

## Interview with the President



**Masakazu Tokura**  
Representative Director &  
President

### Comparative Table of the Company's Results

(Billions of yen)	FY2016	➤	FY2017	Change
Sales revenue	1,939.1		2,190.5	+251.4
Core operating income	184.5		262.7	+78.1
Operating income	126.5		250.9	+124.5
Net income attributable to owners of the parent	76.5		133.8	+57.2
Naphtha price (yen/KL)	34,700		41,900	+21%
Exchange rate (yen/US\$)	108.34		110.85	+2%
ROE (%)	10		15	
ROI (%)	6		9	
D/E ratio (times)	0.8		0.7	
Dividend payout ratio (%)	30		27	



# Aiming for Sustainable Growth by Creating Value for Society while Sustaining Economic Activity

At Sumitomo Chemical we focus our resources on specialty chemicals businesses, where we have distinct competitive advantages and where high growth is anticipated, and work to improve our ROI to enhance our enterprise value. In addition, we aim to achieve sustainable growth by creating value for society while sustaining economic activity.



**Q** Looking back on fiscal 2017, what is your evaluation of the Company's results?

**A** We were able to achieve our highest income ever on the back of a strong global economy.

The overall trends in the global economy in fiscal 2017 remained strong. In the US, economic growth continued, supported by increasing employment numbers and strong consumer spending, while the European economy continued its gradual recovery, despite factors such as the UK's exit from the EU. In addition, signs of recovery were seen in emerging economies, including China. The Japanese economy remained on a moderate recovery path, with increased corporate income as well as an improved employment and income environment.

As for our performance in fiscal 2017, not only did sales volume improve across all segments, particularly in the Pharmaceuticals Sector and the Petrochemicals & Plastics Sector, market prices also rose for products in the Petrochemicals & Plastics Sector. Because of these factors, and a gain on conversion to the reporting currency resulting from the weak yen, our sales revenue increased by 251.4 billion yen over the previous fiscal year, to 2,190.5 billion yen, under the IFRS standards adopted beginning this fiscal year.

Core operating income increased by 78.1 billion yen over the previous fiscal year, to 262.7 billion yen, because of improvements in business performance in areas such

as the Petrochemicals & Plastics Sector, where margins have improved, and in the Pharmaceuticals Sector, where shipments of pharmaceuticals increased in North America.

Operating income rose by 124.5 billion yen over the previous fiscal year, to 250.9 billion yen, due to factors such as lower impairment losses.

Net income attributable to the owners of the parent increased by 57.2 billion yen over the previous year, to 133.8 billion yen, despite factors such as increasing foreign exchange losses and an increased tax burden. Under Japanese accounting standards, operating income was 179.1 billion yen, 44.8 billion yen higher than the previous year, while net income attributable to the owners of the parent was 126.0 billion yen, 40.6 billion yen higher than one year earlier—both being the highest ever. In addition, this is the first time that our net income has exceeded 100 billion yen.

ROE for fiscal 2017 was 15.4%, making this the third year in a row, since fiscal 2015, that ROE has exceeded our target of 10% or higher.

We increased dividends by 8 yen over the previous year, to 22 yen, the highest ever.

# Q

## Please recap Sumitomo Chemical’s current Corporate Business Plan.

# A

### We continue to further improve our business portfolio by focusing our resources in specialty chemicals businesses where we have technological advantages.

Under the current Corporate Business Plan, we are committed to our slogan “Change and Innovation—Create New Value,” and by capitalizing on the robust financial strength we built over the previous Corporate Business Plan period, we are aggressively pursuing growth opportunities and further spurring our transformation into a more resilient Sumitomo Chemical that continues to grow.

Specifically, we are working on five priority initiatives, including further improving our business portfolio, generating more cash flow, and accelerating the launch of next-generation businesses.

