

Special Feature

# Driving Forces for Corporate Value

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# 1 Earnings Expansion: Providing new value while staying attuned to customer needs and addressing changes

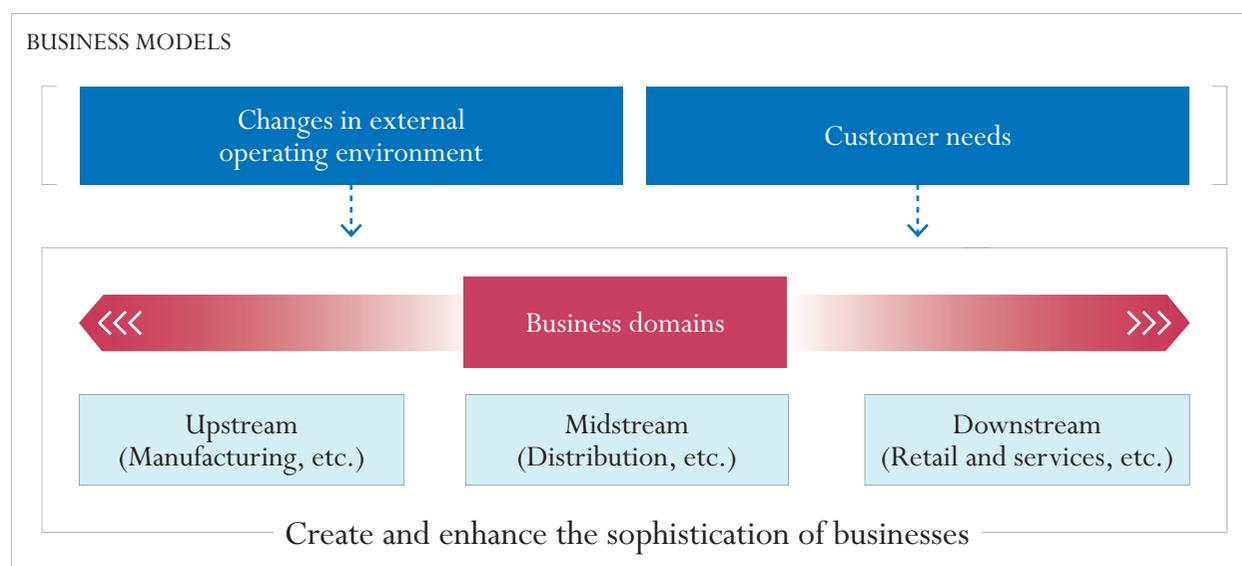
Leveraging its business platforms and functions built up over the years, Sumitomo Corporation has created businesses and added depth to its operations by staying attuned to the shifting business environment and customer needs. By providing new value to society through these and other activities, Sumitomo Corporation has expanded earnings.

The business environment surrounding Sumitomo Corporation has been in a constant state of flux, characterized by the complex interplay of various factors, including the yen's appreciation, advances in IT and growth in emerging countries. Other factors have included the Lehman Brothers bankruptcy and the ensuing financial instability, global environmental issues and natural disasters. In step with these developments, our customers' needs have also changed. For example, customers in the manufacturing industry are increasingly seeking to shift their operations offshore and to address environmental issues.

We see these changes as business opportunities. While harnessing our business platforms, including operating sites around the world, and functions such as information gathering and analysis capabilities, as well as risk management skills, we have built value chains by expanding our business domains from midstream fields such as distribution operations to upstream fields such as manufacturing operations and downstream fields, including retail and service operations.

And by continuing to provide new value while adding depth to the value chains we have built, we aim to achieve sustained earnings expansion into the future.

In this feature section titled "Earnings Expansion," we present three examples of how we have created new value and added depth to our value chains. The first is our tubular products business in North America, where we have continually refined the value chain. The second is the Tanjung Jati B coal-fired thermal power plant project in Indonesia, where we have refined our business model starting from our role as a construction contractor for this power plant. Finally, we take a look at overseas development of the retail business, where we have nurtured various businesses by taking full advantage of our trading company functions.



## Case 1

# Tubular Products Business in North America: Enhancement of the Tubular Product Value Chain



The V&M Star small-diameter seamless pipe manufacturing plant under construction

### Expanding Shale Gas and Oil Development

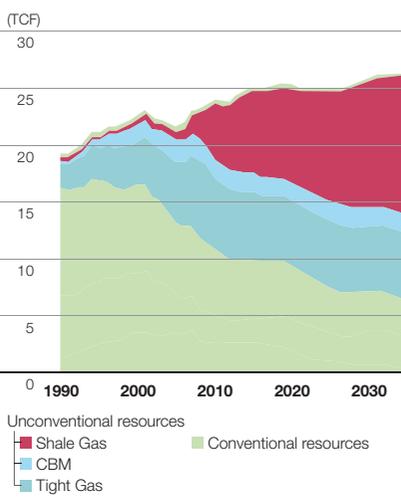
Fossil fuels found in a natural state that is more difficult to develop and recover than conventional resources are classified as “unconventional resources.” One example is oil and natural gas trapped directly inside solid layers of rock beneath the earth’s surface. Among these resources, shale gas and oil, which are found in the thin and brittle shale layer, have attracted

considerable attention mainly in North America. Although the existence of shale resources have long been known, commercial production was not feasible given the difficulty in developing and recovering these resources. However, in the early 2000s, the technologies for hydraulic fracturing and horizontal drilling were successfully established in the U.S., and it significantly reduced development costs. As a result, commercial shale gas production

commenced on a full scale from around 2006. Thereafter, from 2010, the focus of development has shifted to shale oil due to persistently high crude oil prices.

