

Corporate Business Plan

FY2013 - FY2015

Change and Innovation
—for the next hundredth anniversary—

Masakazu Tokura

President

February 12, 2013

 **SUMITOMO CHEMICAL**

1. Current Situation

**2. Overview of Corporate Business Plan
FY2013 - FY2015**

**3. Initiatives Under Corporate Business Plan
FY2013 - FY2015**

4. Shareholder Return

1. Current Situation

- (1) Priority Management Issues & Business Strategy since the Beginning of the Century
- (2) Where We Have Been Heading
- (3) Results of Corporate Business Plan FY2010 - FY2012
- (4) Sumitomo Chemical's Current Situation

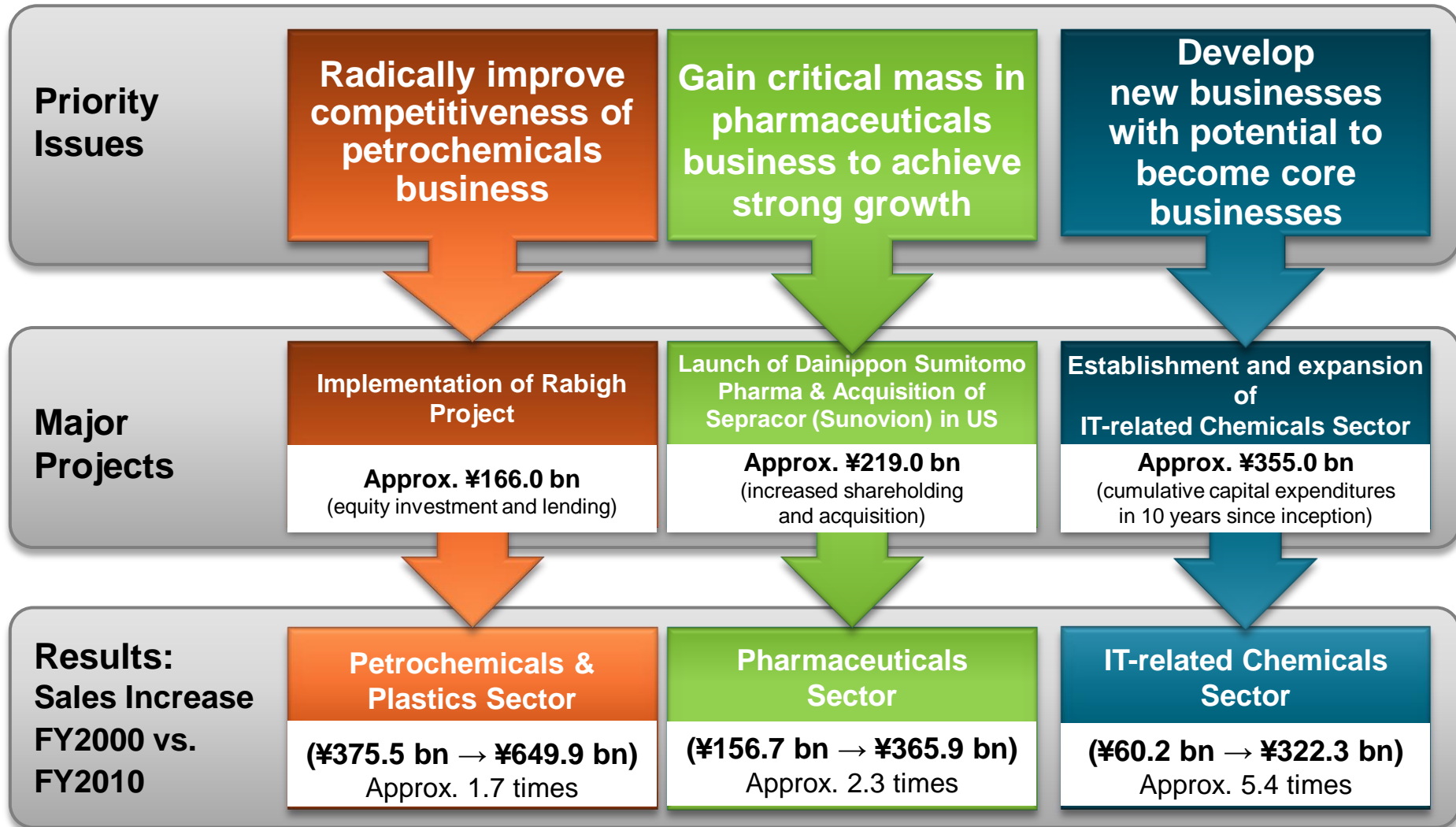
2. Overview of Corporate Business Plan FY2013 - FY2015

3. Initiatives Under Corporate Business Plan FY2013 - FY2015

4. Shareholder Return

(1) Priority Management Issues & Business Strategy since the Beginning of the Century

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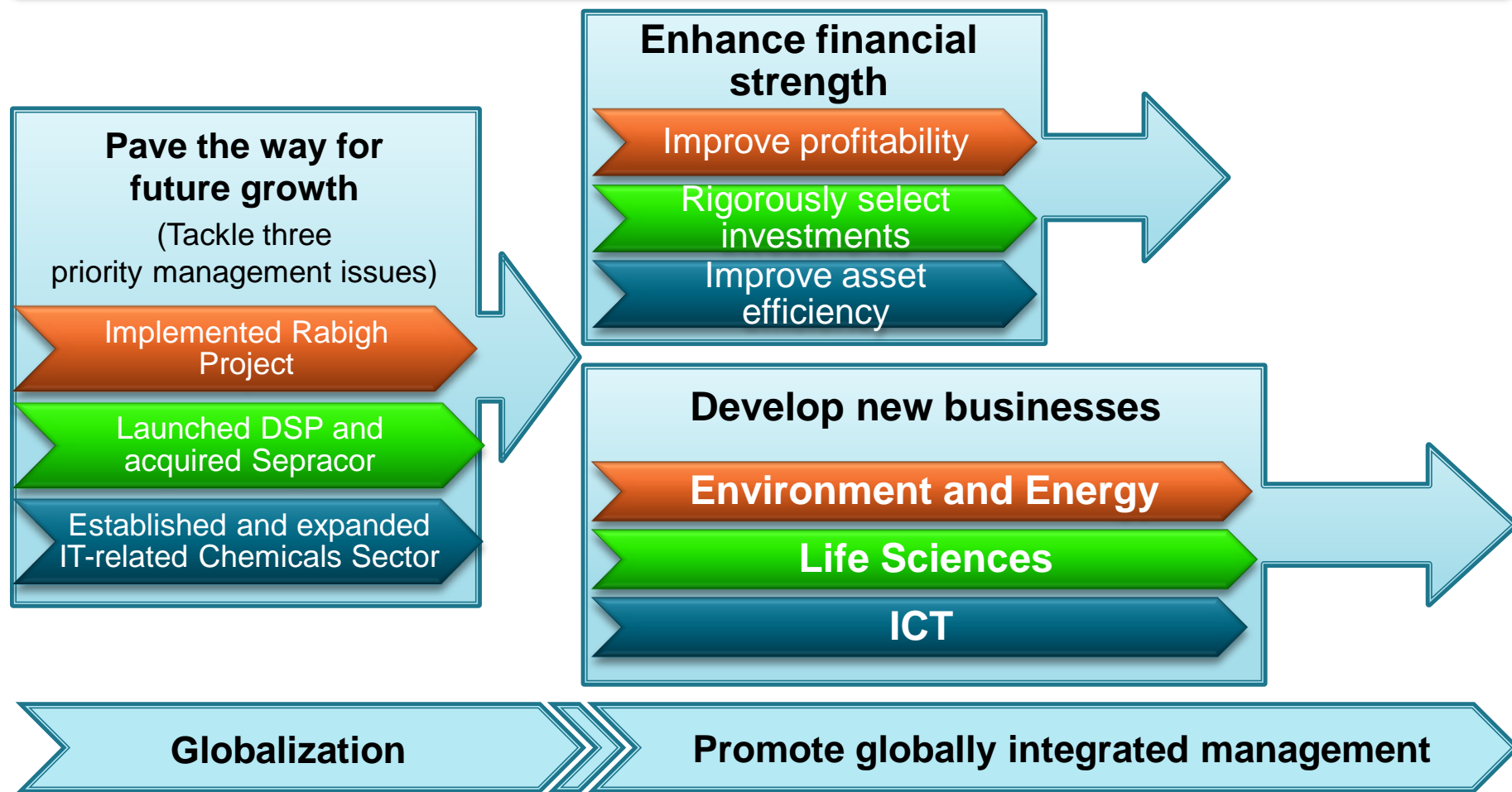
(2) Where We Have Been Heading

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Last 10 Years

2 to 3 Years

Next 10 to 20 Years



(3) Results of Corporate Business Plan FY2010 - FY2012

① Basic Initiatives and Results

Quickly maximize profits and cash flows from major investments

Enhance financial strength

Strengthen cost competitiveness of core and commodity businesses

Accelerate business growth

Implement climate change strategy

Strengthen global management system

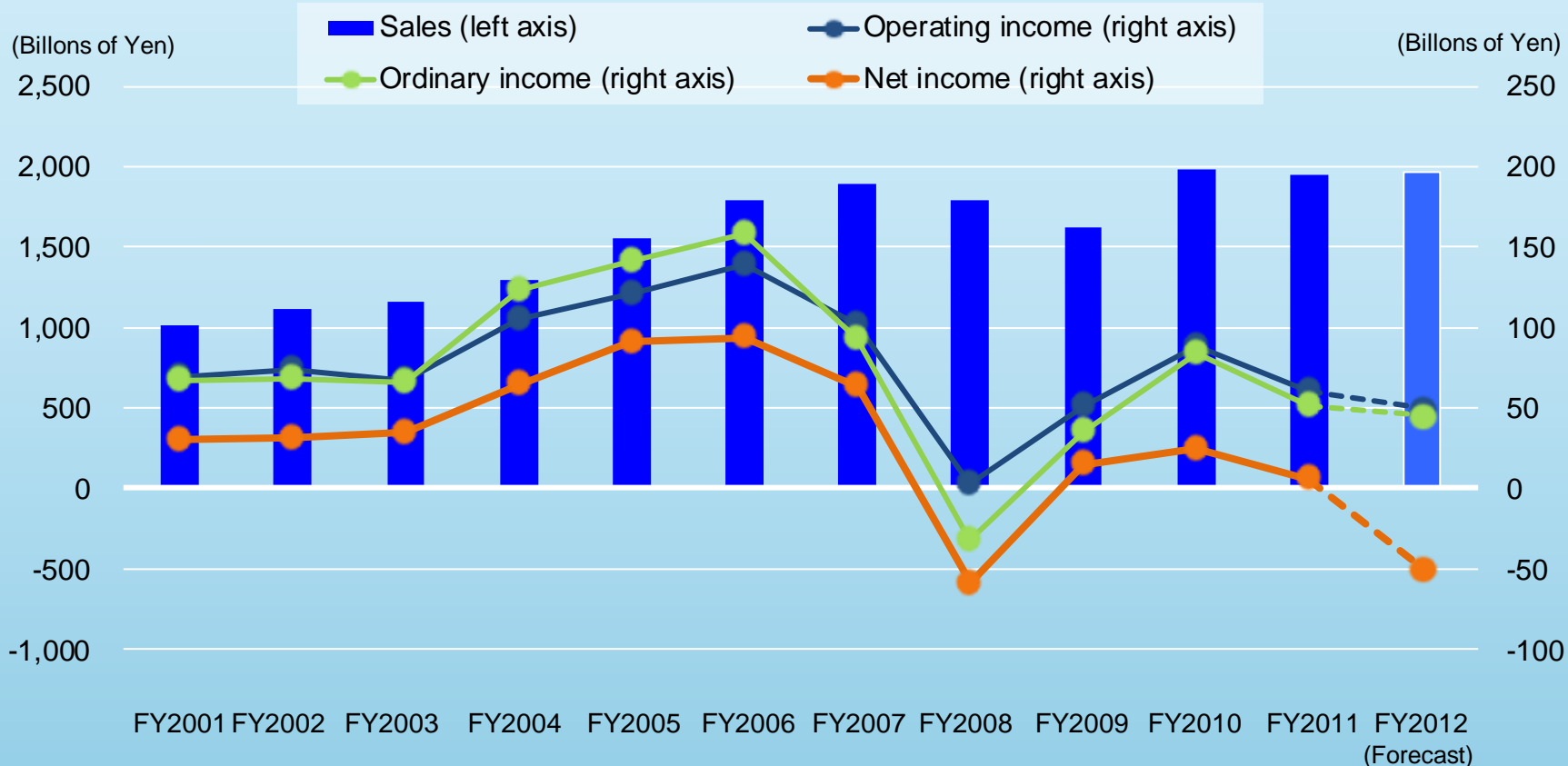
Ensure full and strict compliance and maintain safe and stable operations