In order to further improve our business portfolio, we are directing 70% to 80% of the capital expenditures and investments to be determined in the three years from fiscal 2016 to fiscal 2018, and 90% of our R&D expenses over the same period, to the area of specialty chemicals, primarily life sciences businesses.

As for generating more cash flow, we retain our lean financial structure and, at the same time, are striving to

build and maintain robust earnings power to consistently generate strong cash flow, so that we can take advantage of large-scale investment opportunities when they arise.

In the initiative of accelerating the launch of next-generation businesses, we continue to invest in the fields of the environment and energy, ICT, and life sciences, as well as their cross-over areas, and are stepping up efforts to bring to market our products and technologies under development as early as possible.

Along with these three initiatives, we continue to promote globally integrated management while also ensuring full and strict compliance and establishing and maintaining safe and stable operations.

For fiscal 2018, the final year of the current Corporate Business Plan period, we seek to achieve sales revenue of 2,490 billion yen and net income attributable to the owners of the parent of 130 billion yen. We anticipate an ROI of 7% and an ROE of 13%, exceeding our targets for income.

#### Corporate Business Plan FY2016-FY2018: Basic Policy

##### Slogan

## Change and Innovation Create New Value

##### Basic Policy

#### Further improve business portfolio

- Identify areas where we have competitive advantage
- Allocate resources to prioritized area

#### Generate more cash flow

- Increase profit above the cost of capital
- Make active and disciplined investments
- Streamline balance sheet

#### Accelerate the launch of next-generation businesses

- Environment & Energy
- Life Sciences
- ICT
- Cross-over Areas

#### Promote globally integrated management

#### Ensure full and strict compliance, establish and maintain safe and stable operations

## Resource Allocation

FY2016-FY2018

## R&amp;D Expenditures

**¥510 billion**

 Specialty Chemicals **90%**


FY2016-FY2018

 Capital Expenditures,  
Investments, and Loans

 (including investments  
in strategic M&A) **¥700 billion**

 (excluding investments  
in strategic M&A) **¥400 billion**

 Specialty Chemicals **80%**  
(including investments in strategic M&A)

 Specialty Chemicals **70%**  
(excluding investments in strategic M&A)

End of FY2018

## Employees

**37,400**

 Specialty Chemicals **2/3**


■ Bulk Chemicals (Petrochemicals & Plastics) 
 ■ Energy & Functional Materials 
 ■ IT-related Chemicals 
 ■ Health & Crop Sciences 
 ■ Pharmaceuticals 
 ■ Head office and admin. 
 ■ Investments in Strategic M&A

## Performance Targets

(Billions of yen)	FY2016	FY2017	FY2018 Forecast	FY2018 Target <sup>*1</sup>
Sales revenue	1,939.1	2,190.5	2,490.0	2,540.0
Core operating income	184.5	262.7	240.0	240.0
Net income attributable to owners of the parent	76.5	133.8	130.0	110.0
Naphtha price (yen/KL)	34,700	41,900	47,000	45,000
Exchange rate (yen/US\$)	108.34	110.85	110.00	120.00

	FY2016	FY2017	FY2018 Forecast	FY2018 Target <sup>*1</sup>	Targets <sup>*3</sup>
ROE (%)	10	15	13	12	Over 10%
ROI (%)	6	9	7	7	Over 7%
D/E ratio (times)	0.8	0.7	0.7	0.6~0.7 <sup>*2</sup>	Approx. 0.7 times
Dividend payout ratio (%)	30	27	28	—	Approx. 30%

<sup>\*1</sup> Figures for the FY2018 target are restated using IFRS.

<sup>\*2</sup> Including the effects of investments in strategic M&A

<sup>\*3</sup> In the long term, we seek to achieve an annual profit growth of at least 7%.

Q

In what areas was major progress made in fiscal 2017, the second year of the current Corporate Business Plan?

A

We made steady progress in implementing measures to further improve our business portfolio.



