SUMITOMO CHEMICAL

Annual Report 2017

Change and Innovation

Create New Value

Sumitomo Chemical's Philosophy

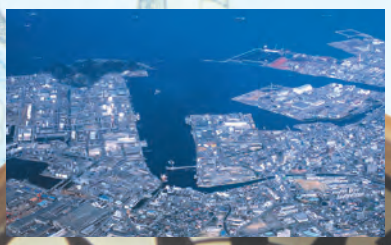
Sumitomo's Business Principles

1 ➤ Sumitomo shall achieve prosperity based on solid foundation by placing prime importance on integrity and sound management in the conduct of its business.

2 ➤ Sumitomo's business interest must always be in harmony with public interest; Sumitomo shall adapt to good times and bad times but will not pursue immoral business.

Business Philosophy underlying Sumitomo's Business Principles

1. We commit ourselves to creating new value by building on innovation.
2. We work to contribute to society through our business activities.
3. We develop a vibrant corporate culture and continue to be a company that society can trust.



Charter for Business Conduct for Each Employee

1. We will respect Sumitomo's business philosophy and act as highly esteemed "good citizens."
2. We will observe national and international laws and regulations and will carry out activities according to our corporate rules.
3. We will develop and supply useful, safe products and technologies that will contribute extensively to the progress of society.
4. We will take voluntary and active initiatives to achieve zero-accident and zero-injury operations and to preserve the global environment.
5. We will conduct business transactions based on fair and free competition.
6. We will endeavor to make our workplaces sound and energetic.
7. Every one of us will make efforts to become a professional who has advanced skills and expertise in his or her field of responsibility.
8. We will actively communicate with our various stakeholders such as shareholders, customers, and regional communities.
9. We, as a corporate member of an international society, will esteem the culture and customs of each region around the world and contribute to the development of those regions.
10. We will strive for the sound development of our Company through business activities conducted in accordance with the guiding principles stipulated hereinabove.

By creating new value, we will continue to take up the challenges facing the globe, from meeting basic needs, to protecting the environment, to addressing the issues of adequate supplies of food, energy, and other resources.

2017 Annual Report

This fiscal year, Sumitomo Chemical has adjusted the positioning of its annual report and CSR Report, reorganizing them as an integrated report, which is Sumitomo Chemical's new Annual Report.

With the aim of communicating its value creation story in a way that is easy to understand for shareholders and other investors, as well as a broad array of other stakeholders, the new Annual Report comprehensively brings together financial information and non-financial information. In addition to a report on financial results and information on the strengths of businesses and business strategies, the Annual Report includes information on Sumitomo Chemical's corporate governance system as well as its environmental and corporate social responsibility initiatives. New sections are also added, including a message from outside directors, feature articles on businesses that are the focus of attention, and information on the value creation models of each business sector. The content-rich report also includes many photographs.

The previous CSR Report has been renamed the Sustainability Data Book, and it can be accessed on Sumitomo Chemical's website. Sumitomo Chemical continues to issue the Investors' Handbook as a tool for obtaining a deeper understanding of the Company.

Sumitomo Chemical hopes the three reports it produces serve as bridges to its stakeholders and communicate its efforts to achieve sustainable growth by mobilizing the entire Sumitomo Chemical Group to create new value.

Three Reports of Sumitomo Chemical

Annual Report

This report aims to communicate Sumitomo Chemical's value creation story in a way that is easy to understand.

http://www.sumitomo-chem.co.jp/english/ir/library/annual_report/

Investors' Handbook

This report gives a detailed explanation of Sumitomo Chemical's businesses and products.

http://www.sumitomo-chem.co.jp/english/ir/library/investors_handbook/

Sustainability Data Book

This report provides information on Sumitomo Chemical from an environmental and social perspective.

http://www.sumitomo-chem.co.jp/english/csr/report/

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Cover-page illustration

In 2015, Sumitomo Chemical celebrated the 100th anniversary of the commencement of its operations.
Building on our 100 years of history, we designed the cover-page illustration, titled "Beyond our quest toward new frontiers," to express our determination to set sail into an awaiting future of growth and challenges. The surface of the ship shows the Besshi Copper Mine where the company has its origins, along with other buildings and facilities representing the company's history. As stated in its Corporate Statement, Sumitomo Chemical will seek to continue to build trust and bring joy to people around the world through constant innovation. With the power of chemistry, we will strive to resolve various challenges facing human society and open up a bright future like this ship that ventures into unknown seas.

Forward-looking Statements

Statements made in this annual report with respect to plans, strategies, and future performance that are not historical facts are forward-looking statements involving risks and uncertainties. Sumitomo Chemical cautions that a number of factors could cause actual results to differ materially from such statements including, but 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.

To Our Stakeholders

We Seek to Help Solve the Major Problems Facing the World and Build a Sustainable Society by Creating New Value.

At the September 2015 meeting, the United Nations General Assembly adopted the Sustainable Development Goals (SDGs), marking the start of efforts at achieving a set of 17 goals to address problems such as poverty, food security, energy, and the environment, with the aim of enabling all people to lead prosperous and fulfilling lives. In addition, with the Paris Agreement going into force in November 2016, a global agreement has been established to mitigate climate change.

In light of these continuing, significant demonstrations of a commitment to bring about a sustainable society, the chemical industry is expected to serve a leading role in the industrial arena in boldly taking on the challenge of resolving global-scale problems through technological innovation.

Chemistry is a field of study that holds unlimited potential for creating new substances and unleashing functionality never seen before. By using this knowledge of chemistry, we at the Sumitomo Chemical Group are working to develop new products and technologies that lead to solutions to environmental and food problems and the achievement of affluent and comfortable lives, thereby contributing to a sustainable society.

Sumitomo's business philosophy emphasizes that our businesses must benefit society at large, not just our own interests. We, the Sumitomo Chemical Group, will remain deeply committed to putting this philosophy into practice in our day-to-day operations, and will continue striving to achieve sustained growth and build a sustainable society by leveraging the unlimited potential of chemistry and providing innovative solutions for people around the world.

Thank you very much for your continued support and cooperation.

July 2017

Osamu Ishitobi
Chairman of the Board

The Story of Sumitomo Chemical

Trajectory Since Its Founding

In the Midst of Changing Times — Revolutionary Technology and Products Driving Corporate Evolution

1915-

Building a Foundation as a Chemical Manufacturer

Sumitomo Chemical started business in 1913 as a producer of fertilizers from sulfur dioxide gas emitted by copper smelters, with the goal to both resolve an environmental problem and increase agricultural production.

►1915
Launched the Sumitomo Fertilizer Manufactory, beginning operations

►1944
Enters fine chemicals business

Acquires Japan Dyestuff Manufacturing Company engaged in dyes, pharmaceuticals, and other fine chemicals business

Japan Dyestuff Manufacturing Company Kasugade Works

1945-

Growing into a Diversified Chemical Manufacturer

Sumitomo Chemical started new businesses one after another, successfully growing into a diversified chemical manufacturer.

►1953
Enters agricultural chemicals business

Starts selling household insecticide Pynamin®

Pynamin Plant (Torishima, Osaka)

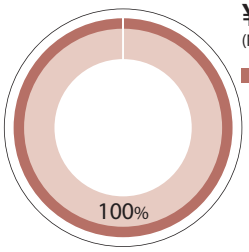
►1958
Enters petrochemical business

Ethylene plant is completed in Ohe, Ehime

Ethylene Plant (Ohe, Ehime)

Sales / Composition of Sales

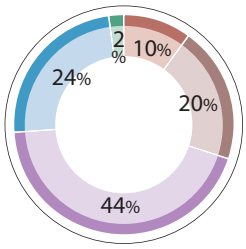
FY1915



¥120,000
(Non-consolidated sales)

■ Fertilizers

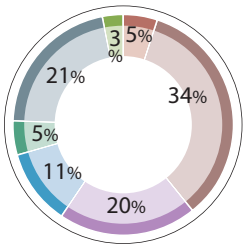
FY1944



¥100 million
(Non-consolidated sales)

■ Fertilizers
■ Industrial Chemicals
■ Light Metals
■ Dye Chemicals
■ Pharmaceuticals

FY1974



¥482.1 billion
(Non-consolidated sales)

Export ratio **11%**

■ Fertilizers
■ Industrial Chemicals
■ Light Metals
■ Dye Chemicals
■ Pharmaceuticals
■ Synthetic Resins
■ Agrochemicals

1975-

Expanding All Businesses Globally

In order to respond to the changing structure of society and the global economy, Sumitomo Chemical actively pushed forward with the globalization of all its businesses.

►1984
Petrochemical Corporation of Singapore began operations

►1991
Established Dongwoo Pure Chemicals (present Dongwoo Fine-Chem) in South Korea

►1988
Established Valent U.S.A. as a development and sales location for agricultural chemicals in the U.S.

►1994
Established Sumitomo Chemical Belgium (present Sumitomo Chemical Europe) in Belgium

2005-

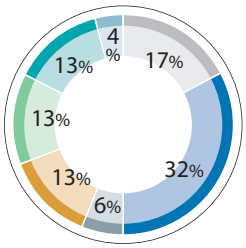
Deepening Global Business

Sumitomo Chemical is doing business around the world, based on the idea of globally integrated management that develops competitive businesses by combining optimal technology, locations, partners, and personnel.

►2009
Petro Rabigh began operations in Saudi Arabia

►2009
Sumitomo Dainippon Pharma acquired the pharmaceutical company Sepracor (present Sunovion Pharmaceuticals) in the U.S.

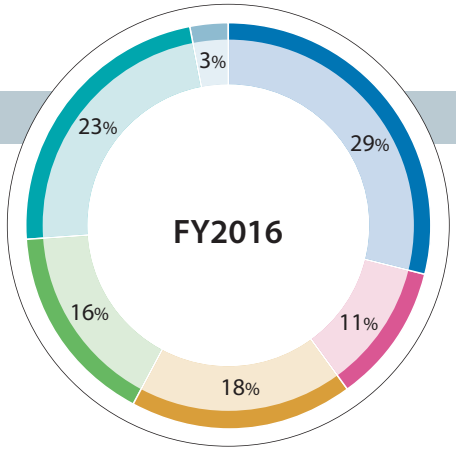
FY2004



¥1,296.3 billion

Overseas sales to total sales **38%**

- Basic Chemicals
- Petrochemicals & Plastics
- Fine Chemicals
- IT-related Chemicals
- Agricultural Chemicals
- Pharmaceuticals
- Others



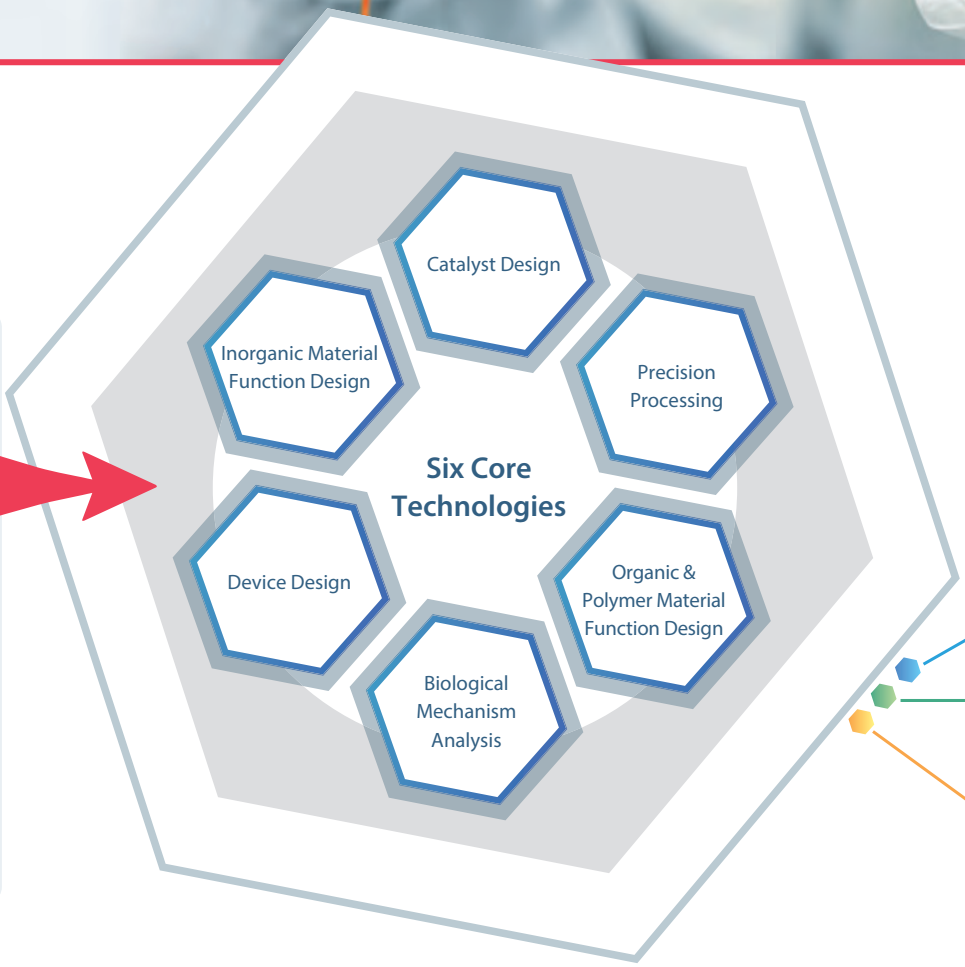
¥1,954.3 billion

Overseas sales to total sales **61%**

- Petrochemicals & Plastics
- Energy & Functional Materials
- IT-related Chemicals
- Health & Crop Sciences
- Pharmaceuticals
- Others

Features and Strengths

Developed Over a Century — Value Creation Capabilities



Sumitomo Chemical's Core Competencies

Capabilities to develop innovative solutions by leveraging its technological expertise in diverse areas

Capabilities to reach global markets

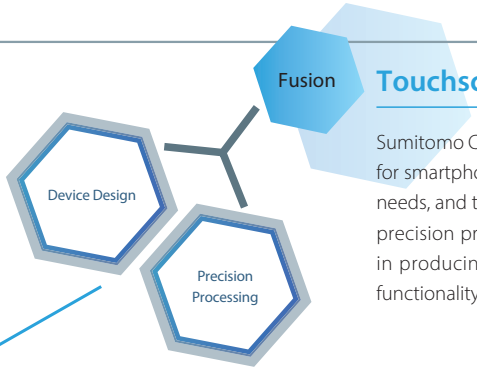
For details, please see p.26-33, 58-59

Loyal employees

For details, please see p.26-33

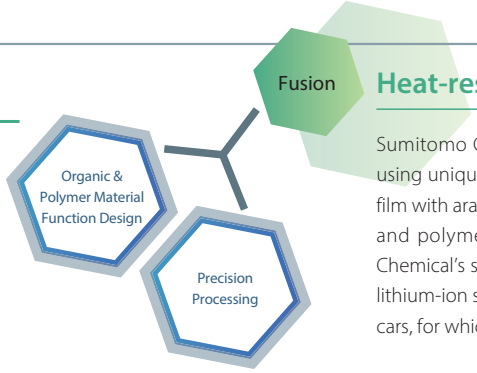
Since its founding, Sumitomo Chemical has been cultivating its three core competencies of capabilities to develop innovative solutions by leveraging its technological expertise in diverse areas, capabilities to reach global markets, and loyal employees. As part of this process, Sumitomo Chemical has refined the store of technology it has built up over the years, one of its strengths, to establish a set of six core technologies. Sumitomo Chemical's fundamental R&D strategy is to produce innovative technologies and products and create value by combining these core technologies and by merging technologies inside and outside the Company through open innovation, a process we call Creative Hybrid Chemistry. Through this process, we have achieved various results. In this way, Sumitomo Chemical is contributing a constellation of value to the world, making maximum use of the creative possibilities of chemistry.

Businesses through Creative Hybrid Chemistry



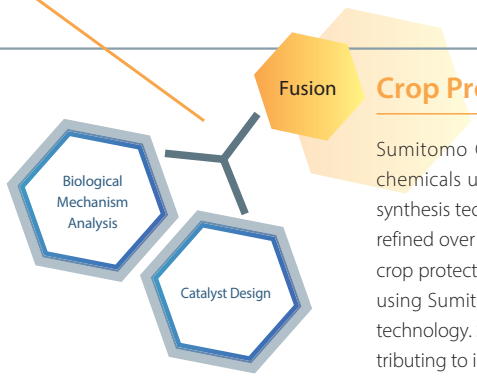
Touchscreen Panels

Sumitomo Chemical's touchscreen panels are used in OLED displays for smartphones. We quickly design devices according to customer needs, and touchscreen panels produced using the highly accurate precision processing technology Sumitomo Chemical developed in producing color filters, contribute to improving smartphone functionality and making them thinner.



Heat-resistant Separators

Sumitomo Chemical's heat-resistant separators are produced by using unique precision processing technology to coat a polyolefin film with aramid resin, produced with Sumitomo Chemical's organic and polymer material function design technology. Sumitomo Chemical's separators are contributing to increasing the capacity of lithium-ion secondary batteries for applications such as eco-friendly cars, for which demand is rapidly expanding.

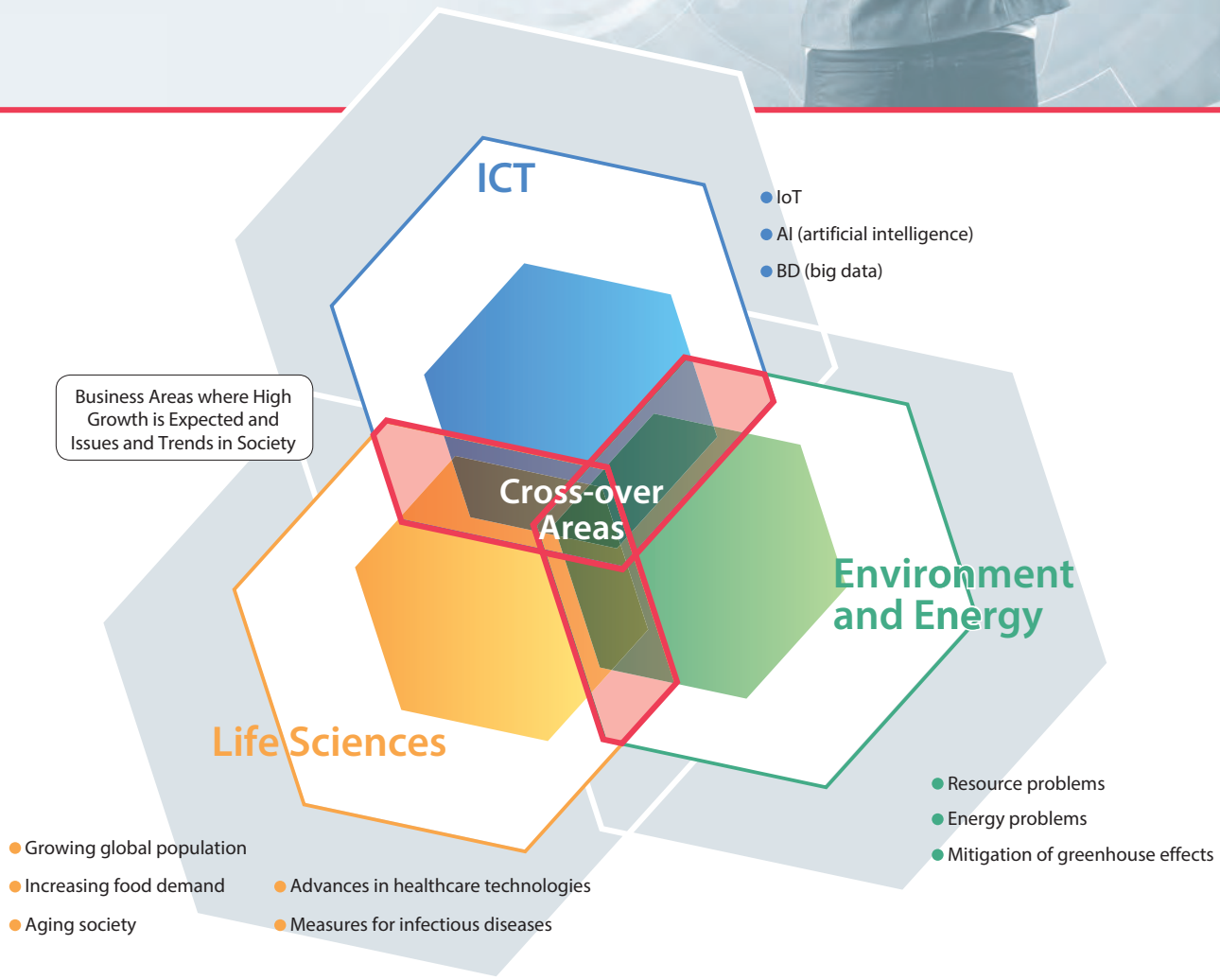


Crop Protection Chemicals

Sumitomo Chemical is producing high-quality crop protection chemicals using formulation technology and advanced chemical synthesis technology, including the catalyst design technology it has refined over many years. Safety assessments, an essential element of crop protection chemical development, are conducted accurately by using Sumitomo Chemical's unique biological mechanism analysis technology. Sumitomo Chemical's crop protection chemicals are contributing to increased agricultural productivity and food production.

The Future of Sumitomo Chemical

Together toward the Future — Issues and Trends in Society as Opportunities for Growth



Based on its predictions of the economy in the medium-to-long term, as well as the business environment going forward, Sumitomo Chemical has designated the three fields of the environment and energy, ICT, and life sciences as business areas where high growth is expected, and where its strengths can come into play. In addition, Sumitomo Chemical believes that the cross-over areas where two or more of these fields meet are areas where Sumitomo Chemical's strengths as a diversified chemical manufacturer can play an even greater role. By focusing the allocation of management resources, especially research and development, on these three areas and the cross-over areas between them, Sumitomo Chemical will provide solutions that contribute to the resolution of issues in global society, improve quality of life, and help create an abundant and welcoming society.

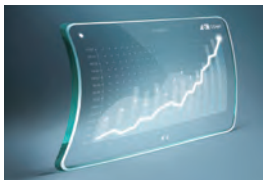
Solutions in the Three Focus Areas

Environment and Energy

Essential Support for the Growth of Eco-friendly Cars

In the environment and energy field, Sumitomo Chemical is offering a variety of highly functional materials and components that offer essential support for environmentally friendly products, particularly eco-friendly cars. Currently, in order to improve the environmental and fuel consumption performance of cars, there is a demand for lighter automotive components. Sumitomo Chemical supplies separators for lithium-ion secondary batteries for eco-friendly cars, which are expected to see high growth, and is also developing cathode materials. By developing innovative new technologies, Sumitomo Chemical is contributing to the resolution of environmental and energy problems.

ICT



Toward the Creation of Bent Displays

In the ICT field, Sumitomo Chemical is offering highly functional components that contribute to improved display performance. Currently, development is ongoing around the world in OLED panels, which can be made bendable, foldable, and even rollable. Sumitomo Chemical is currently developing products for use in flexible OLED panels, including window films, liquid crystal-coated polarizing films, and flexible touchscreen panels. Sumitomo Chemical will continue to offer new materials and solutions, keeping ahead of the ICT industry, bringing improved quality of life to people.

Life Sciences (Health & Sciences)

Contribution to Increased Crop Yields and Improved Quality

In the life sciences (health & sciences) field, Sumitomo Chemical is contributing to the stable supply of safe and secure food, for which global demand is increasing, by offering chemical crop protection products and biorationals around the globe. In addition to delivering products that contribute to improved quality and higher yield for agricultural crops to farmers, Sumitomo Chemical is also supporting farmers in using these products with maximum efficacy. Going forward, Sumitomo Chemical will contribute to the resolution of issues in society, including the global food supply, health and sanitation, and environmental problems, using its research and development capabilities.

Life Sciences (Pharmaceuticals)

Bringing New Treatment Methods to People

In the life sciences (pharmaceuticals) field, Sumitomo Chemical is offering pharmaceutical products that play a role in improving the quality of life for patients. It is expected that regenerative medicine will grow to be a massive market, on the scale of 38 trillion yen by 2050. The Sumitomo Chemical Group is applying cutting-edge technology, such as iPS cells, to drug discovery, and is also working on regenerative medicine and cell therapy, taking on the challenge of developing treatments for intractable diseases. Sumitomo Chemical is contributing to improving quality of life for people, using new treatment methods and cutting-edge technology aimed at the commercialization of regenerative and cell therapy medicine.

Interview with the President

Masakazu Tokura
Representative Director & President

A More Resilient Sumitomo Chemical that Continues to Grow

At Sumitomo Chemical we focus our resources on specialty chemicals businesses, where we have distinct competitive advantages and can expect high growth, while also working to improve our ROI, to enhance our enterprise value. In addition, we will remain committed to our ESG (Environmental, Social, and Governance) initiatives and seek to achieve sustainable value creation.

Q Looking back on fiscal 2016, what is your evaluation of the Company's results?

A Despite a strong yen and other headwinds, we achieved a ROE of over 10% again this year.

Amid growing uncertainty due to the issue of Brexit and the inauguration of the new U.S. administration, the world economy was overall on a firm footing, with the U.S. economy remaining robust against the backdrop of strong employment situations and expectations of a fiscal expansion. In Japan, although consumer spending continued to be rather weak, the economy stayed on a moderate recovery path due to improvement in employment and wages as well as strong corporate earnings.

In terms of our business environment, we temporarily faced headwinds such as a strengthening yen during the first half of fiscal 2016 and an economic slowdown in emerging market countries. Starting in the middle of the period, however, we saw signs of improvement. The yen became weak after the presidential election in the U.S., while the petrochemicals market in Asia significantly recovered.

Our net sales for fiscal 2016 were 1,954.3 billion yen, 147.5 billion yen less than the previous year. Although sales volumes increased in the Pharmaceuticals Sector, the stronger yen had a negative effect on the value of overseas sales in yen terms, and selling prices declined in the Petrochemicals & Plastics Sector, IT-related Chemicals Sector, and Health & Crop Sciences Sector.

Operating income decreased by 30.1 billion yen from the previous fiscal year, to 134.3 billion yen. In addition to lower selling prices in the IT-related Chemicals Sector and Health & Crop Sciences Sector, the strong yen hit profitability while amortization expenses increased because of unrecognized actuarial differences on pension assets.

Net income attributable to owners of the parent rose 4 billion yen from the previous fiscal year, to 85.5 billion yen. Contributing factors include improvements in equity in earnings of affiliates and the net gain on foreign currency transactions, as well as a lower burden of income taxes.

ROE reached 11% for fiscal 2016, meeting our target—achieving a ROE of 10% or higher—for two consecutive years.

We have declared a year-end dividend of 7 yen per share. Combined with the interim dividend, our dividend for fiscal 2016 totaled 14 yen per share, the same as for the previous fiscal year.

Comparative Table of the Company's Results

(Billions of yen)	FY2015	FY2016	Change
Net sales	2,101.8	1,954.3	-147.5
Operating income	164.4	134.3	-30.1
(Equity in earnings of affiliates)	20.2	41.2	+21.0
Ordinary income	171.2	166.6	-4.6
Net income	81.5	85.5	+4.0
Naphtha price (yen/KL)	42,800	34,700	-19%
Exchange rate (yen/US$)	120.15	108.34	-10%
ROE (%)	11	11	
ROI (%)	6	6	
D/E ratio (times)	0.8	0.8	
Dividend payout ratio (%)	28.1	26.8	

Q Could you provide an overview of Sumitomo Chemical's vision?

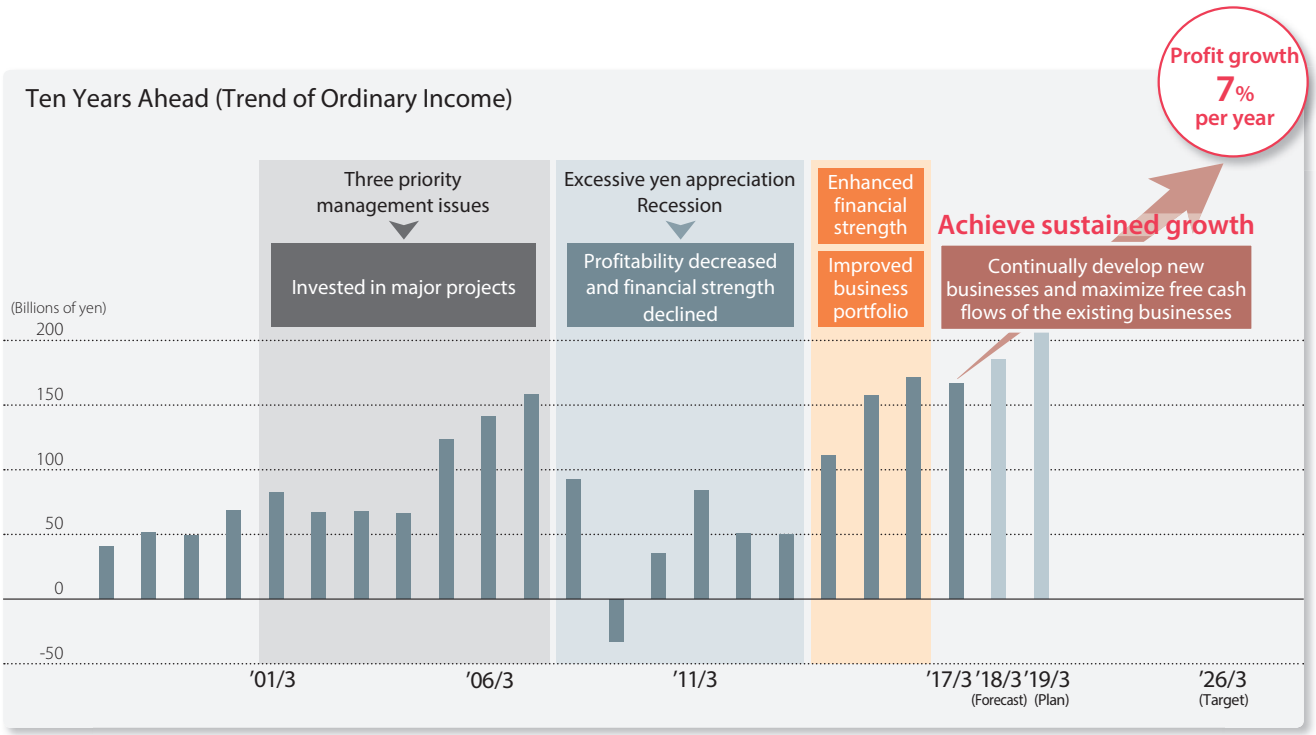
A We seek to achieve sustained growth by creating new value through innovative technologies.

Capabilities to develop innovative solutions by leveraging extensive technological expertise, global market reach, and highly loyal employees—these are Sumitomo Chemical's core competencies, which we have built up through our operations spanning over a century. Going forward, by making full use of these strengths, we will continue to strive to solve problems that society faces in the areas of the environment, food, resources, and energy, and contribute to promoting health, building comfortable societies, and improving the quality of life for people around the world.

We also aim to achieve sustained growth by creating new value through innovative technologies, and strive to constantly realize a ROI of above the cost of capital and 7% or higher.

At the same time, to achieve this vision, it is essential that we maintain financial strength robust enough to withstand any changes in our business environment. Specifically, we aim to hold a D/E ratio at approximately 0.7 times, and constantly achieve a ROE of 10% or above.

In addition, for the time being we set our dividend payout ratio at around 30%, and by investing about 70% of net income in new growth opportunities in the fields of the environment and energy, life sciences, and ICT, we seek to achieve an annual profit growth rate of 7% or over.



❖ What Sumitomo Chemical Strives to Be ❖

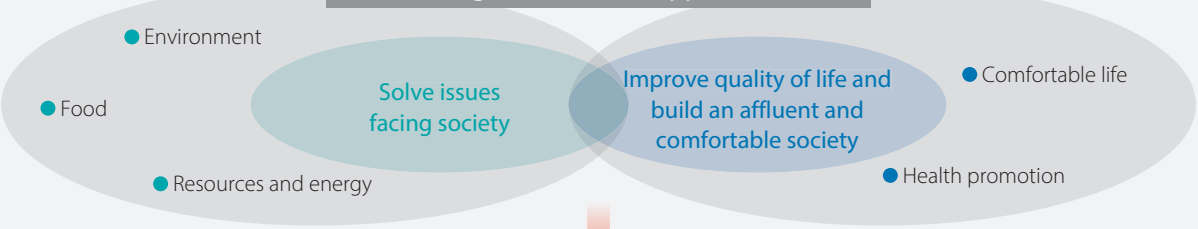
Business Philosophy

- We commit ourselves to creating new value by building on innovation.
- We work to contribute to society through our business activities.
- We develop a vibrant corporate culture and continue to be a company that society can trust.