- Launched initiatives to enhance financial strength
- Increased production capacity for methyl methacrylate and high-purity alumina
- Rabigh Phase I project: completion guarantee under the project financing agreements lifted
- Launched Rabigh Phase II project
- Expanded the business of polarizing film for smartphones and tablet PCs
- Started manufacturing and selling touchscreen panels in South Korea
- Business alliances with Nufarm and Monsanto
- Launched LATUDA (atypical antipsychotic) in North America
- Acquired Boston Biomedical Inc. (BBI) to obtain a pipeline of innovative anti-cancer drugs

(3) Results of Corporate Business Plan FY2010 - FY2012

② Consolidated Financial Performance Trends

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(3) Results of Corporate Business Plan FY2010 - FY2012

③ Extraordinary Factors in FY2012

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- **Reversal of deferred tax assets**
- **Business restructuring expense and impairment loss** (related to restructuring of petrochemical operations at the Chiba Works)

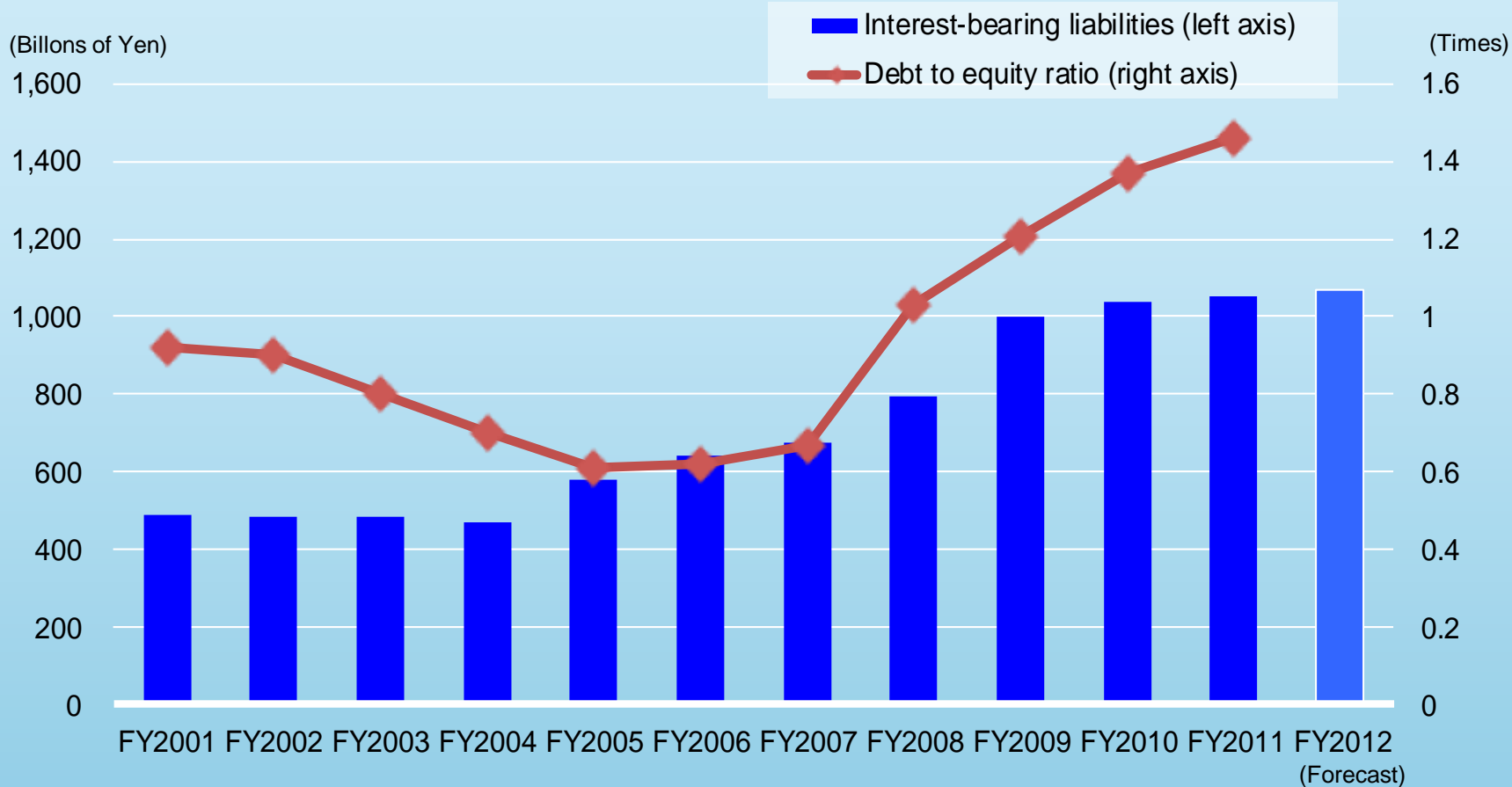


**Financial health improved and now ready
for new Corporate Business Plan**

(3) Results of Corporate Business Plan FY2010 - FY2012

④ Interest-bearing Liabilities and Debt to Equity Ratio

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(4) Sumitomo Chemical's Current Situation

Initiatives

- Implemented major strategic projects
- Promoted globally integrated management

Deterioration in business environment

- Worsened market conditions
(Lehman shock, Europe's sovereign debt crisis)
- Appreciation of the yen

Delay in realizing
expected returns on
major investments

Weak business
performance

Downturn in
financial strength

We need to make a real change, with a sense of crisis, to turn things around

1. Current Situation

2. Overview of Corporate Business Plan FY2013 - FY2015

- (1) Key Ideas of Corporate Business Plan FY2013 - FY2015**
- (2) Performance Targets**
- (3) Priority Management Issues**

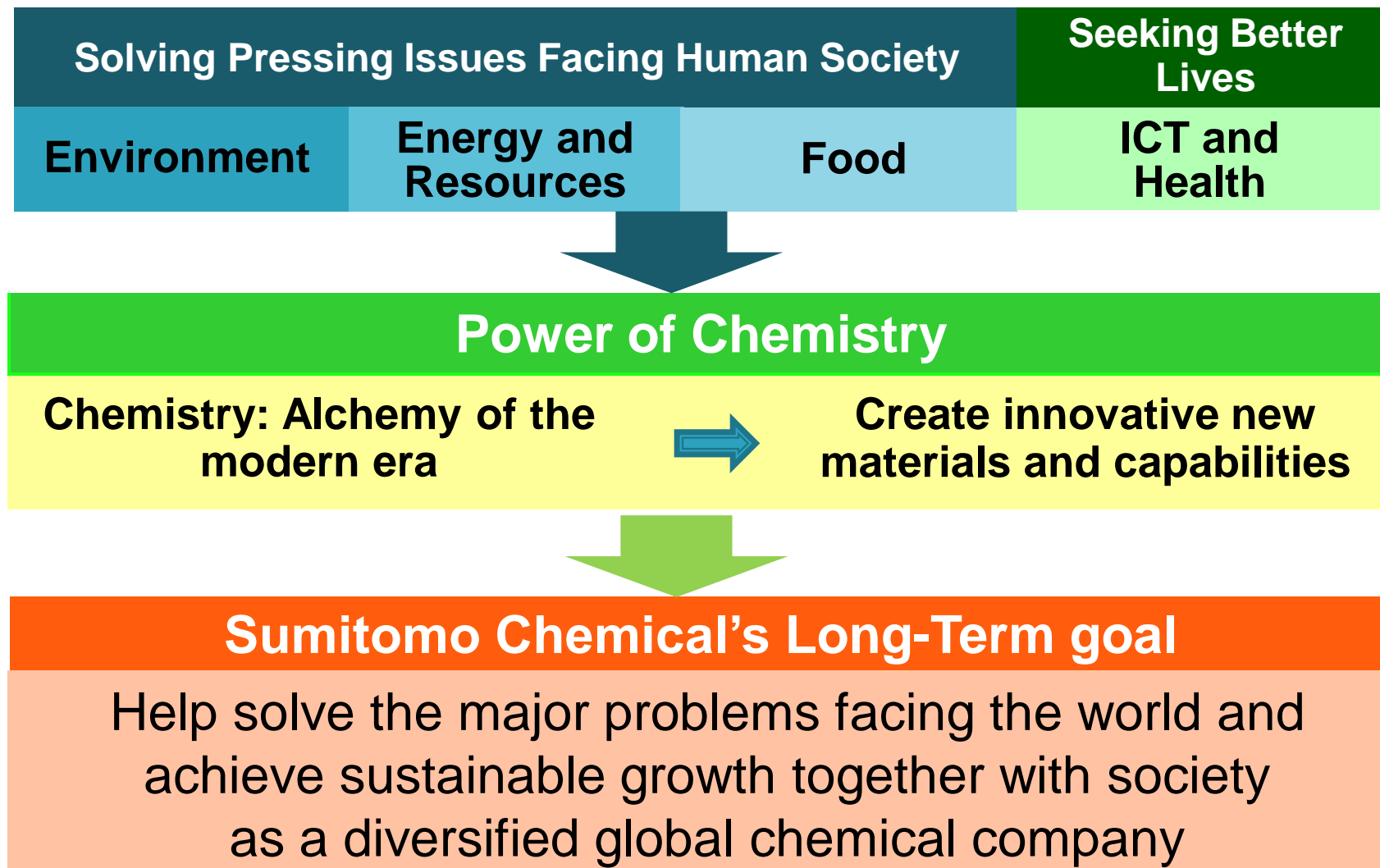
3. Initiatives Under Corporate Business Plan FY2013 - FY2015

4. Shareholder Return

(1) Key Ideas of Corporate Business Plan FY2013 - FY2015

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① Sumitomo Chemical's Long-Term Goal



1 Create new value based on technologies accumulated over the years

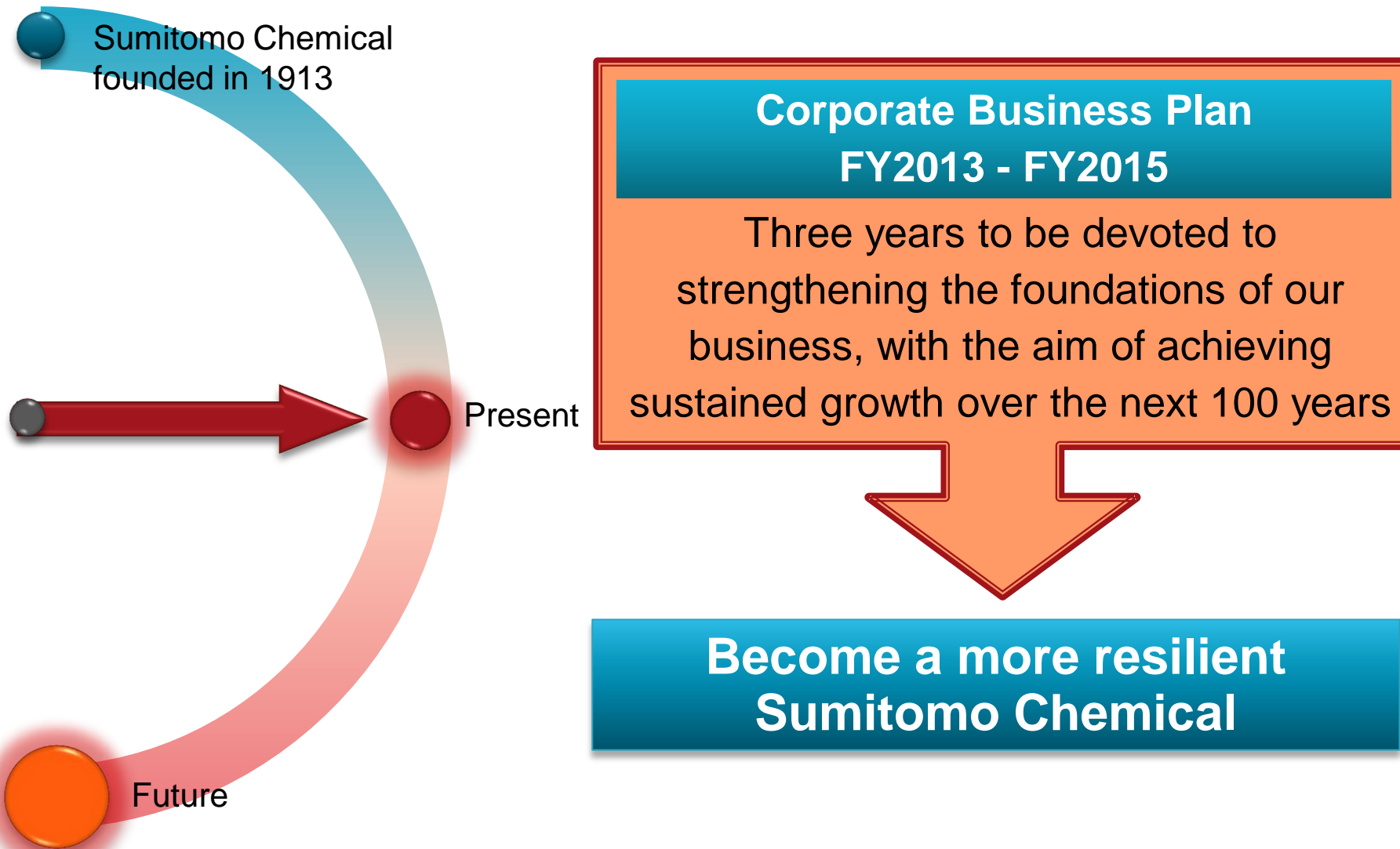
2 Through the power of chemistry, help solve global challenges (e.g. problems related to energy, the environment and food)

