



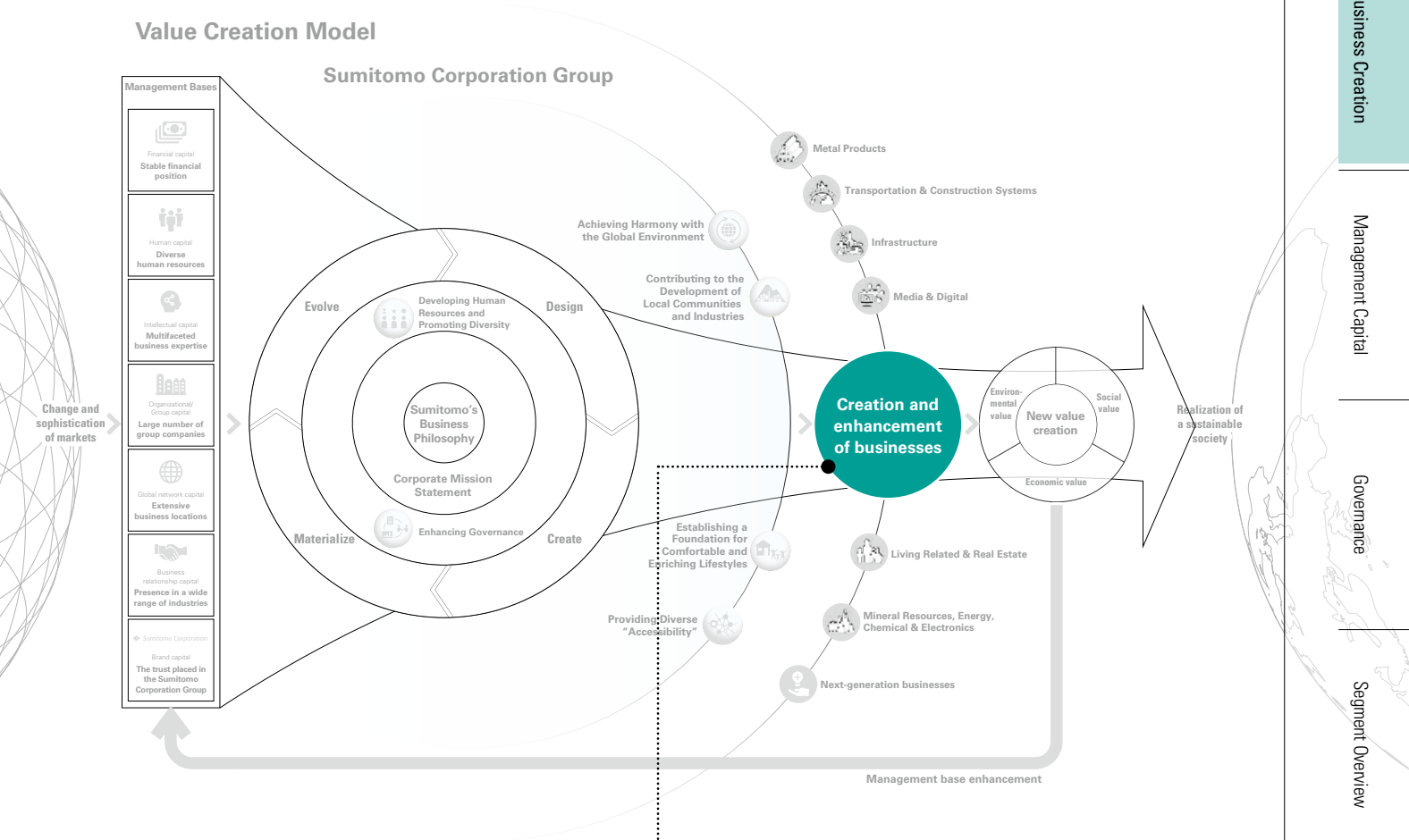
Part 2 Approaches for Business Creation

Structures for providing value through business creation

In light of the accelerated progress of technology such as AI and robotics, industrial structures are changing drastically, and businesses are becoming increasingly borderless and complex. Various social issues are becoming apparent and interfering the sustainability of society. More attention will be directed to the value that corporations should create and provide.

The Sumitomo Corporation Group delivers the value needed by society at any point in time through business creation based on forecasting of the future. This is generated by hybridizing the “ecosystem” we have built over the years of its history together with our business partners and the “innovation” that is progressing significantly in the midst of this Fourth Industrial Revolution.

