

## President's Message

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**We will strive to strengthen each of our businesses and get even stronger as an integrated business group to generate synergies as a diversified chemical company to the full.**



## President's Message

### Since becoming President, I have been committed to transforming our corporate culture.

#### Eliminating “losses due to inaction” and increasing the “speed of business operations”

Three years have passed since I took office as President in April 2019. During this time, there have been significant changes in the environment that I did not anticipate, such as the COVID-19 pandemic and Russia's invasion of Ukraine. I now strongly feel once again that in order to continue to be a company that grows even in highly uncertain, turbulent times, there are “things that we should change” and “things that we should maintain and continue to protect.”

I would like to start with what we should change. When I became President, I set the goal of developing a corporate culture full of entrepreneurial spirit. Specifically, I have stressed eliminating “losses due to inaction”—opportunities that may be lost as we fail to take action—and increasing the “speed of business operations.” At Sumitomo Chemical, its people are so faithful to their duties that they tend to readily follow precedents that have been successful, while we do not have a culture in which people are blamed for a failure. I therefore felt that we should be more aware that we may lose opportunities if we do not take on new challenges. In these times of dramatic changes, a company cannot survive unless it is willing to constantly try new things, instead of repeating the same old thing. With a sense of urgency, I determined to work on making elimination of “losses due to inaction” a part of our corporate culture.

What is important is not just to make a commitment but to translate this to a desire to “try something new.” I thought that if there was any sense of getting nowhere within the company—such as “we don't know what to do” or “even if we take action, it won't make much of a difference”—I would like to break through it by clearly showing management's vision on the way forward for our business. Accordingly, we have laid out the future direction for our individual businesses. For example, we will work to develop and implement in society new technologies for achieving carbon neutrality in the Essential Chemicals & Plastics business. Meanwhile, in the area of biorationals\*<sup>1</sup> of the Health & Crop Sciences business, we will take on the challenge of reducing environmental impact and increasing food production at the same time. As we share a clear picture of the future for each of our businesses and make decisions and take actions every day toward that goal, I feel that our mindset has been changing gradually.

We also see the “speed of our operations” significantly increasing. For example, we are advancing planning for initiatives toward carbon neutrality at great speed, now becoming a front-runner in the industry. In addition, for new plant construction and capacity expansion projects, we have restructured our engineering team and process, so that the time from planning to start-up is now about three to six months shorter than before. Society is changing rapidly. To keep up with it, we must always ask ourselves what we should do to further speed up our operations and put them into action, while also leveraging digital technology.

\*1 The Sumitomo Chemical Group defines microbial pesticides, plant growth regulators and rhizosphere microbial products derived from natural sources, as well as solutions using these products to protect crops from pests and enhance crop quality and yield, as “biorationals.”

#### Our corporate philosophy brings coherence to our diversity.

Meanwhile, there is an essential element in our corporate culture that we want to maintain and continue to protect. A research report published in the U.S.\*<sup>2</sup> points out that there are four traits shared by companies that have survived for long years. First, they are sensitive to changes in the environment. Second, they are tolerant of new initiatives. Third, they are implementing a conservative financial policy. Fourth, they have strong cohesion and a clear corporate identity, which I consider the most important of these qualities. What distinguishes Sumitomo Chemical from the competition is the diversity of the technologies, addressable market segments, locations of operations, and above all, human resources that we boast as a diversified chemical company. Diversity, however, leads to divergence if left to its own devices. It is necessary to have a linchpin that holds everything together. For Sumitomo Chemical, that is our corporate philosophy articulated by the words, “*Jiri-Rita Koushi-Ichinyo*,” which means that our businesses must benefit society at large, not just our own interests. By bringing our diverse people together around this principle, we have created a strong sense of solidarity, so this corporate philosophy should never be changed, and we will continue to uphold it.

\*2 *The Living Company 1997*

## President's Message

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**We forged a path forward to resolve our three major management issues in the previous Corporate Business Plan.**

**In the new Corporate Business Plan, we will strive to further improve our business portfolio from the perspective of advancing green transformation.**

### **We decided to carry out large-scale M&As.**

Looking back to 2019, when we launched the previous Corporate Business Plan, we were faced with an extremely challenging environment. Three major management issues had come to the fore: strengthening Petro Rabigh to ensure that the Saudi Arabian business consistently contribute to the performance of the then Petrochemicals & Plastics Sector; developing new drugs that would succeed LATUDA®, an atypical antipsychotic blockbuster, as a growth engine of the pharmaceuticals business; and consolidating the foundation of the agrochemicals business to compete with generics.

