Current Priority Management Issues and Business Strategy

November 30, 2016
Overview of FY2016 Outlook
## FY2016 Forecast vs. FY2015

<table>
<thead>
<tr>
<th></th>
<th>FY2015</th>
<th>FY2016 Forecast</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net Sales</strong></td>
<td>2,101.8</td>
<td>1,960.0</td>
<td>-141.8</td>
</tr>
<tr>
<td><strong>Operating Income</strong></td>
<td>164.4</td>
<td>120.0</td>
<td>-44.4</td>
</tr>
<tr>
<td><strong>Ordinary Income</strong></td>
<td>171.2</td>
<td>130.0</td>
<td>-41.2</td>
</tr>
<tr>
<td><strong>Net Income</strong></td>
<td>81.5</td>
<td>60.0</td>
<td>-21.5</td>
</tr>
</tbody>
</table>

**Naphtha Price**

<table>
<thead>
<tr>
<th></th>
<th>FY2015</th>
<th>FY2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>¥ per kiloliter</td>
<td>¥42,800</td>
<td>¥32,700</td>
</tr>
</tbody>
</table>

**Exchange Rate**

<table>
<thead>
<tr>
<th></th>
<th>FY2015</th>
<th>FY2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>¥ per US Dollar</td>
<td>¥120.15</td>
<td>¥105.10</td>
</tr>
</tbody>
</table>
## FY2016 Operating Income Forecast By Sector vs. FY2015

(Billions of yen)

<table>
<thead>
<tr>
<th></th>
<th>FY2015</th>
<th>FY2016 Forecast</th>
<th>Change</th>
<th>Reason for Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Specialty Chemicals</td>
<td>142.9</td>
<td>114.0</td>
<td>-28.9</td>
<td></td>
</tr>
<tr>
<td>Energy &amp; Functional</td>
<td>2.8</td>
<td>3.0</td>
<td>0.2</td>
<td>Stronger yen, lower prices</td>
</tr>
<tr>
<td>Materials</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>IT-related Chemicals</td>
<td>19.9</td>
<td>6.0</td>
<td>-13.9</td>
<td>Stronger yen, lower prices, lower volumes</td>
</tr>
<tr>
<td>Health &amp; Crop Sciences</td>
<td>77.5</td>
<td>57.0</td>
<td>-20.5</td>
<td></td>
</tr>
<tr>
<td>Pharmaceuticals</td>
<td>42.7</td>
<td>48.0</td>
<td>5.3</td>
<td>Higher volumes</td>
</tr>
<tr>
<td>Bulk Chemicals</td>
<td>28.8</td>
<td>17.0</td>
<td>-11.8</td>
<td></td>
</tr>
<tr>
<td>Petrochemicals &amp;</td>
<td>28.8</td>
<td>17.0</td>
<td>-11.8</td>
<td>Lower margins, lower upfront license fee revenue</td>
</tr>
<tr>
<td>Plastics</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Others</td>
<td>-7.2</td>
<td>-11.0</td>
<td>-3.8</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>164.4</td>
<td>120.0</td>
<td>-44.4</td>
<td></td>
</tr>
</tbody>
</table>

(Note) After the sectors have been revised
Business Performance

Operating income from specialty chemicals

FY2006 72%
FY2015 83%
FY2016 87%
FY2018 90%

Net sales (left axis)
Operating income (right axis)
Ordinary income (right axis)
Net income (right axis)

Exchange rate

Operating income from specialty chemicals
Dividend Policy

We consider shareholder return as one of our priority management issues and have made it a policy to maintain stable dividend payment, giving due consideration to our business performance and a dividend payout ratio for each fiscal period, the level of retained earnings necessary for future growth, and other relevant factors.
Corporate Business Plan
Corporate Business Plan: Basic Policy

Last 10 Years

- Pave the way for future growth (Tackle three priority management issues)
  - Implemented Rabigh Project
  - Launched DSP and acquired Sepracor/BBI
  - Established and expanded IT-related Chemicals Sector

Where We Are

- Enhance financial strength
  - Improve profitability
  - Rigorously select investments
  - Improve asset efficiency

- Restructure businesses
  - Exit underperforming businesses
  - Improve business portfolio

Where We Are Going

- Further improve business portfolio
  - Identify areas of strength
  - Allocate resources to prioritized areas

- Generate more cash flow
  - Increase profit above cost of capital
  - Make active and disciplined investments
  - Streamline balance sheet

