

## Chapter 2 Vision and Strategy

# Growing as a New Integrated Trading Company for a New Era

The Sumitomo Corporation Group's new growth strategy to create new value for the age of the Fourth Industrial Revolution—“Medium-Term Management Plan 2020.”

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## Having achieved business recovery through Medium-Term Management Plan “BBBO2017,” the focus now is on promotion of growth strategies in our new “Medium-Term Management Plan 2020.”

Following the Reform Package of 1999, Sumitomo Corporation formulated and implemented a series of two-year medium-term management plans—among them the Step Up Plan, AA Plan, AG Plan, GG Plan, FOCUS '10,  $f(x)$ , and BBBO2014—aimed chiefly at strengthening our revenue base.

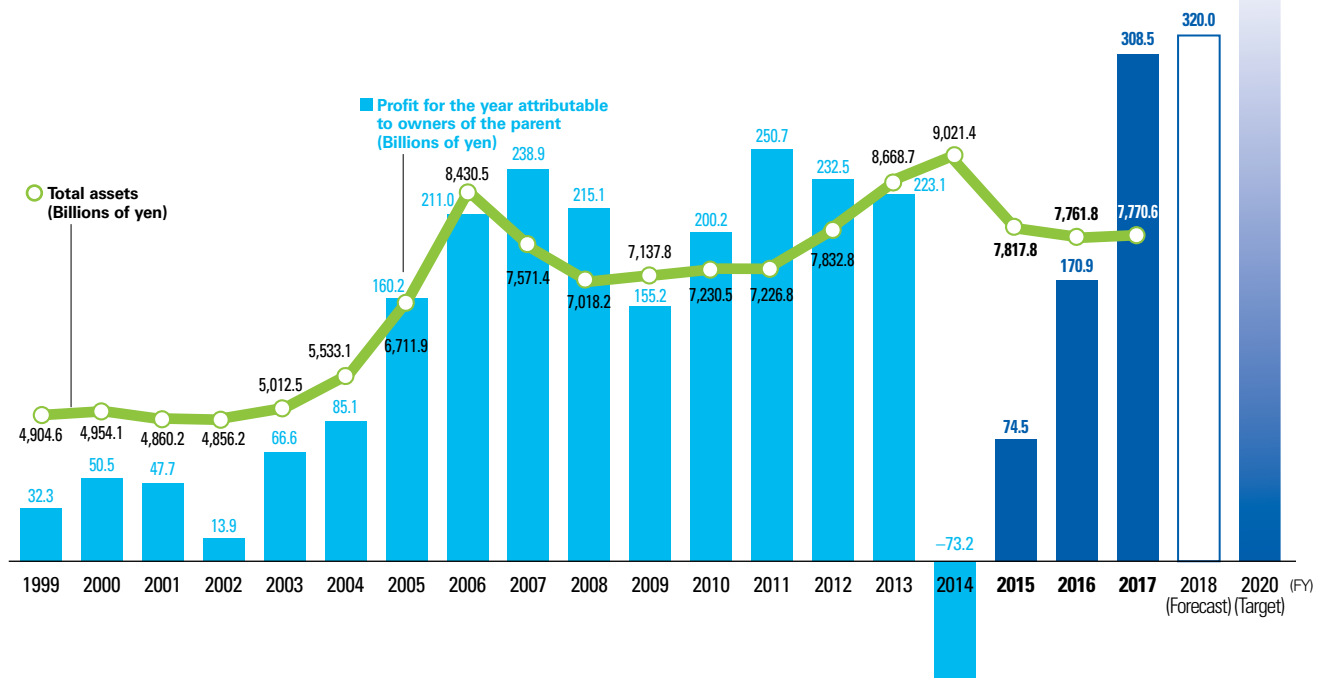
In fiscal 2014 we recorded an overall loss as a result of substantial impairment losses on a number of large-scale projects. From the following fiscal year, however, we launched a three-year medium-term management “plan—Be the Best, Be the One 2017 (BBBO2017)” —which aimed to overcome issues and return to a growth track by making Groupwide efforts in response to changing business environments as well as managerial issues, including those highlighted by the loss. As a result, in fiscal 2017, the final year of the plan, we achieved a record high of ¥308.5 billion in profit for the year attributable to owners of the parent.

For more information please see [▶Page 27 Summary of Medium-Term Management Plan “Be the Best, Be the One 2017 \(BBBO2017\).”](#)

Now, in fiscal 2018, we have formulated “Medium-Term Management Plan 2020” to cover the three-year period up to fiscal 2020. The plan is designed in response to a business environment in which the structure of industry is undergoing major change, with the rapid advance of the IoT, AI, and other technologies resulting in the acceleration of the integration and globalization of all industries. The plan calls for ongoing initiatives to enhance the management bases, while placing the main focus on promotion of growth strategies, as we continue with “unceasing challenge for new value creation.”

For more information please see [▶Page 33 Special Feature: Message from the CxO about “Medium-Term Management Plan 2020.”](#)

### Profit or Loss for the Year Attributable to Owners of the Parent / Total Assets (Consolidated)



# Record-high profit of ¥308.5 billion was achieved in the plan’s final year of fiscal 2017. We are closing in on our path to a new stage of growth.

## Basic Principles of Medium-Term Management Plan “BBBO2017”

In our medium-term management plan “Be the Best, Be the One 2017 (BBBO2017),” which began in fiscal 2015, Sumitomo Corporation set the following three points in light of changes in its business environments and the managerial issues that became apparent with the large-scale impairment losses of fiscal 2014.

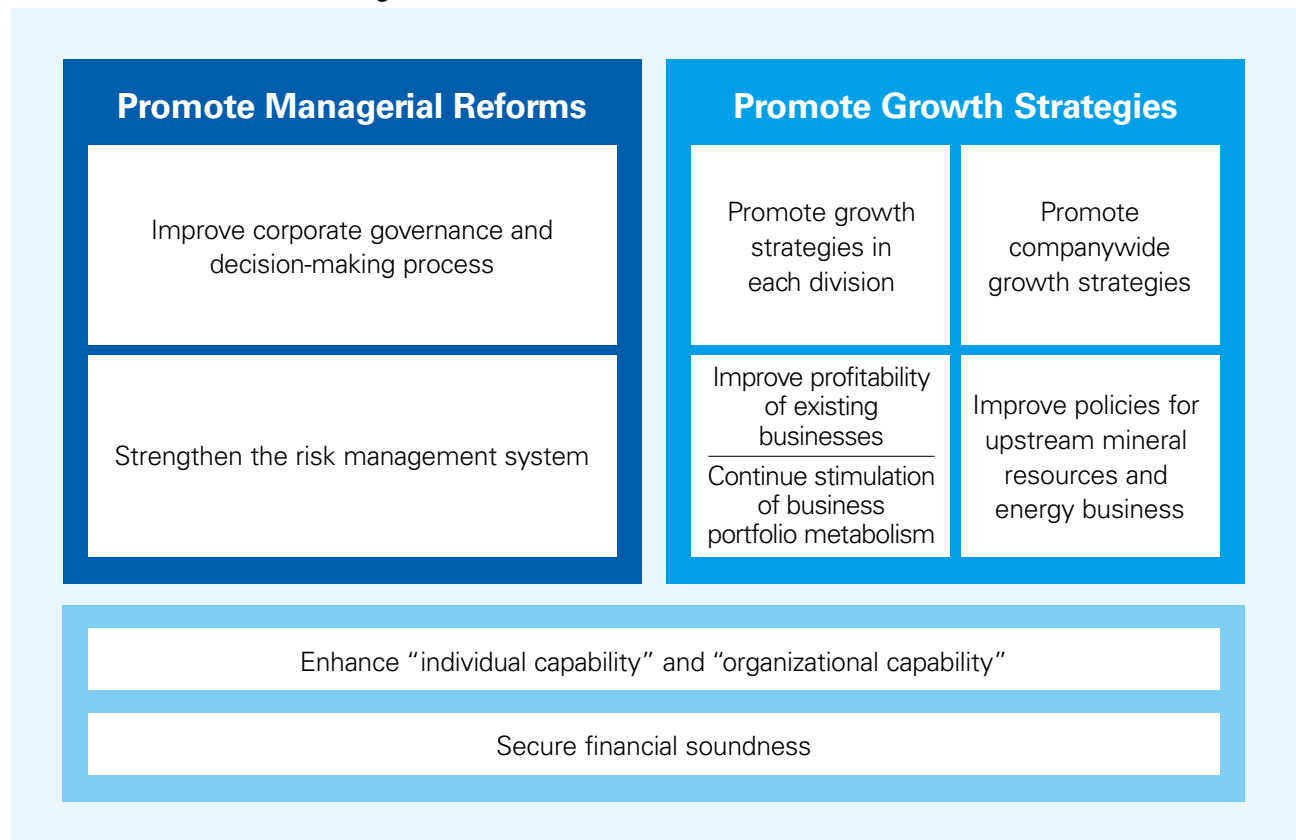
- Overcome issues and execute managerial reforms
- Strengthen our earnings power to realize “What We Aim to Be”
- Regain balance between the Core Risk Buffer and Risk-adjusted Assets / Achieve positive free cash flow (post-dividend, three-year total)

In terms of specific initiatives, we designated the securing of financial soundness and the enhancement of

“individual capability” and “organizational capability” as the basis for our efforts, and made Groupwide efforts to promote the combination of growth strategies and managerial reforms, with the aim of improving our earnings power and reinforcing management bases.

