

Change and Innovation

Current Priority Management Issues and Business Strategy

December 2, 2015

 **SUMITOMO CHEMICAL**
Masakazu Tokura
President


100th
ANNIVERSARY
SINCE 1915



Contents

- **Overview of FY2015 Outlook**
- **Framework for Next Corporate Business Plan**
- **Progress on Major Projects**
- **Toward Sustained Growth**

Overview of FY2015 Outlook



(Billions of yen)

	FY2014.1H	FY2015.1H	Change
Net Sales	1,128.4	1,075.9	-52.6
Operating Income	36.2	74.2	+38.1
(Equity in Earnings of Affiliates)	13.8	28.6	+14.8
Ordinary Income	52.8	100.4	+47.6
Net Income	22.6	60.9	+38.3
Naphtha Price	¥70,400/kl	¥48,200/kl	
Exchange Rate	¥103.01/\$	¥121.87/\$	

FY2015 First Half Results: Operating Income by Sector

Change and Innovation

(Billions of yen)

	FY2014.1H	FY2015.1H	Change
Specialty Chemicals	40.6	64.8	+24.2
Energy & Functional Materials	-0.7	-0.3	+0.4
IT-related Chemicals	14.5	18.7	+4.2
Health & Crop Sciences	11.4	27.1	+15.6
Pharmaceuticals	15.4	19.4	+3.9
Bulk Chemicals	1.3	13.4	+12.0
Petrochemicals & Plastics	1.3	13.4	+12.0
Others	-5.7	-3.9	+1.8
Total	36.2	74.2	+38.1
Equity in Earning of Affiliates	13.8	28.6	+14.8

Outlook for FY2015

Change and Innovation

(Billions of yen)

	FY2014	FY2015 (Forecast)	Change
Net Sales	2,376.7	2,250.0	-126.7
Operating Income	127.3	155.0	+27.7
(Equity in Earnings of Affiliates)	23.9	24.0	+0.1
Ordinary Income	157.4	170.0	+12.6
Net Income	52.2	80.0	+27.8
ROE	7.3%	10.0%	
Naphtha Price	¥63,500/kl	¥49,100/kl	
Exchange Rate	¥109.76/\$	¥121.0/\$	

Outlook for FY2015: Operating Income by Sector

Change and Innovation

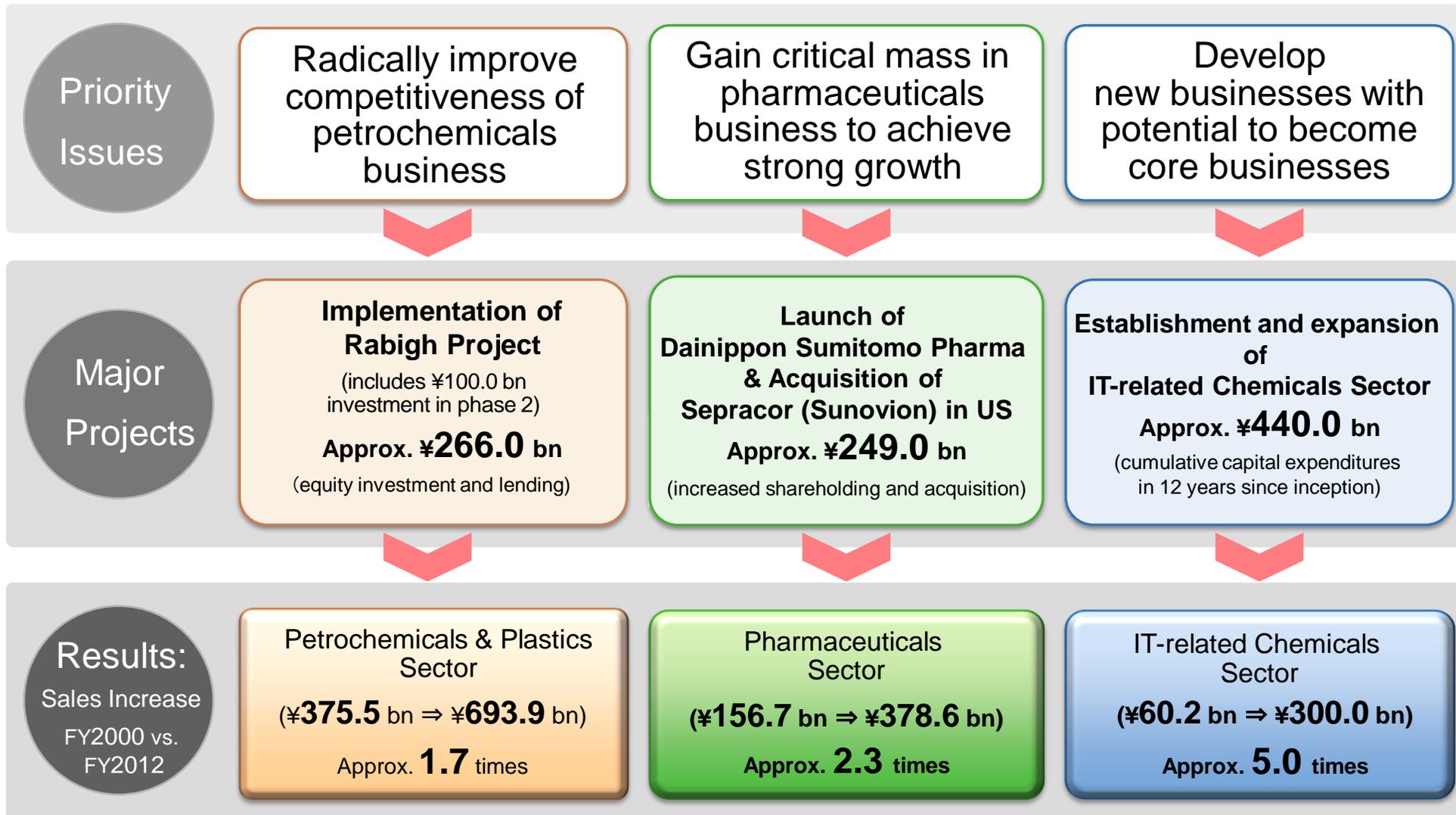
(Billions of yen)

	FY2014	FY2015 (Forecast)	Change
Specialty Chemicals	118.3	140.0	21.7
Energy & Functional Materials	0.8	1.0	0.2
IT-related Chemicals	32.4	30.0	-2.4
Health & Crop Sciences	56.1	75.0	18.9
Pharmaceuticals	29.0	34.0	5.0
Bulk Chemicals	20.8	25.0	4.2
Petrochemicals & Plastics	20.8	25.0	4.2
Others	-11.8	-10.0	1.8
Total	127.3	155.0	27.7
Equity in Earning of Affiliates	23.9	24.0	0.1

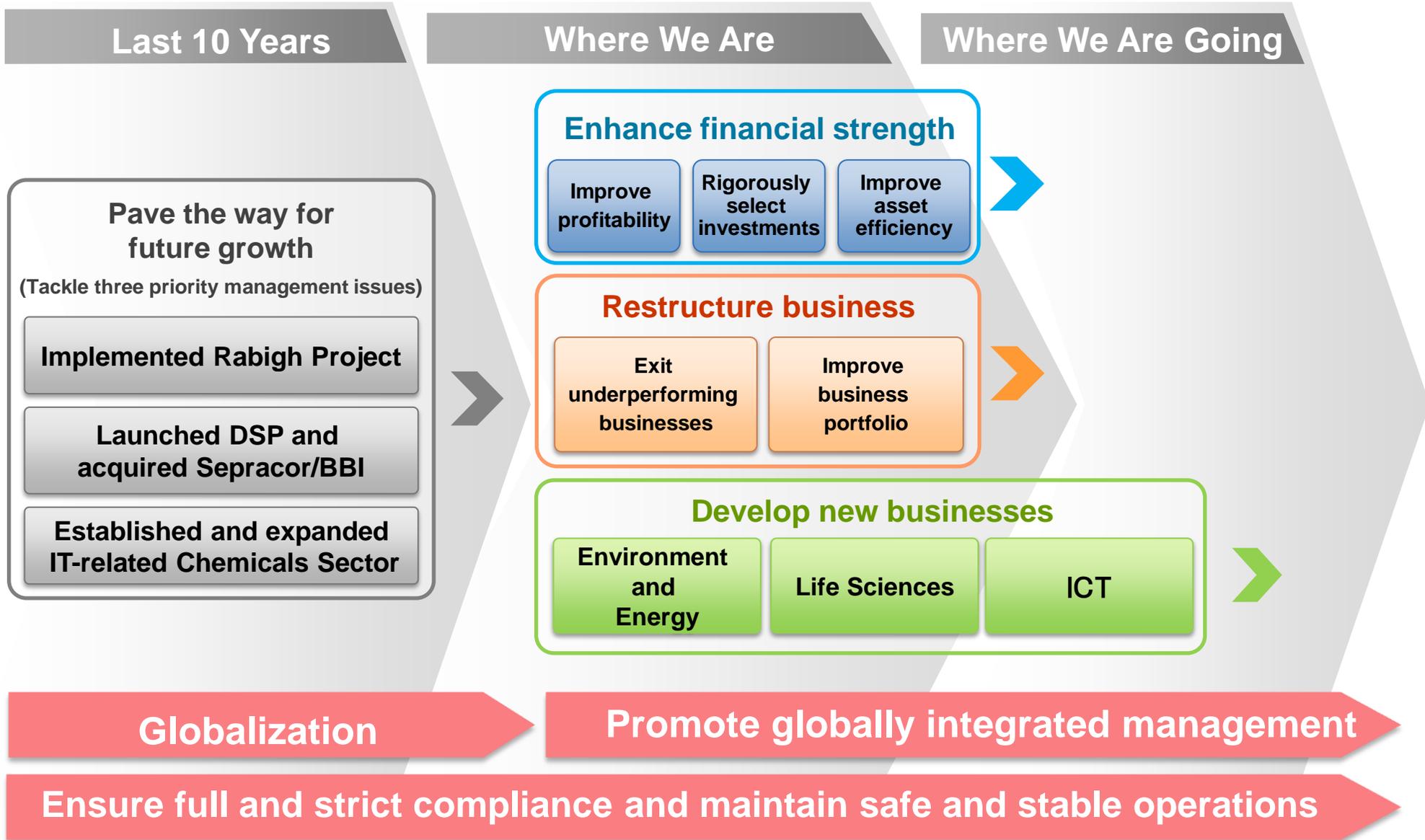
Framework for Next Corporate Business Plan