Accelerate the launch of next-generation businesses

- Environment and Energy
- Life Sciences
- ICT
- Crossover areas

Globalization

Promote globally integrated management

Ensure full and strict compliance, establish and maintain safe and stable operations
**Corporate Business Plan: Further Improve Business Portfolio**

**Identify areas where we have distinct strength and competitive advantage**

**Areas for aggressive investment and expansion**
- Where we have **technological advantages**
- Where we have market access advantages
- Focus resources on these areas (including M&A)

**Areas for efficiency improvement**
- Where it is difficult to achieve technological differentiation
- Where demand significantly fluctuates
- Enhance cost competitiveness and pursue asset efficiency

**Expand businesses that consistently yield profit above the cost of capital**

**Further improve business portfolio**

**Achieve profit above the cost of capital**
Maximize return on investment
Corporate Business Plan: Generate More Cash Flow

Enhance financial strength

- Improve profitability
- Rigorously select investments
- Improve asset efficiency

Generate more cash flow

Increase profit above the cost of capital
- Strengthen competitiveness
- Reduce costs

Make active and disciplined investments
- Identify areas for aggressive expansion
- Identify investment risks

Streamline balance sheet
- Continuously improve cash conversion cycle
- Sell non-operating, non-strategic assets

Build and maintain robust earnings power to consistently generate strong cash flow that allows us to take advantage of large-scale investment opportunities when they arise
Corporate Business Plan's Basic Policy: Accelerate The Launch of Next-Generation Businesses

Time for full-scale diffusion

2015

- ☑ Heat-resistant and thermal-conductive materials
- ☑ PLED lighting devices
- ☑ DPF
- ☑ CO₂ separation

2020 ~

- ☐ Power semiconductors (epitaxial wafers)
- ☐ Thermoelectric conversion materials
- ☐ Organic thin film photovoltaics
- ☐ Next-generation separators
- ☐ PES (automobile applications and new applications)
- ☐ S-DPF
- ☐ New gas barrier materials
- ☐ Next-generation secondary batteries

Environment and energy

- Printed electronics

ICT

- Flexible displays
  - ☐ Flexible touch sensors
  - ☐ Barrier film
  - ☐ Window film
  - ☐ Liquid crystal coated polarizing film

- Printed electronics
  - ☐ OLED displays (light-emitting materials)
    - ☐ Organic semiconductors
    - ☐ Biosensors

Life science

- Rice variety development
- ☑ Chemicals safety assessment and drug development using ES and iPS cells

Innovative agricultural solutions

- ☐ Expand mycorrhiza technology business (including mycorrhizal fungi)

Next-generation medical technology

- ☐ Contract manufacture of active ingredients for nucleic acid medicine
  - ☐ Cancer stem cell inhibitors
  - ☐ New PET diagnostic agents
  - ☐ Cellular medicine
  - ☐ Regenerative medicine

☐: Next-generation businesses that have been launched or are to be launched soon.
### Corporate Business Plan: Performance Targets

<table>
<thead>
<tr>
<th></th>
<th>FY2015</th>
<th>FY2018 Target</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net Sales</strong></td>
<td>2,101.8</td>
<td>2,540.0</td>
<td>+438.2</td>
</tr>
<tr>
<td><strong>Operating Income</strong></td>
<td>164.4</td>
<td>200.0</td>
<td>+35.6</td>
</tr>
<tr>
<td><strong>(Equity in Earnings of Affiliates)</strong></td>
<td>20.2</td>
<td>29.0</td>
<td>+8.8</td>
</tr>
<tr>
<td><strong>Ordinary Income</strong></td>
<td>171.2</td>
<td>210.0</td>
<td>+38.8</td>
</tr>
<tr>
<td><strong>Net Income</strong></td>
<td>81.5</td>
<td>110.0</td>
<td>+28.5</td>
</tr>
</tbody>
</table>

**Naphtha Price**
- **FY2015**: ¥42,800/kl
- **FY2018 Target**: ¥45,000/kl

**Exchange Rate**
- **FY2015**: ¥120.15/$
- **FY2018 Target**: ¥120.0/$
Challenges and Strategy for Our Major Businesses (Efforts to Create New Value)

- Progress on Efforts to Create New Value
- Cash Flow Management
- Accelerating Innovation
Challenges and Strategy for Our Major Businesses (Efforts to Create New Value)

- **Progress on Efforts to Create New Value**
  - Cash Flow Management
  - Accelerating Innovation
### Business Expansion

#### M&A
- Acquired Indian agrochemicals company
- Acquired a Phase III product candidate for Parkinson's disease
- Entered cathode materials business

