100 Years of Sumitomo Corporation History

Sumitomo Corporation

Enriching lives and the world

Chairman's Message

As we publish "100 Years of Sumitomo Corporation History" to commemorate the 100th anniversary of our company's establishment, I am strongly reminded of the importance of revisiting and learning from our history.

The founder of the Sumitomo Family, Masatomo Sumitomo, opened a book and medicine shop in Kyoto around 1630 while engaging in religious activities. In his later years, Masatomo penned the Monjuin Shiigaki (Founder's Precepts), in which he outlined his essential business principles, such as "Put your heart into everything you do." To this day, these precepts still serve as the foundation of Sumitomo's Business Philosophy of pursuing integrity and sound management rather than easy gains and stressing the need for an enterprising spirit to stay a step ahead. In addition, as expressed in the phrase "Benefit for self and others, private and public interests are one and the same," our business must benefit not only itself but also the nation and society. Sumitomo's Business Philosophy has been upheld over our 400-year-long history.

This Business Philosophy, which has been passed down to our company, serves as the cornerstone as we contemplate our path forward for the next 100 years amid a rapidly changing environment.

The origins of our company date back to The Osaka North Harbour Co., Ltd., which was founded in 1919 to develop the Osaka north harbour area. During World War II, it merged with other Sumitomo Group real estate and construction businesses, becoming Sumitomo Real Estate Building Co., Ltd. Post-war, along with the dissolution of the zaibatsu (conglomerates), it was renamed Nippon Engineering Co., Ltd. and opened a trading division. In 1952, the name of Sumitomo was again permitted and the company was renamed Sumitomo Shoji Kaisha, Ltd. (later Sumitomo Corporation in 1978).

Starting as a real estate company responsible for developing the Osaka north harbour area, we were reestablished as a trading division after the war, underwent a major business transformation, and secured our position as a trading company. In other words, our journey to becoming a global corporation was far from smooth. We were able to overcome these numerous challenges due to the tireless efforts of our predecessors and all staff members. On this occasion, I would like to express my gratitude once again.

Looking back on our 100 years of development as an integrated trading company leading up to today, I sincerely thank our business partners and all related parties for their continued patronage and support.

Through this book, we hope that you will gain a better understanding of our history and business activities. We look forward to your continued guidance and encouragement in the future.

March 2024

Kuniharu Nakamura
Director, Chairman

President's Message

Our company, which was established as The Osaka North Harbour Co., Ltd. in 1919, celebrated its 100th anniversary on December 24, 2019.

From its establishment until the end of World War II in 1945, our company focused on the real estate business, undertaking renovations and extensive landfill projects to contribute to the development of the Osaka north harbour area. These efforts transformed the area into a thriving industrial zone, significantly contributing to Osaka's prosperity.

After the war, due to business transformation measures following the dissolution of the zaibatsu (conglomerates) and the absorption of staff from the former Sumitomo headquarters and other Sumitomo companies, the company was renamed Nippon Engineering Co., Ltd. and a new trading division was established.

At this time, there was a lack of staff familiar with the trading business, and Sumitomo's trading activities were limited to the sale of in-house products. The country was also in a state of turmoil following the war, making it a very challenging time to start any business.

I deeply respect the efforts of our predecessors who, with unwavering spirit, overcame the many trials and difficulties of that period, paving the way for new ventures.

Our company was only able to grow to this point thanks to the support, guidance, and collaboration of our business partners, shareholders, and all related parties worldwide, along with the dedicated efforts of our predecessors and all staff members. I would like to take this opportunity to express my heartfelt gratitude.

Sumitomo's business philosophy, condensed in the "Business Principles," forms the basis of the Sumitomo Corporation Group's Corporate Mission Statement. On the occasion of our 100th anniversary, to make the Corporate Mission Statement more relatable, group members from all over the world contributed to formulating the corporate message "Enriching lives and the world," expressing their aspirations for the future. We will continue our efforts to fulfill our social mission of enriching the lives of people worldwide through sound business activities.

I would be pleased if this 100-year history helps you understand the role our company has played in society so far and provides insight into our future developments.

We look forward to your continued guidance and encouragement.

March 2024

Masayuki Hyodo
Representative Director
President and Chief Executive Officer

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Prologue

Overcoming the Turmoil of the Pre- and Post-War Periods and Laying the Foundations for a Trading Company

Sumitomo Corporation is well-known as a Sogo Shosha (Integrated Trading Company) that emerged from the dissolution of Sumitomo Honsha, following the end of World War II. However, its history goes back further, to several pre-war Sumitomo companies that underwent multiple business model changes.

The earliest such company was The Osaka North Harbour Co., Ltd., which was established in December 1919 for the purpose of renovating Osaka north harbour and developing the surrounding area. In November 1944, under wartime conditions, Sumitomo sought to integrate its real estate and construction businesses, so that The Osaka North Harbour was merged with Sumitomo Building Co., Ltd. The new company, which was named Sumitomo Real Estate Building Co., Ltd., also took over the operation of Sumitomo Honsha's Real Estate Section, and Hasebe-Takekoshi Architects Office, which had originally split off from Sumitomo's Architectural Design & Construction Department in 1933.

In November 1945, after the end of the war, this company established a new trading division, and was later renamed to Nippon Engineering Co., Ltd. The new division began sales activities in January 1946. At that time, Mitsui & Co., Ltd. and Mitsubishi Corporation, two major trading companies of the pre-war period, were dissolved under the directive imposed by the Allied General Headquarters, and this spared new companies like us from fierce competition, allowing us to solidify our foundations while developing our trading practices.

December 24, 1919
The Osaka North Harbour Co., Ltd. established

Sumitomo's real estate and construction businesses
-The Sumitomo Building Co., Ltd.
-Hasebe-Takekoshi Architects Office
-Sumitomo Honsha's Real Estate Section

Unified

The Establishment of the **Trading Division**

November 20, 1944
Renamed to Sumitomo Real Estate Building Co., Ltd.

November 26, 1945
Renamed Nippon Engineering Co., Ltd.

June 1, 1952
Renamed Sumitomo Shoji Kaisha, Ltd.

July 1, 1978
Renamed Sumitomo Corporation

December 24, 2019
100th Anniversary

Head Office building

1.
December 1919 – November 1925

Sumitomo General Head Office annex

2.
November 1925 – November 1944

The Osaka North Harbour's Head Office

3.
November 1944– February 1945

Mizuno Building
(*No photo)

4.
February 1945 – February 1946

Saihara Building

5.
February 1946 – July 1957

Sumitomo Building South

Chapter.

1

The Birth of Sumitomo Trading Company

1919–1949

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Section 1

The Osaka North Harbour – Sumitomo Real Estate Building

Part.
1
CORPORATE HISTORY

Sumitomo's Real Estate Business

The Sumitomo Family has owned real estate related to its businesses in major cities throughout Japan since the Edo period. As they diversified their businesses from copper mining to trade and finance, they acquired more and more real estate through foreclosures and other means to cope with fluctuations in currency values. After the Meiji Restoration, the supply of rice for employees, which was a benefit of Besshi Copper Mine's service to the Tokugawa Shogunate, was cut off, and Besshi Copper Mine manager Saihei Hirose (later the first Director-General of Sumitomo) devoted himself to purchasing land to secure rice supply. Around 1880, the company acquired a large tract of land (about 120 hectares) along the Shorenji river, which flows north of Osaka harbour. This purchase was aimed at securing land for rice, but more significantly, they correctly anticipated that Osaka, which was in the process of developing many new industries, would eventually extend to this vast undeveloped tract of land next to Osaka harbour.

Sumitomo's Participation in the Osaka Harbour Renovation Plan

As Japan's national power grew and modern industry began in earnest following the Sino-Japanese and Russo-Japanese wars around 1900, Sumitomo's manufacturing businesses, which were derived from the copper production business, developed steadily. Sumitomo Copper Plant was established in 1897, and Sumitomo Steel Foundry in 1901. These organizations were the forerunners of Sumitomo Metal Industries, Ltd. In 1907, Sumitomo Steel Foundry built a new plant in the Osaka north harbour area, and in 1916, Sumitomo Electric Wire and Cable Works (later to become Sumitomo Electric Industries, Ltd.), which had spun off from Sumitomo Copper Plant, completed a new plant in the same area. After that, the Japanese economy boomed due to the effects of World War I, and Sumitomo's various businesses enjoyed remarkable growth.

In 1918, after the war, Sumitomo General Head Office offered to undertake the renovation of Osaka harbour, which had been left untouched due to Osaka City's financial difficulties. Originally, port and harbour construction were under public sector jurisdiction, but Sumitomo was concerned that Osaka harbour would be left behind during this period of economic prosperity, so they planned to continue the renovations using Sumitomo technology and funding for the benefit of Sumitomo Warehouse and other businesses that would be directly impacted by the state of the harbour.

The Establishment of The Osaka North Harbour Co., Ltd.

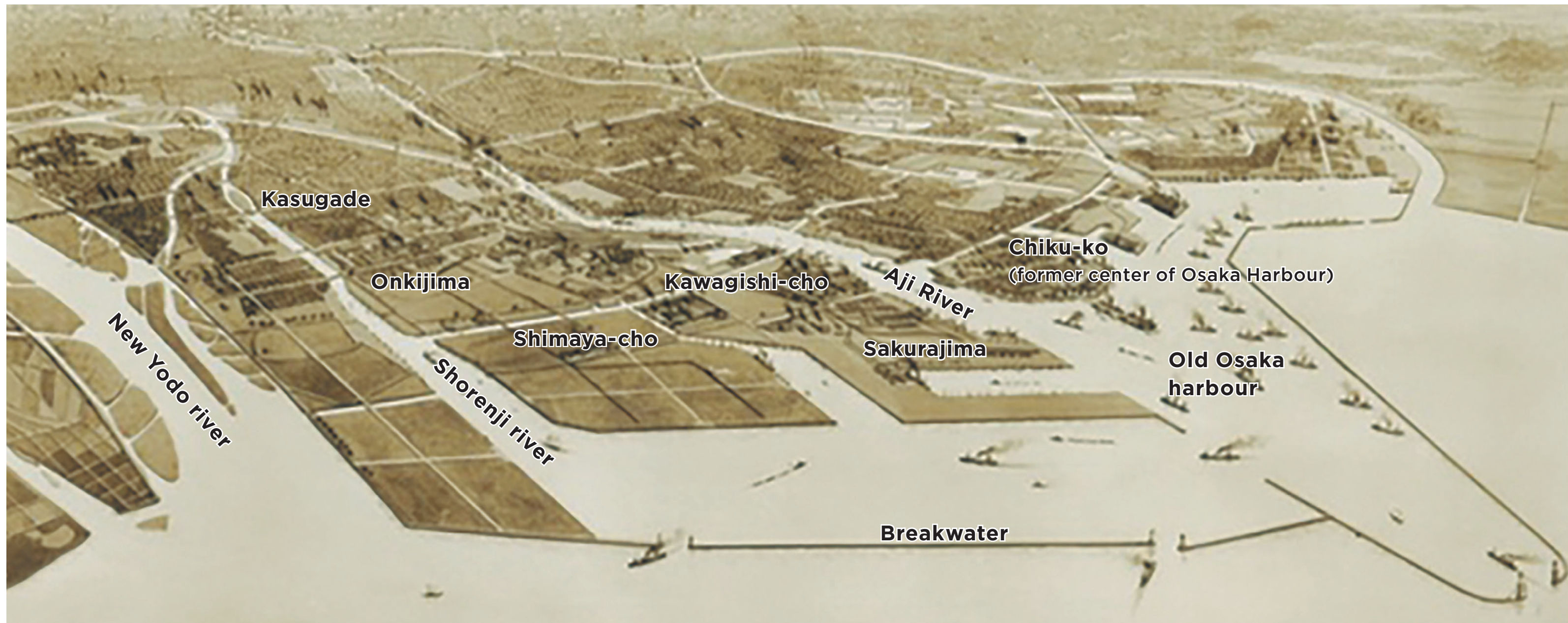
The area on both sides of the Shorenji river bordering the Osaka port district to the north (hereafter, "Osaka north harbour area") was excluded from the city-wide renovation plan due to private landfill rights that had existed since the days of the Tokugawa Shogunate in the Edo era. However, in response to the need of expanding the port area in the wake of the great economic boom triggered by World War I, the Shorenji River Landowner Union was formed in June 1916 with Sumitomo taking the lead. However, during the course of discussions with prefectural and municipal governments, the construction costs gradually increased due to frequent changes and soaring prices, and it became difficult to reach consensus within the landowner union, since they would be bearing the costs as individuals. Therefore, on December 24, 1919, The Osaka North Harbour was established with the goal of developing the Osaka north harbour area into a major coastal industrial zone. The Sumitomo Family provided about 60% of the capital for this venture, and Masaya Suzuki, the third Director-General of Sumitomo at the time, was appointed President.

Development of the Osaka North Harbour Area

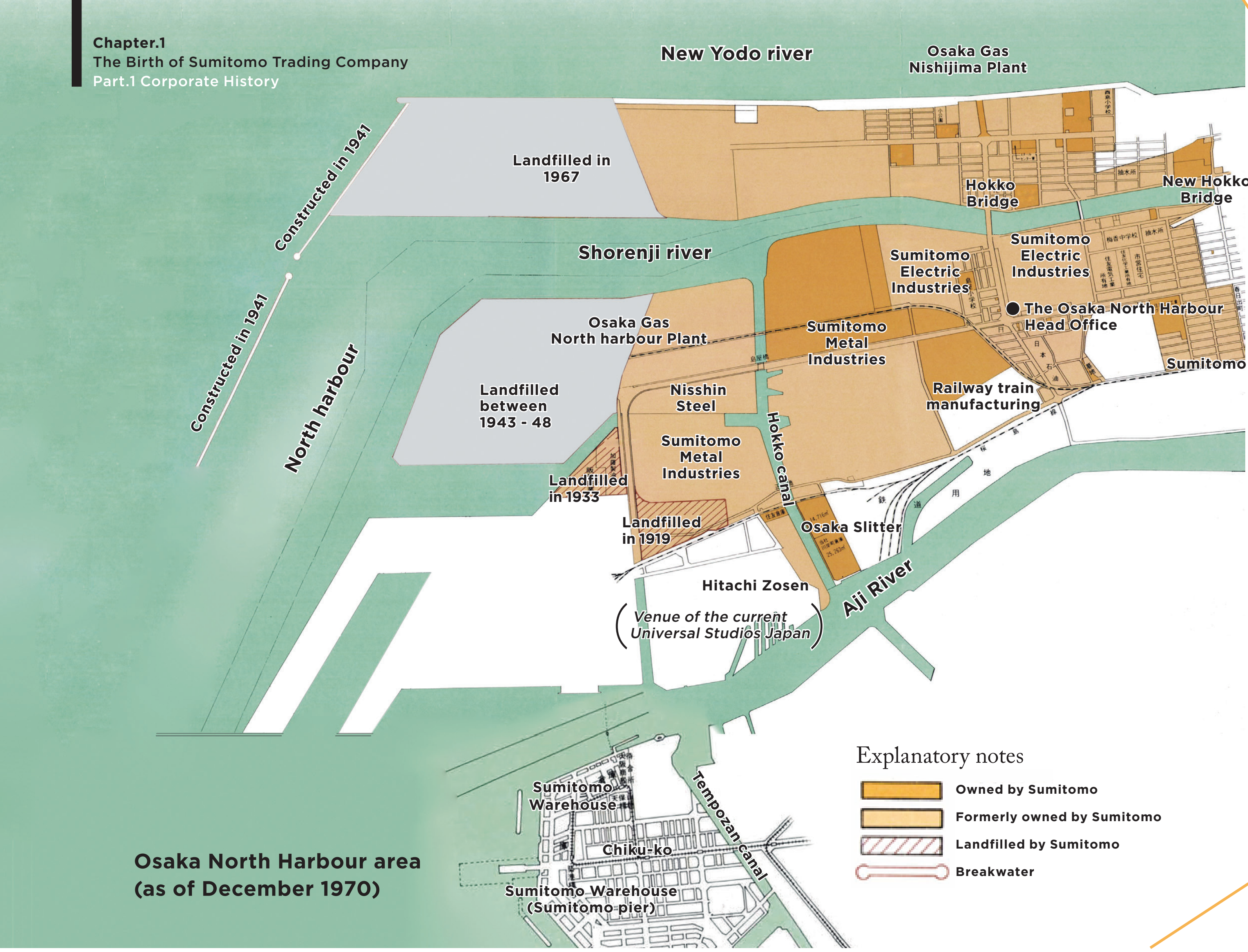
The Osaka north harbour area was originally an area of reclaimed land connecting islands and islets, and when the Sumitomo Family first acquired it, it resembled a wild marsh covered in reeds. Later, after the relocation of Sumitomo Steel Foundry, which was followed by railway train manufacturers and shipbuilders, the north harbour area developed into an industrial zone riding on the economic prosperity of World War I. Within this context, The Osaka North Harbour proceeded with the reclamation and development of land for factories, as well as the construction of roads, bridges, sewage systems, and even rental housing. Although housing management was not within the original scope of the project, it was deemed necessary to provide housing for the factory employees there given the social issues of housing shortages and rising rents caused by the rapid population growth in Osaka at the time. They also built houses to sell and commercial buildings for stores, bathhouses, and barbershops, uniting industrial and urban development. Sumitomo General Head Office even opened a private Osaka Sumitomo Hospital in 1921 to provide welfare for local employees and their families.

Designation as a Sumitomo affiliated company

The Osaka North Harbour used most of its founding capital to acquire land and other assets, so it was forced to rely on Sumitomo General Head Office and Sumitomo Bank for operating funds. In the beginning, it had countless expenses and no source of income other than rent from the previous landowner union, so it lost money year after year. However, as they made progress with land reclamation and development, rent income steadily increased, and following the sale of land to Sumitomo Copper Plant and Sumitomo Electric Wire and



Osaka North Harbour renovation plan conceptual drawing
<Sumitomo Historical Archives>



Cable Works for factories in 1925 and 1926, they were able to make up for earlier losses and turn a profit. In April 1927, after it had repaid all of its debts and could operate independently, The Osaka North Harbour was officially designated as one of Sumitomo's affiliated companies.

The North Harbour Renovation Plan—A Project That Took Ten Years to Get Started

The project plan inherited from the Shorenji River Landowner Union was repeatedly revised, and the construction only began in 1931, ten years after The Osaka North Harbour initially applied for permission in 1920. The reason for all the changes was that Osaka City incorporated it into the "Great Port Plan," a major civil engineering project aiming to build a new 3-kilometer-long breakwater and expand the port from north to south, covering an area of 16 million square meters. This would surpass the ports of Kobe and Yokohama, making Osaka's port the largest in Japan. The groundbreaking ceremony was held on a grand scale in May 1934, but in September of the same year, a record-breaking storm caused by a large typhoon hit Osaka north harbour, submerging the entire area, damaging factories and houses, and causing many casualties. Though the disaster was so devastating that it was considered difficult to recover from, with the independence of Manchuria in 1932 and the Japan's withdrawal from the League of Nations in 1933, various domestic industries were thriving, mainly in the area of military demand, and the factories recovered more quickly than expected. Later, as the Sino-Japanese War began in 1937, economic controls were tightened in the name of expanding military production, so that the materials, personnel, and funds required by The Osaka North Harbour were diverted to the war effort. Although the seawall and breakwater construction was finished in April 1941, the reclamation work almost came to a halt after the loss of dredging pump boats to military requisition, and by 1943, about 75% of the total plan was completed. With no progress since then, the war ended in 1945.

Entering the Coastal Civil Engineering and Construction Business

Under state controls, construction work to renovate the north harbour came to a halt, but the demand to develop land for military factories remained, so land sales and leases increased year by year, and the company's business continued to grow rapidly. However, when wartime regulations were further tightened in April 1938, The Osaka North Harbour was placed at a disadvantage as it was considered to be part of a peacetime industry. On the other hand, all of Sumitomo's manufacturing companies were designated as munitions companies, and Sumitomo Metal Industries had plans to build a new blast furnace on a 4.2 million square meter area of land on the coast of Wakayama City in 1940 to achieve self-sufficiency in pig iron in line with national policy. To undertake this coastal construction work, The Osaka North Harbour changed its articles of incorporation to enter into the civil engineering and construction business outside of Osaka north harbour.

Unification of Sumitomo's Real Estate and Construction Businesses

As part of the domestic wartime controls, the Industrial Reconstruction Order, which encouraged the consolidation of companies in the same industry, was issued in May 1942, and this was followed by the Financial Business Reconstruction Order and other policies. The government strictly enforced measures to divert public and private facilities, funds, and labor into aircraft and ship production. Equipment that could not be diverted was discarded and used for scrap. With the exception of military construction, the construction industry was completely paralyzed due to lack of materials and labor. Under these circumstances, Sumitomo Honsha, Ltd. (former Sumitomo General Head Office) decided to unify Sumitomo's real estate and construction businesses in line with the governmental order. In November 1944, The Osaka North Harbour and The Sumitomo Building Co., Ltd. were merged into Sumitomo Real Estate Building Co., Ltd. and took over the business of Hasebe-Takekoshi Architects Office, which had been established ten years earlier as an independent part of Sumitomo's Architectural Design & Construction Department. This new company was entrusted with real estate management for Sumitomo Honsha, Ltd. However, with the worsening of the war situation, the Osaka north harbour area was repeatedly bombed, and the industrial zone lined with factories, including Sumitomo's factories, was reduced to rubble before the war ended.

Section 2

Dissolution of Sumitomo Honsha and Entry into the Trading Business

Sumitomo's Five Post-war Principles

At the beginning of August 1945, when the Pacific War was drawing to a close due to the atomic bombs, the executives of Sumitomo Honsha, Ltd. took refuge at the Sumitomo villa in Kyoto. There, the seventh Director-General Shunnosuke Furuta instructed them to begin working on post-war measures. When the war ended on August 15, they anticipated a drastic change in the Japanese economy and began formulating policies to transform Sumitomo's businesses for the change. Soon after, at the beginning of September, when it was clear that the zaibatsu (conglomerates) would be dissolved, five principles for planning and implementing post-war measures were enacted.

1) Rationalize the overextended businesses and stem the dispersal of human talent by giving each employee as much work as possible—and, to this end, plan new undertakings.

2) Extend full relief to repatriated personnel and their families.

3) Deal with creditors as sincerely as possible.

4) Prevent, by all possible means, the demise of Sumitomo enterprises by turning them to new objectives that would bring future prosperity to the people and the nation.

5) Strive to prevent harm from befalling the Sumitomo Family.

Establishing a Trading Division in Sumitomo Real Estate Building

In the month following the end of the war, the executives of Sumitomo Honsha and its affiliated companies gathered to discuss how to find work for their employees and how to handle the different business divisions (gold mining, forestry, sales, real estate, private hospital, etc.) following the dissolution of Sumitomo Honsha. To stem the dispersal of human talent, it was determined that new undertakings were urgently needed to provide work for as many soon-to-be ex-employees and repatriated personnel as possible. Of the several candidate businesses, trading was considered the most promising. A trading company would be able to employ a relatively large number of people without significant capital expenditure and take advantage of the experience of Sumitomo Honsha's sales office employees. In addition, in anticipation of a post-war rise in private-sector demand, it was thought that sales activities that dealt with a wide variety of products and focused on sales expansion and advertising would contribute to strengthening the sales capabilities of Sumitomo group companies. However, there were many obstacles to establishing a new company under the administrative control of the Allied Forces, and considering the need to secure external credit and funds, it was decided to establish a trading division in an existing affiliated company with an established management base. The company chosen was Sumitomo Real Estate Building, the result of Sumitomo's real estate and construction business integration the previous year. As part of a company with solid assets, the trading division would have better credibility with customers and financial institutions. Sumitomo Real Estate Building had also indicated a desire to handle civil engineering and construction materials for reconstruction following the war, so it was chosen to house the trading division.

The State of Sumitomo Real Estate Building Following the War

Sumitomo Real Estate Building's reclamation work and construction supervision services were discontinued at the end of the war, and thereafter its main job was to go around claiming the return of leasehold rights for land whose properties had been destroyed in the war. Thanks to the rental income from the Sumitomo Building and other sources, there were no cashflow problems for the time being, but demand for land in the abandoned north habour area had disappeared, and business revenue dried up as construction orders from Sumitomo group companies were suspended, making it impossible to predict the future. On the other hand, there were shortages of all sorts of materials. Demand for construction materials for barracks was high and expected to increase further as reconstruction efforts began in earnest. Therefore, in addition to its existing design supervision and real estate business, the company was eager to engage in purchasing and selling of civil engineering and construction materials and had often expressed this interest to Sumitomo Honsha. In this sense, the idea of opening a trading division at Sumitomo Real Estate Building was also a life-saver for themselves.

Director-General Furuta's Decision to Break the Taboo on Trading Activities


Director-General FURUTA
[Sumitomo Historical Archives]

The Sumitomo Family have long had a deep relationship with commerce. The founder of Sumitomo, Masatomo, ran a shop selling books and medicine, and successive family heads were involved in import and export sales related to the copper mining and refining businesses, as well as the manufacture and export of goods such as processed silk, tea, and camphor to sell in local markets. However, during the tenure of Director-General Teigo Iba, Sumitomo decided to focus on the Besshi Copper Mine and its related industries and withdrew from trading activities.

During the boom caused by World War I, miscellaneous trading companies were established one after another. Sumitomo's excecutive board was also planning to take advantage of this momentum and start a wide range of sales and trading activities. However, in January 1920, Director-General Masaya Suzuki rejected the idea of starting trading on the grounds that "Sumitomo has not developed human resources skilled in trading, and a single misstep would lead to great losses, jeopardizing our other businesses" and announced a policy of prohibiting the establishment of trading companies. Soon afterwards, the post-war boom gave way to the Depression of March 1920, and many of the less experienced trading companies went bankrupt. Seeing this, the other Sumitomo executives saw the wisdom in Suzuki's decision, and the setting up of a trading company became a taboo at Sumitomo. The only trading activities permitted were the sale of Sumitomo's in-house products by Sumitomo's Sales Offices. For this reason, the attempt to establish a trading division following the dissolution of Sumitomo Honsha after World War II was confronted with strong opposition from within the Sumitomo Group. Director-General Furuta was aware of this but decided to proceed nonetheless.

Hisashi Tsuda (former president), who observed Director-General Furuta at the time, recalls:

"Unlike last time, the idea of setting up a trading division wasn't based on a desire to capitalize on the booming post-war economy to earn hand over fist. …… In the post-war ruins of Japan, Director-General Furuta had seen many people lose their livelihoods, and he knew that these human resources would be essential to support Japan's recovery. So, in anticipation of a time when Japanese companies would need to start rebuilding from the ruins, and after careful consideration of our future role of the commercial sector, he decided to establish a trading company."

Section 3

The Launch of Nippon Engineering

Preparations to Open the Trading Division

On October 24, 1945, Director-General Furuta invited the managers of Sumitomo affiliated and related companies to the head office and explained that following the dissolution of Sumitomo Honsha, each company would carry out its business independently. He also stated that using the name "Sumitomo" would be prohibited but urged them to maintain the Group's traditional business policies and to not forget their spiritual ties.

During the same period, Kenzo Takekoshi, the newly appointed president of Sumitomo Real Estate Building which was to become the parent company of the trading division, selected Shunya Toji, a director at Sumitomo Metal Industries, as the Managing Director of the Trading Division. The company's name was changed to Nippon Engineering Co., Ltd. and its articles of incorporate were amended to include "sales of civil engineering and construction materials and other products" as well as an intention to contribute to the reconstruction of Japan.

Initial Sales Activities

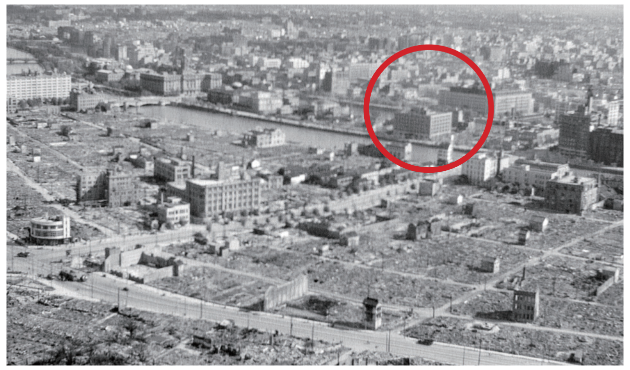
Nippon Engineering began searching for ways to develop its sales activities in the chaotic post-war social order and devastated economy. In the early days of the business, they were unable to sell products from Sumitomo group manufacturing companies, as those companies had yet to resume production. All they had on hand was the remaining factory inventory and daily necessities made from those materials. Therefore, to secure items to sell, they dug out aluminum sheets, duralumin sheets, brass rods, and other scrap from the factory ruins, dismantled the surviving buildings for construction materials, and purchased nails, wire, iron sheets, and other items from the city. Since they took in a large number of people from regional sales offices, they also took up local industries such as pottery, agricultural machinery, textiles, construction materials, and household goods, selling items such as furniture, tableware, and gramophones cleverly made out of refurbished duralumin. However, there was no shortage of hardships, including returned goods and inventory problems.

A Toast to the Launch of the Trading Division (Recollections of President Kenzo Takekoshi)

"Most trading at the time took place through the black market, so even amateurs could do it. And we had real estate, so our financing was secure. In time, I was confident that we would be able to establish a trading company in deed as well as name. The appointments of Mr. Toji and the other members who joined the Trading Division were all dated January 1. Before that, on a cold day at the end of December, about 30 people among them gathered to drink a bottle of cold sake and celebrate the start of the new division. I will never forget that day, when the business we had painstakingly planned finally took off."

TAKEKOSHI, Kenzo
(President)

In 1946, head office was mostly staffed with civil engineering, construction, and real estate staff, with only a few staff in the newly established trading division's Sales Department. From around April, sales activities gradually started to take off, and branch managers from all over Japan were invited to Osaka head office for face-to-face meetings to ensure smooth business operations. Later, as Sumitomo group companies resumed production, the Trading Division began selling their products. Regional sales offices were able to resume trading with customers from the pre-war days, but in Osaka, Tokyo, and other areas, many of the group companies sold their products directly, so they had to develop their own customers.



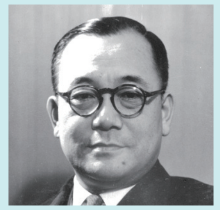
Ruins of central Osaka after multiple air raids. The Sumitomo Building can be seen in the upper right of the photo (October 1945). <Mainichi Newspaper>

Establishment of a Team and System

On October 15, 1946, due to the rapidly increasing number of sales employees at Osaka head office, the ten sections of the Sales Department were reorganized into three: the Hardware, Electrical, and Equipment departments. A Commercial Department was also newly established to handle overall planning, credit examination, trading, and deliveries. The first manager meeting was held on October 24 for four days to discuss head office and regional sales offices jurisdictions and sales policies for general merchandise. Later, in order to strengthen the regional structure, new branches were established, and sub-branches were upgraded to full branches. In this way, the structure of the Trading Division was gradually established. However, since the company was born in the midst of severe post-war occupation conditions and exposed to waves of severe economic fluctuations in its infancy, it did not yet have the full trust of the Sumitomo group companies and needed to search for a new path.

Persevering, Sincere, and Earnest (Recollections of Toshio Sato, First GM of the Sales Dept.)

"While we had a tentative team in place, we didn't have any goods. The most we could do was sell off the remaining items left in Sumitomo group company factories and offices, trying to plant the seeds of commerce. Black markets were rampant throughout the country, and many new companies were lining their pockets using questionable business practices. In comparison, the hard-working and honest, yet clumsy and unrefined Nikken (Nippon Engineering) employees must have seemed foolish. Despite being called hopeless, complete amateurs, and parasites feeding on Sumitomo group companies, I have a deep respect for the Nikken employees who persevered and carried out their business sincerely and earnestly."



SATO, Toshio

Increase in staff

272 1945 Dec ▶ **645** 1946 Apr ▶ **900+** 1947

Increase in transferees

Transferred from Sumitomo Honsha, Sumitomo Metal Industries, Sumitomo Electric Industries, Manchurian Sumitomo Metal Industries, etc.

189 1946 May ▶ **350+** 1948 Dec

Section 4

Responding to Occupation Policy

Regulation of Zaibatsu (Conglomerate) Company Activities

The post-war occupation policy of the Allied Powers was based on an indirect system of governance in which the Japanese government carried out the orders of Allied General Headquarters. In November 1945, the government froze the assets of five zaibatsu (conglomerate) companies, including Mitsui, Mitsubishi, Sumitomo, and Yasuda, and ordered their dissolution on the grounds that the vertical organizational structure of family, holding companies, and subsidiary companies was undemocratic and a hotbed of Japanese militarism. The policy also sought to create a decentralized shareholding structure by forcing zaibatsu head offices and family members to transfer shares in subsidiary companies to the Holding Company Liquidity Committee, who would then sell them to the public, including employees. The shares transferred to the committee were sold in the following priority order set by Allied General Headquarters: (1) employees, (2) local residents, and (3) general public, resulting in 70% individual shareholders in 1949.

At the same time, laws and regulations restricting the activities of the zaibatsu and their affiliates were enacted. For Sumitomo, 31 group companies, including Sumitomo Real Estate Building, were listed. Designated companies could not increase their capital, issue bonds, or pay dividends without permission from Allied General Headquarters, and all cash on hand and other deposits had to be deposited in banks. Payments, transfers, and withdrawals outside of normal business operations were prohibited, and the disposal of movable property, real estate, and securities was not allowed without permission from the Minister of Finance.

The Resignation of President Takekoshi

In March 1947, as the wave of banning pre-war and wartime leaders from public offices spread to the business world, President Takekoshi, who had served as senior managing director of Sumitomo Real Estate Building during the war, was forced to step down, putting the company in the difficult position of losing its most senior executive shortly after beginning the trading activities. There was an urgent need to decide on a successor, but Sumitomo Honsha, Ltd., which had previously been responsible for selecting presidents of affiliated companies, was no longer functional. As a new method of selection, a management committee was established to select a candidate for president based on employee opinions. The committee recommended Shunya Toji, Senior Managing Director, and he was officially chosen as president at a board meeting on March 27.

The Management Committee

The Management Committee was temporarily set up to deal with the extraordinary situation at the end of the war. It consisted of seven employee representatives, including labor union members, and seven management representatives and was headed by Hisashi Tsuda (later president of the company), who was Manager of the General Affairs Department at the time. The purpose of this committee was to deliberate on important management issues, covering the opinions of all levels of officers and employees, and to reflect the consensus of its members. It also took the lead in ensuring that the stocks held by the Holding Company Liquidity Committee would be released mainly to employees and persons related to the company. As a result, between 1948 and 1951, 92.5% of the total number of stocks issued were acquired by persons within the company and their relatives. With the emergence of a large number of employee-shareholders, the company's staff became closely associated with the company in the dual capacity of employee and shareholder. As the situation in Japan stabilized, the circumstances that had motivated the establishment of the Management Committee were largely resolved, and the committee was dissolved in 1956.

Eliminating Excessive Concentrations of Economic Power

In April 1947, the Anti-Monopoly Law, which prohibited holding companies and cartel trusts, was enacted, and in December, giant corporations were split up in order to eliminate excessive concentrations of economic power. In July of the same year, orders were issued to break up Mitsui & Co. Ltd. and Mitsubishi Corporation, which had played an important role in overseas and domestic trade during the pre-war period. Mitsui was split into more than 200 companies, and Mitsubishi was split into more than 100 companies. A total of 325 companies, including those in the manufacturing and financial industries, were initially subject to the orders.

When Nippon Engineering was designated in February 1948, it was still engaged in real estate and architectural design and supervision in addition to its trading division, so it submitted a plan to separate the real estate originally owned by The Osaka North Harbour. However, from the mid of 1948 onward, due to the worsening of the Cold War, the goal of the occupation policy was changed to "rapid economic recovery." With the subsequent relaxation of the standards, it was no longer considered to be an excessive concentration of economic power, and its designation was rescinded in November of that year.

Around the Time of the Establishment of the Management Committee
(Recollections of the early days of the Labor Union)

"As the second president of the labor union, I was most distressed by the fact that, due to the emptiness of defeat and the tremendous inflation, people were so busy trying to get by that they only thought of themselves and forgot about their responsibility to the company. There were many examples of labor unions rapidly gaining momentum and forcing companies into bankruptcy with unrealistic demands. At the time, our company had just been established as an inexperienced trading company and was in a precarious state, so I felt that a mistake by the union could have disastrous consequences.

So, while we naturally protected the livelihoods of the union members, it was also important to engage in labor-management consultations, foster attachment to the company, and encourage a sense of responsibility, and we focused our efforts on these issues. Fortunately, management and the union were able to work together smoothly, allowing us to realize the acquisition of stocks by employees, extension of working hours, and participation of employees in management through the Management Committee. Later, as time passed and things settled down, management felt it was not rational for employees to participate in management, and sensible union members wanted to limit themselves to pure union activities, so the Management Committee was naturally dissolved through amicable discussions."

Section 5

Laying the Foundations of a Trading Company

Early HR policies

Hiring

Until around 1947, most recruits were transferred from Sumitomo Honsha and group companies, and only a small number of university graduates were hired. In 1948, to begin with, the company hired 16 people, including university graduates. Subsequently, in 1949, hiring began in earnest, and 43 people joined the company as the trading division expanded its business.

Supporting Employee Livelihoods

During the period of high inflation from 1946 to 1948, the company repeatedly revised salary levels to support the livelihood of its employees. As a countermeasure to the food shortages, the company established its own farms around Osaka to grow wheat and vegetables, which were distributed to employees and used for the company cafeteria. In Tokyo and other areas, the company provided money for supplementary food and rationed daily necessities.

Employee Benefits

After the Labor Union Law was enacted in December 1945, a labor union was formed in April 1946, and a collective agreement was signed in 1949. Around the same period, the employee fellowship organization was established, and the company sports day held shortly afterwards became an annual event. When the health insurance union system was implemented for government agencies and companies in 1947, our company joined in June of the same year. A mutual aid system for small loans and employee housing for singles, and families were also provided.

Front row, from left: KITAZAWA, 3rd from left: TAKEKOSHI, center (4th from left): FURUTA, (Former Director-General) Back row, 2nd from left: TOJI, 3rd from left: TSUDA

(Executives' inspection of a company-owned farm in March 1946)

Strengthening Our Foundations during the Period of Controlled Trade

In July 1947, four trade organizations were established under the Foreign Trade Agency for mining and manufacturing products, textiles, foodstuffs, and raw materials, and trading companies were responsible for transportation, storage, insurance, and cargo handling. The Public Mining and Manufacturing Organization initially selected us an export agent for electric cables and later for Sumitomo Metal Industries's products. In this way, we were able to learn about trading practices from senior trading companies, industry organizations, and shipping companies. We then began increasing our exports of products from Sumitomo group manufacturing companies, which were gradually recovering. From 1948 to 1949, the trading of steel pipes, sheet glass, cement, and railroad cars was on a growth path, and as the transaction volume increased, we drew attention within the trading industry. In 1949, with momentum for a shift to private trading activities, we increased our capital to 120 million yen in July (the first increase since the war), and our stocks (shares) were listed on the Tokyo and Osaka stock exchanges in August.

Prevention of Bad Debts

Faced with severe inflation caused by extreme shortages of goods and an oversupply of currency, the government launched financial measures in early 1946. However, black-market transactions far exceeding official prices were rampant, so in August of the same year, the Economic Stabilization Headquarters and the Price Agency were established to adjust the supply and demand of vital goods. The following year, the government introduced emergency measures and a strong monetary tightening policy, focusing on securing food supplies, boosting production, and establishing order in the distribution of goods. Once the priority order for industrial finance lending was established, it became more difficult for our company to borrow from commercial banks.

However, President Toji decided to fully cooperate with the government's emergency measures to resolve the economic crisis. He made sure that the company established a pricing system and maintained the distribution order for important goods so that Sumitomo's traditions would not be tainted by association with the black market. The company, which was committed to solid and stable management, was particularly cautious about preventing bad debt and established internal regulations on the examination of transactions and the provision of credit in August 1948.

An Excellent Time for Amateurs to Start Trading (Recollections of Hisashi Tsuda, Honorary Chairman)

TSUDA, Hisashi

"Although we set up a trading division after the end of the war, we had no real experience in trading since sales activities were prohibited at Sumitomo before the war. The trading company's main business at the time was simply the distribution of supplies, a far call from the sophisticated functions of the current integrated trading company. The main problems lay in building the organization and securing talent who knew about the products.

The people, who had been gathered from other Sumitomo group companies, were beginners in the field of trading, but among those who had had experience working in manufacturing, there were many who were knowledgeable about their products and purchasing raw materials, facilities, and commodities. However, since most of the products sold by the company were materials and intended for large organizations such as the army, navy and railroad companies, there were few experienced people who could play an active role in direct sales to the general public during the chaotic period immediately after the war. Although Sumitomo people remained the main players, we gradually built up our trading skills by inviting people with trading experience from Mitsui, Mitsubishi, and other specialized trading companies that had been dissolved at the time.

Still, it was a time of extreme scarcity, so anything found could be sold. In a sense, it was the most suitable for amateurs to start a business. For example, we dug up electric cables that had been mangled by the bombing, and people who had transferred from Sumitomo Electric Industries used their product knowledge to find buyers.

In terms of exports and imports, the Allied General Headquarters heavily restricted what trading companies were allowed to do. Trading companies only sold goods. All foreign trade was done through the Foreign Trade Agency's systems, so even people who did not know what an L/C was could afford to learn as they went along. If a group of amateurs like that had to jump into the fiercely competitive trading industry of today, they would be completely helpless.

Bringing in outside people with business experience also helped solidify our trading base. For example, Sumitomo was not involved in the field of textiles before the war, so we brought in people from textile wholesalers and established a textile department. That is why we were sometimes called a "scout trading company" by the public. However, we didn't accept just anyone with business knowledge. We only hired those who could fit into the Sumitomo's traditional corporate culture, or in other words, people who could act with integrity. That is why all of our hires are able to dedicate themselves to becoming respectable Sumitomo employees. Even later on, our selection process remained based on whether the candidate understood the traditional spirit of Sumitomo and had the aptitude to master it. Of course, grades are also important, but these qualities matter the most.

