



Governance

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Contributing to
the SDGs through Governance



Corporate Governance

Corporate Governance Initiatives

Sumitomo Chemical has been committed to continual efforts to improve corporate governance. In response to demands for further raising the governance level, including application of the Corporate Governance Code, we are taking measures to achieve the optimal governing structure and decision-making processes, while remaining faithful to the intent and spirit of the Code.

Basic Stance

Sumitomo Chemical cherishes deeply the Sumitomo Spirit which has been passed down through generations over nearly 400 years, the basic teaching of which is, among others, not to seek its own interests alone, but to contribute to society through its business activities. In accord with this business credo, the company strives to take on challenges constantly of creating new value by capitalizing on its proprietary technologies toward achieving the company's sustained growth while at the same time cultivating corporate culture full of vigor and growing as a company that earns trust from the public at large. Recognizing that highly effective corporate governance is vital to attaining these ends, the company keeps working to further enhance its corporate governance in accordance with the following policies and principles, centering particularly on closer cooperation with shareholders and various other stakeholders, faster decision-making, proper oversight of business execution, enhanced systems of compliance and internal control, and active dialogue with stakeholders.

- Sumitomo Chemical not only shall respect the rights of shareholders, but shall endeavor to provide an environment where shareholders can exercise their rights smoothly and also to ensure the effectively equal treatment of shareholders.
- Recognizing that cooperation with various stakeholders, including employees, customers, business partners, creditors, and local communities, is essential to sustained growth, Sumitomo Chemical shall proactively work to fulfill its corporate social responsibility and strive to cultivate corporate culture of a company that can be trusted by society.
- As part of efforts to build a foundation for constructive dialogue with stakeholders, Sumitomo Chemical shall endeavor to provide information that is highly reliable and useful to recipients.
- Sumitomo Chemical's Board of Directors shall fulfill its role and mission properly, based on their fiduciary responsibilities and accountability to shareholders and recognizing the important role of Independent Outside Directors & Auditors, through such measures as presenting appropriate corporate management policies and business strategies that have taken into account changing socioeconomic conditions, and conducting highly effective oversight over the execution of business.
- Sumitomo Chemical shall endeavor to promote constructive dialogue with shareholders with the aim of seeking to attain the company's sustained growth and to enhance corporate value in the medium to long term.

Sumitomo Chemical Corporate Governance Guidelines

 <https://www.sumitomo-chem.co.jp/english/company/governance.html> 

Measures to Date for Strengthening Corporate Governance

Date	Major Initiatives	Board Composition	Appointment of Board Members	Executive Remuneration	Other
2003 June	Introduced Executive Officer system (reduced number of Directors from 25 to 10)	●			●
July	Established Compliance Committee				●
2004 June	Eliminated system of retirement benefits for Directors and Corporate Auditors			●	
2007 May	Established Internal Control Committee				●
September	Established Remuneration Advisory Group			●	
2010 September	Established Nomination Advisory Group		●		
2011 November	Drew up standards for appointment of independent outside directors	●	●		
2012 June	Appointed 1 outside director	●			
2015 June	Selected 3 outside directors (increased by 2)	●			
October	Established Remuneration Advisory Committee in place of Remuneration Advisory Group			●	
	Established Nomination Advisory Committee in place of Director Nomination Advisory Group		●		
2016 December	Formulated Sumitomo Chemical Corporate Governance Guidelines				●
2018 June	Selected 4 outside directors (including one woman) (increased by 1)	●			



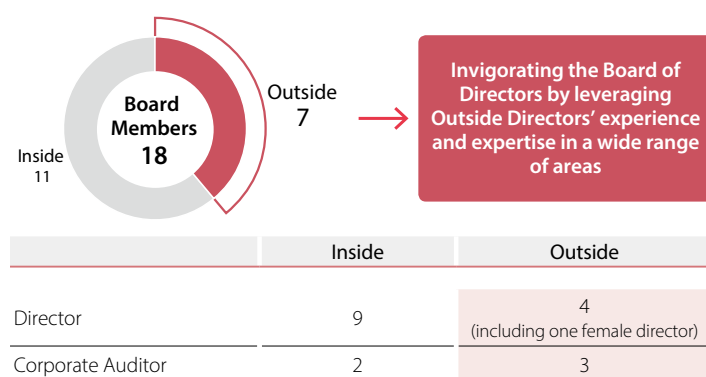
Corporate Governance

Recent Initiatives to Strengthen Corporate Governance

Further Strengthening of the Board of Directors' Oversight and Advisory Functions

With the goal of further strengthening the Board of Directors' oversight and advisory functions to increase the transparency and objectivity of management, in June 2018 we added one outside director, increasing the total number to four (including one female director). As a result, of the 18 total members of the Board of Directors and the Board of Corporate Auditors, seven are outside members. Outside Directors have experience in a wide range of fields, including corporate management, economics, government, the legal profession, and accounting. We will continue to further revitalize the Board of Directors, leveraging these perspectives.

■ Board Composition (As of July 1, 2019)



Changes in the Operation of the Board of Directors

After the implementation of Japan's Corporate Governance Code, we changed the operation of the Board of Directors to place greater emphasis on deliberating management policies, business strategy, and important matters of business execution, and on oversight of that execution. Specifically, we are enhancing reporting on the status of business execution for each Executive Officer. Depending on the content of each report, we have established several reporting methods. For example, for large-scale projects, we share details with the Board of Directors at an early stage and discuss the direction of the projects. In this way, meaningful discussions are held that contribute to sustainable development and rapid and decisive decision-making.

Utilizing Outside Director Roles

To make maximum use of the oversight and advisory functions of the Outside Directors, it is essential to minimize asymmetries in information between inside and Outside Directors. The measures including those listed below have been implemented to revitalize board deliberation.

■ Measures to Make Maximum Use of Outside Director Functions

Specific Measures	Frequency	Description
Briefings prior to Board of Directors meetings	Every month	Outside Directors gather together in advance of Board of Directors meetings to receive a detailed briefing from the relevant departments, along with a Q&A session, on issues to be discussed at the Board of Directors meeting.
Reporting on issues discussed in internal meetings	Every month	Explanations are provided on the points of discussion at internal meetings, and on how the views expressed at the meetings are reflected in the proposal before the Board, for issues such as the launch of a business or an acquisition.
Reporting on important matters to the Board of Directors at an early stage	In each case	Important matters, such as management direction, M&A transactions, or large-scale projects, are reported to the Board of Directors at an early stage of consideration so that the Board's intentions can be reflected.
Outside Directors & Corporate Auditors meetings	Once a year	Based on such materials as the results of surveys on the effectiveness of the Board of Directors, meetings consisting of the Chairman of the Board, the President and the Outside Directors and Corporate Auditors are held to enable a frank exchange of views.
Meetings with Outside Directors and Corporate Auditors only* ¹	Twice a year	After Board of Directors meetings, meetings consisting of only Outside Directors and Corporate Auditors are held to exchange opinions freely.
Meetings between Outside Directors and Corporate Auditors and major sectors* ¹	Six times a year	After Board of Directors meetings, meetings are held between the executives and employees of the department in charge of the Rotation Report* ² for that Board of Directors meeting and the Outside Directors and Corporate Auditors, enabling them to exchange opinions freely and honestly.
Visits to production sites	Twice a year	Visits are made to our production sites both inside and outside Japan.

*1 Beginning in FY2019 *2 Rotation Report: Comprehensive and systematic reporting over a significant amount of time for each sector.



Corporate Governance

Assessing the Effectiveness of the Board of Directors

Assessment Method

Sumitomo Chemical's Board of Directors carries out analyses and appraisals regarding the effectiveness of the Board of Directors through exchanges of opinions at meetings attended by Outside Directors, Outside Corporate Auditors, the Chairman of the Board, and the President, as well as at Management Meetings attended by inside directors, while taking into account survey results from all Directors and Corporate Auditors and opinions expressed by the Board of Corporate Auditors. Based on these opinions, the Board of Directors works to improve its effectiveness every year.

Assessment for Fiscal 2018 and Improvements over the Previous Fiscal Year

The effectiveness of the Board of Directors is assessed from a variety of perspectives, including its composition, its operation, the deliberations and reporting at the Board of Directors meetings, its oversight of business execution, and the operations of the non-mandatory Nomination Advisory Committee and Remuneration Advisory Committee. At the end of fiscal 2018, we confirmed that improvements were steadily being made each year, and that the level was generally favorable. We also confirmed that we will continue various initiatives aimed at increasing corporate value going forward.

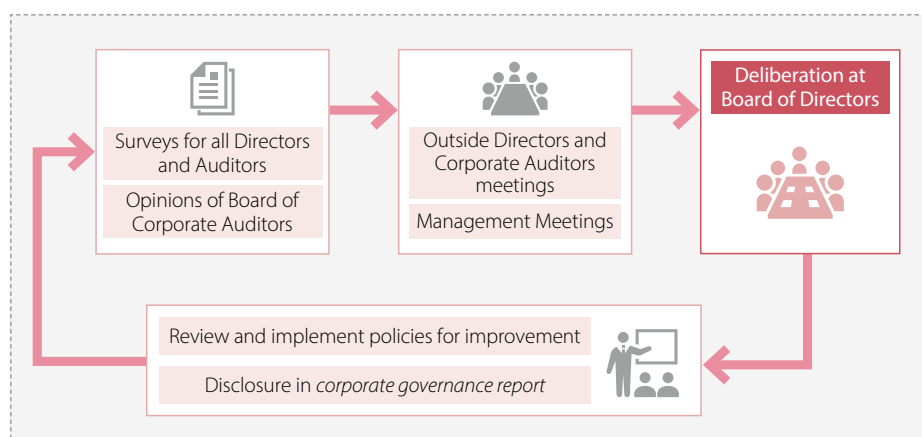
Initiatives Addressing Areas for Improvement from the Previous Fiscal Year

- Strengthening supervision through reporting and discussions on important matters relating to Group companies
- Holding discussions on long-term strategies throughout the drafting of the new Corporate Business Plan
- Further sharing of internal discussions with Outside Directors and Corporate Auditors

Toward the Future

We will again discuss the roles of inside and Outside Directors and Corporate Auditors and take the following measures. In order to further revitalize the activity of the Board of Directors, we will allot more time for Board of Directors meetings to allow more room for discussion, provide detailed explanations of the background of internal discussions on deliberations and other matters, and further clarify the points of discussion in the explanations. In order for Outside Directors and Corporate Auditors to properly fulfill their roles and duties, we will also provide meetings consisting solely of independent Outside Directors and Corporate Auditors and forums where they can frankly exchange their opinions with a wide range of employees.

PDCA Cycle for Further Improving the Effectiveness of the Board of Directors





Corporate Governance

Visit to Production Sites by Outside Directors and Corporate Auditors

In order for Outside Directors and Corporate Auditors to improve their understanding of our business, Sumitomo Chemical provides them with opportunities to visit our production sites both inside and outside Japan each year. In fiscal 2018, they visited the Ehime Works and a Group company in Saudi Arabia. They have expressed the opinion that this initiative is extremely valuable, enabling them to get a deeper understanding of our business.



Visit to Ehime Works in
September 2018



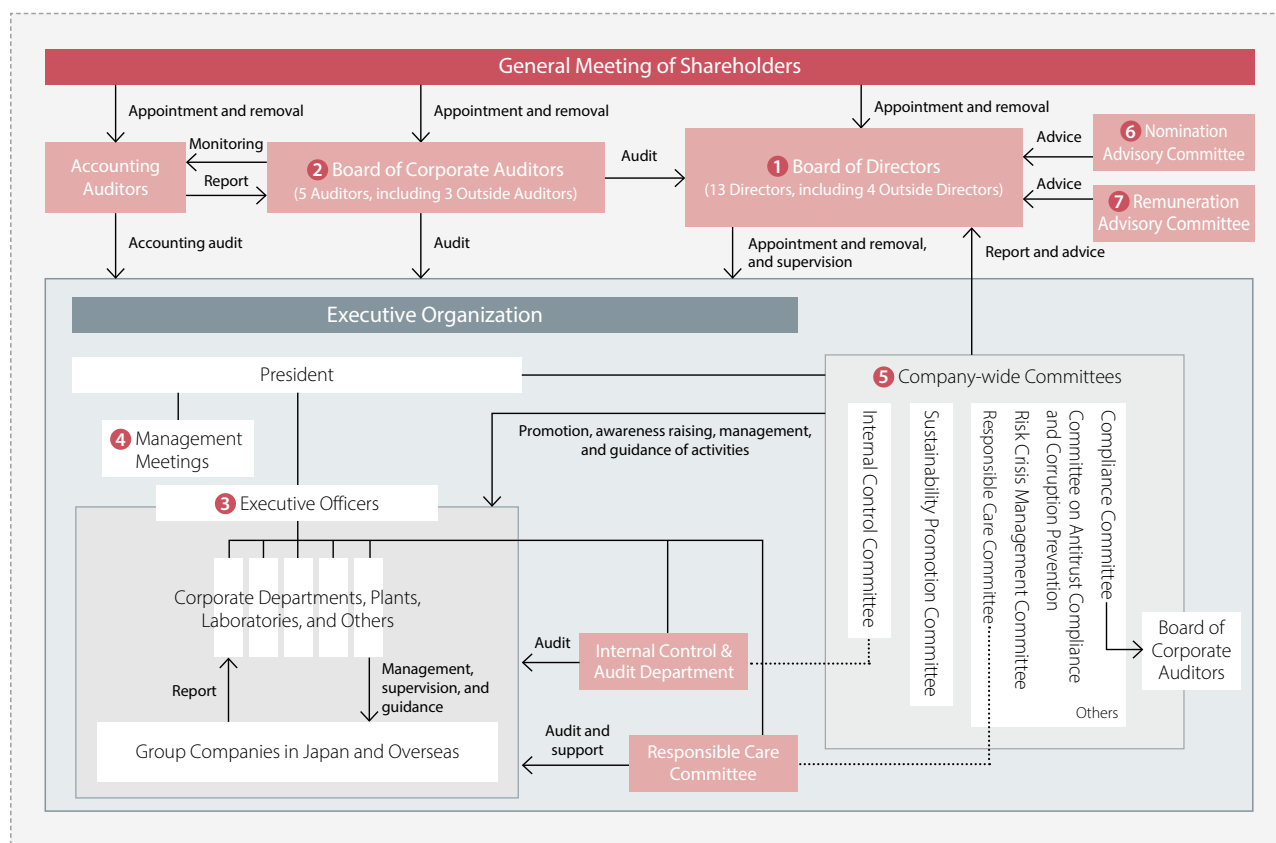
Visit to a Group company in
Saudi Arabia in February 2019



Corporate Governance

Current Corporate Governance Organization

■ Corporate Governance Organization (As of July 1, 2019)



Organizational Structure

① Board of Directors

The Sumitomo Chemical Board of Directors decides important matters concerning the company's management, including management policy and business strategies, in accordance with the law, the Articles of Incorporation, and the Board of Directors' own rules. It also receives reports from Directors and others on the performance of duties, financial situation, and operating results, and oversees the performance of duties by each Director.