#### Organic Growth (Production capacity expansion)
- Decided to expand methionine production capacity
- Decided to expand separator production capacity
- Decided to expand polyethersulfone production capacity
- Expanded touchscreen panel production capacity
- Proceeding with the construction of Rabigh Phase II Project
- Expanded polypropylene compound production capacity

#### Organic Growth (Others)
- Decided to expand R&D facilities and experimental field for agrochemicals
- Agreed to enter new collaboration with Monsanto
- Applied for U.S. FDA approval of COPD drug
- Advancing development of ADHD drug
- Advancing development of components for flexible displays
- Accelerating the shift to high value-added products at TPC

### Restructuring
- **✔ Already implemented**
  - Offering early retirement program (Sumitomo Dainippon Pharma)
  - S-SBR business consolidation
  - Polarizing film business consolidation
  - Caprolactam
- **□ Being addressed**
  - Life Sciences (Health & Crop Sciences)
  - Life Sciences (Pharmaceuticals)
  - Environment and Energy
  - ICT
  - Bulk Chemicals
**Capital expenditure and investment plan for FY2016-FY2018 (decision-making basis)**

- **Capital expenditure and investment** and **Strategic M&A**

**Data:**
- **FY2016:**
  - Capital expenditure and investment: [Value] ¥ billion
  - Strategic M&A: [Value] ¥ billion
- **FY2017:**
  - Capital expenditure and investment: [Value] ¥ billion
  - Strategic M&A: [Value] ¥ billion
- **FY2018:**
  - Capital expenditure and investment: [Value] ¥ billion
  - Strategic M&A: [Value] ¥ billion
- **FY2016-2018 Total (Corporate Business Plan):**
  - Capital expenditure and investment: [Value] ¥ billion
  - Strategic M&A: [Value] ¥ billion

- **Investments in specialty chemicals area:** Over 70%
- **Up to ¥300 billion**

**Key Points:**
- Two-thirds of investment for FY2016-FY2018 will be decided in FY2016
- Accelerate our efforts to create new value
Life Sciences (Health & Crop Sciences): Challenges and Business Strategy

Value we create

Offer agrochemicals, agrochemical materials and other solutions that contribute to the improvement of food productivity

Foundations for value creation

- Capability to develop new agrochemicals
- Lineup and knowledge of biorational products
- Global sales network
- Alliance with major agrochemical manufacturers

Business trends

Long-term trends

- Increasing food demand
- Tightening of regulations on agrochemicals
- Industry consolidation
- Competition with off-patent agrochemicals

Short-term trends

- Decline in methionine price
Life Sciences (Health & Crop Sciences): Challenges and Business Strategy

Efforts to Create New Value

Challenges

- Establish business foundation as a global solution provider in crop protection and environmental health areas

Business strategy

- Enhance our global footprint
- Accelerate development of new products (B2020, A2020 and in-licensing of third-party products)
- Expand biorational and rice businesses
- Expand methionine business

Recent initiatives

- ✔ Acquired Indian agrochemical company
- ✔ Decided to enhance methionine production capacity
- ✔ Entry into the rice business
- ✔ Decided to enhance R&D facilities and experimental fields
- ✔ Agreed to build a new partnership with Monsanto
Acquisition of Excel Crop Care, Indian Agrochemicals Company

1 Excel Crop Care Limited
   Business: Development, manufacture and sale of agrochemicals
   Sales: 8.8 billion rupees (about 16.3 billion yen) in FY2015
   Headquarters: Mumbai, India

2 Outline of the stock acquisition
   Acquired stake: 65%
   Acquisition value: 9 billion rupees (about 13.9 billion yen)

Aim of acquisition
   - Expand sales channels in India
   - Leverage Excel Crop Care’s brand

Increase our presence in the growing Indian market and enhance our global footprint

The world agrochemicals market in FY2015

Share in the Indian agrochemicals market in FY2014

Aiming to become the market leader in India

Excel Crop Care and Sumitomo Chemical India combined to become the fourth largest
Life Sciences (Health & Crop Sciences): Enhance Global R&D Capabilities

Health & Crop Sciences Business: Global R&D Capabilities

Construct Biorational Research Center
- Aim: Improve efficiency of development of biorational products
- Completion: in FY2017

Open new experimental fields (U.S.)
- Aim: Accelerate development of agrochemicals in U.S.
- Completion: in FY2016

Open new R&D center (Brazil)
- Aim: Strengthen development of agrochemicals in South America
- Completion: November 2016