Part.
2
GLOBAL NETWORK

1913–1945

Sumitomo Honsha's Sales Office, the Foundation of the Trading Division

A Sales Policy Limited to In-House Sumitomo Products

With military demand rising due to the Russo-Japanese War of 1904, Sumitomo's main manufacturing businesses—Sumitomo Copper Plant, Sumitomo Steel Foundry, and Sumitomo Electric Wire and Cable Works—were able to strengthen their business foundations. Even after the war, Sumitomo Copper Plant increased its production of copper tubes for naval construction and expanded into the manufacture of steel pipes. Sumitomo Steel Foundry developed its business with the Ministry of Railways to supply train parts and increased other government demand businesses. Sumitomo Electric Wire and Cable Works expanded handling of electric wires for the Ministry of Communication.

Many of the aforementioned company's products were made-to-order with superior quality and standards, and important sales channels tended to be in the public sector, such as government projects, the army, the navy, and public organizations, and key industries in the private sector, such as electric power, railroads, mines, shipbuilding, cement, and iron and steel.

As a sales policy, it was necessary to stay in direct contact with users and maintain long-term business relationships based on trust. At the time, other zaibatsu groups like Mitsui and Mitsubishi had specialized trading divisions. However, Sumitomo, which lacked a trading division, tried to improve sales efficiency by setting up directly-managed sales offices around the country.

Location of Sumitomo's pre-war Sales Offices (1913-1945)

The history of Sumitomo's sales offices dates back to 1871, when the Kobe direct outlet for the Besshi Copper was established for the purpose of selling the products and by-products of the Besshi Copper Mine and other directly operated mines to the public.

In 1913, Sumitomo Copper Plant, Sumitomo Electric Wire and Cable Works, and Sumitomo Steel Foundry's sub-branches were closed and replaced with the Tokyo and Kure sales offices, which were entrusted with the product agent operation of Sumitomo's businesses to naval arsenals and other facilities. After that, additional sales offices were opened near other military arsenals and important industrial areas, as well as overseas in China, Korea, and Manchuria.

1946

Domestic Branches in the Early Days of Nippon Engineering

The trading division established at Nippon Engineering did not directly succeed Sumitomo Honsha's pre-war sales offices, but it absorbed many of their staff and locations. The previous sales offices were prohibited from buying raw materials and other companies' products and only sold Sumitomo's in-house products (copper rolling, steel-foundry items, electric wires, and fertilizers), making it a far cry from the original trading business. However, the experience and contacts built up over many years of trading in Japan and overseas were invaluable in laying the foundation of our overall businesses.

In accordance with the management policy devised in collaboration with Sumitomo group manufacturing companies, the organization was revised on January 1, 1946. The Head Office was established in Osaka, with branch offices in Tokyo and Nagoya, and sales offices throughout Japan. When the pre-war sales offices closed at the end of January, the Sumitomo group manufacturing companies set up new sales offices in Tokyo and Nagoya to sell their products directly, but in other areas, they used Nippon Engineering's sales offices for collection of accounts receivable and new orders. From February, sales offices in Kobe, Yokohama, Fukuoka, Nagasaki, and other areas accepted orders for products such as steel pipes and rolling stocks parts for Sumitomo Metal Industries and electric wires and hard alloy tools for Sumitomo Electric Industries.

The Original Head Office, Branches, and Sales Offices

Chapter.

2

The Expansion of Business Operations during the Period of High Economic Growth

1950–1969

Part 1
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Part 2
Global Network
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Section 1

Organizing a Structure for Expansion of Trade

Part.
1
CORPORATE HISTORY

Flourishing Trading Division during the Special Procurement Boom Caused by the Korean War

In the middle of 1947, when the United States changed its policy in occupied Japan to focus on economic recovery, private-sector foreign trading partly resumed. In 1949, a fixed exchange rate of 360 yen to the dollar was established, and the Foreign Exchange and Foreign Trade Act was officially announced. In January of the following year, private international trade was allowed to fully resume. However, owing to the deflationary policy in place at the time in an attempt to control inflation, Japan faced a scarcity of capital as well as mounting inventories caused by a significant slowdown in demand. Fueled by deteriorating unemployment as a result of personnel cuts in the government sector and a series of bankruptcies, Japan's economy was sluggish.

Against this backdrop, the Korean War broke out on June 25, 1950. Helped by the global sharp increase in supply and demand caused by the urgent procurement of strategic items by each country and the entailing surge in prices, global demand for Japanese products rose sharply. Coupled with the U.S. army's large-scale special procurement orders, Japan's export surged. The approval of the establishment of overseas offices granted to trading companies in August of the same year further turned the situation in their favor. Riding on the positive tide, from 1952 onwards, the company saw a surge in the export of steel pipes, non-ferrous metals and fertilizers mainly from Sumitomo Group companies, and in the import of iron ore/coal and food. As a result, total sales for the company during 1950 to 1954 grew eight-fold and jumped to 11th in industry. The share of foreign trade to the company's total sales increased from 18% in 1950 to 37% in 1954, creating favorable conditions for the company to solidify its foundation as a trading company. Although the foundation of the Trading Division was beginning to solidify, the Osaka Head Office and the Tokyo branch office were still in their infancy. So it was the rental income and gains brought by inherited assets in the real estate and buildings division, as well as the domestic branches that inherited blue-chip customers from Sumitomo Honsha that served as an important base of the Trading Division.

The Bedrock of Solid, Stable Management

During the first ten years from the launch of the Trading Division, the establishment of a management foundation as a trading company was a pressing issue. To achieve this, the company elected to take solid, stable management policies, and refrained from speculative/future trading, adhering to transactions based on actual demand thereby focusing on establishing a solid business base through risk-averse conservative means. In 1950 and 1951, when the business began to grow, internal regulations were revised. Ceilings for credit facilities were set for all customers to ensure sound business and avoid potential risks.

As a result of these efforts, the company grew to be resistant to downturns in the market. While some trading companies that turned to futures and speculative trading of soybeans, leather, and rubber disappeared from the market during the boom and correction periods associated with the Korean war, the company only suffered minor losses caused by a drop in prices or cancellation of agreements. When the internal examination for transactions began to be strictly applied, business divisions voiced concerns that it would impede business expansion. However, President Toji adamantly encouraged the practice with a firm belief that our credit controlling system was the bedrock of the company's solid, stable management. This policy gradually but steadily took root in the company, and by the time the Credit Department was established in 1955, the system was on track.

Establishment and Realignment of Overseas Offices

In July 1949, the restrictions regarding the use of foreign currency, a great concern for the trade industry in the period of controlled trade, were abolished. This encouraged the assignment of numerous personnel, including executive officers, outside Japan, in places such as the United States, Canada, Europe, the Middle East and Southeast Asia. Their purposes were to conduct foreign market surveys and to reinforce expatriate personnel.

In tandem with the resumption of private foreign trade, the establishment of overseas offices by Japanese trading companies was approved in 1950. In 1951, it became possible to launch a local subsidiary in the United States based on state laws. The company, with no pre-war track record of international trade, no partnerships with major shippers/buyers overseas, and little human resources with an experience in foreign trade, was apparently lagging behind. Therefore, personnel were posted overseas one after another in a bid to catch up with the competition.

As a start, a fellow member was dispatched to Bombay (currently Mumbai), India in July 1950 for the first time. In 1951, personnel were posted to Calcutta (currently Kolkata) and San Francisco (relocated to New York in the same year), and in 1952, to Karachi and Hamburg (relocated to Dusseldorf in the same year). In the United States, Nikken New York (soon after renamed to Sumitomo Shoji New York), a U.S. subsidiary, was established. During this period, prompted by the enforcement of the San Francisco Treaty of Peace in April 1952, the Japanese government announced support measures for trading companies to launch overseas offices as part of a trade expansion initiative through the promotion of export. Taking this opportunity, the company actively assigned personnel overseas, mainly to major cities in Southeast Asia. As of March 1955, the number of overseas offices amounted to 15, establishing the initial overseas network.

Section 2

Establishment of the Foundation as an Integrated Trading Company

Spinning off the Civil Engineering Construction Division

At the time when the company organized the Trading Division and resumed business, the civil engineering and the construction divisions had been de facto closed due to the chaotic condition after the war. With no prospects for resumption of the reclamation work in the Osaka north harbour area for the time being, the civil engineering division was abolished and merged into the construction division in February 1947. It was when the Trading Division gradually developed and began to play a central role within the company that the demand for reconstruction rose. To create a business entity that suited the business style in the construction division, it was spun off in July 1950 to establish Nikken Sekkei Komu Co., Ltd. (currently Nikken Sekkei), a wholly-owned architectural and design supervision company in the civil engineering construction domain. Nikken Sekkei Komu thereafter demonstrated its technological prowess in a range of the fields, including the construction of government and private-sector offices, buildings, and factories, as well as the design and supervision of civil engineering projects, such as ports, harbours and public roads. In the meantime, having spun off the civil engineering construction division, our company became an integrated trading company with businesses in trading and real estate.

Restoration of the Trade Name of Sumitomo

The use of Sumitomo's trade name and trademark were banned by the Allied General Headquarters according to the series of laws and directions associated with the measures for dissolution of the zaibatsu (conglomerates). Hence, the company was using Nippon Engineering Co. Ltd., as its company name since November 1945. In May 1952, in response to the enforcement of the San Francisco Peace Treaty, the ban on the use of zaibatsu trade names and trademarks was lifted. On June 1, 1952, the company name was changed to Sumitomo Shoji Kaisha, Ltd. To name the company "Sumitomo" and display the trademark igeta meant carrying on the trustworthiness of Sumitomo that had been built over the course of its long history. This undoubtedly brought benefits, both tangible and intangible, to the company. Well over six years since the end of the war, and after enduring tremendous challenges while navigating the twists and turns of the dissolution of the zaibatsu, this inspiring event deeply moved officers and fellow workers, significantly boosting their morale. Enjoying the advantage in recruitment of staff and procurement of funds among other things brought about by the name, the company was ready to roll out business as the trading company of the Sumitomo Group, both in name and in reality.

Section 3

Expansion of the Trading Foundation

Aggressive Expansionism Policy

By the early 1950s, Japan's mining and manufacturing production had mostly returned to pre-war levels. However, the export volume had yet to return to the levels of that past time. As the special procurements related to the Korean War abated, the promotion of exports became a national policy. The government set out to simplify export procedures, while at the same time curb excessive competition among trading companies. As these measures always reflected past trading records, each trading company strived to achieve dominance by boosting trades and merging with other trading companies. In July 1954, Mitsubishi Corporation completed its realignment and trading companies affiliated with Mitsui & Co., Ltd. coalesced, and major trading companies emerged one after another. Driven by these developments, President Toji in May 1955 announced basic policies that had a significant impact on the company's management strategies for years to come.

1. The company's basic approach to mergers is that we will only consider a merger that does not compromise our autonomy and impose significant losses on us. From this perspective, an appropriate partner is yet to be found. As such, we will strive to boost sales independently for the time being.

2. To expand business, we will continue to actively invite external personnel with relevant experience in sales, as well as to reinforce internal training programs to train experts internally.

3. To make all-out efforts to boost trades, approval authority related to foreign trade will be delegated to Senior Managing Director Tsuda, stationed in Tokyo, to flexibly promote trade operations under the leadership of Tokyo reginal office.

4. When judged necessary, we will proceed with operations to boost sales, such as handling new products, developing a new field, or other transactions that may contribute to expanding future businesses, even at the risk of incurring losses to a certain degree.

These aggressive expansionism policies were a testament to the fact that the business foundation at our company was consolidated 10 years after commencing trading activities. Also, they paved the way for the company to develop as an integrated trading company.

Joining the League of Major Integrated Trading Companies

By this time, major business partners including Sumitomo Group manufacturers had completely recovered from wartime and post-war destruction, and were on track to growth. In particular, the output of the heavy and chemical industries was seeing a sharp rise. As these products were at the center of the company's business, President Toji's policy of aggressive expansionism fortuitously took advantage of the opportunity. As a result, the company's sales leaped to eighth in the industry in 1957. Up until then, the company had been able to secure stable profits even during recessions largely due to the solid, stable management policies and income from the real estate and building businesses that the company concurrently operated. From 1955 onwards, as both Osaka and Tokyo offices began producing positive results, the Trading Division grew to be the major driver of the company in terms of profit as well. In January 1956, "a system authorizing limited open positions of foreign exchange holdings of trading firms" was put in place as part of the government's trade promotion initiative. Under this initiative, our company was designated as one of the first 20 trading houses. This selection was based on factors such as overseas network, sales in foreign trade, and a track record in local financing, among other considerations. This earned Sumitomo recognition as a major integrated trading company.

Improvement of office work efficiency

In November 1956, President Toji resigned and Hisashi Tsuda, Senior Managing Director, became the new president. Soon after taking the office, President Tsuda made efforts to achieve more efficient internal administrative operations. The area he focused on most in documentation was the revision and reorganization of internal rules and regulations. In August 1946, the company tentatively stated that Sumitomo Honsha rules shall apply mutatis mutandis to the company rules, and thereafter, rules were established as needed and amended. As a result, the hierarchy of rules became unclear. To solve this, important rules were selected and compiled, and the relationship of related rules were made clear. In accounting affairs, work was streamlined and mechanized in order to accelerate paperwork and eliminate unnecessary production of materials. In 1962, IBM's Punch Card System (PCS) was introduced, which significantly improved recording sales, calculating salary, issuing bills and notes, and streamlined statistical works. The computerization and mechanization of accounting works continued company-wide, and accelerated. In October 1966, Osaka Head Office introduced a medium-sized computer to launch Electronic Data Processing (EDP) and mechanized a series of administrative work, from sales recording to settlement, and trade accounting work.

Section 4

Business Becomes Cross-Sectoral and Large in Scale

Expanding the Business Domain Outside the Group

Ever since the Trading Division was launched, the mainstay business of the company was handling iron and steel, nonferrous metals, machinery and electric items which were products of Sumitomo Group companies. Although efforts were made to shore up the likes of textile and food divisions by inviting experienced personnel from outside, iron and steel, non-ferrous metal, machinery and electric divisions accounted for 70% of the transaction volume, indicating a heavy reliance on Group companies. To further expand business, in May 1959, President Tsuda launched a "reach out strategy," whereby the company actively expanded business contacts outside the Sumitomo Group. The basic strategy for the time being was to actively contact blue-chip manufacturers other than Sumitomo Group companies, in addition to increasing the trading volume of products and raw materials coming from Sumitomo Group companies. Regarding products that did not compete with those of Sumitomo Group companies, the company bolstered its activities in the fields of grain and oil food, textiles, and general products, where it was already making efforts, while also cultivating new business fields. Concerning competing products, the company carefully made decisions from a broad prospective.

Enhancing Capital Adequacy and Human Resources

In parallel with the promotion of the aggressive expansionism policy, the company focused on enhancing its capital adequacy and human resources. In terms of capital, the company increased its equity in June 1956 from 360 million yen to 900 million yen through paid-in double capital increases, among other means. The company carried out a number of capital increases thereafter. In tandem with the growing business, the capital increased to 2 billion yen in October 1957, 4 billion yen in July 1960, jumped to 7 billion yen in October 1961, and reached 10.5 billion yen in June 1967.

In human resources, the company significantly increased university graduates hires. Whereas an annual average of 100 new graduates were hired during fiscal 1957 to 1959, the number jumped to 190 during fiscal 1960 to 1962. The company also sought people with experience from a broad range of fields to reinforce sales force, and employed a considerable number of mid-career workers every year. As a result, the number of personnel surged from around 1956, exceeding 2,000 in March 1960, jumping to 3,500 by September 1962, and rising over 4,000 in September 1965. Thereafter, partly due to delaying the retirement age from 55 to 58, the number of personnel registered 5,321 in March 1969 and reached 6,000 in 1970.

Growing Revenue From Trade Transactions

As Japan continued to see rapid economic growth, the company launched a sales offensive in the entire area reflecting strong capital investment in the private sector and growing consumer spending. The company's sales steadily increased, supported by growth in domestic trade as well as imports. During the eight years from 1955 to 1962, sales increased 6.3 fold. As a result, the company improved its sales position in the industry from eleventh in 1954 to eighth in 1957, inching up to seventh in 1961. Our company indeed showed a remarkable rise in the industry hierarchy. During this period, owing to the fact that the share of sales in the iron and steel division to the company's total sales was as high as 35% with a noticeable increase in the amount, the company was considered an "iron and steel trading company." From around 1960, the company increasingly handled oil and fat raw materials, feed, synthetic resin and petrol in particular, gradually increasing its share of products other than iron and steel. From 1959, the company saw a surge in foreign trade revenue, and from 1961 onwards, was able to register stable revenue growth. Accordingly, Tokyo and Osaka, which were the main players of foreign trade, increased revenues rapidly. In this way, the company developed from an iron and steel trading company to a major integrated trading company.

Section 5

Construction of Company Buildings

From the mid-1950s onward, the Real Estate Division started to actively engage in constructing office buildings for Sumitomo Shoji Kaisha, Ltd. and Sumitomo Group companies, acquiring and developing land as the Trading Division grew rapidly during the years of Japan's high economic growth. The largest of these projects was the New Sumitomo Building (current Sumitomo Building) in Osaka, which was completed in 1962, followed by the construction of the division's own buildings in Nagoya and Tokyo. Since many of the properties were initially related to Sumitomo Shoji Kaisha and Sumitomo Group companies, the Real Estate Division did not have a strong sales presence. However, the completion of this major project gave momentum to the division's efforts in other areas, including the office building, condominium, and residential land development businesses, which also targeted non-Sumitomo Group companies.

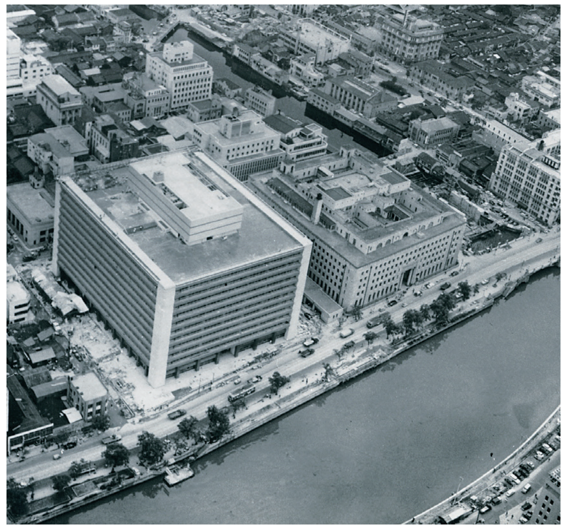
Osaka: Construction of New Sumitomo Building

Sumitomo Building South and Sumitomo Building, which served as head offices since 1946, became overcrowded by the early 1950s due to increased personnel. Sumitomo Building Annex was constructed on an open site to the west of Sumitomo Building South that had been purchased in 1945. In June 1957, all the members of the head office were moved to the Annex. Being the first building to be built for the company after the war, it was bright and comfortable, and became a symbol of the company entering a new stage of development as an integrated trading company.

Construction of New Sumitomo Building, which had been proceeded with that of the Annex, came under the leadership of Chairman Toji—who had been involved in the project as president—on the grounds that the building would be constructed and managed as a property of our company. The building was completed at the end of June 1962. Unfortunately, Chairman Toji passed away before its completion. However, the 12-story, four basement building (total floor space: 90,000 m^2) turned out to be the largest office building in western Japan and the second largest in Japan in terms of total floor space. All Sumitomo Group companies moved in by the end of July. Our company, whose departments and sections were separately housed in Annex, Sumitomo Building and other buildings also moved into the new Sumitomo building.


Sumitomo Building South


Sumitomo Building Annex


New Sumitomo Building (left) and Sumitomo Building (right)

Tokyo: Construction of Sumitomo Shoji Building in the Metropolitan Area

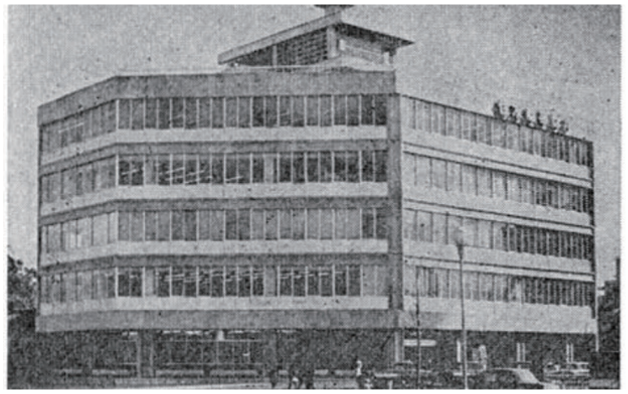
Originally, Tokyo Branch was housed in Sumitomo Bank's Nihonbashi Branch building when the branch was launched in 1946. As it became overcrowded and inconvenient, the office rented a nearby building in June 1955 when the branch was elevated to the Tokyo Regional Office and subsequently moved its operations. Subsequently, when Tokyo New Sumitomo Building, a nine-story, three basement building was built in Otemachi facing the Imperial Palace in April 1959, the Tokyo Office departments that were housed in different buildings came together. Thereafter, trade operations were concentrated in Tokyo, and the share of the sales registered in Tokyo to the total sales exceeded 50% around 1963 and 1964. When Tokyo accounted for more than half of the total staff, the number of staff members in Tokyo grew faster. To accommodate this situation, a nine-story, three basement office building named Sumitomo Shoji Building (Kanda-Mitoshiro Building) was built for Tokyo Regional Office in June 1966. As the staff number continued to rise even while this building was under construction, New Sumitomo Shoji Building (Takebashi Building) was built in cooperation with Nippon Telegraph and Telephone Public Corporation (current NTT), and was completed at the end of September 1970. All departments of the Tokyo Office moved into the 16-story, four basement building in October. The new building had the right size to be the business base of the company in Tokyo, and was located in an excellent surrounding with a magnificent view of Mt. Fuji over the verdant Imperial Palace Gardens.


Sumitomo Shoji Building (at Mitoshiro)


New Sumitomo Shoji Building (at Takebashi)

Nagoya: The Two New Buildings For Nagoya Branch and Sumitomo Group Companies

Sumitomo Corporation Nagoya Building, a five-story, one basement office building at Hisayacho, Higashi-ku was completed in April 1961. Originally, the building housed the company's Nagoya Branch and Sumitomo Group companies. As the number of prospective tenants increased thereafter, Sumitomo Shoji Nagoya Building No. 2, a 10-story, one basement building, was constructed in the same Higashi-ku in November 1965. The tenants of the building other than our company included 14 branches and sales offices of NEC, Sumitomo Metal Mining, New Nippon Electric, Sumitomo Metal Industries, Sumitomo Electric Industries, and others.


Sumitomo Shoji Nagoya Building

Section 6

Enhancement of Business Group Structure

Introduction of Product-Oriented Division System

Supported by the period of high growth from the late 1950s and the improving trading environment, the company's transaction volume expanded. As transactions became ever more complicated and diversified, enhancement of the business division became an urgent issue. Originally, the majority of iron and steel products were centrally purchased from manufacturers by the responsible sections in Osaka and Tokyo, and other products were generally handled by each section/branch through direct transaction with manufacturers. This was in keeping with the business practice long used by Sumitomo Honsha's Sales Offices nationwide. This practice did benefit the company in terms of solid, stable management and producing stable results as it encouraged thorough cost awareness among managers of sections/branches. However, it did not work well when seeking new businesses with future prospects, which requires a vast amount of upfront investment, projects that must prioritize the company's profit as a whole rather than that of individual sales sections and local branches, and projects that require cross-sectional/branch collaboration and cooperation.

In December 1962, to enable operations in accordance with integrated policies from a company-wide, long-term perspective, the Osaka and Tokyo business departments were consolidated and reorganized into nine product divisions: (1) Iron & Steel, (2) Non-ferrous Metals, (3) Electric, (4) Machinery, (5) Produce & Fertilizer, (6) Chemicals & Plastics, (7) Textiles, (8) General Products & Fuel, and (9) Real Estate. Senior managing executive officers or managing executive officers were appointed as the general managers (GM) of each division. In addition to supervising the division's transactions and profitability, the GM had the authority for swift decision-making, including personnel allocation, and managed sales of related products based on company-wide integrated policies. Having been implemented prior to the period of sustained growth supported by the unprecedented economic growth in the late 1960s and the promotion of trade/asset liberalization, the new structure greatly contributed to expanding the company's business.

Regarding the division system for administrative group, only the Accounting Controlling Div.—which oversaw the integrated accounting tasks of Osaka Head Office and Tokyo Office—was initially established. Eventually, in 1969, seven administrative divisions were launched: (1) Planning & Coordination, (2) Credit & Controlling, (3) Transport, (4) Treasury, (5) Accounting Control, (6) General Affairs, and (7) Personnel.

Section 7

Defying the "Decline of the Sogo Shosha" Debate

Expanding Functions of the Integrated Trading Company

In the early 1960s, there was a great deal of focus on the debate regarding the decline of sogo shosha (integrated trading companies). President Tsuda often advocated for the significance of trading companies. He stated that sogo shosha should not merely serve as an intermediary between production and consumption, but should endeavor to develop new products and services, cultivate new markets, and to proactively undertake marketing and follow-up services. He also emphasized that, when getting involved in export transactions, sogo shosha should be ready to take on risks as a prime contractor, rather than imposing all risks on manufacturers and other parties involved.

Each business division eventually ventured out into a wide range of activities, such as the establishment of various distribution and processing bases, development of logistics systems including maritime transport, launch of their own sales companies in each division, bolstering resource development and other overseas investment and loans, plant export, third-country trade, increased technology introduction, advancement into the ocean industries, housing industries, community development, and other new domains. In a similar way, other integrated trading companies also strived to enhance and innovate various functions in response to changing times besides focusing on the expansion of sales. As a result, the debate about the decline of sogo shosha was all but over by the late 1960s, and the term sogo shosha (integrated trading company) as a major conglomerate became a household name, testifying to their firm footing in the Japanese economy.

The Decline of the Sogo Shosha

Before the war, trading companies were the driver of foreign trade, with their global information network, strong sales force, and abundant funds. Domestically, they functioned as wholesalers. After the war, their financial power and information gathering ability waned. Exacerbated in particular by the fall in equity capital, trading companies were forced to rely on loans from banks and other financial institutions. This resulted in a heavy burden from interest payments, leading to a deterioration of profits. And as manufacturers increased their output, trading companies found themselves relegated to serving merely as their agents. Consequently, their status declined relative to banks and major manufacturers. To overcome the diminishing earnings ratio, efforts were made to boost sales by expanding their product portfolio as represented by the slogan "from ramen to missiles." The argument regarding the decline of sogo shosha posited that regardless of the extent to which integrated trading companies expanded their activities, they would soon be overwhelmed by major manufacturers' own sales networks, or slip into the position of a mere agent and lose their initiative, inevitably degrading their position in the market. The debate, which emerged in around 1961, became a popular topic reflecting the economic downturn in 1962, when integrated trading companies suffered sluggish performance, and was much talked about until around 1964.

Invigorated Overseas Activities

As Japan became a major economy power through the period of rapid growth that started in the late 1950s, it generated calls for international cooperation in terms of trade. Since the government announced its basic plan of liberalizing trade and exchange in June 1960, import restrictions were gradually lifted, and the liberalization of exchange and capital was also advanced. In February 1963, Japan shifted to a GATT Article XI country, which encouraged removing import restrictions. In April 1964, it became an IMF Article VIII country, without currency exchange restrictions, and Japan joined the Organization for Economic Cooperation and Development (OECD) to secure its place as an industrialized country in name and in reality.

Within this context, by the late 1960s, our company's export transactions began to overwhelm import transactions both in terms of sales and growth rate. In parallel with the growing export, the company established local sales companies alone or jointly with manufacturers for the purpose of expanding sales channels in the international market. It also established new local manufacturers jointly with local capital. Regarding import of mineral resources, the company had been involved in develop-and-import schemes and development investment and loan projects from an early stage to secure and maintain a source of supplies. Particularly from 1965 onwards, prompted by the shift to free trade and capital, investment and financing aimed at development and import of a wider range of resources became prevalent.

Section 8

Expansion of Enterprise Scale amid Trading Industry Reorganization

Quest to join the "Big Three"

In the ten years since revealing the aggressive expansionism policy in 1955, the company exponentially increased sales and jumped from eleventh in the industry to sixth. Despite this, as other rival trading companies also grew sales in the same manner, our company's earnings remained at no more than a third of that of Mitsubishi Corporation and Mitsui & Co., Ltd., the industry's top players. At that time, trading companies were conducting integration and mergers for the sake of expanding their business size to strengthen their financial base, and many happened in quick succession. Lagging behind top players in terms of business size, the company was likely to become an acquisition target, and was in fact repeatedly approached by financial institutions for a possible merger. President Tsuda, in light of the merger policy set out by the former president, Shunya Toji, took a cautious approach at the beginning. He held that the company would only consider a merger when it determines of its own accord that it would not lose independence and be able to adhere to its policy of solid, stable management. However, too large a gap between industry leaders would pose an existential threat to the company amidst a wave of mergers and acquisitions in the industry. President Tsuda, judging that there was a pressing need to expand the company size, declared in May 1966, "We will press ahead to become third in the industry as soon as possible and catch up with Mitsubishi Corporation." This policy of aiming to join the industry's Big Three, a vision based on a strong sense of impending crisis, became the core of the management strategy. At the time, the sales volume of a trading company was widely assumed to be an indication of its social contribution, and also served as the criteria for the company's social value. President Tsuda judged that, as the company had achieved a solid financial base, it must go headlong into expanding sales in a bid to increase its contribution to society. To this end, the company relatively eased the excessively conservative approach it had taken, and shifted direction to taking an aggressive approach. Thus, the company started to make bold moves to boost sales while controlling risks.

A Focus on Large-scale Projects

Since the introduction of the product division system in 1962, demand surged for large-scale development projects such as overseas investment and financing projects and plant export, which involve multiple divisions and require company-wide cooperation. In December 1967, the company launched a scheme that regarded development projects such as mineral resources development and overseas construction projects as important. Under the scheme, a cross-company project team under the direction of the GM of the Planning & Coordination Division and comprising personnel from related divisions would be formed at the initial stage, and press ahead with the project by mobilizing whatever was available. Once the project was on track, responsibilities would be allocated to respective sections and departments in charge. Furthermore, the Business Development Department was launched in the Planning & Coordination Division in March 1968. It would promote and carry out large-scale development projects that involved several business divisions and for which the responsible department was unclear. It would also handle projects that require long-term advance investment and financing at large amounts which are therefore difficult for a single sales division to undertake. It was also to oversee development projects in each division as well as manage project teams. Major projects overseen by the Business Development Department included marine development, agricultural development in Indonesia, and investigation research in the anti-pollution industry. Among these, President Tsuda carefully decided to add marine development to our portfolio. On his visit to Europe and the United States in 1965, the president realized that marine development was drawing attention as an important topic in each country. As soon as he returned to Japan, he ordered a fact-finding survey. In advancing the project, the company focused on the introduction of diving operation technology, which was scarcely available in Japan. Then deep sea manganese nodule development became a popular topic, so the company carried out research experiments on mining technologies. In 1968, the Sumitomo Group Marine Development Meeting was launched under the thinking that the project should be carried out by the Sumitomo Group as a whole due to the nature of the project. The company took the lead in promoting joint research and collaborating with major foreign companies.

Growth That Outpaced the Rapid Economic Growth

In the 1960s, having achieved a high long-term growth rate that was helped by the buoyant economy, the company saw its sales in the 1960s grow at a striking annualized rate of 22–35%, except for in 1962 and 1965, when there were unfortunate setbacks. In the late 1950s, domestic sales and import transactions were the main drivers of the expansion. From 1962 onwards, export, import and overseas transactions showed significant growth, and international trade accounted for nearly 40%. In terms of revenue, the company saw steady growth from 1966 onwards. Profits for fiscal 1970 were 6.3 billion yen. The company had secured its place as fifth in industry.

In the meantime, Sumitomo Group, with a structure that provides an advantage in the heavy and chemical industries focused on the materials industry, saw increased production and a growing number of new product developments driven by the establishment and expansion of large-sized facilities. This had a tremendous impact on the company's business, contributing to the expansion of handling volume. In particular, Sumitomo Metal Industries, Ltd. pressed ahead with expanding production volumes as well as diversifying and sophisticating product types by running various equipment to its full potential at its ironworks nationwide, including the new blast furnace at the ironworks in Wakayama that was launched in 1961. It grew to become a global integrated pig iron manufacturer in name and in reality. Our company focused on developing sales channels in Japan and overseas as its major wholesaler, and achieved significant sales growth in a range of products. Furthermore, along with the launch of the blast furnace, we began full-scale handling of iron and steel raw materials and promoted investment-and-import schemes by expanding our sources of supply and engaging in proactive investment and financing activities. As a result, the handling volume in the iron and steel division surged. By 1970, the company secured its place as the industry's third to fourth largest iron and steel trading company. Sumitomo Chemical Co., Ltd. boosted production by launching a series of ethylene plants from 1962 onwards. The company began producing polypropylene from 1963, and ABS resin from 1966 as a joint company. By virtue of being entrusted with the procurement of raw materials and sales of products, our company's handling volume of synthetic resin rapidly grew, making it a top-tier trading company in the industry.

Section 9

Milestone of the 50th Anniversary of the Foundation

Deterioration of Labor-Management Relations

On June 12 and 13 of 1969, the company's labor union went on a two-hour strike. It took place due to grievances over the company's response to demand for higher pay for the June 1969 bonus and housing and family allowances. It was the first such incident that ever took place in our company's history.

Taking this unprecedented labor strike as a grave concern, the company acknowledged the pressing need to drastically improve labor-management relations. Immediately after the incident, the company totally reshuffled persons in charge of labor-management negitiations, including the GM of the Personnel Division. The revamped personnel authorities began by calling for the labor union to return to the negotiation table to resolve the case. At the same time, it was pointed out that the underlying cause which led to this situation was that the issues at stake had not been clearly communicated to the management of each workplace and the members of the labor union, causing a sense of mutual distrust. The personnel authorities repeatedly asked all managerial staff to make concerted efforts to acknowledge and resolve various labor-management issues. At the same time, it worked tenaciously to communicate the company's view directly to union members and ask them to act prudently. Another cause of deteriorating relations was the lingering grievances among young workers over the work environment, workplace relationships, training programs and personnel rotation, which spilled over to the company's organization, systems, and schemes. Given this, the Personnel Division embarked on a company-wide Total Quality Control (TQC) campaign and HR system reform, among other actions. In addition to these cross-company efforts, the willingness to return to the negotiation table began to develop on the union side as well. After three years, around 1972, the labor-management relations rapidly returned to the cooperative level that has been maintained to this day.

Completion of the Osaka North Harbour Renovation and Reclamation Project

The Osaka north harbour renovation and reclamation project was the core operation of the company before the war. It was temporarily suspended in 1944 due to the worsening situation of the war, and was not resumed until the end of the war.
Of the reclamation work, the district which had been near completion was finished after the war in June 1948. However, the other district completely sank together with land that was not reclaimed due to ground subsidence triggered by the devastation of the war and flood damage. It presented no prospects of being immediately used as a factory site.

The demand for the use of developed land grew when Japan entered the post-war growth period. The company transferred landfill rights to the Osaka City government and downsized the project size, then resumed work in August 1964. The project proceeded without problems. In May 1967, the entire north harbour renovation and reclamation project, which was the original purpose for the founding of our company's forerunner, the Osaka North Harbour Co., Ltd., was finally completed. It was the end of a project that started in 1931. It took nearly 40 years, including the 20-year hiatus during and after the war, and 48 years since the foundation of the Osaka North Harbour Co., Ltd.

Establishment of Sumisho Computer Service Corporation

In the year the company celebrated its 50th anniversary, Sumisho Computer Service Corporation, the predecessor of the current SCSK, was established with the purpose of advancing into the data processing industry and pursuing the efficient use of computers.

During that period in Japan, the primary function of computers, or "electronic computational machines" as they were called, was the processing of accounting data. In 1966, our company introduced NEC medium-scale computers at the Osaka Head Office, initiating computerized data processing within the accounting division. Subsequently, these computers were deployed in both Osaka and Tokyo, automating the series of accounting tasks within the sales division, from recording sales to managing delivery and settling payments.

In October 1969, looking ahead to the future of the computer and information industries, the company established Sumisho Computer Service (SCS). The rental agreement for Sumitomo Shoji Kaisha's medium-sized computers were taken over by SCS, and our company's computer related tasks and operational tasks were transferred to SCS. This eventually led to SCS fully undertaking the launch and operation of our company's computer centers in Osaka and Tokyo, having a significant impact on solidifying their business foundation.

Ceremony Celebrating the 50th Anniversary of the Foundation

On December 24, 1969, just 50 years after the foundation of the Osaka North Harbour Co., Ltd., a commemoration ceremony was held at the new Sumitomo Building in Osaka. At the ceremony, President Tsuda stated that there are two things which everyone at the company should take deeply to heart and never forget. One is the strength of the public trust in Sumitomo, which has been built through 300 years of our predecessors' efforts, and without which today's success could not have been achieved. The other is the spirit of our predecessors who gave their all and threw themselves into the great struggle to establish the post-war Trading Division with the determination to never to compromise in creating a trading company that embodies the respectable spirit of Sumitomo. He added, "Those 50 years of history ended yesterday. Today, we will forge a new chapter for the next 50 years to come. Our true growth as an integrated trading company starts from now. I ask you all, the 6,000 fellow workers of the company, to come together as one and pledge to make the next 50 years even greater."

Other events were also held. On December 16, prior to the commemoration anniversary, the president, officers and representatives of the workers gathered at Sumitomo Yuu-ho-en in Kyoto and attended a memorial service at Hoo-sendo, where generations of the Sumitomo Family and deceased Sumitomo colleagues are laid to rest.

1950–1969

Part. 2
GLOBAL NETWORK

Establishment of Overseas Offices

Once permission was granted to trading companies in 1950 to open branches in other countries, the company actively assigned personnel overseas and promoted the establishment of overseas offices. By the end of March 1955, the company's overseas offices numbered 15, laying the groundwork for the initial stage of the overseas network. Thereafter, along with establishing additional offices, human resources were reinforced and the status of representative offices were escalated to overseas subsidiaries or branches. As a result, the number of overseas offices amounted to as many as 61 (8 subsidiaries, 7 branches, 46 representative offices) by March 1970.

Europe

△Hamburg (Jan. 1952) ⇒To Dusseldorf (Nov. 1952) / △Lucerne (Jan. 1954) /
△London (Nov. 1955) / △Madrid (Aug. 1956) / △Milan (Jan. 1958) /
◎Sumitomo Shoji Deutschland Dusseldorf (Apr. 1958) / △Brussels (Oct.1961) /
◎Equipment Trading (EQUITRA)* (Mar. 1962) / △Paris (Oct. 1962) /
△Athens (Jul. 1963) / △Rotterdam (Jun. 1964) / △Vienna (Oct. 1966) /
◎Sumitomo Shoji Benelux (Dec. 1966) = EQUITRA became a wholly-owned subsidiary /
△Barcelona (Oct. 1968) / △Stockholm (Feb. 1969)

U.S.S.R.

△Moscow (Mar. 1964)

Middle East

△Cairo (Jul. 1954) / △Teheran (Jul. 1958) /
△Tripoli (Dec. 1963) / △Bagdad (Mar. 1965) /
▼Tripoli (Mar. 1965) / △Kuwait (Nov. 1966) /
△Abu Dhabi (Mar. 1968) / △Ankara (Oct. 1968)

East Asia

△Taipei (May 1953) / △Naha (Jun. 1953) /
△Hong Kong (Nov. 1954) /
△Seoul (May 1963) / △Kaohsiung (Aug. 1967)

Southeast / Southwest Asia

△Bombay (Jul. 1950) / △Calcutta (Jan. 1951) / △Karachi (Jan. 1952) /
△Bangkok (May 1953) / △Rangoon (May 1953) / △Jakarta (Nov. 1953) /
△Manilla (May 1954) / △Singapore (Aug. 1955) / △Saigon (Oct. 1955) /
△Phnom Penh (Jun. 1956) / △New Delhi (Nov. 1956) / △Kuala Lumper (Jun. 1959) /
△Madras (Apr. 1960) / ◎Sumitomo Shoji Thailand Bangkok (Aug. 1960) / △Dhaka (Aug. 1960) /
△Lahore (May 1961) / △Makassar (Apr. 1962) / △Bandung (May. 1962) /
△Davao (May 1964) / △Chittagong (Jul. 1964) / △Colombo (Oct.1968)

Africa

△Accra (Aug. 1961) / △Johannesburg (Jun. 1962) /
▼Accra (Oct. 1965) / △Kinshasa (Feb.1969) /
△Nairobi (Dec. 1969) / △Alger (Dec. 1969)

Oceania

△Sydney (Oct. 1957) / △Melbourne (May 1961) /
◎Sumitomo Shoji Australia Sydney • Melbourne (Aug. 1961) /
△Wellington (Apr. 1963) /
◎Sumitomo Shoji Australia Perth (Jul. 1966) • Brisbane (Dec.1966)

Network Status

△ Sumitomo Shoji liaison office
○ Sumitomo Shoji branch
◎ Sumitomo Shoji subsidiary
★ Change of name
▼ Closed

North America

△San Francisco (Apr. 1951) ⇒to New York (Jul. 1951) /
◎Nikken New York (Mar. 1952) ⇒★Sumitomo Shoji New York (Jun. 1952) /
△Portland (Dec. 1952) / △Mexico City (May 1954) / ▼Portland (Sep. 1954) /
△San Francisco (May 1955) / △Vancouver (Sep.1955) / △Portland (Reopened Jun. 1958) /
△Los Angeles (Mar. 1959) / △Chicago (Nov. 1959) / △Dallas (Jul. 1960) /
◎Sumitomo Shoji Canada Vancouver (Jul. 1961) / ◎Sumitomo Shoji Texas Dallas (Oct. 1961) /
△Toronto (Aug. 1963) / ◎Sumitomo Shoji Chicago (May 1964) / △Dallas (May 1964) /
△Houston (Jun. 1964) / △Montreal (Jan. 1966) /
★Sumitomo Shoji New York ⇒ Sumitomo Shoji America (SSAI) (Apr. 1969)

Central & South America

△Buenos Aires (Jan. 1953) / △Sao Paulo (Sep. 1955) /
△Santiago (Feb. 1959) / △Lima (Mar. 1962) /
△Caracas (Jun. 1963) / △Panama (Octo. 1967) /
△San Salvador (Apr.l 1968) / △Bogota (May 1968) /
▼Lima (Oct. 1968) / △Quito (Jun. 1969) /
△Recife (Aug. 1969) / △Rio de Janeiro (Oct. 1969)

Chapter. 3

Enhancement of Integrated Trading Company Functions and Shift to Leaner Management

1970–1984

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Section 1

Opening of the Turbulent 1970s

Part.
1
CORPORATE HISTORY

Merger with Sogo Boeki (March 1970)

Sumitomo Shoji Kaisha had been aggressively expanding its scale by obtaining an increasing number of high quality human resources and broadening its markets in pursuit of becoming one of the "Big Three" of the industry. At the end of March in 1970, the company reached an agreement to merge on equal terms with Sogo Boeki Co., Ltd. after a series of discussions. The merger took effect on August 1 of the same year.