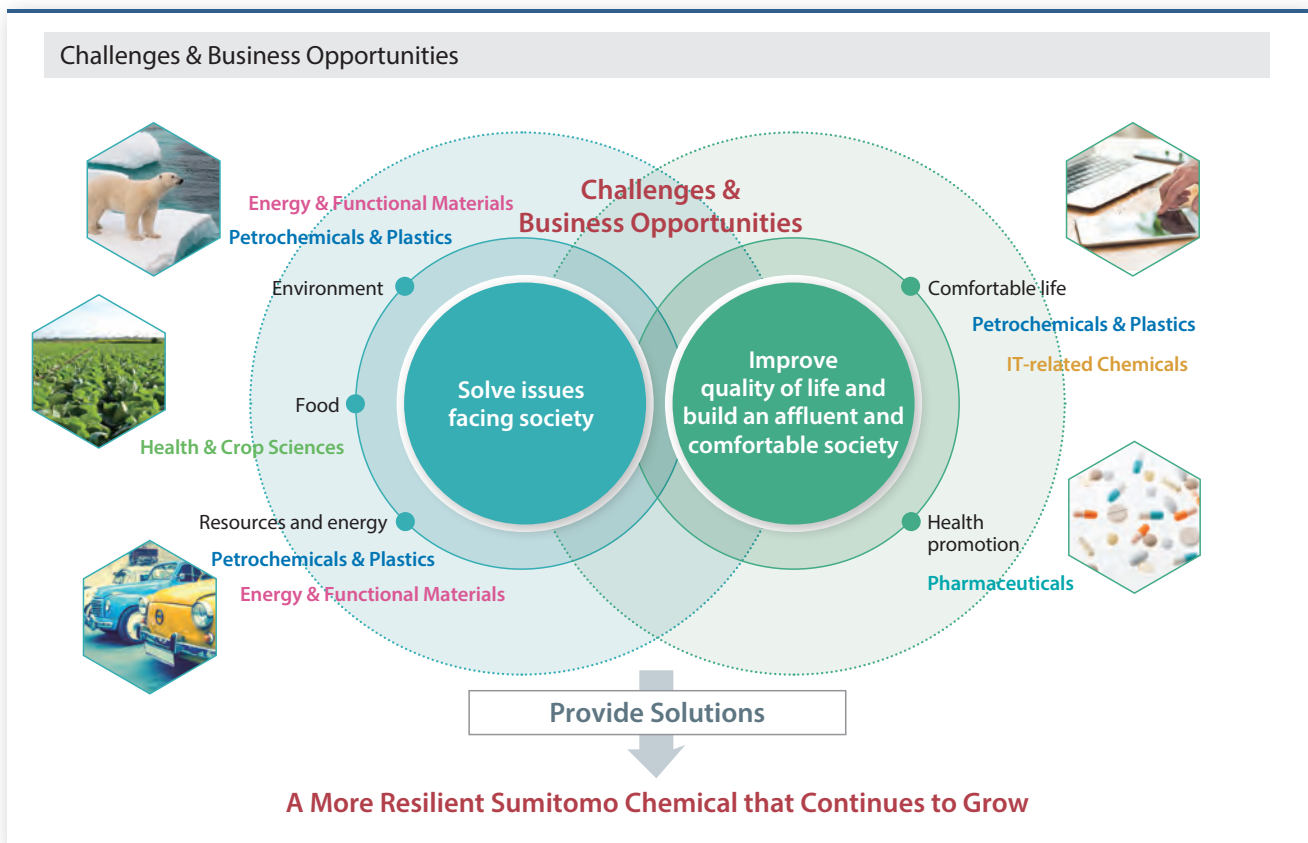
In fiscal 2017, the second year of the current Corporate Business Plan period, we made steady progress in further improving our business portfolio, as we worked in each Sector to expand businesses that contribute to solving issues in society and to improving the quality of life.

In the Petrochemical & Plastics Sector, we completed construction on the Rabigh Phase II Project and began production, while we also made progress in our efforts to increase the added value of our products.

