



Change and Innovation 3.0

For a Sustainable Future

Editorial Direction

Since fiscal 2017, Sumitomo Chemical has adjusted the positioning of its annual report and CSR Report, reorganizing them as an integrated report, which is Sumitomo Chemical's new Annual Report. With the aim of communicating its sustained growth in a way that is easy to understand for shareholders and other investors, as well as a broad array of other stakeholders, the new Annual Report comprehensively brings together financial information and non-financial information. In addition to a report on financial results and information on the strengths of businesses and business strategies, the Annual Report includes information on Sumitomo Chemical's corporate governance system, and its environmental and corporate social responsibility efforts.

The Annual Report 2019 starts with an image of boarding a Sumitomo Chemical airship, which is also on the front cover. This year, the beginning of the new Corporate Business Plan, we added a dialogue between the Chairman of the Board and the Outside Directors, a CFO's message, and a section on ESG strategies to further enhance our content. We hope this Annual Report serves as a bridge to our stakeholders and communicates our efforts to create new value by mobilizing the entire Sumitomo Chemical Group.



The Guidance for Collaborative Value Creation, put forth by the Ministry of Economy, Trade and Industry, is a handbook that serves as a shared language connecting companies and investors, systematically and comprehensively laying out the information that companies ought to convey to investors in order to raise the quality of information disclosure and of dialogue with investors. This report primarily relies on this guidance in the value creation models for sector information (starting on page 40).

Financial Statements in This Document

Beginning fiscal 2017, the Sumitomo Chemical Group is adopting international financial reporting standards (IFRS) in place of Japanese GAAP, which it previously used, and is therefore restating figures for the previous consolidated fiscal year using IFRS for comparative analysis. However, as the consolidated statement of financial position was not calculated for the sectors using IFRS at the beginning of fiscal 2016, the sectors' ROA for fiscal 2016 were not calculated.

Forward-looking Statements

Statements made in this annual report with respect to plans, strategies, and future performance that are not historical facts are forward-looking statements involving risks and uncertainties. Sumitomo Chemical cautions that a number of factors could cause actual results to differ materially from such statements including, but not limited to, general economic conditions in Sumitomo Chemical's markets; demand for, and competitive pricing pressure on, Sumitomo Chemical's products in the marketplace; Sumitomo Chemical's ability to continue to win acceptance for its products in these highly competitive markets; and movements of currency exchange rates.



Contents



- 4 To Our Stakeholders
- 6 Sumitomo Chemical's Philosophy
- 8 100-year History
- 10 Flow of Value Creation

Management Strategy

- 12 President's Message
- 18 CFO's Message
- 20 FY2019-FY2021 Corporate Business Plan
- 24 ESG Strategies

Highlights

- 30 One Year at Sumitomo Chemical
- 32 Financial and Non-Financial Highlights

Feature

- 36 Dialogue between the Chairman of the Board and Outside Directors

40 Sector Information

- 42 Each Sector Situation
- 44 Petrochemicals & Plastics
- 48 Energy & Functional Materials
- 52 IT-related Chemicals
- 56 Health & Crop Sciences
- 60 Pharmaceuticals

64 Value Creation Platform

- 66 Research and Development
- 68 Digital Innovation
- 70 Addressing Climate Change
- 72 Human Rights
- 74 Human Resource Strategy
- 76 Environmental Protection / Product Stewardship, Product Safety, and Quality Assurance / Occupational Safety and Health, Industrial Safety and Disaster Prevention
- 77 Dialogue with Shareholders and Investors

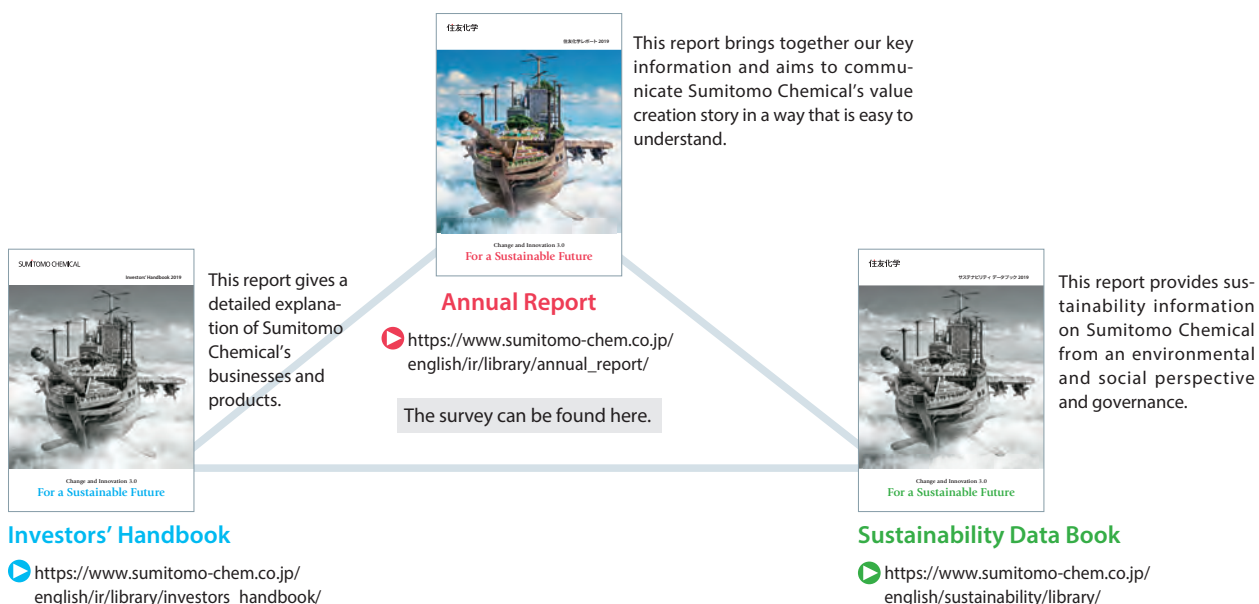
Corporate Governance

- 78 Board of Directors and Corporate Auditors
- 81 Corporate Governance
- 90 Compliance
- 91 Anti-corruption

92 Corporate Data

- 94 Financial Review
- 100 Consolidated Financial Statements
- 106 External Evaluation
- 107 Introduction to the Contents of the Sustainability Data Book 2019
- 108 Corporate and Investor Information

Three Reports of Sumitomo Chemical



Creative Hybrid Chemistry for a Better Tomorrow



Takashi Shigemori
Director &
Senior Managing Executive Officer

Hiroshi Ueda
Director &
Executive Vice President

Masaki Matsui
Representative Director &
Managing Executive Officer

Ray Nishimoto
Representative Director &
Executive Vice President

Masakazu Tokura
Chairman of the Board

Atsuko Muraki
Outside Director

Motoshige Itoh
Outside Director

Hiroshi Tomono
Outside Director

Koichi Ikeda
Outside Director



Keiichi Iwata

Representative Director &
President

Noriaki Takeshita

Representative Director &
Senior Managing
Executive Officer

Kingo Akahori

Representative Director &
Managing Executive
Officer

Hiroshi Niinuma

Director &
Senior Managing
Executive Officer

Kunio Nozaki

Standing
Corporate Auditor

Hiroaki Yoshida

Standing
Corporate Auditor

Mitsuhiro Aso

Outside Corporate Auditor

Yoshitaka Kato

Outside Corporate Auditor

Michio Yoneda

Outside Corporate Auditor

To Our Stakeholders

We Will Bring About Innovation with the Power of Chemistry, Contribute to Solving Issues Facing Society, and Achieve Sustained Growth for Our Company.

We at the Sumitomo Chemical Group have contributed to the development of society through our business, firmly committed to our credo, “Our businesses must benefit society at large, not just our own interests. (Jiri-Rita Koushi-Ichinyo)” Over more than 100 years since the company’s founding, we have also continuously created new value by transforming our business portfolio to meet the changing needs of society.

The world now stands at a major turning point, where geopolitical risks have increased uncertainty and volatility, while significant innovations are taking place in the fields of digital technology and biotechnology. In the meantime, the concept of global sustainability, represented by the Sustainable Development Goals (SDGs), is expanding.

What we should do is to view these changes in society not as risks but as opportunities and contribute to solving issues facing society by bringing about innovation with the power of chemistry. We will utilize our ability to develop innovative solutions by leveraging the technological expertise in diverse areas that Sumitomo Chemical has cultivated as a diversified chemical company since its founding. We will also further promote our collaboration with academia and startup companies. By doing so, we will unleash the unlimited potential of chemistry and make innovation happen. And we will continue to help solve pressing societal issues facing people around the world in areas such as health care, the environment, food, natural resources and energy, thereby realizing long-term sustained growth for the Group.

We would like to ask you, our stakeholders, for your continued support and cooperation.

July 2019

十倉雅和

Masakazu Tokura
Chairman of the Board



Growing the Company and Contributing to Society with the Power of Chemistry

The Sumitomo Spirit –Sumitomo Business Principles–

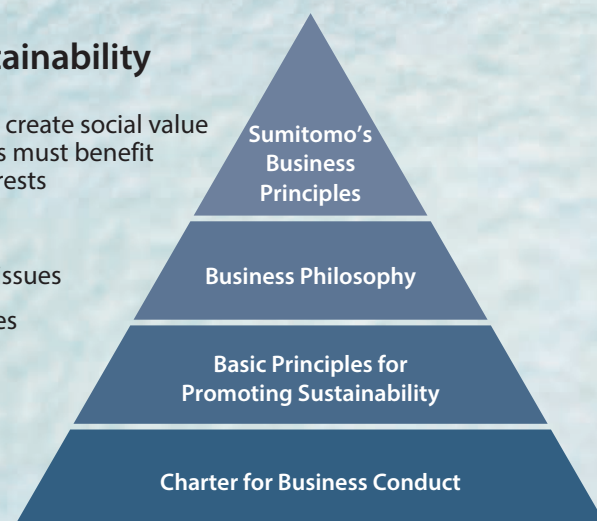
1. Sumitomo shall achieve prosperity based on solid foundation by placing prime importance on integrity and sound management in the conduct of its business.
2. Sumitomo's business interest must always be in harmony with public interest; Sumitomo shall adapt to good times and bad times but will not pursue immoral business.

Sumitomo Chemical's Business Philosophy

1. We commit ourselves to creating new value by building on innovation.
2. We work to contribute to society through our business activities.
3. We develop a vibrant corporate culture and continue to be a company that society can trust.

Basic Principles for Promoting Sustainability

- Principle 1 Creating economic value which helps create social value (Promoting our credo "Our businesses must benefit society at large, not just our own interests (Jiri-Rita Koushi-Ichinyo)")
- Principle 2 Contribution to solving globally vital issues
- Principle 3 Active participation in global initiatives
- Principle 4 Collaboration with stakeholders
- Principle 5 Top management commitment and participation by all
- Principle 6 Enhancing corporate governance



Charter for Business Conduct

1. We will respect Sumitomo's business philosophy and act as highly esteemed "good citizens."
2. We will observe national and international laws and regulations and will carry out activities according to our corporate rules.
3. We will develop and supply useful, safe products and technologies that will contribute extensively to the progress of society.
4. We will take voluntary and active initiatives to achieve zero-accident and zero-injury operations and to preserve the global environment.
5. We will conduct business transactions based on fair and free competition.
6. We will endeavor to make our workplaces sound and energetic.
7. Every one of us will make efforts to become a professional who has advanced skills and expertise in his or her field of responsibility.
8. We will actively communicate with our various stakeholders such as shareholders, customers, and regional communities.
9. We, as a corporate member of an international society, will esteem the culture and customs of each region around the world and contribute to the development of those regions.
10. We will strive for the sound development of our Company through business activities conducted in accordance with the guiding principles stipulated hereinabove.

Cover-page illustration



Sumitomo Chemical designed this cover-page illustration in 2015, when we celebrated the 100th anniversary of the commencement of our operations, to express our determination to set sail into an awaiting future of growth and challenges by making use of our 100-year history. With the power of chemistry, we will strive to resolve various challenges facing human society and open up a bright future like this ship that ventures into unknown seas.

A Century of Sumitomo Chemical: Changing with the Times and Growing Diverse Businesses around the World

> 1913



Sumitomo Fertilizer Manufactory

The Sumitomo Fertilizer Manufactory was founded to prevent pollution caused by gas emissions from copper smelting

Sumitomo Chemical's start was removing harmful sulfur dioxide from the exhaust gas generated during copper smelting at the Besshi Copper Mine in the Shikoku region of Japan, which was the core business of Sumitomo, and manufacturing fertilizers from the exhaust gas.

> 1953



Pynamin Plant (Torishima, Osaka)

Entering the crop sciences business

Started agricultural chemicals business from the launch of Pynamin, a household insecticide

> 1944



Japan Dyestuff Manufacturing Company
Kasugade Works

Entering the fine chemicals business

Sumitomo Chemical merged with Japan Dyestuff Manufacturing Company, which was engaged in the fine chemicals business, including dyes and pharmaceuticals.

