

Chapter 1 Sumitomo Corporation, an Integrated Trading Company

Bringing Businesses into Being

Combining multiple management resources with diverse business functions to create businesses that bring prosperity to society in the spirit of Sumitomo's Business Philosophy—Sumitomo Corporation, an Integrated Trading Company.

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The timeless Sumitomo's Business Philosophy, passed down over the generations for more than 400 years, is the origin of all our business.

Sumitomo's Business Philosophy

Sumitomo's Business Philosophy has been refined through many generations based on the Founder's Precepts "Monjuin Shiigaki," which Masatomo Sumitomo (1585-1652), the founder of the Sumitomo family, wrote and handed on to describe how a merchant should conduct business. The basic points of Sumitomo's Business Philosophy have been passed on in the form of the two articles of the Business Principles.

Article 1 emphasizes the utmost importance of integrity, while Article 2 advocates the importance of having an enterprising spirit to generate profits quickly and faithfully while adapting to a changing society, and renovating business operations while avoiding the pursuit of easy gains or acting carelessly.

Sumitomo's Business Philosophy, which has been passed on since the Founder's Precepts was written, still serves as the timeless principles Sumitomo Group companies follow in their activities.

There are also several other credos that are contained in Sumitomo's Business Philosophy.

One example is: "Benefit for self and others, private and public interests are one and the same." To put it another way, Sumitomo's business, while benefiting Sumitomo, must also

benefit the nation and benefit society. This represents the corporate vision that the Sumitomo Corporation Group as a whole must pursue at all times.

The second credo is "Grand Design." This derives from copper mine management, Sumitomo's core business in its early days, which required long-term vision and continuous effort. This attitude of viewing business from a broad and long-term perspective and working for the benefit of the entire nation and society based on foresight of the future has been inherited from preceding Company operators.

The third credo is "People are our most important asset." The cultivation and development of human resources has always been our most important concern regardless of the times.

Sumitomo's Business Philosophy thus stresses the need for an enterprising spirit to stay a step ahead in dealing with change, while ascribing importance to maintaining integrity and sound management, avoiding easy gains, and working for the public interest, without being misled by short-term immediate changes. This philosophy has continuously formed the basis of Sumitomo Corporation Group's business for more than 400 years.



Founder's Precepts of Sumitomo (Source: Sumitomo Historical Archives)



Business Principles

Corporate Mission Statement

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

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

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

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

Sumitomo Corporation Group's Corporate Mission Statement

Corporate Vision

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

Management Principles

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

Activity Guidelines

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

Sumitomo Corporation Group's Material Issues

Over the years, we have conducted our business activities guided by Sumitomo's Business Philosophy and Corporate Mission Statement. It is important to reconsider how we should address social issues through our business activities. To achieve sustainable growth together with society into the future, we have identified "Six Material Issues to Achieve Sustainable Growth with Society" that we should address

with priority by leveraging our strengths in line with Sumitomo's Business Philosophy and Sumitomo Corporation Group's Corporate Mission Statement. We defined the material issues as an important factor in the development of business strategies and in the decision-making process for individual businesses.

Leveraging our trust-based relationships with customers and partners across the globe and utilizing our business expertise, we will secure our growth and address social issues simultaneously by fulfilling our Corporate Mission, "To achieve prosperity and realize dreams through sound business activities."



Achieving Harmony with the Global Environment

To realize recycling-oriented society and mitigate climate change, we are working to establish frameworks for the efficient use of resources and stable supply of renewable energy. In doing so, we will achieve growth in harmony with the global environment.



Contributing to the Development of Local Communities and Industries

We steadily procure and provide goods and services to meet the needs of people in various countries and regions and contribute to developing industrial platforms. Through these means, we will create a virtuous cycle in which we can grow and develop together with local communities.



Establishing a Foundation for Comfortable and Enriching Lifestyles

We strive to realize more convenient and comfortable lifestyles by providing goods and services for daily use while also responding to needs for high-quality lifestyles in order to support the physical and mental health of people around the world.



Providing Diverse "Accessibility"

We provide diverse accessibility to open up the possibility of creating new value. To this end, we will improve mobility for safe and efficient flow of people and goods, and expand the network connecting information and finance.

As a prerequisite for resolving the issues listed above, we strive to maintain and enhance our Management Style that places prime importance on integrity and sound management with utmost respect for the individual and our Corporate Culture full of vitality and conducive to innovation.



Developing Human Resources and Promoting Diversity

In order to create new value and innovation by allowing our diverse personnel to fully exercise their abilities in a variety of fields, we will promote the development and empowerment of human resources, which represent our most important management resources.



Enhancing Governance

We will enhance our ability to draft and implement strategies for achieving sustainable growth and to provide appropriate supervision of these strategies, all while maintaining transparency. In this manner, we will improve management efficiency and maintain sound management.