In the Energy & Functional Materials Sector, we expanded production capacity for lithium-ion secondary battery separators, for which demand continues to grow for use in electric vehicles. Meanwhile, we pushed ahead with business restructuring efforts, including exiting the diesel particulate filter (DPF) business.

In the IT-related Chemicals Sector, we enhanced our production capacity for a variety of materials used in the production of semiconductors, whereas we exited the sapphire LED substrate business.

In the Health & Crop Sciences Sector, the development of major next-generation agricultural chemicals progressed and we began applying for registration of



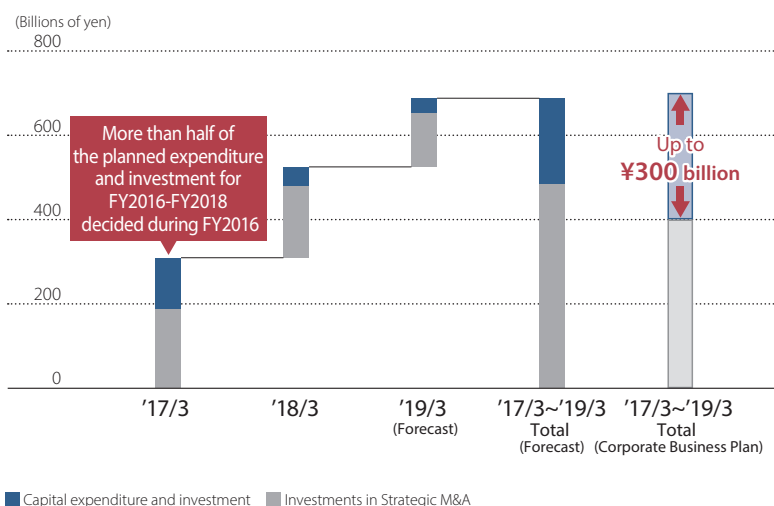
new products. We also acquired a major supplier of pyrethrum-derived insecticidal compounds.

In the Pharmaceuticals Sector, we received US approval for LONHALA MAGNAIR, a treatment for chronic obstructive pulmonary disease (COPD). In addition, we saw positive results in a phase III clinical study for a Parkinson's treatment under development in the US.

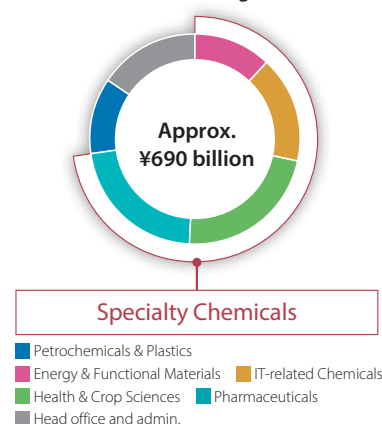
In fiscal 2016 and 2017, we determined capital expenditures and investments of approximately 530 billion yen, and we plan to make decisions on new capital

expenditures and investments of approximately 160 billion yen in fiscal 2018. Of these expenditures and investments of about 690 billion yen in total, more than 70% will go to the specialty chemicals field. In addition, over the same period, we plan to direct most of our research and development investment of approximately 490 billion yen to the Pharmaceuticals Sector and the Health & Crop Sciences Sector. With these investments, we will continue to further improve our business portfolio.