Sogo Boeki was a firm established in 1950 by employees of the former Mitsui & Co. soon after it had been dissolved after World War II. The firm had enjoyed a strong business foothold, particularly in communist bloc markets. Sumitomo Shoji Kaisha and Sogo Boeki had been building amicable business relations in the mid-1960s through various transactions including exports of tubular products and bogies manufactured by Sumitomo Metal Industries to the Union of Soviet Socialist Republics (USSR), imports of coal from the USSR, and collaborations in bidding for Japanese Food Agency wheat tenders. The companies began to see each other as ideal merger partners amid the wave of reorganizations among trading companies. However, soon after the two companies had embarked on the process of making the merger happen at the beginning of the 1970s, the plan leaked and met with stiff opposition from the senior management of the Mitsui Group, bringing it to a standstill. As the problem had grown to such an extent that it involved the Mitsui Group, President Tsuda met with his counterpart at Mitsui & Co. in late March of the same year, which resulted in an amicable agreement between them regarding the merger. This was followed by the conclusion of a formal merger agreement in late April. The merger brought Sumitomo Shoji Kaisha 275 new employees and a wide range of new markets, further strengthening its business.

Acceptance of Premier Zhou's Four Conditions of Japanese-Chinese Trade (May 1970)

In China, the decade-long Great Proletarian Cultural Revolution that started in 1966 stagnated the country's situation, posing a huge hindrance to building Japanese-Chinese relations. At that time, large trading companies including Sumitomo Shoji Kaisha were engaging in trade with China through "friendly trading companies," while at the same time actively expanding commercial relations with Taiwan and South Korea, which was considered problematic by China.

In April 1970, Premier Zhou Enlai in Beijing imposed four conditions on the certification of "friendly trading companies" undertaking trade operations between China and Japan. The four conditions represented the country's most stringent trade policy ever toward Japan. They expressed China's refusal to do business with any companies that 1) supported Taiwan and/or South Korea, 2) invested a large amount of money in Taiwan and/or South Korea, 3) supplied weapons and ammunition to South Vietnam, Laos, and/or Cambodia, or 4) are considered U.S. companies in Japan. Soon after China presented these conditions, the country also warned the representatives of Japanese trading companies participating in the Canton Fair that it would not have any business transactions with a trading company unless they accepted the conditions. For Sumitomo Shoji Kaisha, which was actively promoting trade with Taiwan and South Korea, making a decision as to whether or not to accept the conditions was not easy. After careful consideration, President Tsuda decided ahead of other trading companies to accept the conditions, out of concern that trade—a narrow pipe barely connecting Japan to China while the countries had no diplomatic relations—may taper off, which might leave a scar on future Japanese and Chinese relations. On the day after the decision was notified to China, the activities of Taika Boeki, Co. Ltd.—the contact point for Chinese customers of Sumitomo Shoji Kaisha—were permitted. Also, business negotiations at the Canton Fair, which were resumed after a suspension shortly before the end of the fair, resulted in the successful closing of deals of considerable value.

International circumstances around China were changed after its return to the United Nations in October 1971, U.S. President Nixon's visit in Beijing in February 1972, and other events. Large trading companies began to seek to trade directly with China under their own names, while continuing their direct dealings with Taiwan and South Korea. Sumitomo Shoji Kaisha sent a delegation headed by Chairman Tsuda to China at the end of March 1972 and requested permission to trade directly with China under it's own name. The permission was successfully granted. In June of the same year, Sumitomo Shoji Kaisha took over all personnel and operations related to China business at Taika Boeki, which had been representing it in China.

Shift of Focus from Scale to Quality (May 1970)

While the business performance of other top-notch trading companies increased from the latter half of the 1960s, Sumitomo Shoji Kaisha's relatively low productivity was becoming an issue. It was considered attributable to its higher number of personnel relative to sales and profits, so the company conducted measures to increase efficiency in the use of its workforce. However, its sales per employee were ranked as low as 7th to 8th among the ten major trading companies. Responding to the situation in a General Managers' Meeting in May 1970, President Tsuda strongly called for a shift in mindset toward higher productivity and highlighted the need to introduce systematic measures from a broader perspective, such as active transfer of control of some operations to affiliates, streamlining of the organizational structure, and effective posting of personnel. From this moment, enhancing productivity became the single most important priority in the company's management plan, and it was decided to adopt a policy to increase the quality of profit as well as the quantity of sales to improve the company's position in the industry. Specific measures carried out included raising cost efficiency, rationalizing operations, implementing Total Quality Control (TQC) aimed at streamlining organizations and systems, thoroughly rationalizing and automating clerical work to reduce back office personnel, promoting outsourcing, reorganizing administrative group, and ensuring effective job assignments.

Completion of Tokyo Office Building in Takebashi (October 1970)

In the 1960s, the number of Sumitomo Shoji Kaisha's personnel surged along with the rapid expansion of its business. The company's workforce exceeded 2,000 in 1960, 3,000 in 1962, 4,000 in 1965, and 6,000 in 1970, showing more than a three-fold increase during the decade. In terms of sales by location, while both Osaka and Tokyo offices accounted for 25% each and the other offices accounted for 50% of the total sales in the first half of 1950, the percentage of the Osaka and Tokyo increased gradually thereafter to reach about 70% combined by the first half of 1955. Tokyo Regional Office began to play a central role in the trade business in 1955. Because of the concentration of product sources and trade transactions in Tokyo, its sales began to exceed 50% of the total around 1963 and 1964. As business expanded at Tokyo Office, its workforce also increased and exceeded 50% of the total in the second half of 1970, making it the center of the business in terms of both performance and size.

To address the expanding workforce, Sumitomo Shoji Kaisha built its own building for the first time in Tokyo in 1966. However, Tokyo Office soon outgrew this building, so another New Sumitomo Shoji Building (Takebashi Building) was completed in 1970. All the units of Tokyo Regional Office, which had been dispersed in three locations, were brought together in the building. At that time, the number of the company's personnel in Tokyo and Osaka was 2,900 and 1,800, respectively, and the sales in Tokyo and Osaka were 490 billion yen and 200 billion yen, respectively.

Change of President and the Address

The month after all the company's units in Tokyo were brought together in the New Sumitomo Shoji Building in Takebashi, Executive Vice President Yukio Shibayama was appointed as the new president. In his first address after appointment, he expressed his intention to carry on his predecessor Tsuda's aspiration to grow the company into one of the industry's Big Three and expressed his determination to direct the all-out efforts of the company to achieve that goal. In connection to this, he referred to a remark by Thomas Jhon Watson Sr., the founder of U.S. company IBM about what determines if companies succeed or fail. According to the founder, it comes down to the question of whether or not the organization fully makes use of the great energy and abilities of its people. President Shibayama declared that he would work toward achieving big strides in the company's growth by further mobilizing the great energy and abilities of the entire workforce. Toward this end, he stated that the company would adopt specific measures based on the three principles: development and enhancement of each individual's abilities, creation of a work environment that builds good personal relationships and provides job satisfaction, and support for the personnel to help them gain and maintain vitality to live strongly now and ambitiously in the future.

Takebashi Building

President Shibayama

Section 2

Adaptation to Rapidly Changing Environments

Transition to Decelerating Economy and Dollar Shock

Japan was plunged into a turbulent and uncertain situation in the summer of 1970. As the country's long economic boom slowed down and its economy began to decelerate, the many strains of its rapid economic growth became apparent. These included pollution problems, delays in social infrastructure improvement, and a disconnect between economic growth and social welfare.

In external relations, the expansion of Japanese exports caused economic friction with the United States, which worsened year by year. In August 1971, U.S. President Nixon suddenly announced the suspension of the dollar's convertibility into gold, the imposition of import levies, and other emergency measures to protect the dollar. The yen was freed from the long-standing fixed exchange rate of 360 yen to the dollar and turned into a floating currency. As a result, the yen rose to 310–320 yen to the dollar. These U.S. measures, or so-called "dollar shock or Nixon shock," shook the foundation of international currency system and disrupted the world economy. When the yen was revalued sharply upward to 308 yen to the dollar under the Smithsonian Agreement at the end of the year, Japanese integrated trading companies with a huge amount of dollar-denominated receivables suffered considerable exchange losses, inflicting serious damage to their financial results.

Expansion into New Industrial Sectors

As the decelerating economy, growing pollution problems, and other issues were beginning to dampen Japan's economic growth, companies started to focus on new industrial sectors to meet the newly arising social needs in order to ensure their sustained growth. The new domains that were attracting attention in those days included the prevention of pollution, disposal of industrial waste, regional development (construction of industrial parks, urban redevelopment, etc.), and services that meet the sophisticated and diversified lifestyles of people (medical care, leisure, education, fashion, restaurants, housing, etc.).

Sumitomo Shoji Kaisha made it a company-wide policy to make inroads into new industrial sectors while undertaking public work projects under the government's economic stimulus measures. Driving forces to tackle large-scale projects were then organized one after another at each relevant sales division. At the same time, the Project Development Division was also established in June 1971 with the aim of mobilizing integrated corporate strength and bringing out the potential of each business division to promote businesses that will add to profitability in the future. The Project Development Division supported the business divisions in their expansion into new industrial sectors and also took a cross-functional approach to plan and develop projects for the regional development, environmental protection, and health and recreation industries as well as to work on ocean development projects.

Strengthening of Affiliated Companies

In the 1960s, Sumitomo Shoji Kaisha established a succession of domestic sales companies, mainly for the Produce & Fertilizer, Chemicals & Plastics, and General Products & Fuel Divisions that had no major wholesale networks. Starting in 1970, the company founded internal sales companies in such areas as imported products, real estate, and metals as well, and this marked the completion of its plan to build a domestic sales network.

While some affiliates of the company were established simply for credit protection or rationalization of business, there were also some affiliates that were founded to expand the company's functionality as an integrated trading company, serve as a base to broaden the range of business of their parent company, smoothen logistics, expand into downstream activities, increase the sales force, or advance into new business or production sectors.

In addition to Sumisho Lease, Summit Store (supermarket), and Sumisho Computer Service, which already existed, new affiliates in new business sectors continued to be established starting in 1970 in the form of joint ventures with manufacturers and foreign firms mainly in the areas of packaging, construction and regional development, health food, and restaurants. Furthermore, to expand business of the Textiles and Fuel Divisions, the company supported existing relevant firms and made some into affiliates.

Section 3

Making the Most of the Great Energy and Abilities of Personnel in All Positions

Upgrading the Personnel Management System

In March 1971, the Human Resource Development System plan was announced. It was determined based on the policy set forth by President Shibayama after his appointment to strengthen and fully bring out the personnel's abilities. The system was intended to achieve integrated, structured personnel management after reviewing all the existing policies including those for transfer, promotion, salaries, performance appraisal, and training. The main features of the system were the adoption of a post qualification system and the transition to a pay structure aligned with the system. The qualification system was put into practice in January 1972. Under this system, seniority-based hierarchy was separated from post-based hierarchy. For the latter, a "right person in the right place" principle was maintained regardless of members' personnel hierarchy. For the former, qualified personnel were allowed, in principle, to be promoted depending on their job performance rather than seniority.

Improvement of Labor-Management Relations

A limited-time strike organized by the labor union in June 1969 shortly before the company's 50th anniversary came as a great shock to the company. The management recognized the necessity of drastic improvement and normalization of labor relations as an pressing issue, and immediately revised the policies of the Personnel Division and called for the labor union to return to a dialogue-based approach. In the labor union, in the meantime, the question was arising about the aggressive approach of relying on conflicts adopted under the instruction of the industrial superior body. Some began to think that the improvement of labor conditions could only be achieved when trust between labor and management was established. A new team of union executives was formed in the summer of 1972, and they decided to focus more on harmonious relations with management. In 1974, the union withdrew from its superior body, and management and labor revised all of their agreements and contracts together. This finally brought labor-management relations, which had been unstable since the mid-1960s, onto the right track for improvement and advancement.

Section 4

Expansion of Business in Domestic and Overseas Markets

Solidification of Foundation for Overseas Activities

Along with the internationalization of the Japanese economy, the role of trading companies became increasingly important. Sumitomo Shoji Kaisha accelerated its efforts to build a strong organizational foundation for more vigorous activities to promote trade with overseas markets.

While the company sent market research task forces to Alaska, Canada, China, Eastern Europe, South America, and Africa starting in 1970, it also actively set up representative offices mainly in the Middle East, Africa, Central and South America, and Eastern Europe regions between 1972 and 1974, rapidly expanding its overseas presence. To efficiently manage and strengthen collaboration among its rapidly increasing offices in each region, the company placed Area Managers in the Middle East, Europe, Oceania, Canada, and South America. In February 1974, officer-level personnel delegated with greater authority were appointed as GM for Europe and GM for Southeast Asia to centrally supervise and manage the offices in their respective regions. Furthermore, in March 1974, the Overseas Personnel Department was established in the Personnel Division to cope with a rapid increase of personnel working abroad. The department strengthened its support for rotating staff and their families residing in various locations around the world, investigated how national staff were managed and trained, and set work regulations aligned with local labor laws and customs to build positive labor-management relations and solidify cooperative ties with rotating staff. The department also provided guidance on and assisted with the localization of office management.

Growth in Trade and Overseas Investments

External trade and capital liberalization advanced in the 1970s gave momentum to Sumitomo Shoji Kaisha's trade business and overseas investments.

In the trade business, exports had slowed down temporarily due to the dollar shock but were boosted thanks to large deals closed after the oil shock. These included tubular products for oil-producing countries, as well as steel products, construction machinery, and plants for the Middle East. Imports of fuel, food, chemicals, textiles, and wood also increased. Offshore trade also grew rapidly against the backdrop of Japan's deteriorated export market after the dollar shock and the increasing demand for export of products produced by the company's overseas operations to third countries, and came to account for about 10% of the company's total sales. With regards to overseas investment, investment and loans led by trading companies increased as the need arose—amid rising trade protectionism and nationalism over resources—to secure stable overseas markets, support the economic growth of developing countries, and ensure stable supply of resources. New projects were roughly divided into constructing manufacturing base, setting up of distribution and processing centers, and developing resources and setting up bases to collect and process them.

Cultivation of New Demand in the Domestic Japanese Market

International monetary uncertainty since 1971 had dampened trade expansion, but there was an internal trade upturn starting in the second half of 1972, underpinned by increased demand and prices stemming from the Japanese government's investment in public work projects and housing. However, unlike during the period of high economic growth, a shift from producer-driven demand to consumer-driven demand urgently necessitated the expansion and enhancement of the company's distribution function, and thereby opened up new opportunities. Toward this end, the company established the Project Development Division, a cross-functional organization responsible for developing new demand and working on large projects. In parallel, Sumitomo Shoji Kaisha opened new offices in regions with high potential demand and operated multiple offices under integrated control to bring out the collective strength for sales activities geared toward the particular needs of each region.

Section 5

A Barrage of Criticism against Integrated Trading Companies

Summoning of Sogo Shosha Presidents to the Diet

In the latter half of 1972, the Japanese government's investment in public work projects and housing and the occurrence of excess liquidity led to a hike in prices of land, construction materials, and daily necessities. Integrated trading companies' practice of buying up or holding back sales were rumored to be the cause behind the surge in prices. As opposition parties were blaming the government for the price increase in the Lower House plenary session in March 1973, the practices of integrated trading companies were brought up as a problem, which ignited criticism against them. Furthermore, following a mass media report about an investigation by the authorities over an act by one of the integrated trading companies, it was decided to summon the heads of leading trading companies to the Diet to provide explanations.

In April 1973, the representatives of six leading trading companies, including President Shibayama, appeared at a meeting of the Lower House price issue special committee as unsworn witnesses. With regard to the land issue, President Shibayama explained that although the real estate business had historically been one of the company's main focuses, its priority was to construct condominium buildings and develop land to provide high-quality housing, and that sufficient care had been taken to ensure that the company's purchase and sales of properties would not cause a rise in prices.

The condemnation against integrated trading companies began to soften in the autumn. But when the first oil shock occurred around that time, following the outbreak of the fourth Middle East War, it brought about a price surge, widespread buying up and withholding of sales. This again fueled criticism against trading companies. In February 1974, the presidents of leading trading companies were again summoned to give unsworn testimonies and their responsibilities were investigated harshly. Again, Sumitomo Shoji Kaisha was found not to have committed any acts against social norms, which resulted in enhancing its corporate image as a sound company that complies with the rules.

Summoning to the Diet(Photo provided by Aflo)

Response by Integrated Trading Companies

The criticism against integrated trading companies emerged from the backdrop of abnormal price surges in the wake of turbulent domestic and international situations. The series of events was significant for integrated trading companies. It gave them an opportunity to take public criticism seriously, reflect on their activities, exercise self-control, make efforts to improve their internal systems, and establish a proper common framework. Immediately after the first time they were summoned to the Diet, the heads of leading trading companies announced a joint statement. It made clear their determination to make maximum efforts to contribute to the stabilization and welfare of people's lives. It also announced their management policies to develop internal standards of conduct at each company, exercise restraint in their activities, and correct their approach.

At Sumitomo Shoji Kaisha, there were two articles of the Business Principles which had been passed down as Sumitomo's business philosophy and embraced as the company's guiding principles of activities since its founding. In order to further ensure thorough implementation of the principles, the company established the Sumitomo Shoji Management Charter on December 24, 1973, on the occasion of its anniversary. Sumitomo's traditional spirit was fully explained to all personnel, and it was ensured that they all understood the company's specific standards of conduct in business activities.

President Shibayama repeatedly instructed the company's personnel that, while the criticism was groundless, they should be more careful under the current circumstances to fully observe Sumitomo's traditional Management Principles, engage vigorously in business based on firm beliefs and awareness, and take extra care when handling daily living products and acquiring land. For the daily living products business and land acquisition in particular, he stressed the need for cautious decision making as well as co-existence and co-prosperity with small and medium-sized enterprises. In February 1974, the company declared a price freeze on 31 items including meat and soybeans, based on an agreement at the joint government and industry council on price suppression. In the next month of March, while handling daily living products in accordance with the government policy, the company set up an internal price review committee to curb the selling prices of basic goods such as petroleum products, steel, aluminum, and food. At the General Managers' Meeting in May 1974, specific measures were discussed to enhance the quality of the company's business activities in terms of sociality, internationality, and efficiency to achieve its vision of becoming a fundamentally admirable international company. Furthermore, the company reaffirmed its policy to make itself associated in the public mind with the three attributes—virtuousness, consideration for others, and integrity (international integrity in particular).

Section 6

Streamlining of Management during Long-lasting Recession

Efforts to Improve Cost Competitiveness

Facing a series of economic fluctuations on a global scale starting at the turn of the decade, Sumitomo Shoji Kaisha needed structural reforms to make itself more resistant to economic instability. President Shibayama designated reducing high operating costs as the task for 1975. The company would focus its efforts on streamlining management with the aim of achieving greater security and stability in its operations, as well as of expanding the streamlining efforts internationally to accomplish its social responsibility as an integrated trading company. Based on this policy, the company implemented a second TQC starting in April 1975 to reduce costs to the minimum possible levels and check all transactions throughout the company. In February 1976, extraordinary special measures to improve performance were taken, including a review of inefficient transactions to decrease the deficit, re-examination of development projects, prevention of bad debts, concentration of personnel in potentially profitable markets, re-engineering of administrative operations, and thorough cost reductions. The company also started mid-to-long term measures such as the reorganization of unprofitable business units, re-examination of transactions, and improvement of deficit-ridden affiliates. The company worked on these measures intensively until March 1977.

Strengthening of Credit Control

At Sumitomo Shoji Kaisha, bad debts had been at a relatively low level, and the company's sound business was admired. However, the prolonged recession led to the bankruptcy of customers, which in turn caused a gradual increase in bad debts after 1974. As a result, the total amounts of bad debts and bad debt losses rose to a record high starting in fiscal 1975. To address this situation, the customer credit control system at each business division was strengthened. The Credit & Research Department—which undertook the analysis and investigation of high risk industries and companies, such as industries suffering from a structural recession, as well as the planning of countermeasures—was established to enhance the credit analysis and the control function of the Credit & Controlling Division. It also incorporated the Legal Department of the General Affairs Division to deal with matters of law related to credit analysis and control.

Section 7

Promotion of Overseas Activities after the Oil Shock

Growth of Middle East and Communist Bloc Markets

While the trade business after the oil shock was sluggish overall and generally levelled off, great attention was being paid to the fast growing Middle East and communist bloc markets.

Against a backdrop of significantly increased foreign currency revenue generated by the skyrocketing oil price, oil-producing nations in the Middle East were purchasing various materials and equipment necessary for their economic development and moving forward with development projects. Sumitomo Shoji Kaisha's exports to the Middle East increased rapidly by 2.8 times in 1974 and 6.5 times in 1975 compared with 1973. The region's share in the company's total exports grew to be as large as that of exports to the United States and Southeast Asian markets. Exports to Iran and Iraq were particularly high, which included tubular products, steel products, equipment and plants, automobiles, and construction machinery. Imports from the Middle East also increased particularly for fuels, with those in 1976 surging about 23 times compared to 1973 and continuing to increase in 1977 and onward. In the meantime, the network of the company's offices in the region also expanded, with the number of offices increasing from 9 to 16 and the number of rotating staff and national staff increasing from 34 and 53 to 66 and 114, respectively, during four years between 1973 and 1977.

The company's trade business with the communist bloc, especially China and the USSR, also expanded after the merger with Sogo Boeki in 1970. The bloc grew to be as large a market as the United States or Southeast Asia for the company. The trade became more brisk after the oil shock, expanding three times for the USSR and two times for China in 1976 compared with 1973. The company's share in exports to the communist bloc as a whole was among the highest of integrated trading companies. Major transactions with the USSR included the export of tubular products and various types of plants and the import of textile products, chemicals, coal, cotton, wood, and cotton seeds. Those with China included the export of tubular products (for which the company held an overwhelming share), petrochemical plants, agricultural chemicals, and synthetic fiber materials, as well as the import of soybeans and crude oil and the intermediary trade of U.S. cotton.

Overseas Investments

Sumitomo Shoji Kaisha's overseas investments after the oil shock were primarily made to establish manufacturing and sales bases abroad. This move aligned with the trend of Japanese companies expanding into locations close to consumption to mitigate trade frictions. In resource development investments, there were a number of successive cases in which the company had to withdraw halfway through or cancel projects, or in which mines were closed due to increased development costs and decreased demand for materials in the related industries. On the other hand, because of a growing movement among resource-rich countries to use their resources to drive economic development, there was an increase in the number of projects requiring the company to invest not only in resource development but also in comprehensive support for the country. As a result, it became standard to get involved from the mining research and exploration stage in all projects. Since control over oil development was transferred to another Sumitomo Group company in 1973, the main focus of Sumitomo Shoji Kaisha's resource business was placed on natural gas. The company invested in two national projects in East Kalimantan, Indonesia, and in Yakutia, the USSR, in 1974.

Technology-related Business

At Sumitomo Shoji Kaisha, technology was initially introduced separately by the departments in charge at each business division such as the Machinery & Electrical Division. However, as the need arose to centrally and cross-functionally manage technological information, relevant departments of the Project Development Division and the Machinery & Electrical Division were integrated to establish the Technical Development Department in 1973. It responded to the new needs emerging along with socio-economic changes in the 1970s and expanded its areas of activities from pollution prevention, environmental improvement, labor saving (rationalization) to energy conservation and alternative energy. The department also made great achievements in the expansion of business by actively acquiring import agency rights as well as sole sales agency rights of products sales domestically produced under the technology. As Japanese technology advanced, technology exports from Japan gradually increased, so in parallel with introducing technologies, Sumitomo Shoji Kaisha also engaged in exporting advanced technologies developed by Sumitomo Group manufacturers.

The Sumitomo Project in Asahan, Indonesia

After the oil shock, Japan's smelting industry faced a difficult business environment where companies were struggling with increased production costs caused by resource price hikes and rising electricity costs as well as declining international competitiveness due to the appreciation of the yen. Under these circumstances, this project was launched in 1975 as a joint national project between a consortium comprising five Japanese aluminum smelting companies, seven Japanese integrated trading companies and the Overseas Economic Cooperation Fund (currently Japan Bank for International Cooperation) on one side and the Indonesian government on the other. Its aim was to utilize abundant water resources from Lake Toba in North Sumatra to generate hydroelectric power and smelt aluminum. Five Japanese smelters took part in the project as operators. Because Sumitomo Chemical Industry was designated as the sponsor of the joint venture and Sumitomo Shoji Kaisha served as the contact trading company of the consortium, the project was called the "Sumitomo Project." Sumitomo Shoji Kaisha set up an office in Medan in 1972 while the project was still in the planning stage, and from then on, made all-out efforts to achieve the project's goals. The project lasted for 30 years until the joint venture contract was dissolved in December 2013. The stocks held by the Japanese side were transferred to the Indonesian government, placing the project under state control.

Section 8

Quality Enhancement of Integrated Trading Company Functions

Setting of the Goal of "Big Three and Best One" (July 1977)

As the recession following the first oil shock lingered, it became difficult to obtain the benefits of scale economy, which is based on the concept that a larger scale of sales leads to greater profitability and productivity. In this difficult business environment, Executive Vice President Mitsuo Uemura took over the office of president following Shibayama in June 1977. In the General Managers' Meeting held in July that year, new President Uemura made speech where he set the new goal of becoming the "Big Three and Best One," aiming at a both quantitative and qualitative development for further expansion. "Best One" meant increasing the net worth (total of net assets and provisions) per employee to the highest among integrated trading companies. President Uemura said that, while becoming one of the "Big Three" was the most important and indispensable criterion for becoming the "Best One," the quantitative pursuit to secure and expand profits must be balanced with enhanced quality. He stated that the aim was to join the "Big Three" in the process of achieving the "Best One."

President Uemura

Adoption of English Company Name "Sumitomo Corporation"

Sumitomo Corporation (SC) had been using the name "Sumitomo Shoji Kaisha, Ltd." overseas as its English name since 1952. It was decided to use the name "Sumitomo Corporation" starting in July 1978, on condition that it would be added as a proviso of the former name "Sumitomo Shoji Kaisha, Ltd." for the time being. The new name heightened the company's international appeal and enhanced its external credibility and corporate image. At the same time, by changing its name in English, the company renewed its determination to actively contribute to maintaining and increasing the honor and integrity of the Sumitomo Group in the world without adversely affecting the business of the other companies of the group.

Enhancement of the Integrated Corporate Strength

As the Japanese economy faced a turning point in the late 1970s and the industrial structure was undergoing transformation, the tendency among manufacturers to shift away from their reliance on trading companies became apparent as part of their efforts to thoroughly streamline their management for survival. President Uemura saw this tendency as an issue to address. To increase the company's significance in Japan and abroad, he stressed the need for the company to execute a wider range of roles as an organizer, willingly accept increasing transaction risks, anticipate and develop technologies that would meet new social needs, develop new products, create other functions as an integrated trading company, and work on reforms. Particularly in the field of trade, the business became extremely technical and complicated due to such trends as increased diversity and specialization of markets; expanded, complex transactions requiring counter purchases; a shift from simple transaction to turnkey handovers; a greater number of orders for systems incorporating software, rather than orders for only hardware; and growing scale of projects that involved collaborations with equipment manufacturers and engineering companies for the design and construction of plants. In addition, the range of transaction risks increased to include risks from fluctuations in commodity market prices, foreign currency exchange rates, and freight rates; risks of local construction works; and country risks. To deal with all these trends, there was a need for the business divisions, corporate administrative divisions, and overseas offices to unite their collective efforts. To meet this need, the Business Promotion Center was established within the Planning & Coordination Division in July 1977 as an organization in charge of mobilizing integrated corporate strength. The center conducted a wide spectrum of activities to quickly respond to needs within and outside the company. It particularly focused on expanding imports of specific commodities from specific regions, promoting intermediary trade, and playing the central function in projects involving counter purchases, economic cooperation projects, and large-scale projects.

Section 9

Strengthening Management Structure

Pursuit of Greater Efficiency

TQC campaigns were conducted twice in 1970 and 1975 to increase the efficiency of management and rationalize office work. While these campaigns produced results to a certain extent, SC needed to pursue greater efficiency in response to the prolonged and increasingly severe recession.

In July 1977, the Business Efficiency Promotion Center was established within the Planning & Coordination Division as a permanent unit in charge of increasing efficiency across the company. In addition to planning and promoting measures to upgrade productivity and operational efficiency, the center also served as the secretariat for executing emergency performance improvement measures and led a campaign to rationalize and reduce expenses throughout the company. In December of the same year, a cross-organizational task force was launched for bringing together their collective wisdom to think of ways that SC could grow its business. This group of about 470 middle managers discussed issues identified in a survey conducted by the Business Efficiency Promotion Center on fellow employees at different levels, and summarized their ideas into about 100 recommendations and proposals. The main points of these recommendations and proposals were 1) reaffirmation of Sumitomo's Business Philosophy, 2) aggressive business activity based on integrated corporate strength, and 3) active adaptation to the changing industrial structure. The group proposed that the organization, personnel management, and operations of the company be reviewed totally to update them to meet future needs. Other efforts to enhance efficiency included the abolishment and consolidation of sales departments/sections of divisions affected by the prolonged recession in 1977 and 1978. The total workforce was also downsized by about 400 personnel, reducing the number from 6,343 to 5,950, during two years starting at the end of September 1977.

Constitutional Reform of Affiliates and Streamlining of Overseas Investments and Projects

In September 1978, the Investment & Affiliates Controlling Department was established within the Planning & Coordination Division. Establishing the department gave the company the ability to review its investments to enhance their efficiency both in Japan and overseas, prevent investments from turning into unprofitable assets, accelerate the improvement and streamlining of the company's business structure, and encourage active and strategic investment operations across the SC Group.

The company urgently re-examined and took measures to improve the financial health of its affiliates that had been losing profitability due to the drastically changed business environment following the first oil shock. These measures helped the affiliates achieve constitutional improvements to a large extent in Japan. As a result, the company was able to stop further financial loss and prevent the increasing burden of interest payments on funds financed for the affiliates to ensure high, stable profitability.

In the meantime, overseas investments became sluggish overall due to political unrest in developing countries and movements among their governments to take over foreign companies as well as to the decline in corporate strength during the prolonged global recession. The company executed measures to drastically improve projects that were unprofitable or those for which future prospects were deteriorating in the rapidly changing business environment, and reorganized or withdrew from projects that still failed to yield sufficient results.

Section 10

Shift in Policy from Streamlining to Aggressively Expanding Business

From a Contracting Equilibrium to an Expanding Equilibrium

President Uemura had been devoted to streamlining management to cope with the company's sluggish performance since his appointment to the presidency in 1977. However, he became aware of the limitations because it was difficult to absorb increasing costs under diminishing measures. Furthermore, business division personnel were burdened with backward work and had to maintain strict credit control for transactions, possibly leading to a loss of morale. So, when the economy showed signs of recovery in the second half of 1978, he decided that the time was right to shift the company's policy from a diminishing equilibrium to an expanding equilibrium. At the New Year's Address in 1979, he said, "The world market is expanding despite the unfavorable economic environment. As long as there is a gap (imbalance) between supply and demand across different regions, new business opportunities will continue to appear. Therefore, uncovering demands is a possibility," making public his reconsideration of the traditional risk-averse stance and his decision to shift to a proactive expansion while flexibly addressing risks.

For this proactive expansion policy, discussions were already underway by a committee established in November 1978 to examine ways that the company could achieve development in a low economic growth environment. The discussions were on how the company could give more specific shape to the aggressive policy and measures recommended by the Task Force launched in the previous year. The committee headed by Vice President Tadashi Ito identified internal issues and hindrances to the company's growth and discussed a comprehensive range of measures to help the company grow its business. As a result, the committee decided to focus its discussions on the theme of the ideal organization and authority allocation that could maximize the company's business capabilities. It compiled and submitted a proposal to the president. The proposal became the basis of the organizational restructuring that was to be introduced in June 1979.

The Adoption of Business Groups System (June 1979)

When President Uemura announced the company's shift in policy to aggressive expansion at the beginning of 1979, he also expressed his intention to drastically change the company's organization and personnel management. The Business Groups system introduced in June of the same year represented a break away from Sumitomo's traditional centralized management. It was a shift to an aggressive approach, and it announced the company's intent to willingly take transaction risks. This was the company's first reform of its business structure in 17 years since the introduction of product divisions system in December 1962.

Under the new structure, the 13 business divisions in Tokyo and Osaka were consolidated into four Business Groups, namely Iron & Steel, Machinery & Electric, Non-Ferrous Metals & Chemicals & Fuel, and Living-Related Groups. Each group was under the supervision of a General Manager, to whom the authority necessary for the smooth and agile operations of each group was delegated, including credit and transaction screening and personnel management.

The fundamental purpose of this organizational reform was to decentralize power, mainly by delegating a significant portion of the president's authority to the GM of each business group. This decentralization allowed the sales force to concentrate their energy on external activities and amplify their strengths and competitiveness. Almost all daily deals were allowed to be closed only upon receiving the GM's approval, making it possible for the business force to respond to opportunities in a timely manner by making decisions quickly.

Another practical advantage of the Business Groups system was that it gave the president more time to meet people and actively engage in business associations and other external activities. President Uemura was appointed as a Vice Chairman of the Japan Foreign Trade Council in May of the same year, which raised the company's presence in the trading industry.

New Guiding Principle for the 1980s: Open Eyes on All

At the end of the General Managers' Meeting held in July 1979 immediately after the Business Groups system was introduced, President Uemura presented the core idea of what the company needed to do to advance considerably in the 1980s. SC was to celebrate its 60th anniversary in December that year. The 10 years after the 50th anniversary had been a turbulent, difficult decade. During this decade, while sales remained fifth in the industry, the company was able to solidify its foundation for future growth and retain an advantage in terms of management efficiency, with its performance indicating that it was closing in on the first and second places.

However, at the same time, the company was facing a big hurdle that prevented it from taking the next step. The hurdle seemed to be that it was still fixed on outdated ideas. Was it overly reliant on being part of the Sumitomo Group, thereby becoming complacent? Was it overcautious in avoiding transaction risks? Was its low share of trade attributable to the company's corporate culture rather than because it was the last entrant into trading business? To survive the new era, it was essential to break away from outdated ideas and think flexibly with fresh ideas to swiftly respond to and address the ever-changing, turbulent world situation. Integrated trading companies in particular needed to use all their capacity to watch every market, product, transaction, and project trend and stay alert to any occurrences and changes taking place at any given time.

At the beginning of 1980, President Uemura expressed his basic stance that integrated trading companies needed to take in the following two ideas: "Everything and all matters are important" and "Making full efforts." He then went on to announce a new slogan incorporating this idea and simply expressing what was necessary for SC to make further strides in the 1980s—which was "Open Eyes on All."

The time coincided with rapidly changing international circumstances following the Iranian Revolution in the previous year. This raised the need for the company, under the new slogan, to collect a broad range of information not only on the economy and industry of the country, but also on its politics, diplomacy, and military affairs to analyze the risk and assess the situation. In March 1980, the Intelligence Center was established as part of the company's system to ensure timely and appropriate responses to changes around the world. The center collected, analyzed, selected, and processed information, and promptly and accurately provided the intelligence to the top management and relevant divisions. At around the same time in April 1980, Sumitomo Corporation of America opened the Washington, D.C. Office to quickly detect any movements in global politics and economics, U.S. policies, and oil-producing countries.

Expansion of Business and Equity Capital

Since setting out the "Big Three and Best One" as its goal in 1977, SC had worked to streamline management; reviewed affiliates, investments, and large-scale projects; improved the management of receivables and products; and powerfully executed other measures to enhance management efficiency. Then, as the company shifted its policy to focus on proactive expansion at a time when the Japanese economy recovered due to increased domestic demand and exports, the company's business showed significant growth starting in 1979. Net sales in 1979 increased by 30% year-on-year, in 1980 by 27%, and in 1981 by 14%, to exceed the long-sought target of 10 trillion yen. Earnings-wise, results recorded a substantial increase. After net income increased by 31% year-on-year in 1979 to exceed the 10 billion yen mark, it continued to climb up to 11.2 billion yen in 1980, 15.6 billion yen in 1981, and 17.2 billion yen in 1982.

With regards to the capitalization of the company, although the capital stock had remained unchanged at 15.7 billion yen for a while since capital increase in 1973, the company decided to add to its equity capital base against the backdrop of quantitative and qualitative improvement of its financial performance starting in 1980, in order to further reinforce its corporate strength. In July 1980, SC carried out a significant capital increase for the first time in seven years and issued 180 million new stocks, raising its capital by 58% to 24.8 billion yen. The company further increased its capital in 1981 and 1982, bringing the total amount of equity capital raised by the company to 30.8 billion yen.

Growth of Overseas Investments and Response to Country Risks

The strong yen after late 1978 led to the revitalization of overseas investments, which had been in a slump. In developed countries, as the export environment deteriorated due to such problems as intensifying trade frictions, investments associated with the development of local sales networks expanded, mainly in the steel, machinery, automobile, and electronics industries. In developing and oil-producing countries, prospective investments were screened and analyzed very carefully out of concern for country risks, which were given much attention after the Iranian Revolution. However, investments in manufacturing and processing businesses aimed at technological transfers that could contribute to the economic development of the countries, as well as investments in resources development, became brisk.

Section 11

Response to Economic and Industrial Paradigm Shift

Innovation of Integrated Corporate Strength

In January 1983, in his last New Year address, President Uemura explained the company's basic stance to navigate through the immense structural transformation in process.

Amid technological and industrial revolutions taking place in Japan and elsewhere, manufacturers were striving to advance process innovation and product innovation. Process innovation in the manufacturing industry was, according to the president, management innovation for integrated trading companies. "Management innovation" meant productivity enhancements and cost reduction. The "software" needed for management innovation was efficiency improvements and integrated corporate strength. At SC, efficiency improvements were ensured by observing various regulations and operational guidelines developed to raise management efficiency. Integrated corporate strength was generated by combining various types of capabilities, such as information sensitivity, responsiveness, judgement, foresight, creativity, flexibility, decisiveness, capacity for action, leadership, and organizational strength. It referred to a collective wisdom that could develop as many new functions as wanted. This was where the value of integrated trading companies was lying.

President Uemura said that "product innovation" meant the development of new business and new markets. This development process would entail some risks. However, these risks were, according to the president, comparable to research and development costs in the manufacturing industry and would lay the foundation for further growth in the future. SC had been focusing on efficiency and was cautious about the use of funds, but he made the point that funds needed to be used more actively to build sources of future profit.

In line with these policies expressed in the president's address, organizations were set up in each division to plan and develop innovative measures required for developing new business and new markets, upgrading and diversifying transactions, and otherwise encouraging SC's future growth.

"Period of winter" for Sogo Shosha (Integrated Trading Companies)

After the second oil shock in 1979, the industrial structure changed from one based on industries consuming large amounts of energy and resources to one based on energy- and resource-saving industries. It also changed from centering around basic and materials industries to centering around assembly and processing, value-added, and knowledge-intensive industries. These changes, called the "Third Industrial Revolution," progressed rapidly. As the structural shift advanced along with the development of innovations intended to increase productivity and reduce costs under the persistent recession, many basic and materials industries fell into a slump. In the meantime, Sogo Shosha generally slipped into a state of low growth and profitability. The mass media pointed out that integrated trading companies which had been relying heavily on materials industries since the high economic growth period were facing a significant turning point, as they were unable to keep up with the increasingly complex industrial structure. The mass media called this situation a "period of winter" for Sogo Shosha.

Expansion into Advanced Industrial Sectors

Electronics

SC was handling integrated circuits from early on as an agent of U.S. company Texas Instruments. They grew into a major product of a sales affiliate of the Machinery & Electric Group. SC also had sole import agency for very large-scale integration (VLSI) production equipment from U.S. company GCA, and acquired a high market share ahead of other leading trading companies.

Biotechnology

A company-wide project team was launched in February 1981 to examine how the company could enter and cultivate opportunities in the biotechnology market and other matters to explore ways to approach the market as an integrated trading company. As part of these company efforts, joint business with Yamasa Corporation was launched in 1982. The venture undertook a commission to break down and examine lymphocytes in the blood, which are crucial for immune system function. It also aimed to sell materials for gene synthesis.
A partnership was also formed with Celltech, Britain's first biotechnology firm. It involved importing and selling the firm's antibodies for the purification of interferon and other products. It would also introduce the firm's technology and mediate research and production contracts between the firm and Japanese companies.

New materials

A project team was launched centering around the Non-Ferrous Metals Division in December 1982. It chose 10 types of materials to focus on sales from among a wide range of electronic materials and new materials. The selections included shape memory alloys, fine ceramics, and fiber-reinforced metals. Then, the Non-Ferrous New Materials & Semi-Products Department was established within the division in July 1983 to start full-scale sales activities.

Information and communications:

A company-wide project team was set up in April 1983 to discuss how the company could embark on the community antenna television (CATV) business, which was attracting attention as a type of new media with the greatest potential. The team also planned a strategy for commercialization of the business. The achievements of the team's activities were taken over by the Information & Communication Systems Planning Department established within the Machinery & Electric Group in November the same year. The department developed into the Media Business Division in February 1988.