Core Competence

- Capabilities to develop innovative solutions by leveraging its technological expertise in diverse areas
- Capabilities to reach global markets
- Loyal employees

Challenges & Business Opportunities



Provide Solutions

Achieve sustained growth by creating new value through innovative technologies

Consistently achieve the following targets

ROE	ROI	D/E Ratio	Dividend Payout Ratio	Profit Growth
over 10%	over 7%	approx. 0.7 times	approx. 30%	over 7% per year

A More Resilient Sumitomo Chemical that Continues to Grow

Q Please recap Sumitomo Chemical's current Corporate Business Plan.

A We will further improve our business portfolio by focusing our resources in specialty chemicals businesses where we have technological advantages.

Under the current Corporate Business Plan, we are committed to our slogan "Change and Innovation—Create New Value," and by capitalizing on the robust financial strength we built on the previous Corporate Business Plan period, we are going to aggressively pursue growth opportunities and further spur our transformation into a more resilient Sumitomo Chemical that continues to grow.

Specifically, we are working on five priority initiatives, including further improving our business portfolio, generating more cash flow, and accelerating the launch of next-generation businesses.

In the initiative of further improving our business portfolio, we will direct 70% to 80% of capital expenditures and investments that we will determine from fiscal 2016 to fiscal 2018, and 90% of our R&D expenses over the same period, to the area of specialty chemicals, primarily the life sciences area.

In the efforts toward generating more cash flow, we will work to retain our lean financial structure and, at the same time, will strive to build and maintain robust earnings power to consistently generate strong cash flow, so that we can take advantage of large-scale investment opportunities when they arise.

In the initiative of accelerating the launch of next-generation businesses, we will continue to invest in the fields of the environment and energy, ICT, and life sciences, as well as their cross-over areas, and will speed up the process of bringing to market our products and technologies under development.

In addition to these three initiatives, we continue to promote globally integrated management while also ensuring full and strict compliance and establishing and maintaining safe and stable operations.

For fiscal 2018, the final year of the current Corporate Business Plan, we anticipate net sales of 2,540 billion yen and net income attributable to owners of the parent of 110 billion yen, with a ROI of 7% and a ROE of 12%.

Corporate Business Plan FY2016-FY2018: Basic Policy

Further improve business portfolio
- Identify areas where we have competitive advantage
- Allocate resources to prioritized area

Generate more cash flow
- Increase profit above the cost of capital
- Make active and disciplined investments
- Streamline balance sheet

Accelerate the launch of next-generation businesses
- Environment & Energy
- Life Sciences
- ICT
- Cross-over Areas

Promote globally integrated management

Ensure full and strict compliance, establish and maintain safe and stable operations

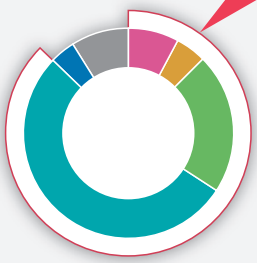
Resource Allocation

FY2016-FY2018

R&D Expenditures

¥510 billion

Specialty Chemicals **90%**



FY2016-FY2018

Capital Expenditures, Investments, and Loans

(including investments in strategic M&A) **¥700** billion

(excluding investments in strategic M&A) **¥400** billion

Specialty Chemicals **80%**
(including investments in strategic M&A)

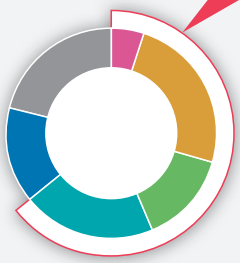
Specialty Chemicals **70%**
(excluding investments in strategic M&A)

End of FY2018

Employees

37,400

Specialty Chemicals **2/3**



■ Bulk Chemicals (Petrochemicals & Plastics) ■ Energy & Functional Materials ■ IT-related Chemicals ■ Health & Crop Sciences ■ Pharmaceuticals
■ Head office and admin. ■ Investments in Strategic M&A

Corporate Business Plan FY2016-FY2018: Performance Targets

(Billions of yen)	FY2016	FY2017 Forecast	FY2018 Target	Change*1
Net sales	1,954.3	2,190.0	2,540.0	+438.2
Operating income	134.3	165.0	200.0	+35.6
(Equity in earnings of affiliates)	41.2	35.0	29.0	+8.8
Ordinary income	166.6	185.0	210.0	+38.8
Net income	85.5	100.0	110.0	+28.5
Naphtha price (yen/KL)	34,700	37,000	45,000	+5%
Exchange rate (yen/US$)	108.34	110.00	120.00	±0%

				Targets
ROE (%)	11	12	12	over 10%
ROI (%)	6	7	7	over 7%
D/E ratio (times)	0.8	0.7	0.6~0.7*3	approx. 0.7 times
Dividend payout ratio (%)	27	23	undecided	approx. 30%
Profit growth*2	—	—	11% per year	over 7% per year

*1 Comparison with FY2015
*2 Compounded annual growth rate of net income from FY2015
*3 Including the effects of investments in strategic M&A

Q In what areas did you make major progress in fiscal 2016, the first year of the current Corporate Business Plan?

A We implemented many of our planned measures ahead of time and strengthened our platform for creating new value.

In fiscal 2016, the first year of the current Corporate Business Plan, we carried out many of our major initiatives planned for the three-year period ahead of time.

In the Petrochemical & Plastics Sector, we made progress in construction of the Rabigh Phase Ⅱ Project, as well as our efforts to enhance high value-added businesses.

In the Energy & Functional Materials Sector, we worked to expand production capacity for lithium-ion secondary battery separators and polyethersulfone, a super engineering plastic, both anticipated to see strong growth. Meanwhile, for the S-SBR business, where we had sought for measures to improve competitiveness, we established a joint venture with Zeon Corporation.

In the IT-related Chemicals Sector, we decided to increase production capacity for touchscreen panels, and made progress in the development of flexible display materials and PLED light-emitting materials. In addition, we restructured our production operations for polarizing films, for which profitability has been lowering.

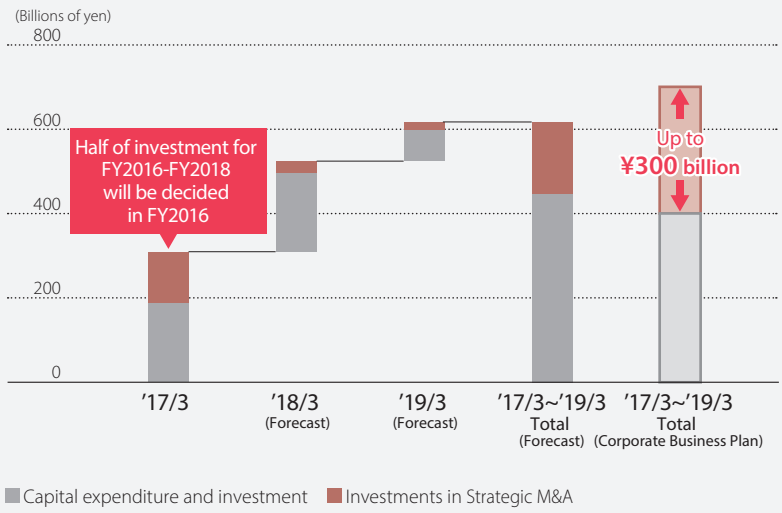
In the Health & Crop Sciences Sector, we acquired Excel Crop Care Ltd., an agrochemicals company of India, where the market is expected to grow, and also decided to increase production capacity for methionine.

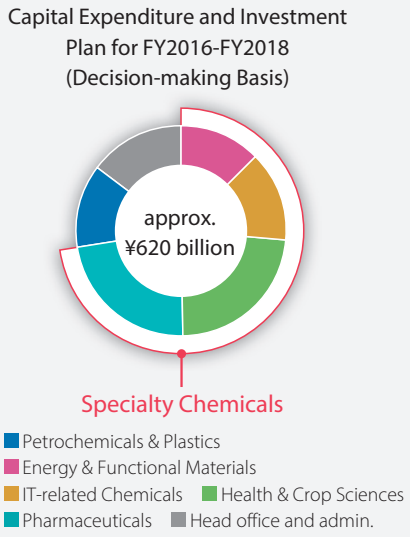
In the Pharmaceuticals Sector, we acquired the Canadian company Cynapsus Therapeutics Inc. and the U.S. company Tolero Pharmaceuticals, Inc., and entered into a licensing agreement with Novartis, achieving a significant expansion in our pharmaceutical development pipeline.

With the goal of further improving our business portfolio, we plan to make capital expenditures and investments of 400 billion yen over the three years of our current Corporate Business Plan, while we also consider investing up to 300 billion yen in strategic mergers and acquisitions in order to quickly expand our specialty chemicals businesses.

We also plan to make decisions on capital expenditures and investments of approximately 620 billion yen over the three-year Plan period, and in fiscal 2016 we already committed half that amount, or approximately 310 billion yen. By swiftly and successfully implementing our committed investment projects and quickly developing them into businesses that contribute to our earnings, we at Sumitomo Chemical will accelerate creation of new value.

Capital Expenditure and Investment Plan for FY2016-FY2018 (Decision-making Basis)





Q Please describe your ESG initiatives.

A We will remain committed to our ESG initiatives, particularly focusing on "contributing to society through our business," the commitment Sumitomo Chemical has adhered to since its founding.

About a century ago, Sumitomo Chemical got its start by manufacturing fertilizers from harmful gas emitted from copper smelting operations, aiming to solve environmental problems of smoke pollution while helping to increase the output of agricultural produce. Since then, we have put into practice CSV or "creating shared value," a concept that a business should not just work to sustain its economic activity, but should also strive to create value for society.

For example, to have every employee work to put into action the philosophy of "contributing to society through business," each of our business sectors has developed an action plan and set their targets for contributing to the 17 development goals laid out in the United Nations' Sustainable Development Goals (SDGs).

In addition, last year we launched an internal program in which we select, from our products and technologies, those that contribute to mitigating global warming and reducing the burden on the environment, designate them as "Sumika Sustainable Solutions," and promote their development and use. We have selected 34 products and technologies under this program, and are striving to double their sales as soon as possible.

Along with these initiatives for addressing environmental problems and contributing to the SDGs, we are stepping up efforts to make our governance more effective. To increase the transparency and objectivity of management and further strengthen our governance system, we increased the number of outside directors and also established our non-mandatory nomination advisory committee and remuneration advisory committee. In addition, we are working to reform the way the Board of Directors is administrated and to enhance the monitoring, oversight, and advisory functions of the outside directors.

Going forward, we at Sumitomo Chemical will continue our ESG initiatives to help solve various problems facing people around the world, and to achieve long-term sustained growth.

Expressing Our Commitment to the SDGs and Raising Employees' Awareness

The 17-color lapel pins worn by the officers appearing in this report represent the 17 development goals of the SDGs. By wearing the pin, designed by the United Nations, the officers both show their commitment to the SDGs and help raise the Sumitomo Chemical Group employees' awareness of the international efforts.

One Year at Sumitomo Chemical

In fiscal 2016, we were able in advance to execute many of the priority measures mandated in our Corporate Business Plan FY2016-FY2018. We also started new initiatives to bring about a sustainable society.

News Items by Business Sector

- Made Indian agrochemicals company Excel Crop Care a subsidiary
- Newly collaborated with Monsanto globally in developing next-generation weed control solutions

- Decided to expand production capacity for lithium-ion secondary battery separators

- Decided to expand production capacity for feed additive methionine at Ehime Works

- Made Tanaka Chemical, a manufacturer and seller of cathode materials for secondary batteries, a subsidiary

- Began full operation of Rabigh Phase Ⅱ Project ethane cracker (expansion portion)

- Decided to construct a second production facility for polyethersulfone (PES) at Chiba Works

2016 April | May | June | July | August | September

Company-wide News Items

SDGs Page Established on Sumitomo Chemical's Website

http://www.sumitomo-chem.co.jp/english/csr/management/sdgs/

Kanako Fukuda
General Manager,
CSR Dept.

Through our business activities and corporate social responsibility initiatives, Sumitomo Chemical would like to contribute to meeting the United Nations' Sustainable Development Goals (SDGs). In May 2016, we established a SDGs page on our website, where we describe how our activities contribute to the SDGs.

For examples of SDGs initiatives, please see p.63

■ Petrochemicals & Plastics ■ Energy & Functional Materials
■ IT-related Chemicals ■ Health & Crop Sciences ■ Pharmaceuticals

(Note) The date for each news item refers to the date of the news release (except ■ in October 2016).

2017

October

- Sumitomo Dainippon Pharma's US subsidiary, Sunovion Pharmaceuticals, acquired Cynapsus Therapeutics
- Sumitomo Dainippon Pharma established DS Pharma Promo, a new subsidiary to promote authorized generics and other products

- Completed PP compound manufacturing facility in India
- Established PP compound marketing base in Mexico

- Expanded production capacity for on-cell touchscreen panels in South Korea

November

- Established Latin America Research Center in Brazil
- Entered into a basic agreement with ITOCHU to collaborate on distribution of methionine

December

- Sumitomo Dainippon Pharma acquired US-based Tolero Pharmaceuticals

TOLERO PHARMACEUTICALS
Sumitomo Dainippon Pharma Global Oncology

January

- Made Sumika Styron Polycarbonate, a joint venture with Trinseo Holding, a wholly owned subsidiary

February

- Decided to expand production capacity for film-based touchscreen panels

March

- ZS Elastomers, a joint venture with Zeon, was established and began operation to integrate S-SBR businesses of Sumitomo Chemical and Zeon

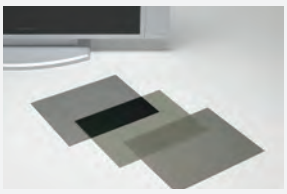
"Sumika Sustainable Solutions" Designation Initiated

What are Sumika Sustainable Solutions?

This is an initiative in which products and technologies that help build a sustainable society by preventing global warming, reducing environment impacts, etc. are designated as "Sumika Sustainable Solutions" and targeted for accelerated development and expanded use.

For details, please see p.25

Examples of Designated Products



Polarizing films

SUMIKAEXCEL™ polyethersulfone

Olyset™ Net, anti-malarial long-lasting insecticidal mosquito net

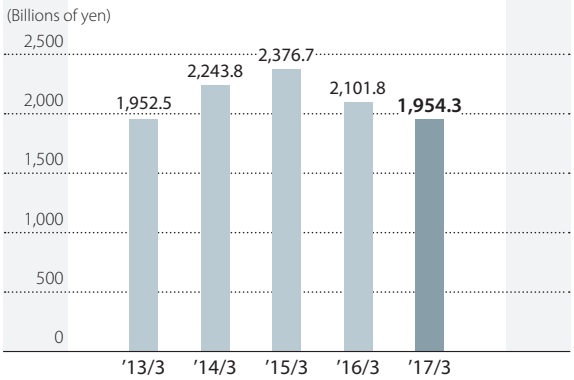
SUMIMET™ methionine feed additive

Financial and Non-Financial Highlights

Financial Highlights

Net Sales

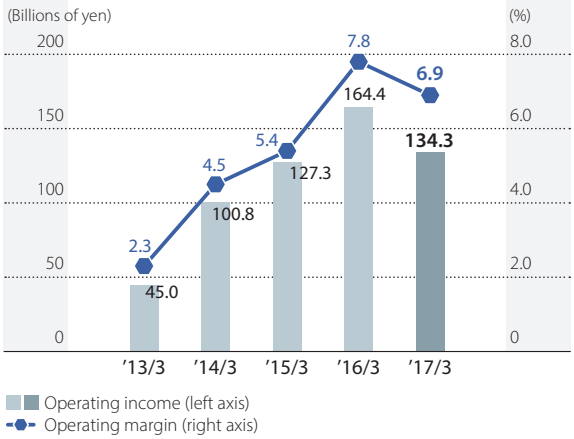
¥1,954.3 billion vs. FY2015 -7.0%



Although shipments increased for the IT-related Chemicals Sector and the Pharmaceuticals Sector, overall sales declined by 147.5 billion yen compared to the previous fiscal year because of lower selling prices and because the stronger yen had a negative effect on sales from overseas subsidiaries in yen terms.

Operating Income / Operating Margin

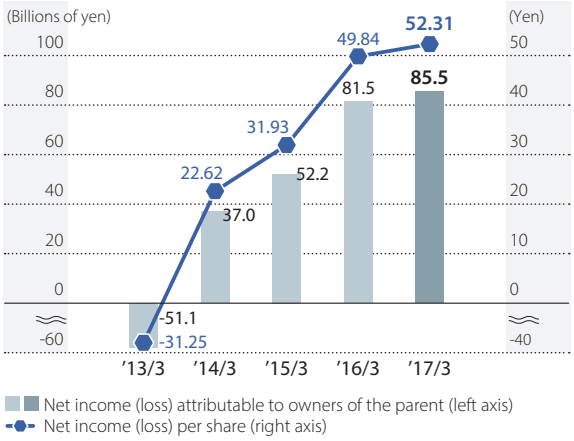
¥134.3 billion (Operating Income) vs. FY2015 -18.3%



Although shipments rose in the Pharmaceuticals, IT-related Chemicals, and Energy & Functional Materials Sectors, overall operating income declined by 30.1 billion yen compared to the previous fiscal year due to lower selling prices for the IT-related Chemicals Sector and lower market prices for methionine.

Net Income (Loss) Attributable to Owners of the Parent / Net Income (Loss) per Share

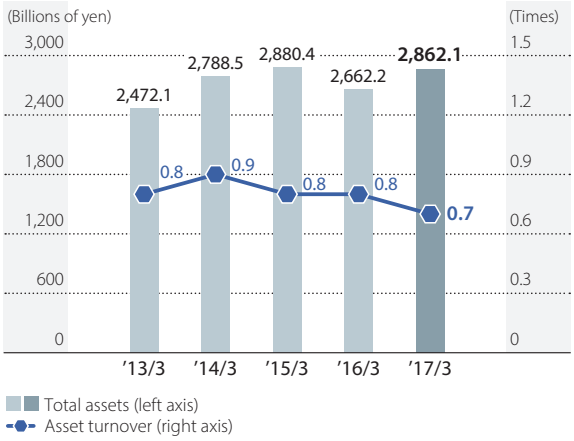
¥85.5 billion (Net Income Attributable to Owners of the Parent) vs. FY2015 +4.9%



Because equity in earnings of affiliates in Saudi Arabia and Singapore increased, and because of lower income taxes and other items, net income attributable to owners of the parent increased by 4.0 billion yen over the previous fiscal year, resulting in the third-best performance in Sumitomo Chemical's history.

Total Assets / Asset Turnover

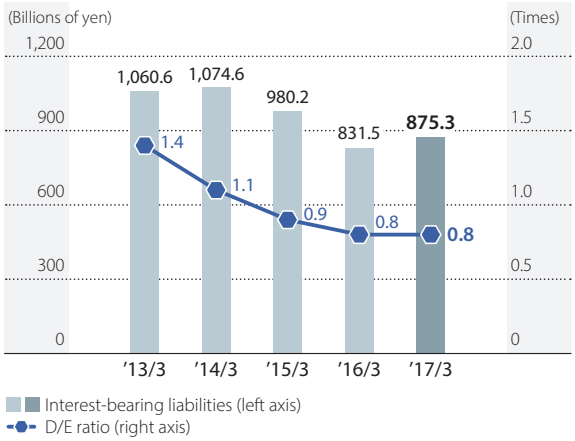
¥2,862.1 billion (Total Assets) vs. FY2015 +7.5%



Total assets increased by 199.9 billion yen over the end of the previous fiscal year because intangible assets increased due to several large-scale corporate acquisitions by Sumitomo Dainippon Pharma, a subsidiary of Sumitomo Chemical. The asset turnover ratio deteriorated, in part because of lower sales.

Interest-bearing Liabilities / D/E Ratio

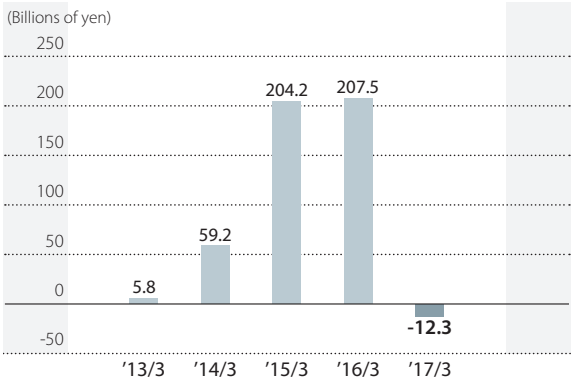
¥875.3 billion (Interest-bearing Liabilities) vs. FY2015 +5.3%



Due to multiple large-scale corporate acquisitions, the balance of interest-bearing liabilities increased by 43.7 billion yen compared to the end of the previous fiscal year, but because net assets also increased, the debt/equity ratio remained the same as the end of the previous fiscal year.

Free Cash Flow

-¥12.3 billion vs. FY2015 —

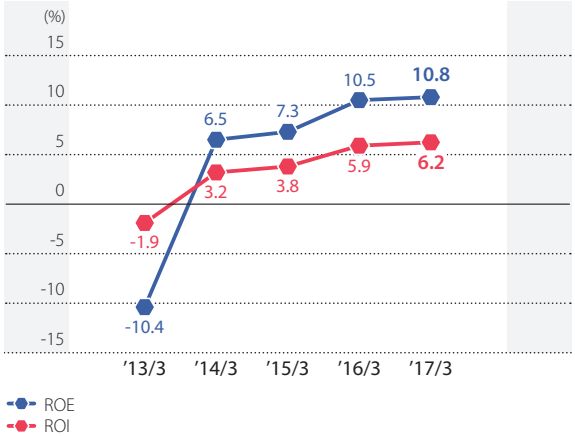


Cash flows from operating activities were 187.4 billion yen, but because multiple large-scale corporate acquisitions were carried out, cash flows from investing activities increased, causing free cash flow to be negative.

ROE / ROI

ROE **10.8 %** vs. FY2015 +0.3pt

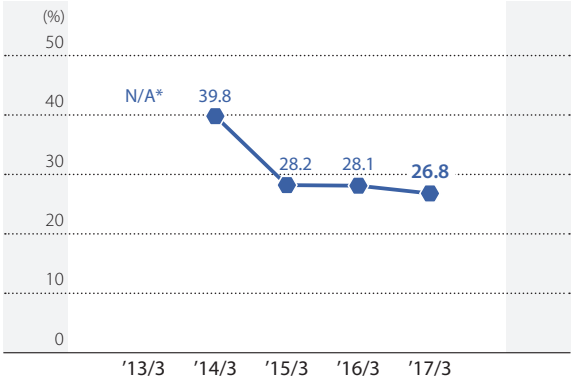
ROI **6.2 %** vs. FY2015 +0.3pt



Both ROE and ROI improved compared to the previous fiscal year, with ROE reaching its target of 10% for two years running. ROI was also able to approach nearer to its goal of 7%.

Payout Ratio

26.8 % vs. FY2015 -1.3pt



Sumitomo Chemical considers shareholder returns to be one of its most important management priorities, and it has a target dividend payout ratio of around 30%. This year Sumitomo Chemical was again able to achieve a payout ratio fairly close to its target.

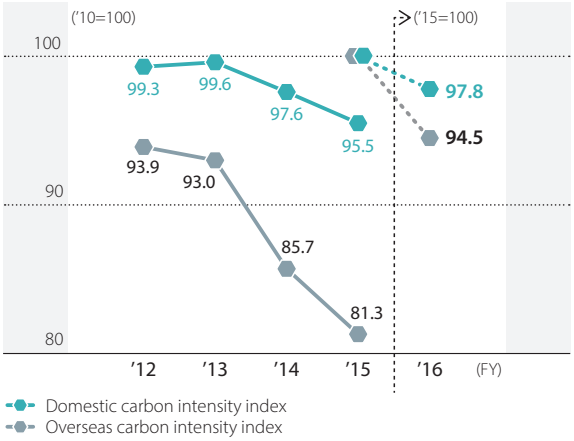
* A dividend payout ratio was not able to be calculated as Sumitomo Chemical posted a loss for that fiscal year.

Non-Financial Highlights

Domestic Carbon Intensity Index* / Overseas Carbon Intensity Index*

Domestic **97.8** vs. FY2015 2.2pt improved

Overseas **94.5** vs. FY2015 5.5pt improved

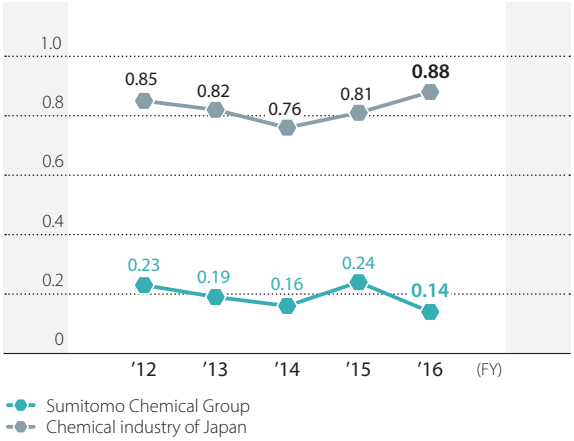


The intensity index of CO_2 emissions from energy use for fiscal 2016 has improved by 2.2 points in Japan, and 5.5 points outside Japan, over the previous fiscal year.

* Index reflects the total production plants of Sumitomo Chemical and its major Group companies that share CO_2 emission intensity index reduction goals.

Lost-workday Incident Rate*

0.14 vs. FY2015 0.1pt improved

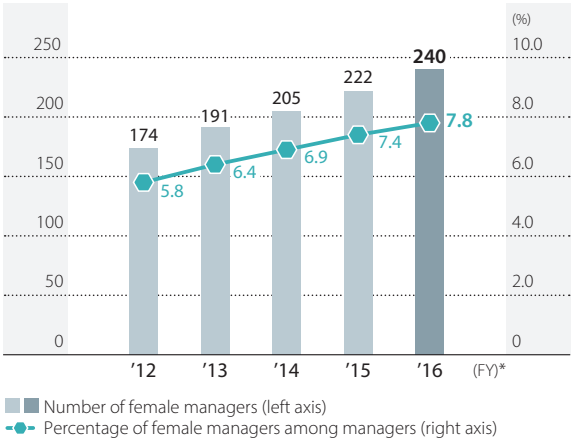


The frequency rate of lost-workday incidents for fiscal 2016 for the Sumitomo Chemical Group as a whole is 0.14, an improvement of 0.1 point over the previous year.

* Indicates the frequency of industrial incidents as the number of deaths and injuries per one million hours of total work time.

Number of Female Managers / Percentage of Female Managers among Managers (Non-consolidated)

7.8 % (Percentage of Female Managers among Managers) vs. FY2015 +0.4pt

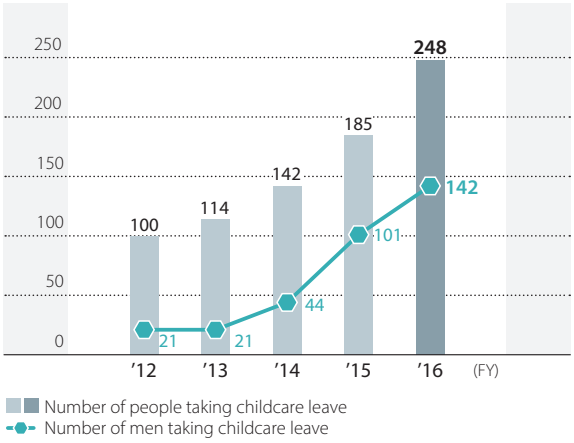


The number of female managers for fiscal 2016 has increased by 18 over the previous year, and the percentage of female managers within Sumitomo Chemical has reached 7.8%.

* All numbers as of April 1 of that year

Number of People Taking Childcare Leave / Number of Men Taking Childcare Leave (Non-consolidated)

142 (Number of Men Taking Childcare Leave) vs. FY2015 +41



The number of people taking childcare leave in fiscal 2016 has increased by 63 over the previous year to 248. Of those, 142 were men, an increase of 41.

Sumika Sustainable Solutions (SSS)

Since fiscal 2016, the Sumitomo Chemical Group has identified those of its products and technologies that contribute to such issues as global warming countermeasures and reducing environmental burdens as Sumika Sustainable Solutions. By promoting the development and the widespread use of these products and technologies, the Sumitomo Chemical Group is offering solutions that will help build a sustainable society, with the aim of contributing to the achievement of the SDGs.

Certification Requirements for SSS Designation

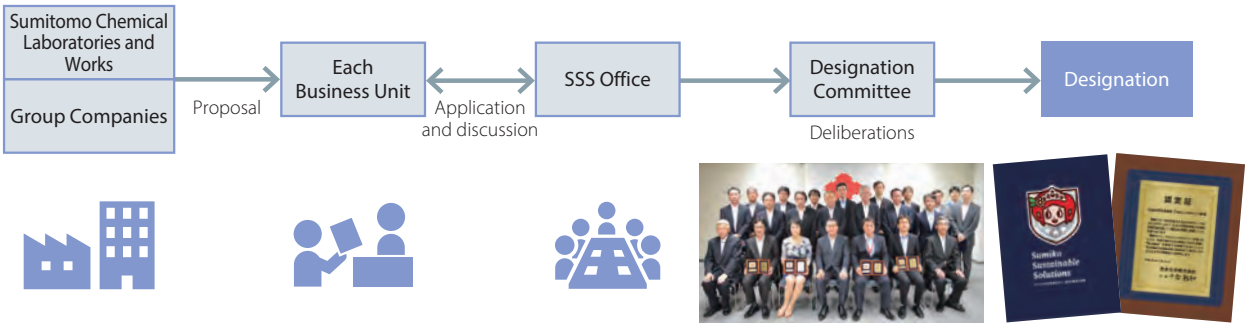
① Contribute to reducing greenhouse gas emissions
② Contribute to adapting to the climate change impacts
③ Contribute to reducing wastes, hazardous substances, and other environmental burdens
④ Contribute to the efficient use of water resources
and five other requirements

Measuring Contribution to Reducing Environmental Burdens

Sales of currently designated products were 293.4 billion yen in fiscal 2016, contributing to a reduction in greenhouse gas emissions of approximately 53 million tons (CO_2 equivalent, predicted total by fiscal 2020) over the lifecycle of the products.

SSS Designation Process

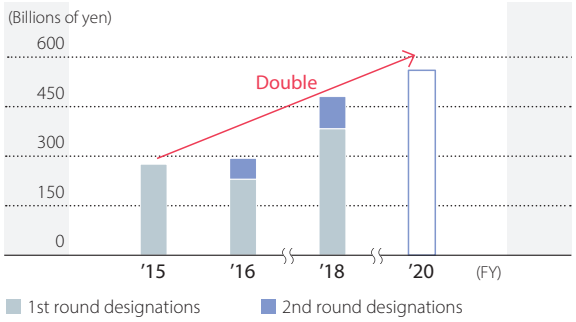
The Designation Committee officially designates products and technologies as SSS after they have been proposed for certification by laboratories, works, or Group companies. Moreover, when discussing requirements for designation, the Committee seeks advice from third-party institutions.



The Award Ceremony

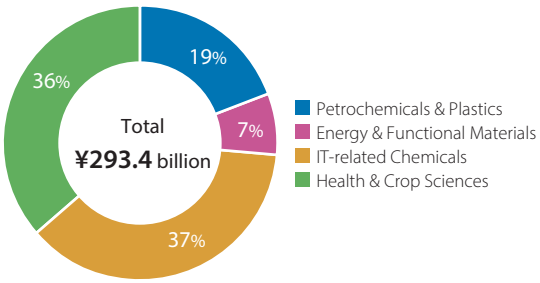
Designation Certificate

Sales of Designated Products and Technologies



A total of 34 products and technologies have been designated so far, and Sumitomo Chemical aims to quickly double their sales.

Sales of Designated Products and Technologies by Sector (FY2016)



Designated products and technologies are listed on the pages for each Sector (p.39, 43, 47, 51).