Priority Management Issues and Business Strategy Since the Beginning of the Century



Where We Have Been Heading



Progress on Corporate Business Plan: Enhance Financial Strength

Change and Innovation

(Billions of yen)

	FY2010-FY2012	FY2013-FY2015 (Target)	FY2013-FY2015 (Forecast)	FY2015 (Forecast)
Cash flows from operating activities	472.3	Around 540.0	715.2	260.0
Cash flows From investing activities	-445.7	Below -400.0 ^{*1}	-301.8	-110.0
Free cash flows	26.6	Over 200.0 ^{*2}	413.4	150.0

(Note) *1: Including investment of 100 billion yen in Rabigh Phase II Project

*2: Including decreases in cash and cash equivalents

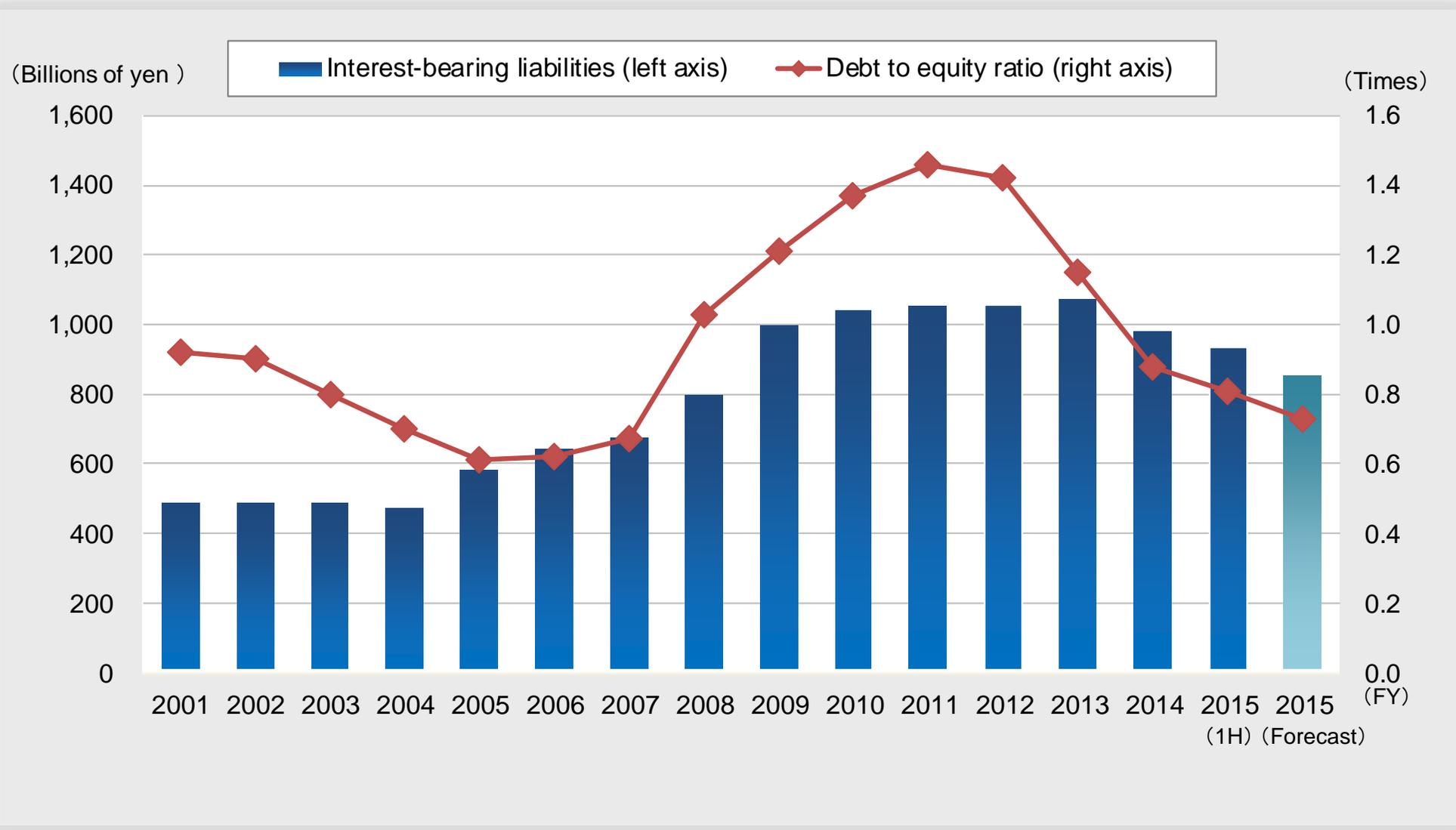
(Billions of yen)

	End of FY2012	End of FY2015 (Target)	End of FY2015 (Forecast)	End of FY2015.1H
Interest-bearing liabilities	1,060.6	Below 900.0 ^{*1}	850.0	938.9

(Note) *1: After spending 100 billion yen for investment in Rabigh Phase II Project

Progress on Corporate Business Plan: Enhance Financial Strength

Change and Innovation



Specialty chemicals business



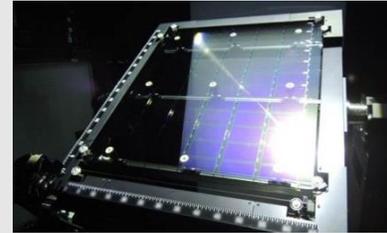
Progress

- Expanded production capacity for touchscreen panels and enhanced the product line
- Increased overseas sales of crop protection chemicals
- Increased LATUDA sales



Improving business portfolio

Enhanced touchscreen panel product line

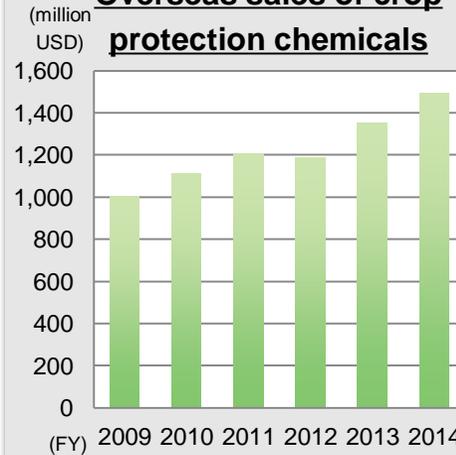


Glass-type touchscreen panel

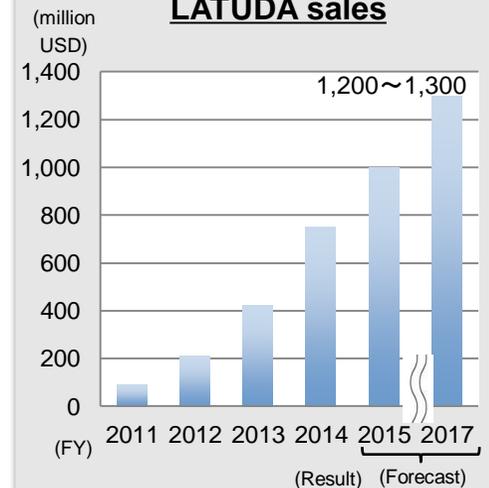


Film-type touchscreen panel

Overseas sales of crop protection chemicals



LATUDA sales



Bulk chemicals business



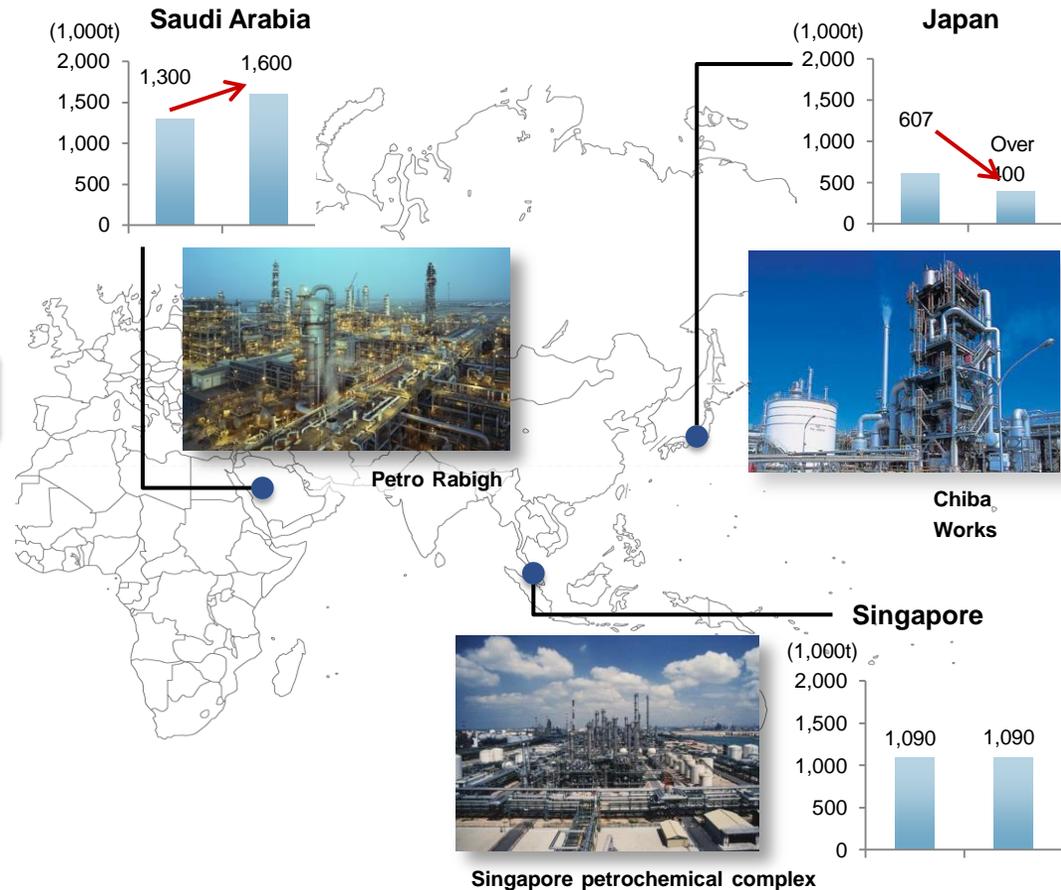
Progress

- Closed down ethylene plant and PO/SM plant at Chiba
- Closed down liquid-phase process caprolactam plant
- Making progress on Rabigh Phase II Project