The economy, industry, and society all move constantly with the changing times. The Sumitomo Corporation Group has grown by continuously supporting their development and evolution.

Sumitomo Corporation Group Milestones

Around 1600
Starts copper mining



Copper beating pictorial record in the Kodo Zuroku (Source: Sumitomo Historical Archives)

1919
The Osaka North Harbour Company Limited is founded (the predecessor to today's Sumitomo Corporation)



Head Office of The Osaka North Harbour (Sumitomo Sohonten Annex, former Teikokuza Theater) (Source: Sumitomo Historical Archives)



1945
Renamed to Nippon Engineering Co., Ltd. Enters the trading business

Sumitomo Building Annex, where Nippon Engineering's Head Office was located

1950
Steadily expands our presence overseas

Posted an employee to Bombay (now Mumbai), India, for the first time in 1950, and subsequently established a U.S. subsidiary in New York in 1952.

1962
Adopts a product division structure

This move involved consolidating the Osaka and Tokyo sales offices and creating nine product divisions: Iron & Steel, Nonferrous Metals, Electric, Machinery, Agriculture & Fishery, Chemicals, Textiles, General Products & Fuel, and Real Estate.

1952
Renamed to Sumitomo Shoji Kaisha, Ltd.

Usage restrictions on the "Sumitomo" trade name and trademark, resulting from a 1945 order issued by the General Headquarters of the Allied Powers in Japan for the dissolution of zaibatsu financial conglomerates, were abolished following the signing of the Japan-US Security Treaty in 1952.

Early period—
Establishment of
management
foundation

Reorganization for
expansion

1600s

1910s

1920s

1930s

1940s

1950s

1960s

Economic and
Social Trends

1945

- End of World War II
- General Headquarters of the Allied Powers in Japan issues an order calling for the dissolution of zaibatsu

1950

- Special demand for supplying the United States in the wake of the Korean War
- Japanese economy makes strides toward recovery

1955

- Japanese post-war economic miracle
- Exports stimulated and trade deregulated

1964

- Summer Olympic and Paralympic Games in Tokyo

1977**Launches the
“Big Three & The
Best” slogan**

Set a goal of becoming one of the top three companies in terms of total trading transactions and the overall best company in the industry from an all-encompassing standpoint by improving profitability and efficiency.

1979**Introduces a sales
division system**

Following the expansion of the Company's business scope, four new sales divisions were established: Iron & Steel; Machinery & Electric; Nonferrous Metals, Chemical & Fuel; and Consumer Products. As a result of promoting the empowerment of these sales divisions, the flexibility of sales was significantly improved.

1988**Introduces the
“Integrated
Business
Enterprise”
corporate vision**

Based on existing trading activities, promoted (1) acceleration of business activities, (2) expansion into downstream fields, and (3) reinforcement of integrated corporate strength, with the aim of forming two major revenue sources for the Company from trading activities and business activities.

1996**The copper incident**

It came to light that the general manager of a sales department was conducting unlawful copper trading unbeknownst to the Company. This incident led to the recording of losses to the extent of ¥285.0 billion, and roughly a decade was required to resolve the issue. Learning from this experience, the Company implemented a strict internal control system to prevent the recurrence of similar acts.

1998**Establishes the Group's Corporate Mission
Statement**

Introduces the risk-adjusted return ratio
The Sumitomo Corporation Management Charter was revised, and a new Corporate Mission Statement was established. The risk-adjusted return ratio was introduced as a new management indicator to serve as a common benchmark for judging the profitability of projects based on the amount of returns generated compared with inherent risks.

2000–**Formulates and
implements
medium-term
management plan****2001****Consolidates head
offices into the
Tokyo Head Office****2015****Records overall
loss due to
substantial
impairment losses****2018****Records
highest-ever profit,
and introduces new
“Medium-Term
Management Plan
2020”**

Head Office to relocate to Otemachi, Tokyo, in September 2018

Establishment of management foundation as an integrated trading company

Pursuit of “Integrated Business Enterprise” corporate vision

Reinforcement of global consolidated management
Establishment of Corporate Mission Statement

Implementation of the Reform Package
—Heading for a new stage of growth

Toward the Centennial

1970s

1980s

1990s

2000s

2010s

1970

- Expo '70 in Osaka

1971

- Nixon Shock

1973

- First oil crisis
- Transition to floating exchange rate system

1979

- Second oil crisis

1980

- Iran–Iraq War

1985

- Plaza Accord
- Rapid yen appreciation
- Monetary easing policies instituted by the Bank of Japan

1986

- Sharp rise in stock real estate prices contributes to creation of the Japanese asset price bubble

1989

- Consumption tax is introduced in Japan
- Nikkei 225 reaches record high of ¥38,915.87 in December
- End of Cold War and collapse of the Berlin Wall

