



A Message from the President & CEO

# Implementing CSR Management Worldwide to Help Solve Issues Confronting the World

**Tetsu Matsui**

President & CEO  
Chairperson of CSR Committee

Our websites present that Sumitomo Riko's CSR management policy and activities. We hope this helps our stakeholders deepen understanding of them.

## A Message from the President & CEO



Implementing CSR management worldwide, the Sumitomo Riko Group is addressing issues facing society, as embodied in the SDGs and other initiatives

## Sumitomo Riko Group 2022 Vision



We announced 2022V in May 2018. Our aim is to create social value by enhancing corporate value and public value.

## Special Topics~



Initiatives Corresponding to SDGs



Approach to the Building of Sustainable Supply Chain



Fourth Sumitomo Riko Student Essay Award

## CSR Activity Reports



Sumitomo Riko Group's CSR



Safety and Health



Environment



Compliance



Quality



Corporate Citizenship



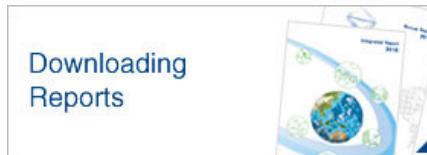
Human Resources and Diversity



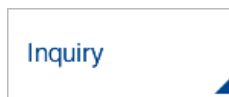
Supply Chain



Dialogue with Stakeholders



Downloading Reports



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**Special Topics**

Shareholders and Investors, Customers, Suppliers and Other Trade Partners, Employees, Local Communities, Global Environment



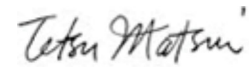
I would like to thank all our stakeholders for their understanding and support of the Sumitomo Riko Group's CSR activities.

As our company name suggests, the Sumitomo Riko Group's business operations and the underlying CSR management are shaped by the Sumitomo Spirit that accords prime importance to trust and integrity. The Sumitomo Spirit is the basis of the Sumitomo Riko Group Management Philosophy and the Sumitomo Riko Group Action Charter. Reflecting them, we have defined CSR materiality as Safety, the Environment, Compliance, and Quality (S.E.C.-Q.), which are the four factors underpinning our business operations, Respect for Human Rights and Contribution to Society. We are vigorously promoting CSR management in light of the defined CSR materiality.

Sustainable Development Goals (SDGs), part of the 2030 Agenda for Sustainable Development adopted at the UN Summit in September 2015, are universal goals to be achieved by 2030 to realize sustainable societies in which "no one will be left behind." The agreement on the SDGs reflects moves worldwide to address global issues in a world where the environment in which the Sumitomo Riko Group operates is undergoing far-reaching change. In this context, we formulated a mid-term management vision, the Sumitomo Riko Group 2020 Vision (2020V), in 2016. Looking ahead, we strategically revised 2020V and launched the Sumitomo Riko Group 2022 Vision (2022V) in May 2018.

In 2022V, we have positioned the creation of social value at the heart of the Group's vision. To achieve this goal, it is necessary to enhance corporate value (financial objectives) and public value (non-financial objectives) simultaneously. We are committed to enhancing public value by striving to solve the issues facing society, as embodied in the SDGs and other initiatives, through technological innovation. By creating social value, Sumitomo Riko aspires to become a "Global Excellent Manufacturing Company," that is, "a corporation that contributes to safety, comfort, and the environment for people, society, and the Earth," thereby achieving sustainable growth together with society.

I hope this website will help you deepen your understanding of the Sumitomo Riko Group's CSR initiatives. I would greatly appreciate your continued support and guidance.



President & CEO  
Chairperson of CSR Committee

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Special Topics

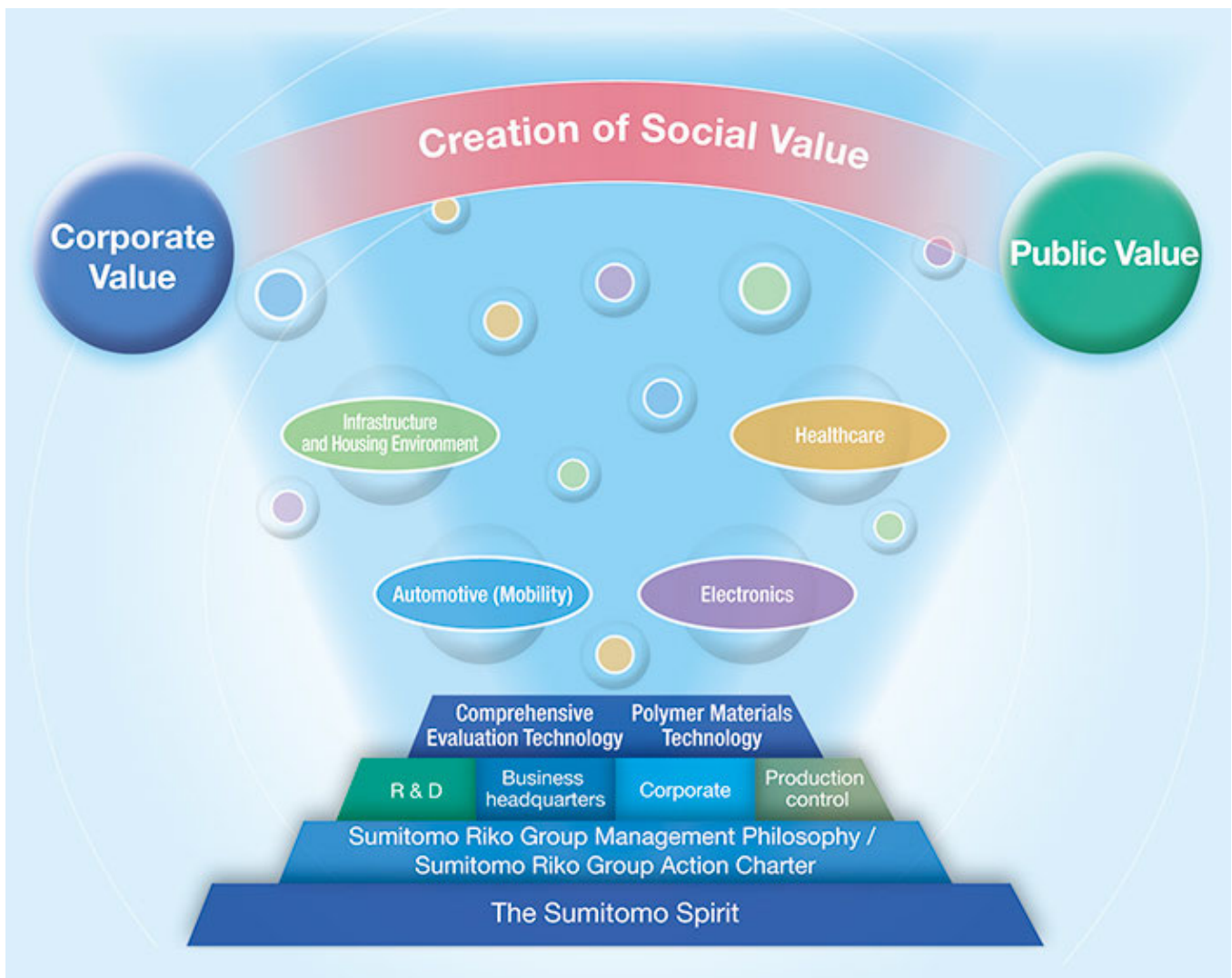
Shareholders and Investors, Customers, Suppliers and Other Trade Partners, Employees, Local Communities, Global Environment

Global Excellent  
Manufacturing  
Company

Sumitomo Riko Group  
2022 Vision

2022V

Aspiring to become a "Global Excellent Manufacturing Company," that is, "a corporation that contributes to safety, comfort, and the environment for people, society, and the Earth," the Sumitomo Riko Group strategically revised the mid-term management vision formulated in 2016 (2020V) and announced the Sumitomo Riko Group 2022 Vision (2022V) in May 2018.



The Sumitomo Riko Group positions the creation of social value through enhancement of corporate value and public value as the fundamental premise of 2022V.

Specifically, our mission is twofold.

- Inspired by the Sumitomo Spirit, through technological innovation, strive to resolve the issues facing society, as embodied in the SDGs and other initiatives.
- By enhancing corporate value (financial objectives) and public value (non-financial objectives) simultaneously, create social value and achieve sustainable growth together with society.

## Enhancement of public value

SDGs agreed upon by all UN member states are universal goals to be achieved by 2030 to realize sustainable societies in which "no one will be left behind." Based on the Sumitomo Spirit, the basis of Sumitomo Riko Group's management philosophy, we will work to solve these social issues through our business activities. Anticipating the vision of future possibilities, we will tackle new business and continue our efforts to create social value.

**UN SDGs  
(17 Development Goals)**



**Sumitomo Riko Group  
Aim to achieve SDGs through business activities**



## 2022V public value (non-financial objectives)

The non-financial objectives mainly concern environmental and social issues in order to enhance public value through business activities by addressing social issues represented by SDGs. We manage and promote initiatives based on 10 items, including items to be monitored.

**FY2022 objectives**

	Items	Objectives
<b>Environment</b>	CO2 reduction	8% reduction (ratio compared with discharge rate in 2017)
	Waste reduction	5% reduction (ratio compared with discharge rate in 2017)
	Addressing water risk	Develop wastewater recycling technology
<b>Society</b>	Frequency rate of all industrial accidents	zero industrial accident
	Compliance training	Participation rate of global executive training shall be 100%

**Monitoring items**

	Items
<b>Society</b>	Ratio of female managers
	Ratio of base managers hired locally
	Promotion of CSR procurement
	Social contribution activities
	Job creation in emerging countries





Special Topics

Shareholders and Investors, Customers, Suppliers and Other Trade Partners, Employees, Local Communities, Global Environment

## Initiatives Corresponding to SDGs

—Creation of Social Value—

**SUSTAINABLE DEVELOPMENT GOALS**



In September 2015, "2030 Agenda" was adopted by all 193 member states of the United Nations. As a plan of action for people, planet and prosperity, the agenda consists of a declaration and goals comprising 17 Sustainable Development Goals (SDGs) and 169 targets.

Linking the Sumitomo Spirit, employees' daily activities, and the concept of a "company that contributes to safety, security and comfort of human beings, society and the Earth" with the 17 SDGs and 169 targets, the Sumitomo Riko Group is making it possible for employees to grasp the nature of the Group's contribution to fulfillment of the SDGs. We will continually pursue initiatives addressing SDGs as an organizing principle of the Group's manifold activities.

## Sumitomo Riko Group's Initiatives

### ○ SDGs workshop for formulation of 2022V

Before formulating 2022V, the Sumitomo Riko Group held a workshop to identify the current trend of sustainability, centering on SDGs, and relevant risks and opportunities at each business unit. Personnel in managerial positions participated in the workshop. Opinions expressed by the participants included "we should act decisively by capturing the social trend" and "we will formulate divisional and corporate action plans reflecting assumptions about future scenarios."

### ○ Periodic lectures at CSR Committee meetings





In fiscal 2018, periodic lectures on SDGs are being given by external instructors at meetings of the CSR Committee, which spearheads the Sumitomo Riko Group's promotion of CSR management. These lectures are held based on the conviction that top management should take the initiative and set an example in promoting SDGs. The lectures suggest ways in which the Sumitomo Riko Group can help resolve the issues facing society through its business.

### ○ Training at the Research and Development Headquarters

Based on 2022V, the Research and Development Headquarters has incorporated initiatives corresponding to SDGs in the R&D strategy. In promoting these initiatives, we conducted SDG training in May 2018 led by an external instructor and with about 40 participants, consisting mainly of young researchers from various departments. The training was not only an opportunity for them to deepen their understanding of the background to the establishment of the SDGs and the underlying concepts, but they also took part in a workshop which involved making a selection from among the 169 targets and considered how to work toward achieving the targets. It was a great introductory opportunity for them to consider the possibilities of linkage between their research and the SDGs.









Rubber farm



Sap harvesting



Sap is exchanged for cash at a collection site



Visit a natural rubber processor



## Participation in UN Forum on Business and Human Rights

Sumitomo Riko has been participating in the UN Forum on Business and Human Rights since 2016. This annual event is held to discuss trends and issues concerning the Guiding Principles on Business and Human Rights endorsed by the UN Human Rights Council in 2011 and promote cooperation in their implementation. Sumitomo Riko's participation in a session as a panelist in the 2016 Forum was a first for a Japanese company. We presented our human rights initiative on natural rubber procurement, which we are pursuing as part of supply chain CSR. Sumitomo Riko also participated in the 2017 Forum. Our initiatives on business and human rights are progressing in terms of their breadth and depth.



Participated in a session as a speaker

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**Special Topics**

Shareholders and Investors, Customers, Suppliers and Other Trade Partners, Employees, Local Communities, Global Environment

## Fourth Sumitomo Riko Student Essay Award

“How to create a business in the age of SDGs — What kind of enterprise will be most admired in the future?”



We launched the Sumitomo Riko Student Essay Award competition in 2015 as a project to support the young people who will become the leaders of tomorrow, a new social contribution activity to mark the change of the company name to Sumitomo Riko.

We hope this award will provide an opportunity for students throughout Japan to think about, and deepen their understanding of, the issues facing society and what development of a sustainable society entails, thus encouraging the contestants to broaden their horizons and achieve personal growth.

The essay theme for the fourth competition was “How to create a business in the age of SDGs — What kind of enterprise will be most admired in the future?” In their essays, the contestants discussed their ideas about enterprises that will take the lead in creating new value while contributing to achievement of the SDGs. The number of essays we received from university students and graduate school students in Japan and overseas, vocational school students, and from international students in Japan was 50 for the first competition, 106 for the second competition, 152 for the third competition, and 108 essays for the fourth competition. Six award-winning essays, consisting of a first-prize winner, a second-prize winner, three superior-award winners, and a special-recognition-award winner, were determined through screening by experts such as Ms. Mariko Kawaguchi (Chief Researcher, Research Division, Daiwa Institute of Research Ltd.) who chaired the screening committee, and voting by Sumitomo Riko employees. At the commendation ceremony, the winners received certificates of commendation, supplementary prizes, and commemorative goods.

Moreover, members of the Youth Research Institute, which is a voluntary group consisting of award winners of the past three competitions, made a presentation on their research on inculcation of CSR at B2B companies similar to Sumitomo Riko and proposed activities that they think it would be desirable for Sumitomo Riko to undertake.

Furthermore, "Laugh and Learn SDGs," an experience-based program for learning about SDGs, was held hosted by Ms. Nana Takamatsu who is a comedian and a journalist. A SDGs card game and a workshop followed a lecture on SDGs. Using familiar social issues as topics, the participants learned about 17 SDGs in a fun way.

Inspired by the essays and the proposals, we are also considering what kind of enterprise will be most admired in the future, and taking action so that the Sumitomo Riko Group can achieve sustainable growth together with society. Sumitomo Riko intends to continue hosting this Student Essay Award as a project to support the young people who will become the leaders of tomorrow and promoting initiatives to establish a sustainable society.



Award winners



Presentation by Youth Research Institute



SDGs card game



Lecture by Ms. Nana Takamatsu







## Sumitomo Riko Group 2022 Vision

Aspiring to become a "Global Excellent Manufacturing Company," that is, "a corporation that contributes to safety, comfort, and the environment for people, society, and the Earth," the Sumitomo Riko Group strategically revised the mid-term management vision (2020V) formulated in 2016 and announced the Sumitomo Riko Group 2022 Vision (2022V) in May 2018.

The Sumitomo Riko Group's mission in 2022V is twofold:

- Inspired by the Sumitomo Spirit, through technological innovation, strive to resolve the issues facing society, as embodied in the SDGs and other initiatives.
- By enhancing corporate value and public value simultaneously, create social value and achieve sustainable growth together with society.

Following 2020V, as non-financial objectives we have set objectives and monitoring items concerning CSR activities.

For details of 2022V, please refer to the feature "[▶ Sumitomo Riko Group 2022 Vision.](#)"

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Sumitomo Riko Group's CSR | Shareholders and Investors, Customers, Suppliers and Other Trade Partners, Employees, Local Communities, Global Environment

## CSR Management Structure

### Basic Approach to CSR

In our efforts to realize the Vision of the Sumitomo Riko Group, we position CSR management at the heart of our consistent creation of value. Aiming to be an enterprise that is loved, trusted and respected by communities throughout the world, in promoting CSR management we base our actions on the CSR materiality; the two fundamental principles of respect for human rights and compliance while emphasizing four priority themes: safety, environment, quality, and contribution to society.

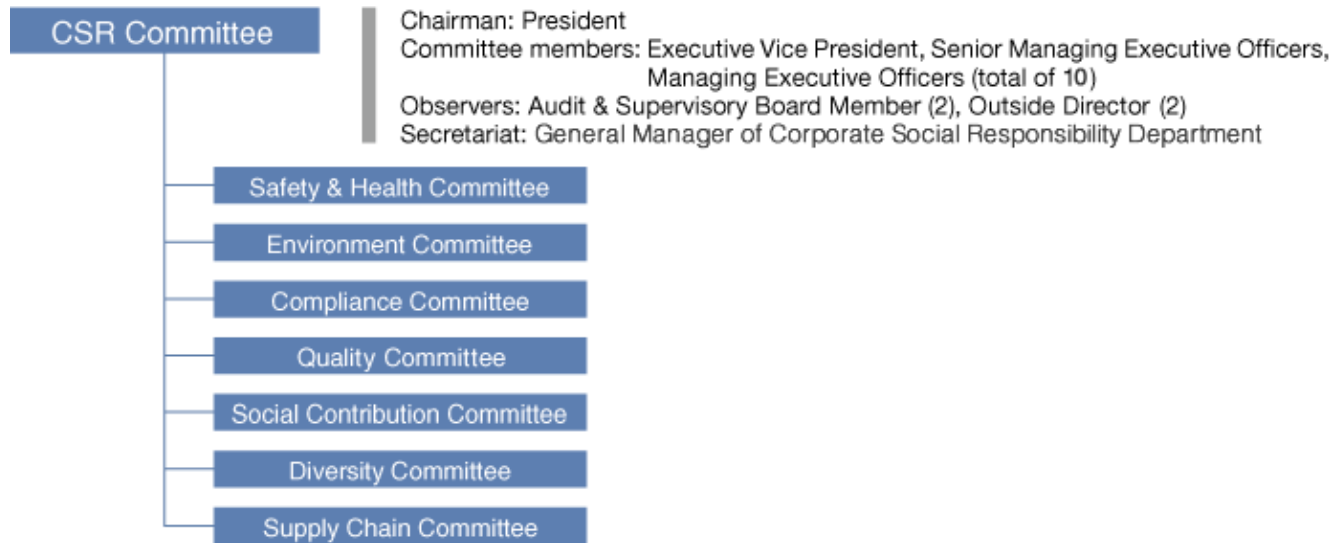
The Sumitomo Riko Group Action Charter forms the basis of the Sumitomo Riko Group's CSR activities. The Action Charter was established in March 2006 following deliberations by the CSR Committee established in 2005. The CSR Committee subsequently revised the Action Charter in October 2014 to reflect changes in the business environment.

Related information : ▶ [Sumitomo Riko Group Action Charter](#)



## Sumitomo Riko Group's CSR Management Structure

The Sumitomo Riko Group's CSR Committee promotes CSR management. The CSR Committee chaired by the President, with titled Executive Officers as committee members, is spearheading CSR. Corresponding to the elements of CSR materiality, the CSR Committee has seven subcommittees, which are the Safety & Health Committee, the Environment Committee, the Compliance Committee, the Quality Committee, the Social Contributions Committee, the Diversity Committee, and the Supply Chain Committee. The CSR Committee approves the action policies of its seven subcommittees and checks and follows up on the progress of activities. In addition, the Committee controls the non-financial objectives and monitoring items set out in the 2022 Vision and promotes ESG management.



\* Each of the seven subcommittees is chaired by a titled Executive Officer. Each committee assigns policies to departments and checks and follows up their activities.

## Sumitomo Riko Group's Stakeholders

In light of CSR materiality, the Sumitomo Riko Group has selected the following stakeholders. Following discussion, taking into consideration CSR issues at Sumitomo Riko classified according to the Sumitomo Riko Group Action Charter, the CSR Committee approved the definition. We have referred to ISO26000, the Charter of Corporate Behavior of the Japan Business Federation (KEIDANREN), and the GRI Sustainability Reporting Guidelines.

Stakeholders	Our commitment
Shareholders and Investors	Striving to realize sound and transparent management for sustainable growth
Customers	Providing value that meets the expectations of our customers and consumers
Suppliers and Other Trade Partners	Treasuring partnership and practicing socially responsible purchasing
Employees	Respecting employees' diversity, human rights and providing workplaces in which they can take pride in places of their personal development
Local Communities	Contributing to solve society's challenges as a corporate citizen
Global Environment	Striving to minimize adverse impacts on the global environment



## Sumitomo Riko Group Corporate Action Charter

3rd Revision: April 23rd, 2019

The Sumitomo Riko Group, in view of The Sumitomo Spirit, including "integrity and sound management" and to "not pursue immoral business," and in accordance with the Sumitomo Riko Group Management Philosophy, creates social value by enhancing corporate value and social value with a strong sense of ethical values and autonomous and responsible behavior to aspire to be a Global Excellent Manufacturing Company. To contribute to realizing the sustainable development of society in harmony with people and the Earth, we act in line with the following 10 principles.

### ○ Commitment to Customers and Realizing a Sustainable Society

1. We shall develop and provide socially beneficial and safe products and services through innovation that provide satisfaction to customers and earn their confidence. We shall contribute to sustainable economic growth and the resolution of social issues through such business activities.

### ○ Fair Business Practices

2. We shall engage in fair, transparent, and free competition, and ensure that transactions are appropriate and responsible. Also, we shall observe laws, regulations, and rules, as well as maintain a sound and proper relationship with political bodies and government agencies.

### ○ Dialogue with Stakeholders, Information Disclosure, and Information Management

3. In addition to communicating with a wide range of shareholders constructively, we shall interact extensively with the public, and disclose corporate information actively, effectively, and fairly to create social value by enhancing corporate and social value. We shall also protect and properly manage personal and customer data and other types of information.

### ○ Respect for Human Rights

4. We shall conduct business that respects the human rights of all persons.

### ○ Decent Workplace

5. We shall realize work practices that will improve the capability of employees and that respect the diversity, character and personality of employees. We shall ensure a healthy, safe and comfortable working environment, thereby cultivating a sense of belonging and plenitude.



## ○ Global Environment

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6. Recognizing that global environmental issues pose challenges to all humankind, and that it is an integral part of our existence and activities, we shall proactively tackle these issues.

## ○ Social Contribution

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7. We shall actively engage in community involvement activities and contribute to community development as a good corporate citizen.

## ○ Respect for International Norms of Behavior and Good Relations with the Community

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8. In line with the globalization of business activities, we shall comply with laws and regulations of the countries and regions where our business operations are based and respect human rights and other international norms of behavior. We shall also conduct business by taking into consideration the local culture and customs as well as the interests of stakeholders, and contribute toward the development of the local economy and society.

## ○ Risk Management and Crisis Management

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9. We shall assess risks that may arise in the future and develop measures to prevent their materialization; and if they do materialize, we shall endeavor to minimize the damage. We shall conduct thorough and organized crisis management in the face of actions caused by natural disasters, cyber attacks, terrorism, antisocial forces and other crises that pose a threat to civil society and corporate activity.

## ○ Initiative of Top Management and Implementation of this Charter

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10. Recognizing that it is the role of top management to inculcate the spirit of this Charter throughout the Group, top management of the Sumitomo Riko Group shall take the initiative in an exemplary manner to build an effective governance system and implement the Charter within Sumitomo Riko and throughout the Group companies, while also encouraging the Group's suppliers to endorse and fulfill the principles of this Charter. Furthermore, top management shall continuously listen and respond to voices from within and outside the Group and establish internal systems to promote CSR.

In the event of any violation of the Charter causing a loss of social trust, top management of the Sumitomo Riko Group shall take charge to resolve the issue, investigate and identify the causes of the lapse, and make efforts to prevent recurrence while fulfilling their responsibilities.

 [Sumitomo Riko Group Corporate Action Charter \(detailed version\) \(195KB\)](#)



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Adobe Acrobat Reader can be downloaded from the website of Adobe Systems free of charge.

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## Declaration of Biodiversity by Keidanren

Supporting the purpose of the Declaration of Biodiversity by Keidanren (Japan Business Federation), Sumitomo Riko has endorsed "The Declaration of Biodiversity by Keidanren Promotion Partners." We are working to protect biodiversity through reduction of environmental impacts, forestation, protection of the environment in the neighborhood of our business sites and other social contribution activities.

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## Safety and Health Policy

The Sumitomo Riko Group Management Philosophy states, "We will place top priority on safety and work to ensure the safety of people and society." and "We will maintain a high standard of corporate ethics and observe all laws and regulations to earn public trust and confidence worldwide." In accordance with this management philosophy, we established the Safety Philosophy and the 10 Principles of Safety described below, which constitute the basis of our safety and health activities. We are also pursuing initiatives to reestablish our safety culture with a view to eliminating occupational accidents.

### ○ Safety philosophy

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Safety is our top priority for happiness of all employees and prosperity of the company. We confirm the safety before starting operations of the day.

### ○ 10 principles of safety

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1. Always keep in mind that safety is our top priority.
2. Have conviction that all kinds of injuries and industrial diseases are preventable.
3. It is the responsibility of the company and individuals to establish, sustain, and improve the safe condition.
4. The management has the direct responsibility to prevent injuries and industrial diseases.
5. It is the basic responsibility of individuals in the society to follow the rules.
6. Sufficient education and training must be provided to all employees to ensure safe operations.
7. Safety and health audit in which all employees take part must be conducted to establish PDCA of the safety and health control system.
8. Report and investigate all accidents as well as unsafe actions and conditions leading to accidents.
9. All defects on safety and health must be remediated immediately.
10. Cooperation and participation of all employees are inevitable to attain our zero-accident goal.

## Mid-term Vision for Safety and Health Activities

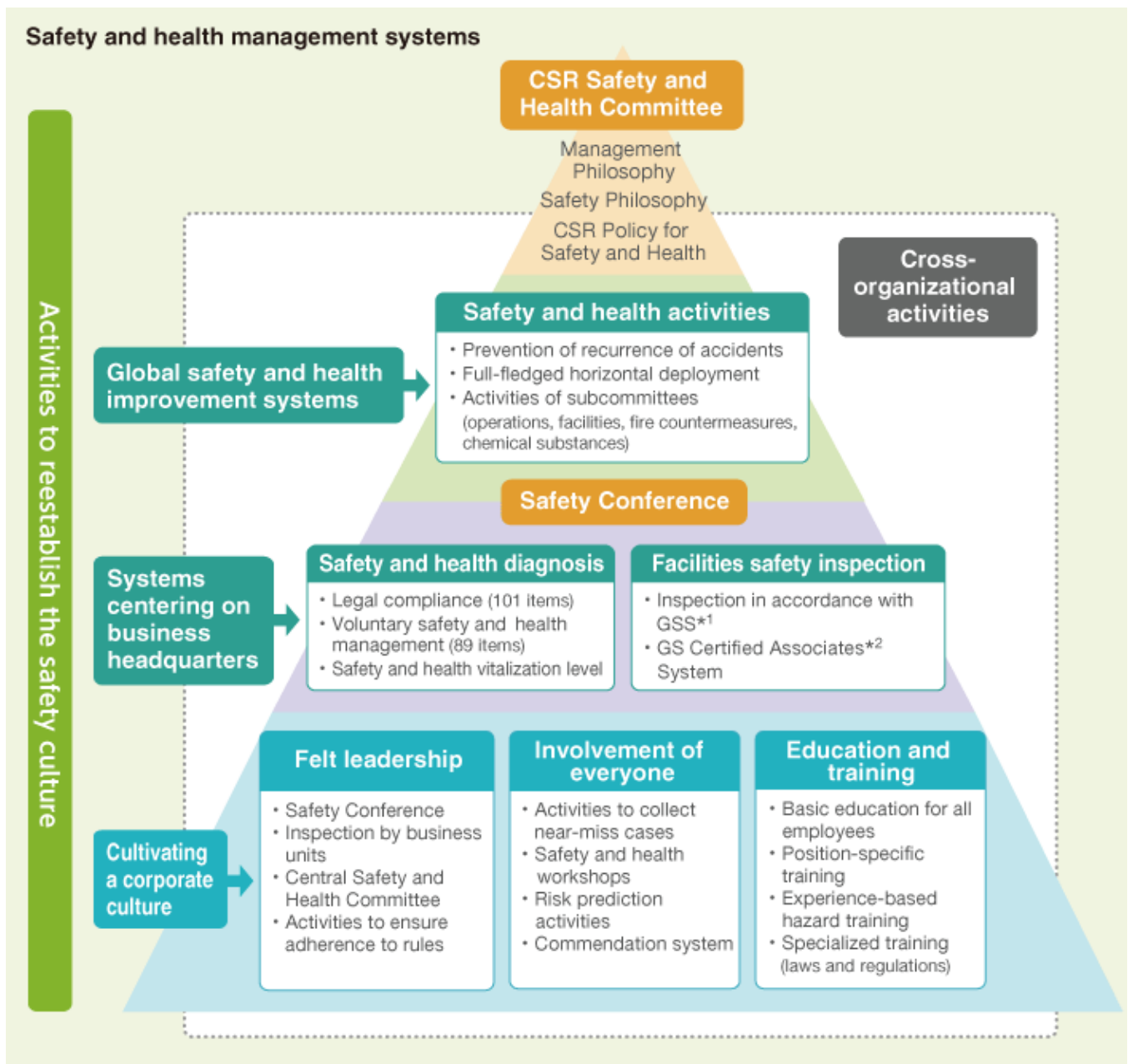
In the period through 2022, the Sumitomo Riko Group is focusing on the following activities with the goal of eliminating occupational accidents throughout the Group.

- 1) So far, we have formulated the Global Safety Standards (GSS) and worked to inculcate and implement them at all Group business sites. From now on, we will work to achieve greater penetration of the GSS by introducing OJT education centering on on-site practical guidance to promote the utilization of the GSS and embed them in operations.
- 2) In regard to facilities safety, we will enhance the safety of all facilities groupwide by prioritizing adaptation of the current safety standards to existing facilities, including outmoded and aged facilities.
- 3) To foster safety-conscious individuals capable of predicting and avoiding hazards, we will engage in safety education activities, such as education to raise safety awareness, as a new priority theme.
- 4) As a global safety management initiative, we will consider putting in place a new structure for smoothly engaging in more localized, more rapidly responsive safety activities by changing from a single head office-driven management structure to a safety management structure in each of the five key regions (Japan, China, Asia, the U.S., and Europe).