> 1958



Ethylene Plant (Ohe, Ehime)

Entering the petrochemicals business

We brought in technology from outside Japan, built an ethylene plant in the Ohe district of Ehime, and began full-scale operations.

■ Net Sales / Sales Revenue*1,2 1915-1977: Non-consolidated 1978-2018: Consolidated

*1 Since FY2016, Sumitomo Chemical has used IFRS.

*2 In FY1995, Sumitomo Chemical changed its fiscal year to end on March 31.
Revenue from January-March 1995 has been added to FY1994.

1915 1920 1925 1930 1935 1940 1945 1950 1955 1960

Sumitomo
Chemical's
Transition

1915-1944

Building a Foundation as a Chemical Manufacturer

1945-1974

Growing into a Diversified Chemical Manufacturer

Social
Trend

1914-1918
World War I

1929
World Depression

1939-1945
World War II

1954-1973
High economic growth period

1964
Tokyo Olympics



> 1984

Launch of
Sumitomo Pharmaceuticals Co., Ltd.

> 1984



Petrochemical Corporation of
Singapore began operations

> 1988



Valent U.S.A. established as a
development and sales location
for agricultural chemicals in
the U.S.

> 1991



Dongwoo Pure Chemicals
(now Dongwoo Fine-Chem)
established in South Korea

> 2001

IT-related Chemicals Sector
established

> 2009



Petro Rabigh began operations in Saudi Arabia

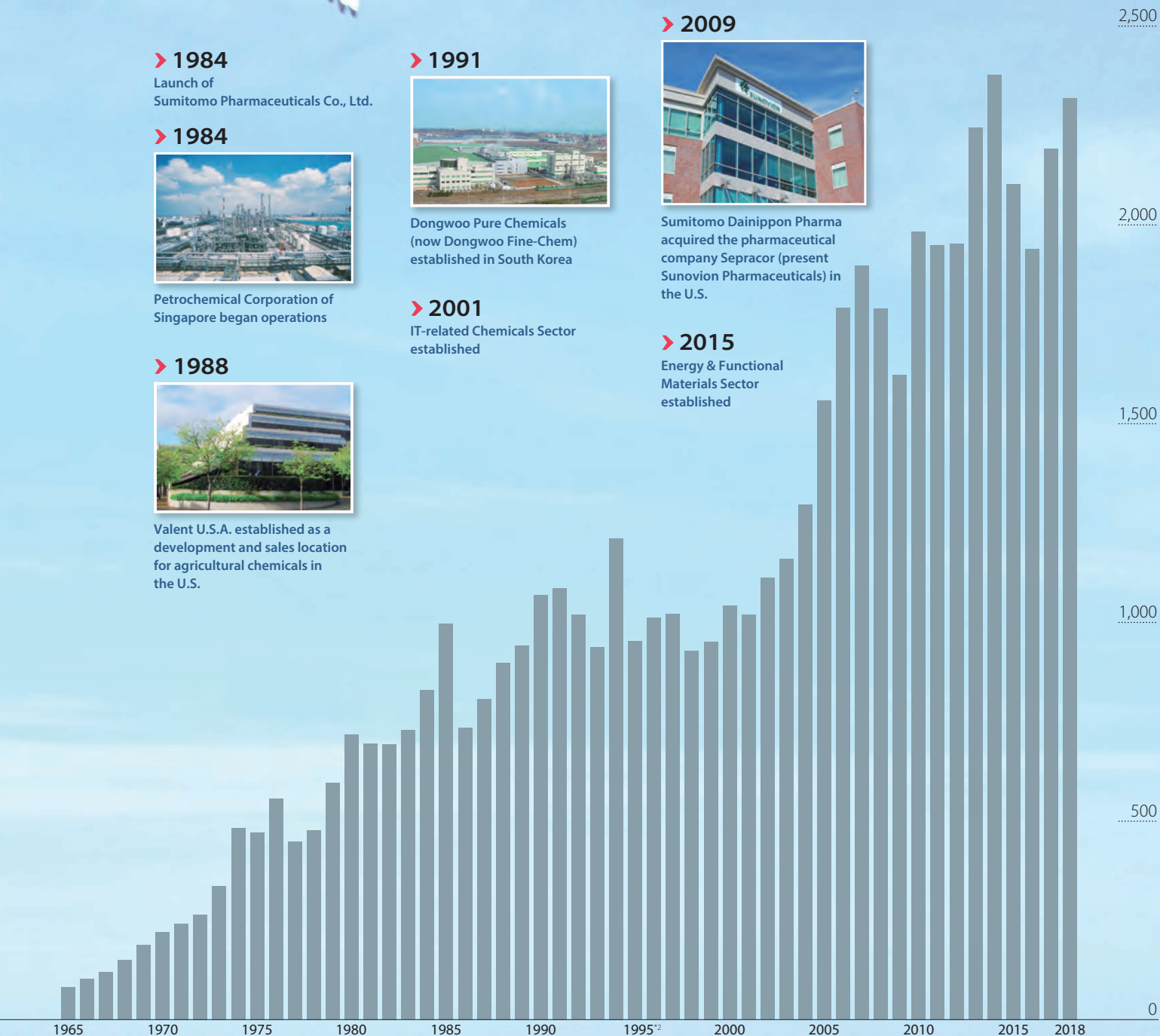
> 2009



Sumitomo Dainippon Pharma
acquired the pharmaceutical
company Sepracor (present
Sunovion Pharmaceuticals) in
the U.S.

> 2015

Energy & Functional
Materials Sector
established



1975-2004
Expanding All Businesses Globally

2005-
Deepening Global Business

1973
The first oil shock

1978
The second
oil shock

1985
Plaza Accord

1987
Black Monday

1989
Fall of the Berlin Wall
Nikkei stock average
up to historical highs

1999
European single
currency Euro birth

2001
Terrorist attacks in
the United States

2008
Financial crisis

2012
European debt crisis

Flow of Value Creation

Sumitomo Chemical's Approach to Creating New Value through Innovative Technologies

Management Resources



Strengths (Core Competence)

Challenges & Business Opportunities

Financial Capital

Sound financial base

■ Total equity (fiscal 2018):
¥1,351.9 billion

Manufactured Capital

R&D sites and production facilities
around the world

■ As of April 1, 2019
Japan: 11
Overseas: 77

Intellectual Capital

Technologies cultivated through
a wide range of products development
as a diversified chemical company

■ R&D expenses (fiscal 2018): ¥163.5 billion
■ Number of patents held (as of April 2019):
12,659

Human Capital

Employees with advanced technological
ability and know-how

■ As of March 31, 2019
Number of employees: 32,542
Number of research and
development employees: 3,937

Social and Relationship Capital

Long-established relationships of trust
with customers and overseas networks

■ Overseas sales revenue ratio (fiscal 2018):
64.9%

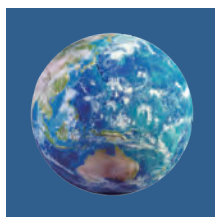
Natural Capital

■ Fiscal 2018
Water usage: 944 million tons
Energy (fuel, heat, and electricity)*: 1,690 thousand kl
Hydrocarbon compounds*: 1,676 thousand tons
Metals (excluding minor metals)*: 121 thousand tons
Minor metals*: 14 thousand tons

* Sumitomo Chemical and Group Companies in Japan



Ability to develop
innovative solutions
by leveraging
its technological
expertise in
diverse areas



Ability to reach
global markets



Loyal employees

Solve Issues Facing Society

- Environment
- Food
- Resources and energy

Improve Quality of Life and Build an Affluent and Comfortable Society

- Comfortable life
- Health promotion

Five Business Sectors Based on a Wide Range of Technologies Generate Synergies and Aim for Further Growth

Petrochemicals & Plastics

➤ P44

- Polyethylene
- Polypropylene
- MMA, etc.

Energy & Functional Materials

➤ P48

- Materials for lithium-ion secondary batteries
- Super engineering plastics
- High-purity alumina, etc.

IT-related Chemicals

➤ P52

- Polarizing films
- Touchscreen panels
- Photoresist, etc.

Health & Crop Sciences

➤ P56

- Crop sciences products
- Environmental health products
- Feed additives
- Pharmaceutical chemicals, etc.

Pharmaceuticals

➤ P60

- Sumitomo Dainippon Pharma Co., Ltd.
- Nihon Medi-Physics Co., Ltd.

Aiming to Be a Company Seen as Having a Conglomerate Premium

Going forward, solutions to issues facing society will involve not just isolated businesses or products, but combinations of many different things.

That is an area where we can display our unique strengths as a diversified chemical manufacturer with five business sectors.

Taking advantage of a conglomerate company operating a wide variety of businesses, we aim to be a company that is valued at a premium rather than at a discount.

Impact on Capitals

Financial Capital

	FY2017	FY2018
Core operating income (billions of yen)	262.7	204.3
ROE (%)	15.4	12.3
D/E ratio (times)	0.7	0.6

Manufactured Capital

- Expanded capacity of a manufacturing facility for film-type touchscreen panels in Korea
- Completed the new methionine plant
- Expanded the global R&D facilities for health and crop science products such as Chemistry Research Center and Biorational Research Center
- Tanaka Chemical Corp. decided to expand production facilities for cathode materials.

Intellectual Capital

- Number of new patent applications in fiscal 2018 (Non-consolidated): 2,955
- Established a digital innovation department for training data scientists and data engineers

Human Capital

	FY2017	FY2018
Lost-workday incident rate (%)	0.26	0.58
Enhancement of leadership and management capabilities training and career development training (attendees)*1	75	839*2
Percentage of paid vacation days used (%)*1	67.2	71.8

*1 Sumitomo Chemical (Non-consolidated)

*2 Conducted multiple new training sessions

Social and Relationship Capital

- Had constructive dialogue with stakeholders

With investors	FY2017	FY2018
Individual meetings (attendees)	340	356
Small meetings with the President (attendees)	32	57
Overseas investor visits (times)	44	35
Dialogues with local residents (times)	40	42

Natural Capital

- Compatibility between manufacturing and reduction of greenhouse gas (GHG) and waste emissions

	FY2017	FY2018
GHG emission volume (thousand tons-CO ₂ e)	7,758	7,258
Landfill disposal amount* (thousand tons)	21	23

* Sumitomo Chemical and Group Companies in Japan

President's Message

**We Aim to Achieve
Our Sustainable Growth
and Help Realize
a Sustainable Society by
Creating Economic Value
and Social Value in
an Integrated Manner.**

岩田圭一

Keiichi Iwata
Representative Director & President



Change and Innovation 3.0

For a Sustainable Future

My goal is to transform Sumitomo Chemical into a company that is recognized for its conglomerate premium, by achieving business and technological synergies and realizing unique benefits only a diversified chemical company can deliver. We at Sumitomo Chemical will work to achieve sustainable growth and help build a sustainable society by creating economic value and social value in an integrated manner.

■ My Goals as President

My Role is to Further Refine Our Strengths and Pass Them on to the Next Generation.

I was appointed President in April 2019. When I was asked to take office, I wondered whether I was really qualified for the position, but I decided to take on the challenge, telling myself that it is time to give back to the company. Sumitomo Chemical's businesses are so diverse that we have relationships with a large number of people, including customers, business partners, and employees. Therefore, I feel the weight of my responsibility everyday.

We at Sumitomo Chemical boast strong power on the front line, an advantage cultivated over more than 100 years since the company was founded in 1913. In the area of manufacturing, for instance, the power on the front line means safe and stable operations and quality control. In other words, it is something that makes up the foundation of our business. This power on the front line exists not just in manufacturing but in research, sales and administrative departments, and has been created by all the sincere, day-to-day efforts put forth by each of our employees. This is our greatest strength. Going forward, it will be the backbone that supports the implementation of our strategy and our sustainable growth. Further refining our strengths to meet the needs of the times and passing them on to the next generation—this is the role that I, now serving as President of Sumitomo Chemical, should fulfill.

Although We cannot Be Overly Optimistic, I Believe that We can Build a Bright Future through Our Efforts.

Before speaking of what I want to do as President, I would first like to share how I see the current economic environment and the circumstances facing us—the background against which I consider what to do.

Over the past few years, the world economy has generally been steady, led by the U.S. economy. Since last autumn, however, uncertainty has increased amid the rise of protectionism and competition for hegemony among various countries around the world, as well as the consequent trade conflicts.

In the business environment facing Sumitomo Chemical and the chemical industry as a whole, we are seeing the growing effects of new trends—trends different from those in the past that economic fluctuations could explain. For example, the IT-related Chemicals Sector is being strongly affected by the mobility revolution, including the concepts of “CASE^{*1}” and “MaaS^{*2},” which is transforming the market for smartphones and mobile devices as well as the automobile industry. In addition, we have to consider the effects of political factors such as trade conflicts. The Health & Crop Sciences Sector, meanwhile, is undergoing increasing effects of climate change. In light of these significant changes, our current business portfolio, which we have been working to improve to build up earning power that is resilient to external environmental factors, is by no means perfect.