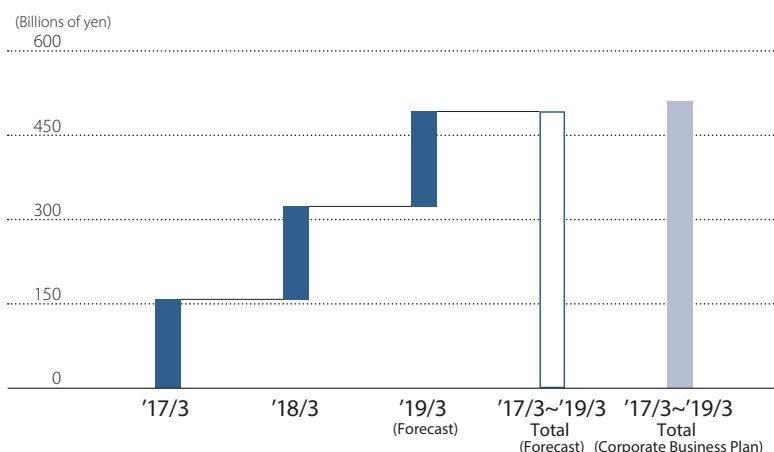
### Capital Expenditure and Investment Plan for FY2016-FY2018 (Decision-making Basis)



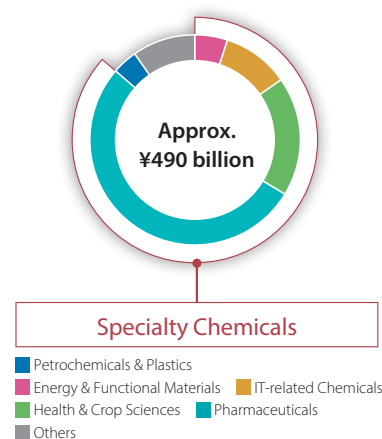
### Capital Expenditure and Investment Plan for FY2016-FY2018 (Decision-making Basis)



### Research and Development Expenses Plan for FY2016-FY2018



### Research and Development Expenses Plan for FY2016-FY2018



# Q

Please describe the businesses where strong growth is anticipated.

# A

There are many businesses that we expect to contribute to our financial performance in fiscal 2019 and beyond.

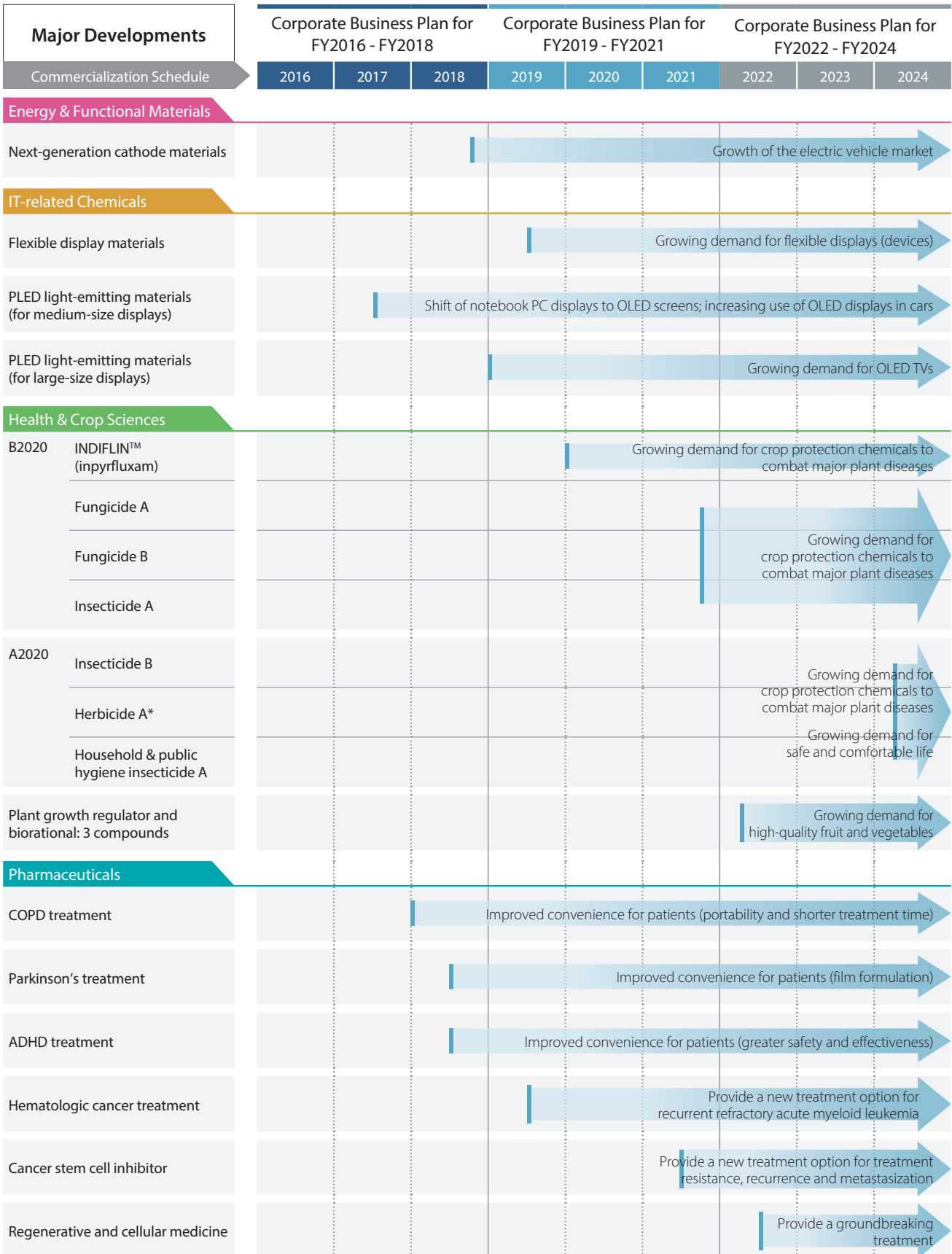
Some of the investments we decided on in the first two years of the current Corporate Business Plan period have already begun to contribute to our financial performance, but it will be after fiscal 2019 that several major investments, such as the acquisitions in the pharmaceuticals area and the expansion of methionine production capacity, will contribute to a full extent. In the next Corporate Business Plan, we will seek to achieve growth by successfully executing these major projects.