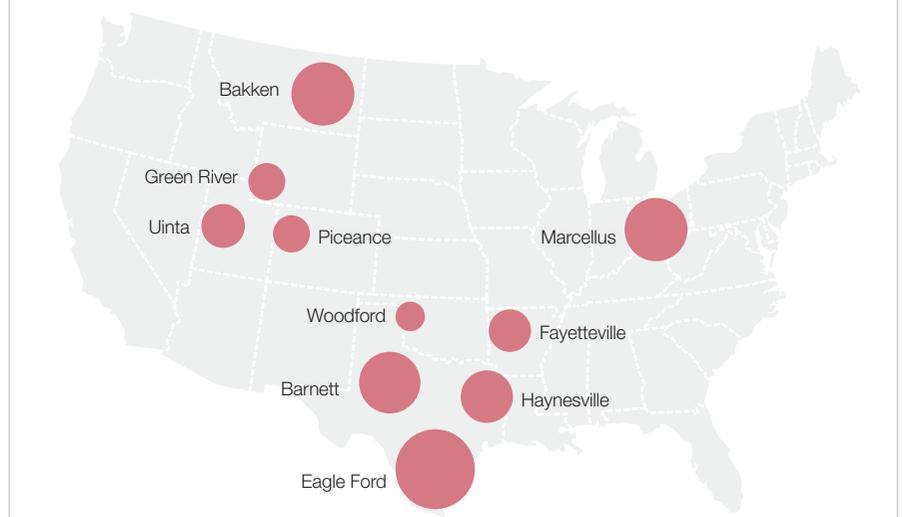
These shale gas and oil wells involve an extended length of horizontal drilling that require oil country tubular goods (OCTG) with a smaller diameter than conventional products. For this reason, demand for small-diameter OCTG has increased sharply since 2007.

### THE AMOUNT OF SHALE GAS AMONG THE NATURAL GAS IN THE U.S.



Source: EIA Annual Energy Outlook 2011

### MAJOR SHALE PLAYS IN THE U.S.



### Strengthening the Seamless Pipe Manufacturing Business

Under such circumstances, in October 2011, Sumitomo Corporation participated in the project of establishing a small-diameter seamless pipe mill in the U.S.

This pipe mill is located in close proximity to the Marcellus Shale in Pennsylvania, one of the most active shale development regions. In addition, the location is adjacent to the premises of V&M Star LP, an Ohio-based firm acquired by Sumitomo Corporation together with Vallourec S.A., a major French pipe producer, in 2002. Sharing raw materials with V&M Star will facilitate efficient production by this new pipe mill. Plans call for starting operations at the steel mill in autumn 2012, with annual production output of approximately 350,000 tons of pipes planned for 2013.

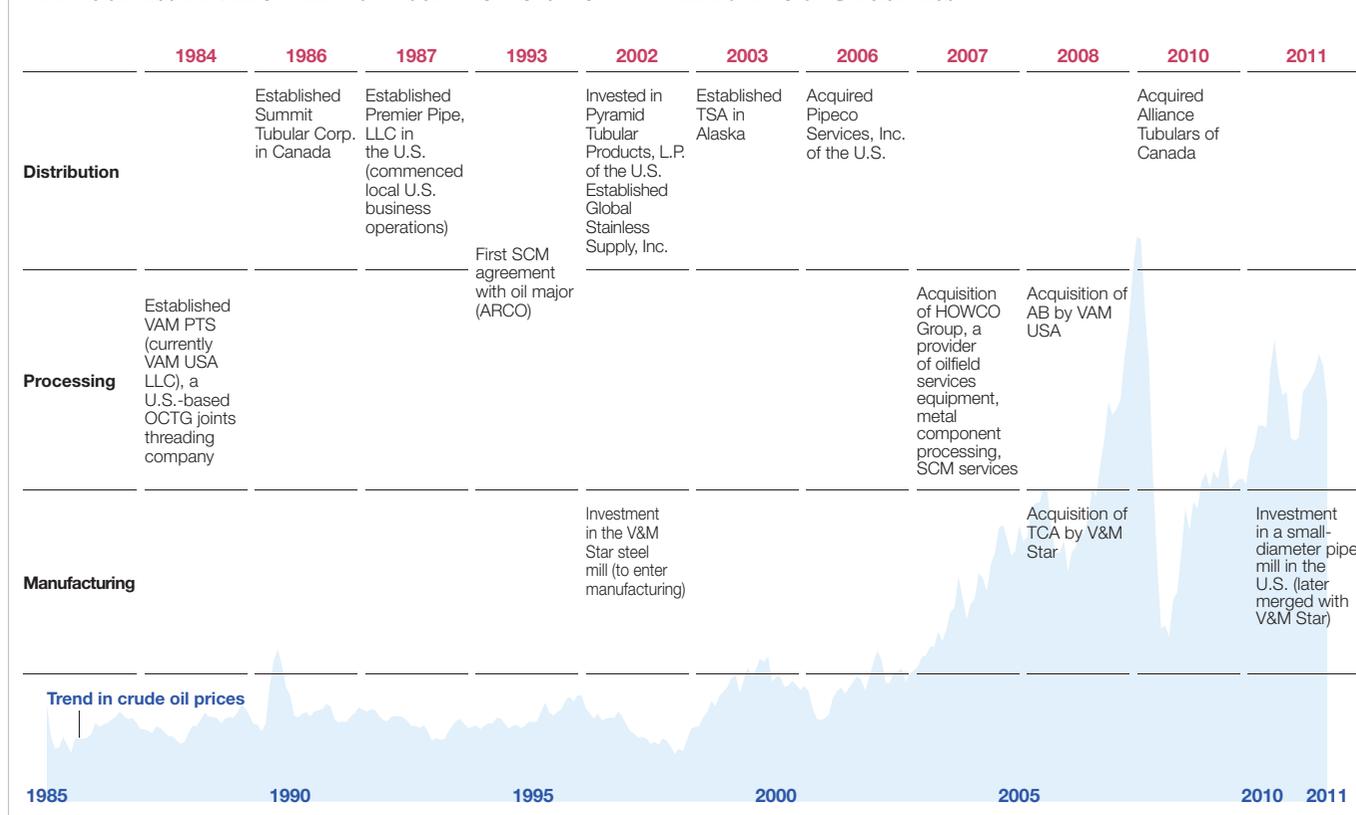
### Becoming the Largest Player in the U.S. OCTG Market While Adapting to Change