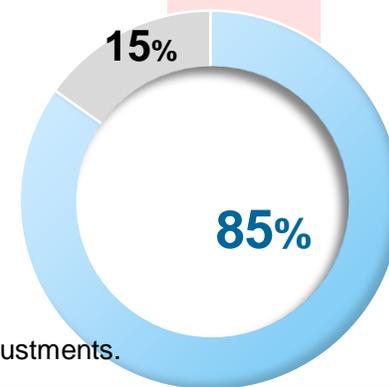
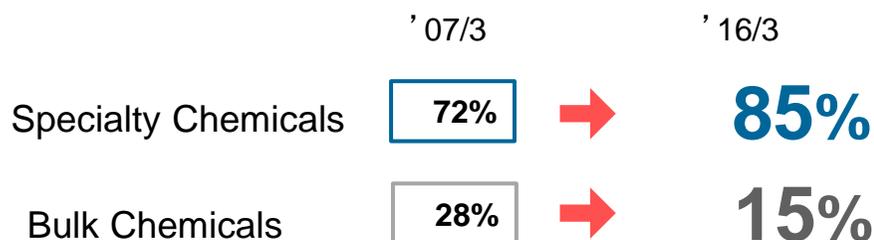
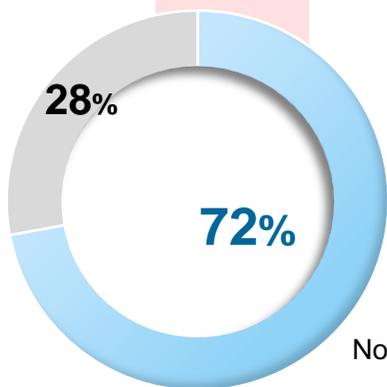
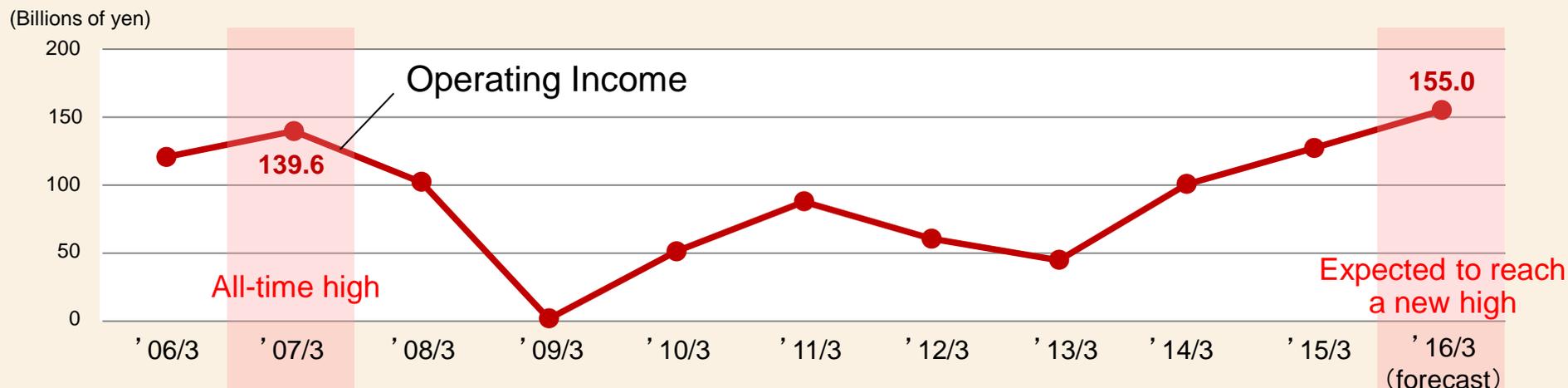


Improving business portfolio

Optimize Global Petrochemical Operations (Ethylene production capacity by area)



Change in operating income and its composition



Note: The composition of operating income excludes the "Others" segment and adjustments.

Significant increase in profitability of specialty chemicals

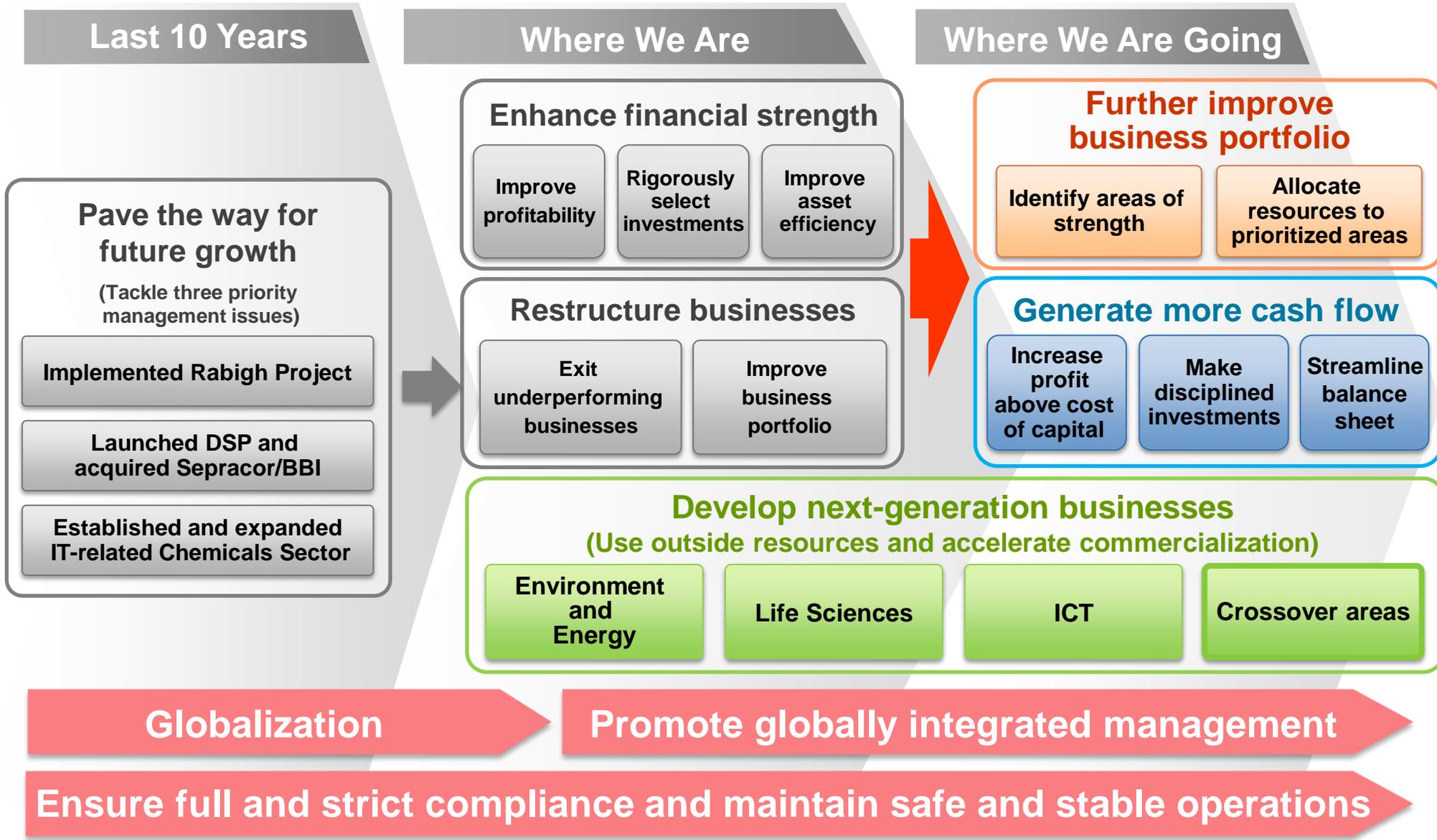
Progress on Corporate Business Plan: Develop Next-Generation Businesses

Change and Innovation

Launch	2011	2015	2020-	
Environment and Energy	<ul style="list-style-type: none"> ✓ Silicon solar cells (HEVA, electrode paste, etc.) ✓ Lithium-ion secondary batteries (separators) ✓ LED lighting applications (sapphire substrates and alumina, etc.) 	<ul style="list-style-type: none"> ✓ PLED lighting Power semiconductors (epitaxial wafers) ✓ High heat-resistant and high thermal-conductive resin ✓ Diesel particulate filters ✓ CO₂ separation 	<ul style="list-style-type: none"> Organic thin-film photovoltaics Next-generation secondary batteries 	
	ICT	<ul style="list-style-type: none"> ✓ Next-generation polarizing films ✓ Encapsulation materials for optical use ✓ Flexible display materials and components 	<ul style="list-style-type: none"> PLED (light emitting materials) 	<ul style="list-style-type: none"> Organic semiconductors
Life Sciences	<ul style="list-style-type: none"> ✓ Drug for schizophrenia (LATUDA) 	<ul style="list-style-type: none"> ✓ Safety evaluation and drug discovery using ES and iPS cells 	<ul style="list-style-type: none"> Anticancer drugs targeting cancer stem cells 	<ul style="list-style-type: none"> Crop stress management Cell therapy Regenerative medicine

✓ Commercialized/ready to be commercialized

Framework for Next Corporate Business Plan



Identify strengths and distinctive competitive advantages

Areas for aggressive investment and expansion

- Where we have **technological advantages**
- Where we have market access advantages

• Focus resources on these areas (including M&A)

Expand businesses that constantly yield profit above the cost of capital

Areas for efficiency improvement

- Where it is difficult to achieve technological differentiation
- Where demand significantly fluctuates

• Enhance cost competitiveness and pursue asset efficiency

**Achieve profit above the cost of capital
Maximize return on investment**

Further improve business portfolio

Enhance financial strength

Improve
profitability

Rigorously
select
investments

Improve
asset
efficiency

Generate more cash flow

**Increase profit above
the cost of capital**

- Strengthen competitiveness
- Reduce costs

**Make active and
disciplined investment**

- Identify areas for aggressive expansion
- Identify investment risks

**Streamline
balance sheet**

- Continuously improve cash conversion cycle
- Sell non-operating, non-strategic assets

Build stronger earnings power to constantly generate a high level of cash flow, so that we can take advantage of large-scale investment opportunities when they arise

Life Sciences

- Crop protection chemicals
- Biorational crop protection products
- Post-harvest
- Regenerative and cell therapy medicines
- Anti-cancer stem cell drugs
- SPECT and PET diagnostic agents
- Healthcare materials

