

**Message from the President and Chief Executive Officer**



**Masayuki Hyodo**

Representative Director  
President and Chief Executive Officer

# Toward the next 100 years. Seeing results from the various innovations we have set in motion.

## My first year as CEO

### Making decisions that fill our employees in the field and executives with the spirit of transformation

A year has passed since I assumed the position of President and CEO of Sumitomo Corporation. When I gave my inauguration speech upon taking office, I stated the following to all group employees: "We must clearly identify what to maintain and what to change, and move forward together with this understanding in mind. Let us also fulfill our social responsibilities as the Sumitomo Corporation Group and carry out our Corporate Mission of seeking "To achieve prosperity and realize dreams through sound business activities." FY2018 was a year of striving to achieve these goals.

The Sumitomo Corporation Group has entered a period of great change. We are seeing results from the steady progress we made in our Medium-Term Management Plan 2020, which started in FY2018, and from the innovative initiatives in various business sites to spur further growth in the future.

Our responsibility as management is to make the decisions that will boost employees' motivation. In Japanese, we say, "Cherish harmony among people." However, this does not simply mean that everyone must get along all the time; it also includes the idea of arguing and exchanging opinions to deepen our mutual understanding. This is why the management engages in thorough discussions before making any decisions. While unanimous decisions are ideal, they are not always possible. If disagreements occur, we accept the different opinions, discussing them frankly and without reserve.

Despite of all of that, we are still able to maintain harmony because of the shared values that run through the management as a whole. Those values are Sumitomo's Business Philosophy, the Sumitomo Corporation Group Corporate Mission Statement and our Material Issues. As the President and CEO, I can confirm that these values, which have been passed down over the 400 years of Sumitomo's history, serve as clear criteria when making management decisions.

## Sumitomo Corporation Group's 100-year history

### 100 years of self-transformation, understanding the changing times and embodying "an enterprising spirit" without pursuing easy gains

December 2019 will mark the 100th anniversary of the founding of the Sumitomo Corporation Group. Sumitomo Corporation was originally founded in 1919 as The Osaka North Harbour Company Limited, a company which worked on land development in the Osaka North Harbor area, developing surrounding areas and managing real estate. After the war, the company changed its name to Nippon Engineering Co., Ltd. and began the trading activities that launched the Sumitomo Corporation Group of today.

An organization that started out with a small number of workers 100 years ago has now become a conglomerate with over 900 group companies. I am convinced that our success is firmly rooted in Sumitomo's Business Philosophy. By avoiding the pursuit of easy gains, accurately sensing changes in the times, carrying out planning with a "Grand Design" and possessing an enterprising spirit, we have been able to continuously transform our businesses

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by responding to changes in the economy, industries and social environment.

Just as Sumitomo Corporation developed from the parent body Sumitomo, our future vision is to become a parent that will generate and nurture next-generation businesses full of new potential. This is our ultimate goal for the next 100 years. Such initiatives will be closely linked to the sustainable growth of the Sumitomo Corporation Group.

### Requirements for sustainable growth

**Contributing to the development of society is our highest priority. A sense of balance in corporate management is required.**

Looking ahead to the next 100 years, there are criteria for decision-making that we should always revisit.

We need to understand that, to achieve sustainable growth, our activities must be appreciated by society and must contribute to the development of society. That said, the expectations of a company differ depending on the region and society. Past, present and future requirements can all vary. We must always be sensitive to the issues that society is facing at any point in time.

We recently revised our basic policy on climate change issues. We held numerous discussions about how we could contribute to solving social issues from a variety of viewpoints. We will continue to respond sincerely to the needs of society and fulfill our responsibilities as a corporate citizen.

(→ [Initiatives to Address Climate Change Issues](#), p. 39)

Moreover, to achieve sustainable growth, it is essential that we focus on cash flow in our consolidated group management and ensure that our financial position is sound. This means that it is crucial for us to maximize our profits by optimizing the value of various businesses and enhancing their cash-generating capabilities to secure funds. We also need to carefully reinvest those funds and actively replace our assets while paying close attention to

the profitability of each business. At the same time, it is also vital that we share the gains with our investors, shareholders, employees, business partners and all other stakeholders. Balancing these two stances is one of the important tasks of corporate management.

