

1590

Origin of Sumitomo's business

Sumitomo's history dates back to the pioneer Riemon Soga, who is a brother-in-law of Masatomo Sumitomo, the founder of the house of Sumitomo. Soga developed a method of copper refining known as *nanbanbuki* and set up a workshop in Kyoto in 1590.

Then, in the first half of the 17th century, Masatomo Sumitomo opened a business in Kyoto publishing books and selling medicines, which marked the proper start of the Sumitomo business.

Masatomo left behind *Monjuin Shiigaki*, or the founder's precepts, a guide on the right way to conduct a merchant business,

whose teachings have been handed down to us in Sumitomo's Business Philosophy.

Meanwhile, the origin of today's Sumitomo Group is in the Besshi Copper Mines, which opened in 1691 and contributed for some 280 years to the modernization of Japan's industry and economy.

Subsequently, the Sumitomo Group expanded around the core business of copper mining and refining, with operations extending successively into forestry, iron and steel, real estate, finance, insurance, and trading.

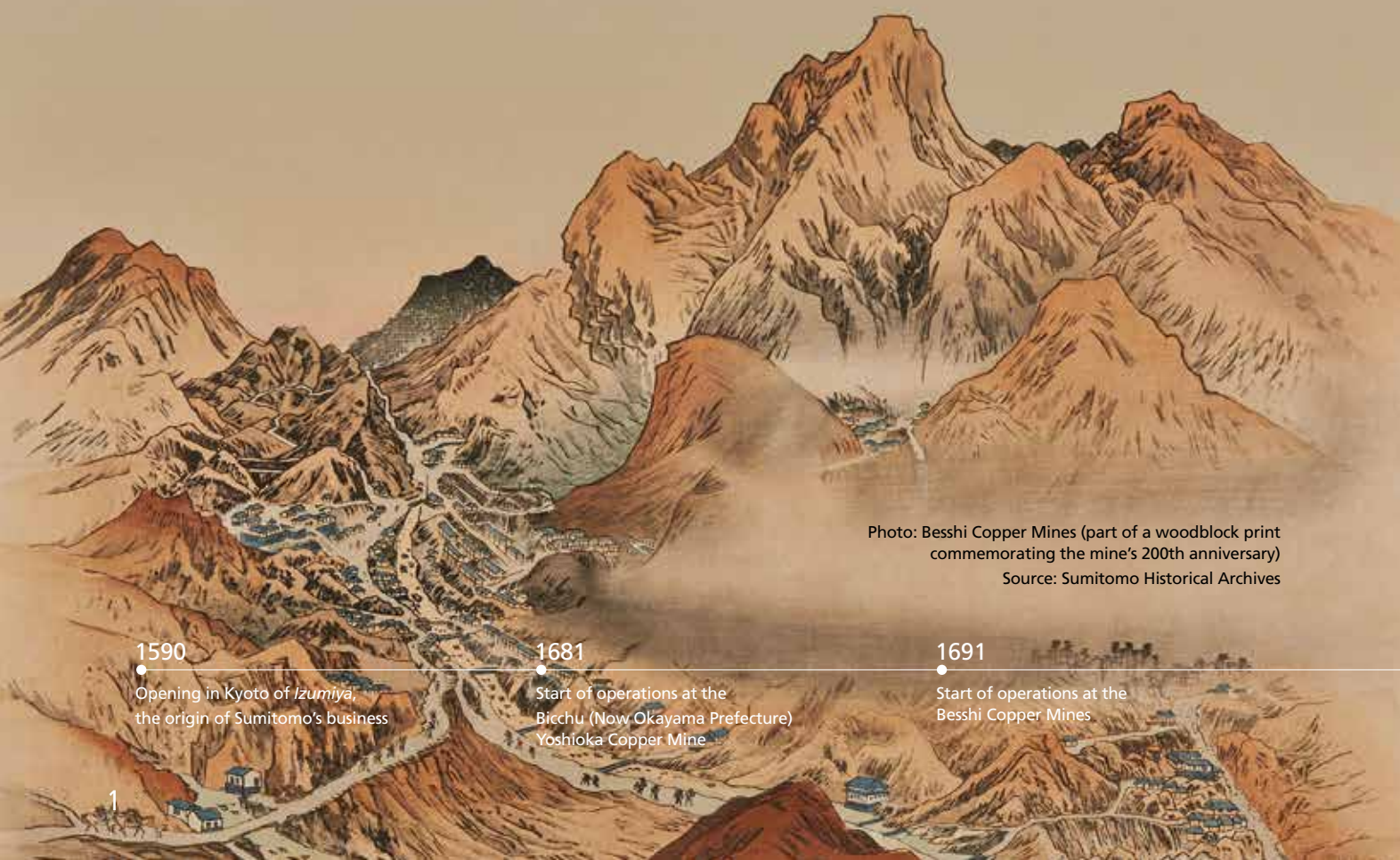


Photo: Besshi Copper Mines (part of a woodblock print commemorating the mine's 200th anniversary)
Source: Sumitomo Historical Archives

1590
Opening in Kyoto of *Izumiya*, the origin of Sumitomo's business

1681
Start of operations at the Bicchu (Now Okayama Prefecture) Yoshioka Copper Mine

1691
Start of operations at the Besshi Copper Mines

Sumitomo's Business Philosophy —An important legacy at the heart of everything we do

The origins of Sumitomo's Business Philosophy can be found in the founder's precepts, *Monjuin Shiigaki*, a guide to the right way to conduct a merchant business written by the founder of the house of Sumitomo, Masatomo Sumitomo (1585–1652). It begins with the recommendation "Do your best prudently and meticulously, not only in business but in every aspect of life," a statement of the right approach in all situations. Sumitomo's Business Philosophy originated with this approach and has been nurtured and refined by our predecessors during Sumitomo's 400 years of history to be inherited by us today.



