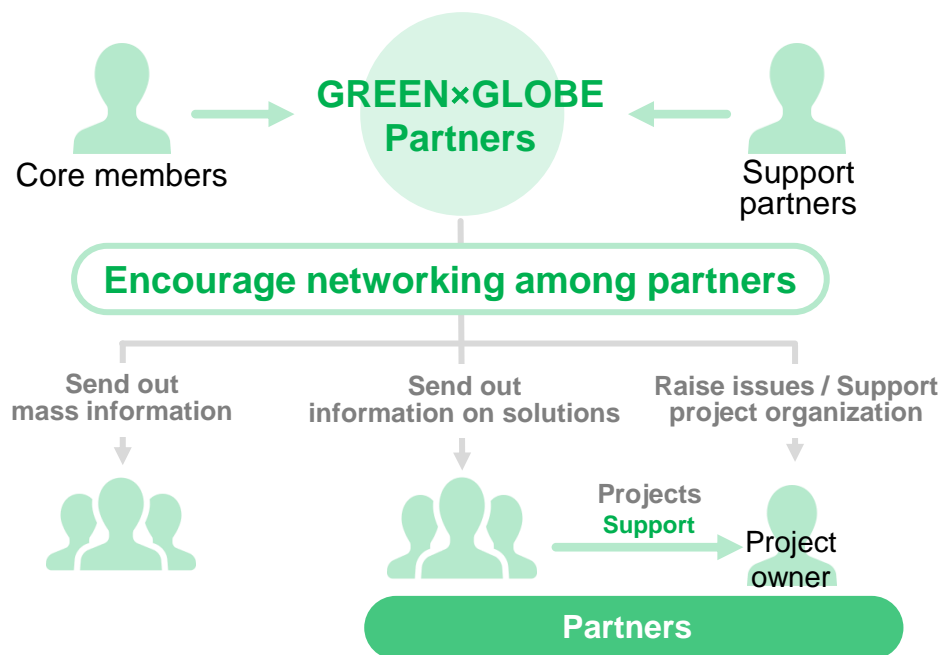
Realize a sustainable society by solving social issues and educating the next generation.

Community platform to address social issues

### Establishment of GREEN×GLOBE Partners

#### Purpose:

To get people with the same aspirations to join and act together to address environmental and social issues.



Financial  
Education

KPI

1.5 mn participants in our financial education programs by 2030

- SMBC Consumer Finance has held “PROMISE Finance and Economics Seminar” since FY2011. The cumulative number of participants exceeded one million in FY2019.
- Working to enhance the programs in collaboration with other group companies.



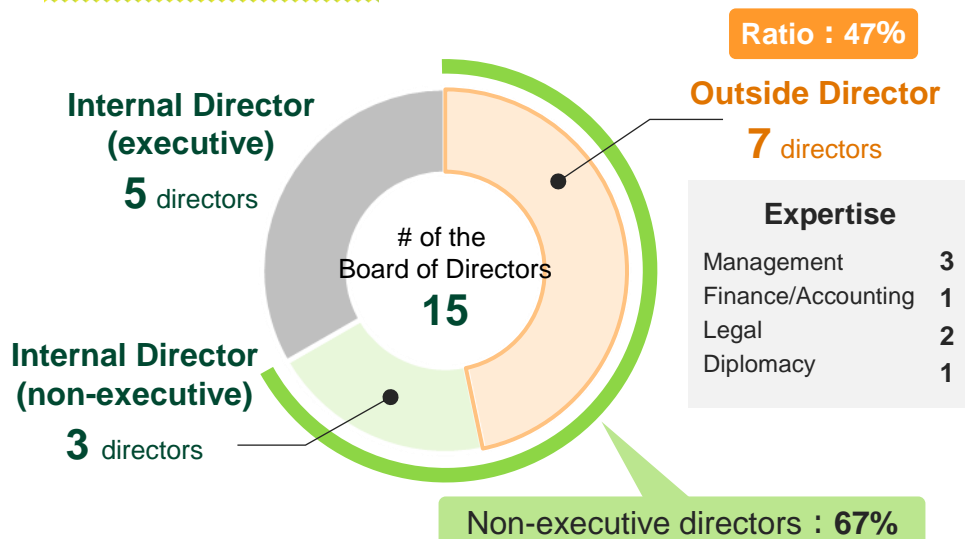
Provide financial education to a wide range of generations



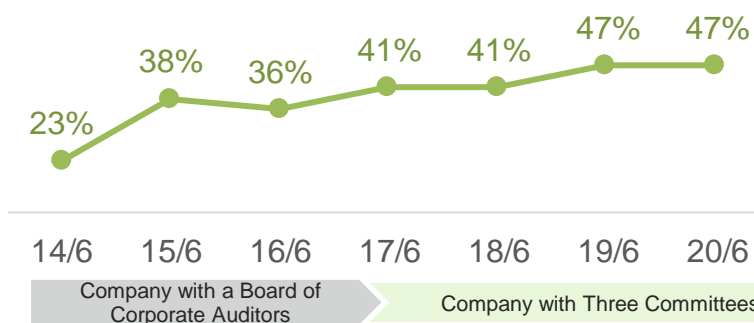
## 2-3. Governance

Continue enhancing corporate governance as the foundation of sustainability management.

