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.

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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

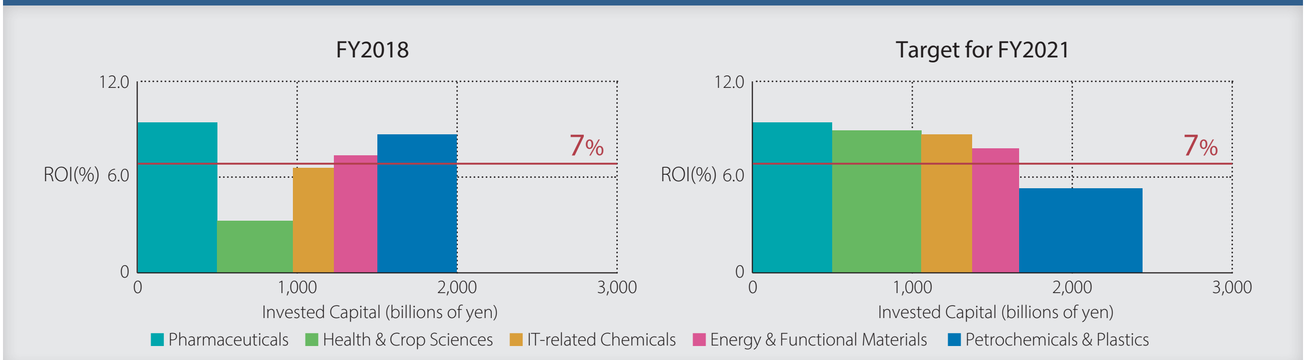
Since 1999, we have been implementing management accounting with an awareness of capital costs in order to improve capital efficiency, such as ROE and ROI. For example, we have been reporting the net profit of each business sector after deducting shareholder capital costs. Currently, ROI for each sector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

(Billions of yen)

	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)

* Including investment in Rabigh Phase II project

(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