

President's MESSAGE



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Now is the time to demonstrate the strength of a diversified chemical company with the power of our diverse businesses

Return to a strong growth trajectory

Aiming to achieve recovery in FY2024 by leveraging three growth drivers

In FY2022 we faced a challenging business environment but delivered some positive results

We at the Sumitomo Chemical Group posted record profits in FY2021 and launched our new Corporate Business Plan in FY2022. We faced dramatic changes in the business environment that were beyond our expectations during FY2022, such as significant increases in raw material and fuel prices and supply chain disruptions following Russia's invasion of Ukraine and a downturn of the world economy. It was a very challenging year as our financial performance deteriorated due to the effects of the expiration of exclusive marketing rights in the U.S. of Sumitomo Pharma's major drug LATUDA® and a slump in the petrochemicals, display materials, and semiconductor markets.

Despite the circumstances, we steadily implemented the measures that needed to be taken and delivered some positive results. First, we achieved strong earnings in the fields of high-performance chemicals of our IT-related Chemicals and Energy & Functional Materials Sectors as well as in our Health & Crop Sciences Sector in FY2022, even in the face of a difficult environment.

We also decided various strategic investments totaling approximately 200

billion yen. They include construction of a new semiconductor processing materials plant in the U.S. in the IT-related Chemicals Sector, an acquisition of a biostimulant business in the Health & Crop Sciences Sector, and Sumitomo Pharma's integration of Myovant Sciences Ltd. in the Pharmaceuticals Sector, whereby Myovant Sciences, formerly a majority-owned subsidiary, has become a wholly-owned subsidiary of Sumitomo Pharma. These strategic investments, all made in line with the policy of our Corporate Business Plan, will provide solid stepping stones to achieve the targets set for the final year of the plan period.

In addition, we are making steady progress in our group-wide initiatives of green transformation and digital transformation. In the green transformation effort, which is led by the Carbon Neutral Strategy Cross-Functional Team, various initiatives are underway in technology development and implementation, stakeholder collaboration, and other areas. Digital transformation is also advancing driven by our people on the frontlines of manufacturing, research, logistics, and other operations.

Meanwhile, regrettably, we had several occupational accidents during the year. To prevent such accidents, as well as to fulfill our mission to support the manufacturing sector as a member of Japan's essential industry, we will step up efforts to ensure safety and continue to be committed to placing safety above all else.

In FY2023 we will counteract the effect of an expected downturn in the Pharmaceuticals Sector by leveraging the power of our diverse businesses

In FY2023, the Pharmaceuticals Sector is expected to post a large loss due to effects of the expiration of exclusive marketing rights of LATUDA®, making a major impact on the Group's financial results. On the other hand, market conditions for petrochemicals and feed additive methionine and demand for semiconductors are expected to bottom out in the first half of the year and then begin to recover.

By nature of the business, the Pharmaceuticals Sector cannot avoid effects of patent expiration. But the sector is basically less likely to be affected by fluctuations in the economy and can deliver stable earnings, and it has actually made substantial contributions to the Group's earnings. In FY2023, the other business sectors need to step up to counteract the effect of a downturn in the Pharmaceuticals Sector and hold up the Group's performance, and we view the year as a time when the true strength of Sumitomo Chemical as a diversified chemical company and the power of our diverse businesses will be tested. As we head toward FY2024, the final year of our Corporate Business Plan, we will carry out what we should do.

Our recovery plan toward FY2024

As we head toward FY2024, we have a solid plan to achieve a strong recovery. We will strive to deliver improved financial results in FY2024 by leveraging three growth drivers.

The first growth driver is regenerative agriculture. Regenerative agriculture is a new approach that aims to make farming sustainable by restoring and improving soil health while also reducing greenhouse gas (GHG) emissions as well as maintaining and enhancing biodiversity. The Sumitomo Chemical Group has long focused on low environmental impact crop protection chemicals and biorational products. By combining these solutions and going beyond the dichotomy between chemical products and non-chemical products, we will make our presence felt in the field of sustainable agriculture, which is expected to grow significantly in the future.