### Board of Directors



### Ratio of Outside Directors



### Compensation policy for executives

In FY2020, “ESG efforts” were added to the qualitative criteria for Stock Compensation Plan I.

Compensation Components	Payment Standards (Range of Variation)	
Base salary	Fixed compensation	Cash
Bonus (cash)	Compensation determined based on annual performance (0–150%)	Cash 70%
Bonus (Stock Compensation Plan II)	Standard levels × annual performance of SMFG/SMBC and the executive	Restricted stock 30%
Stock Compensation Plan I	Compensation determined based on medium-term performance (0–150%) Standard levels × Medium-term performance Performance indices: financial targets stipulated in the Medium-term Management Plan, shareholder value, and qualitative criteria	Restricted stock
Stock Compensation Plan III	(Promotion reward plan)	Restricted stock

**Performance payments 40%** ▶ Raise motivation of executives

**Stock compensation 25%** ▶ Share interests with shareholders

**Mars and clawback** ▶ Foster a prudent risk culture expected of a financial institution

## 3-1. Our response to COVID-19

Act promptly in line with our social role and priority issues.

### Function as social infrastructure

- All SMBC branches are open and ATMs remain accessible in Japan
- Supporting urgent financial needs



**Consumers** - Loan programs with special interest rates ( SMBC, SMBCCF, SMCC )

**Corporates** - Extending credit using special funds-supplying operations by BOJ  
- Loans with government covered programs

- Offering customer relief

### Securing employee health and safety



- No COVID-19 related layoffs
- Work from home / Split operations
- Additional special paid time-off
- Prevent infection within offices and branches
- Provide medical and mental healthcare support

### Support to control and converge the infectious disease

Providing prompt corporate support, that contributes to control and converge the infectious disease such as establishment of an investment fund for bio/drug discovery ventures, etc. and donation of 500 mn yen to the Center for iPS Cell Research and Application (CiRA), Kyoto University.



### Response to new lifestyle



- Enhanced digital capability and servicing
  - online-banking transactions in April: +36% YoY
- SMBC at Home
  - Donations through online-banking



## 3-2. Communication with Stakeholders

Enhance communication with employees, customers, and investors.

### Customers ... Enhance In-house Training

#### KPI

- Increase understanding of SDGs in both, front office staffs and customers
- Increase dialogue with customers

Systematize sustainability training program to place it as Sustainability University

Purpose	Content
(1) Expand the Group's knowledge base	Introduction of unified training throughout the Group Enhancement of practical training and self-development materials
(2) Improve understanding of SDGs	Upgrading training content tailored for each level Introduction of seminars for the Management Committee members
(3) Measure the improvement in understanding	Taking time series observations using employee surveys

Increase SDGs dialogue between employees and customers


### Employees ... Measure to Permeate the New Group Mission

The Management Committee members to directly visit sales branches to hold Town Hall Meetings.

### Shareholders/ investors ... Strengthen ESG Disclosure

We recognize the need to improve our ESG scores.

We will proactively disclose our policies in order to increase transparency and have active dialogue with investors.

ESG rating organization	Our status	
MSCI	A /AAA-CCC	Selected for MSCI ESG Leaders Index
FTSE	3.6 /5  Up	Selected for FTSE4GOOD
Sustainalytics	40.6 /100	
DJSI	59 /100	(Percentile rank )



# (Ref.) ESG indices and initiatives

## Selected ESG indices

### GPIF selected



FTSE Blossom  
Japan

2020 CONSTITUENT MSCI JAPAN  
ESG SELECT LEADERS INDEX



2020 CONSTITUENT MSCI JAPAN  
EMPOWERING WOMEN INDEX (WIN)



FTSE4Good

2020 MSCI ESG Leaders  
Indexes Constituent



Sampo Sustainability Index



## Endorsed initiatives

WE SUPPORT



Signatory of:



PRINCIPLES FOR  
RESPONSIBLE  
BANKING





## **II. Initiatives for Sustainable Business**

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# 1-1. Current Market

Business Leaders are focusing more on sustainability to achieve sustainable growth under the current global recession and irreversible structural changes.