To ensure the effectiveness of the Board of Directors, assessments and analyses are conducted annually and the results are followed up on in subsequent meetings. In accordance with the Nomination Advisory Committee's advice, candidates for Director are nominated by the Board of Directors and are elected once a year at the General Meeting of Shareholders.

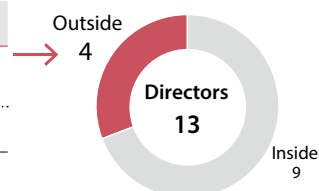
■ Overview of the Board of Directors

Chairperson	Chairman of the Board	The Chairman of the Board does not concurrently serve as Executive Officer.
Number of Persons	13	
Frequency	Monthly in principle	Special meetings of the Board of Directors are convened as needed.
The Term of Office of Directors	One year	The term of office of Directors is one year, in order to establish clear administrative responsibility and roles for Directors.

■ Breakdown of 13 Directors

	Male	Female	Total
Inside	9	0	9
Outside*	3	1	4
Total	12	1	13

*Independent Outside Directors having no conflicts of interest with general shareholders





Corporate Governance

2 Board of Corporate Auditors

We have a Corporate Auditor system, with a Board of Corporate Auditors consisting of five Corporate Auditors, including three Outside Corporate Auditors. The Corporate Auditors and the Board of Corporate Auditors play a vital role in our corporate governance by auditing the performance of duties by Directors in accordance with the law and the Articles of Incorporation. The Board of Corporate Auditors meets monthly as a rule and strives to obtain timely information, including important compliance-related information.

Standing Corporate Auditors and Outside Auditors attend meetings of the Board of Directors and the Board of Corporate Auditors. In conducting their audits, they receive reports and explanations as needed from the Internal Control & Audit Department, operating divisions, and accounting auditors. In addition, Standing Corporate Auditors attend meetings of the Internal Control Committee and other important company meetings.

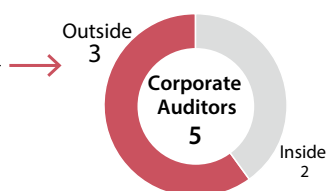
The results of audits and the objective views of Outside Auditors are appropriately reflected in internal audits, corporate auditors' audits, and accounting audits, so as to raise the effectiveness and efficiency of auditing.

The Corporate Auditors' Office has been established with staff dedicated to providing assistance in auditing functions under the direction of Corporate Auditors.

Breakdown of 5 Corporate Auditors

Inside	2
Outside*	3

* Independent Corporate Auditors having no conflicts of interest with general shareholders



Management Organizations for Decision-making, Execution, and Auditing

3 Executive Officers

We have appointed Executive Officers to expedite the implementation of business operations. Executive Officers are responsible for carrying out operations in accordance with the policies adopted by the Board of Directors. The term of office for Executive Officers is one year.

Breakdown of 36 Directors

	Male	Female	Total
Japanese	32	1	33
Non-Japanese	3	0	3
Total	35	1	36

4 Management Meetings

Management Meetings support the decision-making of our management by providing a forum for deliberation on such vital matters as corporate strategy and capital investment, including matters to be deliberated in the Board of Directors and reports to be made to the Board. Management Meetings consist of the Executive Officers who are in charge of or who supervise key management functions, the Standing Corporate Auditor, and the Chairman of the Board. In principle, the meetings are held 24 times a year.



Corporate Governance

5 Committees

We have established internal meetings (committees) to deliberate on important matters concerning the management of the company, and the Group from a broad and diverse range of viewpoints. The content of these meetings is reported to the Board of Directors as needed, and the committees receive instructions from the Board of Directors in an effort to enhance business execution and oversight functions. Several of these committees are attended by the Standing Corporate Auditor, who serves as an observer, including the Internal Control Committee, the Compliance Committee, and the Responsible Care Committee.

We regard the promotion of sustainability as a core issue for the entire Group. In 2018, we expanded the CSR Promotion Committee and established a new Sustainability Promotion Committee to further strengthen our sustainability initiatives. The Responsible Care Committee also examines specific measures to address climate change and other environmental issues.

Name	Purpose	Number of Meetings in Fiscal 2018
Internal Control Committee	Deliberates on measures to build and improve a proper internal control system	3
Sustainability Promotion Committee	Comprehensively reviews the Group's sustainability promotion activities and examines the Group's contributions to sustainability at a high level, with the aim of accelerating the Group's efforts to solve societal issues, such as the SDGs.	2
Responsible Care Committee	Deliberates on annual policies, Corporate Business Plans, and specific measures, and analyzes and evaluates the results of measures to address climate change and other environmental issues.	1
Risk Crisis Management Committee	Deliberates on policies for specific risks and crises, such as earthquakes, wind and flood damage caused by extreme weather, pandemics, and breakdowns in public security.	1*
Compliance Committee	Deliberates on the Group's compliance policies and action plans, and the status of the operation of the compliance system, including responses to internal reports and the results of activities.	1

* Subcommittee meetings on specific key themes



Corporate Governance

Executive Nomination and Remuneration

6 Nomination Advisory Committee

The Nomination Advisory Committee was established in October 2015 to act as an advisory body to the Board of Directors on the selection of top management and on the appointment of directors and auditors. The committee is made up of Outside Directors and Sumitomo Chemical representative directors. Regular meetings are held annually and ad hoc meetings are convened as needed. With a majority of members being Outside Directors, the committee advises the Board of Directors on the appointment of officers, with the purpose of ensuring more transparency, fairness, and openness in the process of appointing officers and bringing greater clarity to the process.

7 Remuneration Advisory Committee

The Remuneration Advisory Committee was established in October 2015, as an advisory body to the Board of Directors on the remuneration system, remuneration levels, and other related matters, for top management and Directors. The committee is made up of Outside Directors and Sumitomo Chemical representative directors. It holds regular meetings annually and convenes ad hoc meetings as needed. With a majority of members being Outside Directors, the committee advises the Board of Directors in deciding the executive officer remuneration system and levels, in order to achieve greater transparency, fairness, and openness.

■ Directors' and Corporate Auditors' Remuneration in Fiscal 2018

Title	Total	Breakdown of Remuneration		Number of people
		Basic Remuneration	Bonuses	
Directors (excluding Outside Directors)	728	553	175	10
Standing Corporate Auditors	78	78	—	2
Outside Directors and Corporate Auditors	108	93	14	9

(Millions of yen)

■ Composition of the Nomination Advisory Committee and the Remuneration Advisory Committee and Attendance Status (Meetings Attended / Meetings Held)

		Nomination Advisory Committee	Remuneration Advisory Committee	The Committee Members of the Nomination Advisory Committee and the Remuneration Advisory Committee in Fiscal 2019	
Chairman of the Board	Osamu Ishitobi (Chairman)	5/5 times (100%)	2/2 times (100%)	Chairman of the Board	Masakazu Tokura (Chairman)
Representative Director & President	Masakazu Tokura	5/5 times (100%)	2/2 times (100%)	Representative Director & President	Keiichi Iwata
Outside Director	Koichi Ikeda	5/5 times (100%)	2/2 times (100%)	Outside Director	Koichi Ikeda
Outside Director	Hiroshi Tomono	5/5 times (100%)	2/2 times (100%)	Outside Director	Hiroshi Tomono
Outside Director	Motoshige Itoh	5/5 times (100%)	2/2 times (100%)	Outside Director	Motoshige Itoh
Outside Director	Atsuko Muraki	5/5 times (100%)	2/2 times (100%)	Outside Director	Atsuko Muraki

■ Major Activities in the Nomination Advisory Committee and the Remuneration Advisory Committee in Fiscal 2018

Nomination Advisory Committee	<ul style="list-style-type: none"> Discussions on candidates to be the next President Discussions on officers for fiscal 2019 Discussions on the Counselor system
Remuneration Advisory Committee	<ul style="list-style-type: none"> Discussions on revising the policy for determining the remuneration of executive officers Discussions on how basic remuneration should change Discussions on basic remuneration for fiscal 2018 Discussions on the calculation method for the bonuses of officers upon adoption of IFRS Discussions on the payment of bonuses to officers for fiscal 2018



Corporate Governance

■ Policies and Procedures for Determining Remuneration of Senior Management and Directors

1. Basic Policy for Remuneration of Directors, etc.

- (1) The remuneration of senior management and directors (hereinafter "Directors etc.") shall consist of basic compensation and bonuses.
- (2) Basic compensation is designed to serve as an incentive for the actions of Directors, etc. to contribute to the company's sustainable growth, rather than aiming for short-term or sub-optimal effects.
- (3) The scale of bonuses shall largely reflect the company's consolidated financial results for a fiscal year in order to heighten incentives to achieve the annual targets of business plans.
- (4) Remuneration shall be set at levels which are designed to be objectively competitive to attract and retain outstanding talent while taking into consideration such factors as the scale and content of the company's business. Based on surveys by a third-party organization and other materials, such levels shall be checked annually for objective appropriateness.

2. Mechanisms of Each Remuneration Element

(1) Basic Compensation

The level of basic compensation shall be determined based on the policy described in section 1(4) above.

While basic compensation for each year shall be fixed, the company will adopt a mechanism whereby basic compensation levels would be changed in the event that the company's position has changed, in terms of the company's size, earnings capacity, and outside evaluations, from a comprehensive and medium- to long-term perspective.

As main indicators for determining whether there has been a change in the company position, the company will apply the following:

- ① in terms of the company's size, sales revenue, total assets and market capitalization, ② in terms of earnings capacity, net income (attributable to the parent company), ROE, ROI and D/E ratio, and ③ in terms of outside evaluations, credit ratings and the ESG index selected by the GPIF (Government Pension Investment Fund).

The amounts to be paid to each person will be determined in accordance with the base amount set for each position.

(2) Bonuses

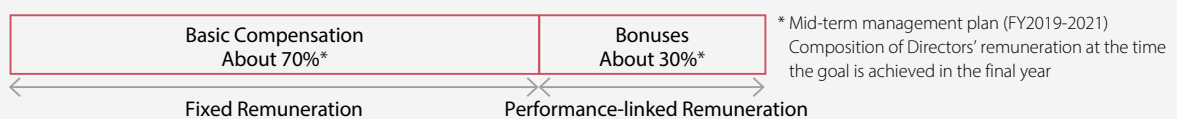
Bonuses shall be paid on the condition that performance for that fiscal year exceeds a particular level and shall be determined based on the bonus calculation formula (performance indicator x coefficient).

In order to reflect the current earnings capacity of the relevant business year (including financial activities) in the value of bonuses, the company will use the combined value of consolidated core operating profit and financial profit and loss as the performance indicator in the bonus calculation formula. In addition, the company will set the coefficient of the calculation formula so that it will get larger as the position of a person gets higher.

(3) Percentages of Fixed Remuneration (Basic Compensation) and Performance-linked Remuneration (Bonuses)

The company will set the bonus calculation formula such that the bonuses of Directors (excluding Outside Directors) accounts for roughly 30% of total remuneration when the consolidated performance goal (core operating profit) for the latest fiscal year of the Corporate Business Plan (fiscal years 2019 to 2021) is achieved.

■ Conceptual Diagram of the Remuneration of Directors



Based on the factors for determination described below, the company will change the amount of remuneration when it is determinable that the company's position has changed from a comprehensive and medium- to long-term perspective.

Factors for Determination	Major Indicators
Company's size	Sales revenue
	Total assets
	Market capitalization
Earnings capacity	Current income (belonging to the parent company)
	ROE
	ROI
	D/E ratio
Outside evaluations	Credit ratings
	ESG index selected by GPIF

* The amount to be paid to each person will be determined by each position.

The amount of bonuses will be determined by the calculation formula based on the following consolidated performance indicator.

Consolidated performance indicator	Core operating profit plus financial profit and loss
Calculation formula	Consolidated performance indicator
	X Coefficient*1

*1 The Company will arrange so that the higher the position, the larger the coefficient will be.

*2 If a consolidated performance indicator does not exceed a particular level, bonuses will not be paid.