If we have a sound sense of urgency, however, and respond with speed and agility to changes in business and technology, the environment will look totally different. As new technologies emerge and digital innovations advance, new value will be created at a dramatically accelerated pace, while society will need to resolve major problems relating to the environment and energy and other such challenges as defined by the SDGs. In these circumstances, chemistry will certainly have a greater role to play. This means there are many business opportunities for us as a diversified chemical company. I believe the time has come for a diversified chemical company to show its strength.

We cannot be overly optimistic, but we are in a position where we can build a bright future, depending on our own efforts. This is how I see the current business environment.

^{*1} Next-generation technologies for automobiles: connected, autonomous, shared, and electric.

^{*2} Mobility as a Service. A new move to integrate different types of transport services into a single mobility service that can be used based on demand.

■ Becoming a Company Rich in Entrepreneurship and Diversity

I Will Foster an Entrepreneurial Culture in which Taking on Challenges and Failing is Valued above Taking No Action.

In this business environment, what I want to achieve as President is to foster a corporate culture which is not only characterized by speed and agility, but is also rich in entrepreneurial spirit and diversity.

The entrepreneurial spirit is essentially to dislike losses due to failure to act. It seems to me that, up to now, Sumitomo Chemical has taken an approach of not blaming anyone who took on a challenge and failed, but also of not blaming anyone who took no action. I would like to add to this approach the idea that taking on challenges and failing is superior to taking no action.

I have been involved in Dongwoo Fine-Chem Co., Ltd. in South Korea since its establishment in 1991, when it got its start with only 40 employees and without much knowhow on the semiconductor manufacturing process. It took about a decade before the company was able to produce products of the same quality as our Japanese plants can offer. Today, Dongwoo Fine-Chem is a highly profitable company, employing 3,000 people. Before reaching this point, however, the company faced a series of challenges and failures that truly tested our entrepreneurial spirit. Nonetheless, the members of Dongwoo Fine-Chem have always been positive, and have always taken on the challenge of being one step ahead, with a sense of speed described as 'pari-pari,' which means 'hurry, hurry' in Korean. I would like to entrench that kind of attitude in our corporate culture—taking on challenges with a willingness to accept losses and without fear of failure.

In addition, diversity can be a source of new ideas and innovation. We have long treasured a corporate culture that enables free and open discussion. In this rapidly changing business environment, diversity is becoming even more important. Belgium, where I used to work, is a country rich in diversity that has been fostered through its history. China, South Korea, and Taiwan, where we have particularly close ties in the business of our IT-related Chemicals Sector, each have different cultural and historical backgrounds, so the way of doing things is almost completely different from one another. When people with such different backgrounds gather and work together, new ideas will be created and success will follow if they can respect each other's ways of thinking and flexibly take in each other's good points. I want to foster a corporate culture in which diversity among individual employees will naturally thrive.



■ Further Increasing Our Conglomerate Premium

By Realizing Unique Benefits Only a Diversified Chemical Company can Deliver, I Aim to Further Increase Our Corporate Value.

Another thing I want to accomplish as President is to realize a conglomerate premium. Because we operate in a variety of businesses as a diversified chemical company, we are often faced with a “conglomerate discount,” which means that we are not valued properly for our business as a whole and are often undervalued. To overcome this situation, we must not only reinforce our existing businesses, but by achieving comprehensive synergies we must also develop and strengthen businesses that support our next generation. I would like to talk about specific issues regarding how to implement this.

First, the short-term challenge for the next one to two years is to make sure to realize the returns on the major investments we have made, including the capital expenditure and investment of 650 billion yen (cumulative total over three years) decided in the previous Corporate Business Plan period of fiscal 2016 to 2018. Our portfolio has very promising products. For example, there are a range of products that are expected to grow dramatically in the future, such as materials and components related to automobiles, 5G communication and flexible displays. Our light-emitting materials, used as the light source for OLED displays, are particularly promising. The new materials—compatible with the printing method, the mainstream process for mass production of next-generation large displays—have resulted from over 30 years of our development efforts.

Our long-term challenge is to accelerate the creation of next-generation businesses, a major initiative set out in our current Corporate Business Plan. This is an effort to sow the seeds of next-generation businesses that have the potential to become future growth drivers and grow them to their next stages. In the field of chemicals, it takes at least 10 years to launch a new business. We need to take action, constantly anticipating technological and demand trends five or ten years into the future. We have selected four priority areas for the creation of next-generation businesses: health care, reduction of environmental impact, food, and ICT. These are areas in which we can leverage our strengths in technology and help solve issues facing society.

To be more specific, as we take on this major initiative, we will build an innovation ecosystem. In other words, within our company we will create a system in which innovation occurs spontaneously and continually. There are three key points in this effort. The first is back-casting. This is an effort to change our thought process. Rather than start from where we are and work to make improvements, we start with what the future should be like and work backwards to consider what is needed to achieve that form of future. The second is speed. I would like to take action with a sense of speed and actively incorporate what it takes to speed up, including new digital technologies. The third is open innovation. We do not have all the technologies necessary to solve the societal issues we need to tackle. Instead of trying to do everything on our own, we will partner effectively, promoting collaboration with academia and startup companies, while also leveraging M&A opportunities.

Through these efforts, we will achieve synergies in our various businesses and technologies and realize unique benefits only a diversified chemical company can deliver, namely a “conglomerate premium.” And by doing so, we will create economic value and social value in an integrated manner and aim to realize our sustainable growth while also helping to build a sustainable society.



■ To Shareholders and Investors

Our Aim is to Make Sumitomo Chemical a Company that You can Be Proud of as Shareholder.

I believe that you, our shareholders and investors, are important stakeholders, and we are constantly aware of your existence in our daily business and management activities. Regarding shareholder return, we will continue to pay stable dividends, with a target dividend payout ratio of around 30% for the time being. The remaining 70% of retained earnings, after paying dividends, will be invested in new growth opportunities in the areas of health care, reduction of environmental impact, food, and ICT. By doing so, we aim to maintain a sound financial position and achieve sustainable profit growth.

Sumitomo Chemical's history began with manufacturing fertilizers from harmful gas emitted from copper smelting operations, aiming to solve the environmental problem of air pollution while helping to increase agricultural output. Since then, we have been committed to creating new value through the power of chemistry and solving societal issues. In addition, our business is founded on the Sumitomo business principle—the principle we always live by—"Our businesses must benefit society at large, not just our own interests. (Jiri-Rita Koushi-Ichinyo)"

Working in the chemical industry in this era when chemistry's role and importance are continuing to increase, we at Sumitomo Chemical will not only work to achieve our own profit growth, but will also continue to strive to solve major issues facing society through our businesses. And by contributing to solving societal issues, we aim to make Sumitomo Chemical a company that you can be proud of and pleased with as shareholder.

We would appreciate your continued understanding and support.

CFO's Message

**We Aim to Achieve
a Robust Financial Structure through
the Creation of Cash Flows
as Planned and Disciplined
Management of Costs and Assets.**

重森 隆志

Takashi Shigemori

Director & Senior Managing Executive Officer



Basic Policy

Sumitomo Chemical is aiming to steadily achieve its targets for ROE, ROI, and other financial indicators, and sustainably improve corporate value. By rationalization and streamlining costs, shortening the cash conversion cycle (CCC), and controlling the balance of interest-bearing liabilities and the D/E ratio, we will continue to maintain the soundness of our financial base while expanding and strengthening our business through active growth investments.

Key Financial Performance Indicators

Since 1999, we have been implementing management accounting with an awareness of capital costs in order to improve capital efficiency, such as ROE and ROI. For example, we have been reporting the net profit of each business sector after deducting shareholder capital costs. Currently, ROI

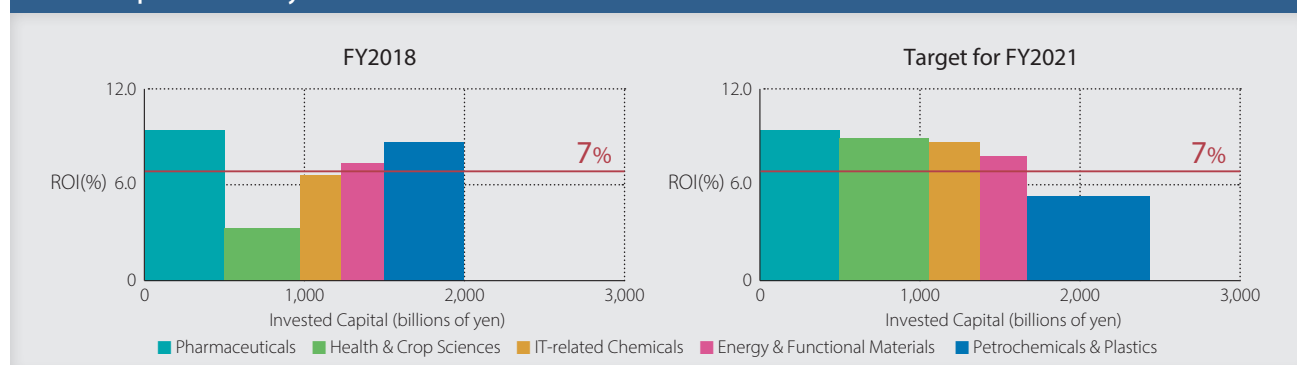
for each sector is an important performance management indicator.

Our target of ROE of 10%, a key financial performance indicator, was established based on a policy of implementing projects that we believe can make an important contribution to the solution of societal issues, as long as they are predicted to be profitable, reflecting our concept of contributing to the realization of a sustainable society through our business activities. In terms of ROI, we set a minimum target of 7%, in order to exceed our weighted average capital cost (WACC).

Our target D/E ratio is an approximately 0.7 times, in order to maintain our current credit rating, which enables flexible funding.

In each individual investment decision, decisions about new capital investments or acquisitions are made after sufficient consideration of estimates of indicators such as net value

Invested Capital and ROI by Sector



(NPV), internal revenue rate (IRR), and payback period, taking full account of the strategic significance and characteristics of the project. We also regularly follow up on the results of capital investments and acquisitions already implemented.

Progress of the Corporate Business Plan

In the previous Corporate Business Plan (FY2016-FY2018), we increased our earning power, and our profits achieved record-high levels in fiscal 2017. At the same time, as a result of steady cost reductions, business restructuring and CCC improvement efforts, total free cash flow amounted to 146.1 billion yen over the three years. In addition, as of the end of March 2019, the balance of interest-bearing liabilities rose to 839.5 billion yen, and the D/E ratio was approximately 0.6 times.

In the new Corporate Business Plan (FY2019-FY2021), we will steadily collect cash from the investments we have already implemented and control costs and assets through disciplined operations. At the same time, by continuing active investments, including investing in the Rabigh Phase II project, cash flows from investing activities are expected to be 815 billion yen. Based on this assumption, we believe that the balance

of interest-bearing liabilities will be less than 1.1 trillion yen and the D/E ratio will be about 0.7 times, so we will be able to maintain financial soundness. Both ROE and ROI are expected to exceed their target levels, with 12.5% and 7.1%, respectively.

Shareholder Return

We consider shareholder return as one of our priority management issues. We have made it a policy to maintain stable dividend payments, giving due consideration to our business performance, the dividend payout ratio for each fiscal period, the level of retained earnings necessary for future growth, and other relevant factors. We aim to maintain a dividend payout ratio of around 30% over the medium-to long-term. The annual dividend in fiscal 2018 was 22 yen (dividend payout ratio 30.5%), and our planned annual dividend for fiscal 2019 is 22 yen (dividend payout ratio 36.0%), the same as that in fiscal 2018. We will continue to sustainably improve corporate value by improving capital efficiency and strengthening our financial structures, thereby meeting the expectations of our shareholders.

Overview of Finance and Capital Strategy

Our Policy for the Corporate Business Plan

1. Generate cash flow from already implemented capital expenditures and investments as planned
2. Manage costs and assets through disciplined financial operations

Key Financial Performance Indicators

ROE	ROI	D/E ratio	Dividend payout ratio	Profit growth
Over 10%	Over 7%	Approx. 0.7 times	Approx. 30%	Over 7% per year

Cash Flow Targets

	FY2013-FY2015	FY2016-FY2018	FY2019-FY2021 Target
Cash flows from operating activities	716.4	687.2	740.0
Cash flows from investing activities	(245.5)	(541.1)	(815.0)*
Free cash flows	470.9	146.1	(75.0)

(Billions of yen)

	End of FY2015	End of FY2018	End of FY2021 Target
Interest-bearing liabilities	831.5	839.5	1,080.0
D/E ratio (times)	0.8	0.6	0.7

(Billions of yen)

* Including investment in Rabigh Phase II project

Change and Innovation 3.0: For a Sustainable Future

The new Corporate Business Plan began in April. The slogan for the plan, "Change and Innovation 3.0: For a Sustainable Future," incorporates the meaning of contributing to the creation of a sustainable society through solving issues facing society, which we will do by dramatically improving productivity through digital transformation and by accelerating innovation with a focus on the coming "Society 5.0"(ultra-smart society).