Global OCTG consumption totals about 12 million tons a year. North America consumes around 6 million tons, or roughly half, of this global consumption. Sumitomo Corporation boasts a share of about 20% of the North American OCTG market. Initially, Sumitomo Corporation's tubular products business in North America revolved around trading activities, namely the export of pipes manufactured in Japan to the U.S. In the late 1970s, however, trade conflict between Japan and the U.S. started to emerge, and as a result, OCTG exports gradually became subject to trade restrictions. After seeking ways to break through this impasse, Sumitomo Corporation decided to enter the tubular products distribution business in the U.S. and established an OCTG distribution business in 1987. Through this distribution

business, Sumitomo Corporation worked tirelessly to enter into stable long-term supply agreements with customers mainly consisting of the oil majors. From 1993, Sumitomo Corporation started to conclude Supply Chain Management (SCM) agreements for tubular products combined with inventory management and various other services. Based on a grasp of changing market conditions, Sumitomo Corporation shifted its business model from exporting tubular products to the U.S. to localized operations in which the company procures OCTG from domestic pipe mills for distribution within the U.S.

In 1995, exports of Japanese OCTG to the U.S. stopped as a result of U.S. anti-dumping measures. At that time, Sumitomo Corporation received requests from oil majors and other customers with whom it had business relationships to continue stably supplying OCTG based on the company's understanding of their needs. To answer

KEY BUSINESS DEVELOPMENTS AT SUMITOMO'S NORTH AMERICAN OCTG BUSINESS



their requests, Sumitomo Corporation raced in earnest to secure pipe supply sources within the U.S. These efforts led to the 2002 acquisition of a U.S. seamless pipe mill with Vallourec, marking our first step into manufacturing operations. Thereafter, Sumitomo Corporation remained focused on upgrading and expanding the value chain in step with customer needs and the changing business environment. Measures included investing in a major tubular products distributor and an oilfield service equipment processor and manufacturer.

### Strengths of the Tubular Product Business in North America

Sumitomo Corporation's tubular product business in North America is driven by three main strengths: (1) an extensive customer base centered on long-term agreements with a broad range of oil companies, from the majors to small- and medium-sized independent companies; (2) a distribution network capable of just-in-time supply of high-quality products; (3) a support system for smooth operations based on a proprietary IT system, such as a SCM scheme for tubular products.

Normally, oil and gas are found deep underground. The OCTG that draw up these resources require a high level of

performance in terms of the ability to withstand high temperatures and pressures, as well as anti-corrosion properties. Previously, our client oil companies had many ancillary duties to perform besides their core business of oil and gas development, including not only procurement of equipment and supplies such as OCTG, but also related processing, inventory management and maintenance. By performing these duties for oil companies on an outsourcing basis, Sumitomo Corporation has striven to provide an environment where its customers can focus on efficient gas and crude oil development.

In addition, oil and gas wells present different conditions, such as size, depth and pressure, depending on the drilling site. There is a need to design optimal wells for each drilling environment at individual oil and gas fields under development and determine the products that will be used. This requires advanced decision making capabilities based on insight and expertise developed over many years. Sumitomo Corporation has its own team of engineers who can address the needs of oil companies conducting drilling operations. This team offers proposals on product applications and other parameters best suited to specific well conditions.

Furthermore, oil well drilling is

conducted entirely through on-site operations in oil and gas producing areas. For this reason, various functions must be concentrated on-site. Also, talented human resources who can manage the site are essential. Sumitomo Corporation also has service companies devoted to supply chain management that can be contracted to comprehensively perform these operations. These companies take responsibility for launching facilities and operations, operation and maintenance, systems integration and human resources development.

### Asserting a Strong Presence in the Global Market While Capturing Customer Needs

While addressing the needs of oil majors and other customers, Sumitomo Corporation conducts OCTG supply chain management at (3) sites in 12 countries worldwide, not just in North America, in its role as a total OCTG solution provider.

Looking ahead, growing global demand for OCTG is anticipated in step with the world's increasing appetite for energy. By continuing to add depth to its value chains and accumulate insights and expertise, Sumitomo Corporation will address the ever-shifting business environment and customer needs, as it endeavors to provide new value.