Corporate Governance

3. Procedures for determining remuneration of Directors, etc.

The remuneration amount of Directors shall be set at a level not higher than the upper limit for total remuneration prescribed by the resolution of the 125th General Meeting of Shareholders, held on June 23, 2006 (i.e. 1 billion yen or less per year).

Furthermore, the specific amount of remuneration for each Director or other officer shall be determined by the Chairman of the Board, as authorized by the Board of Directors, based on the standard advised by the Remuneration Advisory Committee.

Internal Control

Status of Development of Internal Control System

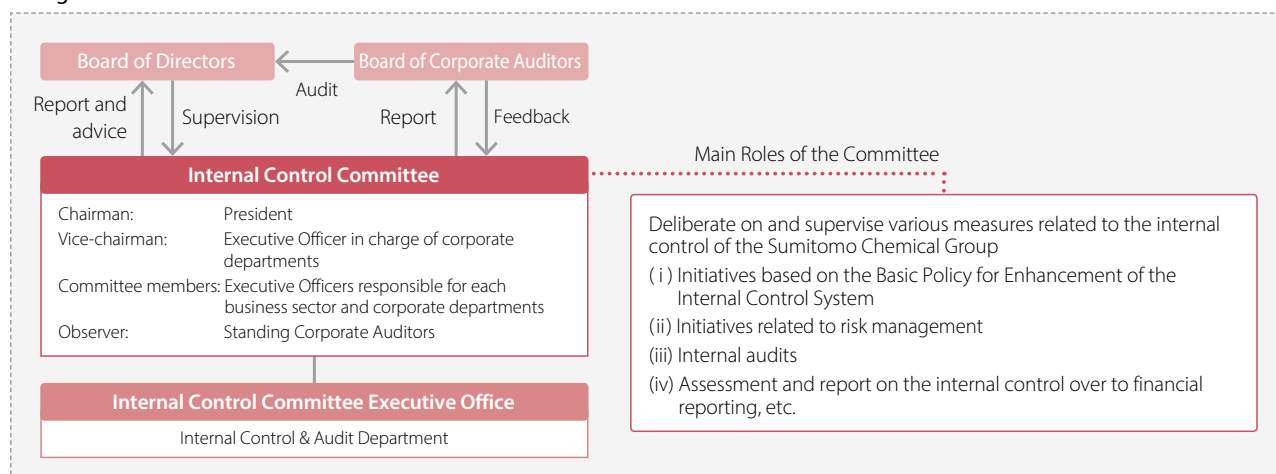
Sumitomo Chemical established its Basic Policy for Enhancement of the Internal Control System by a resolution of the Board of Directors, creating a system to ensure the appropriateness of its operations as stipulated in the Companies Act.

As stated in the basic concept of this policy, we recognize that the development of an internal control system is a necessary process for maintaining a sound organization and should be actively utilized to achieve business objectives. To continuously enhance our internal control system, we have formed the Internal Control Committee, which is chaired by the President and consists of Executive Officers responsible for and in charge of each business sector and corporate department. Meetings of the committee are held three times a year, with additional meetings held as needed.

At Sumitomo Chemical, the Internal Control Committee plays a central role in discussing various measures based on the basic policy described above. The committee also operates a PDCA cycle by monitoring the implementation status of those measures, and constantly inspects and strengthens the Group's internal control system in response to changes in the Group's business and operating environment, ensuring that the Group's internal control system can function effectively.

The Standing Corporate Auditors are involved in the committee as observers, and the committee's operations are conducted by the Internal Control & Audit Department, which is separated from other business activities. Summaries of the matters covered in the committee are reported to the Board of Corporate Auditors after each meeting. These summaries are then reported to the Board of Directors for deliberation.

■ Organization of the Internal Control Committee



Basic Policy for Enhancement of the Internal Control System

<https://www.sumitomo-chem.co.jp/english/company/governance/> 



Internal Control

Timely Disclosure

The Corporate Communications Department is in charge of working in conjunction with other relevant departments to continually disclose necessary information in a timely manner. In addition to items requiring disclosure under Japan's Financial Instruments and Exchange Act and under stock exchange regulations, we also actively disclose information that may be considered material to the decisions of investors.

We endeavor to build stronger relationships of trust with society and capital markets by publishing documentation in accordance with the rules stipulated by the security exchanges in Japan, including reports on the company's corporate governance philosophy and system, and notifications showing that Outside Directors and Corporate Auditors have no existing conflicts of interest with general shareholders. These documents are available on the website of Japan Exchange Group Inc.

Corporate Governance Report

 https://www.sumitomo-chem.co.jp/english/company/files/docs/governance_report_e.pdf 

Internal Audits

As part of its internal control monitoring activities, Sumitomo Chemical has established a dedicated organization within the company to conduct internal audits, in addition to audits by the Corporate Auditor and Financial Statement auditors. The Internal Control & Audit Department conducts internal audits for all matters related to the execution of operations by the company and its Group companies, and dedicated audit teams for the Responsible Care Department conduct Responsible Care auditing from the perspective of safety, environment, and quality throughout the life cycle of chemical products. Internal audits and Responsible Care audits are coordinated with each other as needed.

Internal Audits

The Internal Control & Audit Department organizes teams of several employees who conduct internal audits on Sumitomo Chemical and its major Group companies once every two to five years from the following perspectives: (1) effective and efficient operations; (2) reliability of financial reporting; and (3) compliance with relevant laws and statutes in all business activities.

The department also reports the results of internal audits to the Internal Audit Liaison Meeting, which is held on a quarterly basis and is attended by the Standing Corporate Auditors and a number of departments, including the Legal Department, the Human Resources Department, and the planning & coordination office of each business sector. The department also reports to the Internal Control Committee once every six months in order to share issues and to promote the lateral deployment of measures. In addition, in accordance with the Financial Instruments and Exchange Act, the department evaluates the effectiveness of internal control over the Sumitomo Chemical Group's financial reporting, and also reports on the status of its evaluations to the Internal Control Committee.

Responsible Care Audits

The Responsible Care Department organizes teams of dedicated employees to conduct responsible care audits on each of our business sites and on major Group companies every one to three years, in principle, from the following perspectives: ensuring safety, environmental protection, and health throughout the entire life cycle of chemical products, as well as determining whether internal controls related to maintaining and improving quality are in place and functioning properly.

Through these audits, we are striving to support the improvement of Responsible Care management in accordance with the size, type of business, and characteristics of each business site and Group company. Issues discovered during the audit and the progress of improvements are reported internally every time and to the Responsible Care Committee when it meets once a year.

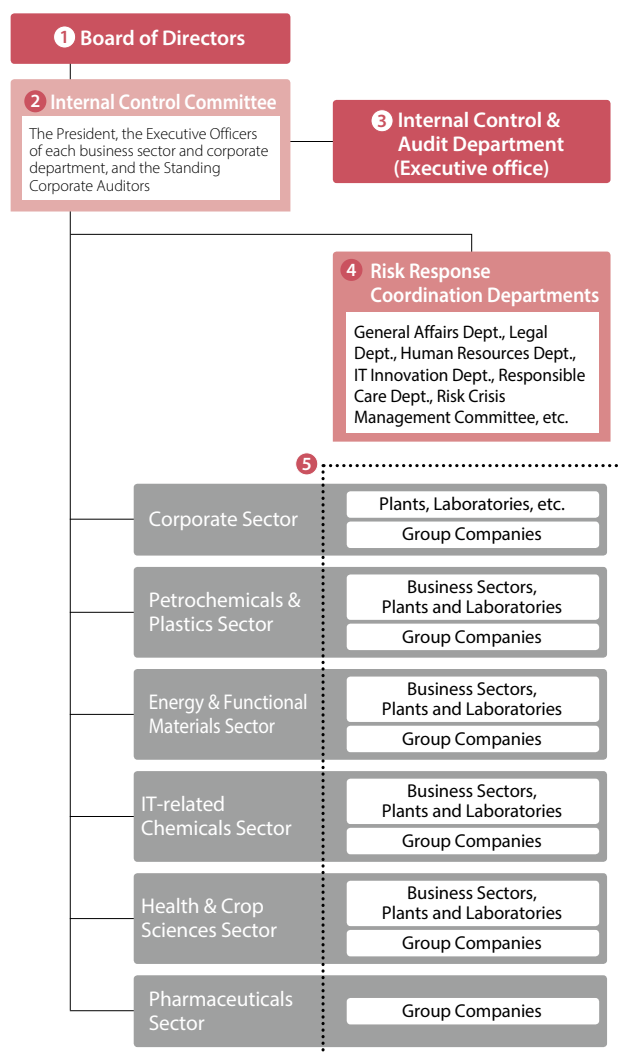
Risk Management

Sumitomo Chemical seeks to improve and enhance its risk management system to detect, at an early stage, risks that have the possibility of hindering the achievement of business objectives and to prevent them from occurring as well as to minimize damage when they do occur.

Risk Management Organization

As part of its standard duties, each of the Group's organizations is taking various measures to appropriately manage the risks associated with its business operations. In addition, the Internal Control Committee deliberates on Group-wide priority risk management policy as a basis for supporting and ensuring thorough implementation of these measures by each organization. Moreover, the committee oversees the implementation of measures undertaken by each organization based on this policy.

Risk Management Promotion Organization



- 1 Board of Directors
 - The Board ensures the effectiveness of risk management by deliberating and supervising the activities of the Internal Control Committee.
- 2 Internal Control Committee (Chaired by the President)
 - The committee deliberates on policies related to risk management for the entire Sumitomo Chemical Group, and supervises the efforts of each organization based on these policies.
- 3 Internal Control & Audit Department
 - As the executive office of the Internal Control Committee, this department monitors the risk management activities of each department and Group company of the Sumitomo Chemical Group.
- 4 Risk Response Coordination Departments
 - Each organization plans and promotes Group-wide countermeasures for the risks assigned to it, in cooperation with each department and Group company.
- 5 Each Department and Group Company
 - These organizations are the main drivers of risk management.
 - The organizations develop and implement countermeasures for the risks affecting their own organization or company.



Risk Management

Promotion of Group-wide Priority Risk Assessment and Countermeasures

Every year, approximately 120 major organizations, both in Sumitomo Chemical and Group companies in Japan and overseas, conduct risk evaluations, assessing the probability of occurrence and the potential impact of various risks that could hinder the achievement of business objectives. These results are then aggregated to create a Group-wide priority risk map. Based on this risk map, the Internal Control Committee identifies priority risks that require Group-wide countermeasures. In addition, our risk response coordination departments, which have been established for each priority risk, formulate a response plan for the entire Group, and each organization of the Group implements countermeasures in accordance with this plan. Moreover, the committee regularly receives reports on the progress of countermeasures and provides necessary instructions.

Risks subject to risk management



- To ensure the Group can comprehensively manage various risks that could hinder it from achieving its business objectives, the Risk Response Coordination Departments have cooperated to create a list of risk items.
- Each risk item is grouped in one of the seven areas shown in the pie chart. Each of these areas encompasses a wide range, from risks associated with business activities (price fluctuations, technological innovation, etc.) to ESG-related risks (response to the CO2 problem, human rights issues, etc.).
- In addition, revisions are made as necessary every fiscal year in response to changes in the Group's business activities or in social conditions.
- Each of the Group's organizations uses this list of risk items to conduct a yearly assessment of its own risks and to implement countermeasures for priority risks associated with its business operations.

Risk Factors

https://www.sumitomo-chem.co.jp/english/ir/policy/risk_factors/

Evaluating Risks and Promoting Countermeasures

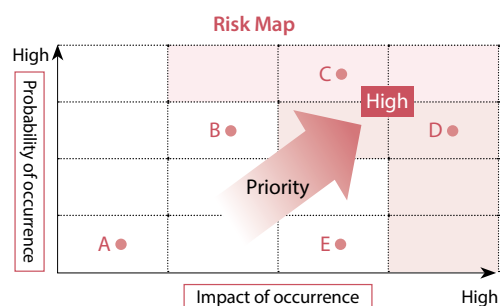
Risk Maps Created by Each Internal Department and Group Company

Each organization identifies risks critical to its own execution of duties and advances countermeasures.

Consolidation

Group-wide Risk Map

The Internal Control Committee identifies priority risks that require Group-wide countermeasures and advances them across the Group.



Identify priority risks (C, D) using risk maps that lay out the results of assessments of the probability of occurrence and degree of impact for various risks.