1991

- Collapse of asset price bubble in Japan, start of recession

1996

- Launch of large-scale financial system reform (“Japanese Big Bang”)

1997

- Asian financial crisis

1999

- Creation of Economic and Monetary Union
- Dot-com bubble

2001

- Birth of Japan's big three megabanks
- September 11 attacks

2003

- Start of Iraq War
- Severe acute respiratory syndrome (SARS) outbreak, mad cow disease pandemic in the United States

2008

- Lehman Brothers bankruptcy

2010

- Greek government debt crisis
- China's GDP becomes No. 2 in the world

2011

- Great East Japan Earthquake

2013

- “Abenomics” economic reforms
- Tokyo chosen to host 2020 Summer Olympic and Paralympic Games

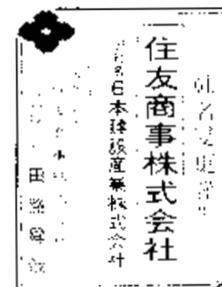
While staying closely in tune with the changing times, we continuously work to evolve our business model and expand our business fields.

Early period—Establishment of management foundation

1950s

The most significant challenge during the early period was the need to establish a management foundation. Shunya Toji, who was at the time the president of Nippon Engineering, the predecessor to Sumitomo Corporation, and who later became the first president of Sumitomo Corporation, encouraged his “amateur” employees, who were not well versed in the trading business, by repeatedly telling them that “enthusiastic amateurs outperform professionals,” and strove to establish sound management through strict credit control and other means. The Company steadily expanded its presence overseas, posting

an employee to Bombay (now Mumbai), India, for the first time in 1950, and subsequently establishing a U.S. subsidiary in New York in 1952. Then, in 1952, the Company was renamed to Sumitomo Shoji Kaisha. In 1955, the Company listed its shares on the Fukuoka Stock Exchange.



Newspaper advertisement regarding the Company name change

Reorganization for expansion

1960s

The Company set itself the goal of becoming the third-largest trading company measured by sales, under the slogan of “Big Three,” while at the same time aiming to increase its sales per employee. In 1962, the Osaka and Tokyo sales offices were consolidated and a product division structure was adopted to establish nine product divisions: Iron & Steel, Nonferrous Metals, Electric, Machinery, Agriculture & Fishery, Chemicals, Textiles, General Products & Fuel, and Real Estate. Furthermore, in 1967 a project team was formed to reinforce initiatives involving large-scale projects, resource development, and cultivation of new industries from a cross-divisional, medium- to long-term perspective.



Establishment of management foundation as an integrated trading company, and the “Integrated Business Enterprise” vision

1970s—1980s

In 1970, a new Sumitomo Shoji Building was completed in Takebashi to house the Tokyo Head Office, and as well as introducing a dual structure with head offices in both Osaka and Tokyo, a merger with Sogo Boeki Co., Ltd., was conducted. In 1977, the Company set the goal of becoming the No. 1 company in terms of overall evaluation against financial and business criteria, as well as winning public support, under the slogan of “Big Three & The Best.” In the mid-1970s, the number of overseas offices exceeded 100, and in 1978 the English company name was changed from Sumitomo Shoji Kaisha to Sumitomo Corporation. A year later, in 1979, a sales division system was introduced. Four sales divisions—Iron & Steel; Machinery & Electric; Nonferrous Metals, Chemical & Fuel; and Consumer

Products—were established and the empowerment of each was promoted. To celebrate the 60th anniversary of the Company’s founding, measures such as the strengthening of overseas business activities and the cultivation of new areas, among others, were promoted under the new slogan of “Open Eyes on All.” In 1988, the Company set out its vision of becoming an “Integrated Business Enterprise,” aimed at promoting business activities in addition to the existing trading activities in order to expand its earnings base by having two major revenue sources. In the same year, a new slogan, “Seeing Tomorrow, Innovating Today,” was adopted. Consolidated financial results were published for the first time in the fiscal 1989 financial report.

Reinforcement of global consolidated management —Establishment of Corporate Mission Statement

1990s

In 1991, the medium-term management plan “Strategy 95” was formulated with the aim of realizing the “Integrated Business Enterprise” vision. In 1994, the development of a new earnings structure designed to respond to globalization was promoted under the slogan “Global Mind, Global Reach.” In addition, based on lessons learned from

an unlawful copper trading incident that came to light in 1996, a strict internal control system was put in place to prevent the recurrence of similar acts. In 1998, the Corporate Mission Statement was established, and the risk-adjusted return ratio was introduced as a new management indicator.

Implementation of the Reform Package—Heading for a new stage of growth

2000s

After the Reform Package was adopted in 1999, the Company focused on strengthening its financial standing through the prioritization of businesses and the improvement of profitability, as well as on reinforcing its business foundation by adding and enhancing the quality of prime assets. This was accomplished under a series of

two-year medium-term management plans (Step Up Plan, AA Plan, AG Plan, GG Plan, FOCUS '10, and $f(x)$). In 2001, the Head Office was moved to Harumi, Tokyo. In 2003, the Sumitomo Corporation Corporate Governance Principles were established.