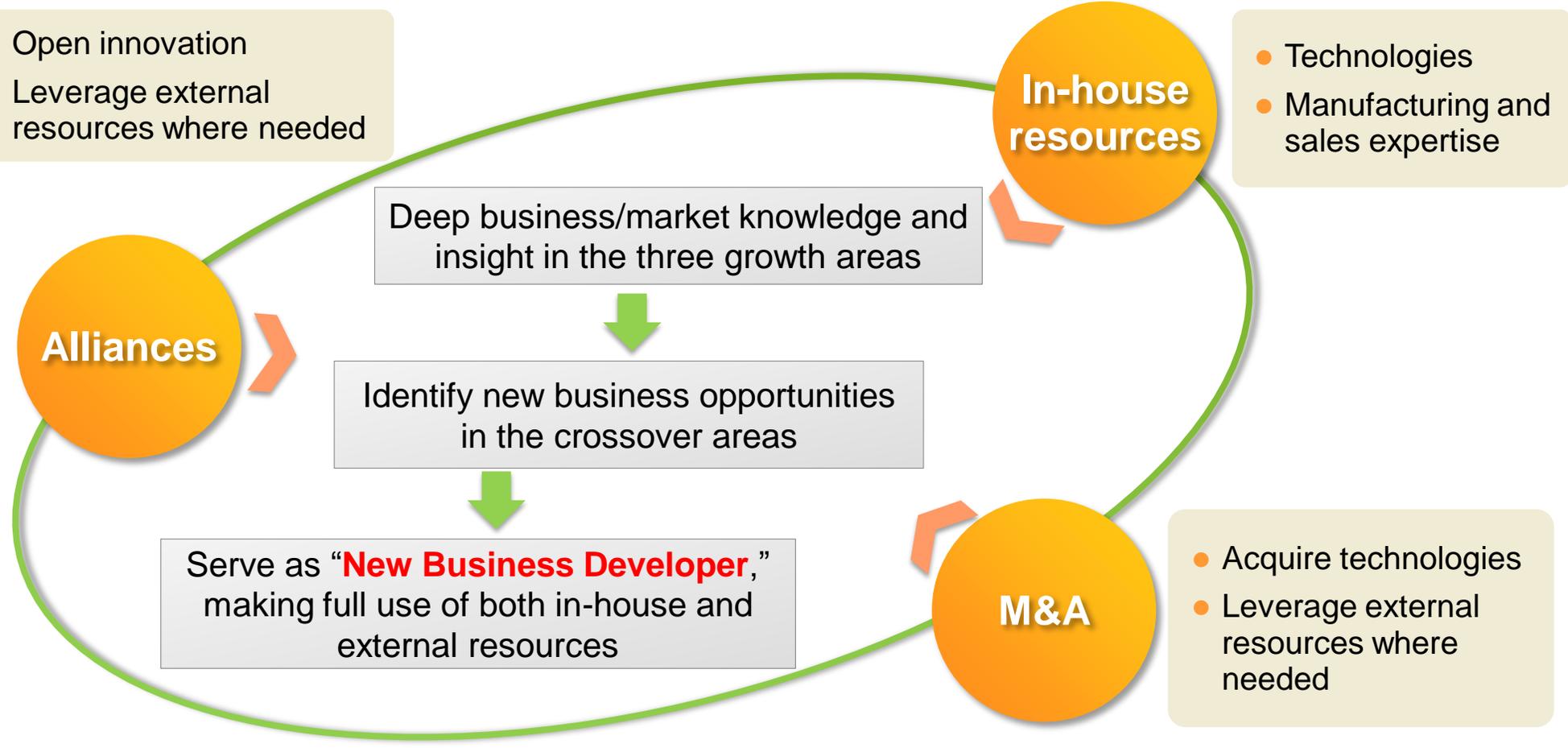
ICT

- Display materials
- Flexible display materials
- Semiconductor process materials
- Polymer OLED
- Compound semiconductors (for power amp and others)

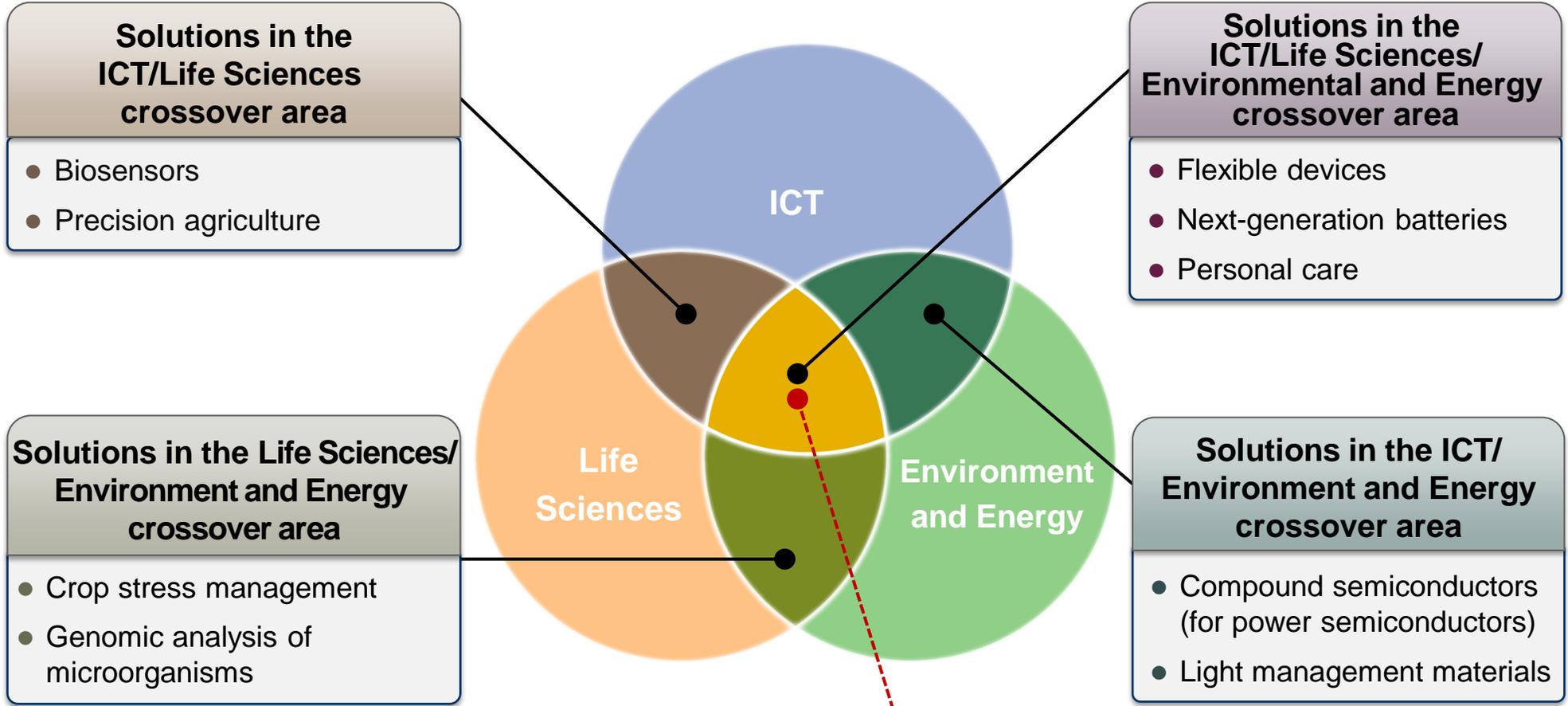
Environment and Energy

- Energy carrier
- CO2 separation materials
- Polymer OLED light
- Secondary battery parts and materials
- Organic thin-film photovoltaics

Provide various solutions in areas with strong growth potential



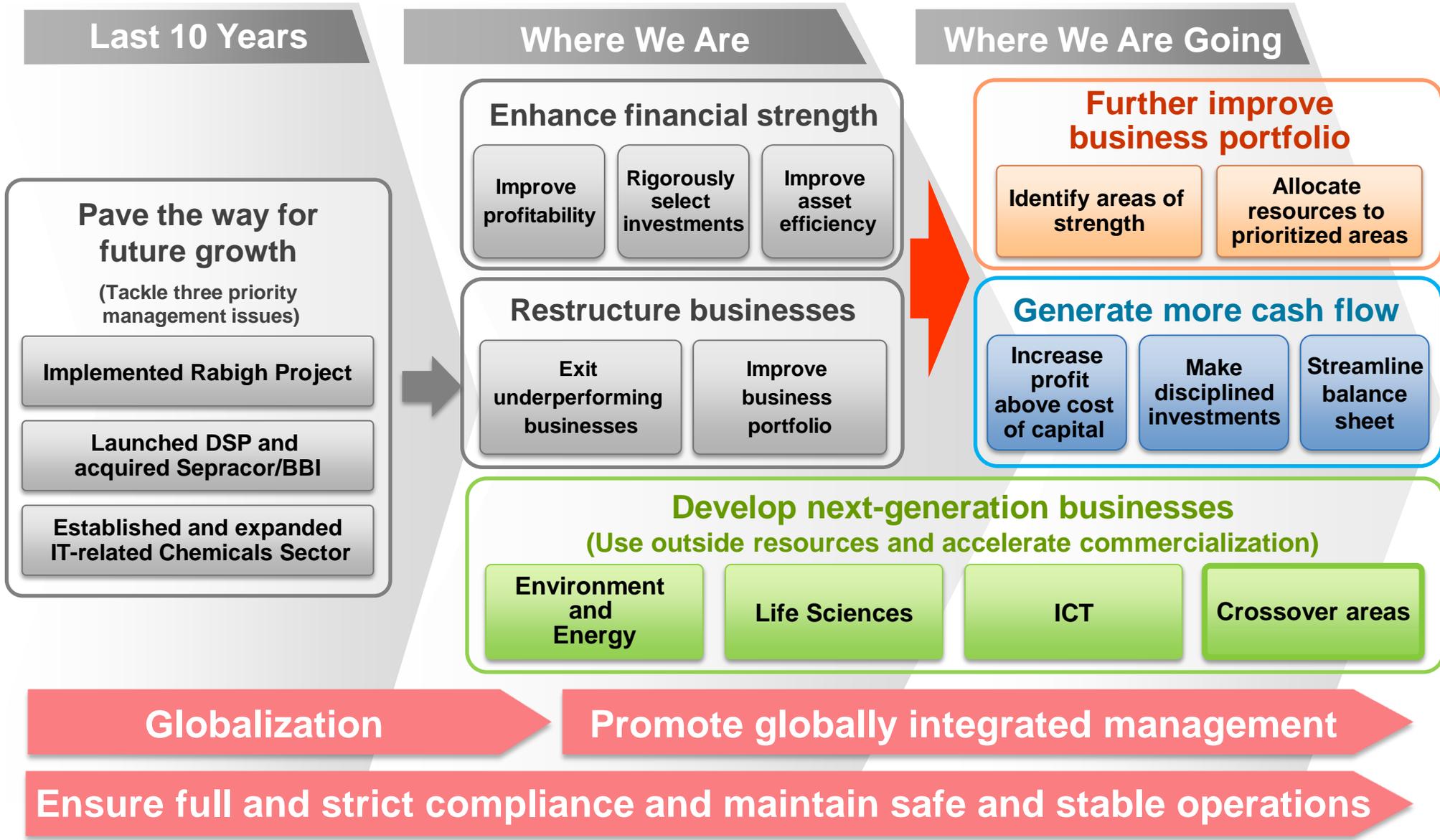
Accelerate the commercialization of new solutions in the crossover areas