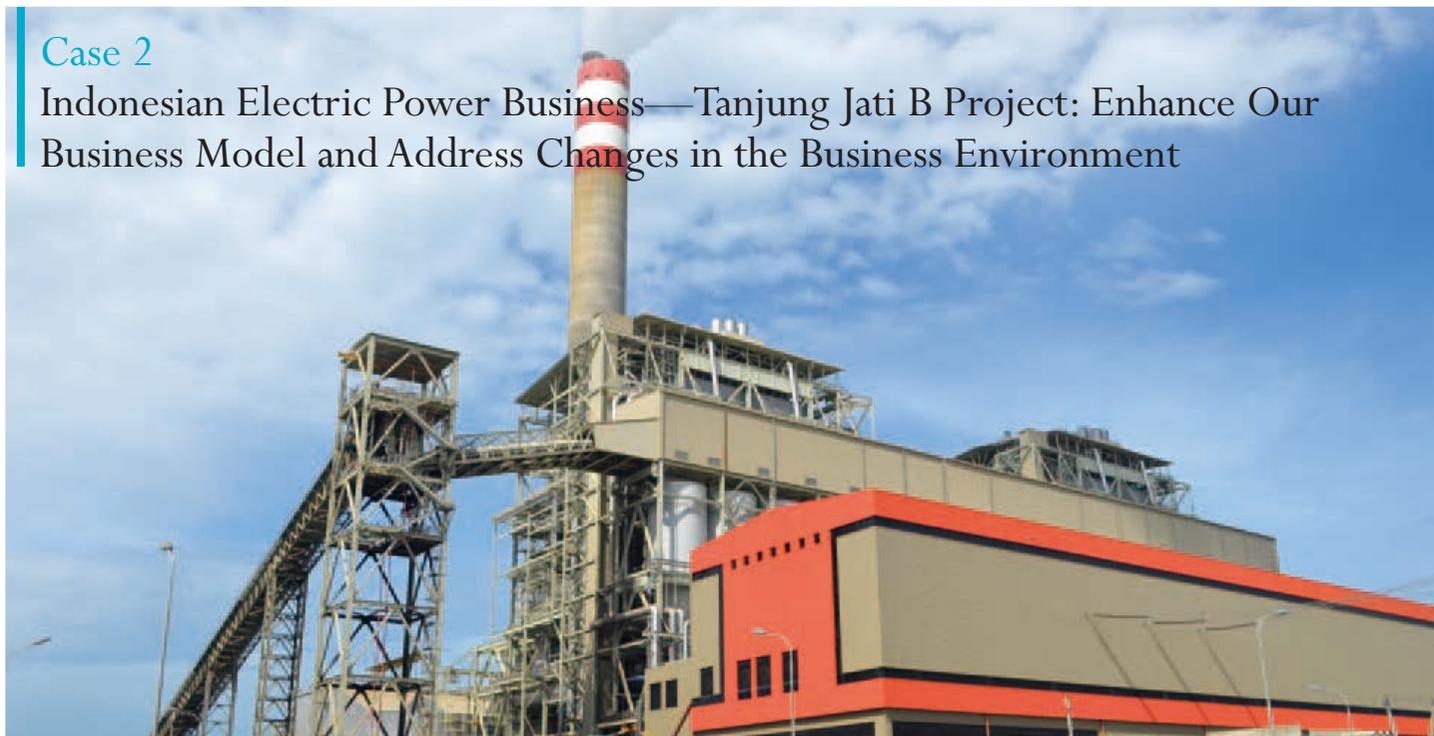
Generally speaking, OCTG represents 10% of drilling expenses. Sumitomo Corporation has developed an IT system to manage the movement of all OCTG it handles worldwide. It uses this system to manage and predict customers' OCTG usage and to supply products on a just-in-time basis as necessary. Inventory risk is avoided in this way.



Engineers are responsible for oil and gas well consultations. They bridge the gap between Sumitomo Corporation and client oil majors like a translator, so to speak, and propose optimal designs for specific oil and gas well environments.

## Case 2

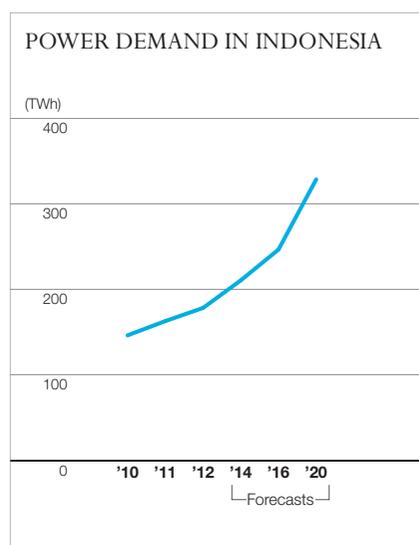
# Indonesian Electric Power Business—Tanjung Jati B Project: Enhance Our Business Model and Address Changes in the Business Environment



Unit 3 (completed October 2011) and Unit 4 (completed January 2012) of the Tanjung Jati B coal-fired thermal power plant

### Tightening Supply-Demand for Electric Power

Indonesia has seen continuous economic growth, along with an ever-increasing population. These developments have led to persistently tight supply-demand dynamics for electric power within the country. Demand for electric power in Indonesia is projected to increase by an average rate of around 8% per year through 2020. Consequently, the development of new sources of electric power has



Source: Ministry of Energy and Natural Resources

become an urgent priority for the country.

Since entering the Indonesian market in the 1950s, Sumitomo Corporation has been engaged in the construction and operation of a diverse array of power plants in the country, including hydroelectric, thermal, and geothermal power. Through these activities, Sumitomo Corporation has underpinned Indonesia's continuously rising demand for electric power.

### Completion of Expansion Work on Tanjung Jati B Coal-Fired Thermal Power Plant

Indonesia is now in the midst of an ongoing construction boom for power plants, mainly on the island of Java, driven by government-led development of new sources of electric power in order to alleviate power shortages.

In addition to Units 1 and 2 of the Tanjung Jati B coal-fired thermal power plant ("TJB") on lease since 2006, Sumitomo Corporation constructed Units 3 and 4. Unit 3 was completed in October 2011, followed in January 2012 by completion of Unit 4. All parties involved from Japan and Indonesia made a concerted effort to complete the expansion work as early as possible, sharing the vision of ensuring a stable supply of electricity in

Indonesia. As a result, construction of each unit was completed more than three months ahead of schedule and achieved an output and efficiency surpassing the required levels under the contract terms.

The generation capacity of TJB totals 2,640 MW, following the start of operation of Units 3 and 4. TJB has become a crucial power station, accounting for about 13% of the power supply for the entire Java-Bali power grid in Indonesia.

### Solving Issues Arising From Environmental Changes One by One

The main factors behind the success of the TJB expansion project were the adoption of the new "finance lease" business model, which was established during the Units 1 and 2 project, a high-quality product and project coordination and implementation skills backed by experience.