Construct New Synthesis Research Laboratory at Health & Crop Sciences Research Laboratory
- Aim: Improve efficiency and speed of development of agrochemicals
- Completion: June 2018

Enhance global R&D structure and accelerate agrochemical development
Competitive advantage in methionine business

- Integrated production from raw material
- Advanced production technology
- Waste liquid and gas treatment capacity
- Stable supply of high quality products

Production capacity expansion

Product: DL-methionine
Production capacity: 100,000 tons
Location: Ehime Works
Start of operation: Mid 2018

Reinforce our position as Asia’s leading methionine player

Methionine Demand Forecast by Region

- Growing at approx. 6% per year

Methionine Production Capacity

* Combined production capacity for DL-methionine and methionine hydroxyl analog
Life Sciences (Pharmaceuticals): Challenges and Business Strategy

Value we create

Offer pharmaceuticals and diagnostic agents that contribute to the improvement of patients’ quality of life

Foundations for value creation

- R&D capabilities in the areas of psychiatric and neurological disorders and cancer
- Cooperation inside and outside the Group in the areas of regenerative and cellular medicine
- New drug development capabilities and sales networks in Japan and U.S.

Business trends

Long-term trends

- Innovation in medical technology
- Increasing pharmaceutical development costs
- Accelerated implementation of policy measures to control national healthcare spending (Japan)
- Industry consolidation

Short-term trend

- Increased use of generic drugs (Japan)
Life Sciences (Pharmaceuticals): Challenges and Business Strategy

Efforts to Create New Value

**Challenges**
- Address the patent cliff of Latuda
- Manage the effect of policy measures to promote the use of generic drugs

**Business strategy**
- Accelerate the development of products in late-stage development
- In-license and acquire third-party products under-development
- Accelerate the development of regenerative and cellular medicine
- Reform cost structure (Japan and U.S.)

Recent initiatives

- ✔ Acquisition of Parkinson’s disease drug*
- ✔ Filed for U.S. FDA approval of COPD drug
- ✔ Progress in the development of cancer stem cell inhibitor
- ✔ Progress in the development of ADHD drug
- ✔ Launched early retirement program in Japan (Sumitomo Dainippon Pharma)

* Acquired Cynapsus Therapeutics Inc. in October 2016
Despite an expected earnings decline in FY2019 due to the expiration of the U.S. patents for LATUDA in the second half of FY2018, we aim to achieve an early recovery and growth in FY2020 and beyond by launching new products and expanding their sales.
Application for approval of drug for chronic obstructive pulmonary disease (COPD)

**Efficacy**
Chronic obstructive pulmonary disease (COPD)

**Feature**
1. Administered by nebulizer*
2. Short administration time (2 to 3 minutes)

**Development plan**
At present: Applied for approval (U.S.)
In FY2017: Scheduled for launch (U.S.)

* Nebulizer: a device used for inhaling a medicinal drug

* eFlow®, nebulizer for SUN-101

Anticipating peak sales of 50 billion yen

Acquisition of Parkinson’s disease drug*

**Efficacy**
“Off” episodes of Parkinson’s disease

**Feature**
Sublingual thin film

**Development plan**
At present: In phase III clinical trials (North America)
FY2017: Submit new drug application
In 2018: Possible approval

* Acquired in the transaction of acquiring Cynapsus Therapeutics Inc. in October 2016 for 635 million dollars

Administration of APL-130277

Anticipating peak sales of 50 billion yen

Making progress in new product development and in-licensing for post-LATUDA period
Environment and Energy: Challenges and Business Strategy

Value we create

Offer highly functional materials and solutions for environmentally friendly products, such as eco-cars

Foundations for value creation

- Capability to develop and offer highly functional products
- Manufacturing technology for highly functional products

Business trends

Long-term trends

- Demands for sustainable society
  - Measures for addressing climate change issues
  - Measures for addressing energy and resource issues
- Tightening of various regulations
- Global competition

Short-term trend

- Intensifying competition in some businesses
**Environment and Energy: Challenges and Business Strategy**

**Efforts to Create New Value**

- Grow the battery component business into a core business
- Nurture eco-car component business
- Enhance the lineup of battery components and their production capacity
- Expand the use of existing materials in eco-car parts
- Restructure underperforming businesses
- Grow the battery component business into a core business
- Nurture eco-car component business
- Enhance the lineup of battery components and their production capacity
- Expand the use of existing materials in eco-car parts
- Restructure underperforming businesses

