

## CROSS-BOUNDARY GROWTH THROUGH BUSINESS MODEL INNOVATION

Faced with momentous shifts in the global industrial structure, we aim to drive cross-boundary growth across regions, generations and organizations, with “Growing Together” as our new watchword.

Susumu Kato, President and CEO

The Great East Japan Earthquake that struck in March 2011 caused severe devastation and had a widespread impact on a great number of people. We wish to send our thoughts and prayers to all those affected by the disaster, as we honor the memories of those who lost their lives. Sumitomo Corporation will continue to put its full weight behind recovery and reconstruction efforts to assist people in the devastated areas, in hope of the speediest possible recovery.

## Quantitative and Qualitative Targets Achieved

### Summary of the FOCUS'10 Medium-term Management Plan

The FOCUS'10 medium-term management plan covered the two-year period from April 2009 to March 2011. Under the plan, we sought to build an organization and growth model that would enable sustainable growth in any financial and economic environment. The plan had three qualitative targets: steady execution of a selective & focused growth strategy; thorough reinforcement of soundness and efficiency; and development of human and organizational dynamism to enhance value-creation capability. We implemented a range of initiatives to achieve these targets, including balance sheet management measures. As a result, we achieved the plan's quantitative targets resoundingly. Net income for fiscal 2010 (ended March 31, 2011) was ¥202.7 billion, higher than the plan's initial target of ¥160.0 billion. The Risk-adjusted Return Ratio average over the 2-year plan was 12.7%, which exceeded the plan's target of around 10%.

#### FOCUS'10 Results

Net income (Billions of Yen)	Initial target	Difference	Result
Fiscal 2010	160.0	+42.7	202.7
Fiscal 2009	115.0	+40.2	155.2

FOCUS'10 Quantitative Target		Result
Risk-adjusted Return (2-year avg.)	Around 10%	12.7%



In terms of investment and finance, we invested a total of ¥600.0 billion over the past 2 years, mainly in the fields of mineral resources & energy, and media and lifestyle, with the view to enhancing our earnings streams. This represents one of the highest levels of investment and finance we have ever recorded. Even while actively investing in and financing projects, we strove to replace our assets and recover our cash. Consequently, we generated positive total free cash flow over the plan's two-year period. We finished the FOCUS'10 plan with roughly the same amount of total assets as at the beginning of the plan (March 31, 2009), excluding the increase in cash and deposits.

As you can see, I believe that we performed well against the FOCUS'10 targets. However, the fact remains that we still have certain businesses that are underperforming in terms of profitability and growth potential. It is no less true that we have valuable assets and human resources tied up in these businesses. In light of these issues, our new medium-term management plan  $f(x)$  ("f-cross"), which began in April 2011, will seek to make our medium- and long-term vision clearer than before. Based on this vision, one key priority of the new plan will be to press ahead with more effective resource management from a company-wide perspective.

## **Business Model Innovation**

### **Concepts Enshrined in the New Medium-term Management Plan $f(x)$**

The quantitative targets for the new  $f(x)$  plan are net income of ¥220.0 billion in fiscal 2011 and record net income of ¥260.0 billion in fiscal 2012, as well as a Risk-adjusted Return Ratio of at least 15% in fiscal 2012. Our balance sheet forecast calls for an increase in assets of ¥1,150.0 billion over 2 years. We intend to execute well-balanced investments in both existing and new businesses across each region and field. We are forecasting total investment and finance of ¥580.0 billion over the 2-year period. In terms of fields, we plan to focus investment and finance in the mineral resources & energy field and the environment and new energy field. In terms of regions, our main focus will be on regions with growing populations, including emerging countries, such as those in Asia and North America where future growth is expected.

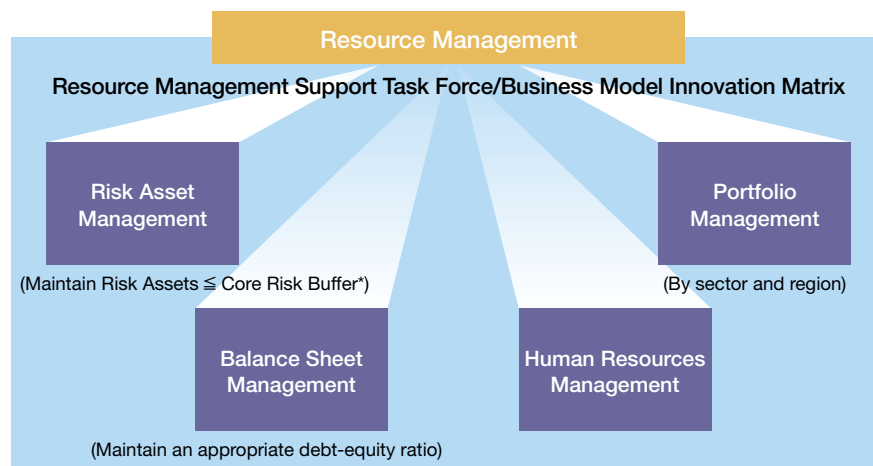
While increasing assets in this manner, we will resolve the outstanding issues carried over from FOCUS'10 and drive business model innovation. We will control the balance sheet by offsetting the increase in assets from new projects with particularly large asset reductions. As a result, we expect to finish the  $f(x)$  plan with around the same amount of total assets as at March 31, 2011. Interest-bearing liabilities will be reduced by ¥250.0 billion to around ¥2,800.0 billion through large asset reductions. Based on this, we are forecasting a net debt-equity ratio of around 1.5 times. We also expect to generate positive total free cash flow over the plan's two-year period.