For the pharmaceuticals and agrochemicals businesses, we implemented large-scale M&As and made major strides toward growth. The moves were opportune, as we were able to make decisions before the COVID-19 outbreak and focus on the post-merger integration process during the pandemic. For Petro Rabigh, we brought new facilities constructed in the Rabigh Phase II Project on stream immediately after start-up and the financial completion guarantee was terminated. In this project, our technological prowess was widely demonstrated, as the entire Sumitomo Chemical Group stepped up to contribute, particularly sending a large number of engineers and staff members from our manufacturing teams in Japan. It is a major achievement under the previous Corporate Business Plan that we forged a path forward to resolve these three major management issues.

### **We also launched company-wide cross-functional projects.**

In addition, we launched three company-wide cross-functional projects for “accelerating the development of next-generation businesses,” advancing “digital innovation,” and achieving “carbon neutrality.” In the efforts to accelerate the development of next-generation businesses, we are building an innovation ecosystem for creating new businesses speedily. We aim to establish a system that will help to bring about innovations anywhere in the company, collaborate with startups and academia, and accelerate the process of bringing those innovations to market.

For digital innovation, we implemented our “DX Strategy 1.0” in four areas, including production and R&D, to improve productivity. Regarding carbon neutrality, we formulated a grand design, setting out a direction for our initiatives to achieve the goal. All these projects are one step ahead of society and are beginning to show real progress.

As a result of these efforts, we achieved a record-high net income of 162.1 billion yen for fiscal 2021, the final year of the previous Corporate Business Plan period. Although our financial position temporarily declined due to large-scale M&As, our D/E ratio recovered to 0.79 times as of the end of fiscal 2021, and we will continue to improve it according to our roadmap. I am not satisfied with our performance yet. I consider that we are in the process of realizing returns on the capital investments, M&As, and other measures that we have carried out. We will strive hard to reap the fruits of our efforts and deliver strong financial results.

### **Fiscal 2022 will be a year when our true competitiveness will be tested.**

It was expected that in fiscal 2022, the world economy would begin to recover on the whole, emerging from the effects of the COVID-19 pandemic, but now its outlook remains uncertain due to Russia's continued invasion of Ukraine.

One of the most serious concerns is inflation driven by rising energy prices, and we need to keep watching its development closely. Sumitomo Chemical is affected by higher crude oil prices like many other companies, but the effect on Petro Rabigh is neutral for the Sumitomo Chemical Group on the whole, since the oil-refining and petrochemical affiliate's margins improve as higher crude oil prices lead to higher selling prices for their products while the cost of its major feedstock ethane gas is fixed.

How to pass on rising raw material prices to product prices will be a major challenge for this year. Basically, in the area of high value-added products, to which we have been shifting our businesses, formula pricing is not a generally accepted approach. We must ensure that customers understand the situation and the price increase we need to address increasing costs. It means that our products are put to the test to see how essential they are to customers. In that sense, I consider that this will be a year when the true competitiveness of our products will be tested.

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### Advancing a broadly-defined green transformation

In the basic policy of our new Corporate Business Plan, we have affirmed our commitment to seven priorities, adding “fulfilling obligations and providing contributions toward achieving carbon neutrality” to the six priorities under the previous Corporate Business Plan. It does not mean that we made a significant change to our management policy, however, as we have already been working on a company-wide, cross-functional project for carbon neutrality since the middle of the previous Corporate Business Plan period.

Of the seven priorities, the most important is “further improving our business portfolio.” Simply put, we will work to enhance the earning power of each of our businesses, stepping up efforts to make them stronger, following the various measures we have taken over the past three years. What is new is that under the new Corporate Business Plan, we will incorporate the perspective of “green transformation” into all the priorities set out in the basic policy. While green transformation generally refers to transformation of society driven by efforts to achieve carbon neutrality, we at Sumitomo Chemical expand the scope of the concept to include conserving ecosystems and ensuring healthy lives, and will strive to advance this broadly-defined green transformation and explore ways to contribute as a corporation to creating a sustainable society. For instance, we will work to strengthen resource recycling technologies in the Essential Chemicals & Plastics business, meet the needs of next-generation energy systems in the high-performance functional materials business, and direct resources to strengthening our biorationals in the crop protection business. Enhancing the earning power of all our businesses and striving to further improve our business portfolio, while incorporating the perspective of the broadly-defined green transformation—this is the central point of our new Corporate Business Plan.





## President's Message

### The petrochemicals business is an “essential” business to society and to Sumitomo Chemical.

#### An industry that is essential to achieving carbon neutrality

While there are many different views about the future of the petrochemicals business, we consider it essential both to society at large and to Sumitomo Chemical. To explicitly express that value, we have changed the name of our Petrochemicals & Plastics Sector to “Essential Chemicals & Plastics Sector.”