## Global Economic

### COVID-19



### Geographic Risk



## Japanese Economy

### Depopulation

Productive  
population

▲20%

2020 2040

### Interest Rate

Policy Rate

▲0.1%

16/1

## Employee

### Digital Native Generation

Generation Z  
Born in 1995-2010 2.5bn

Millennial  
Born in 1980-1995 2.4bn

## Climate Change

### Global Warming

+1.5°C

Before Industrialization 2030-52

### ESG Investment

AuM of PRI  
signatories

JPY 7tn 86tn  
2006 2019

### ESG Rating

2,200 studies for  
relation to corporate  
financial performance

90% Non-negative

### ESG Finance

Green bond, SLL  
etc

USD150bn USD465bn  
2013 2019

## Regulation

### Climate Change Risk/Green RWA



Source: SMBC (As of May 19, 2020)

# 1-2. Current Market (COVID-19)

## COVID-19



While COVID -19 has changed the basic structure of society, there is certain value which will not change. SMBC Group will continue to focus on ESG/SDGs.



Source: International Energy Agency

## Value that won't change

### E Environment

Less CO2 Emissions

### S Society

Corporate Resilience, Digital Society and New Style of Life

## Mission of SMBC Group

### Business with Customers

- Renewable Energy
- Energy Transition
- New Business

### Financial Services

- Green Loan/Bond
- Social Loan/Bond
- Sustainable Loan/Bond

## 2-1. History of Sustainable Business

Working on ESG in long term.

### **E** Environment

- Environment Solution Dept
- **Advisory Business in Environment**

2006

2007

- **Emission Rights Trade** 1st in Japan
- **Environment Assessment Loan**

2008

2009

- **SMBC Green Program**

2010

Growth Industry Cluster (PT)

- **Sustainable Building Assessment Loan**

2011

2012

- **Sustainability Assessment Loan**

2013

- **Green Bond** 1st in J-commercial bank
- **Future Creation Fund (No.1)**
- **Mobile Hydrogen Station** 1st in Japan

2014

2015

2016

2017

- **Hydrogen Council** 1st in commercial bank

2018

### **S** Social

### **G** Governance

- **Business Continuity Assessment Loan**
- **Food/Agriculture Assessment Loan**

- **Myanmar SME Credit Guarantee System** 1st in Japan

- **Nadeshiko Assessment Loan**

- **Mirai Farm Akita**

- **Social Impact Bond** 1st in Japan
- **Work Style Reform Loan**



- **ESG/SDGs Assessment Syndicated Loan**
- **Tokyo Metropolitan SDGs Loan**

## 2-2. History of Sustainable Business

We are one of the long standing leading institutions in ESG.

### **E** Environment

<b>Nissen Kaiun</b>	Green Loan	JPY 2.8bn	Scrubber installation (SMBC) Jun 2019
<b>Meidensha</b>	Green Bond	JPY 6bn	Sole Arranger, BR & SA (SMBC Nikko) Jul 2019
<b>Enomoto</b>	Green Loan	JPY 500m	First Green Loan for Hydrogen Projects (SMBC) Sep 2019
<b>Tohoku Electric</b>	Green Bond	JPY 5bn	First Green Bond by J-power companies (SMBC Nikko) Feb 2020
<b>Macquarie</b>	Green Loan	Sole Arranger (SMBC)	Mar 2020
<b>FS with Hitachi/Hitachi Chemical</b>	Feasibility Study for Smart Grid demonstration project in Poland (JRI)		
<b>Consultation for storage battery business</b>	Storage Battery Business (JRI)		

### **S** Society

<b>Miraka Holding</b>	JPY 20bn Social Loan/Bond (SMBC & SMBC Nikko) FY 2019
<b>Social Impact Bond (SIB)</b>	Contributing to regional revitalization (SMBC/SMBC Trust) May 2020
<b>Telework Support Program</b>	Financial Support (up to JPY 1bn) to set up telework system for SMEs
<b>SMBC Cloud Sign</b>	Support SMEs to shift to non paper/non stamp business environment

#### Voice from customers



- SMBC Group's ESG products attract wider range of investors and lenders
- SMBC's dedicated team helps us to understand the relationship between business and the SDGs
- SMBC Group introduces positive impact on IR
- SMBC Group's ESG products enhance our corporate value.

## 2-3. SMBC League Table (2019)

### Green Loan (Asia)

Rank	Lead Bank	Vol. \$m	No of Deals	Share(%)
1	Bank of China	979	7	14.7
<b>2</b>	<b>SMBC</b>	<b>541</b>	<b>4</b>	<b>8.1</b>
3	Credit Agricole CIB	446	4	6.7
4	ANZ	427	4	6.4
5	Mizuho	389	6	5.9
6	HSBC	381	6	5.7
7	OCBC	380	4	5.7
8	KDB	350	1	5.3
9	BNP Paribas	322	3	4.8
10	Cathay United Bank	294	2	4.4
Total		6,656	21	100

### Green Loan (EMEA)

Rank	Lead Bank	Vol. \$m	No of Deals	Share(%)
1	Credit Agricole CIB	2,104	14	15.2
2	BNP Paribas	1,464	10	10.6
3	CaixaBank	868	7	6.3
4	SG CIB	704	7	5.1
<b>5</b>	<b>SMBC</b>	<b>681</b>	<b>4</b>	<b>4.9</b>
6	Mizuho	566	4	4.1
7	Natixis	507	2	3.7
8	BofA Securities	504	3	3.6
9	UniCredit	496	2	3.6
10	Intesa Sanpaolo SpA	477	2	3.4
Total		13,882	26	100