3 Develop a corporate culture full of can-do spirit and always be a company that society can trust

(1) Key Ideas of Corporate Business Plan FY2013 - FY2015

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③ Purpose of the Corporate Business Plan FY2013 – FY2015



Change and Innovation

—for the next hundredth anniversary—



Change & Innovation Business Structure

- ✓ Downsize/exit underperforming businesses
- ✓ Improve business portfolio
- Build business structure resilient to changes in external environment



Change & Innovation Business Development

- ✓ Develop next-generation businesses
- ✓ Accelerate the development of printed electronics
- ✓ Develop new businesses in the area of life sciences



Change & Innovation Corporate Culture

- ✓ Demonstrate “can-do” spirit
- ✓ See what’s happening on the ground and be proactive and pragmatic
- ✓ Promote diversity

(2) Performance Targets

① Performance Targets for FY2015

Targets for FY2015

Sales	¥2,400	Billion
Operating Income	¥140	Billion
Ordinary Income	¥150	Billion
(Equity in Earnings of Affiliates	¥25	Billion
Net Income	¥90	Billion
Interest-Bearing Liabilities	Below ¥900	Billion

【Assumptions】

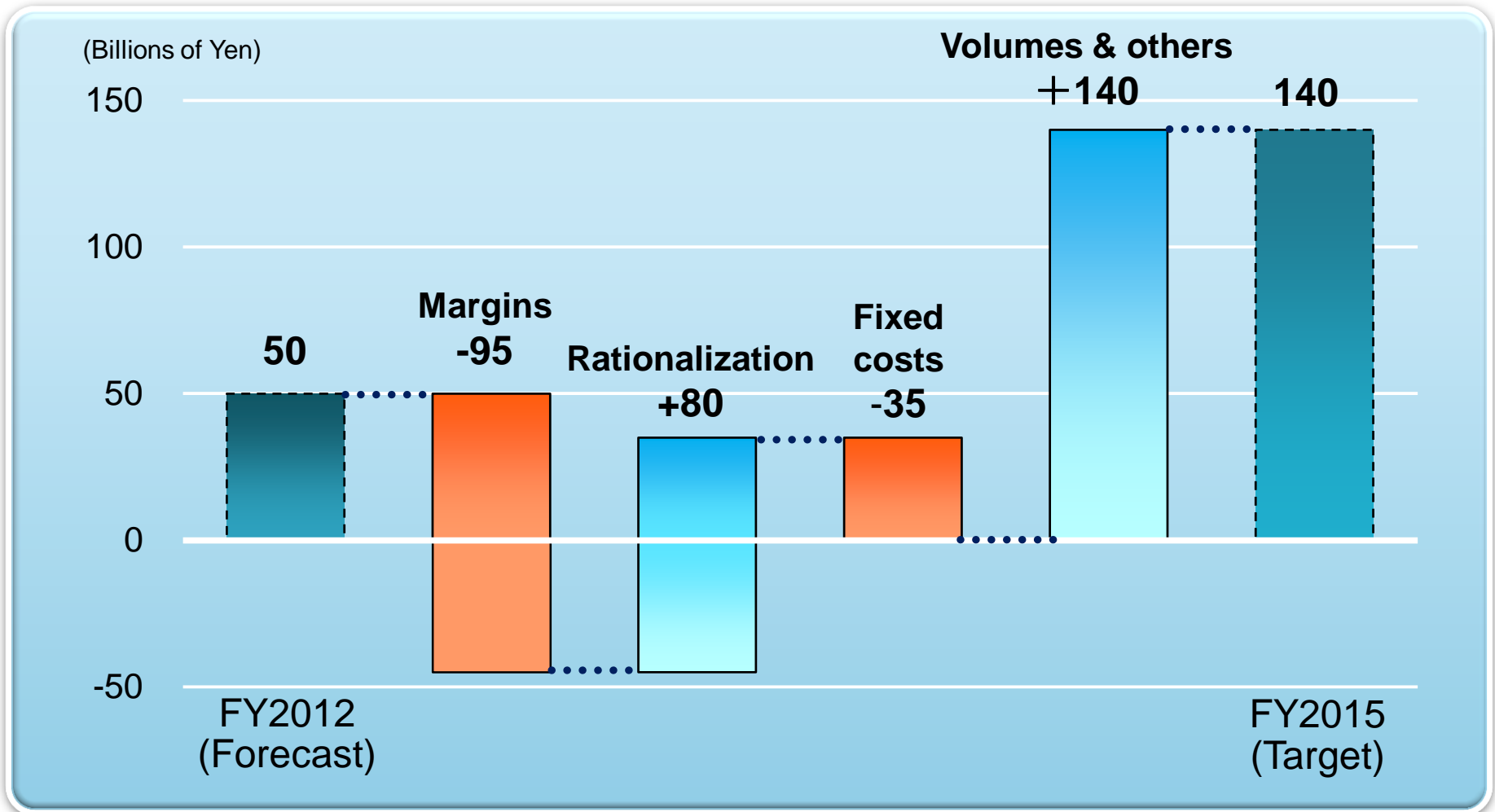
Exchange Rate	¥80/\$US
Naphtha Price	¥60,000 /kl

Sensitivity of operating income to currency fluctuations is approximately ¥2.5 billion per year for each one-yen change in the exchange rate of the yen against US\$

(2) Performance Targets

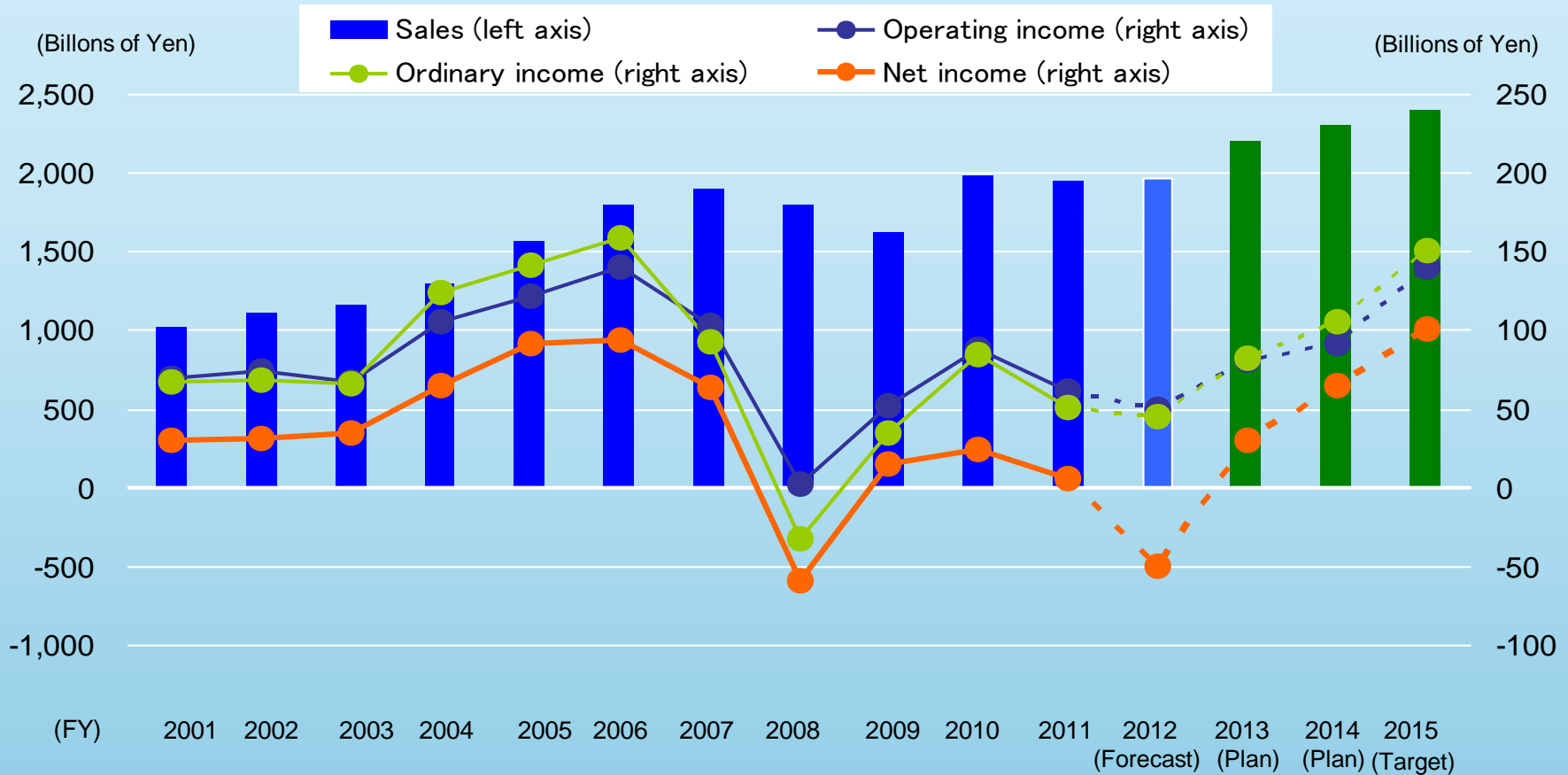
② Change in Operating Income: FY2012 vs. FY 2015

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(2) Performance Targets

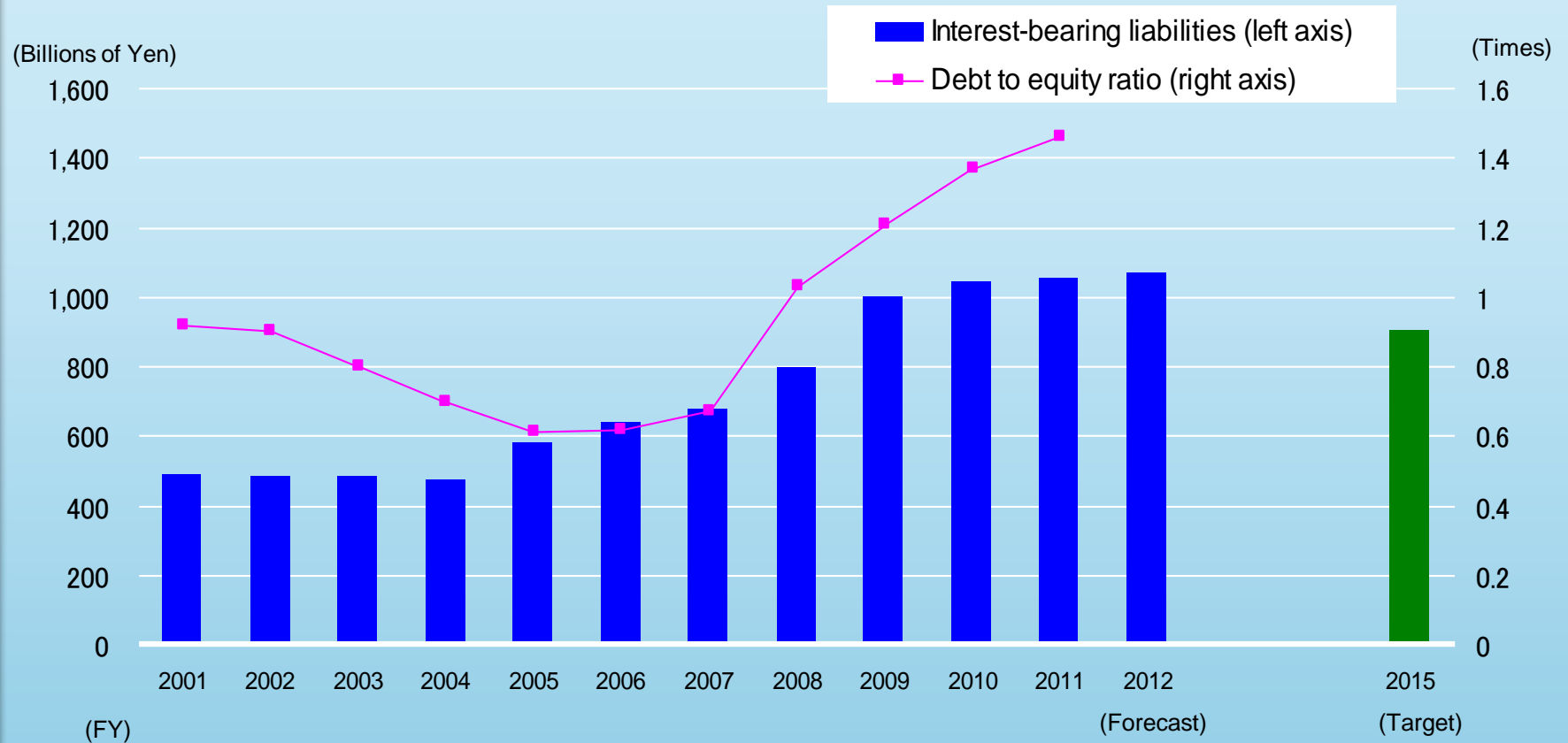
③ Consolidated Financial Performance Targets