Second, we will step up efforts to maximize returns of our investments in high-performance materials such as semiconductor chemicals and liquid crystal polymers (LCP). These investments, made in anticipation of demand growth, are expected to start generating returns in FY2024.

The third growth driver is in the Pharmaceuticals Sector. We will strive to maximize the value of ORGOVYX®, MYFEMBREE®, and GEMTESA®, the three key products that are expected to drive the sector's post-LATUDA growth, through alliances with other companies and expansion of indications. FY2024 target sales revenues of these products are 200.0 billion yen. With these efforts and rationalization by reorganizing North American subsidiaries, the Pharmaceuticals Sector will strive to achieve a V-shaped recovery.

Leveraging these growth drivers while also working on efforts to improve our business structure, including structural reforms and rationalization of the display



materials business, we aim to achieve core operating income of 200 billion yen in FY2024.

Solving social issues and increasing corporate value based on our corporate philosophy

Upgrading our business portfolio from a broadly-defined green transformation (GX) perspective

In all ages, our purpose is to carry out Jiri-Rita Koushi-Ichinyo—our credo that comes from Sumitomo's business principles, which means that our business must benefit society at large, not just our own interests. We are firmly committed to solving social issues and enhancing our corporate value at the same time, and since FY2022 we have been working to upgrade our business portfolio from the perspective of broadly-defined green transformation, which includes not only

achieving carbon neutrality but also conserving biodiversity and ensuring people's healthy lives. In addition, commitment to technological innovation for contributing to society is embedded in Sumitomo Chemical's DNA. As we pursue our purpose, we will continue to strive to drive innovation, create next-generation new businesses in our priority areas, and thereby contribute to society.

Our efforts toward achieving carbon neutrality are advancing, including collaboration with other companies and visualization of our contributions

During the past year, we made real progress and delivered a number of achievements in our efforts toward achieving carbon neutrality.

In the area of recycling, we have launched a business alliance with REVER Corporation for material recycling of waste plastics derived from end-of-life vehicles. In addition, we have constructed a new pilot facility for chemical recycling

of acrylic resin (polymethyl methacrylate or PMMA) in Ehime, Japan, which was completed in December 2022. Shipment of samples is scheduled to begin in fall 2023. The recycled acrylic resin will be the first product to be provided under the Meguri® brand, which Sumitomo Chemical launched for its plastic products made with recycling technology. Moreover, we are working with local governments to collect and recycle acrylic plastic partition panels used for reducing the spread of droplets that are no longer in use as COVID-19 prevention measures were lifted. The recycled products made in this project will be also provided under the Meguri® brand.

Sumitomo Chemical's projects to develop chemical recycling technologies, which include four themes such as olefin production through direct cracking of waste plastics, were selected for the Green Innovation Fund Project*. The project has come to the stage of pilot plant design, and we aim to implement the technology in society by 2030.

Cooperation with other companies is essential to implementing new technology in society. In November 2022, the Keiyo Coastal Industrial Complex Council on Carbon Neutrality, led by the government of Chiba Prefecture, Japan, was established, and we actively engage in the Council's discussions. In addition, Sumitomo Chemical, Mitsui Chemicals, Inc., and Maruzen Petrochemical Co., Ltd. are considering starting collaborative projects toward carbon neutrality at the Keiyo Coastal Industrial Complex. The projects under study include developing and implementing chemical recycling and material recycling technologies, sourcing biomass for feedstock, collecting waste for recycling, and jointly implementing fuel conversion and construction of associated infrastructure.

We have also started procurement of clean ammonia, which is expected to be a next-generation energy source, in cooperation with Yara International ASA

of Norway, the world's leading ammonia manufacturer.

While we are making these various efforts toward achieving carbon neutrality, we consider that it is also important to quantify and visualize the contributions that these efforts are actually providing to society. As one of the indicators for the contributions, we have been using sales revenue of Sumika Sustainable Solutions; that Group's products help to address climate change, reduce environmental impact and promote effective use of resources. The sales revenue of these products in FY2022 was approximately 680 billion yen. We aim to increase this figure to 1.2 trillion yen by FY2030.