**Recent initiatives and issues being addressed**

- ✔ Entered cathode materials business
- ✔ Expansion of separator production capacity
- ✔ Decided to increase PES production capacity
-  □ Began the study of S-SBR business integration
- ✔ Implemented  □ Issues being addressed
Environment and Energy: Decided to Increase Lithium-Ion Secondary Battery Separator Production Capacity

**Market for 4 main components and materials of lithium-ion secondary batteries**

- **Electrolyte**: 8%
- **Anode materials**: 16%
- **Cathode materials**: 50%
- **Separators**: 26%

**FY2015 ¥635.6 bn**

Sumitomo Chemical's target markets 76%

(Source) “Future Outlook of Energy, Large Scale Secondary Battery, and Materials 2016; Energy Devices” by Fuji Keizai

**Advantages of aramid-coated separator**

- **High heat resistance, greater safety**
- **Lightweight**
- **Less powder dust**

Best suited for high-capacity batteries for automotive and other applications

Increasing demand for use in eco-cars

**Separator production capacity expansion plan**

**Production capacity**: South Korea production capacity to be quadrupled

**Start of operation**: In stages from August 2017

**Separator production capacity**

<table>
<thead>
<tr>
<th>Country</th>
<th>Capacity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>Approx. 100 million m²</td>
</tr>
<tr>
<td>South Korea</td>
<td>Approx. 300 million m²</td>
</tr>
<tr>
<td>Total</td>
<td>Approx. 400 million m²</td>
</tr>
</tbody>
</table>

**Expand market share of lithium-ion secondary battery separator for automotive use**

**Market outlook for lithium-ion secondary batteries and components and materials**

(Source) “Future Outlook of Energy, Large Scale Secondary Battery, and Materials 2016; Energy Devices” by Fuji Keizai
Environment and Energy: **Entry into Cathode Materials Business**

**Profile of Tanaka Chemical Corporation**

**Business:** Manufacture and sale of cathode materials and catalyst raw materials

**Net sales:** Approx. ¥15.3 billion in FY2015

**Became Sumitomo Chemical’s subsidiary through private share placement**

- **Shares acquired:** 10.5 million
  - (subscription value: Approx. ¥6.6 billion)
- **Shares owned:** 12.7 million (investment ratio of 50.1%)

**Aim of acquisition**

Accelerate development and launch of highly functional cathode materials for automotive batteries by leveraging the two companies’ strengths.

**Entry into the cathode materials business, aiming to have our products adopted for automotive batteries as soon as possible**
ICT: Challenges and Business Strategy

Value we create

Offer highly functional components that contribute to the improvement of display performance

Foundations for value creation

- Close relationships with excellent customers (customer-oriented supply chain)
- Material development capability as a diversified chemicals manufacturer

Business trends

Long-term trends

- Maturing LCD markets (Growing production in China)
- Widening use of OLED displays (Growing production in Korea, China, etc.)
- Flexible displays beginning to be adopted

Short-term trends

- Rebounding demand for LCD materials
**ICT: Challenges and Business Strategy**

**Efforts to Create New Value**

- Address the generational shift in display technology and growing LCD production in China
- Establish cost advantage in the LCD component business
- Develop new products in the OLED component business and make investment in a timely manner

**Recent initiatives and issues being addressed**

- ✔ Completed the expansion of touch screen panel production capacity
- ✔ Accelerate the development of flexible display components
- □ Reform cost structure of the polarizing film business (including a restructuring of the supply capabilities)
- ✔ Implemented   □ Issues being addressed
Develop the next-generation business pipeline in anticipation of generational shift in display technology
Shift the pivot of the business from LCD components to OLED components

Recent initiatives

LCD components
- Increased use of materials made in-house
- Restructured production capabilities to enhance competitiveness

OLED display components
- Expanded touchscreen panel production capacity
- Decided to mass-produce and launch coated retardation film
- Making progress in the development of PLED light-emitting materials

Implemented Issues being addressed

Current Priority Management Issues and Business Strategy
Bulk Chemicals: Challenges and Business Strategy

Value we create

Offer petrochemical products sought by customers

Foundations for value creation

- Access to cost-competitive ethane
- Brand power in the Asian market
- Capability to develop high value-added products
- Close relationships with prominent customers

Business trends

Long-term trends

- Stable growth in demand
- Increase in supply from new plants using cost-competitive gases as feedstock

Short-term trend

- Solid demand and supply balance in the Asian market
Bulk Chemicals: Challenges and Business Strategy

Efforts to Create New Value

- Further improve production operations on a region-by-region basis
- Enhance high value-added products business (Singapore and Japan)
- Achieve stable operation (Rabigh Phase I project)
- Achieve early start-up (Rabigh Phase II project)