Next-Generation Core Technologies

- Printed electronics technology
- Organic-inorganic hybrid technology
- Stem cells and genome technologies

Framework for Next Corporate Business Plan

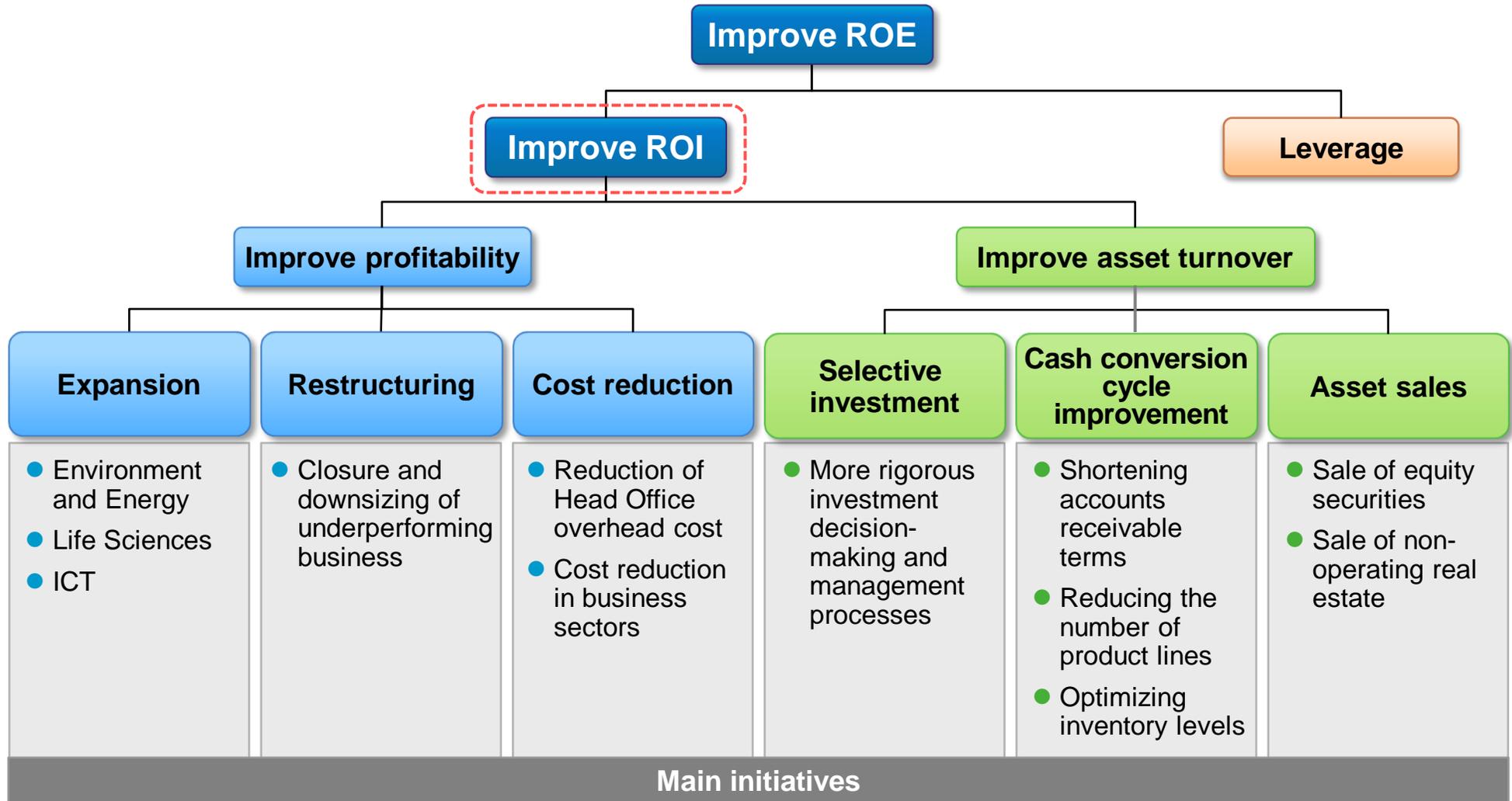


Medium- to long-term targets

	Targets Constantly achieve the following targets:
ROE	10%
ROI	7%
D/E ratio	0.7 times
Dividend payout ratio	30%
Profit growth	7% per year

Become a more resilient Sumitomo Chemical that continues to grow

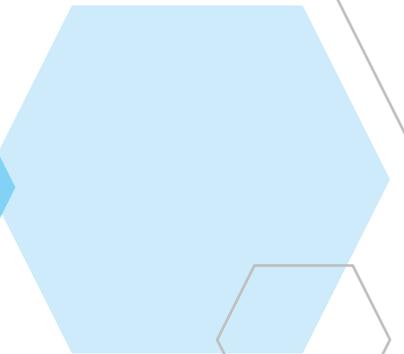
Initiatives for improving ROI and ROE



Main initiatives

Progress on Major Projects

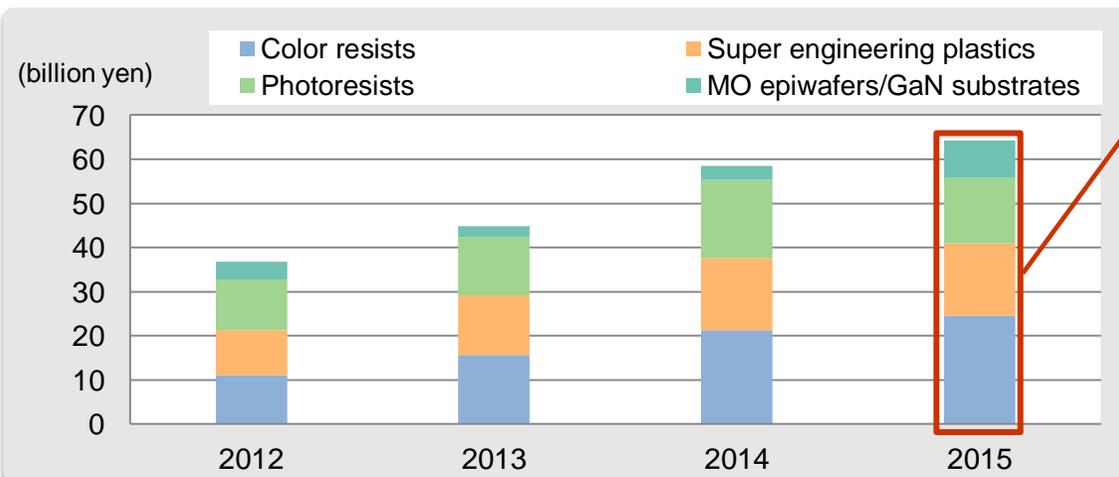
- ICT
- Life Sciences
- Environment and Energy
- Bulk Chemicals



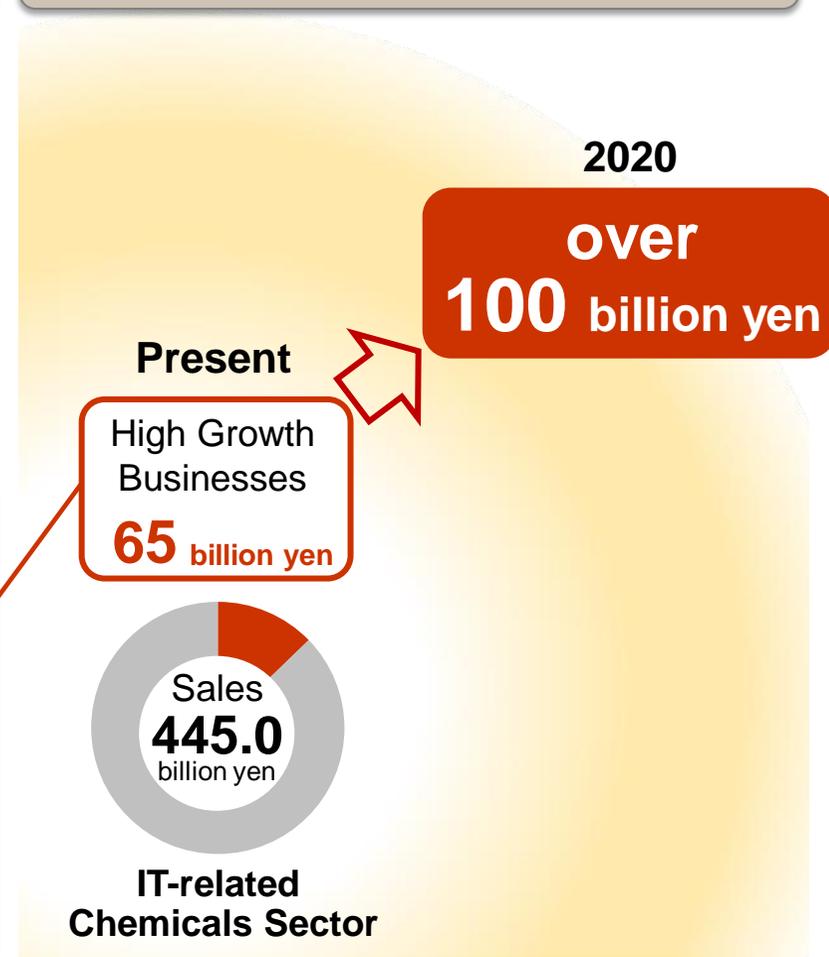
Product portfolio

Flat panel display materials	Electronic parts and materials	Semiconductor materials	Battery materials
LCD/OLED <ul style="list-style-type: none"> · Polarizing films · Touchscreen panels · Color filters · Color resists · Process chemicals 	Super engineering plastics <ul style="list-style-type: none"> · LCP · PES 	Semiconductor materials <ul style="list-style-type: none"> · Photoresists · Aluminum target · Chemicals Compound semiconductors <ul style="list-style-type: none"> · MO epiwafers · GaN substrates 	Lithium-ion secondary battery materials <ul style="list-style-type: none"> · Separators

