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# We will Work to Achieve Sustained Growth for the Sumitomo Chemical Group and Help Build a Sustainable Society.

Based on the Sumitomo business principle that, “Our business must benefit society at large, not just our own interests,” the Sumitomo Chemical Group has been creating social and economic value in an integrated manner. By making the best use of its strengths as a diversified chemical company, the Group will continue to strive to resolve material issues on the road to a sustainable society through business and innovation and enhance its corporate value.

## Addressing the COVID-19 Pandemic

### We are committed to contributing to the containment of the coronavirus and the prevention of future pandemics by leveraging the extensive power of chemistry.

Since the outbreak of COVID-19 in the spring of 2020 and its ensuing spread around the world, Sumitomo Chemical has taken a range of measures, making it a top priority to ensure the safety and health of its employees all over the world. At the same time, we have made every effort to ensure stable operations to fulfill our responsibility to supply products necessary for society. For the time being, our operations have not been significantly affected.

I would like to talk about the impact of the pandemic on our performance later on. Meanwhile, what I have realized in this situation is that the chemical industry covers a broad scope of businesses that support the infrastructure of society, and that it can contribute to society in a wide range of fields

through innovation. While chemical manufacturers have taken various measures to help prevent the spread of the infection, Sumitomo Chemical has also been making group-wide efforts to contribute to the containment of the pandemic. Manufacturing ingredients for pharmaceuticals for the treatment of COVID-19 is a case in point of our contribution through business. As an emergency and preferential measure, we have also supplied our plastic agriculture film for use as material for medical gowns. This revealed a new application of the product, which we could not have foreseen, and I believe it can be said that this is an example of innovation. In the area of research and development, our subsidiary Sumitomo Dainippon Pharma has joined an initiative to provide public access, free of charge, to a medical database called the COVID-19 Research Database, while also engaging in other various related efforts. Leveraging the extensive power of chemistry, we will continue to contribute to the containment of the coronavirus and the prevention of future pandemics.

### Contribution to Containment of the Coronavirus Pandemic

Supplying active ingredients for Avigan (favipiravir) and remdesivir

Supplying household antiviral disinfectants

Supplying polyethylene film for medical gowns

Supplying antiviral agents for industrial use

Joined COVID-19 research database

Joint research for a universal influenza vaccine

Provided funds for NanoScent, a startup developing diagnostic sensors for COVID-19

Developing antiviral agents derived from natural plant extracts

Donated medical protective gear (incl. N95 masks and gowns)

Donated to the Kitasato Institute's Project for COVID-19

### Contributing to Containment of the Coronavirus Pandemic by Leveraging the Extensive Power of Chemistry

## Progress on the Current Corporate Business Plan

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### **Despite the increasingly severe business environment, we will work to create the distinctive value that only a diversified chemical company like us can make**

I would now like to talk about our performance for fiscal 2019. In the Petrochemicals & Plastics Sector, selling prices for our products declined, affected by a slowdown of the world economy due to the prolonging of the US-China trade conflict. In the Health & Crop Sciences Sector, shipments of crop protection products decreased as a result of extreme weather in North America, while methionine prices fell. In the Pharmaceuticals Sector, shipments of Latuda, an atypical antipsychotic agent, increased in the North American market, but upfront expenses arising from the strategic alliance with Roivant placed a heavy burden on the Sector's performance. Due to these factors and the effects of the coronavirus pandemic, our consolidated core operating income for fiscal 2019 significantly decreased from the level of the previous fiscal year.

For fiscal 2020, shipments of crop protection products are expected to recover in overseas markets. We anticipate, however, that there will be considerable effects from lower prices for petrochemical products and upfront expenses in new drug development in the Pharmaceuticals Sector, while also foreseeing a decrease in demand for products in automotive and display-related areas due to the coronavirus pandemic. All in all, we cannot expect a rapid recovery in our performance.

The business environment surrounding us is thus becoming increasingly challenging, but we are determined to push

forward our efforts based on the basic policy set out in the current Corporate Business Plan. In order to accelerate the development of next-generation businesses, we have been stepping up efforts to establish our innovation ecosystem—a system to constantly generate innovation. We have launched a strategic partnership with Conagen in synthetic biology and formed an alliance with NanoScent, a start-up developing scent detection devices. We have also started collaborations with academia, including joint research with Kyoto University on solid-type batteries. (See page 37.)

As for the improvement of productivity through digital innovation, we have implemented new initiatives. On the manufacturing side, all manufacturing departments at the Ehime Works and the Oita Works have introduced electronic journals. On the research and development side, we are promoting the use of material informatics (MI) for material design. (See page 67.)