Toward the Centennial

2010s

In 2012, the Company set forth “What We Aim to Be in 2019, Our Centennial Year” and adopted “Be the Best, Be the One” as its new slogan.

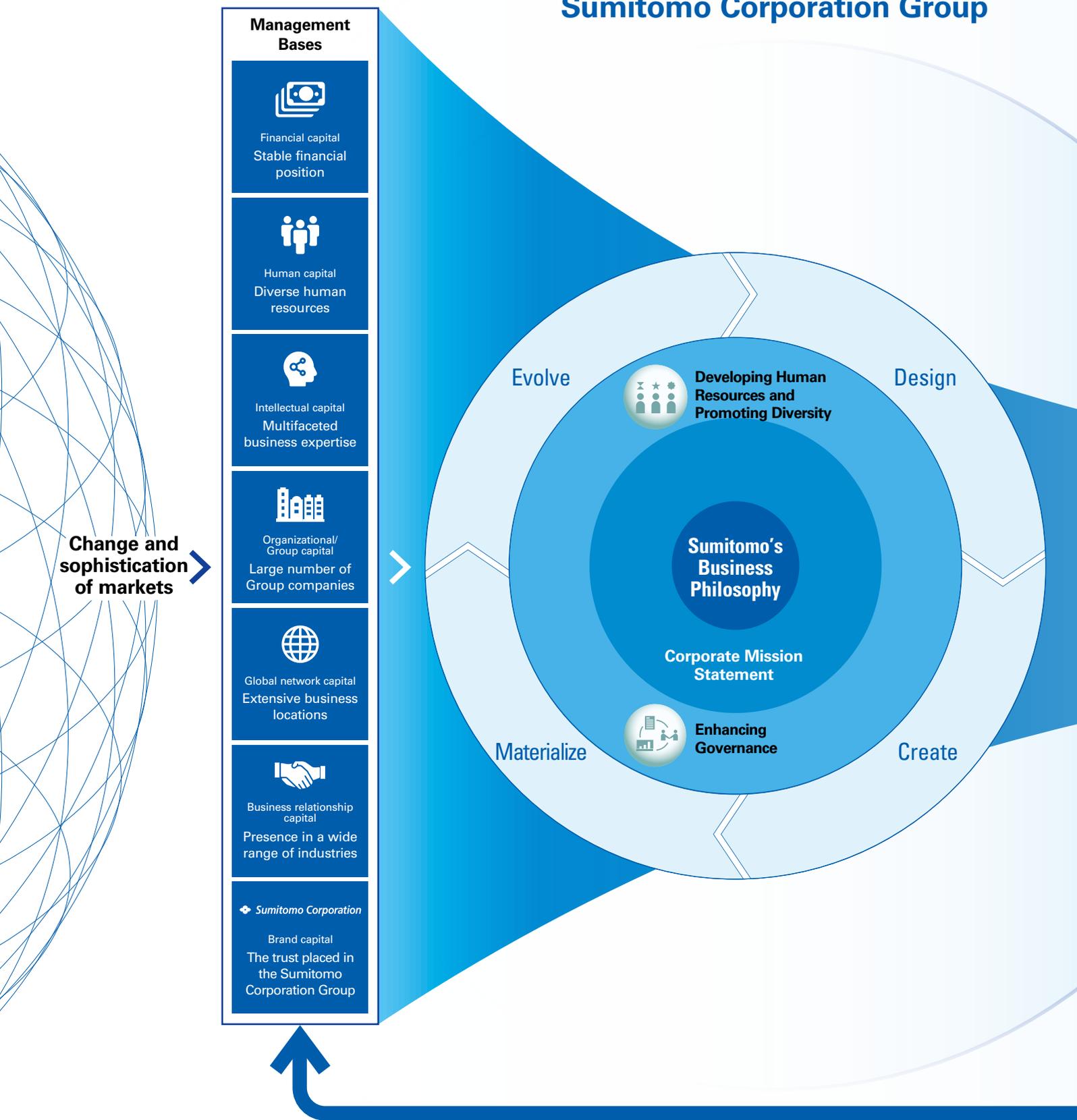
However, in fiscal 2014 the Company recognized substantial impairment losses on several large-scale projects, forcing it to record an overall loss. It was with the aim of recovering from these events that the medium-term management plan “Be the Best, Be the One 2017 (BBBO2017)” was formulated. The Company has worked its way back to a growth path by promoting managerial reforms and growth strategies, as well as focusing on securing financial soundness. In April 2017, “Six Material Issues to Achieve Sustainable Growth with Society” were identified to both promote the growth of our Group and resolve social issues. Furthermore, in May 2018 “Medium-Term Management Plan 2020” was introduced, and this plan will run for three years from fiscal 2018. With “promotion of growth strategies” and its supporting partner “management base enhancement” at the core, the theme of the new plan is “Unceasing Challenge for New Value Creation.” In addition, the Head Office was relocated to Otemachi, Tokyo, in September 2018.