### Sustainability Linked Loan (Asia)

Rank	Lead Bank	Vol. \$m	No of Deals	Share(%)
1	ANZ	913	4	11.8
2	MUFG Bank	833	5	10.7
3	BNP Paribas	784	3	10.1
<b>4</b>	<b>SMBC</b>	<b>502</b>	<b>5</b>	<b>6.5</b>
5	HSBC	428	3	5.5
6	Agricultural Bank of China	404	2	5.2
7	OCBC	388	3	5
8	Bank of China	334	2	4.3
9	ABN AMRO Bank	294	2	3.8
10	Mizuho	290	2	3.7
Total		7,764	16	100

### Sustainability Linked Loan (EMEA)

Rank	Lead Bank	Vol. \$m	No of Deals	Share(%)
1	BNP Paribas	9,603	50	9.4
2	Credit Agricole CIB	6,248	34	6.1
3	SG CIB	5,099	26	5.0
4	UniCredit	4,988	25	4.9
5	Santander	4,608	28	4.5
6	HSBC	4,572	26	4.2
7	Citi	4,345	25	4.2
8	ING	4,293	27	4.0
9	Natixis	4,090	22	3.0
:				
<b>14</b>	<b>SMBC</b>	<b>2,482</b>	<b>14</b>	<b>2.4</b>

Source : Dealogic

## 2-4. Renewable Energy (PF)

### PF Global Bank of the Year

- Awarded as PF Global Bank of the Year (2019) in Project Finance mainly due to our contribution to Renewable Energy.
- SMBC Group is ranked at No.2 in PF renewable energy (2019) and No.1 (1Q 2020).

Global Bank  
of the Year



Deal of the Year  
for 7 deals in  
renewable sector

#### Americas

Power	: KKR/NextEra (US)
Renewable	: Condor (Chile)

#### EMEA

Offshore Wind	: Saint-Nazaire (France)
Offshore Wind	: Neart na Gaoithe (UK)
Power	: Finerge (Portugal)
Renewable	: Dumat Al Jandai (Saudi Arabia)

#### APAC

Renewables	: Yunlin (Taiwan)
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#### League Table – Renewable 2019 (IJ)

#	Global Renewable Energy MLA 2019	US\$ (m)
1	Santander	3,335
2	<b>SMBC</b>	<b>3,181</b>
3	Credit Agricole	3,128
4	Natixis	2,945
5	MUFG Bank	2,790

#### League Table – Renewable 2020 1Q (IJ)

#	Global Renewable Energy MLA 2020 Q1	US\$ (m)
1	<b>SMBC</b>	<b>1,491</b>
2	Societe Generale	1,308
3	MUFG Bank	1,108
4	BNP Paribas	1,030
5	Credit Agricole	927






# 3-1. Innovation Initiatives

## Creation of Frontier Business

### Strengths of SMBC Group

SMBC established Growth Industry Cluster (PT) in 2010 and has been engaged in the development of the “Creation of Frontier Business” in growth sector such as Agriculture and Hydrogen, as well as assisting society to resolve its social issues through financing.

	Agriculture	Hydrogen	Social Impact Bond (SIB)
<b>Goals</b>	<ul style="list-style-type: none"> <li>Profit Making Agriculture</li> <li>Sustainable Agriculture</li> </ul>	<ul style="list-style-type: none"> <li>Zero Carbon Society</li> </ul>	<ul style="list-style-type: none"> <li>Utilization of Private Sector</li> </ul>
<b>To be improved</b>	<ul style="list-style-type: none"> <li>Efficiency</li> <li>Competitiveness</li> <li>New Generation</li> </ul>	<ul style="list-style-type: none"> <li>Demand for Hydrogen</li> <li>Increase in Scale</li> <li>Cost Reduction Through Technological Innovation</li> </ul>	<ul style="list-style-type: none"> <li>Performance-Linked Compensation System</li> <li>Reduction of Social Costs</li> </ul>
<b>Actions</b>	<ul style="list-style-type: none"> <li><b>Profitable Agriculture Model</b> MKFA Pilot Model</li> <li><b>Business Creation Framework</b> Food and Agriculture Value Chain</li> <li><b>Meet Customer's Needs</b> Financial Event Support</li> </ul>	<ul style="list-style-type: none"> <li><b>Creation of Demand</b> Hydrogen Council/Chubu Hydrogen Council</li> <li><b>Scale Merit</b> Investment in JAPAN Hydrogen Station Network</li> <li><b>Innovation</b> Mirai Creation Fund Hydrogen related Green Loan</li> </ul>	<ul style="list-style-type: none"> <li><b>SIB in healthcare sector</b> <ul style="list-style-type: none"> <li>✓ Diabetes Mellitus Aggravated Prevention (KOBE CITY)</li> <li>✓ No Smoking Support (TOYONAKA CITY)</li> </ul> </li> </ul>
<b>Group Collaboration</b>			
	<b>Sustainable Agriculture</b> 	<b>Hydrogen Society</b> 	<b>Longer Life</b> 

## 3-2. Innovation Initiatives

### Supports for Start-up companies

- **An acceleration program ("Mirai")** for start-up companies where SMBC Group and supporting member companies assist venture companies.
- **An open innovation space ("hoops link tokyo")** for new business creators where their ideas/business can be developed at SMBC open innovation space.