The progress of the TJB Units 1 and 2 project was not entirely smooth. In 1995, the TJB project was planned by a Hong Kong-based IPP\*. Sumitomo Corporation joined the project as an EPC\* contractor responsible for engineering, procurement and construction. However, in 1997, just as construction was proceeding smoothly, the Asian currency crisis erupted and caused the value of the Indonesian rupiah

to plummet. The private-sector bank syndicate financing the project withdrew loans from the project at once, and the Hong Kong-based IPP also decided to withdraw. There was no choice but to suspend the TJB project.

At this point, about 70% of the civil work was already completed, and the equipment and facilities were already ordered. More importantly, we did not want to disappoint the people of Indonesia, who had been longing for the completion of the new power plant. Our enthusiasm drove us to repeatedly call on the government to resume the project. To restart the project, Sumitomo Corporation proposed a scheme based on a finance lease. Under this scheme, Sumitomo Corporation constructed the power plant at its own risk with a loan from lenders headed by the Japan Bank for International Cooperation (JBIC). After construction, we have continued our involvement in TJB through the local project company PT. Central Java Power (CJP) by leasing out the power plant to PT. Perusahaan Listrik Negara ("PLN").

Under this scheme, the lease fee is collected every six months, and the fee level is determined partially based on some variable parameters such as the electricity tariff and certain other factors during each period. Consequently, PLN can avoid incurring initial investment costs and can pay the lease fee from the revenues for the electricity generated at the plant. Another important feature of the scheme is that, unlike an IPP project where only electricity is supplied, the power plant itself is on lease. Therefore, the operation and maintenance of the power station and the procurement of the fuel are done by PLN in cooperation with CJP, which would transfer know-how to a local power generation operator. In addition, the ownership of the power plant facilities could be transferred to the lessee after completion of the 20-year lease period. This feature also made the proposed scheme very attractive to our Indonesian partners.

Having agreed on this "win-win" proposal for both Sumitomo Corporation and its Indonesian partners, the resumption of the project was agreed among the parties

in 2001, four years after the project was suspended. We then went through a set of complex negotiations and procedures by exercising our integrated corporate strength and mobilizing a wide variety of our skills, including legal, accounting, tax, and finance and risk management functions. As a result, construction restarted in 2003 and the project was successfully completed in 2006. Despite facing drastic changes in the business environment, Sumitomo Corporation constantly strove to find the best possible solution for its Indonesian partners and itself, thereby guiding this extensive 11-year project to a successful outcome.

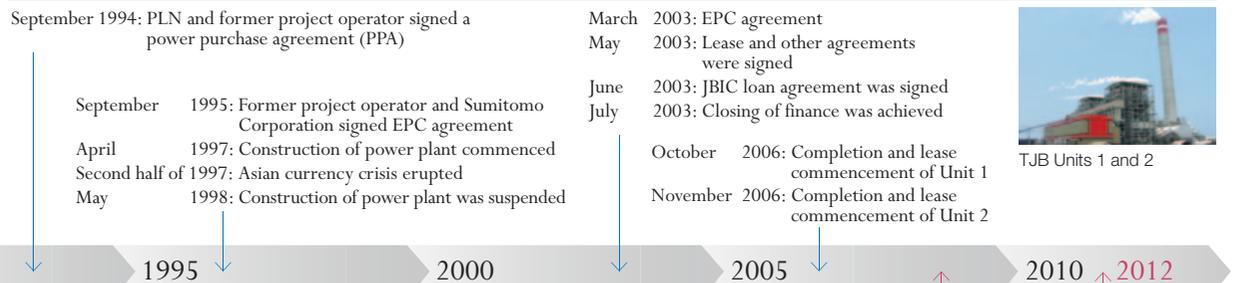
Looking ahead, Indonesia is expected to see continued economic development and population growth. We intend to further refine the technical, coordination and project implementation skills we have developed through past activities, as well as our relationships of trust with local partners. Through this approach, Sumitomo Corporation aims to continue growing together with Indonesia.

\* IPP: Independent Power Producer

\* EPC: Engineering, Procurement and Construction

## TJB PROJECT BACKGROUND

### Background to Completion of Units 1 and 2 (Existing Units)



(During this time, various negotiations were held on the possible purchase or leasing of the power plant by PLN. As a result, the new finance lease scheme was approved in March 2001.)

November 2008: Lease agreement was signed  
 December 2008: EPC agreement and JBIC loan agreement were signed  
 February 2009: Closing of finance was achieved  
 October 2011: Completion and lease commencement of Unit 3  
 January 2012: Completion and lease commencement of Unit 4

### Background to Completion of Units 3 and 4 (Expansion Units)



TJB Units 1 through 4 (Units 3 and 4: front left)

## Case 3

Overseas Expansion of Retail Business:  
Leveraging Our Capabilities to Cultivate Businesses

## Sumitomo Corporation's Retail Strategy

Japan's consumer market is considered to be quite mature in comparison to those of rapidly growing emerging countries. However, Japan's consumer market, valued at approximately ¥135 trillion, still remains one of the world's largest and most robust markets.

Sumitomo Corporation considers retail a strategic business in the fertile ground that is the Japanese market. We have developed and cultivated a broad range of retail businesses, including supermarket, drugstore, luxury brand, TV shopping, and cable TV businesses. Our retail operations also include cellular phone sales and household goods e-commerce.

In our retail businesses, Sumitomo Corporation is currently pursuing a multi-channel retail strategy. This strategy is designed to maximize earnings opportunities by providing products and services to individual consumers through various channels, including brick-and-mortar retailers, TV, the Internet and mobile phones. Furthermore, under this unique strategy, Sumitomo Corporation has developed a distinctive business model among general trading companies. Our operating companies are industry-leading businesses

in their respective fields of media, IT and retail, while collaborating and combining their strengths across business sector boundaries to create and provide new forms of value.