We believe that the key to eliminating occupational accidents is the instilling in each business site and plant of the capability to independently engage in safety activities on an ongoing basis on its own initiative. This is what we mean by building an autonomous safety culture, our vision for safety and health activities.

## Safety and Health Organizational Structure and its Activities

As shown below, our safety and health activities are threefold: 1) incorporating global safety and health activities into the management system, 2) initiatives centering on business headquarters, and 3) initiatives to cultivate a corporate culture that raises safety awareness of all employees. These activities are implemented at all sites of the Sumitomo Riko Group.



\*1 GSS: The acronym for the Sumitomo Riko Global Safety Standards

\*2 GS Certified Associates: Associates who have completed a curriculum based on the prescribed education and training plan and have been certified as such.

The role of the Safety and Health Committee, an organization subordinate to the CSR Committee, was clarified in fiscal 2015. It is responsible for deliberation and approval of safety and health action plans and audit check of safety and health activities. Moreover, in order to strengthen the function of the Safety and Health Department for Group-wide global supervision, the safety and health organization was reorganized: the Safety and Health Department (1) formulates the Group's policy and sets targets and (2) supervises and manages cross-organizational activities of business headquarters (execution of education and training, site analysis/audit, supervision of horizontal deployment, and thorough communication of standards) and operation of subcommittees.

Each area's Management-Labor Safety Committee is continuously operated as a collaborative endeavor involving the company and the labor union.



## Safety and Health Activities

### Safety and Health Activities in FY 2017

#### Activities to reestablish the safety culture

Positioning S.E.C.-Q. (Safety, the Environment, Compliance, and Quality) as the basis of business operations, Sumitomo Riko is implementing safety and health activities and has put in place systems and structures for implementing initiatives to establish the safety culture throughout the Group worldwide.

As well as ensuring compliance with the laws and regulations concerning occupational safety and health of countries where the Sumitomo Riko Group companies operate, we are promoting implementation of the Global Safety Standards (GSS) at all sites throughout the Sumitomo Riko Group. The GSS Workshop is held annually, each time at a different production site in one of the five key regions (Japan, China, Asia, Europe & Africa, and the Americas), to provide education and training on safety and health activities. Audits and diagnoses of production sites are performed, emphasizing enhancement of safety of facilities, to achieve ongoing improvement and mitigation of risks. The Sumitomo Riko Safety Conference is held twice a year and the Safety Debriefing Session of the Global Quality Conference (GQC) is held in the autumn for sharing information on safety and health activities.



Global Safety Standards (GSS) Workshop  
 Top photo: Indonesia  
 Bottom photos: Europe and Africa

#### Safety Dialogues with Senior Executives and Patrols

The initiatives to establish the safety culture include safety dialogues with senior executives, including the Chairperson of the Board, the President & CEO, and general managers of business units and patrols. In addition, workplace safety patrol activities are conducted throughout the Group companies that involve managers and supervisors at workplaces conducting daily patrols of their workplaces to check whether there are any operations that may be unsafe or any unsafe conditions and to enhance communication with employees. As well as making efforts to make workplaces safer, we are further promoting Felt Leadership to facilitate establishment of the safety culture.





Safety dialogue (Former Chairperson of the Board Yoshiaki Nishimura)



Safety dialogue (President & CEO Tetsu Matsui)

## Global Safety Standards (GSS)

As the Sumitomo Riko Group's unique common standards to be shared throughout the Group, following the establishment of the Global Facilities Safety Standards in fiscal 2015 and the Global Engineering Safety Standards in fiscal 2016, which are based on international safety standards and laws and regulations on occupational safety and health, we established the Global Operational Safety Standards in fiscal 2017.

In order to inculcate the GSS, the venue for the GSS Workshop is held at a different Group company each time. Moreover, in Japan, we hold the Sumitomo Riko Engineering Safety Training Program once a year in cooperation with partner engineering companies.

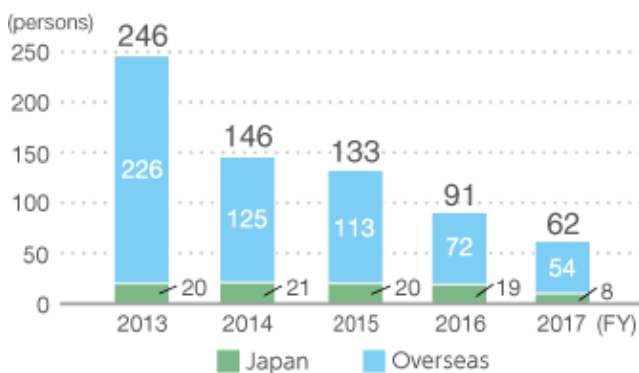
Furthermore, in August 2017, we published the GSS-W Operational Safety Guidebook (Tools) in Japanese, English, and Chinese, which is used at manufacturing workplaces for training in safe usage of tools.



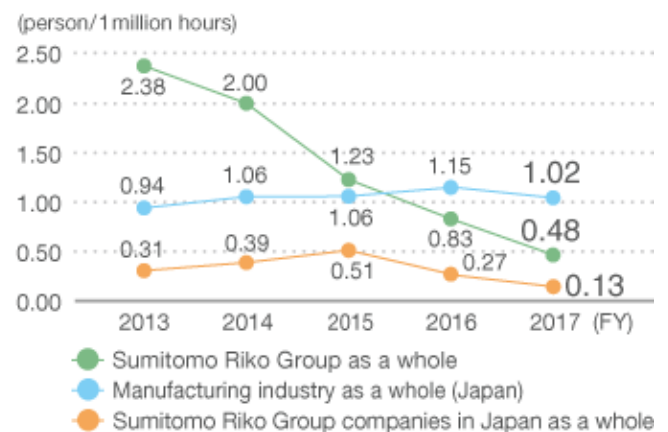
Global Safety Standard (GSS) Guidebook  
From left: Operational Safety, Facilities Safety, and Engineering Safety

## Number of people injured by occupational accidents

### Number of people injured by occupational accidents



### Lost time injury frequency rate\*



\* Lost time injury frequency rate: Number of lost time injuries per 1 million hours worked

## The Activity Policy for Fiscal 2018

We will more actively engage in global safety activities in order to achieve zero occupational accidents, a KPI of the Sumitomo Riko Group 2022 Vision. In addition to efforts to prevent recurrence and occurrence of similar accidents by thorough review of previous accidents, we will work to enhance safety awareness of each of our employees by widening the scope of the global safety activities from education and training to maintenance control and from establishment of safe facilities to development of safety-centric human resources so as to develop more autonomous safety activities and promote establishment of the safety culture. Fiscal 2018 is the first year for these initiatives. As well as safety diagnoses of sites and enrichment and application of the GSS as in previous years, the safety activities in fiscal 2018 include initiatives to enhance safety of existing facilities and systematization of safety education and training.

Items	Contents
Site safety diagnosis	Diagnosis of safety management system including compliance with laws and regulations; Further improvement by site check
Review of standards and implementation	Enrichment (operational Safety), utilization, implementation and reinforcement (facilities safety, construction safety) of the Global Safety Standards
Enhance safety of existing facilities	Adaptation of aged facilities to the GSS facilities safety standards
Employees safety education and training	Development of training method and system to enhance sensitivity of hazard for employees

## Approach to Employee's Health Management

Sumitomo Riko was certified as a White 500 organization under the 2017 Certified Health and Productivity Management Organization Recognition Program. This program launched by the Ministry of Economy, Trade and Industry and Nippon Kenko Kaigi in fiscal 2016 certifies enterprises promoting health and productivity management emphasizing consideration of employees' well-being. Following this certification, we established the Sumitomo Riko Group's Health and Productivity Management Statement in April 2017. We aim to be "a corporate group that is highly regarded and trusted by society and whose employees work healthily and energetically."



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## Approach to Environmental Activities

The Sumitomo Riko Group aspires to be a "Global Excellent Manufacturing Company" and is engaging in business activities Group-wide with the aim of achieving net sales of ¥1 trillion in 2029. In keeping with "We will strive to protect the global environment and to contribute to creating better communities," a commitment articulated in the Sumitomo Riko Group Management Philosophy, we have declared our desire to be a company that contributes to the environment both globally and locally.

To put this commitment in the management philosophy into practice, we have developed an environmental management system and worked to reduce environmental impacts and environmental risks in our business activities. In addition, we have contributed to corporate value enhancement from an environmental perspective by actively pursuing development of environmentally friendly products and technologies that meet environmental regulations.

Furthermore, in 2018 we declared our commitment to globally engage in more environmentally focused business activities, making "A corporation that contributes to safety, comfort, and the environment for people, society, and the Earth" the slogan for 2022 Sumitomo Riko Group Vision (2022V), a mid-term management vision formulated in accordance with changes in the business environment in which the Group operates. The Group steadily and surely implements activities related to the environment by having the Environment Committee, a subcommittee under the CSR Committee, determine the policy and objectives of the environmental initiatives and holding the All-Company Environmental Meeting as a forum for the business units to announce their commitment to environmental activities.

### Environmental Policy

#### Basic Policy

Sumitomo Riko intends to do business always with natural environment preservation in mind sticking to social expectation and rules, and carry out all the activities from product development, design, procurement, sales to waste disposal under the principles of "MOTTAINAI" and "OMOIYARI." Sumitomo Riko also aims to formulate sustainable society contributing to global environment preservation under the spirit of social contribution.

#### Action Guideline

1. Make the environmental preservation deep rooted activities in corporate culture and encourage all employees to participate.
2. Encourage the entire Sumitomo Riko group to be involved in the preservation activities.
3. Develop Sumitomo Riko's own improvement plan besides complying with environment related regulations imposed by national and municipal governments to lower environmental load.
4. Establish target and goals for environmental protection and carry them out systematically and continuously.
5. Make efforts to develop products and a production system with low environmental loads and push forward with more active environmental protection activities.
6. Disclose environment related information and promote opinion exchange in local community and society.



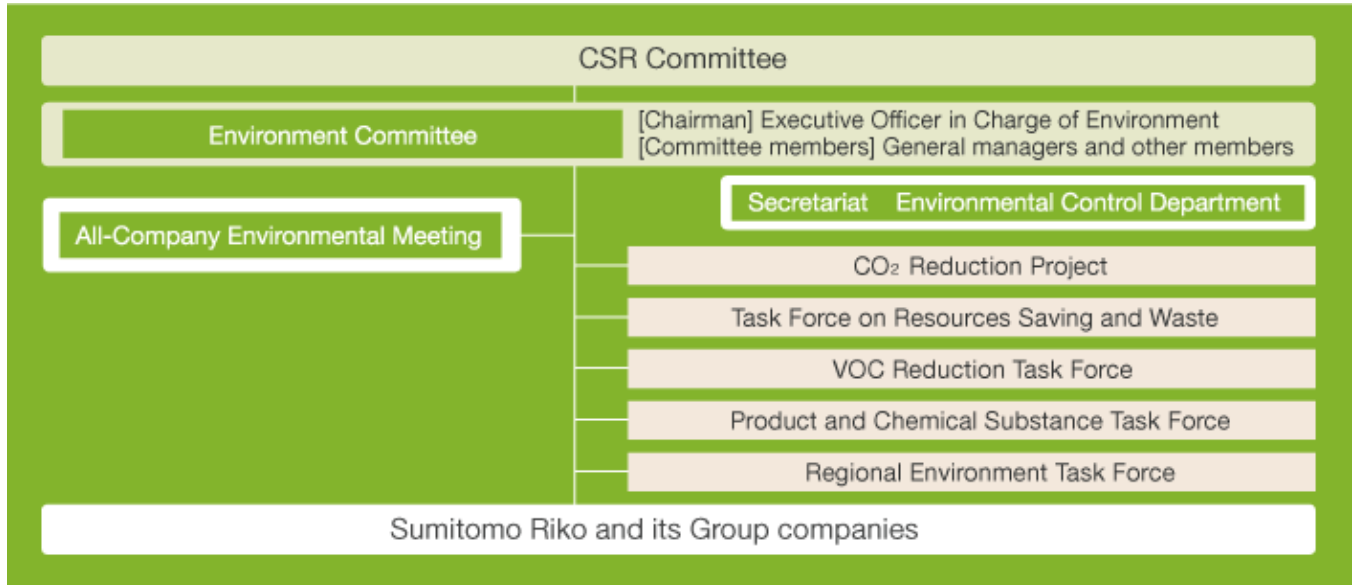
## Environmental Management Structure

### Establishment of Environmental Management Systems (ISO14001 Certification)

In the period from 1999 to 2002, every Sumitomo Riko plant obtained ISO14001 certification. In September 2007 we gained integrated certification covering our entire operations (Registration number: JQA-EM0408). Migration to the 2015 edition has been completed.

Major Sumitomo Riko Group companies are ISO14001 certified and migration to the 2015 edition has been completed.

### Environmental Management Organization



## Mid-term Vision for Environmental Activities

Regarding global environmental issues, the Paris Agreement, an international framework for climate change countermeasures, calls for activities to reduce greenhouse gases not only by countries but also companies. In 2015, the United Nations General Assembly adopted the Sustainable Development Goals (SDGs), and companies are urged to act at its own initiative to address a range of issues including human rights and safety, in addition to the environment.

In these circumstances, the Sumitomo Riko Group set non-financial environmental objectives in 2020V, which was formulated in 2016, and engaged in initiatives to reduce environmental impacts. As a result, we achieved our targets for VOC and waste emissions. However, we fell short of our target for reduction of CO<sub>2</sub>, a greenhouse gas, because of the impact of new business expansion and other factors.

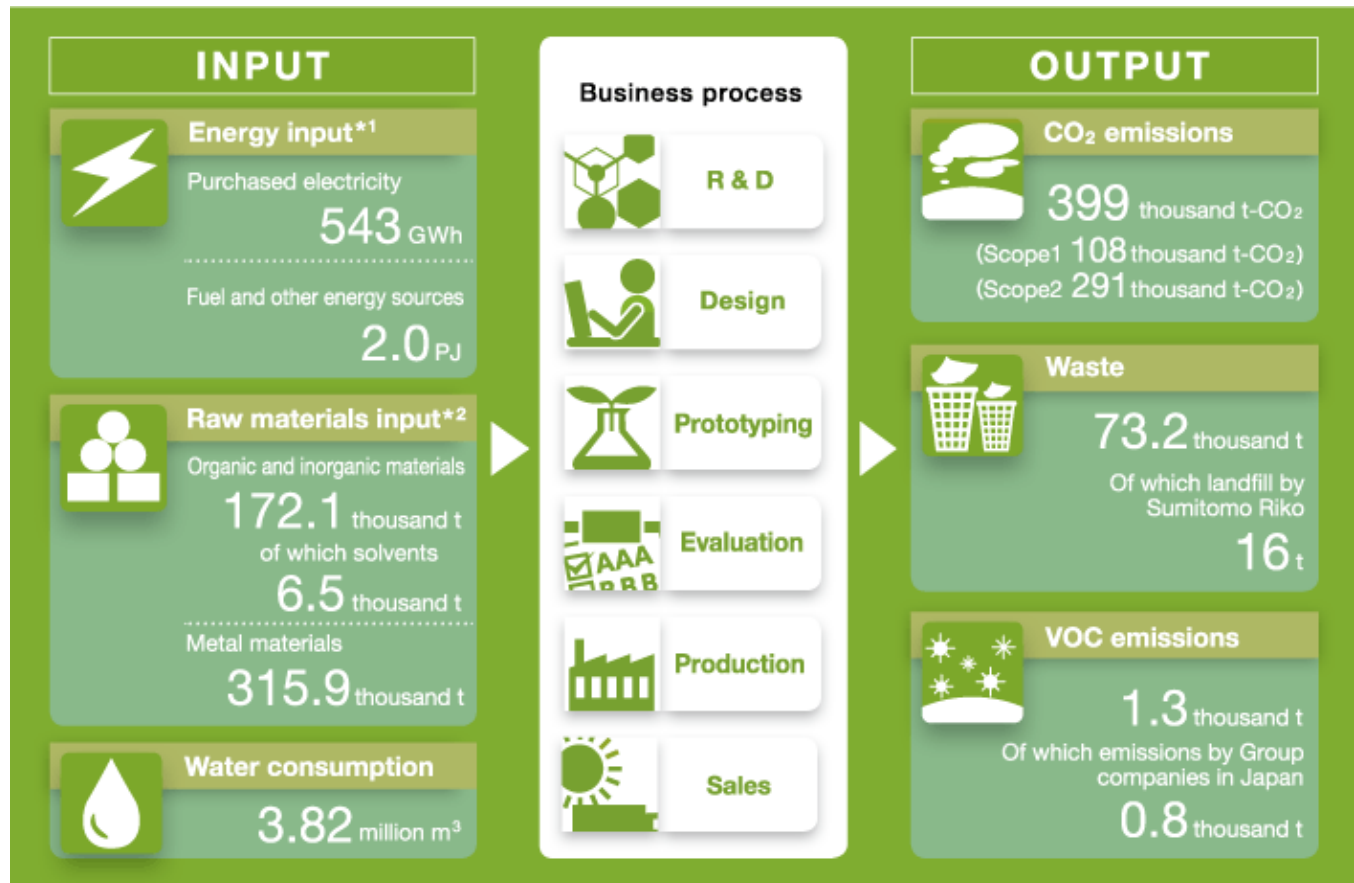
In the newly formulated 2022V, we aim for consistent growth of the Company until 2022 to pave the way for dramatic growth leading up to 2029 and have revised our environmental targets. We will actively work to reduce waste emissions and other environmental impacts, focusing particularly on CO<sub>2</sub> reduction, and to reduce water risk and other environmental risks.

We have defined mid-term environmental targets for fiscal 2022, as shown on the right, and are conducting environmental protection activities accordingly.

## ○ Mid-term Environmental Objectives (2022V)

Items	Objectives
CO <sub>2</sub> reduction	8% reduction (compared with the emission intensity in fiscal 2017)
Waste reduction	5% reduction (compared with the emission intensity in fiscal 2017)
Water risk reduction	Recycling of water at high-risk sites

## Overview of Sumitomo Riko Group's Environmental Impacts



\*1 Scope of data on energy input: Sumitomo Riko, nine Sumitomo Riko Group companies in Japan, and 11 Sumitomo Riko Group companies overseas

\*2 Scope of data on raw materials input: Sumitomo Riko and principal consolidated subsidiaries.

## Environmental Material Issues

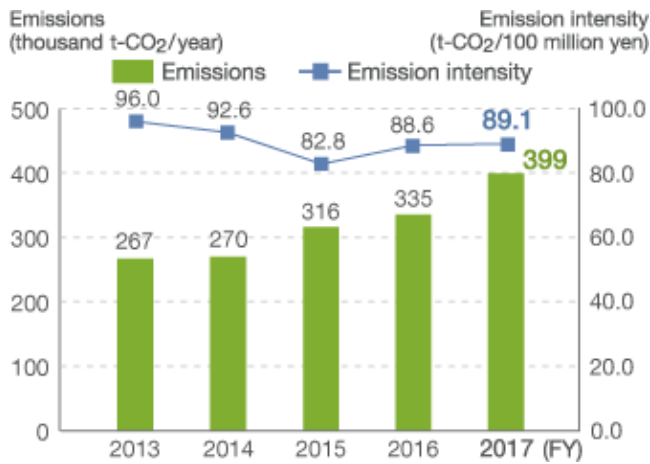
Issue	FY2017 target and result		FY2018 target and plan	
<b>Reduction of CO2 emissions</b>	Target	3.2% reduction of emission intensity compared with FY2015	Aim	1.6% reduction of emission intensity compared with FY2017
	Result	8% increase of emission intensity compared with FY2015: Target not achieved 3% increase excluding the impact of yen appreciation	Plan	Implement the reduction theme without fail and achieve greater reduction through energy-saving diagnostics
<b>Reduction of waste emissions</b>	Target	2% reduction of emission intensity compared with FY2015	Aim	1% reduction of emission intensity compared with FY2017
	Result	4% reduction of emission intensity compared with FY2015: Target achieved 9% reduction excluding the impact of yen appreciation	Plan	Reduce defects, improve yield, and promote recycling
<b>Reduction of VOC emissions</b>	Target	2% reduction of emission intensity compared with FY2015	Target	Reduce emissions in Japan to the level below the results for FY2017
	Result	21% reduction of emission intensity compared with FY2015: Target achieved	Plan	Surely implement the reduction plan without fail
<b>Chemical substance management</b>	Target	Respond to new regulations and continue activities to reduce use of substances subject to control	Target	Respond to new regulations and continue activities to reduce use of substances subject to control
	Result	Respond to the revised Act on the Evaluation of Chemical Substances and Regulation of Their Manufacture, etc. and perform registration in accordance with the REACH Regulation	Plan	Revise the Chemical Substance Procurement Standards (former Green Procurement Standards), perform registration in accordance with the REACH Regulation, respond to the revised RoHS Directive, and respond to the revised TSCA
<b>Local environmental protection</b>	Target	Implement countermeasures for exhaust, wastewater, odor, etc., for the benefit of communities, and consider and implement measures for purification of soil and groundwater in Japan	Target	Implement countermeasures for exhaust, wastewater, odor, etc., for the benefit of communities, and consider and implement measures for purification of soil and groundwater in Japan
	Result	Purification of soil and groundwater in Japan is underway as scheduled. The land in Okayama whose purification had been completed was sold in March 2017. In line with the stricter regulations in China, VOC treatment equipment has been introduced at certain sites.	Plan	Maintain the effect of purification of soil and groundwater in Japan. Introduction of additional VOC treatment equipment at sites in China is scheduled.

\* The denominator used for calculation of the emission intensity of performance indicators is sales.





## CO2 emissions (Sumitomo Riko Group)



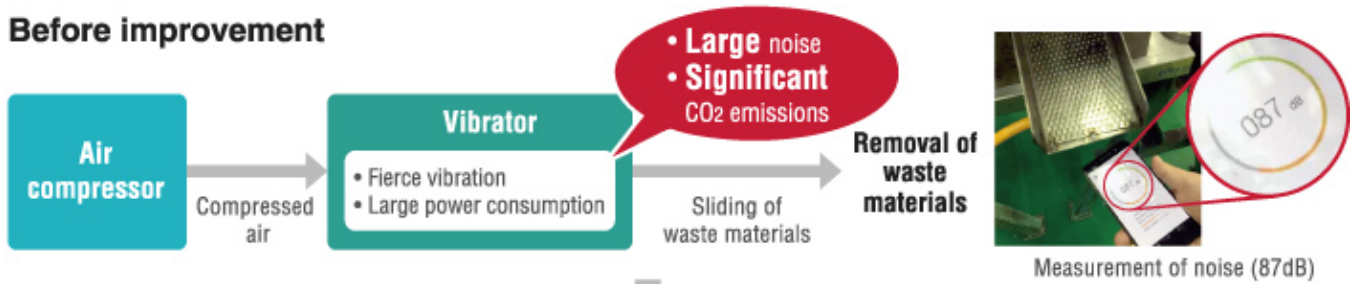
- \*1 Data boundary: Sumitomo Riko, nine Sumitomo Riko Group companies in Japan, and 11 Sumitomo Riko Group companies overseas. (For the breakdown of the scope of aggregation, please refer to the note to the [environmental performance data.](#))
- \*2 The two European companies acquired in 2013 and their subsidiaries were added to the above-mentioned boundary of data aggregation from fiscal 2015 and 16 companies overseas were added to the boundary of data aggregation from fiscal 2017. The amount of CO<sub>2</sub> emissions of the 16 companies overseas was 53 thousand t-CO<sub>2</sub> in fiscal 2017.
- \*3 The denominator of the emission intensity is net sales of companies within the scope of data aggregation (after elimination of intracompany transactions).
- \*4 For CO<sub>2</sub> emission coefficients for electricity, coefficients by country for 2014 indicated in "CO<sub>2</sub> Emissions From Fuel Combustion (2016 edition)" published by the International Energy Agency (IEA) are applied.
- \*5 For CO<sub>2</sub> emission coefficients for non-electricity, coefficients indicated in "Greenhouse Gas Emissions Accounting and Reporting Manual (Ver. 4.2)" (2016) published by the Ministry of the Environment of Japan are applied.
- \*6 Emission intensity in fiscal 2017 would be 85.0 t-CO<sub>2</sub>/100 million yen excluding the impact of foreign exchange rates (for comparison with the figure for fiscal 2015).

## Example of Reduction in CO2 Emissions

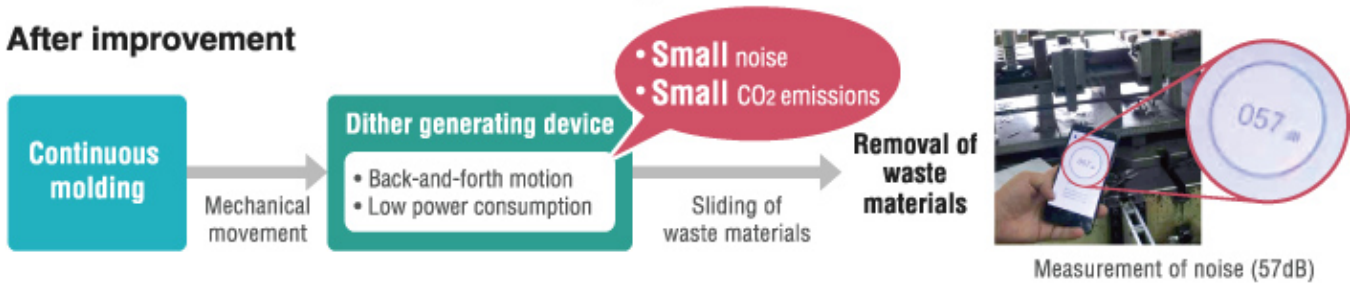
Tokai Jinrong Die (Tianjin) Co., Ltd. (China) had previously used vibration of compressed air to remove waste materials from the pressing process. The noise caused by the vibration was large and power consumption of the air compressor was significant. Therefore, we implemented an improvement measure whereby the vertical movement of the punch press is used to make the dither generating device\*7 move back and forth so that waste materials can be removed quietly without the use of vibrating compressed air. As a result, the need for vibrating the air compressor was eliminated, resulting in lower noise and significant reductions in power consumption and CO<sub>2</sub> emissions.

\*7 Dither: AC signals with small amplitude and relatively high frequency.

## Before improvement



## After improvement



## Initiatives for CO<sub>2</sub> Reduction in Logistics

### ○ Promotion of Modal Shift

To control emissions of CO<sub>2</sub>, NO<sub>x</sub> and floating particles (PM) discharged from our trucks traveling on the road, Sumitomo Riko has been promoting high-efficiency transportation through (1) change of transportation methods (modal shift) and (2) intensive transportation (using larger vehicles and combining deliveries to reduce the number of trips), thereby reducing the environmental burden. For this purpose, we are accelerating modal shift of transportation from truck to ship.

In fiscal 2017, Sumitomo Riko's plan for integration and streamlining in cooperation with logistics companies concerning the modal shift of transportation of automotive products to ship was approved jointly by the Ministry of Economy, Trade and Industry and the Ministry of Land, Infrastructure, Transport and Tourism in accordance with the Act on Advancement of Integration and Streamlining of Distribution Business. As a result, our transportation-related CO<sub>2</sub> emission intensity in fiscal 2017 was 2.0 t-CO<sub>2</sub> per 100 million yen of output, about 20% less than in the time prior to the wider application of modal shift.

\*8 CO<sub>2</sub> emissions calculations were made in accordance with prescriptions in the "Guidebook on Energy Saving for Shippers" authored/edited by the Energy Efficiency and Conservation Division of the Agency for Natural Resources and Energy and in the "Manual on Calculation and Reporting of Emissions of Greenhouse Gases (ver. 3.2)" published by the Ministry of the Environment and the Ministry of Economy, Trade and Industry.

\*9 Sumitomo Riko's non-consolidated sales amount was used as a denominator for the calculation of emission intensity.



## Management of Chemical Substances

### VOC\*1 Reduction Initiatives

At Sumitomo Riko, led by the VOC Reduction Task Force, each business unit formulated a reduction plan, confirmed progress, and achieved good results. Specific measures include the shift to water-based paints, loss reduction of bonding treatment equipment, and implementation of measures to prevent volatilization. VOC emissions of the Sumitomo Riko Group in Japan in fiscal 2017 were 9% lower than in fiscal 2015. The VOC emission intensity of the Sumitomo Riko Group in Japan in fiscal 2017 was largely reduced by 21% compared with fiscal 2015 thanks to the reduction in VOC emissions. Overseas, regulations on VOC emissions are becoming stricter. We are introducing VOC treatment equipment such as for concentration and combustion in order to ensure legal compliance.

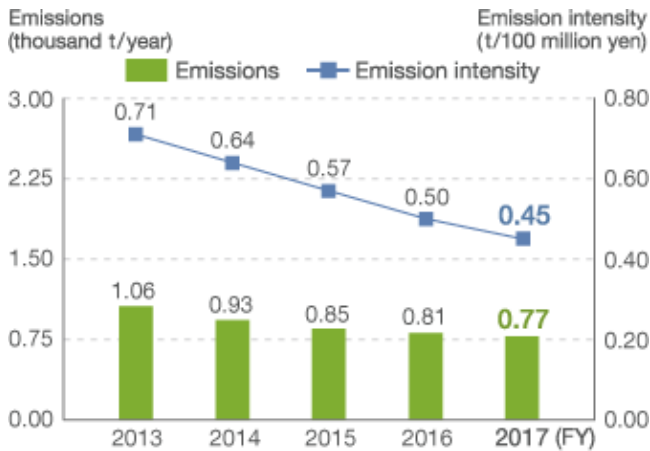
\*1 VOC: Volatile Organic Compounds

### Issues to Be Addressed and Responses

Environmental Management Promotion Officers of Business Headquarters will lead our VOC emissions reduction initiatives in fiscal 2018 to achieve the objective for fiscal 2022 (less than the VOC emissions in fiscal 2017). With regard to the switch to non-volatile adhesives, we are applying them starting with products for which customers' approvals are secured based on their reliability evaluation. Moreover, each business unit is promoting improvement of production processes, implementation of measures to prevent waste of adhesives and paints applied, and use of water-based paints. We are also promoting development of products that can be manufactured without using organic solvents to replace the current products that require the use of organic solvents, thus stepping up VOC reduction efforts. Environmental Management Promotion Officers of Business Headquarters will take the lead in applying these improvement measures to Group companies that manufacture similar products so as to reduce both consumption and emissions of VOCs throughout the Group.