Monjuin Shiigaki Source: Sumitomo Historical Archives

Sumitomo's Business Philosophy encapsulated in four phrases

Place prime importance on integrity and sound management without pursuing easy gains

This phrase expresses a business approach based on building a reliable foundation of trust rather than simply seeking short-term gain. A business enterprise is there to pursue profit, but this management stance, which instead prioritizes relationships of trust and sound operations over immediate gain, is what has formed the corporate ethos of today's Sumitomo Group businesses.

Benefit for self and others, private and public interests are one and the same

This phrase expresses the idea that Sumitomo's business must go beyond benefiting Sumitomo itself to also benefit the nation and society. In other words, it encapsulates the belief that "it is not enough for Sumitomo's business to aim to enrich itself only, it must have the grander goal of serving the interests of the nation and society."

Grand design

This phrase expresses a planning approach which, rather than pursuing immediate profit, looks far ahead to devise a careful plan that will benefit both Sumitomo and society. This attitude—which is in synch with today's values of prioritizing management based on medium- to long-term rather than short-term perspectives—is thus a Sumitomo tradition handed down since our earliest days.

An enterprising spirit

This phrase expresses the approach of actively embracing new things and ideas, and maintaining a strong focus on goals that is not affected by difficulties. This thinking has formed the Sumitomo Group's corporate culture of "facing contemporary change positively and staying one step ahead of it, letting go of out-of-date businesses and starting new ones to meet contemporary needs instead, and then nurturing them with dedication and determination."

1882
Formulation of the Rules Governing the House of Sumitomo, a written statement of the philosophy passed down since the days of Masatomo Sumitomo

1891
Formulation of the Business Principles, which is the origin of the management guidelines of each of the Sumitomo Group companies

1919

Sumitomo Corporation's roots and its expansion into the trading business

Sumitomo Corporation's roots date back to 1919, when Sumitomo was the main partner in the establishment of The Osaka North Harbour Company Limited.

This company was founded to undertake land reclamation in Osaka's North Port and to develop and manage real estate in the surrounding area.

The Osaka North Harbour Company later merged with The Sumitomo Building Co., Ltd., to become Sumitomo Real Estate Building Co., Ltd.

A major turning point came in 1945, when the company was again renamed as Nippon Engineering and launched a trading business dealing in products from Sumitomo Group companies and a wide range of other industries.

Trading soon became the main focus of the company's business activity as it handled an expanding range of products from an increasingly wide range of fields.

This growth continued, and in 1949, the company was listed on the stock exchanges of Tokyo, Osaka, and Nagoya.

Photo: Head office of The Osaka North Harbour Company, established in 1919
Source: Sumitomo Historical Archives

1919

Establishment of The Osaka North Harbour Company Limited, the roots of Sumitomo Corporation

1921

Establishment of Sumitomo Joint Stock Company, the predecessor of the Sumitomo Head Office

Sumitomo Corporation Group's Corporate Mission Statement —A declaration of our shared values as an integrated trading company

Sumitomo Corporation Group's Management Principles are a contemporary translation of Sumitomo's Business Philosophy, which was devised 400 years ago, using simplified language and a clear structure, and rewritten from a more global perspective. The Activity Guidelines provide guidance on how each company as well as its executives and employees should behave as they conduct daily business activities to realize the Management Principles.

As declared in the Management Principles, our corporate mission is to support our shareholders, clients, local communities, employees, and everyone else around the world in their endeavors to achieve economic and spiritual prosperity and realize their dreams through our sound business activities. We also maintain—throughout our business practices—a

unique management style that respects the personality of each individual and places prime importance on integrity and sound management, which represent the essence of Sumitomo's Business Philosophy, while cherishing a corporate culture that allows each employee to take the initiative and demonstrate creativity that is conducive to continuous reform and innovation.

By sharing the values presented in the Management Principles and the Activity Guidelines across the Group to materialize them in specific business activities, we aim to be a global organization that constantly stays a step ahead in dealing with change, creates new value, and contributes broadly to society.

Sumitomo Corporation Group's Corporate Mission Statement

Corporate Vision

We aim to be a global organization that constantly stays a step ahead in dealing with change, creates new value, and contributes broadly to society.

Management Principles

- Corporate Mission
To achieve prosperity and realize dreams through sound business activities
- Management Style
To place prime importance on integrity and sound management with utmost respect for the individual
- Corporate Culture
To foster a corporate culture full of vitality and conducive to innovation

Activity Guidelines

- To act with honesty and sincerity on the basis of Sumitomo's business philosophy and in keeping with the Management Principles
- To comply with laws and regulations while maintaining the highest ethical standards
- To set high value on transparency and openness
- To attach great importance to protecting the global environment
- To contribute to society as a good corporate citizen
- To achieve teamwork and integrated corporate strength through active communication
- To set clear objectives and achieve them with enthusiasm

1945

- The Osaka North Harbour Company merges with The Sumitomo Building Co., Ltd., and is renamed Sumitomo Real Estate Building Co., Ltd.
- Following the dissolution of the Sumitomo Head Office, Sumitomo Real Estate Building is renamed Nippon Engineering and launches a trading business

1949

First post-war capital increase and listing on stock exchanges of Tokyo, Osaka, and Nagoya

1950s–1990s

Launch and development as an integrated trading company

In 1952, Nippon Engineering changed its name to Sumitomo Shoji Kaisha, marking the launch of Sumitomo Corporation as the integrated trading company for the Sumitomo Group. Subsequently, Sumitomo Corporation supported Japan's rapid economic growth and development as a trading nation through the 1960s and 1970s, which were followed however by numerous setbacks for the company from the 1980s into the 1990s. Nevertheless, by seizing these as opportunities for transformation and enhancing its organizational capabilities, Sumitomo Corporation adapted to the times and continued its development as an integrated trading company.