Business



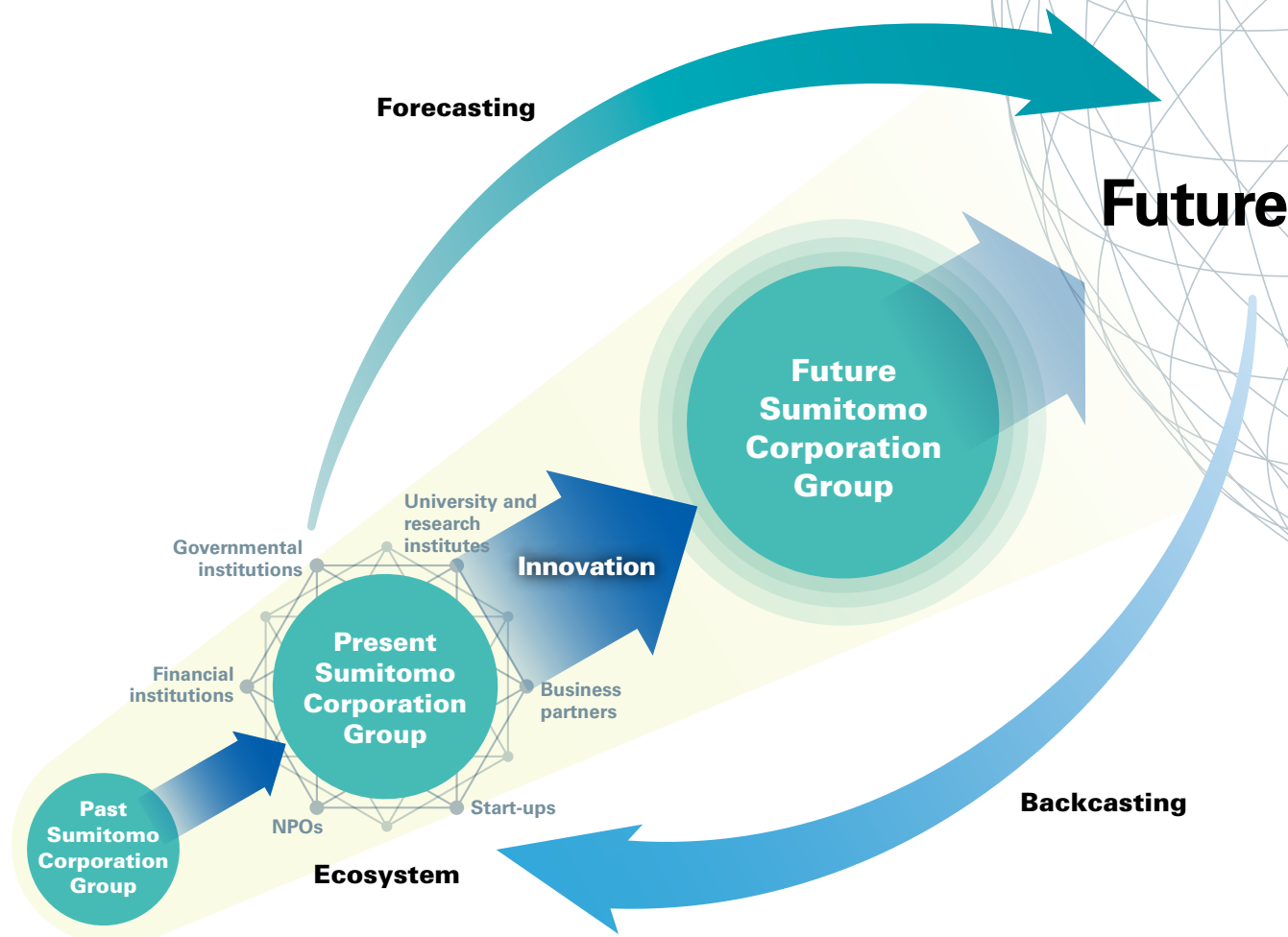
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Creation

Business Creation Structures and Value Provision Based on a Grand Vision of the Future



The Sumitomo Corporation Group aims to achieve stable and sustainable growth towards the future together with society by providing value generated from creating and upgrading businesses. Using the relationships of trust built with various partners over 100 years of history and the many businesses supported by those relationships as its core, the Sumitomo Corporation Group has forecasted the future picture of the Group and of society, and has generated innovation by foreseeing social changes based on the mindset of “Grand Design” passed down through the Sumitomo Group. We will continue to be committed to evolving ourselves to suit the future through progressive innovation and to providing even more fulfilling value to “industries,” “consumers” and “communities”.

Forecasting and Backcasting

The Group has made steady progress in expanding its business areas by using two methodologies — forecasting (using the present as the starting point to foresee the future based on the past results and data) and backcasting (using the targeted future as a starting point to look back to the present and determine the next action). With the current rapid changes in the business environment, these approaches have become more important, and we are also creating an increasing number of innovative businesses that span different business fields with these methodologies.

Ecosystem

The Group works together with a large number of business partners, organizations and institutions to leverage the technology and know-how each possesses to build an ecosystem. We create new businesses within the ecosystem that provides connections across industrial barriers. The cooperative links we have deepened with our partners through our 100 years of history is an indispensable factor that works to strengthen existing businesses that resolve social issues and create new businesses and innovation.

Innovation

By combining our experiences with cutting-edge technologies (AI, big data usage, robotics), we intend to generate innovation, upgrade existing businesses, create new businesses and transform our business models. As part of these initiatives, in April 2018, we set up the DX Center to spearhead companywide Digital Transformation (DX).

The value delivered by the Sumitomo Corporation Group

Our businesses that provide value to society in various ways

Providing value to “industries”



The silver-zinc-lead mining project in Bolivia creates jobs locally. Furthermore, the stable supply of mineral resources contributes to the development of industries in a broad range of fields.



The aluminum smelting business provides a stable source of aluminum, a strong and light material that is expected to play a great role in the recycling-oriented society of the future, thus helping support the industries and lives of people in the future.



The construction & mining equipment businesses provide a wide range of businesses and industries such as infrastructure improvement, mine development, agriculture and forestry with the machines they need and enable them to operate reliably. This helps our customers to increase their productivity and contributes to the social and economic development of their nations.

Providing value to “consumers”



The product lineup and services available in our supermarket businesses evolve to meet the needs and lifestyles of the time, helping our customers to achieve a better quality of life.



The telecommunications business in Myanmar is helping to spread the use of mobile phones and also making the lives of Myanmar citizens more prosperous through value-added services.



In the drugstore business, we are actively expanding the number of innovative stores with attached dispensaries. In response to the increase in home health-care needs in recent years, we are also enhancing our dispensing services.

Providing value to “communities”



The water infrastructure business in Brazil provides water and sewage and industrial water treatment services. In this way, we are able to give around 15 million people access to a safe and stable water supply, improve the water environment in the region and contribute to the development of the regional community.



In the offshore wind power generation business in Europe, we are using the know-how we have gained since we got our start in the industry by participating in a project in Belgium in 2014 to expand our initiatives in England and France, thus contributing to the goal of creating a carbon-neutral society.



In the overseas industrial park businesses, which we run mainly in Southeast Asia, we support the operation of over 500 tenant companies and the employment of approximately 200,000 workers, encouraging manufacturing and the economic development of the region.