It was in fiscal 2013 that we created the Corporate Business Plan slogan "Change and Innovation," and in the past six years, we have steadily moved forward, enhancing our financial strength in phase 1 and further improving our business

portfolio in phase 2. For the new Corporate Business Plan, which will be phase 3, we have set six basic policies, including "Accelerate the development of next-generation businesses" and "Improve productivity through digital innovation."

With regard to "Accelerate the development of next-generation businesses," we have set out four focus areas, which are Healthcare, Reducing Environmental Impact, Food, and ICT. Through collaboration with partners, such as start-up companies and academic institutions, we aim to not only speed up the development and industrial implementation of new technologies, but also to create continuing innovation, including

Transition of the Corporate Business Plan "Change and Innovation" from FY2013

FY2013-FY2015

For the Next Hundredth Anniversary

Strengthening the Foundations of Our Business, with the Aim of Achieving Sustained Growth Over the Next 100 Years

Basic Policy

Develop Next-generation Businesses

Restructure Businesses

Enhance Financial Strength

Promote Globally Integrated Management

Ensure Full and Strict Compliance, Establish and Maintain Safe and Stable Operations

	(Billions of yen) FY2015
Net sales	2,101.8
Operating income	164.4
(Equity in earnings of affiliates)	20.2
Ordinary income	171.2
Net income	81.5
Naphtha price (yen/KL)	42,800
Exchange rate (yen/US\$)	120.15

FY2016-FY2018

Create New Value

Become a more resilient Sumitomo Chemical that achieves sustained growth

Accelerate the Launch of Next-generation Businesses

Further Improve Business Portfolio

Generate More Cash Flow

	(Billions of yen) FY2018
Sales revenue	2,318.6
Core operating income	204.3
Net income attributable to owners of the parent	118.0
Naphtha price (yen/KL)	49,500
Exchange rate (yen/US\$)	110.92

evaluating and implementing systems and organizations to investigate new research areas and commercialize them.

With regard to “Improve productivity through digital transformation,” we are setting up large-scale databases, especially databases tied to productivity technology and to R&D, and we are promoting high-level activities using tools such as analytics technologies. In these ways, we aim to dramatically improve productivity on the ground in manufacturing, including increasing the stability of operations and quality. In R&D, we will work on initiatives such as shortening material search and design periods through broader application of materials informatics (MI), as well as creating new insights that cannot be reached through empirical development.

With regard to “Further improve business portfolio” and

“Build a more robust financial structure,” we will steadily collect cash flows from the capital investments and loans that we have implemented. We will also enhance our financial strength by rationalization and improvement of the cash conversion cycle (CCC).

With regard to “Employ, develop and leverage human resources for sustainable growth” and “Ensure full and strict compliance and maintain safe and stable operations,” we will continue to strengthen these initiatives because they serve as a source of strength for sustainably maintaining our businesses and for achieving further growth.

We will work on these initiatives in the Corporate Business Plan, and achieve sustained growth for Sumitomo Chemical and build a sustainable society by creating both economic and social value.

FY2019-FY2021

For a Sustainable Future

Contributing to the Creation of a Sustainable Society by
Accelerating Innovation

Accelerate the Development of Next-generation Businesses > P22

Improve Productivity through Digital Innovation > P68

Further Improve Business Portfolio

Build a More Robust Financial Structure > P18

Employ, Develop and Leverage Human Resources for Sustainable Growth

Ensure Full and Strict Compliance and Maintain Safe and Stable Operations


	(Billions of yen)		
	FY2021 Target	FY2021 Target	Targets Consistently achieve the following targets
Sales revenue	2,950.0	ROE (%)	12.5 Over 10%
Core operating income	280.0	ROI (%)	7.1 Over 7%
Net income attributable to owners of the parent	150.0	D/E ratio (times)	0.7 Approx. 0.7 times
Naphtha price (yen/KL)	51,000	Dividend payout ratio (%)	— Approx. 30%
Exchange rate (yen/US\$)	110.00	Profit growth* (%)	13 Over 7% per year

* Annual growth rate of profit attributable to owners of the parent from fiscal 2015

Accelerate the Development of Next-generation Businesses

Focus Domains in the Four Priority Areas

Health Care




Focus Domains	Major Projects
Advanced medical care	Nucleic acid medicine
	Cell therapy
	Theranostics
	Frontier businesses (Healthcare solutions not limited to pharmaceuticals)
Preventive care solutions	Nutraceuticals (functional food)
Early diagnosis and health examination	Physical condition visualization sensor

With the advent of a super-aging society, the reduction of medical and nursing costs, the improvement of QoL, and the extension of healthy life expectancy will be important social issues. We will continue to contribute to solving these social issues in the future by making use of our accumulated technologies and expertise in the health and crop sciences business and pharmaceutical business.

Specifically, we will combine the organic synthesis and biological mechanism analysis technologies with other technologies that we have developed over the years, and work on the development of advanced medical services, such as nucleic acid medicine, cell therapies, and theranostics (the fusion of therapy and diagnostics) that use radioactive isotopes. We will also develop preventive care solutions, such as functional foods, as well as techniques for early diagnosis and health checkups.

Reducing Environmental Impact



Focus Domains	Major Projects
Energy storage	Next-generation battery storage materials
Energy saving	Separation membrane
	Waste water processing
Carbon cycle	Development of low environmental impact bioprocesses based on Synthetic Biology
	Carbon Capture and Utilization (CCU)-related business

In recent years, interest in measures to combat global warming has rapidly increased, including the Paris Agreement and the circular economy. Environmental conservation issues, such as plastic waste, are also urgent social issues. We will contribute to the solution of these social issues by developing technologies that contribute to reducing the impact on the environment, while utilizing organic synthesis, polymer synthesis, and catalyst design technologies that have been developed up to now, while also actively incorporating external technologies. In the field of energy storage, we are advancing the development of materials for next-generation batteries and solid batteries that help reduce greenhouse gases. In the field of energy savings, we will work to develop CO₂ separation membranes to improve energy efficiency and waste water treatment processes with less environmental impact. In the area of carbon cycle, we will also develop bioprocesses utilizing synthetic biology, and develop the manufacturing processes of chemical products through CCU.

Food

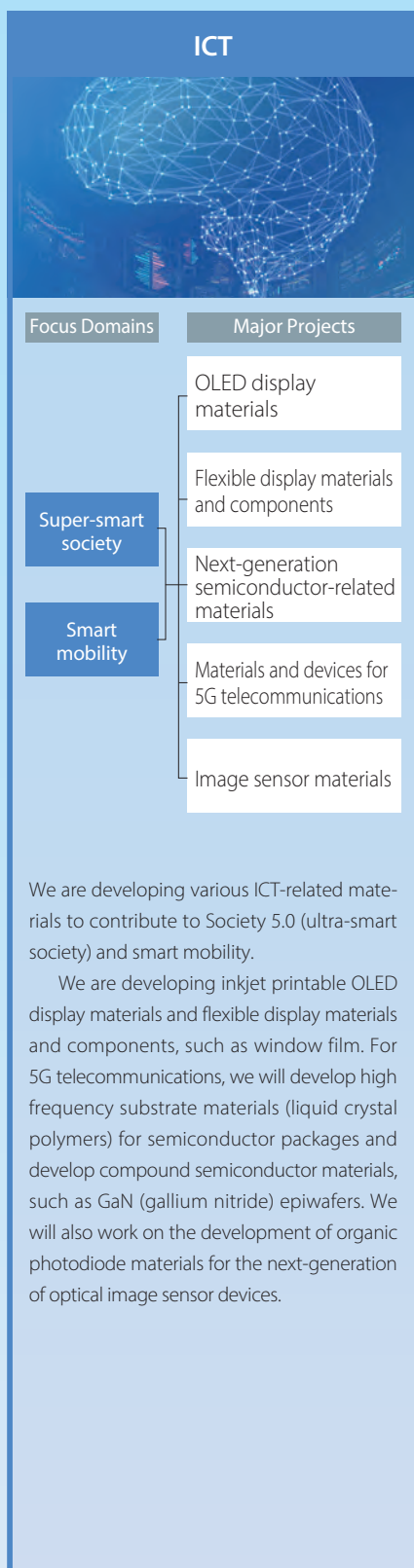


Focus Domains	Major Projects
Precision agriculture	Precision agriculture, including data collection, analysis and prediction
Food sensing	On-site food inspection
Breeding	Breeding using genome editing technology

The world's population is expected to reach 9.8 billion by 2050, and due to concerns over food shortages caused by population growth, there is a need for efficient food production with a limited labor force and farmland. In addition, with regard to the issue of food loss, it is necessary to reduce the lead time from production to consumption, and to visualize safety and security.

We will accelerate the development and provision of solutions based on precision agriculture, such as effective spraying of pesticides and fertilizers and prediction of yields, by utilizing data science, while developing farming and other techniques we have developed over many years in the health and crop science businesses to achieve efficient food production. We will also develop practical on-site food inspection technology at each distribution stage of food products, and develop improved varieties using genome editing technology.

We will work with startup companies and academic institutions to speed up development and commercialization in four priority areas and to create continuous innovation.



ESG Strategies

This section introduces the various ESG initiatives that the Sumitomo Chemical Group is strategically pursuing.

Strategy 1

Committing to Promoting Sustainability

Sustainability Promotion Committee

Established	April 2018
Purpose	① Oversee the Group's sustainability promotion activities ② Comprehensively verify contributions to sustainability ③ Accelerate efforts to solve issues in society, including the SDGs
Organization	Chairman President of Sumitomo Chemical
	Members Executive officers responsible for each business sector, Executive officers responsible for each secretariat department, and Presidents of regional headquarters
	Secretariat CSR Dept., Legal Dept., Corporate Planning Dept., Human Resources Dept., Responsible Care Dept., Research Planning and Coordination Dept., Corporate Communications Dept., Logistics Dept. and Procurement Dept.
Meetings	Twice a year

Basic principles established for promoting sustainability and incorporated them into Sumitomo Chemical's corporate philosophy

Established the Basic Principles for Promoting Sustainability

A Committee Meeting



By positioning the basic principles for promoting sustainability next to our Business Philosophy, we demonstrate our management commitment to promoting sustainability.

Strategy 2

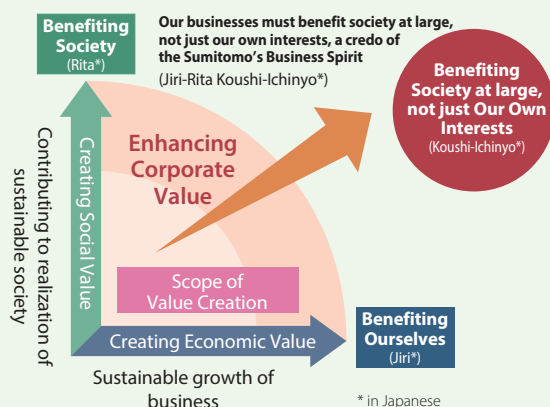
Identifying the Most Important Issues for Management Initiatives

Seven Material Issues Identified

The basic principles for promoting sustainability define our efforts of promoting sustainability as "contributing to the establishment of a sustainable society while achieving the sustainable growth of our business," thereby aiming to enhance our corporate value (Chart 1).

The seven material issues (Chart 2) have been identified to serve as beacons navigating our initiatives towards contributing to the establishment of a sustainable society in March 2019. They focus on issues of material importance mainly from two perspectives: those for the creation of social value, which are initiatives directly related to Sumitomo Chemical's current businesses, and others for the creation of value in the future, which represent the company's future-oriented initiatives.

Chart 1 Image of Enhancing Corporate Value



Future Issues: Determination and Progress Assessment of KPI

In the future, in order to steadily advance each material issue initiative, it is necessary to establish a key performance indicator (KPI) and evaluate its progress. We will continue discussions so that we can start operations as soon as possible.

Chart 2 Our Seven Material Issues

Material Issues for Social Value Creation	Material Issues for Value Creation in the Future
Contribution to reducing environmental impact <ul style="list-style-type: none"> Mitigation of climate change Contribution through products and technologies Efficient use of energy and resources Contribution to the recycling of plastic resources 	Promotion of technology innovation and research and development
Contribution to solving food issues	Initiatives for digital innovation
Contribution to solving healthcare issues	Promotion of diversity and inclusion
Contribution to ICT innovation	
Foundations for Business Continuity <ul style="list-style-type: none"> Occupational safety and health, and industrial safety and disaster prevention Product safety and quality assurance Respect for human rights Healthcare Compliance Anti-corruption 	

Strategy 3

Promoting Disclosure of Information on Addressing Climate Change

Initiatives for TCFD recommendations

Objectives of TCFD Recommendations

- Supporting companies to disclose information about climate-related risks and opportunities
- Stabilizing the financial market by smooth transition to a low-carbon society



Sumitomo Chemical's Efforts

Sumitomo Chemical has viewed global climate change as one of the highest-priority challenges facing society, and to solve this problem, Sumitomo Chemical is actively working to reduce greenhouse gases by taking advantage of the technology we have cultivated as a diversified chemical company. We hope to secure the trust of society by using the framework of TCFD recommendations and actively communicating our efforts, with the recognition that disclosing information on addressing climate change reflects the demands of the

current era.