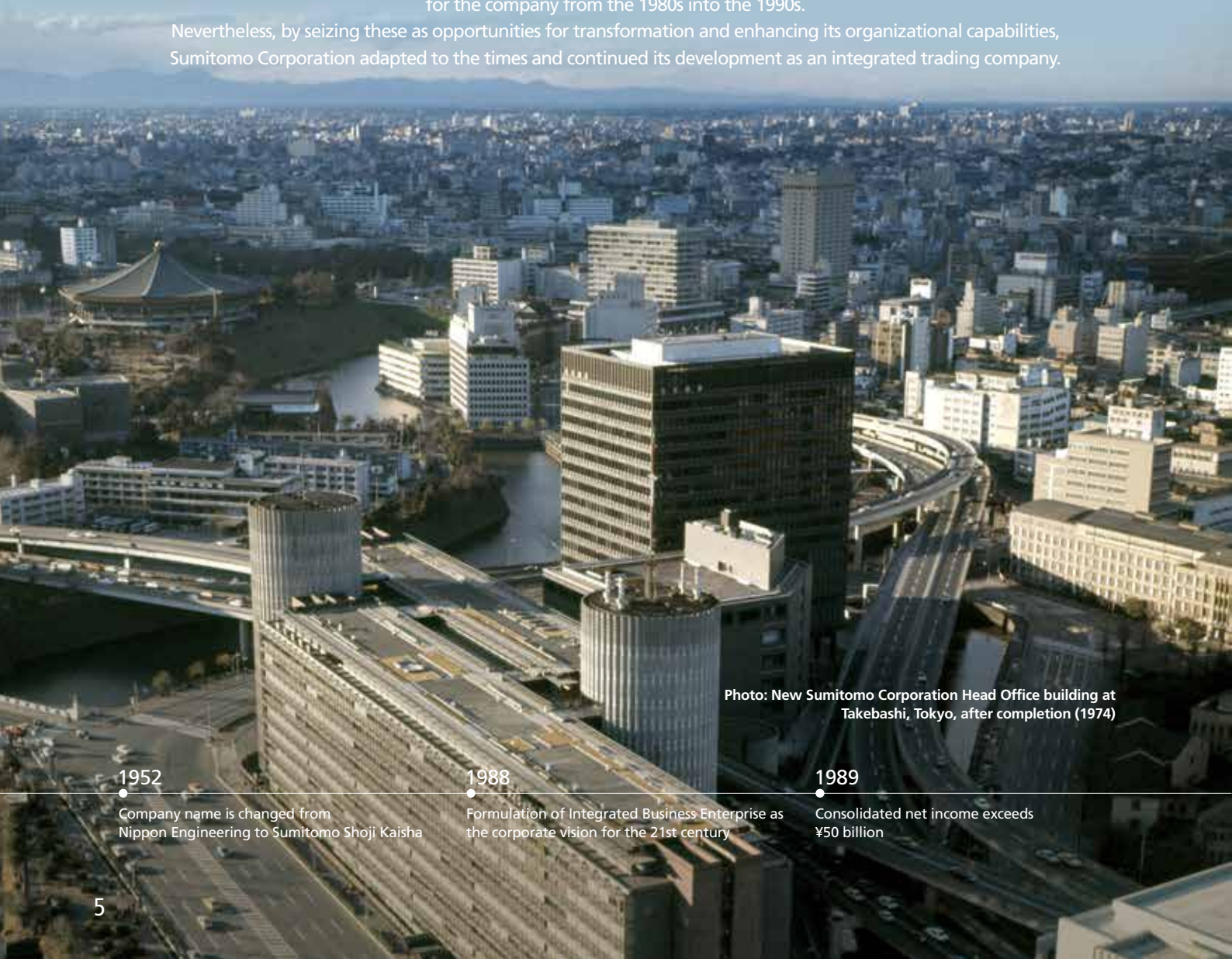


Photo: New Sumitomo Corporation Head Office building at Takebashi, Tokyo, after completion (1974)

1952
Company name is changed from Nippon Engineering to Sumitomo Shoji Kaisha

1988
Formulation of Integrated Business Enterprise as the corporate vision for the 21st century

1989
Consolidated net income exceeds ¥50 billion

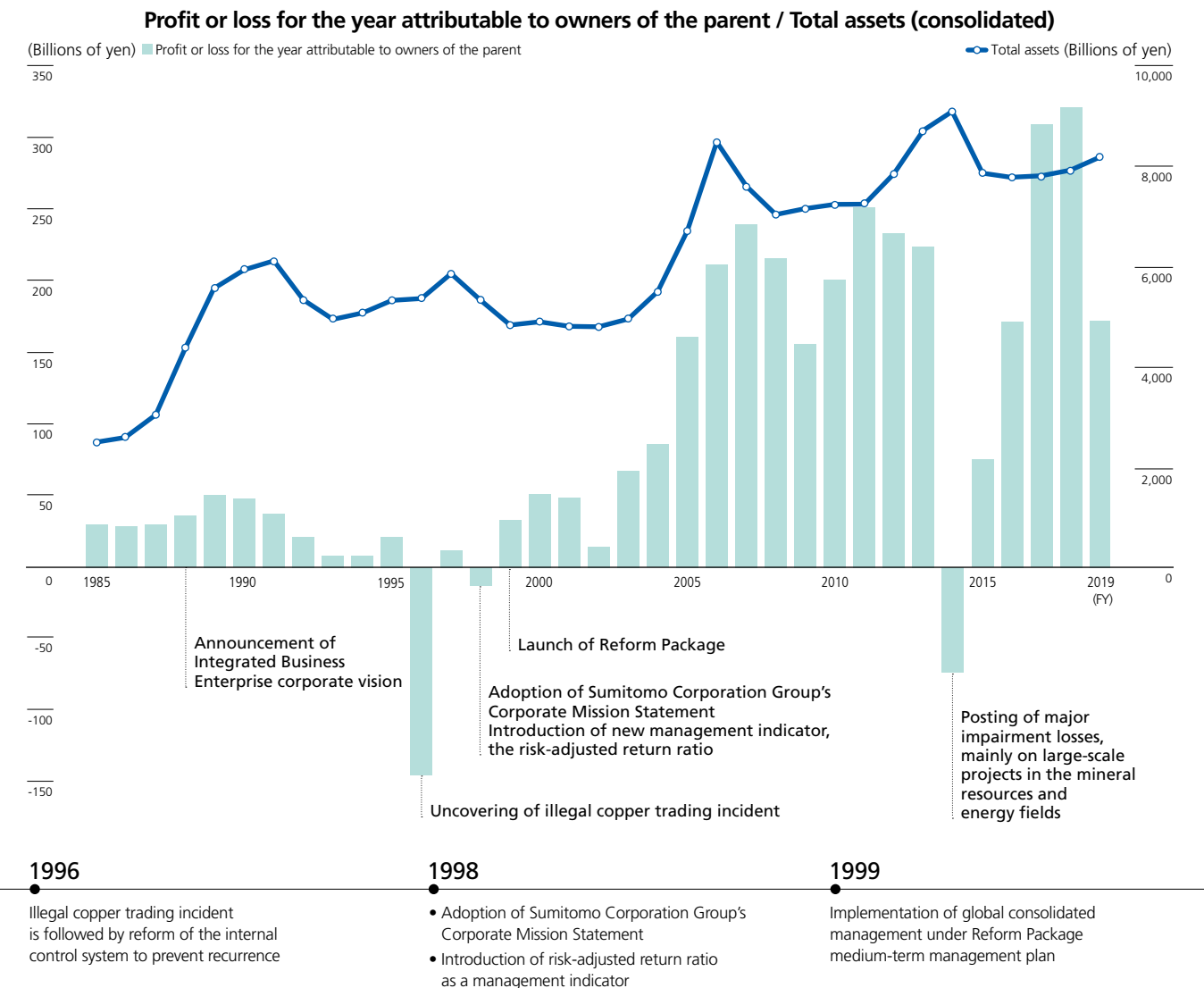
Overcoming challenges by transforming with the changing times