Businesses foreseeing future

We strive to foresee the industries and regions of the future as consumers' trends and purchasing behavior evolve to create new value through future-oriented business creation.



In the mobility services business, due to the influence of technological innovation in the automotive industry and changes in the environment, we are taking steps to support the next generation of cars in society by adding new MaaS technology and services to our existing business platforms.

CASE 1 Mobility Service Business p. 51



We have the largest cable TV business in Japan, providing services to around 5.48 million households around the country. In addition to our existing services, we plan to expand our various lifestyle support services such as home IoT service.

CASE 2 Cable TV Business p. 53



We are developing a Smart City project in North Hanoi. On top of the real estate development, we will introduce new technologies for transportation and energy management to innovate the quality of life for the people living in our city and foster sustainable growth in the region.

CASE 3 Real Estate Business p. 55



Sumitomo Corporation runs a car-sharing service known as aimo in northern Europe. Customers can use an app from their smartphones to make reservations and payments.

CASE 1 Mobility Service Business

Providing additional value to the next-generation mobility society by flexibly responding to changes in the automotive industry

We have been expanding our business from exports to distribution, manufacturing, and financing. Now we are focusing on establishing a platform for a world of MaaS. We will contribute to the new automotive society based on our knowledge and experience through our business value chain.

Our beginnings

— 1950s

Started exporting vehicles from various Japanese automobile manufacturers

Our automotive business started by exporting buses and trucks made by Hino Motors to Myanmar as part of the post-WW2 reparations scheme. After that, we began to export vehicles from Toyota, Mazda and other Japanese manufacturers to Southeast Asia, the Middle East and then the U.S. and Europe, expanding to cover the whole world.



— 1960s

Expanded and upgraded our distribution business

As an extension of our vehicle export business, we began distribution businesses in various markets around the world, mainly of Japanese automotive brands. We also entered the retail dealership business. We accumulated skills and know-how about sales and marketing in various regions and evolved and expanded our business while upgrading our operations.

— 1970s

Established a parts and equipment export business towards vehicle manufacturing locations overseas

We strengthened our relationship with Ford Motor Company and established an export and equipment installation business for Ford's manufacturing locations overseas and also held vehicle parts exporting business. We expanded this business to Suzuki and other companies, which eventually led to other parts manufacturing businesses.

Development period

— 1980s

Established Sumisho Auto Leasing Corporation (currently Sumitomo Mitsui Auto Service Company)

We entered the auto leasing business as part of our efforts to expand the automotive business to the downstream of the value chain. We expanded our business by thinking from the customers' point of view and responding to all kinds of concerns. Now we own and manage around 1 million vehicles around the world and are the number one auto leasing business in the Japanese market.

— 1990s

Expanded our automobile financing business

In the downstream area, we expanded our business further from automotive sales and entered the vehicle sales financing business. We started a vehicle financing business in emerging nations in Asia with a special focus on Indonesia, where we established the OTO Group, which expanded to a network of over 200 branches, providing over a million clients with convenient financing services.

Sumitomo Corporation Group's automotive business began in 1954 with exports of buses made by Japanese vehicle manufacturers to Myanmar. At that time we were mainly involving in the trading business, exporting the vehicles made by Japanese manufacturers to various markets overseas. From the 1960s, the company itself entered local markets and expanded its automotive distribution and retail operations globally by setting up wholesale and retail sales companies.

At the same time, as car manufacturers increasingly expanded overseas, we provided factory equipment transportation and installation services, supported the overseas expansion of parts manufacturers and expanded our business to cover the establishment of supply chains among multiple countries. We also moved to the upstream of the vehicle value chain by investing in parts manufacturing businesses and participating in finished vehicle manufacturing businesses.

In the 1980s, we progressed to finance businesses such as auto leases and vehicle financing and also expanded into the downstream areas, appealing directly to clients. For example, Sumitomo Mitsui Auto Service Company owns about a million vehicles in Japan and abroad and interacts with clients through its auto lease business, making it one of our key platform businesses at the moment.

Since the mid-2010s, there have been new trends brought by MaaS and CASE. Perceptions of vehicles are changing from things people "own" to things they "use." Sumitomo Corporation is increasingly adopting the latest technology in light of these changes by investing in start-up companies and carrying out Digital Transformation (DX) activities. By applying such technologies to the businesses around the world that will form our foundation, we will provide high value-added services to create a new mobile society.

Over the past 65 years, the Sumitomo Corporation Group's automotive businesses have covered the full automotive value chain from manufacturing vehicles to exporting them overseas. For example, selling and distributing vehicles locally, providing financing and auto leases in Japan and abroad, and offering automotive industry-focused consulting where our Group is the only company offering the services in integrated trading companies in Japan. Sharing the expertise that we cultivated through our businesses and bringing new strengths is one of the key distinctions of our automotive businesses. The automotive industry is in a transition phase that is said to happen only once in a century. In the midst of this process, the Sumitomo Corporation Group will continue to challenge itself every day and bring new values to the next generation automotive society.

Preparing for the next generation

— 2000s

Entered the automotive part casting and processing business

In order to enter upstream areas, we bought and invested in automotive parts manufacturing businesses and supported Japanese parts companies as they entered markets overseas. Among these companies, Kiri Corporation, a wholly-owned subsidiary, is highly efficient at manufacturing



high-quality, high-precision parts such as brake disks and brake drums. The business has expanded greatly to four locations in Japan and nine overseas.

Expanded the finished vehicle manufacturing business

In the upstream area, we also moved into the production of finished vehicles. With Isuzu Motors Ltd., we invested in a truck and bus manufacturing company in India to manufacture and sell vehicles. We have also partnered with Mazda Motor Corporation in Mexico to establish the largest-scale finished vehicle manufacturing factory among our overseas



locations, which produces and exports finished vehicles aimed at North American and European markets.

— 2010s

Enhancing our value chain

Our value chain consists of manufacturing and distribution, and leasing and financing businesses. We are aiming to raise the quality of the operations of each business and create business structures that can respond flexibly to customer needs.