We consider that initiatives to implement the TCFD recommendations around the world have just begun. We hope to contribute to the development of guidance through dialogue with investors and companies while also learning best practices through participation in external initiatives. We will also strive to enhance our disclosure of climate-related risks and opportunities, while also considering better governance practices in addressing climate change.

Our Efforts through Participation in External Initiatives

June 2017	Supported TCFD recommendations concurrently with their publication
From August to December 2018	Joined in the TCFD Study Group led by the Ministry of Economy, Trade and Industry (METI) This group studied the way in which Japanese companies disclose information to evaluate their strengths. December 2018: METI issued TCFD guidance
Since December 2018	Joined WBCSD* TCFD Preparer Forum July 2019: WBCSD issued TCFD chemical sector guidance <small>* World Business Council for Sustainable Development</small>
Since May 2019	Joined the TCFD consortium established by Japanese industrial and financial communities

TCFD related Disclosure in the Annual Report 2019

Recommended Disclosure Items in TCFD Recommendations	Required Content	Disclosure in the Annual Report 2019	Referenced Page
Governance	A designated executive responsible for addressing climate change, and explanation of the governance structure	Deliberations by such formal groups as the Management Meeting, Sustainability Promotion Committee, and Responsible Care Committee	P70-71 P84-85
Risk Management	A climate-related risk assessment process	A process in which climate-related risk is assessed as one of the principal risks	P70-71
Strategy	Explanations of business strategies to address climate-related risks and opportunities	Responding to risks: Initiatives to achieve Science Based Targets and others	P26-27 P70-71
Metrics and Targets	Explanations of targets and progress in response to climate-related risks and opportunities	Seizing business opportunities: Sumika Sustainable Solutions and others	

Strategy 4

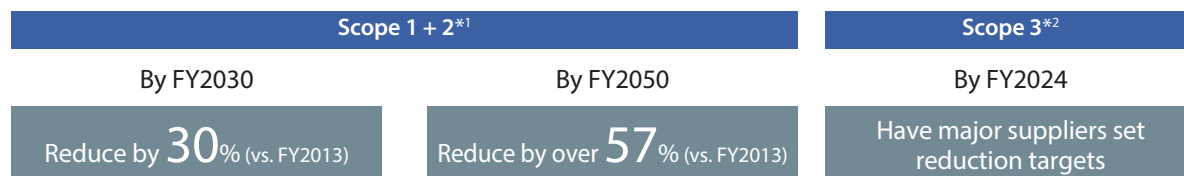
Responding to Climate-related Risks

Gained Approval from the Science Based Targets Initiative

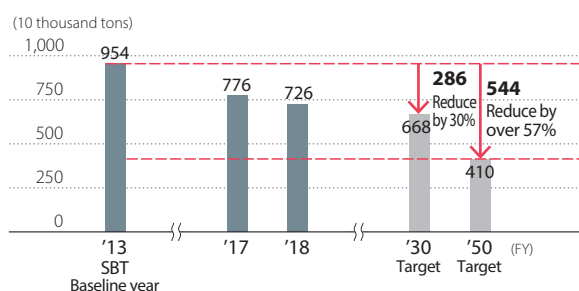
Science-based targets (SBTs) are greenhouse gas emissions reduction targets set by companies, based on climate science, to meet the 2015 Paris Agreement goal of keeping the increase in global average temperatures to below 2°C compared to pre-industrial temperatures. In October 2018, Sumitomo Chemical gained approval from the Science Based Targets initiative for the company's Group-wide greenhouse gas emissions reduction targets. Sumitomo Chemical is the first diversified chemical company in the world to have obtained this approval.



Our Approved GHG Emissions Reduction Targets



Greenhouse Gas (GHG) Emission Volume and Reduction Targets



The baseline year for the Sumitomo Chemical Group's science-based targets is 2013, which is the same baseline year used by the Japanese government for GHG emissions reduction targets in accordance with the Paris Agreement. Our Group will focus on reducing its GHG emissions (Scope1+2) by 57% or more from fiscal 2013 levels by fiscal 2050, while providing solutions for significant GHG reductions in the value chain.

*1 Scope 1: Direct emissions from factory operations, such as fuel use in manufacturing processes

Scope 2: Indirect emissions from purchases of power and heat from outside the factory

*2 Scope 3: Emissions from the manufacturing and transportation of purchased raw materials

*3 Suppliers accounting for 90% of purchased raw materials by weight

Concrete Initiatives

Establishment of Niihama LNG Co., Ltd.

In April 2018, Sumitomo Chemical established Niihama LNG Co., Ltd. with Tokyo Gas Engineering Solutions Corporation, Shikoku Electric Power Company, Incorporated, Sumitomo Joint Electric Power Co., Ltd., and Shikoku Gas Co., Ltd. The main business of the company is to construct a new liquefied natural gas facility at the Sumitomo Chemical Ehime Works, and then to supply gas to the Sumitomo Chemical Ehime Works' premises and the natural gas-fired power plant established by Sumitomo Joint Electric Power Co., Ltd. The new facility is scheduled to commence operations in February 2022. The five companies will utilize their business know-how to the fullest extent, promoting greater use of environmentally friendly natural gas, and stable and efficient energy utilization.

Sumitomo Joint Electric Power Launched Carbon Dioxide Production and Supply Business

In July 2018, Sumitomo Joint Electric Power Co., Ltd., a Sumitomo Chemical Group company, began separating and recovering carbon dioxide (CO₂) from the exhaust gas from Unit 3 of the Niihama West Thermal Power Station, and manufacturing CO₂ for use as a secondary raw material for the methionine production facility at the Sumitomo Chemical Ehime Works, which was expanded in 2018. This project is the first attempt in Japan to utilize the CO₂ of coal-fired thermal power plants. By effectively utilizing CO₂ generated at thermal power stations, we can reduce CO₂ emissions.



Strategy 5

Quantifying the Contributions of Businesses to Global Environmental Issues

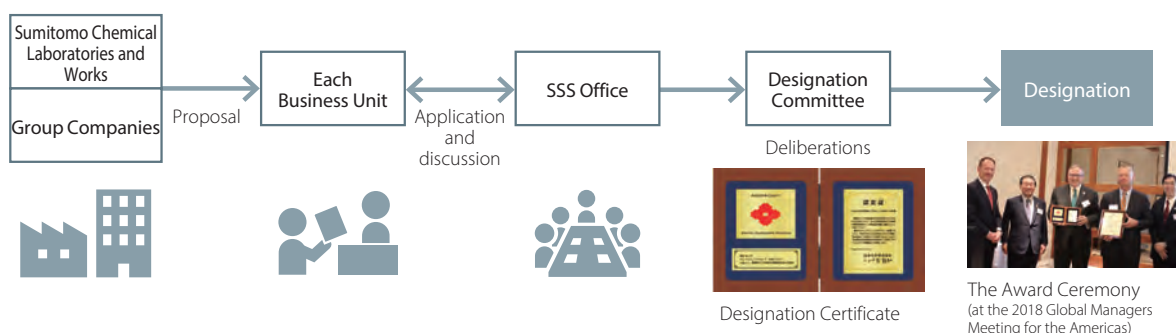
Sumika Sustainable Solutions

As a concrete initiative to contribute to reducing environmental impact, which is one of our material issues, we have designated those of our products and technologies that contribute to such issues as global warming countermeasures, reducing environmental burdens, and effective use of resources, as Sumika Sustainable Solutions (SSS). By promoting the development and widespread use of these products and technologies, the Sumitomo Chemical Group is offering solutions that will help build a sustainable society and striving to create both economic and social value. In addition, we quantify our contribution to global environmental issues by calculating sales revenues of SSS-designated products and technologies and the amount they contribute to the reduction of greenhouse gases.

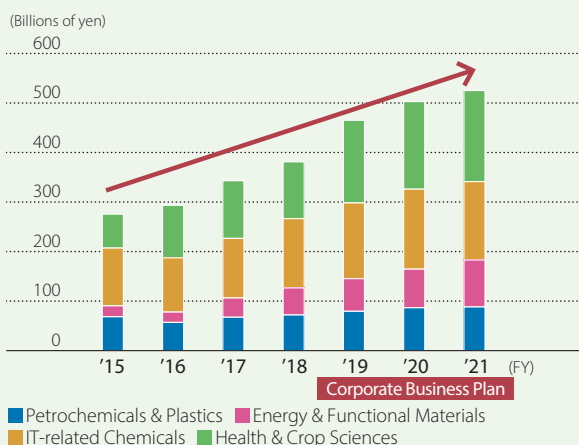
Area	Designation Requirements
Addressing Climate Change	Contribute to reducing greenhouse gas emissions
	Products or materials used in the creation of alternative energy
	Use biomass-derived raw materials
Reducing Environmental Impact	Contribute to adapting to the climate change impacts
	Contribute to reducing waste, hazardous substances, and other environmental burdens
Effective Use of Resources	Contribute to reducing environmental impact in food production
	Contribute to the realization of recycling and resource saving
	Contribute to the efficient use of water resources

SSS Designation Process

The Designation Committee officially designates products and technologies as SSS after they have been proposed for certification by laboratories, production facilities, or Group companies. In addition, the designated cases have been verified by a third-party institution, and the results of the internal designation have been evaluated as valid.

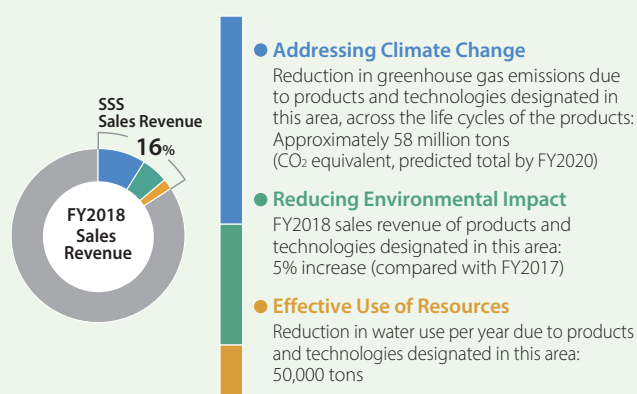


Sales Revenue of Designated Products and Technologies



A total of 48 products and technologies have been designated so far, and Sumitomo Chemical aims to quickly double their sales revenue compared with FY2015.

Breakdown by Designation Area



FY2018

	(Billions of yen)
Sales revenue of Sumitomo Chemical Group	2,318.6
Sales revenue of SSS	381.3

Responding to Plastic Waste Issues

Collaboration with Companies Involved in the Plastic Value Chain

Sumitomo Chemical's Efforts

Plastics make our lives convenient and rich as materials used for a variety of applications, ranging from vehicles and airplanes to consumer products, but they have major challenges for post-use disposal and reuse. To solve these issues, it is necessary for companies involved in the plastic value chain to work together to consider and promote innovations to solve them, and to consider and promote global initiatives in such areas as waste plastic recovery, building infrastructure for processing, education and dialogue, and measures to prevent their discharge to the ocean.

Sumitomo Chemical, in addition to its efforts as an individual company, has been working to advocate for contributory measures based on scientific perspectives while collecting the latest findings by organizing these issues into (1) the problems related to the use, disposal and recovery of plastics; (2) the problem of microplastics; and (3) the problem of plastic substitutes.

Our Efforts through R&D and Products

The Direction of R&D in Petrochemicals & Plastic Sector

We strive to promote R&D of plastic products that contribute to 3Rs (reduce, reuse, recycle), and to enhance their environmental appropriateness and utility value.