(2) Performance Targets

④ Interest-bearing Liabilities and D/E Ratio Targets

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(2) Performance Targets

⑤ Cash Flows Targets

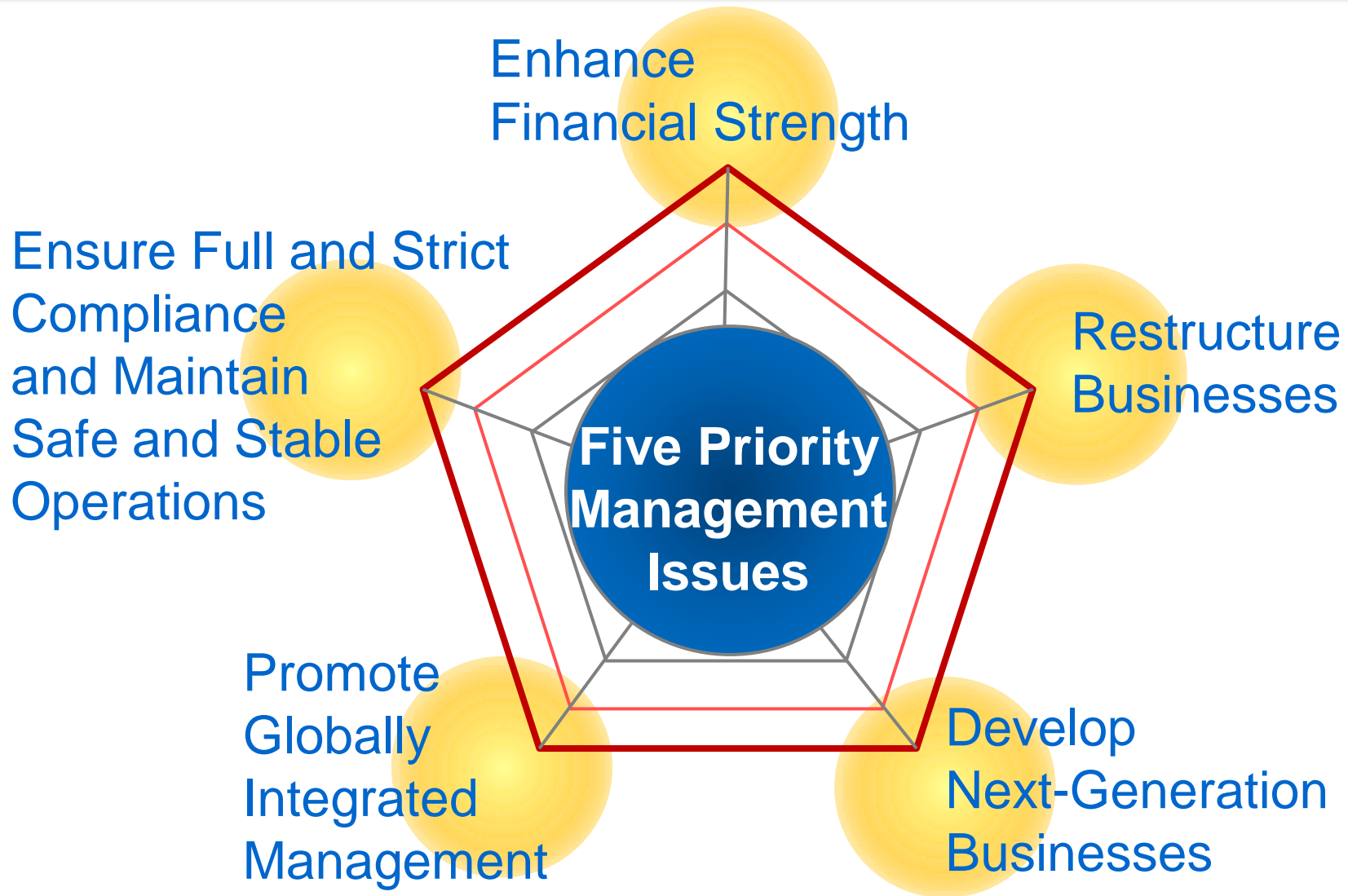
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	FY2010–FY2012 Current Corporate Business Plan (Forecast)	FY2013 - FY2015 New Corporate Business Plan (Target)
Cash flows from operating activities	¥475 billion	¥540 billion
Cash flows from investing activities	¥-450 billion	Below ¥-400 billion
Free cash flows	¥25 billion	* Over ¥200 billion

* (Note) Includes decreases in cash and cash equivalents

	End of FY2012 (Forecast)	End of FY2015 (Target)
Interest-bearing liabilities	¥1,070 billion	¥900 billion

(3) Priority Management Issues



1. Current Situation

2. Overview of Corporate Business Plan
FY2013-FY2015

**3. Initiatives Under Corporate Business Plan
FY2013-FY2015**

(1) Five Priority Management Issues

(2) Priority Initiatives by Sector

4. Shareholder Return

(1) Five Priority Management Issues

Restructure Businesses

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Enhance
Financial Strength

Ensure Full and Strict
Compliance
and Maintain
Safe and Stable
Operations

**Five Priority
Management
Issues**

**Restructure
Businesses**

Promote
Globally
Integrated
Management

Develop
Next-Generation
Businesses

(1) Five Priority Management Issues

Restructure Businesses

CHANGE
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**Downsize/exit
underperforming
businesses**

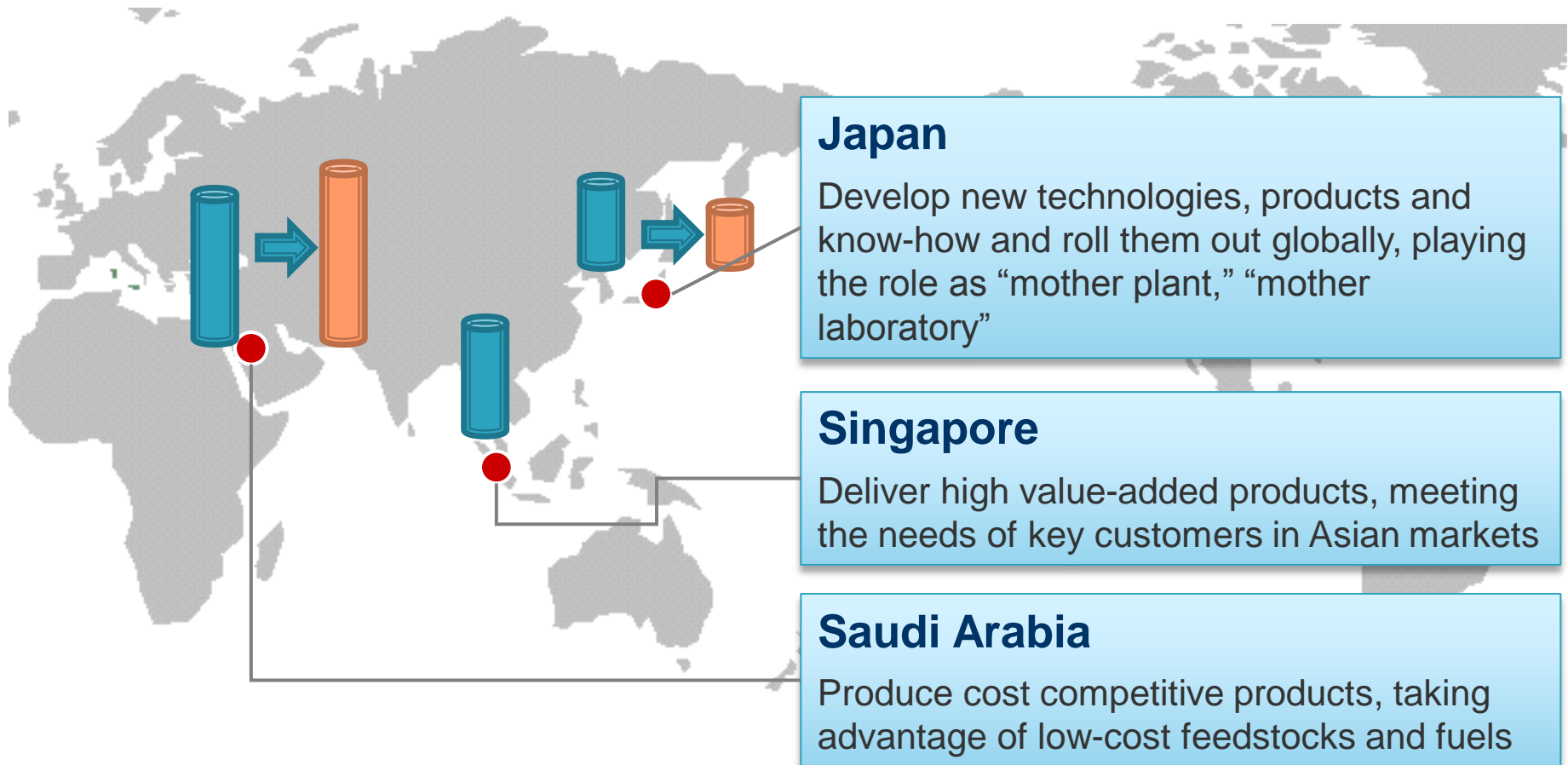
**Improve business
portfolio**



**Develop a high-performance
business structure**

(1) Five Priority Management Issues

Restructure Businesses: Petrochemicals and Plastics (Strengthen Global Business Base)



(1) Five Priority Management Issues

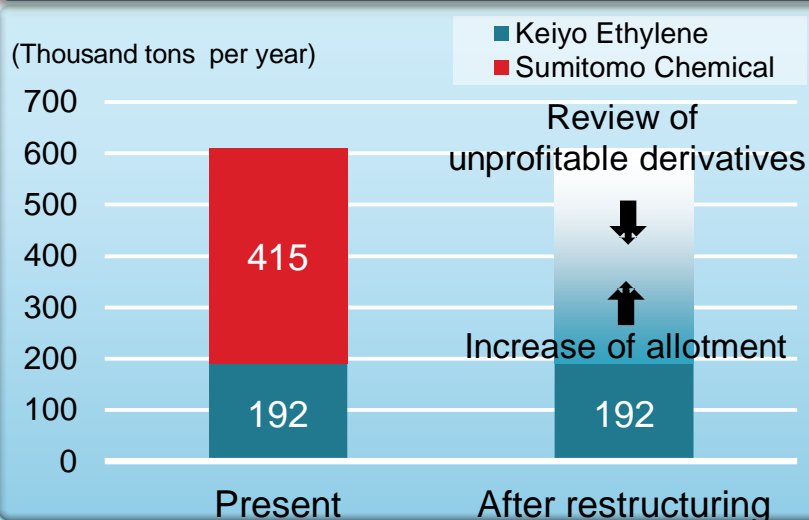
Restructure Businesses: Petrochemicals and Plastics (Restructuring of Chiba Works)

Restructuring of Chiba Works

- Shut down Sumitomo Chemical's ethylene plant
- Procure ethylene supplies from Keiyo Ethylene

Downsize/exit underperforming businesses

Ethylene Production Capacity in Japan



Ethylene Plants

	Start-up of operation	Annual production capacity
Keiyo Ethylene	1994	768,000 tons*
Sumitomo Chemical	1970	415,000 tons

* Includes 192,000 tons of allotment to Sumitomo Chemical

- Keiyo Ethylene's plant is the newest and largest ethylene production facility in Japan.
- Sumitomo Chemical's ethylene plant came on stream more than 40 years ago.