I have chosen “Growing Together” as our watchword for the year 2011. This is just another way of expressing the idea of “cross-boundary growth,” which signifies the growth across regions, generations and organizations we are striving for under the  $f(x)$  plan. The  $f(x)$  plan will carry on the basic policies of FOCUS’10. Enshrined in the new plan, however, is our new goal of driving business model innovation in response to the demands of the times. In the process, every member of our organization will grow together with all of our partners by transcending various boundaries.

By “innovation,” we mean enhancing the workings of our company so that our partners will recognize us as a high-value enterprise even if we are active in the same region or field. We also mean boldly reshaping our business models in line with shifts in geographic focus and industrial structure. “Every business has a position” may be defined in terms of a combination of three factors: global power structure, industrial structure and business functions. Another way of expressing the idea of “business model innovation” is that we will reposition our businesses in terms of those parameters. By finding a new position, we can also provide opportunities to grow for the next generation of our leaders. This is one way we can implement the key aspects of our Management Principles, namely to foster a corporate culture based on “vitality” and “innovation,” and embrace a Management Style that emphasizes “the utmost respect for the individual.” Under the  $f(x)$  plan, I intend to remain absolutely focused on this style of business model innovation.

### Business Model Innovation



\* Common stock + Retained earnings + Foreign currency translation adjustments – Treasury stock, at cost

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## **Executing Four Key Actions**

### **Approaches to Achieving the Plan's Targets**

Under the *f(x)* plan, we will execute four key actions to ensure that we rapidly achieve business model innovation.

To this end, we must identify the specific fields where we will prioritize the allocation of business resources and accelerate strategic resource management. I also believe that effective resource management is an extremely important means of providing opportunities for talented personnel to grow and succeed professionally.

Our integrated corporate strengths are the driving force behind strategic resource management. We will deepen our integrated corporate strengths, a key competitive advantage of our company, on a global basis in collaboration with various partners around the world. I am confident that this process will lead to the creation of new value.

We must also further clarify the medium- and long-term vision for business sites if we are to harness our integrated corporate strengths to the fullest extent. We intend to develop a framework for the entire group to share our medium- and long-term vision and plans that are vital to the effective functioning of each business site. Under FOCUS'10, we have already implemented a project to develop approaches based on our vision—an initiative designed to clarify our medium- and long-term vision from multiple perspectives, including global power structure, industrial structure and business functions. Under *f(x)*, we will translate this project's results into specific management processes and develop this initiative through discussions at the management level.

Our people will be our most important asset for executing the above three key actions. Of course, we have continued to implement personnel development programs over many decades. However, we will now put particular emphasis on the development and deployment of talented overseas staff, as we develop a multitude of programs to enhance personnel management on a company-wide level.

## **To Always be an Admired Company**

### **Joining Forces and Growing Together**

Sumitomo Corporation aspires to become a global corporate group that contributes broadly to society. To achieve this goal, we must constantly create new value and generate commensurate profit in return. The profit we earn can be used to finance forward-looking investments and to pay dividends to our shareholders. I believe that it is crucial for management to find the right balance between the two. From this standpoint, we are targeting a dividend payout ratio in the range of 20% to 30% going forward.



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I also believe that we must ensure that Sumitomo Corporation is a company people admire. This is an integral part of our corporate value. In addition to pressing ahead with business activities to generate appropriate profit, I want Sumitomo Corporation to contribute in many different ways to society as a company. No effort will be spared to this end. I believe that a solid track record of corporate citizenship will ultimately enhance our corporate value over time.

After the earthquake and tsunami disaster struck Japan, I personally visited the devastated Tohoku region. The sheer destruction was beyond anything I could imagine, and left me at a loss for words. However, I was strongly encouraged by the sight of the Group's hard-working employees, who gave top priority to relief and restoration efforts in the affected regions and at our business partners. It is precisely in these times that we must find some way to provide assistance in a manner that fully capitalizes on the strengths of integrated trading companies, with business foundations in many different fields and regions. Looking ahead, we will give careful thought to what we can do, as we redouble our efforts to provide lasting assistance to the fullest extent possible. We are determined to apply the principle of "cross-boundary growth," as set forth in our new medium-term management plan, to recovery and rebuilding efforts as well. At the same time, we will give back to society as a good corporate citizen for the benefit of our partners and society at large.

To remain a company that is admired by the public, I sincerely hope to join forces with our partners and people around the world in the quest to achieve sustainable growth together.

August 2011

Susumu Kato, President and CEO

A handwritten signature in black ink, consisting of several loops and a long horizontal stroke, positioned below the typed name.