Section 12

Reformation of Profit-making Structure

Achievement of the "Big Three and Best One" Goal

In June 1983, Executive Vice President Tadashi Ito was appointed as the new president, with the former President Uemura becoming chairman. During President Uemura's tenure, the company's net sales almost doubled, increasing from 5.8 trillion yen in 1976, immediately before his appointment, to 11.3 trillion yen. This demonstrated the achievement of rapid growth at a pace exceeding that of leading trading companies. SC's overall net sales remained at fifth place in the industry during those years. However, export sales were ranked second, up from fifth, in 1981, and domestic sales were also ranked second, up from third, in 1982. This placed the company in the top three integrated trading companies, like Itochu and Marubeni. The increase of the net worth (total of net assets and provisions) per employee was a criterion for achieving the Best One goal. In this indicator, SC was ranked third in 1980 and second in 1981. It closed the gap with the top player in 1982, which made attaining the goal only a matter of time. Furthermore, net worth per stock, an indicator used to evaluate companies that shows the level of their internal net worth accumulation, also continued to be ranked first except in fiscal 1980. Earnings per stock were higher than those of other companies by a large margin, demonstrating that SC was in an advantageous position in terms of both stock and flow. Consequently, the "Big Three and Best One" goal, which was set out in July 1977, was achieved.

"Set your sights on what would be ideal, and try to get one step ahead of reality"

The first General Managers' Meeting after President Ito's appointment was held in September 1983, with a theme of "Think about the medium-term future of Sumitomo Corporation." Referring to increasingly complex and diversifying needs; the shift to knowledge-intensive industries; and the emerging new industrial revolution that took advantage of telecommunications, electronics, biotechnology, and other technological innovations, President Ito stressed the importance of not only maintaining and expanding the existing framework of products, transactions, and markets, but also further exploring and expanding their possibilities in every direction, even going out of the framework in the medium-term to pursue new products, services, markets, businesses, and functions. He also quoted the words of Teigo Iba, the second Director-General of Sumitomo: "While placing importance on reality, do not let it possess you; rather, set your sights on what would be ideal, and try to get one step ahead of reality." By mentioning these words, he pointed out the importance of timing when starting new businesses, as the business will face difficulty if the timing is too early and will be meaningless if the timing is too late. The new president said that Director-General Iba's attitude must be observed when working on new businesses.

President Ito

Searching for Growth at a Turning Point

At the General Managers' Meeting in September 1984, President Ito pointed out the fact that the company had been able to maintain high earnings for the past few years during the "period of winter" for integrated trading companies simply because exports of a few certain products and to a few certain markets, such as exports of tubular products and exports of automobiles and construction machinery to the Middle East, had been profitable. However, the situation drastically changed in around 1982. For instance, a global decline in demand for oil and falling crude oil prices led to the reduction of the company's tubular product exports by half, which meant the loss of a primary source of revenue for the company. The company needed to create new sources of revenue, which should be multiple in number, if not large in scale, in each division. This could not be achieved unless the existing traditional businesses remained profitable enough to support the company's advance into new businesses, at least until they started to yield earnings. Therefore, the president stressed, efforts had to be directed toward the innovation of existing transactions. For an integrated trading company like SC to gain further recognition as indispensable for society and to significantly advance and expand its business, it was crucial for the company to enhance its individual functions in line with the changing needs of customers and to build mutually beneficial "give and take" relationships with customers. Toward this end, the president emphasized the need to bring together the collective wisdom and effort of all integrated trading company functions.

1970–1984

Part. 2 GLOBAL NETWORK

Evolution of the Global Network

● **Expansion of the office network**

61 locations (March 1970) ⇒ 84 (March 1975) ⇒ 92 (March 1980) ⇒ 102 (March 1985)

● **Integrated regional operations**

- 1971 - 1978 Area Manager (Supporting communications and making adjustments within a region) Europe, Oceania, Canada, US, Brazil & La Plata, Andes
- 1974- General Manager (Supervises and manages regional offices) Europe, Southeast Asia

● **Advancements made toward more independent and localized offices**

- Self-supporting representative offices (local corporations, Sumitomo Shoji branch offices)
- Increased capital for existing local corporation, promoting intermediary trade

● **Expanding bases in emerging markets**

Middle East: After the second oil crisis, it developed into the largest export market in the world, surpassing the United States. As a result of regional hub strengthening efforts, the network had expanded to 19 offices in 14 countries by 1983, with a team of over 300, including 96 dispatch employees and 212 local staff, a 60% increase since 1979.

China: After adopting a policy of decentralization in 1978, we set up our Beijing Office in 1979 to handle diversified trade. Since then, we have been dispatching staff to various regions long-term and gradually shifting to a resident officer system.

Europe

△Berlin (Dec. 1970) / △Lisbon (Mar. 1971) / △Warsaw (Aug. 1971) /
△Rome (Oct. 1972) / △Bucharest (Feb. 1973) / ◎Sumitomo Shoji Benelux (Apr. 1973) /
△Budapest (Nov. 1973) / △Prague (Nov. 1973) / △Sofia (Nov. 1973) /
△Beograd (Jan. 1974) / △Oslo (Mar. 1974) / ◎Sumitomo Shoji Europe Rotterdam (Dec. 1975) /
◎Sumitomo France (Feb. 1976) / ◎Sumitomo Shoji Italy (Jul. 1977) /
◎Sumitomo Shoji Greece (Jan. 1978) / ◯London (Aug. 1979) / ▼Rome (Aug. 1979) /
◎SC Spain Madrid • Barcelona (Feb. 1983) / ▼Lucerne (Apr. 1983)

Middle East

△Beirut (Apr. 1970) / ◎Sumitomo Shoji Iran (Apr. 1971) /
△Jeddah (Apr. 1971) / △Tripoli (Reopened Jun. 1972) /
△Istanbul (Dec. 1974) / △Riyadh (Jun. 1975) /
△Alkhobar (Nov. 1975) / △Sana'a (May 1979) /
△Bahrain (Sep. 1980) / ◎SC Middle East (Bahrain) (May 1983) /
△Khartoum (Nov. 1983)

Africa

△Lagos (Jan. 1970) / △Tananarive (Feb. 1972) /
▼Algiers (Feb. 1972) / △Lusaka (Jan. 1973) /
△Addis Ababa (Oct.1973) /
△Algiers (Reopened Feb. 1974) /
△Lourenço Marques (Nov. 1975) / △Abidjan (Apr. 1976) /
△Rabat (Feb. 1976) ⇒ Relocated to Casablanca (Sep. 1976) /
★Lourenço Marques ⇒ Maputo (Jul. 1976) /
△Tunis (Aug. 1977) / ▼Tunis (May 1978) /
△Luanda (Jun. 1978) / ◯Johannesburg (Aug. 1979) /
△Dar es Salaam (Oct. 1979) / ▼Addis Ababa (Feb. 1980) /
★Salisbury ⇒ Harare (May 1982) /
★Tananarive ⇒ Antanànarivo (Jan. 1984)

East Asia

△Busan (Jan. 1977) / ◯Seoul • Busan (Aug. 1979) /
◯Taipei • Kaohsiung (Aug. 1979) /
◯Hong Kong (Aug. 1979) / △Beijing (Aug. 1979) /
△Shanghai • △Guangzhou • △Dalian •
△Tianjin (Dec. 1980) /
◎SC Hong Kong • Shenzhen (Oct. 1984) /

Southeast / Southwest Asia

△Medan (Jul. 1972) / △Sandakan (Oct. 1972) /
△Islamabad (Jan. 1973) / △Surabaya (Oct. 1973) / △Goa (Apr. 1974) /
◎Sumi-Thai International (Sep. 1974) / ▼Davao (Mar. 1978) /
▼Phnom Penh (Jul. 1978) / ▼Bandung ▼Medan ▼Surabaya (Feb. 1979) /
▼Saigon (May 1979) / ◯Singapore • ◯Kuala Lumpur • ◯Manila (Aug. 1979) /
△Kota Kinabalu (Apr. 1981) / △Sibu (Jan. 1982) / △Kuching (Sep. 1983) /

Oceania

△Nouméa (Oct. 1972) / △Auckland (Dec. 1972) /
△Port Moresby (Sep. 1973) /
◎Sumitomo Shoji Australia (Four offices in Australia and Port Moresby office integrated) (Sep. 1978) /
▼Nouméa (Sep. 1978)

Network Status

- △ Sumitomo Shoji liaison office
- ◯ Sumitomo Shoji branch
- ◎ Sumitomo Shoji subsidiary
- ★ Change of name
- ▼ Closed

North America

Oct. 1973 ◎Sumitomo Shoji Americas (SSAI : Nine offices in the US integrated) /
△Seattle (Dec. 1970) / △Dallas (Reopened Mar. 1971) / ◎Sumitomo Shoji Mexico (Apr. 1971) /
△Detroit (Apr. 1972) / △Calgar (Jun. 1972) / ◎SSAI Pittsburgh (Dec. 1976) /
◎SSAI Fresno (Feb. 1978) / ◎Sumitomo Shoji Canada (Four offices in Canada integrated) (Jul. 1978) /
◎SCOA Denver (Apr. 1979) / ◎SCOA Washington (Apr. 1980) /
◎SC Mexico Monterrey (Jul. 1982) /

Central & South America

◎Sumitomo Shoji Argentina (Sep. 1970) /
◎Sumitomo Shoji Brazil São Paulo • Rio de Janeiro • Recife (Oct. 1970) /
◎Sumitomo Shoji Panama (May 1972) / △Lima (Reopened Sep. 1972) /
△Porto Alegre (Jan. 1973) / △Guatemala (Jun. 1974) /
△Port of Spain △Havana (Jun. 1974) / △San José (Jan. 1976) /
△Novo Hamburgo (Dec. 1976) / △Santa Cruz (Mar. 1977) /
◎SC Brazil Porto Alegre • Novo Hamburgo (Oct. 1978) /
◎SC Venezuela (Oct. 1978) / ◯Port of Spain (Apr. 1980) /
◎SC Ecuador (Jul. 1980) / ▼Santa Cruz (Aug. 1980) /

Chapter.

4

Establishment of Foundations for Integrated Business Enterprise

1985–2000

Part 1
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Section 1

Challenge for Change

Part.
1
CORPORATE HISTORY

Global Trend of Privatization and Deregulation

From the late 1970s to early 1980s, neoliberal economic policies, represented by Thatcherism in the UK and Reaganomics in the U.S., emerged to lead economic revitalization strategies, such as privatizing public corporations and relaxing regulations, and were successful to a certain extent. In Japan, Nippon Telegraph and Telephone Public Corporation, Japan Tobacco and Salt Public Corporation, and Japanese National Railways were privatized in the 1980s. Moreover, deregulation programs were promoted in various sectors, including financial services and information and communications, which achieved telecommunications liberalization in April 1985.

Full-scale Entry into Financial Services Field

With the progress in economic liberalization and internationalization, the financial sector was also becoming liberalized. In 1980, the Foreign Exchange Act was revised in Japan to liberalize capital transactions in principle for various purposes, including overseas bond issuance. Taking advantage of this situation which allowed for global fund raising activities, Sumitomo Corporation (SC) started focusing on the efficient management of the group's surplus funds, including lending to related companies and customers.

In June 1985, SC amended the articles of incorporation to describe that its business scope expanded to include “money lending, debt guarantee, sale and purchase of claims, currency trading, holding/management/trading of securities, and other financial services.” Following that, it set up financial services firms in the Cayman Islands, Panama, the UK, and the Netherlands between 1985 and 1987 for the purpose of fund management, information collection, and data management, among others. In 1987, when regulations on commercial paper issuance were eased in Japan, the company began to use the means for obtaining funds to meet short-term obligations, in order to lower the cost of financing. Its financing activities were expanded by adopting various direct methods, such as the issuance of new stocks, specifically 80 million shares in 1989, convertible bonds, U.S. dollar-denominated bonds with subscription warrants, and public stock offerings. These activities were intended to prepare for meeting capital needs that were expected to grow to promote the Integrated Business Enterprise Vision, which will be discussed later.

C&C System Five-Year Plan (1986–1990)

In the early 1980s, business-use data processing devices were primarily introduced into large companies and quickly became widely used as essential tools for word processing and spreadsheet work, enhancing efficiency in clerical duties. At the same time, many companies installed communication network systems, mainly to expand overseas business activities.

At SC, as the volume of international communication rapidly increased, the development of the internal communication network system and the redevelopment of operational systems became pressing issues. In this context, the Computer & Communication Systems Division was set up within the Administrative Group in October 1984, six months before the telecommunications liberalization-related legislation went into effect. The division formulated a five-year plan for corporate-wide information network system development, according to which previous systems were overhauled and new systems were built in the following areas from 1986 to 1990:

- Divisional online system for trading and accounting
- Corporate-wide information sharing system
- Contact system for engaging in electronic data interchange (EDI) with customers
- Developing a new international communications system (SKYNET-90s)
- Redeveloping dedicated circuit networks between major offices inside and outside of Japan

Also, the Tokyo Head Office promoted office automation programs. In 1988, the office introduced 1,000 laptop computers to increase agility in data utilization, thereby facilitating efficient and effective business activities with group companies and customers.

*C&C: Computer and Communication

Otto-Sumisho, Inc. (established in September 1986)

Otto-Sumisho was an apparel catalog retailing joint venture established with Germany-based Otto GmbH & Co. in September 1986, two years before the Integrated Business Enterprise Vision was announced. Otto provided expertise on direct marketing and product development, while SC contributed principally to staffing, credit enhancement, logistics and information system development. Otto-Sumisho engaged in catalog retailing, which began to go online in the mid-1990s. In December 2007, SC sold its entire holdings to the partner to withdraw from the business, due to differences in future strategies.

Section 2

Announcement of the Integrated Business Enterprise Vision

Sharp Hike in the Yen Triggered by the Plaza Accord

While the world economy was facing inflation triggered by the 1979 second oil price shock and the ongoing global recession, the U.S. economy began to recover, led by Reaganomics policies that centered on major tax cuts and relaxed regulations. In this context, the Japanese economy was getting back on a recovery track through increasing exports of automobiles and high-tech products to the United States, aided by the yen's slide against the dollar. While Japan was running a soaring trade surplus with the United States, the U.S. economy suffered from growing twin deficits (budget and trade deficits). This would unavoidably add the nation to the list of net debtors, giving rise to concerns over a likely collapse of the dollar. To deal with this issue, a joint agreement was signed in September 1985 at the Plaza Hotel in New York City between Japan, the United States, the UK, West Germany, and France, to depreciate the U.S. dollar by jointly intervening in currency markets (the Plaza Accord). As an outcome, the value of the yen rose sharply against the U.S. dollar from 242 yen before the currency intervention to 160 yen around early July in the following year. This steep hike in the yen prompted Japan's industry to change its structure to pursue domestic demand-led growth rather than focusing only on export-oriented expansion as it had been previously.

1987: A Year to Focus on Business Concept Development to Win in Ten Years' Time

The stronger yen caused by the 1985 Plaza Accord, coupled with a decline in crude oil prices and a domestic recession, dealt a crippling blow to the performance of the integrated trading companies. Sales from the Fuel Division significantly declined, leading to a low gross profit, which was further diminished due to a gradual increase in SG&A expenses, resulting in a decrease in operating profit. All major integrated trading companies recorded a severe decline in sales and profit in fiscal 1986, causing a notable change in the industry's sales ranking. In face of this critical situation, they recognized the need for fundamental reform and began to create medium- to long-term management plans and visions focused on increasing profitability, trying to shift away from the previous sales-oriented policy.

Major Trading Companies (Non-Consolidated) Sales Ranking

	1st	2nd	3rd	4th	5th
1980	Mitsubishi	Mitsui	Itochu	Marubeni	SC
1981	Mitsubishi	Mitsui	Itochu	Marubeni	SC
1982	Mitsubishi	Mitsui	Itochu	Marubeni	SC
1983	Mitsubishi	Mitsui	Itochu	Marubeni	SC
1984	Mitsubishi	Mitsui	Itochu	Marubeni	SC
1985	Mitsubishi	Mitsui	Itochu	SC	Marubeni
1986	Itochu	SC	Marubeni	Mitsui	Mitsubishi
1987	Itochu	Mitsui	SC	Marubeni	Mitsubishi
1988	Itochu	Mitsui	SC	Marubeni	Mitsubishi
1989	Itochu	SC	Mitsui	Marubeni	Mitsubishi
1990	Itochu	SC	Mitsui	Marubeni	Mitsubishi

SC understood the grave significance of implementing reform in order to compete effectively against other integrated trading companies in the future. As such, President Ito, in his New Year's statement for 1987, declared that SC would commit to "developing a surefire corporate vision and strategies within the year" to win in ten years' time. In that year, in response to this declaration, discussions were conducted by each division and office to outline specific annual plans, and in-depth deliberations took place to explore future directions on multiple levels. Specifically, these discussions occurred in three new task forces, primarily consisting of younger employees, in March, at the General Managers' Meeting in September, and during the year-end executive officers' management session.

1988: Three Directions toward an Integrated Business Enterprise

After considering opinions and proposals submitted by these organizations at different levels as well as hearing from advisory bodies, at the beginning of 1988, President Ito presented three basic directions for SC to take that had undergone company-wide reviews.

1. Expanding investment activities

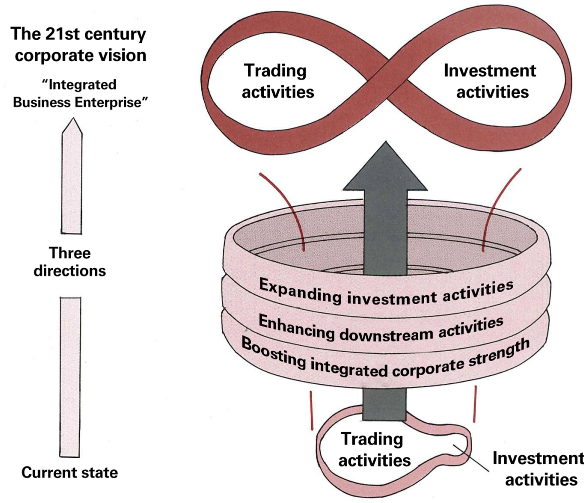
Identify promising investment opportunities which may not necessarily be related to trading activities, as well as participate in the business as a management entity, send personnel to manage and take the appropriate risks.

2. Enhancing downstream activities

Put greater focus on market and customer-oriented activities (note that the term "downstream" refers to "sales to end-users"), shifting away from the previous policy to focus only on supplier-oriented "upstream" activities.

3. Boosting integrated corporate strength

Deploy the company's management resources in a multilateral manner to invent new functions, demonstrating its integrated corporate strength more effectively to boost sales capabilities. In accordance with the three directions, a new corporate vision was created to pursue two-pronged business development centering on trading and investment activities. The new vision was announced as the "Integrated Business Enterprise Vision." This marked a major policy change for the company, as it began to break away from the conventional business model of trading companies, which typically focus solely on trading.



Three directions toward an Integrated Business Enterprise (conceptual illustration)

Initiatives to Promote Investment Activities in the Business Group

In June 1988, the Business Investment Division was set up within the Administrative Group. The new division's major role was to comprehensively support business divisions and offices inside and outside of Japan in undertaking new investment projects from the earliest stage, while taking over tasks from the Planning & Coordination Division that involve assisting with management for a supermarket chain (Summit), catalog retailing (Otto-Sumisho), and other businesses.

Also, a suite of institutional measures were implemented, chiefly to reduce overhead and other cost burdens of business divisions for planning and research as well as interest payments related to new investments. Also, personnel training was enhanced to develop business investment specialists. Additionally, the general manager's decision-making authority related to specific transactions was expanded to boost the role's performance in both areas of investment and trading.

Launch of Media Business Division

In the Integrated Business Enterprise Vision announced in 1988, considerable attention was given to the successful progress made in the preceding five years in developing new businesses in priority areas related to information and communications and new media, noting in particular that some of these businesses had grown to a divisional scale. Then, in February of the same year, the Media Business Division was established by consolidating and reorganizing several relevant departments from under the Machinery & Electrical Group. The new division became the first in the company to have a name excluding the term "products," in contrast to all previous divisions that were named based on the products they handled. In those days, the information and communications sector was entering a tumultuous period when deregulation and pro-competitive policies were promoted following telecommunications liberalization in 1985. Digitization-driven technological innovations and internet connection spread rapidly across the world, and global-scale industrial restructuring and M&A activities were expanding to involve the Japanese market. To help the new division effectively seize various opportunities emerging from the ongoing tumultuous changes, preferential steps were taken, such as placing it under the Administrative Group for the first five years. Overhead and other cost burdens were also alleviated to encourage upfront investment, and exempting it from responsibility for achieving divisional level performance goals, at least for its earliest terms. The division entered the satellite communications business in April 1991, and then grew into an independent, full-fledged business division in April 1993.

1989: A Year to Start Acting According to Three Directions

The creation of the Integrated Business Enterprise Vision was motivated by a sense of crisis regarding the possibility of survival based solely on past achievements. Seeking to avoid a potential crisis, the vision required a challenge for change. Several employees voiced concerns and questions over risks from venturing into the unfamiliar area, citing that it was incomparable with focusing on the long-established trading business with a proven track record. Therefore, in addition to implementing appropriate organizational and institutional measures, the key to the success of the Integrated Business Enterprise Vision lay in ensuring that the entire workforce shared an adequate understanding of its significance.

President Ito declared that 1989, the 70th year of the company's founding, would be the year to launch actions according to the three directions. In the same year, the Investor Relations Team was formed within the Treasury & Accounting Controlling Division to specialize in communicating with the media and investors. Also, from fiscal 1989, the company began to report earnings results both on a consolidated and non-consolidated basis simultaneously, publicly presenting its commitment to consolidated management policy, ahead of other companies.

Through all these efforts, investment activities were increased in the trading area. Not only serving as an intermediary agent, the company proactively participated in the management of suppliers and invested in distribution and marketing networks. As a result, around 50 SC group companies were launched in 1989.

Expanding Business Scale during the Bubble Economy Period

Japan's economy began to turn around at the end of 1986, supported by a stronger yen and lower crude oil prices, as well as the benefits of domestic demand-led growth, market-opening policies, and economic structural reform programs implemented in the period following the Plaza Accord. This situation was followed by the bubble economy, resulting from the government's domestic demand expansion policies. The company's domestic business made a turnaround in generally all divisions in fiscal 1987, generating notable growth in gross operating profit. The upturn in performance was solidified by a number of business segments, such as expanding imports on the back of the continued appreciation of the yen, a rise in domestic demand driven by a large-scale development project boom, and a recovery in export profitability. In fiscal 1989, consolidated net profit reached a record high of 50 billion yen. This robust performance was mainly attributed to the recovery in non-consolidated profits from the trading business. It also reflected smaller contributions from efforts to establish a solid earnings structure on a consolidated basis under the Integrated Business Enterprise Vision. These efforts had yet to yield adequate results and later became an issue during the challenging period following the collapse of the bubble economy.

Section 3

Progress of the Integrated Business Enterprise Vision

Deregulation Spurred by External Pressure

Japan had come under severe criticism from the United States, which was plagued by a large trade deficit that remained despite the Plaza Accord intervention. Europe voiced criticism as well, for the closed nature of the Japanese market, particularly non-tariff barriers, such as business affiliations and government approval/license systems. These opinions spurred Japan to accelerate its efforts toward domestic demand expansion and market opening. In 1989, the Japan-U.S. Structural Impediments Initiative was initiated. As a result, the Japanese government announced its commitment to make efforts to: 1) Improve the balance between savings and investments by implementing a total of 430 trillion yen worth of public investment plans over ten years; 2) Enforce tax reform to encourage land utilization; 3) Enforce distribution system reform, including reviewing the Large-scale Retail Stores Act; 4) Redress exclusive business practices by strengthening Antitrust Laws; 5) Rectify disparity between domestic and foreign prices.

In the meantime, deregulation programs launched in the 1980s made steady progress in various areas. However, Washington, unsatisfied, continued to pressure Tokyo to make additional efforts, leading to relevant topics being discussed in U.S.-Japan framework talks starting from 1993. Among major negotiation results were agreements signed to expand Japan's market-opening endeavor to areas related to intellectual property, government procurement, and financial services, among others. Within Japan, as part of economic recovery packages to address the post bubble recession, a string of deregulation bills were enacted for a total of 279 categories in the four areas of housing and land use; information and communications; import promotion and distribution; and finance, securities and insurance. While these deregulation initiatives provided business opportunities in many areas, regulations on quality and safety were tightened through new legislations including the Product Liability Act enforced in July 1995, which imposed heavier responsibility for the issue on manufacturers, processors, and importers.

Arrival of an Aging Society

Japanese society began to undergo rapid progress in population aging, coupled with drastic changes in the economic situation. The birthrate in Japan continued to decrease, the working-age population trended downward after peaking in 1996, and the national population was predicted to decline by 2010. Given this scenario, Japanese companies needed to develop appropriate growth strategies to tackle issues associated with a shrinking domestic market and labor shortages. The demographic change progressed at an ever-faster rate, making Japan an "aged society" as of 1994, with the percentage of the population aged 65 or above exceeding 14%. From 1990, a range of legislations for welfare services for the elderly were enacted, encouraging businesses to cast an eager eye to markets for the elderly as well as the medical and healthcare service sectors.

Businesses Pursued by Integrated Trading Companies

Around these years, integrated trading companies approached similar areas to develop new businesses. The representative areas are categorized into the following five groups:

1. Import of products (such as precious metals and jewelry, beverages, brand name clothing/luxury items, sports and leisure items), capitalizing on an expanding domestic demand driven by the strong yen and the booming stock market;

2. Investment in overseas manufacturing, taking advantage of the strong yen;

3. Up-front investments in new markets related to new telephone/telegraph, communications satellite (CS), CATV, and other services emerging in the wake of telecommunications liberalization in 1985;

4. Speculative fund management, a phenomenal industrial boom brought about by the liberalization of the financial market and bubble economy (trading companies took advantage of their high creditworthiness to issue warrant bonds, convertible bonds, commercial paper [CP], and other instruments to raise funds from domestic and overseas markets, and invested in large time deposits, corporate investment funds, and trust funds, as well as stock and foreign exchange dealings, which brought in enormous profits);

5. Urban/regional development project and real estate business, capitalizing on land prices that were continuing to rise, especially for sports and resort facilities such as golf courses and for cultural event halls, both leading targets during a construction boom fueled by an increase in individual income and leisure time.

Section 4

Development of a Consolidated Management Structure on a Global Basis

New President Akiyama: Committed to Developing Global Consolidated Management

In June 1990, Executive Vice President Tomiichi Akiyama was appointed as the new president, and the former President Ito became chairman. In his inaugural address, President Akiyama expressed his commitment to achieving the Integrated Business Enterprise Vision by upgrading trading functions and proactively developing the investment business in response to the trends of the times toward a borderless world led by rapidly globalizing economic activities. He also presented a key word to this objective—“INTEGRATION.” As he described it, to proactively develop the investment business, it was essential to enhance consolidated management. His major concern was that by continuing to pursue a decentralized management style to promote the independent growth and development of individual group companies, the group might be reduced to a mere mix of separate elements being brought together. Instead, SC should establish an integrated system that would allow collaboration between the Administrative Group and Business Group as well as close communication between each business division and group company, and make maximum use of the system to effectively demonstrate the SC Group’s integrated corporate strength. This was crucial to win in an intensely competitive market in the 1990s.

President Akiyama

Action Program to Promote Integrated Business Enterprise Plan

In 1991, President Akiyama announced a plan to formulate action programs to spur efforts toward achieving the Integrated Business Enterprise Vision. These programs aimed to break away from the former non-consolidated management style and newly establish consolidated management-oriented strategies for the “Greater Sumitomo Corporation” as well as applying the Integrated Business Enterprise concept to the management of business divisions and offices. In October 1991, action programs for organizational and institutional reform were implemented to enhance consolidated management systems. These programs were to serve two purposes: 1) Establishing a job rotation system to assign young personnel of the Administrative Group (Accounting, Transport, Credit) to the Business Group with the aim of facilitating systematic development of business investment specialists and right-person-in-the-right-place employment, and 2) Relocating branches of the Accounting and Transportation Divisions from under the Business Group to the Treasury & Accounting Controlling Division and the Transportation & Insurance Division under the Administrative Group.

The action programs for business divisions and offices were to set forth “Strategy 95,” a medium-term management plan describing basic strategies and related action plans to realize future visions set for fiscal 1995, five years ahead, as well as investment plans and profit estimates for those five years.

To present profit estimates, a rolling method was adopted to allow annual revision in response to possible changes in the environment, rather than fixing figures for five years, considering swiftly worsening business confidence around that time reflecting sharp falls in stock prices and a rapid decline in land prices.

Section 5

Response to the Borderless World Economy and Globalization

End of the Cold War and Start of a Borderless World Economy

In the Soviet Union, which had been weakened due to the arms race with the United States and invasion of Afghanistan, democratization policies were promoted under the leadership of the General Secretary of the Communist Party Mikhail Gorbachev, which were followed by withdrawal from Afghanistan in 1988 and an array of detente policies. This change in the leader of the Communist Bloc spurred democratization movements in East European countries, bringing about a cascading effect of collapsing communist governments. The world witnessed the dismantling of the Berlin Wall in November 1989, and the end of the Cold War declared at the U.S.-Soviet summit in December the same year. This trend continued, leading to the reunification of East and West Germany in 1990, and the Commonwealth of Independent States (CIS) formed by 12 nations, including the Russian Republic, replacing the Soviet Union after its demise in 1991. Meanwhile, reform and door-opening policies were promoted in China. Thus, the politically divided world order based on the Cold War was disappearing, and a borderless world market started taking its place. In response to this trend, Japan, which had acted as a Western ally in the past, began to reposition itself in the reshaped international order, and build strategies to compete in the emerging global market.

Response to Gulf Crisis

On August 2, 1990, shortly after President Akiyama took office, Iraqi troops invaded Kuwait, resulting in a months-long occupation of the country. Foreign residents, including about 270 Japanese, were taken as hostages and transferred to Iraq. Among those held hostage were a total of 10 persons affiliated with SC-representatives stationed in Kuwait and their family members. The company promptly set up an emergency task force to address the situation, in which a total of over 30 related persons, including employees assigned to the Baghdad Office and their family members, were trapped in Iraq. The task force worked diligently to rescue those caught in the crisis and enable their return to Japan, contacting the local office and government agencies to collect information, as well as exploring various other channels to identify potential approaches. Subsequently, some of the foreign civilians moved from Kuwait were detained at major military and industrial bases in Iraq to be used as "human shields," which included about 140 Japanese. This anti-humanitarian action provoked harsh condemnation against Iraq from the international community, prompting the United Nations and national governments to take action, which provided a boost to the efforts of the Japanese Diet members. As a result, hostages began to be released in late August, and were all freed by mid-December. Accordingly, all Japanese employees departed Iraq by that time. After this historical emergency case, the company ramped up its efforts for crisis management, particularly for the safety of employees.

Security Trade Control: from CoCom to Non-proliferation Regime

The Cold War ended following a series of historical events represented by the collapse of the Soviet Union in 1991, ushering in a new era of regional conflicts, which began to surface in many regions that were sliding out of control. The September 11 attacks in 2001 were particularly shocking as the perpetrator was a non-state entity, which sparked an international recognition of the need to refurbish the world security trade control regime. For the purpose of preventing the proliferation of weapons of mass destruction and excessive stockpiling of conventional weapons, the Coordinating Committee for Multilateral Export Controls (CoCom), a previous weapons embargo framework targeting a dozen communist countries in the Eastern Bloc, was out of date. Thus, it needed to be replaced by a new regime to expand the export control scope to all nations and all uses, in order to address new threats from terrorist groups, on top of state-based risks. In this context, the company enhanced its international trade control system before CoCom ceased to function. This started with the establishment of the internal CoCom Committee in September 1988. The body was responsible for ensuring that advance coordination was performed for all export items for Communist Bloc countries, in response to a request for stronger export control from the Ministry of International Trade and Industry (currently Ministry of Economy, Trade and Industry) following the CoCom violation case reported from Toshiba Machine Co., Ltd. in May 1987. In December 1988, shortly after the establishment of the committee, halon of military grade purity was detected in a shipment of products exported by SC to the Soviet Union. Following this breach case, the Trade & Security Policy Control Department was set up under the Planning & Coordination Division in July 1989. It strengthened the control system in order to ensure that the company would adequately fulfill its responsibilities as an exporter.

Enhancement of Regionally-led Overseas Business Development

Looking at the trend toward a borderless world driven by globalizing economic activities, President Akiyama noted the need to focus on promoting international and regional business activities, and self-sufficient local operations. In particular, he emphasized the importance of creating systems that would enable the company to take a leading role in developing a range of business processes, including logistics. He also described the importance of developing and promoting local recruitment in each region, as a key to the company's successful global development.

To address these issues, the Global Action Team was formed in 1994 to assume a key role in establishing a style that would allow each regional business base overseas to play a leading role in business development while increasing cooperation with the Business Group. The company also created a campaign slogan, "Global Mind, Global Reach," representing its pledge to refine and expand the application of the regionally-led management style. This approach was promoted by leveraging the global business network that connected the company's bases and its customers, fully mobilizing integrated corporate strength for human networking, information acquisition, financing, and other functions. In April 1995, the Global Human Resources Development Department was established to be responsible for comprehensively supporting the development and promotion of local hires in offices overseas.

Response to Regional Economic Blocs Formed around the World

In the early 1990s, regional economic blocs began to form around the world. Taking note of this trend, the company built systems to enable regionally-led business development by enhancing the functions of regional offices and inter-regional cooperation structures.

1) Giving priority to Asian markets

In the 1980s, Asian NIEs economies (South Korea, Taiwan, Hong Kong, Singapore) achieved high growth mainly by promoting added-profit trade. Following the NIEs, high economic growth was achieved in ASEAN countries and China, which were pressing ahead with reform and door-opening policies. Then, Asia began to host production bases of many Japanese manufacturers that were rapidly growing aided by the stronger yen that had continued since the Plaza Accord, and these Asian bases shipped products chiefly to Europe and the United States, creating robust intercontinental distribution demand. Additionally, the development of Asian economies brought about substantial local consumer markets.

In the early 1990s, the company reorganized offices in Taiwan, Singapore, and South Korea to obtain corporate status in each location. Also, in order to expand the personnel structure of offices in ASEAN, East China, and South China, the head office assigned an additional 30 business promoters to these locations. Furthermore, to help partner manufacturers with moving production operations to ASEAN countries, SC formed a special team to support Japanese companies' overseas expansion in the Planning & Coordination Division. The team worked together with offices in Thailand and other ASEAN countries, leading efforts to make effective use of the SC Group's integrated corporate strength.

2) Advancing regional management in Europe toward market integration

Following the reunification of East and West Germany in October 1990, an integrated market platform was initiated by 12 EC states in January 1993, marking a step toward monetary union. In response to this situation, the company reorganized the Berlin Office to be integrated into SC Germany in April 1991. This was a measure to establish a regionally-controlled management structure where representative offices within Europe were under the management of local corporate entities. In 1997, SC Europe Ltd. was established in London as a regional holding and controlling company, with the General Manager for Europe appointed to serve concurrently as chairman of the company. A centralized structure to manage eight existing local companies under one umbrella was thus established. Prior to the establishment of SC Europe, they started to implement initiatives to promote product-based cross-organizational management styles for a single, unified European market by applying the Europe product group system launched in 1996. They also pursued previous country and office-based operation styles. One key purpose of SC Europe was to enhance this cross-organizational system by enabling the centralized management of all existing organizations in Europe together with their management resources (personnel, capital). The goal was to prioritize resource allocation from region-wide perspectives and facilitate regionally-led business strategies.

3) Advancing regional management in the Americas

In the Americas, the company began to build a regional centralized management structure by establishing the position of General Manager for North America in October 1992, when the draft North American Free Trade Agreement (NAFTA) was established. The GM for North America represented the third establishment of a GM position, following those in Europe and Southeast Asia (abolished in 1983). The President and CEO of SCOA was appointed to concurrently serve the role, aiming to facilitate regionally centralized business development management. In January 1995, SCOA introduced a product group system to the entire U.S. business management, while pursuing the previous office-based management structure at the same time. In July the same year, SCOA started to apply the centralized management structure to the entire North America business, working with SC Canada. In Latin America, which attracted international attention as a growth area comparable to Asia, SC introduced an appropriate regional management structure. The President and CEO of SCOA was appointed to concurrently serve as GM for Latin America in addition to GM for North America in October 1993. The leader of the Americas exercised its authority to promote cooperation with SCOA's Business Group to spur efforts for market development in Latin America. At the same time, SC decided to reorganize representative offices into corporate entities in areas with high growth potential. All South American offices were chosen for this initiative, leading to the establishment of SC Chile in July 1992, SC Peru in August 1995, and SC Columbia in January 1996. In April 1997, the GM for North America, a role served concurrently by the President and CEO of SCOA, was renamed GM for the Americas. This created a structure for the control of all the offices located in the Americas, excluding Cuba, under its umbrella.

Section 6

Response to the Collapse of Bubble Economy and Severe Aftereffects

Redevelopment of Consolidated Earnings Structure

The collapse of the economic bubble in Japan, as it is generally accepted, started on January 4, 1990 when stock prices began to fall. This was followed by a continued drop in land prices from around mid-1991, leading to a condition referred to as a "burst." In 1992, the Japanese economy began to suffer from a long-term slump, which was later referred to as a "lost decade." The company achieved an all-time high of 50 billion yen in consolidated net profit in fiscal 1989. However, from the following year, the figure began to decline, reaching 20.5 billion yen in fiscal 1992. Major factors for the decreased net profit posted in fiscal 1992 were: (on a non-consolidated basis) a plunge in operating profit due to a decline in gross operating profit and a rise in SG&A, mainly personnel costs, as well as worsened financial account balance attributable to low interest rates and low stock prices; and (on a consolidated basis) an increase in deficit in businesses related to real estate, financial services, and leasing as a result of the bubble's burst, as well as the reduced profitability of some of the many group companies launched during the booming bubble economy, which were invested in for unspecified purposes.

In those days, the company was vigorously carrying out investment business expansion policies inside and outside of Japan, while also pursuing trading activities. The total profit on an equity method basis posted by group companies peaked in fiscal 1990 at 5.7 billion yen, and then turned downward to register 0.1 billion yen in fiscal 1992, barely avoiding a deficit. In order to continue implementing the large-scale up-front investment plans of the Business Group, it was imperative to redevelop business earnings capabilities as well as improve and strengthen the financial standing through depreciating non-performing assets and disposing of loss-making businesses. This challenge became a pressing management issue.

Creative Action Team (January 1993)

In January 1993, the Creative Action Team (CAT) was formed with the aim of strengthening and improving business earnings capabilities. With members selected from among executive officers, the CAT deliberated on issues related to invigorating business frontline forces and decentralization (delegation of authority). In October 1993, based on the proposals submitted by the CAT, a range of reform plans were carried out. One major plan was to transfer 100 young personnel from the Administrative Group (which would need to undergo streamlining processes) to the Business Group and relocate mid-career managers from the Business Group to other Business Groups (for which incentive programs were to be offered), with a focus on preventing the Business Group from drifting into "contracted equilibrium" and aiming to encourage innovative and inventive development activities and invigorate frontline operations to expand the utilization of integrated corporate strength. Plans for organizational and institutional systems were related to the expansion of the Group GM's authority for credit approval and decision-making for investment plans, and relocating branches of the Credit Department from under the Business Group to be integrated into the Credit & Controlling Division in order to eliminate overlap between the Business Group and Administrative Group and reinforce the check-and-balance function.

Streamlining of Day-to-Day Operations

In tandem with plans implemented based on the CAT report, the company promoted initiatives to improve and streamline day-to-day operations, based on a total of more than 4,000 suggestions submitted by divisions and departments in response to the relevant internal invitation. The submissions were screened by related sections in the Administrative Group. Adopted suggestions were processed into specific plans for improvement and streamlining. Rejected suggestions were returned to each submitter together with detailed feedback including reasons for the result.

Creation of a Global Consolidated Management System

In October 1994, the company was focusing on institutional initiatives chiefly for two purposes: to revitalize the Business Group through solidifying the decentralization structure within the framework of an "Integrated Business Enterprise," and to develop a consolidated management structure on a global basis by engaging group companies in proactive development activities. Internal capital allocation and profit/loss reserve programs were introduced in the second half of fiscal 1994. These were for allocating funds to each business division, requiring the valuation of return on invested capital (ROIC) in addition to ongoing profit/loss reporting. Thus, a stock-oriented medium-term performance management indicator was introduced on top of the existing PL-based, flow-oriented performance management indicators. Starting from fiscal 1995, the company created annual budgets on a consolidated basis, and prepared consolidated quarterly reports based on the monthly settlement results of SC and each group company. Through this practice, the company was prepared to communicate the group's overall performance, including those of group companies, to the entire group and shareholders in a timely manner.

Streamlining and Restructuring of Administrative Group

After the bubble burst, the Administrative Group focused on organizational streamlining and restructuring initiatives, partially in response to the plan of relocating young personnel to the Business Group, while enhancing functions to support the activities of the Business Group. In October 1993, credit personnel assigned to four business divisions since the Business Group system was introduced in 1979 were integrated into the Credit & Controlling Division under the Administrative Group. At the same time, the Trade Insurance Department and Trade & Security Control Department were relocated from within the Planning & Coordination Division to be integrated into the Credit & Controlling Division. This reorganization aimed to facilitate prioritized management of risk factors that were increasingly diversifying and complicating, as well as to enable more flexible and efficient personnel development and deployment.

Transition from Strategy 95 to the Medium-term Management Plan

Strategy 95, the five-year management plan launched in 1991, needed to be updated, as the performance of many divisions and offices began to fall short of quantitative targets. They suffered from a disparity between annual targets, and results that widened year after year due to huge changes occurring in the business environment over the ensuing years. To deal with the issue, Strategy 95 was terminated in March 1995, one year ahead of schedule, in all divisions and offices. This measure was also related to other factors. Specifically, it was a response to the performance management systems of the Business Group receiving an overall update in the second half of fiscal 1994. Accordingly, qualitative and quantitative targets were updated considering the ongoing changes in the environment, and reflected in the three-year rolling-method medium-term management plan started in fiscal 1995. Quantitative targets set for divisions and offices for the initial year were incorporated into consolidated annual budget plans starting in fiscal 1995.