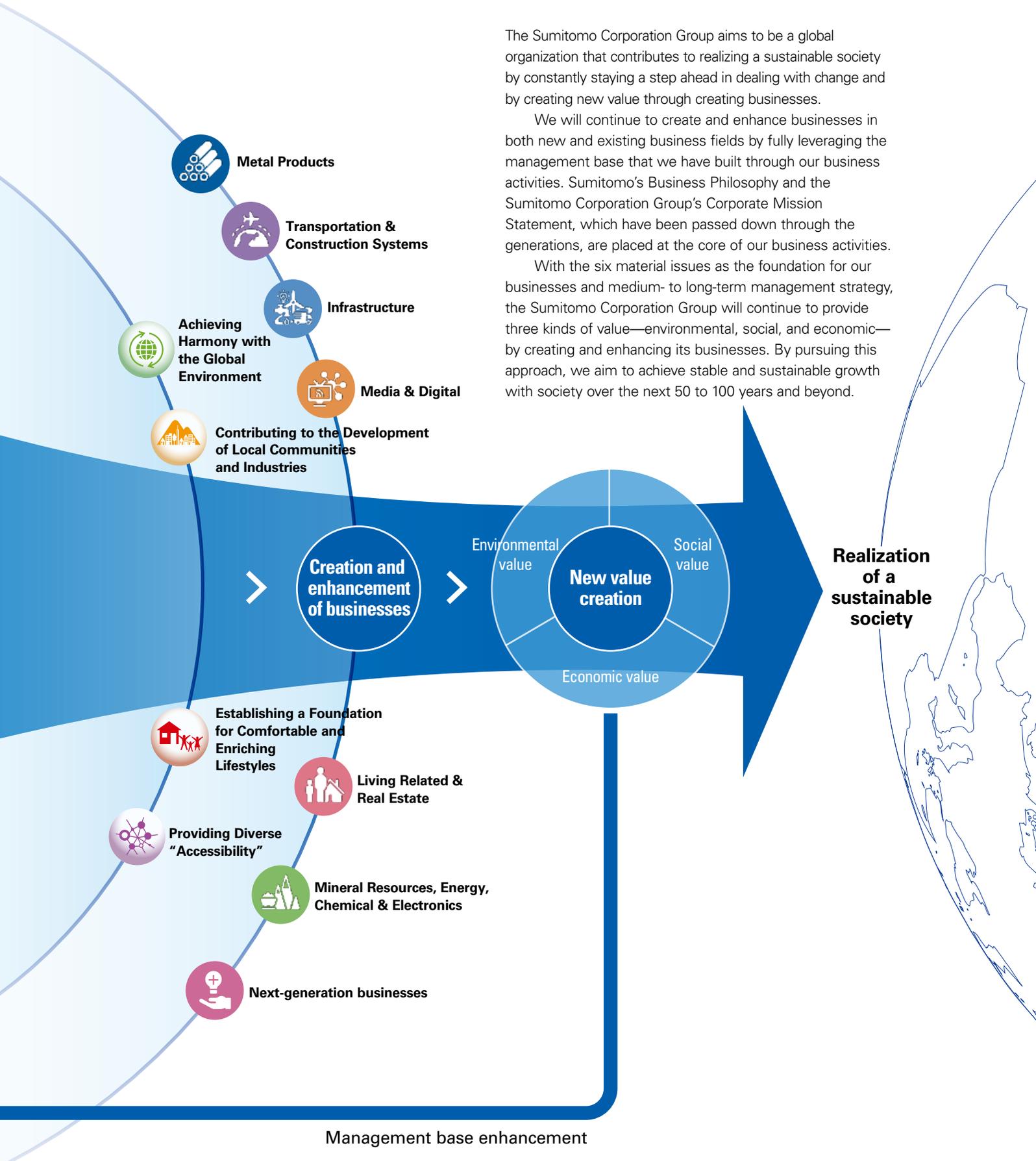


The new Head Office building (representational image)

Value Creation Model

Sumitomo Corporation Group





The Sumitomo Corporation Group aims to be a global organization that contributes to realizing a sustainable society by constantly staying a step ahead in dealing with change and by creating new value through creating businesses.

We will continue to create and enhance businesses in both new and existing business fields by fully leveraging the management base that we have built through our business activities. Sumitomo's Business Philosophy and the Sumitomo Corporation Group's Corporate Mission Statement, which have been passed down through the generations, are placed at the core of our business activities.