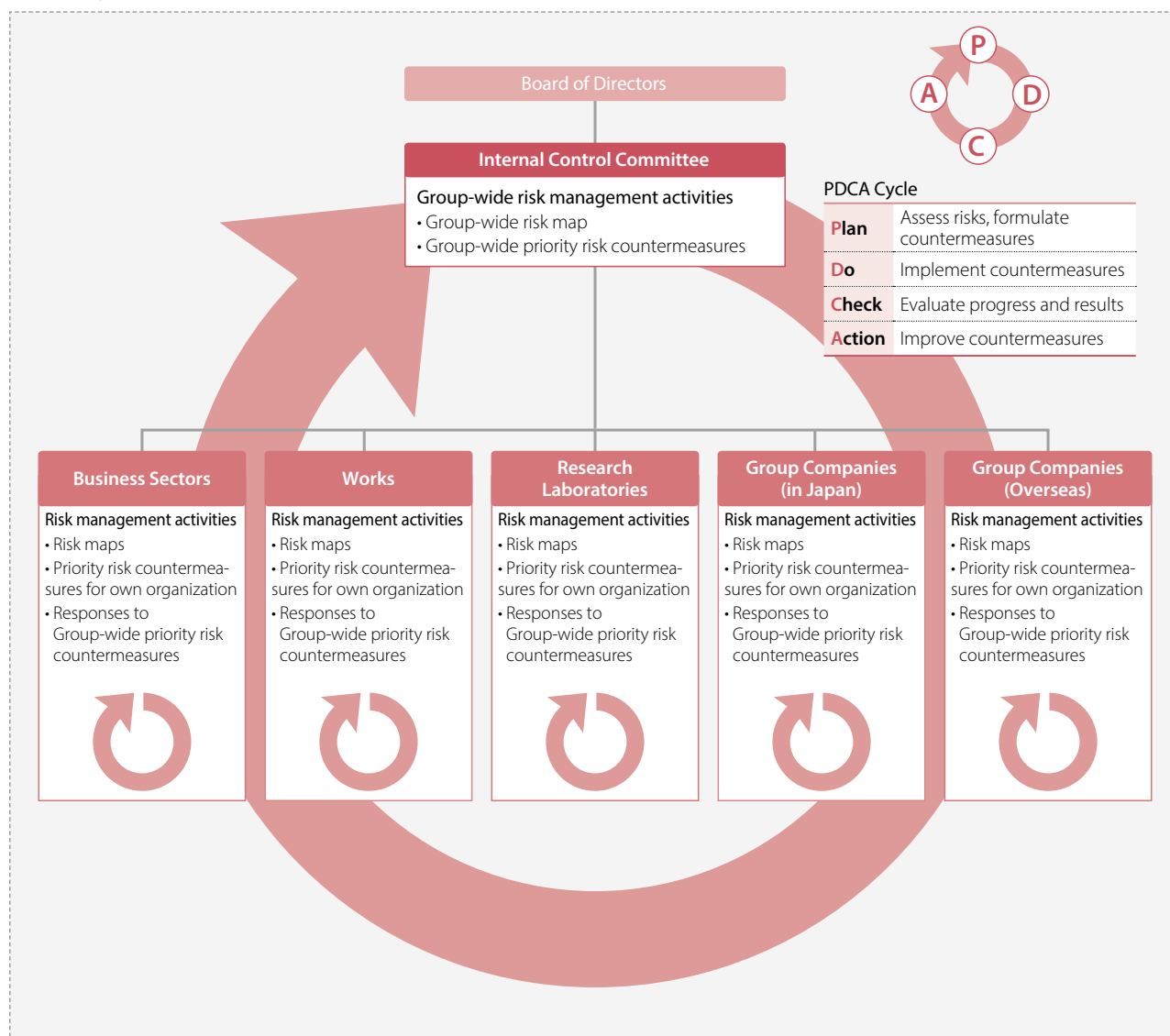


Risk Management

To Review and Strengthen the Effectiveness of Risk Management

In this way, we conduct a PDCA cycle for risk management every fiscal year, centered on the Internal Control Committee. In doing so, we are constantly inspecting and strengthening risk management in response to changes in our business and the surrounding environment so that risk management functions effectively. Summaries of the matters covered in the committee are reported to the Board of Corporate Auditors after each meeting. These summaries are then reported to the Board of Directors for deliberation.

■ PDCA Cycle for Risk Management Activities



Cross-Organizational Risks and Crisis Response

We established the Risk Crisis Management Committee to deliberate risks and crisis response policies that affect multiple business sites, departments, and Group companies, such as large-scale disasters (earthquakes, storms, floods, etc.), pandemics, deterioration of security in Japan or overseas (terrorism, riots, wars, etc.), and other issues.

Compliance

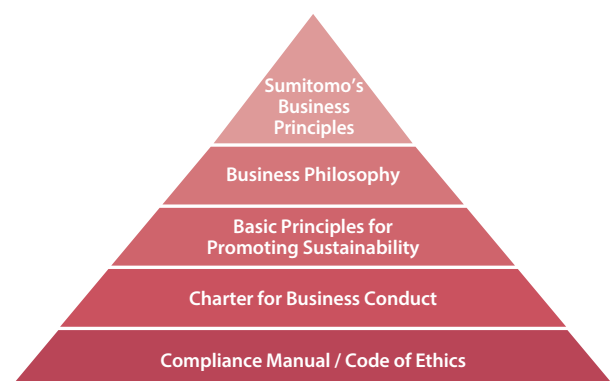
Basic Policy

The Sumitomo Chemical Group places compliance at the bedrock of its corporate management. As we engage in business in many parts of the world, all of the companies in the Sumitomo Chemical Group are devoting earnest efforts to stay in strict compliance with not only laws and regulations, but also ethical principles in a business environment.

Both the spirit and the letter of ensuring compliance in business activities have consistently been enshrined at Sumitomo Chemical ever since its founding. This unwavering resolve towards compliance is embodied succinctly in the "Sumitomo Chemical Charter for Business Conduct," which serves as the guideline of conduct for every employee to abide by and constitutes the backbone of our day-to-day compliance activities. In recent years, in particular, companies are expected to fulfill their societal responsibilities more than ever before. Given the circumstances, all companies in the Sumitomo Chemical Group are making concerted efforts to further compliance activities, under the strong leadership of top management, to further enhance compliance in the Group's business activities on a global basis.

The Sumitomo Chemical Charter for Business Conduct and Code of Ethics Embody the Sumitomo Spirit and Business Philosophy

Sumitomo Chemical has established the Sumitomo Chemical Charter for Business Conduct (refer to page 8) to embody the Sumitomo Spirit, Business Philosophy, and Basic Principles for Promoting Sustainability. In addition, to better define the Charter for Business Conduct and more clearly explain it to employees, we established the Sumitomo Chemical Code of Ethics (hereinafter, "the *Compliance Manual*") as corporate rules and distributed them to employees.



Sumitomo Chemical Charter for Business Conduct

 <https://www.sumitomo-chem.co.jp/english/company/principles/charter/> 

Compliance Manual

 <https://www.sumitomo-chem.co.jp/english/company/compliance/rules/society/> 

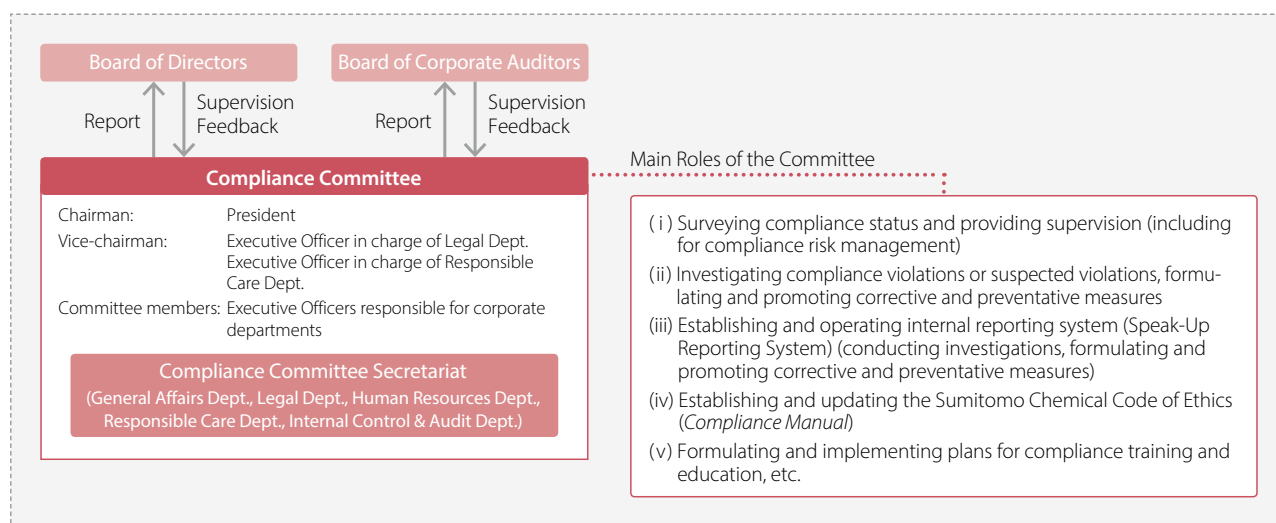
Compliance

Compliance System at the Sumitomo Chemical Group

(1) Compliance Committee

Sumitomo Chemical has established a Compliance Committee chaired by the President and holds a Compliance Committee meeting at least once a year (or more frequently as needed). Details discussed by the committee are reported to Board of Directors and Board of Corporate Auditors, and the committee then receives feedback from them.

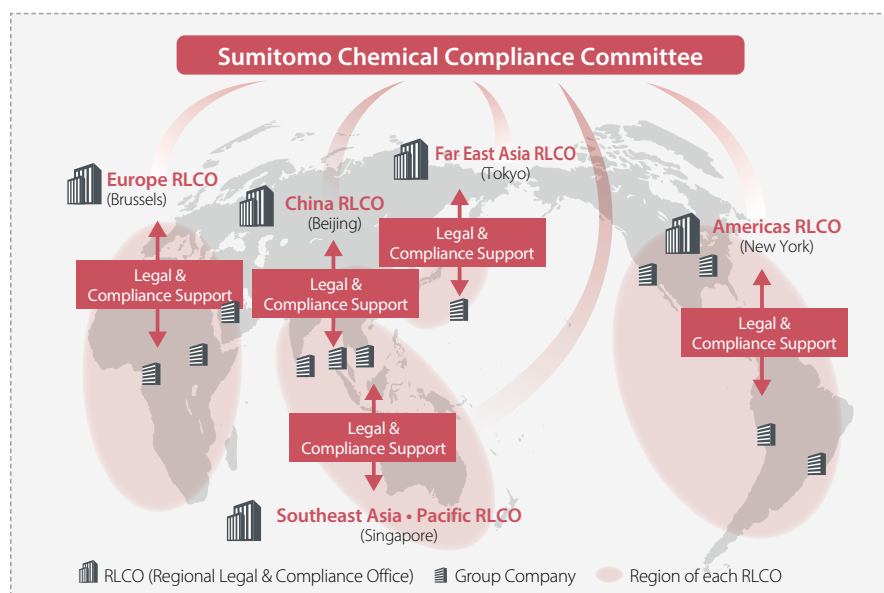
The committee establishes overarching principles of compliance from a global perspective, and then works with each business sector and Group company, both in Japan and abroad, to build and operate their compliance systems locally in the required manner, according to those global principles.



(2) Group Compliance Structure Focused on Effectiveness (Think globally, Manage regionally, Act locally)

As business globalizes, it becomes more important that the operation of a corporation's compliance system be fine-tuned to situations specific to individual countries or companies. In light of this, we have established Regional Legal & Compliance Offices (RLCOs) in Sumitomo Chemical's major business regions. The RLCOs, grasping the concrete needs and tasks of their respective Group companies, provide hands-on support and guidance to them, such as helping to set and implement necessary internal rules and procedures, building a company's compliance system, and assisting in its operations.

Compliance System at Sumitomo Chemical Group



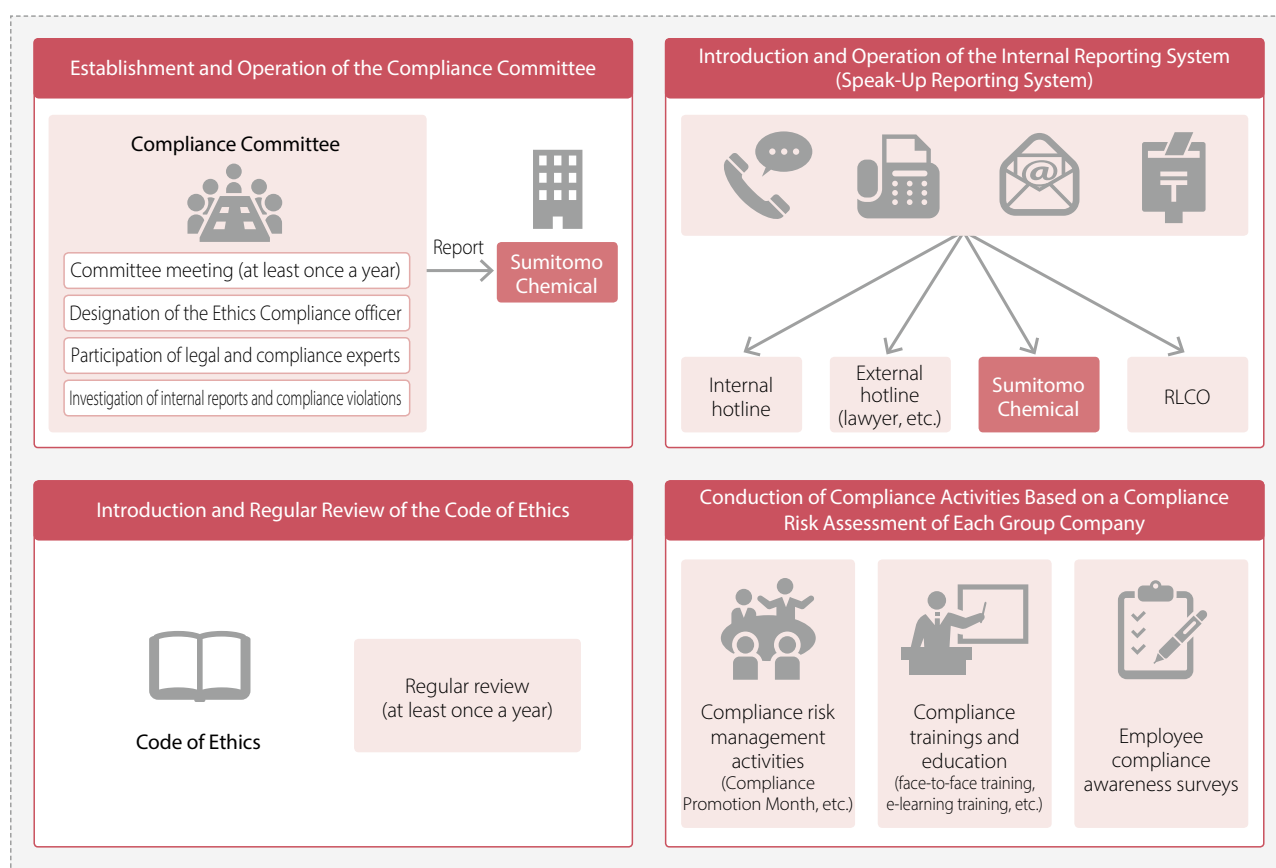
Compliance

(3) Introducing and Operating a Compliance System for the Company and its Group Companies

To ensure thorough compliance throughout the entire Sumitomo Chemical Group, it is important that Sumitomo Chemical and its Group companies establish and operate their own compliance systems. Accordingly, we established the Sumitomo Chemical Group Compliance Standards, which outlines the compliance systems and activities that serve as our standards. In line with these standards, Sumitomo Chemical and its Group companies are engaged in the following main initiatives.