Going forward, Sumitomo Corporation will continue working to enlarge its retail business in the Japanese market. At the same time, we have begun extending our successful business models developed in Japan to overseas markets, with a view to enhancing our future earnings base.

## Cultivating Businesses in Japan: TV Shopping by Jupiter Shop Channel

Jupiter Shop Channel Co., Ltd. (SHOP) is a TV shopping company, with a top share of the Japanese TV shopping market. As such, SHOP is an operating company central to Sumitomo Corporation's multi-channel retail strategy. Sumitomo Corporation launched SHOP together with U.S. partner companies in an effort to bring the U.S.-developed TV shopping business model to Japan. Thereafter, Sumitomo Corporation continued to support SHOP by actively utilizing the Sumitomo Corporation Group's various capabilities, such as logistics, media and IT, in addition to allocating resources such as capital and personnel.

Although it has achieved an industry-leading position today, initially SHOP faced a process of continual trial and error. During this phase, SHOP was guided by an intense curiosity to uncover fascinating products and enjoyable programs that would delight customers. SHOP implemented a range of measures, such as developing its own unique lineup of prod-

## GROWTH IN THE TV SHOPPING MARKET (Sales Amount)

(Billions of Yen)



Notes: 1. TV shopping market figures are from FUJII KEIZAI CO., LTD.'s "Mail Order and e-Commerce Business Status and Outlook 2011-2012 Market Edition"

2. Jupiter Shop Channel's figures included sales via the Internet and others, in addition to TV shopping sales

ucts, which closely matched the preferences of Japanese consumers, and expanding live broadcasting hours. In addition, by leveraging its own TV studio and dedicated call center, SHOP could structure programs and replace products according to trends in product sales. Another initiative was to produce programs featuring on-air communication between the program host and customers.

Through these and other initiatives, SHOP established a solid growth path. Thereafter, SHOP has continuously refined its services to match customer needs through a range of initiatives, including the start of 24-hour live broadcasting, the expansion of its call center, the introduction of new customer service systems, and the start of operations at a state-of-the-art logistics center. Other measures include enhancing product planning and quality assurance and the start of Internet-based sales.

As with SHOP, Sumitomo Corporation guides its businesses to growth by becoming deeply involved in operations and leveraging extensive expertise in retail operations and capabilities as a trading company. In

particular, our expertise in retail comes from a broad range of operations, including product planning, marketing, and brand building skills, while our capabilities as a trading company include product procurement, inventory management and logistics operations. By leveraging these existing capabilities, we make them better, and the expertise gained through this turns into new strengths. The capabilities and strengths that Sumitomo Corporation has cultivated through its businesses become the driving force behind developing future business and the creation of a strong foundation in retail business.

### Extending Our Ability to Cultivate Businesses in Emerging Countries

In China and other emerging countries across Asia, where rapid economic development is under way, consumer markets have expanded rapidly in step with growth in middle-income consumers. Looking towards the establishment of a future earnings base, Sumitomo Corporation will extend its ability to cultivate businesses, which were acquired through experience

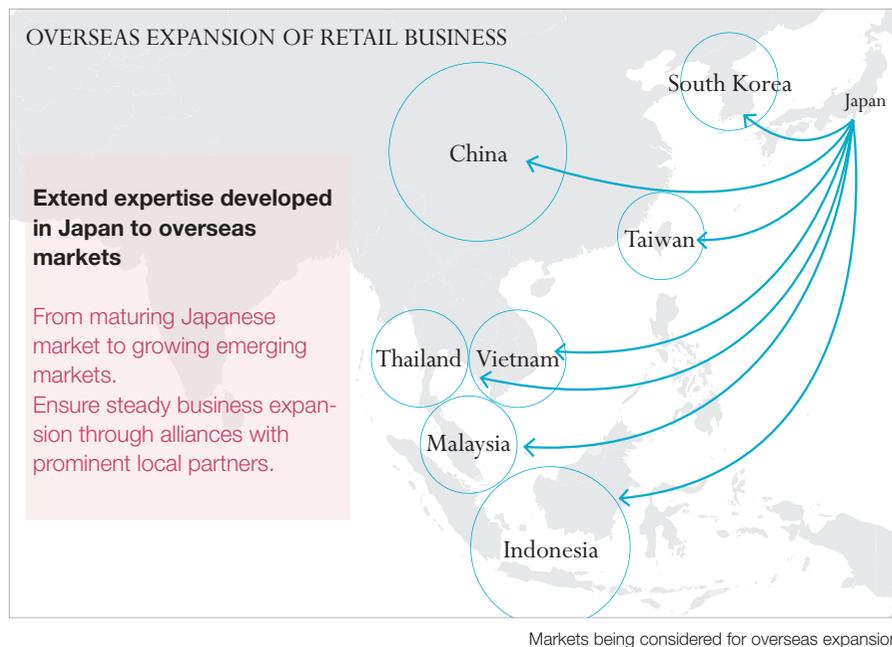
with retail operations in Japan, across these emerging countries, with the aim of achieving further growth.

In the TV shopping business, we aim to capitalize on trends shaping the markets of emerging countries, such as growing populations, improving income levels, and increasingly diverse consumption activity. Eyeing prominent local companies as possible business partners, we will conduct specific discussions aimed at developing overseas business operations.

In the household goods e-commerce business, Sumitomo Corporation established Sumisho E-commerce Shanghai Ltd. and PT Sumisho E-commerce Indonesia in fiscal 2011, with the aim of expanding business in China and Indonesia. In addition to network technology and IT knowledge, we aim to harness our trading company capabilities and expertise developed through our e-commerce business in Japan to expand e-commerce operations to other regions worldwide, primarily in Asia. Our goal is to increase our earnings base on a global level.