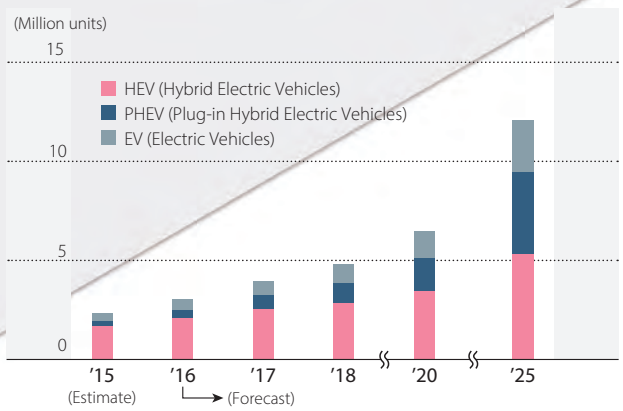
Feature 1

Meeting demand for eco-friendly cars

Stepping Up Our Heat-resistant Separator Business

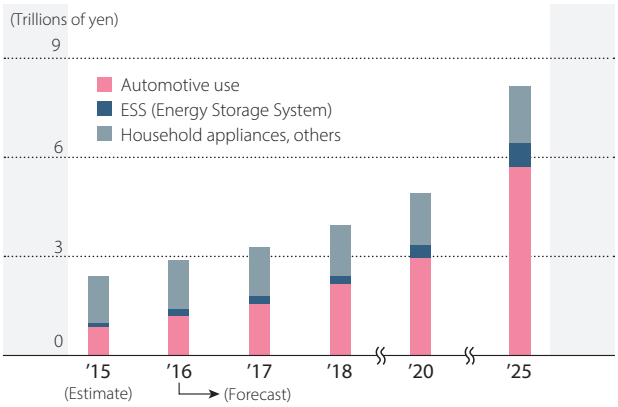
With the rapid growth in sales of electric cars and plug-in hybrid cars, demand is likewise growing rapidly for lithium-ion secondary batteries, which are used extensively in these vehicles. Sumitomo Chemical is working to expand production of separators, which are a key part of lithium-ion secondary batteries.

Eco-friendly Cars Market Trends

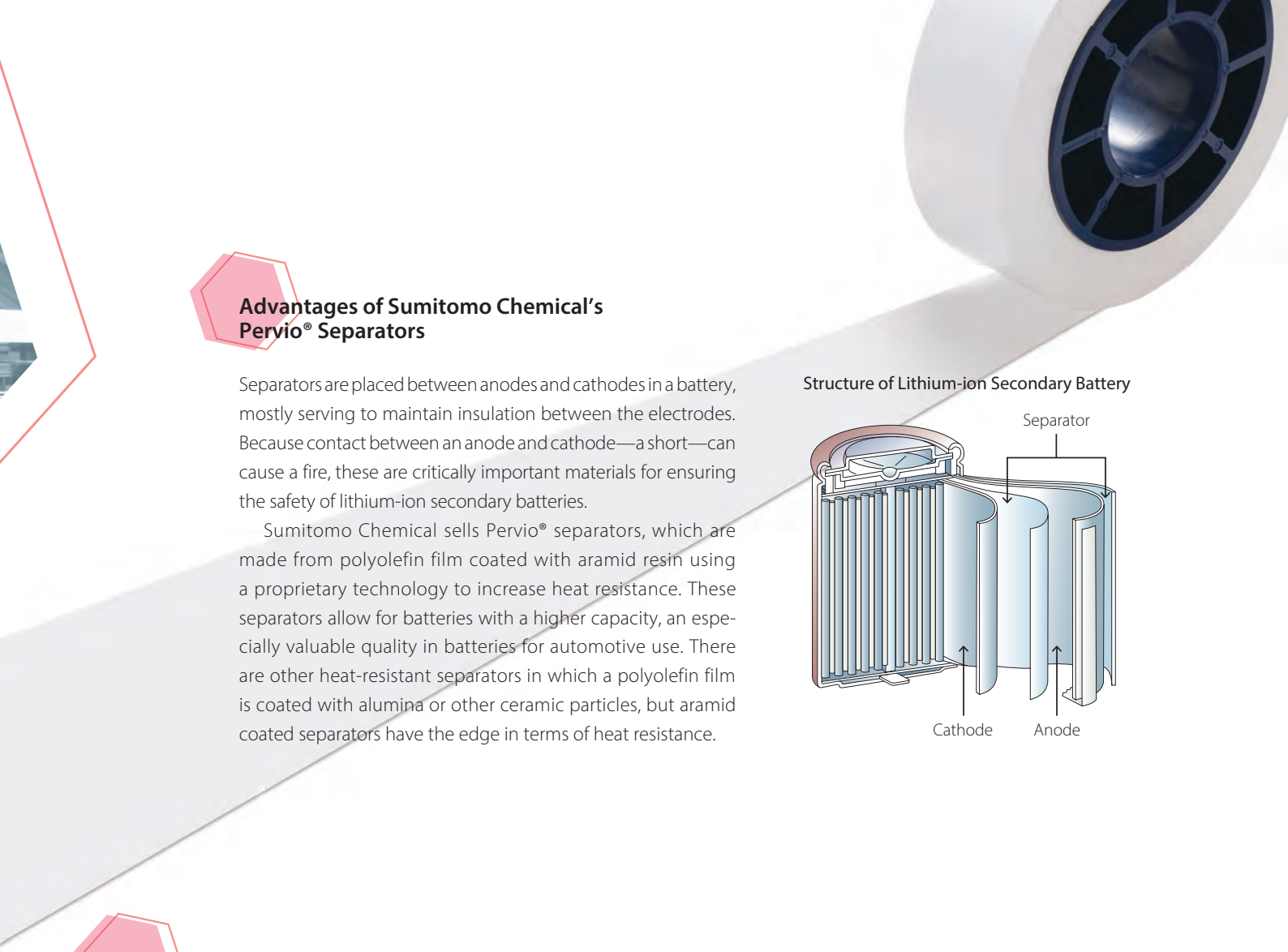


(Source) "Future Outlook of Energy, Large Scale Secondary Battery, and Materials 2016; Next Generation Environment and Automotive Field Edition" by Fuji Keizai

Lithium-ion Secondary Batteries Market Trends



(Source) "Future Outlook of Energy, Large Scale Secondary Battery, and Materials 2016; Energy Devices" by Fuji Keizai



Advantages of Sumitomo Chemical's Pervio® Separators

Separators are placed between anodes and cathodes in a battery, mostly serving to maintain insulation between the electrodes. Because contact between an anode and cathode—a short—can cause a fire, these are critically important materials for ensuring the safety of lithium-ion secondary batteries.

Sumitomo Chemical sells Pervio® separators, which are made from polyolefin film coated with aramid resin using a proprietary technology to increase heat resistance. These separators allow for batteries with a higher capacity, an especially valuable quality in batteries for automotive use. There are other heat-resistant separators in which a polyolefin film is coated with alumina or other ceramic particles, but aramid coated separators have the edge in terms of heat resistance.

Structure of Lithium-ion Secondary Battery

Milestones in Sumitomo Chemical's Separator Business

More than 20 years has passed since we began developing separators in 1993. Since full-scale production began in 2006, in order to meet soaring demand, Pervio® production capacity has been increased by enhancing production capacity at the Ohe Works (Niihama, Ehime Prefecture), and by building a new plant at the subsidiary company SSLM (Daegu, South Korea).

With demand expected to continue increasing, the decision was made in September 2016 to approximately quadruple production capacity at SSLM from current levels. Facilities will be added in stages, and mass production will start ramping up after the first quarter of 2017.

1993	• Development of separators begins
1995	• Development of aramid coated separators begins
2006 April	• Sales of separators begin
October	• Production facilities begin operations at Ohe Works
2009	• Battery Materials Division created
2013	• Adoption of separators for use in electric vehicles decided
through 2016	• Staged growth at Ohe Works
2016	• Production facilities begin operations at SSLM in South Korea • Increase in production capacity at SSLM decided, approximately fourfold from current levels, with mass production beginning in stages from the first quarter of 2017

Ohe Works

SSLM

Profile of SSLM Co., Ltd.

Company name	SSLM Co., Ltd.
Location	Daegu, South Korea
Capital	280 billion won
Shareholding	100%
President	Young-cheul, Kang
Established	June 2011
Businesses	Manufacturing and sales of sapphire substrates (for LEDs), and aramid coated separators (for lithium-ion secondary battery)
Number of Employees	292 (as of end of March 2017)

Creating Value in the Separator Business

Our research, production technology, quality assurance, and sales divisions each have a role to play in the development of Sumitomo Chemical's separator business, as introduced below. This section also explains how these divisions contributed to the new plant at SSLM, which has been set up in stages since 2016.

Research

Developing Separators that Satisfy Customer Needs

Yasunori Nishida
Group Manager,
Battery Materials Group,
Energy & Functional Materials
Research Laboratory

The basic concept behind aramid coated separators was almost established, but every day we stay focused on making such improvements as thinner films to increase battery capacity, and doing a better job of meeting customer expectations. Technologies to evaluate and analyze separators and batteries are also important, and we are working on that by forming a team of specialists. At the same time, we also develop improvements to the separators we are now selling to make them easier to handle for customers in their battery manufacturing process, and to increase productivity and enhance cost-competitiveness.

Because we currently have no separator research locations outside Japan, we are also doing production grade development for the new SSLM plant. Moreover, when the SSLM plant encounters issues or defects, we work together to resolve them.

Production Technology

Designing Manufacturing Processes to Mass-produce Separators

Koji Yano
General Manager,
Process & Production Technology &
Safety Planning Dept.

We design manufacturing processes so that the separators developed by the research division can be mass-produced. Since operations began in 2006, we have focused our energies on increasing the production capacity of each machine. We designed new machines when they were installed, and work on increasing separator productivity. We also repeatedly adjust the newly installed machines as many improvements were made to them, in order to ensure that a product of required quality will be produced.

The new SSLM plant takes advantage of all the experience we have cultivated, and has been able to introduce new machines with high levels of productivity, realizing a major rationalization. We are also training the staff at SSLM to pass along the advanced technology we have cultivated over the years in Japan.

Working with Japan to Expand SSLM's Production

In just a year and a half since the decision was made to invest in production here in June 2015, starting mass production of a separator we had never made before was an extremely significant challenge for us at SSLM. Our employees worked with their counterparts from Sumitomo Chemical in a variety of functions, including research, production technology, quality assurance, and manufacturing, and by resolving issues and problems one by one, we were able to begin commercial production in February 2017.

Because we were bringing in cutting-edge equipment that would dramatically improve productivity over what we had previously had, there was some initial scrambling, but with the help of technicians from Sumitomo Chemical's Ohe Works, we have been able to get the equipment running smoothly. We have also been emphasizing training in order to manufacture high-quality products. Because processing and assembly are such important processes at a separator plant, the operator's skill can greatly affect the product's quality. So we have been sending our operators to Japan, to receive technical training from veteran operators at the Ohe Works.

Right now we are undertaking a project to quadruple production capacity. We will continue to work with Sumitomo Chemical to meet the rapidly growing demand from customers, and to deliver a high-quality, cost-competitive product.

Young-cheul, Kang
SSLM Co., Ltd.
President

Quality Assurance

Working to Maintain Product Quality and Stable Supply

Kazunori Akiyoshi
General Manager, Quality Assurance Dep.,
Quality Assurance Office (Ohe),
Energy & Functional Materials Sector

To supply products that meet customers' expectations for quality, it is not enough to simply ensure products meet specifications. We have a lot of different responsibilities, from development to mass production, aimed at maintaining uniform product quality without variations. This includes maintaining clean environments, raising employee awareness of quality, and generally creating a strong quality-oriented ethic. During the process of designing and developing products and equipment, we painstakingly identify risks in advance, to nip troubles in the bud. When quality problems do occur, we move quickly to ascertain and address the root causes and act decisively to prevent reoccurrence.

We evaluated technologies being used for the first time at SSLM's new plant in cooperation between Japanese and Korean teams. We share the latest information on such issues as dealing with contaminants, to help the new plant's quality assurance system reach the same level as the Ohe Works'.

Sales

Acting as the Point of Contact for Customers to Resolve Their Problems

Shinichi Mitsui
Deputy General Manager,
Business Planning and Development Group,
Battery Materials Division,
Energy & Functional Materials Sector

Our day-to-day job involves cultivating new customers, and serving as the point of contact for existing customers to exchange all kinds of information about the separator business in general. We periodically share information with customers about demand forecasts and production schedules, sound out customers about their new requirements, and work with the research division to improve battery quality and lower costs. Thus, we have the important role of sharing information we receive from customers with other divisions in the company, and meeting the demands of customers. And when a quality problem occurs, we work with members of the quality assurance division to respond and resolve the problem quickly.

As the overall coordinators of a business that is carried out on a global level, we sign contracts with customers, coordinate production quantities and sales quantities for all our locations, and support the business of SSLM.

Feature 2

Contribution to increased food production and the reliable production of safe

Process of Biorational Products before

The Sumitomo Chemical Group defines biorationals as crop protection products and solutions, derived from natural sources, such as microbial pesticides that protect crops from pests, and plant growth regulators and microbial agricultural materials that improve crop quality and yields.

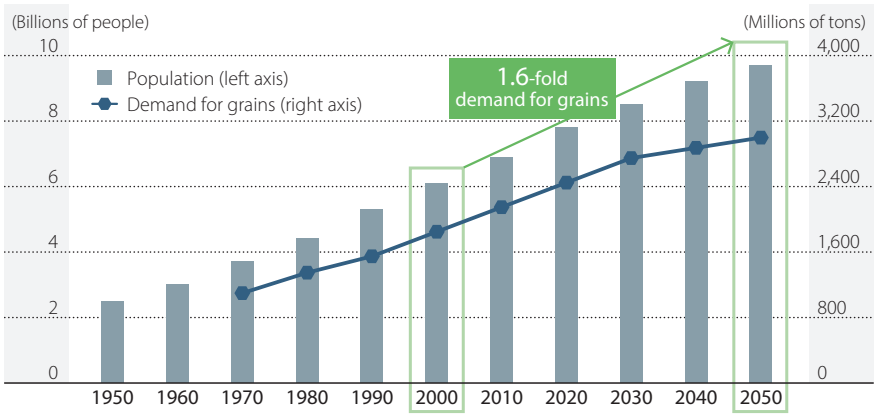
Valent BioSciences LLC was established in 2000 by Sumitomo Chemical acquiring a certain business unit from Abbott Laboratories. Since then, Valent BioSciences has expanded its business to over 90 countries around the world, establishing its presence as the leading company in microbial insecticides, plant growth regulators and other products, and supporting the biorational business of the Sumitomo Chemical Group.

Sumitomo Chemical, by providing both conventional chemical and biorational products globally, is helping to meet the growing worldwide demand for reliable supply of safe food. Sales of microbial pesticides should grow with rising demand for organic foods in developed countries, while sales of plant growth regulators are expected to benefit from increased demand for high-quality fruits and vegetables.

Leveraging the synergies between chemical and biorational products, we will continue to develop unique, innovative solutions that contribute to increased food production and the reliable production of safe agricultural crops.

World Population and Demand for Grains

By 2050 the world population is forecast to reach 9.7 billion, an increase by 3.6 billion from 2000. Against the background of this rising population and economic growth, demand for grains in 2050 is expected to be 1.6 times higher than in 2000.



(Source) FAO, "World agriculture: towards 2030/50"; UN Population Fund

agricultural crops

Reaching Our Customers

Overview of Biorationals Products

Biorational Crop Protection (BCP)

Natural, microbially derived pesticides

Our strengths

- Superior BT (Bacillus thuringiensis) strains
- Outstanding production (fermentation) expertise

Biorational Crop Enhancement (BCE)

Crop protection products improving crop yield and quality

Our strengths

- Pioneer of the plant growth regulator business
- Selling a wide range of plant growth regulators in more than 90 countries
- Capabilities to develop new markets by creating new solutions

Biorational Rhizosphere (BRZ)

Soil improvement and crop enhancement products based on mycorrhizal fungi, micro-organism symbiotic with crop roots, enabling water and nutrient uptake to be more effective.

Our strengths

- Technology for mass production of mycorrhizal fungi
- Expertise and proven track record for applying mycorrhizal fungi for a wide range of crops

VBC headquarters (Illinois, U.S.A.)

Osage Works (Iowa, U.S.A.)

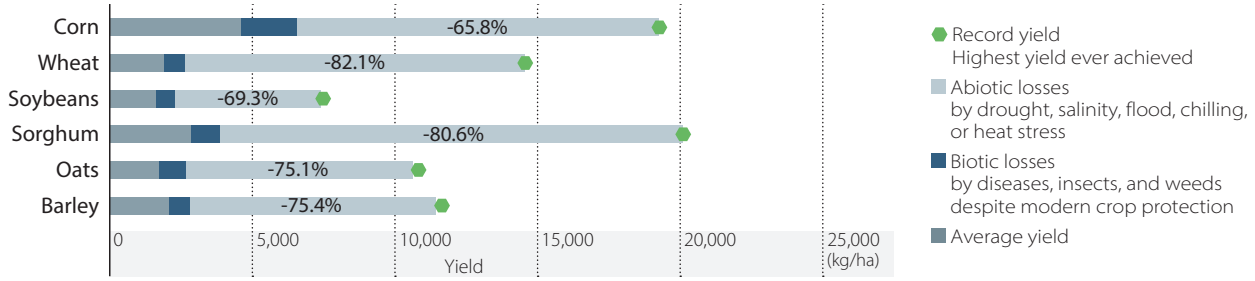
Profile of Valent BioSciences LLC

Headquarters	Illinois, U.S.A.
Shareholding	100% (subsidiary of Valent U.S.A.)
Established	In 2000
Business	Production and sales of microbial pesticides and plant growth regulators
Sales regions	Over 90 countries

Feature

Crop Yield Loss Caused by Abiotic Stress

Crop yields can be significantly reduced by environmental stresses, such as low temperatures, high temperatures, or drought. The Sumitomo Chemical Group is contributing to improved yields by manufacturing and selling treatments and biological materials that raise plants' resistance to environmental stresses.



(Source) Buchanan, Gruissem, Jones Biochemistry and Molecular Biology of Plants / American Society of Plant Physiologists, 2000

Employees Engaged in Biorational Products

Sumitomo Chemical has employees working outside Japan in order to bring biorational products to customers around the world. Here are their day-to-day operations that create corporate value.

Research and Development

Randy Martin Ph.D.
Manager, R&D Pipeline

I aim to bring products that can contribute to global food production to market efficiently and at low cost.

I manage Valent BioSciences' Pipeline and Product Life Cycle Management (PLCM) processes to facilitate the commercialization of new products and develop new uses for current products. The Pipeline and PLCM represent a formal process for controlling and monitoring the flow of projects into successful product launches. By leading this process, I help to keep our global management team informed and to maintain our global biorational leadership position. In this position, I work with all functional departments, including Research, Business and Marketing, Regulatory, Production, and Supply Chain, to get products to the market in the most cost-effective and efficient manner possible. Coordinating our company's twice-annual Biorational Field R&D review meetings – where data is presented and reviewed from ongoing trials around the world – is also a key part of my responsibility.

Registration

Maria Herrero
Director,
Global Regulatory Affairs

I am working to enable us to sell our products around the world, in accordance with the laws and regulations of each country and region.

Regulatory affairs for Valent Biosciences ensures that authorities in each country have the necessary data to evaluate the safety of the products we plan to sell by complying with requirements set by each country's regulations. In my role, I provide leadership on global regulatory activities by interfacing with Sumitomo Chemical affiliates around the world. I also manage dossier creation and re-registration for all biorational products to meet global requirements, which is a complex process that requires a true team effort. Through Regulatory Affairs, I consistently interact with other departments such as Quality Control, Research, Project Management, and others to ensure all departments are aware and working towards the same goals.

Works

Darin Osier
Production Manager,
VBC Osage Affairs

I am working to produce the highest-quality products, as well as to analyze and improve our production processes.

I oversee the Production Operations and Production Engineering for Valent BioSciences' Supply Chain at the state-of-the-art Osage facility. Our team of fermentation and recovery process experts not only produces our Best in Class biorationals, but also analyzes and implements process improvements that keep our manufacturing plant running profitably, efficiently, and sustainably. Here in Osage, every meeting starts with a focus on safety as it is our primary focus. Our motto is "no job is so urgent or important that we cannot take the time to do it safely." We are always facing a lot of challenges, such as increase of production yields and development of new processes that are extremely difficult. We pull the teams together to drive success. We have a very strong group of people here who have the desire to be the best.

Marketing

Regina Rieckenberg
Director,
Biorational Crop Enhancement

I aim to put our sales strategy into practice, working closely with sales managers around the world.

I lead the marketing, business management, and product lifecycle management activities of Valent BioSciences' plant growth regulator (Biorational Crop Enhancement (BCE)) business unit. Working with senior leadership, I am responsible for developing global strategies to grow and maximize the value of our BCE products, and for interfacing with regional affiliates toward execution. I work closely with the Regional Marketing Managers, who manage the day-to-day business interactions with the regions. Together we are passionate about the BCE business because our products help farmers maximize the value of their crops in an environmentally sustainable way. We are also excited about the excellent business opportunities ahead for BCE. These opportunities – like ReTain that contributes increasing yield of almond – will make a significant contribution to business growth of the Sumitomo Chemical Group of Companies.

Sales

Alvaro Azancot
VBC Chile Sales

I provide products and technical support, earnestly meeting farmers face to face.

I not only offer our company's products to customers, I also provide technical support, explaining how to use these products. Through communication with customers, I also propose products and ways of using them that meet their various needs. For example, recently I have been proposing the use of mycorrhizal fungi, a type of useful microorganism, on crops such as potatoes and large-scale field crops such as wheat and soy, in order to improve both yield and quality. To meet our customers' demands as much as possible, our whole team works hard every day to understand what is actually needed in the fields. Going forward, I would like to grow Sumitomo Chemical's biorational business by earnestly meeting farmers face to face.

Through communication with customers, we propose products and ways of using them that meet their various needs. Through this type of activity, we build deep relationships of trust.

Value Creation Initiatives

Sumitomo Chemical is comprised of five business sectors. Each business sector seeks to create new value by providing, on a global basis, solutions that help resolve problems facing society or that improve people's quality of life. In the pages that follow, we describe the activities of each business sector.

36 Petrochemicals & Plastics

40 Energy & Functional Materials

44 IT-related Chemicals

48 Health & Crop Sciences

52 Pharmaceuticals

Net Sales by Business Sector

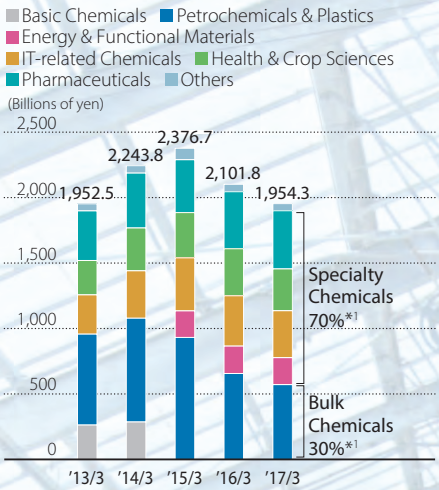
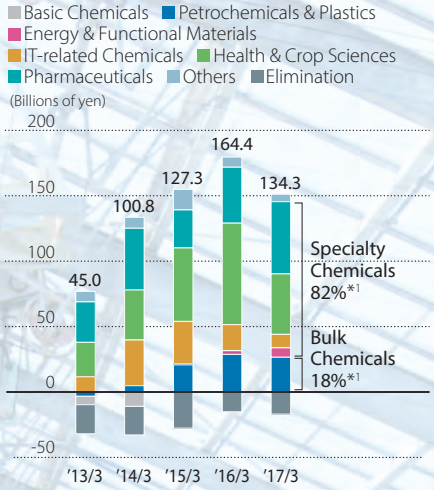
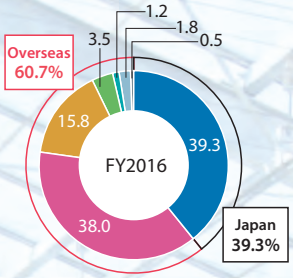


Photo: Health & Crop Sciences Research Laboratory
Sumitomo Chemical is engaged in the development of new crop protection products and functional materials, the development of safe and more effective household insecticides and technology to prevent infectious disease, and the development of efficient methods for synthesizing pharmaceutical chemicals.

Operating Income by Business Sector*2



Net Sales by Region



Change in Business Sector Classification Methods

As of April 1, 2015, the Basic Chemicals Sector was eliminated and businesses in this sector were split and transferred to the Petrochemicals & Plastics Sector and the Energy & Functional Materials Sector that was established as a new business sector. In addition, a part of businesses in the Petrochemicals & Plastics Sector was transferred to the Energy & Functional Materials Sector. Inorganic chemicals, raw materials for synthetic fibers, organic chemicals, and methyl methacrylate that had been included in the Basic Chemicals Sector were transferred to the Petrochemicals & Plastics Sector. Alumina products, aluminum, functional materials, additives, and dyes that had also been included in the Basic Chemicals Sector were transferred to the Energy & Functional Materials Sector. In addition, synthetic rubber that had been included in the Petrochemicals & Plastics Sector was transferred to the Energy & Functional Materials Sector. The business sector categorization of one of the consolidated subsidiaries has been changed. For comparison, the figures for fiscal 2014 have been adjusted to reflect the organizational revision as of April 1, 2015, except for return on assets in the Petrochemicals & Plastics Sector, the Energy & Functional Materials Sector, and the Health & Crop Sciences Sector.

To further strengthen the Energy & Functional Materials business, as of April 1, 2016, battery materials and engineering plastics that had been included in the IT-related Chemicals Sector were transferred to the Energy & Functional Materials Sector. For comparison, the figures for fiscal 2015 have been adjusted to reflect the organizational revision as of April 1, 2016, except for return on assets in the Energy & Functional Materials Sector, and the IT-related Chemicals Sector.

*1 Excluding "Others" and adjustment amount
*2 Figures on top of each bar in the graph include eliminations.

Petrochemicals & Plastics

Provide Customers with New Solutions Based on High Value-added Products

竹下 寛昭

Noriaki Takeshita

Representative Director & Managing Executive Officer,
Rabigh Project, Petrochemicals & Plastics Sector

Sumitomo Chemical's Petrochemicals & Plastics Sector manufactures such products as polyethylene (PE), polypropylene (PP), and methyl methacrylate (MMA) using the various strengths of its manufacturing locations in Japan, Singapore, and Saudi Arabia, and offers them to a wide variety of industries, including automobiles, electric appliances, and food products.

We are manufacturing cost-competitive products in Saudi Arabia, taking advantage of the low prices of raw materials and fuel in that region. At our locations in Singapore and Japan, we are developing high value-added products in anticipation of customer needs, and we also provide a stable supply of high-quality products. Our relationships of trust with outstanding customers in the Asian market, cultivated over many years, are also a major strength of Sumitomo Chemical.

Currently, we are working to achieve stable plant operations in Saudi Arabia, and to enhance our ability to offer solutions through high value-added products in Singapore and Japan.

In fiscal 2016, we made significant progress in plant construction in the Rabigh Phase Ⅱ Project in Saudi Arabia. In addition, we remodeled our plant in Singapore, enabling the production of high value-added polypropylene used for food packaging. We are also making progress in enhancing our ability to provide solutions employing high value-added products through a variety of measures, including deciding to turn a polycarbonate joint venture into a wholly owned subsidiary, and deciding to expand our production capacity for polypropylene compounds.

Our greatest issue at present is getting production at the new plant in Saudi Arabia on track as soon as possible to mobilize its initially planned capabilities. We aim to quickly transfer the technology developed through many years of experience in plant operation in Japan and Singapore to Saudi Arabia in order to achieve stable plant operations. Moreover, in Singapore and Japan, we are putting effort into developing high value-added applications for polyolefin, while in Japan we are enhancing our licensing business and increasing our catalyst production capacity. On top of this, we aim to improve the competitiveness of our naphtha cracker in Singapore through such measures as building a new naphtha tank and updating compressors.

Going forward, Sumitomo Chemical will not only continue to enhance our strengths in these three locations, but will also aim to consistently achieve a return on assets in excess of our cost of capital by working to streamline assets, including working capital.

Corporate Business Plan FY2016-FY2018: Sector Goals

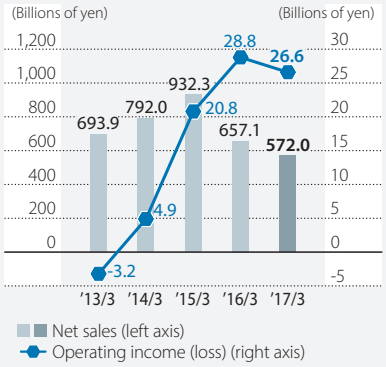
	FY2017 Forecast	FY2018 Target
Net sales (billions of yen)	640	800
Operating income (billions of yen)	27	21

Primary Focus SDGs

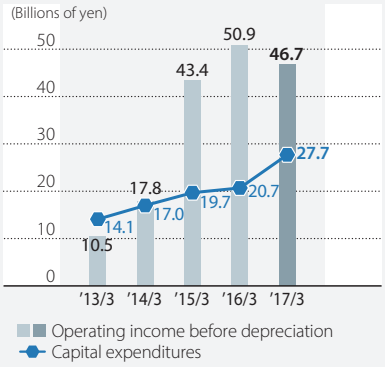
FY2016 Result Net sales **¥572.0 billion** Operating Income **¥26.6 billion**

Comparison with FY2015 –¥85.1 billion –¥2.2 billion

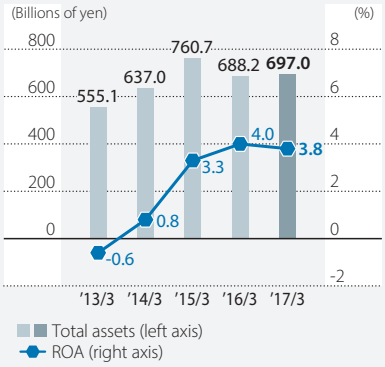
Net Sales / Operating Income (Loss)



Operating Income before Depreciation / Capital Expenditures



Total Assets / ROA



Main Initiatives in the Major Businesses

Polyolefin Business (Polyethylene and Polypropylene)

Global PE demand is estimated at 90 million tons per year, and is expected to grow at an annual rate of 4%. Global PP demand is estimated at 65 million tons per year, and is expected to grow at an annual rate of 5%. We operate PE and PP manufacturing facilities in Japan, Singapore, and Saudi Arabia with a combined production capacity of 1.51 million tons per year for PE and 1.68 million tons per year for PP. In order to further enhance the profitability of our PE business, we are increasing sales of products such as those for use in protective films. In addition, we are actively working to expand our low density polyethylene (LDPE) business in high value-added applications, such as water-resistant laminate for paper. We are also pushing ahead even further with our efforts to enhance our PP business in high value-added applications, such as PP compounds for use in automotive components, film materials for high-quality electronic components, film materials for food packaging, and designer films.

MMA Business

MMA polymer, which offers outstanding transparency and weather resistance, is an excellent material for a broad range of uses, such as light-guide plates for LED televisions and other optical components, as well as automotive applications, showcases, and outdoor signboards. With the economic expansion in Asian countries, particularly China and India, demand in Asia for MMA polymer is estimated at 700,000 to 800,000 tons per year, and is expected to grow at an annual rate of 3 to 4%. As Asia's major MMA producer, we continue to enhance the competitiveness of our entire MMA product chain, from monomer and polymer to finished sheets.

Rabigh Project

We and Saudi Arabian Oil Company (Saudi Aramco), the world's largest oil company, each have a 37.5% stake in Rabigh Refining and Petrochemical Company (Petro Rabigh), and support the operation of Petro Rabigh's world-scale integrated oil refinery and petrochemical complex. In the Rabigh Phase Ⅰ Project, the complex utilizes crude oil and highly cost-competitive ethane as primary feedstocks to produce a variety of refined petroleum products and petrochemical products. In addition, production facilities of the Rabigh Phase Ⅱ Project are newly constructed to produce a variety of high value-added petrochemical products and further strengthen the competitiveness of the Rabigh complex. Some facilities of the Rabigh Phase Ⅱ Project such as utility facilities and an upgraded ethane cracker have already started operations.