With regard to promoting growth strategies, we pursued and implemented growth strategies based on the strengths identified by the business units themselves. In addition, we also promoted initiatives for industries in which high rates of growth are expected over the medium to long term as a companywide strategy. As for promoting managerial reforms, we implemented a variety of measures to improve corporate governance and decision-making process, and to strengthen the risk management system.

## Overview of Medium-Term Management Plan “BBBO2017”



## Summary of Medium-Term Management Plan "BBBO2017" (Quantitative aspects)

### Quantitative Targets/Results

		Fiscal year / period	Initial plan	Revised plan* <sup>1</sup> (May 2016)	Actual results
Profit targets	Consolidated net income	Fiscal 2015	¥230.0 billion	—	¥74.5 billion
		Fiscal 2016	—	—	¥170.9 billion
		Fiscal 2017	¥300.0 billion or more	¥220.0 billion* <sup>2</sup> or more	¥308.5 billion
	ROA	Fiscal 2017	3.0% or more	2.5% or more	4.0%
	Risk-adjusted Return Ratio	Fiscal 2017	10.0% or more	9.0% or more	13.4%
	ROE	Fiscal 2017	Around 10.0%	Around 9.0%	12.5%
Financial targets	Balance between the Core Risk Buffer* <sup>3</sup> and Risk-adjusted Assets	By the end of fiscal 2017	Regain balance	Regain balance	Regain balance
	Free cash flow	3-year total	¥200.0 billion	¥700.0 billion	¥818.9 billion
	Post-dividend free cash flow	3-year total	Positive	¥500.0 billion	¥627.9 billion
Investment plan		3-year total	¥1.2 trillion	¥1.0 trillion	Around ¥890.0 billion

\*1 The quantitative targets were revised in May 2016 in light of changes in the business environment.

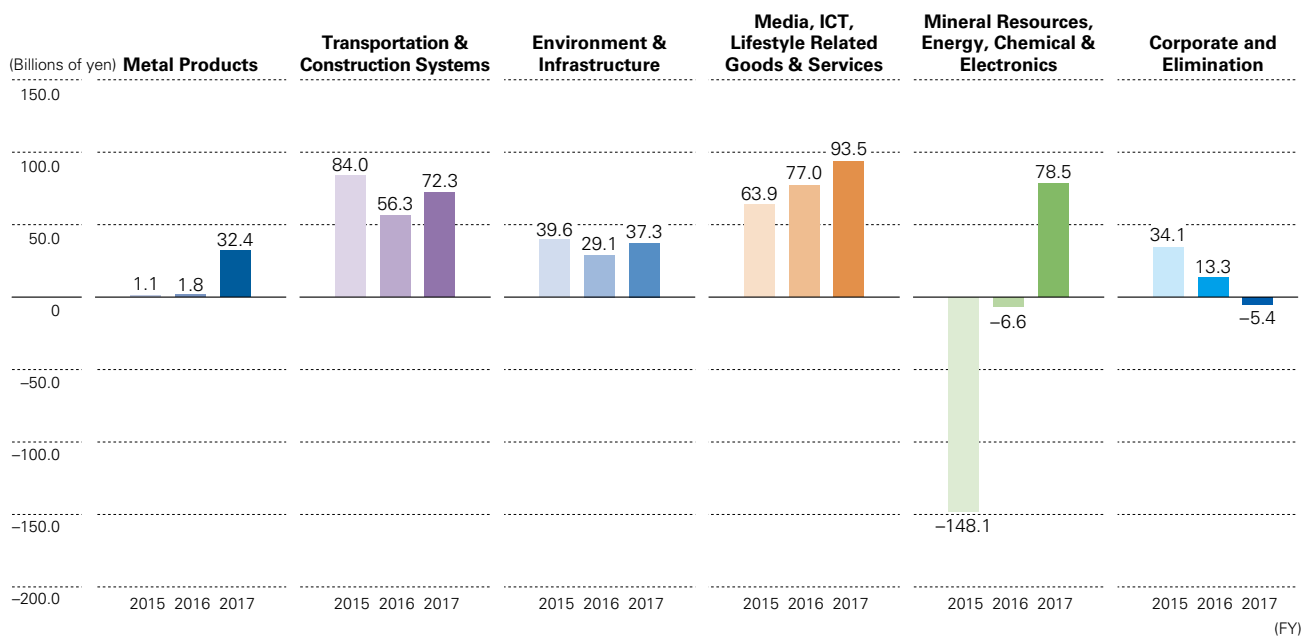
\*2 Revised to ¥230.0 billion in May 2017.

\*3 Core Risk Buffer represents the sum of common stock, retained earnings and foreign currency translation adjustments minus treasury stock, at cost.

### Profit Targets and Performance

In "BBBO2017," we aimed to return to a growth path, with an initial target of achieving ¥300.0 billion or more in both Basic Profit and Profit for the year attributable to owners of the parent in fiscal 2017. In fiscal 2015, a downturn in the business environment led to a slump in performance, but our earning power has grown steadily since, and in fiscal 2017 we posted a new record high for Profit for the year attributable to owners of the parent of ¥308.5 billion.

### Profit or Loss\*<sup>1</sup> by Segment



\*1 Attributable to owners of the parent

\*2 Figures are based on the organizational structure in place prior to the organizational changes of April 2018.

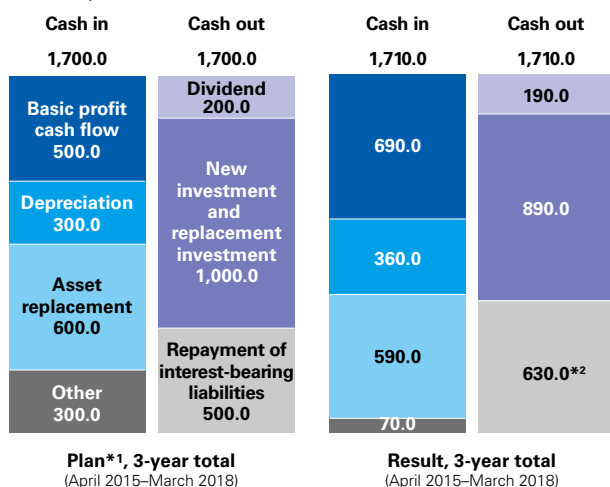
## Cash Flow Targets and Financial Position

As for cash flows, to secure financial soundness, we limited investments and dividends to the amount of cash generated by the Company. As a result, three-year total post-dividend free cash flow exceeded our plan and came to ¥630 billion, which we allocated to repayment of interest-bearing liabilities. Regarding our financial position, while net interest-bearing liabilities decreased approximately ¥1 trillion, shareholders' equity increased ¥80 billion over the three-year period due to increased retained earnings and other factors. As a result, net debt-equity ratio (DER) improved by 0.4 points, to 1.0 times.

	Initial plan	Revised plan (May 2016)	Results
Three-year total post-dividend free cash flow	Positive	¥500.0 billion	¥630.0 billion

### Cash Flow Targets and Results

(Billions of yen)



\*1 Announced in May 2016.

\*2 Cumulative total of post-dividend free cash flow (+/- reversal)

\*3 Basic profit cash flow = Basic profit – Share of profit (loss) of investments accounted for using the equity method + Dividend from investments accounted for using the equity method

### Summary

#### Basic profit cash flow\*3

- Core businesses generated steady cash flow

Fiscal 2015	Fiscal 2016	Fiscal 2017
¥204.3 billion	¥210.6 billion	¥273.9 billion

#### Asset replacement

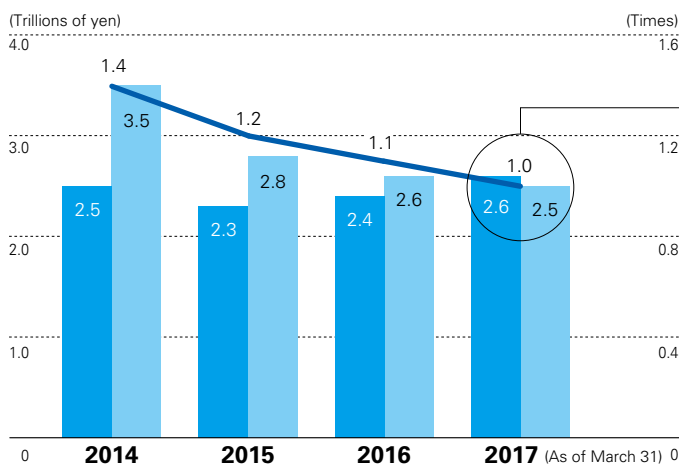
- Value realization in renewable energy generation
- Value realization in real estate business in Japan and overseas
- Sale of whole interest in Batu Hijau copper/gold mine in Indonesia

#### New investment and replacement investment

- Fresh produce production and wholesale business in Ireland (Fyffes plc)
- Real estate businesses in Japan and overseas
- Nickel project in Madagascar

### Financial Position

■ Shareholders' equity (left) ■ Interest-bearing liabilities (net) (left) — Net DER (right)



