

Progress in the FY2019-FY2021 Corporate Business Plan

Change and Innovation 3.0 For a Sustainable Future

Contributing to the Creation of a Sustainable Society by Accelerating Innovation

The Corporate Business Plan (FY2019-FY2021) started in 2019 adopts “Change and Innovation 3.0: For a Sustainable Future” as a slogan. The message implicated here is that, in view of the coming Society 5.0 (ultra-smart society), we should accelerate innovation by increasing productivity exponentially through digital innovation, and contribute to creating a sustainable society by solving issues facing society.

It was fiscal 2013 when we adopted “Change and Innovation” for the first time as the slogan for the Corporate Business Plan. In the past six years, we have steadily moved forward, enhancing our financial strength in phase 1 and further improving our business portfolio in phase 2. For the current Corporate Business Plan as phase 3, we have set six basic policies, including accelerate the development of next-generation businesses and improve productivity through digital innovation.

Financial Indicators

(Billions of yen)	FY2019	FY2020	FY2021 (Forecast*)	FY2021 (Targets)
Sales revenue	2,225.8	2,287.0	2,610.0	2,950.0
Core operating income	132.7	147.6	200.0	280.0
Net income attributable to owners of the parent	30.9	46.0	100.0	150.0
Naphtha price (yen/KL)	42,900	31,300	47,000	51,000
Exchange rate (yen/US\$)	108.70	106.10	110.00	110.00

* Announced on
May 13, 2021

	FY2019	FY2020	FY2021 (Forecast*)	FY2021 (Targets)	Targets Consistently achieve the following targets
ROE (%)	3.2	4.7	9.6	12.5	Over 10%
ROI (%)	2.4	2.8	4.3	7.1	Over 7%
D/E ratio (times)	0.9	0.9	0.9	0.7	Approx. 0.7 times
Dividend payout ratio (%)	89.9	53.3	32.7	—	Approx. 30%

In fiscal 2020, while there were negative factors caused by the spread of COVID-19, such as reduced shipments of automotive-related components, life sciences fields were not significantly affected, and there were positive factors for the IT-related Chemicals sector due to stay-at-home demand, so income exceeded that of the previous fiscal year. For fiscal 2021, while we will not reach our initial target of 280 billion yen, we are forecasting a recovery to a core operating income of 200 billion yen and an ROE of 9.6%. In addition, the portions of the current Corporate Business Plan that were not achieved will be addressed as issues in the next Corporate Business Plan going forward.

Six Basic Policies



Further Improve Business Portfolio

Build a More Robust Financial Structure P24

Employ, Develop and Leverage Human Resources for Sustainable Growth P70

Ensure Full and Strict Compliance and Maintain Safe and Stable Operations

Progress in Fiscal 2020

Petrochemicals & Plastics P40

- The completion guarantee for Rabigh Phase II project financing came to an end.
- Began examining a possible combination of a propane dehydrogenation (PDH) technology that converts propane gas into propylene, with CO₂ utilization technology in Singapore.

Energy & Functional Materials P44

- Opened an industry-academia joint research course at Kyoto University, for accelerating the research and development for practical implementation of solid-type batteries.

IT-related Chemicals P48

- Decided to strengthen development and quality assurance system of photoresists for advanced semiconductor processes in Osaka Works.
- Decided to expand capacity of a manufacturing facility of photoresists for advanced semiconductor processes in Osaka Works.

Health & Crop Sciences P52

- Acquired four South American subsidiaries of Nufarm.
- Received Registration Approval for INDIFLIN™ fungicide in the U.S. and Canada.

Pharmaceuticals P56

- Established and began operations of a joint venture company for CDMO business in the field of regenerative medicine and cell therapy.
- Sumitomo Dainippon Pharma launched ORGOVYX™ for the treatment of advanced prostate cancer in the US.

New Businesses and R&D P67

- For chemical recycling, built a collaborative relationship with SEKISUI CHEMICAL CO., LTD. and began joint research with Muroran Institute of Technology, and began joint research with Shimane University for carbon cycle chemistry.

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Accelerate the Development of Next-generation Businesses

Despite increasing uncertainty over the business environment surrounding Sumitomo Chemical, the chemical industry has a large role to play in addressing social issues including environment, energy, and food issues, and business opportunities for the Company are also expanding. The Corporate Business Plan started in fiscal 2019 set four priority areas: healthcare, reducing environmental impact, food, and ICT. We will work in these areas to resolve issues to create a sustainable society through our business. In these key areas, we will focus on accelerating the development of next-generation businesses.

