

Interview with the President

**We Seek to Both Achieve
Sustainable Growth for
the Sumitomo Chemical Group
and Contribute to Achieving
a Sustainable Society**

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Q The year 2020 was significantly impacted by COVID-19.
Can you share your view of that year?

A Amid enormous changes in the business environment,
we were able to demonstrate the strong defensive power of
a diversified chemical company engaging in a variety of businesses.

Operating a Business during a Pandemic

In fiscal 2020, we were forced to respond to the challenge of COVID-19 throughout the year. With lockdown measures in countries around the world and the emergency declaration in Japan, people's movements and interactions were severely restricted. As part of the chemical industry, Sumitomo Chemical has a responsibility to supply materials required for society's infrastructure. To fulfill this responsibility, we devoted our efforts toward ensuring continued safe and stable operations, while protecting the health of employees through a wide range of measures to prevent infection. As a result, while there was an unavoidable decline in the capacity utilization rate at some of our subsidiaries outside of Japan, overall we were able to avoid a significant impact on our operations.

In our daily work, we saw a marked decline in opportunities for face-to-face communication. That was a major change, but because we were quickly able to put in place systems for remote work, communication with locations both in and outside Japan has become easier than ever before. In addition, starting in October of 2020, I began an internal blog to convey my own words to all employees throughout the world. The topics I cover range from my morning walk and books I have read to such issues as human rights and climate change. I hope this blog helps in sharing with all employees the issues facing Sumitomo Chemical and the future direction of management.

Financial Results for FY2020: Demonstrating the Strong Defensive Power of a Diversified Chemical Company

Turning to our financial results for fiscal 2020, because automobile-related demand declined due to the spread of COVID-19 infections that began at the start of the year, shipments decreased in the Petrochemical & Plastics Sector and the Energy & Functional Materials Sector. In addition, we had a scheduled maintenance shutdown at Petro Rabigh, so that results in both sectors were weak in the first half of the fiscal year, but starting in the second half, they quickly improved with the recovery in automobile-related demand. In the IT-related Chemicals Sector, we initially expected that COVID-19 would have a negative impact, but because of the stay-at-home trend, results were actually strong throughout the year. In the Health & Crop Sciences Sector, shipments of crop protection products increased with the new addition of agricultural chemicals businesses in South America, and in the Pharmaceuticals Sector, sales of the atypical antipsychotic agent Latuda continued to be strong. In these two sectors, we were able to continue business operations without any major changes from the time before the spread of COVID-19. As a result, our financial results for fiscal 2020 were better than the prior fiscal year even in the face of unprecedented, enormous changes in our business environment. We were able to demonstrate the strong defensive power of a diversified chemical company engaging in a variety of businesses.

Interview with the President

Q Two years has passed since the start of the current Corporate Business Plan. How has progress been?

A We have been working on improving our competitiveness, and I think we finally reached a position from which we can aim to achieve a return on equity level of around 10%.

Change & Innovation 3.0: Six Basic Policies

Since the start of the current Corporate Business Plan, there have been major changes in our operating environment, including the spread of COVID-19 and the acceleration in the movement in Japan and around the world to become carbon neutral. Despite these, we uphold the six basic policies we put forth at the start of this period, including accelerating the development of next-generation businesses, improving productivity through digital innovation, and further improving our business portfolio. We have, however, made appropriate changes to the weight of emphasis we have placed on them and our timelines for execution as we have implemented them.

Accelerate the Development of Next-generation Businesses

First, for accelerating the development of next-generation businesses, we have designated four priority areas: healthcare, reducing environmental impact, food, and ICT. Going forward, we will put more management resources in healthcare and reducing environmental impact, in which societal needs are increasing enormously because of COVID-19. Up to now we have worked on efforts to build our innovation ecosystem, such as expanding our Corporate Venturing and Innovation Office, an office dedicated to exploring innovation opportunities, and collaborating with a variety of startup companies. In the field of healthcare, we entered into the Contract Development and Manufacturing



Organization business for regenerative medicine and cell therapy, and in the field of reducing environmental impact, we decided to build a new research facility at our Chiba site to accelerate the development of chemical recycling and other technologies. Going forward, we will step up efforts to strengthen our innovation ecosystem so that innovations will be produced one after another.

