

Investors' Meeting for Business Performance Overview and Human Resources Strategy Q & A Summary

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Presenters: Keiichi Iwata – President

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Business Performance

- Q. Regarding the nonrecurring items, you mentioned that the projected fourth quarter deficit is mainly due to an impairment loss in Sumitomo Pharma. Were there also any other impairment loss items in, for example, your display business? Your dividend forecast for this fiscal year is a 12 yen interim dividend and a 6 yen year-end dividend. Will this 18 yen total dividend become your baseline in the future, or will a 12 yen total dividend, based on a combined 6 yen interim dividend and a 6 yen year-end dividend, become the baseline? I know this number will depend on your business performance, but I am asking to find out what sort of amount we can expect based on how you envision your business performance in the next fiscal year.**
- A. There was a considerable amount of nonrecurring items this fiscal year, but in addition to the impairment loss, the amount also includes reserves for exiting from the production of caprolactam and the dyestuffs business.
- For our display business, there are structural changes that require various steps to be taken, but we have only just started reviewing what steps we will take and what approach we will have. As a result, there is a possibility that there will be an impairment loss in the next fiscal year, but we do not regard that as being the case at this stage.
- Also, we are projecting a loss of approximately 50.0 billion yen from nonrecurring items in the fourth quarter, but 20.0 billion yen of that is due to the canceled development of TP-0903 at Sumitomo Pharma, which was announced March 3, and the allocation of the remaining 30.0 billion yen has yet to be determined.
- We have not yet arrived at the time when we will announce the dividends for fiscal 2023. Out of the two criteria for dividends, the payout ratio and long-term stability, we believe that, in terms of the obligation of a listed company, a 6 yen dividend per 6 month period fits the criteria for long-term stable dividends. However, we have not yet decided on a specific dividend policy for fiscal year 2023.

Essential Chemicals and Plastics

Q. On slides 10 and 11, which mention the petrochemicals and plastics business environment, you said that, excluding times of upheavals to the global economy during the past 15 years, the Singapore business has the competitiveness to generate an average of several dozen billion yen annually. However, I believe that the simple average of the figures on the graph show a profit of 15.0-16.0 billion yen. Sumitomo Chemical is aiming for a core operating income of 300.0 billion yen, mainly centered on the specialty chemicals business. In your petrochemical business, you are trying to promote high added value, but it is hard to control, so are there any plans to refine your portfolio of businesses in this area?

Also, Petro Rabigh has been relatively stable recently, but I would also like to ask your thoughts about this business, as well as whether it will be necessary to rethink its place in your business portfolio.

- A. First, for our Singapore business, we are not considering a review of our business portfolio that would include selling off the entirety of the business at this stage. However, we are working on a daily basis to refine our business portfolio to enhance each of the products that we handle in Singapore, and we plan to continue doing this moving forward. For Petro Rabigh, although we have limited involvement, we have invested a substantial amount of capital to date, and we are under constant pressure as a shareholder to ensure a steady return on our investment. However, steadily enhancing the Petro Rabigh business would require an even larger amount of capital, and Sumitomo Chemical does not plan to invest more capital into it. Therefore, as a shareholder, we are requesting that Petro Rabigh work to raise its own capital, and hope they are able to meet this expectation.

Human Resources Strategy

Q. Looking at Sumitomo Chemical's sustainability data book, I can see that the amount of mid-career employees hired in has risen in the past few years. I would like to know for which areas in particular you are hiring mid-career employees. Also, it seems that the amount of female employees hired in has slightly declined over the past two years. Please share the background behind this with us.

- A. The core of our career track hires are college recruits, and we combine that with hires of experienced professionals. We do not set a target in advance for the ratio of experienced professionals and typical recruits, like some other companies do, because we hire experienced professionals in fields that cannot be covered by our existing employees, or when we decide to tackle a new business or research area. As a result, about a quarter of our managers are experienced professionals.

As for female employees, we would like for about 25% of our career track hires to be women, but looking at the graduate science students at the universities we use as a recruitment source, the universities only have a 15% enrollment rate for women. So, it is difficult to accomplish. Recently, there has been a general effort to increase the number of female employees at companies, and the competition to do so has increased. Sumitomo Chemical hopes to secure a workforce made up of at least 20% female employees.

Q. I would like to ask this question to you from the perspective of how your human resource strategy relates to the business of a diversified chemical manufacturer. I think this personnel system covers promotions within each sector well, but, for example, to what extent do those promoted within the Health & Crop Science Sector understand the other sectors, and to what extent are they able to demonstrate their abilities? I would like to know about how management can best be fostered for a diversified chemical manufacturer.

A. Sumitomo Chemical has a business unit system, but each business is not an independent company. Essentially, the Head Office aggregates how many people to hire in any given field, and the individual business units themselves do not hire employees. We also rotate our researchers and engineers to have them experience different fields before they become a managerial employee. Although there are some difficulties with transferring employees across divisions, we still transfer a certain number of employees to different business units, or to our Head Office, through our employee exchange. Even when employees stay within the same business units, they are still rotated, such as manufacturing employees being transferred to research or sales departments. Once an employee becomes a manager, it is difficult to transfer them to different business units, as their position requires a certain degree of expertise. We are making an effort to, whenever possible, give our most capable employees a company-wide perspective before they become a section chief, through a combination of having them work in other positions or in group companies outside of Japan.