Lighter Packaging



Longer Product Life

Promotion of Reusable Products



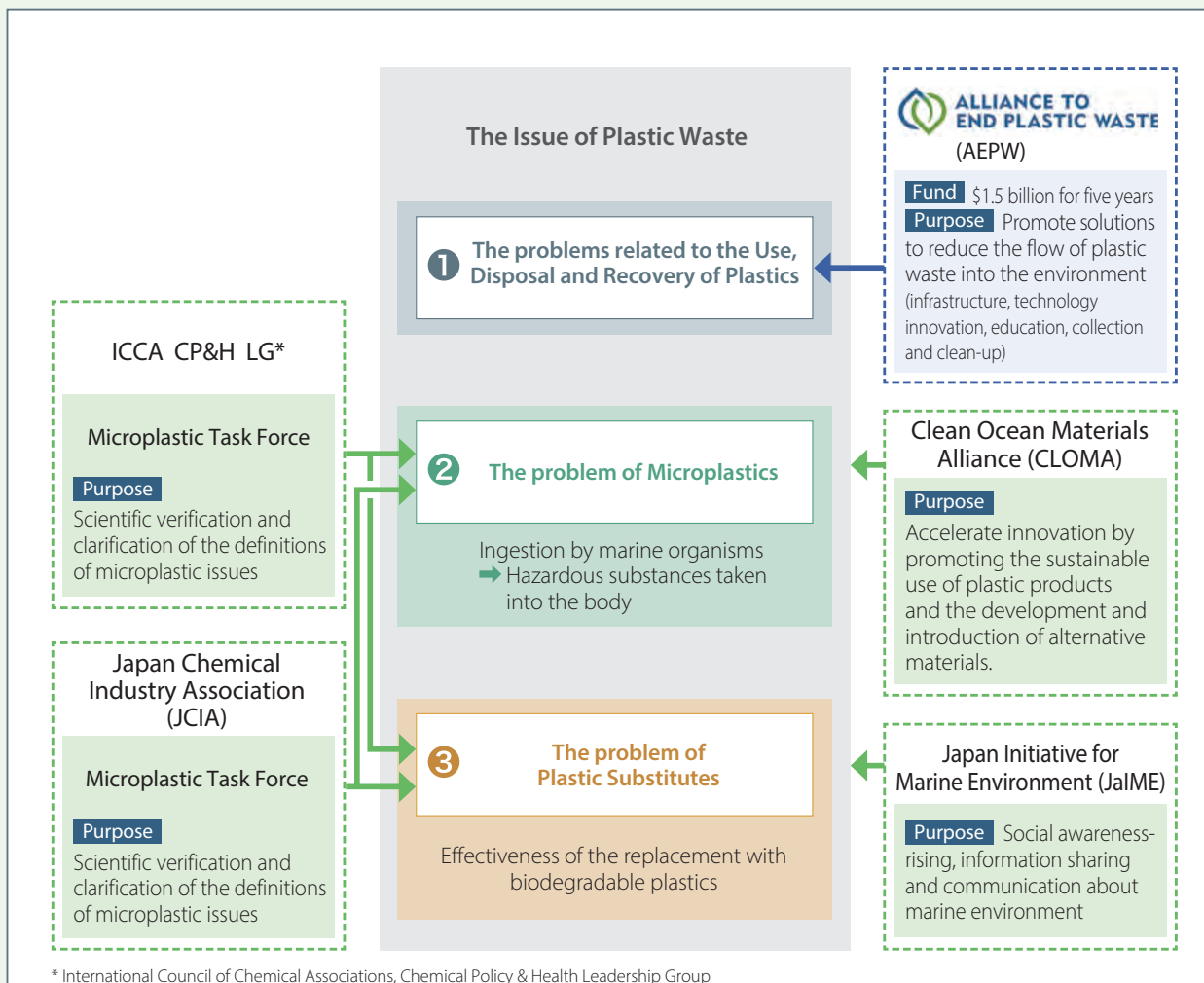
Examples of our group's products

Environmental aptitude
Utility value

Refill Pouch	Bottle (HDPE)	Large Refill Pouch (EPPE+LLDPE)
		
Weight of packaging materials (g) per 100g of contents	19	1.8
Transportation efficiency	△	○
Bag drop strength	△	○
Returnable Box	Cardboard Paper Box	Returnable box (Expanded PP Sheet)
		
Number of usable times	1	50
Consumption of packaging materials (kg/year)	24.9*	1.4
Reusability	×	○
Water resistance, Load bearing, Cleanness	×	○

* 50 sheets

Our Efforts through Participation in External Initiatives



Sumitomo Chemical is participating as a founding member in the Alliance to End Plastic Waste (AEPW), which was launched in January 2019, a global initiative that promotes efforts to reduce and prevent plastic waste. We are planning and implementing individual projects in cooperation with companies and other organizations, especially AEPW members involved in the value chain of plastics.

We are also actively participating in the Clean Ocean

Materials Alliance (CLOMA) and Japan Initiatives for Marine Environment as efforts to reduce marine plastic waste, and we are considering plans for contributing to the resolution of these issues.

In addition, we are participating in the International Council of Chemical Associations (ICCA) and the Japan Chemical Industry Association (JCIA), and are working together in discussions on microplastic substitutes based on sound science.

One Year at Sumitomo Chemical

In fiscal 2018, the last year of the previous Corporate Business Plan, profits decreased compared with the previous year, when the company achieved record profits. At the same time, Sumitomo Chemical has steadily promoted initiatives leading to future growth, including the completion of a high-purity chemicals plant for semiconductors and the start of commercial production at the new methionine plant. It was also a year in which the company promoted efforts to maintain the sustainability of the company itself and of society as a whole, including establishing the Sustainability Promotion Committee and identifying material issues.

News Items by Business Sector

Pharmaceuticals

Sumitomo Dainippon Pharma launched LONHALA® MAGNAIR®, a treatment for chronic obstructive pulmonary disease (COPD) in the U.S.



Petrochemicals & Plastics

Developed PMMA-based light and strong transparent resin.



IT-related Chemicals

Made a polarizing film manufacturing company in Wuxi, China into a subsidiary.

Health & Crop Sciences

Newly established Chemistry Research Center (CRC) in Takarazuka and began its operations.



Pharmaceuticals

Sumitomo Dainippon Pharma obtained approval in Japan for TRERIEF, a therapeutic agent for Parkinson's disease, to add an additional indication of parkinsonism in dementia with Lewy bodies.

Health & Crop Sciences

Biorational Research Center (BRC) in the U.S. started operation.



2018

April

May

June

July

August

September

October

Company-wide News Items

Established the "Sustainability Promotion Committee"

➤ P24

Third Sustainable Tree Project Conducted

Sumitomo Chemical's Sustainable Tree is a project in which Japan and overseas employees can post to a dedicated website about how they can contribute to bringing about a sustainable society, focusing on the SDGs. Through this website, the company introduces its outstanding initiatives, products, and technologies, leading to mutual awareness-raising and information exchange among organizations and employees.



The Sumitomo Chemical Group's Greenhouse Gas Reduction Targets Approved by the Science Based Targets Initiative



➤ P26, 70–71

Energy & Functional Materials

Tanaka Chemical Corp. decided to expand production facilities and infrastructure facilities for cathode materials for lithium-ion secondary batteries.



Health & Crop Sciences

Decided to merge two group companies in India, aiming to increase its presence in the fast growing crop protection market there.

Pharmaceuticals

Started a physician-led study of Parkinson's disease using iPS cell-derived dopamine neural progenitor cells, in which Dainippon Sumitomo Pharma Co., Ltd. is working in cooperation with the iPS Cell Research Institute (CiRA) of Kyoto University to find practical applications.

Petrochemicals & Plastics

The Polyolefin Company (TPC) remodeled part of its line and began full-scale production of polypropylene for separators for batteries.

IT-related Chemicals

Invested ¥5 billion in JOLED Inc. by way of acquiring some of JOLED's new shares issued through third-party allocation.

IT-related Chemicals

Expanded capacity of a manufacturing facility for film-type touchscreen panels in Korea.

Health & Crop Sciences

Completed the new methionine plant.



Pharmaceuticals

Nihon Medi-Physics started construction of CRADLE, a drug discovery facility, in its Chiba location to promote early realization of "theranostics" (fusion of therapeutics and diagnostics).



Energy & Functional Materials

Tanaka Chemical Corp. decided to expand its plant buildings and production facilities for cathode materials for lithium-ion secondary batteries.

Health & Crop Sciences

Invested in Nileworks, an agricultural drone company, by partial underwriting of a private placement of new shares totaling about 1.6 billion yen.



2019

November

December

January

February

March

Sumitomo Chemical Acquires CDP's Highest Rating in Corporate Climate Action Survey

CDP is an international non-governmental organization that promotes initiatives by companies and governments toward reduction of greenhouse gas emissions, management of water resources, and conservation of forests. In the CDP's 2018 survey, 126 global companies and 20 Japanese companies were named to the Climate A List, selected from among about 7,000 companies that disclosed information on their climate change-related activities. Sumitomo Chemical is one of the 20 Japanese companies on the A List.



Material Issues Identified for Sustainable Value Creation

➤ P24

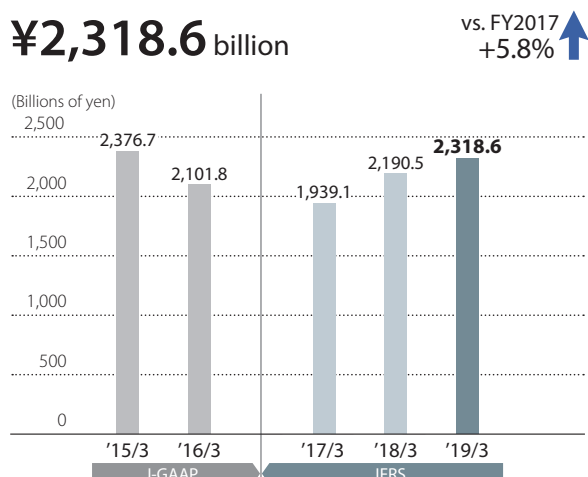
Received a 2018 Best IR Award from the Japan Investor Relations Association (JIRA)

Sumitomo Chemical received a 23rd Best IR Award from the Japan Investor Relations Association. In fiscal 2015, the company received the IR Special Award, but this is the first time it has received a Best IR Award. The purpose of the Best IR Award is to select and recognize companies that have achieved excellent results, including deeply understanding the purpose of IR, actively engaging in IR activities, and gaining the high support of market participants.

Financial and Non-Financial Highlights

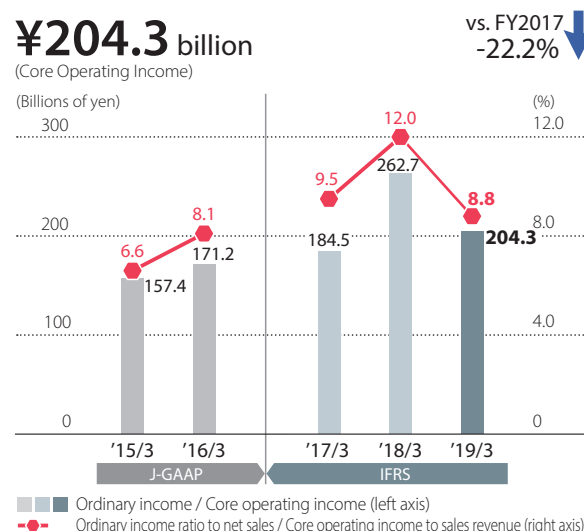
Financial Highlights

J-GAAP Net Sales
IFRS Sales Revenue



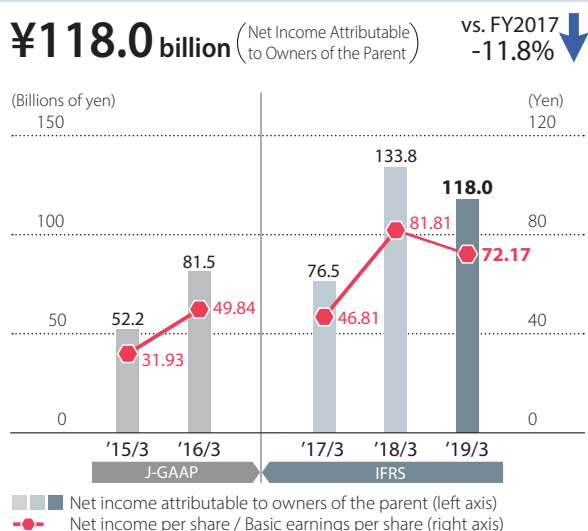
Sales revenue increased by 128.1 billion yen from the previous fiscal year due to an increase in shipments accompanying business expansion and a rise in product prices in the Petrochemical & Plastics Sector in line with a rise in raw material prices.

J-GAAP Ordinary Income / Ordinary Income to Net Sales
IFRS Core Operating Income / Core Operating Income to Sales Revenue



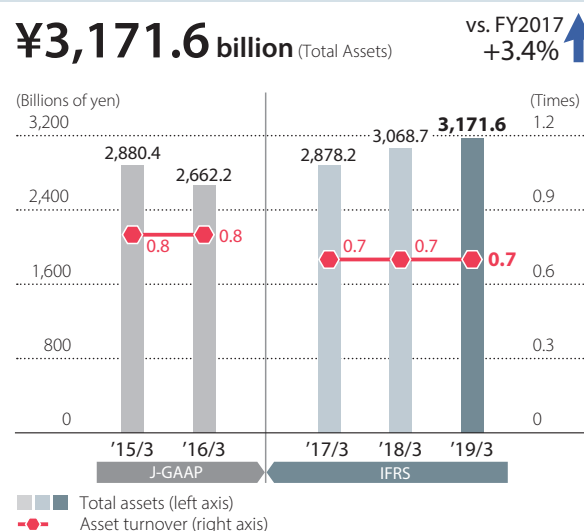
Despite increased shipments in the IT-related Chemicals Sector and the Energy & Functional Materials Sector, core operating income declined by 58.4 billion yen from the previous fiscal year due to the impact of periodic maintenance shutdowns conducted in fiscal 2018 and decreased shipments of agrochemicals caused by extreme weather in North America.