Creating value through platforms and new businesses and technologies

Using our existing businesses as a platform, we are creating new value by combining new businesses and technologies. Some of our ideas have already been turned into actual businesses. One example is KINTO, a joint vehicle subscription business with Toyota Motor Corporation. Another example is an electronic vehicle-sharing business we run in Sweden.



New initiatives for the coming of a MaaS society

By implementing initiatives that pave the way to the future such as by acquiring parking lot businesses in Northern Europe and establishing JV with Michelin, a North American tire company, investing in startups and consolidating knowledge and know-how from different in-house departments, and proactively trying various new initiatives, we are making steady and certain contributions to the creation of the next-generation mobile society.





CASE 2 Cable TV Business

J:COM strives to provide essential services that touch the hearts of customers

By providing premium quality entertainment and services that support daily life, we continuously provide our customers with unforgettable experiences and support their lives with safe, enjoyable, convenient and comfortable lifestyles.

By providing premium quality entertainment and services that support daily life, we continuously provide our customers with unforgettable experiences and support their lives with safe, enjoyable, convenient and comfortable lifestyles.

Our beginnings

— 1980s

Participation in the City Cablevision Fuchu business

The companies of the Sumitomo Group jointly took over the management of Keio Cable System, a CATV operating company centered on Fuchu city in Tokyo, from Keio Teito Electric Railway and established it as City Cablevision Fuchu. It was the first CATV business case that we, Sumitomo Corporation, managed.

The image shows the cover of 'Cable Guide' magazine. At the top, the title 'Cable Guide' is written in a large, green, stylized font. Below the title, on the left, is a logo that looks like 'CF' with the text 'Cable Forum' underneath it. In the center, there's a line of small text: 'Cable Forum & Video'. On the right, there's a red box with the text 'NEW!' and 'March 1997' below it. The main illustration is a cartoon of a horse's head in profile, facing left. The horse has a white face with a red vertical stripe on its forehead. Its mouth is wide open, revealing a large, colorful, abstract shape that resembles a stylized 'C' or a piece of art. The shape is orange, yellow, and green. The horse is wearing a bridle. The background is a light blue and green gradient. The entire cover is enclosed in a black rectangular border.



Expansion

— 1990s

Established Jupiter Telecommunications (J:COM)

Taking advantage of deregulation, which made it easier for foreign capital to enter the CATV business and for countrywide expansion, Sumitomo Corporation partnered with TINTA to establish Jupiter Telecommunications, a cable television multiple systems operator.



Established Jupiter Programming Network (JPC)

Splitting the investment 50:50 with TINTA, we established JPC, Japan's first-ever program supply multiple systems operator. Together with J:COM's cable television business, we focused on developing a program supply business with JPC.

Established Jupiter Shop Channel

We established Jupiter Shop Channel in collaboration with Home Shopping Network, a major TV shopping company in the U.S. We began broadcasting as a TV shopping channel and later progressed to live programming with real action that ran 24 hours a day, 365 days a year.

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Discovery
CHANNEL

Animal
Planet™

GOLF
NETWORK

SHOP
CHANNEL



As cable TV (CATV) businesses grew in the U.S. in the 1970s, Sumitomo Corporation saw their growth potential in the Japanese market and entered the telecommunications industry in the 1980s. We focused extensively on CATV as our core business. Between 1988 and 1995, starting with the management of City Cablevision Fuchu Co., Ltd., we spread our network to the Kanto, Kansai and Kyushu regions widely, acquiring valuable business know-how along the way.

In 1995, we established Jupiter Telecommunications Co., Ltd. (J:COM) in a joint venture with Tele-Communications International (TINTA), the overseas business division of Tele-Communications, Inc., the then-largest multiple systems operator in the cable television business in the U.S. We gradually transferred management of the CATV companies we invested in at the time to J:COM. Through J:COM's multiple systems operation, we were able to increase efficiency by unifying our operations and business models and decrease our costs through centralized procurement and other methods. We also made upfront investments such as batch installations for multiple dwelling units, all of which helped us enlarge our business foundations. Furthermore, in addition to our paid multichannel services, we also started landline telephone and high-speed internet services, setting up the world's first triple-play service which is now a basic service from J:COM.

In 2000, J:COM merged with Titus Communications Corp, the second-largest communications company in the industry in Japan, becoming the top company in the CATV industry. In 2001, the number of households we served crossed the one million mark. The company recorded its first profits in 2003, eight years after it was founded.

In the 2000s, we targeted dynamic growth and expanded our business scale efficiently through many M&As while also integrating Jupiter TV, a multiple systems operator supplying television programs, in order to develop a comprehensive cable broadcasting business capable of functions from content production and supply to distribution.

Furthermore, under a medium-term management plan in 2012, we came up with the concept of "J:COM Everywhere." Based on this idea, in addition to the three basic services, we took advantage of our distinguishing mark of community-based media to announce an expansion of our service menu to cover affordable smartphones and electricity and gas retail, in keeping with the needs of the times. Since then, we have continued to boost the total strength of the J:COM Group as a whole by rolling out a variety of services, growing the number of subscribing households to 5.48 million, around 10% of all households in Japan as of the end of March 2019.

Currently, J:COM's greatest advantage is the diligent, community-based service provided by its service staff of over 10,000 employees. With this advantage, it aims to support the community lifestyles of its customers and to become indispensable. In the future, in response to a rapidly changing business environment and diversifying needs, we intend to both enhance our existing services and offer a wider range of lifestyle support services such as home IoT and healthcare and insurance services. Through this, we hope to increase customer satisfaction and to maximize profits while establishing a foundation for comfortable and enriching lifestyles.

Development period

2000s

Merged with Titus Communications

We merged with Titus Communications, No. 2 company in Japan's CATV industry (at the time) and became the top company in the industry, exceeding 1 million subscribing households in 2001.