In addition, we have established a new indicator named Science Based Contributions (SBC) that represents the calculated amount of avoided GHG emissions achieved through the use of our products as well as the use of our technologies under license. The latest SBC indicator totaled approximately 8.30 million tons per year, with 5.60 million tons of GHG emissions reductions achieved through the use by customers of our products such as herbicide flumioxazin and 2.70 million tons resulting from process improvement by licensees using our technologies such as the propylene oxide-only process. This almost matches the amount of Sumitomo Chemical's Scope 1 and Scope 2 GHG emissions, which totaled 7.65 million tons in FY2021, and shows the great potential of our products and technologies to contribute to GHG emissions reduction. We will widely use the SBC as an indicator to clarify the contributions of the Sumitomo Chemical Group as well as the chemical industry to the achievement of carbon neutrality.

In order to achieve carbon neutrality of society as a whole, not just Sumitomo Chemical but all companies in supply chains will be required to be able to quantify the carbon footprint of each one of their products. Sumitomo Chemical has

developed a proprietary carbon footprint calculation tool for chemical products. We have made the tool available free of charge, and it is currently used by about 70 companies. We received the 2023 Responsible Care Award from the Japan Chemical Industry Association in recognition of the tool's contribution as one of the infrastructure platforms for the chemical industry.

*Note: The Green Innovation Fund Project is an initiative implemented by the Ministry of Economy, Trade and Industry (METI), the New Energy and Industrial Technology Development Organization (NEDO), a national research and development agency, and others toward achieving carbon neutrality by 2050, with a 2 trillion-yen fund created under NEDO. This project is intended to provide continuous support for the effort of companies and other organizations committed to ambitious goals, from research, development and demonstration to implementation in society, for a period of ten years.

Contributing to conserving biodiversity through effective use of water resources and other efforts

Biodiversity is closely linked to carbon neutrality. However, unlike carbon neutrality, which can be approached using GHG emissions as a globally accepted common yardstick, the issue of biodiversity is difficult at present to address quantitatively. Nevertheless, we consider that it is necessary to clearly demonstrate the relations between our business activities and nature, rather than just do some nature conservation activities.

The Sumitomo Chemical Group will strive to promote biodiversity along the two axes of efforts to reduce negative impacts on natural capital and efforts to increase positive impacts on natural capital.

To reduce negative impacts on natural capital, it is necessary, for example, to make effective use of water resources. At our factories in India, we treat household wastewater with earthworm farming technology and use it after treatment. By doing so, we have reduced our river water

use by more than 70% while ensuring a stable water supply necessary for our production operations. As for efforts to increase positive impacts on natural capital, we have developed crop protection chemicals suitable for no-till farming, a form of regenerative agriculture that avoids tilling to maintain and restore the soil environment, and are working to promote the spread of this farming method. We have also been working on research and development of mycorrhizal fungi, a class of useful microorganisms living in the soil, that are expected to help reduce CO₂ emissions and improve soil fertility. We will contribute to conserving biodiversity by providing a broad range of effective agricultural solutions, from herbicides and other crop protection chemicals to farming materials to promote plant growth and maintain soil health.

Strengthening human resources and technological expertise that form our core competencies

Working to maintain and enhance diversity of our human resources

Sumitomo Chemical is engaged in diverse businesses, and our people have diverse skills, knowledge, and experience. That diversity of our people is one of our greatest strengths. To maintain and enhance it, we are implementing various initiatives.

In hiring people, we prioritize recruiting sources that can attract highly competent candidates, and currently we focus on regular hiring of new graduates, while also recruiting people with experience as needed. We are very pleased to see that Sumitomo Chemical has been ranked 12th among companies in all industries and 5th in the chemical and materials industry in a 2023 ranking of most popular companies

among job-seeking science, technology and engineering graduate school students in Japan.

We are also stepping up efforts to provide more opportunities for senior employees. In 2006, Sumitomo Chemical introduced a reemployment system. We have already achieved a high level of continued employment of senior employees, and as of FY2021, the reemployment rate was 97%. In April 2024, Sumitomo Chemical will shift to a system in which the mandatory retirement age will be raised to 65, in order to create an environment where senior employees who have the desire and ability to work can continue to work under the same conditions.