With the six material issues as the foundation for our businesses and medium- to long-term management strategy, the Sumitomo Corporation Group will continue to provide three kinds of value—environmental, social, and economic—by creating and enhancing its businesses. By pursuing this approach, we aim to achieve stable and sustainable growth with society over the next 50 to 100 years and beyond.

Sumitomo Corporation Group's Management Bases



Change and sophistication of markets

<p>Financial capital</p> <p>Stable financial position</p>		<p>Total assets</p> <p>Shareholders' equity</p> <p>¥7.8 trillion</p> <p>¥2.6 trillion</p>
<p>Human capital</p> <p>Diverse human resources</p>		<p>Number of employees (Consolidated basis)</p> <p>73,016</p>
<p>Intellectual capital</p> <p>Multifaceted business expertise</p>		<p>Business development</p> <p>Business investment/management</p>
<p>Organizational/Group capital</p> <p>Large number of Group companies</p>		<p>Number of consolidated companies</p> <p>947</p>
<p>Global network capital</p> <p>Extensive business locations</p>		<p>Number of offices</p> <p>129 locations / 66 countries and regions</p>
<p>Business relationship capital</p> <p>Presence in a wide range of industries</p>		<p>Number of clients</p> <p>Approx. 100,000</p>
<p>Brand capital</p> <p>The trust placed in the Sumitomo Corporation Group</p>		<p>History of the Sumitomo Corporation</p> <p>99 years</p>



Sumitomo Corporation Group

Cash flows generated are used for investments and returns to shareholders, and we are working to reduce interest-bearing liabilities. In addition, we ensure the stability of management by maintaining balance between the Core Risk Buffer and Risk-adjusted Assets.

Our employees are an important management resource. We recruit human resources with diverse backgrounds, develop them as professionals with extensive knowledge and expertise, and allocate them on a global basis throughout the Group.

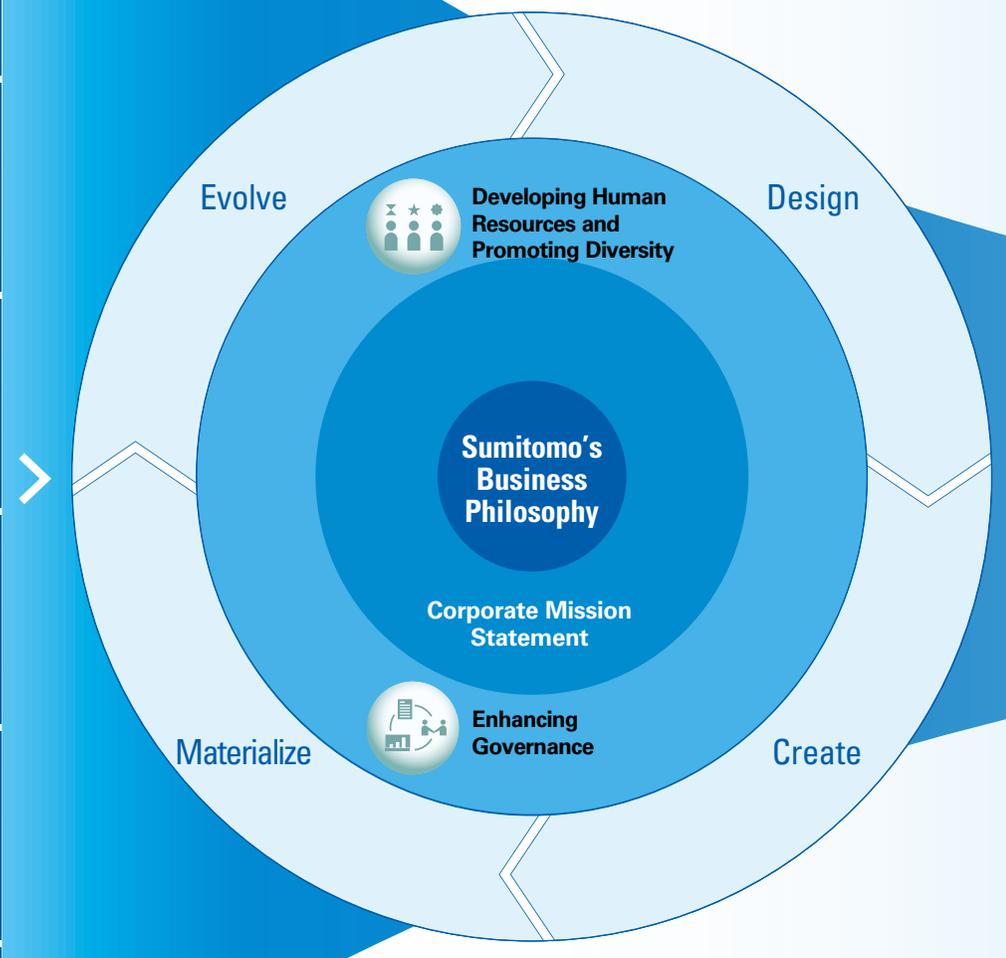
We leverage our business expertise to develop, invest in, and manage businesses. This expertise, in areas including risk management, logistics solutions, and financial services, has been built up over many years.