In 1952, Sumitomo Corporation made a new start as the integrated trading company for the Sumitomo Group. From the mid-1950s, the Japanese economy was set on a path of economic growth centered on the heavy chemical industries and internationalization progressed. Amid this wave of change sweeping the world economy, Sumitomo Corporation enhanced its organizational capabilities to achieve steady growth. By the mid-1970s, the number of overseas offices exceeded 100, and the Company pursued initiatives to increase overseas activity, participate in major projects, and open up new business fields.

However, from the 1980s into the 1990s, Sumitomo Corporation faced numerous challenges. In the 1980s, the worldwide economic recession and the sharp decline in the crude oil price, combined with the appreciation of the yen after the Plaza Accord, caused economic stagnation. Backed by its strong finances, the manufacturing industry moved to expand its overseas operations and began building its own

global production and sales networks. In the 1990s, with the spread of the internet, it became easier for producers to deal directly with consumers, which threatened the role of the integrated trading company into question. To overcome these challenges, Sumitomo Corporation took proactive steps to rebuild its earnings structure. In 1988, the Company formulated a corporate vision as an Integrated Business Enterprise, complementing its existing trading activity with business activity in a two-pillar earnings structure and thereby outlining a profile for the integrated trading company of the new era.

Then, in 1996 the Company was shaken to its foundations by the uncovering of an illegal copper trading incident. As well as launching a fundamental restructuring of the internal control system to prevent a recurrence, Sumitomo Corporation introduced the new management indicator of risk-adjusted return ratio, which became the de facto standard of risk management for the integrated trading company.



2019

100th anniversary and creation of Corporate Message

Sumitomo Corporation celebrated its 100th anniversary in 2019. To make its centenary the occasion for a new forward impetus, members of the Sumitomo Corporation Group worldwide participated in a series of discussions to create a Corporate Message that looks ahead to the next 100 years.

Enriching lives and the world

This message represents a pledge by the Group, whose corporate mission is to further enrich the world, society, and people's lives through sound business activities. The Sumitomo Corporation Group committed to the spirit encapsulated in this Corporate Message as it set out on its journey toward a new century of activity.

Photo: Open innovation laboratory Mirai Lab Palette operated by Sumitomo Corporation

2003

Adoption of the Sumitomo Corporation Corporate Governance Principles

2003–2008

Implementation of the medium-term management plans, AA Plan, AG Plan, and GG Plan, with a core policy of intensifying management led by the risk-adjusted return ratio

2005

Consolidated net income exceeds ¥100 billion

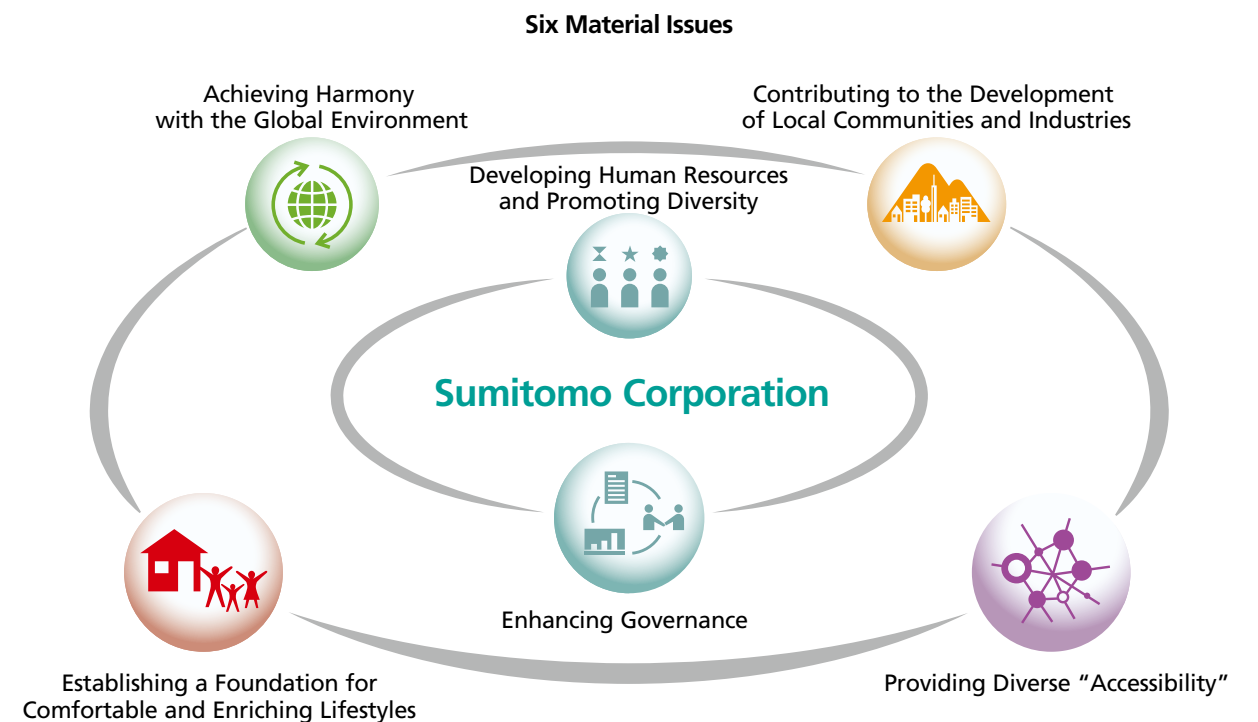
Achieving corporate growth and the resolution of social issues by further enriching the world, society, and people's lives