#### Acceleration program ("Mirai")



#### Open Innovation Space ("hoops link tokyo")

##### Visitor

32 thousand

##### Number of Events

562 Events



## 4. Major Awards

Highly evaluated from the market for our activities.

### Global Awards

1<sup>st</sup> Japanese Commercial Bank

2013 Sustainable Bank of the Year  
(Asia/Pacific)



FT/IFC SUSTAINABLE FINANCE AWARDS 2013



Sumitomo Mitsui Banking Corporation, Japan

Regional winner Asia/Pacific  
SUSTAINABLE BANK OF THE YEAR

2019 Best Green  
Trade Partner



2019 PF Global  
Bank of the Year



### Domestic Award

2020 ESG Finance Award



Promoting Green bond in issuing and support to a wide range of companies and organizations and contributing to broadening the horizons of the Green bond market



NIKKEI  
Smart Work  
★★★★★ 2020 Best 50

健康経営優良法人  
Health and productivity  
2020

NADE  
SHI  
KO  
BRAND  
2017

work with Pride  
Gold  
2017



NADE  
SHI  
KO  
BRAND  
2019

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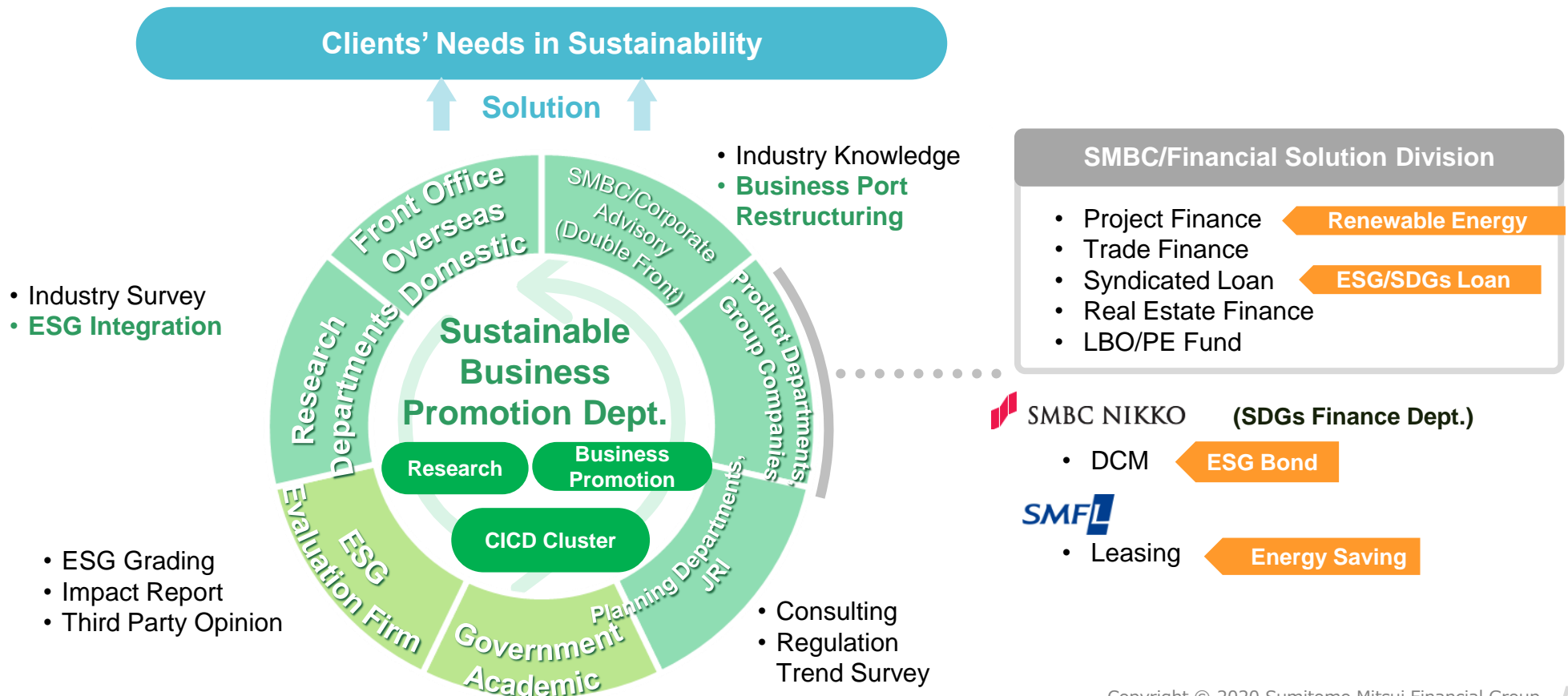
# 5-1. Our Goal

Goal :

To be a “Global Solution Provider” that can meet clients’, investors’ and social needs on ESG through sustainable finance and co-creation of sustainable industry and business.