Merged with Jupiter TV

J:COM took over Jupiter TV (formerly JPC), a program supply multiple systems operator, thus becoming a cable television broadcasting operator capable of covering functions from content production and supply to distribution. This made it possible for the company to produce and edit attractive programs and run a distribution business that reflected the needs of viewers.



2010s

Building a new alliance:merging with Japan Cablenet Limited

The company shifted to a joint management structure where KDDI Corporation and Sumitomo Corporation each held a 50% share, and merged with Japan Cablenet, a KDDI subsidiary that was the second largest in the industry at the time. This led to a further enlargement in scale and an improvement in services, which strengthened the company's competitiveness. This, coupled with an optimization of comprehensive synergy, enabled the company to sign up over 5 million households for its services.



Preparing for the next generation



Launching J:COM HOME, a home IoT service

We have worked on strengthening our customer relations by enhancing existing services while also launching lifestyle infrastructure services such as affordable smartphones and gas and electricity retailing. We are trying to create new services in preparation for the coming age of IoT and have started a home IoT service that links up with various types of home appliances. We will also take other related fields the Sumitomo Corporation Group is active in such as healthcare, finance and local 5G into account as we strive to create an even more convenient and enriching life for our customers.



Terrace Mall Shonan



Kioicho PREX



Classy Tower Yodoyabashi

CASE 3 Real Estate Business

Taking a hands-on approach from the start to build the foundation for enriching lives

As a company that was founded as a real estate business, Sumitomo Corporation embodies a spirit of craftsmanship as it seeks to develop businesses that satisfy all real estate needs. We use the expertise we have accumulated since our founding to expand our businesses into forms never seen before.

Our beginnings

1960s

Moved into the office building and condominium businesses

The rapid economic growth of Japan led to an increase in demand for housing and office buildings. Using the industry know-how we had cultivated since our founding as The Osaka North Harbour, a real estate company, we entered the office building and condominium businesses.



1970s

Entered the retail facility business

Encouraged by national demand for regional development following the formulation of the New Comprehensive National Development Plan in 1969, we entered the retail facility business, starting with participation in the construction of a shopping center in the Tokyo area.

1980s

Expanded our real estate business overseas

We acquired and developed office buildings in the United States, Indonesia and other countries.



1990s

Started large-scale complex development

Drawing on our accumulated expertise of real estate development, we began working on large-scale complex development projects such as the development of Harumi Island Triton Square as well as projects in the Yokohama Minato Mirai area and Tokyo Rinkai Fukutoshin/Daiba area.



2000s

Restructured our organization and businesses after the collapse of Japan's bubble economy

Although we started working on large-scale real estate development in the 1990s, we were left with a number of issues as a result, which required the restructuring of our businesses to overcome.

Sumitomo Corporation was founded in 1919 as The Osaka North Harbour, a construction and real estate development company that worked on properties around Osaka's harbor area. As Japanese society grew economically, the company expanded the scope of its businesses to cover office buildings, residential buildings and retail facilities.

Since its founding, our office building business has consisted of the development of rental multi-story buildings either alone or in joint ventures with other companies. As times change, office and labor environments change accordingly. Thus our goal is to provide offices that can adapt to these changes and be used for long periods, making it possible for tenants to work in comfort and satisfaction.

We were quick to enter the condominiums construction industry at the beginning of the 1960s. In 1964 we planned and sold the first private condominiums in the Kansai area. We then expanded into the Tokyo area in 1966. Right now we run the business under the "Classy House" brand name and focus on providing excellent housing that is a perfect blend of form and function.

Our retail facility business got its start in the 70s when we began developing shopping centers, spurred by government policies promoting regional development. Since then we have dedicated ourselves to building facilities rooted in the traditions, cultures and lifestyle of the regional community and endeavor to construct retail facilities that local residents can grow attached to.

The Kanda area in Chiyoda Ward, Tokyo, which can be considered the second birthplace of the company, is a place where we leverage experience we have gained from running these diverse businesses to carry out real estate development

and management from the perspective of "areas" and not "points." We completed the construction of "Terrace Square," large-scale office-retail complex development project in 2015. In spring 2020, under the urban development concept of "cities you love to visit, work and live in," we plan to complete work on large-scale buildings that will contain offices, retail facilities and multipurpose halls. We also have other businesses that are the fruit of the company's collective know-how such as real estate businesses that develop exclusive-use facilities to suit client needs, build-to-suit (BTS) and logistics facility business, and fund/REIT businesses generated from a combination of finance and real estate.

In our real estate business, we place heavy emphasis on a hands-on approach, participating in management by ourselves. This applies to our businesses overseas as well. Our overseas businesses, first in Asia and then in America, started from office building construction and later grew to encompass residential projects. No matter the business, we always seek to provide fresh value by taking a serious look at the needs of the country and the region. The Smart City development project we have started in North Hanoi, Vietnam, is an example of this approach. In this project, not only are we developing real estate but we are also providing fundamental IT infrastructure, setting up a framework for efficient energy management and introducing security features that make sure of leading-edge technology such as biometric authentication. We are realizing all this by gathering the strengths of the Sumitomo Corporation Group as a whole, all with the ambition of creating a city that will appeal to and fulfill the dreams of the people who visit, live and work in it.

Development period

— 2000s

Entered the BTS business

To satisfy increasingly diversified customer needs, we entered the BTS business, an order-made development business.

Entering the fund business

In addition to the conventional business model of continuing to own the real estate after its development, we also started a fund business that supports the diverse real estate investment needs of clients and also increases asset efficiency.

— 2010s

Entering the logistics facility business

We entered the logistics facility business with the aim of developing logistic facilities that connect people with society. The main focus of our business is providing facilities that increase the efficiency of logistics, show concern for the environment, have safety and durability features



and offer a pleasant working environment for workers.