- (i) Establishment and operation of the Compliance Committee (including responding to internal reports and conducting compliance violation investigations)
- (ii) Introduction and regular review of the Code of Ethics
- (iii) Introduction and operation of the Internal Reporting System (Speak-Up Reporting System)
- (iv) Conduction of compliance activities (education, training, etc.) based on a compliance risk assessment of each group company

■ Compliance System Operations





Compliance

Internal Reporting System (Speak-Up Reporting System)

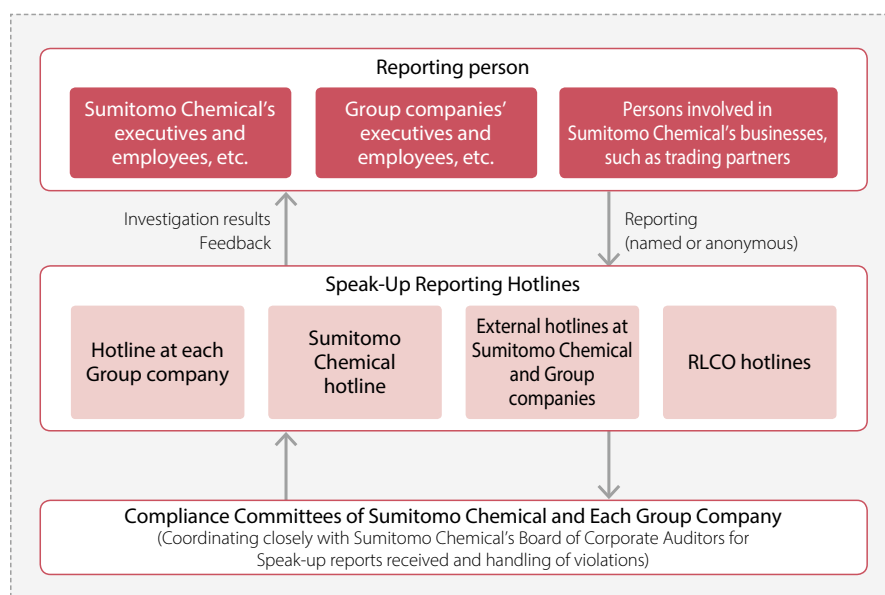
(1) The Internal Reporting System Is the Key to Ensuring Compliance

In order to detect any compliance violations as early as possible or to prevent them from occurring in the future, the Sumitomo Chemical Group has introduced an internal reporting system (the Speak-Up Reporting System) that allows company employees, etc. to report a compliance violation or a suspected violation directly to the Compliance Committee or to external lawyers, either. Sumitomo Chemical's executives and employees (including contract employees) and their families, Group companies' executives and employees, and anyone involved in the Company's businesses (including trading partners) may use the Speak-Up Reporting System.

Furthermore, to receive a Speak-up report without fail, Sumitomo Chemical have set up Speak-up reporting hotlines to receive reports at (i) the Compliance Committees of each Group company, (ii) RLCOs, (iii) the Compliance Committee of Sumitomo Chemical, and (iv) external lawyers designated by these committees. The person reporting can choose the hotline they think most appropriate. In addition, anonymous reports are also accepted and responded to.

Note: Regarding reporting within the European Union, we act in compliance with the various laws and regulations of the European Union or its individual member countries.

■ How a Report is Processed under the Internal Reporting System (Speak-Up Reporting System)



(2) Guidance and Oversight by the Board of Corporate Auditors, Including Outside Corporate Auditors

On the grounds that Speak-Up reports given to the Compliance Committees of Sumitomo Chemical and the Group companies, as well as compliance violation incidents at each company, are also important from a governance perspective, the Board of Corporate Auditors will regularly, or as needed for important issues, receive reports on these reports and violations, and will provide guidance and oversight.

(3) Promoting Use of the Internal Reporting System (Speak-Up Reporting System)

Sumitomo Chemical Group has established Company rules that the company carry out investigations based on the speak-up report with utmost consideration to protecting the privacy of a reporting person and maintaining confidentiality of information provided and that the company doesn't put truthful reporting person at any disadvantage, such as dismissal, transfer, or discrimination, on the ground of having made the report. Moreover, to ensure that the Speak-Up Reporting System functions in a truly effective manner, Sumitomo Chemical's Compliance Committee takes every opportunity to explain to employees that speak-up reporting will never disadvantage a reporting person. In this regard, the Committee has been working to help employees understand clearly that confidentiality about the reporting is maintained and any disadvantageous treatment to a reporting person is strictly prohibited. In addition, the Committee shares with employee's information about how far the Speak-Up Reporting System is in use by employees.



Compliance

(4) Latest Results of the Internal Reporting System

As a result of initiatives promoting use of the reporting system, in fiscal 2018, the total number of reports made to the Compliance Committees of Sumitomo Chemical and its Group companies (including listed companies in which the Company holds a stake of 50% or more) was 149, a year-on-year increase of 51 reports. Upon its receipt, each report was worked on, and an investigation was conducted promptly and cautiously into a reported incident. When violations were found or if a situation that might eventually develop into an incident of violation was recognized, corrective measures were taken properly. In addition, information on a violation incident and corrective measures actually taken was shared, as necessary, by other companies of the Group so that they could prevent similar incidents from occurring in their workplace in the future.

■ Number of Reports (Sumitomo Chemical Group*)

	FY2017	FY2018
Number of reports	98	149

* Includes those listed companies in which the Company holds a stake of 50% or more

Response to Compliance Violations

At Sumitomo Chemical, when a compliance violation or suspected violation is discovered within a department, the compliance supervisor in the department promptly reports to the relevant department and the Compliance Committee. After submitting a report, an investigation is carried out, and if any compliance violation is discovered, corrective and preventative measures are formulated and rolled out not just to the offending department but to the entire Sumitomo Chemical Group to ensure a recurrence is thoroughly prevented. In addition, the Internal Control & Audit Department and the Responsible Care Department conduct audits from the perspective of compliance. When compliance violations are discovered through these audits, corrective action is taken directly at that time. In fiscal 2018, there were no major compliance violations related to the Sumitomo Chemical Group's business continuity.

Results of Main Compliance Activities in the Sumitomo Chemical Group

(1) Compliance Committee Meetings

Sumitomo Chemical and its Group companies have established Compliance Committees, which convene either regularly (at least once a year) or as appropriate. Sumitomo Chemical's Compliance Committee convened on April 19, 2019, and reported its results to the Board of Directors and Board of Corporate Auditors, from which it received feedback.

(2) Review and Update of the *Compliance Manual*

Sumitomo Chemical and its Group companies regularly review the Code of Ethics (at least once a year). After conducting a review, if there is need for an update, it is made promptly. Sumitomo Chemical conducted a review of the Code of Ethics at relevant departments. In light of these results, we updated the Code of Ethics in September 2019.

Compliance Manual

<https://www.sumitomo-chem.co.jp/english/company/compliance/rules/society/>



(3) Compliance Promotion Activities

(i) Compliance Risk Management Activities (Compliance Promotion Month, etc.)

Sumitomo Chemical and some of its Group companies have designated October as Compliance Promotion Month. During this month, all employees in each workplace, including manufacturing, sales, and various intermediate departments, participate in discussions to examine and identify all conceivable compliance risks, major or minor, that might arise in each workplace. They then go on to select those risks that need to be specifically addressed, and formulate concrete measures to prevent the risks from occurring in the future. For those preventive measures that are already in place, they review once again whether or not the measures are effective enough when implemented. Continuous implementation of these measures not only reduces specific compliance risks in the workplace but also helps in raising employees' compliance consciousness.

During the Compliance Promotion Month initiatives of fiscal 2016, so-called "fraud" risks were made essential topics of discussion. In fiscal 2017, collusion and harassment were essential topics, and, in fiscal 2018, information leaks and management of the company's assets were essential topics, as all major compliance risks were examined and identified in each department, and then, concrete preventive measures were formulated and implemented. Reports on these activities are submitted by each department, and an evaluation team that includes outside legal counsel objectively evaluated them. With the goal of further raising the level of compliance, we shared information on departments with positive evaluations and the details of their initiatives within the Company.

(ii) Compliance Training

In line with its firm belief that strict compliance can only be achieved with each employee having high awareness of compliance, Sumitomo Chemical places importance on carrying out compliance education on a continual basis. This includes training programs geared to management executives at Sumitomo Chemical and Group companies as well as class-based training when someone is promoted. In addition, we conduct face-to-face lecture-style training courses and e-learning training, depending on each company's specific needs and situation.

In fiscal 2018, we conducted compliance e-learning training for all Sumitomo Chemical employees (around 7,000 people), and all employees received the training. In addition, some Group companies in Japan conducted similar e-learning training, and all eligible employees received the training.

■ Status of Implementation at Sumitomo Chemical and Group Companies

	Status of Implementation
Sumitomo Chemical	Compliance e-learning training (including anti-harassment, corruption prevention, data falsification/manipulation prevention, raising awareness of the internal reporting system) Participation rate: 100% (conducted at all worksites and departments) (already conducted training for promoted employees and individual training related to quality assurance, safety, logistics, information security, etc.)
Group Companies	Percentage of companies that conducted training related to compliance Group companies in Japan: 97.4% Group companies overseas: 89.6%

(iii) Employee Compliance Awareness Survey

In order to measure the effect of the initiatives listed above, including compliance activities and training, Sumitomo Chemical regularly conducts employee compliance awareness surveys, and in fiscal 2017, a survey of more than 40 Group companies in Japan and overseas were conducted. In fiscal 2018, around 20 Group companies in Japan and overseas were conducted. Questions about topics such as the compliance awareness among individual employees were designated as key performance indicators (KPIs) for this survey, and observing trends in these KPIs each time a survey is conducted will lead to the discovery of issues and the setting forth of measures aimed at further improvement.



(4) Initiatives to Respect Human Rights, Prevent Corruption and Comply with Competition Laws

An area of our recent focus is to strengthen those initiatives which lead to respect human rights (refer to page 112), and initiatives will more effectively serve to maintain sound business practices in companies' entire supply chains, through implementing measures to prevent corruption, such as bribes and collusion with business partners (including bribery and collusion with operators; refer to page 55), as well as initiatives to ensure strict observance of competition laws.

In addition, with regard to competition laws, we implemented a thoroughly revised *Competition Law Compliance Manual* in fiscal 2017, and we will also promote to introduce the Manual in Group companies going forward. Furthermore, we actively are providing trainings using this *Competition Law Compliance Manual*.

■ Status of Implementation for Training Related to Competition Laws

	Status of Implementation
Sumitomo Chemical	Already implemented at eligible worksites and departments (total of 12 times)
Group Companies	Group companies in Japan (already implemented): 79.5% Group companies overseas (already implemented): 70.8%

(5) Compliance Audit

As it is also important to conduct audits of whether the operations of the compliance structure and various compliance activities are being appropriately carried out in each department of Sumitomo Chemical, and in each Group company, the Internal Control and Audit Department and the Responsible Care Department conduct compliance audits. (For more details on the Responsible Care Department's audits, refer to page 61.) Regarding matters discovered during the compliance audits, appropriate corrective measures are taken.

Sumitomo Chemical Group Compliance Action Policy (FY2019)

Under the Corporate Business Plan, ensuring strict compliance for the entire Sumitomo Chemical Group is a basic policy, Sumitomo Chemical steadily respond to the following issues.

- New trends, including the SDGs, ESG, sustainability, diversity, and respect for human rights
- The increasing impact of compliance violations (sanctions, damage of credibility, etc.) associated with our global expansion
- The growing importance of daily risk control and crisis management

In this way, Sumitomo Chemical will strengthen and improve the Group's compliance system operations and continue to further enhance its effectiveness.

■ Fiscal 2019 Sumitomo Chemical Compliance Action Goals

Item	Medium- to Long-Term Goal	FY2019 Goal	FY2018 Results (Ref.)
Internal Reporting (speak-up reporting)	100 or fewer employees per report	10% year-on-year improvement (419 employees per report)	466 employees per report
Compliance Training	Continually conduct yearly compliance training at all Group companies	Conducted compliance training at all Group companies	Sumitomo Chemical: 100% Group companies in Japan: 97.4% Group companies overseas: 89.6%



Compliance

Looking Ahead

Being a global enterprise, Sumitomo Chemical's Compliance Committee, RLCOs, and Group companies are deeply committed to fulfilling their corporate citizenship responsibilities as a global corporation by carrying out the Sumitomo Chemical Group Compliance Basic Policy.