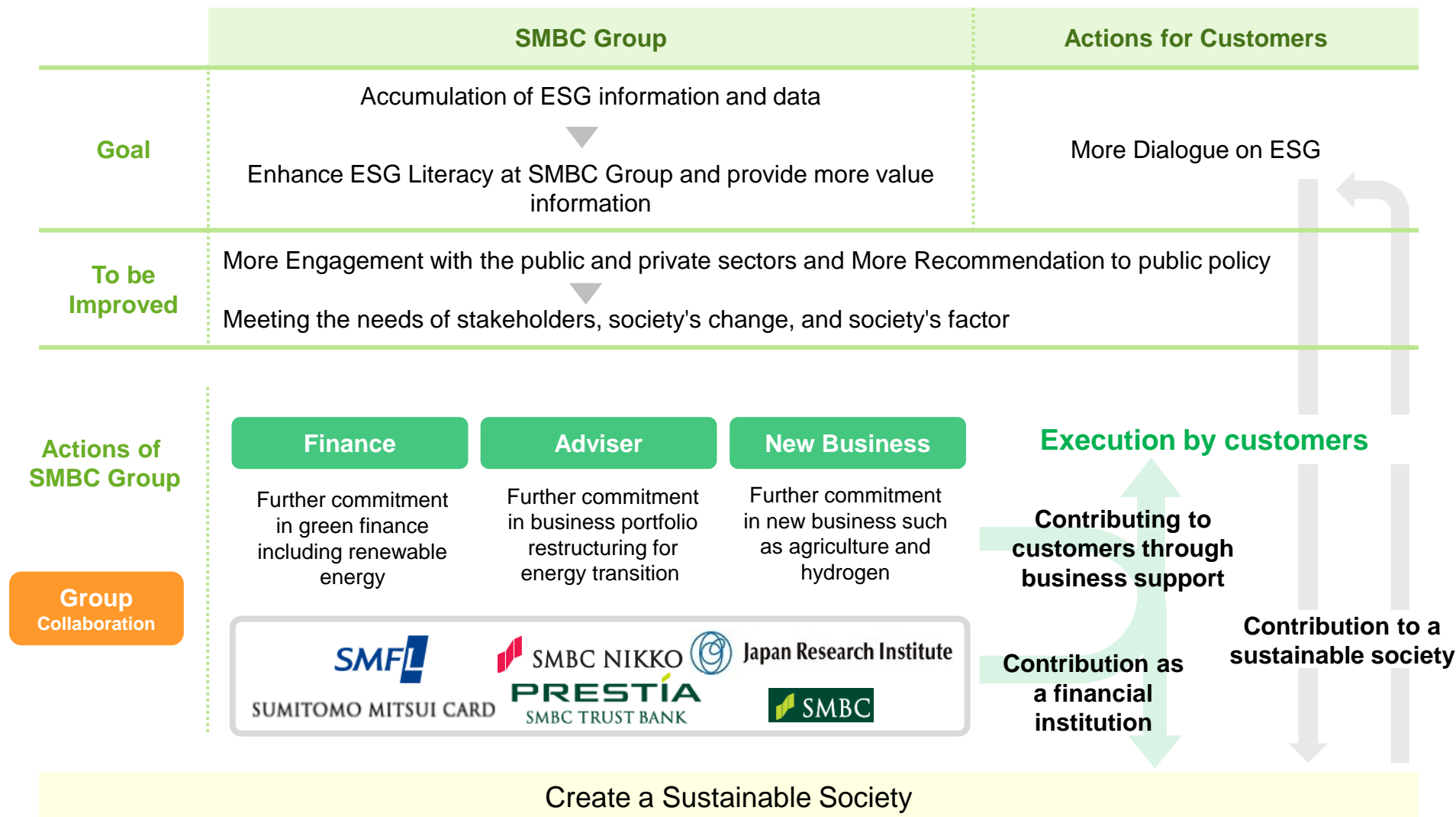
## Structure

SMBC Group has established a new department as its group’s global hub to meet our clients’ high level requirement such as business portfolio restructuring and business creation etc.



## 5-2. Our Initiatives

SMBC Group will promote the following group-wide initiatives by taking advantage of SMBC Group's strengths.





# (Ref.) Tohoku Electric Power 10 Year Green Bond

## Summary

- **First Green Bond** issued by a Japanese electric utility company. The source of funds were used for renewable projects.
- Green bond certified by an international NGO that specifies a strict standard to ensure the credibility of obtain and transparency.