Preparing for the next generation

Setting up real estate funds overseas

Using the expertise gained from our fund business in Japan, and in response to investment needs in the U.S. market, we set up a real estate fund, increase opportunities to manage premium office buildings and expand our overseas real estate businesses.



Urban development in the Kanda area

Sumitomo Corporation considers the Kanda area of Chiyoda Ward in Tokyo to be its second birthplace. We are currently involved in urban development in the area aimed at creating cities that give enjoyment to the people who visit, live and work there. This involves the construction of large-scale complex facilities such as "Terrace Square," the medium-sized "PREX" office building and the "Classy House" brand of condominiums.



The Smart City concept

We are developing a 272-hectare Smart City in north Hanoi, Vietnam. We have gathered the corporate strength of the Sumitomo Corporation Group to carry out this urban development project which involves not only real estate but the provision of basic IT infrastructure and efficient energy management.



Special Feature An Interview with Business Leaders

How our value creation evolves with growing trust

The core businesses of the Tubular Products Division and Life Science Division are the Oil Country Tubular Goods (OCTG) business and the AgriScience business respectively. These businesses are the business foundation of the Sumitomo Corporation Group and at the same time, they also play an important role when it comes to ensuring the sustainability of international society through the stable supply of energy and food.

In this special feature, the general managers of both divisions look back on how the businesses developed and share their thoughts and passions on creating value through new initiatives and solving social issues in order to achieve sustainable growth for the next generation.



Masahiko Yokohama

Corporate Officer
General Manager, Tubular Products Division

Profile Masahiko Yokohama joined Sumitomo Corporation in 1987. After working in the Overseas Logistics Department and undergoing foreign language training in China, he moved to the Iron & Steel Import & Export Department No. 1. He then spent about 30 years working in the tubular products business. After being transferred to a joint venture in Baoji, China, and a joint venture seamless pipe mill in the USA, in 2011 he was appointed as the general manager of the Tubular Business Development Department. This was followed by an appointment as the general manager of the OCTG Business Department in 2014 before he assumed his current position in 2017.



Kotaro Tameda

Corporate Officer
General Manager, Life Science Division

Profile Kotaro Tameda joined Sumitomo Corporation in 1989. After undergoing foreign language training in Russia, he was assigned to SUMI AGRO France S.A.S., a local agrochemical sales company. He also worked for Summit Agro International Ltd. before being appointed as the general manager of the AgriScience Department in 2011. From 2016 he was the general manager of the Chemicals and Electronics Group at Sumitomo Corporation of Americas. He assumed his current position in 2018. He has spent 30 years since he joined the company working in agrochemicals businesses.

We overcame every crisis by changing our business flexibly. Our strengths and passions underpinned the expansion of our business areas.

Both businesses have been flexible about changing their operations responding to external factors such as trade friction, market crashes and the appreciation of the Japanese yen. When you encountered situations where you were forced to change, what were your thoughts as you evolved your business models?

Yokohama Our OCTG business originated from the export of OCTG produced in Japan. From the 70s onwards, we began to spread our export destinations to all the oil-producing nations (the Middle East, U.S., etc.). In the early 80s, however, there was a crash in the OCTG market in the U.S. Furthermore, since Japanese products had become a subject to an anti-dumping lawsuit in the 90s, we decided to expand our business by entering distribution within the U.S., establishing OCTG distributors and extending our distribution network. There are always ups and downs in the market and external factors such as geopolitical risks, so we have faced many crises in the OCTG business. Whenever we face a tough situation, we ask ourselves, "What value can we provide?" Based on that, we pursue the kinds of functions that our customers will need in energy development, and that is how we have arrived at our current position.

Tameda From the 60s onwards, the agrochemical business spread its sales destinations to over 100 countries worldwide leveraging the high quality of made-in-Japan products and taking advantage of the exchange rates at the time to stay competitive. However, the Plaza Accord of 1985 led to an appreciation of the yen, which lowered the competitiveness of Japanese products. Coupled with the collapse in the communist bloc following the fall of the Berlin Wall, it meant that we needed to find new business models. The result of facing these external factors was the Summit Agro agrochemical sales network. To borrow an analogy from the automotive industry, it would be as if we started by exporting finished vehicles and then later entered local dealerships.

Yokohama This style of starting from the customer's viewpoint and then expanding the supply chain and product lineup from there is one of the strengths of an integrated trading company. After the various crises of the OCTG business in the 80s, locations for oil development have spread all over the world. We responded by grasping the latent needs of our customers and strengthening our just-in-time delivery functions in West Africa, the North Sea and

other places. Since initial investment costs were high, we requested long-term contracts from customers, and on our part, we ensured that we added the features requested by customers. That is how our current supply chain management (SCM) business came to be.

Tameda We have the same experience of starting from the customer's needs. The reason why we stepped into new territory and began to sell agricultural materials directly to farmers in 2011 after expanding our agrochemical sales business all over the world is because we wanted to address various issues in agriculture. Agriculture is strongly influenced by the weather and the market price of grains, but in general, the industry works by hedging these risks towards farmers. In light of that, we wanted to support farmers and agriculture as a whole by achieving higher yields. Therefore, in addition to selling agrochemicals, we entered the business of direct sales of all agricultural supplies needed by farmers such as seed and fertilizer. As you said, the ability to shift focus that way is something trading companies are good at.

Yokohama The demand for OCTG worldwide is currently around 16 million tons and the market is worth around 3 trillion yen. However that is only around 5% of the total costs spent by oil companies on procuring equipment and services. Same as the agrochemical business, I believe the shortcut to increasing customer satisfaction lies in expanding the supplies and services we provide.

As you evolved your business models, what were the keys to success particularly for integrated trading companies and for Sumitomo Corporation?

Yokohama Well first, we must presuppose that the product itself is highly competitive. Once that is a given, whenever we face a crisis, we diligently seek answers to these questions. First, what kind of functions can we provide? And second, what kind of value can we deliver? In the course of this process, it is very important to have a network of people all across the world that can provide us the information we need to create new ideas.