## ○ VOC emissions

### (Sumitomo Riko Group in Japan)



\*2 Data boundary: Sumitomo Riko and nine Sumitomo Riko Group companies in Japan. (For the breakdown of the scope of aggregation, please refer to the note to the [environmental performance data](#).)

\*3 The denominator of the emission intensity is net sales of companies within the boundary of data aggregation (after elimination of intracompany transactions).

\*4 The amount of VOC emissions was calculated based on the "Voluntary Action Plan for Reducing VOC Emissions" formulated by the Japan Rubber Manufacturers Association.

## Management of Chemical Substances in Procured Items

Sumitomo Riko Group manufactures a wide range of industrial rubber and resin products, including automotive components, office equipment components and industrial materials. We use raw materials and other items containing various chemical substances to manufacture such products. We manage these materials appropriately to minimize their hazardous properties and thereby prevent contamination of the local area, ensure workplace and product safety and comply with products requirements from customers.

## ○ Establishment of Controlled Chemical Substances and its Operation

Sumitomo Riko specifies chemical substances to be managed in light of laws and regulations of various countries and customers' requirements. It determines which chemical substances are subject to management based on the EU's ELV Directive\*5, the RoHS Directive\*6, REACH\*7, laws and regulations in Japan, GADSL\*8, and IEC62474\*9. To ensure that all our products are free of chemical substances subject to control, we strictly adhere to all the rules concerning each department's role and the application procedures, monitor the substances contained in our products, and are making efforts concerning information disclosure.

\*5 ELV Directive: Directive of the European Parliament and of the Council on End-of Life Vehicles

\*6 RoHS Directive: EU restrictions on the use of certain hazardous substances in electrical and electronic equipment

\*7 REACH: Registration, Evaluation, Authorization and Restriction of Chemicals, an EU regulation on chemicals and their safe use

\*8 GADSL: Global Automotive Declarable Substance List

\*9 IEC62474: Material Declaration for Products of and for the Electro-technical Industry



## Compliance with Overseas Regulations of Chemical Substances

Sumitomo Riko exports materials, parts and finished products from Japan to the Group's production sites overseas. With the cooperation of suppliers and importers, we endeavor to ensure full compliance with applicable regulations such as the EU REACH Regulations (2008), China's Measures for the Administration of Registration of Hazardous Chemicals (2012), and the US TSCA\*<sup>10</sup> (revised in 2016). We are also preparing compliance measures for Asian countries that will introduce similar regulations in the future.

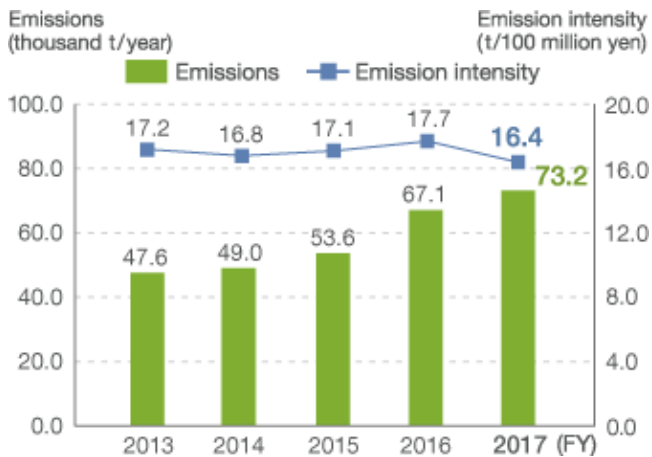
\*<sup>10</sup> TSCA: Toxic Substances Control Act

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## ○ Waste emissions (Sumitomo Riko Group)



- \*1 Data boundary: Sumitomo Riko, nine Sumitomo Riko Group companies in Japan, and 11 Sumitomo Riko Group companies overseas. (For the breakdown of the scope of aggregation, please refer to the note to the [environmental performance data](#).)
- \*2 The two European companies acquired in 2013 and their subsidiaries were added to the above-mentioned boundary of data aggregation from fiscal 2016 and 16 companies overseas were added to the boundary of data aggregation from fiscal 2017. The amount of waste discharged by the 16 companies overseas was 6,136 tons in fiscal 2017.
- \*3 The denominator of the emission intensity is net sales of companies within the boundary of data aggregation (after elimination of intracompany transactions).
- \*4 The amount of waste includes the amount of substances containing valuable resources.
- \*5 Waste intensity in fiscal 2017 would be 15.6t/100 million yen excluding the impact of foreign exchange rates (for comparison with the figure for fiscal 2015).

## ○ Example of Waste Reduction

Tokai Rubber (Tianjin) Co., Ltd. (China) had previously disposed of the first shot products manufactured after applying a release agent, since the release agent may cause peeling of adhesives of vulcanized products manufactured immediately after applying the release agent to the mold, resulting in a large volume of waste. Therefore, we fabricated dedicated fittings, which are to be used for the first shot of vulcanization immediately after applying the release agent to the mold, in order to identify the fittings and reuse them by dismantling the products vulcanized by the first shot. As a result, there was a great impact on waste reduction.



Workbench for dismantling vulcanized products



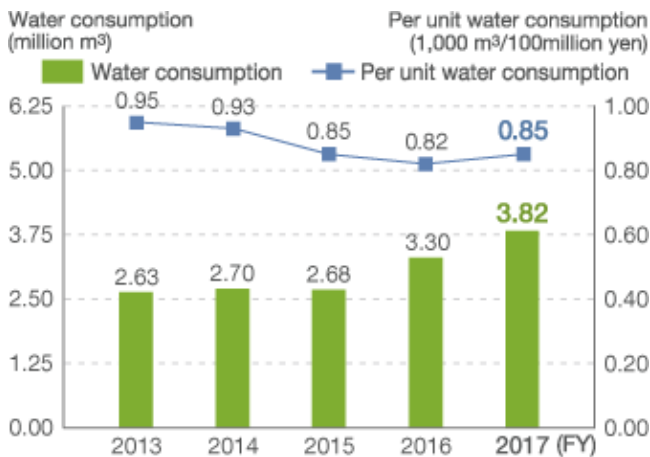
## Water Consumption

### Water Consumption Reduction Initiatives

Sumitomo Riko is examining technology for recycling wastewater from production processes to reduce water consumption at a low cost. We are promoting reduction of water consumption by water saving and efficient use based on clarification of water consumption at each site.

As a result of the inclusion of the two European companies and their subsidiaries as well as four companies in Japan and 16 companies overseas in the scope of data aggregation, water consumption of the Sumitomo Riko Group increased in fiscal 2017 but the per unit water consumption in fiscal 2017 was the same level as for fiscal 2015. Going forward, we will prioritize recycling of water at sites subject to high water risk.

#### Water consumption (Sumitomo Riko Group)



\*1 Data boundary: Sumitomo Riko, SRK-M, SRK-FE, TCI, SRK-AE, SRK-K, U.S.: SRK-OH, SRK-TN, Poland: SRK-P, China: TRD, TRT, TRM, TRJ, TRG, TRFH, TRHK/TRDG, Thailand: SRK-ER

\*2 The two European companies acquired in 2013 and their subsidiaries were added to the above-mentioned boundary of data aggregation from fiscal 2016 and SRK-YG, Sumitomo Riko Hosetex, SRK-FC, TCIK, and 16 companies overseas were added to the boundary of data aggregation from fiscal 2017. Water consumption by four companies in Japan and 16 companies overseas was 0.49 million m<sup>3</sup> in fiscal 2017. (For the breakdown of the scope of aggregation, please refer to the note to the [environmental performance data](#).)

\*3 The denominator of the emission intensity is net sales of companies within the boundary of data aggregation (after elimination of intracompany transactions).

\*4 Per unit water consumption in fiscal 2017 would be 0.81 thousand m<sup>3</sup>/100 million yen excluding the impact of foreign exchange rates (for comparison with the figure for fiscal 2015).





## Examples of Environmental Protection Measures

### ○ Noise Reduction Measure

Regarding the Komaki Plant, nighttime noise measured at the south point specified by the noise measurement agreement was near the limit. This was because the plant began using air-conditioning outdoor units during the nighttime. The Komaki Plant implemented a countermeasure over the period from fiscal 2011 to fiscal 2012. Specifically, the outdoor units, which had been placed near the site boundary, were moved to the rooftop of the plant building.

As a result of this countermeasure, noise at the site boundary decreased by 9dB.



Outdoor units on the roof of old R&D headquarters



Moved outdoor units on the roof of old R&D headquarters

### ○ Odor Reduction Measure

In response to requests from local residents to reduce odor, the Matsusaka Plant installed deodorizers (three units in fiscal 2006, one unit in fiscal 2008, and two units in fiscal 2010) to the outlets of vulcanization facilities with strong odor. To further reduce odor, the plant installed six units of deodorizers to the outlets of ten vulcanizers with strong odor over the period from fiscal 2011 to fiscal 2012.

As a result of these countermeasures, odor concentration of exhaust gas from the outlets was reduced to approximately one-tenth.



2 units of deodorizers (4 cans of vulcanization)



2 units of deodorizers (3 cans of vulcanization)

## ○ Purification of Soil and Groundwater

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Groundwater contamination due to use of chlorinated solvents in the past was discovered at the Komaki and Matsuzaka Plants. We have been decontaminating the groundwater systematically and continuously. We notify and report the plan and results of our decontamination work to the authorities concerned, and also disclose related information to the local residents. The current conditions of the decontamination work are described below.

### **Komaki Plant**

Decontamination by the air stripping method began in June 2001, and water quality has been monitored since then. Contaminant concentration has been decreasing steadily, verifying the effectiveness of this decontamination method. We will continue groundwater decontamination by means of the air stripping method.

### **Matsuzaka Plant**

Decontamination by the air stripping method commenced in December 2005, and the water quality has been monitored since then. Contaminant concentration has been decreasing steadily, verifying the effectiveness of this decontamination method. To enhance the decontamination efficiency, we have been using the anaerobic biological method since August 2009.

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## ○ Main events during Environment Month

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- Release Management News
- Poster to raise awareness
- Conduct environment-related activities at each plant
- Presentation of awards for outstanding environmental protection activities
- Disclosure of environmental-related information/data in Integrated Report
- Environmental seminars by experts

## | Sharing Information with Local Communities

The Komaki and Matsusaka Plants, both located adjacent to residential areas, hold regular liaison meetings with the local community associations in order to promote mutual understanding and harmonious coexistence with the communities through dialogue and other means of communication. Information on environmental issues is exchanged at these meetings.

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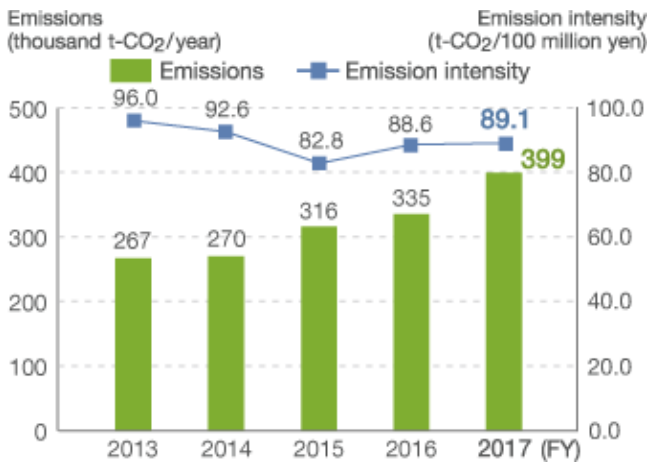
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## Environmental Performance Data

### Environmental Performance Data

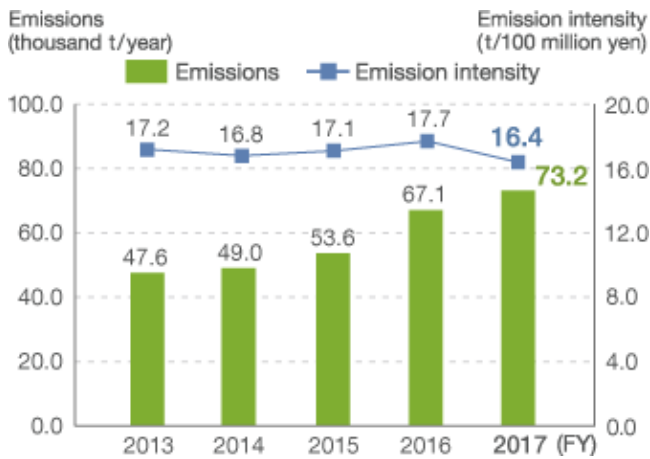
#### CO<sub>2</sub> emissions (Sumitomo Riko Group)



- \*1 Data boundary: Sumitomo Riko, nine Sumitomo Riko Group companies in Japan, and 11 Sumitomo Riko Group companies overseas (Please see the notes below for the boundary of aggregation.)
- \*2 The two European companies acquired in 2013 and their subsidiaries were added to the above-mentioned boundary of data aggregation from fiscal 2015 and 16 companies overseas were added to the boundary of data aggregation from fiscal 2017. The amount of CO<sub>2</sub> emissions of the 16 companies overseas was 53 thousand t-CO<sub>2</sub> in fiscal 2017.
- \*3 The denominator of the emission intensity is net sales of companies within the scope of data aggregation (after elimination of intracompany transactions).
- \*4 For CO<sub>2</sub> emission coefficients for electricity, coefficients by country for 2014 indicated in "CO<sub>2</sub> Emissions From Fuel Combustion (2016 edition)" published by the International Energy Agency (IEA) are applied.
- \*5 For CO<sub>2</sub> emission coefficients for non-electricity, coefficients indicated in "Greenhouse Gas Emissions Accounting and Reporting Manual (Ver. 4.2)" (2016) published by the Ministry of the Environment of Japan are applied.
- \*6 Emission intensity in fiscal 2017 would be 85.0 t-CO<sub>2</sub>/100 million yen excluding the impact of foreign exchange rates (for comparison with the figure for fiscal 2015).



## Amount of waste (Sumitomo Riko Group)



\*1 Data boundary: Sumitomo Riko, nine Sumitomo Riko Group companies in Japan, and 11 Sumitomo Riko Group companies overseas (Please see the notes below for the boundary of aggregation.)

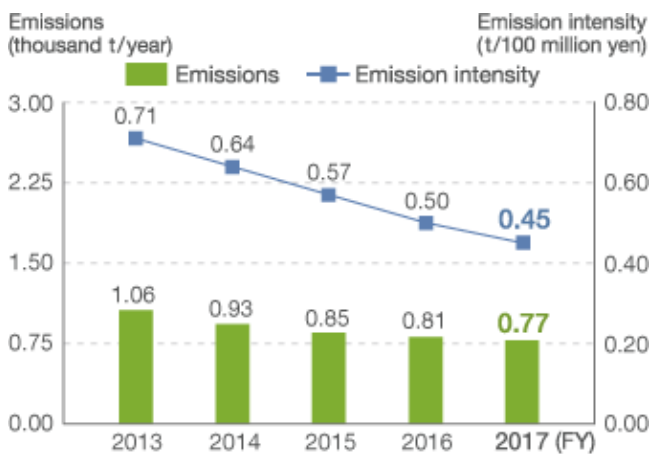
\*2 The two European companies acquired in 2013 and their subsidiaries were added to the above-mentioned boundary of data aggregation from fiscal 2016 and 16 companies overseas were added to the boundary of data aggregation from fiscal 2017. The amount of waste discharged by the 16 companies overseas was 6,136 tons in fiscal 2017.

\*3 The denominator of the emission intensity is net sales of companies within the boundary of data aggregation (after elimination of intracompany transactions).

\*4 The amount of waste includes the amount of substances containing valuable resources.

\*5 Waste intensity in fiscal 2017 would be 15.6t/100 million yen excluding the impact of foreign exchange rates (for comparison with the figure for fiscal 2015).

## VOC emissions (Sumitomo Riko Group in Japan)

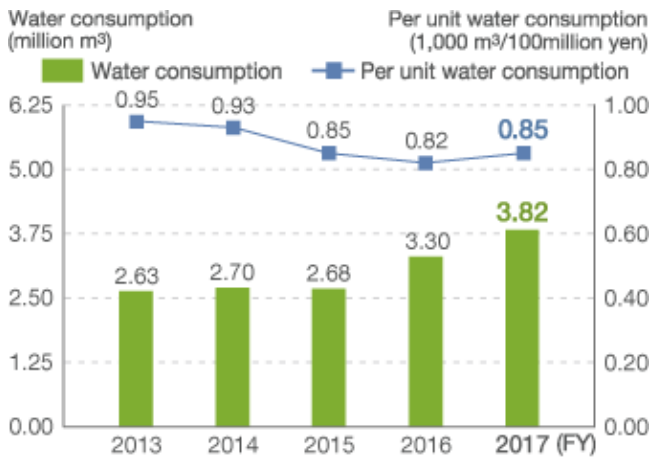


\*1 Data boundary: Sumitomo Riko and nine Sumitomo Riko Group companies in Japan. (Please see the notes below for the boundary of aggregation.)

\*2 The denominator of the emission intensity is net sales of companies within the boundary of data aggregation (after elimination of intracompany transactions).

\*3 The amount of VOC emissions was calculated based on the "Voluntary Action Plan for Reducing VOC Emissions" formulated by the Japan Rubber Manufacturers Association.

## Water consumption (Sumitomo Riko Group)



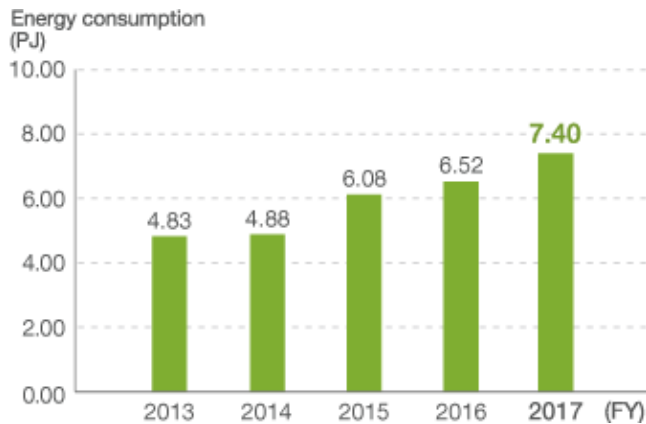
\*1 Data boundary: Sumitomo Riko, SRK-M, SRK-FE, TCI, SRK-AE, SRK-K, U.S.: SRK-OH, SRK-TN, Poland: SRK-P, China: TRD, TRT, TRM, TRJ, TRG, TRFH, TRHK/TRDG, Thailand: SRK-ER

\*2 The two European companies acquired in 2013 and their subsidiaries were added to the above-mentioned boundary of data aggregation from fiscal 2016 and SRK-YG, Sumitomo Riko Hosetex, SRK-FC, TCIK, and 16 companies overseas were added to the boundary of data aggregation from fiscal 2017. Water consumption by four companies in Japan and 16 companies overseas was 0.49 million m<sup>3</sup> in fiscal 2017.

\*3 The denominator of the emission intensity is net sales of companies within the boundary of data aggregation (after elimination of intracompany transactions).

\*4 Per unit water consumption in fiscal 2017 would be 0.81 thousand m<sup>3</sup>/100 million yen excluding the impact of foreign exchange rates (for comparison with the figure for fiscal 2015).

## Energy consumption (Sumitomo Riko Group)



\*1 Data boundary: Sumitomo Riko, nine Sumitomo Riko Group companies in Japan, and 11 Sumitomo Riko Group companies overseas (Please see the notes below for the boundary of aggregation.)

\*2 The two European companies acquired in 2013 and their subsidiaries were added to the above-mentioned boundary of data aggregation from fiscal 2015 and 16 companies overseas were added to the boundary of data aggregation from fiscal 2017.

\* Breakdown of the scope of aggregation of environmental performance data

- Sumitomo Riko

- Sumitomo Riko Group:

9 companies in Japan: SRK-M, SRK-FE, TCI, SRK-AE, SRK-K, Sumitomo Riko Hosetex, SRK-FC, SRK-YG, and TCIK

11 companies overseas: U.S.: SRK-OH, SRK-TN, Poland: SRK-P, China: TRD, TRT, TRM, TRJ, TRG, TRFH, TRHK/TRDG,

Thailand: SRK-ER (The two European companies acquired and their subsidiaries are not included in the above-mentioned 11 companies overseas.)

16 companies overseas: China: TCT, HTR, TJD, TTAS, Thailand: SRK-RCT, SRK-CP, SRK-FT, ITTC, India: TIR, TIH, TRIN;

Vietnam: SRK-HV, Indonesia: TRID, TRHI; Mexico: SRK-CHH; Brazil: SRK-BI

\* Emission intensities are not included in indicators.

## Environmental Performance Data of Plants (FY2017)

### ○ Komaki Plant

		Measurement item	Control standard	Actual performance values		
				Max.	Min.	Avg.
Atmosphere (major equipment)	Boiler	Soot and dust (g/m <sup>3</sup> N)	0.30	<0.01	<0.01	<0.01
		Sulfur oxide (K-value)	9.0	0.10	0.08	0.09
		Nitrogen oxide concentration (ppm)	144	50	48	49
Water quality	Effluent	Hydrogen-ion concentration (pH)	5.8~8.6	7.5	7.0	7.2
		Biochemical oxygen demand (mg/L)	25	4.7	1.4	2.9
		Suspended solids (mg/L)	30	8.0	1.0	3.0
		Normal-hexane extract substances (mg/L)	5	<1	<1	<1
Water discharge (thousand m <sup>3</sup> /yr)			658			
Water usage (thousand m <sup>3</sup> /yr)			694			
Emission and transfer of substances covered by PRTR Law (t/yr)			137			

Applied laws and regulations) Air Pollution Control Act, Water Pollution Control Act, Aichi Prefectural ordinances

○ Matsusaka Plant

		Measurement item	Control standard	Actual performance values		
				Max.	Min.	Avg.
Atmosphere (major equipment)	Gas Boiler	Soot and dust (g/m <sup>3</sup> N)	0.10	<0.005	<0.005	<0.005
		Sulfur oxide (K-value)	17.5	<0.14	<0.14	<0.14
		Nitrogen oxide concentration (ppm)	150	53	14	39
Water quality	Effluent	Hydrogen-ion concentration (pH)	5.8~8.6	7.4	6.9	7.2
		Biochemical oxygen demand (mg/L)	130	28.0	8.0	17.6
		Suspended solids (mg/L)	130	11.0	0.0	3.2
		Normal-hexane extract substances (mg/L)	5	2.0	0.0	0.4
Water discharge (thousand m <sup>3</sup> /yr)			437			
Water usage (thousand m <sup>3</sup> /yr)			458			
Emission and transfer of substances covered by PRTR Law (t/yr)			183			

Applied laws and regulations) Air Pollution Control Act, Water Pollution Control Act, Mie Prefectural ordinances

○ Fuji-Susono Plant

		Measurement item	Control standard	Actual performance values		
				Max.	Min.	Avg.
Atmosphere (major equipment)	Steam Boiler	Soot and dust (g/m <sup>3</sup> N)	0.10	<0.01	<0.01	<0.01
		Sulfur oxide (K-value)	13.0	<1	<1	<1
		Nitrogen oxide concentration (ppm)	150	24	18	21
Water quality	Effluent	Hydrogen-ion concentration (pH)	5.8~8.6	7.7	7.1	7.4
		Biochemical oxygen demand (mg/L)	25	6.7	1.2	3.5
		Suspended solids (mg/L)	50	5.0	1.0	2.0
		Normal-hexane extract substances (mg/L)	5	1.1	0.8	1.0
Water discharge (thousand m <sup>3</sup> /yr)			37			
Water usage (thousand m <sup>3</sup> /yr)			107			
Emission and transfer of substances covered by PRTR Law (t/yr)			48			

Applied laws and regulations) Air Pollution Control Act, Water Pollution Control Act, Shizuoka Prefectural ordinances



## Major Environmental Investment

For environmental accounting, Sumitomo Riko focuses on environmental protection investment and environmental protection benefits and, in order to ensure the reliability of data, eliminates proration and estimates as much as possible.

Environmental Protection Investment			Economic benefits (millions of yen)	Environmental protection benefits
Item	Major Investment Item	(millions of yen)		
Pollution prevention	Water pollution prevention etc.	33	—	Coutermeasures for water quality
Global environmental protection	Global warming mitigation etc.	33	37*1	Reduced CO2 emissions
Resources recycling	Reduced / recycled waste etc.	75	16*2	Reduced amount of waste generated
<b>Total</b>		143	53	

\*1 Total CO2 emissions reduction amount based on reduction themes × Average unit price of CO2

\*2 Total price of the valuables

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## Environmentally Friendly Products

Responding to society's rising expectations of companies' environmental protection activities, including responses to global environmental issues and control of environmentally harmful substances, the Sumitomo Riko Group is reinforcing its commitment to tackling environmental issues. We are striving not only to reduce the environmental impacts of our business activities but also to develop environmentally friendly products and technologies satisfying stringent environmental regulations, thus enhancing corporate value from an environmental perspective.

### Flexographic Printing

Flexo printing is a relief printing method using flexible rubber plates. Whereas most other companies' flexo plates require solvents for development, Sumitomo Riko's AquaGreen™ flexo plates are water-developable and thus both environmentally friendly and worker friendly. Their added value includes high definition, superior productivity, and no effluent.



### Highly Functional Transparent Films for Windows "Refreshine™"

Refreshine™ is increasingly used in trains as railway companies, which are emphasizing efforts to enhance customer satisfaction, recognize Refreshine's superior performance in terms of transparency and heat insulation and shielding.

By virtue of its high insulation and shielding attributes, Refreshine contributes to a comfortable in-vehicle environment and reduction of electricity consumption for air conditioning throughout the year. Field tests of trains applying Refreshine have confirmed its energy-saving effects, and its ability to block over 99% of ultraviolet light is also highly regarded.



## Development of Biohydrin Rubber

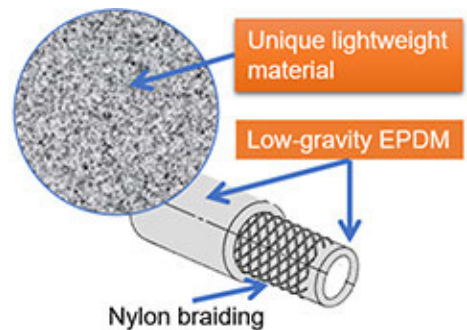
Sumitomo Riko developed biohydrin rubber jointly with Toyota Motor Corporation and Zeon Corporation. Made of plant-derived raw materials, biohydrin rubber achieves an approximately 20% reduction in CO<sub>2</sub> emissions in its lifecycle from manufacturing to disposal compared with conventional petroleum-based hydrin rubber. Biohydrin rubber is equivalent to petroleum-based hydrin rubber in terms of quality and mass producibility.



## Contributing to Improvement of Fuel Efficiency by Lighter Vehicles

Low-gravity EPDM (ethylene propylene diene rubber) hoses were developed with the aim of achieving lightweight vehicle components. They can be applied to a variety of hoses, including water system hoses such as water bypass hoses and radiator hoses. By adopting a compounding design that incorporates newly developed lightweight reinforced materials, they are approximately 20% lighter than conventional EPDM hoses, while maintaining the same characteristics in terms of strength, durability, heat resistance, and insulation. Switching to Sumitomo Riko's low-gravity EPDM allows weight savings of about 1 kg\* per vehicle.

\* According to Sumitomo Riko's own trial results.



Close-up of lightweight materials and graphical image of hose cross-section

## Development of the Resin Filler Neck Module

Sumitomo Riko changed the material for filler hoses that supply automotive fuel to the fuel tank from metal to resin, achieving a 40% reduction in weight compared with a conventional metal filler hose. Lighter weight contributes to improvement of fuel efficiency of automobiles.

This resin filler neck module offers excellent low fuel permeability, in which fuel is highly prevented from leaking from resin and/or rubber hoses, and meets environmental regulations. Moreover, our unique processing technology realized a bent design to make fuel-charging performance even smoother. At the same time, a flexible bellows design to absorb impact in the event of a collision, contributes to safety performance of automobiles.





### ○ Compliance Structure

The Sumitomo Riko Group is developing its compliance structure in accordance with the basic policy for internal control. The Compliance Committee, chaired by the Representative Director, periodically reports to the Board of Directors on the status of its activities.

Group companies are also developing their own compliance structures suited to their risk situations based on the Basic Regulations on Group Compliance.

### ○ Compliance Conduct Guidelines and Education

Having established the Sumitomo Group Global Compliance Action Guidelines, we are endeavoring to ensure penetration of the guidelines through periodic education for all Group company employees. Each year we conduct training on compliance with the principal laws and regulations, such as antitrust laws and anti-bribery and anti-corruption laws, for executive-level employees of Group companies worldwide. A total of 627 employees, 92% of the subject employees, at business sites around the world received this training in fiscal 2017.

Furthermore, we provide systematic compliance education, including position-specific programs and programs designed for particular business operations.

### ○ Monitoring

If an important compliance problem arises, it must be promptly reported to the Compliance Committee and the departments concerned in accordance with the Compliance Regulations. Each department and Group company reports the status of compliance problems to the Committee quarterly. Moreover, with "Bad News First & Thanks!"\* as a slogan, we are working to cultivate a corporate culture where information on compliance problems is swiftly shared between the people in the field and management.

For the reporting of compliance issues, the Compliance Committee has established a point of contact at an external law office and an internal point of contact for Sumitomo Riko and its Group companies in Japan. A global hotline has also been established as a point of contact for overseas Group companies.

The executive officer in charge of legal affairs periodically interviews general managers of key business sites worldwide concerning the state of operation of the compliance structure. In fiscal 2017, interviews were conducted with 99 general managers. The objective of this initiative is to promote sharing of compliance awareness throughout the Group. The Compliance Committee reflects issues identified in interviews in its policies and measures.