Status of the Major Businesses

Strengths

- Global operation by leveraging the competitive advantages of the three bases in Japan, Singapore, and Saudi Arabia
- Strong relations with prominent customers in the Asian market
- Access to low-cost ethane feedstock
- Capabilities to develop high value-added products

Weaknesses

- Relatively small business size compared to the global majors
- Dependence on naphtha, a more expensive feedstock than ethane / shale gas

Opportunities

- Large and deep markets
- Steady growth in demand

Threats

- Establishment of more cost-competitive new plants
- Business risks and country risks

Value Creation Model in the Polyolefin Business

Product Development

Sumitomo Chemical has built up a high degree of trust in its dealings with outstanding customers in the Asia region over many years, and is able to quickly discover new needs for polyolefin in the Asian market. By communicating needs uncovered by its locations in Singapore to the Petrochemicals Research Laboratory in Japan to rapidly reflect those needs in products, Sumitomo Chemical is supporting customers in their development of new products.

Petrochemicals Research Laboratory (Chiba)

Manufacturing

At Sumitomo Chemical's plant in Singapore, high-quality products are produced stably by experienced local staff with excellent plant operation skills. By offering products of a reliable quality that vastly exceeds the standards required by customers, Sumitomo Chemical is also contributing to improved yields for customer manufacturing processes.

The Polyolefin Company (Singapore) Pte. Ltd.

Sales / After-sales Service

Sumitomo Chemical puts a great deal of emphasis on technical services to customers after sales of its products. When problems occur in manufacturing at customer factories, Sumitomo Chemical not only aids in an investigation of the cause, it also supports customers in resolving the issue, such as by offering advice on such subjects as processing conditions.

A test using a film-shaping machine

Measures to Improve ROI

Initiatives to Improve Profit Margin on Sales

Results
- Achieved early setup of Rabigh Phase Ⅱ Project
- Further restructured unprofitable businesses

Issues going forward
- Develop and expand sales of high value-added products
- Restructure businesses in Japan

Initiatives to Improve Asset Turnover

Results
- Shortened payment periods for accounts receivable
- Reduced inventory by reducing the number of product grades

Issues going forward
- Reduce production capacity at businesses in Japan
- Further reduce payment periods for accounts receivable

Value Provided by the Polyolefin Business

Polyethylene and polypropylene are plastics widely used in such areas as automobiles, electric appliances, and all types of packaging. Sumitomo Chemical started running the first petrochemical complex in the ASEAN region in Singapore in 1984. As a pioneering polyolefin manufacturer in the ASEAN region, Sumitomo Chemical has expanded its business alongside the growth of its outstanding customers in the home appliance and food industries in the region. By rapidly grasping the needs of these outstanding customers and responding to them quickly with its development capabilities, Sumitomo Chemical supports its customers in their development of new products. In addition, Sumitomo Chemical offers stable supplies of high-quality polyethylene and polypropylene, and also helps its customers maintain high productivity through after-sales services.

Sumika Sustainable Solutions

FY2016 Sales **¥57 billion**

In this sector, 10 products and technologies have been designated as Sumika Sustainable Solutions. One of the designated technologies, the propylene oxide-only (PO-only) process, is a groundbreaking, environmentally friendly process that produces propylene oxide, a raw material in polyurethane, without producing by-products. This process also contributes to the effective use of heat generated in chemical reactions, and the reduction of wastewater emission. In addition to this, Sumitomo Chemical develops and offers polyethylene and polypropylene suited for use in retort pouches for food or easy-to-open refill pouches for soaps, which have a lower environmental burden, using less energy in manufacturing than other containers.

Polypropylene oxide-only process plant (Chiba)

Energy & Functional Materials

Contribute to Resolving Environmental and Energy Issues on a Global Scale, with the Customer-oriented Mindset and Commitment to "Offering Materials that are Sought After"

Hiroshi Ueda

Representative Director & Senior Managing Executive Officer,
Energy & Functional Materials Sector

Sumitomo Chemical's Energy & Functional Materials Sector offers solutions that contribute to improving the functionality of environmentally friendly products, such as green cars, by selling highly functional materials, including battery components and super engineering plastics.

This sector has a wide variety of products, including products with top global market share, such as high-purity alumina and resorcinol, as well as separators for lithium-ion secondary batteries with higher heat resistance than competing products. Our product development capability, which gave rise to these products, and our manufacturing technology are the strengths of this sector.

As this sector is involved in a broad range of businesses, Sumitomo Chemical is currently working to separate out and develop businesses where we have a competitive edge, such as in technology, and where growth can be expected. At the same time, for those businesses that currently are unprofitable, we are working to restructure them.

In fiscal 2016, we expanded our production of separators for lithium-ion secondary batteries, for which demand is increasing for use in electric vehicles, beginning production at a new factory in South Korea. In addition, we acquired a majority stake in Tanaka Chemical Corp., which develops and produces cathode materials for lithium-ion secondary batteries, making it a subsidiary and making a full entry into this business. Beyond this, we are pushing ahead with the development of growth businesses, including deciding to enhance our production capacity for polyethersulphone, for which demand is growing for automotive and aerospace applications. At the same time, we are also working to shore up unprofitable businesses, including migrating the sales and research functions from our S-SBR business to a joint venture.

Moving forward, we are focusing on developing core businesses for the sector by investing and developing new products in businesses expected to grow, and where Sumitomo Chemical has competitive strengths. In addition, while we pushed ahead with the restructuring of unprofitable businesses last fiscal year, we would like to continue our efforts to improve profitability.

We aim to improve profitability and expand the scale of our business by offering products and solutions that contribute to the resolution of problems with the environment and energy through innovative technology.

Corporate Business Plan FY2016-FY2018: Sector Goals

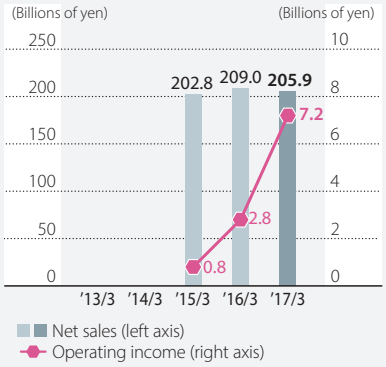
	FY2017 Forecast	FY2018 Target
Net sales (billions of yen)	250	260
Operating income (billions of yen)	12	18

Primary Focus SDGs

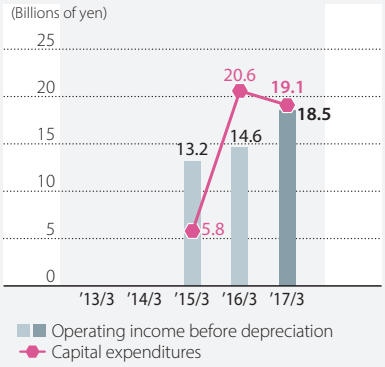
FY2016 Result Net Sales **¥205.9 billion** Operating Income **¥7.2 billion**

Comparison with FY2015 –¥3.1 billion +¥4.4 billion

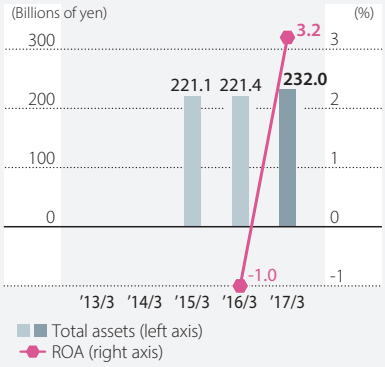
Net Sales / Operating Income



Operating Income before Depreciation / Capital Expenditures



Total Assets / ROA



Main Initiatives in the Major Businesses

Advanced Polymers Business

We manufacture and sell super engineering plastics including liquid crystal polymer (LCP) and polyethersulfone (PES). LCP is used mainly in connectors and other electronic parts, taking advantage of its outstanding thermal resistance, flowability, and dimensional stability. PES, with excellent flame resistance, thermal resistance, and dimensional stability, is used mainly in carbon fiber composite materials in aircraft. Use of both polymers in automotive components is expected to grow, as both feature light weight and make possible lower processing costs. By developing new applications for polymers that can benefit from their superior properties, we hope to expand sales of these products.

Resorcinol Business

We manufacture and sell various chemical products such as resorcinol and polymer additives. Resorcinol is primarily used as a raw material for adhesives for bonding tire rubber with reinforcing material and for wood used in construction applications. Worldwide demand for resorcinol is estimated at 60,000 tons. As the world's top manufacturer of resorcinol, we have an annual production capacity of 30,000 tons and supply highly cost-competitive resorcinol by taking advantage of our outstanding manufacturing technology and production capacity.

Inorganic Materials Business

We provide distinctive high-performance inorganic materials using our advanced technologies for precisely controlling such physical properties as particle size and form. Sumitomo Chemical is the global leader in manufacturing high-purity alumina, for which demand is expanding for applications such as materials in lithium-ion secondary batteries.

Moreover, Sumitomo Chemical is manufacturing and selling products such as fine alumina for glass substrates used in such products as liquid crystal displays, as well as aluminum hydroxide for artificial marble, and high-purity aluminum, used in applications such as condensers and as circuitry material for semiconductors.

Battery Materials Business

We manufacture and sell separators for lithium-ion secondary batteries and are also developing cathode materials. Our heat-resistant separators are highly valued by battery manufacturers for their high heat resistance, reliability, and safety, and are used in a wide range of applications. As high-capacity lithium-ion secondary batteries can be produced by the use of our separators, demand for our separators is rising sharply for use in high-capacity batteries for eco-cars such as electric vehicles. At the new factory in South Korea, which was completed in the autumn of 2016, Sumitomo Chemical began expanding production capacity in stages starting from the first quarter of 2017, and it eventually will have up to four times its current capacity. We are also developing low-resistance, high-capacity cathode materials targeting automotive applications.

Status of the Major Businesses

Strengths
- Products with top global market shares
- Differentiated products with technological advantage

Weaknesses
- Need to enhance the capability of grasping fast-changing market and customer needs

Opportunities
- Expansion of the environment- and energy-related markets

Threats
- Developing and drastically changing markets
- Intense competition

Value Creation Model in the Super Engineering Plastics (SEPs) Business

Sales Activities

First, Sumitomo Chemical notifies potential customers of our products and their applications through exhibitions, advertisements, and direct visits. For potential customers interested in our proposals, if the customers have not used these materials before, we listen to our customers' needs and issues, offering in-depth, considered proposals of how Sumitomo Chemical's products can contribute to enhanced competitive strength of the customers.

Research and Development

Sumitomo Chemical proposes materials for each customer that meet the customers' needs, based on the information obtained in sales activities. In addition, we not only propose product designs for use with plastics, we also even investigate and propose optimal manufacturing conditions for when customers manufacture components at their facilities.

After-sales Support

Sumitomo Chemical's technical personnel will visit customer manufacturing facilities, offering all types of support to improve customer productivity and ensure stable quality, until the customer's component manufacturing is on track. In addition, we have sales and technology support locations in China, the world's largest market, with a structure in place to provide timely support to customers.

Example of the Value Created by the SEPs Business

Oil Control Valve

This is one component in an automobile engine. The black product in front is made using PES. It was made with the same dimensional accuracy as the component machined from aluminum alloy behind it, using only injection molding*, with a mass 50% lighter than the previous product, contributing to improved fuel consumption through improved engine control performance and a reduction in overall weight.

* Injection molding: A method of shaping components by injecting material melted at high heat into an injection molding tool, and allowing it to cool and solidify. Suitable for mass production of products with complex shapes.

Measures to Improve ROI

Initiatives to Improve Profit Margin on Sales

Results

- Expanded sales of high value-added products
- Launched joint venture to consolidate S-SBR business
- Improved earnings through rationalization

Issues going forward

- Further increase sales of high value-added products
- Restructure businesses with profitability issues
- Reduce costs by rationalization

Initiatives to Improve Asset Turnover

Results

- Focused capital investment on growth businesses
- Improved cash conversion cycle (CCC) by reducing inventory and shortening the payment cycle for accounts receivable
- Effective use of existing facilities

Issues going forward

- Focus capital investment on growth businesses
- Further improve CCC

Value Provided by the SEPs Business

SEPs are materials used in aerospace components, automotive components, and electronic components, which can contribute to the competitiveness of components produced by customers. Sumitomo Chemical is working hard to expand the adoption of SEPs, particularly for automotive components. By replacing the metallic components used in cars with components made from SEPs, the weight of the components is reduced, improving vehicle performance, fuel consumption, and even comfort. In addition, it can also lead to lower costs for customers, as components with complicated shapes can be mass-produced in a short period of time using injection molding* technology.

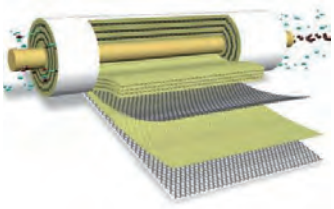
Sumitomo Chemical not only proposes SEPs as materials for customers, we also propose and support total solutions, including product design and processing methods for customer products.

Sumika Sustainable Solutions

FY2016 Sales **¥20.8 billion**

In this sector, a variety of products conducive to reducing greenhouse gas emissions and creating new forms of energy have been designated as Sumika Sustainable Solutions. Major designated products include separators for lithium-ion secondary batteries used in green cars, such as electric vehicles, and PES, an additive for carbon-fiber reinforced plastics used in aircraft, making aircraft lighter and hence fuel-efficient.

Beyond this, Sumitomo Chemical is working to develop a business around a new product called a CO_2 separation membrane. CO_2 separation technology using a membrane separation process can greatly reduce energy consumption, as the process is simpler than existing chemical absorption methods, contributing to lower greenhouse gas emissions.



CO_2 separation membrane

IT-related Chemicals

Deliver New Value that Responds to the Changes in the ICT Industry by Leveraging Our Material Development Capabilities in Collaborative Development with Customers

Toshihisa Deguchi

Representative Director & Executive Vice President,
IT-related Chemicals Sector

Sumitomo Chemical's IT-related Chemicals Sector contributes to innovation in display technology by providing display manufacturers with highly functional materials that contribute to improved display performance.

Locating our production centers near customer manufacturing sites, we strive to foster good relationships with customers, to be quick to determine their needs, and to build market needs-driven supply chains that reflect these needs in the development and supply of products. The advantages our Company brings to this field are this development and supply approach, our material development capability as a comprehensive chemicals manufacturer, our product development ability, as well as our processing technology in the display materials business.

Now, in order to respond to the generational shift in display technology from LCD to OLED, we are working to expand our OLED business and transform the cost structure of our LCD components business. In fiscal 2016, we worked to expand our production capacity of touchscreen panels for OLED displays. After expanding our production capacity for glass-type touchscreen panels, we also decided to further expand our production capacity for film-type touchscreen panels. In addition, we launched a liquid crystal coated-type retardation film for OLED displays, and also made progress in the development of components for flexible displays, which are expected to be the next generation of displays for mobile devices. As for LCD components, we pushed ahead with the transformation of our cost structure, including restructuring our production systems.

Going forward, by developing new products and expanding production capacity at the appropriate times, we aim to expand our touchscreen panels business for OLED displays, where Sumitomo Chemical already has the largest market share. As for LCD components, we will continue to improve our cost competitiveness, and also aim to expand our business in China's market, which is expected to grow.

In this way, utilizing Sumitomo Chemical's strengths, we will expand the scale of our business and increase profitability by providing new materials and solutions that anticipate developments in the ICT industry.

Corporate Business Plan FY2016-FY2018: Sector Goals

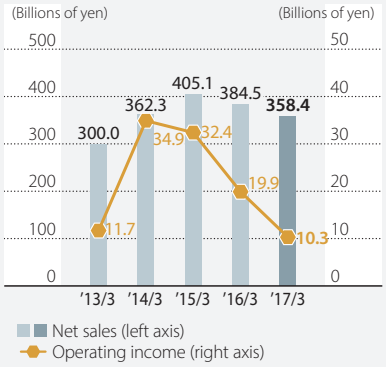
	FY2017 Forecast	FY2018 Target
Net sales (billions of yen)	385	490
Operating income (billions of yen)	21	34

Primary Focus SDGs

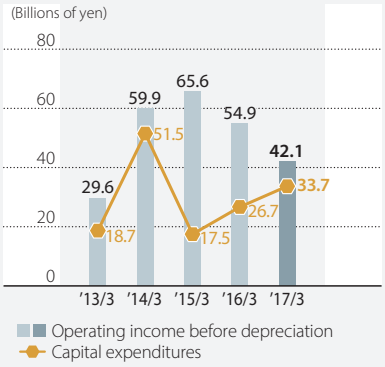
FY2016 Result Net Sales **¥358.4 billion** Operating Income **¥10.3 billion**

Comparison with FY2015 –¥26.1 billion –¥9.5 billion

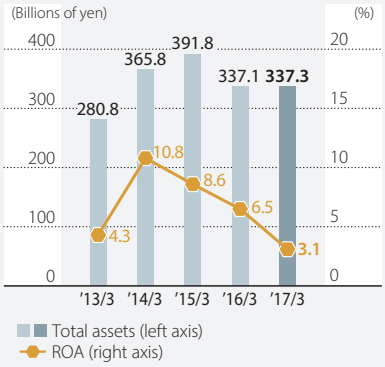
Net Sales / Operating Income



Operating Income before Depreciation / Capital Expenditures



Total Assets / ROA



Main Initiatives in the Major Businesses

OLED-related Materials Business

Sumitomo Chemical offers OLED components, such as touchscreen panels and circular polarizing films. The Company's main product is touchscreen panels, which are input units used in devices such as smartphones and tablets. We use the production technology developed in the production of color filters to produce touchscreen panels for OLED displays. Because the use of OLED displays in smartphones is expanding, and demand for our glass-substrate touchscreen panels is increasing, we expanded production capacity by about 40% in October 2016. In addition, in order to respond to demand for flexible-type touchscreen panels, which are becoming increasingly common, we plan to increase our production capacity for film-type touchscreen panels to more than three times current levels by January 2018. This new line will be able to manufacture touchscreen panels that support both existing curved displays as well as foldable displays currently in development.

Sumitomo Chemical will continue its focus on developing new products going forward, including flexible touchscreen panels, circular polarizing films, and window films. We will also work to develop new technologies that integrate the capabilities of these multiple materials into one material, expanding our OLED materials business, particularly in touchscreen panels. We are also working to commercialize polymer OLED light-emitting materials that will enable the manufacture of large-scale OLED displays at low cost.

LCD-related Materials Business

Sumitomo Chemical offers a wide range of LCD components, including polarizing films, color filters, and color resists. Sumitomo Chemical is one of the world's leading manufacturers of polarizing film, a key material used in LCDs. We operate production facilities in Japan and other countries in East Asia and have forged strategic partnerships as a prime supplier with major LCD panel manufacturers. The environment surrounding the LCD-related materials business has changed significantly, with display production increasing in China while the display market is maturing. We aim to ensure sustainability of our LCD-related materials business by rebuilding a supply system.

Semiconductor Processing Materials Business

Sumitomo Chemical offers a variety of semiconductor materials, such as photoresists, aluminum sputtering targets, and high-purity chemicals used in semiconductor manufacturing, such as sulfuric acid, ammonia water, and hydrogen peroxide solution. Photoresists are photosensitive resins used in semiconductor manufacturing processes. As semiconductor manufacturers are adopting processes to etch finer circuits, we are working to develop cutting-edge ArF immersion photoresists and have the largest share of the global market for this product. We will expand the business by quickly developing state-of-the-art materials that meet customer needs.

Status of the Major Businesses

Strengths
- Offering a wide range of display materials
- Established market needs-driven global supply chains
- Material development capabilities as a diversified chemical company

Weaknesses
- Heavy reliance on some specific products
- High exchange rate sensitivity

Opportunities
- Fast-growing organic LED displays market
- Emergence of the flexible display market
- Expansion of the Chinese semiconductor market

Threats
- Intensifying competition in the maturing LCD market

Value Creation Model in the Color Resist Business

Basic Research

Color resists are products made up of a variety of materials, including color materials and photosensitive resins. Leveraging the color material technology developed in its dyes business and the photosensitive resin technology developed in its photoresist business, Sumitomo Chemical offers excellent color resists. Both of these technologies are based on Sumitomo Chemical's strength in synthetic organic chemistry.

IT-related Chemicals Research Laboratory (Kasugade)

Product Development

Sumitomo Chemical has established labs to customize products and produce samples to meet the needs of customers in Japan, South Korea, and Taiwan. By locating manufacturing and research and development locations near the development and manufacturing locations of customers, Sumitomo Chemical is accelerating the development of new products and the resolution of customer issues.

Color resist lab

Manufacturing

Sales

Color resists need to respond quickly to customer needs for characteristics and color because the product lifecycle for LCDs, a main use for color resists, is so short. Sumitomo Chemical has built solid relationships of trust as a partner by proposing new technology to respond to customer needs as soon as possible and by working with customers to continually improve.

Dongwoo Fine-Chem

Measures to Improve ROI

Initiatives to Improve Profit Margin on Sales

Results

- Expanded sales of OLED components, such as touchscreen panels
- Expanded sales of electronics components, such as photoresists and color resists, which are based largely on unique technology

Issues going forward

- Reduce costs by optimizing the production structure in the polarizing film business
- Accelerate development and expand sales of flexible display materials

Initiatives to Improve Asset Turnover

Results

- Effective utilization of existing idle facilities in new businesses

Issues going forward

- Reduce inventory through supply chain optimization

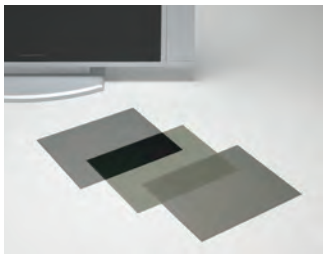
Value Provided by the Color Resist Business

Color resists, which are coated onto color filters, a component of liquid crystal displays, are important materials that control the picture quality, including color tone and the brightness of the three basic colors of light, shown by a display. Display manufacturers are engaged in a daily development competition, in order to provide products with higher picture quality. Armed with the strong materials development capability and technical capability it developed in the dye business, Sumitomo Chemical led the world in developing DyBright® dye-type color resists, which offer dramatically higher brightness and color reproducibility than previous products. In addition, by locating manufacturing facilities "on the spot," Sumitomo Chemical has made it possible to rapidly respond to customer needs, supporting display manufacturers in the creation of revolutionary new products.

Sumika Sustainable Solutions

FY2016 Sales **¥109.6 billion**

In this sector, products such as color resists and the UV adhesive curing process in polarizing film manufacturing are designated as Sumika Sustainable Solutions. Manufacturing polarizing film, which is made by pasting together multiple sheets of film, previously used a great deal of electricity for the superheated drying process for the water-soluble glue. By adopting a UV adhesive curing process that uses ultraviolet curing technology, Sumitomo Chemical was able to significantly reduce the amount of power consumed in this process. Moreover, Sumitomo Chemical's color resists create color filters with higher brightness than competing products, enabling a reduction in the power consumed by an LCD's backlight. These solutions enable significant energy savings, contributing to reducing greenhouse gas emissions.



Polarizing films

Health & Crop Sciences

Contribute to Solving Global Issues related to Food, Health, Hygiene, and the Environment by Leveraging Our Excellent Research and Development Capabilities

Ray Nishimoto
Representative Director & Senior Managing Executive Officer,
Health & Crop Sciences Sector

Sumitomo Chemical's Health & Crop Sciences Sector contributes to improving food productivity around the world by providing such products as specialized crop protection and enhancement (agrosolution) products, agricultural materials, and methionine.

Sumitomo Chemical offers not only crop protection chemicals from our excellent internal development, but also unique agrosolution products and agricultural materials with high market share, including biorationals and post-harvest products. Sumitomo Chemical sells these agrosolution products around the world, using both its own sales network and the sales channels of major multi-national players with which we have formed alliances. In addition to our range of specialized agrosolution products and the research and development capabilities that created them, access to global sales channels is one of the strengths of our agrosolution business. In our methionine business, Sumitomo Chemical offers a stable supply, with integrated production from raw materials using advanced production technology.

Currently, Sumitomo Chemical is working to further enhance the strength of our agrosolution products and agricultural materials, expand our global footprint, and maximize earnings from existing products. In addition, we plan to increase our methionine production capacity, solidifying our position as the leader in this business in Asia.

In fiscal 2016, in order to expand our global footprint, Sumitomo Chemical acquired Excel Crop Care Ltd., an agrochemicals company in the steadily expanding Indian market. We also decided to increase production capacity for the feed additive methionine, demand for which can be expected to grow significantly. Beyond this, Sumitomo Chemical is accelerating the development of next-generation blockbuster agrosolutions, and is also advancing initiatives to enhance the strengths of our products, including expanding research and development facilities and test fields for agrosolutions, and deciding to jointly develop next-generation crop protection chemicals with Monsanto.

Going forward, Sumitomo Chemical aims to accelerate the development of next-generation blockbuster agrosolutions and bring them to market sooner. We are also working to expand our business in niche fields where we have a competitive advantage, such as biorationals and post-harvest treatments. Furthermore, we aim to expand our business opportunities through acquisitions and by strengthening relationships with partners with which we have formed alliances. We are also working to strengthen our sales structure in preparation for setting up our new methionine plant, which is planned to begin full operations in fiscal 2018 immediately after its completion. Sumitomo Chemical is also putting effort into our businesses in environmental health products and products for control of infectious diseases. We aim to expand the scale of our businesses by contributing to solving global issues related to food, health, hygiene, and the environment by leveraging our research and development capabilities.

Corporate Business Plan FY2016-FY2018: Sector Goals

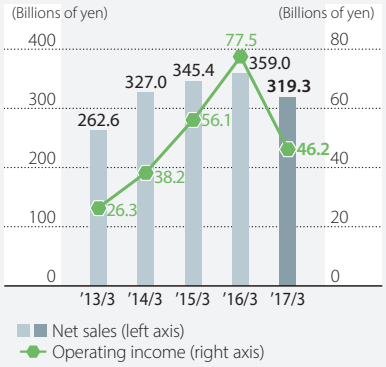
	FY2017 Forecast	FY2018 Target
Net sales (billions of yen)	380	440
Operating income (billions of yen)	60	86

Primary Focus SDGs

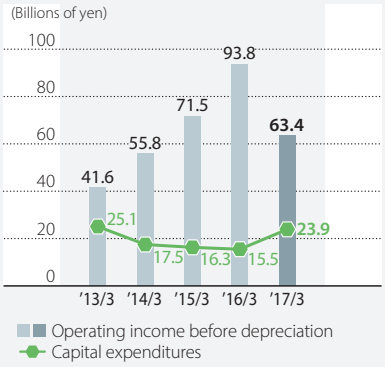
FY2016 Result Net Sales **¥319.3 billion** Operating Income **¥46.2 billion**

Comparison with FY2015 –¥39.7 billion –¥31.4 billion

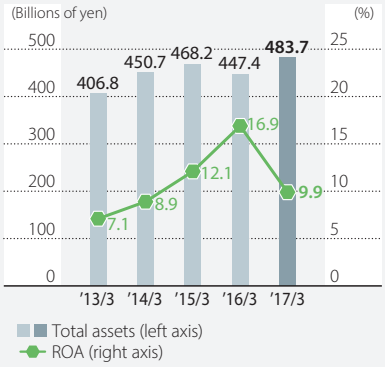
Net Sales / Operating Income



Operating Income before Depreciation / Capital Expenditures



Total Assets / ROA



Main Initiatives in the Major Businesses

AgroSolutions Business

In our crop protection and fertilizer business in Japan, we are aiming to increase our market share and broaden the scope of our business by developing attractive new products in-house, in-licensing new products, and pursuing partnerships. We also offer comprehensive support for farmers' operations, from production to sale, by providing a wide range of agriculture-related supplies, technologies, and know-how. As part of our business as a total solutions provider, we conduct the rice business to produce and sell rice.

Meanwhile, we are enhancing collaboration and increasing investments to expand our overseas agrosolutions business. In our alliance with the Australian agrochemicals company, Nufarm Limited, in which Sumitomo Chemical has a 23% stake, Nufarm and Sumitomo Chemical mutually distribute agrosolutions products in 31 countries. Through our collaboration with Monsanto Company in the agrosolutions business, sales of our herbicide flumioxazin have increased. In 2016, we built a new global cooperative relationship with Monsanto to create a new series of weed control solutions based on newly developed herbicides. Moreover, Sumitomo Chemical is working to expand its global footprint, including acquiring Excel Crop Care, in order to enhance our business foundation in the Indian market, which is undergoing remarkable growth.

Environmental Health Business

Our environmental health business contributes to safe and comfortable living environments through its worldwide businesses in household and public hygiene insecticides, products for control of infectious diseases, and ectoparasiticides for use in the animal health field. Our long-lasting insecticidal mosquito net, Olyset™ Net, helps reduce the risk of tropical infectious diseases carried by mosquitoes.

Feed Additives Business

Our feed additives business engages in the manufacture and sale of methionine, which is an essential amino acid feed additive used primarily in chicken and other poultry farming. The global methionine market is estimated at 1.1 million tons annually, and is expected to grow at an annual rate of about 6% due to the growth of the world population and the spread of meat-eating cultures in emerging countries. To consolidate our position as Asia's top producer, we will increase our production capacity for methionine by 100,000 tons to 250,000 tons a year in 2018. In addition, Sumitomo Chemical has formed a methionine sales tie-up with ITOCHU to expand sales to excellent customers, particularly the CP Group, one of the largest methionine consumers in Asia.

Pharmaceutical Chemicals Business

We supply pharmaceutical companies in Japan and overseas with APIs and their intermediates. Nucleic acid medicines are next-generation pharmaceuticals, utilizing functions of oligonucleotides which act on genes and proteins that cause disease. We aim to further expand the size of our business by entering the contract manufacturing market for oligonucleotide APIs for pharmaceutical companies at home and abroad.

Status of the Major Businesses

Strengths

- Excellent R&D capabilities and the robust pipeline
- Differentiated technologies and products in niche areas
- Products with high market share
- Alliances with major multi-national players
- Offering total solutions in Japan

Weaknesses

- Relatively small business size compared to the competing majors
- Need to establish global sales channels

Opportunities

- Increasing food demand due to the growing global population
- Growing agriculture-related businesses
- Opportunities in peripheral and downstream businesses of the household insecticide business

Threats

- Tightening of the regulations on crop protection chemicals
- Increased competition with off-patent crop protection chemicals
- Consolidation in the major agrochemical industry

Value Creation Model in the Methionine Business

Research and Development

Sumitomo Chemical carries out integrated production of methionine from raw materials at our Ehime Works, which offers a comprehensive infrastructure such as utilities. Thoroughly experienced operators reliably manufacture a product at a highly competitive cost by ensuring stable operation of a plant with a complicated manufacturing process using advanced operations technology.

Methionine plant

Manufacturing

Sumitomo Chemical is building a global sales structure, selling both powdered and liquid methionine around the world. Through the new sales tie-up with ITOCHU, we aim to expand sales to excellent customers, particularly the CP Group, one of the largest methionine consumers in Asia.

Feed additive DL-methionine
Methionine hydroxy analog

Sales

The Animal Nutrition Technology Centre, established in Malaysia to improve customer satisfaction and strengthen relationships, is furnished with not only analysis equipment, but also poultry farming facilities, offering customers technology services such as feed analysis (evaluation of the nutrient profile of the feed and the volume of methionine additive, database provision).

Feed analysis at the Animal Nutrition Technology Centre

Measures to Improve ROI

Initiatives to Improve Profit Margin on Sales

Results

- Acquired Indian agrochemicals company
- Strengthened alliances with major multi-national players
- Expanded research and development facilities and test fields
- Decided to enhance methionine production capacity

Issues going forward

- Expand our global footprint
- Accelerate the launch of next-generation block-buster crop protection chemicals (B2020/A2020)
- Pursue synergies between crop protection chemicals and biorationals
- Strengthen our methionine sales structure

Initiatives to Improve Asset Turnover

Results

- Reduced inventory by strengthening management of supply and demand
- Improved payment terms for accounts receivable

Issues going forward

- Further improve the cash conversion cycle on a consolidated basis
- Build a global supply chain system using IoT

Value Provided by the Methionine Business

By adding methionine to their feed, chickens can efficiently absorb the nutrients they need to grow in the proper balance. Methionine thus contributes to improved productivity for chicken producers because chicken growth can be sped up.

One of Sumitomo Chemical's strengths is our ability to reliably provide methionine at a highly competitive cost through integrated production from raw materials using advanced production technology developed through over a half century of experience. With this reliability, we are building strong relationships of trust with customers.