Recent initiatives and issues being addressed

- Making progress in construction of Rabigh phase II project
- Accelerating the shift to high value-added products at TPC
- Expanding polypropylene compound production capacity
- Integration of film business
- Restructuring of the caprolactam business
- Implemented
- Issues being addressed
Petro Rabigh’s Net Income

Progress on Rabigh Phase II Project

May 2009:
Memorandum of Understanding signed and FS* started

April 2009:
Feasibility confirmed

December 2015:
Utility plants started operation

March 2015:
PF* agreement signed

March 2016:
EC* expansion completed

April 2016:
Expanded EC* in full operation

May 2016 - June-July 2016:
Power outage

Oct.-Dec. 2015:
Scheduled plant turnaround

* EC: Ethane cracker
FS: Feasibility study
PF: Project financing

Declined crude oil prices

Power outage

EC* stopped

Utility plants started operation

All plants scheduled for completion

-300 -200 -100 0 50 100 150 200
2014.1Q 2014.2Q 2014.3Q 2014.4Q 2015.1Q 2015.2Q 2015.3Q 2015.4Q 2016.1Q 2016.2Q 2016.3Q

(millions of dollars)
### Progress on Corporate Business Plan: Progress on Efforts to Create New Value

#### Business Expansion

<table>
<thead>
<tr>
<th>M&amp;A</th>
<th>Organic Growth (Production capacity expansion)</th>
<th>Organic Growth (Others)</th>
</tr>
</thead>
<tbody>
<tr>
<td>□ Acquired Indian agrochemicals company</td>
<td>■ Decided to expand methionine production capacity</td>
<td>■ Decided to expand R&amp;D facilities and experimental field for agrochemicals</td>
</tr>
<tr>
<td>□ Acquired a Phase III product candidate for Parkinson's disease</td>
<td>■ Decided to expand separator production capacity</td>
<td>■ Agreed to enter new collaboration with Monsanto</td>
</tr>
<tr>
<td>■ Entered cathode materials business</td>
<td>■ Decided to expand polyethersulfone production capacity</td>
<td>□ Applied for U.S. FDA approval of COPD drug</td>
</tr>
<tr>
<td></td>
<td>■ Expanded touchscreen panel production capacity</td>
<td>■ Advancing development of ADHD drug</td>
</tr>
<tr>
<td></td>
<td>■ Proceeding with the construction of Rabigh Phase II Project</td>
<td>■ Advancing development of components for flexible displays</td>
</tr>
<tr>
<td></td>
<td>■ Expanded polypropylene compound production capacity</td>
<td>■ Accelerating the shift to high value-added products at TPC</td>
</tr>
</tbody>
</table>

#### Restructuring

- [✔] Already implemented
- [□] Being addressed

- □ Offering early retirement program (Sumitomo Dainippon Pharma)
- □ S-SBR business consolidation
- □ Polarizing film
- [✔] Film business consolidation
- [□] Caprolactam

---

**Business area**

- ■ Life Sciences (Health & Crop Sciences)
- □ Life Sciences (Pharmaceuticals)
- ■ Environment and Energy
- □ ICT
- □ Bulk Chemicals
Challenges and Strategy for Our Major Businesses
(Efforts to Create New Value)

- Progress on Efforts to Create New Value
- Cash Flow Management
- Accelerating Innovation
### Cash Flow Management: Cash Flow Target

<table>
<thead>
<tr>
<th></th>
<th>2010-2012</th>
<th>2013-2015</th>
<th>2016-2018 (Target)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash flows from</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>operating activities</td>
<td>472.3</td>
<td>716.4</td>
<td>680.0</td>
</tr>
<tr>
<td><strong>Cash flows from</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>investing activities</td>
<td>-445.7</td>
<td>-245.5</td>
<td>-800.0</td>
</tr>
<tr>
<td><strong>Free cash flows</strong></td>
<td>26.6</td>
<td>470.9</td>
<td>-120.0</td>
</tr>
<tr>
<td><strong>End of FY2012</strong></td>
<td>1,060.6</td>
<td>831.5</td>
<td></td>
</tr>
<tr>
<td><strong>End of FY2015</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>**End of FY2018 (Target)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>After investments in</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>strategic M&amp;A</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Reference) Before</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>investments in</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>strategic M&amp;A</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

#### Interest-bearing liabilities

<table>
<thead>
<tr>
<th></th>
<th>End of FY2012</th>
<th>End of FY2015</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Interest-bearing</strong></td>
<td>1,060.6</td>
<td>831.5</td>
</tr>
<tr>
<td><strong>liabilities</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