The management of the Sumitomo Corporation Group has its roots in Sumitomo's Business Philosophy, which has provided the foundation for 400 years of sustainable development. Part of this philosophy, "Benefit for self and others, private and public interests are one and the same," expresses the idea that Sumitomo's business activities must benefit not only Sumitomo, but also the society around us, to achieve sustainable growth together. This philosophy has been incorporated into Sumitomo Corporation Group's Management Principles. Guided by the principles, we have continued to conduct our business activities with the aim of being a global organization that constantly stays a step ahead in dealing with change, creates new value, and

contributes broadly to society.

Today, there are renewed questions as to how we can address the issues facing society through our business activities. To achieve sustainable growth with society in the spirit of Sumitomo's Business Philosophy and Sumitomo Corporation Group's Management Principles, in 2017 we identified the "Six Material Issues," which are priority issues to be addressed by leveraging our strengths. We aim to achieve corporate growth while solving social issues by utilizing our business expertise and firm relationships with customers and business partners around the globe.

▶ Refer to p. 33, Value Creation



2015

Launch of the medium-term management plan, Be the Best, Be the One 2017 (BBBO2017), with a focus on initiatives to return to a growth track

2017

Identification of Six Material Issues to Achieve Sustainable Growth with Society

2019

- 100th anniversary
- Formulation of Corporate Message

2050 and beyond

Moving forward in achieving a sustainable society

In 2015, the United Nations (UN) announced a set of Sustainable Development Goals (SDGs)*. Subsequently, there has been a strong expectation towards private-sector enterprises to support achieving the goals. Meanwhile, the annual convention of the World Economic Forum (in Davos) in January 2020 addressed issues of the capitalist system in relation to achievement of the SDGs, in which private-sector enterprises are expected to fulfill a wider range of roles.

Based on these recent global trends, Sumitomo Corporation is enhancing its sustainability management.

* A set of 17 goals to be met by 2030 covering a range of global-scale issues. The goals were adopted in 2015 by all 193 member nations of the UN General Assembly.



Seeking the ideal state of society through sustainability management

The increase in seriousness of climate change issues, loss of biodiversity, issues around human rights, and economic disparity are among the wide range of issues facing humankind that stand in the way of a sustainable global society. Against this backdrop, there are calls for private-sector enterprises to shift to a stakeholder capitalism that takes account of a more diverse range of stakeholders. At the same time, the COVID-19 pandemic started in late 2019 has had a significant impact on the world economy, industry, and society, which even today, more than halfway through 2020, shows no sign of ending. As we enter an era of the new normal, people's values and patterns of behavior are changing dramatically.