\* Bad News First & Thanks!: The Sumitomo Group's slogan meaning that managerial personnel and managers should report bad news first and management and executives should appreciate swift reporting of bad news. In light of lessons learned from the problem at the Matsusaka Plant, Sumitomo Riko is working to inculcate this practice throughout the Group.



## Compliance Review Day

On January 25, 2012, the Company and employees of the Company were reported to the Public Prosecutor's Office on the grounds of violation of the notification obligation under the Industrial Safety and Health Act at the Matsusaka Plant. The problems were the according of priority to production over legal compliance and delays in reporting a compliance violation recognized in the workplace and in dealing with the matter. To ensure the lessons learned from this incident are never forgotten, the Company designated January 25 of each year as Compliance Review Day. Measures include messages from the Chairperson and the President & CEO, seminars conducted by external experts, a compliance awareness survey, and provision of basic knowledge.

In 2016, two subsidiaries of the Company were subject to suspension for three months by the Acquisition, Technology & Logistics Agency because of erroneous entries in the inspection record for hose products manufactured and processed by the two subsidiaries.

Regarding this matter, the "Bad News First & Thanks!" policy was adhered to in swift reporting of the matter to the authority and in responses. On the other hand, the problem revealed a lack of recognition by certain employees of the importance of ensuring trust in records and reports.

Therefore, from 2017 onward, "reliability of records and reports" is included as an objective in addition to the "the basis of business operation is S.E.C.-Q. (safety, the environment, compliance, and quality)" and "Bad News First & Thanks!" policies, and initiatives have been strengthened to learn lessons from past experience.

## Anti-corruption Initiatives

Having endorsed the United Nations Global Compact, Sumitomo Riko is implementing anti-corruption measures as the practical expression of management's commitment. The details of anti-corruption activities are reported to the Board of Directors as part of the Compliance Committee's periodic activity report.

The anti-corruption policy is clarified in the Sumitomo Riko Group Global Compliance Action Guidelines, and concrete measures are implemented throughout the Group based on the Compliance Regulations. The anti-corruption policy and measures are instilled through annual education and training conducted worldwide.

When starting transactions with an intermediary, we check the appropriateness of the transaction. In addition, checking from the anti-corruption perspective is implemented in the daily payment management process.

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Quality

Shareholders and Investors, Suppliers and Other Trade Partners, Employees, Global Environment

## Quality Management

### Message from the Chairperson

#### Message from the Chairperson of Quality Committee

S.E.C.-Q. (safety, environment, compliance, and quality) management, which is the basis of the Sumitomo Riko Group's business operations, is also intimately involved in the materiality of CSR activities. Thus, we established the Quality Committee under the CSR Committee in 2017. With members appointed from organizations across the Sumitomo Riko Group, the Quality Committee is at the heart of efforts to maintain and improve the quality assurance system of the Group, which is expanding globally.

The present-day Sumitomo Riko Group embodies a long tradition of excellence in manufacturing. Having established the Quality Committee, we are redoubling our efforts to offer products of superior quality and contribute to development of society as a "Global Excellent Manufacturing Company," that is, a company contributing to safety, security and comfort of human beings, society, and the Earth.

I will be delighted if this website assists our stakeholders in their understanding of the Group's commitment to quality and request your continuing support.



**Masahiko Hanazaki**  
Chairperson of Quality Committee  
Managing Executive Officer

### Basic Approach to Quality

The Quality Committee and the Quality Assurance Headquarters are spearheading quality improvement activities throughout the Sumitomo Riko Group in accordance with the Sumitomo Riko Group's quality control policy. Our quality assurance systems geared to the needs of an aspiring global enterprise assure superior product quality and safety.

## Sumitomo Riko Group's Quality Control Policy

The Sumitomo Riko Group is committed to delighting customers worldwide by offering them captivating products attuned to their needs. To fulfill our mission, we are pushing forward with quality improvement activities throughout the Sumitomo Riko Group that involve all personnel at manufacturing workplaces and also extend to our suppliers. Thus, we are adhering to the Sumitomo Riko Group's quality control policy: "Every member of the Sumitomo Riko Group will, with the mentality of always putting customers first, enhance the standard of their work to achieve and maintain world-leading quality."

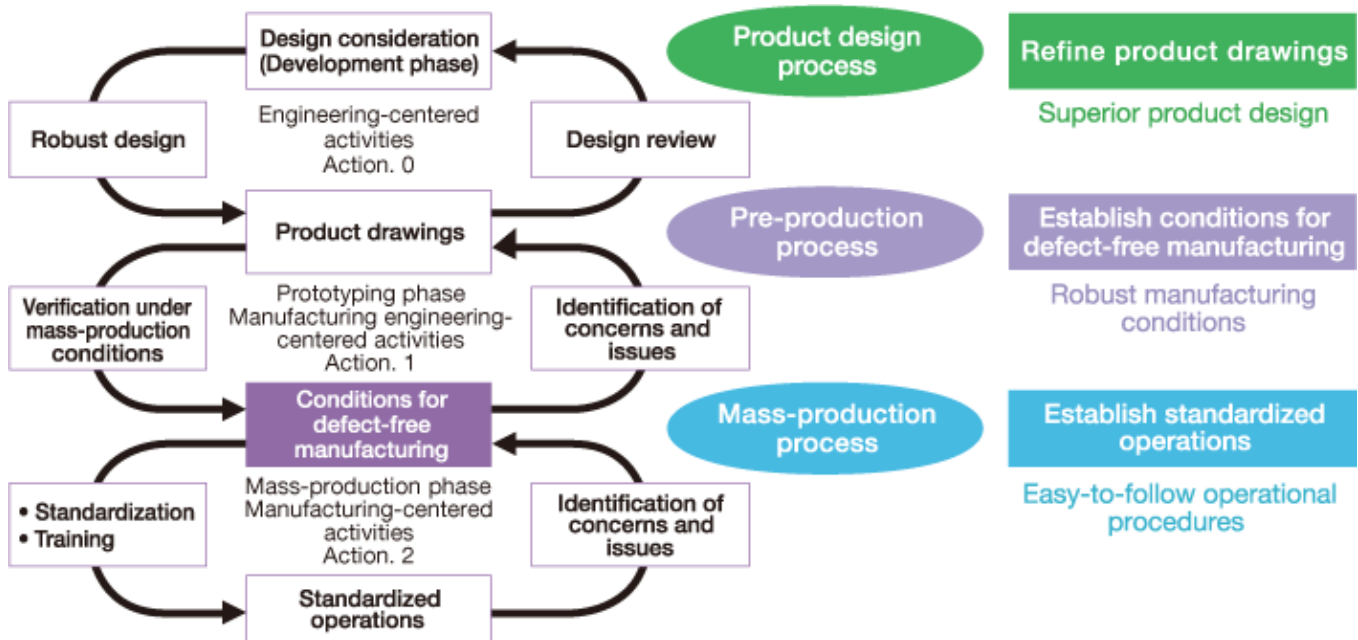
## Approach to Quality Assurance in the Sumitomo Riko Group

The Sumitomo Riko Group ensures quality by applying the following two approaches in the pursuit of safety and security.

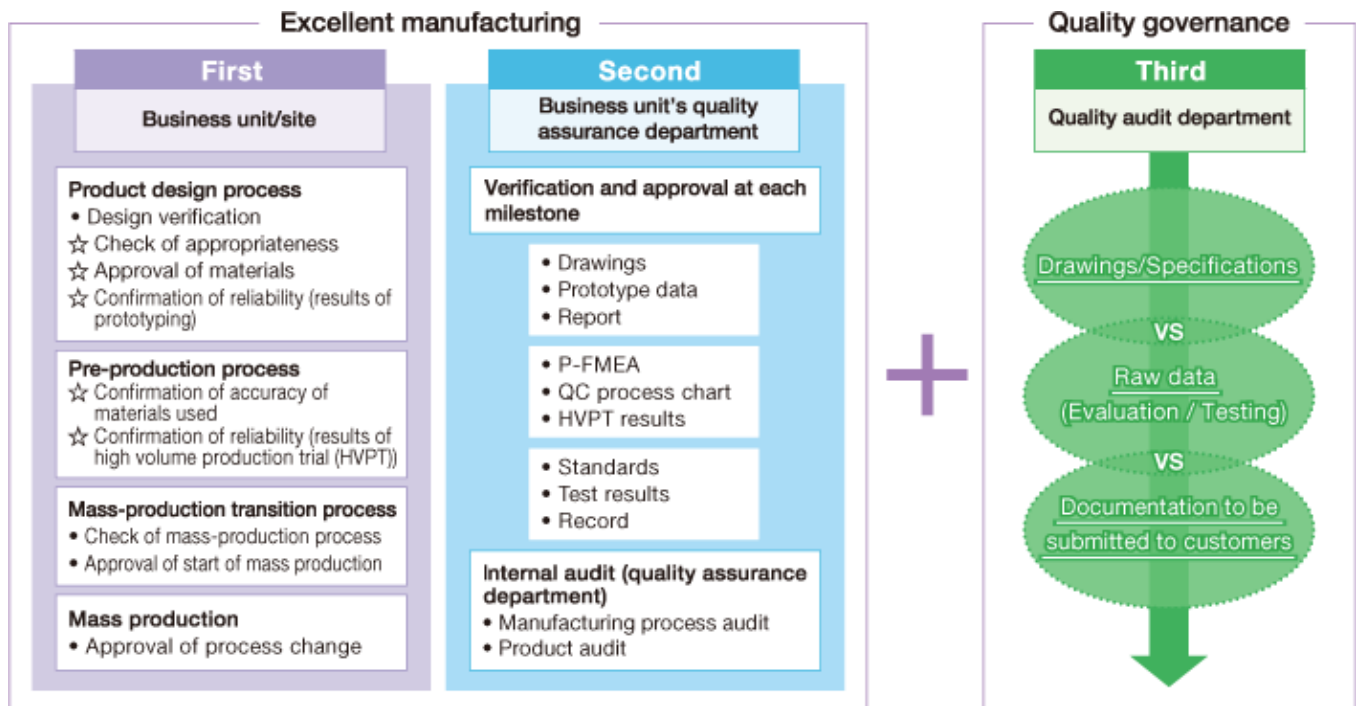
The first approach is "Ji-Kotei-Kanketsu (JKK)." JKK emphasizes that each employee should have a sense of ownership that encourages him or her to fulfill his or her duty at each process of product design, pre-production, and mass production so that no defect proceeds to subsequent processes. (See Fig. 1.)

The second approach is "appropriate quality governance." We implement meticulous quality risk management based on JKK in business units, verification/approval by the quality assurance department of each business unit, and quality control and audit by the quality audit department in pursuit of reliability. (See Fig. 2.)

Fig. 1: Ji-Kotei-Kanketsu (JKK) — Defect-free



○ Fig. 2: Appropriate quality governance — Reliability



**<In principle>** 1) JKK in a business unit, 2) verification/approval by the quality assurance department of a business unit, 3) quality control and audit by the quality audit department

## Mid-term Vision for Quality and Product Safety

To achieve the 2022V vision in quality-related organizations, the Sumitomo Riko Group will globally implement the following three measures as priority activities.

## ○ 1) Quality assurance system

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By constructing quality assurance systems that have the SRK-GQS as superordinate standards and are aligned with the standards of each business unit, realize globally consistent levels of quality, eliminate major quality problems, and link these successes to improvement in customer satisfaction.

## ○ 2) Quality governance

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Strengthen quality monitoring to enable management to make appropriate judgments and construct a global quality governance structure by assigning managers in each region. Furthermore, to respond to quality risks, globally implement quality control audits to find out whether there are any misconduct and link them to elimination of quality-related misconduct and major quality problems.

## ○ 3) Creation of a quality culture

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To foster personnel with high quality awareness and advanced skills globally, develop core quality personnel in each geographical region and construct a global quality education system. Also, create a mechanism for ensuring that lessons learned are not forgotten and mistakes are not repeated.

## | Quality Control Systems

### ○ Quality Assurance Systems

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In 2016, Sumitomo Riko appointed a Chief Quality Officer (CQO) and established the Quality Assurance Headquarters, integrating the Group's quality functions.

With an organizational structure designed to ensure independence from business units and objectivity, the Quality Assurance Headquarters enhances the Group's quality assurance by strengthening the auditing function and has established a collaborative framework covering business units.

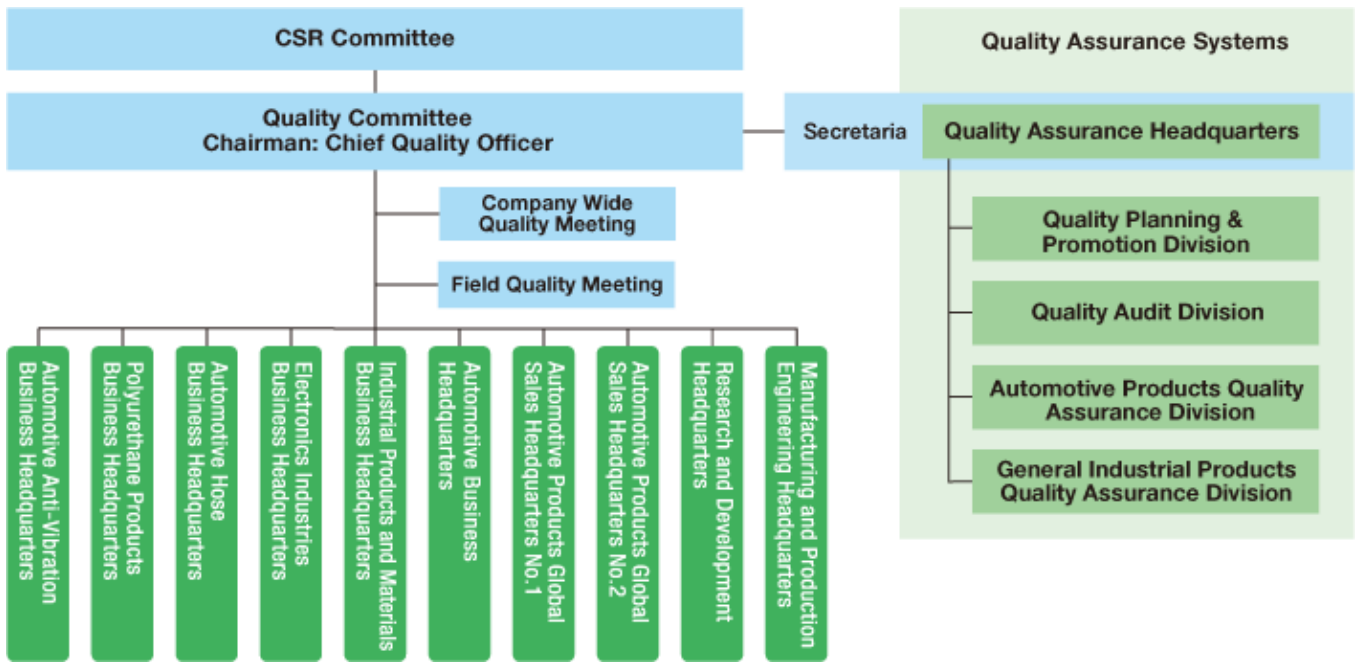
By implementing quality management systems exceeding customer expectations, we are able to supply our customers as well as all other stakeholders with safe, reliable products that offer them peace of mind.

### ○ The Quality Committee

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The Sumitomo Riko Group has decided to add Quality (Q) to Safety, the Environment and Compliance (S. E. C.), which are factors underpinning business operations, and position S.E.C.-Q. as the basis of business operations from fiscal 2017 onward.

In line with this change, we have established the Quality Committee within the CSR Committee to strengthen the functions for monitoring implementation of the PDCA cycle for quality. The Quality Committee has two subordinate meeting structures: the Company Wide Quality Meeting for quality review at business units and the Field Quality Meeting for progress management concerning major quality problems, identification of lessons, and application of lessons learned. We will work to establish a strong promotion structure to enhance the quality of products and the quality of our work.







## Global Quality Assurance Structure Audit System

In the context of the Sumitomo Riko Group's ongoing globalization, we launched the global quality assurance structure audit system for suppliers in fiscal 2011 and for the Group companies in Japan and overseas in fiscal 2013, in order to enhance product quality and quality assurance systems. Based on a check sheet applied globally, this audit covers items constituting the quality assurance structure led by top management at each manufacturing site and communicates the mother plant's quality assurance policy.

In fiscal 2017 we conducted an audit of Sumitomo Riko Group companies overseas and their suppliers. In fiscal 2018, we are conducting audits of suppliers for which we conducted initial audits three years ago. The objective is to strengthen and improve our quality assurance systems.

## Initiatives concerning Quality Risks

The Sumitomo Riko Group strives to ensure product safety by thorough evaluation in accordance with laws and regulations and internal standards. In fiscal 2017, in order to monitor whether there is any wrongdoing, following internal control-oriented audits of sites in Japan in fiscal 2016, we conducted audits of 10 sites in China. In fiscal 2018 we will conduct quality control audits of sites in Asia, the Americas, and Europe to strengthen our preparedness for quality risks worldwide.

## Application of the EDER System

The Sumitomo Riko Group is applying the Early Detection Early Resolution (EDER) System as part of field quality assurance activities. This system enables quick response to quality issues by swiftly obtaining information and is effective for averting quality risks and preventing proliferation of quality problems. The EDER System has been the norm for all Sumitomo Riko companies in Japan since fiscal 2012, and we are currently rolling out the system globally.

## Recognition Received from Customers

The Sumitomo Riko Group engages in improvement activities focusing on quality, cost, and delivery at business sites in Japan and around the world. It is particularly gratifying for us that customers worldwide recognize our noteworthy initiatives each year. In fiscal 2017, the Group's 21 sites received 48 awards (five in Japan and 43 overseas).

## ○ FY2017 supplier awards received

### ○ Japan

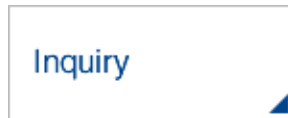
Customer	Award	Awardee
Suzuki Motor Corporation	Overseas Contribution Award	Sumitomo Riko
Isuzu Motors Limited	Quality Achievement Award	
	Refill Parts Delivery Cooperation Award	
Hitachi Automotive Systems Hanshin, Ltd.	Special Award	SRK-FE
Caterpillar Japan Inc.	SQEP Platinum Certification	SRK-HT

○ Overseas

Customer	Award	Awardee	
Toyota Motor North America, Inc.	Value Improvement Award	SRK-A	
Mazda de Mexico Vehicle Operation*	Supplier of Excellence 2017	SRK-TN (CHH)	
American Honda Motor Company, Inc.	2017 Supplier Performance Award	SRK-OH	
Fiat Chrysler Automobiles Turkey Plant	2017 JIS Delivery Performans	SRK-HTR	
	2016 Quality Indicator Improved Supplier		
Vauxhall Motors Limited	Customer Care and Aftersales (Silver)	SRK-ITA	
Maruti Suzuki India Limited	Overall Performance 2016	TRIN	
	Overall Superior Performance Award	TIR	
Nissan Motor India Private Limited	Best In Export Packaging Quality FY17		
Toyota Kirloskar Auto Parts Private Ltd.	Quality Certificate		
	Delivery Certificate		
Toyota Industries Engine India Private Limited	Delivery Certificate		
Hino Motors Manufacturing (Thailand) Ltd.	DELIVERY PERFORMANCE AWARD	SRK-ER	
	QUALITY PERFORMANCE AWARD		
Mitsubishi Motors (Thailand) Co., Ltd.	BEST DELIVERY OF 2016		
Toyota Daihatsu Engineering & Manufacturing Co., Ltd.	THE WINNER OF QUALITY PERFORMANCE		
Asian Honda Motor Co., Ltd.	QCD AWARD		
Auto Alliance (Thailand) Co., Ltd.	Q-AWARD		
General Motors (Thailand) Limited	SUPPLIER QUALITY EXCELLENCE AWARD		
DENSO Air Systems Tianjin Co., Ltd.	Superior Cost Improvement Supplier Award		TRG
Yachiyo Zhongshan Manufacturing Co., Ltd.	Superior Supplier Award		
Nissan (China) Investment Co., Ltd.	Superior VE Activity Award		
GUANGZHOU SHOWA AUTOPARTS CO., LTD.	Superior Supplier Award	TRJ	
Tianjin FAW Toyota Motor Co., Ltd.	Manufacturing Promotion Award	TRT	
	Cost Achievement Award		
	Quality Achievement Award	TCT	
Guangqi Honda Automobile Co., Ltd.	Zero Nonconformity Achievement Award (Power Quality Section, PTQ Category)	TCT	
Kanjiko do Brasil Industria Automotiva Ltda.	Quality Award	SRK-BI	
Toyota do Brasil Ltda.	Quality Achievement Performance Certificate		
General Motors do Brasil Ltda.	OPEX - Operation Excellence	SRK-HTB	
Honda Automoveis Do Brasil Ltda.	Quality & Delivery Award		
Mercedes-Benz do Brasil Ltda.	Interaction Award	SRK-HDB	

Customer	Award	Awardee
Brazilian Union for Quality	Lean Manufacturing excellence project	
P.T. Astra Honda Motor	GOLD SUPPLIER	TRHI
P.T. Astra Daihatsu Motor	SUPERIOR QUALITY AND DELIVERY AWARD	
Shinwa (China) Industries Ltd.	Long-term Cooperation Award	TRDG
SEWS COMPONENTS (HUIZHOU), LIMITED (China)	Excellent Supplier Award	
UniCarriers Forklift (Anhui) Co., Ltd.	Value Contribution Award	TRFH
	Superior Supplier Award	
Caterpillar (Suzhou) Co., Ltd.	SQEP GOLD MEDAL	
Sany Heavy Industry Co., Ltd.	Superior Supplier Award	
	Outstanding Cooperation Award	
Hefei Banyitong Science & Technology Developing Co., Ltd.	Superior Supplier Award	

\*Collective name for Mazda Motor Manufacturing de Mexico, S.A. de C.V. and Mazda Motor Operaciones de Mexico, S.A. de C.V.







## Basic Principles of Social Contribution Activities

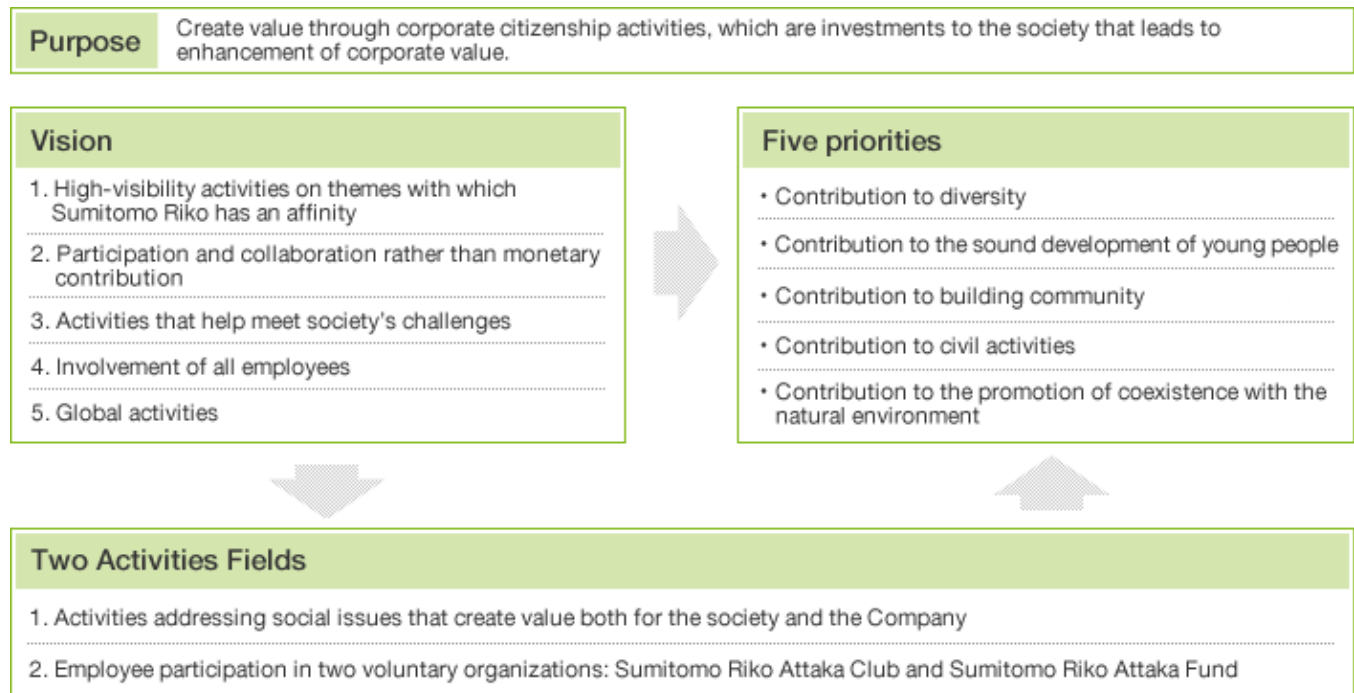
The Sumitomo Riko Group participates enthusiastically in corporate citizenship activities to fulfill its responsibility as a corporate citizen and as an enterprise determined to earn the appreciation of communities all over the world. The Group's corporate citizenship policy states: "Sumitomo Riko Group recognizes that we belong to the local community and, as a good corporate citizen, make efforts to create a better society through corporate citizenship activities." The Sumitomo Riko Group defines social contributions as activities helping meet society's challenges. We aim to create social value through vigorous corporate citizenship activities addressing social issues, leading to the enhancement of corporate value. In response to social needs, we have accorded priority to the following fields: 1) contribution to diversity, 2) contribution to the sound development of young people, 3) contribution to building community, 4) contribution to civic activities, and 5) contribution to the promotion of coexistence with the natural environment.

### Policy on CSR Activities

Sumitomo Riko Group recognizes that we belong to the local community and, as a good corporate citizen, make efforts to create a better society through corporate citizenship activities.

### Framework of our CSR activities

To fulfill the above-mentioned policy, the Sumitomo Riko Group clarifies its "goal," "directions of activities," "five priorities," and "two activity fields."



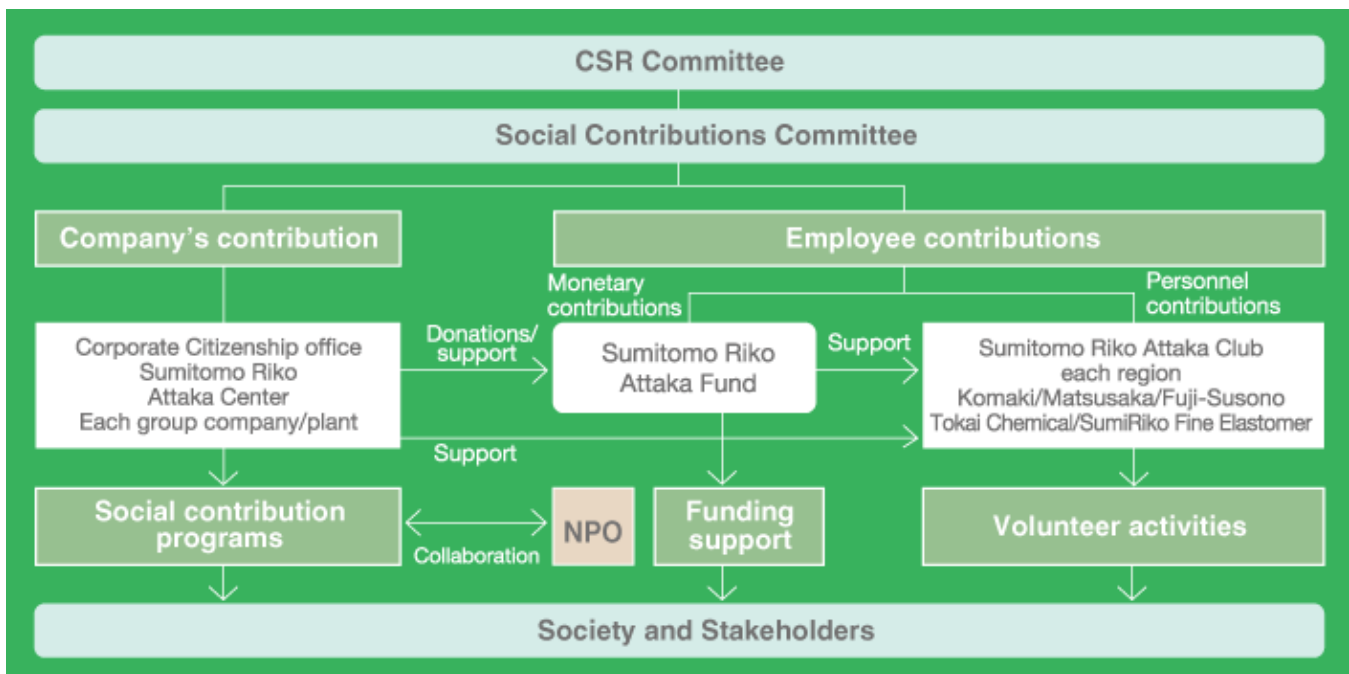
## Social Contribution Promotion Structure

In accordance with the corporate citizenship policy and the framework, the Social Contributions Committee, which is one of the seven subcommittees under the CSR Committee established in 2005, ensures that corporate citizenship activities are systematically implemented based on discussion.

At Sumitomo Riko, we classify corporate citizenship activities into employees' contribution and corporate contribution. Employees can contribute through voluntary activities and through monetary contributions. The Sumitomo Riko Attaka Club, an organization supporting employees' voluntary activities, operates at the Komatsu, Matsusaka, and Fuji-Susono Plants and Group companies Tokai Chemical Industries and SumiRiko Fine Elastomer (former TRI Saitama). The growing membership of the Attaka Club had over 1,400 members as of March 31, 2018.

For monetary contributions, Sumitomo Riko established the Sumitomo Riko Attaka Fund. The Sumitomo Riko Attaka Fund became a general incorporated foundation under Japanese law in 2014. Employees who register with the fund donate a sum of their choice between 100 yen to 1,000 yen to the fund by automatic withdrawal from their salary each month. As a matching gift, Sumitomo Riko donates a sum equal to that donated by the employees. As of March 31, 2018, over 560 employees had registered with the fund.