High grow businesses: ■ ■ ■ ■



Scale of High Growth Businesses



Color resists

Advantages and features

- Differentiate color property with new dyes and pigment hybrid resists
- Set up development bases in the vicinity of global customers



Future strategy

- Brighter, clearer color reproduction with dye resists
- Strengthen operations in the growing Chinese market

Super engineering plastics

Advantages and features

- Product development for aircraft composite materials and automotive use

Future strategy

- Expand business in automotive field, including use for body structures



Become a global leader by leveraging proprietary technologies

Photoresists

Advantages and features

- High-resolution ArF immersion resists



Future strategy

- Develop and expand sales of ArF immersion photoresists for 1xnm-5nm generation
- Expand the business of i-line photoresists for thick film
- Study the feasibility of mass production of post-ArF photoresists

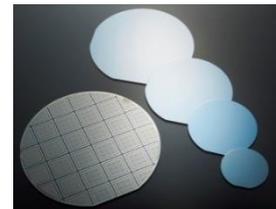
MO Epiwafers and GaN substrates

Advantages and features

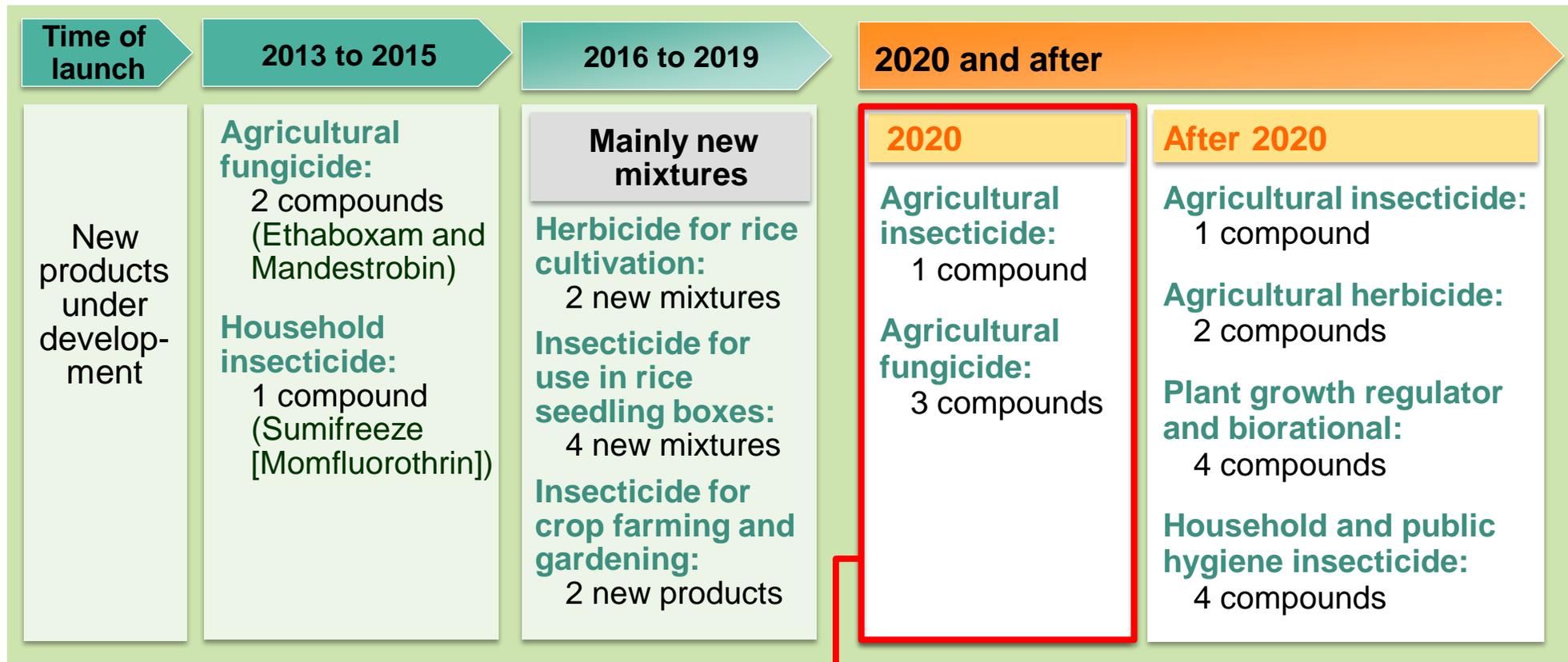
- Compound semiconductor lineup (GaAs, GaN)
- High quality GaN substrates

Future strategy

- Accelerate commercialization of GaN-on-Si products to meet rising demand for power devices
- Further improve productivity and quality for GaN substrates



Continuing high growth expected

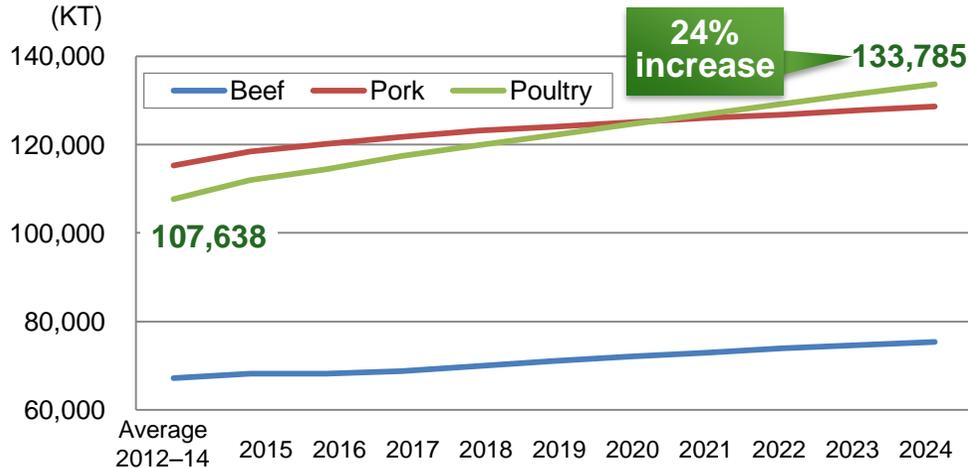


Expected to grow into blockbusters

- Working to shorten the development period by up to one year
- Future consolidated sales of the 2020 active ingredients and formulations estimated at **over 100 billion yen**

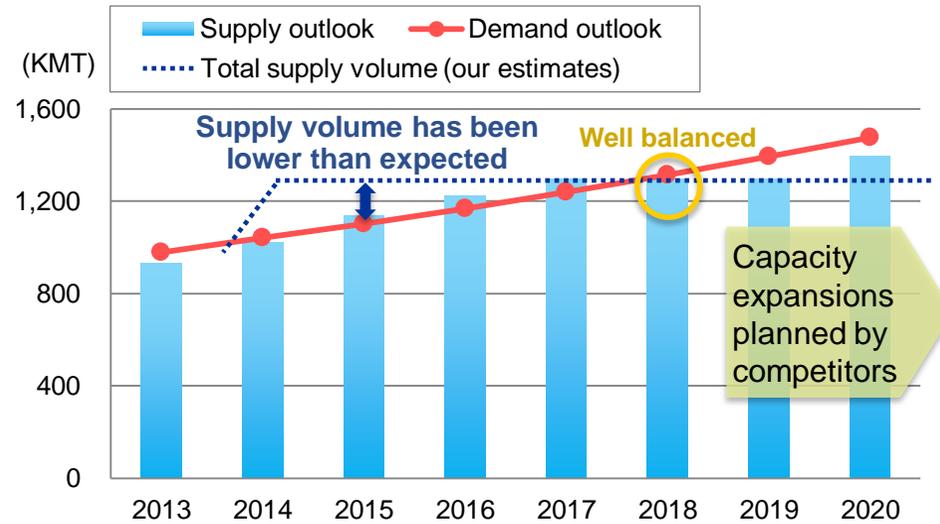
Meat production forecasts

Production volume of pork and poultry meat is steadily increasing, with poultry leading the growth



Source: OECD-FAO Agricultural Outlook 2015

Methionine demand-supply balance (to 2020)



Growth rate of methionine demand to exceed 6%

Features and strengths of our methionine

- Integrated production, from intermediates through finished product
- High cost competitiveness
- Available in both powder and liquid forms



Safe & stable operations; low cost; powder & liquid

Supply shortfall anticipated in 2018 and after

Future business strategy

- Optimize volume allocation and step up cost rationalization efforts
- Increase production capacity by 10% in 2016 by debottlenecking
- Consider further business expansion—aim for global share of 20%

Strengthen its position as a global player

Objectives of rice business

- Solve the problems facing the agricultural sector in Japan
- Consolidate our Total Solution Provider business
- Develop high-yield, tasty rice varieties

Help strengthen Japan's agricultural sector

Development of new varieties

- 3 varieties registered and 2 varieties applied for registration
- To develop more varieties to expand the rice business nationwide and to meet various customer needs for rice properties



Current: Focusing on sales to large-scale rice businesses

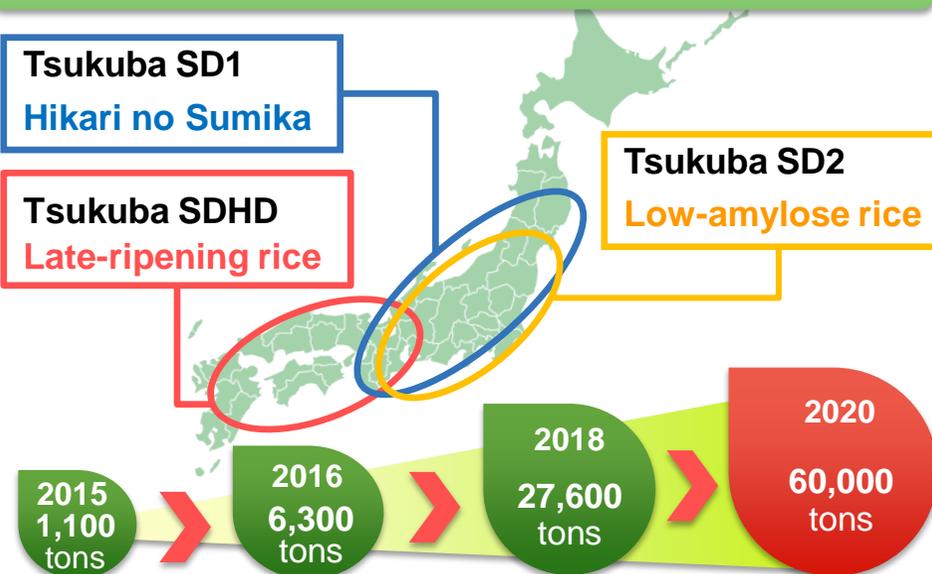
Future: Expand sales to a wider range of customers, including consumers and sake manufacturers, and also increase export sales