Anti-corruption

Basic Policy

As corporations expand activities across national boundaries, promoting fair competition becomes increasingly important in the supply of goods and services in the international marketplace. As is evident from the ever tightening laws and regulations in the world designed to prevent corruption, such as the FCPA in the U.S. and the Bribery Act of 2010 in the U.K., there is a growing awareness globally that corrupt conduct, such as bribery, should be eliminated by any means necessary. Under the circumstances, Sumitomo Chemical has positioned the prevention of corruption in all its forms, including bribery of public officials, excessive business entertainment and gift-giving, collusion, embezzlement, and breaches of trust as one of the most important issues in ensuring thorough compliance. We are striving to ensure a sustainable and sound corporate climate by enhancing our internal organization to appropriately respond to corruption risks to prevent the occurrence of corruption.

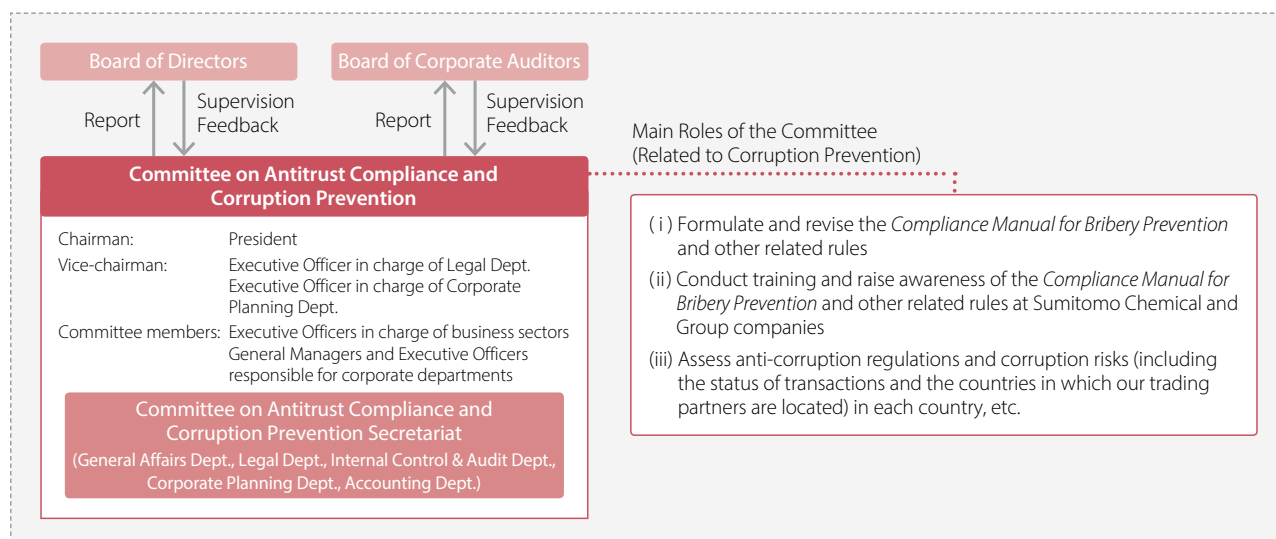
Committee on Antitrust Compliance and Corruption Prevention

In 2012, reorganizing the previous Committee on Antitrust Compliance we established the Committee on Antitrust Compliance and Corruption Prevention (chaired by the company's President) to establish and manage anti-corruption systems for Group companies in Japan and overseas under the guidance and supervision of the Board of Directors and Board of Corporate Auditors.

In the President's own messages, the committee states its policy and commitment to prohibit all forms of corruption, including bribery of public officials by management executives or employees, excessive entertainment and gift-giving, collusion, embezzlement, and breaches of trust. In addition, we have formulated a Compliance Manual for Bribery Prevention that contains detailed anti-corruption rules. The manual has been disseminated to all Group companies in Japan and overseas, and has been posted on the company intranet, and periodic training sessions are conducted to ensure thorough compliance among the employees of the company and its Group companies.

Further, we conduct assessments of anti-corruption regulations and corruption risks in each country, such as the status of transactions and the countries in which our trading partners are located. Based on the results of these assessments, we decide on policies to strengthen measures to prevent corruption, and apply them to the company and all Group companies.

Committee on Antitrust Compliance and Corruption Prevention





Anti-corruption

■ Compliance Manual for Bribery Prevention (Outline)

Chapter 1: General Principles

1. Prohibition of Giving Bribes

It is prohibited to give bribes to a government official or to any other person or entity, including private trading partners.

2. Prohibition of Accepting Bribes

It is prohibited to accept a bribe. In addition, it is prohibited to request a bribe or gift, entertainment, or other benefit from a third party.

3. Prohibition of Giving or Accepting Excessive Gifts or Entertainment

It is prohibited to give or accept excessive gifts or entertainment. All forms of gifts or entertainment that may harm the Company's reputation are always impermissible.

Chapter 2: Prohibition of Bribing Government Officials

The provision of any form of improper benefit to a government official may be considered a bribe. Furthermore, various rules are put in place, including those related to the circumstances where any type of gift and entertainment to a governmental official is prohibited, procedures for sponsoring site visits by governmental officials, procedures for giving donations and political contributions, and compliance with local regulations.

Chapter 3: Rules For and During Engagement of Business Partners

It is required to conduct due diligence when the Company engages new business partners or renews engagement of existing business partners, such as agents, distributors and consultants who could interact with government officials in the course of services for the Company. It is also required to fix the appropriate compensation and to take necessary internal procedures when concluding contracts with business partners.

Chapter 4: Proper Keeping of Books and Records

It is required to prepare and maintain appropriate and accurate books and records related to entertainment, gifts, payments to business partners, and other transactions.

Chapter 5: Monitoring Legal Compliance

It is required for each department to ensure thorough compliance, for the Internal Control & Audit Department to conduct audits, and the Committee on Antitrust Compliance and Corruption Prevention to take initiatives. In addition, the Company's executives and employees are obligated to file a report when a violation (or a suspicion of one) is detected.

Chapter 6: Violations

The Company's executives and employees who commit violations of this manual are subject to disciplinary action.



Anti-corruption

Initiatives in the Supply Chain

In order to prevent corruption in the Group's supply chain, we are making our agents, consultants, distributors, and other business partners aware of our anti-corruption policy by holding regular training sessions when initially engaging or renewing a contract, or at business meetings and other occasions. We also ask our partners to pledge to comply with the policy. In addition, as part of our due diligence procedures, we ask business partners to submit written responses detailing their company's profile and any past corruption problems, and assess the risk of corruption based on these responses. Moreover, when we engage a business partner for business with a high risk of corruption, such as in a public tender transaction or in a developing country, a more detailed risk assessment is carried out, including on-site interviews with the business partner conducted by an outside expert. If it is judged that there is a risk of corruption as a result of the assessment, we conduct awareness-raising activities concerning the prevention of corruption for such business partners, asking them to implement corrective measures such as strengthening the internal rules and organization to prevent corruption, and offering our support for such efforts. (The company does not engage business partners if the implementation of remedial measures is refused or if there is a strong concern about corruption detected through the assessment process.)

Other Measures

In addition to the above-mentioned measures, we are striving to prevent corruption through the application of internal rules on business entertainment and gift-giving, and the strict application of approval procedures for business decisions and payment.

We have also established and operate an internal reporting system (the Speak-Up Reporting System, which allows anonymous reporting) that can be used by anyone involved in our business, including business and trading partners, in order to quickly identify corruption or the threat of corruption, to prevent compliance violations from occurring, and to rectify them as soon as possible. We also inform management executives or employees of Group companies, and business and trading partners, about the use of this system.

Management executives and employees whose corrupt conduct has been confirmed are subject to disciplinary action in light of internal rules. Business and trading partners are requested to rectify such actions, and other measures are taken, such as the suspension of transactions.

Looking Ahead

The Sumitomo Chemical Group will continue actively promoting various initiatives across its entire supply chain going forward to prevent bribery and all other forms of corruption.

Responsible Care

Basic Stance

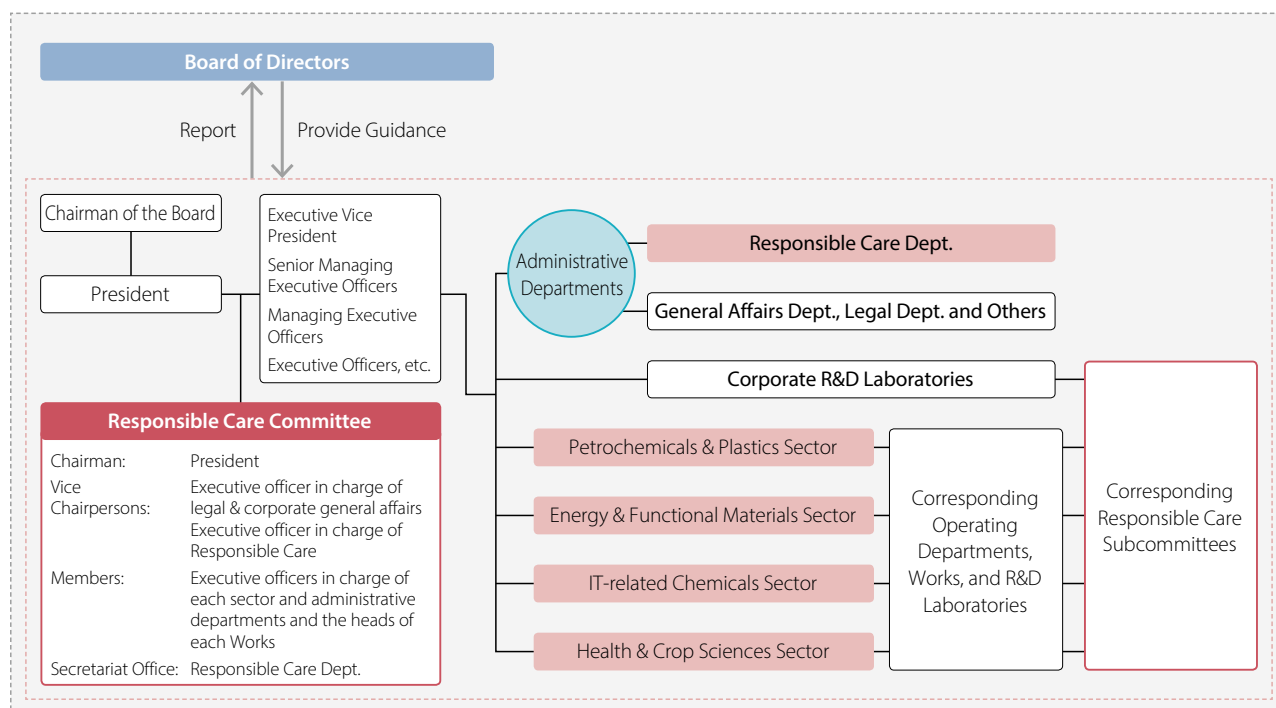
Responsible Care (RC) activities refer to the voluntary initiatives undertaken by business operators in the chemical industry, with the goals of ensuring safety, the environment, and health throughout the life cycle of chemical products, from development through to the manufacture, sales, use, and disposal after final consumption, maintaining and improving the quality of those products. These activities also strive to gain the further trust of society through continuous dialogue.

The Sumitomo Chemical Group has positioned Responsible Care activities as one of its most important management pillars. Based on the core principle of "Making safety our first priority," the Group has set goals for each of the following fields: occupational safety and health; industrial safety and disaster prevention; environmental protection; climate change; product stewardship, product safety, and quality assurance; Responsible Care audits; and logistics. The Group is working to achieve the goals it has set.

Management System

As the body for deliberating and approving Sumitomo Chemical's RC activities, the Responsible Care Committee is chaired by the president and comprises executive officers supervising the administrative departments and the four business sectors of the Company, and the General Manager of each Works. The Committee puts in place annual policies on activities, medium-term plans, and specific measures as they relate to Responsible Care. The committee also analyzes and assesses the results of Responsible Care activities. The Committee then reports the content of its meetings to the Board of Directors as appropriate and receives necessary guidance in an effort to enhance its supervisory functions and the execution of its duties.

■ Organization of Responsible Care





Responsible Care

Policies and Goals

Corporate Policy on Safety, the Environment and Product Quality

Sumitomo Chemical has set forth safety, the environment, and product quality as top priorities for all phases of its business activities in its Corporate Policy on Safety, the Environment and Product Quality. This policy has been communicated to all employees of Sumitomo Chemical and its Group companies to ensure that each and every employee is fully aware of it.

In conformity with Sumitomo's Business philosophy, our Company fulfills its responsibility to develop, manufacture, and supply a variety of products that satisfy the fundamental necessities of human life and contribute to the growth of society. Under the concept of "Making safety our first priority," which is fundamental to all the Company's operations, Sumitomo Chemical has based management of its activities on the principles of (i) maintaining zero-accident and zero-injury operations, (ii) ensuring customer satisfaction, and (iii) promoting mutual prosperity with society.

Paying due respect to these principles, our Company is determined to conduct all activities, including production, R&D, marketing & sales, and logistics, in accordance with the following policy related to safety, the environment, and product quality.