Sumitomo Riko's Social Contributions Committee establishes various corporate citizenship programs for which the Social Contribution Program Planning Office is the secretariat. Attaka Support Centers at plants and Sumitomo Riko Group companies support employees' social contributions through the Attaka Club and the Attaka Fund, linking the corporate contribution and employees' contribution.



## Corporate Citizenship Program Assessment System

Sumitomo Riko has introduced an annual assessment system for corporate citizenship programs. Assessment of programs using uniform criteria clarifies their results. This approach allows us to apply a PDCA (plan-do-check-act) cycle to corporate citizenship activities. We are shifting the weight of our corporate citizenship activities from monetary contributions to a participatory and collaborative approach. Members of the Social Contributions Committee inspect and assess programs. Programs are revised or terminated based on the assessment and new programs are introduced.

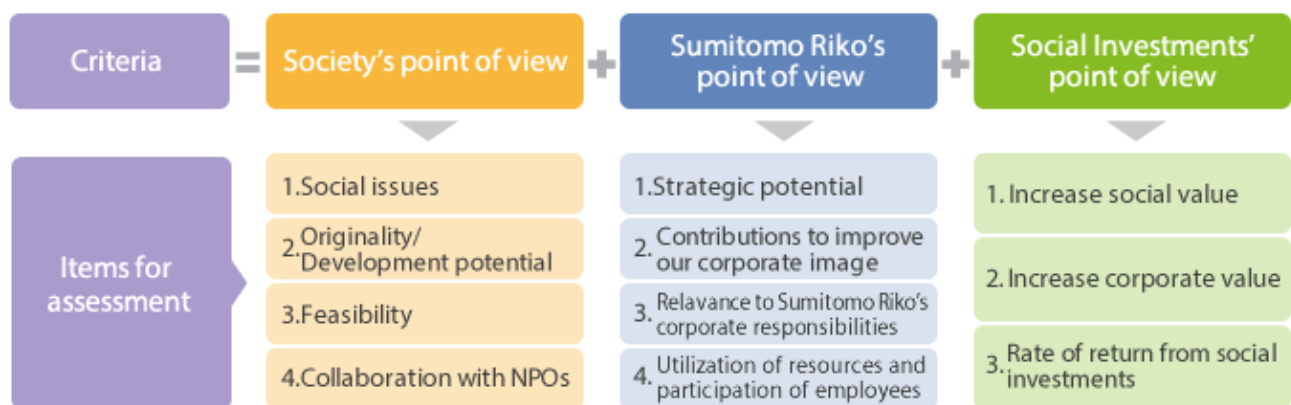
## Objectives of introducing an assessment system for social contribution programs

1. To translate monetary donations into participation and collaboration
2. To promote a social contribution program that can resolve social issues

## Expected effects of the program assessment system

1. Assessments using established criteria help visualize the results of activities.
2. Through a cycle of “preliminary evaluation,” “action,” “performance assessment” and “corrective measures,” we ensure that all activities are conducted with appropriate prior examinations, follow-ups for improvement and reviews in order to eliminate unnecessary activities.

## Policy on assessment criteria





## Beauty Caravan

"Provide a 'festive' day for elderly people living in nursing homes, in order to feel beauty and enjoy a active life." The "beauty caravan" achieves such a goal. Sumitomo Riko has been organizing the "Beauty Caravan" since 2008, in cooperation with volunteer groups of beauticians. This is a collaborative project with the NPO, Japan Welfare Barber & Beautician Training Association and the Department of Environmental Design of the College of Human Life and Environment of Kinjo Gakuin University. (Current Geriatric Department of the Graduate School of Medicine of Nagoya University, also participated from 2008 to 2011.) Through these three-way collaborative activities, we try to find ways to improve the QOL (quality of life) of elderly people who need nursing care. On the day of the beauty caravan, elderly people can enjoy fashion coordination and hair styling by aspiring beauticians, as well as makeup services for elderly people while a professional photographer takes commemorative photos. Then, photo postcards are created and sent to family and friends, making it an event that entertains both senders and recipients.



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Corporate Citizenship

Employees, Local Communities

Sumitomo Riko Group Corporate Citizenship Activities:  
**Contribution to Building Communities**

As a company that coexists with the hosting local community, Sumitomo Riko supports to create "citizen-friendly town" together with local communities by providing disaster recovery assistance.

**Support for Areas Affected by the Great East Japan Earthquake**

○ **~Attaka Ticket Project~**

Using the Sumitomo Riko Attaka Fund, which is based on donations by the Group's employees and companies, the Attaka Ticket Project supports senior citizens living in temporary accommodation at Minamisanriku-cho in Miyagi Prefecture, which was devastated by the Great East Japan Earthquake. In exchange for the Attaka Tickets distributed to them, they can receive lunches delivered to them and benefit from services to relieve stress. The services are offered by local people working to reconstruct the community. The project aims to enhance the quality of life of seniors who have been living in the temporary accommodation for over three years and help vitalize the community. One of the people who used the services commented, "We get together and chat over the bento boxed lunches that we receive in exchange for the tickets, and there is more communication among the residents of the temporary accommodation."



The Sumitomo Riko Attaka Fund intends to continue this support until the citizens who lives in the temporary accommodation can return to their own homes.

## Emergency Medical Care Experiential Event Using Training Simulator to Solve Social Issues

We are pursuing social contribution activities rich in originality that are directly linked with Sumitomo Riko's business. Since 2017, in collaboration with NPOs working to promote first aid as well as with local civic organizations and the fire department, we have been offering the Emergency Medical Care Experiential Event in which the Shinnosuke-kun training simulator for chest compression is used. The concept is to provide opportunities for people to learn basic life support skills and acquire knowledge so that they can protect their family and loved ones.

This program is supported by UNY Co., Ltd., an operator of shopping centers where many people are likely to notice the program. We hope that participating in this program will be an opportunity for larger numbers of people to take part in basic life support training programs and for the general public to become used to providing basic life support. The ultimate objective is to make provision of basic life support a matter of course. Going forward, we will hold this program at more locations and accelerate collaboration with local communities and other companies in order to further promote social contribution activities that help solve social issues.



## Sumitomo Riko Charity Concert

Since fiscal 2000, we have taken part in a collaborative project with the certified NPO, Chubu Philharmonic Orchestra, to hold an annual "Sumitomo Riko Charity Concert" every autumn with the aim of assisting local communities to promote cultural and artistic development. We invite 1,300 residents of the Owari region, Aichi Prefecture (where Komaki Head Office and Komaki Plant are located), through selection in a drawing. The concert invites world-renowned maestro Kazuyoshi Akiyama as a conductor to provide beautiful music. Donations made by audience are used every year to support reconstruction efforts following the Great East Japan Earthquake. Information about the charity concert is available in newspapers and magazines.



## Support for the Matsusaka Concert of the Chubu Philharmonic Orchestra

In Matsusaka, where there are few opportunities to enjoy classical music, the Matsusaka Plant sponsors concerts by the Chubu Philharmonic Orchestra and invites local residents as contribution to the local community.



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## Sumitomo Riko Group Corporate Citizenship Activities: Contribution to Civil Activities

### Social contribution by utilizing the strengths of civic organizations

Examining social contribution activities, we have to admit that the amount of work Sumitomo Riko can perform alone is limited. That is why we decided to establish a subsidy system with the belief that our financial support for communities accelerates the achievement of our goals (five priorities) while contributing to the development of civic organizations at the same time. We aim to establish the subsidy system as an intermediary to support for local communities.

### Sumitomo Riko Subsidy for Developing the Dreams, Town and People

Sumitomo Riko offers subsidies for civic organizations which tackle with social issues related to five priorities of Sumitomo Riko's corporate citizenship activities.

This subsidy includes two courses; "Dream course" supports new activities and "Town and People course" is awarded to activities which fill public interests and/or are large scale. It awards four activities and two activities per year respectively. Activities are selected by experts, NPOs and Sumitomo Riko.

This system was established in cooperation with the NPO Komaki Civil Activities Support Network in 2010, and its coverage was expanded into five cities and two towns in Kita-Owari area (Komaki city, Kasugai city, Iwakura city, Konan city, Inuyama city, Oguchi town and Fuso town) in 2014. In addition, Sumitomo Riko established the same subsidy system in cooperation with NPO M-bridge in Matsusaka City. It covers 4 cities and towns in Matsusaka area (Matsusaka city, Meiwa town, Taki town and Odai town) where Matsusaka plant is located. Further, cooperating with Ayabe Volunteer Center, Sumitomo Riko established the same subsidy system covering Ayabe city in September 2016. In fiscal 2017, we will launch the subsidy program "Sumitomo Riko Subsidy for Developing the Dreams, Town and People in Susono, Gotemba, and Nagaizumi" in the eastern area of Shizuoka Prefecture where the Fuji-Susono Plant is located. As a result, our subsidy program will cover four areas. Sumitomo Riko is considering the development of this subsidy in areas where our production sites are based in.

Sumitomo Riko and organizations in cooperation with us will inform detailed information for subsidy (Information is available in every April in Ayabe area, July in Kita-Owari area and August in Matsusaka area and Fuji-Susono area).







## Sumitomo Riko Afforestation Project in Matsusaka

In support of Mie Prefecture corporation's re-forestation project, Mie Prefecture, Matsusaka City, local forest owners in Seizu and Sumitomo Riko (then Tokai Rubber) concluded a four-party agreement on the five-year re-forestation project that covers the area of 25.5 hectares on August 26, 2010. Sumitomo Riko is the 19th company in Mie Prefecture to participate in forest conservation activities. However, a four-party agreement, which includes employees' participation in forest conservation activities in contracted forests, is the first case in Mie prefecture, while the contract area was the largest (as of 2010). In addition to Nagano Prefecture, Sumitomo Riko has received certification for carbon absorption efforts from Mie Prefecture every year since 2011.

Every year in spring and autumn, employee volunteers engage in forest conservation activities and exchange activities with the local residents.



## Tokai Chemical Industries Mitake-no-Mori Activities

In May 2017, Tokai Chemical Industries entered into an agreement with Mitake-cho and Gifu Prefecture for collaboration on forestation. With a view to realizing a sustainable low-carbon society and handing over a flourishing natural environment to the next generation, Tokai Chemical Industries' employees and other stakeholders provide support for the protection of forests owned by Mitake-cho, where Tokai Chemical Industries' headquarters plant is located, and for the rehabilitation of the Satoyama (woodlands near populated areas). As certified by the governor of Gifu Prefecture, 290 tons of CO<sub>2</sub> will be absorbed through these forestation activities over the next 50 years.

In addition to monthly forest improvement activities by the employees, company-wide events are held three times a year, in spring, summer, and autumn, which include exchanges with local residents.



## Cleanup Activities

At plants of Sumitomo Riko and group companies including Tokai Chemical Industries and SumiRiko Fine Elastomer (former TRI Saitama), employees regularly volunteer to conduct the clean-up of surrounding areas. More than 100 employees of the Sumitomo Riko Group participate in the clean-up activities and conservation in the Oyama River that flows near the head office of Sumitomo Riko in Komaki City, Aichi Prefecture.







## The Sumitomo Riko Attaka Fund (general incorporated foundation)

The "Sumitomo Riko Attaka Fund" supports monetary donations by employees. Registered employees donate anywhere between one to ten "donation units". One "unit" is equivalent to 100 yen and a maximum of ten units are deducted from their salaries. As a matching contribution, the Company donates the same amount to the Fund. The Fund is used to support the "Sumitomo Riko Attaka Club", organizations tackling social issues and disaster victims. Sumitomo Riko started the "Attaka Tickets Project" based on this Fund. The Fund became a "general incorporated foundation" in November, 2014.

## Sumitomo Riko "Pro Bono" Program

To promote employees' participation in society, Sumitomo Riko has started the Sumitomo Riko "pro bono" program.

"Pro bono" means voluntarily work by professionals contributing to society by using their specific knowledge and skills acquired through their professions.

Under this program, participants receive six-time preliminary training sessions, jointly with those of other companies, for the purpose of providing consulting services to non-profit organizations (NPOs) in Central Japan Area. Afterwards, members are selected and they can provide consulting services to NPOs. The program gives employees great opportunities for making exchanges with other departments within Sumitomo Riko and expanding their horizons to areas beyond the company.

This program started in 2013, and it was the sixth time in December 2017. Members received various preliminary training from lecturers of several companies, the administrators, universities, and non-profit organizations (NPOs) who are active in the front-lines, and then provided consulting services for civil organizations such as NPOs.

Sumitomo Riko will keep promoting this program as a social contribution activity which returns working experiences to societies, and actively supporting employees' participation in society.



## Volunteer Leave and Leave-of-absence System

Sumitomo Riko established a volunteer leave and leave-of-absence system in 1999 and employees can take up to 3 days volunteer leave and up to 3 years as a leave of absence.

We think that contributing to the development of society and culture through participation in social activities will establish attractive corporate culture and develop better professionalism by fostering citizenship, social skills and cultural awareness of employees.

## Hands-on Experience for New Recruits to Volunteer

As part of training for new recruits, employees who just join the company do hands-on volunteer work at facilities for the disabled in Komaki City where the Komaki Head Office is located. They can learn a lot from the work and therefore the experience offers them a good hands-on opportunity to understand the meaning of a "good corporate citizen."



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## Mid-term Vision for Human Resources and Diversity

In its management philosophy, Sumitomo Riko has made a commitment to respect for diversity. To pursue dramatic growth and become a truly global corporate group, we are reforming the corporate culture and creating an environment where diverse human resources can thrive. We continue to engage in activities in the Iki-iki 5 campaign, launched in fiscal 2017 to review work styles, eliminate long overtime, and enhance the work/life balance. We will also periodically assess the vitality of Group organizations through Iki-iki Diagnoses and link the results to corporate culture improvement. Specifically, we have expanded conditions for application of the short-time work system and newly instituted a work-at-home system and a reemployment system for employees who left the company. We will continue to create mechanisms to support women's career advancement and expand the scope of women's assignments and also promote employment of people with disabilities. In fiscal 2017, we conducted communication training for department general managers, and in fiscal 2018 and beyond we will incorporate content to improve communication skills in position-specific training and other training programs.

Workplace culture reforms cannot be accomplished overnight, but we will organically link these activities, programs, and training to improve the workplace culture. Although Sumitomo Riko is taking the lead in these initiatives, we intend to expand them to Group companies in accordance with their individual circumstances and needs of their business operations. The Sumitomo Riko Group as a whole aspires to be a corporate group where diverse human resources can participate productively, freely communicate, and work happily and energetically.

## Activities Pertaining Human Rights

The Sumitomo Riko Group Action Charter stipulates: "We shall make no unjustified discrimination in employment and treatment of persons" in order to "Respect the diversity, characters and personalities of employees." In addition, at overseas Group companies, we rigorously work in accordance with local laws to prevent human rights violations and prohibit the use of child labor and forced labor.



## Communication with Employees

### ○ Iki-iki Diagnoses

Given that implementation of a stress check to monitor employees' stress has become mandatory, Sumitomo Riko conducts a questionnaire survey called Iki-iki Diagnoses in combination with periodic health checkups not only to monitor individuals' stress but also communication at workplaces and the degree of satisfaction. In fiscal 2017, Iki-iki Diagnoses covered about 3,200 employees of Sumitomo Riko with a high response rate of about 96%. Some 200 workplace managers received a briefing on the results of group analysis, which indicate the health level of the workplace without identifying individuals, so that the results can be reflected in workplace improvement activities. Specifically, through the provision of facilitator training, some 90 trainees learned techniques for workplace improvement. At certain workplaces, a technique called "Workplace Dock" was applied to execute a comprehensive checkup and members contributed ideas for improving the workplace environment and communication. When conducted annually, Iki-iki Diagnoses make it possible to grasp the changing status of workplaces and the company with the passage of time. With this in mind, we will be conducting Iki-iki Diagnoses at Group companies in Japan in fiscal 2018.



## Good Labor-Management Relations

In 1987, Sumitomo Riko's management and labor union announced the "labor-management declaration" in which mutual trust and cooperation between employees and management are emphasized, with the ultimate goal of maintaining the prosperity of the Company and attaining a stable, improved quality of life for employees, as a result of the Company's growth. In the spirit of this declaration, the Labor-Management Committee, covering issues such as working hours, wages, health & safety and welfare, is improving various systems. In the case that restructuring, reorientation or any other substantial initiative is contemplated with respect to the business, management provides a thorough explanation to the labor union and engages in frank discussion with the labor union to achieve a consensus. At Sumitomo Riko, almost all employees (with the exception of contract employees, temporary employees, and fixed-term employees) with the exception of managerial personnel are members of the labor union. We aim to further strengthen labor-management relations.

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## Diversity

### Promoting Diversity

The Sumitomo Riko Group Management Philosophy proclaims, "We will foster an invigorating corporate culture that respects our employees' diversity, personal qualities, and individuality." The Group engages in diversity promotion activities to create an environment in which people from diverse backgrounds can work with vigor and enthusiasm.



### History of Diversity Promotion Activities

#### History of Diversity Promotion Activities at Sumitomo Riko

- 2008 ● Issue of diverse work styles addressed in the mid-term management plan

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- 2009 ● Established onsite daycare centers
- Expanded parental leave programs and childcare assistance measures, such as parental leave and spousal maternity leave
- Expanded the family care leave program
- Expanded programs for a diverse workforce, such as the volunteer leave program
- Received Family-Friendly Company commendation from Aichi Prefecture

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- 2010 ● Extended the childrearing flextime utilization period

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- 2015 ● Established the Diversity Committee

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- 2016 ● Obtained the next generation accreditation mark "Kurumin," indicating certification under the Act on Advancement of Measures to Support Raising Next-Generation Children
- Distributed the Work-Life Balance Handbook Group-wide
- Established the Diversity Promotion Office
- Appointed diversity promotion leaders

- 
- 2017
- Launched the "Ikiiki 5" work style reform campaign
  - Introduced the reemployment system for employees who left the company
- 
- 2018
- Gained two stars (Level 2) under the Eruboshi certification system based on the Act on Promotion of Women's Participation and Advancement in the Workplace
  - Introduced a work-at-home system for childrearing and family care
  - Expanded eligibility for the short-time work system for childrearing (eligibility: under three years old → until the child enters third grade)

## Formulation of a General Employer Action Plan

An employer is required to formulate a general employer action plan for development of an employment environment and diverse working conditions that enable employees, regardless of whether they are raising children, to achieve a work-life balance. The plan includes 1) the period covered by the plan, 2) targets, and 3) concrete measures to achieve the targets and the implementation period.

Sumitomo Riko has formulated a general employer action plan designed to expand women's employment, help female employees achieve a work-life balance conducive to their participation and advancement, and to improve the workplace environment. The Company is working to achieve the plan.

### The Sumitomo Riko General Employer Action Plan

1. Plan Period  
April 1, 2016 to March 31, 2019
2. Quantitative Targets
  - 1) Proportion of women to all recruits of at least 30%
  - 2) Paid holiday utilization rate of at least 65%

## Respect for Diversity

Sumitomo Riko engages in a variety of activities to promote respect for diversity throughout the Group.

### Internal Diversity Training

We include diversity training in level-specific training, such as new employee training, training at the time of promotion, and training for newly appointed section managers. Since 2016 we have held lectures on diversity for all managerial personnel (managers and supervisors).

#### Past Diversity Lectures

- Fiscal 2016 "The Importance of Diversity and Participation and Advancement of Women" (Instructor: Ms. Yukako Uchinaga)
- Fiscal 2017 "Work-Life Balance from the Perspective of Men's Studies" (Instructor : Mr. Toshiyuki Tanaka, Associate Professor, Taisho University)

### Azalea, the Sumitomo Riko Women's Association

Azalea is a women's association that serves as a forum for female employees to get together, bond with one another, and exchange views.

### Participation in SWING, the Sumitomo Electric Group's Female Employee Network

SWING provides opportunities for female employees of the Sumitomo Electric Group to improve skills across company boundaries and encourage network building for the purpose of nurturing female employees, contributing to their skill development, and supporting the advancement of women at Group companies. Currently, HR Department employees of Sumitomo Electric Industries, Sumitomo Wiring Systems, Nissin Electric, and Sumitomo Riko serve as the secretariat for SWING. In fiscal 2017, female employees of the Sumitomo Electric Group gathered together for the SWING Women's Administrative Work Forum to consider the question "What can we do right away?" and discuss other matters on the theme of "Let's work energetically and contribute to the team!" In fiscal 2018, a forum will be held in September.

The logo for SWING, consisting of the letters S, W, I, N, G in a colorful, stylized font.

## Work-Life Balance Handbook

In 2016 Sumitomo Riko distributed the Work-Life Balance Handbook to all employees. The handbook introduces Sumitomo Riko programs corresponding to major events in an individual's life that contribute to achieving a work-life balance. The purpose of the handbook is to deepen understanding of work-life balance among employees and enable them to make full use of various programs, regardless of their gender or age.



## Diverse Work Styles

Sumitomo Riko engages in various initiatives that enable employees to pursue diverse work styles.

## "Ikiiki 5" Work Style Reform Campaign

In April 2017 we launched "Ikiiki 5," a Company-wide campaign to increase operational efficiency, reduce working hours, promote utilization of paid holidays, and promote diverse work styles. "Ikiiki" refers to circumstances in which everyone works vigorously and happily, in good health, and with a sense of purpose in life. "5" refers to the following three aims.

1. Mindfulness of leaving work on time (at 5:00 pm)
2. Limiting overtime to a maximum of 5 hours per day
3. 5% reduction in total annual working hours



## ○ Internal Employment Support Programs

To enable each employee to achieve a work-life balance, including childcare and nursing care responsibilities, Sumitomo Riko has instituted programs such as "Birthday Leave," "Refresh Leave," whereby employees can take leave up to five consecutive days in their 10th and 20th year with Sumitomo Riko, and "Volunteer Leave" used for volunteer activities. In order to help employees achieve work/life balance, in October 2017, we introduced a reemployment system for employees who left the company. Moreover, in April 2018, we introduced a work-at-home system to support employees engaged in childrearing or family care and expanded eligibility for the short-time work system from a child under three years old to the period until the child enters the third grade of elementary school.



## ○ Outline of our support programs for childrearing and family care and the number of users

### Support for childrearing

Program	Outline	FY2015	FY2016	FY2017
<b>On-site daycare center</b>	Koala Pokke within the Komaki Plant site can accommodate up to 40 children, ranging from infants to those who are not yet at elementary school.	32	38	28
<b>Parental leave</b>	Maternity leave can be taken from 6 weeks prior to the expected birth date until 8 weeks after giving birth. Childcare leave can be taken upon completion of maternity leave until the day before the child reaches the age of 2.	31	40	43
<b>Shorter hours*</b>	Can shorten the working hours by a maximum of 2 hours per day. Since fiscal 2018, eligibility has been expanded from a child under the age of 3 to the period until the child enters third grade at elementary school.	23	30	36
<b>Childrearing flextime</b>	Employees rearing a child who has not completed elementary education can set the time they start and finish work at their own discretion.	53	63	72
<b>Child sick leave</b>	Special leave for looking after a child who has not reached elementary school age and is injured or ill. Can be taken up to 5 days a year.	9	13	19
<b>Childcare holiday</b>	Employees rearing a child under 1 year old can take up to 5 successive business days off.	31	34	48

\*In October 2018, a flextime system was introduced for shorter hours.



## Support for family care (available for employees with a family member requiring nursing care)

Program	Outline	FY2015	FY2016	FY2017
Shorter hours*	Can shorten the working hours by a maximum of 2 hours per day.	0	1	0
Short-term family care holiday	Can take up to 5 days a year for 1 care receiver or up to 10 days a year for 2 or more care receivers. (Can be taken on a half-day basis.)	1	5	6
Family care flextime	If they wish, employees can set the time they start and finish work at their own discretion.	1	1	3

\*In October 2018, a flextime system was introduced for shorter hours.

## Initiatives for employment of people with disabilities

### SumiRiko Joyful, a special-purpose subsidiary

Sumitomo Riko is hiring people with disabilities to work in various departments. Based on the understanding of the workplaces, jobs are assigned corresponding to the person's aptitude.

We established a special-purpose subsidiary, SumiRiko Joyful, in November 2013 to facilitate employment of people with disabilities and for social contributions. The number of employees of SumiRiko Joyful has been increased from five at the time of establishment to 12. They are engaged in work that is suitable in terms of their personalities. The range of work, which currently includes collection and delivery of internal mail, management of the document archive, printing, document digitization, and cleaning, is expanding with each successive year. We will endeavor to secure employment of more people with disabilities by expanding the scope of the work.



## ○ Change in the percentage of employees with disabilities

FY	2012	2013	2014	2015	2016	2017
Percentage of employees with disabilities	1.75%	1.90%	2.19%	2.32%	2.47%	2.44%

\*"Change in the percentage of employees with disabilities" shows data of Sumitomo Riko (including SumiRiko Joyful).

## Acquisition of Certifications

### ○ Eruboshi (two stars: Level 2)

Eruboshi is a system for certification by the Minister of Health, Labour and Welfare. Of the companies that formulate an action plan for women's participation and advancement in the workplace and submit it to the labor bureau, companies with outstanding performance will receive a certification. The certification criteria consist of (1) recruitment, (2) retention, (3) working hours and other work-style-related data, (4) ratio of female managers, and (5) diversity of career paths. There are three levels, from one star to three stars. Sumitomo Riko satisfies the requirements with respect to four criteria, "recruitment" being the exception, and received the two-star Level 2 certification in March 2017. In order to receive the three-star Level 3 certification, we are working to satisfy the requirements for the remaining item.



### ○ The Kurumin Mark

The Kurumin mark indicates certification by the Minister of Health, Labour and Welfare as a company that supports childcare. Companies that have formulated a general employer action plan pursuant to the Act on Advancement of Measures to Support Raising Next-Generation Children and have achieved the targets in their plans and satisfied certain criteria may apply for certification by the Minister of Health, Labour and Welfare as a company that supports childcare (Kurumin certification). Sumitomo Riko obtained the Kurumin mark in March 2016.



### ○ Family-Friendly Company

"Family-Friendly Companies" are defined as companies that actively engage in initiatives to enable employees to achieve a work-life balance. Aichi Prefecture has set up a registration system to encourage companies to strive to realize a work-life balance for their employees and publicize their initiatives. In 2009, Sumitomo Riko was selected from among registered family-friendly companies to receive a commendation from the governor of Aichi Prefecture as a company engaging in excellent activities that serve as a model for others, such as establishing onsite daycare centers.



Related information: ▶ [Family-Friendly Company good practices case study \(Sumitomo Riko \[formerly Tokai Rubber Industries\]\)](#)



## Human Resources Development

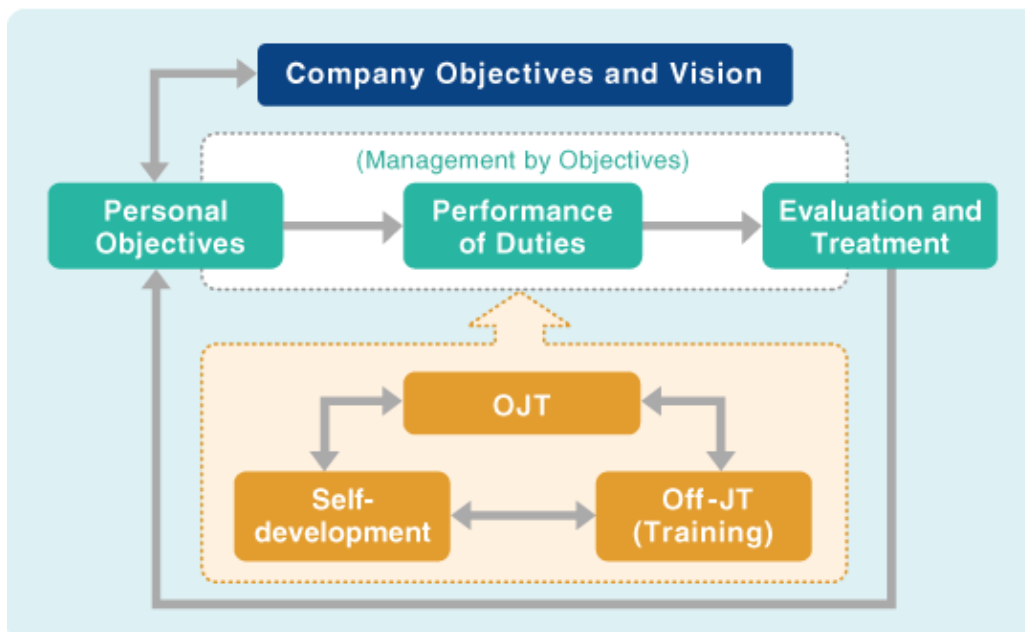
### Human Resource Development Program

#### ○ Basic Approach to Human Resource Development

Based on the conviction that "human resources development is at the heart of every successful business strategy," Sumitomo Riko offers a range of education and training programs, including basic and periodic training, position-specific training, and needs-based training. These programs are designed to inculcate the Company's basic philosophy in employees, improve skills, and develop logical thinking. The "Basic Education for All Employees" is a long-established program for inculcating the basic philosophy. In fiscal 2016, some 600 employees at sites in Japan and subsidiaries and affiliates in China received this education. Since fiscal 2017, we have accelerated global human resources development and adopted the "missionary system," whereby executives of overseas sites receive face-to-face training in the U.S. or China and transfer what they learned through the training to their business sites. Some 2,200 executives have participated in this program. In fiscal 2018, we intend to expand this training to cover executives in Europe and Southeast Asia.



For systematic training of senior executives, we have been operating the Management Cram School (since fiscal 2013) for those in managerial positions (department general manager and manager positions) and the Advanced Management Cram School (since 2017) for higher management such as Executive Officers. In view of changing needs, we will introduce appropriate human resources development programs in a timely manner.