Section 7

Redevelopment of Consolidated Management Structure

Shift from Quantitative Expansion to Qualitative Enhancement for Investment

In the medium-term management plan, strategic goals were set to overcome the ongoing management challenges in the following three areas:

1) Promoting global consolidated management and demonstrating integrated corporate strength,

2) Strengthening corporate management functions, and

3) Prioritizing allocation of management resources and bearing responsibility for related results.

In order to address the pressing issue of drastically improving the profitability of investment, SC decided to shift its focus from quantitative expansion, a previous policy adopted in 1988, to qualitative enhancement, and carry out scrap-and-build plans as appropriate. To this end, a new initiative was launched to promote the "selection and recycling" of investment businesses. In October 1995, the Investment Committee was set up as an advisory body to the top management for selection of large investment projects. At the same time, a project team was formed to promote plans for the stock offerings of group companies.

Also, a range of personnel management policies were planned and executed for the purpose of increasing earnings capabilities on a consolidated basis, principally by supporting additional personnel allocation. In October 1994, the age limit to transfer to group companies was lowered. This was done to provide employees with an option to extend their time to work before retirement as a senior staff member, making it an opportunity for secondary career development. Additionally, the number of young employees seconded to group companies was substantially increased. In April 1996, business investment specialist development programs were introduced, representing an important addition to a set of measures for enhancing business management capabilities.

Reorganization of Business Investment Division

In October 1995, the Business Investment Division, which was launched in June 1988, was reorganized following the decision on changing the basic business investment policy. While maintaining the Business Investment Department, a function to support administrative duties related to investment business conducted by the Business Group, the Investment Coordination & Administration Department was newly established. The department was to perform duties related to planning basic policies for investment management and serve as the secretariat of the Investment Committee. In June the following year, the Business Investment Planning Department, which previously planned and promoted new business ventures outside the scope of the existing business divisions' targets, was upgraded with businesses under management. A supermarket chain (Summit), catalog retailing (Otto-Sumisho), and drugstore chain (Tomod's), to undertake projects outside the existing product categories, and was renamed the Retail & Consumer Services Division. This made SC the first integrated trading company to launch a business division pursuing the B2C business model rather than the conventional B2B trading.

First internal venture launched by the Business Investment Planning Department (in September 1993)

Launch of Drugstore Business

In the 1990s, Japan was facing population aging and undergoing a process of rapid deregulation. Against this backdrop, systems for the separation of dispensing and prescribing functions began to be introduced on a full scale under the leadership of the Ministry of Health and Welfare. In response to this situation, in September 1993, the Business Investment Planning Department, under the Business Investment Division, launched Sumisho Retail Stores Inc., a drugstore chain operator, which marked SC's first internal venture. The venture company developed a dispensing drugstore chain business under the name of Tomod's mainly in and around Tokyo, promoting its function as a family pharmacy. The first outlet was opened in April 1994.

Prioritizing Personnel Cost Allocation Revitalizing Organizations

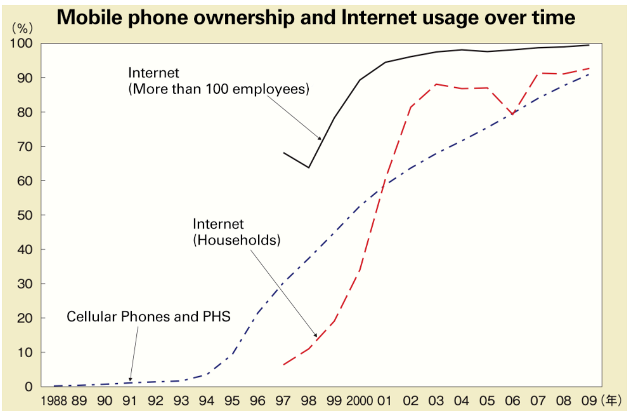
In April 1995, personnel evaluation and compensation systems were revised as a performance improvement measure, with the aim of containing personnel costs that were growing at a higher rate than other SG&A items. Noting the graying workforce and the increasing rate of employees with professional qualifications, the company expanded the adoption of merit-based personnel systems, looking to promote prioritized allocation of personnel costs on a larger scale. Also, performance-based evaluation systems were instituted for directors of major group companies, thereby applying the meritocracy principle across the entire group. In connection with this, a range of plans were carried out with a focus on facilitating generation change in the company, a measure for developing and maintaining an energetic workforce as a whole. The major plans were: adopting an age limit system for managerial positions (55 for department head), lowering the age limit to transfer to group companies (58 to 55), and instituting leave programs for re-employment preparations.

SC Information Infrastructure (SII) Plan

From around 1990 when the C&C System Five-year Plan was completed, innovations of information technology started advancing faster than ever before, producing and popularizing the internet, Microsoft Windows-based personal computers, and other consumer-use technologies. This technological advancement made a notable change in previous business operations in many companies, where the use of information systems had been generally limited to numerical data processing and management duties. In comparison, new innovations allowed for upgraded systems and a one-PC-per-person work style, enabling efficient ways of working for information sharing, strategy planning, and many more processes.

In response to this trend, the Committee for C&C Systems was established in June 1994, and formulated the SC Information Infrastructure (SII) Plan in November the same year, after related discussions were held at the Committee. The plan was launched in January 1995, and a battery of programs and systems were introduced over three years. The aim was to develop and reform the company's overall information technology infrastructure to increase the operational efficiency of the entire workforce and expedite decision-making and business processes on a global basis. The SII Plan served the following purposes:

- Introducing e-mail system (July 1995)
- Establishing one-PC-per-person operation option (March 1997)
- Introducing corporate intranet system (November 1997)



The website of the Ministry of Health, Labour and Welfare: White Paper on the Labour Economy 2011

Section 8

CSR Initiatives

Social Contribution Activities

In the 1990s, corporate philanthropy, a form of social contribution by business entities, emerged as a new theme of corporate activities. SC began to develop social contribution activities in various areas, as many companies did. One of the earliest of such activities was a symposium project to revisit Japan's local cultures, launched in September 1990. The project continued up to 1994 and hosted a total of 10 sessions. Academic and public figures were invited as panelists to review and rediscover the value of local cultures in many areas across Japan. Other representative actions included participation in the 1% (One-Percent) Club in November 1990. The Club was founded by Nippon Keidanren (Japan Business Federation), exclusively accepting corporate and individual members committed to contributing 1% of their recurring profits or disposable income to social causes each year. It thus engaged members in social contribution activities on an ongoing basis and served the purpose of public communication. Also, two classical music concerts were organized; SC Symphonic Wave and SC Young Symphony, in 1991 and 1992, for the purpose of social contribution. The Young Symphony concert was held to provide a regular performance opportunity to the Junior Philharmonic Orchestra, of which SC is a sponsor. The concert has continued to this day.

Junior Philharmonic Orchestra

Stepping up Environmental Conservation Activities

In August 1990, the Global Environment Task Force Team was launched to start cross-organizational, corporate-wide activities. In the following year, the Global Environment Department, a permanent function, was created within the Planning & Coordination Division. Then in 1993, the Guidelines on Global Environment Conservation were established. Subsequently, organizational changes were made to improve the promotion structure. In 1996, the Global Environment Department was reorganized to manage SC's environment-related initiatives and business activities in a unified manner. In 1997, the Global Environment Task Force Team was reorganized and renamed the Global Environment Committee. In addition, when the SC Group's Activity Guidelines were established in February 1998, a new item was added: "to attach great importance to protecting the global environment."

Great Hanshin-Awaji Earthquake Recovery Assistance

In the early morning of January 17, 1995, a massive earthquake of magnitude above seven on the Japanese scale struck the Hanshin area and Awaji Island in western Japan, severely damaging lifeline facilities in Kobe City and the north area of Awaji island, and leaving more than 6,400 dead and 43,700 injured. The number of evacuees exceeded 300,000. The company's Kobe Branch and many employees living in the area were also affected. The company immediately organized an emergency headquarters headed by the GM for Western Japan and confirmed the safety of employees and their families and the damage situation. On the following day, a corporate rescue team was formed and started operations in the affected area. It not only offered recovery assistance at the Kobe Branch, but also transport and distribution to disaster victims of rescue supplies such as water, food, and blankets. The company also contacted local governments to offer the use of company land for temporary housing for disaster victims. To continue business with minimum impact on customers, local incoming/outgoing delivery operations were transferred from Kobe Port while it was unavailable, to ports in other regions, principally in Osaka and even Busan in South Korea. The company also provided support and cooperation to affected customers for the early recovery of their damaged factories.

In the wake of the disaster, a great deal of volunteers headed from across the country to affected areas to help with recovery efforts, giving rise to a phenomenon similar to a civil movement. Noting this situation, the company provided special week-long paid volunteer leave to employees on request. Additionally, the company made monetary donations together with contributions collected by employees.

Introduction of Volunteer Leave Program

The Great Hanshin-Awaji Earthquake that occurred in January 1995 is known for the phenomenal volunteer activities of citizens, giving rise to a subsequent general interest in volunteer activities in Japan. To encourage such development of citizen volunteerism, the company, as a corporate citizen, introduced volunteer leave programs in April 1998.

The collapsed Hanshin Expressway (Photo provided by Aflo)

Organizations to Promote Social Contribution Activities

In January 1996, its 50th year in the trading business, SC established the Philanthropy Committee with members from sections in charge of the environment and CSR-related issues. To serve as secretariat of the Committee, the Philanthropy Department was set up within the General Affairs Division. The department was responsible for the planning and promotion of the corporate social contribution activities, operation of the SC Scholarship program, and providing support to volunteer activities. In April 2008, the department was transferred to the Corporate Planning & Coordination Group and integrated with the Global Environment Department into "Environment & CSR Department", which was subsequently renamed its current title, the Corporate Sustainability Department.

Long-term Social Action Projects

The company launched two major social action projects in 1996, in commemoration of its 50th anniversary of the start of the trading business, and those projects have continued to this day.

SC Scholarship Program

The SC Scholarship program was instituted with the objective of supporting the development of future leaders of developing countries and regions in Asia. In 1996, the initial year of the program, the scholarship was granted to a total of 263 students at 33 universities in 17 countries. Subsequently, the support scheme was continuously improved over the years in cooperation with the SC's related overseas offices, to expand the annual number of recipients to about 1,000 from 45 universities. Since the onset of the program, a rough total of 17,000 students have received the grant over 20 years up to 2020.

SC Scholarship

International Civil & Commercial Law Centre Foundation (ICCLC)

The ICCLC is a public interest incorporated foundation under the jurisdiction of the Ministry of Justice in Japan. It aims to support Asian countries in developing a legal infrastructure and increasing common understanding of legal structures for international economic activities. Its first project was for assisting Vietnam with developing civil law systems in order to introduce free economy systems.

The company first became involved in the ICCLC by serving as a facilitator of the body's foundation in April 1996 as requested by the Ministry of Justice. The acceptance of the request was in commemoration of the company's 50th anniversary of the start of the trading business. Then Senior Advisor Tadashi Ito became the first president of the ICCLC, and then, Senior Advisor Kenji Miyahara took over the post. During this time, the Legal Department loans full-time staff from its members to the body's secretariat on a continuous basis, thus supporting its activities over a long duration.

Section 9

Illegal Copper Trading Incident (June 1996)

Publication of the Expected Amount of Loss

On June 14, 1996, a shockwave reverberated through the SC Group. President Akiyama met the press in the Takebashi Building and revealed that illegal copper trading had been conducted by a former GM of the Non-Ferrous Metals Division. The president also disclosed that the loss was expected to amount to 1.8 billion dollars (approximately 190 billion yen). The news quickly spread throughout the world and caused tremendous concern to the company's employees and their families, customers, business partners, and many other stakeholders both in Japan and elsewhere. The incident also necessitated the modification or withdrawal of some proposals planned to be submitted for a General Meeting of Shareholders, which was slated to take place two weeks after the announcement, including a surplus appropriation proposal. These changes in the proposals were then publicly reported in national newspapers in advance. At the shareholder meeting, President Akiyama and all the officers present apologized for the loss caused by the illegal trading, and all the proposals on the agenda, which was revised after the modification and withdrawal of some proposals, were resolved.

Discovery of the Incident and the Company's Immediate Response

The incident came to light when the U.S. Commodity Futures Trading Commission (CFTC) requested that SCOA provide information on its copper trading in December 1995 as part of the CFTC's investigation on fluctuations in copper prices. As the investigation progressed, and the UK's Securities and Investments Board (SIB) also became involved, the GM of the Non-Ferrous Metals Division at the time made a confession to the company on June 5, 1996. He admitted to engaging in unauthorized copper derivatives trading, such as futures and options, mainly on the London Metal Exchange (LME). Furthermore, he revealed that he had kept this activity a secret from the company for more than ten years, dating back to around 1985.

SC immediately reported the confession to the CFTC and SIB, calculated the amount of loss caused by the illegal trading, and disclosed it at the press conference. As the copper price fell sharply on the LME immediately thereafter, the company swiftly carried out the settlement of the off-balance-sheet positions created by the former general manager. They took utmost care not to disrupt the market and minimize the company's loss. This settlement process was almost completed by September 1996. The total loss amounted to 2.6 billion dollars (approximately 285 billion yen) and was recorded as an extraordinary loss in the settlement of accounts for the fiscal year ended March 1997.

To pursue the legal responsibility of the former general manager, the company filed a criminal accusation against him for the forgery of private documents and fraud in October and November 1996. While prosecutors demanded an imprisonment of ten years, he was sentenced to eight years in jail in March 1998. He filed an appeal several times thereafter, but all of them were dismissed, resulting in his conviction.

Appointment of New President

At a meeting of the Board of Directors held after the General Meeting of Shareholders in June 1996, President Akiyama was appointed as chairman and Mr. Kenji Miyahara, Executive Vice President, took office as president. Under this new leadership, SC set out to tackle the illegal trading issue.

Upon appointment as the company's leader, Miyahara declared his full commitment to addressing the serious situation the company was facing as well as to reinforcing the company's business infrastructure as an "Integrated Business Enterprise" to further expand its global presence. At the same time, he also reminded personnel that, while the management system for trading copper and other commodities would be reviewed and corrected promptly, he did not want other businesses to contract or lose their aggressive stance in the aftermath of the incident.

He called on the personnel to overcome the current situation as soon as possible and actively use this lesson as a springboard for creating, based on Sumitomo's Business Philosophy, an energetic company that they can feel proud to work for.

President Miyahara

The First GM Meeting after Discovery of Illegal Trading

SC adopted a policy of withholding from making any comments externally during the first three months or so from the announcement on the incident in June 1996, out of consideration for the effect that such comments might have on the company internally and externally. Some media reports were even questioning the survival of the company during this period. Amid this crisis that shook the entire company, it was difficult to ease the anxiety of the personnel. To deal with this situation, President Miyahara started meeting general managers and office managers in Japan in October when the loss disposition was almost completed. He also convened a General Managers' Meeting at the end of October, ahead of the originally slated meeting date in December, to have direct dialogue with general managers from around the world. At the beginning of the meeting held for the first time after his appointment as president, he told the participants that the company must seriously and humbly accept the fact that the incident severely impaired its credibility, which had been a source of pride. But he also emphasized that SC had never committed any fraudulent, illegal, or ethical misconduct as a company. The most important thing to do, above all else, for employees at all levels was—according to the president—to maintain their aggressive stance toward business and steadfastly rack up achievements so as to regain the company's credibility. In his address at the meeting, it was also reaffirmed that the company would dispose of the loss incurred by the incident entirely during the current fiscal year and remain consistent with its aim to become an "Integrated Business Enterprise." Meanwhile, he noted that the company would need to shift its focus from simply expanding the line of business to broadening the options of projects and concentrating the company's precious business resources on more potentially profitable, efficient projects selected from among them. To broaden options, he called on the frontline team to actively cultivate and plan new projects.

Introduction of a Stricter Control Mechanism to Prevent Recurrence

To ensure that SC's risk control system was aligned with the global standard, a back office was set up for the Treasury Division in October 1996 to manage transactions and undertake paperwork associated with the operations of the division, including financing and fund management and trading foreign currencies. The back office was thus intended to play the role of an internal checking function for those who were directly involved in trading transactions. In February 1997, the back office also took over all administrative work for commodity futures trading carried out by the Business Group, and a rotation system was adopted to regularly replace the personnel in charge of commodity trading. Soon after this in March 1997, the Market Risk Controlling Department was established within the Administrative Group. Its main job was to identify and manage risks in connection with diverse market transactions including commodity trading and financial trading as well as to conduct R&D on methods for managing new market transaction risks. Furthermore, from December 1997, in order to strengthen its internal auditing system, the company upgraded the operational process of auditing the Business Group, Administrative Group, regional organizations in Japan and overseas, and affiliates controlled by SC.

First Net Loss Since Founding

In fiscal 1996, SC's non-consolidated financial results witnessed a drastic 12% year-on-year decline in sales due to the plunge in the Non-Ferrous Metals Division's sales. However, gross profit saw a slight increase, and operating income rose by 16% year-on-year to 23.4 billion yen, thanks to contributions by the Machinery & Electrical and other divisions. These results can be attributed to the efforts made by the other business divisions to enhance profitability following the collapse of the bubble economy. Nevertheless, the loss caused by the copper incident amounted to 285.2 billion yen, which resulted in a huge net loss for the year of 148.6 billion yen. The company's non-consolidated shareholders' equity, which had been ranked top among integrated trading companies at 636.1 billion yen at the end of fiscal 1995, decreased to 479 billion yen, falling behind Mitsubishi and Mitsui. The recovery of a solid financial position, which had been one of the corporate strengths, depended on the performance of future business activities.

Resignation of Chairman Akiyama and Senior Advisor Ito

In February 1997, when loss disposition, recurrence prevention, and other issues to be addressed in connection with the incident were almost resolved, Chairman Akiyama resigned from his position as chairman and director and became a senior advisor. The copper incident had occurred right at the end of his tenure, so he teamed up with the incoming President Miyahara to focus on disposing of the loss, regaining the company's credibility, and introducing measures to prevent recurrence. At the same time as Chairman Akiyama's resignation, Senior Advisor Ito also resigned from his post and became an honorary advisor.

Section 10

Reforms toward Renewed Growth

New Management Vision for the 21st Century (October 1997)

The General Managers' Meeting in 1997 became a forum for exploring a clear, specific path that would enable the company to work through the aftermath of the copper trading incident and renew its journey toward further growth in the 21st century.

At the meeting, previous efforts made by the company to become an "Integrated Business Enterprise" were reviewed and the following were cited as pressing needs:

1. Quantitative increases in business investments had been achieved to some extent, but did not yield sufficient profitability, so there was a need to place greater focus on qualitative expansion.

2. Amid the decrease in available business resources due to the increased financing cost stemming from dwindled shareholders' equity and a lowered credit rating after the incident, there was a need to concentrate business resources on more profitable and promising fields and businesses.

It was therefore considered indispensable for each employee at all levels to share these needs and increase their senses of crisis and ownership even more. Based on this shared understanding regarding the importance of advancing the awareness and structural reforms concurrently for a renewed growth of the SC Group in the 21st century, the basic management direction as specified below was set out in October 1997.

Future Basic Management Direction

Vision
Qualitative enhancement as an "Integrated Business Enterprise" and reinforcement of global consolidated management
Expansion of profitability and strengthening of financial health through cross-functional collaboration efforts

Basic strategy
1. Strategic allocation of business resources
- Concentration of business resources on core businesses
- Balance sheet focused management based on a medium- to long-term perspective

2. Promotion of efficient management
- Improvement of efficiency and productivity of organizations/systems, information processing, operations, etc.
- Greater emphasis on cost performance

3. Reinforcement of risk management
- Enhancement of company-wide risk control and internal auditing function
- Development of an independent risk control system for each Business Group that matches the specifics of their business

4. Upgrading information systems
- Expansion and active use of information networks
- Development and expansion of management information infrastructure

Harumi Triton Square

Announcement of Head Office Consolidation

The measures set out in the basic direction were—President Miyahara stressed—all expected to help grow the company into an energetic corporate group. As a symbol that signifies all the employees' commitment toward this end, it was announced that the company would consolidate the four dispersed Tokyo Head Office locations in the Takebashi area in Chiyoda Ward into one at the Harumi Triton Square complex in Chuo Ward, which was slated for completion in spring 2001. The consolidation of the Tokyo Head Office locations was a long-standing issue for the company. The consolidation was meant to lay a foundation that would allow all personnel, whether executives or staff members, to be truly united through smooth communication and more fully demonstrate integrated corporate strength.

Reorganization of Corporate Mission Statement

At meetings held after the copper incident between President Miyahara and personnel at different levels, many participants expressed opinions about the company's corporate principles and culture. They suggested that Sumitomo's Business Principles, which had been serving as the universal foundation of the company's activities, should be updated to make them easier to understand and more accessible globally across all generations. Based on these opinions, Miyahara decided to reorganize the Sumitomo Shoji management charter formulated in 1973. His aim was to create a charter that could be easily shared among all members of the SC Group, engaging in diverse business activities globally, making it the backbone for uniting employees and navigating the challenges of natural selection in business. This resulted in the reorganization of the SC Group's Corporate Mission Statement in February 1998. It was founded on the Sumitomo's Business Principles and consists of three Management Principles and seven Activity Guidelines. It was set up under the corporate vision of becoming "a global organization that constantly stays a step ahead in dealing with change, creates new value, and contributes broadly to society." President Miyahara emphasized that, while these principles and guidelines might appear obvious, ensuring that each employee at all levels observes them in their daily activities would form the basis for business growth.

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

Corporate Mission Statement

Communicating Strategies to Front-line Personnel and Listening to them to Create Strategies

Following direct dialogues between President Miyahara and officers and general managers in 1996, Motoyuki Oka, then Director in charge of Corporate Planning and next to become President, organized a total of 25 meetings between July 1997 and March 1998 with a total of 888 young managers who had been with the company for 10 to 20 years. The objective of these meetings was to explain the current circumstances of the company to the young personnel who were playing a core role in various departments and promote their understanding of the direction of the reforms to be undertaken by the company while also listening to thoughts and opinions from various standpoints that could help the company develop ideas for the reforms.

The meetings also included general meetings which were held as discussion forums between management and the young personnel, with officers and general managers from the Administration Group including Director Oka in attendance to answer questions and exchange opinions. The most cited opinions and issues during these 25 meetings were the need for information disclosure within the company, information sharing regarding the copper incident within the company, messages from the top management, improvements to the personnel appraisal and budget systems, communication across the hierarchy, and corporate atmosphere. These opinions and issues were also discussed at the Management Council and specific measures were introduced and implemented successively to promote one of the Management Principles: To foster a corporate culture full of vitality and conducive to innovation.

Progress of Awareness and Structural Reforms

At the beginning of 1998, three years before the turn of the century, President Miyahara, having positioned the year as a pivotal one for seriously pursuing the awareness and structural reforms to achieve the vision and four strategic goals set out in the previous year, declared that the company would implement a series of specific measures by setting up company-wide committees and project teams.

Quantitative Analysis Working Group (January 1998)

A strategic consultant was hired to develop metrics that could be used company-wide for selecting core businesses from among the company's wide-ranging portfolio of businesses.

Risk-adjusted return ratio: indicator for encouraging the change in awareness of the frontline

To achieve the strategic allocation of business resources, it was necessary to select core businesses from among the company's wide-ranging portfolio of businesses in a correct and swift manner. Toward this end, risk-adjusted return ratio was introduced as a measure based on the idea of "capital cost" which enabled the company to quantitatively monitor its cash flow return on its risk-adjusted assets weighted according to their riskiness. The ratio called for a change in awareness among the personnel who had been focusing only on the bottom line of the profit and loss statement without paying much attention to the size and quality of the balance sheet.

Operational Reform Task Force (November 1998)

The mission of the task force was to bring about fundamental improvement to the company's operational processes, including the renewal of the information system. The upgrading of the information system was tackled by a special committee using a top-down approach to ensure the effective development of the system, while the improvement of operational processes for increased efficiency was undertaken by subcommittees formed of young personnel familiar with actual business practices for a bottom-up approach.

Investment Committee (June 1998)

To strengthen the company's control over business risks that were becoming increasingly large and complex, the Investment Committee was reorganized to expand its screening operations to include large financing projects, following the consolidation of the Business Investment Division and the Credit & Controlling Division in April 1998.

HR Committee (since January 1998)

A subcommittee made up of senior officers was set up at the same time as the committee (chaired and administered by the HR officer) was established, to revitalize and increase the competitiveness of the personnel. It discussed specific measures for the strategic allocation of human resources and revision of personnel programs.

As a way to revitalize human resources, which was considered indispensable for the awareness reform, a new management position called "Corporate Officer" was introduced in April 1998 to train next-generation executive candidates. An in-house recruitment system was also adopted in September 1999. The qualification, performance appraisal, and salary systems were totally revised in April 2000 based on the ideas of respect for individuals, the principle of self-responsibility, compensation linked with productivity, and increased transparency. Furthermore, the SC VALUES were added as a yardstick to evaluate personnel and ensure the thorough implementation of the Management Principles and Activity Guidelines. As a measure to further develop the ability of managers, an evaluation from subordinate system was also introduced to help make them aware of how they could improve from feedback given by their staff.

SC VALUES (April 2000)

SC VALUES are used as a yardstick for personnel appraisal and human resource development as well as to ensure that the Management Principles and Activity Guidelines are practiced in daily operations.

SC VALUES (personnel in management and major career path positions)

1. Integrity and Sound Management:
To comply with laws and regulations while maintaining the highest ethical standards.

2. Integrated Corporate Strength:
To create no boundaries within the organization; to always act with a Company-wide perspective.

3. Vision:
To create a clear vision of the future, and to communicate to share it within the organization.

4. Change and Innovation:
To accept and integrate diversity in values and behavior, and to embrace change as an opportunity for action.

5. Commitment:
To initiate, own, and achieve organizational objectives.

6. Enthusiasm:
To act with enthusiasm and confidence, and to motivate others through such action.

7. Speed:
To make quick decisions and act promptly.

8. Human Development:
To fully support the development of others' potential.

9. Professionalism:
To achieve and maintain high levels of expertise and skills.

Section 11

Reform Package for Surviving Selection Process

Time to Make All-out Efforts toward Change

While SC was engaging in various reviews and reforms after the copper incident, the Thai Baht collapse occurred in July 1997 and its effect spread into Asian and Western economies. In Japan, many financial institutions and companies were going bankrupt due to the aftershock of the bubble bursting. During this year, a major wave of globalization and the transition to a market economy swept over Japan, resulting in a drastic change to the very systems that had supported Japan's economic prosperity since the end of World War II. Suddenly, conventional wisdom no longer applied, and past experiences were no longer useful references.

In the meantime, investigations on the copper incident by the authorities in the United Kingdom and the United States finally ended in the first half of 1998, and a settlement was reached in a class-action suit in the United States with no legal responsibility found on the company's part. President Miyahara considered it an end to their struggle to sort out the incident, and determined that the company was now ready to dedicate all its efforts to open up its future in the new century. In the General Managers' Meeting in October 1998, President Miyahara stated that, although preparations for the awareness and structural reforms to achieve the vision and basic strategy were almost complete, the ultimate goals of "greater profitability" and "stronger financial health" could not be reached unless all personnel shared a common understanding of the situation and came together to take action.

Beyond Reform Package

President Miyahara positioned the next three years up to the turn of the century as a period of "natural selection" in business that would eliminate the losers and allow only the winners to exist. A "winner" in the company's definition was a company with sufficient strength and functionality that would enable it to continuously contribute to society through its business, maintaining financial health, stock prices, and a credit rating equal to or above the level expected by the market, and establishing a solid position in the industry. However, the reality was that the company had many high risk assets and its profitability was low. To survive the period of natural selection, the company needed to achieve the three quantitative targets specified on the right by any means. This led the company to formulate a two-year medium-term management plan called "Reform Package" that started in April 1999. It included specific measures toward attaining the goals. The Risk Assets Management Committee, which was made up of the officers of Administrative Group divisions, and working groups under the committee were set up in November 1998 to accelerate the reduction of risk assets and the elimination and consolidation of the SC Group companies.

Goals of Reform Package

Quantitative Targets of Reform Package

1. Consolidated risk-adjusted return ratio (before tax)

- 8% or more by the end of March 2001 (15% or more in the medium- to long-term)

2. Consolidated risk assets

- Reduction of 200 billion yen by the end of March 2001

3. Consolidated shareholders' equity

- Recovery to the 700 billion yen level by the end of March 2002

Strategic Objectives

1. Increase of profitability through expansion of core businesses

- M&A Promotion Team
- Core Business Expansion Support Program
- Strategic Business Discovery Task Force
- Company-wide business promotion teams for SCM and internet

2. Reinforcement of financial health through risk asset management

- Execution of measures to reduce risk assets
- Elimination and consolidation of group companies
- System for managing risk limits of each business area (Jan. 2000)
- Establishment of Compliance Committee (Nov. 2000)

3. Pursuit of greater management efficiency

- Operational Reform Task Force (Jul. 1998 to Jun.1999)
- Cashless Petty Payment System (CAPPS) (Nov. 1999)
- Launch of back office for business units
- Time sheets on the intranet (Aug. 1999)
- Active introduction of industry and regional costs

4. Enhancement of cost competitiveness

- Reduction of secondary expenses (entertainment and travel expenses)
- Cooperation with Mitsubishi and Mitsui to reduce communication and other expenses
- Reduction of personnel expenses (since 1998)
- No bonus (since 1996) and reduction of remuneration for officers
- Mandatory retirement rule for Senior Advisor
- Reduction of bonus for personnel
- Downsizing of workforce by early retirement and reducing new graduates

M&A Promotion Team (July 1999 to March 2000)

A team of the staff from the Administrative Group collected M&A information that might lead to the expansion of core businesses of the Business Group from banks, securities companies, and other sources, and after implementing necessary screening, provided the information, advice and support to relevant Business Divisions. This role of the team was taken over by the Financial Commodity Markets Division established in April 2000.

Core Business Expansion Support Program (July 1999 to March 2001)

For business areas and core businesses that must be promoted cross-functionally, half of the up-front costs required for increasing transactions was subsidized strategically up to one billion yen in total during a period of two years.

1) Development of environment-related businesses
2) Expansion of transactions that combine information, logistics, and financial technologies (IT, LT, FT)
3) Cultivation and promotion of large M&A projects

Strategic Business Discovery Task Force (August to December 1999)

One or two young managers from each Business Group who joined this task force worked on a full-time basis for five months to identify business areas that were likely to grow and explore new strategic businesses for SC Group. Their mission was completed when they reported the results to management.

The businesses they proposed were:

1) Fulfillment service provider (FSP) for mail order and e-commerce,
2) Support for venture firms,
3) Support for medical institutions, and
4) Renewable energy.

These businesses were then left in the hands of the relevant Business Divisions, and the task force members were also transferred there. The businesses have been directly or indirectly passed on until today.

Section 12

Acceleration of Awareness and Structural Reforms

Launch of the Media, Electronics & Information Business Group (April 1998)

The release of Windows 95 in 1995, accompanied by the expansion of the internet, contributed to the flourishing of IT-related businesses in both software and hardware sectors. Around the same time, mobile phones emerged as the predominant mode of mobile communication. Digitization and advanced functionality development for such devices progressed, marking the advent of the full-scale advanced information age. To respond to these trends, in April 1998, the Electronics Division, which had been dealing with hardware businesses (parts, devices and equipment), and the Media Business Division, which had been focusing on software businesses (cable television, contents, and communications), were integrated to establish the Media, Electronics & Information Business Group as the fifth Business Group, in order to strengthen the company's information and IT-related business.

Net Loss Results in Fiscal 1998

In fiscal 1997, the year following the company's first net loss since founding, operating gross profit increased, reflecting the recovery trend in the company's performance from 1995 and pushing up consolidated net profit to 10.9 billion yen. However, in fiscal 1998, the company dipped into the red once again with a consolidated net loss of 13.1 billion yen. This was mainly because of an equity write-off under the sluggish stock market, loss provisions on projects and investments/loans due to the effect of the Asian currency crisis, and advance accounting of expenses for reorganizing unprofitable businesses that arose from the company's focus on core businesses. Although this was largely a strategic deficit, it also reflected the company's lowered earning power, the deterioration of assets such as an increased number of investment projects with large unrealized losses, and other problems.

"Fast Eat Slow"

At the beginning of 1999, President Miyahara cited an expression used in business: "Fast Eat Slow." Originally, the expression was "Big Eat Small," but in this rapidly changing age, size was considered less important than the speed with which organizations could respond to future trends. Procrastination in facing problems would only result in instant elimination by natural selection. The Reform Package was a medium-term plan covering only two years, and the success of the plan depended virtually on whether SC could accomplish the two qualitative goals of "improvement of the risk-adjusted return ratio" and "reduction of risk assets" by the end of March 2001. This meant that SC had to expedite its efforts to do everything it could within the first year of the plan in a determined manner because any delay would make it extremely difficult to catch up in the next year.

Reorganization toward the Relocation of the Head Office in April 2001

As a result of the review of the head office organization and the study on specific improvement measures, which SC implemented as part of its awareness and structural reforms under the Reform Package plan, it was decided to reorganize the Business Group and create a structure that would support operations based on the principles of self-management and self-responsibility by April 2001, when the Reform Package was to end and the head office was to be relocated to Harumi. The reorganization of the Administrative Group was implemented prior in April 2000, except for a part of the organization that could not be changed unless the Business Group was reorganized. Specifically, the Administrative Group was renamed the "Corporate Group" with its nine divisions reorganized into seven divisions. At the same time, the financial service and logistics insurance business was transferred to the Business Group, where the Financial Commodity Markets Division and Logistics & Insurance Business Division were newly set up.

While the reorganization of divisions and higher levels of units in the Business Group was suspended as a general rule until the relocation of the head office, the exception was the Media Business Division and Retail & Consumer Service Division, which underwent a transformation prior to the overall reorganization in April 2001. The former was incorporated into the Media, Electronics & Information Business Group established in April 1998, and the latter was incorporated into the Living Related Group in April 2000)

SIGMA 21 Project

SIGMA21: SC Information & Global Management Systems Architecture for the 21st Century

In April 2000, the IT System Improvement Committee finalized the SIGMA21 Project, and the Information Systems Planning & Development (SIGMA 21) Department and Information Technologies Planning & Promotion Department were established in the Corporation Group with the aim of launching full-scale operations following the relocation to Harumi.

1. Establishment of new management information systems

GMC = Global Management Cockpit: A system to provide information necessary for management decisions

ODS = Operational Data Store: A system to extract and process data stored in each system

2. Fundamental reform of core systems

Reform of sales and accounting systems based on SAP's ERP in line with SC's standard business procedures

3. Maintenance of consolidated management systems

Establishment of a web-based system to collect financial information from operating companies.

This system was established during a period of cost-reduction amid severe business conditions brought about by the copper trading incident and the Asian currency crisis.

Following the relocation to Harumi in May 2001, the GMC became fully operational, and the consolidated system was launched. After that, the other systems were successively brought online and contributed greatly to the enhancement of SC's business management.

The Year 2000 Problem (Y2K) Team

Concern over the Y2K problem mounted at the end of the 1990s. The problem was about the possible failure of existing computer systems, the majority of which were recognizing years by using the last two digits of the Western calendar year, making the year 2000 indistinguishable from 1900. To counter this problem, a dedicated team was organized within the C&C Systems Division in October 1998. An emergency headquarters was set up mainly by the team in December 1999, shortly before the turn of the year, having the members on standby for any emergency event during the year-end and New Year period. Thanks to this thorough preparedness, no trouble occurred across the SC Group.

Achievement of Quantitative Targets

In fiscal 1999, the Reform Package entered into a full-fledged implementation phase. Of the four strategic goals, while progress was made relatively quickly for "the pursuit of greater management efficiency" and "enhancement of cost competitiveness," the two other goals that were a core part of the Reform—"increase of profitability" and "reinforcement of financial health"—were lagging behind. This was because the risk-adjusted return ratio in fiscal 1998 was still negative for the company as a whole. And while the elimination of risk assets hardly made progress, new risk assets actually increased, showing almost no progress on a company-wide basis. To tackle this situation, Miyahara met the Business Division general managers every quarter to encourage more active commitment to achieving higher equity in the earnings of affiliated companies as well as to increasing non-consolidated earnings.

As a result, SC was able to sort out non-performing or low-potential assets, which was a tremendously heartbreaking and painful process at times. These efforts also led to advancing the awareness reform to some extent, including the personnel's awareness of risk-adjusted returns, which improved significantly. In this way, SC could almost achieve the two quantitative targets of increasing the risk-adjusted return ratio to 8% or higher (before tax) and cutting 200 billion yen of risk assets by the end of March 2001.

Continuous Issues after Reform Package

While the quantitative targets were almost accomplished, the increase of profitability or capacity to increase earnings in absolute terms was still falling short of the target standards and in comparison with other trading firms. For financial health, although the target of maintaining risk assets lower than the risk buffer was achieved due to the increased risk buffer resulting from a buildup of periodic income, the reduction of risk assets was slightly below the target of 200 billion yen. Greater management efficiency and cost competitiveness also needed to be pursued continuously. These continuous issues were included in the next medium-term management plan starting from April 2001.

1985–2000

Part.
2
GLOBAL NETWORK

Overseas Regional Organizations

In the first half of the 1990s, SC strengthened the status and function of its overseas offices by reflecting the situation of regional economic growth around the world. Efforts toward regionally-led efficient management were pursued, including the introduction of a product-based organizational structure.

Network Status
△ SC liaison office
○ SC branch
◎ SC subsidiary
★ Change of name
▼ Closed

Europe

Operations under a product-based organizational structure started in the mid-1990s. The regional organizations and business resources were centrally managed by SC Europe reorganized in 1997 to promote a shift toward regionally-led efficient operations.

◎SC UK (Apr. 1985) / ◎SC Italia: Torino (Nov. 1987) / ◎SC Deutschland: Munich (Sep. 1988) / △Helsinki (Aug. 1988) / △Berlin ⇒ ◎SC Deutschland: Berlin (Apr. 1991) / ▼Beograd (Apr. 1994) / ▼Munich (Jul. 1994) / ▼Lisbon ▼Helsinki (Nov. 1995) / ▼Berlin (Jan. 1996) / ◎SC Europe: London Head Office (Jan. 1997) / ◎SC Europe: Rotterdam Head Office ⇒ SC Benelux: Rotterdam (Jan. 1997) / ◎SC Europe Holdings: London Head Office (Jan. 1999) / ◎SC Europe: Vienna, Oslo, Stockholm (Jul.1999) / ▼Vienna ▼Oslo ▼Stockholm (Jul. 1999) / ◎SC Europe: Budapest, Warsaw, Bucharest, Prague, Sofia (Jan. 2000) / ▼Budapest ▼Warsaw ▼Bucharest ▼Prague ▼Sofia (Jan. 2000)

Middle East

As business targeted at oil-producing countries turned out to be sluggish due to the Gulf Crisis and the drop in crude oil prices in the first half of the 1990s, the number of rotating staff members decreased from more than 100 at the peak to a half during ten years from 1988 to 1997. The business operations across the region and the localization of office management were undertaken by the smallest possible staff. SC Middle East was established in 1995 as the base for regionally-led business and managed by the Manager for the Middle East.

△Doha (Nov. 1985) / ○Ankara Branch, Istanbul (Oct. 1988) / ○Istanbul Branch, Ankara (May 1991) / ▼Tripoli (Apr. 1992) / ▼Khartoum (Feb. 1994) / ◎SC Middle East (Bahrain) (Apr.1995) / ◎SC Turkey: Istanbul, Ankara (May 1997) / △Tel Aviv (Sep. 1999)

Africa

After the announcement on the lifting of apartheid in South Africa in February 1991, regional business operations commenced centering around the Johannesburg Branch.

△Dakar (Jul. 1985) / ▼Kinshasa (Jun. 1993) / ▼Lagos (Nov. 1995) / △Addis Ababa (Reopened Jul. 1996)

CIS (Former Soviet Union)

From February 1990 when the first representative office was set up in Khabarovsk in Far East Russia, a network of offices was actively expanded into former Soviet Union countries, such as Ukraine and nations in Central Asia. In February 1997, SUMITRADE, a local subsidiary, was established to complement the function of Moscow Office and make inroads into trading activities in Russia.

△Khabarovsk (Feb. 1990) / △Nakhodka (Jan. 1992) / △Vladivostok (Sep. 1992) / △Almaty (Mar. 1993) / △Kiev (Apr. 1993) / △Tashkent (Sep. 1994) / △Bishkek (Nov. 1994) / △Ashgabat (Jul. 1995) / △Baku (Sep. 1996) / ◎SUMITRADE (Mar. 1997) / △Yuzhno-Sakhalinsk (Sep. 1997) / △St. Petersburg (Mar. 1998)

East Asia

The GM for China (Beijing) was appointed in 1985 to centrally control offices in China and support Hong Kong. Following the establishment of a local subsidiary in Shanghai in 1993, more were founded in Shenzhen, Beijing, Guangzhou, Tianjin, and other cities as well. Around the same time, the branches in Taiwan and Korea were turned into local subsidiaries.

△Qingdao (Nov. 1986) / △Nanjing (Nov. 1986) / △Haikou (Jan. 1988) / △Shenzhen (Feb. 1988) / △Chengdu (Feb. 1989) / △Fuzhou (Mar. 1989) / △Shenyang (May 1989) / △Xiamen (Jan. 1991) / ▼Shenyang (Feb. 1993) / ◎SC Shanghai (Mar. 1993) / ◎SC Shenzhen (Aug. 1994) / ◎SC China: Beijing (Nov. 1995) / △Wuhan (Apr. 1995) / ◎SC Guangzhou (May 1996) / ◎SC Tianjin (Jul.1996) / △Shenyang (Reopened Aug. 1996) / △Jinan (Aug. 1996) / ◎SC Dalian (Jan. 1997) / ◎SC Qingdao (Jan. 1997) / ▼Fuzhou (Feb. 1999) / ▼Haikou (Mar.2000) / ▼Wuhan (Apr. 2000) / ◎SC Taiwan: Taipei, Kaohsiung (Jul. 1991) / △Ulaanbaatar (Mar. 1992) / ◎SC Korea: Seoul (Jul. 1994) / ◎SC Korea: Busan (Apr. 1997) / ▼SC Korea: Busan (May 1999) /

Southeast / Southwest Asia

Local presence in emerging markets (Vietnam, Laos, Cambodia) was restored after the end of the Cold War, and local subsidiaries were established in India and Indonesia in the second half of the 1990s.