In addition to these efforts, for fiscal 2020, we will focus on the improvement of our business portfolio, giving this a higher priority. I believe that our diversified business portfolio is providing us with a certain degree of immunity to the COVID-19-induced recession. To establish more robust foundations for our business, however, we first need to raise the earning power of each business unit. Building on that, we would like to continue to generate synergy among our various businesses and technologies and create a “conglomerate premium,” distinctive value that only a diversified chemical company like us can make. Meanwhile, we have made several large-scale strategic acquisitions. We need to carry through post-merger integration (PMI) to realize the full value of these acquisitions as soon as possible.

## To Achieve Sustained Growth

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### **We will strive to take our performance on the path to recovery as soon as we can and build back to achieve sustained growth.**

For fiscal 2021, the final year of the current Corporate Business Plan period, we have been aiming to achieve a consolidated core operating income of 280 billion yen. Given that there have very recently been positive factors such as rebounding methionine prices, we could have reached this target, depending on conditions in the petrochemicals market—if it were not for the upfront expenses due to the large-scale acquisition in the Pharmaceuticals Sector and the effects of the COVID-19-induced recession. Yet, unfortunately, the business

environment has turned out to be dramatically different from our assumptions, so that we expect the achievement of this target to be extremely difficult. We will strive to take our performance on the path to recovery as soon as we can and build back to achieve this target level of earnings by fiscal 2024, the final year of the next Corporate Business Plan period.

I would like to talk about our three growth drivers to meet this target. In the Health & Crop Sciences Sector, we have established a direct sales network in the South American market, including Brazil, the world's largest and fastest growing market for crop protection products. This has been achieved through the acquisition of Nufarm's South American businesses, a deal completed this year. By fully leveraging this network, we will be



able to massively expand sales of INDIFLIN™, a promising new fungicide for soybeans, scheduled to be launched in Brazil in 2021. On the back of a growth of the crop protection business primarily in South America and India, we expect to achieve a core operating income of 80 billion yen by the middle of the 2020s.

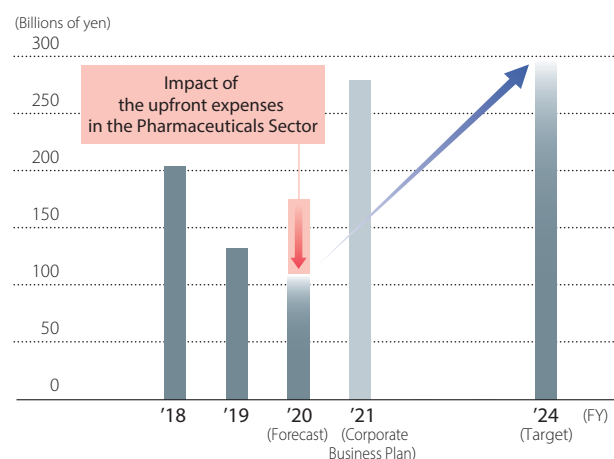
In the Pharmaceuticals Sector, it had been a major challenge for years to develop new products that could take over Latuda's position as our flagship product after the antipsychotic agent's loss of exclusivity. As a result of the strategic alliance with Roivant launched in December 2019, we have obtained new drug candidates that have the potential to become blockbusters, such as relugolix for the treatment of uterine fibroids and other diseases and vibegron for overactive bladder. The development of these drug candidates is progressing well toward early launches. Sales of these new products are expected to show strong growth from fiscal 2023 onwards. As a result, we expect the sector's core operating income to get back on a growth path and exceed 100 billion yen beyond fiscal 2024 to 2025.

In the IT-related Chemicals Sector and the Energy & Functional Materials Sector, we will work to expand sales of highly functional products—including battery components, super engineering plastics and semiconductor materials, as well as components for flexible displays—against the backdrop of the growing electric vehicle market and increasing demand for 5G communications. We aim to achieve a combined core operating income of 80 billion yen, across both sectors. Across

these three growth driver areas, we will work to achieve a core operating income of 260 billion yen in total by the middle of the 2020s. It would be ideal if the Petrochemicals & Plastics Sector also contributes as a cash cow, but we would like to establish an earnings structure that does not excessively depend on a sector that has relatively high volatility.

Meanwhile, we will also work on the improvement of our financial strength, which has weakened as we have made large-scale strategic investments. Through more selective investment, divestment of assets and improvement of the cash conversion cycle, we would like to bring our D/E ratio back to the target of 0.7 by fiscal 2024. (See page 23.)