○ Number of participants in human resources development programs (FY2017)

Program	Needs-based training	Position-specific training	Basic and periodic training	Total
<b>Number of participants</b>	147	1,638	328	<b>2,113</b>

○ Training Center "Unuma Sangakukan" "Matsusaka Shikokan"

The Unuma Sangakukan, the training center for Sumitomo Riko Group employees opened in March 2013 at Kakamigahara-shi, Gifu Prefecture, is our base for human resources development and global events. Sangaku of the Unuma Sangakukan is derived from Sangakukai, the three principles of learning mentioned in an essay written by Issai Sato, a Confucian of the late Edo period, who emphasized the significance of lifelong learning. The training facility includes accommodation where the Group's employees, ranging widely in terms of position and age, gather and stay for training. Here, we are working to instill the corporate philosophy and cultivate a corporate culture conducive to the emergence of new ideas. The objective is to develop consummate business professionals, including those who will eventually serve as executives responsible for business strategies, capable of working effectively in a global business setting. The Unuma Sangakukan is in a superb location with a view of Inuyama Castle, which is a national treasure, and the Kiso River. It is suitable for diverse training formats, such as sharing of the corporate strategy, presentations of achievements, group discussions, and teleconferencing. Including employees of the Sumitomo Riko Group overseas, the Unuma Sangakukan has a total of about 5,000 users each year.





Supply Chain

Shareholders and Investors, Suppliers and Other Trade Partners

## CSR Management on Supply Chain

### Message from the Chairperson

#### Message from the Chairperson of Supply Chain Committee

Amid rising expectations of stakeholders on the commitment of companies towards corporate social responsibility (CSR), we are now facing a time where the quality of CSR activities at suppliers and other trade partners is questioned. In response, the Sumitomo Riko Group has been emphasizing CSR of the supply chain, including establishment of the "CSR Guidelines for Sumitomo Riko Group Suppliers." The Supply Chain Committee established in 2014 under the CSR Committee is stepping up activities from a Group-wide, global perspective. In order to ensure stable business activities, the Supply Chain Committee formulates a business continuity plan (BCP), which involves securing the cooperation of suppliers worldwide, promote environmentally conscious procurement, and compliance. In addition, the Committee is spearheading cross-functional activities that respect the principles of the United Nations Global Compact to which the Company is a signatory. We need the support and cooperation of our stakeholders, above all, of our suppliers, to ensure the success of these initiatives. I would greatly appreciate our stakeholders' further understanding, cooperation and guidance.



**Takehiro Ohashi**

Chairperson of Supply Chain Committee  
Director, Senior Managing Executive Officer

## Approach to Procurement

Sumitomo Riko's procurement activities are governed by the "Basic Policy on Transactions" and the "Code of Conduct", which were established in May 2006. We issued the "CSR Guidelines for Sumitomo Riko Group Suppliers" in November 2011. In October 2014, taking the opportunity of the change of the company name to Sumitomo Riko Company Limited, we issued a revised edition of the "Sumitomo Riko Group Supplier CSR Guidelines". The revisions reflect responses to conflict minerals and anti-corruption measures and the actions required of a signatory to the United Nations Global Compact.

The guidelines summarize what we expect of our suppliers in terms of respect for human rights and ensuring employee safety, as well as compliance with laws and regulations, and environmental protection. We request our suppliers to inform the point of contact for compliance-related matters if they detect any inappropriate behavior in our procurement activities.

We have requested our suppliers to request theirs also to adhere to our procurement philosophy and guidelines. Collaboration is underway.

### ○ Basic Policy on Transaction




We consider Sumitomo Riko and its suppliers to be partners on an equal footing, and therefore we ensure that all transactions are conducted in a fair and transparent manner and that promises and contracts are always respected.

### ○ Code of Conduct

1. The selection of clients should be implemented in accordance with guidelines related to procurement. (We never decide and support a specific supplier due to personal reasons.)
2. All determinations on terms and conditions of transaction and releases of information to clients should be made in a fair manner.
3. Sumitomo Riko shall pay significant attention to management of the confidential information regarding suppliers and must not use such information for any purposes other than procurement activities.
4. Sumitomo Riko must not accept from its suppliers, nor ask a supplier for, any remuneration such as a gift or entertainment that exceeds the scope of social norms.

### ○ Reaction to Violations

If our employees violate the matters outlined above, we will take firm action as specified in employment regulations.

-  [CSR guidelines for suppliers November, 2014 2nd edition \(English 129KB\)](#)
-  [CSR guidelines for suppliers November, 2014 2nd edition \(Japanese 383KB\)](#)
-  [CSR guidelines for suppliers November, 2014 2nd edition \(Chinese 175KB\)](#)



To display and print PDF files of web contents, Adobe Acrobat Reader is required.  
Adobe Acrobat Reader can be downloaded from the website of Adobe Systems free of charge.



## Establishment of the Supply Chain Committee

In July 2014, in order to respond to diversification of procurement activities in line with the Group's globalization, Sumitomo Riko established the Supply Chain Committee as a sub-committee of the CSR Committee. This structure allows us to share our activities concerning the environment, compliance, risk management, and other CSR-related themes not only within the Group but also with suppliers worldwide in an effort to further strengthen and promote CSR activities globally.

## Mid-term Vision for Procurement Activities

In procurement activities conducted across the business units, including domestic and overseas Group companies, the Group will systematically implement the following four items to strengthen cooperation with suppliers and pursue enhancement of management functions and mitigation of latent risks by increasing efficiency and speed in procurement management operations.

1. Strengthening of the supply chain:

We will strengthen mutual communication with suppliers by continuously conducting CSR questionnaire surveys. We will also strengthen the foundation for procurement management by introducing a system that enables unified management of transaction-related information.

2. Legal, regulatory and contract-related matters:

We will practice environmentally conscious procurement in conformance with the Green Procurement Standards (February 2017 Revision) to meet customer expectations by implementing a procurement system capable of responding to the evaluations of third-party auditing organizations, such as the Responsible Business Alliance (RBA)\*.

3. Crisis management:

We will update and enhance supplier information in order to further strengthen the risk management structure globally.

4. Education and awareness-raising activities:

We will seek to increase understanding and awareness of procurement-related compliance by continuously engaging in education and awareness-raising activities within the Group by utilizing training and e-learning.



\* The Electronic Industry Citizenship Coalition (EICC) changed its name to the Responsible Business Alliance (RBA) in October 2017. The RBA is an NGO which major electronic products manufacturers established in 2004 to strengthen efforts to address social, environmental, and ethical issues concerning supply chains by preparing and following a common code of conduct. The RBA independently conducts surveys and audits of the state of compliance with the code.

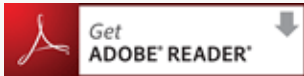


## Environmentally Conscious Procurement

Our Green Procurement Standards for Suppliers identify "prohibited substances" and "substances for which monitoring is required" as defined by laws and regulations as well as additional substances in those categories specified by our customers. In February 2017, the Green Procurement Standards for Suppliers (4th edition) was published with revisions to reflect changes in environmental regulations (link provided below).

In response to the enforcement of the REACH (Registration, Evaluation, Authorization and Restriction of Chemicals) EU Regulations, we have required our suppliers to observe the REACH Regulations since January 2008. We also hold briefings for suppliers of materials and components. At Sumitomo Riko, we will continue reviewing our Green Procurement Standards for Suppliers to reflect changes in environmental regulations in Europe and around the world, and promote a shared understanding among our customers and suppliers.

-  Green Procurement Standards for Suppliers (Japanese only)
-  CSR guidelines for suppliers November, 2014 2nd edition (English 129KB)
-  CSR guidelines for suppliers November, 2014 2nd edition (Japanese 383KB)
-  CSR guidelines for suppliers November, 2014 2nd edition (Chinese 175KB)



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## Procurement reflecting consideration of human rights and workers' rights

We are vigorously promoting dialogue with our suppliers through the CSR questionnaire survey mentioned above and by other means. We also ascertain the status of the CSR activities of our 2nd tier suppliers, in addition to those of 1st tier suppliers, step by step. In this process, we accord particular importance to natural rubber, which we procure mainly from Southeast Asia, and actively engage in initiatives.

As part of these initiatives, the director in charge of procurement and Sumitomo Riko employees, including a procurement manager, make inspections of our supply chain and confirm that there are no problems concerning the working environment and human rights. We visited natural rubber farms and natural rubber processors in Thailand in 2016 and in Indonesia, Malaysia, and Vietnam in 2017. Plans call for further on-site inspections in countries and regions in other geographical areas.

Sumitomo Riko participated in the UN Forum on Business and Human Rights held in Switzerland in November 2016. In a first for a Japanese company, Sumitomo Riko participated in a session as a panelist and presented our initiative on natural rubber procurement. We are promoting sustainable procurement of natural rubber and initiatives for sustainable development of society through communication with various stakeholders.



## Stance on Conflict Minerals

In 2012, Section 1502 of the Dodd-Frank Wall Street Reform and Consumer Protection Act came into force with the aim of stopping armed groups engaged in abuse of human rights in the Democratic Republic of Congo (DRC) and adjacent countries from funding through the sale of certain minerals. Section 1502 requires companies that are publicly listed in the U.S. to report any usage of such "conflict minerals" (gold, tantalum, tin and/or tungsten) to the U.S. Securities and Exchange Commission. We conducted a survey to ascertain usage of such minerals by our Group companies and our suppliers. The survey indicated that a number of tin, tantalum, and tungsten compounds are used in our production processes, but that none of these materials are not from conflict minerals. We continue to conduct a periodic survey in cooperation with suppliers and report the results to customers in a conscientious manner.

## Group-Wide Education on Procurement-related Compliance

Every year Sumitomo Riko holds an in-house seminar on the Act against Delay in Payment of Subcontract Proceeds, Etc. to Subcontractors (Subcontractors Act) for all employees of the Group in Japan, with the head of the procurement department serving as the lecturer. The Purchasing Department, which is a member of the Supply Chain Committee, and procurement departments of each business unit, which are responsible for education and training concerning procurement within each business unit, provide education and training corresponding to practical needs. Needs are meticulously addressed, such as by responding to requests from other relevant departments and affiliates to hold workshops at their premises.

This year's seminar provided an overview of the Subcontractors Act and points that one should be aware of when placing purchase orders, and also included a Q&A session from practical perspectives. Furthermore, education and training for new employees and younger employees as well as e-learning on compliance for all employees are provided periodically to enhance understanding and raise awareness. In addition to the in-house seminar mentioned above, staff of the procurement management departments regularly participate in the seminar on the Subcontractor Act organized by the Small and Medium Enterprise Agency of Japan. Having participated in this seminar, they then provide briefings on the Subcontractor Act at meetings of departments or sections, while also responding to inquiries about practical matters. In this way, they share their knowledge with others throughout the Company.

In March 2015, the Sumitomo Riko Group's procurement rules were established in Japanese, English, and Chinese. Furthermore, we have established a framework for conducting Group-wide education on procurement, also covering subsidiaries and affiliates overseas, through collaboration between the Compliance Committee and the Supply Chain Committee.

## Disaster Prevention Measures

Sumitomo Riko compiled key information on all its suppliers worldwide in 2014 and is making ongoing efforts to create a platform for swift information gathering and dissemination in the event of a major earthquake or other eventuality. In 2016 we updated this list of key information and also included information on secondary suppliers in order to establish a risk management structure with greater accuracy and swifter action.

At the end of 2015, the Company introduced a web-based safety confirmation system to disseminate information to suppliers in a timely manner in the event of an earthquake or other disaster that suppliers can use to inform the Company whether there is any impact on supply. This enabled swift initial response even when the Kumamoto earthquake occurred in April 2016. We were also able to effectively implement countermeasures for the earthquake. In 2017 we began global application of this system, starting with the China area.

Going forward, we will continue conducting a periodic survey of the implementation statuses of suppliers' business continuity plans (BCPs) worldwide in cooperation with them and reflect the findings in our disaster prevention measures.

## Creating Systems for the Future

Sumitomo Riko will cooperate with suppliers around the world to establish a global procurement structure to maintain fair relationships with suppliers based on CSR. We are creating flexible systems to fulfill our responsibility of ensuring supply of products to our customers in the event of a disaster.

 **SUMITOMO RIKO Company Limited**

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Dialogue with Stakeholders

Shareholders and Investors, Customers, Suppliers and Other Trade Partners, Employees, Local Communities, Global Environment

Interview with the Chairperson of the Board

## Seeing a once-in-a-century grand transformation as an opportunity for dramatic growth



**Chieko Matsuda**

Professor Department of Management,  
Graduate School of Management  
Tokyo Metropolitan University



**Yoshiaki Nishimura**

Chairperson  
of the Board

\* This dialogue is appeared in "Integrated Report 2018".

\* The position titles are as of the date in which the dialogue was held.

## Linking corporate value and public value to create new social value

Automotive technological innovation, such as electrification of vehicles and autonomous driving, is accelerating rapidly, spurred by the tightening of environmental regulations and growing interest in safety and comfort. The Sumitomo Riko Group considers this change in the business environment a once-in-a-century grand transformation and has drastically revised the mid-term management vision in order to pursue expansion of the business scale while simultaneously helping resolve social issues, such as those addressed in the Sustainable Development Goals (SDGs). Yoshiaki Nishimura, the Chairperson of the Board, discusses what is at the heart of 2022V.



## From 2020V to 2022V

### Why was the revision necessary?

**Matsuda** I heard that you just launched the Sumitomo Riko Group 2022 Vision (2022V), having revised the midterm management vision for the period up to 2020 (2020V).

**Nishimura** The business environment surrounding the Group has changed dramatically over the past one or two years. In 2016, when we announced 2020V, U.S. President Donald Trump had not yet taken office, and there was no Brexit. Another environmental change affecting our mainstay automotive parts business is that the shift to electric vehicles (EVs) is rapidly progressing. Faced with this powerful wave of change, we considered a drastic revision of the mid-term management vision necessary so that we can successfully deal with the exigencies of the global business of tomorrow.



**Matsuda** The trends in the automotive industry are global megatrends, aren't they?

**Nishimura** Many of the anti-vibration rubber products, hoses, interior equipment products, and sound controlling/insulation products that we manufacture are delivered to automakers. Until now, our policy stance has been to act in concert with automakers and engage in joint development. The shift to electric vehicles means that anti-vibration rubber products, which have been made for gasoline engines, will be made for electric motors, and that it will also be necessary to make sound controlling/insulation products for use in electric vehicles. Although there won't be a complete transition to EVs in the coming ten years or so, it is predicted that Google, Facebook, and other IT giants will emerge as rivals to automakers.

**Matsuda** Relationships with the suppliers that supply parts to automakers may change dramatically, too.

**Nishimura** The Sumitomo Riko Group does business with many of the world's automakers. Many automakers that operate globally are flexible in terms of their attitude to excellent technologies and have an open policy. Even if a supplier refines a certain technology jointly with one automaker, the supplier is allowed to sell products applying that technology to other automakers.

**Matsuda** In Japan, the principle of self-sufficiency has long reigned supreme. However, in the automotive industry, which competes with the rest of the world, automakers have changed to a policy stance of seeking to collaborate with parts manufacturers and requesting suppliers to openly make proposals. There is a growing sense of crisis reflecting recognition that if a parts manufacturer is passive, it will be left behind. How is Sumitomo Riko reading the changes in automotive trends and how are you responding?

## From an automobile parts manufacturer to a global systems supplier

**Nishimura** We use the acronym "CASE" to describe these megatrends. The "C" is taken from "Connected." Some think automobiles will acquire a new role as communications equipment and the IT industry will become a key player in automobile production. The "A" comes from "Autonomous." IT companies may also lead the way in ambitious development in the area of autonomous driving. The "S," taken from "Sharing," expresses the idea that automobiles will be valued for their functions, rather than as the possessions of individuals. While this may lead to a decrease in production output, automobiles may embody new value in terms of durability, reliability, and price. The "E" comes from "Electrification." Emerging-market countries may promote electrification of cars as a national policy, as a trump card in response to environmental regulations. China is actually moving in that direction.

**Matsuda** So, parts manufacturers must not only look at automakers but also be conscious of consumers. Given that the automotive industry is a business in which the pursuit of scale brings benefits, parts manufacturers that lack a certain scale may perish.

**Nishimura** Automakers are searching for partners capable of supplying high-quality parts globally. The Sumitomo Riko Group is among the top-tier global market share leaders and poised to fulfill a new role as a systems supplier.

## Positioning resolution of social issues as the next pillar of business growth

**Matsuda** On the horizon, beyond 2022V, is the company's centenary in 2029. You have set the challenging target of net sales of ¥1 trillion. I am thinking that you have to lay a solid foundation under 2022V, as a waypoint toward the goal. Is that correct?

**Nishimura** A certain business scale is necessary to inform the world of who we are and what we do. The Sumitomo Riko Group currently has 106 business sites in 23 countries around the world, and I believe that we can't be globally competitive unless we have net sales of around ¥500 billion. However, it would be difficult to reach that level of sales with only automotive parts.

**Matsuda** So is it necessary to cultivate new businesses?

**Nishimura** Yes, under 2020V, in addition to the automotive field, we have entered such fields as infrastructure, housing environment and health and nursing care, and electronics. For instance, in the infrastructure field, we offer hydraulic hoses used in construction machinery and anti-vibration rubber used for rolling stock. Anti-vibration rubber ensures the riding comfort of Shinkansen train cars. In the housing environment & health and nursing care field, we offer seismic dampers. We have heard that in the Kumamoto earthquakes of 2016, homes built using our dampers did not suffer major damage, let alone collapse.

**Matsuda** That is gratifying to hear.

**Nishimura** I should also mention Smart Rubber sensors applied in the health and nursing care field. *Taiatsu Bun-san* mattresses incorporating these flexible sensors made using rubber detect and distribute body pressure to prevent bedsores. Refreshine window films have thermal barrier and insulation functions in addition to preventing the shattering of broken glass. They repel heat in summer and prevent indoor heat from escaping in winter. In the electronics field, we sell products used in toner cartridges. We think that while increasing corporate value through these products, we can increase public value\*1, by which we mean helping resolve social issues, such as those addressed in the Sustainable Development Goals (SDGs) proposed by the United Nations, through technological innovation.

**Matsuda** "Public value" is a new term, I believe.

**Nishimura** A point you make in your book is that the enhancement of corporate value is not the sole overriding imperative for companies. There must have been a compelling mission and purpose and a goal to be permanently pursued that led to the founding of the company or, in other words, pursuit of a corporate philosophy. You call enhancement of corporate value a "left-brain platform" and pursuit of a corporate philosophy a "right-brain platform." Hoping to find an expression comparable to "right-brain platform," we arrived at "public value."

**Matsuda** I find it is an original concept rich in meaning.

**Nishimura** As you know, there are 17 SDGs comprising 169 targets related to global issues, and nearly all the social issues Sumitomo Riko should address are included. We believe that we can contribute even more in areas such as social infrastructure investment, environmental and energy problems, the aging of society, and preventive medicine by using the latest technology to help resolve these social issues.



\*1 Public value:

Public value is an objective independently established by Sumitomo Riko. It includes contributions to society and communities through the resolution of social issues, provision of employment, and other activities. Specifically, Sumitomo Riko aims for enhancement of environmental technology, development of environmentally friendly products, zero occupational accidents, and business expansion in emerging-market countries.

# The Sumitomo Spirit and the SDGs

**Matsuda** That's great. Incidentally, when you consider what Sumitomo Riko aspires to be, there is also the Sumitomo Spirit...

**Nishimura** The Sumitomo Spirit is the foundation on which the Group's business operations are based. However, since the terms *Shinyo-kakujitsu*\*<sup>2</sup> and *Fusu-furi*\*<sup>3</sup> do not encompass everything, we coined the term "public value." If you really think about it, the roots of the Sumitomo Spirit and the SDGs are one and the same. Teigo Iba, the second Director-General of Sumitomo, laid the foundation for Sumitomo as it exists today. When he was manager of the Besshi Copper Mines, he implemented a project of planting a million trees each year on mountains stripped bare in the course of development spanning many years. Our predecessors at Sumitomo were keenly aware of both their business responsibility and their social responsibility.

**Matsuda** The Sumitomo Spirit contains principles that should be universally treasured. It simultaneously refers to the importance of economic value and warns against the pursuit of immediate gains or unethical, unfair profits. However, some tweaking may be required to convey the meaning to young people or those of other nationalities.

**Nishimura** It may be difficult to convey the profound implications of the terms *Shinyo-kakujitsu* and *Fusu-furi* written in kanji characters. That is why we came up with the concept of public value linked to the SDGs and are endeavoring to explain it.

**Matsuda** The question is how to create a bridge between the wisdom of our forerunners and people today, isn't it?

\*2 *Shinyo-kakujitsu*:

This expression succinctly summarizes Article 1 of the Business Principles of the Sumitomo Spirit: "Sumitomo shall achieve prosperity based on a solid foundation by placing prime importance on integrity and sound management in the conduct of its business." It proclaims the importance of valuing integrity above all else in business.

\*3 *Fusu-furi*:

Article 2 of the Business Principles in the Sumitomo Spirit states, "Sumitomo's business interests must always be in harmony with the public interest. Sumitomo shall adapt to good times and bad times but will not pursue immoral business." This emphasizes the importance of harmonizing business gains with the public interest and rejects the pursuit of temporary, short-term profits or easy gains.

# Corporate governance befitting a global enterprise

**Matsuda** Looking at the business performance of Sumitomo Riko during the past year, I get the impression that although sales are steadily growing, profits are not keeping pace.

**Nishimura** We cannot compete globally without a certain business scale. The recent rampant inclination of certain countries to pursue their own interests, a theme to which President Trump frequently refers, suggests that it is also necessary to increase the number of production sites so as to engage in local production for local consumption on a global scale. As a result, we now receive orders from not only Japanese companies, but many foreign companies as well. But although such initiatives lead to higher sales, it takes time for production to ramp up and the costs of starting up new plants mount, and profits have not developed as planned.

**Matsuda** You are also actively engaging in M&A.

**Nishimura** We acquired four overseas companies in 2013. Those four companies finally went into the black collectively in fiscal 2017 after previously operating unprofitably.

**Matsuda** According to a survey by the Ministry of Economy, Trade and Industry and other institutions, fewer than 20% of the companies listed on the First Section of the Tokyo Stock Exchange have engaged in multiple cross-border M&A deals. Although we get the impression that M&A deals are a daily occurrence, they are relatively infrequent. And although the number of companies that consider their cross-border M&A deals successful has recently increased a little, even so it is only about 30%. This suggests that Sumitomo Riko is accumulating valuable experience.

**Nishimura** Some companies look only at the near term and quickly sell off acquired companies that do not produce the expected results. However, we look at business from a long-term perspective, and results seem to finally come only after the injection of capital and human resources.

**Matsuda** So the target of net sales of ¥1 trillion in 2029 when Sumitomo Riko celebrates its centenary is reasonable provided the global business structure is strengthened.

**Nishimura** We began discussing net sales of ¥1 trillion when things were at low ebb after the collapse of Lehman Brothers. And then following the Great East Japan Earthquake, which dealt a heavy blow to people's spirits, we held an overnight brainstorming retreat for young employees to consider the company's future and come up with a positive objective. The objective that emerged from the retreat was net sales of ¥1 trillion. At that time, our net sales were only about 230 billion yen.

**Matsuda** What key performance indicators, other than sales and profits, does Sumitomo Riko use and disclose?

**Nishimura** As is the tendency nowadays, we accord importance to return on equity (ROE: return on equity attributable to owners of the parent company). In 2022V, our targets are an operating profit ratio of 5%, return on assets (ROA: operating profit to total assets) of 6%, and ROE of 7%.

**Matsuda** There's room for improvement in ROE, isn't there?

**Nishimura** Yes, there is. Since the Ito Report\*<sup>4</sup> recommended a minimum ROE target of 8%, that figure became a common target even though it is not mentioned as much as previously nowadays.

**Matsuda** That is an astute observation. Given that far too few companies paid attention to capital efficiency at the time the Ito Report was issued, the figure of 8% was probably included in the report as an easy-to-understand target. However, perhaps because it was thought that only superficial ROE improvement had been made an objective and companies remained inattentive to the primary issue of capital efficiency, the cost of capital has been included in the recent revision of the Corporate Governance Code\*5.

**Nishimura** If the cost of capital were the only focus of attention, we might be forced to largely abandon efforts to create new businesses and new customers. A perspective emphasizing the nurturing of businesses over the long term, not a short-term perspective, is necessary.

**Matsuda** I think that without question there are businesses that must be developed over ten to twenty years. At the same time, investors love to hear from diversified companies that they are building effective business portfolios, including such businesses, and that synergies generated between businesses and products are making one plus one equal three. Creating an effective business portfolio necessarily involves deciding which businesses to invest in and which to withdraw from.

**Nishimura** It is risky to make such decisions solely from the perspective of efficiency. We consider the continuity of companies. This is another aspect of the Sumitomo Spirit. Achieving net sales of ¥1 trillion in 2029 hinges on our ability to develop a management foundation capable of competing globally on the basis of 2022V. To succeed, we must accomplish the three business strategies: "Creation of new businesses and new customers," "MONOZUKURI innovation," and "Strengthening of global business foundations."

**Matsuda** What are your views on shareholder value?

**Nishimura** I accord importance not only to increasing the share price, but also to providing shareholder returns in the form of long-term, stable payment of dividends. Considering Japan's super-aged society, since seniors cannot live on short-term trading of stocks, I think it is important to create a framework for rewarding loyal shareholders with dividends.

**Matsuda** I think that is a sound way of thinking. Excessive pursuit of gains in the short-term share price makes a share price decline all the more likely. Continuously delivering solid business performance leads to the enhancement of true corporate value over the medium to long term and also has an effect on the formulation of a fair share price.

**Nishimura** Share price and market capitalization are not the only measures for evaluating companies. They are also evaluated in terms of their social sustainability, which has a longer time span. If we think of the share price and market capitalization as measures of corporate value, then social sustainability is a measure of public value. I want to articulate a vision that strikes a balance between these two types of value.

\*4 Ito Report:

The Ito Report was compiled in a Ministry of Economy, Trade and Industry project chaired by Hitotsubashi University Professor Kunio Ito and issued in August 2014. The aim of the report was to achieve the penetration of "Japanese-style ROE management" and is a guideline for achieving sustained growth based on a relationship of collaborative creation, not antagonism, between companies and shareholders. It promotes management grounded in a long-term perspective through innovation and places importance on non-financial information.

\*5 Revision of the Corporate Governance Code:

The Corporate Governance Code, guidelines for corporate governance providing a code of conduct to be observed by listed companies, was revised in June 2018. The revision incorporates 1) strengthening of explanations of the rationale for cross-shareholdings 2) strengthening of the role of asset owners, 3) strengthening of the effectiveness of the Board of Directors, and 4) strengthening of explanations of management strategies.





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Dialogue with Stakeholders

Shareholders and Investors, Customers, Suppliers and Other Trade Partners, Employees, Local Communities, Global Environment

Top Management's Dialogue

## A Company that Fulfills an Essential Role in the World of 2030

The Sustainable Development Goals (SDGs) and Management of Sumitomo Riko



President & CEO  
**Tetsu Matsui**

Representative, IIHOE  
(International Institute for Human,  
Organization and the Earth)  
**Hideto Kawakita**

Chief Researcher, Research  
Division, Daiwa Institute of  
Research Ltd.  
**Mariko Kawaguchi**

Chairperson of the Board  
**Yoshiaki Nishimura**

Executive Vice President  
**Toshihiko Ozaki**

\* This dialogue is appeared in "Integrated Report 2017".

\* The position titles are as of the date in which the dialogue was held.

## Taking initiative for yourself Where you will be in 13 years from now

**Nishimura:** We formulated the Sumitomo Riko Group 2020 Vision ("2020V") in 2016, setting our financial targets as well as non-financial KPIs (key performance indicators) for the first time, anticipating the centenary of the Sumitomo Riko Group in 2029. The management of the Company is approached from a long-term perspective, in accordance with the Sumitomo Riko Group Management Philosophy and the Sumitomo Spirit. The discussion today is about how we should try to incorporate the Sustainable Development Goals (SDGs\*1) that were adopted unanimously by the United Nations General Assembly into our management of the business, and what practical measures we could take in doing so. I have invited two experts in this field to join us, and I hope we can enjoy a frank exchange of views.

**Kawakita:** The year 2029 will be an important one for Sumitomo Riko, being its centenary, while the deadline for accomplishing the SDGs is 2030. The question is thus what will the world be like by then, and how will Sumitomo Riko need to change during this period. Looking at the Company against the global backdrop helps to clarify the areas and objectives where action will be required.

**Kawaguchi:** I think that initiatives are incorporating the SDGs as a framework and involve supply chains will become the norm. Leading companies are now incorporating SDGs into their long-term strategy.

**Nishimura:** Over the past year, we have seen Britain vote to leave the European Union and the United States, under the Trump administration, decide to withdraw from the Paris Agreement\*2 that sets new CO2 emissions reduction targets. What do you think might be the impact of these decisions?

**Kawakita:** The United States is unable to leave the framework of the Paris Agreement before 2020. The new policy of putting America first might be able to protect jobs, but even American commentators have pointed out that in the long term it would lead to growth opportunities going elsewhere. Large corporations, universities and state governments do not necessarily agree with President Trump's policy, and I think the auto industry will accelerate its efforts to realize a low-carbon future.

**Matsui:** SDGs concerning climate change and other environmental themes are relatively easy to grasp, but other fields are less clear. What do you think might be a good approach to convince our employees of the value of the SDGs?

**Kawakita:** One way could be to start by asking how old you would be in 2030, which is 13 years away. The employees currently in their 20s and 30s are the backbone of the workforce. Let them imagine who their customers will be then and what concerns their customers might have. It is important to let your employees consider the relationships between them and the society and take initiative for their future.

**Kawaguchi:** There is probably less opportunity to influence the middle managers currently in their 40s and 50s who are responsible for managing budgets. However, an understanding of what the SDGs involve might not develop among the younger employees unless there are actual opportunities to influence them before they are promoted to managerial positions. The other day, I was interviewed for an internal newsletter of a major manufacturing corporation. Roughly half of the discussion was about the SDGs, and I treated the subject in an engaging way so that employees including factory workers would be encouraged to read it. This newsletter will have a print run of nearly 100,000, including English and Chinese editions as well. Internal newsletters are actually read by quite a lot of people including family members.

**Nishimura:** We also have an internal newsletter. We plan to issue one that features the importance of environmental matters, given the current issue of the Paris Agreement. I would like it to raise the subject of the SDGs as well.

\*1 SDGs:

The abbreviation of Sustainable Development Goals. Consisting of 17 goals and 169 targets, they are to be achieved by 2030. There are high expectations of active participation by companies.

\*2 Paris Agreement:

Adopted at the 21st Conference of Parties to the United Nations Framework Convention on Climate Change (COP21) held in Paris in 2015, the agreement is an international accord to mitigate global warming. It aims to keep the increase in the average global temperature to well below 2°C compared to pre-industrial levels, while pursuing efforts to limit the temperature increase even further to 1.5°C.



