

## Notice Regarding Formulation of 5th Three-Year Medium-Term Management Plan “2020”

This fiscal year was scheduled to be the last year of “Advance Ahead 2018,” the three-year medium-term management plan of Suminoe Textile Co., Ltd., which started in June 2015. However, the Company has reviewed the plan and formulated a new plan, since its business environment had fundamentally changed. The management is pleased to announce the formulation of its 5th three-year medium-term management plan, “2020,” which started in June 2017.

### Summary

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As a result of improper accounting treatments by Suminoe Textile of America Corporation (STA), its subsidiary in the U.S., Suminoe Textile experienced a series of negative events unprecedented since its foundation, including a substantial delay in announcement of financial results for the fiscal year ended May 2016, retrospective adjustment of financial statements for the prior four accounting periods, a delay in announcement of financial results for the first quarter of the fiscal year ended May 2017, and incurrence of expenses for preventing the recurrence of inappropriate accounting.

Under its 5th three-year medium-term management, reflecting on STA’s improper accounting treatments, the Company will focus not only on expanding its business but also on thoroughly implementing measures to prevent the recurrence of improper accounting treatments, such as strengthening compliance with rules and laws, reviewing its management system, and restructuring its main system.

Themes

- Restructuring of corporate governance
- Growth of business

### Restructuring of corporate governance

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Suminoe Textile believes that not only the growth of business but also fair business activities and transparent organizational operation based on corporate ethics are essential for the continuation of an enterprise. In the fiscal year ended May 2017, the Company invited outside experts, and the Recurrence Prevention Committee formulated a medium-and long-term plan for thorough compliance with rules and laws.

Under its new three-year medium-term management plan, the Company will implement the following measures according to the roadmap.

(i) Review of financial results management system	<ul style="list-style-type: none"> <li>· The Company will restructure its main system for the entire group and improve its information infrastructure for efficient and effective monitoring.</li> <li>· The Company will strengthen its management system for local firms and physical inventories including on-site inspections of overseas subsidiaries.</li> </ul>
(ii) Restructuring internal control system	<ul style="list-style-type: none"> <li>· The Company will enhance the appropriateness and effectiveness of its internal control system by reconfirming the operation and improvement of the internal control system, disseminating the whistle blowing system, and upgrading auditing functions.</li> <li>· The Company will promote interactive in-house communication, through top management’s frequent visits to workplaces, the enhanced communications between the management and workplaces, and the identification of risk factors initiated by middle management.</li> </ul>

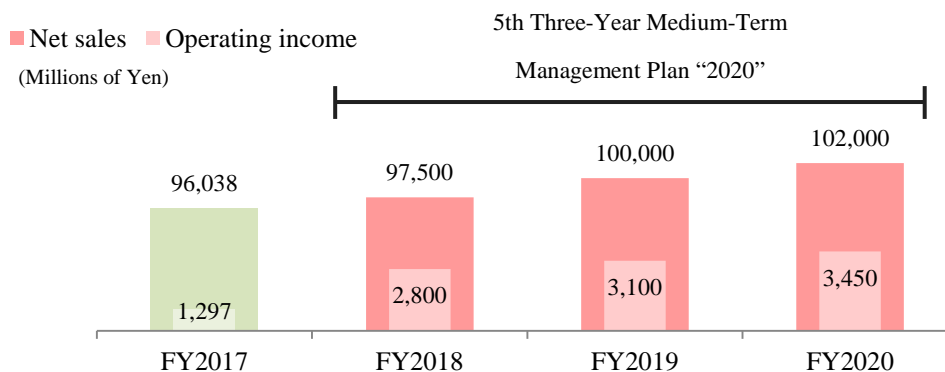
## Growth of business

In Japan, demand for the renovation of hotel rooms and remodeling of railway vehicles is expected to pick up in the short term in preparation for the Tokyo 2020 Olympic and Paralympic Games. However, the market is forecast to shrink over the medium and long term because of the decreasing population, especially the decline in the working-age population caused by the falling birthrate. Overseas, the economies of emerging countries, mainly in the Asian region, are expected to continue to grow steadily. But, in recent years, the outlook for the global economy has become more uncertain, since protectionist political movements, which are rising in reaction to globalization, have cast a shadow over global economic activity.

Suminoe Textile will strengthen its foothold and wrestle with the undermentioned issues to grow business in the coming three years, since the management finds it difficult to expand business at home and abroad without a reform of the Company.