As of Mar. 31, 2018

#### Shareholders' equity: ¥2,558.2 billion

Change in three years: Increase of approximately ¥80 billion

#### Interest-bearing debt (net): ¥2,521.5 billion

Change in three years: Decrease of approximately ¥1 trillion

#### Net DER: 1.0 times

Change in three years: Improvement of 0.4 points

## Investments by Segment

	Investment (Billions of yen)		Major investments
	3-year plan*	Results	
Metal Products	120.0	<b>60.0</b>	<ul style="list-style-type: none"> <li>Railcar axle machining business in the United States</li> <li>Automotive forged parts manufacturing business in Europe</li> </ul>
Transportation & Construction Systems	280.0	<b>210.0</b>	<ul style="list-style-type: none"> <li>Acquisition of 100% ownership of construction equipment rental subsidiary in the United States</li> <li>Manufacturing and sales business of forged parts for wind power generation in Brazil</li> </ul>
Environment & Infrastructure	140.0	<b>140.0</b>	<ul style="list-style-type: none"> <li>Water concession business in Brazil</li> <li>Offshore wind power generation business in Europe</li> </ul>
Media, ICT, Lifestyle Related Goods & Services	280.0	<b>290.0</b>	<ul style="list-style-type: none"> <li>Fresh produce production and wholesale business in Ireland (Fyffes)</li> <li>Real estate businesses in Japan and overseas</li> </ul>
Mineral Resources, Energy, Chemical & Electronics	180.0	<b>180.0</b>	<ul style="list-style-type: none"> <li>Nickel business in Madagascar</li> <li>U.S. generic pharmaceutical business</li> </ul>
(Of which, upstream interests (replacement investment))	(140.0)	<b>(140.0)</b>	
<b>Total</b>	<b>1,000.0</b>	<b>890.0</b>	

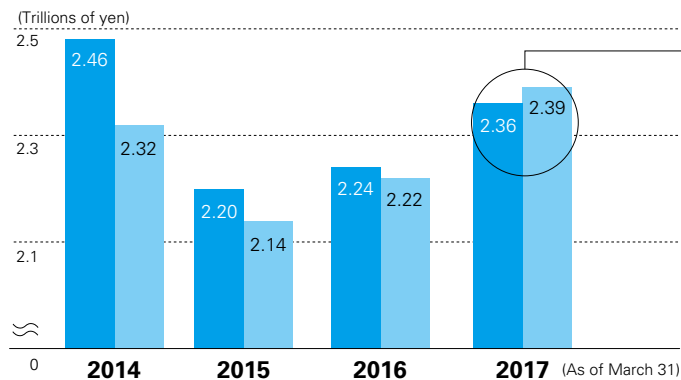
Note: Figures shown here were announced in May 2017.

## Balance between the Core Risk Buffer and Risk-adjusted Assets

As for the balance between the Core Risk Buffer and Risk-adjusted Assets, Risk-adjusted Assets had exceeded the Core Risk Buffer by ¥140.0 billion as of March 31, 2015, the balance was restored at the end of fiscal 2017 through the reduction of Risk-adjusted Assets and the increase in profits.

### Core Risk Buffer and Risk-adjusted Assets

■ Risk-adjusted Assets ■ Core Risk Buffer



Balance as of March 31, 2018

- **Risk-adjusted Assets (RA): ¥2,360.0 billion**  
Change in three years: Decrease of approximately ¥100 billion
- **Core Risk Buffer (RB): ¥2,390.0 billion**  
Change in three years: Increase of approximately ¥70 billion
- **Core RB – RA: ¥30.0 billion**  
Balance restored

### Core RB – RA (Billions of yen)

Fiscal 2014	Fiscal 2015	Fiscal 2016	Fiscal 2017
(140.0)	(60.0)	(20.0)	30.0

## Major Efforts of Medium-Term Management Plan “BBB02017”

Major efforts		
<b>Promote managerial reforms</b>	<b>Improve corporate governance and decision-making process</b>	Upgrade decision-making process for the execution of business management
		Strengthen the supervisory functions of the Board of Directors
		Response to Japan's Corporate Governance Code
	<b>Strengthen the risk management system</b>	Upgrade decision-making process for investments
		Review methodology of investment assessment and framework of investment implementation
<b>Promote growth strategies</b>	<b>Promote growth strategies in each division</b>	Each business unit implementing growth strategies based on the strengths identified by the business units themselves
	<b>Promote companywide growth strategies</b>	Cross-organizational collaboration based on industry, function, and region
	<b>Improve profitability of existing businesses</b>	
	<b>Continue stimulation of business portfolio metabolism</b>	
	<b>Improve policies for upstream mineral resources and energy business</b>	Basic policy: Improve the quality of the upstream mineral resources and energy portfolio
		Rebuild system of initiatives for upstream mineral resources and energy business
<b>Enhance “individual capability” and “organizational capability”</b>		
<b>Secure financial soundness</b>		

**Specific measures and achievements**

- Changed the Management Council to the highest executive-level decision-making body
- Increased the number of Outside Directors from two to three
- Established the Nomination and Remuneration Advisory Committee
- Began third-party analysis and evaluation of the effectiveness of the Board of Directors
- Revised the Sumitomo Corporation Corporate Governance Principles (defining terms of office for President and Chief Executive Officer, etc.)
- Formulated the Corporate Disclosure Policy
- Established the Business Unit Investment Committee
- Put in place rules for a system of two-stage deliberation when moving ahead and executing major projects
- Split Planning & Administration Department into Planning & Coordination Department responsible for departmental staff functions and Risk Management Department responsible for risk management functions, and strengthened each function
- Revision of investment evaluation standards
- Systematized the 100-day plan implementation
- Fiscal 2017: Record-high profit of ¥308.5 billion
- Enhanced structure for advancing projects as companywide efforts in fields and regions with high growth potential
- Fiscal 2017: ROA of 4.0%, and ROE of 12.5%
- Asset replacement: ¥590.0 billion.
- Maintained focus on enhancing profitability in nickel project in Madagascar and copper and molybdenum mining project in Chile
- Bolstered the earnings power of existing businesses through continuous cost reductions
- Sold assets suffering from relative decreases in competitiveness (Portfolio optimization)
- Implemented measures for increasing capabilities and improving the quality of strategy-building and decision-making
- Strengthened and fostered human resource development
- Promoted optimal allocation of human resources on a global scale
- Achieved post-dividend free cash flow of ¥630 billion and regained balance between the Core Risk Buffer and Risk-adjusted Assets



Special Feature: Message from the CxO  
about “Medium-Term Management Plan 2020”

# Unceasing Challenge for New Value Creation

## Message from the CSO: Promotion of Growth Strategies

Hideki Yamano

Representative Director, Managing Executive Officer, Corporate Group  
Chief Strategy Officer and Chief Information Officer



## Message from the CFO: Enhancement of Financial Soundness

Koichi Takahata

Representative Director, Senior Managing Executive Officer, Corporate Group  
Chief Financial Officer



## Message from the CAO: Enhancement of Corporate Governance and Our Human Resources Strategy

Hideki Iwasawa

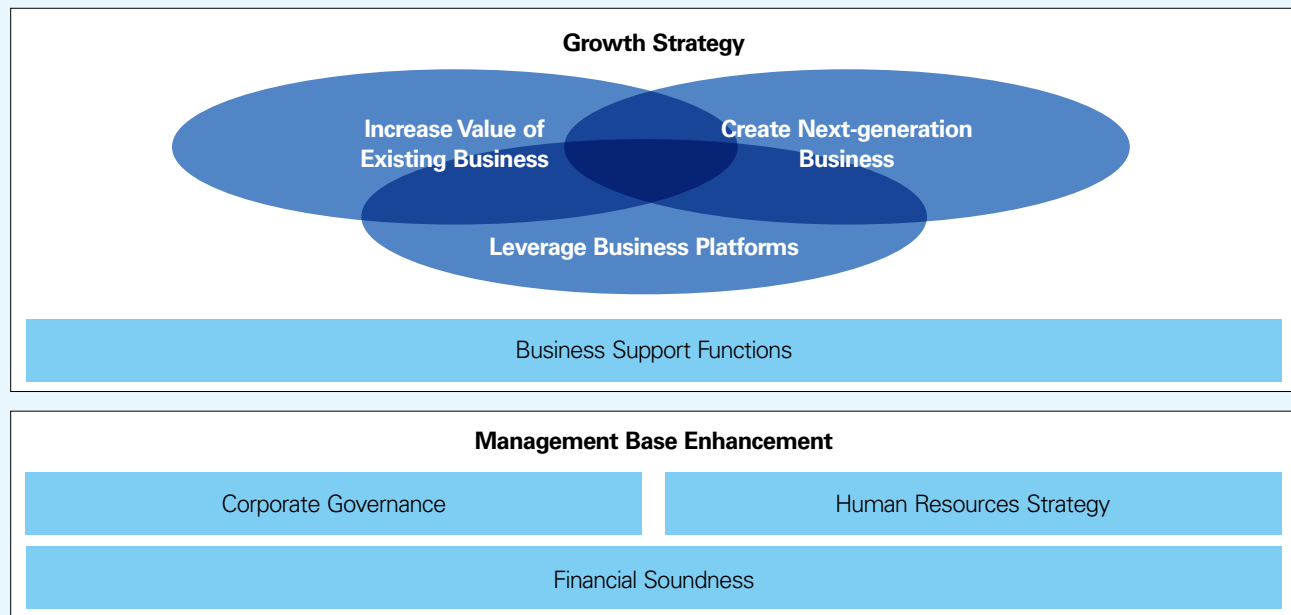
Representative Director, Executive Vice President,  
Corporate Group  
Chief Administration Officer and Chief Compliance Officer



## Overview of “Medium-Term Management Plan 2020”

In a changing business environment, industries are becoming increasingly borderless and complex due to the rapid technological innovation driven by AI and IoT. In our new

“Medium-Term Management Plan 2020,” we will create new value by promoting three core growth strategies: “Increase Value of Existing Business,” “Create Next-generation Business” and “Leverage Business Platforms.” At the same time we will make continuous efforts to enhance our management bases.