▼Sandakan (Oct. 1985) / ▼Goa (Nov. 1987) / △Kathmandu (Apr. 1988) / ◎Malaysia•Sumur Cahaya (Sep. 1989) / ◎Indonesia•Summit Niaga (Sep. 1989) / △Ho Chi Minh City (Jan. 1991) / △Hanoi (Jan. 1991) / ◎SC Singapore (May 1991) / △Phnom Penh (Reopened Sep. 1992) / △Bangalore (Jan. 1994) / △Vung Tau (Jul.1994) / ◎SC India: New Delhi, Bombay, Calcutta, Madras, Bangalore (Apr. 1997) / △Vientiane (Sep.1997) / △Da Nang (Aug. 1998) / ◎SC Indonesia: Jakarta, Bandung, Surabaya, Medan (Apr. 1999) / ▼Sibu (May 1999)

Oceania

◎SC Australia: Port Moresby ⇒ ○SC Port Moresby Branch (Jul. 1989) ⇒ △Port Moresby (Nov. 1991) / ◎SC New Zealand: Auckland, Wellington (Aug. 1994) / ▼Wellington (May 1995) / ▼Port Moresby (Oct. 1997)

North America

After the appointment of the GM for the Americas in 1997, the integrated operations across the region shifted into high gear by utilizing SCOA's resources.

◎SCOA Boston (Oct.1987) / ◎SCOA Elmira (Oct.1987) ⇒ ▼(Jan.1990) / ◎SCOA Atlanta (May 1990) / ◎SCOA New Jersey (May 1990) / ▼SCOA Boston (Feb.1992) / ▼SCOA Fresno (Apr.1993) / ▼New Jersey (Oct. 1994) / ◎SCOA Santa Clara (Mar.1995) / ◎SCOA San Diego (Oct. 1995) / ◎SCOA Philadelphia (Jun.1996) / ▼San Diego (Jan.1998) / ▼SCOA Dallas (Feb.2000)

Central & South America

In South America, representative offices were turned into local subsidiaries in anticipation of the revitalization of trade within the region after the launch of MERCOSUR in 1995. Other measures also included the appointment of a dedicated coordinator for each product as a complement to the country-based management structure, as well as the efficient deployment of rotating staff members and national staff members.

◎SC Brazil: Diadema, Belo Horizonte (Mar. 1986) / △Managua (Mar. 1991) / ◎SC Chile (Jul. 1992) / △Panama (Oct. 1993) / ▼SC Brazil: Baelo Horizonte (Feb. 1995) / ◎SC Peru (Jul. 1995) / ◎SC Colombia (Jan. 1996) / ◎SC Trinidad and Tobago (Aug. 1997)

Chapter. 5

Toward Achieving Prosperity and Realizing Dreams

2001–2021

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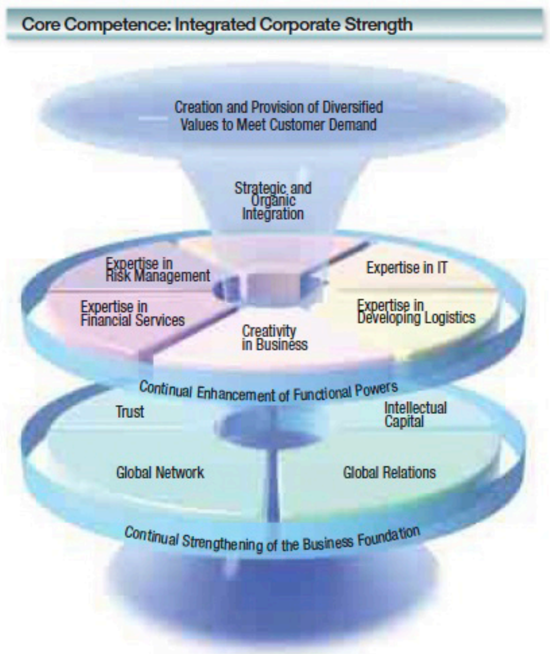
Section 1

Opening of the 21st Century

Part.
1
CORPORATE HISTORY



Integrated Corporate Strength =
The core competence of SC

President's New Year Address for 2001

President Miyahara

At the opening of the 21st century, President Miyahara reconfirmed the significance of the mission to "achieve prosperity and realize dreams" declared in the Management Principles of SC and emphasized his determination to implement a vision of "aiming to be a global organization that constantly stays a step ahead in dealing with change, creates new value, and contributes broadly to society."

In addition, President Miyahara shared his perspective on the integrated corporate strength of SC. He emphasized that SC's business foundation comprised integrity and a global network cultivated over many years, multidimensional relationships with over 100,000 companies worldwide across various industries, diverse and competent human resources, and intellectual capital such as experience, know-how, and intelligence. Additionally, he highlighted the company's numerous functions, including solutions, financial services, IT solutions, and risk management, along with its ability to develop new products and markets and create new businesses. By integrating these foundations and functions, he believed that SC could satisfy its customers' demands and create new value simultaneously. This, he explained, was SC's integrated corporate strength. SC's core values are its Management Principles and integrated corporate strength. By implementing the Management Principles and leveraging the integrated corporate strength of the group, SC could offer tangible "prosperity and dreams" to all stakeholders, including employees, customers, shareholders, and society.

President Miyahara also encouraged employees at all levels to recommit themselves to practicing the SC VALUES, which encompass the essential elements necessary to execute the Corporate Mission Statement and leverage integrated corporate strength, thereby directly contributing to enhancing the SC Group's corporate value.

Fundamental Reorganization

As part of the awareness and structural reforms under the Reform Package plan, the company reorganized the business group from 21 divisions in 6 groups to 28 divisions in 9 business units, with the aim of ensuring that each organization be operated based on the principles of self-management and self-responsibility. Each Business Unit was staffed with personnel assigned from the Corporate Group to oversee operations such as performance management, examination of transactions and business investments, personnel management, and system management. These personnel supported the heads of their business unit and divisions in both aggressive and defensive aspects.

Relocation to Harumi

In May 2001, the relocation of all SC organizations in Tokyo was completed, and many SC Group companies also moved in, raising the sense of unity in the Group. Moreover, the head office in the commercial register, which had been placed in Osaka since the founding of the company, was also moved to Harumi, Tokyo, marking the start of a new era for the company. President Miyahara, in his fifth year since he took the office in 1996, saw the copper trading incident, a long-pending issue from his early days in office, being settled, while in Managerial Reform, the targets of the Reform Package, which were due at the end of March that year, were mostly achieved. Furthermore, with the relocation of the head office to Harumi completed, the new medium-term management plan, "Step-Up-Plan," was launched in April with the new organization. President Miyahara entrusted the opening of the Harumi era to the new president, Mr. Oka, and he himself became chairman. After that, he was appointed Vice Chairman of the Keidanren (Japan Business Federation) and engaged in external activities in multiple fields.

Harumi Triton Square

New President Oka: Aiming to Be a World-Class Company

President Oka

New President Motoyuki Oka called on all employees to make SC a "world-class company" by leveraging SC's teamwork and integrated corporate strength. He defined the requirements to be a world-class company as follows:

First, the corporate vision and principles would need to take root among all employee around the world as common values that transcend cultural and language boundaries and be implemented by each employee with confidence and pride.

Second, the company would need a robust management foundation and stable earnings, as well as a commitment to enhancing and innovating the core competencies by staying a step ahead of the changing times.

Third, the company would need to provide its global stakeholders, including customers, shareholders, communities, and fellow workers, with diverse value that its competitors cannot imitate and continuously produce such value.

This would require SC to take maximum advantage of its Management Principles and integrated corporate strength to continue to enhance the value provided to each stakeholder in a chain reaction. A major precondition for achieving this would be returns earned exceeding capital cost. At this time, the company had not yet reached that level. Under the Step Up Plan launched in April, SC was aiming to earn a consolidated net profit of 100 billion yen or higher in two years with a consolidated risk-adjusted return ratio of at least 5%. President Oka expressed his determination to achieve a consolidated risk-adjusted return ratio of 7.5% or higher as early as possible by employing a new budget system, with SIGMA21 budget calculations. This would support the introduction of the risk-adjusted return ratio indicator and ensure optimal allocation of management resources.

He also declared that, in addition to the enhancement of earning power, the company would reinforce transparency, soundness, and accountability in business management through disclosure of information to its stakeholders, and that for corporate governance, SC would build a flexible and efficient management style paying full attention to global trends while also considering the good traditions and historical development of Japanese companies.

Section 2

Enhancement of Earning Power by Improving Financial Health (2001–2003)

Advancement of the Step Up Plan, New Medium-Term Management Plan

The Step Up Plan, the new two-year medium-term management plan launched in April 2001, succeeded the Reform Package and aimed to further increase corporate value by stepping up efforts to advance to a higher challenging stage. The plan established quantitative goals of achieving a total consolidated net profit of 100 billion yen over two years and attaining a two-year average risk-adjusted return ratio of 5% or higher as milestones toward reaching the objective of a 7.5% cost of shareholders' equity, which was deemed a prerequisite for achieving world-class company status. In addition, in view of the uncertain economic climate, the plan maintained the basic policy of balancing the maximum risk (consolidated risk assets) associated with business activities and SC's strength (risk buffer).

Significant Expansion of the Earnings Base

Under the Step Up Plan, efforts were made to significantly expand the earnings base by utilizing the organizations, mechanisms, information systems, and other infrastructures which had been reorganized along with the relocation of the head office. Targeting all of the 119 departments of SC and all group companies, based on their risk-adjusted return ratio and growth potential, replacement of assets and optimal allocation of management resources were carried out by employing the techniques of the business portfolio strategy. New business models utilizing information technology, logistics technology, and financial technology were developed, alongside efforts to establish strategic alliances and acquire businesses.

Further enhancement of corporate structure

Basically, an integrated trading company takes various risks in conducting its businesses in a wide range of fields and aims to gain high returns by managing the risks in multiple phases. Therefore, SC quantified all possible risks, including credit risk, market risks and business investment risks, to control the amount of risks for the entire group, and also utilized management infrastructure to establish a rating system for business partners and set the criteria for making or withdrawing from business investments. Furthermore, in view of the increasing importance of the measures to prevent or tackle "non-quantifiable risks," such as natural disasters, pandemics, risks on labor, taxation, legal affairs, and reputational damage, which generate only losses without returns, the company listed a total of 107 non-quantifiable risks, assessed their impact on its revenues, and set priorities of those risks in terms of urgency according to which the risk management system would be reconstructed. In addition, as a company-wide initiative to help improve the risk sensitivity and legal awareness of each employee, the company developed a learning procedure for risk case studies and established a knowledge database for the sharing of information.

Further Promotion of Efficient Management

Under the Step Up Plan, in line with the introduction of the ERP system for the SIGMA21 project, SC promoted the fundamental revision of business processes in the Corporate Group, the transfer of personnel to the Business Group, and the outsourcing of routine jobs to support the operation of business units. In August 2003, a new team was established to promote the introduction of specialized back-office sections to handle support tasks within the Business Group, and these sections were gradually established in business units, divisions, and group companies.

Summary of Step Up Plan

The profit target for the Step Up Plan, set at a two-year total of 100 billion yen, was partially met in the first year, achieving 47.7 billion yen. Unfortunately, in the second year, fiscal 2002, it fell short, closing at 13.9 billion yen. This failure to reach the remaining target of 55 billion yen was primarily attributed to a substantial loss on the valuation of listed securities recorded during that period. In order to enhance the soundness of its assets and strengthen the corporate structure, the company decided to record losses on valuation for financial institution stocks whose market value declined by 50% or more from the book value. Because of this treatment, the two-year average risk-adjusted ratio (4.4%) did not reach the target (5.0% or higher). However, a substantial advancement was seen in the three pillars of the plan: dramatic expansion of the earnings base, enhancement of corporate structure, and promotion of efficient management.

Compliance First and Immediate Reporting

While SC had positioned compliance as the base of its business promotion, the copper trading incident, which came to light in 1996, reminded the company of its significance, leading to all-out efforts led by top management to ensure compliance. The Compliance Committee was set up in November 2000 to create a compliance system focusing on whistleblowing, followed by the compilation of a compliance manual in April 2001, and "Compliance First" and "Immediate Reporting" were upheld as basic compliance policies in 2002. In light of a series of corporate scandals, which occurred frequently in the world in those days, President Oka reminded everyone of the importance of compliance and told them to pay the utmost attention so as not to draw any criticism from society. Moreover, he strictly commanded them to always verify their work from a compliance perspective and to immediately contact the Legal Department if they were unsure of anything.

The 9-11 attacks in the United States

On September 11, 2001, a series of terrorist attacks in the United States shook the entire world. Four passenger airplanes were hijacked, and two of them were flown into the World Trade Center, destroying the twin towers. A third plane similarly devastated the Pentagon, resulting in a death toll of nearly 3,000 people. Immediately after the 9-11 attacks, SC formed a task force to gather information and take appropriate actions for crisis management of the entire SC Group while sending monetary donations via SC of America (SCOA), providing drinking water for those engaged in relief activities and other support. The SCOA company newsletter of that time recorded how SCOA employees were shocked by this disaster.

SCOA's New York Office is Witness to Trade Center Attack

SCOA's headquarters office at Third Avenue and 39th Street occupies five floors including the top four stories of one of the taller buildings in the midtown Manhattan business district. The location offers breathtaking city views in all directions. On a clear day, nothing obstructs the line of vision south to the financial district and the site of the World Trade Center. For the 200 SCOA workers at 600 Third Avenue, the dramatic cityscape turned horrific on Sept.11 as they became witnesses to one of the most tragic events in history.

SCOA employees who sit on the south side of the building watched the attack unfold in utter disbelief. Many gathered in the 30th floor lunchroom, where they could clearly see the smoke, the fireball from the second tower, everything. But no one thought the towers would collapse. When that happened, most stared in silence, too stunned for words.

While no SCOA employees lost spouses or children, everyone was affected by the loss of friends, neighbors or the searing image itself. Washington D.C. was also shaken by a terrorist attack on Sept.11, as a hijacked plane slammed into the Pentagon. At SCOA's Washington office, which is situated one block away from the White House, the flurry of activity that day kept some members of the staff in the office until after 1 p.m., as the surrounding streets swelled with traffic. SCOA's crisis management team convened when the New York office reopened on Sept.13, to discuss several issues regarding emergency procedures and operations, as well as to identify ways the company could help.

SCOA senior management quickly approved a donation of $500,000 to relief efforts by the American Red Cross Disaster Relief Fund, the Twin Towers Fund for surviving families, the Survivor's Fund of the Community Foundation of the National Capital Region in Washington D.C., where SCOA also operates an office near the site of the Pentagon attack, the Japanese Community WTC Relief Fund and the Japanese American Association of New York for relief efforts.

SCOA TIMES 10 October 2001

Section 3

Shift to Aggressive Management to Increase Quality Assets (2003–2005)

Medium-Term Management Plan AA Plan: Aiming for a Risk-Adjusted Return Ratio of 7.5%

The two-year medium-term management plan that started from fiscal 2003 was named the AA Plan, which stood for Approach for Achievement, representing the strong determination to achieve the risk-adjusted return ratio of 7.5%. The AA Plan upheld an aggressive strategy of "expanding the earnings base and laying the groundwork for the future by mobilizing integrated corporate strength" and, at the same time, a defensive strategy of "enhancing the corporate structure by pursuing efficiency and soundness in management" to support the aggressive approach. As a profit target, the plan aimed at a 6% or higher two-year average risk-adjusted return ratio, and net profits of 60 billion yen for fiscal 2003 and 70 billion yen for fiscal 2004, marking record highs for the two consecutive years.

Mobilization of Integrated Corporate Strength and Strategic Investment of Management Resources

Under the AA Plan, SC's nine business units formulated a business portfolio in their broad, respective business fields for the purpose of selecting and concentrating on certain businesses. At the same time, management resources were concentrated and invested in company-wide strategic fields and regions, thereby aiming at a risk-adjusted return ratio of 7.5%, which corresponded to the cost of shareholders' equity. Each business unit mobilized integrated corporate strength in its own business activities, such as promoting strategic alliances and business acquisitions, developing multiple businesses with business partners, expanding the logistics business, and utilizing financial functions, while investing management resources in strategic fields, such as the information business, supermarket business and resources development business. Moreover, new technologies were developed and commercialized mainly in the fields of medicine, biotechnology, nanotechnology, clean energy, and network-related IT technology, helping to broaden SC's business frontiers.

Combining Product Strategy with Regional Strategy

For the enhancement of earning power by combining product strategy with regional strategy, the AA Plan emphasized that business units and regional organizations should constantly share information, hold discussions based on total optimization, and formulate a mutually agreeable global strategy, and that these processes would promote the implementation of the strategy and lead to the improved earning power of the entire group. In response, a company-wide Globalization Promotion Committee was formed. The committee encouraged business units and regional organizations to mutually demand actions appropriate for their respective roles and responsibilities based on mutual cooperation. It also worked to strengthen regional organizations, which were often more limited in terms of management resources compared to product divisions, by encouraging wide-area operations, appointment and training of national staff, investment in group companies under divisions, and secondment of employees to regional organizations.

Pursuing Efficiency and Soundness to Enhance Corporate Structure

Under the AA Plan, besides the expansion and enhancement of the earnings base, efforts were made to efficiently allocate the limited management resources, such as financial and human resources, from the perspective of total optimization on a global consolidated basis. The plan aimed to sophisticate the group management infrastructure by such means as group financing, global tax planning, and optimal placement of group human resources, thereby improving efficiency of management. At the same time, maintaining and improving the soundness of management to enhance the corporate structure was also a very important task. The company therefore endeavored to increase risk management and further enhance compliance.

Enhancement of Corporate Governance

In view of the revision to the Japanese Commercial Code in April 2003, the U.S. Sarbanes-Oxley Act and other similar trends, SC aimed to strengthen the Corporate Auditor system and the function of directors, so it formulated the SC Corporate Governance Principles and announced its basic principles of governance to be 1) improving management efficiency, 2) maintaining sound management, and 3) ensuring management transparency.

While respecting the traditional management culture of a Japanese company, SC decided to pursue an optimal governance system in light of the global trends in governance and corporate legislation.

Measures to Enhance Corporate Governance (April 2003)

1) Enhancing the system and functions of corporate auditors
2) Appointing outside advisors (until fiscal 2012)
3) Appointing the proper number of directors
4) Introducing the Executive Officers system
5) Setting terms of offices for chairman and president

Enhancement of CSR Initiatives

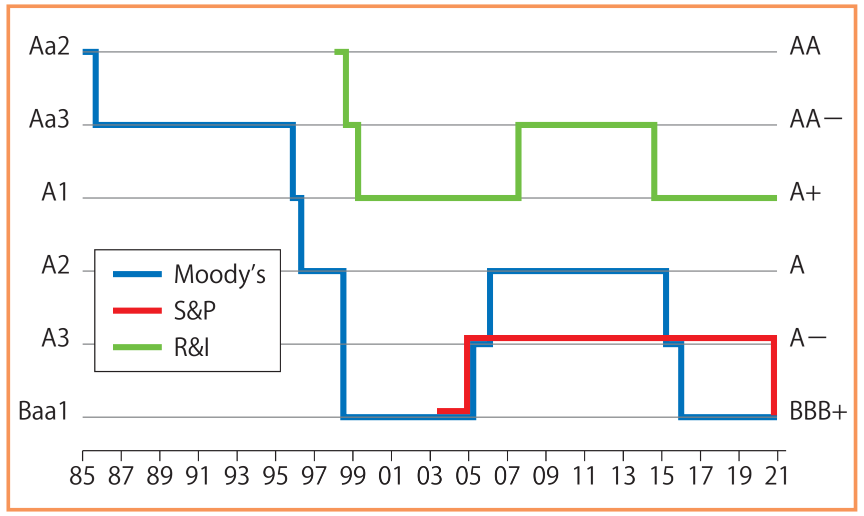
In the 2000s, as the globalization of the economy accelerated and corporate scandals both inside and outside Japan increasingly came to light, Corporate Social Responsibility (CSR)—which requires companies as a public organ of society to fulfill their responsibilities in the fields of the environment, society and human rights—began to attract public attention. This resulted in the requirement to disclose information concerning environmental conservation and social contributions, an increase in social responsibility investments (SRI), and the escalation of the movement toward legislation and ISO standardization of CSR in Europe.

In response to these moves, in January 2004, the CSR Committee was set up across the Corporate Group, to be engaged in gathering information on CSR-related matters and communication with external organizations, communication and coordination with relevant committees and responsible departments inside SC, and internal education activities.

Rated A for the First Time in Six and a Half Years

Net profit of fiscal 2003, the first year of the AA Plan, was 66.6 billion yen, and that of fiscal 2004 was 85.1 billion yen, marking record highs for two consecutive years, while the risk-adjusted return ratio was 8.2%, exceeding the cost of shareholders' equity of 7.5%. This was achieved not just because of the favorable changes in the business environment. It was the result of balanced efforts to expand the earnings base and enhance the corporate structure at the same time, despite the severe environment. In addition to the increase in profits, SC procured a growth fund of around 100 billion yen by public stock offering in July 2004 to reinforce its financial soundness and further increase quality assets, becoming fully prepared to accelerate its growth strategy.

In April 2005, Moody's raised the rating of SC to A3. After the copper trading incident in 1996, SC fell four ranks from Aa3 to Baa1 before fiscal 1998, when the company fell into unprofitability due to the Asian currency crisis. It was therefore the first time in six and a half years for SC to return to A rank.



Rating chart

Section 4

Accelerating Aggressive Approach to Further Expand Earnings Base (2005–2007)

Medium-Term Management Plan AG Plan: Accelerating Aggressive Approach

The AG Plan accelerated the approach of the AA Plan toward the expansion of the earnings base. While maintaining the risk-adjusted return ratio of 7.5% (Achievement), it aimed at further development (Growth) by promoting the "expansion of the earnings base with a dynamic growth strategy," "implementation of a personnel strategy in line with the growth strategy," and "pursuit of soundness and efficiency" on a global consolidated basis.

Expansion of the Earnings Base With a Dynamic Growth Strategy

To expand the earnings base, SC concluded strategic ties with the Sumitomo Mitsui Financial Group on the lease business and the auto lease business, and also worked aggressively to acquire interests on resources in Bolivia and Madagascar. As a regional strategy, SC positioned CIS and India as a "Focused Frontier" to be developed in multiple phases in cooperation with major local companies. SC also entered the home delivery business market in China and launched a biotech venture as a preparatory step for the future. In the CATV business field, Jupiter Telecommunications Co., Ltd. boosted capital investment in anticipation of future digitalization. In the energy field, SC purchased interests in coal mines in Australia, followed by the additional purchase of LNG interests in Tangguh, Indonesia by LNG Japan Corporation, and the acquisition of TBC Corporation, a U.S. tire retailer. Besides these actions to increase assets, SC also aggressively replaced assets by selling its equity in the Coach Japan brand business and securitizing the Harumi Head Office building. Moreover, the company carried out a series of strategic actions, such as making an IPO for Jupiter Telecommunications in 2005, making Sumisho Auto Leasing Corporation and Sumisho Metalex Corporation fully owned subsidiaries, and integrating Sumisho Computer Systems Corporation and Sumisho Electronics Co., Ltd. These actions resulted in a net profit of 160.2 billion yen in fiscal 2005, the first year of the plan, and 211.0 billion yen in fiscal 2006, marking record highs for four consecutive years. The quantitative goals of the plan were achieved with a two-year total net profit of 371.2 billion yen—far greater than the initial target of 230 billion yen—and a two-year average risk-adjusted return ratio of 15.8%, exceeding the initial target of 10.2%.

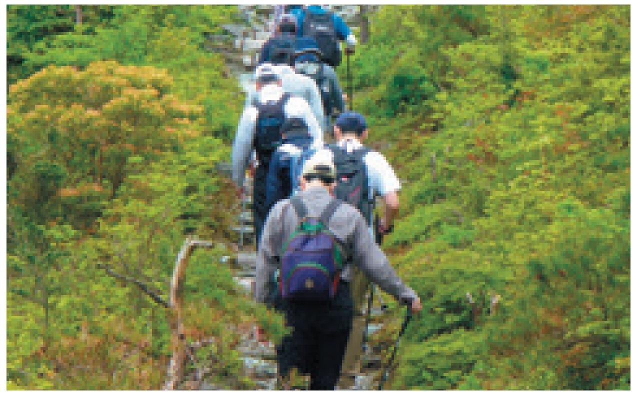
Promoting "Area Bloc-Based Operation" of Overseas Regional Organizations

The Globalization Promotion Committee that was formed under the AA Plan and the AG Plan set priority tasks. These included enhancing cooperation between regional organizations and group companies, promoting area bloc-based operation in each region, strengthening the capabilities of locally hired staff members, and developing communication infrastructure. Under the AG Plan, for the task of promoting area bloc-based operation, the authority of the GMs was expanded, and the regional product group system was introduced. In the Americas, with capital injections from SCOA into subsidiaries in Canada, Mexico and Brazil in 2001, an integrated operation led by SCOA was realized. In Europe, northern Africa (Algeria and Morocco) was added to the area under the responsibility of the GM in April 2001. In the CIS area centered on Russia, the CIS General Manager was appointed in April 2004. Furthermore, in Southeast Asia, which had been placed under the direct control of the head office since the General Manager system was abolished in 1983, the GM for Southeast Asia (Singapore) was appointed again in April 2005, and the bloc operation for the area expanded to Southwest Asia began the following year. At the same time, the regional product group system, in which a local subsidiary's group in charge of a product is responsible for the deployment of the same product in the entire bloc area, was introduced to the SC Europe Group in January 2004, followed by SC China and Hong Kong Group in January 2005.

Implementing HR Strategy in Line with the Growth Strategy

One of the priority tasks of the AG Plan was to secure, develop and utilize the human resources necessary to increase the corporate value of the SC Group on a global consolidated basis. It was the first time that a human resources strategy was included in qualitative targets of a medium-term management plan of the company.

In December 2004, the Human Resource Development Committee, chaired by President Oka, discussed how to develop human resources from a long-term perspective. In April 2006, the personnel system was revamped with the aim of strengthening human resources and revitalizing all employees. A grading system based on expected roles for certain key positions and human resource assessments were introduced to enhance human resources development. These initiatives resulted in the development of a working environment in which each individual could exercise their ability to the fullest and work with motivation. Furthermore, measures to balance promotion of young members and active participation of senior members were reviewed, on-site training for GMs at the Besshi Copper Mines began, and further initiatives to reduce overtime work and ensure work-life balance were launched.



On-site training for General Managers at the Besshi Copper Mines

Balancing Promotion of Young Members and Active Participation of Senior Members

One of the objectives of the new personnel system was to balance the promotion of young members and the participation of senior members. To realize a shift in the company policy to utilizing knowledge and skills of senior members to invigorate the entire company, President Oka communicated messages directly to the heads of all divisions, departments, and teams as well as all employees aged 50 or above working in Japan, for a total of 33 times and to a total of approximately 1,400 people, during a period from August to November 2006. What motivated him to do so was not only the human resources strategy, but also his strong aspiration to make SC a company that every member could feel proud to have worked for at the milestone of retirement.

The Work-Life Balance Project

The Work-Life Balance Promotion Project Team, a company-wide task force launched in fiscal 2005, addressed such issues as employees' motivation to grow and how to create a worker-friendly workplace, and examined the personnel management system. As a result, late-night overtime work was prohibited in principle from July 2005 and time management training was conducted to make the prohibition effective, leading to the reduction of total overtime work hours. In addition, the SC Group Counseling Center was established in April 2005 as a mental health measure, based on the view that mental and physical health is extremely important for each person to fulfill his or her potential and realize a work-life balance.

Improving Operational Quality and Efficiency

In order to enhance the corporate structure of the SC Group, the internal control committee was established in fiscal 2004. Since then, various conventional systems and measures for internal control and risk management, including a self-audit system and integrated risk management, had been organized and streamlined, with the aim of enhancing the company-wide corporate governance system. Aiming to ensure that each group company made voluntary efforts to improve compliance and risk management, the Internal Control Project was launched to encourage each workplace to take the initiative in evaluating their own operational quality, identify points to be improved and problems, and formulate and implement concrete countermeasures.

Internal Control Project

Following the series of scandals arising in major companies from 2001 to 2002 in the United States, the Sarbanes-Oxley Act was enacted, aimed at preventing window dressing and illegal accounting treatment by companies in 2002. Taking the situation seriously, SC reviewed its internal control structure and set up the Internal Control Committee in July 2004. The Committee comprehensively examined, on a global consolidated basis, the work processes with respect to the effectiveness and efficiency of work, reliability of financial reports, and related laws and regulations, in accordance with the internal control framework of the Committee of Sponsoring Organizations of the Treadway Commission (COSO), which was considered the international standard. After that, the Internal Control Project was launched in January 2006. The project periodically inspected the management of overall work processes at each front-line worksite of SC and many of its group companies both inside and outside Japan, with the aim of achieving continuous improvement of their internal control.

Enhancing Awareness of Compliance

On April 7, 2006, SC and UBS AG, a Swiss financial group, reached a settlement on the copper trading incident. With this, almost all cases relevant to this incident ended. For about 10 years since the copper trading incident first came to light in 1996, SC had strengthened its internal control system and strived to recover its soundness and trust.

At this occasion, President Oka said, "We experienced the reality that a violation of compliance by a single person led to such a serious incident. Taking this opportunity, I ask each one of you to remind yourselves of our Corporate Mission Statement and Sumitomo's underlying business philosophy of 'place prime importance on integrity and sound management,'" thus calling on all employees to enhance their awareness of compliance.

Section 5

Laying the Groundwork for Sustainable Growth (2007–2009)

Achievements and Challenges of Managerial Reform after the Reform Package

For eight years after the Reform Package launched in 1999, SC was continuously committed to awareness and structural reforms, working to enhance the earnings base and reinforce its financial health. During the first four years (up to Step Up Plan), priority was placed on reinforcement of financial health, and efforts were made to select core businesses, concentrate assets, and improve management efficiency. The purpose of this focus was to secure the earning power capable of covering the cost of shareholders' equity, or in other words, to secure a risk-adjusted return ratio of 7.5%. The next four years (AA Plan, AG Plan) focused on "aggressive" business management, and efforts were made to proactively expand the earnings base. As a result, net profit jumped from 32.3 billion yen in fiscal 1999 to 211 billion yen in fiscal 2006, with the risk-adjusted return ratio reaching 15.8% on average over the two years of the AG Plan. Meanwhile, in contrast to the favorable company-wide performance, profitability varied among business divisions and group companies. In addition, there were several challenges to overcome, such as the need to increase value of the acquired businesses and the core businesses, which the company had aggressively expanded, and to enhance the risk management and internal control system. It became crucial to tackle and solve these challenges to ensure sustainable growth in the future.

Medium-Term Management Plan GG Plan: Improving the Quality of the Earnings Base

The GG Plan was positioned as the stage to solidify the foundation for establishing a system capable of stably achieving 15% or higher for the risk-adjusted return ratio. The name of the plan represented the intention to become a Great and Growing Company that is highly appreciated by all stakeholders by shifting to a strategy to pursue further improvement in quality and expansion of business scale in a well-balanced manner.

Further improvement in quality was to be addressed in four areas: earnings base, operation, group management, and human resources and workstyle. Among them, the plan placed highest priority on improving the quality of the earnings base and called for accelerating the replacement of managerial resources. Since before then, SC had continuously worked on the selection and concentration of core businesses and the reduction of small-scale group companies. Now, to promote more aggressive replacement of assets in line with the start of the GG Plan, SC enhanced the quantitative and qualitative criteria for investment and established a consistent business monitoring process from entry through to exit, thereby implementing the dynamic replacement of assets and substantially raising the value of core businesses, with the aim of establishing a truly solid earnings base.

Appointment of President Kato

President Kato

In June 2007, Executive Vice President Susumu Kato was appointed the new president, and Motoyuki Oka was appointed chairman. Former Chairman Miyahara became a corporate advisor. President Kato, at the first General Managers' Meeting after his appointment, confirmed the three basic policies of group management.

1. Aim to be a company that is continuously engaged in businesses that are truly useful for society while gaining reasonable returns appropriate for risks and efforts.

2. Improve the sensitivity to changes and engage in daily operations with a sense of crisis, thereby turning changes into business chances leading to sustainable growth.

3. Improve global consolidated management by carrying out various initiatives on a global and group basis, including promoting the SC Group's Management Principles, sharing strategies, and improving management quality.

Improving Quality in Four Areas for Sustainable Growth

1. Earnings Base

To address the urgent task of improving the quality of management of consolidated group companies, which amounted to nearly 900, efforts were made to accelerate selection and concentration of businesses and increase the value of each business. In particular, for group companies that had a significant impact on the consolidated performance, the "value-up support system" was introduced to provide company-wide support for and monitor the formulation and implementation of measures to achieve the initial targets set at the time of their founding or joining the group and to realize the desired synergy effects. To make effective use of limited business resources, SC also worked to improve its asset efficiency while aggressively reducing small-scale group companies. The company also advanced strict selection of businesses to raise the standard of the absolute profit amount, while introducing a new profitability criterion that designated projects with a risk-adjusted return ratio lower than 7.5% for three consecutive years as candidates for withdrawal. This was done to realize dynamic replacement with the aim of substantially raising the value of core businesses.

2. Operation

Efforts were made to improve asset efficiency and operating cash flows at each workplace, and to ensure risk management, such as credit management, for achieving higher financial soundness and efficiency. In addition to enhancing compliance, SC worked to improve efficiency and operational quality through periodic and comprehensive internal control checks introduced in fiscal 2005 based on relevant rules in the Financial Instruments and Exchange Act.

3. Group Management

Under the GG Plan, "improvement in the quality of group management" was included in the targets of the medium-term management plan for the first time. This was based on the understanding that in aiming to be a Great and Growing Company, group companies constituting the SC Group should also work to improve the quality of their earnings base and operations, and that through such efforts, it is necessary to strengthen ties between group companies and increase the corporate value of the entire group.

4. Human Resources and Workstyle

Efforts were made to promote growth and active participation of all individuals of the group in all positions, including young, senior, female, and locally hired staff members, as well as employees of group companies. A particular focus was placed on securing, developing and utilizing talented human resources. Recruitment of new graduates and mid-career hiring were both enhanced, the balancing of the promotion of young members and active participation of senior members was promoted, and human resources development programs were increased. At the same time, in addition to ensuring the implementation of time management, measures to create leisure time were promoted, with the aim of realizing work-life balance.

Summary of GG Plan

As a result of efforts to increase quality assets in the core businesses of each segment and their peripheral fields, net sales of fiscal 2007, the first year of the plan, were 238.9 billion yen, exceeding the target of 235 billion yen and marking a record high for the fifth consecutive year. In fiscal 2008, the second year, the steel service center and tubular products business, automobile and construction machinery-related businesses, and coal business showed steady performance during the first three quarters partly due to the favorable market environment and a rise in resources prices. However, from the beginning of the fourth quarter in January 2009, the economic slowdown caused by the collapse of Lehman Brothers led to a decrease in trading volume as well as temporary losses on inventory valuation and securities. As a result, net profit in fiscal 2008 was 215.1 billion yen in comparison to the initial target of 243 billion yen, and the total net profit for the two years of the GG Plan was 454 billion yen, failing to reach the initial target of 470 billion yen. However, the risk-adjusted return ratio was 16.5%, above the target of 15%, despite the environment that had worsened at a level far exceeding expectations. This demonstrated the improvement in the quality of the earnings base.

Section 6

Implementation of Effective Growth Strategy and Enhancement of Soundness and Efficiency (2009–2011)

Medium-Term Management Plan Focus'10: Growth Scenario for 10 Years in the Future

The new two-year medium-term management plan FOCUS'10, which was launched in April 2009 when the economy was still reeling from the collapse of Lehman Brothers, was positioned as a growth scenario for 10 years in the future. Its basic policy was to develop a corporate structure and a growth model that would enable sustainable growth under any circumstances. The plan set quantitative targets of 115 billion yen for net profit in fiscal 2009 and around 10% for the two-year average of risk-adjusted return ratio, based on the assumption that the very severe external circumstances would continue for a while. This profit target was about half the level of net profit of fiscal 2008, reflecting the strong determination to secure a risk-adjusted ratio exceeding the cost of shareholders' equity of 7.5% under any circumstance. The plan set "complete the implementation of an effective growth strategy," "all-out enhancement of soundness and efficiency" and "development of human resources and organizations to improve value creation capacity" as qualitative targets.

Implementation of Effective Growth Strategy

As a system to encourage growth in diverse manners taking advantage of the unique characteristics and strengths of each business, the current standpoint of each business line was classified according to the two yardsticks of profitability (risk-adjusted return ratio of 7.5% or higher) and profit scale (net profit of one billion yen or more), so that the targets and business resources were effectively set and allocated according to the growth stage of each business. During the two years of the FOCUS'10 plan, business resources were allocated mainly to the fields where there were many investment opportunities and SC would be strong, such as resources and energy, infrastructure and the media, and to emerging countries. On the other hand, efforts were made to reduce risk assets with little future potential.

As an initiative to establish new pillars for earnings from a medium- to long-term perspective, the New Business Development & Promotion Division was established in April 2010 by integrating the businesses in the environment and new energy fields, which had been promoted separately by 12 business divisions. The new division was in charge of development and promotion of businesses in the environment and new energy fields, and also played the role of a business organization providing support for business promotion in each field by utilizing its professional capabilities. Together with the Financial Service Division and the Logistics & Insurance Business Division, the new division formed the New Industry Development & Cross-functional Business Unit, renamed from the Financial & Logistics Business Unit.

All-Out Enhancement of Soundness and Efficiency

In response to the dramatic changes brought about by the collapse of Lehman Brothers in the world economy and financial framework, SC made all-out efforts to enhance its financial soundness and efficiency, with the aim of achieving a transformation into a structure capable of growing continuously based on internal reserves. Specifically, to promote replacement of assets by segment, the company formulated the "balance sheet plan" incorporating the reduction of assets in addition to the investment plan, working to improve asset efficiency. Moreover, in order to continue investments for future growth while enhancing financial soundness, SC implemented the strategic replacement of major assets across the company and allocated a replacement fund of 10 billion yen after tax for two years in preparation for possible losses due to sales of assets or withdrawal from businesses, which enabled aggressive replacement despite the severe circumstances at that moment.

Development of Human Resources and Organizations to Improve Value Creation Capacity

To strengthen individual capabilities, a company-wide program to develop human resources through rotations was introduced, with the aim of developing personnel who are capable of thinking from both a company-wide perspective and a business management perspective, as well as based on hands-on experience. Specifically, a rotation between the Business Group and the Corporate Group was introduced for training, while a certain number of new recruits for key positions were initially assigned to the Corporate Group before transfer to the Business Group. By introducing rotations across groups and divisions to realize strategic and optimal allocation of human resources, SC aimed to improve vitality in organizations and workplaces and to enhance value creation capacity.

Summary of FOCUS'10

In terms of quantitative goals, despite the impact of the worsening market environment and the decline in market commodity prices due to the financial crisis, the results for fiscal 2009 exceeded expectations in the mineral resources & energy field, including the silver, zinc, and lead businesses in Bolivia. Together with earnings from emerging countries in Asia and aggressive asset replacement, SC achieved a net profit of 155.2 billion yen for the year, exceeding the target of 115 billion yen. In fiscal 2010, the second year, net profit surpassed the upwardly revised earnings forecast of 200 billion yen and reached 202.7 billion yen, and the risk-adjusted return ratio was 12.7% in comparison to the target of around 10% for the average of the two years of the period of the plan. As for investment and financing, a total of 600 billion yen was invested during the two years, mainly in the mineral resources & energy field and the media and lifestyle field, which was close to the largest amount ever. As a result of aggressive replacement of assets to recover funds, SC succeeded in bringing the two-year total free cash flows into profitability, and, except for an increase in cash and deposits, the company also achieved the target of maintaining the total assets at the level at the end of fiscal 2008, when FOCUS'10 started. Meanwhile, there were still some businesses that lacked profitability and growth potential, and many valuable assets and human resources were tied up in them.

The Great East Japan Earthquake

On March 11, 2011, the Great East Japan Earthquake occurred. It was the fourth largest earthquake in the world since 1900 and caused huge tsunamis with heights over 10 meters that engulfed the whole area along the Pacific Ocean in Iwate, Miyagi, and Fukushima Prefectures. The earthquake and the tsunami killed nearly 20,000 people with over 2,500 people missing and over 6,000 people injured. Furthermore, the Fukushima Daiichi Nuclear Power Station lost power, causing damage to the reactor cores.

On March 14, after the weekend, SC formed an emergency response team led by President Kato. It was fully committed to securing safety for the entire SC Group, providing support for the people affected by the disaster, and restoring infrastructure for business partners and local communities. At the same time, immediately after the earthquake, the company mobilized all possible means to support the affected areas, including procuring and transporting relief supplies and sending monetary donations.

President Kato visited Sendai City in early April to check on the affected group companies, and expressed sympathy and offered all possible cooperation to the governor of Miyagi Prefecture, which suffered immense damage from the disaster. Afterwards, in the hopes of speeding up the recovery of the area, SC launched a reconstruction volunteers program, and in collaboration with Mitsui & Co., Ltd., provided practical support for the recovery of the fishery processing industry in Kesennuma City, which was devastated by the earthquake. SC also hosted the SC East Japan Youth Program to support the growth of the youth in the affected area for five years starting in fiscal 2012.