Tameda One of the distinguishing features of the agrochemical business is that the final produces are consumed by people, so we need to receive the approval of the relevant local authorities. We need organizations in every country to cope with that requirement, which leads to a natural increase in our human resources. And that means

Special Feature An Interview with Business Leaders

How our value creation evolves with growing trust

that securing the best human resources is a very important key of success.

Yokohama It certainly is. In the OCTG business, we set up a dedicated company for the establishment of the SCM Project in Houston, the U.S. in 2002. We have accumulated the knowledge concerning regulatory compliance such as tax systems/approval processes and information about starting SCM projects through our experiences all over the



world and used that knowledge to nurture human resources. Then we dispatched them to the local area whenever we started a new project. Creating a professional group right from the start was one of the keys to our success. When we receive new requests from the major energy companies, we adopt parts from our successful cases from past projects to provide services and to start new projects in other areas, creating a virtuous cycle we could call a “spiral of trust.”

Tameda We have a similar initiative establishing the dedicated company in our business as well. When we started the Summit Agro business, the top officers were dispatched from Japan, but as the business grew, we began to increasingly localize each business. Currently, almost all of the business companies are headed by local talent. To secure talented personnel, you need to provide them with a career plan. In Europe and South America, we established holding companies to bring the business companies together. The management of the holding companies is in the hands of local talent as well. Moreover, we are working on building a structure where professionals of those operations would participate in setting up a global strategy.

OCTG business

We provide the OCTG necessary for oil and gas drilling through global supply chains. We have long-term contracts with oil companies all over the world and established an SCM service system that supplies OCTG, accessories and related equipment necessary for drilling based on the just-in-time model. Our strength is the ability to provide a total support system not limited to traditional trade by, among other things, offering an oil and gas well design consulting service. Thanks to these efforts, we have long-term contracts with national oil companies in addition to major oil companies. As a leading company in OCTG supply, we are supporting the stable supply of oil and gas globally.



Business history

- 1970s** • The oil shock triggered crude oil development all over the world, and exports of Japanese OCTG increased.
- 1980s** • A drop in oil prices crashes the market in the U.S., exports of Japanese products to the U.S. are restricted.
• Established OCTG distributors in the U.S. and Canada.
- 1990s** • Japanese OCTG are shut out of the U.S. due to anti-dumping measures.
• Signed long-term contracts with major oil companies (BP, Shell) and Norwegian national oil company (currently Equinor), started OCTG SCM services.
- 2000s** • Jointly acquired a U.S. seamless pipe mill. Established SCGTS, an SCM service company.
• Purchased two U.S. OCTG distributors and obtained the top share in the U.S.
• Established a distributor in Alaska and acquired a machining company.
• Signed a long-term contract with Petronas, the national oil company in Malaysia.
• Acquired Howco Group, an well equipment processing distribution company, and expanded into the oilfield equipment segment.
- 2010s** • Purchased OMS, an Asian company for threading OCTG and accessories.
• Signed long-term contracts with national oil companies in the Middle East (ADNOC, KOC).
• Purchased two U.S. OCTG distributors, strengthening selling base.
• Invested in multiple venture companies in Europe with new technology together with oil companies.

Was there anything you struggled with? How did you overcome such challenges?

Tameda In the agrochemical business, we have been expanding the company's supply chain to downstream area, from trade to wholesaling to direct sales to farmers. It is natural that, the closer a business gets to the end user, the greater the number of customers and the more complicated operations become. For example, we have less than 10 companies as trading customers in Romania, but when we started the wholesale import business there, the number of our customers grew to 70–80 companies. Once we started selling directly to farmers, we had a customer base of a little under 5,000 farmers. When dealing with large numbers of customers, credit and bill collection was a huge challenge. Many of them are farmers with no reliable financial statements, so we are working on being able to identify trustworthy customers accurately by, for example, understanding their level of technology and then rigorously selecting farmers with high yields.

Yokohama Last year, thanks to shale oil development, the U.S. surpassed Saudi Arabia to become the top oil producer in the world. However there are many mid-small size independent companies with just one or two rigs working



in oil and gas drilling in America, so we need to create a broad distribution network that can provide products to meet the immediate demand from such customers. To make this possible, our company owns four OCTG distributors in the U.S. and we have established a structure that can accommodate mid-small size customers.

— AgriScience business

The world population is expected to approach 10 billion by 2050, which makes securing food supplies a global issue. Sumitomo Corporation uses its network as an integrated trading company to export agrochemicals made with world-renowned Japanese technology. We also have agrochemical import and wholesaling businesses in each of the countries we export chemicals to. In recent years, we have established business models that sell fertilizer, seed and other agricultural products directly to farmers in addition to agrochemicals. Using the Group's credibility, financial power and business operation expertise, we have a wide range of businesses in trade, wholesale and retail while being responsive to the needs of the farmers and the agricultural industry in each region.

Business history

- 1950s** • Started business selling and importing crop protection products into Japan.
- 1980s** • Promoted grant aid for increased food protection and malaria control projects in developing countries.
- 1990s** • Established Summit Agro, local subsidiaries (currently 30 companies) for importing and wholesaling in each country following the disorder in the Eastern European markets, our main sales destinations, after the end of the Cold War.
- 2010s** • Purchased agricultural input and service companies in Romania, Brazil and Ukraine and began an agricultural supply sales business that sells agrochemicals, seeds, fertilizer, equipment and other agriculture-related products to farmers directly.



Special Feature An Interview with Business Leaders

How our value creation evolves with growing trust

Achieving sustainable growth by solving energy and food issues

**Could you tell us about your plans for the future?
What changes and issues are you facing in your current
business environment and what moves are you making
against them?**

Tameda One thing we have definitely noticed is a change in our competitors. In the past, our competitors were other trading companies, but as each company refined its business model, and as we expanded our business all around the world, our competition changed to global chemical and agrochemical manufacturers. These companies are extremely fast when it comes to making decisions about entering or leaving markets, and they are able to invest giant amounts of capital including human resources, so we have to be fully aware of our strengths and compete resolutely with them.

