Financial Strategy

Basic Policy

Sumitomo Chemical is aiming to reliably achieve its targets for ROE, ROI, and other financial indicators, and continuously improve corporate value. By controlling the balance of interest-bearing liabilities and the D/E ratio through rationalization, cost cutting, and shortening of the cash conversion cycle (CCC), we will continue to expand and strengthen our business through active growth investments while maintaining the soundness of our financial base.

Key Financial Performance Indicators

Since 1999, we have been implementing management accounting that is conscious of capital costs from an early stage in order to improve capital efficiency, such as ROE and ROI. For example, we have been reporting the net income of each business sector after equity costs. Currently, ROI for each sector is an important performance accounting indicator.

We set a target of 10% for ROE, a key financial performance indicator, with a view toward creating a sustainable society through our business activities, 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 expected to be profitable. We set a minimum target of 7% for ROI, in order to exceed our weighted average capital cost (WACC).

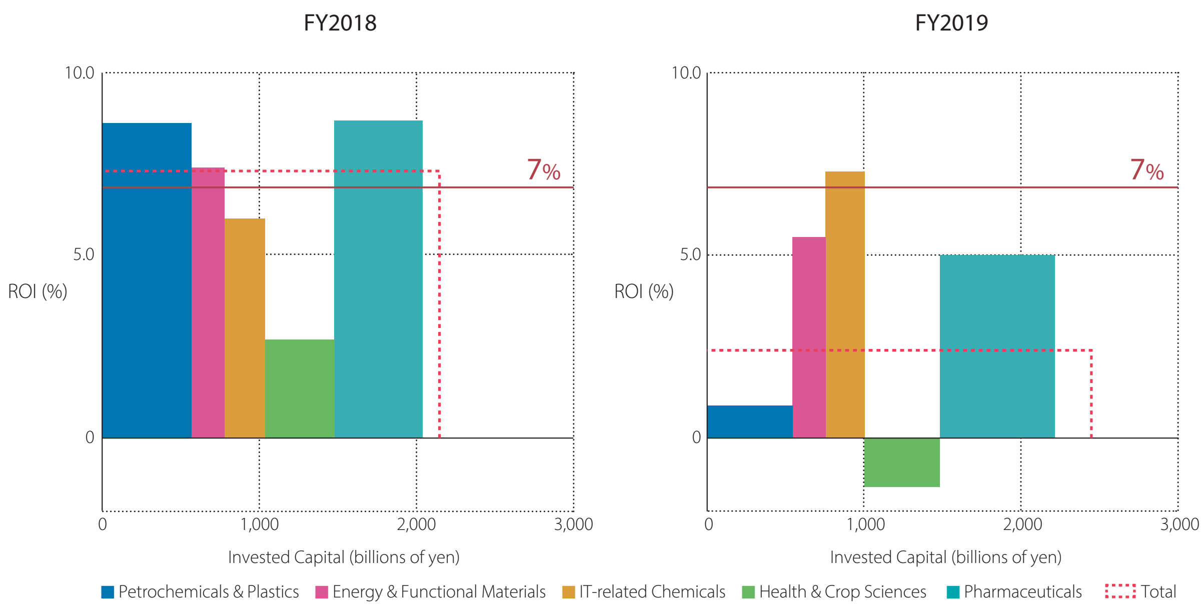
Our target D/E ratio is approximately 0.7, with a view to maintaining our current credit rating, which enables flexible financing. For new capital expenditures or M&A, we have decided to take into consideration economic indicators in each individual investment decision, including net present value (NPV), internal revenue rate (IRR), and the payback period, as well as, from FY2019, the impact on CO_2 emissions per investment project, so as to create a sustainable society. We also regularly follow up on the results of capital expenditures and M&A already carried out.

Progress of the Corporate Business Plan

Our policy in the financial aspect of the Corporate Business Plan (FY2019-2021) is to recover cash steadily from capital expenditures already made, and to control costs and assets through disciplined operations. This policy itself will remain unchanged. In order to carry out two large-scale strategic investments, however (the acquisition of the South American business of Nufarm in the Health & Crop Sciences sector, and the strategic alliance with Roivant in the Pharmaceuticals sector), we had to keep in mind our financial health. Thus, we worked to reduce interest-bearing liabilities by selecting the optimal means for financing and improving cash flow.

To finance large-scale strategic investments, we selected a 250 billion yen hybrid bond, so as to both achieve concrete investment in growth to further improve our business portfolio, and maintain a robust financial structure. This helped us maintain our credit rating, which may hugely impact our financing environment. On the other hand, our financial structure temporarily deteriorated as the balance of interest-bearing liabilities at the end of FY2019 exceeded 1 trillion, 300 billion yen, and D/E

Invested Capital and ROI by Sector



ratio reached 0.9. We continue to take measures to improve this situation.

As for capital expenditure and investment for FY2019-2021 (on a decision-making basis), we aim to reduce the projected scale of 950 billion yen, inclusive of the planned amount of each business sector, by 100 billion yen, by rigorously selecting investment projects with an eye toward growth. We will also focus on selling assets. For cross-held stocks, we decided to sell the equivalent of about 20% of our own listed stocks. Including the sale of Sumitomo Dainippon Pharma Co., Ltd.'s Ibaraki Works, a total asset divestiture of 50 billion yen is under way.

We have made an effort thus far to improve CCC, and aim to generate around 50 billion yen in cash by reducing inventory through digital technology. With these measures, we are targeting a D/E ratio of 0.7 at the end of FY2024.

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.

Key Financial Performance Indicators*

ROE	ROI	D/E ratio	Dividend payout ratio
Over 10%	Over 7%	Approx. 0.7 times	Approx. 30%

* Stable achievement of the above indicators over the medium- to long-term.

Measures toward a Better Financial Structure

1 More selective investment, reduction of 100 billion yen*1	2 Asset sales, 50 billion yen *2	3 CCC improvement, 50 billion yen *2

*1 Capital expenditures, loans/investments from 2019 to 2021 (on a decision-making basis) *2 By the end of FY2024

Interest-bearing Liabilities, D/E Ratio