### Major Initiatives

1. Growth Strategies
  - (1) Increase Value of Existing Business
  - (2) Create Next-generation Business
    - Prioritized allocation of management resources to three emerging fields
    - (i) Technology x Innovation (Fourth Industrial Revolution fields)
    - (ii) Healthcare
    - (iii) Social infrastructure
  - (3) Leverage Business Platforms
    - Enhancement of relevant business support functions
2. Management Base Enhancement
  - Corporate Governance
  - Human Resources Strategy
  - Financial Soundness

### Quantitative Targets

1. Profit Targets
  - Consolidated net income: FY2018 ¥320.0 billion
  - Basic profit: FY2018 ¥340.0 billion
  - ROA: 4% or more
  - ROE: 10% or more
2. Financial Policies
  - Maintain a balance of [Core Risk Buffer] ≥ [Risk-adjusted Assets]
  - Post-dividend free cash flow Three-year total ¥200 billion or more, to be allocated to repayment of interest-bearing liabilities

### Dividend Policy

We aim to increase dividends by achieving medium- and long-term earnings growth while adhering to our fundamental policy of paying shareholders a stable dividend over the long term.

During “Medium-Term Management Plan 2020,” we will decide the dividend amount in view of the situation regarding basic profit and cash flow, with a consolidated payout ratio of 30% as our guideline.

The annual dividend forecast for fiscal 2018 is projected to be ¥75 per share as we forecast profit for fiscal 2018 of ¥320.0 billion.



Message from the CSO: Promotion of Growth Strategies

# Steady implementation of growth strategies with a core approach of creating next-generation businesses

Hideki Yamano

Representative Director, Managing Executive Officer, Corporate Group Chief Strategy Officer and Chief Information Officer

## Growth Strategy 1: Increase Value of Existing Business Pursue the maximum potential of each business and respond promptly to changes in the business environment

In our approach to the growth strategies of the Sumitomo Corporation Group, we first need to focus on increasing the value of the existing businesses that make up our current earnings pillar. As part of this approach, in April 2018 we reorganized the business units dealing with our various business fields into six units to be able to vigorously implement our growth strategies. As well as reinforcing the earnings pillar of each business unit, we will seek to realize the full potential of our businesses and to respond swiftly to changes in the business environment.

In existing businesses where we have an established

industry presence, such as the tubular products, leasing and finance, and media businesses, we will leverage their respective networks and business foundations to further increase their value and profitability rather than relying on the "status quo" of existing earnings models. Meanwhile, for projects which have not yet achieved their expected earnings level, such as upstream resources and the food business, we will introduce measures to maximize untapped potential.

We also need to respond quickly to changes in our existing business environments. For example, we will work to create new business to respond to the movement toward a next-generation mobility society. Furthermore, as society's engagement with low-carbon solutions and other issues related to climate change increases, we are taking steps in our infrastructure business to shift to gas-fired and renewable energy in the medium to long term.

### Increase Value of Existing Business

<p><b>Metal Products</b></p> <ul style="list-style-type: none"> <li>Expand tubular products into adjacent businesses by utilizing customer network of the oil country tubular goods (OCTG) business</li> <li>Provide unique/integrated services in the railway materials and equipment business</li> <li>Expand value chain in Aluminum segment from our smelting business—our core business in this segment</li> </ul>	<p><b>Transportation &amp; Construction Systems</b></p> <ul style="list-style-type: none"> <li>Enhance leasing and financing businesses, and pursue synergies with other businesses</li> <li>Promote various next-generation businesses in anticipation of the coming mobility society</li> <li>Take up challenges in new fields in the manufacturing business</li> </ul>	<p><b>Infrastructure</b></p> <ul style="list-style-type: none"> <li>Expand business foundations in global power, logistics, and social infrastructure</li> <li>Shift to gas-fired power generation/renewable energy over the medium to long term                             <ul style="list-style-type: none"> <li>Create power generation portfolio by around 2035, as follows:                                     <ul style="list-style-type: none"> <li>Share of coal from 50% → 30% (Generation capacity basis)</li> <li>Renewable energy ratio from current 20% → 30%</li> </ul> </li> </ul> </li> </ul>
<p><b>Media &amp; Digital</b></p> <ul style="list-style-type: none"> <li>Reinforce business foundations and enhance services in media and digital businesses</li> <li>Expand telecommunication infrastructure and value-added businesses in emerging countries</li> </ul>	<p><b>Living Related &amp; Real Estate</b></p> <ul style="list-style-type: none"> <li>Promote the growth of retail businesses, centered around Summit, Inc. and TOMOD'S INC.</li> <li>Improve earnings in the food and agriculture business by focusing on fruits and vegetables and on high-value-added foods</li> <li>Develop high-value-added real estate business</li> </ul>	<p><b>Mineral Resources, Energy, Chemical &amp; Electronics</b></p> <ul style="list-style-type: none"> <li>Early achievement of profitability for upstream resources projects and reinforcing of cost competitiveness</li> <li>Expand trading in natural gas and LNG</li> <li>Enhance mineral resources/chemical-related value chain</li> <li>Make EMS businesses and companies with chemical businesses, such as distributors business for agrochemical related products, more robust</li> </ul>

## Growth Strategy 2: Create Next-generation Business

### Identify emerging fields in anticipation of social changes and issues and create systems for the development of value-creating businesses

The business environment of our Group is rapidly changing in these days. Taking into account megatrends, social issues, and our Group capabilities, we have identified three emerging fields for medium- to long-term initiatives, in which we will invest capital of around ¥300 billion over three years.

#### Emerging Field 1: Technology x Innovation

All industries are shifting to ICT and progressing with globalization and worldwide integration. The Sumitomo Corporation Group equally faces an essential need to adapt to the increasing pace of technological advance and the innovative business models that are changing the structure of industry. Accordingly, we have identified “Technology x Innovation” as one of our emerging fields, which spans all industry sectors.

As priorities, we will work on upgrading existing businesses and creating innovative and new business models by accelerating digital transformation (DX). To provide the organizational structure to support this, we have established the “DX Center” as a base for promoting DX and will be collaborating with our Group company SCSK Corporation to accelerate the utilization of external professionals.

Moreover, to promote business development for the next generation, we have reinforced systems for business development at Silicon Valley in the United States as well as in Europe, Asia, and other regions. We will also move forward

with collaborations with venture enterprises that possess innovative technologies and business models as well as collaborations between business units and overseas offices that go beyond the existing framework.

To this end, we will create an organization that enables us to delegate decision making on investment and realize agile and flexible business development. Of the abovementioned ¥300 billion, ¥20 billion will be allocated as an investment fund for next-generation businesses in the “Technology x Innovation” field as part of overall research and development activities aimed at realizing next-generation businesses.

#### Emerging Field 2: Healthcare

Nowadays, escalating medical expenditure due to the aging of the population is becoming a global social issue. In parallel, rapid expansion of the healthcare market is expected.

The Sumitomo Corporation Group is leveraging its existing business foundations and functions, including the TOMOD’S chain of drugstores with an integrated dispensing pharmacy and its U.S. generic pharmaceutical business. At the same time, we are also strengthening initiatives to develop new business models that will promote more efficient use of medical expenditure, expanding and upgrading digital health businesses that utilize technological innovations such as the IoT and AI, and installing medical infrastructure in emerging countries. To promote these projects, in April 2018 we set up the Health Care Business Department and additionally established a companywide cross-business working group (WG) to engage widely in the healthcare field.

### Three Emerging Fields

Emerging Field	Megatrends/Social Issues	Priorities
<b>Technology x Innovation</b>	<ul style="list-style-type: none"> <li>• Revolution in industry structure and business models due to the shift to ICT and the disappearance of borders for all industries</li> </ul>	<ul style="list-style-type: none"> <li>• Revolution in business models and upgrading of business by the acceleration of DX</li> <li>• Promoting R&amp;D activities as strategic move to build next-generation revenue stream (Set investment fund of ¥20 billion for next-generation businesses)</li> </ul>
<b>Healthcare</b>	<ul style="list-style-type: none"> <li>• Aging of society/Inflation of medical expenses</li> <li>• Technology innovation, such as IoT and AI</li> <li>• Changes in industry structure</li> </ul>	<ul style="list-style-type: none"> <li>• Development of new businesses that lead to greater efficiency in medical expenses</li> <li>• Expansion of digital health business utilizing cutting-edge technology</li> <li>• Entering market for medical infrastructure installations in emerging countries</li> </ul>
<b>Social infrastructure</b>	<ul style="list-style-type: none"> <li>• Population growth/Advance of urbanization</li> <li>• Shift to private-sector outsourcing</li> <li>• Climate change issues</li> </ul>	<ul style="list-style-type: none"> <li>• Entering market for infrastructure installations, and urban development/Smart City project</li> <li>• Reinforcing eco-friendly businesses utilizing new technology (Next-generation energy management business, storage batteries, hydrogen business, etc.)</li> </ul>

**Emerging Field 3: Social Infrastructure**

As the population grows and urbanization progresses worldwide, especially in emerging countries, the Sumitomo Corporation Group is stepping up its participation in urban development, Smart City projects, and infrastructure installations. As a team to support this, we have established a PFI Business Department, and in April 2018 additionally set up a "Smart City WG" to drive business development more strongly on a companywide basis.