(i) Expansion of product lineups	<p>The Company will expand its product lineups for existing customers.</p> <ul style="list-style-type: none"> <li>· Expand the intake of orders for new automobile products and promote new components.</li> <li>· Expand sales of hard floor materials with high functionality and quality for the interior market that are scheduled to be launched in this fall.</li> <li>· Expand lineup of products for improvement of vehicle safety and ones with environmental performance including non-textile products.</li> <li>· Expand sales of all kinds of functional products through development of applications.</li> </ul>
(ii) Strengthening of globalization	<p>The Company will horizontally promote existing business in the global market.</p> <ul style="list-style-type: none"> <li>· Expand the adoption of products in Japanese automobiles that are marketed globally.</li> <li>· Transplant know-how fostered in the domestic automotive textiles business to overseas subsidiaries.</li> <li>· Establish new cushion materials that satisfy combustion test standards of overseas railways.</li> <li>· Develop and export deodorizing filters that satisfy international standards.</li> </ul>
(iii) Development and sales of high value-added products	<p>The Company will uncover needs, and develop and market high value-added products.</p> <ul style="list-style-type: none"> <li>· Expand sales of <i>ECOS</i><sup>®</sup> at home and abroad, a recycled carpet tile, which has achieved one of the world's highest material recycling rates (83%).</li> <li>· Produce small lots of a variety of products to meet diversified needs for general household carpets and curtains.</li> <li>· Add new functions to electric heating devices including electric carpets to develop and expand sales of differentiated products.</li> <li>· Develop new products using its film lamination technique.</li> <li>· Conduct research and development of smart fabrics.</li> </ul>

## Consolidated numerical targets



(Millions of Yen)

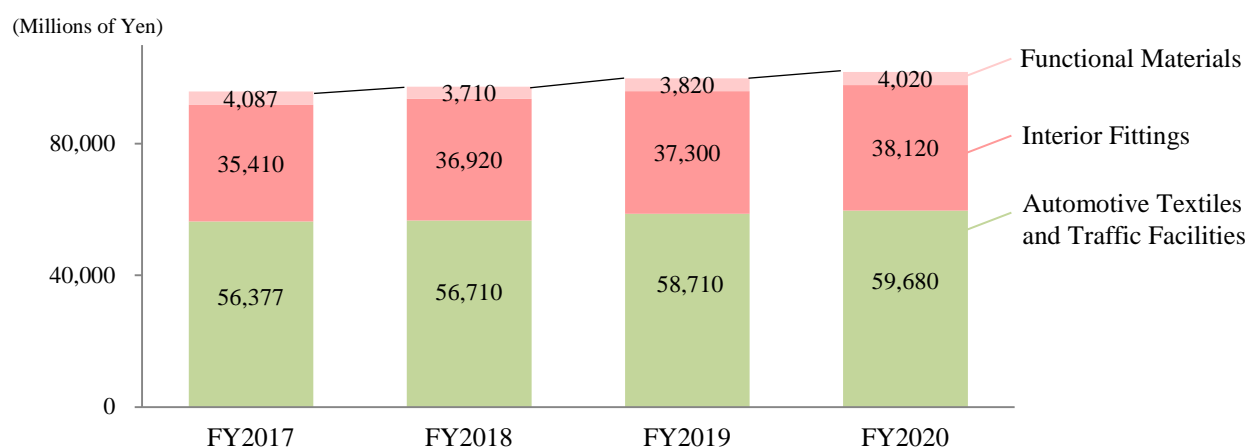
	5th Three-Year Medium-Term Management Plan "2020"			
	FY2017	FY2018	FY2019	FY2020
Net sales	96,038	97,500	100,000	102,000
% change from the previous year	98.5%	101.5%	102.6%	102.0%
Operating income	1,297	2,800	3,100	3,450
Ratio of operating income to net sales	1.4%	2.9%	3.1%	3.4%
Ordinary income	1,364	2,950	3,350	3,750
Profit attributable to owners of parent	26	1,500	1,900	2,200
ROE	0.1%	4.5%	5.5%	6.0%

- ◎ In the medium- and long-term, the Company aims to achieve the following targets: ratio of operating income to net sales of 5% or higher and ROE of 8.5% or higher.

## Targets of each business segment

The Company has set the following targets for its main businesses.

### Net sales by business segment



## Automotive Textiles and Traffic Facilities Segment

In the area of automotive textiles, the Company will strengthen its internal control system including at its overseas bases to steadily promote global expansion.

- Expand the intake of orders for new components and materials to promote the diversification of its business.
- Transplant know-how fostered in Japan to overseas subsidiaries with the aim for improving their quality, cost competitiveness, and delivery systems (QCD).

In the area of traffic facilities, the Company will develop and expand sales of new products, including products for improvement of vehicle safety amid the growing demand for new vehicle production and remodeling of railway vehicles toward the Tokyo 2020 Olympic and Paralympic Games.

