

# Transportation & Construction Systems Business Unit



**Naoki Hidaka**

General Manager,  
Transportation &  
Construction Systems  
Business Unit

### Main Fields

- Ship, Aerospace & Transportation Systems
- Automotive
- Construction Equipment

### Organization

- Planning & Administration Dept., Transportation & Construction Systems Business Unit
- Ship, Aerospace & Transportation Systems Division
- Automotive Division, No. 1
- Automotive Division, No. 2
- Construction & Mining Systems Division

## Message from the General Manager

### “What We Aim to Be”

We aim to anticipate changes in business conditions and change and expand business fields flexibly while sustaining growth.

### Growth Strategies for Becoming What We Aim to Be

We will enhance the profitability of existing businesses rigorously while making earnings pillars stronger by incorporating related businesses. Further, we will actively tackle new businesses that have the potential to become future earnings sources, even taking on areas beyond the range of existing businesses.

At the same time, we will analyze market conditions, economic trends, and potential objectively. Based on our conclusions, we will allocate management resources discriminately and develop the personnel required.

**Q Please give us a review of BBBO2014.**

**A We expanded our earnings base through global business development initiatives.**

In the ship, aerospace and transportation systems field, although a lackluster shipping market affected ship businesses, aircraft leasing and other existing businesses performed solidly. In the automotive field, we grew such businesses as automobile manufacturing businesses in Mexico into new business pillars. At the same time, we focused efforts on maintaining and expanding existing businesses, including leasing businesses, financing businesses, and sales and distribution businesses. As for the construction equipment field, we grew sales and rental businesses in North America steadily, and we advanced projects to meet increasing demand in emerging markets. For example, we developed new businesses in Saudi Arabia.

Further, in Asia’s retail field, we increased our business presence by investing in an Indonesian commercial bank.



An automobile manufacturing joint venture with Mazda Motor Corporation, in Mexico

### Fiscal 2014 Results

Profit for the year declined ¥7.0 billion year on year, to ¥40.6 billion, because the tire business of TBC Corporation (U.S.), transferred to the business unit as a result of reorganization, recognized impairment losses, which counteracted the full-fledged start-up of automobile manufacturing businesses in Mexico and steady performances by the leasing and construction equipment rental businesses.

**Q Please tell us about the measures you are taking in BBBO2017.**

**A We will expand existing businesses by strategically investing capital, realizing returns, and replacing assets while advancing initiatives that respond to external conditions.**

We expect sales and rental businesses to expand because the increasing

## Performance Highlights

	FY2013	FY2014	FY2015 Forecast
Gross profit	171.5	183.6	192.0
Operating profit	34.0	18.4	–
Share of profit of investments accounted for using the equity method	27.5	31.7	–
Profit for the year (attributable to owners of the parent)	47.6	40.6	50.0
Basic profit	47.5	51.4	–
Total assets	1,570.1	1,756.4	–

(Billions of yen)

\* The business results of previous fiscal years have been reclassified to reflect reorganization implemented on April 1, 2015.

populations and rising living standards of rapidly growing emerging countries are likely to boost demand for automobiles and transportation steadily. Furthermore, stepped-up infrastructural development is heightening demand for construction equipment. Also, demand for aircraft leasing and railway development are growing centered on emerging countries.

In ship businesses, we will replace such assets as owned and jointly owned ships and diversify the portfolio with our sights set on a future market recovery. In relation to aircraft, existing aircraft and engine leasing businesses will accumulate assets to increase earnings. At the same time, we plan to enter new fields, including the provision of component-related services and manufacturing businesses. Regarding railway-related businesses, we will implement existing EPC (engineering, procurement, and construction) projects steadily while expanding high-speed railway projects and other businesses in emerging countries. In automobile businesses, focusing on emerging countries, we will enlarge the sales and distribution business, expand automobile and component manufacturing businesses, and grow and diversify retail financing and auto leasing businesses overseas. Also, we intend to proceed steadily with a plan to restructure tire businesses in North America. In the construction equipment field, we will increase the profitability of existing sales businesses by strengthening “the product support” (after-sales services), and expand rental businesses further.

### **Q** Could you please explain about CSR initiatives that you pursue through business activities?

#### **A** Through our agricultural machinery sales businesses in India, we contribute to increasing agricultural productivity, strengthening the basis of food production, and heightening farmers’ quality of life.

In India, which has the world’s second-largest farming population, we established an agricultural machinery sales company in partnership with Kubota Corporation in 2008. Since then, we have been selling high-quality agricultural machinery that reflects local needs. By combining Kubota’s advanced technology and expertise with our extensive experience in overseas marketing, this business will contribute to the solution of such issues as low agricultural productivity, which is attributable to a comparative lack of mechanization, labor shortages in rural areas brought about by increased industrialization and urbanization, and the rising demand for food that is accompanying growth of the economy and population. Furthermore, we believe that this business contributes to heightening farmers’ quality of life. Going forward, we will continue contributing to agricultural development in Tanzania, Myanmar, and other developing and emerging countries.



Not only selling agricultural machinery but also giving guidance on rice cultivation

## Transportation & Construction Systems Business Unit

### Summary of Main Fields

#### Ship, Aerospace & Transportation Systems Field

##### “What We Aim to Be”

We aim to achieve sustainable balanced growth by combining financing and assets businesses that are focused on earnings scale with the conventional trading and service-providing businesses of a trading company.