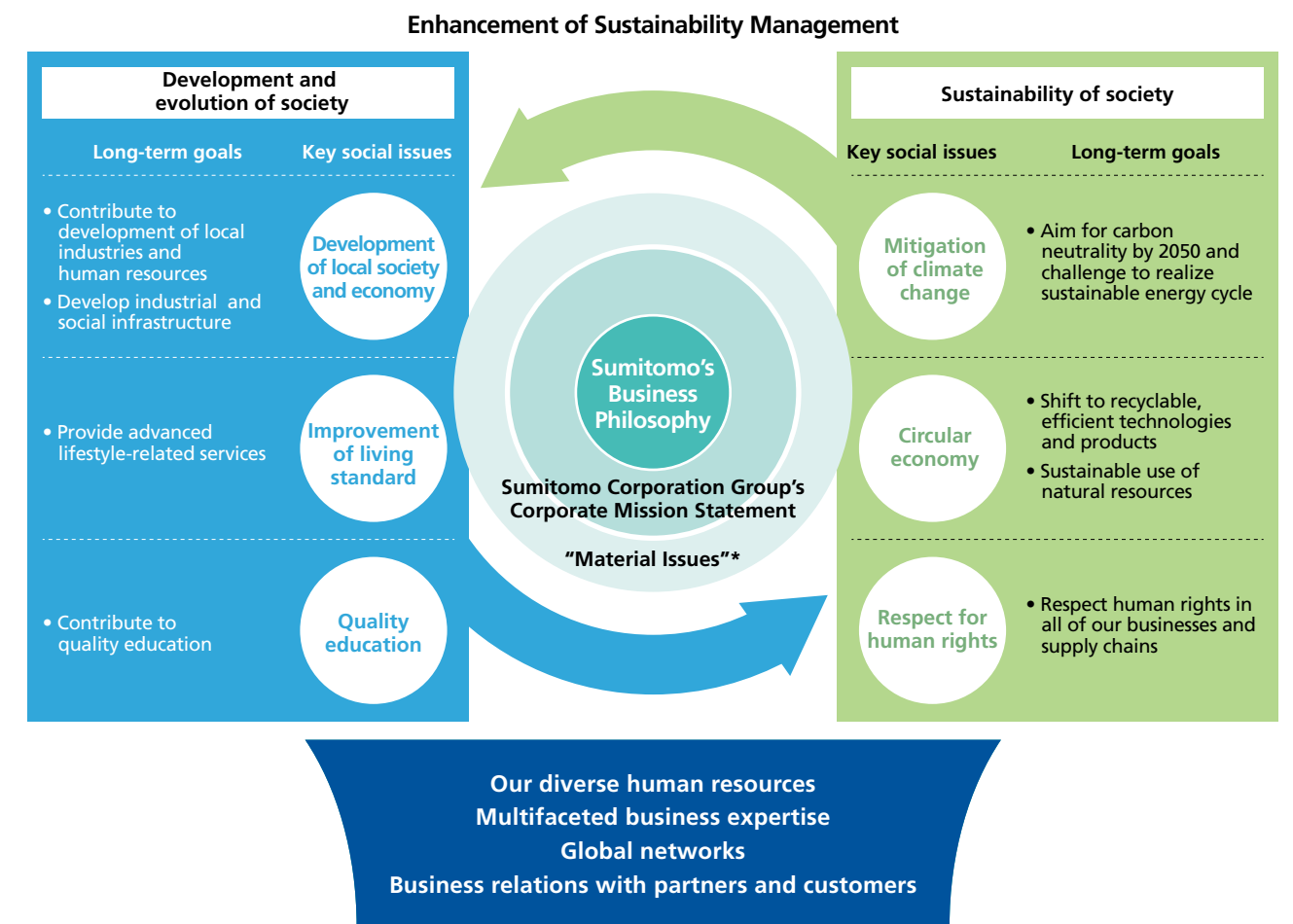
In times of high uncertainty, we are reminded of the importance of looking ahead to the ideal society and working together with our stakeholders to accelerate the implementation of the sustainability management to address social issues

through our business activities.

In June 2020, the Group identified the following six items as key social issues to commit to: "Mitigation of climate change," "Circular economy," "Respect for human rights," "Development of local society and economy," "Improvement of living standard," and "Quality education." We also set long-term goals for each of these issues which will now serve as guidelines for all Group business activities. In addition, we will set medium-term goals and key performance indicators (KPIs) for each long-term goal, and also strategically allocate management resources to ensure that the Group's business portfolio continues to create values that society truly needs.

Through the enhanced sustainability management, the Sumitomo Corporation Group is strongly committing to the achievement of a sustainable society and seeking the way to a better world.

▶ Refer to p. 19, Sustainability Management at the Sumitomo Corporation Group



* Priority issues identified for the Sumitomo Corporation Group to pursue sustainable growth with society

On the Release of Integrated Report 2020

Starting with Annual Report 2014, the Sumitomo Corporation Group has been enhancing its report content by adding non-financial information to the conventional financial information, and attempting to link the two elements organically. In 2017, we changed the report's name to the "integrated report" and began seeking to raise stakeholders' understanding of the Group's value creation mechanisms from a medium- to long-term perspective. In line with this direction, Integrated Reports 2018 and 2019 outlined the value creation model which enables the Group's sustainable growth and presented a detailed explanation of the model including its approach to value creation.

Since early 2020, the world has faced the threat of the COVID-19 outbreak, which has inevitably impacted the business activities of the Sumitomo Corporation Group. This unprecedented experience has made people around the world reassess their values and led to the advent of a "new normal," presenting industry with the need to transform its structures and existing business models. We believe still more strongly now that the Group needs to contribute to resolving social issues through the cycle set out in our value creation model by accurately sensing the trend and the changes in the business environment. Integrated Report 2020 outlines our commitment to sustainability management as the long-term management policy guiding the Group's management activities along the path to realizing a sustainable society. Sumitomo's Business Philosophy advocates "Benefit for self and others, private and public interests are one and the same." As inheritors of this philosophy, we will collaborate with a wide range of stakeholders going forward to build a more advanced sustainability management system.

Integrated Report 2020 represents an earnest effort to communicate, in an accessible form and from a long-term and embracing perspective, our vision for the future of the Group based on where it stands today. In its presentation, we sought to reflect the comments and questions received from stakeholders and worked with the various corporate organizations to reach a shared groupwide approach.

Going forward, the Sumitomo Corporation Group will devote energetic efforts to enhancing the content of the Integrated Report, which we will use as a tool for constructive dialogue. In this way, we are committed to continuing to create new value in the spirit of the Corporate Message adopted last year to mark the Group's 100th anniversary, "Enriching lives and the world."

October 2020

Kuniharu Nakamura
Director, Chairman
Chairman of the Board of Directors

CONTENTS

INTRODUCTION	1
On the Release of Integrated Report 2020	11
Message from the President and Chief Executive Officer	13
Special Feature	
Sustainability Management at the Sumitomo Corporation Group	19
Responses to Climate Change Issues	23
Message from the Chief Financial Officer	25
PART 1 Value Creation Story	29
Value Creation Model	31
Value Creation	33
Mechanisms	39
Management Capital	43
CLOSE-UP: Human Capital	
Message from the Chief Administration Officer	49
A Roundtable with Our Employees Enhancing human capital through career development	51
Business Case	
Renewable energy: Business value and its evolution	53
PART 2 Medium-Term Management Plan 2020	57
Message from the Chief Strategy Officer	59
CDO Talks: DX Strategy	63
Status of Medium-Term Management Plan 2020	65
Business Highlights	
Increasing the value of existing businesses	67
Creating the next-generation businesses	69
Leveraging cross-business platform	73
PART 3 Segment Overview	75
At a Glance	77
Metal Products	79
Transportation & Construction Systems	81
Infrastructure	83
Media & Digital	85
Living Related & Real Estate	87
Mineral Resources, Energy, Chemical & Electronics	89
PART 4 Governance	91
Messages from Outside Directors	93
Corporate Governance	96
Directors, Audit & Supervisory Board Members, and Executive Officers	102
Internal Control	105
Company Information	109