Volunteers clearing mud and debris from houses

SC East Japan Youth Program

Section 7

Growing Together (2011-2013)

Paradigm Shifts

Since the beginning of the 2000s and in conjunction with the rapid progress of globalization and innovation in terms of information and communication technologies, the leading forces of the global economy shifted from conventional advanced countries to emerging countries. What was observed was a geographical shift where emerging countries as represented by China and India played roles as the "World's Factory," while also transforming into massive consumer markets due to the increase of middle-income earners. At the same time, the world was facing global issues that required medium- to long-term solutions, such as global warming and tightening food supplies in line with the economic advancement of said emerging countries. These issues led to profound structural changes in the auto industry and the environmental business, in addition to food, agriculture and other fields. SC was thus in a situation where it needed new ideas to go beyond merely extending traditional business practices.

Medium-Term Management Plan f(x): Execution of Business Model Innovation

*The "f" in f(x) comes from "FOCUS'10," while the "x" is taken from the English word "execution." However, when reading the name, the "x" is pronounced as "cross," representing "cross-boundary growth" or growth across regional, generational and organizational boundaries.

The medium-term management plan f(x), which was launched in April 2011, retained many of the basic policies of FOCUS'10 for achieving sustainable growth over a 10 year period, while also aiming for cross-boundary growth together with all partners by innovating the business model in line with the times. Numerical targets included record high net income of 220 billion yen in fiscal 2011 and 260 billion yen in fiscal 2012 as well as a risk-adjusted return ratio of 15% or more in fiscal 2012.

Under f(x), business model innovation was defined to reposition SC businesses in terms of a combination of three factors: (1) geographical shift, (2) changes in industrial structure and (3) changes in business functions, and four key actions were established to achieve this goal. The first was to promote the execution of integrated corporate strength through cross-organizational partnerships, with medium- to long-term visions of individual business divisions translated into the f(x) plan, and developing this initiative through discussions at a management level. The second was to identify specific fields where SC could prioritize the allocation of business resources and accelerate strategic resource management. The third was to enhance integrated corporate strength as an SC core competence on a global basis through business development from multiple aspects with major and prospective companies around the world, in addition to the introduction of global performance management to make strategic arrangements to lay a stable foundation of regional organizations and optimally allocating business resources of business units. The fourth was to bolster human resource management on a corporate level and further increase the levels of executives in overseas business companies and regional organizations. As part of infrastructure improvements, the Global HRD Center opened in Ginza, Tokyo in April 2012.

Inauguration of President Nakamura: "Be the Best, Be the One"

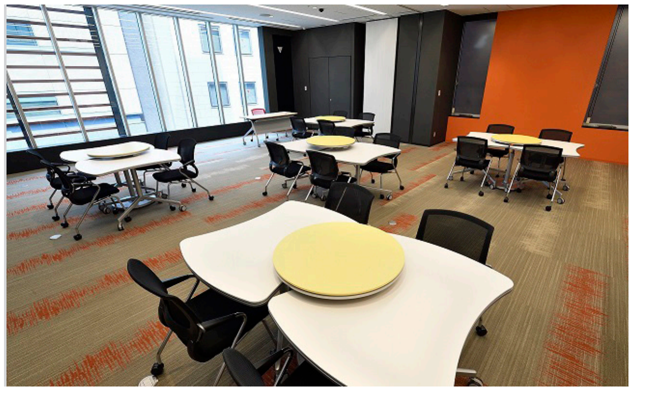
President Nakamura

In June 2012, Kuniharu Nakamura, who had served as executive vice president, was appointed president following on from President Kato. In his inauguration speech, President Nakamura expressed his intention for SC, as it celebrated its 100th anniversary in 2019, to continue growing not only in the next 50 years but also in the following 100 years and beyond. To realize this, he stressed the importance of three points. The first was to return to the Sumitomo business philosophy and Sumitomo Group Management Principles and put them into practice in daily operations. The second was to consistently take a hard look at what things would be like in the near future, and to execute immediate plans in view of medium- to long-term strategies. Lastly, recognizing that a trading company is built on its employees, he stated the importance of helping individual employees to grow in order to enhance overall group value. His intention was to create a corporate group where each member adhered to the Management Principles, took pride in being a member of the group, and enjoyed taking on challenges in their work. In this way, they would create value in a unique way befitting SC's distinctive identity and contribute to achieving prosperity and realizing the dreams of stakeholders. President Nakamura thus created the "Be the Best, Be the One" slogan to embody his vision and called on all employees to work cheerfully and energetically to achieve this goal.

Passing of Chairman Kato (October 30, 2012)

The former president Kato (who was inaugurated chairman in June) attended the completion ceremony of the Global HRD Center, a new training facility in Ginza, Tokyo, that took place in the middle of March 2012. He said, "It has been my long-cherished desire to establish a special place that creates active communication. I earnestly hope that employees of the SC Group will take advantage of this facility as a forum to deepen exchanges beyond countries, workplaces and generations, thoroughly discuss future strategies and visions and talk about their dreams."
Soon after this, he returned from a business trip to India in early April, became indisposed, and underwent medical treatment at the end of April. Even during his convalescence at home, he read email messages and reports and dispatched instructions and advice sometimes via the telephone and at other times using hand-written notes. On October 30, he died at the age of 65. In accordance with the wishes of the bereaved family, the funeral was a private affair. On January 28, 2013, a memorial ceremony was held at Hotel Okura in Tokyo.

Global HRD Center



What We Aim to Be Towards The 100th Anniversary

In December 2012, one month following the passing of Chairman Kato, the first General Managers' Meeting since the inauguration of President Nakamura took place. With the milestone 100th anniversary approaching in seven years, he envisioned a company that would continuously grow over the next 50 to 100 years under the slogan of "Be the Best, Be the One. " The aim was to be a corporate group that is recognized by society as meeting and exceeding the high expectations directed toward it, creating value that nobody else can match in ways befitting the distinctive identity of SC.

"Befitting SC's distinctive identity" is something that is naturally created from the corporate atmosphere and culture based on Sumitomo's business philosophy. "Creating value that nobody else can match" means to offer functions and added values unique to SC that other companies cannot imitate. It will only be when both of these two elements become complete that SC can become a company that is suitable for the expression, "Be the One." When SC becomes a "Be the One" company, it will be recognized by all stakeholders as a genuine "Be the Best" company. President Nakamura believed that for SC, targeting "Be the Best, Be the One" meant growing with all partners and succeeding the wishes of the late former President Kato who strived for SC to become a company respected by society.

From a quantitative perspective, based on drastic changes in the global economy and financial frameworks after the 2008 Financial Crisis and assuming that financial soundness could be maintained, it was decided to set a goal of establishing an earnings base that could achieve a profit level of 400 billion yen or more of consolidated net income with total assets of around 10 trillion yen for the 100th anniversary in fiscal 2019. To realize this, in parallel with further bolstering of earnings pillars of "non-resources fields" in which SC has an upper hand, SC established a policy to steadily make strategic arrangements for future growth fields. In addition, SC gradually increased the ratio of the "mineral resources and energy field," which was relatively small compared to competitors.

To realize "What We Aim to Be," President Nakamura presented three requirements from a perspective of talent, action and ability as the "Vision of the Human Resources We Seek:" (1) People with spirit and a strong sense of ethics, (2) People who accept diverse values but think for themselves and act on their own initiative and (3) People who can create new business themselves without being constrained by existing frameworks. This vision of human resources became a guiding principle for later human resource developments.

What We Aim to Be in 2019, Our Centennial Year

BE THE BEST, BE THE ONE

- We aim to be a corporate group that is recognized by society as meeting and exceeding the high expectations directed toward us, creating value that nobody else can match in ways befitting our distinctive identity.
- We aim to build a solid earnings base and aim for an even higher level of profit growth while maintaining financial soundness.

Total assets: ¥9–10 trillion
Consolidated net income: ¥400 billion or more

Section 8

Thoroughly Strengthening Earning Power (2013–2015)

Summary of f(x)

In terms of net income targets for the f(x) plan, SC managed to achieve a record high of 250.7 billion yen in fiscal 2011, and although net income dropped to 232.5 billion in fiscal 2012 due falling resource prices and other factors, SC was still able to achieve the overall target of 480 billion yen for the two year period. The average risk-adjusted return ratio was 15.2%, which also exceeded the target of 15%. In terms of investments, SC invested 205 billion yen in the field of resources and 355 billion yen in the field of non-resources for a total of 560 billion yen, which was almost as planned. The goal was to build a business portfolio that would be well-balanced without focusing on specific business fields. At the same time, SC sold and reduced assets worth 860 billion yen over the two years in question, collecting cash of about 380 billion yen and making steady progress in terms of balance sheet management. By transferring SC's shares of Sumitomo Mitsui Auto Service Company, Limited and Jupiter Shop Channel Co., Ltd. to respective strategic partners, SC strengthened its alliances with them. It also sold off or withdrew from any businesses that were unlikely to grow significantly or unable to generate the anticipated earnings. Meanwhile, SC still needed to strengthen earning power by quickly increasing the value of recent large investments and loans, further downsizing or withdrawing from businesses with low profitability and growth potential, and further shifting management resources and human resources to strategic areas.

Mid-Term Management Plan BBBO 2014: A First Step Toward the Realization of "What We Aim to Be"

As a first step towards the realization of "What We Aim to Be" ahead of the 100th anniversary, a two-year management plan named "Be the Best, Be the One 2014 (BBBO2014)" was launched in April 2013. As quantitative targets, net income of 240 billion yen for fiscal 2013 and 270 billion yen for fiscal 2014 in addition to around 12% of a risk-adjusted return ratio for a two-year average were set, thereby securing financial soundness, while at the same time taking on the challenge of building a robust earnings base.

In terms of "reaching higher levels of profit growth," SC decided on Key Fields for which strengths and functions could be utilized and established as an earnings pillar in the future as well as Strategic Industrial/Regional Focus that have high growth potential from a medium- to long-term perspective, strategically allocating management resources and pursuing earnings opportunities. In addition, for projects in which investments were recently made and that had not been profitable as planned under the initial project plan, SC stimulated the metabolism of the business portfolio to shift management resources to growth fields and maintain financial soundness, all the while targeting to build a more robust earnings base.

Further Deepening of Global Consolidated Management

Regrouping and Reorganization into Four Broad Regions (April 2013)

SC regrouped and reorganized overseas regional organizations under the umbrella of GMs and into four broad regions, namely, "East Asia," "Asia & Oceania," "Europe, the Middle East, Africa & CIS," and "The Americas," reinforcing the organizational setup for the shifting of corporate resources to growth markets on a global basis. This move was intended to enhance the ability of regional organizations to initiate new businesses, improve corporate functions in individual regions and strengthen abilities to recruit and develop human resources, while by further promoting the integrations and partnerships of strategies between SC's business units and regional organizations as well as among other regional organizations to seek business developments with major and prospective companies in individual regions from multiple perspectives and lead the sophistication and shifts of business models from overseas.

Reorganization of Regional Organizations in Japan (2014–2016)

Responding to the maturing of the Japanese market and globalization, SC integrated business divisions of regional organizations in Japan under the umbrella of the Head Office Business Unit in April 2014, shifting to a system to centrally manage them under global product strategies of individual business divisions. In April 2016, SC appointed a GM for the Japan Region to manage all regional organizations, which included three corporations in Japan (Hokkaido, Tohoku and Kyushu). In addition to the planning and promotion of domestic business strategies to consider the Japanese market to be one, this move promoted inter-organizational partnerships among business units and overseas regional organizations as well as among domestic regional organizations. The intention was to deepen global consolidated management and to have a further execution of integrated corporate strengths.

Responses to Large-Scale Recognition of Impairment Losses

Losses for Fiscal Year with Booking Impairment Losses

In fiscal 2013, the first year of BBBO2014, non-mineral resources businesses, including metal products, transportation, and construction systems, showed strong performance. In contrast, resource businesses, which were affected by a decline in mineral resource prices, suffered an impairment loss of 27.7 billion yen on an Australian coal mining project on March 31, 2014. As a result, consolidated net income came to 223.1 billion yen, lower than the forecast of 240 billion yen. In fiscal 2014, in addition to a robust performance in non-mineral resources businesses such as steel tubular products, leasing, overseas power and media-related goods & services, a recently invested project contributed to earnings, thereby maintaining the trend of increasing profit. However, due to the continued downfall in mineral resource prices, impairment losses of 240 billion yen in total were recognized for a tight oil development project in the U.S., coal mining projects in Australia, an iron ore mining project in Brazil and the tire business in the U.S. As a result, on September 29, 2014, the forecast for consolidated net profit in fiscal 2014 was revised downward from the 270-billion-yen initial plan to 10 billion yen. Afterward, as market prices of crude oil and other resources dropped further and as early recovery appeared difficult, SC re-evaluated the business values of individual projects. It was recognized that in addition to increasing impairment losses of the tight oil development project in the U.S. and the iron ore mining project in Brazil, the shale gas project in the U.S. and oil field interests in the North Sea would generate impairment losses. Therefore, on March 25, just before the end of the fiscal year, a second downward revision was made to increase the annual total of impairment losses from 240 billion yen in the initial plan to 310 billion yen, resulting in a loss of 73.2 billion yen in consolidated net income for the year. Fiscal 2014 thus resulted in becoming the first year in 16 years since fiscal 1998 to end in the red.

Section 9

Reversal and Return to a Growth Trajectory (2015–2018)

Medium-Term Management Plan BBBO2017: Paving the Way for a Return to a Growth Trajectory

Promotion of Managerial Reforms

Under BBBO2017, the SC Group launched initiatives based on managerial reforms and growth strategies to overcome issues through group-wide efforts and pave a way for a return to a growth trajectory. In regard to managerial reforms, in consideration of the proposals of the Special Committee on Managerial Reform*, SC addressed challenges to "Improve corporate governance and the decision-making process" and "Strengthen the risk management system." Since July 2015, the Management Council has been positioned as the highest authority in relation to business execution matters.
In November 2015, the Nomination and Remuneration Committee was established to strengthen supervisory functions for management execution and to increase transparency and objectivity of processes for nominating and deciding the remuneration of directors. As for risk management systems, in addition to the Company Investment Committee, Business Unit Investment Committees were established within individual Business Units, thereby organizing systems to have discussions in two steps, i.e., at the time of starting and executing investments. In addition, a methodology of investment assessment was revised to make decisions reflecting specific risks inherent in any given project. Furthermore, for large-scale projects, "100-day plans" were systematized to begin formulating relationships with management of investees and create medium-term plans, governance and monitoring systems, etc. within the first 100 days immediately after the investment has been executed.

Special Committee on Managerial Reform

- Established as a committee independent from the president in September 2014.
- Members: 7 executive officers
  Approx. 20 members in total, including secretariats
- Tasked with conducting in-depth investigations and analyses of projects recognizing impairment losses
- Made proposals to the Board of Directors with regard to areas requiring improvement for increasing corporate value prior to the announcement of BBBO2017 in March 2015

Promotion of Growth Strategies

Under BBBO2014, as a result of efforts to reach higher levels of profit growth, the basic profit of the non-mineral resources businesses achieved more than 10% annual growth from about 180 billion yen in fiscal 2012. This was due to the growth of core businesses and contributions to earnings by recently invested projects. Under BBO2017, while further stimulating the metabolism of the business portfolio, SC promoted investments mainly in the three fields of 1) Automobiles, 2) Lifestyle & Information, and 3) Infrastructure in which SC had strengths. Also, as part of a company-wide growth strategy, SC actively ventured into new business domains and launched initiatives in fields and regions that could be cultivated from a medium- to long-term perspective. With regard to new upstream mineral resources investments, SC made efforts to reduce risk exposure through early financial completion and employed a basic policy to replace existing assets with new investments, effectively improving the quality of the portfolio.

Enhanced "Individual Capability" and "Organizational Capability"

To enhance individual and organizational capabilities, SC worked on strengthening individual capabilities and reallocated human resources to concentrate knowledge and skills dispersed across the company with the goal of creating new organizational strengths.

In April 2016, a new HR System was introduced to enhance individual capabilities by establishing systems to motivate personnel through appropriate evaluation and compensation and creating dynamic environments that encouraged growth through friendly rivalry. Training courses were also implemented to enhance individual capabilities such as adaptability, creative skills, execution skills, and logical thinking.

As part of enhancing SC's organizational capability, the Joint Responsibility Concept, wherein head office business units and regional organizations were jointly responsible for maximizing profit in each region, was implemented to better integrate the global product strategies of the SC business units with the market strategies of the regional organizations. To this end, global performance management systems were introduced to assess business group performance both globally and regionally. In addition, regardless of whether there were investments involved or their amounts, measures such as the introduction of affiliation guidelines for employee dispatched to group companies and the consolidation of forms for investments in group companies were put in place.

Launch of Projects with Employee Participation Leading Up to 100th Anniversary (2016)

At the start of fiscal 2016, the second year of BBBO2017, President Nakamura stated that the SC Group should be unified in order to execute medium/long-term strategies and achieve all quantitative targets. Additionally, he announced a plan to relocate the head office from Harumi to Otemachi Place by the fall of 2018.

He proposed that, in addition to creating office space to improve operational efficiency and generate new value, the relocation would serve as an opportunity to make changes and fundamentally reconsider workstyles. In addition, with the 100th anniversary approaching, he announced the launch of a company-wide project to reflect on SC's 100-year history in conjunction with numerous stakeholders and to take a hard look at the next 100 years beyond the relocation of the head office.

Head Office Relocation and Workstyle Reforms

In response to President Nakamura's statement, a company-wide cross-sectional team dedicated to carrying out the head office relocation and reviewing workstyles was established in late April, with several subcommittees under it. These subcommittees served as discussion bodies for specific measures addressing various areas, including the formulation of basic concepts for the office environment, workstyle reforms, business efficiency improvements, office operations and management, and the development of ICT infrastructure. The head office relocation in autumn 2018 coincided with the full-scale launch of a teleworking system and a super-flexible work hour system. In addition, the new office layout was designed with collaborative work and an ICT infrastructure in mind, laying the foundation for creating high-value-added work while maintaining physical and mental health with an excellent work-life balance.

The Next Century Project

In parallel with the team dedicated to the head office relocation and workstyles, another committee was launched in May 2016 to plan the 100th Anniversary Project. The idea behind this project was to achieve sustainable growth by sharing the SC Group's fundamental values with all employees on an individual level and uniting to take on new challenges aimed at creating a better future. The project was named "The Next Century Project" with the intention of making SC a company that could sustainably grow for the next 100 years, while the working group was named the "Next Century Ambassadors."

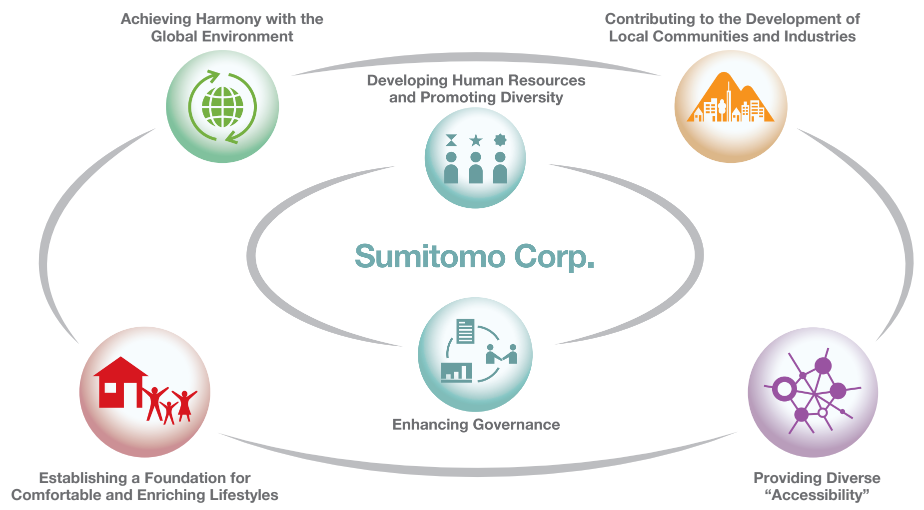
The Diversity Promotion Project

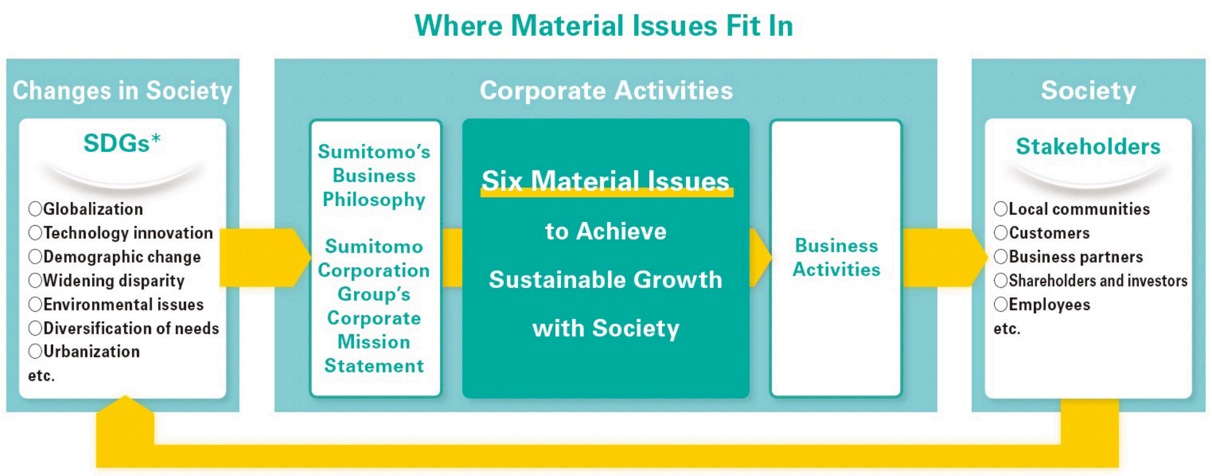
The Diversity Promotion Project is a company-wide cross-business project that was launched as an advisory body to the president in October 2017. In the following three years, members rotated on an annual basis. There were a total of 40 participants ranging from general managers to clerical employees across 40 organizations. In the first period, concrete suggestions were put forth to create visible change, change personal ways of thinking, ensure commitment from top management, and change D&I from a slogan to a practice. In the second period, the spotlight was put on four types of diversity— female employees, clerical employees, mid-career hires, and locally hired staff seconded to the Tokyo Head Office— to propagate the suggestions from the previous period. Discussions were held on the fundamental challenges in linking D&I to increased competitiveness. In the third period, the focus was on transmission and action, with initiatives including an interview relay aimed at management, presentations at the meeting of general managers, and a publicity campaign on the company intranet. A new slogan, "D&I starts with 'I'," was published with the purpose of creating opportunities for individuals and organizations to grasp their own tasks by themselves and change.

Transitioning from CSR to Sustainability Management

Identifying Material Issues

The essence of SC's Business Philosophy is that the company's business practices will lead to the resolution of social issues. Due to this belief, there were no earlier attempts to identify material issues. However, to ensure a better understanding of the company's business activities in light of global trends in the latter half of the 2010s, SC decided it would be necessary to identify and disclose high-priority social issues that needed to be addressed through its business activities. Thus, in April 2017, SC identified four social issues to be prioritized and addressed by leveraging the company's strengths while focusing on sustainable growth. As a foundation to support these initiatives, SC announced an additional two issues for the company itself, for a total of six material issues. These selections were based on an analysis of international guidelines and how the SDGs relate to SC's businesses, while also giving consideration to Sumitomo's Business Philosophy and the SC Group's Corporate Mission Statement.





*SDGs: An abbreviation of Sustainable Development Goals. Comprising 17 goals encompassing global challenges to be achieved by 2030. These goals were embraced by all 193 UN member states at a UN General Assembly held in 2015.

Section 10

Aiming for an Even Higher Level of Growth (2018–2021)

Summary of BBBO2017

In fiscal 2015, the first year of BBBO2017, the non-mineral resources businesses had a steady showing overall. However, due to falling mineral resource prices following the previous year, a total of 195.1 billion yen in impairment losses was posted for several projects, mainly in upstream mineral resources-related businesses including nickel mining and a refining project in Madagascar. As a result, consolidated net income amounted to 74.5 billion yen compared to the initial target of 230 billion yen.

In its second year, fiscal 2016, although there were external factors such as higher mineral resource prices, from a strategic perspective SC sold the interests in Batu Hijau Copper Gold Mine in Indonesia and domestic e-commerce businesses in Japan. At the same time the company acquired office buildings in the U.S. and Fyffes plc., an international produce marketer and distributor from Ireland, allowing the company to be able to steadily recover profitability. Consequently, consolidated net income stood at 170.9 billion yen, exceeding the initial target, which was followed in its third year fiscal 2017 at 308.5 billion yen, a record-high profit.

As a result of the above, in fiscal 2017, ROA was 4.0%, the risk-adjusted return ratio was 13.4%, while ROE was 12.5%, all of which met initial targets.

In terms of securing financial soundness, although the amount of risk-adjusted assets exceeded the amount of the core risk buffer by 140 billion yen as of the end of March 2015, the balance between these two indicators through reducing assets and accumulating profits was restored.

Masayuki Hyodo Inaugurated as President: "People with No Dreams are People with No Success"

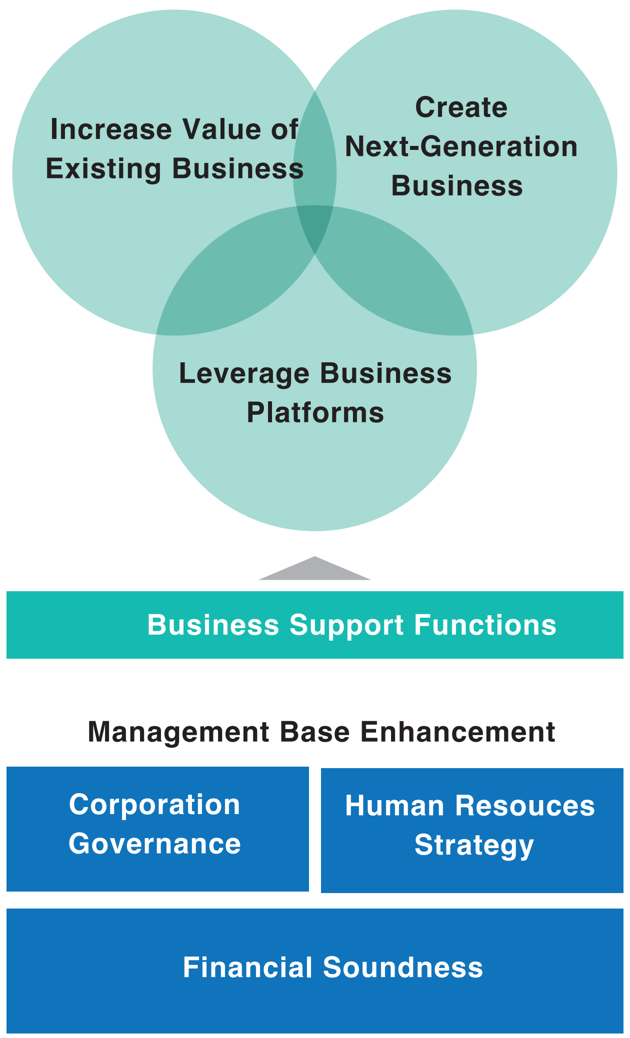
On April 1, 2018, Senior Managing Executive Officer Masayuki Hyodo was inaugurated as president and chief executive officer, with the appointment of President Kuniharu Nakamura to chairman. As his "dream and ambition," he talked about "Making the lives of everyone more fulfilling and changing society, which is in the midst of the fourth industrial revolution, into a more attractive place." He announced his intent to combine the strengths of partners across the SC Group and tirelessly pursue the realization of these goals. To express his passion, he cited the words of the late Edo era patriot, Shoin Yoshida: "People without dreams are people without ideals. People without ideals are people without plans. People without plans are people without actions. People without actions are people without success. Therefore people with no dreams are people with no success." When drawing up an organizational strategy, all team members discuss their dreams and ambitions, come up with ideas, and immediately act upon plans once they are decided. Even if they fail, they learn from their failure, recover, and try again. Plans and strategies fueled by dreams and ambitions reveal their true value in the execution stage. The implication was that they support overcoming difficulties and motivate people to try until they succeed. President Hyodo called upon all stakeholders, including partners, organizations, business companies, and clients to act upon their principles, overcome emotional and organizational barriers, respect diverse values, always give it their all, and act upon their principles to realize their dreams and ambitions.

President Hyodo

Medium-Term Management Plan 2020: Tirelessly Striving to Create Value

After the V-shaped recovery in 2017, SC implemented the three-year "Medium-Term Management Plan 2020" in April 2018 with the goal of promoting more sophisticated growth strategies and reinforcing the management bases that were to support them. The quantitative targets were limited to the announcement of a consolidated net income target of 320 billion yen for fiscal 2018 in light of uncertainties in the business environment. As efficiency indicators for Medium-Term Management Plan 2020, SC set an ROE (Return on Equity) target of 10% or higher and an ROA of 4% or higher. Although SC had previously set a medium- to long-term goal of having risk-adjusted return ratio exceed cost of shareholders' equity on a company-wide basis, SC decided to implement management with a strong awareness of asset and capital efficiency by aiming for a level of ROE that exceeded cost of shareholders' equity instead of conventional risk-adjusted return ratio, based on keeping risk assets within the scope of the core risk buffer.

Growth Strategy



Promoting Growth Strategies

In a business environment which was losing its boundaries and becoming more complex as a result of the rapid development of technologies such as IoT and AI, the company announced the start of three core growth strategies.

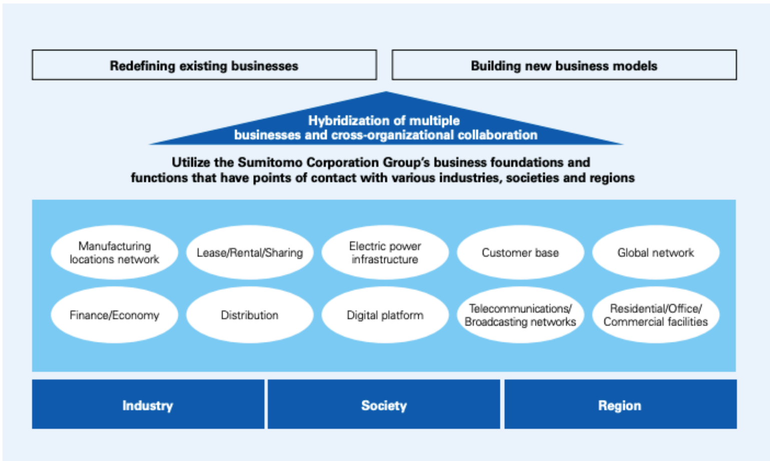
1) Increase the Value of Existing Businesses

The business units were reorganized in April 2018, implementing measures to maximize the untapped potential of businesses which had not yet achieved their expected earnings level, such as upstream resources and the food business, while further increasing the value and profitability of established business lines. Additionally, new businesses were created to respond to the movement toward a next-generation mobility society, and progress was made on initiatives to shift to gas-fired and renewable energy in the medium- to long-term as climate change was becoming the focus of increased attention in society.

2) Create Next-Generation Businesses

Investment in the fields of "Technology x Innovation," "Healthcare," and "Social Infrastructure" was announced, and the "DX Center," "Health Care Business Department," and "Smart City Working Group" were established to serve as promotion bodies, creating a system that strengthens cross-organizational collaboration.

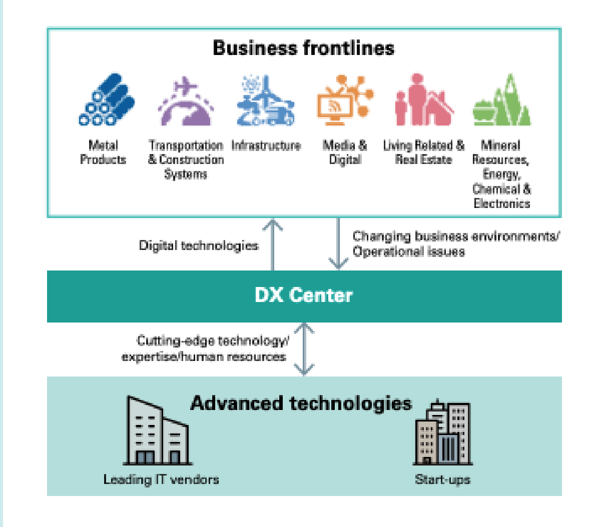
Leverage a Business Platform for New Value Creation



Business Support Functions

Strengthening Digital Transformation (DX) Initiatives

Along with the establishment of the Media and Digital Business Unit, a DX Center was set up in April 2018, rallying business experts from each business unit as well as experts in digital technology from inside and outside of the company. The DX Center helped combine SC's strengths – expertise and networks across various business locations – with knowledge in ICT and digital technologies. Through integrated management with the Group company SCSK, it helped accelerate the creation of new services and the promotion of initiatives to transform cross-industrial business models. In 2019, the position of CDO (Chief Digital Officer) was established. Additionally, the functions of the DX center were enhanced, further spurring the promotion of DX within each business unit and across regional organizations. To stimulate collaboration among organizations, the global cross-functional organization G-COP (Global Cross-Organization Promotor) was set up and began promoting collaboration in the three fields of "building ecosystems with partners," "co-creation with startup businesses," and "business transformation through the utilization of digital technology." Additionally, SC established "Insight Edge," a DX technology subsidiary, by gathering experts from each business field in addition to engineers of cutting-edge technologies such as AI and data science. Corporate Venture Capital (CVC) fields were expanded to locations including Silicon Valley, London, Hong Kong, and Tel Aviv, and a system permitting access to various technologies globally was built. At the same time, the CDO visited each location to assist DX strategy localization efforts.



Systems for creating innovation

The 0->1 Challenge Intrapreneur System

As a measure to create next-generation new businesses, the 0->1 Challenge system was launched in the summer of 2018 to discover and cultivate intrapreneurs. This system allowed individual employees to propose unconventional new business ideas regardless of what department they belonged to or how many years they had been with the company. To enhance the feasibility of the ideas, SC also employs outside consultants to provide support for the development of new businesses. In this way, the intrapreneurs can refine their business skills and ideas, exchange opinions with internal and external shareholders, and learn how to create effective presentations.

Collaborative Space: MIRAI LAB PALETTE

As part of The Next Century Project, a members-only open innovation lab was established based on the concept of "a place where people from completely different industries and technological backgrounds can meet and inspire each other to create new value that transcends organizational barriers." In collaboration with experts in a wide range of fields from frontier business to art, it offers a wide variety of programs and events, including the Business Co-Creation Program and the 0->1 Challenge System, where people from all walks of life can get together and exchange ideas. With diverse partners such as HAX Tokyo, which offers a hardware accelerator program, and Tokyo University of the Arts, which collaborates in human resource and sustainable business development, MIRAI LAB PALETTE is creating new value from multiple perspectives by taking on a variety of challenges.

3) Leverage a Cross-Business Platform

SC Group utilized its business foundation and functions, including its customer base, telecommunications/broadcasting networks, lease/rental/sharing, and digital platform, all of which are drivers for the creation of new value, to promote the building of a new platform through cross-organizational collaboration.

Management Base Enhancement

1) Enhancement of HR Strategy

The Human Resources Strategy set out to address one of the six material issues, "Developing Human Resources and Promoting Diversity," under the basic concept of "Diversity & Inclusion – Making Diverse Strengths a Source of Competitiveness." The diversity pursued by SC includes more personal "invisible diversity" such as opinions, ideas, values, abilities, skill, and experiences in addition to "visible diversity" such as gender, nationality, and age, which the company also focused on. To connect a mix of "wisdom" from diverse human resources in the Medium-Term Management Plan 2020, SC will aim for inclusion, in other words, accepting, respecting, and utilizing differences while advancing strategic human resources management on a global basis, growing as an organization unceasingly challenging for new value creation, and establishing an environment where diverse individuals can develop their capabilities to the fullest.

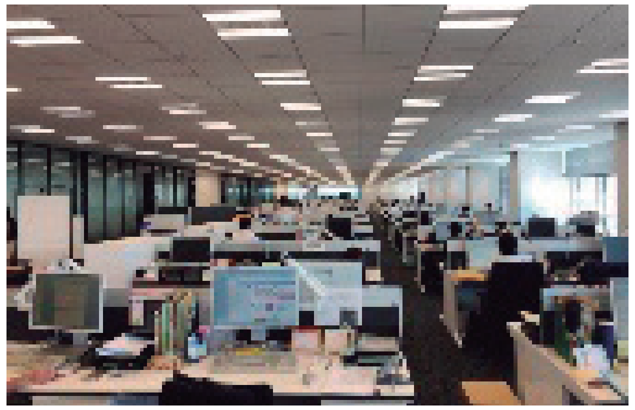
2) Enhancement of Corporate Governance

To further enhance corporate governance, which was improved under BBBO2017, the monitoring function of the Board of Directors was strengthened. Additionally, a project to enhance group governance was launched in October 2018. The management know-how accumulated by the SC Group was standardized, and a guidebook with the risk items that should be monitored when managing businesses was created. The internal control situation was made visible through dialogues with group companies, ensuring the effectiveness of the group's corporate governance on a global basis was maintained and improved. Furthermore, the SC Group Compliance Policy was established in March 2019, denoting compliance policies and guidelines to be shared across the entire Group.

Relocation of Tokyo Head Office to Otemachi

In the latter half of September 2018, the head office in Harumi Triton was relocated to the newly-built Otemachi Place East Tower in Otemachi, Chiyoda-ku. It had been 52 years since SC's head office were last located in the Otemachi district. The head office is situated in Otemachi Place East Tower, which has a total of 20 floors. The building was chosen not only for its excellent disaster management capabilities, security, and energy efficiency but also for its convenient access from Tokyo Station, with a direct link to Otemachi subway station. This choice significantly improved convenience for employees commuting to work, going on business trips, or meeting clients. To contribute to work-style reforms, each floor's office zone features an open space, lounge, library, and "magnet" spaces designed to encourage collaboration in addition to regular working spaces. Additionally, as part of the company's efforts to create an environment conducive to autonomous and flexible working unrestricted by hours, place, or style, teleworking and super-flextime were implemented.

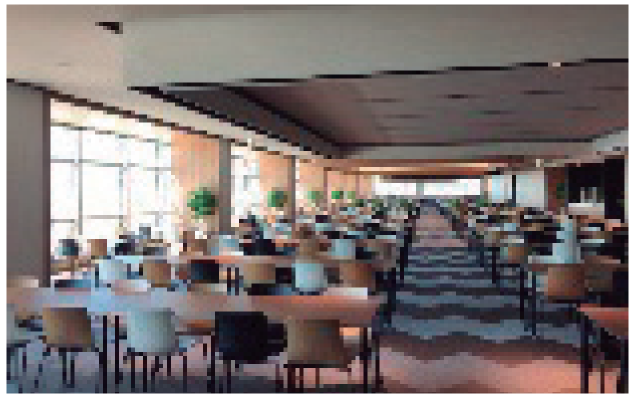
Otemachi Place East Tower (entrance)



Office zone

Open space

The door to the president's office is always open. Utilizing each floor's facilities at the new head office, there are now many opportunities for President Hyodo and employees to communicate directly.



Cafeteria (26th floor)

Section 11

The Centennial (2019)

Record Profits in the First Year of Medium-Term Management Plan 2020

In fiscal 2018, the first year of the three-year management plan, consolidated net income was 320.5 billion yen, almost in line with the plan and a record high following the previous year. This was a result of higher earnings in many areas that the group excels in and despite impairment losses from the Madagascar nickel business. In fiscal 2019, which marked the 100th anniversary of SC's founding, the company set a target of 340 billion yen, aiming to achieve a record-high profit for the third consecutive year. This was based on the idea that SC's earning power was steadily growing despite uncertainties in the global economy such as trade issues between the U.S. and China.

"Create a World That No One Has Ever Seen Before"

The Next Century Project, a project to commemorate the 100th anniversary of SC's founding, was launched in January 2017 at the behest of President Nakamura. The basic concept behind the Next Century Project is realizing sustainable growth by allowing every employee to share the SC Group's fundamental values on an individual level and join together to change and take on new challenges aimed at creating a better future. The first term Next Century Project Ambassadors were selected from within the company and tasked with analyzing the SC Group and determining its evolution and challenges for the next century. President Nakamura wanted the younger generation to be free and flexible, so he gave them permission to change anything except Sumitomo's Business Philosophy. The ambassadors studied the company's history, interviewed management and a total of 500 employees, and talked to business partners, consumers, and other external stakeholders. In doing so, they identified the problems that the group was facing, considered what goals it should tackle for the next century, and set a vision of "creating a world that no one has ever seen before." The four themes set forth to realize this vision were: 1. Think about things from a future-perspective; 2. Leverage diversity as a strength; 3. Enhance ability to connect; and 4. Maximize individual capacities.

The first term Next Century Project Ambassadors (on-site training at the Besshi Copper Mines)

During the three years starting from 2019, the 100th anniversary of SC's founding, the newly-selected third term ambassadors are creating and implementing various action plans. For actual action plans, ambassadors under a term of one year who were selected and appointed through applications open to all employees passed on a baton of "PLAN⇒SHARE/DISCUSS⇒ACT" for the three-year period between 2017 and 2019 that fell on the 100th anniversary.

Establishment of Corporate Message (May 2019)

The Corporate Message represents the essence of SC Group, and it is deeply engraved in the minds of all SC employees. It is meant to be easily understood so that it is easy to spread throughout the world. The message was created on occasion of the company's 100th anniversary under the lead of the Next Century Project Ambassadors to represent the determination of Group employees throughout the entire world.

After holding discussions with Group members all over the world, they determined the following three elements.

1) Who we are ⇒ Respect & Unity
2) What we will do ⇒ Create Value & Enrichment
3) Why it matters ⇒ Fulfillment Together

The phrase "Enriching lives and the world" contains all these elements. "Enriching" expresses the essence of the company's business activities. "Lives" refers to people's way of living, and "The World" refers to society and the environment.

This message expresses employees' determination to provide not just material value, but also to enrich the hearts of people. In other words, it represents SC Group's unchanging commitment to pursuing and fulfilling the ambition of achieving prosperity and realizing dreams through sound business activities.