In short, we have two aims ahead of us: to secure wealth, and to share and distribute this wealth in an optimal way. For our shareholders and investors in particular, it is important to make sure that they receive the returns they deserve, including dividends, so that they will continue to hold our shares in the medium- to long-term. To maintain this balance is the essence of management.

It is very difficult for a company to receive an appropriate evaluation from the market, especially for integrated trading companies, which tend to be affected by what is known as a “conglomerate discount.” In spite of that, I believe the only measures available to us are to pursue the maximization of present value and show steady results each year. With that mindset, we announced our Medium-Term Management Plan 2020 to represent the balance we aim for in every aspect, including our capital allocation policies.

### Summary of the first year of our Medium-Term Management Plan 2020

**Steadily increasing our earning power: achievement of our highest-ever profits and clearing KPIs set in the plan**

In the year ended March 31, 2019, the first fiscal year under our three-year medium-term management plan, we posted a net profit of ¥320.5 billion. That was an increase of ¥12 billion year-on-year, marking our second straight year of record profits. At the same time, our six business units are increasing their earning power by executing their individual growth strategies.

(→ [Implementation of Medium-Term Management Plan 2020](#), p. 15)

## Increasing the value of existing businesses as our core growth strategy and accelerating our efforts to create next-generation businesses

Increasing the value of existing businesses is the key growth driver over the three years of the Medium-Term Management Plan 2020. In FY2018, we made great strides toward increasing earnings from many fields where the group has its strengths. For example, we entered the specialty steel business in India to take advantage of its growing automotive-related demand and also participated in offshore wind power generation projects in France and Belgium.

To upgrade our existing businesses, we are also putting our utmost efforts into Digital Transformation (DX) companywide. To that end, led by the Chief Digital Officer (CDO), we enhanced our structure by strengthening the functions of the DX Center and increasing its number of personnel. The DX Center is already in full operation, and we are accelerating our initiatives in various businesses. We are also focusing on increasing efficiency through robotics process automation (RPA) and utilizing the resources acquired in that way to create new value.

On the other hand, we are also producing results by putting efforts into increasing the profitability of businesses with difficulties. The Ambatovy nickel mine business in Madagascar, which performed below our plan, is a key case

in point. Despite the current performance, as it is expected that the next-generation of vehicles such as EVs will become widespread, the potential of a mining project that produces the high-quality nickel necessary for batteries is promising. We are therefore aiming to achieve stable operations and profitability of the project at the earliest possible time.

We are also striving to create new businesses with potential to become the pillars of our future earnings. For example, we are implementing a Smart City project in North Hanoi, Vietnam. In the healthcare field, we have entered the managed care market in Malaysia. Both projects are part of our efforts to assist the development of emerging nations. In Japan, we are speeding up our precision agriculture initiatives involving the use of agricultural drones.

## Innovating together by connecting with others

These days, the wave of digitization is sweeping over every kind of business. In order to successfully take on new challenges, we must mobilize every resource, including our internal ideas along with external innovations. We have already established offices in Silicon Valley, Hong Kong and London, the incubators of new business development, and we are also expanding our networks to cover start-ups with cutting-edge technology and potential “unicorns.” Furthermore, in April 2019, we established “Mirai Lab Palette” in the Otemachi area to facilitate open innovation between people within and outside the Sumitomo Corporation Group. We have also started the “0→1 Challenge Program” to unearth and nurture entrepreneurs within our group with the aim of creating new businesses.

One of the strengths of the Sumitomo Corporation Group is its ability to serve as a business organizer that can overcome various barriers to create businesses. We are living in an age where new value is not created by a single entity but through the various “connections” formed between companies and organizations across industries, regions and nations. In such an environment, the ecosystem that the Group is building is poised to bring innovation to a new era.



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### Strengthening corporate governance through active discussion

One of the goals of Medium-Term Management Plan 2020 is strengthening governance in order to reinforce our management base. I consider that active discussion is indispensable to healthy governance. Since we believe that listening to diverse opinions and actively discussing them is the key to enhancing the supervisory functions of the Board of Directors, we invited five outside directors to the Board in FY2018.