Scope of the Report

- Period covered: April 1, 2019, to March 31, 2020 (Some activities starting on or after April 1, 2020, are included.)
- Organizations covered: Sumitomo Corporation and the Sumitomo Corporation Group
- Previous publication: October 2019
- Next publication: Autumn 2021

Referenced Guidelines

- The International Integrated Reporting Council (IIRC) International Integrated Reporting Framework
- ISO 26000 (Guidance on Social Responsibility)
- Charter of Corporate Behavior, KEIDANREN (Japan Business Federation)
- Environmental Reporting Guidelines 2018, issued by Ministry of the Environment
- Guidance for Collaborative Value Creation by Ministry of Economy, Trade and Industry



Cautionary Note Regarding Forward-Looking Statements

This report contains management targets relating to Medium-Term Management Plan 2020 as well as a wide range of other forward-looking statements. They are subject to the influence of a range of factors in the Company's circumstances going forward and do not constitute a guarantee of future business performance or a guarantee that the targets and forecasts will be met. Readers are therefore advised to avoid placing undue reliance on the forward-looking statements contained herein and to be aware that the Company recognizes no obligation to update or revise such statements.

A shift in management resources is urgently required for structural reform

A foundation needs to be established for recovery



Masaru Shiomi
Representative Director,
Managing Executive Officer,
Chief Financial Officer

Summary of FY2019 business results

The challenges in the business environment following the downturn in the world economy have highlighted the issues in terms of profitability

In FY2019, the second year of Medium-Term Management Plan 2020, one-off losses in the tubular products business and the Bolivia silver-zinc-lead mining business were compounded by issues such as the U.S.-China trade friction and the sharp fall in the crude oil price, and towards the end of the fiscal year, by the downturn in the business environment caused by the COVID-19 outbreak. These factors reduced performance year on year in both the mineral resources and non-mineral resources businesses, with profit attributable to owners of the parent falling by ¥149.2 billion to ¥171.4 billion.

The decline in earnings resulted in basic profit cash flow for FY2019 of ¥239.0 billion, a decrease of ¥51.0

billion, while free cash flow was reduced by ¥94.4 billion to ¥123.2 billion compared to the previous year.

Business results by segment are discussed in detail in the Segment Overview (please see the list at right). Three of our business units—Infrastructure, Media & Digital, and Living Related & Real Estate—include many business operations that are not affected by fluctuations in the economy, and were able to post earnings at roughly the same level as the previous fiscal year. However, the other three business units—Metal Products, Transportation & Construction Systems, and Mineral Resources, Energy, Chemical & Electronics—are more susceptible to economic fluctuations, and, with the addition of one-off losses, experienced substantial profit decreases from the previous fiscal year.

The issues we face vary by segment and by business, but overall, the year left us with two clear tasks: Increase the value of individual businesses and reform the earnings structure.

FY2020 outlook

Focus on structural reform, starting with restructuring unprofitable businesses, to set us on a path to a rapid return to growth

I expect the negative impact of the COVID-19 to continue for the foreseeable future, resulting in a difficult business environment throughout FY2020. To set us on a path to a rapid return to growth, we will concentrate during the year on structural reform, starting with measures to restructure unprofitable businesses. Under this situation, we have included a one-off loss of ¥250.0 billion in our annual forecast, resulting in an expected loss attributable to owners of the parent of ¥150.0 billion for FY2020.

Due to the many uncertain factors, it is not possible at present to give a detailed breakdown of the projected one-off loss of ¥250.0 billion. However, with the impact of the COVID-19 outbreak, there are concerns for impairment losses in a number of projects. We additionally expect withdrawal and related losses from the restructuring of unprofitable projects, which we are determined to achieve a rapid return to our growth path. Clearing the way to dealing with these

concerns, unprofitable businesses will generate additional funds to rapidly create a foundation to shift them into business fields with better growth prospects.

Excluding one-off losses, however, we expect three of our business units—Infrastructure, Media & Digital, and Living Related & Real Estate—to show overall solid performance even under the current business conditions. As for the other three business units—Metal Products, Transportation & Construction Systems, and Mineral Resources, Energy, Chemical & Electronics—the impact of the COVID-19 outbreak has been significant and we forecast that it is difficult to see earnings recovering in FY2020. However, this does not mean that they have lost their intrinsic earning power, and I think that business results will recover as economic activity returns to normal.

Nevertheless, rather than waiting for the economy to recover, individual businesses need to show stronger management inputs. To achieve earnings recovery as quickly as possible once the COVID-19 crisis has been subdued, we will work to reinforce the competitiveness of each business, revitalize underperforming businesses, and create new businesses. These measures will form part of a structural transformation to rebuild our businesses into a

(Billions of yen)			FY2020 outlook
FY2020 forecast	FY2019 results	FY2020 forecast	
Profit / Loss excluding one-off effects	Approx. 248.0	100.0	Steel products: Improvement in automotive related in Q2 / stagnant market for home electronics business Tubular products: Severe environment continues due to low demand mainly in North America Automotive financing business: COVID-19 impact continues mainly in Indonesia Automotive manufacturing: Require some time for the full-operation EPC business: Large projects to peak out IPP/IWPP: Stable Major group companies: Stable Lifestyle and Retail: Stable Real estate: Delivering of properties in or after Q2 Mineral Resources & Energy: Stagnant mineral resources prices continue Chemical and Electronics: Stable
Metal Products	17.0	-6.0	
Transportation & Construction Systems	39.0	4.0	
Infrastructure	63.0	35.0	
Media & Digital	38.0	35.0	
Living Related & Real Estate	49.0	35.0	
Mineral Resources, Energy, Chemical & Electronics	45.0	-3.0	
Corporate and Eliminations	-3.0	—	
One-off losses	Approx. -77.0	-250.0	
Profit (loss) for the year	171.4	-150.0	

Message from the Chief Financial Officer

highly resilient portfolio that can withstand fluctuations in the economic environment.