1. Maintain zero-accident and zero-injury operations and the safety of neighboring communities and our employees.
2. Ascertain the safety of raw materials, intermediates, and products and prevent our employees, distributors, customers, and consumers from being exposed to any possible hazard.
3. Supply high-quality products and services that satisfy customers' needs and ensure safety in their use.
4. Assess and reduce our environmental impact at all operational stages, from product development to disposal, and undertake all practical environmental protection measures.

All sections and employees of our Company shall be made fully aware of the significance of this policy and shall constantly strive to improve operational performance, while at the same time abiding by all relevant laws, regulations, and standards.

Revised: November 1, 2005 (Established: April 1994)

Policy on Responsible Care Activities

Sumitomo Chemical has summarized its key Responsible Care initiatives in its Policy on Responsible Care Activities, which is incorporated into the specific activity targets and plans formulated annually by each Sumitomo Chemical workplace and Group company.

In accordance with the Sumitomo Chemical Charter for Business Conduct and the Corporate Policy on Safety, the Environment and Product Quality, the Sumitomo Chemical Group as a whole will strive to promote Responsible Care Activities, thereby earning the trust of society, promoting business activities, and contributing to the sustainable development of society.

1. We will achieve zero-accident, zero-disaster targets to ensure safe and stable operations.
2. We will conduct risk management throughout the life cycle of our products, from the stages of development to manufacturing, logistics, use, and disposal and strive to ensure the safety of our employees, those involved in logistics, customers, and general consumers as well as the local community while also preserving the environment.
3. We will strive to develop safe and environmentally friendly products and manufacturing processes.
4. We will promote energy and resource conservation and waste reduction, thereby easing the environmental burden.
5. We will comply with all domestic and international laws, regulations, and ordinances related to safety, the environment, and product quality, and further enhance our related voluntary initiatives.
6. We will implement the requisite education and training related to safety, the environment, and product quality.
7. We will disclose information on Responsible Care Activities and engage in dialogue with society to ensure we meet society's expectations, respond to its interests, and remain accountable to the same.
8. We will continuously improve Responsible Care Activities based on Responsible Care auditing and third-party verification.
9. We will support the Responsible Care Activities of Group companies, contractors, and other business partners and help them carry out initiatives to enhance the same both at home and abroad.

Revised: July 15, 2013 (Established: January 1995)



Responsible Care

Promoting Responsible Care Activities

Sumitomo Chemical shares policies and targets regarding RC across the entire Group. We are working to maintain stable operations with zero accidents and zero injuries as the foundation of our business, which is one of the basic policies outlined in the Responsible Care medium-term plan. We are also striving to ensure safety, environmental friendliness, and health throughout the life cycle of products as well as to improve the quality of chemical products the Company manufactures.

	Medium-term Plan (for Fiscal 2019 to 2021)
Occupational Safety and Health	<ul style="list-style-type: none"> • Assess the level of safety culture and safety infrastructure at each workplace and constantly strive for improvement. • Promote safety and health activities based on international standards and adapt to a society where people can choose from a variety of flexible working styles
Industrial Safety and Disaster Prevention	<ul style="list-style-type: none"> • Strive to strengthen safety infrastructure by introducing advanced technologies to improve management technologies, training highly skilled process safety personnel, and carefully managing facilities and construction projects. • Strengthen our response to intensifying natural disasters and new threats, such as terrorism
Environmental Protection	<ul style="list-style-type: none"> • Work to rapidly respond to environmental laws and regulations and continually reduce our environmental impact • Actively work to disclose environmental information to help steadily improve our standing in society
Addressing Climate Change	<ul style="list-style-type: none"> • Work to formulate and implement action plans aimed at achieving our science based targets (SBTs) • Consider medium- to long-term policies for Sumika Sustainable Solutions
Product Stewardship, Product Safety, and Quality Assurance	<ul style="list-style-type: none"> • Use the regulation data collection systems in cooperation with Group companies and establish a long-term system • Strive to increase use of the Company's systems, including the comprehensive chemical management system (SuCCESS) • Promote activities to prevent quality-related problems and reduce losses arising from flaws
RC Audits	<ul style="list-style-type: none"> • Conduct audits to ensure thorough operation of the Responsible Care management system, steady improvements to its operation, and compliance with related laws and regulations
Logistics	<ul style="list-style-type: none"> • Work to reduce the number of logistics safety- and quality-related incidents

Note: More details on the key activities and initiative results for each field can be found in the following sections.

At present, we have stationed Responsible Care specialists at regional headquarters in Europe and the Americas as well as China and the wider Asia Pacific region. This has enabled us to develop RC activities rooted in each area. We established the Sumitomo Chemical Group's Safety Ground Rules in 2016 as a measure to further secure safety at all Group locations. We have since been working to promote awareness of the rules among all Group employees while further raising the level of Groupwide safety activities and eliminating work-related accidents. Moreover, we strive to ensure the safety of community residents and protect their environment while promoting mutual understanding by providing residents with information concerning our initiatives and engaging in dialogue.

Also, we continually work to develop human resources that are capable of implementing Responsible Care, for example, through training and practice at each production site and regional headquarters as well as regular meetings attended by the Responsible Care managers of Group companies in Japan and overseas. In addition, we publish a newsletter that covers various topics and information on accidents and disasters that have occurred within the Group in the hope of preventing similar occurrences. We also promote various kinds of RC activities through RC awards for excellent RC activities of Group companies.

Looking Ahead

As global-scale issues pile up, including the response to climate change, the creation of a circular economy, and considerations for biodiversity, we, as people engaged in the chemical industry, duly regard the society's trust in us as the starting point to continue our business. To ensure continued growth together with customers, regional neighbors, and employees, we will continue to promote Responsible Care activities throughout the Group.



Responsible Care

Eco-First Commitments

In March 2012, Sumitomo Chemical reported the progress and results of its efforts to fulfill the Eco-First Commitments to the Japanese Minister of the Environment while announcing its Eco-First Commitments, Updated Version.

Note: The content was updated in November 2016. From fiscal 2016, measures are being taken in line with the updated content.



Eco-First Commitments



November 30, 2016

To Koichi Yamamoto
Minister of the Environment

President of
Sumitomo Chemical Co., Ltd.
Masakazu Tokura

As a leader in the chemical industry, Sumitomo Chemical Co., Ltd. considers the appropriate management of chemical substances to be fundamental and not only observes strict compliance with all relevant laws and regulations, but also works to ensure safety, environmental protection, health and product quality throughout the life cycle of chemical products. The Company also strives to gain the further trust of society through continuous dialogue and undertakes voluntary initiatives (Responsible Care activities) to contribute to the sustainable development of society.

- 1 We will promote the management of chemical substances and the risk communication in an appropriate and proactive manner using proprietary technology.**
 - ◆ We will review the information on the safety for all our products manufactured and sold in annual amounts of one ton or more by fiscal 2016, and we will conduct the appropriate risk assessments based on the results by fiscal 2020 using our proprietary technology. In addition we will make the results available to the general public as Safety Summaries.
 - ◆ We will collaborate with chemical companies in the world on studies of the impact of chemical substances on human health and the environment (Long-range Research Initiative) in order to improve the safety of chemical substances.
 - ◆ All the offices and facilities at Sumitomo Chemical will strive to communicate effectively with and promote information disclosure to local residents and other stakeholders in creative and voluntary ways that suit the needs of the local community.
- 2 We will develop and apply management technologies that help reduce environmental impacts to realize safe and secure water treatment.**
 - ◆ To make it easier to select the more appropriate water treatment method (either activated sludge or incineration), we will work to more uniformly standardize methods for evaluating the various kinds of process water expelled from plants.
 - ◆ We will use microbiota analysis, microbial immobilization and other proprietary technology to increase the sophistication of activated sludge treatment and thereby achieve the following goals:
 1. Ensure stable water treatment by checking and managing the health of the sludge biota
 2. Improve our treatment capabilities
 3. Switch over a portion of the treatment of wastewater for which activated sludge treatment had been deemed too difficult from incineration to such treatment
- 3 We will proactively contribute to build a sustainable society.**
 - ◆ To contribute to society through the power of chemistry (and related businesses) and encourage reductions in CO₂ emissions through the widespread adoption of low-carbon products and technologies, we internally designate products and technologies that help address climate change, actively promote the development and widespread adoption of these products and technologies, and make available to the public quantitative information on emission reductions.
 - ◆ We strive to improve the unit energy consumption of all plants by an annual average of 1%. We will switch to energy sources with low emission factors, introduce cogeneration systems and promote the installation of LED lighting at worksites. Through these and other efforts, we will improve CO₂ emission intensity from energy sources 15% relative to fiscal 2005 by fiscal 2020. As a result, total CO₂ emissions in fiscal 2020 will be 15%, or around 3.2 million tons, lower than those in fiscal 2005.
 - ◆ We promote internal education and environmental education activities in different regions to deepen understanding of the importance of environmental protection.

The Company will monitor the progress made in the above initiatives, make the results publicly available, and report them to the Ministry of the Environment on a regular basis.


SUMITOMO CHEMICAL



Responsible Care

Progress in Fulfilling Eco-First Commitments

Sumitomo Chemical has participated in the Eco-First Program of Japan's Ministry of the Environment since November 2008. As a leading company in the chemical industry, Sumitomo Chemical is committed to fulfilling its Eco-First commitments to the Japanese Minister of the Environment while ensuring legal compliance and enhancing RC activities.

Results ● Very favorable/● Generally favorable

Management of Chemical Substances and the Promotion of Risk Communication

Reviewing Safety Information on Chemicals and Conducting Risk Assessments

- Performed risk assessments for 594 products to date and publicly released safety summaries for 43 substances. (<http://icca.cefic.org/>)

LRI*1 Initiatives

- Promoted research by actively participating in the LRI program implemented by the Japan Chemical Industry Association as a member of the steering committee, planning and management task force, and research promotion panel.*2 Furthermore, we participate in the microplastics task force, which has close ties to the LRI program, and provide feedback.

Enhancing Information Disclosure and Risk Communication

- Published the *Annual Report*, *Sustainability Data Book*, the *Report on the Environment and Safety (at all worksites)*, local PR newsletters, etc., made information publicly available on the official website, made school visits, accepted student interns, and engaged in dialogue with local residents.

Realizing Safe and Secure Water Treatment by Developing and Applying Management Technology that Helps Reduce Environmental Impact

Considering Appropriate Water Treatment Methods and Standardizing Methods for Assessing Various Process Waste Water Expelled from Works

- In light of current operating conditions, we finished considering the standardization of each Works' methods for assessing and treating effluent from new manufacturing processes. We have prepared manuals and are promoting the adoption of standardized methods at each Works.

Using Microbiota Analysis, Microbial Immobilization, and Other Proprietary Technology to Increase the Sophistication of Activated Sludge Treatment

- We use the latest genetic analysis methods to assess the biota comprising the activated sludge, which is processed at each Works independently. We are considering tying the operating requirements for activated sludge treatment to the biota that comprises the sludge. At some Works, for process wastewater that is difficult to break down we use an activated sludge treatment involving microbial immobilization to stabilize the process water and reduce treatment costs. We are still working on determining the relevant issues and responses with regard to activated sludge treatment using microbial immobilization technology.

Helping Create a Sustainable Society

Promoting Sumika Sustainable Solutions

- We are promoting Sumika Sustainable Solutions, which are initiatives to internally designate products and technologies that contribute to global warming countermeasures and environmental impact reduction. A total of 48 products and technologies have been designated, with combined sales of ¥381.3 billion in fiscal 2018 (consolidated). They are projected to contribute to a collective 58 million tons CO₂ equivalent reduction in greenhouse gases throughout their life cycles in fiscal 2020.*3

Improving Energy Efficiency

- Unit energy consumption in fiscal 2018 improved 18.4% compared with fiscal 2005 but worsened 3.7% year on year. (Goal: Improve unit energy consumption 15% by fiscal 2020 compared to 2005 levels (Improve 1% per year on average))
- Unit CO₂ emissions from energy in fiscal 2018 improved 15.7% compared with fiscal 2005 and worsened 5.8% year on year. (Goal: Improve unit CO₂ emissions from energy use 15% by 2020 compared to 2005 levels (Improve 1% per year on average))

Holding Dialogues with Internal and External Stakeholders

- Explained to internal and external stakeholders the importance of the Company helping to create a sustainable society and the Company's related measures, thereby deepening mutual understanding through dialogue.

*1 Long-range Research Initiative:

Long-term support for research into the effects of chemical substances on human health and the environment

*2 Research Promotion Panel:

Commissioned expert research into the development of new risk methods, assessments, and related activities; held a meeting to report on the results of the research

*3 This value represents the amount contributed to the reduction of greenhouse gases over the life cycles of designated products expected to be sold in fiscal 2020, based on the guidelines of the Japan Chemical Industry Association and the ICCA.



Responsible Care

<Responsible Care (RC) Audits>

Basic Stance

The RC audit is a management system to verify that the RC activities such as ensuring safety and the environment, and maintaining and improving the quality of chemical products are properly implemented. It also promotes process enhancement if areas for improvements are found in those activities.

To promote the Sumitomo Chemical Group's RC global management, RC audit activities are used to study and evaluate duties executed in the course of business and the status of management and supervision from the perspectives of compliance, effectiveness, efficiency, and credibility of financial reporting. By offering advice and proposals for improvement and rationalization, we can prevent compliance violations, corruption, and errors as well as protect corporate assets and enhance operational efficiency. RC audits fulfill the functions of improving management at the Company and Group companies and aid in building, maintaining, and improving the internal control system (responsible audit rules) through the following four-step approach.