Improve Productivity through Digital Innovation

In terms of improving productivity through digital innovation, we have set an ultimate goal of creating new business models through digital transformation, and as milestones toward that goal, we have established a digital transformation strategy with three components, 1.0 through 3.0. With DX Strategy 1.0, we have been working to significantly improve productivity in R&D, manufacturing, supply chain management, and administration. In parallel with that initiative, starting this year we are working to jumpstart our efforts to strengthen the competitiveness of our existing businesses with DX Strategy 2.0 and create new business models with DX Strategy 3.0. As we focus on these initiatives, we have fully absorbed our subsidiary, Sumitomo Chemical Systems Service Co., Ltd., and established a joint venture with Accenture to further strengthen our capabilities for accelerating our digital transformation.

Further Improve Business Portfolio

Further improving our business portfolio was an issue on which we placed particular emphasis in fiscal 2020. We made solid progress in post-merger integration for our large-scale acquisitions and worked to strengthen the competitiveness of each of our businesses in order to maintain our earnings power even in the midst of the major change in our business environment represented by COVID-19.

Regarding recent large-scale investments, we added two new blockbuster drug candidates to our pipeline through an alliance in 2019 with the biopharma company Roivant Sciences. Both of these have already been launched this year, and the prospects for securing earnings are in sight. In our crop protection products business, we acquired four South American subsidiaries from Nufarm Limited, a leading Australian agricultural chemical company. In South America,

including Brazil, the world's largest crop protection market, we will seek to achieve a significant increase in sales of INDIFLIN™, a promising novel fungicide for soybeans developed using Sumitomo Chemical's proprietary technology.

The Rabigh Phase II Project, another large-scale investment of ours, began commercial operations in November of 2019. Subsequently, in September of 2020, our financial completion guarantee for project finance was terminated, enabling us to substantially lower our future financial risk. In addition, in our methionine business, which has been adversely affected by a weak market in recent years, we have enhanced our cost competitiveness by fully rationalizing our operations, and the market is on the path to recovery.

In addition, in the area of high-performance chemicals, primarily through our Energy & Functional Materials Sector and IT-related Chemicals Sector, we are developing materials for next-generation high-speed communications, enhancing the value added for display materials, and increasing our production capacity for semiconductor materials.

Financial Targets for Our Corporate Business Plan

For fiscal 2021, as a result of these initiatives to strengthen our competitiveness, we are projecting an improvement in our core operating income to 200 billion yen. Return on equity is expected to be at around 10%, the level we want to attain, and in my third year as president, I think we finally stand in a position from which we can aim to achieve it. Our target for core operating income for the current Corporate Business Plan, however, is 280 billion yen. Rather than revising this target, we are redoubling our efforts to achieve it as soon as possible. In our Health & Crop Sciences Sector and Pharmaceuticals, we have already taken needed measures, including making large-scale investments, which we expect to deliver concrete results over the next several years. We will take measures to achieve a level of total core operating income of 280 billion yen over the medium to long term, with 80 billion yen from the Health & Crop Sciences Sector, 80 billion yen from our high-performance chemical product businesses primarily in the Energy & Functional Materials Sector and IT-related Chemicals Sector, and more than 120 billion yen from the pharmaceutical business.

Interview with the President

Q What kinds of initiatives are you taking to achieve sustainability and respond to climate change and other pressing issues?

A We will work toward achieving carbon neutrality by 2050, and to this end, we have launched a new organization to formulate and implement a strategy that is characteristic of Sumitomo Chemical.