Issuer	Tohoku Electric Power Co., Inc.
Issuing Amount	JPY 5bn
Term	10 years
Interest rate	0.310%
Spread issuing	10Y Japanese government bond + 34.5bps
Grade	A + (R & I) AA (JCR)
Lead manager securities (underwriting Amount)	<b>SMBC Nikko Securities Inc.</b> <b>Sole Lead Manager (5 billion yen)</b>
Bond administrator	Mizuho Bank, SMBC
Greenbond structuring agent	<b>SMBC Nikko Securities Inc.</b>
External Review Organization	DNV GL Business Assurance Japan (Norway)
Guidelines, etc.	<ul style="list-style-type: none"> <li>• Green bond Principle 2018 (ICMA)</li> <li>• Green bond Guideline 2017 (MINISTRY OF THE ENVIRONMENT)</li> <li>• Climate bond standard 2.1</li> </ul>



**Tohoku Electric Power Co., Inc.**





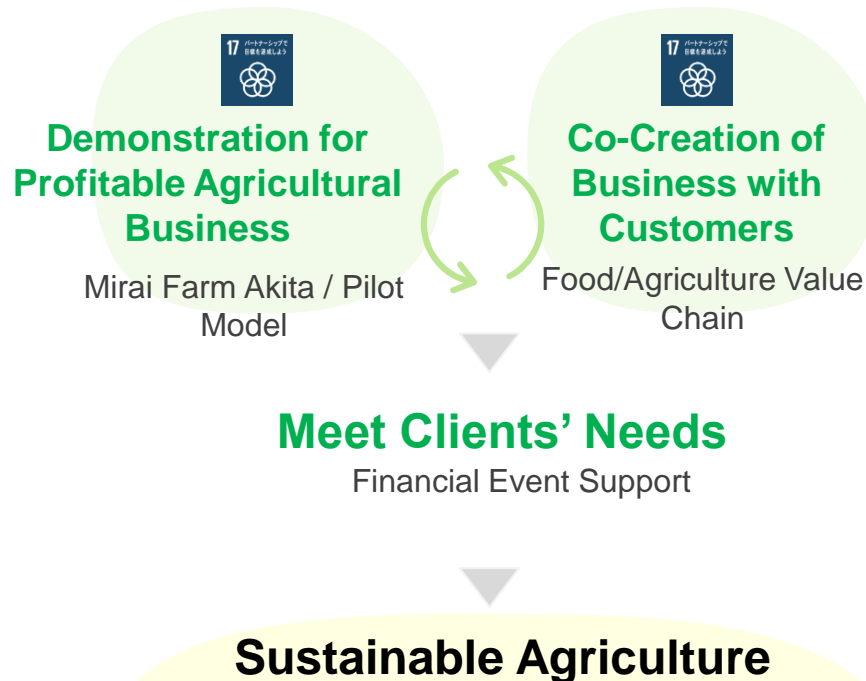
# (Ref.) Creating Industries and Business

## (1) Food and Agriculture Value Chain

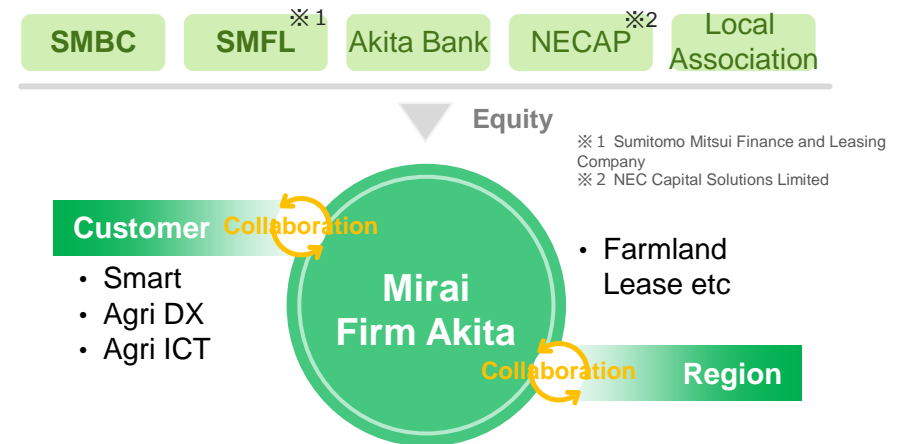


Mid-Long Term Target : Profit Making Agriculture & Sustainable Agriculture

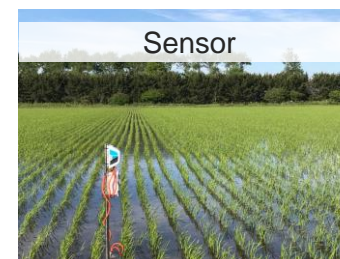
### Overview



### Demonstration for Profitable Agricultural Business



### New Technology developed with customers



# (Ref.) Creating Industries and Business

## (2) Innovation for a Decarbonized Society



### Focusing on “Hydrogen” to achieve a Zero Carbon Society

#### Why Hydrogen

Low CO2  
Emission

Diversity of Energy  
Resources

Industrial  
Promotion



Issues

The hydrogen energy value chain has not been established, and there is a big gap in pricing with the other fuel price