Step 1: Sharing Sumitomo's Business Principles and Philosophy

Step 2: Promoting an understanding of and sharing in the Corporate Policy on Safety, the Environment and Product Quality; Policy on Responsible Care Activities; RC management systems; and Group Responsible Care Standards

Step 3: Establishing and developing RC management systems at each Group company

Step 4: Carrying out modifications to the direction and adjusting levels of RC activities by undergoing RC audits

Through face-to-face communication through each of the aforementioned steps, we have successfully provided assistance so that the RC management system is set in place by taking the scale, type of business, and attributes of each Group company into consideration. Relationships built on trust with Group companies that have been nurtured through these RC audits are utilized in various initiatives including individual support and the lively exchange of opinions aimed at resolving a wide range of issues at the Group companies.



Responsible Care

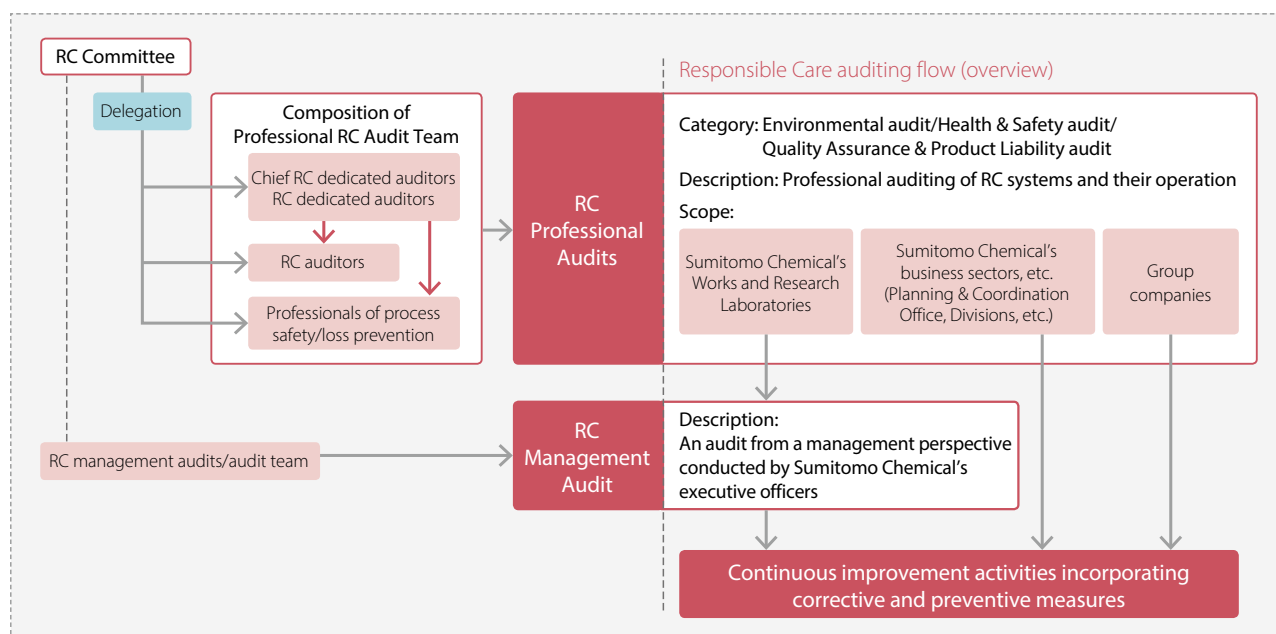
Management System

Sumitomo Chemical has an independent RC audit team. The auditors specially designated by the executive officers in charge of RC have a wealth of knowledge, experience, and technical expertise. Based on the RC audit policies and plans approved by the Responsible Care Committee every year, these auditors directly visit and conduct audits of internal organizations as well as Group companies in Japan and overseas (consolidated business companies that have been determined to need auditing, Group business companies for which auditing has been requested, and listed Group companies (including their subsidiaries)). In addition, RC audits of internal Works and research labs are conducted from a management perspective by an audit team comprising Sumitomo Chemical's executive officers in charge of RC. In line with the important direction provided during an RC audit, the Works and labs report their method for advancing corrective measures, the status of their Responsible Care activities, and important issues to the audit team for discussion.

The Scope and Cycle

In principle, RC audits are conducted every one or two years at Sumitomo Chemical's Works and business sectors, and every three years at Group companies.

Responsible Care Auditing Framework





Responsible Care

Goals and Results

Responsible Care Audit Results (Sumitomo Chemical Group)

Facilities		FY2016	FY2017	FY2018
Professional audits*1	Works	9	11	9
	Research laboratories	3	0	1
	Logistics centers	0	0	0
	Business sectors	6	5	4
	Group companies in Japan	18	10	14
	Group companies overseas	7	10	13
Management audits*2	Works and research laboratories	6	6	6
Total		49	42	47

Note: Refer to Responsible Care Auditing Framework on page 62 for more details.

*1 Audits of systems and operations by specialists in each field

*2 Audits from a management perspective by Sumitomo Chemical officers

Professional Audits for Facilities and Business Sectors (FY2018 Results)

Area	Facilities (Works, Research Laboratories)	Business Sectors (Head Office Business Sectors)	Total
Good	22	1	23
Needs improvement	20	4	24
Needs to be examined	82	15	97
Total	124	20	144

Looking Ahead

We continually work to prevent compliance violations, corruption, and errors as well as to improve the management of both Sumitomo Chemical and Group companies while building, maintaining, and improving their internal control systems as needed.

Information Security

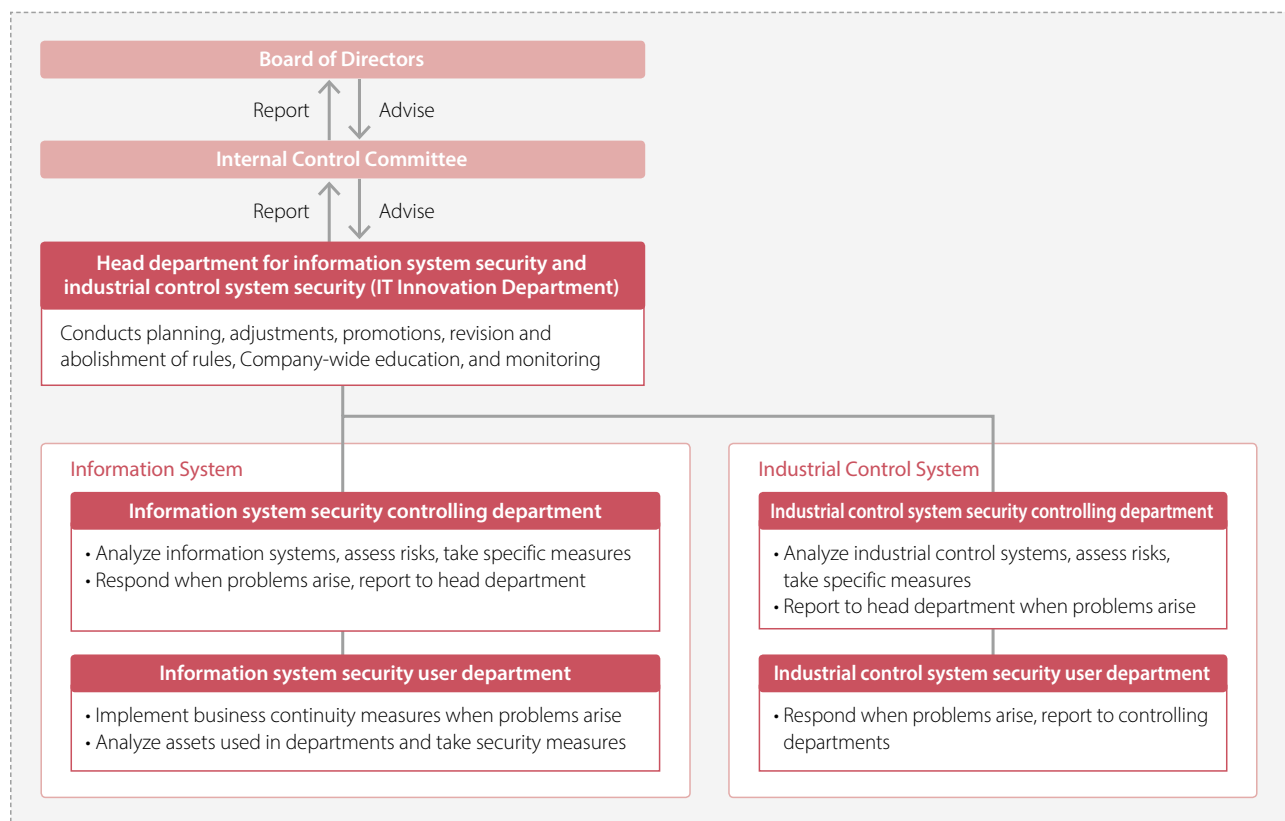
Basic Policy

The impact of advances in the business applications of digitization, including AI and IoT, on information systems has included a rise in such negative factors as increasingly sophisticated cyberattacks. The purpose of information security is to properly manage information, prevent leaks and loss, and minimize the effectiveness of threats to data integrity. We have therefore taken an approach that is multifaceted from the organizational, systems, personnel, technological, and physical points of view.

Management System

Sumitomo Chemical has built the following framework for information system and industrial control system security and implements PDCA cycles.

■ Security Framework for Information System and Industrial Control System





Information Security

Goals and Results

Based on the concept of an information security management system (ISMS), we established a security policy and took necessary measures.

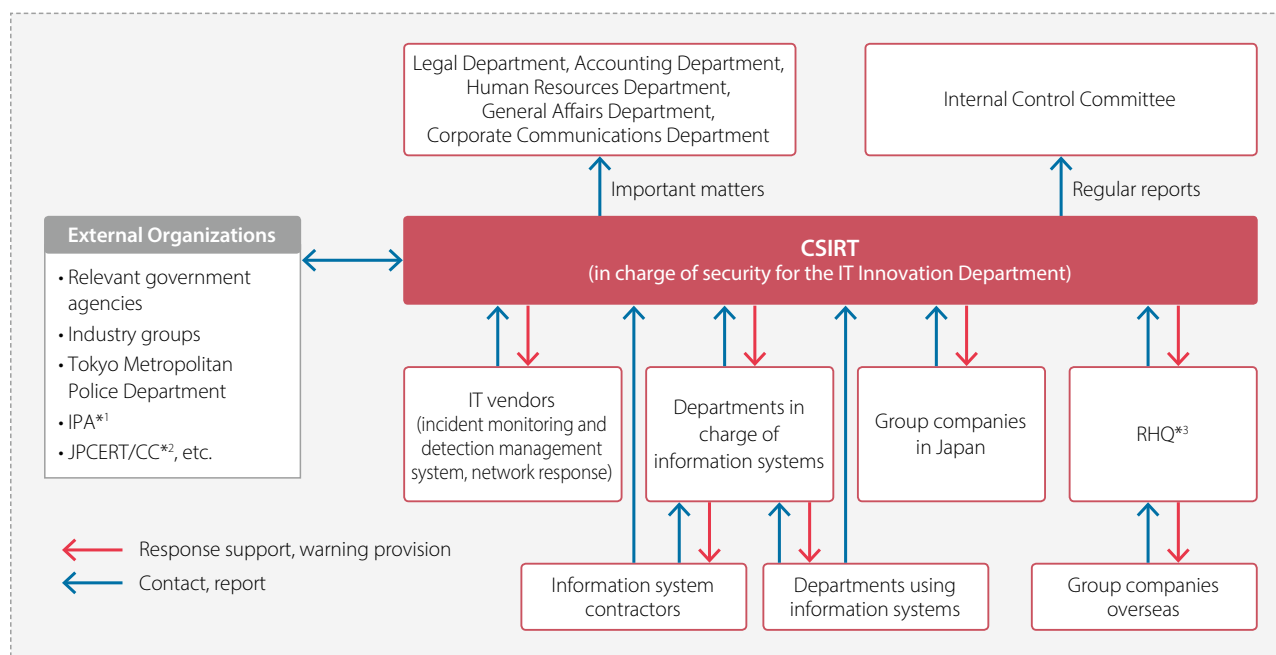
Our basic policy comprises multifaceted security measures (multilayered incident prevention and disaster mitigation), such as those outlined below.

Type of measure	Content of measure
Organizational measures	<ul style="list-style-type: none"> Constructed an information system and industrial control system security framework Constructed an information-sharing framework with inside and outside organizations to ensure preparedness against security incidents
Systematic measures	Periodically conduct security self inspections and conduct IT security internal audits that encompass Group companies
Personnel measures	Carry out various security education programs using e-learning systems (education for new hires, periodic education)
Technological measures	Implement a range of measures, including access restriction, malware measures, and vulnerability measures, for individual servers and computers as well as networks
Physical measures	Use cloud servers complete with entry/exit controls and other security features

Examples of Initiatives

We have established a Computer Security Incident Response Team (CSIRT) in information system security head department (IT Innovation Department). The team analyzes security information from external organizations, provides warnings to the Group, gathers information on security incidents that occur within the Group, and comprehensively manages the Group's response.

Security Incident Response Framework



^{*1} IPA: Information-Technology Promotion Agency, Japan

^{*2} JPCERT/CC: Japan Computer Emergency Response Team Coordination Center

^{*3} RHQ: Regional headquarters



Information Security

Looking Ahead

As an critical infrastructure operator, Sumitomo Chemical considers cyber security to be an essential management issue and will continue responding to growing threats. By taking appropriate system security measures, we will continue to create more value with the aim of supporting the global expansion of business, solving issues in the international community, and enhancing quality of life.