##### Business Conditions

The aircraft leasing business is expanding due to solid demand for aircraft among emerging countries and from airline companies seeking timely aircraft procurement. Although the shipping market is lackluster, we are closely monitoring current market conditions in the ship business. In Asia, there are a substantial number of railway projects, and significant business opportunities are likely to come up.

##### Strengths and Strategies

In the aviation field, we will further expand the aircraft leasing business of SMBC Aviation Capital (SMBC AC) while advancing engine leasing and other related businesses. We will develop and expand our ship business by capitalizing on the customer base developed through the trading business and the shipbuilding expertise of associated company Oshima Shipbuilding Co., Ltd. In transport infrastructure, we will seek to win orders for railroad EPC projects by taking advantage of our experience in this field.

##### Current Initiatives

Based on our expectations of growing lease demand, SMBC AC has gained lease assets, including through its recent ordering of 195 aircraft from Airbus S.A.S. and The Boeing Company. In the railway business, together with Nippon Sharyo, Ltd., we have succeeded in obtaining an order from PT MRT Jakarta, of Indonesia, for 96 subway railcars for the North-South Line of the Jakarta Mass Rapid Transit System, which will be the first subway project in Indonesia. Moreover, this will be the first shipment to Indonesia of Japan-made railcars in two decades.



A rendering of the North-South Line of the Jakarta Mass Rapid Transit System

#### Automotive Field

##### “What We Aim to Be”

We aim to further develop production, sales, distribution, and finance functions to expand our earnings base.

##### Business Conditions

Increasing motorization in certain emerging countries is expected to lead to expansion of automobile and component manufacturing, sales and distribution, and financing businesses. As for developed countries, new opportunities are likely to increase in relation to businesses based on new technologies required for alternative fuels and lighter vehicles.

##### Strengths and Strategies

We will grow our earnings base by capitalizing on relationships with global companies in the automotive field and on our familiarity with and ability to advance businesses in a wide range of fields. As for financing services businesses, we will expand and improve financing businesses for automobiles and motorcycles with a focus on Asia. At the same time, we will further expand auto leasing businesses in Japan and overseas. In the manufacturing related business area, we will expand the manufacturing of automobiles and components with a focus on emerging countries. Also, we aim to expand the existing sales and distribution business for automobiles and tires while continuing to take on the challenge of new markets.

##### Current Initiatives

In a joint initiative with Sumitomo Mitsui Auto Service Company, we acquired the auto leasing business of Carzonrent (India) Private Limited, which provides automobile-related services in India. The country's auto leasing market accounts for approximately 40,000 vehicles. However, corporate demand is expected to grow the market to 100,000 vehicles within several years. We aim to expand auto leasing businesses further through early participation in India's market, which promises growth.



India, where motorization is advancing rapidly

## Construction Equipment Field

### “What We Aim to Be”

We aim to establish a business model for sustained growth and become indispensable to our business partners.

### Business Conditions

We expect construction equipment rental businesses to sustain growth because construction investment is likely to continue as the economy picks up in the United States, where the trend toward renting rather than owning is increasing. In emerging countries, we anticipate stepped-up infrastructural development will grow demand.

### Strengths and Strategies

In rental businesses, we will implement an expansion strategy, aiming to increase the market share of U.S. construction equipment rental company Sunstate Equipment Co., LLC, in which we acquired an equity interest. Regarding sales and services businesses, we will take on the challenge of establishing new dealership businesses in emerging markets, including the Middle East, Asia, Latin America, and Africa, by leveraging our global business foundations and the expertise accumulated through dealership businesses.

### Current Initiatives

To cater to the diverse needs of customers in North America, Europe, China, the Commonwealth of Independent States (CIS), Saudi Arabia, and Japan, we operate businesses engaged in sales and services of general construction equipment and large mining equipment, and also in rentals and used equipment sales. As part of these efforts, we have been steadily growing business earnings in the United States—the world’s largest construction equipment rental market—since taking an equity interest in Sunstate Equipment in 2008. In addition, we are developing trading businesses for emerging countries in such regions as Asia, the Middle East, and Africa.



Rental construction equipment from Sunstate Equipment being transported to a customer

## Project Overview

# Aircraft and Aircraft Engine Leasing Businesses in a Growing Aircraft Market



Main Portfolio-to-be / New Generation Aircraft

In 2012, a consortium comprising Sumitomo Mitsui Banking Corporation, Sumitomo Mitsui Finance and Leasing Company, Limited, and Sumitomo Corporation acquired aircraft leasing businesses from a major U.K. financial institution, The Royal Bank of Scotland Group plc. We integrated the new businesses with existing businesses to form SMBC AC. At present, the company is the third largest in the aircraft leasing industry, which is expected to see demand for nearly 35,000 new aircraft over the coming two decades. Against this backdrop, we will continue forming a high-quality aircraft portfolio and meeting the needs of a wide range of customers. As part of these efforts, in 2014 we concluded purchase contracts for next-generation aircraft with Airbus, of France, and Boeing, of the United States.

As for the aircraft engine field, we began businesses providing aircraft engine leasing services in 2013 with a leading aircraft engine manufacturer and maintenance services provider MTU Aero Engines AG, of Germany. The aviation industry is seeing growing demand for spare aircraft engines under long-term lease formats as well as for short-term leasing when aircraft engines are being serviced. With these trends in mind, we will provide services tailored to customer needs. As of the end of March 2015, our aircraft engine leasing businesses had grown its assets to more than ¥10 billion. By increasing assets to ¥50 billion, providing component sales and maintenance services in the aircraft engine field, and creating synergies, we plan to expand our businesses in commercial aircraft value chains.