Three varieties currently cultivated

Tsukuba SD1
Hikari no Sumika

Tsukuba SDHD
Late-ripening rice

Tsukuba SD2
Low-amylose rice



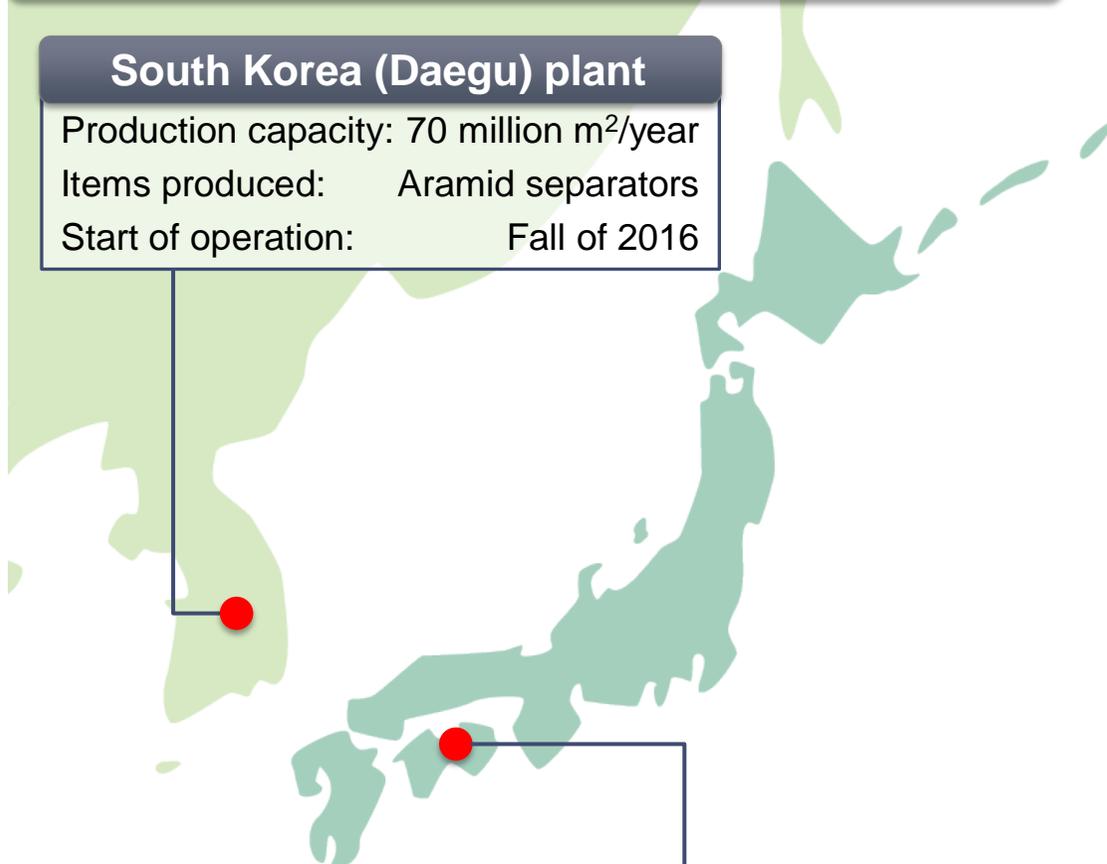
Prospective customers

	Prospective customers	Under negotiation
SD1 (Hikari no Sumika)	Major restaurant chain (franchises) Major noodle-shop chain Major delicatessen company Major <i>bento</i> (boxed meals) supplier	Major family restaurants (2 chains)
SD2 (low-amylose)	Major convenience store chain	

Separator production facilities

South Korea (Daegu) plant

Production capacity: 70 million m²/year
Items produced: Aramid separators
Start of operation: Fall of 2016

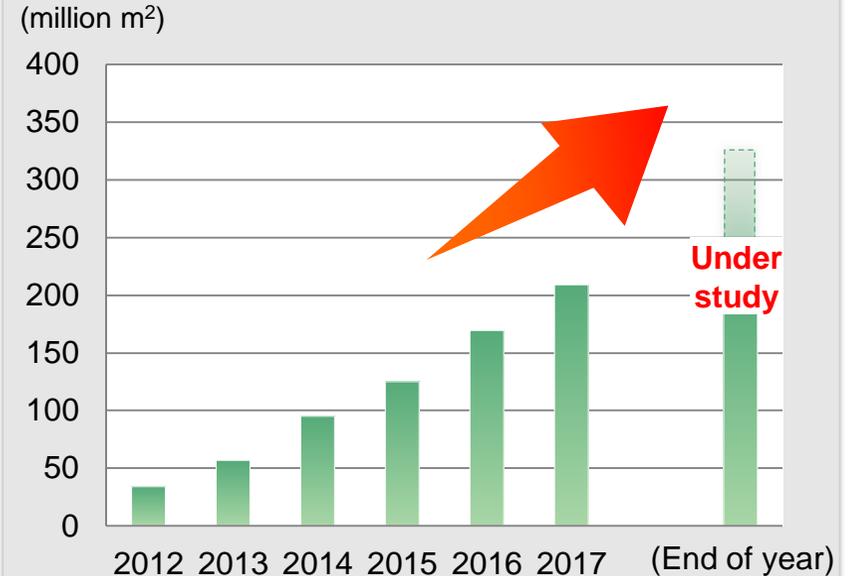


Ehime Works (Oe)

Production capacity: 140 million m²/year
Items produced: Aramid separators, etc.

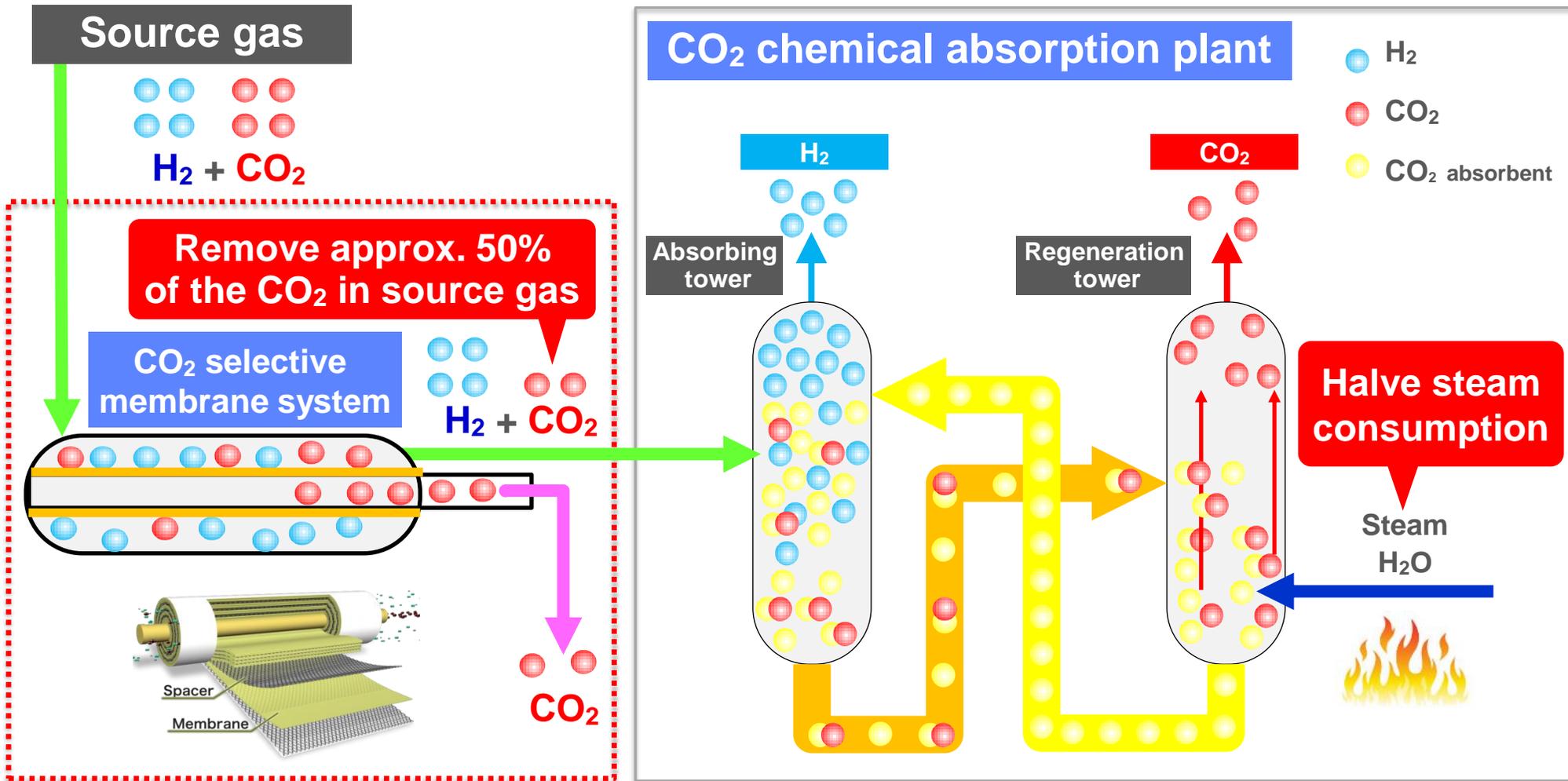


Separator production capacity



Environment and Energy: CO₂ Separation Membrane

The CO₂ selective membrane system, installed upstream of CO₂ chemical absorption plant, removes approx. 50% of the CO₂ contained in the source gas, **reducing the steam cost** incurred in the absorption plant



CO₂ Separation Market (CY2030 Forecast)

Hydrogen production
(refinery and chemical plants)
Market :520 million tons



Natural gas
Market :600 million tons



**Coal gasification combined
power generation**
Market :500 million tons



Market Size
2.6 billion tons



Hydrogen station
Market : unknown



Coal to liquid
Market :200 million tons

**Power generation and
iron manufacture**
(CCS/EOR)
Market: 500 and 300 million tons

-  : Separation of H₂ and CO₂
-  : Separation of CH₄ and CO₂
-  : Separation of N₂ and CO₂

Status of regular maintenance

- Started regular shutdown maintenance on October 11, 2015
- Planned maintenance period: 50 days

Progress of Phase II Project

- Ethane cracker expansion to be completed first
- The facilities scheduled to come into operation in stages starting 2016



Petro Rabigh Phase I Project Olefin Plant

Overview of construction cost and finance

Total construction cost	8.1 billion USD
Project financing	5.2 billion USD
Capital, etc.	2.9 billion USD

Toward Sustained Growth



Corporate Governance Code

- Comply with all general principles, principles, and supplementary principles

Increased the number of outside directors

- Increased from one to three
- 40 percent of the directors, including corporate auditors, are now outside directors

Established non-mandatory committees

- Set up a nomination committee and a remuneration committee (The majority of the committee members are outside directors.)