Driving Sustainable Management

At the Sumitomo Chemical Group we strive to generate both economic value and social value through our business and seek to achieve sustainable growth for the Sumitomo Chemical Group and contribute to building a sustainable society. In the current Corporate Business Plan, we are implementing a variety of measures to further intensify and accelerate these initiatives.

First, at the same time we announced our current Corporate Business Plan, we defined our material issues to be addressed as management priorities for sustainable value creation, such as contributions to reducing environmental impact and to the healthcare field, while also identifying items that serve as the foundation for continuing our business, such as safety, respect for human rights, and compliance. In addition, we also established key performance indicators to make visible and manage our progress in addressing these material issues.

Toward Achieving Carbon Neutrality

In recent years, the world has increasingly focused attention on reducing environmental impact in the face of climate change, the problem of plastic waste, and other environmental challenges. For climate change, countries and regions around the world, including Japan, have pledged one after another to achieve carbon neutrality by 2050 to limit the global average temperature increase to below 1.5 degrees Celsius from pre-industrial levels. Governments and private companies have begun to explore ways forward and take action. Sumitomo Chemical has been making substantial efforts to address the issue of climate change for many years. In 2018 we gained certification from the Science Based Targets initiative for our targets to reduce the Sumitomo Chemical Group's greenhouse gas emissions by 30% in 2030 and by at least 57% in 2050*. Achieving these targets will not be easy, but to achieve the even more challenging target of carbon neutrality, we need to rethink

the fundamentals of our strategy. Therefore, in February 2021 we established the Carbon Neutral Strategy Council and the Carbon Neutral Strategy Cross-Functional Team to formulate and implement the Sumitomo Chemical Group's strategy for achieving carbon neutrality by 2050. We are going to develop a strategy that is characteristic of Sumitomo Chemical, from the dual perspective of our obligation to minimize our own greenhouse gas emissions and our contribution through our products and technologies that enable us to indirectly achieve a reduction in society's greenhouse gas emissions. ▶ [P60](#)

Addressing the Problem of Plastic Waste

Plastics are contributing to making products lighter and reducing food loss. In addition, amid the COVID-19 pandemic, they are recognized as a useful material in helping to prevent infection when used in the form of personal protective equipment and partition panels that reduce the spread of droplets. While continuing to utilize this useful material, we need to bring about a circular economy that recycles used plastic for use as a resource. Sumitomo Chemical has been developing and supplying products that lead to reducing and reusing plastic, and in recent years we have also been working on the development of technology for material recycling and chemical recycling. In April 2021, we established the Business Development Office for a Circular System for Plastics to accelerate the development of businesses based on our efforts towards building a circular system for plastics. ▶ [P66](#)

* Scope 1+2, compared to fiscal 2013

Q What message do you have for shareholders and investors?

A **By leveraging the power of chemistry, we will take on the challenge of resolving major issues to achieve a sustainable society, and seek to enhance our corporate value.**

I recognize shareholders and investors as our essential stakeholders. As I lead Sumitomo Chemical and manage our business day-to-day, I always bear shareholders and investors 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 constantly achieve a dividend payout ratio of around 30%.

For fiscal 2020, the annual dividend was 15 yen per share, a reduction of 2 yen from the 17 yen per share dividend of the prior fiscal year. Regarding fiscal 2019 and fiscal 2020, as we were unable to secure a sufficient level of profit, we prioritized stable dividends over the dividend payout ratio in deciding the dividend amount, resulting in two

consecutive years of lower dividends. I would like to express my deep regret to our shareholders and investors for these results. For fiscal 2021, because we expect to achieve a certain level of profit in our financial results, we plan to pay a dividend of 20 yen per share.

By leveraging the power of chemistry, we at the Sumitomo Chemical Group will, through innovation and our business, continue to take on the challenge of resolving major issues to achieve a sustainable society and seek to enhance our corporate value. I sincerely hope that our shareholders share this aspiration, and we are determined to become a company whose shareholders can take pride and joy in being our shareholders.

Your continued understanding and support would be very much appreciated.