Furthermore, our development efforts are continuing to progress for products that are expected to see significant growth in the future, including next-generation battery cathode materials, polymer OLED components and

materials, next-generation major crop protection chemicals, and new pharmaceuticals. In the next Corporate Business Plan, we will strive to bring these products under development to market as soon as possible.

At Sumitomo Chemical, we have many sprouting seeds of future businesses that could not only contribute to solving pressing issues facing society, including those related to the environment, energy, and food supply, but could also help to promote health, make daily lives more comfortable and improve people's quality of life. Under the next Corporate Business Plan, we would like to make these seeds grow into new businesses, and thereby create new value and contribute to building a sustainable society.

Major Investments	Investment decision made	Corporate Business Plan for FY2016 - FY2018			Corporate Business Plan for FY2019 - FY2021		
		Investment Total	2016	2017	2018	2019	2020
<b>Petrochemicals &amp; Plastics</b>							
Rabigh Phase II Project	9.1 billion USD (PRC's total investment)				Growth in a wide range of industries, particularly in Asia		
<b>Energy &amp; Functional Materials</b>							
Building and expansion of heat-resistant separator plants	Approx. ¥25 billion	>	Growth of the electric vehicle and energy storage system markets				
Expansion of polyethersulfone production capacity	A few billion yen	>	Growing demand for aircraft and automotive structural materials and high performance membrane				
<b>IT-related Chemicals</b>							
Expansion of flexible touchscreen panel production facilities	Approx. ¥9 billion	>	Shift of smartphone screens to OLED and flexible screens				
New plants for high-purity semiconductor chemicals (Xi'an and Changzhou, China)	A few billion yen each		>	Growth of the semiconductor market			
<b>Health &amp; Crop Sciences</b>							
Expansion of methionine production capacity	Approx. ¥50 billion	>	Growing methionine demand (increasing global population/ growing demand for meat)				
Acquisition of Excel Crop Care	Approx. ¥13.9 billion	>	High growth in India's agrochemicals market (Expansion of food production needed in response to population growth)				



\* PPO inhibitor, herbicide being developed by Sumitomo Chemical under the collaboration with Monsanto to develop and deliver next-generation weed control solutions



# Q

Please describe your initiatives to build a sustainable society.