Strengthening the governance system

Strengthened the oversight functions of the Board of Directors

- Strengthened outside directors' monitoring and advisory functions
- Assess effectiveness of the Board through discussions at outside directors meetings and other means

Further enhance the effectiveness of governance by making full use of this reinforced system

Shareholders

Corporate Governance Code



Stewardship Code

Sumitomo Chemical

Business Philosophy

Commit ourselves to creating new value by building on innovation

Work to contribute to society through our business activities

Develop a vibrant corporate culture and continue to be a company that society can trust

Business Strategy

Develop next-generation businesses

Further improve business portfolio

Generate more cash flow

Promote globally integrated management

Ensure full and strict compliance and maintain safe and stable operations

Medium- to long-term targets

Constantly achieve the following targets:

ROE → 10%

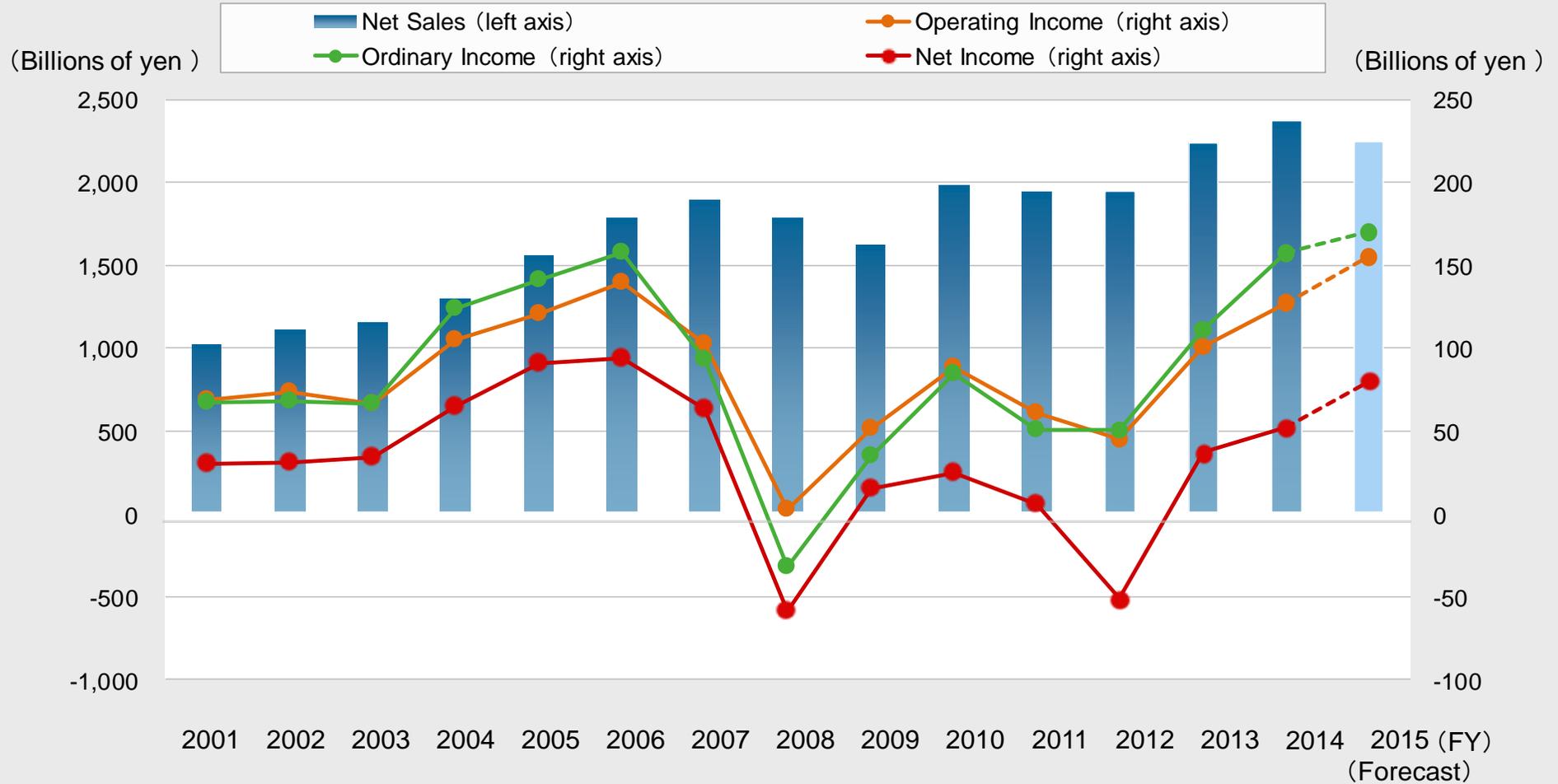
ROI → 7%

D/E ratio → 0.7 times

Dividend payout → 30%

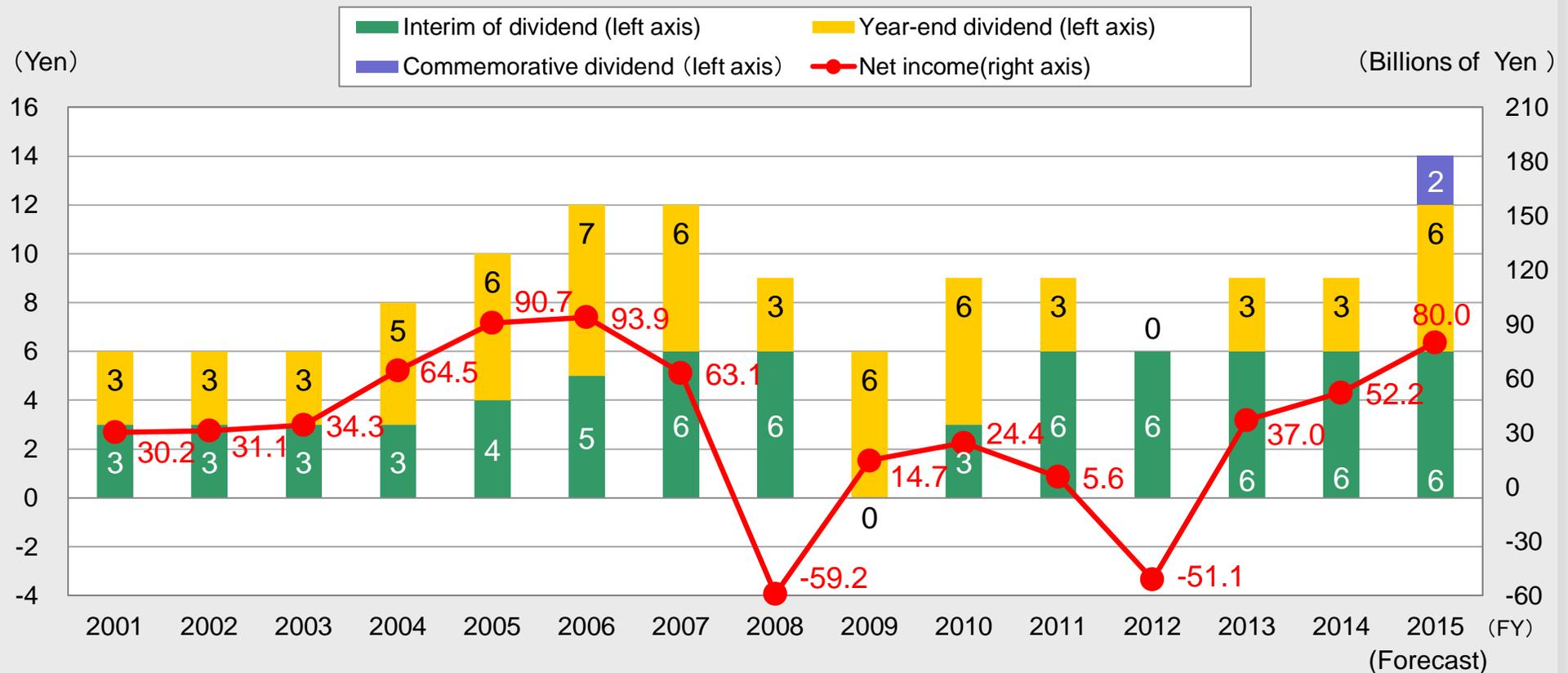
Profit growth → 7% per year

Performance Targets



Dividend Policy

We consider shareholder return as one of our priority management issues and have made it a policy to maintain stable dividend payment, giving due consideration to our business performance and a dividend payout ratio for each fiscal period, the level of retained earnings necessary for future growth, and other relevant factors.



Creative Hybrid Chemistry



Cautionary Statement

Statements made in this document with respect to Sumitomo Chemical's current plans, estimates, strategies and beliefs that are not historical facts are forward-looking statements about the future performance of Sumitomo Chemical. These statements are based on management's assumptions and beliefs in light of the information currently available to it, and involve risks and uncertainties.

The important factors that could cause actual results to differ materially from those discussed in the forward-looking statements include, but are not limited to, general economic conditions in Sumitomo Chemical's markets; demand for, and competitive pricing pressure on, Sumitomo Chemical's products in the marketplace; Sumitomo Chemical's ability to continue to win acceptance for its products in these highly competitive markets; and movements of currency exchange rates.