



Masayuki Hyodo

Representative Director
President and Chief Executive Officer

Using Sumitomo's business philosophy as a starting point to steer business towards the future and create new value.

What I value most as a president

Managing the business and aiming for sustainable growth with a view to the future

Since I took over as the President of Sumitomo Corporation in April 2018, I have often been asked, "What is your mindset as you approach this role?" My answer has three points.

First, I intend to look at business results in the short, medium and long term. By establishing a cycle of strengthening the company's financial base, increasing management efficiency and carrying on new investment while maintaining the trust and understanding of the financial market, we will be able to improve on current results. That is the natural course of business for a listed company, and I intend to pursue it with utmost dedication. However, in this day and age where companies are expected to build good relationships with all stakeholders while growing constantly, a business cannot survive by pursuing only short-term profits without considering future risks. We therefore have to strengthen our base and manage the company with an eye on the future so that we can share the joy of sustainable growth with all our stakeholders. Implementing that kind of management is essential.

At the same time, a new business approach known as ESG (Environment, Social and Governance) has received a lot of attention in financial markets. There is a clear shift over time away from a focus on short-term growth to a focus on sustained medium-to-long-term growth.

Additionally, a shift in values from a disproportionate focus on economic value to a focus on social, environmental and other multifaceted issues is also taking place. As we pursue long-term growth opportunities from a long-term, multifaceted viewpoint, we need to maintain the discipline necessary so we are not unduly shaken by immediate results and that at the same time we do not focus exclusively on the overall picture to the extent that we ignore present conditions and issues and manage the business irresponsibly.

Moreover, in 2017 we identified "Six Material Issues to Achieve Sustainable Growth with Society" and publicized them within and outside the company to show the link between our business activities and the society at large. Starting with "Developing Human Resources and Promoting Diversity" and "Enhancing Governance" as a prerequisite, we are pursuing the material issues of "Achieving Harmony with the Global Environment," "Contributing to the Development of Local Communities and Industries," "Establishing a Foundation for Comfortable and Enriching Lifestyles" and "Providing Diverse 'Accessibility'" as our means of achieving sustainable growth as only the Sumitomo Corporation Group can.

Ask ourselves why we exist and transform ourselves

Secondly, I believe we need the courage to change ourselves. Integrated trading companies like ours have always supported development in society through the changing years by extending our networks throughout the world, sensing changes in economics, industry and society ahead of everyone else and creating new businesses. As a result, we

have developed a variety of business functions, expanded our range of businesses into all kinds of fields and industries and built fulfilling relationships with an extensive range of clients and business partners. The source of the total strength of the Sumitomo Corporation Group lies in its networks and business functions that extend beyond business boundaries and in the relationships of trust that form its management base. I consider it our duty to evolve in response to occasional challenges while continuing to create new value.

Integrated trading companies like ours have weathered difficult storms. At one point there was a theory that trading companies were obsolete. We went through the trading company “ice age.” Most recently we experienced large-scale impairment losses due to falling natural resource prices. Each time we encounter a crisis, we survive by changing the contents or conditions of our business and succeeded in evolving into an even more profitable corporate body. Only those who can quickly realize the changes that come with time and create value under constantly changing business conditions can continue to succeed. Since we live in a world where only the fittest survive, where change is normal, we will build up the courage to always question our own value to society, to redefine ourselves and to constantly reinvent ourselves.

Sharing passions, dreams and ambitions

My third point is this: I want us to share our dreams, ambitions and passions with each other.

Whenever anyone asks me what is unique about Sumitomo Corporation, I immediately answer, “Sound Management and an Enterprising Spirit.” We

are a group of people always bursting with energy, earnestly pursuing new things and persevering through thick and thin until we achieve our goals. In other words, “sound management” means an approach to work that is full of dreams and passion and “an enterprising spirit” talks about our desire to continually tackle new challenges without fear of failure.

It is one thing to merely talk about “creating new value.” It is quite another to act according to one’s principles. And if you cannot achieve it then the phrase is just an empty expression, a superficial promise, something said on the spur of the moment. That is why when a leader utters those words, he or she must do it with seriousness and engrave those words into the organization and its business with passion. In this modern age, it is not too difficult to get ideas because there are many approaches to value creation such as innovative business concepts and setting up new ecosystems. And it is precisely because we live in such times that I want all company employees, myself included, to share our dreams passionately with those around us in order to expand the circle of employees who truly share and sympathize with our ambitions as widely as possible. That will be the true driving force that will enable us to achieve the goal of “creating new value.”

“People without dreams are people without ideals. People without ideals are people without plans. People without plans are people without actions. People without actions are people without success. Therefore people with no dreams are people with no success.” Those are the words of Shoin Yoshida, my favorite patriot at the end of the Edo era. It takes more than ordinary effort to invent something that does not exist in this world, to create something no one has ever seen. What you need is

the dynamism to keep working hard with conviction. That is what makes it so important to share dreams, ambitions and passions with one another.