Yokohama What we are most cautious of is that the barriers to entry, we have built to date, have become weak and unable to provide new value to customers, which will lead them to desert us once our business model becomes obsolete. In the past, we regarded trading companies and major pipe mills overseas who have their own distribution as our rivals, but right now, new entrants from completely different industries could become our competitors. Just as giants such as GAFA*, which are directly involved in the consumer goods market and new start-up companies, we are always on the alert because we never know where potential competitors could appear.

Tameda One of the growth areas in Sumitomo Corporation's Medium-Term Management Plan 2020 is Technology x Innovation, and we are already seeing changes by utilizing AI and IoT in the tubular products business.

Yokohama In the consumer goods market, people are starting to use data based on consumer behavior, so in that respect the oil and gas industry is fairly behind. However, the major oil companies possess a great amount of data through their decades-long operations. It would be wonderful if we could use the data from each company to build a platform to satisfy customer needs, and I believe Sumitomo Corporation is in the position to propose such methods for utilization.

Tameda The importance of utilizing data is the same in the agricultural business as well. One of the great issues in agriculture, which I regard as an opportunity for us, is the matter of varied yields among farmers. Even the most experienced farmers with years of experience have only

sown seed a few dozen times since the sowing season comes just once a year. As a result, there tend to be differences in yield between farmers even if they live in the same region with the same climate and soil conditions. Labor and productivity increases every year thanks to the introduction of fertilizer, agrochemicals and equipment, but little progress has been made when it comes to sharing best practices. This is despite the amount of information that is currently available, making agriculture an outlier among industries. To address this, if we can collect big data and use AI to predict matters such as when to sow, when to use fertilizers and agrochemicals, how much to use them, and when to harvest to maximize profits, farmers will be able to make long-term business investment plans, which will change their circumstances significantly.

**You have mentioned the potential ways in which your
business model could change due to technology. Please
explain your future vision and what specific activities
you are working on.**

Yokohama As I mentioned earlier, we are giving plenty of thought to new business creation and to building new platforms from the customer's point of view. Our greatest assets are the excellent customer assets including major oil companies and national oil companies. We want to build platforms for those customers and build an ecosystem that can offer value not only to oil and gas companies but also to all companies involved in energy development.

Furthermore, public opinion towards oil, gas, coal and



A product from Airborne Oil & Gas, a Dutch manufacturer of composite pipes in which Sumitomo Corporation invested in 2018.

*Google, Amazon.com, Facebook and Apple, the top four IT companies in the U.S.



Working on various initiatives with farmers to raise productivity

the energy industry has become increasingly negative recently, so a new platform should provide a great opportunity for us to resolve such social issues across the entire industry, as well as a great business chance for Sumitomo Corporation.

Tameda When we were talking about changing business models earlier, Mr. Yokohama mentioned that major energy companies possess huge amounts of data. In the agriculture business, we also have group companies like Alcedo S.R.L. and Agro Amazônia that sell agricultural supplies directly. They have thousands of farmer accounts. For farmers who were used to relying on their own experience and intuition, in the past there was no merit or incentive to share their know-how with others. However if we can create a structure where they can provide that information, we will be able to create an agricultural platform where information and goods can circulate, increasing the production efficiency of all farmers. Sumitomo Corporation has a lot of contact with farmers, so we are in the position to set this plan in motion. Our company also has a team that handles agricultural machinery, so we have user information in that regard. We plan to have all departments work together to utilize the information effectively so that they can make proposals that are ideal for the farmers.

Yokohama I hear you have started to propose the use of drones in agriculture.

Tameda Yes, we have. We call it “agritech” but we are not interested in simply selling drones. Instead, we are trying to build a subscription-based agricultural platform offering a combination of drones, water level sensors and autonomous agricultural machinery. The average age of a farmer in Japan is now 68, so not many of them would be willing to spend hundreds of thousands of yen on a drone.

Creating a subscription-based model allows us to support them both financially and in terms of IT literacy. An agricultural platform that can respond to such needs will become increasingly necessary not only in Japan but in other countries with aging populations worldwide. At the same time, such a business will also help alleviate food problems around the world.

In this world of today, people are looking for businesses that provide economic value and also benefit society and the environment at the same time. What kind of value do you think your respective businesses can offer?

Yokohama Sumitomo’s Business Philosophy has been passed down to us through 400 years of history and permeates everything we do. When we explain our Business Philosophy to our customers, it helps them understand the principles that make us seek long-term business partners. So this philosophy is a real treasure, because it clearly displays our mindset that states that “Increasing social and environmental value will definitely link to economic value.” This applies even more to those of us involved in energy supply, something human beings cannot live without, because fulfilling our responsibility to provide value to society and the environment and being aware of the Company’s Material Issues are both matters that are closely linked to our daily operation. To put it another way, in this day and age, we will not be qualified to stay in business if we do not face up to these responsibilities seriously.

Tameda I like to approach this from a slightly different perspective. I believe this business division owes a debt of gratitude to the Japanese agrochemical industry for its growth. We would not have been able to succeed overseas without the product appeal and the technological advantage of our suppliers. Now that we have access to sites all over the world, I would like to actively return the favor and give our suppliers information from these sites as feedback so that we can develop together with them as partners. At the same time, we all share the desire to solve the issues plaguing farmers and consumers. Our goal to use Digital Transformation (DX) to create packages of all the services they need and provide them through a platform is one of the future forms we are aiming for by leveraging our unique customer assets. Moreover, being able to contribute to eradicating poverty, resolving food problems and finding solutions to other social issues through this kind of business is one of our driving forces and this, together with the 400 years of trust we have built based on Sumitomo’s Business Philosophy, constitutes a major asset that helps us win the understanding of consumers overseas.