J-GAAP Net Income Attributable to Owners of the Parent / Net Income per Share
IFRS Net Income Attributable to Owners of the Parent / Basic Earnings per Share



Net income attributable to owners of the parent decreased by 15.8 billion yen compared to the previous fiscal year due to a deterioration in core operating income, despite an improvement in foreign exchange gains and losses and a decrease in the burden of income taxes.

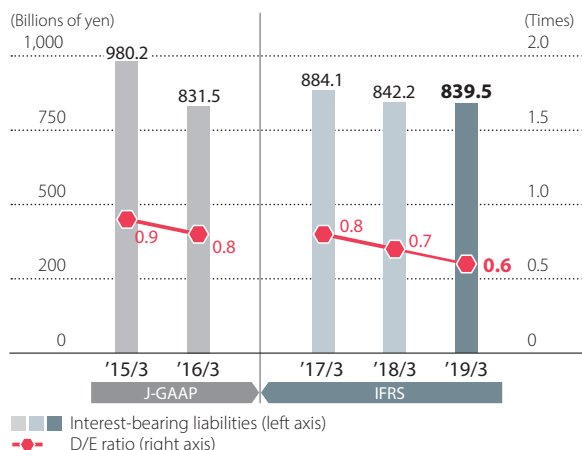
Total Assets / Asset Turnover



Total assets increased by 102.9 billion yen from the end of the previous fiscal year due to increases in inventories and property, plant and equipment.

Interest-bearing Liabilities / D/E Ratio

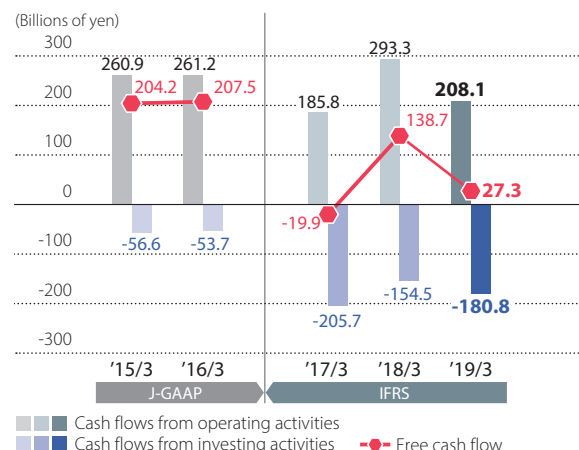
¥839.5 billion (Interest-bearing Liabilities) vs. FY2017 **-0.3%** ↓



Interest-bearing liabilities remained almost unchanged from the end of the previous fiscal year. On the other hand, due to an increase in retained earnings, total assets increased and the D/E ratio improved.

Cash Flows from Operating Activities / Cash Flows from Investing Activities / Free Cash Flow

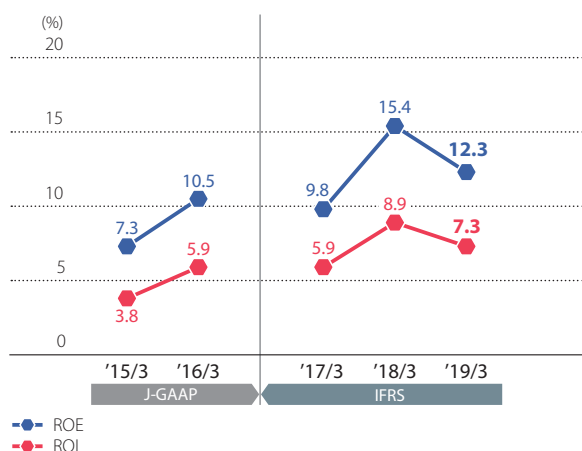
¥27.3 billion vs. FY2017 —



Cash flows from operating activities decreased by 85.1 billion yen from the previous fiscal year due to an increase in working capital and a deterioration in business performance. Cash flows from investing activities increased by 26.3 billion yen due to an increase in payments for the purchase of fixed assets. As a result, free cash flow decreased by 111.4 billion yen.

ROE / ROI

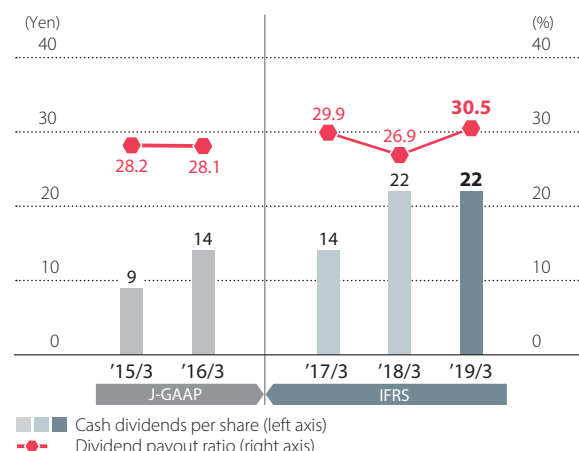
12.3% (ROE) vs. FY2017 **-3.1pt** ↓ **7.3%** (ROI) vs. FY2017 **-1.7pt** ↓



ROE exceeded the goal of 10%, while ROI exceeded the goal of 7%. However, both ROE and ROI declined from the previous fiscal year due to a deterioration in business performance.

Dividend Payout Ratio / Cash Dividends per Share

30.5% (Dividend Payout Ratio) vs. FY2017 **+3.6pt** ↑



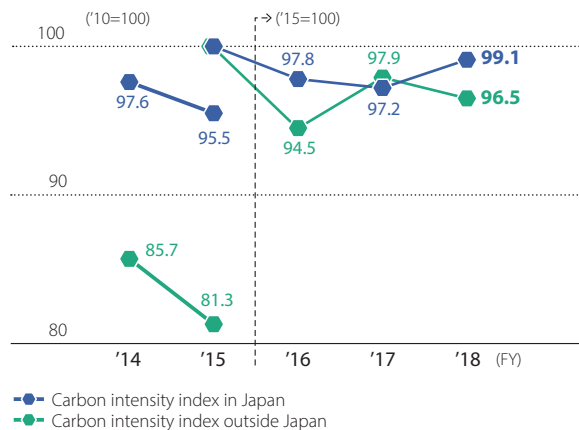
In fiscal 2018, the company paid a full year dividend of 22 yen per share. Consequently, the dividend payout ratio was 30.5%.

Non-Financial Highlights

Carbon Intensity Index in Japan* / Carbon Intensity Index outside Japan*



Japan **99.1** vs. FY2017 +1.9pt ↑ Outside Japan **96.5** vs. FY2017 -1.4pt ↓



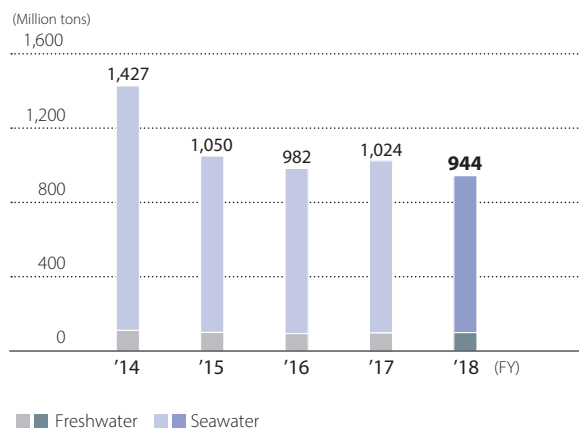
The reason for the deterioration from the previous fiscal year in the intensity index of CO₂ emissions in Japan in fiscal 2018 is a decline in the capacity utilization rate because of periodic maintenance of factories and other factors. Sumitomo Chemical is working to improve this index, both inside and outside Japan, putting greater focus on saving energy.

* Index reflects the total production plants of Sumitomo Chemical and its major Group companies that share CO₂ emission intensity index reduction goals.

Water Usage



944 million tons vs. FY2017 -80 million tons ↓

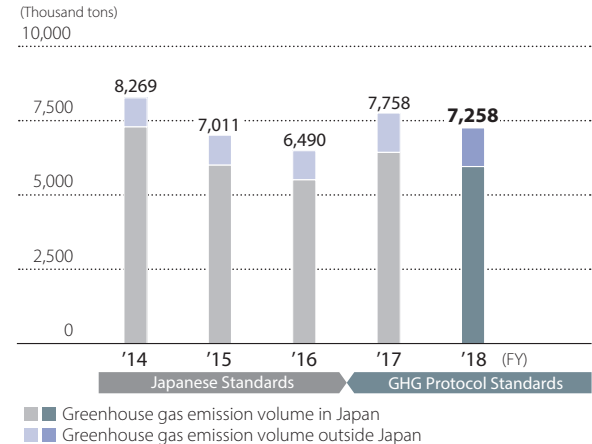


We will work to reduce water usage through effective use of water, depending on the application, while endeavoring to assess risks to water supplies. Seawater is used for cooling plants and other facilities.

Greenhouse Gas (GHG) Emission Volume



7,258 thousand tons vs. FY2017 -500 thousand tons ↓

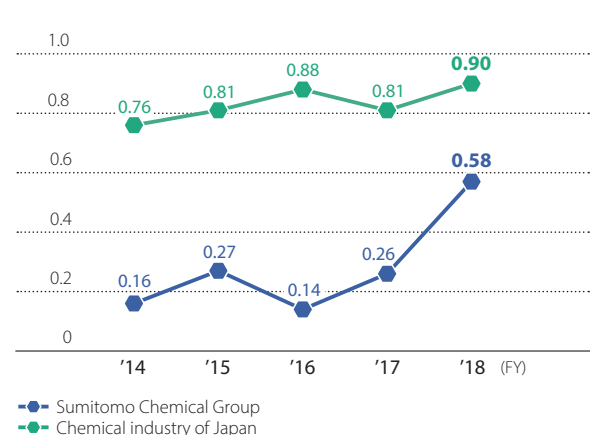


The main factors contributing to the year-on-year decline in GHG emissions in fiscal 2018 were the temporary impact of periodic maintenance at Sumitomo Joint Electric Power Co., Ltd., our Group company. We will continue our efforts to achieve the targets certified by the Science Based Targets initiative in the future.

Lost-workday Incident Rate*



0.58 vs. FY2017 +0.32pt ↑



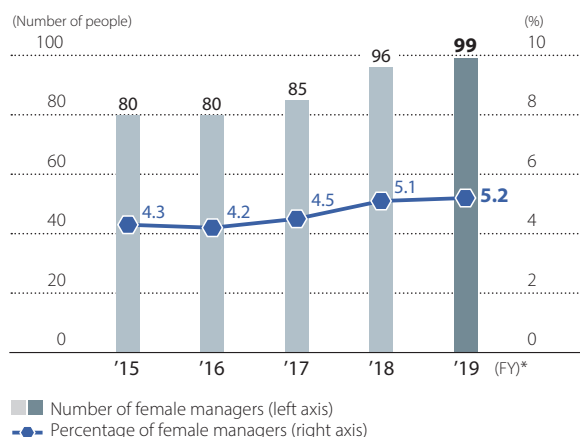
The frequency rate of lost-workday incidents for fiscal 2018 was 0.58, which was far worse than our target of 0.1. We will thoroughly investigate the cause and implement basic safety rules to take preventive measures.

* Indicates the frequency of industrial incidents as the number of deaths and injuries per one million hours of total work time.

Number of Female Managers / Percentage of Female Managers (Non-consolidated)



5.2% (Percentage of Female Managers among Managers) vs. FY2018 **+0.1pt** ↑

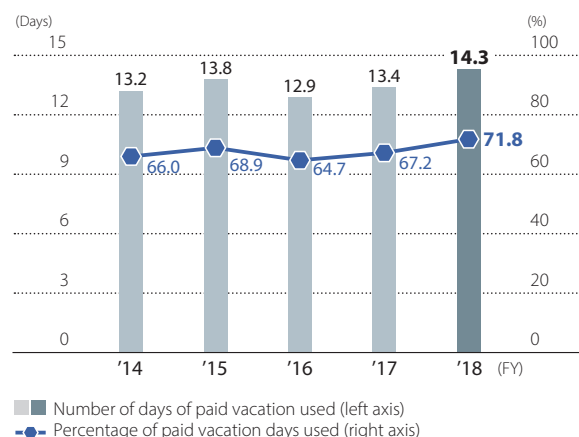


In order to promote the advancement of female employees, Sumitomo Chemical has set a goal of at least 10% of female employees in positions equivalent to managers or above.