# A

Since the company's founding, we have been putting into practice "creating shared value," a concept that a business should not just work to sustain its economic activity, but should also strive to create value for society.

About a century ago, Sumitomo Chemical got its start by manufacturing fertilizers from harmful gas emitted from copper smelting operations, aiming to solve the environmental problem of smoke pollution while helping to increase agricultural output. Since then, we have put into practice "Creating Shared Value," the concept that a business should not just work to sustain its economic activity, but should also strive to create value for society.

In order to encourage each employee to put into action the philosophy of "contributing to society through our business," we work to have all employees participate in efforts to provide solutions through business and help achieve the SDGs, and all our top executives are committed to the initiatives.

In our "Sustainable Tree" initiative, for instance, in which employees can express their own commitment to the SDGs on a dedicated website, more than 9,000 messages were posted in the year 2017. I believe the fact that two-thirds of them were from Group companies outside Japan shows that employees of Sumitomo Chemical Group are committed, beyond the boundaries of nations, to achieving the SDGs.

In addition, we have a program to designate as "Sumika Sustainable Solutions" those Sumitomo Chemical Group

products and technologies that contribute to mitigating global warming and reducing environmental burdens, in which 44 products and technologies have been designated. By promoting the development and the spread of these products, we will provide solutions to build a sustainable society.

In order to further promote these initiatives for creating a sustainable society, we established the "Sustainability Promotion Committee" in April 2018. This committee not only takes a comprehensive view of the Sumitomo Chemical Group's various initiatives relating to environmental and societal problems, but it also works to further accelerate the Company's efforts by evaluating how much we are contributing to sustainability overall.

Along with these initiatives, we are stepping up efforts to make our governance more effective, increasing the number of Outside Directors from 3 to 4 in June 2018, and further enhancing the oversight and management functions, as well as the advisory functions, of the Outside Directors.

Going forward, we at Sumitomo Chemical will continue our ESG (environmental, social, and governance) initiatives to help solve various problems facing people around the world, and to achieve long-term sustained growth.

## SDGs Initiatives through the TSP Approach



### Establishment of the "Sustainability Promotion Committee"

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
	Secretariat	CSR Dept., Legal Dept., Corporate Planning Dept., Human Resources Dept., Responsible Care Dept., Research Planning and Coordination Dept., and Corporate Communications Dept.
Meetings	Twice a year	

Q

Finally, could you provide an overview of Sumitomo Chemical’s vision?

A

We seek to achieve sustained growth by creating new value through innovative technologies.

The capability to develop innovative solutions by leveraging extensive technological expertise, global market reach, and highly loyal employees—these are Sumitomo Chemical’s core competencies, which we have built up through our operations spanning over a century. Going forward, by making full use of these strengths, we will continue to strive to solve issues in society, particularly environmental, energy, and food supply issues, and continue to contribute to improving the quality of life by promoting health and making daily lives more comfortable for people around the world.

We also aim to achieve sustained growth by creating new value through innovative technologies, and strive to constantly realize an ROI of above the cost of capital and 7% or higher.

At the same time, to achieve this vision, it is essential that we maintain financial strength robust enough to withstand any changes in our business environment. Specifically, we aim to hold a D/E ratio at approximately

0.7 times, and constantly achieve an ROE of 10% or above.

In addition, for the time being we set our dividend payout ratio at around 30%, and by investing about 70% of net income in new growth opportunities in the areas of the environment and energy, life sciences, and ICT, we seek to achieve an annual profit growth rate of over 7%.



Trends in Ordinary Income and Core Operating Income