## Ability to forecast sudden social changes and take action in advance



**Kawaguchi:** The SDGs are not just some theoretical issues that are not of our concern. They have practical value. Screening your company's activities from an SDG-based perspective can highlight risks you might not have considered previously. For example, when a large French apparel manufacturer discovered that the cashmere goats that are the source of cashmere could be under threat of extinction, it was able to take steps ahead of its rivals to procure from other sustainable suppliers. A similar exercise could reveal new risks relating to resources such as natural rubber or naphtha.

**Ozaki:** I'm telling the Company that we should conduct an analysis to study how the SDGs are linked to our businesses. Once we have analyzed the connection, that would significantly boost the understanding of our employees.

**Kawakita:** In the wake of the Paris Agreement, all the major players in the auto industry have announced that their long-term policy goal is to move from gasoline to hydrogen or electricity, and from engines to motors. Ten years from now, we will be talking about "mobility" rather than "automobiles." We may even have flying cars (laughter).

**Kawaguchi:** Change is occurring at an unprecedented rate. When considering the SDGs, rather than pursuing an approach in which inhouse technologies are tailored to external change, it might be better to adopt another approach. First, consider social issues, and change the Sumitomo Riko Group based on them.

**Kawakita:** Yes, it is important to consider other standpoints. In many developing countries, women and children spend a large part of each day carrying water. If we want to improve their education, first we must find a way of reducing the time spent transporting water, and the challenge then is to find an effective solution for distributing water in a way that minimizes leakage. Once the issue has been defined, it can lead to new business opportunities.

**Matsui:** Relying only on first world thinking will not help you solve the problems of developing countries.

**Kawakita:** Another thing that should be considered is whether value creation is mainly internal or external. If we think of the value chain from procurement to usage and how it relates to, say, carbon dioxide, I think we should be focusing more on the functions and products that could reduce emissions during the usage phase rather than considering only the emissions during production.

**Kawaguchi:** I think your company's electrically conductive "Smart Rubber" has great potential. Looking beyond the automotive sector, in combination with AI it might contribute to aged care, the treatment of the sick, or the construction of more resilient cities.



**Nishimura:** Based on the Group's core competencies in polymer materials technology and comprehensive evaluation technology, we have secured the top share of the global markets for anti-vibration rubber and automotive hoses by proactively proposing solutions that anticipate the needs of our customers. Until now, we have focused primarily on products that make driving more comfortable. Looking ahead, though, we think the key to success will be in conceiving new ideas for solutions for problems that are affecting society beyond the automotive sector.

**Kawakita:** It is also important to hone core competencies in collaboration with other companies. Effective alliances with other firms are the fruits of hard work and foresight. It is essential to conceive new ideas. Besides developing practical technology, I think it is also important to develop relationships and connections that allow you to do some blue-sky development as well.

## Keeping up with global trends

**Matsui:** Managing Executive Officer Hirohisa Maeda and I attended a conference hosted by the International Corporate Governance Network (ICGN<sup>\*3</sup>) this March in Washington DC. Many international investors took part, and the SDGs and ESG<sup>\*4</sup> were both discussed as themes. We were the only Japanese company represented at the conference. Attention has recently been focusing on ROE in Japanese management circles, but I wanted to find out directly from investors themselves what they are thinking.

**Kawaguchi:** It is wonderful that the very top management took the initiative to go to an event for investors.

**Matsui:** When we talked to them, we found that investors were extremely interested in finding solutions to global problems. They also understood our management approach based on taking a long-term view in accordance with the Sumitomo Spirit.

**Kawaguchi:** Investors have recently begun to position the SDGs at the heart of ESG investing because they constitute a common international language. Having recently announced the Japanese version of the Stewardship Principles, GPIF<sup>\*5</sup> requires that asset managers put in place the appropriate governance structures. It was previously more a case of just signing up to the Principles for Responsible Investment (PRI<sup>\*6</sup>), but now asset managers have to develop systems and train personnel. Thanks to the growing requirement for ESG-oriented investment, the SDGs have emerged as a major theme. Asset management firms are required to create evaluation systems based on the SDGs by GPIF. Over time, you are bound to get more and more SDG-related questions in your dialogues with investors.

**Matsui:** We had a lunch meeting with ISS<sup>\*7</sup>. They were saying that investors are looking not only at ROE, but also at ESG. There has also recently been a shift toward a more long-term investment stance.

**Nishimura:** In the old days, even if we went to the United States, it would just be to visit a factory before returning home. Moving forward, though, we will need to listen more to external parties if we want to manage the business from a global perspective. It will be vital to keep up with global trends.

**Ozaki:** The SDGs also address employment and economic growth. Much of the regulatory infrastructure developed by Europe, the U.S. and the rest of the developed world has a role to play in dealing with the problems of inequality and poverty, but just adding more regulation will only succeed in slowing the growth of industry within developed countries. How should we deal with this situation?





**Kawakita:** From the viewpoint of developed countries, you could view the SDGs as essentially the seeds of business initiatives in the form of social issues. Growth can no longer be sustained simply on the wage differentials between different parts of the world. While interest in human rights, the environment and other issues has increased in Europe and the U.S., in China they are now starting to take serious action to reduce water and air pollution. The issues are certainly pressing. In this context, the SDGs have the potential to foster rapid growth in the future, with education and empowerment to the fore. We must take up the challenge, ensuring young employees and people throughout the world get involved.

\*3 ICGN:

The abbreviation of International Corporate Governance Network. ICGN promotes standards of corporate governance and provides support and advice on CG implementation.

\*4 ESG:

ESG (environment, society, governance) are areas in which companies are required to show consideration and responsibility when engaging in business activities.

\*5 GPIF:

The abbreviation of Government Pension Investment Fund. GPIF is the world's largest pension fund headquartered in Japan.

\*6 PRI:

PRI, the abbreviation of "principles for responsible investment," is an investor initiative in partnership with the UN Environment Programme - Finance Initiative and the UN Global Compact. The GPIF signed the PRI in September 2015.

\*7 ISS:

The abbreviation of Institutional Shareholder Services Inc. ISS is the world's largest proxy advisory firm.





## Link between the Sumitomo Spirit and the SDGs

**Nishimura:** We have a valuable lesson within Sumitomo's corporate history. By the time Sumitomo's second Director-General, Teigo Iba, took charge of the Besshi Copper Mines, the years of development around the mine had denuded the mountain of tree cover, to the point where rapid runoff was causing floods. His response was to plant a million trees every year to restore the mountain to its original verdant state. This initiative, which happened more than a century ago, was based on the Sumitomo Spirit. In my opinion, the SDGs and the Sumitomo Spirit have the same ethical foundation. The issue is how we communicate this to our employees.

**Kawakita:** How about instituting a system of internal awards to recognize ideas that connect the business with the SDGs?

**Kawaguchi:** Brainstorming sessions chaired by younger workers might also be fruitful.

**Matsui:** We already hold automotive-related brainstorming sessions about once every three months in which we invite executive advisors, as well as advisors from overseas, to attend. Lately we have been discussing the future of electric vehicles. I think we could do something similar related to the SDGs.

**Kawaguchi:** Going back to communicating this initiative, the Manager of Sumitomo Riko's CSR Planning Office gave a presentation at the annual UN Forum on Business and Human Rights that was held in Geneva, Switzerland. She was the first representative from a Japanese company to speak at such a session. The fact that a Japanese woman was speaking at this kind of international event attracted a lot of attention.

**Kawakita:** Even a short press release in English about something inspiring like that would tend to make a positive impression outside Japan.

**Matsui:** Three years ago, we launched the Sumitomo Riko Student Essay Award, an essay competition for students. We have only promoted it through social media, but the response has been excellent. We received 106 entries in 2016, and the number is bound to be even higher this year.

**Kawakita:** Including such relationships with students, it is important to cultivate an environment in which diverse people can flourish by respecting differences not only of gender and ethnicity, but also age, culture and values. As the proportion of overseas sales rises, it is vital to recruit and develop local staff.

**Ozaki:** We have corporate bases in China and Thailand that take responsibility for local staff training and development. We are gradually seeing the results of embracing diversity across the Group.

**Kawaguchi:** This is the fifth year that I have been coming to Sumitomo Riko. Every time I come here, I feel that it has an open culture. These types of reports can become overly formal, and I think it would be good to modify the content slightly to help bring out the individuality of management. For example, the fact that executives went to an ICGN conference is something you could publicize.



**Kawakita:** Some B2B enterprises mistakenly think they do not need external communications. The impact of communicating to external audiences is perhaps greatest for employees, and especially for those working in sales. When customers are aware of what the vendor is doing from such communication, the conversation will often go much smoother than if the salesperson tells the customer what the company is doing. It is also important to make the non-financial information appealing by using various modes of presentation.

**Matsui:** There were some aspects of how to incorporate the SDGs into the management of the business that I was unsure about, but now I want us to address this challenge directly, using it to foster the growth of the Group so that we can ensure the Company's survival and become an enterprise that can deal with the huge changes that will affect society as we approach our centenary.

**Nishimura:** As I mentioned earlier, I believe there is a strong link between the SDGs and the Sumitomo Spirit. Our goal is to develop businesses while using dialogues with stakeholders to discuss the specifics and working to raise awareness of this initiative throughout the Group.



 **SUMITOMO RIKO Company Limited**

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**Nishimura:** Since Sumitomo Riko has historically focused on the nuts and bolts of manufacturing, rather than on the environment, society, or governance, some of our people may not yet fully recognize just how critically important these issues are. In the past, according to the typical mindset, it was sufficient if executives focused exclusively on their responsibility for their own business divisions and everything was OK as long as they achieved their performance targets.

**Kawaguchi:** It takes tremendous energy to shift a corporate culture that places emphasis on sustainability both in terms of the company and society. For instance, in Japan where water resources, clean air, stable supplies of electricity, and observance of basic human rights are taken for granted, investment in these areas to make society sustainable tends to be considered a mere cost increase. But in many other parts of the world, whether a company takes these factors into consideration or not has an important bearing on business opportunities and risks.

**Nishimura:** Regulations governing emissions of CO<sub>2</sub> and VOCs (organic compounds that cause air pollution) are being introduced one after another in China and other emerging countries. The Sumitomo Riko Group observes these regulations not only to ensure legal compliance, but also to achieve our goal of becoming a "Global Excellent Manufacturing Company" that contributes to the safety, security, and comfort of human beings, society, and the Earth. It's important to recognize the difference between simply complying with regulations because they exist and complying because it accords with the Group's vision.

\*1 ESG:

ESG (environment, society, governance) are areas in which companies are required to show consideration and responsibility when engaging in business activities. ESG is attracting attention as an evaluation criterion when measuring the investment value of companies.

\*2 KPIs:

Key Performance Indicators

## SDGs and the role of non-financial KPIs

### Reaching out to an evolving investor community

**Kawaguchi:** The viewpoints of investors have changed greatly in recent years. A hot topic among investors today is that Japan's Government Pension Investment Fund (GPIF), the world's largest pension fund, has begun contacting corporations in accordance with Japan's Stewardship Code\*<sup>3</sup> and PRI\*<sup>4</sup> through external asset management institutions, in order to reflect ESG perspectives and other non-financial information in corporate valuations. Many asset management companies have commenced ESG evaluations, too.

**Nishimura:** The trend toward ESG investment is gaining momentum as institutional investors deepen their understanding of ESG, isn't it? What is the global trend?



**Kawaguchi:** Statistics bear this out: as of 2014 the global ESG investment market was worth 21.3 trillion dollars, or 2,560 trillion yen. In Europe, 60% of assets under management are subject to ESG scrutiny. In these circumstances, in 2015 there were two crucially important developments reflecting expectations as to how business will be done in the future worldwide. The first was the establishment of 17 specific action goals and reduction goals to achieve the Sustainable Development Goals (SDGs\*<sup>5</sup>). The second was the agreement to limit global warming to less than 2°C above pre-Industrial Revolution levels reached at the 21st Conference of Parties to the United Nations Framework Convention on Climate Change (COP21), held in Paris.

**Nishimura:** 17 icons represent the SDGs, and I think they depict them in a way that is concrete and readily understood. When we consider the global situation, the COP21 agreement was much essential.

**Kawaguchi:** I agree. In formulating their corporate visions, companies are already setting targets reflecting their unique circumstances and goals, in line with the SDGs and COP21.

**Nishimura:** With regard to the non-financial KPIs that Sumitomo Riko uses, we first prepared 26 initial proposals selected from among 113 items through deliberations in which we referred to the GRI Guidelines, and then we incorporated the most important ones in 2020V. I think that the SDGs dovetail with these non-financial KPIs and our vision.

**Kawaguchi:** It must have been difficult to decide on the non-financial KPIs. After all, people in the company hold various views.

**Nishimura:** We held executive retreats to study management issues in depth, including the non-financial KPIs, and narrow them down. The discussions at the retreats were also an opportunity for participants to deepen their understanding of the issues.

**Kawaguchi:** I think that if you can quantify non-financial objectives, clarify their connection with the SDGs, and develop a narrative to explain how they contribute to financial performance, investors and other stakeholders will understand them. It is important to not merely announce a new product, but to concretely quantify the benefits, such as reduction in CO<sub>2</sub> emissions or of material inputs. But if competitors provide that kind of information first, you have no choice but to follow them. At the same time, in Japan, the GPIF has fueled a sharp increase since April in the number of investors adopting an ESG perspective, and these investors have begun seriously considering how to incorporate this perspective in corporate valuations. At our firm, we received a request from a client that wanted to learn about the environmental policies of various countries, starting with the basics. We advised the client to start by checking the relevance of its strategy to COP21 and the SDGs.

\*3 Japanese Version of the Stewardship Code:

"The Principles for Responsible Institutional Investors" provide a code for a wide range of institutional investors to appropriately discharge their stewardship responsibilities with the aim of promoting sustainable growth of investee companies through constructive dialogue with them and for realizing transparency in activities.

\*4 PRI:

PRI, the abbreviation of "principles for responsible investment," is an investor initiative in partnership with the UN Environment Programme – Finance Initiative and the UN Global Compact. The GPIF signed the PRI in September 2015.

\*5 SDGs:

SDGs, the abbreviation of Sustainable Development Goals, follow and expand on the Millennium Development Goals (MDGs) for the purpose of eliminating social problems such as poverty from the world. They consist of 17 goals and 169 targets relating to sustainability of the human race and the planet, and there are high expectations of active participation by companies. The objective is to achieve the SDGs by 2030.



# Linking employee growth to future product creation

## Changing the corporate structure through steady growth



**Kawaguchi:** I notice that "Increase the percentage of female managers (general managers)" is one of the 26 initial proposals for non-financial KPIs. It would likely require considerable effort to entrench this goal among middle management. There has been a lot of talk recently about promoting diversity through cultivation of an environment conducive to individual success regardless of ethnicity, nationality, gender, age and so on. However, it seems that although executives tend to grasp the importance of diversity and promote it, changing the mindset of middle management is quite a challenge. Immediate superiors in the workplace may not understand the importance of diversity and prejudice against women persists.

**Nishimura:** To be sure, a key challenge for the future concerns the extent to which we can obtain recognition of the significance of the individual non-financial KPIs and ensure their implementation by our employees including middle management.

**Kawaguchi:** I once heard from a specialist who does research on the motivation of people and organizations that whereas people usually think internal training is for selected highly capable people, the proactive provision of training to those who were not given the opportunity dramatically increases individual motivation and is highly effective. It is important to communicate the company's expectations.

**Nishimura:** Sumitomo Riko's management training program to prepare for the future covers all middle managers and is not restricted to selected individuals. We also offer training covering integrated reporting and non-financial KPIs to all employees.

**Kawaguchi:** The Daiwa Securities Group offers lectures given by external instructors for clients of operating companies. Ms. Kimie Iwata, former representative director and executive vice president of Shiseido, recently spoke on the topic "An Active Role for Women." Although her lectures are usually thought to be for human resource directors, many executives from the financial division attended. The lecture was well received, and several participants said that what she had to say was valuable, albeit painful to hear.

**Nishimura:** We had a labor management expert speak to our managers, including those in areas other than human resources. This is because personnel-related matters are of interest to all employees.

**Kawaguchi:** Employees tend to view CSR and ESG as good things but as something superfluous and unrelated to the real business. I wish these concepts could be linked to the work of individual employees to raise awareness. Many Japanese manufacturers possess excellent technology and think that provided they make good products, they will sell and all will be well. However, the important thing is the conception of what constitutes a good product. Even if a product were good for the customers, one group of stakeholders, it would be unacceptable if its manufacture involved environmental pollution or use of child labor. Whereas in the past everything was fine as long as the customer considered the product good, nowadays it is unacceptable to trample on the interests of other stakeholders.

Companies must create products that reflect consideration not only of customers, shareholders, and other economic stakeholders, but also factors such as the environment, workers, and human rights in developing countries. In short, the process of creating products has been brought into question.



**Nishimura:** Even good products won't sell if they don't match customer wants and needs, and companies must meet the wants and needs of society as well as those of customers. I would like to create a growth scenario based on that principle. The ability of companies to manufacture based on an accurate understanding of their stakeholders is being tested.

**Kawaguchi:** Moreover, it is important to incorporate social and environmental solutions into manufacturing itself. For instance, the other day a major IT manufacturer held an ESG meeting for investors where it publicized its development of servers that operate at a room temperature of 48°C and 97% reduction of product CO<sub>2</sub> emissions over ten years. The meeting was a great success.

**Nishimura:** The temperature in our server rooms is 25°C. Does that mean computers are more finicky about room temperature than humans (laughing)? The Sumitomo Riko Group has some promising technologies that are already showing up in products or are approaching commercialization. For instance, Smart Rubber, a functional rubber, is expected to find a major application in the sensors for automatic driving that automakers are now developing, in addition to current applications such as in a bedsores-prevention active mattress and a CRP training sensor (Shinnosuke-kun, Homepage Link, Japanese only). In addition, Refleshine™ is a window film that has excellent heat insulation performance and helps reduce CO<sub>2</sub> emissions.



We designated "Enhancement of environmental technology" as a business strategy in 2020V and will focus on releasing environment-related products in which our technologies are applied. It might sound pretentious, but this is a strategy devised in part to contribute to protecting the Earth. For that purpose, we will continue to undertake product development, contribute to the realization of a sustainable society, and make this strategy a cornerstone of corporate development.

**Kawaguchi:** I think that's a very illuminating perspective. If Sumitomo Riko's vision produces results, employee motivation is likely to increase. The content of middle management and workplace training tends to focus solely on management and rules. Documentation proliferates, and people feel increasingly harried. I think it would be better if training included success stories.

**Nishimura:** There are plenty of failure stories, aren't there (laughing)? For automotive products, which account for a high proportion of our sales, we recently won our first order from a non-Japanese manufacturer in China, an accomplishment honored with the President's Award.

**Kawaguchi:** If accomplishments evaluated based on ESG factors are included among these success stories, not only will more people become aware of the importance of ESG in business but also workplaces will be energized. And, at the same time, external valuation will improve.

**Nishimura:** That is certainly true. I want to see more development of products based on new ideas, as well as progress in reducing CO<sub>2</sub> emissions and the amount of water used in manufacturing processes. In addition, encouragement from customers also motivates use. It may take time, but such factors create a positive atmosphere that will help assure the success of 2020V.

**Kawaguchi:** The dawning awareness of the importance of non-financial KPIs among participants at the executive retreats augurs well for the future. In time, the accumulation of such experiences will likely have a positive impact on the corporate culture, too. I think it would be good if you could visualize the connection between the non-financial KPIs and the Group vision and the extent of their financial impact. It is noteworthy that top management has set an example by shining a light on non-financial KPIs. From now on, harnessing the workplace skills of middle managers is likely to lead to sustainable growth.

**Nishimura:** Thank you, Ms. Kawaguchi. Every time I have the opportunity to have a discussion with you, the direction we should pursue becomes clearer. I hope to continue to benefit from your input in the future.

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 **SUMITOMO RIKO Company Limited****Inquiry**



Dialogue with Stakeholders

Shareholders and Investors, Customers, Suppliers and Other Trade Partners, Employees, Local Communities, Global Environment

 Special Topics~  
 Dialogue with the Third-Party

## From Social Responsibility to a Source of Earning Power.


**Mariko Kawaguchi**

 Chief Researcher  
 Research Division  
 Daiwa Institute of Research Ltd.

**Yoshiaki Nishimura**

 Representative Director  
 Chairperson of the Board & CEO


\* This dialogue is appeared in "Integrated Report 2015".

\* The position titles are as of the date in which the dialogue was held.

## Considering "quality" of profit

**Nishimura:** This is Sumitomo Riko's second integrated report. Although our intention in publishing an integrated report was to place emphasis on our management policy, business model, and other non-financial information, it can also help shape new thinking among young employees and others in the company.

**Kawaguchi:** Although non-financial information, including information about corporate social responsibility (CSR), doesn't appear to be directly connected with current sales or profits, it's a factor that contributes to earnings over the long run.

**Nishimura:** Until now, I paid little attention to ESG\*1 in management. Although I was aware of socially responsible investment (SRI), your report on SRI made me recognize anew that ESG investment is a step beyond SRI. When considering ESG, the question of how to establish key performance indicators (KPI) is important. Although we have quantified our environmental activities using environmental accounting, it seems to me that from now on it will be necessary to use indicators that enable management of overall activities using ESG. By the way, return on equity (ROE) is an indicator that is frequently referred to these days, isn't it?

**Kawaguchi:** ROE is a shareholder-oriented indicator. But a management policy of earning profits only for the shareholders is tantamount to coercing employees and other stakeholders, and it eventually has negative repercussions for the shareholders themselves. As the expression "going concern" suggests, companies have a responsibility to remain in business. I think we should understand the meaning of the term "profit" in the context of earning profits while achieving sustained growth and maintaining appropriate stakeholder relationships in order to benefit society.

**Nishimura:** To be sure, in management we must pay due consideration to all stakeholders. ESG is a guiding principle for that, and the ideal is to increase ROE while attaining a balance between shareholder interests and the interests of stakeholders as a whole.

**Kawaguchi:** Although some companies buy back their own shares to increase ROE, I think that they should focus on increasing net income, the numerator of the ROE equation. Although capital efficiency is also important, I think that focusing attention solely on reducing shareholders' equity, the denominator, goes against the original intention. The intent of the Ito Review\*2, which came up with a target ROE level of 8%, was that there must be collaboration between the industrial and financial communities for Japanese companies to achieve long-term value creation. The review also mentions expectations for integrated reports that include non-financial information as a means of achieving this. From now on, the number of investors who make investment decisions from a multifaceted perspective that includes management philosophy, long-term strategy, leadership, and ESG factors is likely to increase.

**Nishimura:** KPIs that take into account that perspective will become necessary, won't they?

\*1 ESG:

ESG (environment, society, governance) are areas in which companies are required to show consideration and responsibility when engaging in business activities. ESG is attracting attention as an evaluation criterion when measuring the investment value of companies.

\*2 Ito Review:

The Ito Review was compiled as part of a project of the Ministry of Economy, Trade and Industry chaired by Professor Kunio Ito of Hitotsubashi University. The aim of the project was penetration of "Japanese-style ROE management" as a guideline to lead to sustainable growth through a favorable relationship, not confrontation, between companies and investors. It places emphasis on non-financial information and promote management from a long-term perspective enabled through innovation.

## Understanding the trend toward ESG

**Nishimura:** Sumitomo Riko has articulated a long-term vision for growth through selection and concentration on the basis of our expertise in polymer materials technology in six growth markets: automotive; information and communication technology (ICT); infrastructure; dwelling environment; medical, nursing care and health; and resources, environment, and energy. However, even though we explain our long term vision at results briefings and other venues, the interest of analysts tends to focus on short-term business results. Since business performance in fiscal 2014 was rather poor, we had no choice but to focus tightly on an explanation of the business results and countermeasures.

**Kawaguchi:** Since the number of analysts who specialize in ESG has been increasing recently, why not hold IR meetings focused on ESG? For instance, you might have a dialogue with ESG analysts about the social value of, and growth scenarios for, the "medical, nursing care" and health business or the "resources, environment, and energy" business.

**Nishimura:** I see. We definitely want to approach new investor classes. I've heard that nearly half the investment funds in the UK are ESG-related funds.

**Kawaguchi:** The UK is a nation built on finance, and you can sense its strong desire to lead the world of finance. To the British, ESG investment is one form of 21st century financial innovation.

**Nishimura:** Will the behavior of institutional investors in Japan change with the introduction of the Japanese Version of the Stewardship Code\*<sup>3</sup>?

**Kawaguchi:** By June 11 of this year, 191 institutional investors had signed the code. The GPIF\*<sup>4</sup>, one of those investors, has stated in regard to its medium-term objective that it will "Consider taking into account ESG, a non-financial element." I think this movement will gain impetus.

**Nishimura:** Sumitomo Riko is currently at the stage of considering the "2020 Group Vision." I think that we must incorporate the ESG concept into our next management plan with a view to realizing high-quality sales and profit that will lead to enhancement of corporate value.



We want to approach new investor classes.

**Kawaguchi:** The ESG concept may be better suited to new business areas with clear social aspects. The combination of conductivity and the supple texture characteristic of rubber realized with Smart Rubber, introduced in last year's report, left quite an impression on me. I sensed the potential for creating products that will find acceptance among seniors and children.

**Nishimura:** Smart Rubber is conductive rubber that defies the conventional wisdom. It's a material that we expect to see appearing in motion sensors and various other applications. We want to create and nurture a number of products beneficial to society.

\*3 Japanese Version of the Stewardship Code:

"The Principles for Responsible Institutional Investors" provide a code for a wide range of institutional investors to appropriately discharge their stewardship responsibilities with the aim of promoting sustainable growth of investee companies through constructive dialogue with them and for realizing transparency in activities.

\*4 GPIF:

The Government Pension Investor Fund, the world's largest pension fund, invests public pensions in Japan. In November 2014, GPIF reviewed its investment policy and announced that it would increase the proportion of stocks in its portfolio.

## Looking ahead to a new era



CSR is a coefficient of business strategy.

**Kawaguchi:** In business development, it's also necessary to pay attention to risks. Overseas expansion is a key challenge in the automotive products business and other fields, and doing business overseas entails human rights risk and water risk. The situation is so serious that there have even been cases of companies being forced to relocate plants built in China because of severe water shortages.

**Nishimura:** Since the number of business sites we have in emerging countries has increased, we need to pay greater attention to such risks.

**Kawaguchi:** It's important to consider the positive aspects of such risks as an opportunity even while minimizing them. There have recently been calls to build national resilience, and "resilience"\*5 and "ethical"\*6 have emerged as key concepts.

**Nishimura:** From the perspective of resilience, I think that preparation for a possible major disaster is necessary. We make dampers for large structures and for wooden houses. Although it might be a stretch to call it an ethical product, one environmentally friendly product we offer is "Refreshine™" heat insulation window film.

**Kawaguchi:** Both are examples of products that can make valuable contributions to the sustainability of society.

**Nishimura:** In addition, we are proceeding with development of an active mattress, walking assist suit, and other nursing care products made using Smart Rubber, the material you mentioned. We are also working on prototypes of a bedsore prevention mattress for guide dogs.



**Kawaguchi:** For sustainability, it's important to make social contributions integral to the actual business, isn't it? The case of a certain real estate developer provides an example. The developer has a popular social contribution initiative to encourage volunteer activities by employees, which invites employees those likes countryside life, to the activity of cultivating abandoned rice paddies and fields in Yamanashi Prefecture to grow rice and vegetables. Then the company proposed the activity as a service for the residents of condominiums it has developed, and it has become a highly popular service. I think there might be an opportunity for the developer to sell high-rise condominiums that come with fields in the countryside. This is an example of a social contribution activity contributing to a company's business.

**Nishimura:** This example shows that CSR and ESG also serve to uncover latent demand among stakeholders.

**Kawaguchi:** Something that begins as a way of contributing to society can become a business somewhere along the way.

**Nishimura:** We have a social contribution activity we call the "Beauty Caravan" in which we collaborate with a university and an NPO to help bring some joy to the lives of elderly people living in nursing homes by offering them an opportunity to pamper and beautify themselves. It has been confirmed that beauty treatment has a beneficial effect in patients with Alzheimer's disease, and we are trying to find a way of achieving linkage with the nursing care and health business.

**Kawaguchi:** CSR also involves meeting stakeholder needs that don't constitute a viable business opportunity. Beauty Caravan may be a case of bearing the cost of meeting needs as a social contribution cost until those needs reach a certain scale, after which they are developed as a business.

**Nishimura:** That's another role of CSR, isn't it?

**Kawaguchi:** An increasing number of young people today attach greater importance to social contribution than personal advancement at work and place importance on ethical considerations when buying things. Isn't it necessary for companies to prepare now for a future in which these people play a leading role?



**Nishimura:** In our core automotive products business, procurement positions are increasingly held by younger people. One approach might be to ensure that people understand that superiority in environmental and social responsibility is a form of value and give us credit for this.

**Kawaguchi:** Recently I have come to think that CSR is a coefficient of business strategy. I mean that if a company's business is multiplied by a high coefficient, corporate value itself increases. In business development in the ICT field, this equation is likely to become increasingly evident.

**Nishimura:** So, formulating a solid business strategy and integrating CSR activities and ESG factors into management contributes to sales and profit. These days CSR should be considered a source of a company's "earning power," not a cost. Thank you for your thoughts today.

\*5 Resilience:

The use of a term employed in psychology and other contexts to express the ability to recover from difficulties has recently been expanded to economics and accident prevention. In Japan, the term "national resilience" is used to express the notion of adapting to difficulties through "strength" and "flexibility."

\*6 Ethical:

Recently the work "ethical" is used to refer to the consumption activity of choosing products beneficial to the environment or society. The concept includes eco-friendly products, fair trade products, and local production for local consumption.

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The logo for SUMITOMO RIKO Company Limited, featuring a blue four-pointed star icon to the left of the company name in a blue sans-serif font.A rectangular button with the word "Inquiry" in a blue sans-serif font. A small blue triangle is located in the bottom right corner of the button.