* All numbers as of April 1 of that year

Number of Days of Paid Vacation Used / Percentage of Paid Vacation Days Used (Non-consolidated)

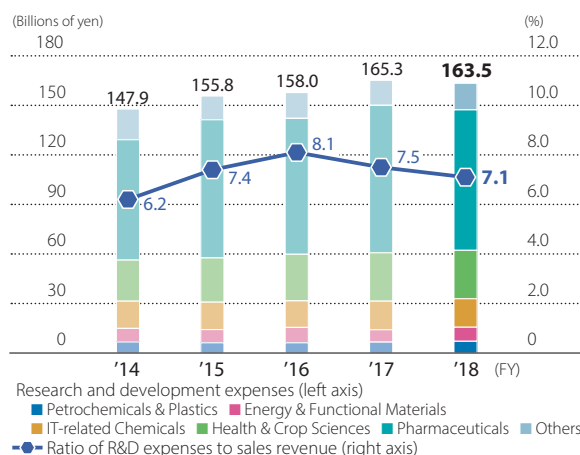
71.8% (Percentage of Paid Vacation Days Used) vs. FY2017 **+4.6pt** ↑



Sumitomo Chemical has set numerical targets formulated in March 2018 for promoting the use of annual paid holidays in its action plan to reform workstyles. In fiscal 2018, we achieved our target of an average of 70% per year.

Research and Development Expenses / Ratio of R&D Expenses to Sales Revenue

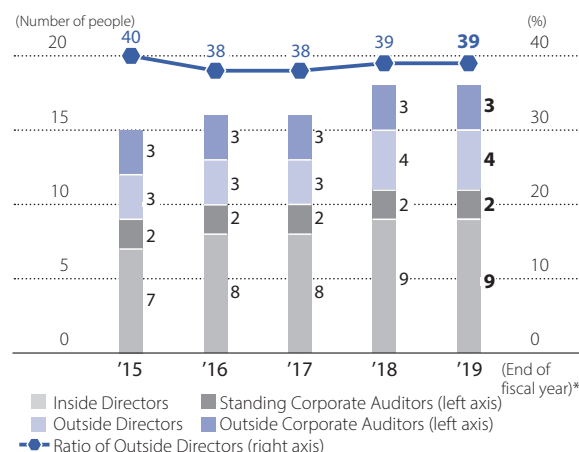
¥163.5 billion (Research and Development Expenses) vs. FY2017 **-1.1%** ↓



R&D expenses for the previous Corporate Business Plan (FY2016-FY2018) amounted to 486.8 billion yen. The new Corporate Business Plan (FY2019-FY2021), which began in fiscal 2019, is expected to spend approximately ¥540 billion, primarily in specialty chemicals in the Pharmaceuticals Sector and the Health & Crop Sciences Sector.

Directors / Outside Directors / Ratio of Outside Directors and Corporate Auditors

4 (Number of Outside Directors)



With the goal of further strengthening the Board of Directors' oversight and advisory functions to increase the transparency and objectivity of management, in June 2018 we added one outside director, increasing the total number to four (including one female director). As a result, of the 18 total members of the Board of Directors and the Board of Corporate Auditors, seven are outside members.

* FY2019 only as of July 1



Corporate Governance that Supports Evolution in Business Strategy

Masakazu Tokura, who was appointed Chairman of the Board in April 2019, welcomed two of Sumitomo Chemical's Outside Directors, Koichi Ikeda and Hiroshi Tomono. They reviewed the previous Corporate Business Plan and frankly discussed expectations and challenges for the new Corporate Business Plan, as well as the evolution of corporate governance and the election of a new President.

➤ P20:: Corporate Business Plan

Masakazu Tokura
Chairman of the Board

Koichi Ikeda
Outside Director

Hiroshi Tomono
Outside Director

Corporate Business Plan Phases 1 and 2: Producing Steady Achievements

Tokura Mr. Ikeda and Mr. Tomono, you were both appointed to be directors in June 2015. Mr. Ikeda, you have provided guidance for nine years since your appointment as a corporate auditor in June 2011, and Mr. Tomono, you have provided guidance for five years.

Ikeda When you became President, Mr. Tokura, the top priority was to enhance financial strength. At that time, new businesses and growth strategies were prevalent in many Corporate Business Plans. However, Sumitomo Chemical's first priority was to improve its financial position, and it was able to steadily achieve this goal. As a result, I believe this was the best strategy.

Tomono I joined the discussion of the Corporate Business

Plan starting in Phase 2. I think the most outstanding part of Sumitomo Chemical's Corporate Business Plan is that it is a combined plan over a period of nine years (3 Phases of three years each). We have decided on priorities every three years with continuity and without disruption, and have produced results for Phase 1 (FY2013-FY2015) and Phase 2 (FY2016-FY2018).

Ikeda Phase 1 has achieved dramatic results, prioritizing enhancing financial strength, and Phase 2 has upgraded our portfolio from bulk chemicals to specialty chemicals. The Energy & Functional Materials Sector appeared to be a bunch of different businesses thrown together when it was launched in 2015, but has grown tremendously over the three years of Phase 2. I once again felt how important it is for companies to set out ideas not only using words, but also by first creating a model in this way.

Tokura When we decided to launch another business after the IT-related Chemicals Sector, we considered what businesses we should undertake. We have reached the conclusion that energy and the environment will be the main sources of our business. In response, we created a box for the 'Energy & Functional Materials Sector,' and presented a vision of nurturing and developing businesses in this sector. The IT-related Chemicals Sector and the Energy & Functional Materials Sector have steadily expanded their business scale thanks to the efforts of employees on the ground, although they are still in the process of development.

Improved the Effectiveness of Governance

Tomono So far, we have withdrawn from some of our businesses. As a manager, I have experienced this many times, but it is still difficult in a variety of aspects, including cost and employment. This is why it is important that we have organized processes that are acceptable not only to the Board of Directors, but also to the front-line employees who have worked so hard.

Ikeda In this sense, I have a strong impression of withdrawing from the DPF*¹ business. Over the years, Sumitomo Chemical's corporate governance has evolved, and the Board of Directors has begun to actively discuss business risks. I believe that DPF was the first case where the business sector's report, which is the basis for discussion, was a good deal more candid.

Tokura We withdrew from the DPF business in November 2017, but we had begun the 'Rotation Report'*² system before then, in fiscal 2015. In fiscal 2016, the Board of Directors began reporting on issues discussed at the Management Meetings and other internal meetings, and it may be said that improvements to fill gaps in information for both inside and Outside Directors have been effective.

Tomono Since fiscal 2018, in addition to reporting on the points discussed in the Management Meeting, we have also been talking about the background and context, such as how the original plan changed as a result of the discussion. After understanding that, members of the Board of Directors can decide whether to enter or exit the business.

Ikeda We have introduced a series of measures to revitalize the deliberations of the Board of Directors by incorporating requests from Outside Directors. Monitoring of business execution has also become much easier.

Expectations and Issues for the Corporate Business Plan Phase 3

Tomono Regarding Phase 3 (see p.20), even as Outside Director, we received frequent reports starting from the development stage. I feel that this plan was thoroughly discussed within the company, in light of your confidence from succeeding with Phase 1 and 2, and what you have learned from failures. What should be done is well crafted, so the remaining issue is how we should do it. Because the circumstances surrounding Phase 3 are quite different, it is not possible to draw on previous successful experiences. Therefore, it is vital that we not be led astray by past successes, and that we do not focus too much on self-reliance, but rather make good use of external resources.

Tokura It is exactly what you pointed out. However, this is easy to say but difficult to do. It is very difficult to change familiar work methods and ideas. Therefore, in order to begin by building a model here as well, we are rapidly moving forward, setting up an Innovation Ecosystem with various start-ups, and creating innovation centers overseas. Through these initiatives, we aim to accelerate the creation of next-generation businesses.

Tomono Another key element of Phase 3 is improving productivity through digital innovation. This involves raising the productivity of plants or improving the efficiency of work in internal departments, and I believe that promoting this in a broader and deeper context will lead to better results.

Tokura We understand that. First, we will build a solid data foundation with our existing assets at the core—our organizations and personnel in computational science and process safety engineering—and use that to improve productivity. We included this in our basic policy with the intention of starting from here. Neither the Innovation Ecosystem nor digital innovation will be finished in the next three years, but it is time-consuming so I would like to do it by trial and error, prioritizing speed.

*1 Diesel particulate filter (DPF): Aluminum titanate particulate removal filters for diesel engines. Sumitomo Chemical had manufactured and sold DPF since September 2011. However, we judged it difficult to secure stable earnings over the medium to long term, and announced our withdrawal in November 2017.

*2 Rotation Report: Comprehensive and systematic reporting over a significant amount of time for each sector.



**I think the fact that
the Nomination Advisory Committee
was able to hold effective discussions
merits high praise.**

— Koichi Ikeda

Selected the Next President with Transparency and Objectivity

Tokura In April this year, I was appointed Chairman of the Board, and Mr. Iwata was appointed to be the new President. We have a non-mandatory Nomination Advisory Committee, which consists of six members: all four Outside Directors, the Chairman of the Board, and the President. In deliberations by the Nomination Advisory Committee, you both actively participated in the discussion.

Ikeda For most companies, the Nomination Advisory Committee and the Remuneration Advisory Committee are still non-mandatory. Moreover, there are still few examples of committees functioning effectively. This is the first time at Sumitomo Chemical that the Nomination Advisory Committee, which includes Outside Directors as members, has considered and selected the new President. This is groundbreaking and deserves praise.

Tokura Sumitomo Chemical appoints a President by spending plenty of time deliberating matters in the Nomination Advisory Committee, which then advises the Board of Directors. In order to make deliberations by the Nomination Advisory Committee meaningful, it is necessary for the members of the committee to look in advance at potential candidates for the position of President. Therefore, from an early stage, Sumitomo Chemical has worked to increase the number of opportunities for potential candidates to talk with Outside Directors who are members of the Nomination Advisory Committee. This has meant that, where possible, we have had executives below the level of managing executive officer report to the board—in other words, executives who could be candidates to become directors.

Ikeda I believe that transparency and objectivity are required of the Nomination Advisory Committee. The appointment of a new president, at least from the standpoint of outside directors, tends to be sudden, but Sumitomo Chemical took a considerable amount of time on this occasion. I think the selection process was reasonable.

Tomono I think that taking our time and going through necessary processes helped to increase the transparency of our processes and foster a sense of acceptance among the people involved. As for the content of the deliberations, the next President's qualifications were central.

Tokura Yes. Amid the dramatic changes in the business climate, we have focused on examining what qualities are required of the next President. As a result, we all agreed that bold and precise leadership and decisive action are required to lead the company, and discussed several candidates based on this common awareness. We are a company that operates in the diversified chemical field, which has a wide range of businesses. The next President was expected to have the ability to formulate a vision and make proposals regarding what kind of company Sumitomo Chemical aims to be in the future. Furthermore, we are a company with manufacturing, sales, and research functions supported by a large number of employees, both in Japan and overseas in various regions. The next President would need to be a person with the qualities and abilities, including character and insight, to lead this sort of organization. As a result of deliberations from these perspectives, we concluded that Mr. Iwata was the best candidate for the next President, and as a Nomination Advisory Committee, we advised the Board of Directors to this effect. The Board of Directors then resolved and finalized the decision.

Tomono During this series of processes, Mr. Ikeda and I have thoroughly communicated our experiences as presidents, despite the fact that our industries and business formats differ from those of Sumitomo Chemical. In that sense, I believe that we have fulfilled our role.

Future Expectations for Sumitomo Chemical

Ikeda The chemical industry—and this may be true of the diversified chemical industry in particular—is not highly valued by the stock market. I expect the new President and Chairman of the Board, under the new structure, to undertake activities which further expand the strengths and benefits unique to a diversified chemical company, and activities which grow the pesticides and pharmaceuticals businesses.

Tomono I believe that we are currently in the process of starting to think about the next 100 years. As the pace of change in the business environment is accelerating, if we imagine what Sumitomo Chemical would like to be 80 years from now, or in other words, around 2100, instead of 100 years, we could lead to concrete business growth in the sense that you mentioned, Mr. Ikeda.

Ikeda Looking at Sumitomo Chemical, I feel that companies are established on the history and assets that people have built. Speaking to globalization, over the years, we have been expanding overseas in a way that is closely linked to local communities. I believe that this kind of foundation enables us to consider the next stage of our growth.

Tokura Sumitomo Chemical has passed on its philosophy, in the form of the Sumitomo Business Principle, “Our businesses must benefit society at large, not just our own interests. (Jiri-Rita Koushi-Ichinyo)” which emphasizes the importance of earning the trust of society, for about 100 years since its founding. We aim to realize sustainable growth by addressing societal issues by making the most of our three core abilities: our ability to develop innovative solutions by leveraging our technological expertise in diverse areas, our loyal employees, and our ability to reach global markets, which you mentioned earlier, Mr. Ikeda. Corporate governance is the foundation of these efforts, and there is no end to improving or strengthening corporate governance. As Chairman of the Board, I will continue to work to improve the effectiveness of the system. Thank you very much for meeting with me today.



**I believe that we are currently
in the process of starting to
think about the next 100 years.**

— Hiroshi Tomono

**We are committed to
solving societal issues and
achieving sustainable growth.**

— Masakazu Tokura