In the drugstore business, Sumitomo Corporation has established a joint venture with Mercuries & Associates, Ltd., a leading Taiwanese company, and has agreed to open a drugstore in Taipei. Mercuries & Associates operates a broad range of retail businesses, such as department stores and supermarkets, in Taiwan and China. This agreement will bring together this partner's local capabilities in logistics and product procurement and Sumitomo Corporation's strengths developed in Japan, such as the product lineup and store layout of Tomod's drugstores, along with sales promotion expertise. This will allow us to create and offer distinctive added value to customers in Taiwan.

Looking ahead, we will continue to explore the development of overseas business operations in other business fields, as we develop a future earnings base that will drive medium-term growth.



# 2 Management Stability: Risk Management Designed to Accelerate Earnings Expansion

Sumitomo Corporation positions risk management as a basic tool for ensuring management stability. Its reliable risk management system plays a crucial role in helping Sumitomo Corporation to achieve sustained growth by ensuring management stability, while laying a foundation for expanding earnings.

## Question 1:

What are your views on ensuring management stability, Mr. Hamada?

I believe that ensuring stable management means creating conditions for the company's management policies to be shared by all officers and employees, without any inconsistency, thereby allowing personnel to focus on their duties. To achieve this goal, a company must have a knowledgeable and assertive management team, a system for developing talented employees, a reliable risk management system and a strong financial position. I believe that an operating base capable of sustained growth is only possible when all of these elements come together.

I am responsible for supervising the risk management system. To explain this concept, let me begin by noting that Sumitomo Corporation positions risk management at the highest level of business management. It is seen as a basic tool for maximizing corporate value, not merely as an individual element. Generating a return by taking risk is a fundamental business

concept. Because a general trading company's businesses span a diverse array of fields and regions, these companies are exposed to many different risks indeed. How to handle this risk poses an extremely difficult problem. Nonetheless, the degree of skill with which risk is managed will have a significant bearing on the creation of sustainable corporate value.

From an early stage, Sumitomo Corporation has incorporated risk management deeply into business management. Thereafter, Sumitomo Corporation has worked to raise the sophistication of its risk management system according to changes in the business environment. One example was the introduction of the Risk-adjusted Return Ratio\* ahead of other companies. This Company-wide benchmark looks at profitability in terms of how much return is generated relative to the risk taken. (Please see pages 49–51 for details on risk management.)

Another key factor is a strong financial position. We believe that it is crucial to ensure financial soundness, taking into account such factors as the possible destabilization of financial market conditions as result of the European debt crisis. By financial soundness, we mean reinforcing a system for ensuring access to low-cost, long-term funding by securing prime fundraising sources. This also entails maintaining adequate liquidity in hand, such as cash and deposits and committed lines, in readiness for possible refinancing risks.

I believe that stable management is possible only when all of these elements have been established effectively. Management stability, in turn, lays the groundwork for future earnings expansion.

\* Risk-adjusted Return Ratio = Net income/Risk-adjusted assets (maximum possible losses)

The Risk-adjusted Return Ratio is a benchmark that looks at profitability in terms of how much return is generated relative to a given amount of risk. Specifically, risk assets, or the maximum possible losses, are measured by multiplying asset values by a risk weight representing the maximum possible rate of decline in the value of each type of asset.



**TOYOSAKU HAMADA**  
Director, Executive Vice  
President, CFO

## Question 2:

Could you please explain specific risk management measures you have implemented under the medium-term management plan  $f(x)$ , in light of changes in the business environment?

The business environment surrounding Sumitomo Corporation has changed drastically. To illustrate, as the focus of economic growth shifts from the developed world to emerging countries, burgeoning demand for infrastructure and food, among other items, is anticipated in emerging countries going forward. Also, the restructuring of industry in Japan and full-fledged moves by Japanese companies to expand operations offshore are anticipated in step with change in the industrial structure.

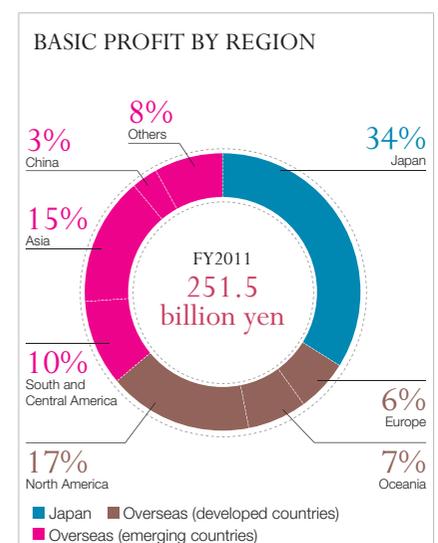
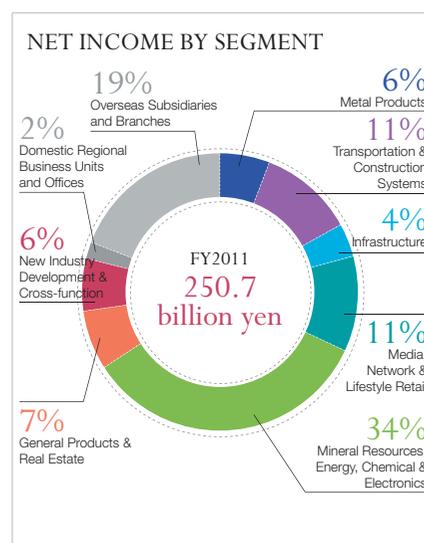
Sumitomo Corporation's business opportunities will also change in line with these developments in the external environment. Accordingly, under the  $f(x)$  plan, we have promoted business model innovation in response to the demands of the times.

In light of current and future conditions, emerging countries have a relatively higher growth potential than developed nations. I believe that emerging countries present two main types of business opportunities. The first is business opportunities arising from emerging countries' role as a production and export base providing various resources and manufactured goods to consumers in other nations. The second is business opportunities spawned by internal

demand against the backdrop of high economic growth rates and expanding populations. On the other hand, business expansion in emerging countries will lead to a significantly higher exposure to various risks including country risk.