Adding methionine to feed improves the balance of the amino acid content of the feed, which is also useful in reducing greenhouse gas emissions by reducing the volume of nitrogen in the chickens' waste.

Sumika Sustainable Solutions

FY2016 Sales **¥106 billion**

In this sector, three products have been designated as Sumika Sustainable Solutions: Olyset™ Nets, Hikari no Sumika rice, and methionine. Olyset™ Nets are long-lasting insecticidal mosquito nets that incorporate an insecticide using proprietary technology, eliminating the mosquitoes that serve as a vector for malaria, and thereby preventing the spread of infection. Hikari no Sumika is a variety of rice that has been selectively bred to grow shorter than existing Koshihikari rice, enhancing its resistance to damage from falling over due to weather phenomena. These products, including methionine, contribute to building a sustainable society through means such as adaptation to the impact of climate change and reducing the burden on the environment.

An Olyset™ Net in use

Pharmaceuticals

Contribute to the Improvement of People's Quality of Life through R&D-oriented Innovative Drug Discovery Research

Corporate Business Plan FY2016-FY2018: Sector Goals

	FY2017 Forecast	FY2018 Target
Net sales (billions of yen)	480	490
Operating income (billions of yen)	57	54

Main Initiatives in the Major Subsidiaries

Sumitomo Dainippon Pharma

Under its five-year mid-term business plan starting in fiscal 2013, Sumitomo Dainippon Pharma Co., Ltd. is working to realize its vision of "Aspire to be a globally active R&D-based company" and "Contribute to medical care through leading-edge technologies." Driven by new drugs, Sumitomo Dainippon Pharma is seeking to enhance performance through global business expansion.

As for the atypical antipsychotic LATUDA®, launched in the United States in February of 2011 for the treatment of schizophrenia, the Company obtained approval for the additional indication for bipolar I depression in June of 2013. Sales of LATUDA® have been growing steadily in North America. The Company utilized sales resources effectively and sales of LATUDA® exceeded 1.2 billion dollars in fiscal 2016.

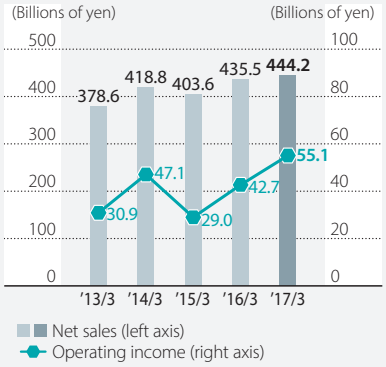
In the development of new drugs, Sumitomo Dainippon Pharma is actively investing research and development resources to develop innovative new drugs in the focus therapeutic areas of psychiatry & neurology and oncology, where patients' needs are largely unmet. The Company also aims to develop business with its world-class leading-edge medical technologies in the disease field where no approved drugs exist and the new fields of regenerative medicine and cell therapy, by taking various approaches such as in-house development, licensing-in of technologies, and joint research with venture companies and academia.

In fiscal 2016, through the acquisition of Cynapsus Therapeutics, we obtained a treatment under development for Parkinson's disease, and through our acquisition of Tolero Pharmaceuticals, we obtained a treatment under development for hematologic malignancies, adding to our development pipeline. In addition, we are working to broaden our line of products, concluding a licensing agreement with Novartis for the U.S. commercialization rights to three treatments for chronic obstructive pulmonary disease (COPD).

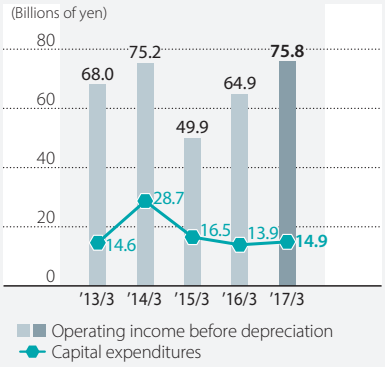
From fiscal 2017 to fiscal 2019, we plan to launch SUN-101, a COPD drug, dasotraline, a drug for attention deficit hyperactivity disorder (ADHD) and binge eating disorder (BED), and other drugs for which future sales are expected to be high. Sumitomo Dainippon Pharma is also developing anticancer drugs napabucasin and amcasertib, which were added to the Company's development pipeline by the 2012 acquisition of Boston Biomedical, Inc., with the aim of launching them from fiscal 2020 to 2022. Because napabucasin and amcasertib are

FY2016 Result Net Sales **¥444.2 billion** Operating Income **¥55.1 billion**
Comparison with FY2015 +¥8.7 billion +¥12.4 billion

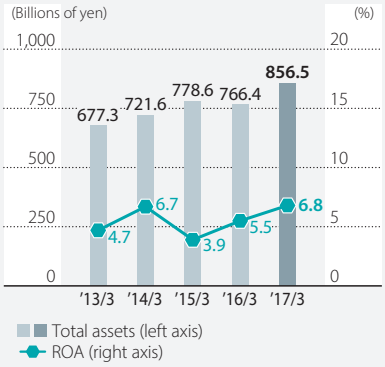
Net Sales / Operating Income



Operating Income before Depreciation / Capital Expenditures



Total Assets / ROA



designed to inhibit cancer stemness pathways, it may provide a new therapeutic option against the challenges in cancer treatment such as treatment resistance, recurrence, and metastasis.

Moreover, Sumitomo Dainippon Pharma will apply leading-edge technology, such as iPS cells, to drug discovery, while working in research and development of regenerative medicine and cell therapy. Sumitomo Dainippon Pharma is working with SanBio, Inc. to conduct a Phase Ⅱb clinical trial of a cell therapy product for chronic stroke in the United States. Under the cooperation of the RIKEN research institute, the Company is also working with Healios K.K. on joint development of a cell therapy product for age-related macular degeneration. The Company is also working with universities and research institutes to develop cell therapy products for Parkinson's disease, retinitis pigmentosa, and spinal cord injury. Construction of the cell production and processing facility has already begun in order to produce cells for clinical trial and initial commercial products of regenerative medicine and cell therapy. The cell production and processing facility are slated to begin operations in fiscal 2017. The enforcement of the Pharmaceutical Affairs Law in 2014 creates a business environment in Japan that allows regenerative medicine products to be approved in the shortest time in the world. Sumitomo Dainippon Pharma is taking on the challenge of developing products in these new areas where Japan can lead the world and address unmet medical needs.

Nihon Medi-Physics

Nihon Medi-Physics Co., Ltd. (NMP) is a leading company in Japan in the highly specialized field of nuclear medicine. NMP engages in the development, manufacture, and sale of radiopharmaceuticals, which are used for diagnosis of disease conditions and post-therapy surveillance, chiefly for malignant tumors and brain and heart diseases. In addition to diagnostic pharmaceuticals, NMP also offers therapeutic products, such as a medical device for brachytherapy for prostate cancer, and a radiopharmaceutical that provides pain relief for cancer patients suffering from bone metastasis.

The Company's main product is FDGscan Injectable for PET (positron emission tomography) procedures, which are effective in the early detection of malignant tumors. NMP has production bases nationwide to ensure a prompt and stable supply of FDGscan Injectable that uses a radioisotope (^{18}F) with a very short half-life of about two hours. In 2016, NMP made the decision to establish the eleventh production base in Toyama Prefecture.

In addition, to diversify our brachytherapy seeds, which are medical devices that use brachytherapy to treat prostate and other cancers, we received manufacturing and marketing approval in Japan for Thera AgX100 and TheraStrand-SL, products developed by Theragenics Corporation, and began sales of these products. NMP has also conducted the contracted business of PET imaging for both nonclinical and clinical studies for drug development by using its expertise and experience accumulated in the manufacture and supply of radiopharmaceuticals. To cement its position as a leading company in the field of nuclear medicine, NMP is also developing diagnostic agents that allow the diagnosis of Alzheimer's disease and new tumors by PET procedures.

Status of the Major Businesses

Strengths

- Drug research platform in the areas of psychiatry & neurology and oncology
- New drug development organization and sales network in the U.S.
- The pipeline of regenerative medicine and cell therapy and disease field where no approved drugs exist

Weaknesses

- Limited capabilities to bear the heavy burden of R&D costs
- Effects of the patent cliff on financial performance

Opportunities

- Innovation in healthcare technology
- Increasing health awareness

Threats

- Accelerated implementation of medical expense control measures in Japan
- Changes in the health insurance systems overseas
- Consolidation in the pharmaceutical industry

Value Creation Model in the Pharmaceuticals Business

Research → Development → Production and Quality Control → Corporate Regulatory Quality Assurance

In the research process, the first step in drug discovery is searching for candidate substances for new drugs. In addition to promoting internal innovation by having labs at multiple internal locations where small groups of people are engaged in drug discovery research, we are also aggressively pursuing joint research with universities and other research institutes inside and outside Japan, as well as alliances with venture companies. We are working to create innovative drug treatments that employ cutting-edge science.

Research activities

In the development process, we take the development candidates created at our laboratories and scientifically evaluate their safety and efficacy through preclinical and clinical trials. To promote efficient development with the aim of quickly receiving regulatory approval, we use our global clinical development organization. As quickly as possible, we seek to deliver new drugs to patients, not just in Japan but also in the U.S., the world's largest market for pharmaceuticals.

Clinical trials

Measures to Improve ROI

Initiatives to Improve Profit Margin on Sales

Results

- Made development progress on an ADHD drug
- Submitted new drug application in the U.S. for a COPD drug
- Acquired Cynapsus Therapeutics (Parkinson's disease treatment) and Tolero Pharmaceuticals (hematologic malignancies and other treatments)
- Licensed 3 treatments for COPD from Novartis

Issues going forward

- Accelerate development of products in late-stage development
- License-in or acquire more drugs under development
- Commercialize cell therapy products

Initiatives to Improve Asset Turnover

Results

- Revised inventory levels
- Used surplus funds (aggressive M&A activity)

Issues going forward

- Improve cash conversion cycle (CCC)

Compliance & Marketing

In the corporate regulatory compliance & quality assurance process, under a global regulatory compliance system, we provide information on quality management and the proper use of pharmaceutical products based on safety evaluations. To further enhance our organization for providing information at a robust scientific evidence, we consolidated all of our functions relating to medical science. While promoting quality assurance and the proper use of pharmaceutical products, we seek to maximize the value of our products to healthcare professionals by providing information that takes medical needs into account.

Information provision and distribution

Value Provided by the Pharmaceuticals Business

We are contributing to healthier and fuller lives for people by developing innovative and valuable drugs, and getting them to people around the world. To achieve this, we are pursuing innovation throughout all of our business processes, from the research stage that generates revolutionary new drug candidates, to development, manufacturing, quality control, quality assurance, and up to the sales stage. In addition to developing first-in-class drugs in our priority research areas of psychiatry & neurology and oncology, we are taking on the challenge of developing treatments for intractable diseases by strengthening our initiatives in the areas of regenerative medicine and cell therapy, while also applying iPS cells and other cutting-edge technologies to drug discovery.

Contributing to improvement in quality of life

The Capabilities Supporting Corporate Value

Sumitomo Chemical seeks to achieve sustained growth by creating new value through innovative technologies. In the following pages, we describe the underlying capabilities that support the creation of value.

58 Human Resource Strategy

60 Responsible Care

63 CSR Promotion Activities

64 Dialogue with Shareholders and Investors

65 Intellectual Property

Corporate Governance

66 Management Team

68 Messages from the Outside Directors

70 Board of Directors and Corporate Auditors

72 Corporate Governance

78 Compliance

For details on Sumitomo Chemical human resource strategy, Responsible Care, and CSR promotion activities, please see the Sustainability Data Book 2017.

http://www.sumitomo-chem.co.jp/english/csr/report/

Photo: Planting trees in "Sumitomo Chemical's forest," an afforestation district in Thailand.
Every year, many employee volunteers are dispatched to Thailand to plant trees.

Human Resource Strategy

Promoting a Deepening of Global Management from the Perspective of Human Resources Initiatives and Talent Development

Yasuaki Sasaki
Executive Officer,
Human Resources Dept.

Based on our Corporate Business Plan, with the slogan "Change and Innovation—Create New Value," Sumitomo Chemical's basic HR (Human Resources) policy is to encourage employees to grow through carrying out rewarding and worthwhile day-to-day duties and bring about the sustainable growth of the Sumitomo Chemical Group through their individual growth.

In order to achieve this, we are continuing to create environments and organizations that make it easy for employees to work. We are also enhancing various measures to secure, develop, and encourage the active participation of talented employees, in order to develop our businesses around the world while creating new value. In particular, we are working at a global level on our HR initiatives and human resources development, promoting a deepening of global management from a HR perspective.

As a platform supporting the execution of these measures, Sumitomo Chemical has implemented an HR system based on duties (roles) that enables employees with the desire and capability to take on the challenge of a broad range of advanced duties regardless of age, gender, or nationality, and that treats in an appropriate way employees who work hard and contribute. This unified HR system applies not only in Japan, but also to those in the manager layer and above in overseas Group companies.

In terms of personnel evaluation, we do not just look at results. We also put emphasis on what actions were taken to produce those results, and on what sorts of processes and attitudes employees bring to their work. In this way, we support not only the pursuit of short-term results, but also the medium- and long-term growth of the company and the talent development of employees.

Global HR Network

In order to promote Global HR initiatives, Sumitomo Chemical has established HR functions in four locations around the world (Singapore, New York, Brussels, and Beijing) to manage their respective regions, promoting enhanced coordination with overseas Group companies. In addition, the Company holds a HR Managers Forum once a year, where HR managers from around the world gather together in either the head office or in each region to share policies and discuss issues.

American HR Managers Forum in New York (2016)

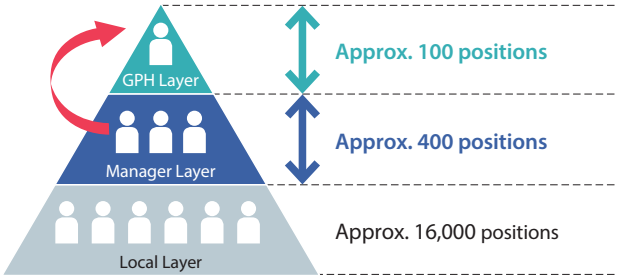
Global HR Initiatives

Under common Global HR system for the manager layer and above for overseas Group companies, Sumitomo Chemical is sharing values among employees based on its corporate philosophy, promoting human resources development, and providing opportunities for advancement.

Sumitomo Chemical designated the core local personnel, who fill major positions in overseas Group companies, as Global Position Holders (GPH). Those designated GPHs are asked not only to share the corporate philosophy themselves, but also to take the lead in spreading those values within the Group companies.

In addition, Sumitomo Chemical holds a Global Managers Meeting once a year for those designated as GPHs, at either the head office or in each region. Management policies are shared and broad discussions of corporate issues are held, promoting Group management that makes maximum use of the global network.

■ Overseas Human Resources Pipeline
(Local employees at overseas Group companies)



Developing Next-generation Leaders

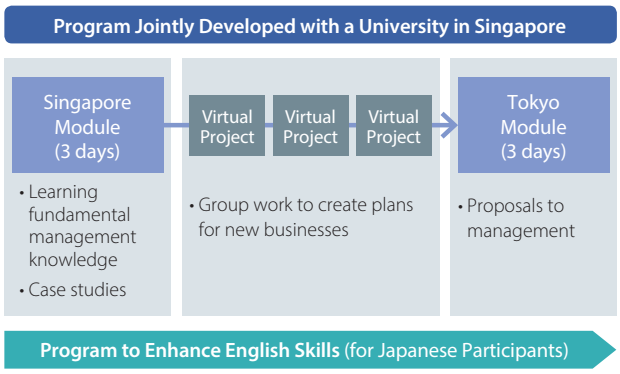
Sumitomo Chemical is carrying out a staged training program in human resources development for employees both in Japan and at overseas Group companies, in order to discover and develop next-generation leaders in a systematic way, emphasizing the creation of global leaders who can take on the role of core management.

■ Next-generation Leader Development System

Fiscal 2016 Leader Training

As an example, in Sumitomo Chemical's leader training for management-level employees both inside and outside of Japan, Sumitomo Chemical worked with an overseas business school to carry out a program in both Singapore and Japan, held completely in English, with the goal of developing the employees' conceptual strength and abilities to propose strategies for the creation of new value.

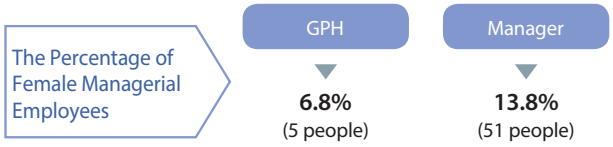
■ Leader Training Program



Promoting Active Involvement of Diverse Personnel

In addition to these efforts for overseas personnel, Sumitomo Chemical employs personnel in a variety of fields regardless of age, gender, or nationality, promoting the active involvement of diverse personnel. Sumitomo Chemical is actively working to promote the active involvement of women, the hiring of persons with disabilities, and the rehiring of personnel after mandatory retirement.

■ Number of Female Managerial Personnel in overseas Group companies



The percentage of female managers in Sumitomo Chemical can be found on p.24 (Non-Financial Highlights)

Responsible Care

Valuing Society's Trust, Promoting Responsible Care Activities

Hirokazu Murata
Associate Officer, General Manager, Responsible Care Dept.

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 lifecycle 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.

As part of our responsibilities engaged in the chemical industry, all employees of the Sumitomo Chemical Group are working to establish and maintain safe and stable operations, which is a basic policy of the Corporate Business Plan, with a strong determination to make safety our first priority, and are also working to preserve safety, the environment, and health with respect to the Sumitomo Chemical Group's products. Through a global meeting attended by those in charge of Responsible Care at Group companies, as well as through training and drills at each production site, we are continually building up people who can put the philosophy of Responsible Care into action. At the root of these initiatives is the desire to value the society's trust in us.

As global-scale issues pile up, including the response to climate change, as represented by the 2°C goal the world agreed to in the Paris Agreement, as well as the creation of a circulate society, and considerations for biodiversity, the role of Responsible Care is becoming even greater to create a sustainable society. We will continue to promote Responsible Care activities throughout the Group, contributing to the creation of value at Sumitomo Chemical.

Occupational Safety and Health, Industrial Safety and Disaster Prevention

Initiatives to Ensure Safety at All Group Facilities

The Sumitomo Chemical Group aims to achieve zero labor accidents across all facilities through safety measures focused on people, in particular. Specifically, based on the rule of thumb that the majority of labor accidents can be prevented by thoroughly carrying out basic safety activities, such as hazard prediction, we have set Safety Ground Rules for the entire Group, and notified all Group employees of them, in order to eliminate labor accidents and improve safety activities. Moreover, in order to ensure the safety and security of the local community, we are thoroughly undertaking voluntary industrial safety and disaster prevention management, intensifying efforts to minimize damage when a natural disaster occurs, such as a large-scale earthquake.

Sumitomo Chemical Group's Safety Ground Rules

1. Think before you act !
2. Help each other to be more aware of unsafe actions
3. Do not place hands in and around areas of working machinery/equipment

A regular inspection

Environmental Protection and Addressing Global Climate Change

Toward the Creation of a Sustainable Society

Sumitomo Chemical and its major Group companies have set common goals for environmental activities, endeavoring to reduce the environmental burden of the Group as a whole. In particular, as a response to climate change, we aim to achieve the world's highest level of energy efficiency and develop processes and products that help build a low carbon society. Specifically, we have set overall goals for energy efficiency and CO_2 emissions per unit production on a consolidated basis, and are working to achieve them. As a result, we reduced the amount of CO_2 emissions from energy use by 23% over the period from fiscal 2012 through fiscal 2016. In addition, we reduced water usage volume by 32% over the same period. Moreover, in fiscal 2016, we started an internal certification system called Sumika Sustainable Solutions (see p.25), in an effort to further develop and spread the Group's products and technologies that contribute to such issues as global warming countermeasures and reducing environmental burdens, with the goal of creating a sustainable society.

Product Responsibility and Product Stewardship

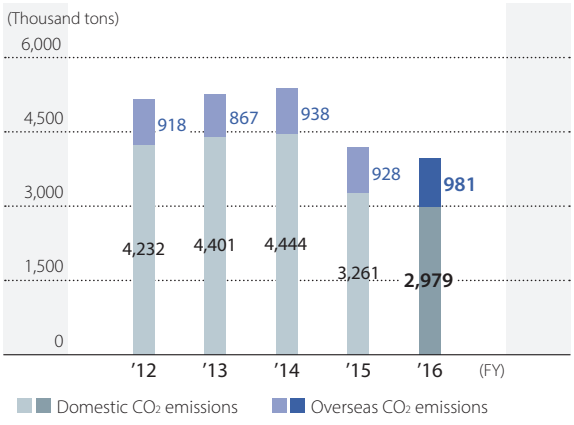
For the Safety and Peace of Mind of Our Customers

The Sumitomo Chemical Group estimates the degree of impact our chemical products have in terms of safety on people and the environment through their lifecycles, and promotes activities to protect people's health and the environment based on those risks. Also, we continually work to ensure thoroughgoing management day to day, in order to deliver quality products and services that customers around the world can use with peace of mind, while continuing to improve quality.

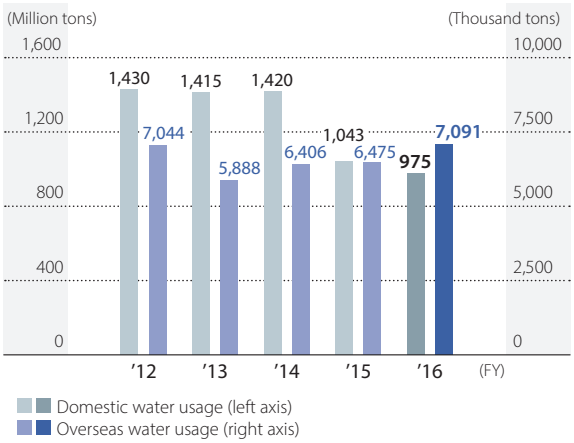
The Sumitomo Chemical Group efficiently promotes the safety of chemical products from development through the manufacturing stage with an independently developed risk evaluation program. This evaluation is made in cooperation with its laboratories and production facilities which have specialized technology. In addition, the evaluation of products we offer considers not only the direct customers of the Sumitomo Chemical Group, but also the ways customers beyond that (end-users) use and dispose of the products.

Furthermore, the Sumitomo Chemical Group is working to be able to respond appropriately to regulatory trends in each region by positioning dedicated personnel to regional headquarters in areas that have a significant impact on legal and regulatory trends for chemical products around the world, such as Europe, the US, and China, to collect and analyze information on the regulatory trends as soon as possible.

Domestic CO_2 Emissions*1 / Overseas CO_2 Emissions*2



Domestic Water Usage*1, 3 / Overseas Water Usage*2, 3



*1 Consolidated total for Sumitomo Chemical and its major Group companies in Japan (for production plants)
*2 Consolidated total for major overseas Group companies (for production plants)
*3 Water usage volume includes seawater

Safety testing

RC Global Meeting

Primary Environmental Performance (Fiscal 2016)

Sumitomo Chemical Group*1 | Sumitomo Chemical

INPUT — Energy and Resources

Energy (Thousands of kl)

(Calculated as kl of crude oil)

	Sumitomo Chemical Group*1	Sumitomo Chemical
Energy (Fuel, heat, and electricity)	1,081	861

Exhaustible resources (Thousands of tons)

	Sumitomo Chemical Group*1	Sumitomo Chemical
Hydrocarbon compounds	1,779	1,525
Metals (excluding rare metals)	116	111
Rare metals	0.17	0.05

Water (Millions of tons)

	Sumitomo Chemical Group*1	Sumitomo Chemical
Industrial water	66.1	60.6
Drinking water	0.8	0.4
Seawater	888.4	165.1
Groundwater	16.7	14.3
Other water	2.7	2.7
Total	974.7	243.1

Sumitomo Chemical Group's Plants

Sumitomo Chemical Group

Use of PCBs / CFCs

	Sumitomo Chemical Group*1	Sumitomo Chemical
No. of electrical devices containing PCBs	61	26
PCB volume (Pure content conversion)	1.0 kl	0.1 kl
No. of refrigeration units using specified CFCs as coolant	45	13
No. of refrigeration units using specified HCFCs as coolant	235	133

OUTPUT — Product Manufacturing and Environmental Impact

Products (Thousands of tons)

	Sumitomo Chemical Group*1	Sumitomo Chemical
(Calculated on the basis of ethylene production)	1,517	1,276

Water pollutant emissions (Tons)

	Sumitomo Chemical Group*1	Sumitomo Chemical
COD	1,162	984
Nitrogen	1,514	1,410
Phosphorus	38	35
Substances subject to the PRTR Act	52	51

Waste material (Thousands of tons)

	Sumitomo Chemical Group*1	Sumitomo Chemical
Waste generated	255	48
Landfill	21	1.4
(final disposal)		
On-site landfill	0	0
External landfill	21	1.4

Atmospheric emissions (Thousands of tons of CO_2)*2

	Sumitomo Chemical Group*1	Sumitomo Chemical
Greenhouse gases		
Emissions from energy use (CO_2)*3	2,979	2,382
Emissions from nonenergy use (CO_2)	61	50
N_2O (CO_2 conversion)	125	45
Others (Tons)		
NOx	4,736	1,806
SOx	4,920	1,121
Soot and dust	166	41
Substances subject to the PRTR Act	454	262

Fiscal year		2012	2013	2014	2015	2016	2020 (Target)*6
Japan*4	Energy consumption rate index (FY2015=100)	—	—	—	100.0	98.4	95.1
	Carbon intensity index (FY2015=100)	—	—	—	100.0	97.8	95.1
	PRTR substances released into the air and water (Tons)	694	587	620	560	494	≦524
	Landfill disposal volume (Thousand tons)	41	33	26	23	21	≦23
	Percentage of recycled industrial wastes (%)	63.5	65.8	66.0	66.5	64.1	—
Overseas*5	Energy Consumption (Crude oil conversion, thousand kl)	434	411	446	441	467	—
	CO_2 emissions (Thousand tons-CO_2)	918	867	938	928	981	—
	Carbon intensity index (FY2015=100)	—	—	—	100.0	94.5	95.1
	Water usage (Thousand tons)	7,044	5,888	6,406	6,475	7,091	—
	Unit water usage rate index (FY2015=100)	—	—	—	100.0	97.9	95.1

*1 This grouping consists of the manufacturing facilities of Sumitomo Chemical and of the following domestic Group companies (For details such as statistical methods, please see the notes on the environmental preservation and environmental performance page of the Sustainability Data Book 2017):
Sumitomo Dainippon Pharma Co., Ltd., Koei Chemical Company, Limited, Taoka Chemical Co., Ltd., Sumitomo Joint Electric Power Co., Ltd., Sumika Color Co., Ltd., Nihon Medi-Physics Co., Ltd., Nippon A&L Inc., SanTerra, Sumika-kakoushi Co., Ltd., Asahi Chemical Co., Ltd., Sumika Agrotech Co., Ltd., Ceratec Co., Ltd., Nihon Methacryl Monomer Co., Ltd., SC Environmental Science Co., Ltd., Sumitomo Chemical Garden Products Inc., SN Kasei, Sumika Agro Manufacturing Co., Ltd., Sumika Plastech Co., Ltd., Sumika Assembly Techno Co., Ltd.

*2 Hydrofluorocarbon, perfluorocarbon, methane, sulfur hexafluoride, and nitrogen trifluoride are below the reporting threshold (CO_2 equivalent 3,000 tons/year) under the Act on Promotion of Global Warming Countermeasures.

*3 CO_2 emissions from energy use in Japan are calculated using the methods specified in the Act on the Rational Use of Energy and the Act on Promotion of Global Warming Countermeasures.

*4 Data reflect the total of Sumitomo Chemical and its major Group companies in Japan (for production plants)

*5 Data reflect the total of major overseas Group companies (for production plants)

*6 The Company's targets for fiscal 2020 with fiscal 2015 as the base year

Economic Effects (Consolidated)

(Billions of yen)

Fiscal year	2012	2013	2014	2015	2016
Cost savings from energy efficiency	0.9	1.1	0.7	0.6	1.5
Cost savings from resource use efficiency	0.6	0.7	0.6	2.0	4.0
Cost savings from recycling efforts	3.1	3.7	3.6	3.1	3.3

CSR Promotion Activities

Based on our Basic CSR Policy of contributing to the sustainable development of society through business, the Sumitomo Chemical Group has emphasized the need for each individual to undertake tasks with a constant awareness of their connections with society. In addition, Sumitomo Chemical has decided to actively use the UN Sustainable Development Goals (SDGs) as a common language among all types of stakeholders, in order to understand connections between business and society and act accordingly.

Our Sustainable Tree: Things We Can Do to Build a Sustainable Society

The Sumitomo Chemical Group Global Project was started in 2014, in order to encourage Group employees both inside and outside Japan to individually think about and act to resolve issues in society, and also to develop a sense of unity within the Group.

Since fiscal 2015, Sumitomo Chemical has provided a dedicated Group website where individuals and groups can submit information from their PCs or smartphones on the measures they have taken regarding resolving issues in society.

In fiscal 2016, Sumitomo Chemical implemented a dedicated website, called "Our Sustainable Tree: Things We Can Do to Build a Sustainable Society," as a place where people can consider how they can contribute to resolving issues in society through their work and in their daily lives, and submit information about their efforts in light of the 17 SDGs, which took effect in January 2016. During the 100 days in which submissions were accepted, over 6,000 submissions were received from Group companies, both inside and outside Japan, of which 1,270 consisted of contributions employees made through their work.

In fiscal 2017, Sumitomo Chemical has implemented the second Sustainable Tree program, "Work Together towards the SDGs!" where employees can submit descriptions of the efforts they have made in their jobs and workplaces relating to the 17 SDGs.

Going forward, the Sumitomo Chemical Group will continue listening to the voice of society, taking on the challenge of finding improvements and innovative solutions that individuals can personally use to help create a sustainable society.

Our Sustainable Tree poster

Newsletter
(results of submissions
from Group employees)

Education Support Initiatives

Sumitomo Chemical has been implementing such programs as visiting classes and science experiment workshops through events held at schools and in areas near its various facilities and Group companies. These provide opportunities for children to come into contact with the wonders of chemistry through experiments and craft projects using Sumitomo Chemical's products. These initiatives are also being actively promoted at Group companies outside Japan, as in 2016, when multiple Group companies in China came together to hold the fifth science experiment workshop event.

In Africa, we consider it important to create learning environments that will help toward realizing self-standing economic development. To that end, since 2005 we have been providing educational support mainly for elementary and junior high school construction, using part of the proceeds from sales of Olyset™ Net mosquito bed nets. In the past 12 years we have supported 22 projects in 11 African countries, benefitting a total of more than 12,000 people.

4 QUALITY EDUCATION

4 Quality Education:
Through these initiatives, Sumitomo Chemical is helping to achieve SDG number four, Quality Education.

A visiting class

Dialogue with Shareholders and Investors

Fulfilling Our Accountability to Shareholders so that an Accurate Understanding of the Company is Properly Reflected in the Stock Price and Higher Corporate Value

Kunio Nozaki
Representative Director &
Senior Managing Executive Officer

The basic policy guiding Sumitomo Chemical's IR activities is to provide planned, effective, and strategic communications with shareholders and other investors regarding our management policies, business strategies, and performance trends, so as to fulfill our accountability to shareholders and maintain and raise market confidence, while endeavoring to convey an accurate understanding of the Company that will be reflected properly in the stock price and in higher corporate value.

Based on this basic policy, the president gives management strategy briefings to investors twice a year, while sector heads give a business strategy briefing to investors once yearly. In addition, the president and I, as the director in charge of IR, periodically visit major shareholders and have an active dialogue with them. Moreover, as a new initiative, since last year we have arranged opportunities for directors who are in charge of a sector or head-office function to meet with investors and analysts and directly exchange views. By having senior executives directly communicate with major shareholders, we seek to have our shareholders develop a deeper understanding of Sumitomo Chemical.

Furthermore, I do not just disseminate information outside the Company. I also periodically provide information on the views of investors, such as at meetings of the Board of Directors, and in doing so strive to deepen the mutual understanding we have with shareholders and other investors. We are also putting efforts into soliciting the interest of a broad base of shareholders and other investors in our value creation story with well-prepared IR materials, such as our annual report and our Investors' Handbook.

