

Financial Strategy



We aim to expand and strengthen our business through aggressive growth investments with an awareness of GX, while improving the soundness of our financial base.

Financial KPI targets (achieve the following on a stable basis)			
ROE	ROI	D/E Ratio	Dividend payout ratio
Over 10%	Over 7%	Approx. 0.7 times	Approx. 30%

佐々木啓吾 **Keigo Sasaki**
Managing Executive Officer

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 with an awareness of green transformation (GX) while maintaining the soundness of our financial base.

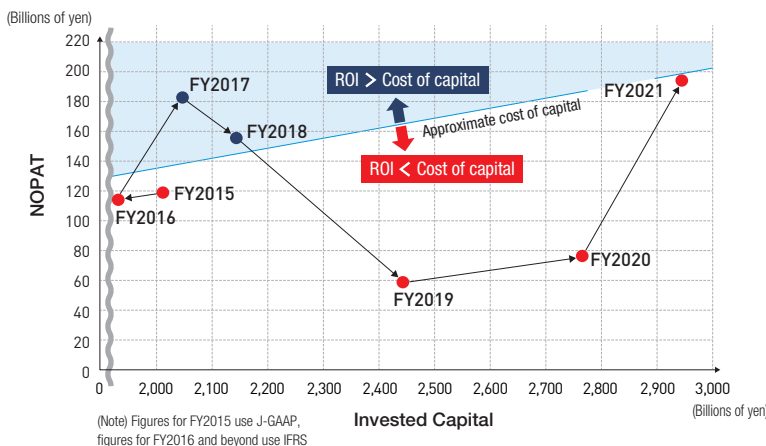
Key Financial Performance Indicators

Since 1999, we have been working to improve capital efficiency, including both ROE and ROI, from an early stage, taking measures such as considering capital costs in our performance results for each business sector as part of our management accounting system. This Corporate Business Plan also calls for ROI-oriented management. We set a target of

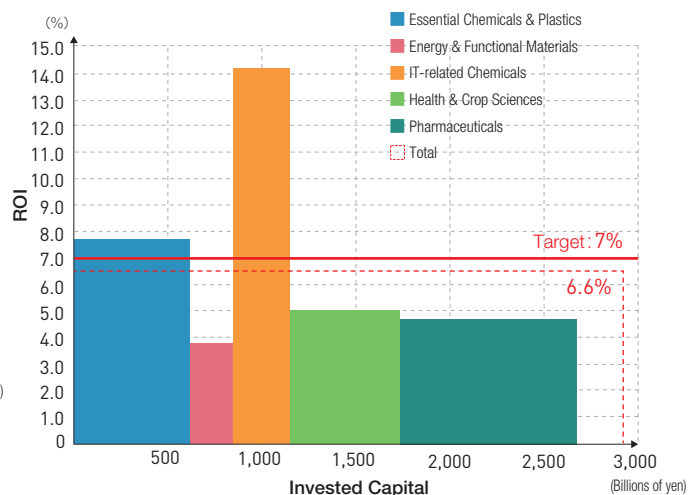
10% for ROE, a key financial performance indicator, with a view toward creating a sustainable society through our business activities, based on a policy of implementing projects that we believe can make an important contribution to the solution of societal issues, as long as they are expected to be profitable. We set a target of 7% for ROI, in order to exceed our weighted average capital cost (WACC).

Our target D/E ratio is approximately 0.7 times, 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. Since FY2019, in order to contribute to the creation of a sustainable society, we have been calculating an economic indicator that reflects our internal carbon pricing (10,000 yen per ton) for any project that is expected to increase or decrease CO₂ emissions, which is used in our investment decision-making. In addition, we also regularly follow-up on the results of investments, including both capital investments and acquisitions.

Trends in Invested Capital and NOPAT



Invested capital by business segment, ROI (FY2021 results)



Initiatives in the Corporate Business Plan

We will work to improve our financial position, which temporarily deteriorated to a D/E ratio of about 0.9 times due to major strategic investments during the previous Corporate Business Plan period. With the goal of achieving a D/E ratio of about 0.7 times, which is set as a key financial performance indicator we will continue with the three initiatives that we have been implementing since the previous Corporate Business Plan: asset sales, careful selection of investments, and improvement of CCC. With regard to asset sales, our initial target was to sell 50 billion yen between FY 2019 and FY 2024, but as of the end of FY 2021, we had sold approximately 60 billion yen, exceeding our target at a faster pace. We will consider further sales of policy stock holdings and tangible fixed assets, and aim to sell another 40 billion yen by the end of FY2024, for a total of 100 billion yen between FY2019 and FY2024.

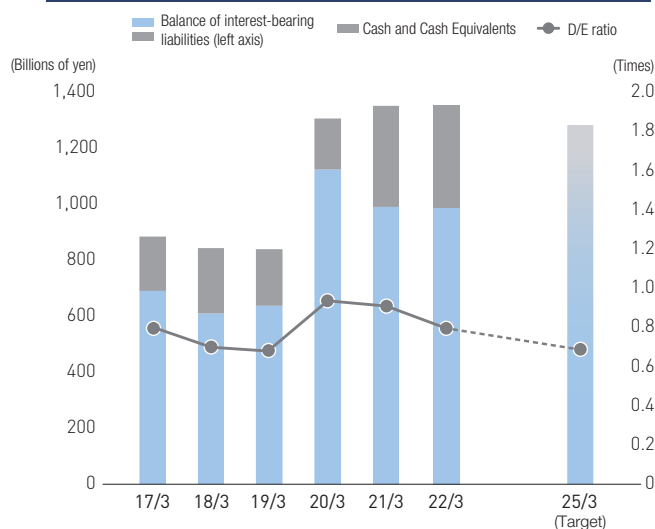
Regarding the careful selection of investments, the amount of decisions made during the previous Corporate Business Plan period was expected to reach 950 billion yen, a large increase due to major strategic investments, but was reduced by about 80 billion yen to 870 billion yen from that amount.

In the current Corporate Business Plan, we plan to further reduce the total amount of capital investment and loans by another 120 billion yen to 750 billion yen by further carefully selecting investments from the perspective of GX.

CCC aims to compress to 110 days and generate 50 billion yen of cash compared to FY 2019. Going forward, we aim to achieve this goal by the end of FY2024 through company-wide inventory reduction projects and optimization of logistics and inventory through the use of DX.

Efforts made during the previous Corporate Business Plan have steadily improved the company's financial position, with a D/E ratio of 0.8 times at the end of FY2021. In this Corporate Business Plan, we will continue to improve our financial position by steadily implementing the three measures mentioned above, aiming to achieve a D/E ratio of approximately 0.7 times by the end of FY2024.

Interest-bearing Liabilities, D/E Ratio



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. We will continue to sustainably improve corporate value by improving capital efficiency and strengthening our financial structures, thereby meeting the expectations of our shareholders.

Capital Allocation (Assumption for FY2022~2024)

- ▶ Aggressive business investment, especially in R&D and strategic investments
- ▶ Maintain dividend payout ratio of 30%, D/E ratio of 0.7 times