Although emerging countries present various business opportunities, given that Sumitomo Corporation has only finite business resources, we must make investment decisions based on metrics such as the

Risk-adjusted Return Ratio, ROA and the Internal Rate of Return (IRR). However, no matter how high the expected return, if we excessively concentrate our business resources on specific businesses in emerging countries, we may incur huge losses in the event that risks materialize. Therefore, portfolio management has taken on increasing importance from the standpoint of determining how to avoid excessive concentrations of business resources in a specific sector or



Basic Profit = (Gross profit – Selling, general and administrative expenses – Interest expenses, net of interest income + Dividends) × 59% + Equity in earnings of associated companies, net

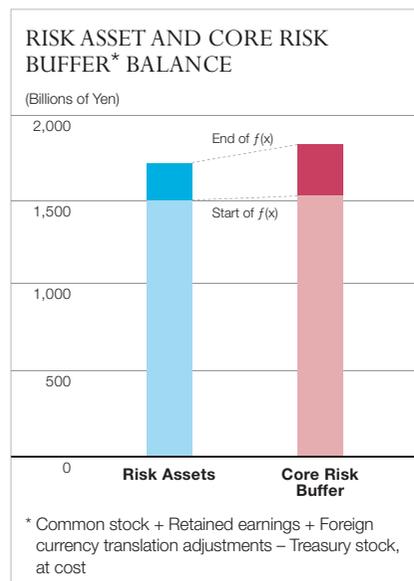
region. We have maintained a balanced portfolio in terms of sectors and regions.

Another important factor is balance sheet management. Our balance sheet is managed from the perspectives of ensuring liquidity, a proper debt-equity ratio (DER) and the amount of total assets, while taking into account financial market conditions at each point in time. At present, we must also consider factors such as the possible destabilization of the financial system as a result of the long-term entrenchment of the European debt crisis. Accordingly, Sumitomo Corporation has secured a high level of liquidity. We hold cash and deposits of more than ¥800 billion, which equates to around one-ninth of consolidated total

assets of approximately ¥7,200 billion, and committed lines which enable us to raise funds in times of urgency.

We also believe that it is important to enhance shareholders' equity by recording net income in line with the management plan, while implementing risk asset management by keeping risk assets within shareholders' equity.

For the foregoing reasons, we believe that risk asset management, portfolio management and balance sheet management are particularly important themes under the  $f(x)$  plan. One of the plan's key actions is to "accelerate strategic resource management," which includes these themes as well as human resources management.



### Question 3:

## Could you please share your perspectives on what will be necessary to maintain stable management going forward?

Sumitomo Corporation sees risk management as a basic tool for sustaining stable management. I believe that our business segments are able to accelerate business projects knowing that they are backed by an outstanding risk management system. In this sense, I believe that it is crucial to keep the fundamental approach and framework to our risk management system unchanged. At the same time, we must allow the system to evolve in sophistication in line with changes in the business environment and management stage and to provide us the flexibility of prioritizing our risk management methods.

In my role as CFO, I will continue to tirelessly strive as before to develop an optimal portfolio that closely fits our fund procurement structure. Since fund procurement is subject to a certain degree of constraint, we will press ahead with the replacement of assets in line with our resource management policy, while remaining within our fund procurement

limit. The "strategy conference" is currently held among CEO and general managers of each unit once every three months. Here, I strive to listen closely to the voice of the business unit side. At the same time, as the manager of the liabilities side of the balance sheet, I work to ensure proper communication by conveying various matters, such as "although we would like to execute as much as possible, the Company does have limitations."

In closing, I would like to say a few

words about prioritizing our risk management methods going forward. Under the current  $f(x)$  plan, we are focusing on strategic resource management. However, I believe that our next theme will be cash flow management. Cash flow management entails proactively controlling cash flow in line with company policies and strategies. I believe that the ability to generate cash according to business plans will take on the greatest importance in the years ahead.



# 3 Touchstone: Basics of Sumitomo Corporation

Sumitomo's Business Philosophy, which has been cultivated over its 400-year history, and the Sumitomo Corporation Group's Corporate Mission Statement are the fundamental and ultimate value standard of the Company, or in other words the basis for earnings expansion and management stability. These foundations are positioned at the heart of the Sumitomo Corporation Group's business activities as it aims to achieve sustained growth.

## Sumitomo's Business Philosophy

Sumitomo's Business Philosophy has been inherited and adhered to by the Sumitomo Group for more than 400 years since its foundation. In essence, it tells us that "We should place prime importance on integrity and sound business activities. But, when faced with a paradigm shift, we must take the lead in striving for structural innovation. In this way we can and should create meaningful value not only for ourselves but for society as well." It implies a universal value valid enough even now.

## Sumitomo Corporation Group's Corporate Mission Statement

The Sumitomo Corporation Group's Corporate Mission Statement is the redefinition of Sumitomo's Business Philosophy from a contemporary and global perspective set out in a simple and clear structure.

The first sentence, "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," constitutes the Corporate Vision of the Company.

The first article of the Management Principles, "To achieve prosperity and realize dreams through sound business activities," represents the Corporate Mission; the second article, "To place prime importance on integrity and sound management with utmost respect for the

individual," represents the Management Style and the third article, "To foster a corporate culture full of vitality and conducive to innovation," represents the Corporate Culture of the Company, respectively.

The Activity Guidelines stipulate the required behavior of the Company and its officers and employees and provide the means to realize the Management Principles.

Sumitomo Corporation shall share this value standard throughout the Group, and shall practice it in each business activity to contribute to realization and improvement of the economic and social value of all stakeholders of the Company.

### 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