Improving the governance of the Group overall is another issue that must be addressed. What we need in that respect is candid discussion and mutual understanding between headquarters and group companies. For subsidiaries, we have introduced a governance framework that seeks to clarify internal controls through repeated dialogue and works toward improving the quality of operations.

### Developing human resources and accelerating growth strategies

In FY2018, we introduced a number of measures to our human resources (HR) system. (→ *Human Capital*, p. 65) The shared concept behind these measures was “supporting individual growth.” We are encouraging the approximately

70,000 group employees all over the world to grow and develop. I firmly believe that putting systems into place to allow them to gain experience, learn, make outputs and then move on to the next level will increase employees’ motivation and will propel our growth strategies forward.

We must not allow differences in gender, nationality, values or other characteristics to interfere with this growth cycle. For a company that carries out business globally, it is especially important to provide an environment that allows personnel from every part of the world to flourish. We will bring in personnel with a variety of backgrounds so that we can turn that diversity into drivers for growth. We have set this concept of “Diversity & Inclusion” as the foundation of the Sumitomo Corporation Group’s HR strategy.

### Looking ahead to the next 100 years—Sumitomo Corporation’s Next Century Project

#### Enriching lives and the world: Our determination on the Sumitomo Corporation Group’s “100th Anniversary Transformation”

One of the expectations of the Sumitomo Corporation Group in this centennial year is our “100th Anniversary Transformation.” The strength of our young people is the driving force behind that transformation. To create new value other than by extending past achievements, the most important thing is to prepare an environment where young employees with fresh approaches can demonstrate their abilities to the fullest.

To use this memorable 100th anniversary year as an opportunity for self-transformation in anticipation of the next 100 years, the Group launched the Next Century Project in 2017. Under this project, we invited mainly young employees from offices and business locations all over the world as Next Century Ambassadors. With an assigned time of three years from 2017 to 2019, they thoroughly interviewed employees in order to uncover the challenges facing the Group at present. In that way, we can discuss what the Group needs to aim for in the next 100 years, and it enables us to plan and implement policies for our transformation. I told the Ambassadors that they could change anything except for Sumitomo’s Business Philosophy and the Sumitomo Corporation Group’s



## Create a world never seen before.

### The Next Century Project: changing and challenging ourselves and encouraging sustainable growth in preparation for the next 100 years



The basic concept behind the Next Century Project is realizing sustainable growth by allowing every employee to share the Sumitomo Corporation Group's fundamental values on an individual level and join together to change and take on new challenges aimed at creating a better future. To express the sense of values to be shared, we formulated a new corporate message: "Enriching lives and the world." We also drew up and are implementing an action plan to encourage employees to change and try new things.

This corporate message is rooted in Sumitomo's Business Philosophy and the Sumitomo Corporation Group Corporate Mission Statement and expresses the Group's true nature and its commitment to the future. It was created through communication with over 3,000 Sumitomo Corporation Group employees from around the world.

Additionally, to change and challenge ourselves for the sake of the future, we have set the following themes:

1. Future driven: Create the future;
2. Diversity: Accept diverse values;
3. The power of connections: Build connections with organizations within and outside the Group;
4. Individual strength: Acquire both work-related knowledge and knowledge that is not work-related.

We are implementing various action plans to pursue these themes. We have started specific initiatives such as the Mirai Lab Colosseum Salon, where different people can get to know each other and together think of a world that has never been seen before, and 100SEED, global social contribution projects that employees can participate in for the benefit of society over the next hundred years.

Corporate Mission Statement. They have worked on projects and have started extremely interesting plans that showcase their youthful mindsets.

One of the outputs of this project was the creation of a new corporate message, "Enriching lives and the world," which we announced publicly in May 2019. Through this message, it was our intention to declare to the public that the mission of the Sumitomo Corporation Group is to enrich all lives and people's lifestyles throughout the world. It also describes our deep commitment to pursuing and fulfilling the ambition of achieving prosperity and realizing dreams through sound business activities that is set out in our Corporate Mission Statement.

The Sumitomo Corporation Group endeavors to solve social issues while changing and evolving our people, businesses and business models to match the trends of the time. I hope everyone can share my excitement and expectations as I look to the future of the Group in the next 100 years.

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**Masayuki Hyodo**

Representative Director  
President and Chief Executive Officer