Meanwhile, in response to climate change issues, the Sumitomo Corporation Group has identified "Achieving Harmony with the Global Environment" as one of its material issues. As an initial step toward resolving this social issue, we will be working on eco-friendly businesses that make use of new technologies, such as next-generation energy management, storage batteries, and hydrogen.

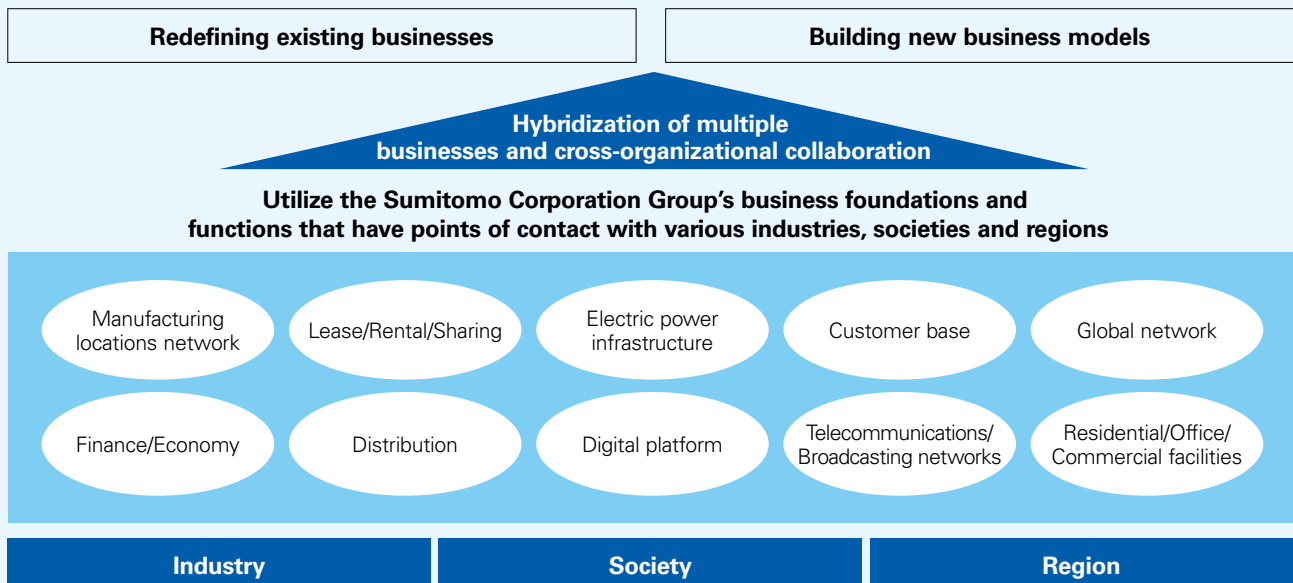
**Growth Strategy 3: Leverage Business Platforms**

**Aim for organic and multilevel collaboration between our businesses on the strength of our rich variety of contacts with different industries, societies, and regions**

The third pillar of our growth strategies is leveraging business platforms. As an integrated trading company, the Sumitomo Corporation Group has created businesses around the world in a wide range of business fields using a variety of business models. This means that each business unit has contacts with a diverse range of industries, societies, and regions in its operations. These multiple contacts act as drivers for the creation of new value. Among these business drivers for our Group are its customer bases, its telecommunications and broadcasting networks, its business foundations in lease, rental, and sharing, and its digital platforms.

We believe that using these management resources to hybridize multiple businesses and stimulate cross-organizational collaboration will make it possible to redefine existing businesses and build new business models, allowing us to establish platforms that lead to new value creation. From an overview of the Sumitomo Corporation Group's business fields, it can best be described as an entity with a very widely distributed range of businesses. If these were to become interlinked organically on multiple levels, that would open up a vast potential. We are confident that this will give us a keen ability to pick up on changes in our fast-moving world, resolve social issues at a more sophisticated level, and achieve sustainable growth.

**Leverage Business Platforms for New Value Creation**



## Promotion of Growth Strategies: Expanding Business Support Functions

### Accelerate growth strategies by supporting business development in each business unit through four functions

#### Business Support Function 1: Biz-Dev Support

Using our strengths in the form of our worldwide business foundations and networks, we will promote new business development through collaboration among our organizations. Additionally, we will structure a system and allocate management resources in order to incubate next-generation businesses on a companywide basis transcending the boundaries of business units.

#### Business Support Function 2: Full Potential Plan

With the aim of maximizing the value of our investment portfolio, we will carry out monitoring of each Group company. To realize this initiative, we will allocate companywide resources to upgrade businesses that still have growth potential.

#### Business Support Function 3: Asset Cycle Management

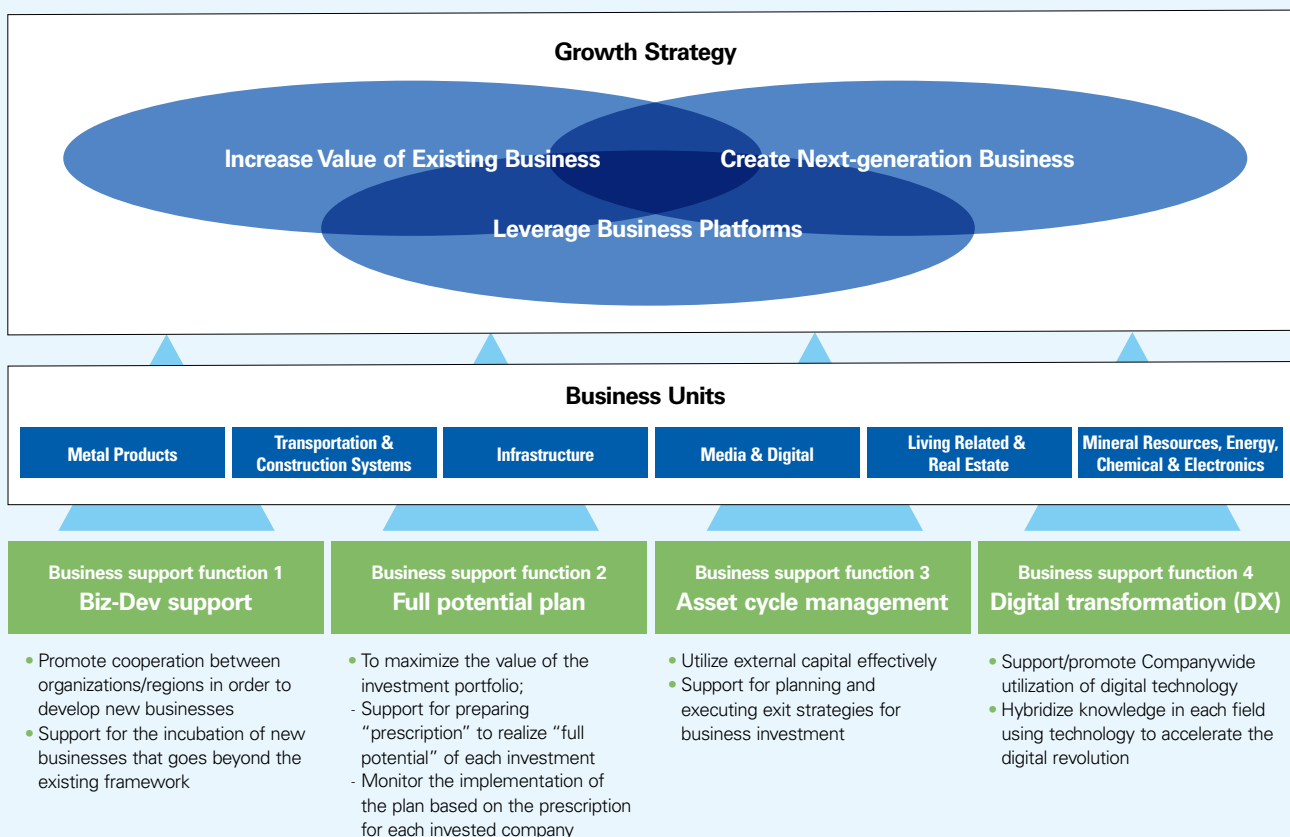
By utilizing external capital, we will support to increase asset efficiency in each business. We will also provide support to plan and execute exit strategies for business investment as required.

#### Business Support Function 4: Digital Transformation (DX)

To upgrade existing business models through digitization and to create new business models, the Sumitomo Corporation Group will promote reinforcement of ICT functions companywide. We will promote DX by combining technology with the business knowledge and business foundations of each business.

To realize the sustainable growth of the Sumitomo Corporation Group, it is essential to create new next-generation businesses and grow them into earnings pillars of the Group. By leveraging fully the knowledge and expertise accumulated through the management of our existing businesses and using the effective business support functions provided by the Corporate Group, we will steadily implement each of the growth strategies.

## Expand Business Support Functions





Message from the CFO: Enhancement of Financial Soundness

**To achieve sustainable growth, we will increase our cash-generating capability while maintaining financial soundness.**

Koichi Takahata

Representative Director, Senior Managing Executive Officer, Corporate Group Chief Financial Officer

Enhancement of Financial Soundness 1: Financial Soundness and Cash Flow Plan

**Aiming for future growth by investing management resources in emerging fields from a medium- to long-term perspective**

For an enterprise to achieve stable and sustainable growth, it is important for it to boost its earnings capacity and increase its own cash-generating capability while maintaining financial soundness. In terms of financial soundness, Sumitomo Corporation emphasizes the importance of ensuring stability by keeping Risk-adjusted Assets (total risk) within the range of the Core Risk Buffer (shareholders' equity) and establishing a financial footing that avoids overreliance on interest-bearing liabilities.