The Factory Dialogue was undertaken to find out how SRK-HT could more effectively cultivate relationships with people in the local community, fulfill its social responsibility, and pursue collaboration to resolve social issues. We asked the dialogue participants listed above to express their views on SRK-HT's initiatives, including their evaluation and expectations, from their perspectives.

Representative Director and Executive Vice President Ozaki, Director and Managing Executive Officer Matsuoka, and Director and Managing Executive Officer Naito represented Sumitomo Riko, and Director Hayase, Director Sakai, and Human Resources and General Affairs Department General Manager Kamimura represented SRK-HT.



### In their own words

#### The role in community development and vitalization expected of SRK-HT

- Although CSR takes many forms, the creation of employment opportunities in an area experiencing a trend of population and birthrate decline and population aging is the best way to contribute to vitalization of the local economy and community development.
- Ayabe City aims to provide wide-ranging assistance to people with disabilities and has newly enacted the Ordinance on Establishment of Sign Language and Promotion of Diverse Means of Communication. I'm truly grateful that SRK-HT has provided realistic, attentive assistance, such as provision of a place for selling bread made by a facility for hearing impaired people, in advance of the ordinance.
- Although ties between the citizens of Ayabe and companies tend to be weak, both the community and SRK-HT will benefit if this dialogue serves as a catalyst for community-based CSR activities that deepen understanding of SRK-HT and motivate local young people to work for the company.
- The number of people moving to Ayabe from other areas, attracted by the city's rich natural environment, is increasing. I'd like SRK-HT to turn its attention to environment-related CSR activities, such as a model forest project.
- I would like to see SRK-HT cooperate in further raising the brand power of the Monozukuri Town Ayabe concept by continuing to cooperate in events and projects related to community development, such as the Industry Festival and Minatsuki Festival, and actively hosting plant tours for local elementary school students or people from other areas.
- I think that if SRK-HT cooperated in an overseas trainee acceptance program, it would lead to broad-based employment and community vitalization.

## Ways of sharing and resolving local issues using a wide-ranging cooperative framework between SRK-HT and the community

- To get a sense of local issues, it's necessary to actively create touch points between employees and the community. To start with, why not try participating in local events?
- The community is concerned about the impact of plant emissions on our water and air. I'd like SRK-HT to utilize technologies it has applied to meet Kyoto Prefecture's stringent environmental standards as a good touch point with local companies.
- I hope that SRK-HT will help vitalize the community by strengthening ties with local industry as a company, not merely by forming a closed-loop market globally, for the purpose of cooperating with the Monozukuri Town Ayabe concept continuously, not intermittently, so that the scope of cooperation under the Monozukuri Town Ayabe concept expands.

## Evaluation of the social (community) contributions of SRK-HT and the Sumitomo Riko Group and future expectations and possibilities

- I'd like SRK-HT to participate in various events and engage in high-profile public relations activities to enable demonstration of synergistic effects from touch points between employees and community residents.
- From the perspective of protecting the community and creating an appealing community, it would be great if SRK-HT employees and the company itself were more proactively involved in neighborhood association activities.
- We see cases where people who have moved here from outside and Ayabe natives are at cross-purposes. Now, well-balanced community contributions suited to local needs are being made via the Ayabe Volunteer Center: for example, use of a subsidy to create a new mechanism for association between these two types of resident.
- The Sumitomo Riko Subsidy for Developing the Dreams, Town and People, as the name suggests, is a great mechanism for supporting citizen activists. I hope that SRK-HT and the Sumitomo Riko Group will continue to join hands with local residents and spread community development through citizen and volunteer activities to help energize Ayabe.

## Further development together with local communities

Through this factory dialogue, we received many valuable opinions and ideas from people in the community. Above all, we became aware of the potential for further development of Ayabe as a garden city by means of "attentive" community development through citizen and volunteer activities derived from the rich natural environment, the culture and monozukuri spirit gratefully inherited and passed on, the warm-heartedness of the people, and local characteristics. We are proud to be able to manufacture in a community endowed with such advantages. We also learned that we are expected to help foster the next generation of community leaders by offering manufacturing-related employment opportunities. Both the Sumitomo Riko Group and SRK-HT engage in business activities aimed at building close ties to local communities and want to join hands with our stakeholders to contribute to the future of our host communities and Japan and to global prosperity.

(Held in March 2018. The positions and titles of participants are as of the time of the dialogue.)





In this Factory Dialogue, to find out how better Tokai Rubber could fulfill its future social responsibility, we asked the abovementioned representatives of the local residents and administrators of Komaki City to express their opinions from their respective standpoints on Tokai Rubber's past and future CSR efforts. Tokai Rubber was represented by Toshihiko Ozaki, Director and Executive Vice President; Katsunori Kanaoka, Managing Executive Officer; Yoichi Hisaoka, Managing Executive Officer; and Manabu Hibino, director of the CSR Committee secretariat.



## Participants' voices

### ——How should Tokai Rubber interact with local communities?

- Tokai Rubber can make a good use of its abundant knowledge, wisdom and human resources for local welfare. I would like to see Tokai Rubber employees as local residents actively participate in and cooperate with grass-roots activities that promote collaboration and solidarity in the City.
- As population aging advances, our society is confronted with numerous serious problems even at the local level. We would like to work together with Tokai Rubber on such challenges, acting as fellow residents.
- Information from the police to Tokai Rubber regarding community safety and security may be relayed from the employees to their families and neighbors. This could be one major way to contribute to society.
- I would like to see more opportunities for mutual consultation regarding health and nursing care to find out what we can do together using Tokai Rubber's products.
- With its rich experience and performances, Tokai Rubber can serve as a model of business globalization to support local small and medium companies.
- We would like to promote together with Tokai Rubber longterm programs that contribute to society, including opportunities for youths on probation to take part in Tokai Rubber's CSR activities as part of their rehabilitation program.
- I propose a greeting campaign; I would like to see Tokai Rubber people taking the lead in strengthening their ties with local residents by exchanging greetings regularly.

### ——How do you evaluate Tokai Rubber's present interaction with the local communities, and what do you expect in the future?

- Tokai Rubber's CSR activities are admirable; you are an advanced company that Komaki can be proud of.
- Tokai Rubber's five priority activity themes correspond to challenges facing Komaki; I expect continued efforts in those areas.
- We would like to have Tokai Rubber take part in the local council that Komaki City is preparing to establish as a new framework for local mutual support and assistance.
- If Tokai Rubber's current program that assists foreign preschool children in preparing for admission to elementary school can be extended to early elementary school children, I believe that it will lead to fewer problems and incidents in the community.
- Tokai Rubber should conduct more active PR to inform more people of its CSR activities.

## ○ For better-developed CSR activities

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In November 2011, we at Tokai Rubber formulated our new midterm business plan, "2015 TRI GROUP VISION." In this plan, we state that we will continue striving to be a corporate citizen that is loved, trusted and respected by local communities the world over. In this first ever Factory Dialogue, we received many valuable opinions from our stakeholders. We hope to reflect the feedback fully in our activities and further develop our CSR activities in harmony with the local communities.

(Performed in July, 2012. Position titles are as of the date on which the dialogue was held)

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 **SUMITOMO RIKO Company Limited**

**Inquiry**



## [Observer]

Mr. Norihide Imanaga      Specially Appointed Assistant Professor, Center for Collaborative Study with the Community, Gifu University

The Factory Dialogue was undertaken to find out how TCI could more effectively cultivate relationships with people in the local community, fulfill its social responsibility, and pursue collaboration to resolve social issues. We asked the dialogue participants listed above to express their views on TCI's initiatives, including their evaluation and expectations, from their perspectives. Representative Director and Executive Vice President Ozaki and Managing Executive Officer Nanno, represented Sumitomo Riko. Representative Director and President Mizukami, who also serves as Executive Officer of Sumitomo Riko, and Managing Director Miyanaga, represented TCI.



### In their own words

#### ——Relationship between TCI and people in the local community from now on

- I would like TCI to publicize what it is doing as a manufacturer based in Mitake. Moreover, since the Japanese government has designated Mitake an Eco Model City, TCI should make the most of the opportunities associated with that. I would also like to see TCI promote various projects in collaboration with the local government.
- As an enterprise deeply rooted in the region, TCI is recruiting young people who grew up here. Considering TCI is developing human resources capable of contributing to the regional economy, I hope TCI will continue to recruit and train plenty of young people from Mitake and the surrounding area.
- TCI is an admirable enterprise that is keen to offer talented engineers from overseas opportunities to pursue satisfying careers. In view of that background, I am hoping that TCI will continue to offer Japanese language classes for such people. Indeed, I urge TCI to publicize its Japanese language program as a model project.
- The more the people working at TCI participate in local initiatives, the better. For example, they could help maintain the Satoyama (woodland near populated area) of Mitake which prides itself in beautiful greenery. Such activities offer opportunities for fruitful interaction with local people.
- From the perspective of Gifu University, it is desirable to have as many attractive employment opportunities as possible in the prefecture for freshly minted graduates. And, of course, we want our students to be well informed about the companies in the area. So we would like TCI to accept factory visits and offer internships.

#### ——Resolving regional issues through regional collaboration and involvement

- An inclusive, flexible, welcoming attitude to others is key. Encountering people whose perspectives and cultural backgrounds are different from those of Japan can enrich one's sensibility, and this is especially true in the case of young people. This exposure to other cultural influences can help foster individuals whose capabilities enrich the community.
- It is desirable to strengthen collaboration and for TCI employees to become part of the fabric of the region so that they can help resolve regional issues.

## ——Evaluation of TCI's current involvement in the community and future expectations

- I would like TCI employees to participate fully in events held in Mitake. We expect them to become ambassadors communicating our town's attractiveness based on their personal experience.
- Many of those who participated in the Japanese language classes held by TCI commented that TCI is a fascinating company. This suggests the workplace atmosphere at TCI is very positive.
- Many people in Mitake have little idea what an excellent company TCI is. Since TCI has such a great story to tell, it should do more to publicize itself.
- It would be wonderful if young people working at TCI and other companies in the industrial park deepened their involvement in events in Mitake. That would help vitalize the community and foster the next generation of civic leaders.
- I urge TCI employees to join us in voluntary work to maintain the nearby mountains as one aspect of efforts to tackle environmental issues.

### [Facilitator's comment]

Through the dialogue today, I have been impressed by how welcoming Mitake is to people from all over the world and how much the local people value their contributions to the vitality of the community. I believe there is plenty of potential here in Mitake for various sectors to collaborate in creating a flourishing future that benefits everyone. The dialogue also made it clear that many of TCI's low-key initiatives are highly regarded by its stakeholders. As pointed out by the participants, TCI should take pride in its achievements and more vigorously publicize its initiatives. From now on, I hope to see TCI strengthen linkage between the many people who are promoting initiatives that benefit Mitake, thus enhancing regional prosperity and vitality.



## ○ Further development together with the region

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Through the Factory Dialogue, we received many valuable opinions from people in the community. Above all, we recognized anew that Mitake is endowed with natural and cultural attributes that nurture a vibrant spirit, not least among children. We are proud to be a manufacturer in such an outstanding natural environment. We also understand that local people expect TCI to help foster the next-generation of civic leaders in the region by offering attractive employment opportunities. The Sumitomo Riko Group and TCI are promoting community-based business activities, and we are eager to maximize our contribution to regional, national and global prosperity, together with our stakeholders.

(Performed in November, 2016. Position titles are as of the date on which the dialogue was held)

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 **SUMITOMO RIKO Company Limited**

Inquiry







The dialogue involved discussions about the fulfillment of social responsibility between managers at the Matsusaka Plant and various local stakeholders, including representatives of local government, NPOs, companies and academia. For the Matsusaka Plant, the purpose of this dialogue was to explain what TRI is doing and to have an exchange of views with an eye to future initiatives. Executive Vice President Ozaki, Managing Executive Officer Kanaoka, Managing Executive Officer Hisaoka, Matsusaka Plant General Manager Ito, and Human Resources & General Affairs Department General Manager Hibino represented TRI.



## Participants' voices

### ——How do you rate Matsusaka Plant's CSR activities and its role in the community?

- The plant is engaged in various activities that contribute to the vitality of the community and help make it a respected member of the community.
- The process of applying for a subsidy from the plant was useful in that it encouraged us to take a more objective view of our organization and its goals. Quite apart from the financial support, we benefited from the suggestions and encouragement that we received.
- TRI is eager to offer a helping hand to the disabled. Let me give a couple of examples: the plant has been supporting the performances of a local theater company (Sun Sun Delivery Theater) at facilities for intellectual disabilities people and hosted an exhibition of works by local artists with disabilities on its premises. Such initiatives are of great value.
- Through today's dialogue, I was able to appreciate how the plant is contributing to the welfare of disabled people. It will be playing a more important role in the community by helping the disabled to participate in more fully in the life of the community.
- The factory plays a big role in the community. Everyone enjoyed the annual summer festival at the Matsusaka Plant.
- It's great that successive general managers of the plant have got involved in community development projects. They have the same local perspective as we do.

——**Looking to the future, how would you like to see the Matsusaka Plant working with people and organizations in the community?**

- TRI should consider working more closely with experienced NPOs to address local issues, as it engages in CSR activities addressing social issues.
- The Matsusaka Plant has formulated a business continuity plan. I would like the plant to let us know how the area would likely be affected in the event of a disaster and to engage in a dialogue to ensure preparedness for such an eventuality.
- As regards groups that are granted subsidies, it would be good to see the plant work with those groups over several years. That would help TRI cultivate closer ties with the community.
- I would like the plant to view the groups that it supports financially as partners and to bring those groups to the attention of its workforce. This would encourage greater employee involvement in the voluntary sector.
- Young people are increasingly interested in the impact of business on society. Students and other young people should be more fully informed about the TRI's inspiring CSR initiatives.

○ **Developing social contribution activities**

The dialogue confirmed that participants appreciate the efforts made by the Matsusaka Plant to address local issues. From now on, as an organization dedicated to invigorating the community and enhancing the quality of life in Matsusaka and the surrounding area, we intend to work more closely with companies in other sectors, the public administration and with other local groups.

(Performed in July, 2013. Position titles are as of the date on which the dialogue was held)

 **SUMITOMO RIKO Company Limited**

[Inquiry](#)





At the Factory Dialogue, opinions from various standpoints of the local community, academia, and the local government were accumulated. The dialogue focused on appreciation of the intrinsic value of local assets, namely, the natural environment, the history of the community, the culture, and the people, and exploring the possibility of collaboration to make the best possible use of those assets for the benefit of everyone. Executive Vice President and Director Ozaki, Managing Executive Officer Hisaoka, Managing Executive Officer Ohashi, and Fuji-Susono Plant General Manager Kono represented Sumitomo Riko.



### ——About Fuji-Susono Plant

- Sumitomo Riko's operations are of great value to Susono City and I appreciate the company's continuing commitment to our community. Besides contributing to the city's tax revenues, it is offering attractive employment opportunities to local people. I think Sumitomo Riko's presence can play an important role in helping to increase the city's population.
- This area is blessed with a wonderful natural environment. I think the Fuji Susono Plant is a beautiful place that blends well with the surrounding environment.
- I take pride in the fact that a global enterprise is operating successfully in our city.
- I am impressed by the ways in which Sumitomo Riko is working for the good of the entire community on a company-wide basis.

### ——Expectations of Fuji-Susono Plant and collaboration with the plant's CSR activities

- With a view to maintaining the residential population of Susono City, I hope more people working at the Fuji-Susono Plant will choose to live in the Suyama area near the plant, rather than only in the central district.
- We don't see many people from the Fuji-Susono Plant at local events. Please don't hesitate to participate in local festivals and other events.
- It might be interesting to devise social contribution activities that make use of rubber technology, the core expertise of Sumitomo Riko.
- The key to maintaining the tempo of social contribution activities is to enjoy oneself by being wholeheartedly involved in them. I would like Sumitomo Riko people to help with the baseball event for the disabled as volunteers.
- Please make full use of Susono City Activity Center for information about the local area and civic activities. I hope Sumitomo Riko will use the Center as a venue for collaboration.
- I think it is desirable to link all the different activities so that the whole is greater than the parts and the impact is amplified. For that purpose, we need a platform or a venue for sharing information and identifying local needs. I would like Sumitomo Riko to support such initiatives.
- Monetary contributions are just one kind of support. I would like Sumitomo Riko to consider what kinds of support would best meet the needs of the community.

## ○ Amplifying social contribution activities through linkage with the community

Through the dialogue, it became clear that little information was shared between the Fuji-Susono Plant and the community although both are involved in valuable initiatives. We recognized anew that Susono City has a great deal to offer in terms of its natural surroundings and history as well as culturally. We would like to cultivate stronger links and a more fruitful relationship with the community, for instance by offering a venue for collaboration, so as to connect Sumitomo Riko's capabilities and aspirations with those of local people and the municipal government with the aim of creating an ever more vibrant community.

(Performed in April, 2014. Position titles are as of the date on which the dialogue was held)





## ○ Participants

### [Facilitator]

Mr. Itsuro Miura                      Director, Oita Foundation for Cooperative Society

### [Stakeholders]

Mr. Masahiko Okada                Associate Professor, Center for Research and Development of Higher Education and University Extension, Oita University

Ms. Yumi Ogawa                    General Manager, NPO Anju Maman

Mr. Yoshio Sato                    Managing Director, Bungotakada City Council of Social Welfare

Mr. Hirofumi Nagamatsu        Mayor of Bungotakada City

Mr. Yoji Noda                      President, Bungotakada Chamber of Commerce and Industry



At the Factory Dialogue, opinions from various standpoints of the local community, academia, and the local government were accumulated. In the dialogue we also received specific proposals and suggestions for greater collaboration with a view to securing a successful future for Bungotakada City. Participants from the Sumitomo Riko Group were Executive Vice President and Representative Director Ozaki, Director and Managing Executive Officer Ohashi, Managing Executive Officer Hisaoka, who represented Sumitomo Riko, and executives of TRI Oita AE, TRI Kyushu, and Tokai Chemical Kyushu.



### —Relationships with the Sumitomo Riko Group so far

- I hope the Sumitomo Riko Group will continue to be part of Bungotakada City. People from the Sumitomo Riko Group are actively participating in the local festival and I appreciate their close collaboration with the local residents.
- The Sumitomo Riko Group is making a great contribution to the increase in the population of Bungotakada City by offering employment opportunities.
- The hotel occupancy rate in Bungotakada City is increasing. This is not only due to tourists but also likely because people from the Sumitomo Riko Group come here on business trips. As it has a positive impact on the local economy, I hope they will continue to select accommodation in Bungotakada City.
- Employees of the Sumitomo Riko Group use childcare support facilities in Bungotakada City. These facilities are venues where local residents make connections and I hope they will continue to use them.

### —Expectations of the Sumitomo Riko Group's contribution to the community

- Bungotakada City offers many civil society activities that make the most of the beautiful natural surroundings. I hope the Sumitomo Riko Group will take advantage of the countryside for training and other purposes.
- In addition to events, such as the Rapeseed Flower Festa, the Nagasakibana Resort Camping Site is promoting business capitalizing on local specialties. There may be possibilities for utilizing the Sumitomo Riko Group's expertise in addition to participation in events.
- Is it possible for the Sumitomo Riko Group to offer internships for university students from the local community? I would like the Sumitomo Riko Group to make the fullest possible use of local human resources.
- At TRI Kyushu (current SumiRiko Kyushu) work sharing is available for female employees returning to work after childcare leave. I hope employees will make greater use of the childcare support facilities in the city to promote work sharing.
- Besides childcare, Bungotakada City is also emphasizing support of care of the aged and infirm. I hope more people from the Sumitomo Riko Group will make Bungotakada City their hometown.

## ○ To promote creation of a sustainable community through "collaboration"

Through the factory dialogue, we received positive opinions on the desirability of deepening the ties between the Sumitomo Riko Group and the local community. By creating a working environment conducive to greater participation by local people, such as opportunities for student internships and work sharing, the Sumitomo Riko Group will be able to cultivate fruitful relationships with the local community. The dialogue was a great success in that, thanks to the participants' constructive inputs, it helped illuminate a path to the future based on specific collaborative initiatives.

(Performed in June, 2015. Position titles are as of the date on which the dialogue was held)



## Dialogue with Employees in 2015

### CSR Dialogue with Employees in 2015

#### ● The Picture of Sumitomo Riko that Emerges from the Integrated Report

Sumitomo Riko recognizes the importance of two-way communication between management and the employees, who are stakeholders, in promoting CSR management. The Dialogue with Employees held in fiscal 2015 was the third since the launch of this annual initiative in fiscal 2013.

In fiscal 2015, under the overarching theme of "The Picture of Sumitomo Riko that Emerges from the Integrated Report," Representative Director & Executive Vice President Ozaki, Director & Senior Managing Executive Office Ohashi, Director & Managing Executive Officer Maeda, and Managing Executive Officer Naito and 30 employees drawn from the headquarters and all three factories—the Komaki, Matsusaka, and Fuji-Susono Plants—gathered at the conference room of Global Headquarters, established in January 2015, to exchange views on the business model, strategies, the foundation of business defined as Safety, the Environment and Compliance (S. E. C), and the other themes discussed in the Integrated Report.



#### Overview of discussion

#### —About the Sumitomo Riko Group's business

##### [Employees in their own words]

- What are the Group's aspirations for each of the six fields defined as growth markets in the Group's mid-term business plan (2015V): automotive; ICT (information and communication technology); infrastructure; dwelling environment; medical, nursing care and health; and resources, environment and energy? What is management's view on cultivation of new markets and fields overseas?
- What is the role of the Global Headquarters in the Group's drive to become a global mega-supplier and what benefit is it expected to deliver? We would also like to know the future direction of the Group-wide operation system that is designed to complement growth.

### **[Management in their own words]**

- In formulating 2015V, we held internal discussions in light of the global situation and the business environment. As a result, we positioned the six fields as growth markets. To become an enterprise with annual sales of 1 trillion yen, we need to increase sales from businesses other than automotive products, our current mainstay business. We are currently transitioning from the search for possibilities to selection and concentration on particular businesses. There is an urgent need to promote our existing products overseas while also expanding new businesses.
- The Group serves a global market. In responding to globalization, we need to execute sophisticated 24/7/365 management and administration, and therefore established the Global Headquarters to address these needs. In addition, the Global Headquarters is spearheading the Group's shift to diversity management. We are pursuing global optimization of system operations as well.

## **——About CSR Activities**

### **[Employees in their own words]**

- We believe that safety activities are thoroughly conducted at sites in Japan. To what extent are they being carried out at overseas sites?
- Although the Foreman Training and MONOZUKURI Cram School are programs of which we can be proud, there are some issues that need to be addressed. Some people find it difficult to participate in the training because of the training schedule and other factors. There is also concern that the content of the training is becoming a mere formality. I am interested in what we are going to do from now on.
- I think an effort should be made to provide more opportunities in the course of work to encounter diverse people and cultures.

### **[Management in their own words]**

- As the number of overseas sites has increased through M&A, we have been establishing uniform safety standards and are endeavoring to instill them throughout our worldwide operations. It is crucially important that each workplace makes a firm commitment to safety activities that are designed to achieve a safe workplace environment. Employees should take the initiative, rather than just following management's instructions.
- As for MONOZUKURI Cram School, we have set up similar schemes at our overseas sites in China and the ASEAN region, and have met with a very positive response among employees. One issue is that training lacks flexibility because of the limited number of instructors. To tackle this issue, we will strive to make multifaceted improvements in cooperation with the MONOZUKURI Research and Development Laboratories, which acts as the host for this program.
- We are promoting exchanges of human resources among our sites, mainly for R&D at present. These exchanges currently tend to be short term, but we would like to introduce long-term exchanges, including the assignment of employees from overseas to Japan. The Group also needs to respond effectively to diversity, a theme that encompasses not only non-Japanese nationals, female employees, and people with disabilities, but also lesbian, gay, bisexual and transgender (LGBT) issues. The Global Headquarters will spearhead these initiatives concerning diversity management.

## **——About the Integrated Report**

### **[Employees in their own words]**

- Reading the third-party dialogue—the discussion between CEO Nishimura and Ms. Mariko Kawaguchi of Daiwa Institute of Research Ltd.—brought home to me the significance of the integrated report. I feel that the content of the report has been enriched, and would like to know management's evaluation of the report and future plans.

### [Management in their own words]

- We would like to make the integrated report a medium for communicating what Sumitomo Riko is really like to internal and external parties by means of integrated disclosure of financial and non-financial information. Through the process of making the report, we also aim to encourage more employees to deepen their understanding of the entire Group, looking beyond the businesses in which they are directly involved. It is our earnest desire to continuously improve the report from year to year, rather than being satisfied with this year's report.

### ○ Looking ahead to future employee dialogues

The dialogue with employees for fiscal 2015 covered a wide range of themes centering on the Integrated Report. Following the dialogue, the senior executives and employees who participated concluded that it had been a valuable opportunity to share views and deepen understanding.

Sumitomo Riko will continue to position the dialogue between management and employees at the heart of efforts to deepening communication while vigorously promoting CSR management.

(Performed in January, 2015. Position titles are as of the date on which the dialogue was held)

 **SUMITOMO RIKO Company Limited**

**Inquiry**







## ——Group's Vision for 2020

### [Employees in their own words]

- How would you define "Global Excellent Manufacturing Company"?
- I think R&D capabilities need to be strengthened to promote the global brand strategy.
- Sumitomo Riko is implementing basic education for all employees and safety education in a concerted effort to achieve the Vision for 2020. Are there any gaps between the plan and the results?

### [Management in their own words]

- To be a Global Excellent Manufacturing Company means that all our stakeholders-shareholders, investors, customers, suppliers, employees, local communities, global environment-recognize that Sumitomo Riko is an excellent manufacturing company.
- Manufacturing technology and materials technology are the two wheels that propel Sumitomo Riko forward. We will make the necessary investment in R&D to strengthen those vital capabilities.
- The progress of the implementation of employee education programs is virtually in accordance with the plan. We would like to emphasize education of employees of overseas Group companies from now on.

## ——Realization of work/life balance

### [Employees in their own words]

- I want to achieve a work/life balance by enhancing operational efficiency.
- The company should establish an integrated policy concerning the issue of work/life balance.
- More consideration needs to be paid to work/life balance in terms of its impact on men, including their involvement in childcare and nursing of the elderly.

### [Management in their own words]

- We think thorough clarification of the situation in the workplace will facilitate mutual support among coworkers, leading to enhanced operational efficiency.
- If you are satisfied with your daily life, then you have achieved your work/life balance. But you can't enhance your degree of satisfaction with your work solely by your own efforts. Meticulous communication at workplaces is essential.
- The Diversity Committee was established in 2014 as a subcommittee of the CSR Committee. The question of work/life balance is closely related with the issue of workforce diversity and the need to embrace diversity. This whole topic will be discussed at the Diversity Committee.

## ○ Looking ahead to future employee dialogues

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Given the nature of the theme of the fiscal 2014 dialogue with employees, the results were rather inconclusive. But it was certainly a valuable opportunity for management and employees to hear one another's views and deepen mutual understanding. Positioning the dialogue with employees as a key enabler, Sumitomo Riko will deepen communication with employees, who are important stakeholders, as one aspect of the vigorous development of CSR activities.

(Performed in July, 2014. Position titles are as of the date on which the dialogue was held)

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 **SUMITOMO RIKO Company Limited**

**Inquiry**



## Dialogue with Employees in 2013

### CSR Dialogue with Employees in 2013

#### ○ What should we be doing from a CSR perspective?

At TRI (current Sumitomo Riko), recognizing that employees are important stakeholders in CSR initiatives, we actively solicit their views. An inaugural CSR dialogue with employees was held at Head Office to deepen two-way communication between management and the workforce.

The theme of the dialogue was: what should TRI be doing from a CSR perspective to consistently delight customers and create new value centering on security, safety and comfort for people worldwide? The first half of the dialogue was devoted to discussion on the theme of diversity and TRI's global development, while the second half focused on linkage between CSR and employee satisfaction/motivation. Executive Vice President Ozaki and Managing Executive Officer Hisaoka represented management in lively discussion with some 50 employees drawn from Head Office and the TRI production facilities at Komaki, Matsusaka and Fuji-Susono.





## ——Role of diversity in TRI's global business development

### [Employees in their own words]

- I would like to know what skills and personal qualities TRI thinks people working in offices around the world need in order to make globalization a success.
- The acquisitions of Anvis and Dytech have enriched workforce diversity across the TRI Group. How do we take advantage of this diversity to maximize corporate value?
- Setting targets that encourage us to transcend cultural and linguistic barriers between Group companies operating in different parts of the world would help unleash the TRI Group's tremendous potential.

### [Management in their own words]

- Treating people with respect is vital for creating trust. This entails interacting with people without prejudice. Furthermore, we should make the effort to understand and appreciate the history, culture and language of other societies.
- All companies in the TRI Group are in the same business and should be working toward the same goals. Turning diversity to our advantage starts with better communication. Mutual understanding, fruitful discussion and inclusion are crucial.
- Increased scale and profits bring with us greater social responsibilities that we must fulfill.

## ——Linkage between CSR and employee satisfaction/motivation

### [Employees in their own words]

- CSR activities are a vital aspect of TRI capable of spurring employee motivation. What is management doing to encourage greater employee involvement?
- Training and education help build motivation in the workplace. What new training opportunities does management have in mind?
- Won't CSR management initiatives raise costs? Can those costs be absorbed?

### [Management in their own words]

- We continue to implement CSR activities without fanfare on a scale that is appropriate to the size of our operations. And we want everyone in the TRI Group to be involved in CSR activities as a fully contributing member of the Group.
- We are developing new training programs to support TRI's global development. These include the Global Management Program (GMP) for managers at overseas sites, development of MONOZUKURI cram school globally, and English language training.
- Our CSR materialities are fundamental to what is expected of us as an enterprise, and so we have no qualms about investing in these activities.

## ○ Looking ahead to future employee dialogues

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This first dialogue was a valuable opportunity for management and employees to share thoughts on diversity, globalization and CSR activities. Looking ahead, TRI aims to broaden and deepen direct dialogue with employees as one aspect of the vigorous development of CSR activities.

(Performed in July, 2013. Position titles are as of the date on which the dialogue was held)

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The logo for SUMITOMO RIKO Company Limited, featuring a blue four-pointed star icon to the left of the company name in a blue sans-serif font.A rectangular button with the word "Inquiry" in a blue sans-serif font. A small blue triangle is located in the bottom right corner of the button.