100SEED (SC Emergent Evolutional Deed)

The global social contribution program taken on by the SC Group on its 100th anniversary. As a result of discussions and votes by employees from around the world, "Quality Education" that will lead to creating a foundation for solving social issues was selected as a theme to materialize, "Enriching lives and the world." The aim is to achieve further growth and contribute to the realization of a sustainable society by studying together, being stimulated and widening views through activities that take advantage of the diversity of human resources in the group and provide individual knowledge and time to society.

Centennial-Related Projects

Public Relations Activities

In parallel with the commemorative events, a multitude of public relations activities on the topic of establishing the new Corporate Message and the centennial were held. Many new commercials, including newspaper and television ads as well as physical and digital station signage at Otemachi subway station, were simultaneously rolled out. Also, a re-edited version of the program "A 100 Year History of SC" which aired on the CS History Channel was put up in the form of historical exhibition signage next to the conference room reception desk on the 19th floor at the new Otemachi Head Office.

Digital signage at the 19th floor lobby of Otemachi Head Office

100th ANNIVERSARY SINCE 1919

We have created a new Corporate Message looking toward the next 100 years.

On December 24, 2019, Sumitomo Corporation will celebrate the 100th anniversary. In this milestone year, we have created a new Corporate Message of the Sumitomo Corporation Group. We looked back at our history over the past 100 years in which our company has advanced together with society, and we looked toward the next 100 years and the achievements yet to come. Our message of "Enriching lives and the world," which expresses enthusiasm and determination, is the result of discussions among several of our group members from around the world over the past two years. The message also represents the Group's unwavering pledge to further enrich the world, society, and people's lives through sound business activities. As it embarks on a new century of activity, the Sumitomo Corporation Group will be guided by the spirit encapsulated in this Corporate Message.

Participatory event to create commemorative publicity materials

To coincide with the announcement of the new Corporate Message, a participatory event was organized at which employees and their families worked together on creating commemorative publicity materials to launch us into the next 100 years. One of the pieces created at the event, drawn using pencils in our corporate colors, was selected as the background to the cover page of this report. Additionally, we have set up a special page on our corporate website including a movie explaining the spirit of the Corporate Message. To view this, please visit our corporate website.

Corporate Message special page

https://www.sumitomocorp.com/en/jp/corporate-message

1

Corporate Message

Enriching lives and the world

We have become who we are today
by evolving with the times in unison with people and society.

We never pursue easy gains. Integrity and strong unity are
cherished principles from which we work to create value for society.

As we face a fast-changing world, we look toward the future with renewed anticipation
and reflect on the meaning of our mission.

To engage, commit and contribute.
To overcome challenges and come out ever stronger.
To cultivate the seeds of opportunity, bridge possibilities and create a better tomorrow.

We know that the passions of each individual create our indelible values.
But we also acknowledge that the power of many is far greater than the effort of one.

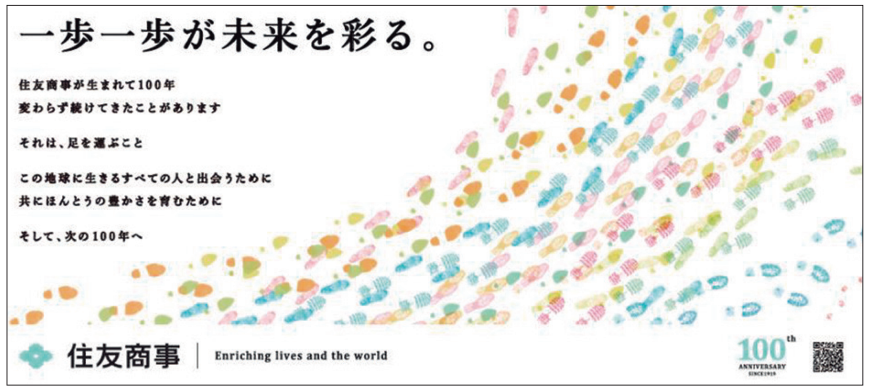
So we are united in all our will and determination.

We represent different regions, diverse cultures, and all walks of life.
Yet we know that the strength of unity begins with respect.
With this as our foundation, we aim to create a world never seen before.

Passion. Determination. Values.
These ideas we share universally together to achieve prosperity and realize dreams for all.

This is our enduring promise.

2



A new advertisement whose motif is a footprint symbolizing the steps taken over the company's 100-year history, passed down by the forebears, and a new step toward the next 100 years.

Centennial Event

Prior to the 100th anniversary on December 24, 2019, SC executives and staff organized a centennial event at Tokyo Big Sight with the aim of increasing understanding of the company's history and raising unity towards new challenges throughout the next 100 years. Around 5,000 executives and staff gathered at Tokyo Big Sight on November 28 for the centennial event.

It began with President Hyodo's message, "On the 100th anniversary of the SC Group, let us vow to improve ourselves, create a better world, and become a company needed by society throughout the next 100 years as well." At the History Pavilion, digital signage detailing the 100-year history of SC was put up in addition to an exhibit showing the history of 20 businesses which represent each business unit, created with the help of employee and former employee interviews. The pavilion offered an opportunity to reinvigorate employees' determination and take pride in the history of the company's forebears, who overcame countless difficulties and never gave up trying to realize their dreams and increase prosperity. At the Future Pavilion, experience-based contents allowed visitors to learn about SC's newest businesses and value creation in the future. Before the finale, President Hyodo came up to the stage once more, ending the event with the words, "We will create our own future. Value your dreams. Let us work together and realize a better tomorrow."

Additionally, commemoration meetings for the alumni association were held in Tokyo and Osaka to show gratitude to the company's forebears, who have been supporting its history.

Furthermore, various programs and events tailored to each domestic and overseas organization were organized.

Opening remarks by President Hyodo

History Pavilion

Future Pavilion

Section 12

The Beginning of the Next Centennial (2020)

Drastic Changes in the Business Environment and Losses

In fiscal 2018, the first year of Medium-Term Management Plan 2020, net income was 320.5 billion yen, almost in line with the plan and a record high. However, in fiscal 2019, partially due to the impact of the global economic slowdown caused by U.S.-China trade friction, this number plummeted to 171.4 billion yen, falling far short of the planned target of 340 billion yen. Then, in fiscal 2020, the third year of the plan, the business environment surrounding the group changed drastically due to the COVID-19 pandemic that broke out in the latter half of fiscal 2019. While some businesses were able to proceed with their strategies as planned, others were unable to produce the results expected, and SC was forced to make fundamental revisions to the strategy. As a result, in addition to the impairment of the nickel business in Madagascar, one-time losses due to the liquidation of unprofitable businesses totaled 350 billion yen, resulting in a loss of 153.1 billion yen in the final year of Medium-Term Management Plan 2020.

Early Start on Structural Reforms: Back to Basics

In order to achieve a recovery in business performance as soon as possible, SC determined that it was essential to achieve further growth in the businesses that were generating solid profits despite the harsh business environment, and at the same time, to identify and turn around the businesses that were remaining unprofitable. Instead of waiting for the next medium-term business plan, the company started on structural reforms in fiscal 2020. In promoting these reforms, President Hyodo called for a return to basics. In both trading and investment business, the basic principle is to provide value to customers and maintain an appropriate level of profit while managing risks and costs. He reiterated that the structural reform was for the purpose of optimizing the group's diverse businesses in line with this idea.

New Work Styles "With Corona"

In March 2020, in order to prioritize the safety of employees, SC adopted a policy of telecommuting for the majority of employees. In April, the annual entrance ceremony was also held online for the first time in order to fulfill SC's social responsibility to prevent the spread of COVID-19.

Online entrance ceremony (April 1, 2020)

President Hyodo speaking to 155 new employees

In July, some of the restrictions on coming to work were lifted, and SC switched to a hybrid policy of "balancing employee safety and business continuity," but even after that, telecommuting remained the norm. While telecommuting had a positive impact on individual productivity by eliminating commuting time, allowing employees to concentrate on work, and making it easier to maintain a good work-life balance, it reduced opportunities for face-to-face discussions, exchanges of opinions, and free generation of ideas. There were also drawbacks in organizational management and productivity, such as an inability to do sufficient on-the-job training for human resource development.

In October 2020, based on the premise of "With Corona"—the idea that the changes in the business environment would continue long-term—SC decided to pursue an optimal mix of work styles, taking advantage of the merits of both coming to the office and telecommuting in order to engage in the necessary discussions, communications, and measures for the continuation and development of the business.

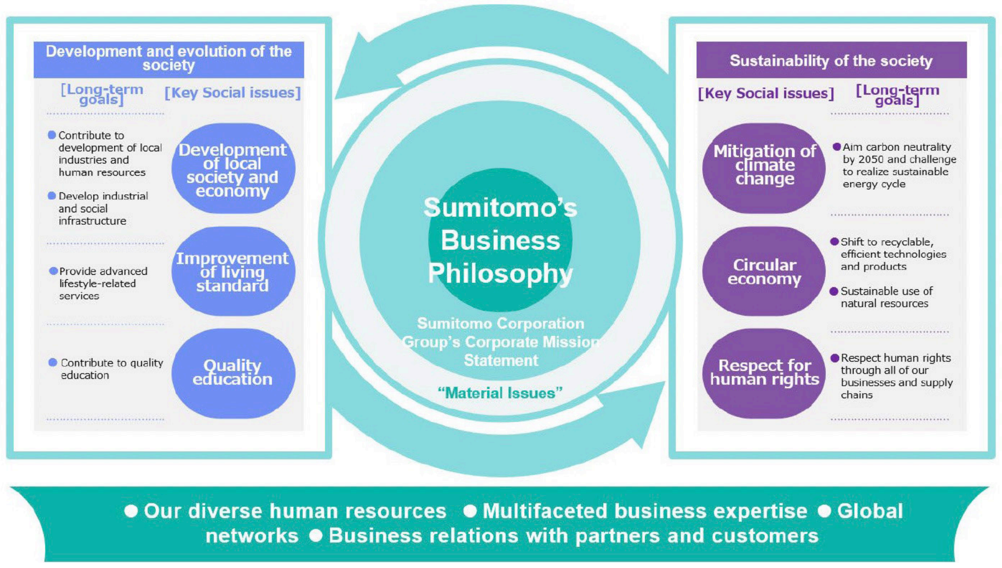
This mix of work styles was meant to ensure that employees and organizations would be able to demonstrate their strengths in a timely and appropriate manner and that work would remain efficient and of a high standard. Telecommuting was positioned as one option, and individual workplaces were allowed to determine which work styles were necessary to maximize productivity while taking measures to prevent infections.

Key Social Issues and Long-Term Goals

In June 2020, as part of its efforts to advance sustainability management, SC identified six key social issues to be addressed—(1) Mitigation of climate change, (2) Circular economy, (3) Respect for human rights, (4) Development of local society and economy, (5) Improvement of living standards, and (6) Quality education—and set long-term goals for each of them.

The six key social issues consist of two interrelated themes: social sustainability, which is the foundation of social development and the premise of SC's business activities, and social development and evolution, which is the creation of solutions necessary to realize a sustainable society. Ensuring the sustainability of society is a common challenge all over the world, and it is necessary for the development and evolution of society as well as the SC Group's business activities. These two themes are interrelated and mutually supportive, as social sustainability is made possible by new solutions that emerge from a more developed and evolved society.

Key social issues and long-term goals for Sumitomo Corporation Group



Diversity & Inclusion (D&I) As the Foundation of Human Resources Strategy

In recent years, the regions, fields, and business models in which SC operates have been diversifying dramatically, and with the global impact of the COVID-19 pandemic since early 2020, the business environment surrounding the SC Group has been changing at a considerable pace. To survive in this changing world, it is essential to accept and utilize diverse values and ideas, and link them to the creation of new value. In Medium-Term Management Plan 2020, "Diversity & Inclusion – Making Diverse Strengths a Source of Competitiveness" was set as a key concept. SC's definition of diversity is not limited to superficial diversity in terms of gender, nationality, and age but also looks at deeper diversity in terms of individual perspectives, ideas, values, skills, and experiences. SC aims to leverage the knowledge of its diverse human resources to improve competitiveness. To that purpose, it is essential to respect and accept differences and make the most of them. The Diversity Promotion Project was launched in the fall of 2017, and through its activities, the term "D&I" has spread throughout the company. Employee awareness has also changed significantly through measures such as the introduction of telework and super-flex systems, the creation of a flexible and autonomous working environment, the promotion of mid-career hiring, and various training programs. Moreover, SC will strive to realize strategy-driven D&I, in which business departments draw up and implement human resource strategies to bridge the gap between a future ideal and reality.

Establishment of the Global Human Resources Management Policy

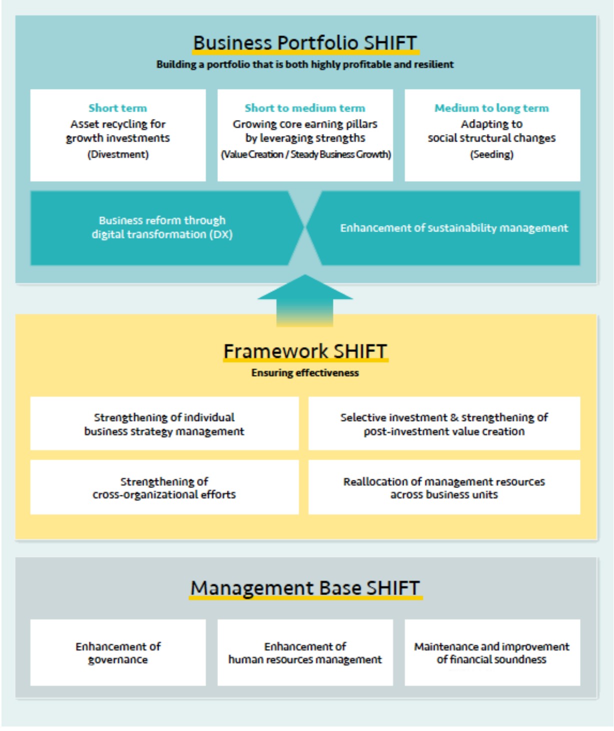
For the SC Group to achieve sustainable growth, in addition to promoting D&I, it is essential for individual employees to be able to create new value in global fields. With the aim of creating an organization capable of securing and developing employees of this caliber, SC established the Global Human Resources Management Policy in September 2020. This policy defines the ideal human resources as employees who share the SC Group's vision and mission, create new value on a global scale, and combine high aspirations with intrinsic motivation and an enterprising spirit. It defines the organization's goal as building a great place to work on a global scale, where individuals can continuously and passionately create new value, and to be recognized for nurturing talent that takes on new challenges around the world. In addition to these goals, the keywords for human resources management are D&I, the right person in the right assignment, autonomous growth of individuals, fair compensation based on performance, and strengthening of people management. This policy provides a vision for global human resources management and serves as the basis for all human resources policies, with the aim of realizing human resource management that creates new value.

Section 13

Stable Profit Growth over the Medium- to Long-Term

Medium-Term Management Plan SHIFT 2023

Under SHIFT 2023, the medium-term management plan for the three years from April 2021, we aim to shift our portfolio to increase both profitability and resilience and to achieve an early recovery in earnings to return to a growth trajectory. The "shift" in SHIFT 2023 refers to not only a shift in business portfolio, but also a shift in mechanisms to realize it and management infrastructure to support it. Furthermore, it is a commitment to shift the mindset and actions of every employee from the president and management team downwards.



Business Portfolio SHIFT

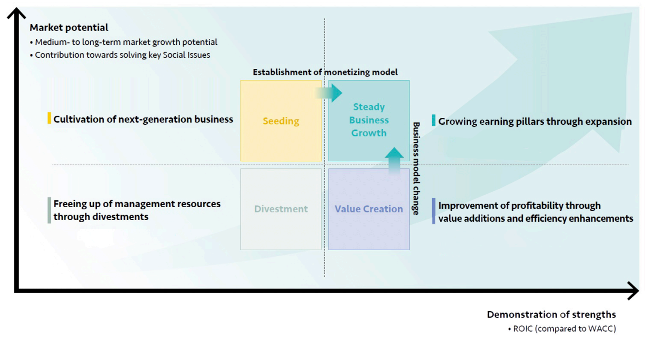
We have classified our businesses into four categories: Divestment, Value Creation, Steady Business Growth, and Seeding based on market potential and the degree to which we can demonstrate our strengths. Structural reforms will be carried out in three phases to accomplish the relevant goals of each category.

In the first phase, management resources are freed up through divestments. This includes identifying underperforming businesses and revitalizing them.

In the second phase, the recovered management resources are reinvested into steadily growing and value creating businesses to expand their scale.

The third phase involves seeding new areas, including the six next-generation growth fields, from the perspective of advancing sustainability over the medium- to long-term and developing human resources, systems, and frameworks to balance business opportunities with resource allocation. Through these structural reforms, SC is striving to make the group's portfolio more profitable and resistant to changes in the environment.

Clarifying individual business strategies' position through categorization



Framework SHIFT

To ensure that the portfolio shift is effective, we are also strengthening the business strategy management system. All businesses have been reorganized into Strategic Business Units (SBUs), which are groups of businesses that share the same strategy. After setting detailed goals for each SBU, the PDCA will be thoroughly implemented, and an organizational evaluation system will be set up to monitor progress. To avoid repeating the mistakes of the past, strict investment discipline will be enforced at every step of the investment process starting from the selection stage, and following an investment, optimal governance and monitoring systems will be put in place to ensure that the business grows in value.

In parallel with these efforts to pursue individual optimization at the SBU level, the Energy Innovation Initiative (EII) has been established as a framework to further strengthen company-wide approaches to social issues and business fields that involve multiple organizations. Furthermore, as a mechanism for redistributing management resources (human resources and funds) across divisions, two advisory bodies to the Management Council (the Global Innovation Promotion Committee and Corporate Strategy Promotion Committee) have been empowered to offer better proposals for company-wide optimization.

Management Base SHIFT

> Group Management

In order to resolve conflicts that arise due to clashes between individual group companies and the entire group optimization, we have established the Group Management Policy. The three principles of this policy are Autonomy, Dialogue, and Collaboration. We will share the values expressed in the group's Corporate Mission Statement, Activity Guidelines, and Management Policy and aim for the sustainable growth of each company and the maximization of the group's corporate value.

> Global Human Resource Management

In the previous medium term management plan, we defined the basic concept of our human resource strategy as "Diversity & Inclusion (D&I)" and established the Global HR Management Policy. Under this policy, the key words to develop ideal SC employees are "D&I," "right person in the right assignment on a global basis," "autonomous growth," "fair treatment," and "strengthening people management." In SHIFT 2023, with these as our compass, we will speedily implement various measures to achieve our ideal SC people and SC organization.

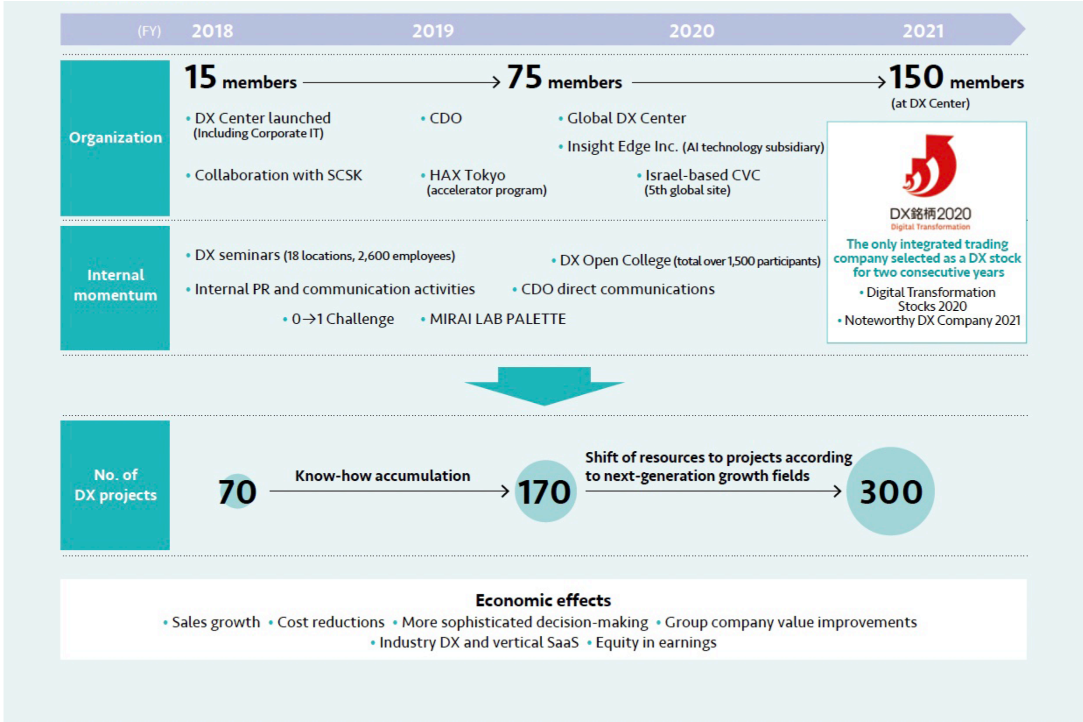
Creating a Secure Future Based on DX and Sustainability

Under SHIFT2023, we have decided to restructure our business portfolio in response to the two major trends of "digitalization of society" and "demands for sustainability" and will take on the challenge of creating and nurturing new businesses in view of changes in the social structure.

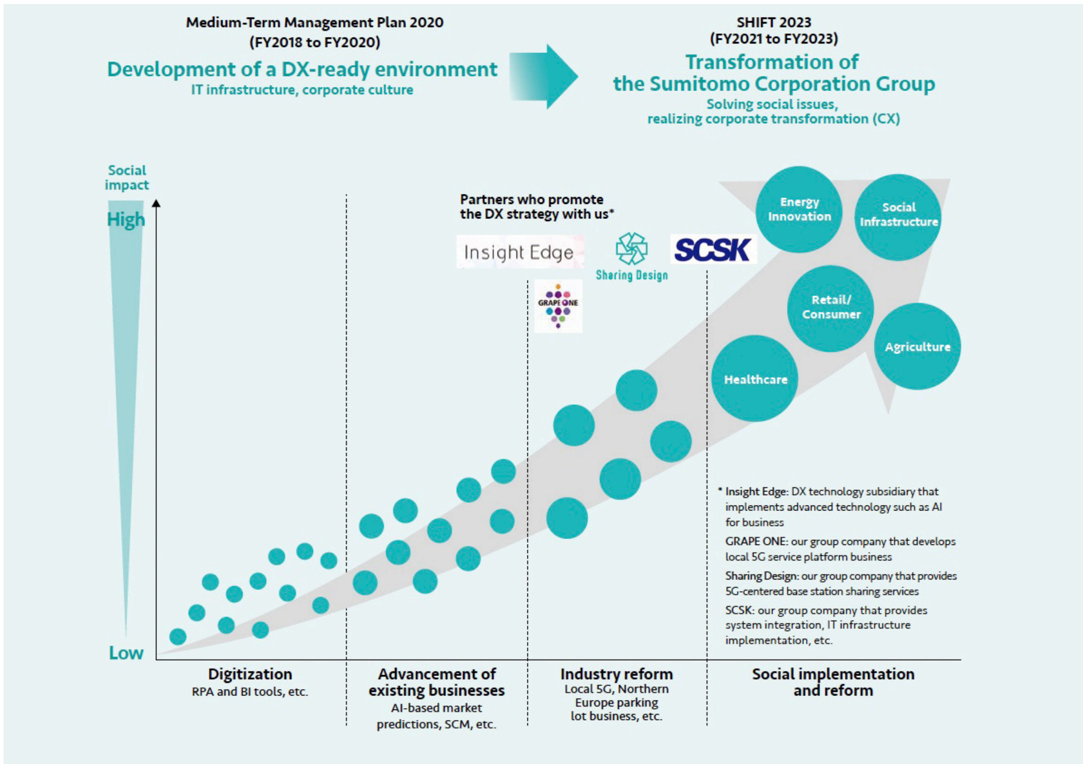
Advancing the DX Strategy

The first step in the group's DX strategy was the launch of the DX Center in 2018. The center began with 15 experts assembled from various business units and expanded to 150 employees by fiscal 2021. During that time, in addition to strengthening ties with SCSK, we launched Insight Edge, a company specializing in AI technology to expand the Group's horizons for digital technologies. In parallel to this, the CDO visited bases around the world to build momentum to accelerate the DX strategy. As a result, it has become common practice to use digital technology for business within the group. Under SHIFT 2023, the DX strategy will be a powerful tool to shift SC's portfolio, enabling value creation in response to changes in social structure by implementing digital technology in business settings and building new business models. The DX Center will continue to work closely with the business units and regional organizations and collaborate with SCSK to realize and expand its business vision.

DX activity timeline



Phases of business creation through DX



Further Advancement of Sustainability Management

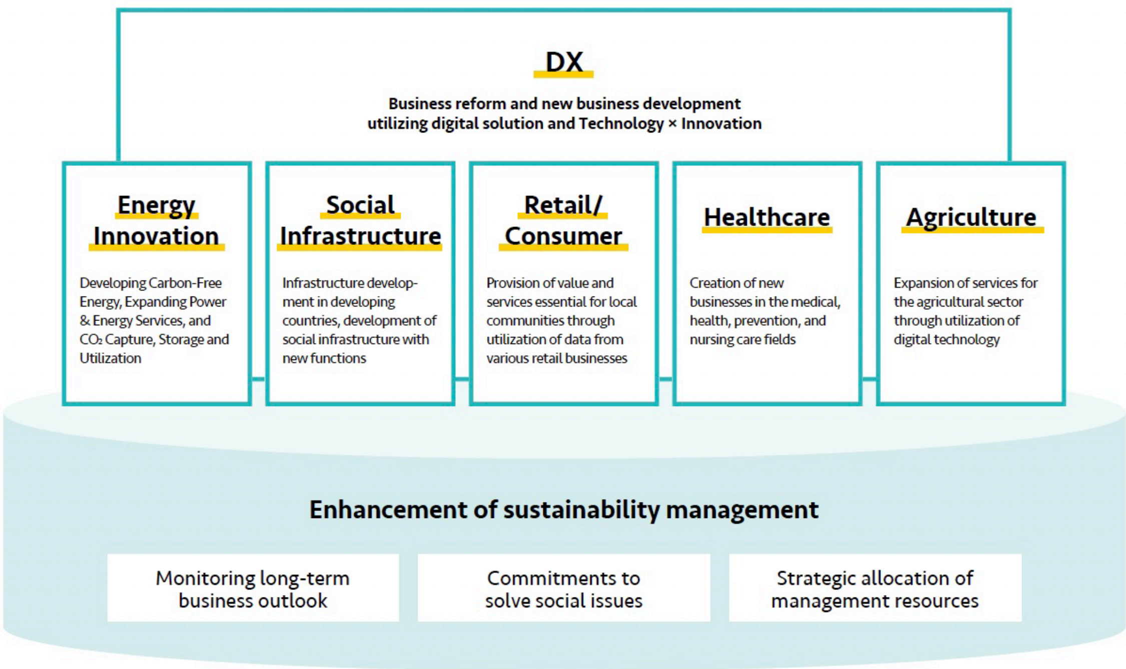
The SC Group has set "the realization of a sustainable society" as a key management theme and has been working to contribute to the resolution of social issues through its businesses.

From among the social issues facing the world in fiscal 2020, we have identified six key social issues that are particularly relevant to the group's business activities and have formulated long-term goals to contribute to solving each of them.

In fiscal 2021, the first year of SHIFT 2023, we set mid-term goals for initiatives to solve key social issues in each business division. Additionally, for the company-wide growth strategy in SHIFT 2023, we have selected next generational growth strategy themes, which aim to create future core businesses based on the social demand for sustainability.

With regard to the climate change issue, we are promoting strategic allocation of management resources in view of new business opportunities envisioned by backcasting from the idea of a sustainable society that has achieved carbon neutrality and a circular economy. Addressing social issues can be both a risk and an opportunity for companies in the medium- to long-term. As the business environment changes, the ability to seize business opportunities ahead of others and to recognize, evaluate, and manage risks will determine the sustainable growth of a company. Through the advancement of sustainability management, the SC Group will continue building a portfolio that is both economically rational and responsive to social issues.

Next-generation growth Strategy Themes

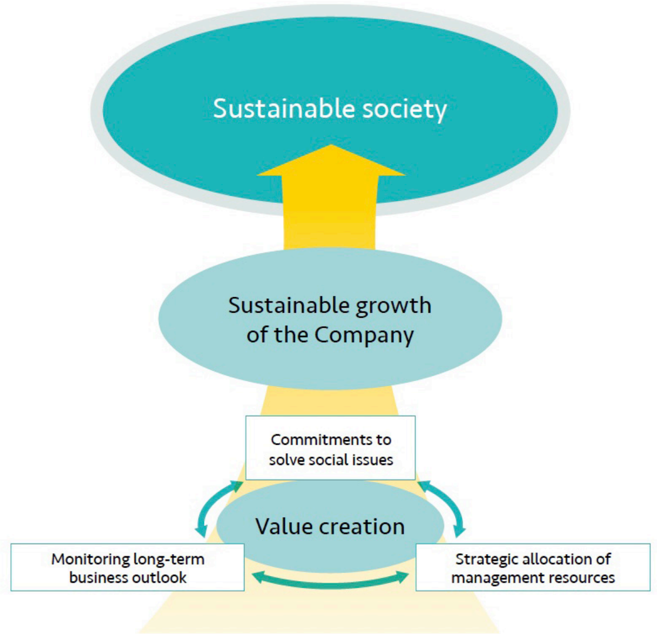


Enriching Live and the World

In fiscal 2020, the drastically changing business environment highlighted the management issues the group was facing, resulting in a final loss of 153.1 billion yen. With a growing sense of crisis, the group came together to enact mitigation measures and, despite restrictions under the pandemic environment, managed to advance the recently launched structural reforms and improve sustainability management. To return to a growth trajectory as soon as possible and to aim for even greater heights, SHIFT 2023 was launched. In fiscal 2021, the first year of the plan, net income reached a record high of 463.7 billion yen, thanks to tailwinds in the business environment and positive results from the structural reforms. We were also able to reach a consolidated net income of "over 400 billion yen," which was one of the goals established in 2012 leading up to SC's 100th anniversary. However, the current business environment will not last forever, and since we are aiming for even greater results under SHIFT 2023, we must stay prepared for whatever may happen and continue our efforts to ensure the continuation of our businesses, expand earnings, and achieve sustainable growth.

The SC Group is now in a transitional period leading toward the next 100 years of development. However, no matter how much the times and the environment change, SC's commitment to enrich lives and the world remains the same. We will continue striving to achieve sustainable growth along with the development of society as a corporate group that is always in high demand.

Achieve Prosperity and Realize Dreams



2001–2021

Network Status

△ SC liaison office
◎ SC subsidiary
● Integrated Operation
☆ Change of status / name
○ SC branch
▼ Closed

Europe & CIS

Europe:

◎SC Europe: Kraków (May 2001) / ▼ SC Europe: Sofia (Mar. 2002) / Vienna and Bucharest (Apr. 2002) /
▼ SC Europe: Budapest and Warsaw (Jan. 2004) / Stockholm (Dec. 2004) /
▼ SC Benelux: Rotterdam (May 2005) / ▼ SC Spain : Barcelona (Jul. 2009) / ▼ SC Greece (Sep. 2010) /
◎SC Europe: Warsaw (Reopened Sep. 2010) / ▼ Kraków (Sep. 2010) / ▼ SC Italia: Torino (Apr. 2011) /
△SC Europe: Aberdeen (Apr. 2011) / ☆SC Italia ⇒ SC Europe: Milan Branch (Jan. 2012) /
☆SC Europe: Aberdeen ⇒ SC Europe Tubular Products Division (Apr. 2013) /
☆SC Europe: Oslo ⇒ SC Europe: Norway Branch (Aug. 2015)

CIS:

▼ Nakhodka (May 2002) / ▼ Ashgabat (Mar. 2003) / △ Astana (Mar. 2005) / ▼ Bishkek (Feb. 2007) /
▼ Yuzhno-Sakhalinsk (Feb. 2007) /
▼ Baku (Apr. 2008) / ▼ Sumitrade (Apr. 2010) / ▼ Khabarovsk (Jun. 2010) /
☆Moscow ⇒ ◎SC CIS (Jan. 2011) : Moscow, St. Petersburg, Kiev, Almaty, Tashkent, Astana /
☆SC CIS: Kiev, Almaty, Astana and Tashkent ⇒ ○SC Kiev Branch, Almaty Branch, Astana, Tashkent (Jul. 2015) /
☆Astana ⇒ Nursultan (Sep. 2021)

Middle East & Africa

Middle East:

▼ Beirut (Apr. 2001) /
▼ Tel Aviv (Apr. 2003) / ▼ Sanaa (Suspended Oct. 2003) / △ Tripoli (Reopened Jan. 2005) /
● Operation of Regional block (Saudi/Western GCC/Northern GCC/Northern Arab) (Apr. 2009) / △ Erbil (Oct. 2011) /
◎SC Saudi Arabia: Riyadh Head Office (Oct. 2013) •Jeddah, Al Khobar (Apr. 2014) ⇒☆ Al Khobar Head Office (Jul. 2015) /
▼ Sana'a (May 2017) / ● Regional four-product group system: SC Middle East Group (Apr. 2018) /
△ Tel Aviv (Reopened Dec. 2019) : Placed under control of GM for Europe / ▼ Damascus (Mar. 2020)

Africa:

▼Addis Ababa (Aug. 2002) / ▼ Maputo (Mar. 2003) / ▼ Antananarivo (Apr. 2003) /
▼Dar es Salaam (Apr. 2003) / ▼ Harare (Jun. 2003) / ▼ Lusaka (Sep. 2003) /
2002-2003: A series of office closures due to the withdrawal of ODA grant business
▼ Abidjan (Mar. 2005) / ▼ Dakar (Apr. 2007) / △ Antananarivo (Reopened Aug. 2008) /
● VIC Sub-Saharan Africa Regional Management Task Force (Apr. 2009-Mar. 2011) /
● Sub-Saharan Africa Office (Johannesburg) (Jan. 2011) / / △ Accra (Reopened May 2011) /
△ Dar es Salaam (Reopened Oct. 2012) /
☆Johannesburg Branch ⇒ ◎SC Africa (Apr. 2014) △ Maputo (Reopened Apr. 2014) /
▼ Luanda (Sep. 2021)

East Asia

● Commenced integrated operations in South China (Hong Kong, Guangzhou, Shenzhen) (Since 2000) /
▼Jinan (Feb. 2002) / ▼ Shenzhen (Aug. 2002) / ◎SC Shanghai: Nanjing (Apr. 2003) /
◎SC China (Beijing) : Chengdu (Apr. 2003) / ◎SC Dalian: Shenyang (Apr. 2003) /
◎SC Guangzhou: Xiamen (Apr. 2003) /
● Commenced integrated operations in North China (Beijing, Tianjin, Dalian, Qingdao) (Since 2004) /
◎SC China: Changchun (Aug. 2004) /
● Shifted toward integrated operations in the entire China (Apr. 2005) /
☆SC China: Beijing ⇒ ◎SC Beijing (Sep. 2006) /
▼ SC Guangzhou: Xiamen (Dec. 2007) / ◎SC Shanghai: Suzhou (Oct. 2008) /
◎ SC Korea: Pusan (Reopened Apr. 2009) / ☆SC Dalian ⇒ SC China: Dalian (Apr. 2011) /
◎ SC China: Wuhan (Nov. 2011) / ▼ SC Dalian: Shenyang (Oct. 2012) / ▼ SC Shanghai: Nanjing (Jan. 2014) /
▼ SC Beijing (Aug. 2015) / ▼ SC Shenzhen (Sep. 2015) / ▼ SC Shanghai: Suzhou (Feb. 2017) /
☆SC China: Changchun, Dalian, Wuhan ⇒ SC Shanghai: Changchun, Dalian, Wuhan (Aug. 2017) /
◎SC Shanghai: Qingdao (Aug. 2018) / ▼ Beijing (Jan. 2018) / ◎SC Shanghai: Jinan, Chongqing (Jul. 2019)

Asia & Oceania

Asia:

▼ Summit, Niaga (Jan. 2002) / ▼ SC India: Calcutta (Aug. 2002) / ▼ Kuching (Jan. 2003) /
▼ Vung Tau (Feb. 2003) / ▼ Kathmandu (Apr. 2003) / ▼ SC India: Madras, Bangalore (Apr. 2003) /
▼ Kota Kinabalu (Jul. 2003) / △ Jakarta Project Management Office (Jan. 2004) /
▼ SC Indonesia: Medan (Jan. 2004) •Bandung (Jan. 2006) /
☆SC Singapore ⇒ ◎SC Asia (Apr. 2008) : Headquarter of Asian Operations /
◎SC Vietnam: Hanoi Head Office (Oct. 2007) , Ho Chi Minh City (Apr. 2008) , Danang (Apr. 2009) /
◎SC India: Chennai (Former Madras) (Reopened Apr. 2008)
☆Kuala Lumpur Branch ⇒ ◎SC Asia: Kuala Lumpur (Apr. 2009) /
☆Manila Branch ⇒ ◎SC Philippines (Apr. 2009) / ▼ Lahore ▼ Chittagong ▼ Colombo (Apr. 2009) /
☆Phnom Penh, Vientiane, Dhaka, Karachi, Islamabad, Yangon ⇒ ◎SC Asia: Phnom Penh, Vientiane (Jun. 2009) ,
Dhaka (Aug. 2009) , Karachi, Islamabad Yangon (Apr. 2010) /
● Intra-regional product unit system (Apr. 2011) / ◎SC Asia: Nay Pyi Taw (Aug. 2012) /
☆SC Asia ⇒ ◎ SC Asia & Oceania (Oct. 2013) /
◎Sumitai Holdings: Bangkok (Feb. 2018) / ◎SC India: Bengaluru (former Bangalore) (Reopened Feb. 2020) /
☆Sumur Chhaya ⇒ ◎SC Malaysia (Oct. 2021)

Oceania:

☆SC New Zealand: Auckland ⇒ ◎SC Australia: Auckland (Jan. 2002) / ▼ SC Australia: Brisbane (Apr. 2004) /
▼ SC New Zealand (Apr. 2005) /
☆SC Australia becomes a wholly owned subsidiary of SC Asia & Oceania (Mar. 2014) /
◎SC Australia: Brisbane (Reopened Apr. 2019)

Further Deepening of Global Consolidated Management

2001–2012

■**Strengthening the organizational foundation**
> Promoting "area bloc-based operation":
CIS (2004)/ South America (2005)/
Southeast Asia (2005) ⇒ Southeast and Southwest Asia (2006)/
Middle East (2009)/Sub- Saharan Africa (2011)
> Introduction of the regional product group system:
Europe (2004)/ China (2005)/ North America (2009)/ Asia (2011)
> Establishment of subsidiaries in emerging countries:
Vietnam (2010), CIS (2011), Saudi Arabia (2013), South Africa (2014)

■**Integration of product strategy and regional strategy, and building a foundation for cross-organizational collaboration and exercising our integrated corporate strength**
> Support regional organizations investing in group companies under divisions
> Encourage secondees to group companies to join regional organizations

2013–

■**Reorganization into huge regions (Apr. 2013)**
> East Asia / Asia & Oceania / Europe, Middle East, Africa & CIS / Americas
In April 2021, among the 4 broad regions, Europe, Middle East and Africa & CIS, were devided into two regions "Europe & CIS" and "Middle East & Africa."

■**Expansion of the per-region product group system**
Asia ⇒ Asia & Oceania (2013),
North America (2014) ⇒ The entire Americas (2018),
Middle East (UAE, Iran, Saudi Arabia, and Turkey) (2018)

■**Introduction of "Joint & Several Concept" (Apr. 2016)**
> Established a system from the perspective of company-wide optimization to share responsibilities for maximizing the profitability of the group.
-Introduction of Global Performance Management Systems
-Consolidate the form of investment in group companies (the elimination of cross shareholding)
-Change in affiliation of employees dispatched to overseas group companies

Americas

North America:

● SCOA Equity Participation ⇒ SC Canada, SC Mexico, SC Brazil (Mar. 2001-Jun. 2001) /
☆SCOA Santa Clara ⇒ Northern California (Apr. 2002) / ▼ Managua (Apr. 2003) / ▼ Philadelphia (Sep. 2003) /
▼ Northern California (Apr. 2004) / ▼ SC Panama (Dec. 2007) / ◎SCOA Denver (Reopened Apr. 2008) /
☆SCOA ⇒ ● SC North America (Renamed Apr. 2009) : Integrating operations in the U.S. and Canada /
▼ Atlanta (Mar. 2010) / ▼ San Salvador (Apr. 2011) / ▼ SC Mexico: Monterrey (Jul. 2011) /
☆SC North America ⇒ ● SC Americas (Renamed Apr. 2014) : Integrating operations in North America and Mexico/
▼ SC Americas: Silicon Valley (Apr. 2017) / ▼ Portland (Sep. 2017) /
● Shift to integrated operations in the entire Americas (excluding Cuba) (Apr. 2018) /
◎SC Mexico: Salamanca (Jun. 2018) ⇒☆Bajio (Jan. 2022)

South America:

▼ SC Brazil: Diadema (Jul. 2001) / ▼ SC Trinidad and Tobago (Jan. 2003) /
▼ SC Brazil: Novo Hamburgo (Aug. 2011) /
▼ SC Venezuela (Suspended Mar. 2012) / ▼ SC Brazil: Porto Alegre (Mar. 2014) / ▼ SC Brazil: Recife (Mar. 2015) /
● Shifted toward the integrated operation in the entire Americas (Apr. 2018) /
☆Reorganization of SC Colombia, SC Peru, and SC Ecuador ⇒ ◎SC Andes: Bogota Head Office, Lima Branch,
and Quito Branch (From Oct. 2018 to Jan. 2019) ▼ SC Equador (Oct. 2020) ▼ SC Peru (Mar. 2022)

Explanatory Notes:

1. This book is an abridged translation of "100 Years of Sumitomo Corporation History" in Japanese.
2. As a general rule, the text is up to date as of the end of December 2021
3. Countries and place names are written as of that time.
4. The names of businesses and positions of officers and managers are written as of that time.

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Sumitomo Corporation

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