Under the previous medium-term management plan, "BBBO2017," priority was given to securing financial soundness and the balance between Risk-adjusted Assets and the Core Risk Buffer was restored through growth in

shareholders' equity from increased retained earnings, and asset replacement. As for cash flows, investments and dividends were conducted within the range of cash generated and interest-bearing liabilities were reduced by ¥630 billion.

Under "Medium-Term Management Plan 2020," in addition to continuing with the cash flow management exercised so far, we will devote increased management resources to the strengthening of earnings capacity. This is because we need to raise our own earnings capacity in order to secure operating capital for business expansion and an investment fund for future growth, as well as avoid overdependence on interest-bearing liabilities.

Sumitomo Corporation has already begun efforts to reinforce its cash-generating capability and these are producing steady results. The previous medium-term management plan called for a positive balance of ¥800 billion in cash flow earnings (basic profit cash flow\* + depreciation and amortization) over the three years (revised plan of May 2016), while the amount actually achieved was ¥1,050 billion.

Enhancement of Financial Soundness

**Continue to focus on cash flow management**

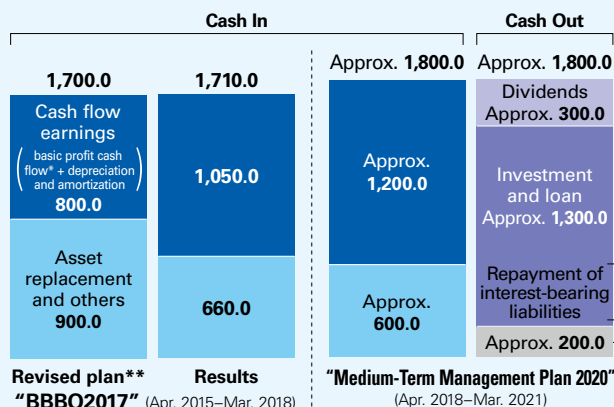
**Securing an incremental ¥200 billion or more in three-year total post-dividends FCF, and allocating to repayment of interest-bearing liabilities**

- Expand cash flow earnings power
- Recover funds through continuous regeneration of business
- Execute investments in preparation for future

**Maintaining a balance of [Core Risk Buffer] ≥ [Risk-adjusted Assets]**

Projection of Cash Allocation during "Medium-Term Management Plan 2020"

(Three years) (Billions of yen)



\* Basic profit cash flow = Basic profit – Share of profit (loss) of investments accounted for using the equity method + Dividend from investments accounted for using the equity method

Basic profit = (Gross profit + Selling, general and administrative expenses [excluding provision for doubtful receivables] + Interest expense, net of interest income + Dividends) x (1 – Tax rate) + Share of profit (loss) of investments accounted for using the equity method

\*\* Revised plan announced in May 2016

During the next three years, we forecast a further increase in cash flow earnings to approximately ¥1,200 billion. In parallel, the new plan calls for cash generation of ¥600 billion through asset replacement and other means to give a total cash inflow of ¥1,800 billion. On the cash outflow side, we will take steps to strengthen investment and enhance shareholder returns while continuing to keep a vigilant eye on cash generated.

Investment of ¥1,300 billion is planned, of which ¥300 billion will be earmarked for a Companywide investment fund not linked to any individual business unit. Sumitomo Corporation will allocate this to investment in fields where it is targeting medium- to long-term business development. A dividend fund of ¥300 billion will be set aside, ¥200 billion of interest-bearing liabilities will be repaid, and improvement of leverage will continue.

### Enhancement of Financial Soundness 2: Profit Targets Continue strengthening business structures to boost earning power and realize steady profit growth

Sumitomo Corporation has in the past faced a range of managerial issues, but has always carefully reviewed business conditions and worked to reform its business structure in order to secure profit even in challenging environments. In fiscal 2017, solid performance was achieved from the leasing business, the construction equipment business, and the media, ICT, and lifestyle related goods & services business operated by the main domestic Group companies, as well as from the real estate business and other sectors. Power

generation engineering, procurement, and construction (EPC) projects also contributed to profit, and the tubular products business posted improved earnings. With the added impact of rises in resource prices, profit for the year attributable to owners of the parent reached a new record high, at ¥308.5 billion.

In fiscal 2018, we again expect increased profits in sectors including the tubular products business, power generation EPC projects, the real estate business, and the fresh produce business, which should allow us to exceed our fiscal 2017 results targeting ¥320 billion. In view of the uncertainty in the business environment surrounding Sumitomo Corporation, we have not published profit targets for the three years of “Medium-Term Management Plan 2020,” but we look forward to steady profit growth from factors including expansion of the revenue base in the non-mineral resources businesses, which is one of our strengths, improved earnings in the tubular products business, and a move to profitability in major resource-related projects.

### Enhancement of Financial Soundness 3: Efficiency Indicators Pay close management attention to asset and capital efficiency with the aim of achieving ROE exceeding shareholders’ equity cost

In order to expand earnings without inflating interest-bearing liabilities, we will need to continuously improve capital efficiency. Sumitomo Corporation previously made it a medium- to long-term management target that the risk-adjusted return ratio—the ratio of return to Risk-adjusted Assets—should exceed shareholders’ equity cost on a companywide basis. As stated above, we have followed the

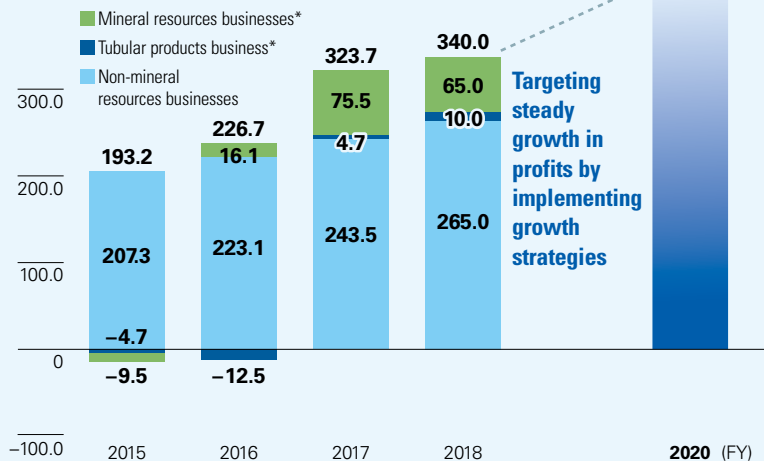
### Quantitative Targets for “Medium-Term Management Plan 2020”

(Billions of yen)

	FY2017 Results	FY2018 Targets
<b>Profit for the year attributable to owners of the parent</b>	<b>308.5</b>	<b>320.0</b>
<b>Basic profit (excluding impairment losses)</b>	<b>323.7</b>	<b>340.0</b>

### Basic Profit (excluding impairment losses)

(Billions of yen)



\* Figures consist of results including operations in the Overseas Subsidiaries and Branches segment. (reference)



principle of keeping Risk-adjusted Assets (total risk) within the range of the Core Risk Buffer. Close management attention to the risk-adjusted return ratio means aiming for an ROE level that exceeds shareholders' equity cost, which has been set at a level of 7.5%, the upper limit of its envisaged range.

As efficiency indicators for "Medium-Term Management Plan 2020," we have set an ROE target of 10% or higher and exceeding shareholders' equity cost, and an ROA target of 4% or higher. We will continue to keep a close watch on asset and capital efficiency in management operations.

**Enhancement of Financial Soundness 4: Shareholder Returns**  
**Enhance shareholder returns in line with improved performance and raise the consolidated payout ratio to 30% as a guideline**

The Sumitomo Corporation's basic policy on shareholder returns is to increase dividends by achieving mid-long term earnings growth while adhering to the Company's fundamental policy of paying shareholders a stable dividend over the long term.

Under the previous medium-term management plan, despite having incurred major impairment losses, we set a lower limit of ¥50 per share in light of our potential cash-generating capability. In the final year of the plan, we achieved a record level of profit and set the dividend per share at ¥62.

Under "Medium-Term Management Plan 2020," we have raised the guideline for the consolidated payout ratio from the previous 25% or higher to around 30%. This decision was made from a commitment to enhancing shareholder returns in line with improved corporate performance, while also taking into account the capital demand from investment plans and other sources over the next three years.

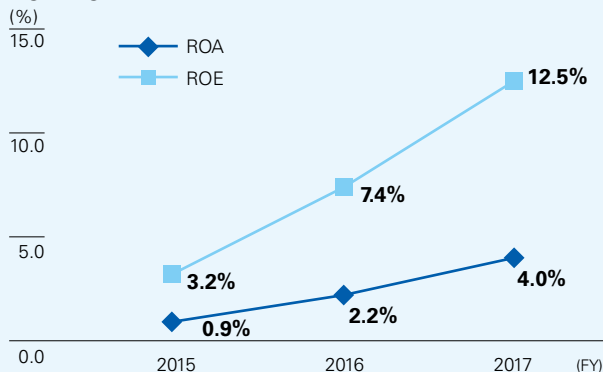
The planned annual dividend for fiscal 2018 is ¥75 per share based on a forecast consolidated profit for the year attributable to owners of the parent of ¥320 billion.