We will continue to squarely face our shareholders and other investors and work to build an even more constructive dialogue with them.

Summary of IR Activities (Fiscal 2016)

Briefing Sessions		Online Conferences		Investor Visits		Individual Meetings		Briefing Sessions for Individual Investors	
Times held	2	Times held	4	Times held Overseas	5	Number of persons	326	Times held	10
Attendees	204	Attendees	559	Japan	2			Attendees	Approx. 650

IR Briefing

Management strategy briefing in November 2016

Factory Tour

A tour of production facilities in South Korea in March 2017

Intellectual Property

Basic Policy on Intellectual Property Activities

Sumitomo Chemical's intellectual property (IP) activities are aimed at contributing to the creation, maintenance, and increase of the Company's business value through unified efforts by business sectors, research laboratories, and the IP Department.

While respecting the others' valid patents after conducting comprehensive IP search and analysis, we endeavor to acquire and protect "wider, stronger, faster-registered and longer-lasting" patents from the results of our research and technology development, and then promote and operate our businesses strategically. By effectively utilizing the patents so obtained for the businesses of Sumitomo Chemical and Group companies and further in the third-party licenses, we will maximize the Company's business value.

As our businesses have developed more globally, it becomes more important for us to share the basic policy of IP activities with Group companies and work coordinately with them for the patent application / prosecution in a respective business. We then hold the annual Global IP Meeting where our IP-related colleagues from Group companies can get together.

Based on these perspectives, Sumitomo Chemical has set the basic policy on IP activities as follows.

Basic Policy on Intellectual Property Activities

1. Intellectual property strategy that is unified with business strategy
2. Intellectual property activities that create global business value
3. Intellectual property activities that work for the utilization of all results of research and technology development
4. Intellectual property activities that observe the law and respect rights

Global Intellectual Property Meeting

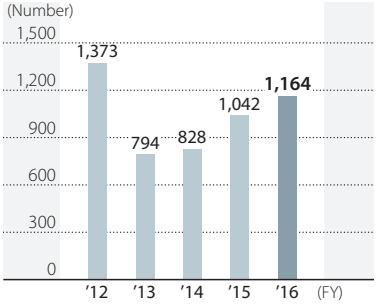
Enhancing IP Search & Analysis Capability, Improving Patent Quality and Supporting Global Business Development

IP search and analysis is essential to the performance of businesses. We are in active use of such IP search and analysis software with AI functions as concept search and text mining, which leads to improvement of work efficiency at the IP Department and R&D organizations.

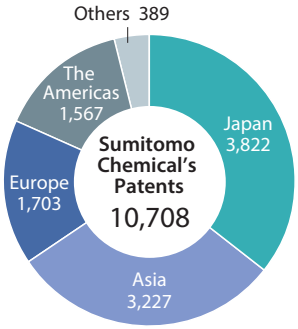
We have been also working on improvement in the quality of patents. In order to acquire higher-quality patents that contribute to the creation and performance of businesses, we have assigned the Intellectual Property Strategy Managers (ISMs) at the IP Department. Promoting mutual collaboration between business sectors, research laboratories and the IP Department, ISMs have been coordinating to apply for useful and effective patents fitted to business strategy and building a portfolio of quality patents. Since fiscal 2012 there has been a particular emphasis on careful selection of patent applications.

We have been pursuing registration of patents abroad including Asia, Americas, and Europe as well as Japan and it has supported our global business development.

Number of Domestic Patent Applications



Number of Patents Held per Region
(As of April 2017)



Management Team

Noriaki Takeshita
Representative Director &
Managing Executive Officer

Hiroshi Ueda
Representative Director &
Senior Managing
Executive Officer

Ray Nishimoto
Representative Director &
Senior Managing
Executive Officer

Toshihisa Deguchi
Representative Director &
Executive Vice President

Hiroshi Tomono
Outside Director

Koichi Ikeda
Outside Director

Kunio Ito
Outside Director

Osamu Ishitobi
Chairman of the Board

Yoshihiko Okamoto
Representative Director &
Senior Managing
Executive Officer

Kunio Nozaki
Representative Director &
Senior Managing
Executive Officer

Kenya Nagamatsu
Standing Corporate Auditor

Hiroaki Yoshida
Standing Corporate Auditor

Masakazu Tokura
Representative Director &
President

Shinichi Yokoyama
Outside Corporate Auditor

Mitsuhiro Aso
Outside Corporate Auditor

Yoshitaka Kato
Outside Corporate Auditor

Messages from the Outside Directors

Koichi Ikeda Outside Director　　Kunio Ito Outside Director　　Hiroshi Tomono Outside Director

Sumitomo Chemical has been transforming its governance, with the goal of achieving sustained growth and improving corporate value in the medium-to-long term. Our outside directors, who each have diverse backgrounds, shared a few words about these initiatives and other topics.

Sumitomo Chemical's Efforts at a Rapid and Authentic Transformation have Changed the Board of Directors

Kunio Ito Outside Director

As a result of Sumitomo Chemical's executives accepting our suggestions as outside directors and responding to them quickly and sincerely, Sumitomo Chemical's Board of Directors has changed significantly over the last two years. The Board of Directors has now become more active than ever before, and this change is due to the dramatically more thorough explanations from the executive side. When explanations are too concise or important points are not reported, it is difficult for outside directors to speak up, and we quickly lose motivation. Because confidential information, such as mergers and acquisitions transactions in progress, is now also explained very frankly, without creating a wall beyond which nothing can be said to outsiders, our discussions have become much livelier, and proceed from a variety of viewpoints. I think it is this attitude of flexibly accepting suggestions from us outside directors and actively working to change that is a strength of Sumitomo Chemical's governance, and is part of this company's earnestness.

Sumitomo Chemical is now working to further improve our business portfolio under the Corporate Business Plan, concentrating in fields that will increase profitability. I think this is extremely appropriate as a direction, but I think I can say that it is a problem that there are still many fields that can be affected by market conditions. In terms of capital efficiency, taking into account the high profits achieved by its rival global chemical manufacturers, I think Sumitomo Chemical should raise its goals for ROE even higher. I look forward to seeing the Board determine what Sumitomo Chemical should do now while looking three or even five years into the future, without falling into short-termism, and then quickly and decisively do what needs to be done.

An Unchanging Spirit and Universal Language will Further Strengthen Sumitomo Chemical

Koichi Ikeda Outside Director

In the six years I have been involved with management as a corporate auditor and a director, Sumitomo Chemical has bravely dismantled and rebuilt its businesses, and is currently working to further improve its business portfolio.

In order to transform, things that need to be discarded should be discarded quickly, and things that need to be done should be done well in advance. The reason Sumitomo Chemical is able to do this is perhaps because it has things that should not be changed. In other words, it has a clear sense of the "Sumitomo Spirit." For example, the concept of harmony between the individual, the nation, and society is a way of thinking that underlies all of Sumitomo Chemical's governance and CSR activities, and it could be said that Sumitomo Chemical's efforts with regard to the SDGs are initiatives that reconceptualize this way of thinking in more universal terms and from a more modern angle. While continuing to take on new challenges, we need to further strengthen the things we have protected until now. I think that it is this attitude that has enabled this company to succeed for over a century.

It is important to use more universal language. Since the changes made to governance in 2015, the discussions and reports in Sumitomo Chemical's Board of Director have become much easier to understand, even for us outside directors, with our different backgrounds. I believe these efforts not only maximize the use of our knowledge as outside directors, they will also become a significant source of strength in promoting greater diversity and globalization of our organizations.

An Environment where Outside Directors can Contribute to Creating Value through Discussion

Hiroshi Tomono Outside Director

Honestly stating my opinion and contributing to the making of decisions—this is the role expected of me, and Sumitomo Chemical has created an environment where outside directors can fully embody that role. At Sumitomo Chemical, because important issues are reported to and discussed fully at meetings of the Board of Directors before a decision is reached, outside directors also have plenty of opportunities to express their opinions. Reports from business divisions and informal discussions including executive officers after official Board meetings are extremely useful in understanding the current situation of Sumitomo Chemical, and I think they form an excellent method of information-sharing that does not just stop at a general explanation of proposals. Moreover, because proposed resolutions are reported in combination with discussions in the Management Meetings, it is particularly easy to share opinions.

Not a few of these initiatives were actually begun after taking in the opinions of us outside directors. It could be said that the flexibility to welcome outside directors with diverse backgrounds, accept their views, and rapidly implement suggested improvements is characteristic of Sumitomo Chemical's Board of Directors. Another characteristic of Sumitomo Chemical is that a viewpoint of "for the good of people, for the good of the world" runs through both the proposals submitted and the discussions in the Board of Directors meetings. I hope to be able to further contribute to discussions of Sumitomo Chemical's growth going forward, while continuing to value this way of thinking, which could be said to be an intangible asset of the company, suited to a company that was started to resolve an issue in society through technology.

Board of Directors and Corporate Auditors

(As of June 21, 2017)

Board of Directors

Osamu Ishitobi
Chairman of the Board

1969 Joined Sumitomo Chemical Co., Ltd.
1994 General Manager, Planning & Coordination Office, Petrochemicals & Plastics Sector
1998 Director
2002 Managing Director
2003 Managing Executive Officer
2005 Director & Senior Managing Executive Officer
2006 Representative Director & Senior Managing Executive Officer
2008 Representative Director & Executive Vice President
2012 Representative Director & Executive Deputy Chairman
2014 Representative Director & Executive Chairman
2017- Chairman of the Board

Masakazu Tokura
Representative Director & President

1974 Joined Sumitomo Chemical Co., Ltd.
1998 General Manager, Planning & Coordination Office, Fine Chemicals Sector
2000 General Manager, Corporate Planning & Coordination Office
2003 Executive Officer
2006 Managing Executive Officer
2008 Representative Director & Managing Executive Officer
2009 Representative Director & Senior Managing Executive Officer
2011- Representative Director & President

Toshihisa Deguchi
Representative Director & Executive Vice President

IT-related Chemicals Sector, PLED Business Planning, Electronic Devices Development Center, Special Aide to President (pertaining to activities related to new technology and product development as designated by President)

1990 Joined Sumitomo Chemical Co., Ltd.
1994 STI Technology, Inc.
2006 Executive Officer
2009 Managing Executive Officer
2011 Representative Director & Managing Executive Officer
2012 Representative Director & Senior Managing Executive Officer
2017- Representative Director & Executive Vice President

Yoshihiko Okamoto
Representative Director & Senior Managing Executive Officer

Corporate Business Development, Corporate Planning, IT Innovation

1976 Joined Sumitomo Chemical Co., Ltd.
2004 General Manager, Crop Protection Division
2005 Executive Officer
2008 Managing Executive Officer
2013 Senior Managing Executive Officer
2013- Representative Director & Senior Managing Executive Officer

Ray Nishimoto
Representative Director & Senior Managing Executive Officer

Health & Crop Sciences Sector

1980 Joined Sumitomo Chemical Co., Ltd.
2006 General Manager, Planning & Coordination Office, Agricultural Chemicals Sector
2009 Executive Officer
2011 Managing Executive Officer
2013 Representative Director & Managing Executive Officer
2015- Representative Director & Senior Managing Executive Officer

2009- Chairman, Dalian Sumika Chemphy Chemical Co., Ltd.
2010- Chairman, Vector Health International Ltd.
2013- Chairman, Valent U.S.A. LLC
Chairman, Valent BioSciences LLC
Chairman, Dalian Sumika Jingang Chemicals Co., Ltd.

Kunio Nozaki
Representative Director & Senior Managing Executive Officer

Corporate Communications, Accounting, Finance, Procurement, Logistics

1979 Joined Sumitomo Chemical Co., Ltd.
2002 General Manager, Finance & Accounting Office
2007 Executive Officer
2009 Managing Executive Officer
2014 Senior Managing Executive Officer
2014- Representative Director & Senior Managing Executive Officer

2009- President, Sumika Finance Co., Ltd.
2015- Director, Sumitomo Seika Chemicals Co., Ltd.

Hiroshi Ueda
Representative Director & Senior Managing Executive Officer

Energy & Functional Materials Sector

1982 Joined Sumitomo Chemical Co., Ltd.
2006 Director, Process & Production Technology Center
2008 Associate Officer
2009 Executive Officer
2011 Managing Executive Officer
2016 Senior Managing Executive Officer
2016- Representative Director & Senior Managing Executive Officer

Noriaki Takeshita
Representative Director & Managing Executive Officer

Rabigh Project, Petrochemicals & Plastics Sector

1982 Joined Sumitomo Chemical Co., Ltd.
2005 Rabigh Refining and Petrochemical Company
2010 Executive Officer
2013 Managing Executive Officer
2017- Representative Director & Managing Executive Officer

2016- Deputy Chairman, Rabigh Refining and Petrochemical Company

Kunio Ito
Director

Outside Director

1980 Lecturer in Hitotsubashi University's Department of Commerce and Management
1984 Associate Professor
1992 Professor
2002 Professor in Postgraduate School of Hitotsubashi University, Head of Department of Commerce and Management
2004 Associate Chancellor and Director, Hitotsubashi University
2005- Outside Director, Akebono Brake Industry Co., Ltd.
2006 Professor in Postgraduate School of Hitotsubashi University's Department of Commerce and Management
2012- Outside Director, Sumitomo Chemical Co., Ltd.
2013- Outside Director, Kobayashi Pharmaceutical Co., Ltd.
2014- Outside Director, Seven & i Holdings Co., Ltd.
2014- Outside Director of Toray Industries, Inc.
2015- Research Professor in Postgraduate School of Hitotsubashi University's Department of Commerce and Management

Koichi Ikeda
Director

Outside Director

1963 Joined Asahi Breweries, Ltd.
2002 Representative Director & President & COO of Asahi Breweries, Ltd.
2006 Representative Director & Chairman & CEO of Asahi Breweries, Ltd.
2010- Advisor of Asahi Breweries, Ltd. (present Asahi Group Holdings, Ltd.)
2011 Corporate Auditor, Sumitomo Chemical Co., Ltd.
2015- Outside Director, Sumitomo Chemical Co., Ltd.
2015- Outside Director, Toshiba Corporation

Hiroshi Tomono
Director

Outside Director

1971 Joined Sumitomo Metal Industries, Ltd.
2005 Representative Director & President of Sumitomo Metal Industries, Ltd.
2012 Representative Director & President & COO of Nippon Steel & Sumitomo Metal Corporation
2014 Representative Director & Vice Chairman of Nippon Steel & Sumitomo Metal Corporation
2015 Director & Adviser of Nippon Steel & Sumitomo Metal Corporation
2015- Outside Director, Konica Minolta, Inc.
2015- Outside Director, Sumitomo Chemical Co., Ltd.
2015- Advisor of Nippon Steel & Sumitomo Metal Corporation
2016- Outside Director, Japan Nuclear Fuel Limited

Corporate Auditors

Kenya Nagamatsu
Standing Corporate Auditor

1975 Joined Sumitomo Chemical Co., Ltd.
2009 Deputy General Manager, Ehime Works
2011- Corporate Auditor
2015- Corporate Auditor, Sumitomo Seika Chemicals Co., Ltd.

Hiroaki Yoshida
Standing Corporate Auditor

1980 Joined Sumitomo Chemical Co., Ltd.
2012 General Manager, Planning & Coordination Office, Rabigh Project & General Manager, Planning & Coordination Office, Petrochemicals & Plastics Sector
2015- Corporate Auditor

Shinichi Yokoyama
Outside Corporate Auditor

1966 Joined Sumitomo Life Insurance Company
2001 President and Chief Executive Officer, Sumitomo Life Insurance Company
2007 Chairman and Representative Director, Sumitomo Life Insurance Company
2008- Corporate Auditor, Shionogi & Co., Ltd.
2010- Corporate Auditor, Sumitomo Chemical Co., Ltd.
2014 Director, Senior Advisor to the Board, Sumitomo Life Insurance Company
2014- Audit & Supervisory, Rengo Co., Ltd.
2014- Honorary Advisor, Sumitomo Life Insurance Company

Mitsuhiro Aso
Outside Corporate Auditor

1975 Prosecutor
2010 Superintending Prosecutor of the Fukuoka High Public Prosecutors Office
2012 Retirement as Prosecutor
2012- Registration of Attorneys
2013- Corporate Auditor, Sumitomo Chemical Co., Ltd.
2014- Outside Director, USS Co., Ltd.
2016- Corporate Auditor, Sumitomo Mitsui Trust Bank, Limited

Yoshitaka Kato
Outside Corporate Auditor

1978- Registered as a certified public accountant
2008 CEO of Ernst & Young ShinNihon LLC
2014 Left Ernst & Young ShinNihon LLC
2015- Corporate Auditor, Sumitomo Chemical Co., Ltd.
2015- Corporate Auditor, Mitsui Fudosan Co., Ltd.
2016- Outside Corporate Auditor, Sumitomo Corporation

Senior Managing Executive Officer

Ikuzo Ogawa

Research Planning and Coordination, Intellectual Property, Industrial Technology & Research Laboratory, Environmental Health Science Laboratory, Advanced Materials Development Laboratory

Managing Executive Officers

Shigeyuki Yoneda
Sumika Middle East Co., Ltd., Rabigh Project Office

Hiroshi Niinuma
General Affairs Dept., Legal Dept., CSR Dept., Internal Control & Audit Dept., Human Resources Dept., Osaka Office Administration Dept.

Keiichi Iwata
Energy & Functional Materials Sector - Planning & Coordination Office, PLED Business Planning Office, IT-related Chemicals Sector - Planning & Coordination Office

Kazushi Tan
Ehime Works

Satoshi Takazawa
Sumitomo Chemical Asia Pte Ltd

Marc Vermeire
Sumitomo Chemical Europe S.A./N.V., Special mission related to the Corporate Business Development Dept. and the Corporate Planning Dept.

Yasuhiko Kitaura
Process & Production Technology & Safety Planning Dept., Production & Safety Fundamental Technology Center, Responsible Care Dept.

Takashi Shigemori
Corporate Business Development Dept., Corporate Planning Dept., Petrochemicals & Plastics Sector - Planning & Coordination Office

Kazuyuki Nuki
AgroSolutions Div.- Japan, Environmental Health Div.

Masaki Matsui
Optical Materials Div., Electronic Materials Div.

Toshiro Ohtsubo
Health & Crop Sciences Sector - Planning & Coordination Office, Quality Assurance Office, Pharmaceutical Chemicals Div.

Hajime Tsukimori
PLED Business Planning Office, Electronic Devices Development Center, IT-related Chemicals Sector - Planning & Coordination Office, Quality Assurance Office

Executive Officers

Keiichi Sakata
Health & Crop Sciences Sector - Planning & Coordination Office, AgroSolutions Div.- International

Motoyuki Sakai
Energy & Functional Materials Sector - Planning & Coordination Office

Yoshiaki Oda
Research Planning and Coodination Dept., Advanced Materials Development Laboratory

Nobuaki Mito
Corporate Business Development Dept., Intellectual Property Dept.

Atsuko Hirooka
Environmental Health Div., Animal Nutrition Div.

Kingo Akahori
Energy & Functional Materials Sector - Quality Assurance Office, Inorganic Materials Div., Battery Materials Div.

Seiji Takeuchi
Rabigh Refining and Petrochemical Company

Hwang Inwoo
Dongwoo Fine-Chem Co., Ltd.

Andrew Lee
Valent U.S.A. LLC, Valent BioSciences LLC

Soji Sakamoto
Resin-related Business Development Dept., Polyolefins Div., Automotive Materials Div., Methacrylates Div.

Naoyuki Inoue
Rabigh Refining and Petrochemical Company

Yasuaki Sasaki
Human Resources Dept., Osaka Office Administration Dept.

Keigo Sasaki
Accounting Dept., Finance Dept.

Kenji Ohno
General Affairs Dept., Legal Dept., CSR Dept.

Yoshihiro Miyoshi
Chiba Works, Petrochemicals Research Laboratory

Shinichiro Nagata
Oita Works, Misawa Works

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 dialog 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 dialog 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 dialog 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 has prepared Corporate Governance Guidelines, in accordance with Japan's Corporate Governance Code. These Guidelines can be viewed on Sumitomo Chemical's website.

http://www.sumitomo-chem.co.jp/english/company/governance.html

■ Measures to Date for Strengthening Corporate Governance

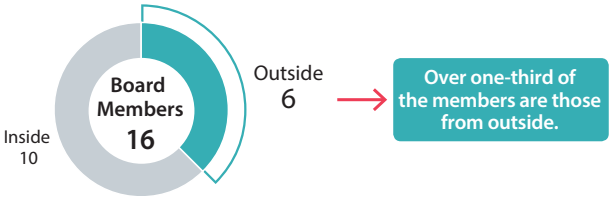
Date		Major Initiatives	Board Composition	Appointment of Board Members	Executive Remuneration	Other
2002	December	Established Risk Crisis Management Committee				●
2003	June	Introduced Executive Officer system (reduced number of Directors from 25 to 10)	●			●
	July	Established Compliance Committee				●
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				●

Recent Initiatives to Strengthen Corporate Governance

Composition of Board of Directors

In June 2015, we added two outside directors to the Board of Directors, raising their number to three, in order to strengthen the oversight functions of the Board and to increase the transparency and objectivity of management. Moreover, we appointed accounting specialists as outside corporate auditors. We are working to establish a solid governance structure to enhance oversight and management functions of the Board of Directors.

■ Board Composition (As of June 21, 2017)



	Inside	Outside
Director	8	3
Corporate Auditor	2	3

Changes in Board of Directors Administration

In 2015 we reviewed the way the Board of Directors is administered, making changes that put more focus on deliberating management policies, business strategy, and important matters for carrying out operations, and on oversight of those operations. The changes also expand the scope of decision-making delegated to Executive Officers with the aim of speeding up execution of business. At board meetings, reporting on the performance of duties by each Director has been enhanced, and three types of reports are defined based on the contents, aiming for effective reporting. Along with enhanced reporting, the monetary threshold the Board of Directors to resolve has been raised, faster decision-making has been achieved, and the monitoring functions of the Board of Directors have been strengthened.

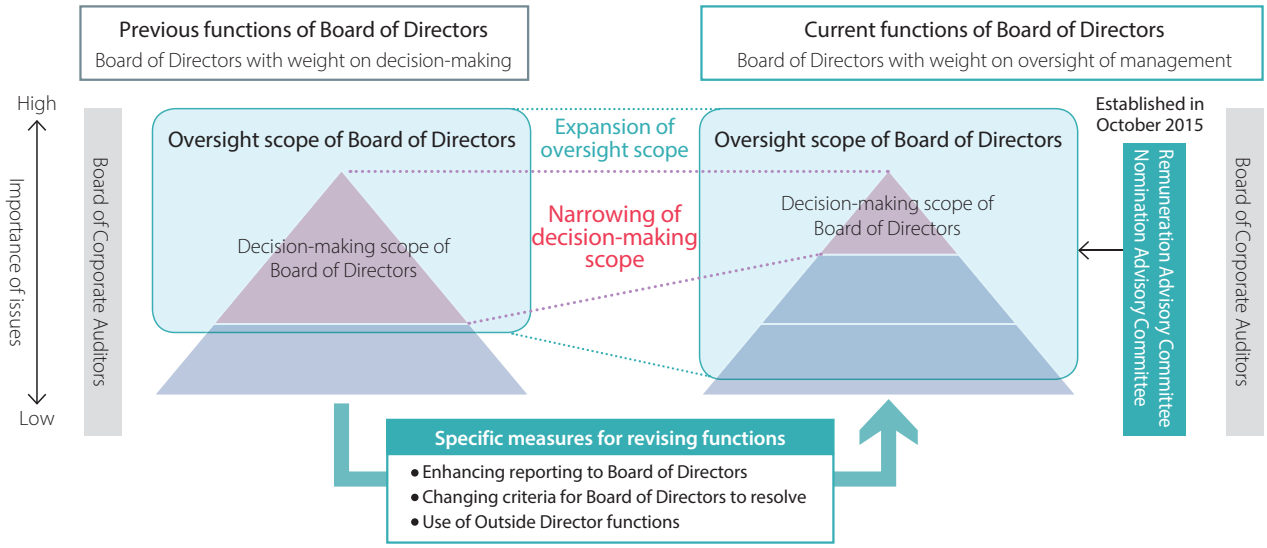
Establishment of Nomination Advisory Committee and Remuneration Advisory Committee

A nomination advisory committee and a remuneration advisory committee were established in October 2015. Currently both committees are made up of a majority of independent outside directors. By nominating candidates for Directors or Corporate Auditors and advising on remuneration, they are helping to make the decision-making process more transparent, fair, and open.

Use of Outside Director Functions

To make maximum use of the oversight and advisory functions of the outside directors, the relevant organizations provide outside directors with detailed explanations of agenda items before they are deliberated in the Board. Important matters such as management policy, M&A, and large-scale projects are explained to the Board of Directors in advance so that the views of Directors can be reflected; and advice is given by outside directors and others based on their expert knowledge.

■ Changes in the Functions of Board of Directors



Assessing the Effectiveness of the Board of Directors

Assessment Methods

Sumitomo Chemical's Board of Directors carries out analysis and appraisal regarding the effectiveness of the Board of Directors through exchanging opinions at Outside Directors & Auditors meetings attended by Outside Directors, Outside Corporate Auditors, the Chairman, and the President, and at Management Committee meetings attended by Directors, etc., as well as by taking into account questionnaire replies from Directors and Corporate Auditors and opinions expressed by the Board of Corporate Auditors. Based on these opinions, the Board of Directors makes an overall review of the appraised effectiveness of the Board of Directors.

Assessment for Fiscal 2016 and Improvements over the Previous Fiscal Year

The effectiveness of the Board of Directors was determined with regard to its composition, operation, deliberation, and reporting at the Board of Directors meetings, that duties entrusted to the Management are being carried out properly. Sumitomo Chemical has confirmed improvements over the previous year (invigorating deliberations at the Board of Directors meetings through sharing discussion in internal meetings with Outside Directors and Corporate Auditors, improving practices for regular reports on business activity to the Board of Directors meetings).

Toward the Future

From the perspective of further enhancing the effectiveness of the Board of Directors, a few matters to be improved have been pointed out, including risk analysis in the launch of new, important businesses, progress reviews for new businesses in the process of launching, and feedback of dialog with investors and analysts. Sumitomo Chemical is committed to address them further.

Pick Up Visit to Production Sites by Outside Directors and Corporate Auditors

In order for Outside Directors and Corporate Auditors to further understand our business, Sumitomo Chemical provides them with opportunities to visit our production sites both inside and outside Japan each year. In fiscal 2016, they visited the Osaka region of Sumitomo Chemical and Group companies in Singapore. They have expressed the opinion that this initiative is extremely valuable, enabling them to grasp the overall picture of the company.

Singapore visit in January 2016

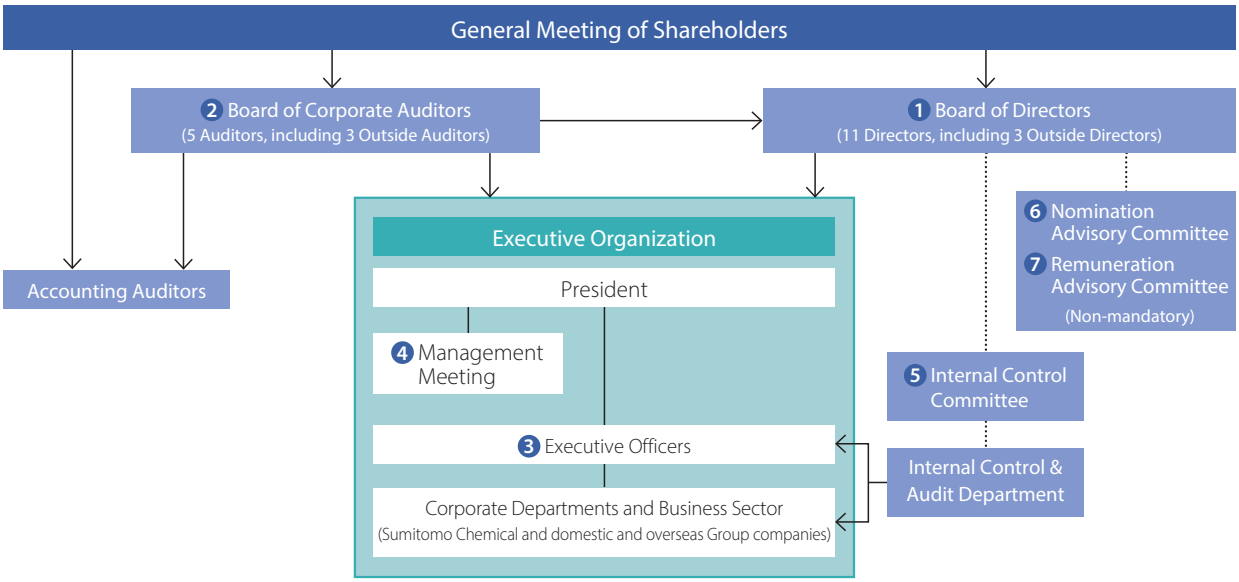
■ Independent Director

Title	Name	Reason for Appointment	Major Activities
Outside Director	Kunio Ito	The Company has elected Mr. Ito as an outside director, anticipating that he will oversee its management by utilizing his many years of ample expertise in accounting, business administration, and other areas as a university professor as well as a wealth of experience as a corporate outside director of other companies.	Attended all 13 meetings of the Board of Directors held in fiscal 2016, contributing mainly from his specialist standpoint as a university professor with expertise in accounting, business administration, and other areas.
	Koichi Ikeda	The Company has elected Mr. Ikeda as an outside director, anticipating that he will oversee its management by utilizing a wealth of experience and extensive insight as a management executive of a major corporation.	Attended all 13 meetings of the Board of Directors held in fiscal 2016, contributing mainly from his specialist standpoint as highly experienced management executive.
	Hiroshi Tomono	The Company has elected Mr. Tomono as an outside director, anticipating that he will oversee its management by utilizing a wealth of experience and extensive insight as a management executive of a major corporation.	Attended all 13 meetings of the Board of Directors held in fiscal 2016, contributing mainly from his specialist standpoint as highly experienced management executive.
Outside Corporate Auditor	Shinichi Yokoyama	The Company has elected Mr. Yokoyama as an outside auditor, anticipating that he will perform audits from an objective viewpoint by utilizing a wealth of experience and extensive insight as a management executive of a business corporation.	Attended 11 out of 13 meetings of the Board of Directors and all 13 meetings of the Board of Corporate Auditors held in fiscal 2016, contributing from his standpoint as an experienced management executive.
	Mitsuhiro Aso	The Company has elected Mr. Aso as an outside auditor, anticipating that he will perform audits by utilizing his many years of ample experience and expertise as a prosecutor.	Attended all 13 meetings of the Board of Directors and all 13 meetings of the Board of Corporate Auditors held in fiscal 2016, contributing mainly from his specialist standpoint as a lawyer.
	Yoshitaka Kato	The Company has elected Mr. Kato as an outside auditor, anticipating that he will perform audits from an objective viewpoint by utilizing his ample experience and expertise in finance and accounting as a certified public accountant.	Attended all 13 meetings of the Board of Directors and all 13 meetings of the Board of Corporate Auditors held in fiscal 2016, contributing mainly from his specialist standpoint as a certified public accountant.

(Note) All the outside directors are independent directors having no conflict of interest with general shareholders.

Current Corporate Governance Organization

■ Corporate Governance Organization (As of June 21, 2017)



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 Board of Directors regulations. 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.

The Board currently consists of 11 Directors, three of whom are independent outside directors having no conflict of interest with general shareholders. The term of office of Directors is one year, in order to make the administrative organization responsive to changes in the business environment and to establish clear administrative responsibility and roles of Directors.

Board of Directors meetings are held monthly as a rule, with special meetings convened as needed. To ensure the effectiveness of the Board of Directors, assessments and analyses are conducted annually and the follow-up to the results is done.

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 once a month as a rule.

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.

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. We have 36 Executive Officers, with seven acting in dual capacity as Directors. The Executive Officers are 33 Japanese and three non-Japanese, consisting of 35 males and one female. The term of office for Executive Officers is one year.

❹ Management Meeting

The Management Meeting supports 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 for discussion and reports to be made to the Board. The Management Meeting consists of all the Directors (excluding outside directors), some of the Executive Officers of corporate divisions, and one Standing Corporate Auditor. Meetings are held 24 times a year as a rule.