#### (Billions of yen)
### Cash Flow Management: Measures to Improve Cash Flows

#### Operating cash flows
- Stronger yen than planned (Weaker business environment in some businesses)

#### Investment cash flows
- Strategic M&A investments implemented
- Increase in capital investment projects

---

Lower free cash flows and increased interest-bearing liabilities

---

### Measures

#### Selective investment
- More selective investment
- Quickly decide whether to continue underperforming businesses

#### Asset sales
- Accelerate asset sales

#### Others
- Redouble rationalization efforts
- Use cash reserves effectively

---

Rigorously select and implement investments necessary for sustainable growth, while maintaining sound financial condition.
Cash Flow Management: Interest-Bearing Liabilities and Debt to Equity Ratio

*1 Including investment in Rabigh Phase II Project; including the effects of investments in strategic M&A

*2 Including investment in Rabigh Phase II Project; not including the effects of investments in strategic M&A

(Reference)
When not implementing strategic M&A investments

*1 Including investment in Rabigh Phase II Project; including the effects of investments in strategic M&A

*2 Including investment in Rabigh Phase II Project; not including the effects of investments in strategic M&A

Current Priority Management Issues and Business Strategy
Challenges and Strategy for Our Major Businesses (Efforts to Create New Value)

- Progress on Efforts to Create New Value
- Cash Flow Management
- **Accelerating Innovation**
Progress in Corporate Business Plan: Accelerating Innovation (IoT Project)

Digital Global SCM

- Global integration and upgrading of the core business IT system
  - Enhancement of external collaborations
  - Real time
  - Strengthening of data analysis functions

- Visualize global supply chain information on a real time basis

Digital R&D

- Sophistication
  - E.g., Development of new materials from a new perspective

- Efficiency
  - E.g., Use of AI to improve speed and quality of search and research for patents and papers

- Key technologies and know-how
  - Sharing know-how for AI utilization
  - Development of the environment for machine translation

Digital Back Office

- Paperless
- Groupware utilization

- Work style innovation and improvement of operational efficiency
  - Greater flexibility of system
  - Reduction of IT system expenses

- Digital workspace
- Cloud

Digital Plant

- Digital Worker
  - Improvement of safety and efficiency of work process

- Digital Asset
  - Maximization of facility capacity

- Digital Operation
  - Optimization of operation and improvement of operational efficiency

- Digital Infrastructure
  - Modernization of digital infrastructure of plants
Utilizing latest information technologies, including big data and AI in R&D and intellectual property-related activities

1. Utilization of information collection and analysis tools
   - Concept search tool
   - Text mining tool
   - Visualization tool

   Improve speed and accuracy of information collection

2. Introduction of electronic lab notebook
   - Improve efficiency of lab notebook preparation
   - Introduce a format to be followed in lab notebook entry, promoting information sharing

Reference: Case of man-hour reduction in intellectual property landscape study

3. Utilization to support decision-making (under consideration)
   - Utilization of big data inside and outside the company

* New method: Utilized concept search tool

Improve productivity of R&D activities and accelerate the launch of next-generation businesses
Accelerate the development of next-generation businesses by leveraging both internal and external expertise.
Progress in Corporate Business Plan: Accelerating Innovation (Business Development by Open Innovation)

Accelerate the development of next-generation businesses by leveraging both internal and external expertise.
Sumitomo Chemical’s Value Creation
What Sumitomo Chemical Strives To Be

Business Philosophy
◆ Commit ourselves to creating new value by building on innovation
◆ Work to contribute to society through our business activities
◆ Develop a vibrant corporate culture and continue to be a company that society can trust

Core Competence
- Capabilities to develop innovative solutions by leveraging its technological expertise in diverse areas
- Capabilities to reach global markets
- Loyal employees

Challenges & Business Opportunities
- Solve issues facing society
  - Environment
  - Food
  - Resources and energy
- Improve quality of life and build an affluent and comfortable society
  - Health promotion
  - Comfortable life

Achieve sustained growth by creating new value through innovative technologies
Achieve Sustained Growth

Medium- to long-term targets

Consistently achieve the following targets:

- **ROE**: over 10%
- **ROI**: over 7%
- **D/E ratio**: approx. 0.7 times
- **Dividend payout ratio**: approx. 30%
- **Profit growth**: over 7% per year

Become a more resilient Sumitomo Chemical that achieves sustained growth
Promote initiatives for enhancing enterprise value (ROI)
Change in the Functions of Board of Directors