(1) Five Priority Management Issues

Restructure Businesses: Petrochemicals and Plastics (Implementation of Rabigh Phase II Project)

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1. Investment

Approx. US\$ 7 billion

2. Feedstock

Ethane (approx. 400,000 tons/year)
Naphtha (approx. 3 million tons/year)

3. Products

Ethylene propylene rubber (EPDM);
thermoplastic polyolefin (TPO); methyl methacrylate (MMA)
monomer; methyl methacrylate (MMA) polymer; low-density
polyethylene/ethylene vinyl acetate (LDPE/ EVA); para-
xylene/benzene; cumene; phenol/acetone

4. Start of operations

First half of 2016

5. Products under consideration

Acrylic acid; superabsorbent polymer (SAP);
caprolactam; nylon-6; polyols

(1) Five Priority Management Issues

Restructure Businesses:

Expand Specialty Businesses (ICT & Life Sciences)

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Specialty businesses:
Stable and high
performance

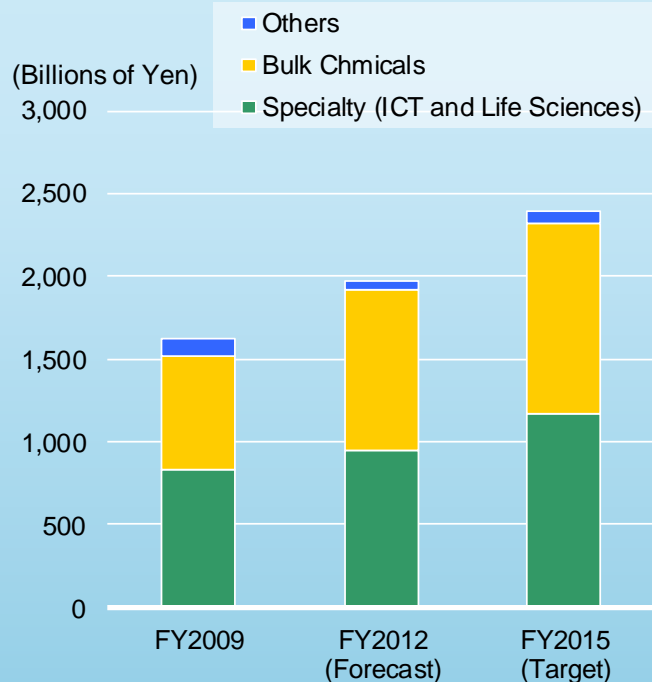


Improve business portfolio by
expanding the specialty area

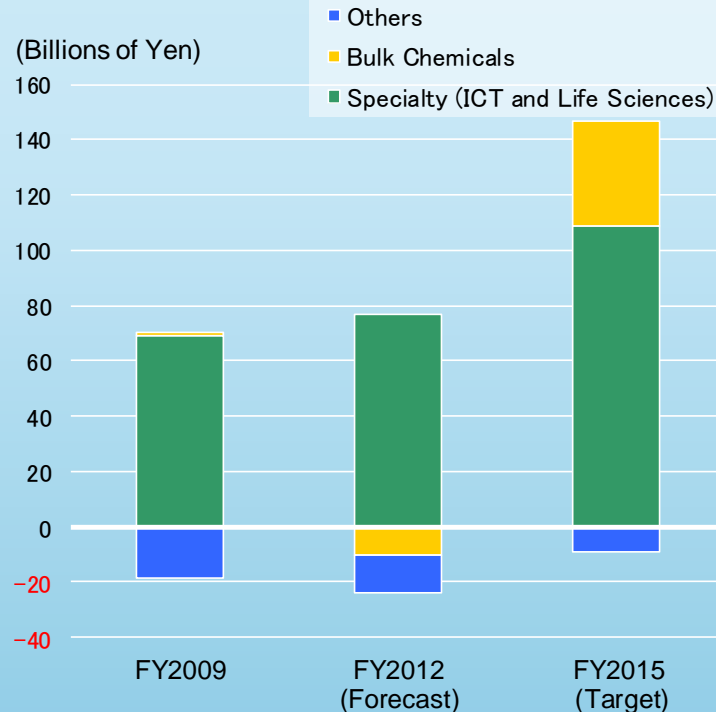


Establish robust
business foundations

Sales



Operating Income



(1) Five Priority Management Issues

Enhance Financial Strength

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Enhance Financial Strength

Ensure Full and Strict
Compliance
and Maintain
Safe and Stable
Operations

Restructure
Businesses

**Five Priority
Management
Issues**

Promote
Globally
Integrated
Management

Develop
Next-Generation
Businesses

(1) Five Priority Management Issues

Enhance Financial Strength

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AND
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Improve
financial
strength

Improve asset
efficiency
(Improve CCC)

Rigorously
select
investments

Enhance financial strength

<FY2015 target>

Interest-bearing liability balance
below ¥900 billion

Secure greater strategic freedom to
aggressively pursue growth opportunities

(1) Five Priority Management Issues

Enhance Financial Strength: Improve Profitability

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Priority management issues since early 21st century

Radically improve competitiveness of petrochemicals business



Gain critical mass in pharmaceuticals business to achieve strong growth



Develop new businesses with potential to become core businesses



Major initiatives under Corporate Business Plan FY2013 - FY2015

Petrochemicals & Plastics

- Maximize profits from Rabigh project

Pharmaceuticals

- Expand sales of LATUDA
- Enhance product pipelines (anti-cancer stem cell drugs, etc.) to prepare for expiration of LATUDA patents

IT-related Chemicals

- Develop new businesses such as touchscreen panels
- Improve profitability of polarizing film business
- Launch PLED business

(1) Five Priority Management Issues

Enhance Financial Strength: Improve Profitability

Rationalization targets for FY2015: ¥80 billion (vs. FY2012)

Item	Target	Major contributor
Variable manufacturing costs	¥57 billion	IT-related Chemicals Petrochemicals & Plastics
Fixed manufacturing costs	¥8 billion	Petrochemicals & Plastics IT-related Chemicals
SG&A expenses	¥15 billion	Pharmaceuticals Corporate
Total	¥80 billion	

(Note) Rationalization targets for SG&A expenses include ¥15 billion cut in overhead costs between FY2011 and FY2015

(1) Five Priority Management Issues

Enhance Financial Strength: Improve Profitability

Foreign Exchange Sensitivity

(Billions of Yen)



Increase overseas production

Expand business globally

Better balance foreign currency-denominated payables and receivables

e.g. by increasing US\$-denominated purchasing of raw materials for products sold in US\$, such as polarizer film

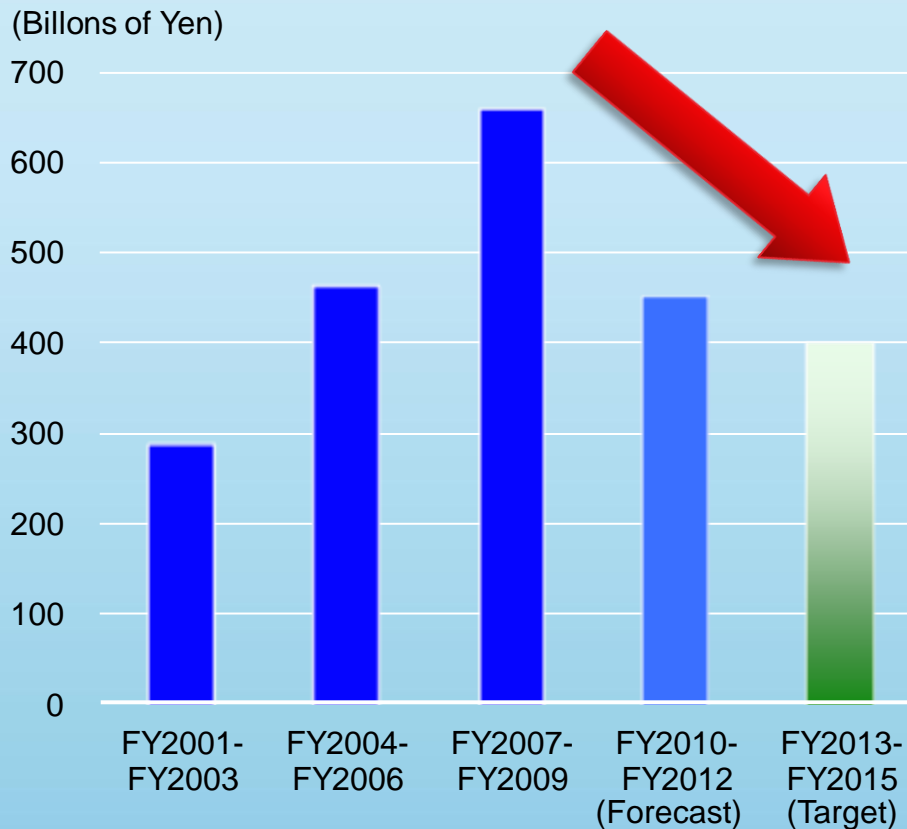
Halve sensitivity of operating income to currency fluctuations from over 4 billion yen to over 2 billion yen per year for each one-yen change in the exchange rate of the yen against US\$

(1) Five Priority Management Issues

Enhance Financial Strength: Rigorously Select Investments

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Investment Cash Flow in the Past Corporate Business Plan Periods



Restrict the amount of investments decided FY2012 to FY2014 to below 400 billion yen

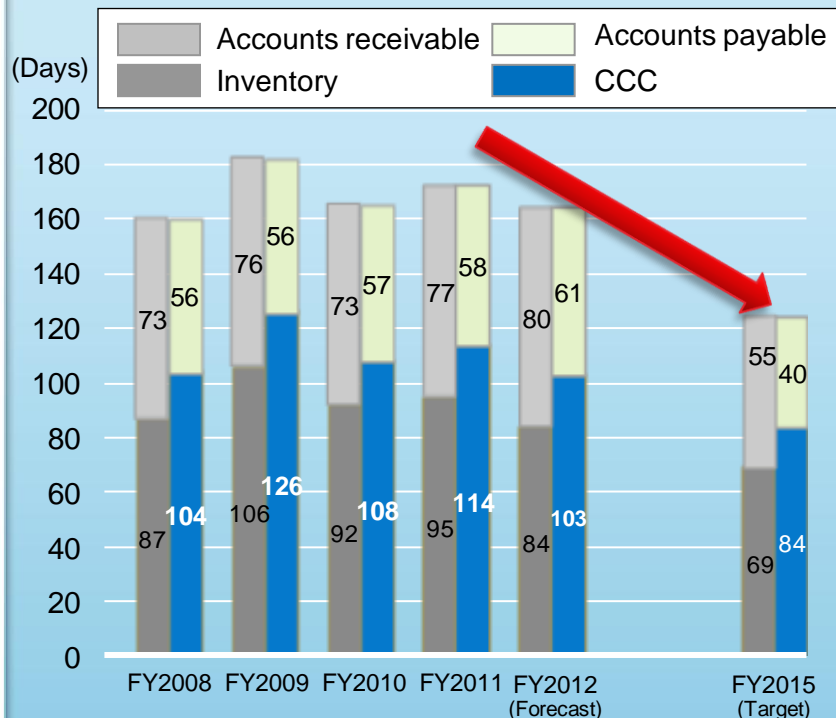
Limit investment cash flow for FY2013 to FY2015 to below 400 billion yen

(1) Five Priority Management Issues

Enhance Financial Strength: Rigorously Select Investments

Cash Conversion Cycle (CCC) = accounts receivable turnover + inventory turnover - accounts payable turnover

Sumitomo Chemical's CCC



Our initiatives

- Shorten accounts receivable terms
- Reduce and optimize inventory levels
- Extend accounts payable terms



Target

Reduce CCC by 25% from FY2010 level by FY2015

Estimated total cash flow improvement between FY2011 and FY2015 through these CCC reduction initiatives

130 billion yen

(1) Five Priority Management Issues

Develop Next-Generation Businesses

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Enhance
Financial Strength

Ensure Full and Strict
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Restructure
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**Five Priority
Management
Issues**

Promote
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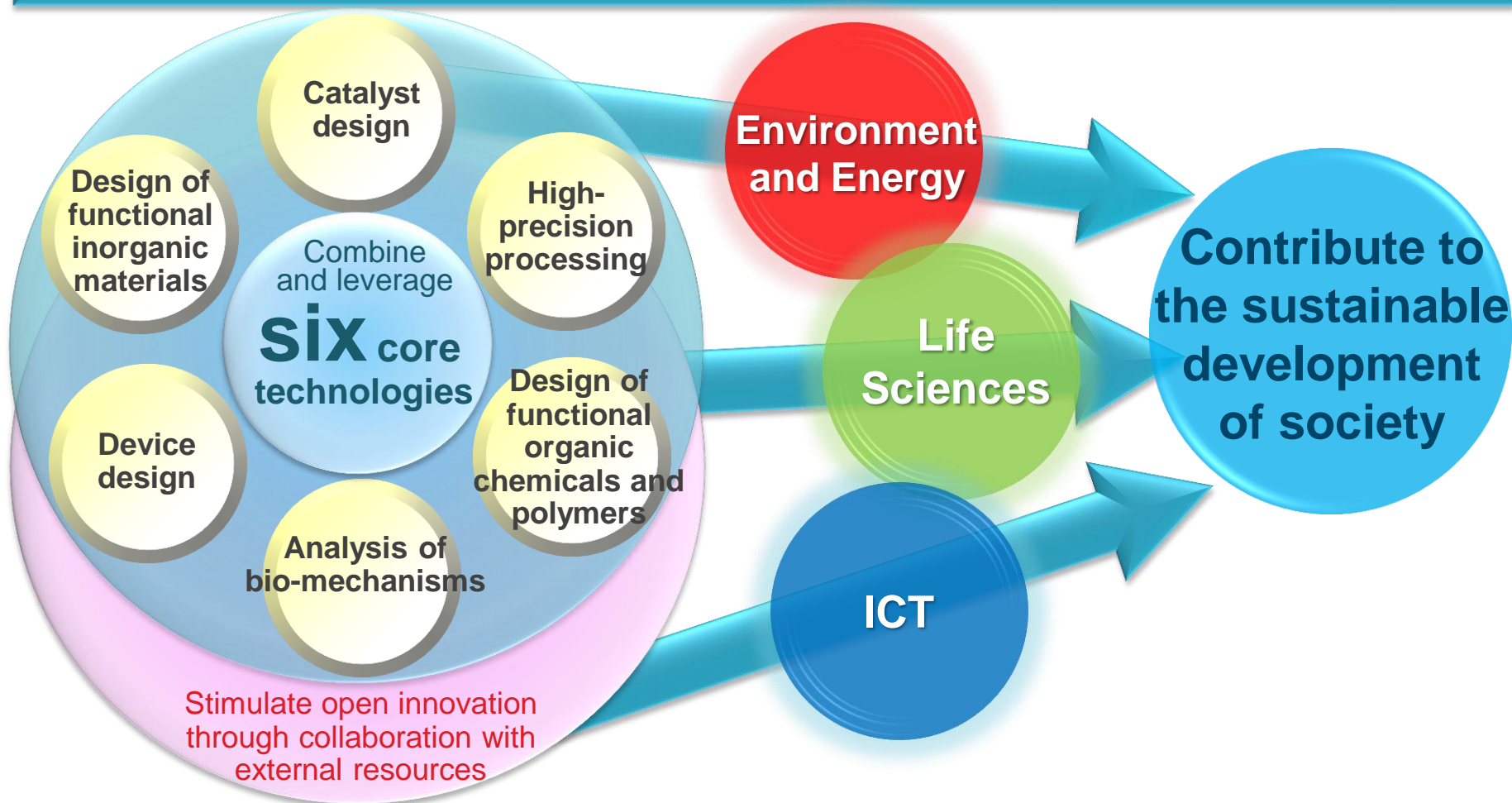
**Develop
Next-Generation
Businesses**