❺ Committees

We enhance its business activities and oversight functions by establishing internal meetings (committees) to deliberate on important matters concerning the management of the Company, and the Group from broad and diverse viewpoints. Of these committees, the Internal Control Committee, the Compliance Committee, and the Responsible Care Committee and others are attended by Directors and others, as well as the Standing Corporate Auditor, who serves as an observer.

■ Internal Committees

Name	Purpose	Number of Meetings in Fiscal 2016
Internal Control Committee	Deliberate on measures to build and improve a proper internal control system	3
Risk Crisis Management Committee	Deliberate on company policy to deal with individual risks such as large-scale disasters, pandemics, and a decline in public security	2*
Responsible Care Committee	Comprehensively promote responsible care activities from a long-term viewpoint	1
Compliance Committee	Promote compliance-oriented business management	1

* Subcommittee meetings on specific key themes

Executive Nomination and Remuneration

❻ Nomination Advisory Committee

The Nomination Advisory Committee was established in October 2015 to act as an advisory body to the Board of Directors on selection of top management and on 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 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.

❼ 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 for top management and Directors, remuneration levels, and other related matters. 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 officer remuneration system and levels, in order to achieve greater transparency, fairness, and openness.

Remuneration System

Remuneration for directors consists of basic remuneration and bonuses. Basic remuneration is paid as fixed remuneration assigned to each rank, reflecting the duties of Directors and the Company's medium- to long-term performance. The intention is that directors will not take actions having only short-term effect or be content with less than full optimization. Bonuses are paid to heighten incentive to meet the business plans for each year, with the amount being determined based on consolidated performance for the fiscal year.

Remuneration Levels

To ensure objectivity and appropriateness of remuneration, levels are set by an outside third party based on the results in a database relating to executive pay, comparison with pay levels of the Company's employees, past amounts paid, and other data.

■ Directors' and Corporate Auditors' Remuneration in Fiscal 2016

(Millions of yen)

Title	Eligible Persons	Basic Remuneration	Bonuses	Total
Directors (excluding Outside Directors)	8	¥486	¥142	¥628
Standing Corporate Auditors	2	¥ 78	—	¥ 78
Outside Directors and Corporate Auditors	6	¥ 82	¥ 10	¥ 92
Total	16	¥646	¥152	¥798

Visit our website for details on business risk.
http://www.sumitomo-chem.co.jp/english/ir/policy/risk_factors.html

Internal Control / Risk Management

Status of Development of Internal Control System

We recognize the continuous development and enhancement of our internal control system as a necessary process in maintaining a sound organization, and believe this system should be actively utilized for the achievement of business objectives.

Based on the Basic Policy for Enhancement of the Internal Control System (revised in March 2015) established by the Board of Directors, we have formed the Internal Control Committee (chaired by the President) to review and strengthen the internal control system of the Sumitomo Chemical Group in response to changing circumstances. The Internal Control Committee monitors the implementation status of initiatives based on the Basic Policy, promoting various measures in order to enhance internal control systems.

Internal Auditing

Sumitomo Chemical's internal auditing is conducted on Sumitomo Chemical and major Group companies by departments which are organized especially for the function, such as the Internal Control & Audit Department. The Departments carry out internal auditing to evaluate and ascertain designs, operations, and effective functioning of internal controls from the following perspectives in the execution of business duties by executives and employees of the Sumitomo Chemical Group: (1) effective and efficient operations; (2) reliability of financial reporting; and (3) compliance with relevant laws and statutes in all business activities. The Internal Control & Audit Department works to improve internal controls for applicable departments through internal auditing. It also regularly holds meetings of the Internal Audit Coordination Board to share with relevant departments the reports of deficiencies detected by internal auditing and progress on their countermeasures, promoting initiatives to strengthen the internal control systems of the Sumitomo Chemical Group. The department reports summaries of audits relating to internal controls to the Internal Control Committee. The Department also evaluates the effectiveness of Sumitomo Chemical's internal control over the Sumitomo Chemical Group's financial reporting, in accordance with the Financial Instruments and Exchange Act, and also reports on the status of such evaluation to the Internal Control Committee.

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 independent 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.

Risk Management

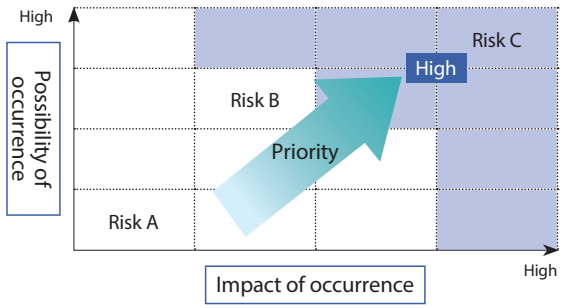
We seek to improve and enhance our risk management system to detect risks at an early stage that have the possibility of hindering the achievement of business objectives and to prevent them from occurring as well as to respond quickly and appropriately on their occurrence.

Each organization of the Sumitomo Chemical Group takes various measures to appropriately manage risk. To support and ensure the risk management measures of each organization, the Internal Control Committee determines Group-wide risk management policy and deliberates initiatives pertaining to collection of risk information and its dissemination throughout the Group.

For enhancing the risk management system, each organization of Sumitomo Chemical Group including Group companies both in Japan and abroad conducts a risk assessment every fiscal year in terms of the probability of risk occurrence and its possible impact, and the Internal Control Committee determines based on the assessment results Group-wide priority risks which are to be implemented across the Group. Each organization takes appropriate measures based on the Group-wide risk response plans, which are developed by Sumitomo Chemical's risk response coordination departments designated for each priority risk.

We also establish a Risk Crisis Management Committee to deliberate the Group's response policies and plans, pertaining to the individual risk crisis in order to make prompt responses in the event that a significant risk is realized, such as large-scale disasters (earthquakes, storms, floods and other), pandemics, and a deterioration in security (terrorism, riots and wars and other).

■ Risk Map



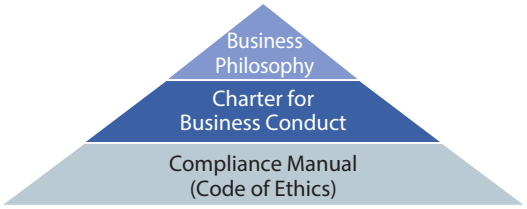
Compliance

The Sumitomo Chemical Group's Compliance-Focused Mindset: Passed Down from One Generation to Another

Sumitomo Chemical places "compliance" at the bedrock of corporate management. As we engage in business in many parts of the world, all companies of 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.

The spirit and letter of ensuring compliance in business activities have consistently been enshrined at Sumitomo Chemical ever since the company was founded. 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, greater emphasis is placed on the importance of companies fulfilling their responsibilities to society while relevant laws and their enforcement are continually strengthened around the world. Given the circumstances, all companies of Sumitomo Chemical Group are making concerted endeavors in furthering compliance activities, keeping duly in mind that thoroughgoing compliance efforts are becoming ever more important in the Group's increasingly globalized business operations.

■ The Compliance Manual and the Charter for Business Conduct embody Sumitomo Chemical's Business Philosophy



Compliance System at Sumitomo Chemical Group

(1) Sumitomo Chemical's Compliance Committee = The Linchpin of Sumitomo Chemical Group's Compliance Activities

The Compliance Committee of Sumitomo Chemical establishes overarching principles of compliance from a global perspective, according to which it works with every Group company in Japan and abroad in building and operating their compliance systems locally in a manner required.

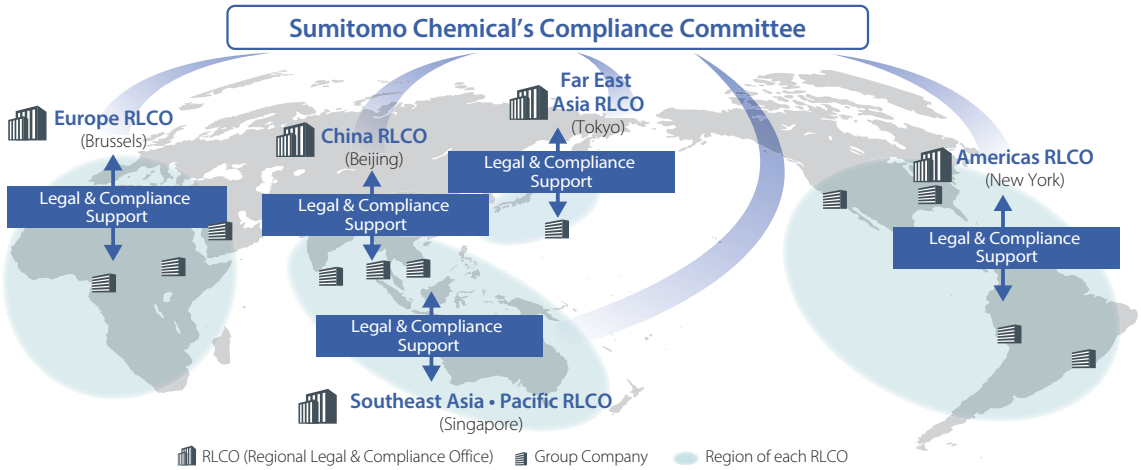
(2) Think globally, Manage regionally, Act locally = A Structure Focused on Effectiveness

As business globalizes, it becomes more important that a corporation's compliance system operation be fine-tuned to a situation specific to an individual country or company. 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 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 operation.

(3) Latest Priority Initiatives

An area of our recent focus is to strengthen those initiatives which will more effectively serve to maintain sound business practices in a company's supply chain, through implementing measures to prevent corruption, such as bribes and collusion with trading partners, as well as unchanged initiatives to ensure strict observance of competition laws in the world. In addition, with a firm belief that strict compliance can only be achieved with all employees having high awareness of compliance, Sumitomo Chemical attaches particular importance

■ Compliance System at Sumitomo Chemical Group



to carrying out "compliance education" on a continual basis, which includes training programs geared to management executives at Sumitomo Chemical and Group companies as well as e-learning trainings or face-to-face lecture-style training courses, depending on each company's specific needs and situation. Overseas, the RLCOs are promoting these initiatives by providing tangible, practical, and visible support to each Group company so that they can more effectively develop and operate systems capable of ensuring strict compliance.

Moreover, as a means to quantify the effect of these education and training initiatives, Sumitomo Chemical conducts an employee compliance awareness survey regularly. In fiscal 2016, the awareness survey was expanded to include not just Sumitomo Chemical, but also all of the Valent Group companies in the US, and Group companies in Singapore, such as Sumitomo Chemical Asia. These surveys have confirmed that employees' compliance awareness is improving in each of the companies, which has led us to work on possible issues yet to be addressed for further improvement and on formulating concrete measures to take accordingly. Going forward, Sumitomo Chemical, along with Group companies, will continue unabated and diligent efforts to improve employees' compliance awareness across the Group both in Japan and overseas.

Speak-Up Reporting System

(1) A Speak-Up Reporting System Plays a Key Role Towards Enhanced Compliance

All companies of Sumitomo Chemical Group are constantly making every possible effort to detect any compliance violations as early as possible or to prevent them from occurring in the future, by taking a variety of measures, including improving the operational effectiveness of the Speak-Up Reporting System. Sumitomo Chemical's Speak-Up System is built on the basic thought that anyone involved in Sumitomo Chemical's business, whether a management executive or an employee at the Company, or his or her family member, or an executive or employee of a Group company, or a trading partner, will be able to report a compliance violation or a suspected violation to the Compliance Committee without fail, whenever they come to recognize one in connection with activities of Sumitomo Chemical Group companies. Accordingly, various reporting channels are available for use, i.e. (1) A Compliance Committee of each Group company, (2) RLCOs, (3) the Compliance Committee of Sumitomo Chemical, and (4) external lawyers designated by the committee. A reporting person can use a reporting channel of his or her choosing.

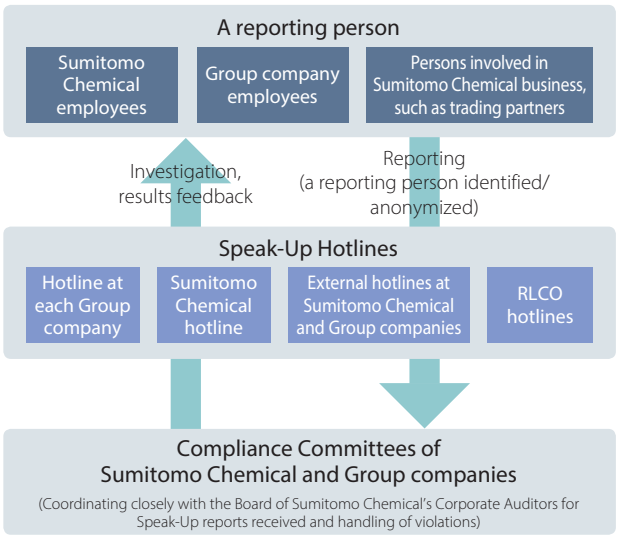
(2) Recent Operational Status of Speak-Up Reporting System

The number of speak-up reports received in fiscal 2016 by the Compliance Committee of Sumitomo Chemical and those of Group companies combined totaled 39 (3 reports less than the previous year). 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.

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

An investigation based on a speak-up report is carried out with utmost consideration to protecting the privacy of a reporting person and maintaining confidentiality of information provided. In addition, a maximal care is taken to ensure that a person who has made truthful reporting will never be put at any disadvantage on the ground of having made the report, such as dismissal, transfer, or discrimination. Moreover, to ensure that the Speak-Up 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.

■ How a speak-up report is processed under the Speak-Up System



Realizing More Effective Operation of Compliance System

Every company of Sumitomo Chemical Group has their compliance system in place. The focus of our ongoing efforts is to examine all of these compliance systems individually and explore how each of them could be operated more effectively. Specifically, each Group company is supposed to assess compliance risks likely involved in its day-to-day business activities, then formulate appropriate countermeasures based on the results of the assessment and then implement them. The purpose of this exercise is to enable each Group company to undertake compliance-related risk management more practically and effectively. In this connection, RLCOs have an important role to play vis-à-vis Group companies, i.e. helping them to conduct a proper assessment of compliance risks involved, set appropriate rules and procedures based on the results of the assessment, and then carry them out. To this end, RLCOs are strengthening working relationships with individual companies in a region for which each RLCO is responsible. One of the forums to promote Group-wide compliance is a company-wide campaign called "Compliance Promotion Month" which has been held in October every year, beginning in 2015, at Sumitomo Chemical and some of the Group companies (for details, please see the "Topics" column). It is our intention that the Compliance Promotion Month initiatives will be conducted continually to not only reduce concrete compliance risks in workplace, but also help elevate the compliance awareness of individual employees.

■ Four Areas of Focus for Enhanced Compliance Activities

Stronger Commitment to Further Enhanced Compliance Initiatives

Being a global enterprise, Sumitomo Chemical is deeply committed to fulfilling its corporate citizenship responsibilities. As Sumitomo Chemical Group companies continue to promote and expand business worldwide, the Sumitomo Chemical Compliance Committee, the RLCOs and each Group company will work jointly and more vigorously to strengthen their compliance initiatives by further cementing the closely-knit network of collaboration through various kinds of modus operandi, such as holding Global Legal and Compliance Conferences annually or the active use of IoT technologies.

Topics **Compliance Promotion Month initiatives**

In line with Nippon Keidanren's (the Japan Business Federation) "Corporate Ethics Promotion Month" initiatives, Sumitomo Chemical and some of the Group companies have designated October of every year as "Compliance Promotion Month," in which all employees in each workplace 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 which are already in place, they review once again whether or not the measures will be effective enough when implemented.

As far as Sumitomo Chemical is concerned, during the Compliance Promotion Month initiatives of fiscal 2016, all major compliance risks were examined in each department, including particularly so-called "fraud" risks in light of recent corporate scandals that had taken place in Japan or elsewhere. Then, concrete preventive measures were formulated and implemented. The Compliance Committee highly values and makes the best use of the outcome of these initiatives conducted at each department. Specifically, after the Compliance Promotion Month initiatives is over, the Compliance Committee evaluates campaign activities conducted at each department in the Company based on the reports they submit. With respect to "best practices" that the Committee finds among the campaign activities, they will be introduced to and information thereon shared by other departments within the company. In parallel, the Compliance Committee, seeking further enhanced compliance activities, maintains a dialogue with those departments where improvement has been found necessary.

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Besshi Copper Mine (Niihama, Ehime Prefecture)
The Besshi Copper Mine, opened in 1691, supported the foundations of Sumitomo's business. Sumitomo Chemical's origins are also here. These heavy brick remains were once the storage facility for a tramway that transported ore as well as everyday items to the people working in the mine.

Financial Review

1 Results of Operations

(1) Net sales and operating income

Net sales in the fiscal year ended March 31, 2017 totaled ¥1,954.3 billion (US$17,419 million), a 7.0% decrease from ¥2,101.8 billion for the previous fiscal year. Although the shipments of products increased in the IT-related Chemicals Segment and Pharmaceuticals Segment, the stronger yen had a negative effect on sales from overseas subsidiaries in yen terms and selling prices declined.

Revenue from overseas operations, including both sales by overseas subsidiaries and exports from Japan, for the fiscal year ended March 31, 2017 was ¥1,186.7 billion (US$10,578 million). The ratio of revenue from overseas operations to net sales was 60.7%, compared with 61.3% for the previous fiscal year.

Cost of sales was ¥1,285.8 billion (US$11,461 million), compared with ¥1,404.8 billion for the previous fiscal year. The gross margin ratio was 34.2%, 1.0 percentage points higher than the previous fiscal year. Selling, general and administrative expenses were ¥534.2 billion (US$4,761 million), compared with ¥532.5 billion for the previous fiscal year.

Research and development expenses for the fiscal year ended March 31, 2017 were ¥157.6 billion (US$1,405 million), 1.2% higher than the previous fiscal year's ¥155.8 billion. Annual depreciation and amortization expenses were ¥110.3 billion (US$983 million), a decrease of 5.4% compared with the previous fiscal year's ¥116.6 billion.

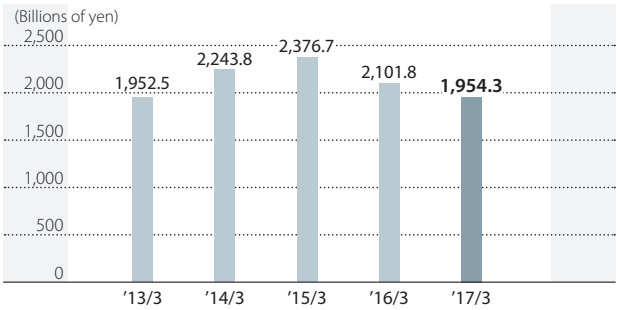
Consequently, operating income was ¥134.3 billion (US$1,197 million), an 18.3% decrease from ¥164.4 billion for the previous fiscal year. The ratio of operating income to net sales was 6.9%, a decline of 1.0 percentage points from the previous fiscal year.

(2) Non-operating expenses and net income

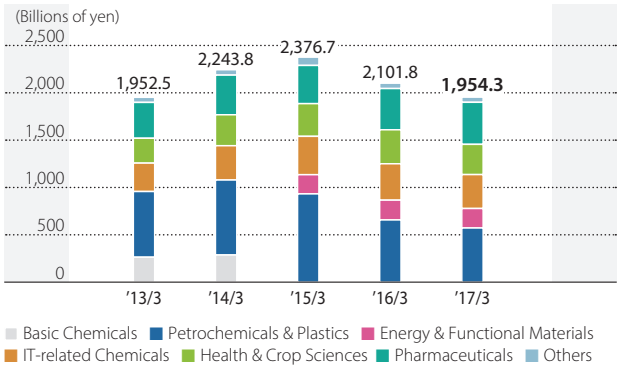
Interest expenses, net of interest and dividend income, were ¥1.6 billion (US$14.6 million), a 38.1% decrease compared with ¥2.7 billion for the previous fiscal year.

Equity in earnings of affiliates was ¥41.2 billion (US$367 million), a ¥21.0 billion increase from the previous fiscal year. Earnings of Petrochemical Corporation of Singapore remained strong. Earnings of Rabigh Refining and Petrochemical Company, which deteriorated in the previous fiscal year due to periodic plant maintenance, improved in the fiscal year ended March 31, 2017 due chiefly to increased shipments after

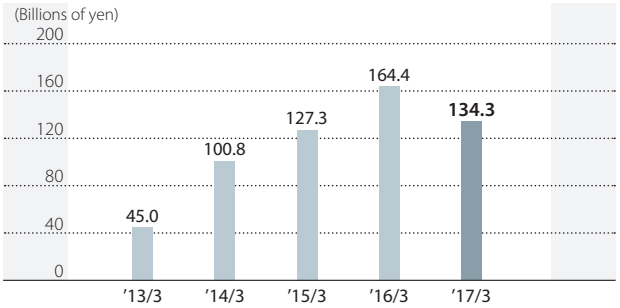
Net Sales



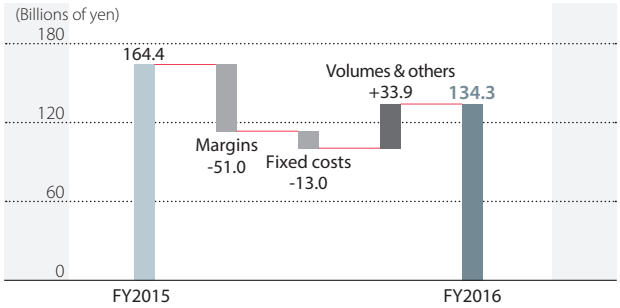
Breakdown of Sales by Business Segment



Operating Income



Change in Operating Income: FY2015 vs. FY2016



periodic plant maintenance.

The Companies recorded a ¥27.3 billion (US$243 million) gain on sale of investment securities, a ¥3.4 billion (US$30 million) gain on step acquisitions, and a ¥1.0 billion (US$9 million) gain on sale of property, plant and equipment. The Companies posted a ¥34.3 billion (US$305 million) impairment loss mainly on production facilities with decreased profitability and an ¥18.9 billion (US$168 million) loss for restructuring charges mainly on improving the business structure and organization in subsidiaries.

As a result, income before income taxes and non-controlling interests for the fiscal year ended March 31, 2017 was ¥145.2 billion (US$1,294 million). Income taxes for the fiscal year ended March 31, 2017 were ¥28.1 billion (US$251 million).

Net income attributable to owners of the parent for the fiscal year ended March 31, 2017 was ¥85.5 billion (US$762 million), an increase of ¥4.0 billion over the ¥81.5 billion recorded in the previous fiscal year. Return on Equity (ROE) was 10.8%, up 0.3 percentage points from the previous fiscal year's 10.5%.

Net income per share, based on the weighted average number of shares outstanding during the fiscal year ended March 31, 2017, was ¥52.31 (US$0.466), compared with ¥49.84 for the previous fiscal year.

(3) Dividends

The Company paid a year-end dividend of ¥7 per share, which, when combined with the interim dividend of ¥7 per share, makes an annual dividend of ¥14 per share for the fiscal year ended March 31, 2017, unchanged from the previous fiscal year.

2 Segment Information

(1) Petrochemicals & Plastics

Market prices of petrochemical products and synthetic resins declined because of lower feedstock prices. Shipments of petrochemical products decreased due to the restructuring of the petrochemical business at the Chiba Works. The stronger yen had a negative effect on sales from overseas subsidiaries in yen terms. As a result, the segment's sales decreased by ¥85.1 billion (US$758 million) compared with the previous fiscal year, to ¥572.0 billion (US$5,099 million). Operating income declined by ¥2.2 billion (US$19 million), to ¥26.6 billion (US$237 million).

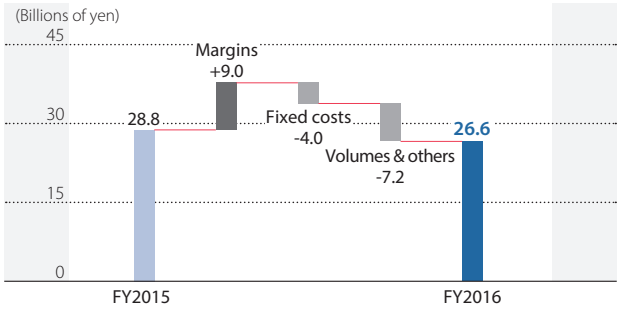
Results by Business Segment

Fiscal years ended March 31, 2017 and 2016

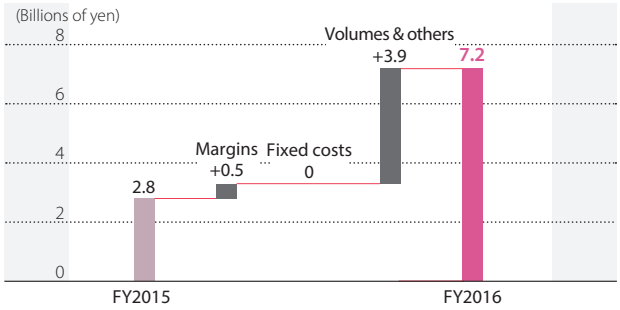
(Millions of yen)

	Petrochemicals & Plastics	Energy & Functional Materials	IT-related Chemicals	Health & Crop Sciences	Pharmaceuticals	Others	Adjustments & Elimination	Consolidated
Year ended March 31, 2017								
Revenue from customers	¥572,017	¥205,934	¥358,426	¥319,271	¥444,189	¥54,446	¥ —	¥1,954,283
Segment profit	26,604	7,199	10,325	46,154	55,099	5,705	(16,750)	134,336
Segment profit ratio (%)	4.7	3.5	2.9	14.5	12.4	10.5	—	6.9
Segment profit growth (%)	(7.5)	156.3	(48.0)	(40.5)	29.1	(27.1)	—	(18.3)
Year ended March 31, 2016								
Revenue from customers	¥657,093	¥209,007	¥384,532	¥359,013	¥435,478	¥56,641	¥ —	¥2,101,764
Segment profit	28,767	2,809	19,874	77,518	42,686	7,830	(15,038)	164,446
Segment profit ratio (%)	4.4	1.3	5.2	21.6	9.8	13.8	—	7.8

Petrochemicals & Plastics
Change in Operating Income: FY2015 vs. FY2016



Energy & Functional Materials
Change in Operating Income: FY2015 vs. FY2016



(2) Energy & Functional Materials

Selling prices of aluminum declined due chiefly to the stronger yen. Shipments of resorcinol, a raw material for adhesives, and engineering plastics increased due to a rise in demand. As a result, the segment's sales decreased by ¥3.1 billion (US$27 million) compared with the previous fiscal year, to ¥205.9 billion (US$1,836 million). Operating income increased by ¥4.4 billion (US$39 million), to ¥7.2 billion (US$64 million).

(3) IT-related Chemicals

Selling prices of polarizing film dropped. Selling prices of touchscreen panels also declined, but shipments increased due to growth in demand. The stronger yen had a negative effect on sales from overseas subsidiaries in yen terms. As a result, the segment's sales decreased by ¥26.1 billion (US$233 million) compared with the previous fiscal year, to ¥358.4 billion (US$3,195 million). Operating income declined by ¥9.5 billion (US$85 million), to ¥10.3 billion (US$92 million).

(4) Health & Crop Sciences

Sales of the feed additive methionine dropped due to lower market prices. The stronger yen had a negative effect on sales. As a result, the segment's sales decreased by ¥39.7 billion (US$354 million) compared with the previous fiscal year, to ¥319.3 billion (US$2,846 million). Operating income declined by ¥31.4 billion (US$280 million), to ¥46.2 billion (US$411 million).

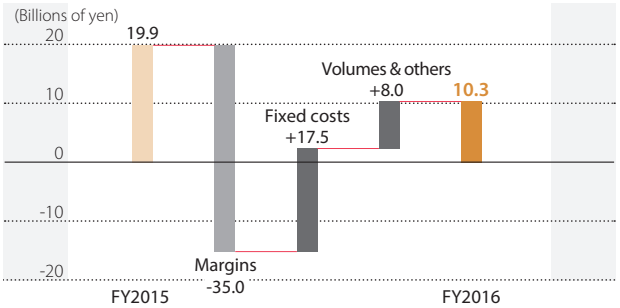
(5) Pharmaceuticals

In Japan, although sales of Aimix® (anti-hypertension drug), Trerief® (therapeutic agent for Parkinson's disease) and other drugs increased, overall sales declined due largely to the impacts of Japanese National Health Insurance drug price revisions and a decrease in shipments of patent-expired originator drugs. In North America, sales of Latuda® (atypical antipsychotic) and other drugs increased steadily. The stronger yen had a negative effect on sales from overseas subsidiaries in yen terms. The segment's sales increased by ¥8.7 billion (US$78 million) compared with the previous fiscal year, to ¥444.2 billion (US$3,959 million). Operating income rose by ¥12.4 billion (US$111 million), to ¥55.1 billion (US$491 million), due to the expansion of sales in North America.

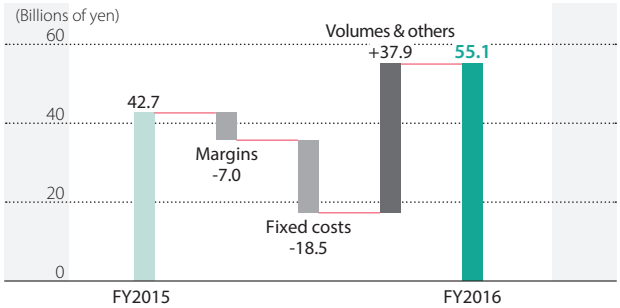
(6) Others

In addition to the above five segments, the Sumitomo Chemical

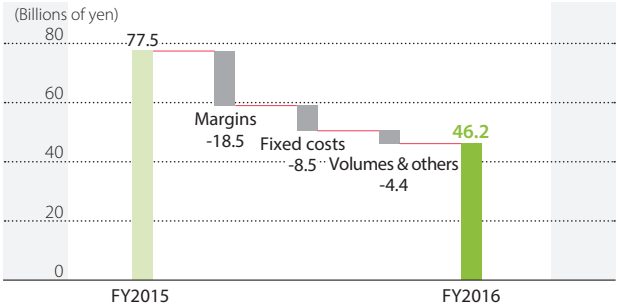
■ IT-related Chemicals
Change in Operating Income: FY2015 vs. FY2016



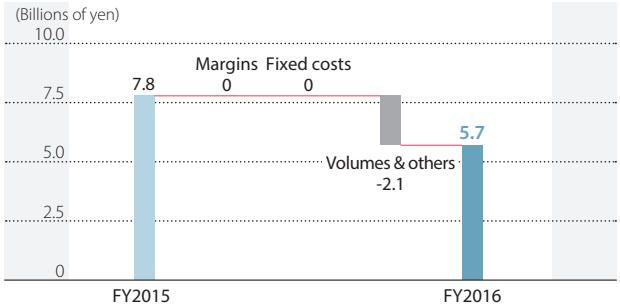
■ Pharmaceuticals
Change in Operating Income: FY2015 vs. FY2016



■ Health & Crop Sciences
Change in Operating Income: FY2015 vs. FY2016



■ Others
Change in Operating Income: FY2015 vs. FY2016



Group engages in supplying electrical power and steam, providing services for the design, engineering, and construction management of chemical plants, providing transport and warehousing, and conducting materials and environmental analysis. The segment's sales decreased by ¥2.2 billion (US$20 million) compared with the previous fiscal year, to ¥54.4 billion (US$485 million). Operating income declined by ¥2.1 billion (US$19 million), to ¥5.7 billion (US$51 million).

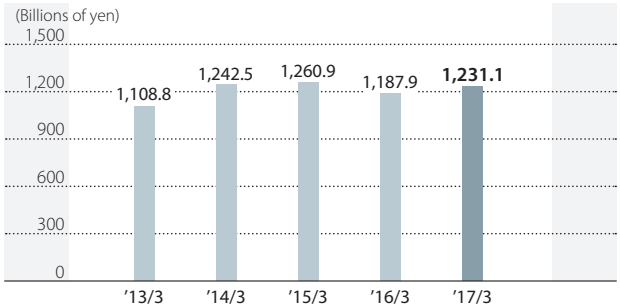
3 Financial Position

Total assets as of March 31, 2017 increased by ¥199.9 billion, to ¥2,862.1 billion (US$25,511 million) from ¥2,662.2 billion as of March 31, 2016. Current assets as of March 31, 2017 amounted to ¥1,231.1 billion (US$10,974 million), a 3.6% increase from ¥1,187.9 billion as of March 31, 2016. Non-current assets as of March 31, 2017 amounted to ¥1,630.9 billion (US$14,537 million), a 10.6% increase from ¥1,474.2 billion as of March 31, 2016, due mainly to an increase of intangible assets as a result of the acquisition of Tolero Pharmaceuticals Inc. and Cynapsus Therapeutics Inc. (the present Sunovion CNS Development Canada ULC) by Sumitomo Dainippon Pharma, a subsidiary of Sumitomo Chemical.