### Forecast for Core Operating Income



## Our Sustainability Efforts

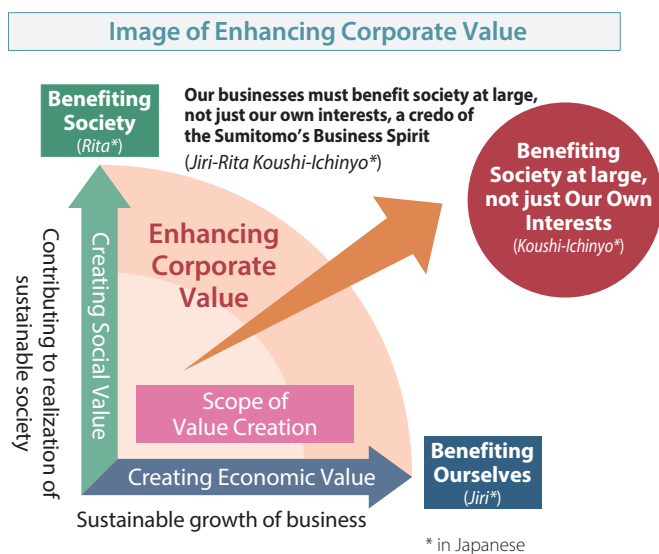
### We continue to be committed to creating both economic and social value and achieving sustained growth for our company.

We at the Sumitomo Chemical Group are committed to achieving sustained growth by contributing to developing a sustainable society through our business and creating both economic and social value. In order to enhance and accelerate our efforts to this end, we have launched various new measures.

In March 2019, we identified our material issues for sustainably creating value, such as reducing environmental impact and contributing to the healthcare field. We also determined the material issues that serve as the foundation for continuing our business, including safety, respect for human rights, and compliance. In November 2019, we set key performance indicators (KPIs) for our material issues. (See page 27.) In establishing KPIs, we sought opinions from external experts and deliberated in our Sustainability Promotion Committee. For our material issues for social value creation, including the issues of climate change, energy, food, and infection control, we set up KPIs by referring to the targets laid out in the United Nations Sustainable Development Goals (SDGs), to show our commitment to helping resolve the vital issues facing the international community. By using these KPIs, we will not only actively communicate the progress of our measures but will also promote collaboration with our stakeholders and accelerate our efforts to develop and provide new solutions to social issues.

Among our efforts toward developing a sustainable society, we are particularly focused on addressing climate change issues. We have set up our Science Based Targets, goals for the reduction of greenhouse gas (GHG) emissions, and are carrying out various measures to achieve these targets. We have also been undertaking our Sumika Sustainable Solutions (SSS) project to promote the deployment of our products and technologies that contribute to the reduction of environmental impact. (See page 29.) In addition, we have launched a new cross-sector initiative to conduct scenario analyses, identify climate-change-related risks and opportunities for the Group, and plan and implement new measures to resolve problems facing us. (See page 69.)

In April 2020, we established a new organization within our Petrochemicals Research Laboratory, a team dedicated to developing technologies to reduce environmental impact by leveraging our core technologies related to catalysts and chemical process design that have been cultivated in the Petrochemicals & Plastics Sector. Under this organization, we have put together our related projects, which were each pursued in several separate laboratories of ours, while also scaling up the team to a group of about 30 researchers. We expect these measures to help dramatically accelerate the progress of the research and development projects. They include our projects toward building a circular system for plastics—the development of chemical recycling technologies in collaboration with other companies and through alliances with academia. These efforts aim to chemically decompose municipal waste and plastic waste, and reuse them as raw materials for plastics and petrochemical products. If these chemical recycling technologies are put to commercial use, we are convinced that they will help cut back on the use of fossil fuels, while also contributing to reducing the amount of plastic waste as well as GHG emissions from the incineration of plastic waste. (See page 71.)



## To Shareholders and Investors

### **We will continue to work to enhance our corporate value so that you can be proud and pleased to be our shareholders.**

I recognize shareholders and investors as our essential stakeholders. As I run and manage our business day-to-day, I always bear you in mind. Regarding shareholder return, we have made it a policy to maintain stable dividend payments, giving due consideration to our business performance and the dividend payout ratio for each fiscal year, the level of retained earnings necessary for future growth, and other relevant factors. Over the medium to long term, we aim to achieve a dividend payout ratio of around 30%.

For fiscal 2019, since we posted a significant decline in profits, we have unfortunately declared an annual dividend of 17 yen per share, a decrease of 5 yen from the previous fiscal year's dividend of 22 yen per share.

What we strive to be is a Sumitomo Chemical that continues to put into action the Sumitomo business principle that, "Our business must benefit society at large, not just our own interests," and thereby create both economic and social value. As the role chemistry should play is becoming even more important, we will leverage the power of chemistry, work to resolve material issues on the road to a sustainable society through innovation and our businesses, and strive to enhance our corporate value. By doing so, we aim to become a company that every one of you can be proud of and pleased with as a shareholder.

Your continued understanding and support would be very much appreciated.