(1) Five Priority Management Issues

Develop Next-Generation Businesses:
Implement Creative Hybrid Chemistry

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Develop next-generation businesses by developing innovative new products that help solve global challenges



(1) Five Priority Management Issues

Develop Next-Generation Businesses:
Environment and Energy, ICT, Life Sciences

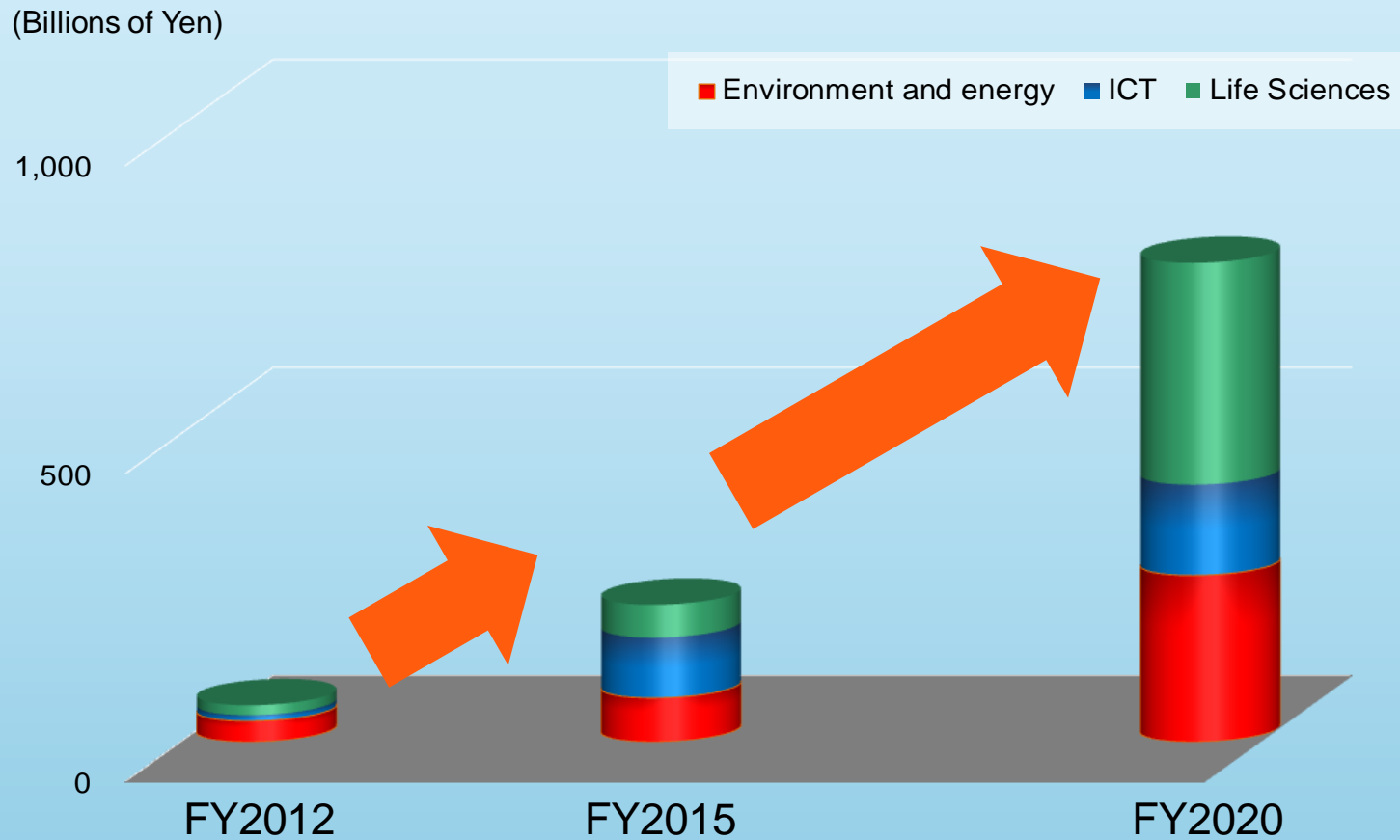
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Launch	2011	2015	2020~
Environment and Energy	<p>Silicon solar cells (HEVA, electrode paste, etc.)</p> <p>Lithium-ion secondary batteries (separators)</p> <p>LED lighting applications (sapphire substrates and alumina, etc.)</p>	<p>Ultra-high-efficiency photovoltaic (epitaxial wafer)</p> <p>PLED lighting</p> <p>Power semiconductors (epitaxial wafers)</p> <p>High heat-resistant and high thermal-conductive resin</p> <p>Diesel particulate filters</p> <p>CO₂ separation</p>	<p>Organic thin-film photovoltaics</p> <p>Lithium-ion secondary batteries (cathode materials)</p>
ICT		<p>PLED (light emitting materials)</p> <p>Next-generation polarizing films</p> <p>Encapsulation material for optical use</p>	Organic semiconductors
Life Sciences	<p>Drug for Schizophrenia (LATUDA)</p> <p>Drug for bipolar disorder (LATUDA)</p>	<p>Anticancer drugs targeting cancer stem cells</p> <p>Screening using ES and iPS Cells</p>	<p>Crop stress management</p> <p>Regenerative treatment and cell treatment</p>

(1) Five Priority Management Issues

Develop Next-Generation Businesses: Sales Forecast

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(1) Five Priority Management Issues

Promote Globally Integrated Management

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**Five Priority
Management
Issues**

**Promote
Globally
Integrated
Management**

Develop
Next-Generation
Businesses

(1) Five Priority Management Issues

Promote Globally Integrated Management: Conduct each Business Function, from R&D to Production to Sales, in the Best Location in the World

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Basic Chemicals

- Korea
 - ✓ Building high-purity alumina production facilities
- Poland
 - ✓ Building DPF production facilities

Petrochemicals & Plastics

- Singapore
 - ✓ Building S-SBR production facilities
- Saudi Arabia
 - ✓ Rabigh Phase II Project

IT-related Chemicals

- Korea
 - ✓ Increase touchscreen panel production capacity
- China
 - ✓ Enhance supply chain



Health and Crop Science

- Australia
 - ✓ Comprehensive business alliance with Nufarm
- US
 - ✓ Collaboration with Monsanto

Pharmaceuticals

- US
 - ✓ Expand indications of LATUDA
 - ✓ Develop anti-cancer stem cell drugs
- Europe
 - ✓ Joint development and launch of LATUDA with Takeda Pharmaceuticals

(1) Five Priority Management Issues

Ensure Full and Strict Compliance and Maintain Safe and Stable Operations

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Enhance
Financial Strength

**Ensure Full and
Strict Compliance
and Maintain
Safe and Stable
Operations**

Restructure
Businesses

**Five Priority
Management
Issues**

Promote
Globally
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Management

Develop
Next-Generation
Businesses

(1) Five Priority Management Issues

Ensure Full and Strict Compliance and
Maintain Safe and Stable Operations

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Ensure full and strict compliance

- ✓ Strengthen compliance systems across the Sumitomo Chemical Group, including subsidiaries and affiliates at home and abroad

Maintain safe and stable operations

- ✓ Ensure safe and stable operations by enhancing our culture of safety and increasing safety assurance capabilities

(2) Priority Initiatives by Sector

Basic Chemicals Sector

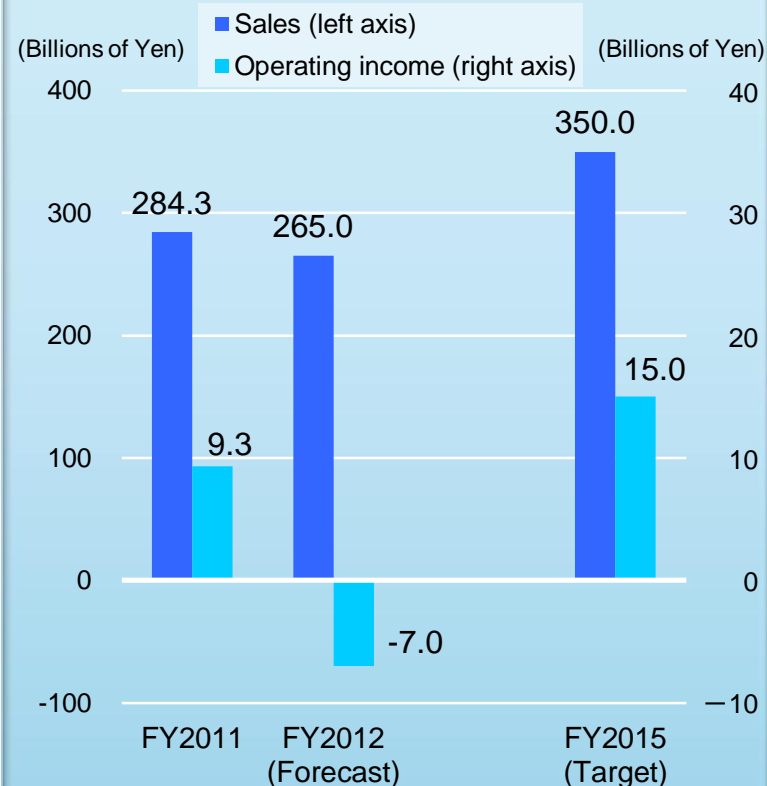
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Basic Policy

- Expand and strengthen businesses through aggressive structural reform

Change and Innovation

- Quickly develop our environment- and energy-related businesses—including high-purity alumina and ceramic filters for diesel engine exhaust gas (diesel particulate filters (DPF))—into profitable businesses
- Strengthen the foundations of the sector's businesses by stepping up R&D efforts
- Enhance cost competitiveness via thorough rationalization



FY2015 Targets

Sales	¥350 billion
Operating Income	¥15 billion

(2) Priority Initiatives by Sector

Basic Chemicals Sector

Develop next-generation businesses in the area of inorganic materials for use in environmental and energy applications

High-purity aluminum

Expand supply capacity
Meet the needs for use as lithium-ion secondary battery material
Establish global business and development operations

Ceramic filters for diesel engine exhaust gas (diesel particulate filters (DPF) and others

Achieve full operation of new DPF plant immediately after completion of the facilities (Startup: FY2013; Capacity: c.a. 1 million units/year)
Further expand business
Establish global operations

Improve the competitiveness of caprolactam and MMA businesses

- Increase cost competitiveness (production, logistics and purchases of raw materials)
- New production processes are being studied