Owning world-class Group companies in a wide range of industries, we use our accumulated management knowledge to improve profitability and further strengthen our business foundations.

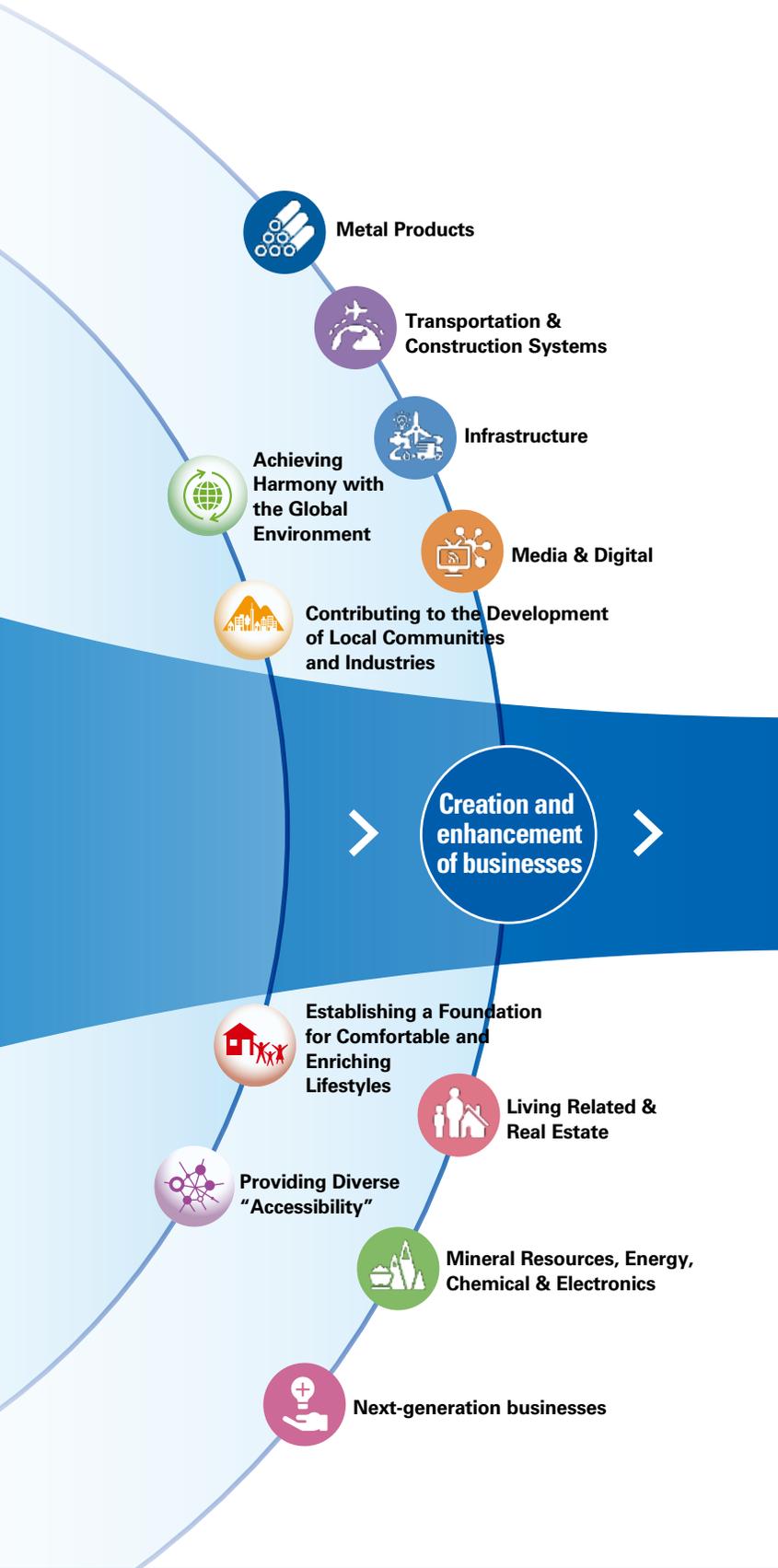
Operating from offices located worldwide, we leverage our network of ties with industry and government in each country to ensure that our businesses are swift to identify and respond to local needs.

By deepening our relationships with business partners that we have cultivated in a variety of industries, we establish our presence in each industry, and implement multifaceted development of the business.

We have lived by Sumitomo's Business Philosophy, which has been passed down for 400 years, and the Management Principles of the Sumitomo Corporation Group, which "place prime importance on integrity and sound management." This is an ideal that we have consistently embodied and will continue to honor.



