

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.**

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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.