Regarding the advancement of women, we will work to increase the ratio of women with science, technology and engineering backgrounds in new recruits while also creating an environment where women can continue their careers even after life events. We use the ratio of women in positions equivalent to manager and above as a key performance indicator (KPI), and it was 9.5% in FY2022, against the target of 10% or higher. We will continue to work to improve the ratio while also raising the target.

Driving innovation by combining diverse technologies

Sumitomo Chemical is a technology-driven company and aims to contribute to society through innovation. Innovation is not only about making new discoveries, but also about creating new value and impacts by combining the known with the known. Generally, the greater the variety of the technologies that are employed, the more likely that innovation will happen. Sumitomo Chemical, which possesses diverse technologies, has great potential to succeed in innovation.

In terms of technology, we consider base technology more important than

applied technology. Base technologies that we have built through our research activities of many years have led to a variety of new solutions and, in turn, the pursuit of new solutions has made our base technologies even stronger. A diversified chemical company is powered by this positive cycle of technological development. Leveraging this cycle, we will continue to create innovative new solutions to address social issues and trends.

In addition to these endeavors, we are stepping up open innovation. Overseas, we have established our Corporate Venturing & Innovation (CVI) Offices in innovation clusters such as Boston in the U.S. and Cambridge in the U.K. In Japan, we have opened a co-creation space called SYNERGYCA within our Tokyo headquarters, aiming to promote creation of innovative solutions through dialogs with various stakeholders including customers and other chemical companies.

Since FY2019, we have been implementing stage-gate management of new business creation projects. In this system, we categorize research projects into four stages, from ideation to commercialization. We have clearly-defined requirements for gate management in place and decide based on them whether a project can pass a gate and go on to the next stage, with business divisions deeply involved in the process. This system has enabled us to accelerate creation of new research projects and also decide more quickly whether or not to proceed, so that the metabolism of research projects has been improved. We will continue to work to identify projects with real potential, promote the growth of innovative new technologies, and create new businesses.

Striving to become a company that makes its stakeholders feel proud to have a stake in the company

Fulfilling our responsibility as a listed company with an emphasis on stable dividends

Finally, I would like to explain our thinking on dividends. Our dividend policy consists of two criteria: a payout ratio of 30% and stable dividends. For FY2023, we project an annual dividend of 12 yen per share, with emphasis on stable dividends, although it could send the dividend payout ratio considerably high as the business environment is expected to be challenging.

We consider that a company of our size needs to generate core operating income of around 100 billion yen regardless of the business environment. Deducting taxes from this amount and multiplying the result by a dividend payout ratio of 30% makes an annual dividend of approximately 12 yen per share. We view

this level as the minimum requirement to meet the criterion of long-term stable dividends, and we assume that a listed company is responsible for at least maintaining dividends at this level even in the current difficult circumstances. Going forward, we aim to put our performance back on a growth trajectory and achieve core operating income of 200 billion yen in FY2024, thereby realizing an annual dividend of 24 yen or more per share and meeting our stakeholders' expectations.

Enhancing our presence by carrying out the Sumitomo Spirit

We at the Sumitomo Chemical Group are committed to contributing to solving social issues through our business in accordance with the Sumitomo Spirit. And by doing so, we aim to enhance our presence and become a company that makes its stakeholders feel happy and proud to have a stake in the company. In this connection, I recently received a report that was particularly delightful to me. In a recent employee satisfaction survey, employees

gave a high rating in response to the question, "Do you think that you would like to recommend Sumitomo Chemical as a company to work for to your friends and family?" This means our people recognize that Sumitomo Chemical is an excellent company, so to speak, and I see this as something of significant value. I will work hard to ensure that Sumitomo Chemical will continue to be a company that our people feel that way about.

Although the business environment is expected to remain challenging, we will strive to put our performance back on a growth trajectory soon and increase our corporate value over the long term by leveraging our strengths as a diversified chemical company. We would appreciate you, our shareholders and other stakeholders, to continue to put your trust in Sumitomo Chemical's future.