(2) Priority Initiatives by Sector Petrochemicals and Plastics Sector

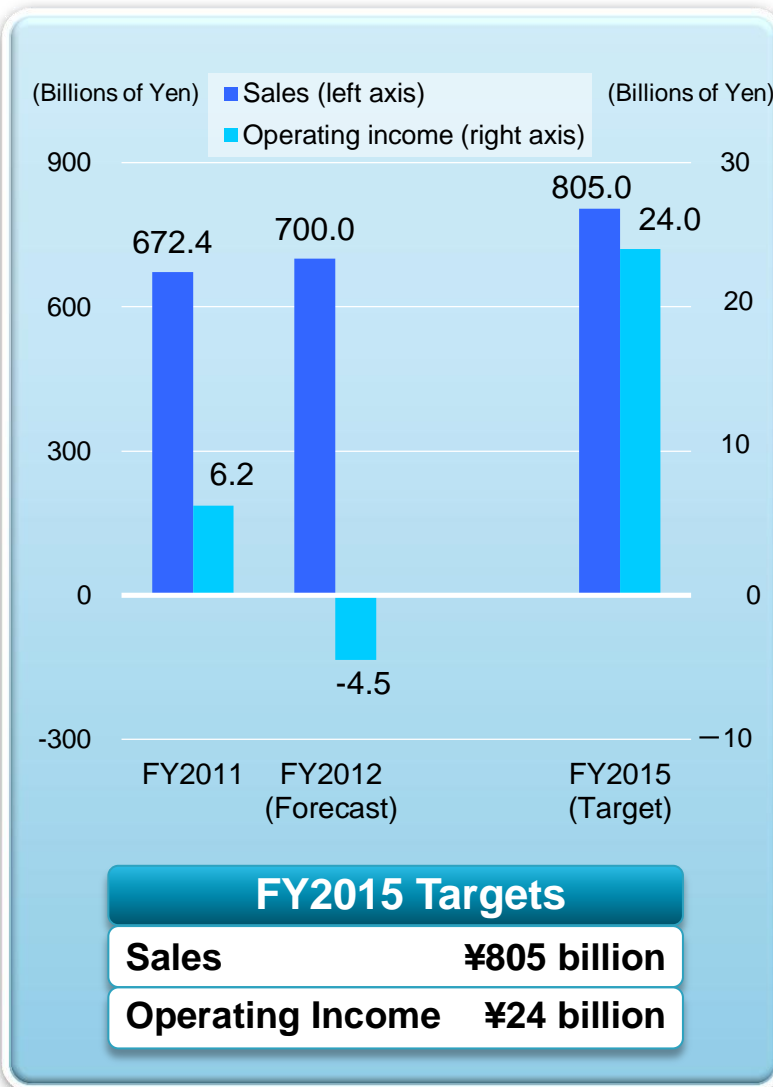
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Basic Policy

- Maximize profits from major investments
- Strengthen business structure, taking account of future changes in business environment

Change and Innovation

- Restructure domestic operations (exit underperforming businesses, review the management of production operations)
- Strengthen competitiveness of operations in Singapore (shift toward higher value-added products)
- Maximize Petro Rabigh's profitability (achieve more stable operations)



(2) Priority Initiatives by Sector

IT-related Chemicals Sector

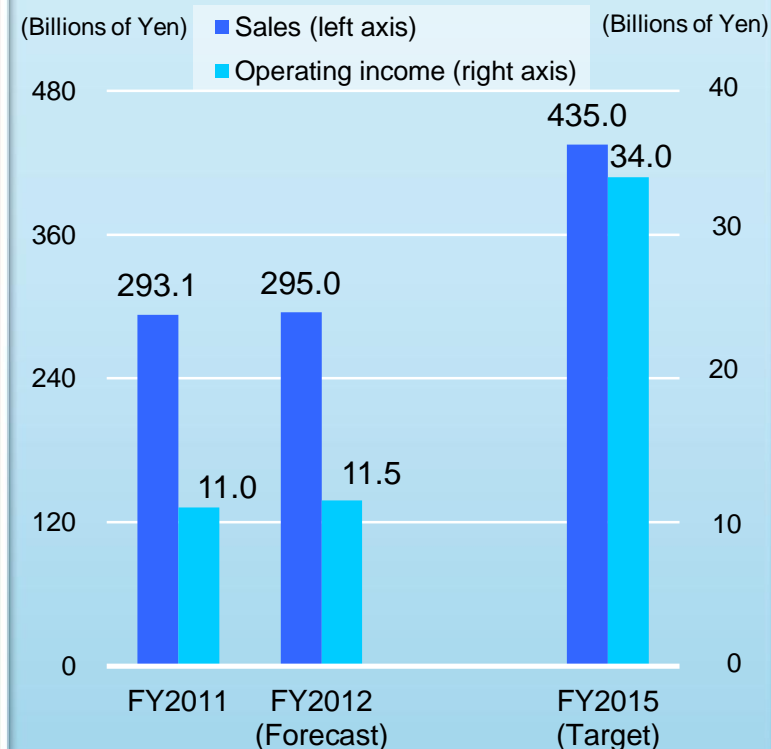
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Basic Policy

- Develop innovative new products and technologies
- Respond to changes in market structure through market-oriented approach

Change and Innovation

- Develop next-generation businesses
 - Touchscreen panels
 - PLED-related materials, battery materials and others
- Develop high-performance polarizing films for smartphones and tablet PCs
- Improve profitability by restructuring photoresist and color resist businesses



FY2015 Targets

Sales	¥435 billion
Operating Income	¥34 billion

(2) Priority Initiatives by Sector

IT-related Chemicals Sector: Touchscreen Panels

Touchscreen Panel Business

- Entered capacitive on-cell touchscreen panel business
- Began mass production in South Korea in 2012
- Supply touch screens for OLED panels to Samsung Display

Growing demand for touchscreen panels

- Demand is growing for use in smart phones and tablet PCs

Decided to increase touchscreen panel production capacity

Production capacity:

Up 70% from current level

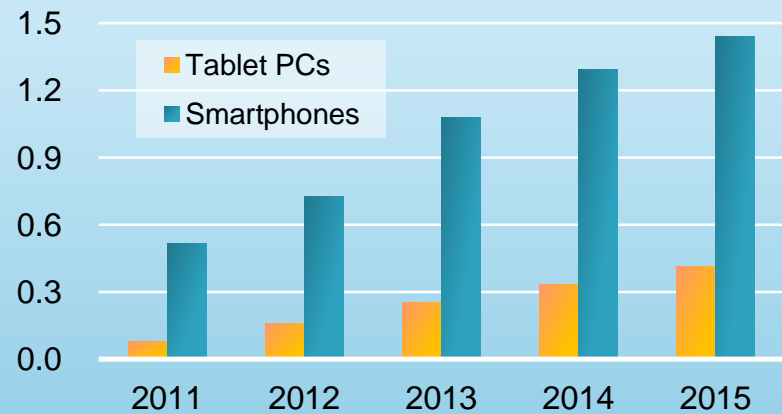
Start of operation of new capacity:

First half of FY2013

Consider building additional capacity, carefully watching technology and demand trends

**Touchscreen Panel Demand
by Applications**

(Billion units)



(Source: Display Search 2013.01)

(2) Priority Initiatives by Sector

IT-related Chemicals Sector: Light Emitting Materials for PLED Displays

PLED display panel using our luminescent materials was exhibited at CES

- PLED display panel with our luminescent materials was exhibited at the 2013 International CES in January 2013
- 56-inch 4k2k PLED display panel produced by the RGB all-printing method
- Superb picture quality with high resolution, a wide viewing angle, fast response and excellent color reproduction
- Ultra-thin, light weight and low power consumption

PLED display panel exhibited

(photo by
Panasonic Corp.)



Progress on material development

- Achieved performance level required for use in PLED televisions
- Constructed a mass production plant for luminescent materials at Sumitomo Chemical's Osaka Works

Challenges

- Establish a stable supply chain
- Further improve the performance of luminescent materials

Market outlook

We expect the PLED television market to take off in 2015

(2) Priority Initiatives by Sector

Health & Crop Sciences Sector

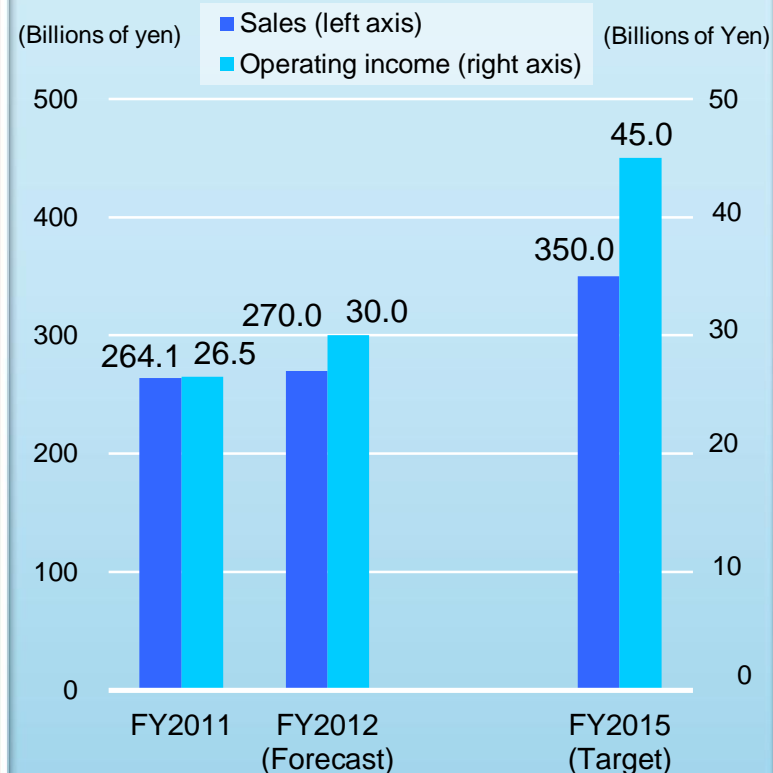
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Basic Policy

- Further strengthen the foundations of the sector's businesses to pursue globalization
- Strengthen highly-profitable businesses

Change and Innovation

- Expand into downstream and related areas
- Pursue synergy with Nufarm and broaden alliance with overseas major company.
- Continuously launch new products.
- Commercialize crop stress management technology



FY2015 Targets

Sales	¥350 billion
Operating Income	¥45 billion

(2) Priority Initiatives by Sector

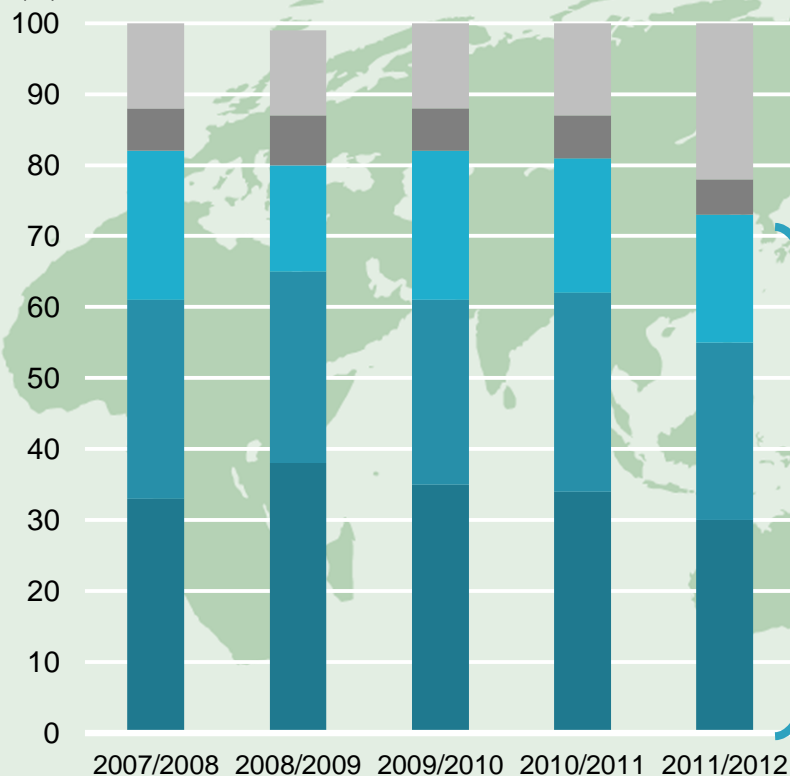
Health & Crop Sciences Sector: Expand Collaboration with Monsanto for Soybean Herbicides

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World Soybean Production

■ the United States ■ Brazil ■ Argentina ■ China ■ Others

(%)



Source: compiled from data by USDA

United States
Started collaboration with
Monsanto in 2010

Japan
Doubled production capacity
for active ingredient of
soybean herbicide in 2012

Brazil and Argentina
Preparing to expand
collaboration with Monsanto

**Covers about
70% of the
world market**



(2) Priority Initiatives by Sector

Health & Crop Sciences Sector: Expand Business Domain to Downstream and Other Surrounding Areas

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Seeds

- Sunflower
- Rapeseed
- Sorghum

Agricultural chemicals

- Insecticide, fungicide

Formulation and application technology

- Insecticide and plant growth regulator for seed treatment
- Seed treatment technology

Agricultural chemicals

- Insecticide, fungicide, herbicide

Bio-rational

- Microbial pesticide
- Plant growth regulator

Fertilizer

- Coating fertilizer

Formulation technology

- Microcapsule

Products

- Fungicide
- Preservative
- Coating agent
- Plant growth regulator

Services

- Postharvest treatment
- Pre-shipment treatment
- Residue analysis

Strategic entry into seed treatment and postharvest business

(2) Priority Initiatives by Sector Pharmaceuticals Sector

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Basic Policy

- Effectively invest resources and expand global operations

Change and Innovation

- Establish a robust revenue base in Japan
- Further expand overseas business and maximize earnings
- Expand global pipeline
- Enhance the profitability of diagnostic radiopharmaceutical business