**Previous functions of Board of Directors**

- Board of Directors with weight on decision-making

**Current functions of Board of Directors**

- Board of Directors with weight on oversight of management

**Scope of oversight by Board of Directors**

- Expansion of oversight scope
- Narrowing of decision-making

**Scope of decision-making by Board of Directors**

**Specific measures for revising functions**

- Enhanced reporting to Board of Directors
- Revision of the criteria for matters subject to Board of Directors resolution
- Leveraging the functions of outside directors

**Importance of issues**

- High
- Low

**Board of Corporate Auditors**

- Board of Corporate Auditors

**Newly established committees**

- Compensation Advisory Committee
- Nomination Advisory Committee
ESG Initiatives: SDGs

SDGs (Sustainable Development Goals)
The Sustainable Development Goals, adopted by the United Nations in 2015, consist of 17 goals and 169 targets, and represent a historical agreement involving all 193 UN member nations.

Sumitomo Chemical’s initiatives towards achievement of SDGs

<table>
<thead>
<tr>
<th>Time</th>
<th>Initiatives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sep. 2015</td>
<td>SDGs adopted at United Nations Sustainable Development Summit</td>
</tr>
<tr>
<td>Feb. 2016</td>
<td>SDGs discussed at SCC’s CSR Promotion Committee</td>
</tr>
<tr>
<td>May 2016</td>
<td>SDGs webpage opened on SCC’s website</td>
</tr>
<tr>
<td>June 2016</td>
<td>Launched Sustainable Tree program</td>
</tr>
<tr>
<td></td>
<td>Workshop held at the Officers Liaison Meeting (4 times)</td>
</tr>
<tr>
<td>July 2016</td>
<td>Internal seminars (twice with 400 participants in total)</td>
</tr>
<tr>
<td>Aug 2016</td>
<td>Presented SCC’s policy on SDGs in its CSR report</td>
</tr>
<tr>
<td></td>
<td>Reported its SDGs initiatives at the Board of Directors Meeting</td>
</tr>
</tbody>
</table>

An initiative for officers and employees to post on a dedicated website their ideas as to what they can do at work and in their private life to bring about a society with hope for future.

Period: 100 days from June to October 2016
Target: Officers and employees of all group companies
Number of posts: 6,005 in total
What are Sumika Sustainable Solutions?

We certify as “Sumika Sustainable solution” our products and technologies that contribute to mitigating global warming and reducing environmental burden. We promote the development and the use of these products and Technologies while also enhancing information disclosure to support the efforts to achieve the SDGs and build a sustainable society.

Certified products and technologies: 21 products (Nov.2016)

Sales of certified products/technologies

<table>
<thead>
<tr>
<th>Sales volume to be quickly doubled</th>
</tr>
</thead>
<tbody>
<tr>
<td>¥280.0 billion</td>
</tr>
</tbody>
</table>

Certified products and technologies

1. Contribution to promoting the use of EVs
   - Lithium-ion secondary battery separator Pervio®

2. Contribution to fuel efficiency improvement by reducing the weight of aircraft
   - Polyethersulfone Sumikaexcel®

3. Significant energy saving in CO₂ separation in hydrogen production
   - CO₂ separation membrane

4. Reduced GHG emissions by reducing the nitrogen content in livestock waste
   - Feed additive methionine Sumimet®

Offer solutions to build a sustainable society → Contribute to measures for mitigating global warming

Current Priority Management Issues and Business Strategy

SUMITOMO CHEMICAL
Sumitomo Chemical’s Value Creation

Create New Value

Towards achieving continuous value creation

**Improve ROI**
- Improve profit margin
- Improve asset turnover rate

**Improve Growth Rate**
Concentrate management resources on the three growth areas and cross-over areas
- Environment and Energy
- Life Sciences
- ICT

**Continuation of the ESG initiatives**
- **Environment**
  - Contribute to sustainable development of society through business
- **Society**
  - Build good relationships with stakeholders
- **Governance**
  - Improve the effectiveness of governance

Current Priority Management Issues and Business Strategy
Creative Hybrid Chemistry

SUMITOMO CHEMICAL
Cautionary Statement

Statements made in this document with respect to Sumitomo Chemical’s current plans, estimates, strategies and beliefs that are not historical facts are forward-looking statements about the future performance of Sumitomo Chemical. These statements are based on management’s assumptions and beliefs in light of the information currently available to it, and involve risks and uncertainties.

The important factors that could cause actual results to differ materially from those discussed in the forward-looking statements include, but are 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.