Looking ahead, I will support the growth strategies of "Medium-Term Management Plan 2020" as CFO through enhanced financial soundness and improved asset efficiency based on optimization of the portfolio, aiming in this way to achieve medium- to long-term profit growth and stable dividend payments.

**Efficiency Indicators for "Medium-Term Management Plan 2020"**

<b>ROA</b>	<b>4% or higher</b>
<b>ROE</b>	<b>10% or higher</b>

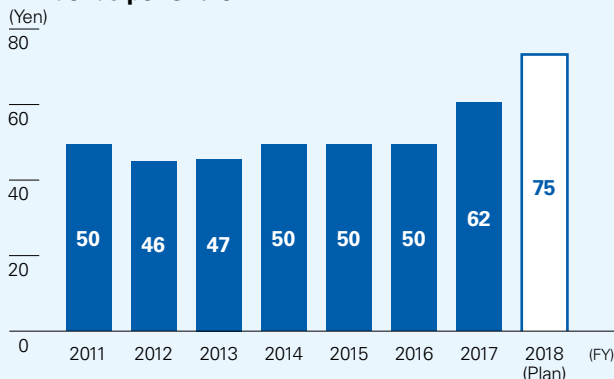
**ROA/ROE**



**Shareholder Returns Policy**

<b>Basic policy</b>	Our basic policy is to increase dividends by achieving mid-long term earnings growth while adhering to the Company's fundamental policy of paying shareholders a stable dividend over the long term.
<b>"Medium-Term Management Plan 2020" dividend policy</b>	We will decide the dividend amount in view of the situations regarding basic profit and cash flow, with a consolidated payout ratio of 30% as a guideline.
<b>Fiscal 2018 dividends</b>	¥75/share (plan) (interim ¥37/share, year-end ¥38/share)

**Dividends per Share**



## Stock Overview

(As of March 31, 2018)

**Number of Issued Shares:** 1,250,602,867 (including 2,070,753 treasury stock)

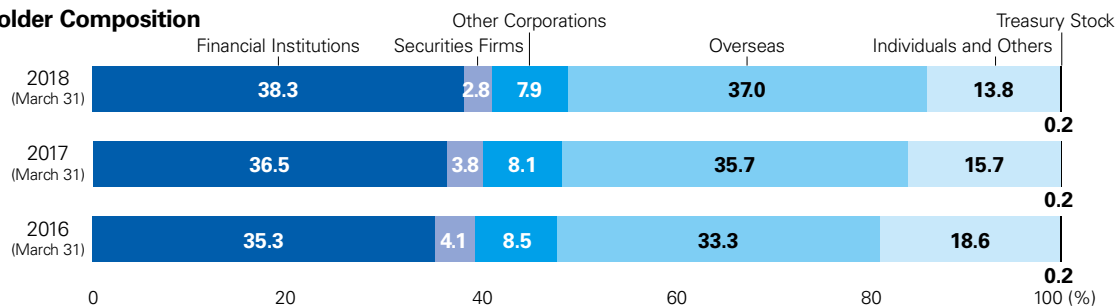
**Number of Shareholders:** 138,017

### Major Shareholders

Name	Number of Shares (Thousands of shares)	Shareholding Ratio (%)*
The Master Trust Bank of Japan, Ltd. (trust account)	85,207	6.82
Japan Trustee Services Bank, Ltd. (trust account)	65,651	5.26
Liberty Programming Japan, LLC	45,652	3.66
Japan Trustee Services Bank, Ltd. (trust account 9)	35,793	2.87
JP Morgan Chase Bank 385632	33,474	2.68
Sumitomo Life Insurance Company	30,855	2.47
Japan Trustee Services Bank, Ltd. (trust account 5)	23,740	1.90
State Street Bank West Client-Treaty 505234	21,874	1.75
Mitsui Sumitomo Insurance Company, Limited	20,000	1.60
Japan Trustee Services Bank, Ltd. (trust account 1)	17,617	1.41

\* The shareholding ratio is calculated by dividing the number of shares held by the number of shares outstanding—which is derived by deducting treasury stock (2,070,753 shares) from the total number of issued shares—and rounding to the nearest hundredth of a percent.

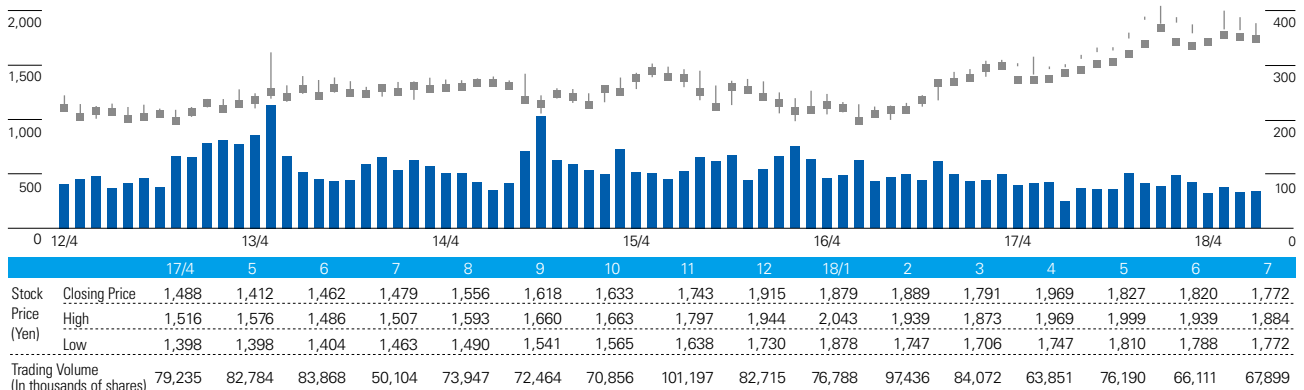
### Shareholder Composition



### Stock Price and Trading Volume\*

— High and Low (left) ■ Closing Price (left)  
(Yen)

■ Trading Volume (right)  
(Millions of shares)



\* The above stock prices and trading volume are based on Tokyo Stock Exchange data.

## Message from the CAO: Enhancement of Corporate Governance and Our Human Resources Strategy

# Steadily implementing measures to reinforce the management bases

### Hideki Iwasawa

Representative Director, Executive Vice President, Corporate Group  
Chief Administration Officer and Chief Compliance Officer



### "BBB02017": Promotion of Managerial Reform Improvement of the decision-making process and implementation of measures to reinforce supervisory functions under the previous medium-term management plan

The essence of corporate governance at Sumitomo Corporation consists of "improving management efficiency" and "maintaining sound management," as well as "ensuring management transparency" to secure the first two. Based on this view, we work to continuously strengthen and enhance corporate governance in order to establish the most appropriate managerial system for the Company. By doing so, we aim to realize management that serves the interests of our shareholders and all other stakeholders, and to achieve sustainable growth and a medium- to long-term increase in corporate value.

Under the previous medium-term management plan "Be the Best, Be the One 2017 (BBB02017)," we reviewed our corporate governance and the decision-making process through promotion of managerial reforms and implemented the measures set out below.

#### (1) Improving decision-making process for the execution of business management

In July 2015, the role of the Management Council was changed from that of an advisory body to the President and CEO to a top executive decision-making body, thereby establishing a system to incorporate multilateral discussions into the process for making decisions on important matters. This has enabled management to engage in more frank exchange of opinions on matters relating to management policy and matters with potential companywide impact and allowed a wide range of opinions to be considered.

#### (2) Amendment of standards for matters to be discussed by the Board of Directors

The standards for matters to be discussed at Board of Directors' meetings have been revised so that the Board of Directors can discuss and monitor important matters relating

to companywide management, such as business policy and the management plan in a more focused way.

#### (3) Change in the composition of the Board of Directors to reinforce the supervisory functions over management execution

At the launch of the previous medium-term management plan, the Sumitomo Corporation Board of Directors was made up of two Outside Directors and 10 Internal Directors. In fiscal 2017, the final year of the previous medium-term management plan, the number of Outside Directors and Internal Directors was changed to three and six, respectively. With this increase in the ratio of Outside Directors, the system enables enhanced utilization of the insights of the Outside Directors and reinforces the Board's supervisory functions over the execution of management.

In fiscal 2018, the number of Outside Directors was increased by a further two, thereby giving the Board a composition of five Outside Directors and six Internal Directors.

#### (4) Establishment of the Nomination and Remuneration Advisory Committee as an advisory body to the Board of Directors

In fiscal 2015, with the aim of increasing objectivity and transparency in the nomination and remuneration of Directors, etc., we established the Nomination and Remuneration Advisory Committee consisting of five members in total: the President and Chief Executive Officer, the Chairman of the Board of Directors, and three Outside Directors, one of whom is Chair.

The Committee played an important role in the process of deciding the successor to the President and Chief Executive Officer. The Committee also discussed ideas for a remuneration system and a set of performance evaluation standards for directors and officers taking into account incentives for medium- to long-term increase in corporate value and sustained growth. The Committee reported the results of its discussions to the Board of Directors.

For more information, please go to ► [Page 89](#) Special Feature:  
Message from an Independent Director.

## “Medium-Term Management Plan 2020”: Enhancement of Corporate Governance

### Reinforcement of supervisory functions through expanded scope of monitoring and reinforcement of Group governance through internal control

Corporate governance was reinforced under the previous medium-term management plan, and we seek to further enhance it under “Medium-Term Management Plan 2020.” Our focus will be on “reinforcement of the monitoring functions of the Board of Directors” and “reinforcement of Group governance.”