(2) Priority Initiatives by Sector

Pharmaceuticals Sector: LATUDA sales expansion

LATUDA Sales Projections in U.S. and Canada



Additional indications and expansion of markets

Schizophrenia

U.S., Canada : On sale

Japan : New Phase III study initiated in April 2012

China : IND submitted in September 2011

Europe : New drug application submitted by Takeda Pharmaceutical in September 2012

Schizophrenia (change of maximum dose)

U.S. : Approved in April 2012

Bipolar I depression

U.S., Canada : sNDA submitted in August 2012

Bipolar maintenance

U.S., Europe and others:
Phase III studies initiated in 2Q 2011

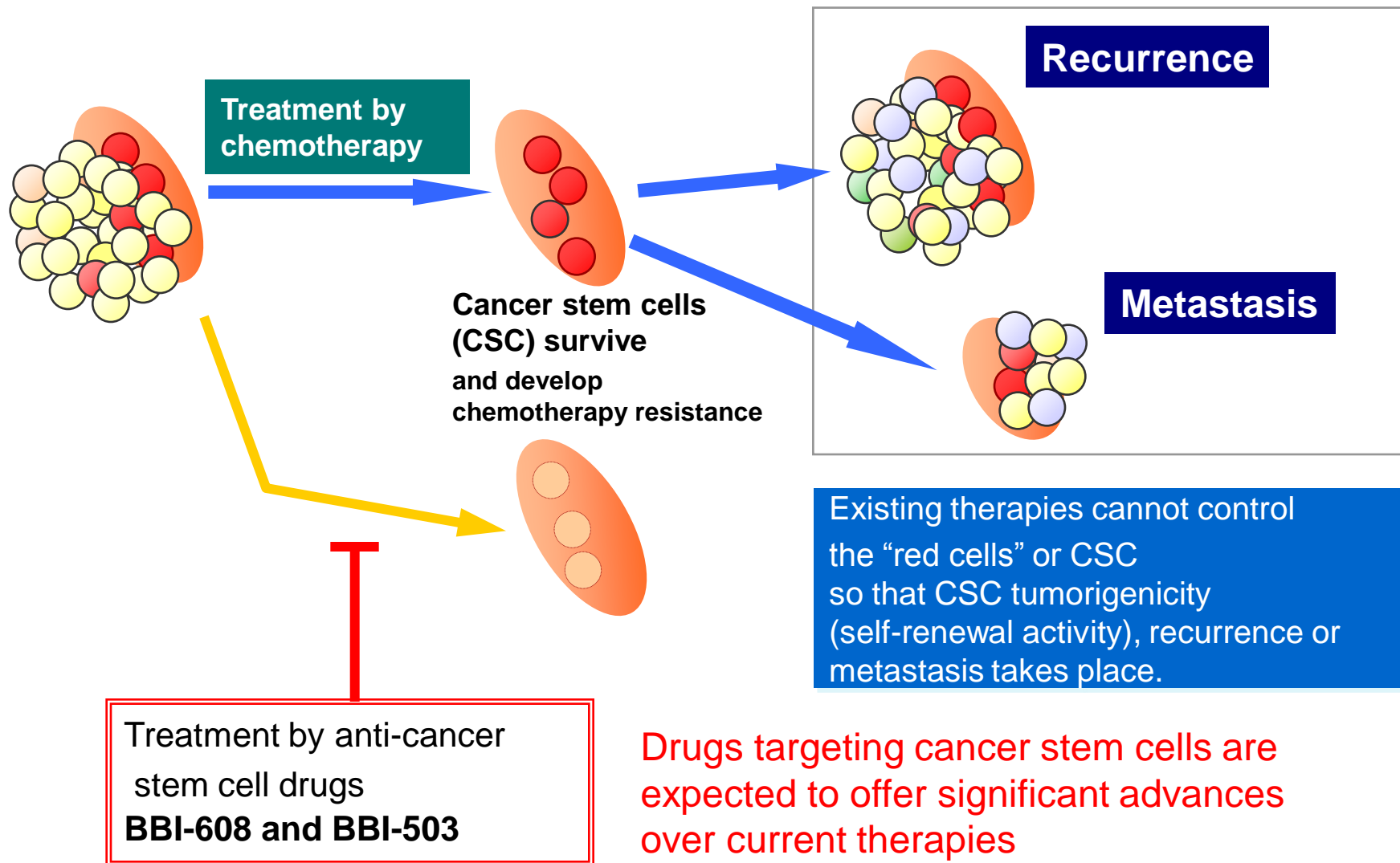
MDD with mixed features

U.S. : Phase III studies initiated in 2Q 2011

(2) Priority Initiatives by Sector

Pharmaceuticals Sector: Anti-cancer Stem Cell Drugs

CHANGE
AND
INNOVATION





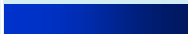

(2) Priority Initiatives by Sector

Pharmaceuticals Sector: Anti-cancer Stem Cell Drugs

Development Schedule

<U.S./ Canada>

* on Phase 1 of Phase 1/2 study

Product	Target Indication	Phase1	Phase2	Phase3	Submitted
BBI608	Colorectal (2nd/3rd line, monotherapy)				
	Colorectal (3rd/4th line, combo)				
	Solid tumor (2nd/3rd line, combo with Paclitaxel)		※		
BBI503	Solid tumor (monotherapy)				

<Japan>

- Begin Ph1 clinical trials by March 2013 (submit a notification of clinical trial plan)
- Participate in Ph3 international joint clinical trial to minimize development time

Target Launch Year for
BBI608

U.S./Canada: FY2015 Japan: FY2016

1. Current Situation

2. Overview Of Corporate Business Plan
FY2013-FY2015

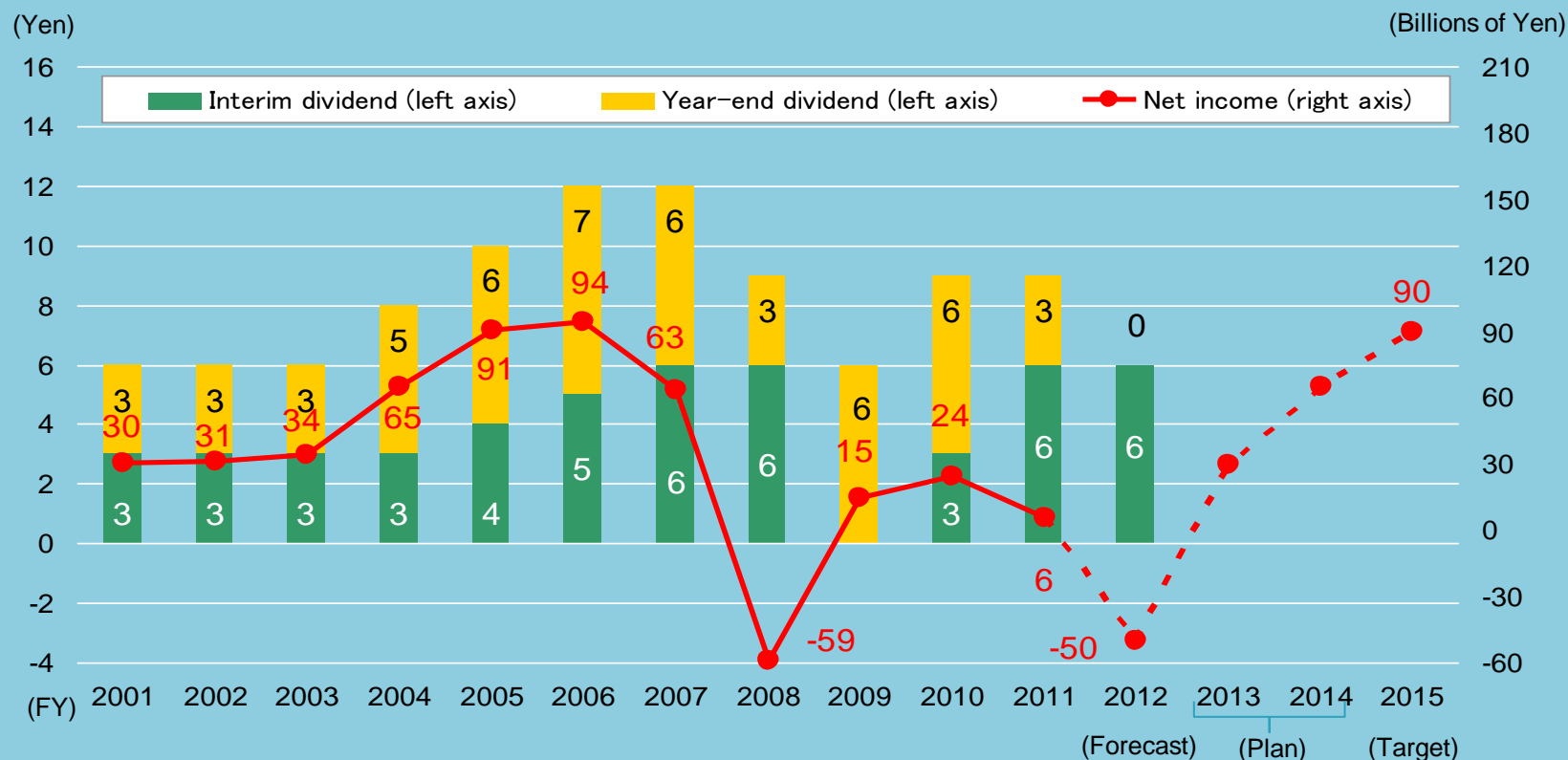
3. Initiatives Under Corporate Business Plan
FY2013-FY2015

4. Shareholder Return

(1) Dividend Policy

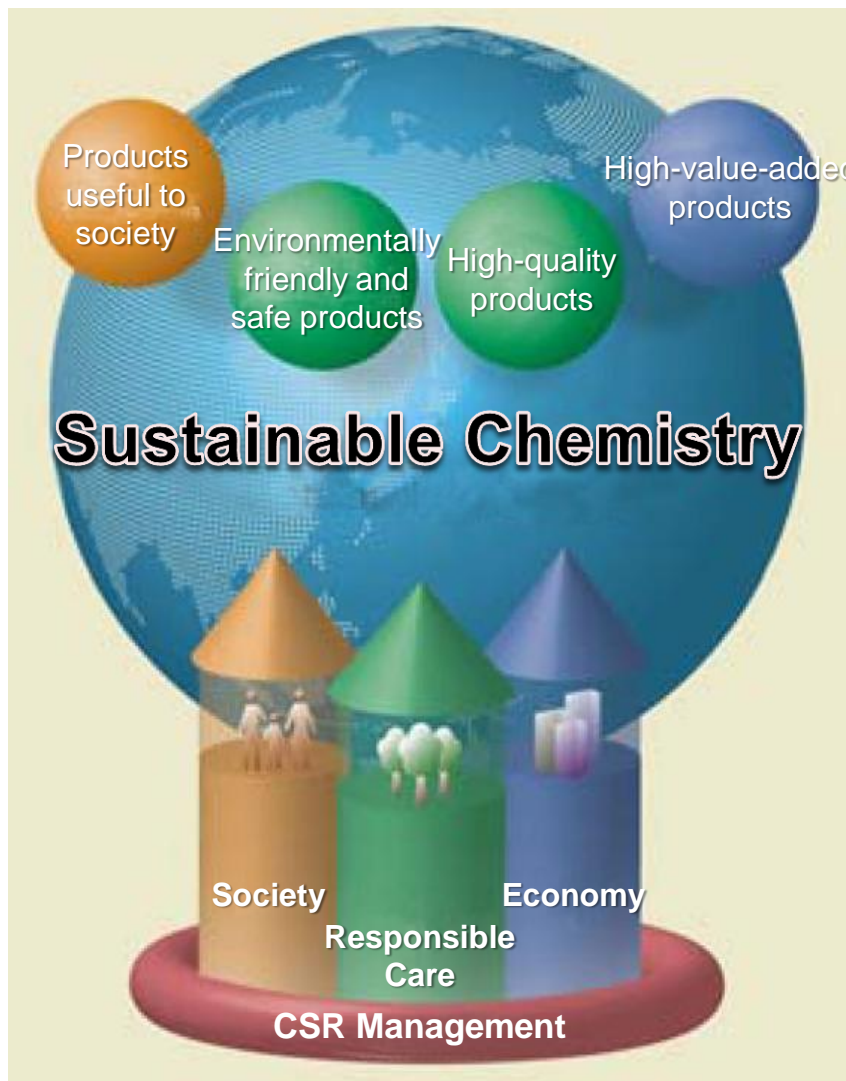
(1) Dividend Policy

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





Final Words



Support the sustainable development of society with the power of chemistry



Participated in the UN Global Compact

Made Eco-First Commitments to the Minister of the Environment

Participated in the Japan Business and Biodiversity Partnership

Socially responsible investment (SRI) recognitions

- Sumitomo Chemical recognized by CDP for Climate Change Disclosure Leadership
- Other major SRI indices in which Sumitomo Chemical is included:

Member 2012/13

Creative Hybrid Chemistry



Cautionary Statement

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

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