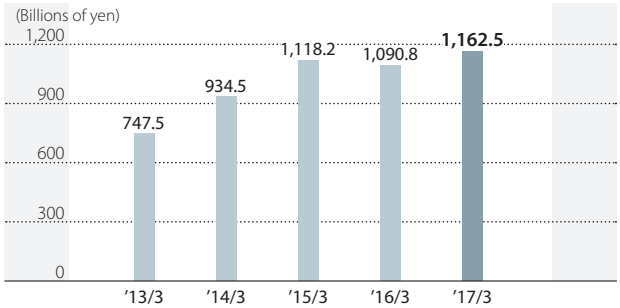
Current liabilities as of March 31, 2017 were ¥906.7 billion (US$8,082 million), a 14.9% increase from ¥789.4 billion as of March 31, 2016. The current ratio was 135.8%, compared with 150.5% as of March 31, 2016.

Long-term liabilities as of March 31, 2017 were ¥792.8 billion (US$7,067 million), a 1.4% increase from ¥781.9 billion as of March 31, 2016.

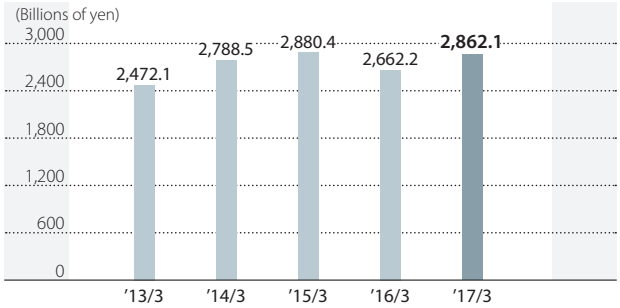
Total Current Assets



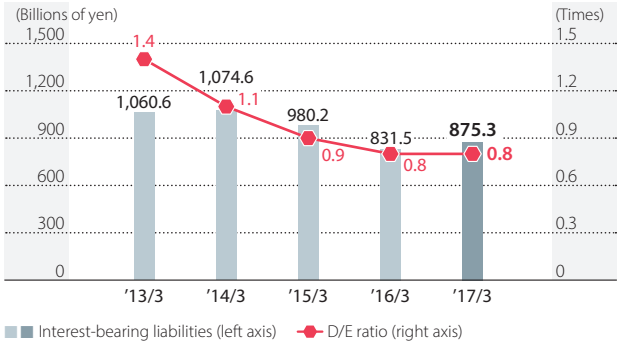
Net Assets



Total Assets



Interest-bearing Liabilities / D/E Ratio



Interest-bearing liabilities (short-term and long-term bank loans, corporate bonds, and commercial paper) as of March 31, 2017 amounted to ¥875.3 billion (US$7,802 million), compared with ¥831.5 billion as of March 31, 2016.

Net assets were ¥1,162.5 billion (US$10,362 million) as of March 31, 2017, a 6.6% increase from ¥1,090.8 billion as of March 31, 2016, mainly because retained earnings increased. The ratio of net worth to total assets stood at 28.7% as of March 31, 2017, compared with 28.8% as of March 31, 2016.

There were 1,634,161,611 shares issued and outstanding as of March 31, 2017. Retained earnings amounted to ¥603.9 billion (US$5,383 million), an 11.9% increase from ¥539.5 billion as of March 31, 2016.

4 Cash Flows

Net cash provided by operating activities for the year ended March 31, 2017 was ¥187.4 billion (US$1,671 million), a decrease of ¥73.7 billion compared with the previous fiscal year, due chiefly to a decline in operating income and an increase in income taxes paid.

Net cash used in investing activities for the year ended March 31, 2017 was ¥199.7 billion (US$1,780 million), an increase in cash outflows of ¥146.1 billion compared with the previous fiscal year, due mainly to the acquisition of Cynapsus Therapeutics Inc. (the present Sunovion CNS Development Canada ULC) and Tolero Pharmaceuticals Inc. by Sumitomo Dainippon Pharma.

As a result, free cash flow, which consists of cash flows provided by operating activities and those used in investing activities, was negative ¥12.3 billion (US$110 million) for the year ended March 31, 2017, compared with positive ¥207.5 billion for the previous fiscal year.

Net cash used in financing activities was ¥8.1 billion (US$72 million).

Breakdown of Capital Expenditures

(Billions of yen, %)

Years ended March 31	2012		2013		2014		2015		2016		2017	
New plants and expansions:												
Basic Chemicals	¥ 6.9	4%	¥ 18.1	16%	¥ 4.0	3%	¥ —	—%	¥ —	—%	¥ —	—%
Petrochemicals & Plastics	6.1	4	6.8	6	10.2	7	2.5	3	1.8	2	1.5	1
Energy & Functional Materials	—	—	—	—	—	—	1.1	1	10.0	10	11.8	9
IT-related Chemicals	62.2	40	15.8	14	48.1	34	12.9	15	22.1	21	29.5	23
Health & Crop Sciences	9.2	6	15.4	13	8.6	6	10.6	13	6.4	6	12.1	9
Pharmaceuticals	1.7	1	1.6	1	1.9	1	1.6	2	1.9	2	2.8	2
Others	1.0	1	2.6	2	0.6	0	0.9	1	0.7	1	1.2	1
Subtotal	¥ 87.1	56%	¥ 60.3	52%	¥ 73.4	51%	¥29.6	35%	¥ 43.0	41%	¥ 58.9	45%
Rationalization of production processes	3.9	3	3.1	3	4.8	3	4.5	5	8.3	8	3.5	3
Research and development	10.6	7	12.9	11	13.0	9	8.3	10	7.4	7	7.4	6
Maintenance and renewal	30.3	20	22.4	19	27.2	19	22.7	27	21.7	21	25.2	19
Others	23.2	15	17.4	15	25.0	17	19.1	23	23.3	22	35.0	27
Total	¥155.1	100%	¥116.1	100%	¥143.4	100%	¥84.2	100%	¥103.8	100%	¥130.1	100%

5 Capital Expenditures

In the year ended March 31, 2017, the Companies' capital expenditures totaled ¥130.1 billion (US$1,160 million), which includes investments for new installations and the expansion of manufacturing facilities as well as investments for streamlining existing facilities.

Major facilities completed in the fiscal year ended March 31, 2017 included the manufacturing facility for lithium-ion secondary battery separators in South Korea in the Energy & Functional Materials Segment and the expansion of the production facility for touchscreen panels for OLED display panels in South Korea in the IT-related Chemicals Segment. Major facilities under construction in the fiscal year ended March 31, 2017 included the expansion of the manufacturing facility for lithium-ion secondary battery separators in South Korea in the Energy & Functional Materials Segment, the expansion of the production facility for film-type touchscreen panels for OLED display panels in South Korea in the IT-related Chemicals Segment, the expansion of the production facility for methionine and the synthesis research building in the Health & Crop Sciences Segment.

Broken down by segment, capital expenditures in the Petrochemicals & Plastics Segment were ¥27.7 billion (US$247 million), ¥19.1 billion (US$170 million) in the Energy & Functional Materials Segment, ¥33.7 billion (US$300 million) in the IT-related Chemicals Segment, ¥23.9 billion (US$213 million) in the Health & Crop Sciences Segment, ¥14.9 billion (US$133 million) in the Pharmaceuticals Segment, and ¥10.8 billion (US$96 million) in the Others Segment.

6 Research and Development

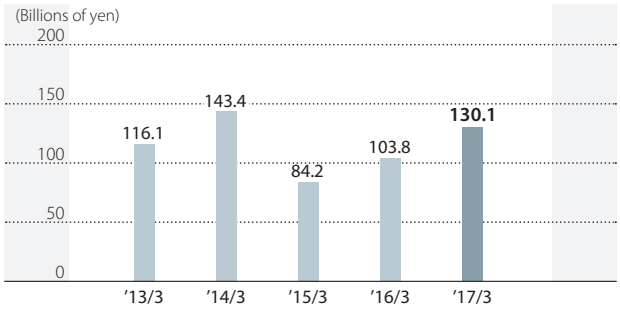
The Companies' basic R&D policy is to establish superior proprietary technologies that will contribute to profitability and business expansion. To maximize overall efficiency, the Companies proactively promote collaborative R&D and outsourcing through closer cooperation, while each subsidiary performs its own R&D activities.

In the fiscal year ended March 31, 2017, the Companies focused R&D resources on 1) Environment and Energy; 2) ICT (Information & Communication Technology); and 3) Life Science as part of the 2016-2018 Corporate Business Plan.

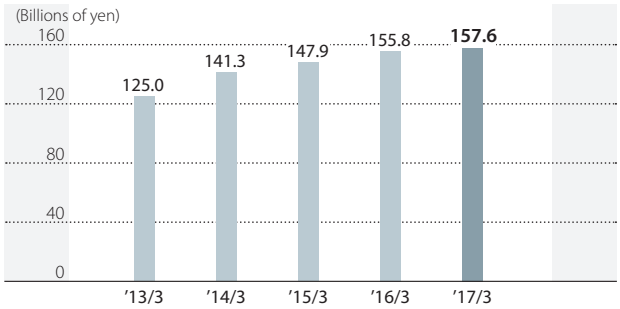
In addition, the Companies are promoting cross-sectoral projects for the development of new businesses.

R&D expenses were ¥157.6 billion (US$1,405 million), up 1.2% from the fiscal year ended March 31, 2016.

Capital Expenditures



Research and Development Expenses



Consolidated Financial Statements

Consolidated Balance Sheets

Sumitomo Chemical Company, Limited and Consolidated Subsidiaries
March 31, 2017 and 2016

	Millions of yen		Thousands of US dollars
	2017	2016	2017
Assets			
Current assets:			
Cash and cash equivalents	¥ 193,289	¥ 215,592	$ 1,722,872
Short-term investments	1,772	2,001	15,795
Securities	1	2	9
Trade notes and accounts receivable	455,239	414,809	4,057,750
Inventories	409,380	402,255	3,648,988
Deferred tax assets	85,519	86,369	762,269
Other	87,956	68,520	783,992
Allowance for doubtful accounts	(2,022)	(1,619)	(18,023)
Total current assets	1,231,134	1,187,929	10,973,652
Property, plant and equipment:			
Land	84,764	82,982	755,540
Buildings and structures	657,385	651,675	5,859,569
Machinery and equipment	1,821,219	1,732,483	16,233,345
Construction in progress	41,713	34,263	371,807
	2,605,081	2,501,403	23,220,261
Less accumulated depreciation	(1,978,877)	(1,859,237)	(17,638,622)
Net property, plant and equipment	626,204	642,166	5,581,639
Investments and other assets:			
Investment securities	446,773	469,319	3,982,289
Long-term loans	68,784	70,107	613,103
Net defined benefit asset	59,097	53,800	526,758
Deferred tax assets	14,790	13,581	131,830
Goodwill	108,256	82,647	964,934
Patents	3,070	4,511	27,364
Software	11,185	11,620	99,697
In-process research and development	193,971	60,145	1,728,951
Other	99,798	67,186	889,545
Allowance for doubtful accounts	(1,010)	(861)	(9,003)
Total investments and other assets	1,004,714	832,055	8,955,468
Total assets	¥2,862,052	¥2,662,150	$25,510,759

Visit our website for notes to Consolidated Financial Statements.
http://www.sumitomo-chem.co.jp/english/ir/library/financial_results/docs/AR17_FS_170615.pdf

	Millions of yen		Thousands of US dollars
	2017	2016	2017
Liabilities and Net assets			
Current liabilities:			
Short-term debt	¥ 201,678	¥ 126,659	$ 1,797,647
Long-term debt due within one year	99,885	100,576	890,320
Trade notes and accounts payable	243,539	205,188	2,170,773
Income taxes payable	21,853	42,220	194,786
Reserve for sales rebates	65,653	49,224	585,195
Reserve for bonuses	31,061	31,045	276,861
Other	243,066	234,518	2,166,556
Total current liabilities	906,735	789,430	8,082,138
Long-term liabilities:			
Long-term debt	573,689	604,270	5,113,548
Deferred tax liabilities	92,558	75,490	825,011
Net defined benefit liability	32,782	35,824	292,201
Other	93,762	66,360	835,743
Total long-term liabilities	792,791	781,944	7,066,503
Net assets:			
Common stock:			
Authorized — 5,000,000,000 shares			
Issued — 1,655,446,177 shares at March 31, 2017			
1,655,446,177 shares at March 31, 2016	89,699	89,699	799,528
Capital surplus	22,378	23,475	199,465
Retained earnings	603,908	539,490	5,382,904
Treasury stock, at cost:			
21,284,566 shares at March 31, 2017			
21,206,065 shares at March 31, 2016	(9,004)	(8,953)	(80,257)
Shareholders' equity	706,981	643,711	6,301,640
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities	77,388	84,901	689,794
Deferred losses on hedges	(583)	(702)	(5,197)
Land revaluation reserve	4,474	4,472	39,879
Foreign currency translation adjustment	31,537	34,772	281,104
Remeasurements of defined benefit plans	521	(280)	4,644
Total accumulated other comprehensive income	113,337	123,163	1,010,224
Non-controlling interests	342,208	323,902	3,050,254
Total net assets	1,162,526	1,090,776	10,362,118
Total liabilities and net assets	¥2,862,052	¥2,662,150	$25,510,759

Consolidated Statements of Income

Sumitomo Chemical Company, Limited and Consolidated Subsidiaries
Years ended March 31, 2017 and 2016

	Millions of yen		Thousands of US dollars
	2017	2016	2017
Net sales	¥1,954,283	¥2,101,764	$17,419,405
Cost of sales	1,285,764	1,404,801	11,460,594
Selling, general and administrative expenses	534,183	532,517	4,761,414
Operating income	134,336	164,446	1,197,397
Other income (expenses):			
Interest and dividend income	8,856	9,321	78,938
Interest expenses	(10,499)	(11,976)	(93,582)
Equity in earnings of affiliates	41,205	20,240	367,279
Net loss on foreign currency transactions	(1,145)	(8,518)	(10,206)
Cost of inactive facilities	(3,385)	(3,209)	(30,172)
Gain on sale of investment securities	27,288	15,831	243,230
Gain on step acquisitions	3,372	—	30,056
Gain on sale of property, plant and equipment	1,035	—	9,225
Impairment loss	(34,271)	(24,688)	(305,473)
Restructuring charges	(18,865)	(4,791)	(168,152)
Other, net	(2,736)	913	(24,387)
Income before income taxes and non-controlling interests	145,191	157,569	1,294,153
Income taxes:			
Current	33,795	67,640	301,230
Deferred	(5,657)	(22,469)	(50,423)
Total income taxes	28,138	45,171	250,807
Net income	117,053	112,398	1,043,346
Net income attributable to non-controlling interests	31,571	30,947	281,406
Net income attributable to owners of the parent	¥ 85,482	¥ 81,451	$ 761,940

	Yen		US dollars
	2017	2016	2017
Net income per share	¥52.31	¥49.84	$0.466
Diluted net income per share	52.27	49.78	0.466

	Yen		US dollars
	2017	2016	2017
Cash dividends per share (applicable to the year)	¥14.00	¥14.00	$0.125

Consolidated Statements of Comprehensive Income

Sumitomo Chemical Company, Limited and Consolidated Subsidiaries
Years ended March 31, 2017 and 2016

	Millions of yen		Thousands of US dollars
	2017	2016	2017
Net income	¥117,053	¥112,398	$1,043,346
Other comprehensive income:			
Valuation difference on available-for-sale securities	(13,867)	(19,852)	(123,603)
Deferred losses on hedges	(145)	(494)	(1,292)
Foreign currency translation adjustment	1,483	(52,613)	13,219
Remeasurements of defined benefit plans	2,825	(19,493)	25,180
Share of other comprehensive income of associates accounted for using equity method	(1,912)	(9,031)	(17,043)
Total other comprehensive income	(11,616)	(101,483)	(103,539)
Comprehensive income	¥105,437	¥ 10,915	$ 939,807
Comprehensive income attributable to:			
Owners of the parent	¥ 75,745	¥ (4,667)	$ 675,149
Non-controlling interests	29,692	15,582	264,658

Consolidated Statements of Changes in Net Assets

Sumitomo Chemical Company, Limited and Consolidated Subsidiaries
Years ended March 31, 2017 and 2016

	Millions of yen											
	Shares of common stock (thousands)	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Valuation difference on available-for-sale securities	Deferred losses on hedges	Land revaluation reserve	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Non-controlling interests	Total net assets
Balance at April 1, 2015	1,655,446	¥89,699	¥23,695	¥477,445	¥(8,870)	¥104,841	¥ (97)	¥4,363	¥82,284	¥17,959	¥326,897	¥1,118,216
Net income attributable to owners of the parent				81,451								81,451
Cash dividends at ¥11.00 per share				(17,988)								(17,988)
Decrease due to changes in scope of consolidation and equity method				(3)								(3)
Gain on sale of treasury stock			1									1
Net increase in treasury stock					(83)							(83)
Decrease due to change in fiscal period of consolidated subsidiaries				(1,418)								(1,418)
Other			(221)	3		(19,940)	(605)	109	(47,512)	(18,239)	(2,995)	(89,400)
Balance at April 1, 2016	1,655,446	¥89,699	¥23,475	¥539,490	¥(8,953)	¥ 84,901	¥(702)	¥4,472	¥34,772	¥ (280)	¥323,902	¥1,090,776
Cumulative effects of changes in accounting policies				194		(96)						98
Restated balance at April 1, 2016	1,655,446	89,699	23,475	539,684	(8,953)	84,805	(702)	4,472	34,772	(280)	323,902	1,090,874
Net income attributable to owners of the parent				85,482								85,482
Cash dividends at ¥13.00 per share				(21,258)								(21,258)
Gain on sale of treasury stock			0									0
Net increase in treasury stock					(51)							(51)
Other			(1,097)			(7,417)	119	2	(3,235)	801	18,306	7,479
Balance at March 31, 2017	1,655,446	¥89,699	¥22,378	¥603,908	¥(9,004)	¥ 77,388	¥(583)	¥4,474	¥31,537	¥ 521	¥342,208	¥1,162,526

	Thousands of US dollars										
Balance at April 1, 2016	$799,528	$209,243	$4,808,717	$(79,802)	$756,761	$(6,257)	$39,861	$309,939	$(2,496)	$2,887,084	$ 9,722,578
Cumulative effects of changes in accounting policies			1,729		(856)						873
Restated balance at April 1, 2016	799,528	209,243	4,810,446	(79,802)	755,905	(6,257)	39,861	309,939	(2,496)	2,887,084	9,723,451
Net income attributable to owners of the parent			761,940								761,940
Cash dividends at ¥13.00 (US$0.12) per share			(189,482)								(189,482)
Gain on sale of treasury stock		0									0
Net increase in treasury stock				(455)							(455)
Other		(9,778)			(66,111)	1,060	18	(28,835)	7,140	163,170	66,664
Balance at March 31, 2017	$799,528	$199,465	$5,382,904	$(80,257)	$689,794	$(5,197)	$39,879	$281,104	$4,644	$3,050,254	$10,362,118

Consolidated Statements of Cash Flows

Sumitomo Chemical Company, Limited and Consolidated Subsidiaries
Years ended March 31, 2017 and 2016

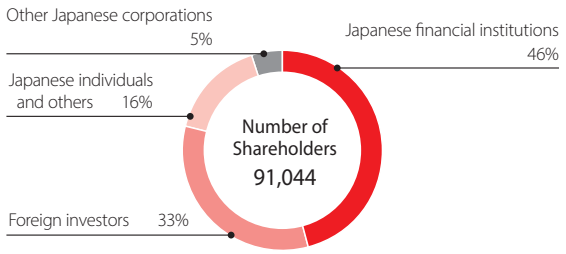
	Millions of yen		Thousands of US dollars
	2017	2016	2017
Cash flows from operating activities:			
Income before income taxes and non-controlling interests	¥145,191	¥157,569	$1,294,153
Adjustments to reconcile income before income taxes and non-controlling interests to net cash provided by operating activities—			
Depreciation and amortization	102,137	108,094	910,393
Amortization of goodwill	8,144	8,508	72,591
Impairment loss	34,271	24,688	305,473
Equity in (earnings) losses of affiliates	(5,191)	6,364	(46,270)
Increase in provision	17,153	17,020	152,892
Interest and dividend income	(8,856)	(9,321)	(78,938)
Interest expenses	10,499	11,976	93,582
Gain on sale of investment securities	(27,288)	(15,831)	(243,230)
Gain on step acquisitions	(3,372)	—	(30,056)
Restructuring charges	18,865	4,791	168,152
Gain on sale of property, plant and equipment	(1,035)	—	(9,225)
(Increase) decrease in notes and accounts receivable	(32,164)	24,028	(286,692)
Decrease in inventories	2,449	20,774	21,829
Increase (decrease) in notes and accounts payable	31,197	(35,723)	278,073
Other, net	(19,557)	(14,337)	(174,320)
Subtotal	272,443	308,600	2,428,407
Interest and dividends received	6,853	9,167	61,084
Interest paid	(10,695)	(11,568)	(95,329)
Income taxes paid	(65,088)	(41,227)	(580,159)
Business structure improvement expenses paid	(16,067)	(3,800)	(143,212)
Net cash provided by operating activities	187,446	261,172	1,670,791
Cash flows from investing activities:			
Proceeds from sale and redemption of securities	—	18,499	—
Acquisition of investment securities	(1,330)	(1,290)	(11,855)
Proceeds from sale and redemption of investment securities	35,596	16,752	317,283
Acquisition of property, plant and equipment	(131,755)	(89,765)	(1,174,392)
Proceeds from sale of property, plant and equipment	2,910	1,115	25,938
Purchase of subsidiaries' shares resulting in changes in scope of consolidation	(101,969)	(3,390)	(908,896)
Proceeds from purchase of subsidiaries' shares resulting in changes in scope of consolidation	2,580	—	22,997
Payments for sales of subsidiaries' shares resulting in changes in scope of consolidation	—	(780)	—
Other, net	(5,774)	5,181	(51,465)
Net cash used in investing activities	(199,742)	(53,678)	(1,780,390)
Cash flows from financing activities:			
Net increase (decrease) in short-term debt	76,096	(19,404)	678,278
Proceeds from long-term debt	63,621	19,759	567,083
Repayments of long-term debt	(104,326)	(142,180)	(929,905)
Repayments of finance lease obligations	(1,095)	(992)	(9,760)
Purchase of treasury stock	(51)	(82)	(455)
Purchase of treasury stock of subsidiaries in consolidation	(563)	—	(5,018)
Cash dividends paid	(21,258)	(17,988)	(189,482)
Cash dividends paid to non-controlling interests	(17,538)	(17,898)	(156,324)
Proceeds from share issuance to non-controlling shareholders	1,467	1,447	13,076
Payments from changes in ownership interests in subsidiaries that do not result in changes in scope of consolidation	(4,475)	(618)	(39,888)
Net cash used in financing activities	(8,122)	(177,956)	(72,395)
Effect of exchange rate changes on cash and cash equivalents	(1,885)	(14,252)	(16,803)
Net change in cash and cash equivalents	(22,303)	15,286	(198,797)
Decrease in cash and cash equivalents resulting from change in fiscal period of consolidated subsidiaries	—	(1,691)	—
Cash and cash equivalents at beginning of year	215,592	201,997	1,921,669
Cash and cash equivalents at end of year	¥193,289	¥215,592	$1,722,872

Corporate and Investor Information

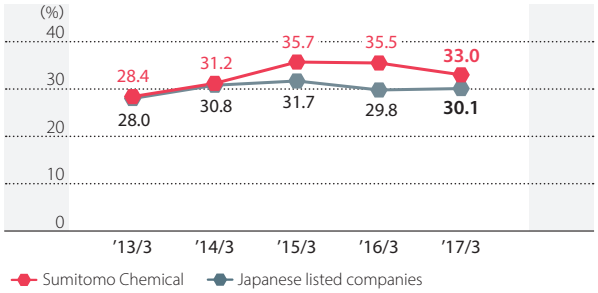
(As of March 31, 2017)

Paid-in Capital	¥89.7 billion
Number of Employees	Non-consolidated: 5,867 Consolidated: 32,536
Common Stock	Authorized: 5,000,000,000 shares Issued: 1,655,446,177 shares (Book value: ¥89.7 billion)
Settlement Date	March 31
Stock Transaction Units	1,000-share units
Ordinary General Meeting of Shareholders	Within three months from the next day of the settlement date
Number of Shareholders	91,044
Listings	Tokyo
Transfer Agent and Registrar	Sumitomo Mitsui Trust Bank, Limited Stock Transfer Agency Division 4-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-8233, Japan
Independent Certified Public Accountants	KPMG AZSA LLC

Distribution of Shareholders



Ownership of Foreign Investors



Major Shareholders

Major Shareholders	Number of Shares Held (1,000 shares)	Shareholding Ratio (%)
Japan Trustee Services Bank, Ltd. (Trust Account)	108,213	6.54
The Master Trust Bank of Japan, Ltd. (Trust Account)	103,380	6.24
Sumitomo Life Insurance Company	71,000	4.29
Nippon Life Insurance Company	41,031	2.48
Sumitomo Mitsui Banking Corporation	35,377	2.14
Japan Trustee Services Bank, Ltd. (Trust Account No.4)	29,664	1.79
Japan Trustee Service Bank, Ltd. (Sumitomo Mitsui Trust Bank, Ltd. Retrust Account / Sumitomo Life Insurance Company Employee Pension Trust Account)	29,000	1.75
Japan Trustee Services Bank, Ltd. (Trust Account No.5)	28,326	1.71
STATE STREET BANK WEST CLIENT–TREATY 505234	24,275	1.47
STATE STREET BANK AND TRUST COMPANY 505225	24,182	1.46

Dividend Policy

We consider shareholder return as one of our priority management issues and have made it a policy to maintain stable dividend payments, 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.

The full year dividend for fiscal 2016 was ¥14 per share, unchanged from the previous fiscal year.

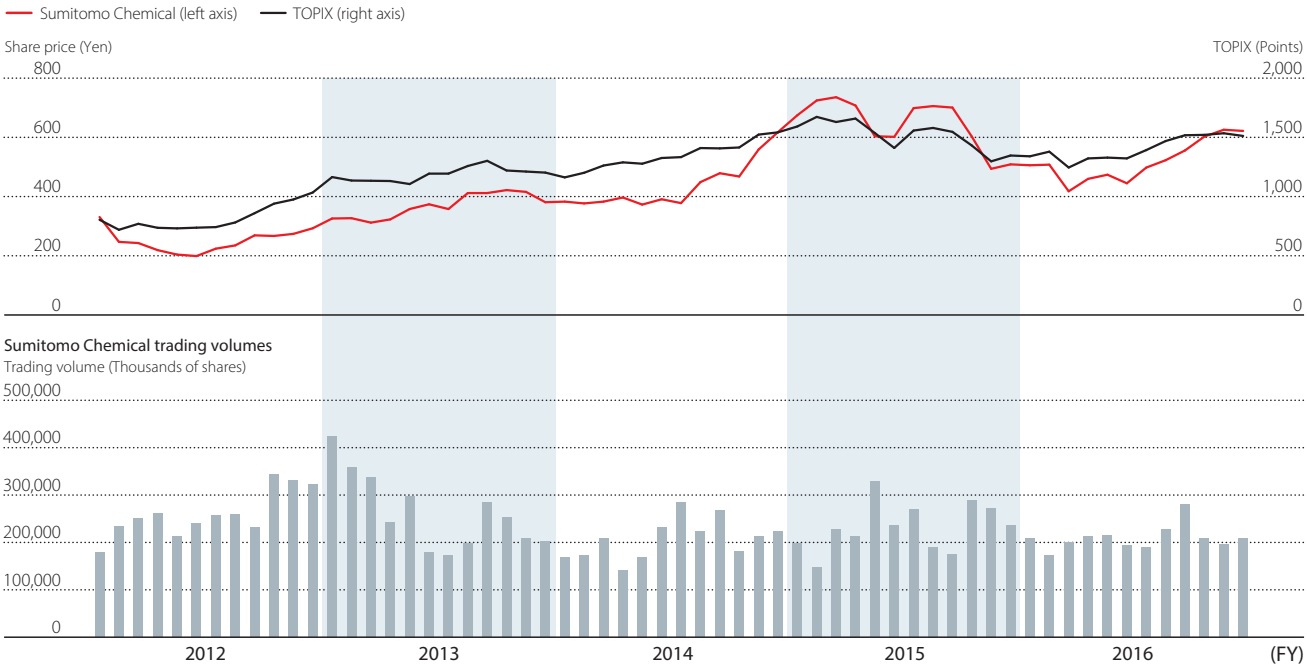
IR Calendar

Fiscal 2016 (Year ending March 31, 2017)	
May 2017	Fiscal 2016 Financial Results
June 2017	136th Ordinary General Meeting of Shareholders

Fiscal 2017 (Year ending March 31, 2018)	
August 2017	1st Quarter Financial Results
November 2017	2nd Quarter Financial Results
February 2018	3rd Quarter Financial Results
May 2018	Fiscal 2017 Financial Results
June 2018	137th Ordinary General Meeting of Shareholders

(Note) This schedule is subject to change.

Stock Performance

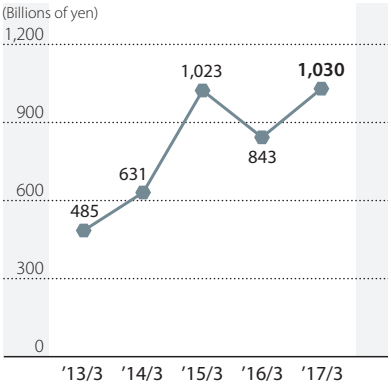


Fiscal Year	2012	2013	2014	2015	2016
Share price high (yen)	360	458	631	792	674
Share price low (yen)	186	250	333	443	396
Share price at year-end (yen)	293	381	618	509	622
Cumulative trading volume (thousands)	3,126,372	3,164,352	2,489,166	2,785,335	2,515,006

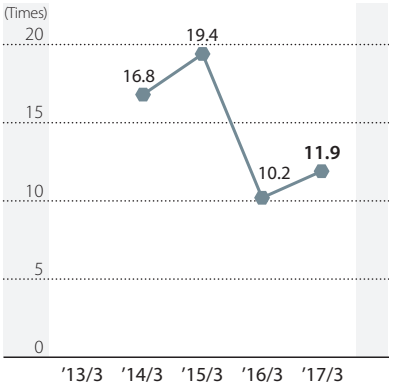
Fiscal Year	2012	2013	2014	2015	2016
Shares outstanding* (thousands)	1,655,446	1,655,446	1,655,446	1,655,446	1,655,446
Market capitalization* (billions of yen)	485	631	1,023	843	1,030
Net income (loss) per share* (yen)	(31.25)	22.62	31.93	49.84	52.31
Net assets per share* (yen)	303.74	393.58	484.17	469.25	501.98
Price earnings ratio* (times)	—	16.8	19.4	10.2	11.9
Price book-value ratio* (times)	1.0	1.0	1.3	1.1	1.2
Cash dividends per share* (yen)	6	9	9	14	14
Ratio of shares owned by foreign investors to shares outstanding* (%)	28.4	31.2	35.7	35.5	33.0

* Figures are for the end of each fiscal year.

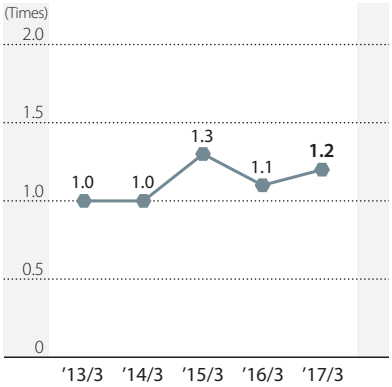
Market Capitalization



Price Earnings Ratio



Price Book-value Ratio



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