Measures to restructure unprofitable businesses

Redeployment of management resources is urgently required to rebuild our business portfolio

The most urgent matters for our Group is to stabilize earnings and re-establish growth potential by rebuilding the business portfolio, and to raise funds from our management resources. After drawing a clear distinction between focus fields, where further growth can be expected by leveraging of our strengths, and fields for rebuilding, where reform of the business model is required, we will not hesitate to withdraw from businesses that show little potential for growth. We can then shift the management resources to the focus fields where the prospects for growth lie.

As part of Medium-Term Management Plan 2020, we introduced the Full Potential Plan, a support program to maximize the enterprise value of the group companies. However, in addition to our initiative of increasing the value of existing businesses, we also need to further accelerate withdrawal from businesses with little growth potential. We have already identified several tens of companies as definite candidates for withdrawal. With a view to having a withdrawal by the end of FY2020, we are working with business units and corporate groups to take the necessary action. We have factored in the accompanying withdrawal costs and other one-off losses, believing these are a hit we need to take with a view to recovery from FY2021. First of all, we will carry out a decisive redeployment of management resources, including funds and personnel, to drive the investment in growth businesses for rebuilding our business portfolio.

Cash flow and investments and loans

Further enhancement of cash flow management in line with business environment

Up until now, the Sumitomo Corporation Group's cash flow management has followed a basic policy of

maintaining financial soundness by keeping investments and loans and shareholder returns within the limits of cash flow earnings (basic profit cash flow + depreciation and amortization) and asset replacement, thus maintaining a positive balance of free cash flow and reducing interest-bearing liabilities.

Given the present challenging business environment, FY2020 is expected to bring a decline in cash flow earnings. To come safely through the economic trough of the COVID-19 outbreak, we will adopt an "emergency mode," focusing detailed attention on comprehensively reducing costs, promoting asset replacement, increasing working capital, and careful screening of investments and loans. This will allow us to generate cash and control cash outflows even more effectively and thereby secure and maintain short-term liquidity.

Allocated approximately ¥650 billion in the previous two years, we will strictly screen investments and loans in FY2020

Under Medium-Term Management Plan 2020, the initial plan for 3-year investments and loans was ¥1,300 billion, for new and ongoing projects combined. We have allocated approximately ¥650.0 billion in the last two years (FY2018: Approx. ¥300 billion; FY2019: Approx. ¥350 billion).

This amount includes investments and loans in existing businesses, such as the construction of power generation plants in Asia and the Middle East, acquisition of real estate in Japan and overseas, and additions to overseas construction machinery rental assets. We also allocated a cumulative total of approximately ¥90 billion in the last two years, under the initiative of Medium-Term Management Plan 2020, for investments in next-generation businesses in three fields where major growth is forecast in the future.

For FY2020, with cash flow management under our "emergency mode," we will restrict investments and loans to roughly ¥280 billion. The investments and loans will be screened mainly to projects already under contract, ongoing projects where required for business maintenance and continuation at the minimum level, and cases where strictly necessary in the context of the companywide growth strategy. The plan has accordingly been adjusted to show a 3-year cumulative total of just over ¥900 billion in investments and loans.

Enhancement of financial soundness

Maintain firm control of interest-bearing liabilities and risk amount to further reinforce our management base

Medium-Term Management Plan 2020 declares enhancement of financial soundness as one of its strategies to strengthen our management base. We will therefore avoid overdependence on interest-bearing liabilities, and will keep monitoring Risk-weighted Assets (total amount of risk) to keep it within the limits of the Core Risk Buffer (shareholders' equity).

For fund procurement, we maintain strong relationships with leading financial institutions in Japan and overseas, and also have access to adequate liquidity in our current business environment. We will continue to work for stable financing while maintaining due vigilance for sudden changes and other unexpected developments in the financial market. Under Medium-Term Management Plan 2020, we aim to secure a 3-year total of ¥200 billion for post-dividend free cash flow and allocate this amount to pay down interest-bearing liabilities in order to further enhance financial soundness. We will continue working toward this goal in FY2020.

Meanwhile, we will ensure continued stability by keeping Risk-weighted Assets within the limits of the Core Risk Buffer. We expect to achieve this aim despite the year-on-year decline in shareholders' equity forecast for the end of FY2020, since Risk-weighted Assets are also expected to be reduced, chiefly by restructuring unprofitable businesses, promotion of asset replacement, and rigorous screening of investments and loans.

Shareholder returns

In line with our basic policy of long-term stable dividend payment, we plan to maintain the ordinary dividend at ¥70 per share in FY2020

Our policy on shareholder returns remains unchanged, to pay a stable dividend over the long term, with dividend increase by achieving medium- to long-term earnings growth.

Under Medium-Term Management Plan 2020, in line with this basic policy, we have committed to the level of dividend based on a target of 30% for the consolidated

dividend payout ratio. For the FY2019 annual dividend, having taken into account the level of basic profit cash flow and other factors, we set the ordinary dividend at ¥70 and paid a commemorative dividend of ¥10 to mark our 100th anniversary, for a total annual dividend of ¥80 per share. Although we expect to post a loss in FY2020 due to the decrease in business earnings caused by the COVID-19 outbreak and the one-off losses arising from restructuring unprofitable businesses, cash flow remains sound as well as the balance between Risk-weighted Assets and the Core Risk Buffer. We have therefore decided to give priority to long-term stable dividend payment, and forecast the annual dividend of ¥70 per share. We are committed to continuing to return to shareholders the benefits of corporate value increase.

Dividend policy

Basic policy

Our basic policy is to increase dividends by achieving medium- to long-term earnings growth while adhering to the Company's fundamental policy of paying shareholders a stable dividend over the long-term.

Dividends per share

■ Interim dividend ■ Commemorative dividend ■ Year-end dividend