The petrochemicals business supports people's lives by providing raw materials for a vast number of products and supplies, forming the foundation of Japan's manufacturing industry. Going forward, in a carbon neutral world, a petrochemical complex will surely be needed within Japan for implementing chemical recycling. For these reasons, we consider the petrochemicals business an essential industry for society as well as for manufacturing in Japan.

In addition, in order for the chemical industry, which is said to be a greenhouse gas (GHG)-intensive industry, to change to one that reduces or absorbs GHG emissions in the future, it needs to utilize the catalyst and process technologies that have been developed over many years in the petrochemicals business. In this sense, the petrochemicals business is vitally important and essential to Sumitomo Chemical too, as we, being a chemical company, strive to transform the industry into a carbon recycling industry. With these two thoughts and messages in mind, we have renamed our Petrochemicals & Plastics Sector as Essential Chemicals & Plastics Sector.

#### Playing a part in restructuring of petrochemical complexes

By 2050, when the world will have become carbon neutral, the majority of fuels will be replaced by renewable energy, and most raw materials will be recycled. We believe that in the long run our Essential Chemicals & Plastics business will play a major part in raw materials recycling at a petrochemical complex in Japan. Our Singapore complex will serve as a platform to implement in society new technologies that we are developing. Our Saudi Arabian complex is expected to contribute as a cash cow for some time, and after that, it might expand into new areas such as green hydrogen and green ammonia, leveraging abundant solar radiation and land, the advantages of its location. We would like to move toward the year 2050, with these three operation bases of Japan, Singapore, and Saudi Arabia playing their respective roles and cooperating with each other.



## President's Message

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### In our efforts to achieve carbon neutrality, we focus attention to “timeline” and “international collaboration.”

#### The timeline for the next 10 years is crucial.

I consider that as we advance our efforts to achieve carbon neutrality, we should focus attention on two major issues. The first is “timeline.” Needless to say, the rise in temperature would not be curbed, even if emissions are suddenly reduced to zero just before 2050. We need to cut back on emissions as soon as possible. To do that, we will strive to maximize reductions by using the best available technologies, while at the same time developing new technologies, until 2030. From 2030 onward, we will implement the new technologies in society one after another to achieve zero emissions by 2050. We need to take this two-stage approach. To achieve this, it is necessary to ensure that next-generation technologies will have progressed at least to the prototyping or demonstration stage by 2030, proving feasibility to some extent. Therefore, the timeline for the next 10 years will be crucially important.

The second major issue is “international collaboration.” Currently, there is a conflict of interest between developed countries that have achieved economic development while emitting a vast amount of GHGs and emerging countries that aspire to realize economic development in coming years. Although it is not easy to achieve both economic growth in emerging countries and global GHG emissions reduction, one possible solution is to provide emerging economies with currently available technologies that developed countries have as well as new technologies that they will develop in the future for supporting emerging countries' economic growth. To promote such a movement, it would be necessary, for example, to build a mechanism in which if a technology transfer has contributed to GHG emissions reduction in the recipient emerging country, the country that has licensed the technology can count that effect as its own reductions. This kind of international collaboration will become extremely important in coming years.

### It is because we are an integrated group of strong businesses that we can demonstrate the true value of our diversity as a diversified chemical company.

#### Strengths of a diversified chemical company

I am totally committed to “demonstrating Sumitomo Chemical's full capabilities as a diversified chemical company,” and take every opportunity to express this commitment in and outside the company. As I mentioned at the beginning, the strength of a diversified chemical company is diversity. Sumitomo Chemical is an integrated group of diverse businesses, and those businesses are not isolated from one another, but share common technological platforms. For example, the pharmaceuticals and agrochemicals businesses have a common technological platform for safety, and so do some high-performance functional materials businesses in terms of manufacturing processes. As each business grows, these shared technological platforms will advance along the way, while the connections between these technologies and each business will also be strengthened. It is not that being diverse is valuable in itself. It is because we are an integrated group of strong businesses that we can demonstrate our full capabilities and generate synergies as a diversified chemical company.

Each of our businesses has a different set of key success factors, so highly advanced management skills are required, but we believe that the business model of a diversified chemical company has advantages that outweigh that challenge. When we face significant changes in the business environment, such as the COVID-19 pandemic, it offers defensive strength, as our businesses effectively respond to changes by supporting each other in a complementary way. It also provides offensive strength, putting us in the position to be able to seize new business opportunities emerging in cross-industry, intersectoral areas.

However, if our individual businesses are not strong enough, we cannot realize these benefits or generate the synergies that are created by leveraging full capabilities as a diversified chemical company. We will strive to further enhance the competitiveness of each of our businesses and become even stronger as an integrated business group and thereby demonstrate the full power of Sumitomo Chemical's strength of “diversity.”