(Millions of Yen)	5th Three-Year Medium-Term Management Plan "2020"			
	FY2017	FY2018	FY2019	FY2020
Net sales	56,377	56,710	58,710	59,680
Operating income	3,034	3,340	3,650	3,960

## Interior Fittings Segment

The Company will strive to improve profitability through enhancement of products and cost competitiveness.

- Actively capture demand from the construction of hotels toward the Tokyo 2020 Olympic and Paralympic Games.
- Strengthen the lineup of differentiated products to meet diversified needs for general household carpets and curtains.
- Expand sales of high value-added wall coverings to meet rising demand for home improvement.
- Promote sales through the Internet.
- Expand sales of hard floor materials with high functionality and quality for the interior market that are scheduled to be launched in this fall.

(Millions of Yen)	5th Three-Year Medium-Term Management Plan "2020"			
	FY2017	FY2018	FY2019	FY2020
Net sales	35,410	36,920	37,300	38,120
Operating income	720	620	640	670

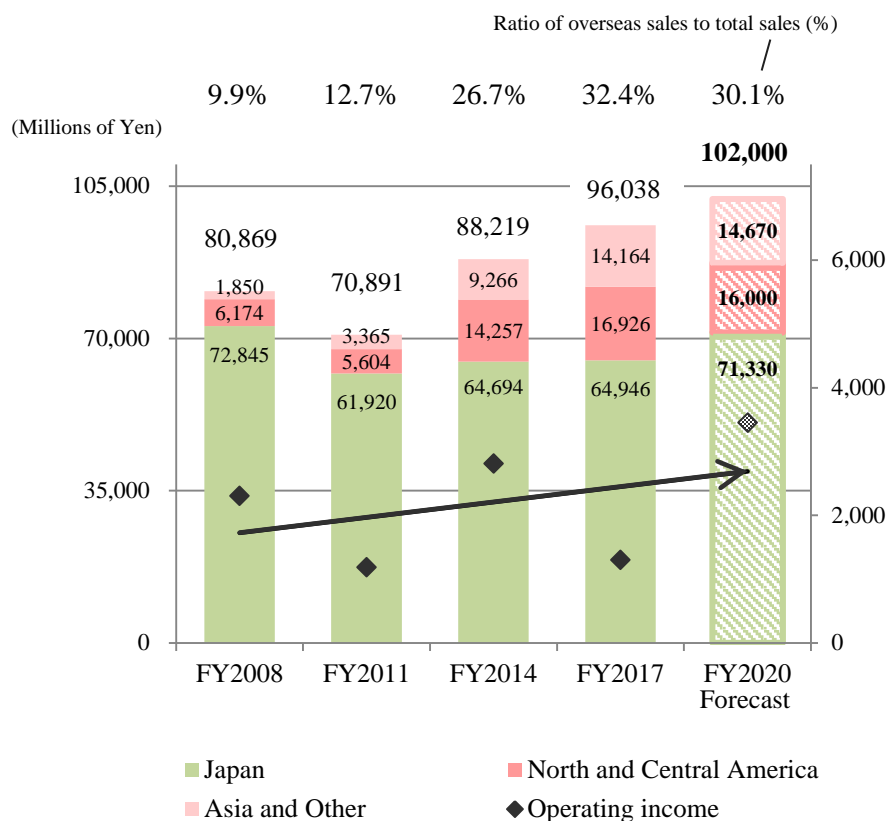
## Functional Materials Segment

The Company will strengthen its existing businesses, while energetically exploring new markets both at home and abroad.

- Add new functions to electric heating devices including electric carpets to develop and expand sales of differentiated products.
- Develop and export deodorizing filters that satisfy international standards.
- Develop new products using its functional materials, and functional processing techniques, and film lamination techniques.
- Develop aircraft carpets that have international competitiveness with overseas marketing in view against the backdrop of the recent growing demand for air travel and freight around the world.
- Promote the functional food business.

	5th Three-Year Medium-Term Management Plan "2020"			
	FY2017	FY2018	FY2019	FY2020
Net sales	4,087	3,710	3,820	4,020
Operating income	125	140	170	200

## Changes in net sales by region



Net sales in Japan are projected to exceed 70,000 millions of yen, the level the Company recorded before the Lehman shock in September 2008.

With an eye toward overseas growth in the next period, the Company will restructure its main system to strengthen its foothold and to improve profitability.

The Company aims to achieve net sales of 100,000 millions of yen in the second year of its new management plan.

## Capital expenditure plan

During the three-year period of its new management plan, the Company plans to invest 6,800 millions of yen in total to expand business and to restructure its main system.

5th Three-Year Medium-Term Management Plan "2020"	(Million of Yen)		
	Japan	Overseas	IT
	3,100	2,200	1,500