The state of the Sumitomo Corporation Group

Becoming a corporate group that treasures the Honor is Equal principle

The smartphone is often touted as an example of how the dreams and passions of many people can change the world. Behind this monumental invention was a huge cast of individuals thinking about and working hard on the technology needed to make the idea a reality, the strategies needed to commercialize it and the communication methods needed to convey its value to the rest of the world.

The heartfelt desire to be of use to society and the dreams and passion that want to make that desire a reality are what give rise to new value. Some might say the word “dream” has no place in business, but in corporate management it is the same thing as a “vision.” How many people are able to talk sincerely about their visions? How many partners are willing to work with them to make those visions a reality? Human capital may not appear on a financial report, but I am convinced that its existence is what constitutes the intrinsic value that determines the strength and worth of the organization known as a company. Naturally there may be many failures. When failure occurs, you need a dream or an ambition to help you answer the question, “Why am I even doing this job?” Any



hurdle can be overcome as long as that answer is there. Everyone must confront that failure squarely in the face, discuss how to avoid repeating it and then put the plan into action. And when we succeed, I hope we will be a team where we can all be happy for each other. In rugby there is a saying that goes, “Honor is Equal.” I want to treasure the idea behind that saying, that everyone gets equal honor even if they have different roles. A company that appreciates everyone who takes part in a project and that broadcasts that appreciation throughout the company is a truly strong one, and the Sumitomo Corporation Group must always strive to remain that way.

As always, at the heart of our corporate culture that speaks of its dreams and ambitions and continues to strive to achieve them is the Sumitomo’s business philosophy (▶P12). “Place prime importance on integrity and sound management without pursuing easy gains;” “Benefit for self and others, private and public interests are one and the

same," "Planning imbued with a farsighted perspective," "An Enterprising Spirit." The principles that have been handed down over the course of Sumitomo's 400-year history underpin all of the Sumitomo Corporation Group's business activities as a set of unchanging universal values.

Working constantly on the basis of 400 years of trust

Striving to create new value while sharing the Sumitomo's business philosophy with like-minded colleagues who share the same dreams and ambitions – These values of mine grew out of my experiences with many colleagues, clients and forebears. Let me use this opportunity to tell you a little about myself and my experiences.

After joining Sumitomo Corporation in 1984, I focused exclusively on infrastructure-related projects, working mainly in Asia and in the Near and Middle East. I felt a great sense of accomplishment from living in emerging nations experiencing sudden economic growth and working to support their lives and their social and industrial development. Infrastructure projects are very long-term commitments. At a minimum they take several years from the planning stage to completion and can last over 10 years in some cases. Thus it is not unusual for national unrest or changes in the country's economic circumstances to seriously affect the progress of a project. In some cases, circumstances became so difficult that there was no choice but to temporarily suspend the project. Despite the difficulties, however, all of the members involved in the project remained committed to our shared objective of making history by supporting the

development of the country and of the regional society at large. We persevered undeterred and faced up to all the obstacles confronting us until we succeeded in overcoming them.

The enthusiasm of the members fueled the success of several projects. Having said that, however, there was one incident that made a deep impression on me and shaped my management philosophy. We spent five years working out a contract for a certain infrastructure project, but the nation's government changed rapidly during that period. The success or failure of a large-scale project depends heavily on cooperation with the Japanese government as well as the partner country – in other words it depends on the existence of a public-private partnership (PPP). We were prepared to restart negotiations from scratch every time the government changed, but somehow there were always people in the new government who were familiar with Sumitomo. And they all said the same thing: "Sumitomo? I know them. If you're from Sumitomo, we're happy to talk." The tens of



Mr. Masayuki Hyodo then, in his role as president & CEO of PT. Sumitomo Indonesia and General Manager of the Surabaya office (appointed in 2010). A group photograph taken with local project members while dressed in traditional Indonesian batik attire (front row, 5th from right).

thousands of employees across the entire Sumitomo Corporation Group have built up trust not only in the past 100 years but across the 400 years of Sumitomo's history. That is an irreplaceable asset created through the efforts of colleagues and forebears who have personified Sumitomo's business philosophy around the world. With that Sumitomo's business philosophy as our foundation, we have to pass on the can-do spirit of the Sumitomo Corporation Group, which transcends financial relationships, economic gains and losses and interests, to the next generation. That is my great mission as President.

Challenge for New Value Creation

Seizing major opportunities in an age of accelerating change

Sumitomo Corporation was founded in 1919 and will celebrate its 100th anniversary next year. What will the Sumitomo Corporation Group look like 50 or 100 years from now? Many stakeholders have asked me that question. It may very well become a completely different corporate entity. However one thing that will never change is our attitude of reinventing ourselves while responding flexibly to the changing times and constantly striving to create new value.

Integrated trading companies recorded massive impairment losses between 2014 and 2016 due to a drop in natural resource prices. Now a new turning point has arrived and every company is searching for ways to build both, earning structures and

management bases that are not affected by resource markets and secondly, investment strategies focused on establishing pillars of medium-to-long-term growth. At the same time a transformation some call the Fourth Industrial Revolution is progressing around the world thanks to technological advances in artificial intelligence (AI) and the Internet of Things (IoT). It is an age when new value is being created by connecting, blending and fusing everything together seamlessly. Along with those changes will come an inevitable diversification of the value chain. Managing a business will become more difficult, but this change also presents major opportunities for integrated trading companies, whose calling is to build flexible schemes for providing the seller, the buyer, and society with satisfying value.