Focus Domains in the Four Priority Areas

Healthcare

Reducing Environmental Impact

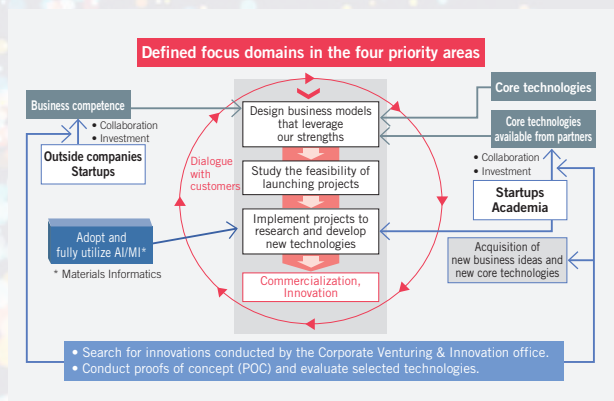
Food

ICT



Innovation Ecosystem

In order to ensure that R&D and business development in the four priority areas lead to the development of next-generation businesses, we are constructing an innovation ecosystem (a system that creates continuous innovation).



● Designing Business Models that Leverage Sumitomo Chemical's Strengths

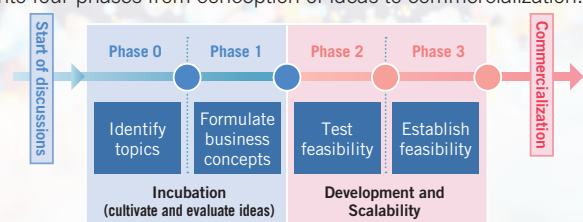
We established focus areas for our efforts based on the four priority areas, and then distinguished between core technologies we own and those we don't own so that we can design business models that leverage our strengths in each of the focus areas.

● Obtaining Technologies Available from Partners

We will obtain technologies we need to have through collaboration with startups and academia, and supplement gaps in our business competencies through partnerships with, or investments in, external companies and startups. We are contacting startups and academic institutions, and have expanded our activities by setting up three Corporate Venturing & Innovation offices to search for promising technologies: Cambridge, in the UK, and San Francisco and Boston in the U.S. We are also enhancing our ability to conduct proofs of concept to evaluate the competitiveness of our competitors' technologies by validating the effectiveness and feasibility of technologies Corporate Venturing & Innovation has found.

● Full Implementation of Stage-gate Management System

In discussions of potential research topics, a stage-gate management system has been fully implemented from fiscal 2019 and has begun operation. In this system, research topics are divided into four phases from conception of ideas to commercialization.



Improve Productivity through Digital Innovation

DX Strategy Milestones

Under our DX Strategy 1.0, we undertook initiatives, aiming at improving productivity in the four areas of research and development, plants, supply chain management, and offices, by utilizing such digital technologies, as material informatics and IT platforms, and providing the education opportunities required for data scientists. We succeeded in growing number of personnel who have digital talents and sharing the ideas of DX among the business sectors. In the next term, not only focusing on improving productivity, we are also moving forward to the following stages, DX Strategy 2.0 and 3.0; each business sector will tackle DX issues which they face to, originally from their business and product characteristics, and in DX Strategy 2.0 we will make our efforts to enhance the existing business competitiveness, and in 3.0, we will aim to create new business models.

Corporate Unit-led Efforts

DX Strategy 1.0

- Improve productivity in four focus areas for DX
- Generate extra capacity and reduce operation cost by streamlining processes
- Improve quality and efficiency of functions and operations and share best practices across organization

Business Unit-led Efforts

DX Strategy 2.0

- Consolidate competitiveness of existing businesses
- Enhance customer interface and improve customer satisfaction to create added value and expand market shares and sales
- Cross-functional drive to optimize the entire supply chain

Built in as Continuous Efforts

DX Strategy 3.0

- Create new business models
- Create new business models leveraging services and data and our core technologies
- Improve our corporate value as leading DX-driven company

We Aim to Dramatically Improve Business Process Productivity and Provide New Value by Accelerating Digital Innovation.

For the materials and chemicals industries, we are required to enhance the business competitiveness, getting through with DX activities and responding to shorter product lifecycle and more diversified and advanced customers' demand, while it is an opportunity to provide products and solutions that help to resolve issues towards the global sustainability; carbon neutrality, marine plastic, and food supply issues.

Under this business philosophy, we determined to raise "digital transformation" as one of the basic policies in Corporate Business Plan, we have planned to introduce advanced digital technologies, IoT^{*1}, AI^{*2}, MI^{*3}, and RPA^{*4} on site and to train the personnel who can utilize those technologies. We have focused to improve the productivity of operational processes in research and development, plants, supply chain management, and offices in DX Strategy 1.0, but as the world has been rapidly changing in the COVID-19 pandemic, we are shifting to the following stages, DX Strategy 2.0 and 3.0 to enhance the existing business competitiveness and create new business models by applying data and services to our products and core technologies. Through our digital

transformation, we hope to contribute to deliver new value (products and services) to our customers, by increasing more innovative personnel and creating an organizational culture adopting agility.

Hiroshi Ueda

Director &
Executive Vice President



*1 IoT: Internet of Things

*2 AI: Artificial Intelligence

*3 MI: Materials Informatics

*4 RPA: Robotic Process Automation