#### (1) Reinforcement of the monitoring functions of the Board of Directors

We will expand the scope of monitoring by the Board of Directors to reinforce the supervisory functions over management execution.

The Board will, for instance, undertake periodic monitoring of the progress of the medium-term management plan and the portfolio strategy. This monitoring will not only confirm the plan’s progress but also provide checks on aspects including the status of investment in the three emerging fields we have identified (Technology x Innovation, Healthcare, and Social infrastructure).

As well, we will take measures to further strengthen the monitoring of concentration risks against exposure of the upstream resources business and the tubular products business, which are susceptible to fluctuations in market conditions, through analysis of various scenarios resulting from these fluctuations. Additionally, the important social issue of climate change will be monitored continuously and appropriate response measures will be taken.

#### (2) Reinforcement of Group governance

We consider the internal control system to be the foundation upon which to promote our growth strategies. Accordingly, we have launched a project that aims to enhance operational quality and increase corporate value through use of the internal control system, thereby reinforcing Group governance.

This project will identify the basic risks that should be controlled as part of the operation of the business. With regard to the significance of the risks and their countermeasures, while maintaining dialogues with Group companies, the Company will create an autonomous cycle of plan-do-check-act (PDCA) for the improvement of internal control. The Group will standardize this process, and actively promote the use of PDCA cycles in workplaces to lead the way in enhancing operational quality for the Group as a whole.

### Initiatives to Date to Enhance Corporate Governance

	Up to FY2014	FY2015	FY2016	FY2017	FY2018 and after
Board of Directors	April 2003: <ul style="list-style-type: none"> <li>• Limitation of the term of office for Chairman of the Board of Directors and President and Chief Executive Officer (six years, in principle)</li> <li>• Establishment and announcement of Corporate Governance Principles</li> </ul>				
	June 2003: <ul style="list-style-type: none"> <li>• Reduction of number of Directors (24 → 12)</li> </ul>				
Directors	June 2005: <ul style="list-style-type: none"> <li>• Shortening of the term of office for Directors (2 years → 1 year)</li> </ul>				
	<b>Evaluation of the effectiveness of the Board of Directors</b> (Note: Implemented from fiscal 2015)				
Outside Directors	June 2013: 2 Directors appointed	Increase to 3 (including 1 female)	Increase to 4 (including 1 female)	3 Outside Directors (including 1 female) Note: Decrease due to death, etc.	Increase to 5 (including 2 females)
Nomination and Remuneration Advisory Committee	April 2007: Establishment of Remuneration Committee	November 2015: <b>Establishment of Nomination and Remuneration Advisory Committee</b> (Note: Majority are Outside Directors, chaired by an Outside Director)			
Other	<b>Implementation of all principles of Japan’s Corporate Governance Code</b> (Full compliance)				

For more information, please go to [▶ Page 93 Corporate Governance](#).

**“Medium-Term Management Plan 2020”: Enhancement of Human Resources Management**

**Creating a corporate culture able to benefit from the strengths and individuality of diverse human resources to make invisible diversities a source of growth**

The business environment surrounding the Sumitomo Corporation Group is changing at a hectic pace and the local communities and business fields in which we operate, and even our business models, are becoming increasingly diverse. In an era hailed as the Fourth Industrial Revolution, it is essential for the Group to promote diversity as a management strategy in order to adapt to change and continue achieving sustainable development. As overseas markets expand, the development of managerial human resources able to take charge of business growth at a global level has become a pressing issue.

Under “Medium-Term Management Plan 2020,” we declared the basic concept of our human resources strategy to be “Diversity & Inclusion: Make diversity a source of competitiveness.” There are four elements to this basic concept: “Encourage individuals to challenges,” “Expand the strengths of individuals,” “Capitalize on the strengths of individuals,” and “Value, respect, and accept individual differences.”

It is essential to utilize the rich mix of “knowledge” of diverse humans as a source of competitiveness in order to survive and stay competitive in complex business fields. We will focus on the diversity of our human resources on a global basis, particularly on their individual strengths, and bring these strengths together in combination. By doing so, we will drive the progress of our growth strategies.

As an absolute precondition, we need to develop and apply a mindset that acknowledges, respects, and accepts individual differences and then utilize them as a source of competitiveness. In other words, we need to practice inclusion.

Before setting out the concrete measures of our human resources strategy, we will explain the level of diversity that the Sumitomo Corporation Group aspires to.

It would not be enough if we focused on “visible” diversity such as gender, nationality, ethnicity, and age. Our focus, rather, is on “invisible” diversity in the form of differing opinions, perspectives, ideas, values, capabilities, skills, and experiences. Respecting these differences while at the same time progressing in a united direction as an organization, we aim to reap their benefit as a source of competitiveness, stimulating added value and growth.

To encourage the promotion of growth strategies at the level of the individual Group employee, in addition to giving consideration to invisible diversity, we also need to allocate the right person in the right place at the right time on a global basis, strategically carry out the appointment and development of human resources as well as build organizational structures, and ensure the necessary organizational culture and awareness to support these. To realize this strategy, as well as top-down measures from management, the bottom-up approach is also important. One of these bottom-up initiatives was the launch in fiscal 2017 of the Diversity & Inclusion Promotion Project as an advisory body under the direct control of the President. I myself as a project leader attend almost all of the project meetings, where project members from a wide range of backgrounds engage in frank discussion of issues and ideas rooted in their workplace experiences.

The opinions and suggestions flowing from the Project have been fed into the human resources strategy of “Medium-Term Management Plan 2020.” We have initiated similar projects in our overseas organizations and will continue to pursue diversity across Group global operations while also seeking to forge cooperative links.

In promoting Diversity & Inclusion, two very important elements are commitment as a company from a long-term perspective and creation of a corporate culture able to benefit from diversity. To ensure these elements, we are moving forward with and enhancing the range of measures constituting our human resources strategy. The measures presented in “Medium-Term Management Plan 2020” are divided into three categories, as follows.

**Basic Concept of Human Resources Strategy**



### (1) Strategic human resources management on a global basis

We established the SC Group Talent Management Meeting in fiscal 2017 to function as a mechanism to promote strategic human resources allocation. The Meeting discusses personnel transfers from a companywide perspective transcending divisional considerations to implement strategic allocation of personnel as a management resource.

We are also moving ahead with initiatives to establish an environment conducive to the utilization and development of the managerial human resources of overseas offices and Group companies as well as the human resources of Sumitomo Corporation. In concrete terms, we will initially introduce a unitary global human resources management system and prepare Global HR Database, based on which we will enhance succession planning for key positions. In addition, we will formulate and implement a Global Mobility Policy (a set of common rules on employment conditions and benefits) as an infrastructural measure to facilitate job rotation of national staff between overseas regions and the hosting of Group human resources at the Head Office.

As a measure to develop the executive management candidates of the future, we will use a system of job rotation that transcends divisional considerations. By allowing candidates to experience working in a number of different fields instead of being limited to a single area, thus broadening their outlook, we will develop managerial human resources equipped with a diverse range of experiences.

### (2) Growing as an organization unceasingly challenging for new value creation

As a program to address “Medium-Term Management Plan 2020” in a united and comprehensive way, we have introduced the Medium-Term Management Plan Challenge and Evaluation System. This system encourages employees to engage in renewed discussion as to what their particular organization needs to do in order to realize the plan’s growth strategies and to reflect this in ambitious individual goals.

Meanwhile, as a project separate from initiatives at the level of the organizational unit, we have also introduced the

Challenge Award System, a system open to individual participation. The individual challenge need not be linked to the goals of the organization the individual belongs to. These systems will provide backup to employees and organizations who fearlessly take on highly difficult challenges with potentially great impacts on the future of the organization or which depart from the conventional trajectory.

### (3) Creating an environment in which diverse individuals can develop their capabilities to the fullest

We will further promote health and productivity management based on the concept that a healthy mind and body are essential for each employee to perform at his or her highest level and are the foundation for the continuous creation of new value. So that each individual employee can work in good health with positive motivation, we will enhance initiatives on improving health and preventing illness. In addition, we will take steps to realize and promote output-oriented workstyles that help generate higher added value. These will include the creation of environments that encourage self-sustaining and flexible work that is free of conventional restrictions and the allocation of time for personal development. As concrete measures, in fall 2018 we will begin introducing full-scale teleworking and “super-flexible” work hours, starting with the Head Office.

In addition, with the aim of benefiting from the strengths and unique attributes of individuals, we will start building a human resources system that incentivizes not only generalists and management candidates but also professional human resources with a high degree of specialty who make significant contributions to the organization.

Through the enhancement of our governance and human resources strategy outlined above, we will accelerate the promotion of growth strategies set out in “Medium-Term Management Plan 2020” and at the same time progress with management base enhancement to support the sustainable growth of the Sumitomo Corporation Group and a medium- to long-term increase in corporate value.

## Measures of “Medium-Term Management Plan 2020”

#### Strategic human resources management on a global basis

- Strategic allocation of human resources
- Active use of interdivisional job rotation
- Building of the systems required for global human resources operations

#### Growing as an organization unceasingly challenging for new value creation

- Introduction of “Diversity & Inclusion” as an evaluation criterion
- Introduction of the Medium-Term Management Plan Challenge and Evaluation System

#### Creating an environment in which diverse individuals can develop their capabilities to the fullest

- Promotion of health management
- Pursuit of workstyles that help generate higher added value
- Enhanced utilization of professional human resources and actively pursuing recruitment of mid-career human resources
- Enhanced human resources development measures