(As of March 31, 2018)



Examples of Sumitomo Corporation Group

Business units	Examples
 Metal Products	 <p>Steel service center business (steel sheet & other steel products field)</p>
 Transportation & Construction Systems	 <p>Aircraft leasing business (lease, ship & aerospace field)</p>
 Infrastructure	 <p>Urban railway transit (social infrastructure field)</p>
 Media & Digital	 <p>Cable TV business (media field)</p>
 Living Related & Real Estate	 <p>Supermarket business (lifestyle & retail field)</p>
 Mineral Resources, Energy, Chemical & Electronics	 <p>Silver, zinc, and lead mining business (mineral resources field)</p>
 Next-generation businesses	 <p>Technology x Innovation field</p>

Group Businesses



Energy equipment & services business (tubular products field)



Aluminum smelting business (non-ferrous products & metals field)



Mobility services business (automotive field)



Construction equipment sales and rental businesses (construction & mining equipment field)



Power generation business (global power infrastructure field)



Overseas industrial park business (logistics infrastructure field)



Corporate venture capital business (digital business field)



Telecommunication business (smart communications platform field)



Fruit and vegetable wholesaling business (food & agriculture field)



Real estate business (materials, supplies & real estate field)



FPSO owning and chartering business (energy field)



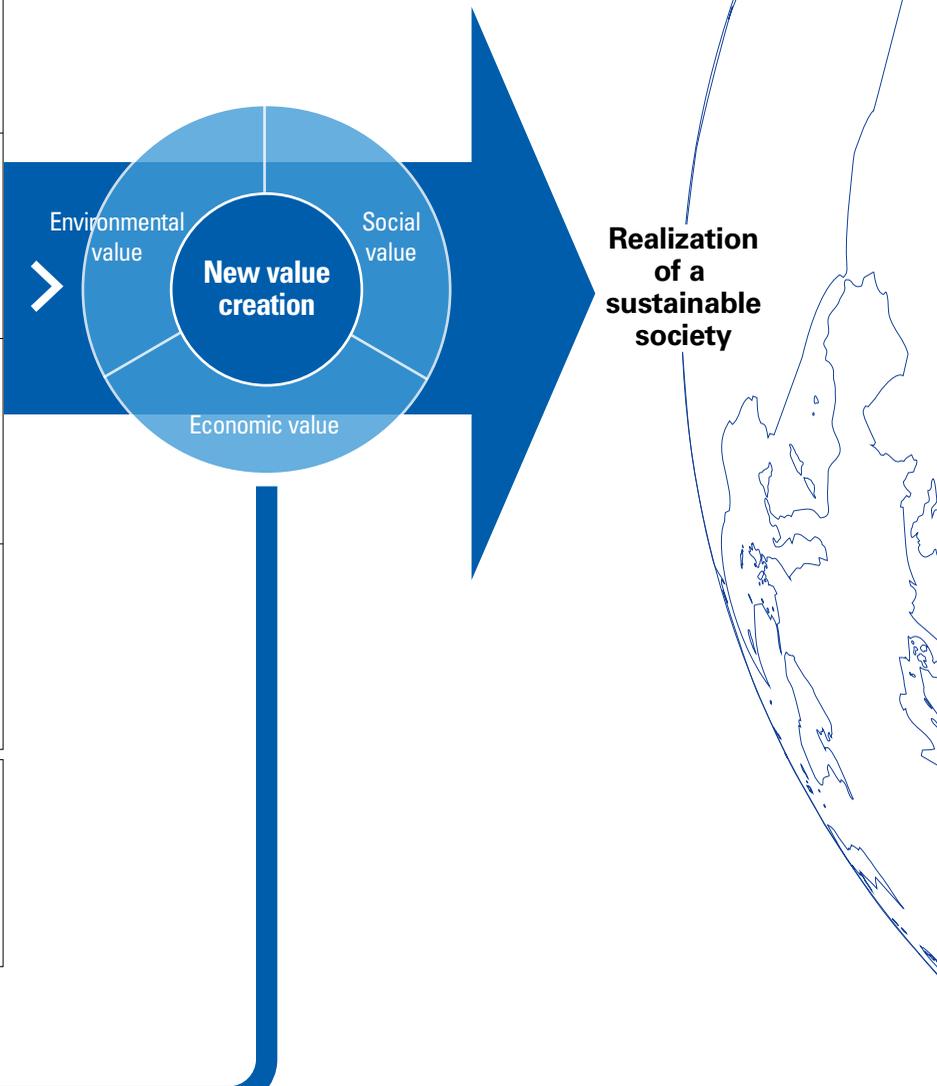
Veterinary medicine business (chemicals field)



Healthcare field



Social infrastructure field



Management base enhancement