Need to seek demand generation and reduction of costs through scale up & innovation

#### Create Demand

1<sup>st</sup> Commercial Bank

- Hydrogen Council
- Chubu Hydrogen Utilization Council

#### Scale Up

- Mobile Hydrogen Station
- Japan Hydrogen Station Network

First in Japan

#### Innovation

- Mirai Creation Fund
- Green Loan For Hydrogen

First in Japan

# (Ref.) Creating Industries and Business

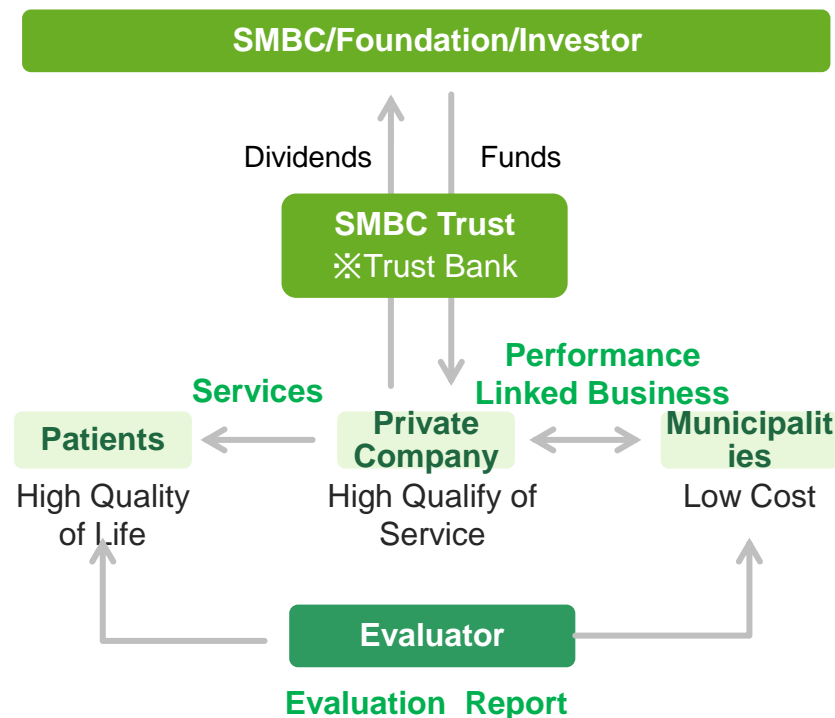
## (3) Social Impact Bond (SIB)



### Summary

- The SIB is a performance results-based private sector outsourcing scheme (Promotion of citizens' health and reduction of administrative cost).
- KOBE CITY/prevention with Severe Diabetes Mellitus (Japan's first full-scale SIB) and TOYONAKA CITY/No-smoking support (first in this arena).

### Structure



### Examples

Municipalities	KOBE CITY	TOYONAKA CITY
Top Targets	Improvement of Citizen's Quality of Life	
Purpose business	Severe Diabetes Prevention	Non-Smoking Support
Business	Implementation of health guidance and medical consultation recommendation to medical institutions.	Implement online smoking cessation program with utilization app.
Expected Benefit	<ul style="list-style-type: none"> <li>Improve of Citizen's Quality of Life</li> <li>Reduction of medical expenses for treatment</li> <li>Reduction of lost income due to inability to work due to death, hospital visits, or hospitalization</li> </ul>	

This document contains “forward-looking statements” (as defined in the U.S. Private Securities Litigation Reform Act of 1995), regarding the intent, belief or current expectations of us and our managements with respect to our future financial condition and results of operations. In many cases but not all, these statements contain words such as “anticipate,” “believe,” “estimate,” “expect,” “intend,” “may,” “plan,” “probability,” “risk,” “project,” “should,” “seek,” “target,” “will” and similar expressions. Such forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and actual results may differ from those expressed in or implied by such forward-looking statements contained or deemed to be contained herein. The risks and uncertainties which may affect future performance include: deterioration of Japanese and global economic conditions and financial markets; declines in the value of our securities portfolio; incurrence of significant credit-related costs; our ability to successfully implement our business strategy through our subsidiaries, affiliates and alliance partners; and exposure to new risks as we expand the scope of our business. Given these and other risks and uncertainties, you should not place undue reliance on forward-looking statements, which speak only as of the date of this document. We undertake no obligation to update or revise any forward-looking statements.

Please refer to our most recent disclosure documents such as our annual report on Form 20-F and other documents submitted to the U.S. Securities and Exchange Commission, as well as our earnings press releases, for a more detailed description of the risks and uncertainties that may affect our financial conditions and our operating results, and investors’ decisions.