It is precisely because we are in such rapidly-changing times that it is important to have an axis to return to, to cling firmly to our policies and apply them to our business. This means that the Sumitomo Corporation Group will continue to stand firmly on its defining attitude of constantly striving to create new value that I mentioned before.

Looking back on the previous medium-term management plan: “Be the Best, Be the One 2017”

The great goal of the previous medium-term management plan was to overcome Sumitomo Corporation's business challenges triggered by the massive impairment losses of the 2014 fiscal year and set the company back on a track to growth. Under the leadership of former president Nakamura, the whole company worked together as one to uncover issues and tackle them head on. At the

same time we continued making the investments necessary for the future while also seeking to create synergy through cross-organizational collaboration. Moreover, as a result of our efforts to generate cash, our net income for 2017, the final fiscal year of the medium-term management plan, stood at ¥308.5 billion, the highest ever recorded. We successfully pulled off a V-shaped recovery. We also made steady progress with our growth strategies and reinforcing our management base.

Although recovery in resource prices and a sustained upward trend in the course of the world economy are the main reasons why we were able to stage this come back, focusing only on those factors would mean missing the substantial changes we have made as a company. Based on our belief that a company needs earning power to achieve stable and sustainable growth, during the three years of “Be the Best, Be the One 2017 (BBBO2017),” while we placed the greatest priority on the maintenance and enhancement of our financial soundness, we never went on the defensive but instead persevered with strategies to increase our earning power. That is precisely why we were able to use the momentum of our favorable business circumstances to improve our results. The steady building of this earning power over the past three years will be a crucially important factor for our management from now on. It produced results in the form of our highest recorded income ever in the last fiscal year, and in the future we expect to see even more results from the management base we have strengthened through long years of accumulated policies and strategies. The first chapter of the plan that will lead us further and more powerfully down this growth trajectory is our newly formulated “Medium-Term Management Plan 2020.”



“Medium-Term Management Plan 2020” — Redefining our future selves, societies and industries

The main theme of “Medium-Term Management Plan 2020” is “Unceasing Challenge for New Value Creation.” In the 2018 fiscal year, the first year of this plan, we plan to rewrite the current record by making a highest-ever profit of ¥320 billion. And we will continue to grow those profits as we head towards 2020, the final year. At the core of “Medium-Term Management Plan 2020” is the implementation of growth strategies supported by an enhancement of our management base. As a key measure that will characterize the implementation of our growth strategy in particular, we have earmarked a total of ¥300 billion to lend and invest in the creation of new, next-generation businesses in order to drive medium-to-long-term growth and value creation. We will strive to create new value focusing on three emerging fields where the Sumitomo Corporation Group can demonstrate its strengths: Technology × Innovation, Healthcare and Social Infrastructure. To

undertake these measures, we will also need to catch the wave of the Fourth Industrial Revolution, throwing away prejudices and preconceived notions and redefining our existing businesses.

For example, when it comes to social infrastructure, one of our planned emerging fields, conventional wisdom tends to think of utilities like water, sewage, electricity and gas as well as transportation infrastructure like roads and railways. However we need to understand that today's infrastructure is a more far-reaching infrastructure that supports everyday life. For example, internet shopping and web services are now an indispensable part of the infrastructure of the daily lives of consumers all over the world. This is a good example of how redefining existing notions of infrastructure can lead to new business opportunities. In the same vein, if the auto lease businesses that this company runs in various regions can effectively adopt new trends in the auto industry such as connectedness, electric vehicles (EVs) and ride-sharing, they hold great potential for growth in next-generation mobility infrastructure. And they are just one example out of many. Integrated trading companies work in a variety of industries all around the world, so if they can coordinate their internal and external management resources organically, they can become a platform for redefining existing businesses, industries and societies. If we liken a trading company to a smartphone, then we can compare business models involving cooperating with multiple stakeholders to a countless number of installed apps. In reality, the Sumitomo Corporation Group has several hundred business models. By combining the management resources that group companies have, we will be able to create completely new business models.

Promises for the Future

Living up to our principles while pursuing further growth

Business circumstances today are changing at a dizzying pace and competition grows fiercer by the day. Under these circumstances, the Sumitomo Corporation Group must either create new value faster than anyone or be fast enough to overtake others. To do that, we will need to quickly grasp the changes that come with time and transform ourselves. By combining our strengths, we want to make our own lives and the lives of everyone else a more fulfilling one. Through our business, we want to make the changing society a more attractive place.

“Living up to our principles.” — One should set lofty goals and follow one's beliefs and convictions while acting quickly. I will lead the whole group and fulfill my duties under the guidance of that motto. “Unceasing Challenge for New Value Creation for the future” — We will build a company full of dreams and ambitions where we can share the growth of the Sumitomo Corporation Group with all our stakeholders.

We greatly appreciate the support and continued understanding of all our stakeholders in our efforts.

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