Q. I believe Sumitomo Chemical has a mixture of businesses with different time horizons, such as the IT-related business, which may run on cycles lasting two or three years, and pharmaceuticals, which runs on much longer cycles. Of course, this is fine if each of the businesses is managed well, but I believe that is difficult to do. As a result, I believe you may not be able to reach the targets in your mid-term plan, so please share some additional information on this with us.

A. This is a difficult point to discuss, but each business sector and each business is competing against specialized companies, so expertise is, of course, necessary. However, if employees only have expertise in one area, and do not have an understanding about the other units, there is a concern if the employees would be able to manage a diversified chemical company when they are in a position to look at the company as a whole. Therefore, I believe that the only solution is a combination of developing talent with specialized expertise, while also developing a certain number of managers who possesses a company-wide perspective. However, each business sector has different technologies, as well as different time horizons and markets. Based on our experience up to this point, we believe that people who achieve results in one business will still be able to achieve solid results in another business, so long as they are able to familiarize themselves with that industry.

Q. There is a general impression that many people outside of Japan want to work in a specialized field, and that the ratio of women who work in scientific fields is high. Therefore, I think that your ratio of women employees and specialists will inevitably increase if you increase the number of non-Japanese employees throughout the Group. In this case, I think the situation would be different than if you only looked at Japan, but please share with us your approach to this issue.

A. In Europe and the US in particular, because job-based personnel systems are used, there are many people who possess specialized skills. For example, in our health and crop science business unit, we employ people who are deeply familiar with the unique characteristics of agriculture in each country and region. It is a fact that we have many employees who would rather stay rooted in their region than join a global company. Regarding the degree of female employees' participation in the Group, I believe that the total percentage of female employees at Sumitomo Chemical is close to 30%, but, in our businesses in Japan alone, the ratio is about 16%. Countries outside of Japan, such as China and Brazil, have much higher ratios than this. I believe our Japan and South Korean businesses are the ones that must improve in this aspect.

Q. When you increase employment overseas, what sort of common attributes do people who want to work for Sumitomo Chemical have, given that there are major agrochemical manufacturers outside of Japan as well?

A. Although it is not clear-cut, many of our crop science businesses have been added to the Group through acquisitions, and the employees of those businesses have stayed on. For example, our South American subsidiary currently has approximately 1,000 employees, and through our acquisition of the company, those employees happen to be working for Sumitomo Chemical. We also began our US subsidiary in this field through an acquisition, so I do not believe that many people who apply to work there are doing so because they want to work for a company called Sumitomo Chemical. On the other hand, with Dongwoo Fine-Chem, the company has become a brand in South Korea, and many people who apply specifically want to work at Dongwoo Fine-Chem, so I do not believe that the areas outside of Japan can be generalized. In Japan, corporate philosophy and corporate reality are often explained to employees before they join a company, whereas outside of Japan, company philosophies and management policies are explained to employees as part of their post-employment training, so there are some differences between the two.

Q. In terms of recruiting excellent talent, Sumitomo Chemical has been ranked as a considerably popular employer across all industries. In comparison to other companies in the same industry and general trading companies, what points do you keep in mind to attract quality talent? If you have any creative means that you are using in your recruitment, please share that with us.

A. We are not using any sort of special measures. Although technical recruitment used to be based on recommendations from university professors, these days people are mostly free to apply for themselves, so the recruitment process tends to not be much different for regular office employees. We believe that the reason why a relatively large number of graduate students are interested in our company may be due to word of mouth from alumni a few years ahead of them who worked in the same laboratory as them, or who graduated from the same master's program as them, and have now been with Sumitomo Chemical for a few years. It could also be due to being influenced by what that person is currently researching, the position engineers have within Sumitomo Chemical, or even our company's attitude. This year, we ranked number 14 among female graduate students in the sciences, whereas previously we did not even make the top 100.

Q. How would you say Sumitomo Chemical ranks as a popular employer among graduate students across all industries?

A. We are not ranked among the top popular employers in the combined poll of college students in liberal arts and in the STEM fields. Our ranking among graduate students in the sciences is extremely high, however, and we are in a position where we are able to hire top level people in chemistry.

- Q. I would like to ask about the connection between your human resource philosophy and the engagement survey results. The results indicated that while your philosophy includes the phrase “You challenge yourself with new issues and efforts in your job,” the engagement survey’s score for “There is no feeling that you need to fear failure at the company” was a little bit below average. Considering there is a gap between the engagement survey and the human resource philosophy, I believe this is something that should be improved, but what measures do you think can be taken? I would also like to hear whether this gap has improved if viewed across time.**
- A. Although, as a company, Sumitomo Chemical believes that our employees are working to achieve a higher level of job performance through goal management and other means, the survey results for “There is no feeling that you need to fear failure at the company” has not changed much over the past few years, and is slightly below the average at other companies. It seems as though this result is due to the company atmosphere, and not out of a fear that failure would hurt one’s evaluation, but we must dig into this a little deeper. Since President Iwata became the head of Sumitomo Chemical, he has been telling our employees that the problem is not failure, but that we do not try in the first place, referring to it as “losses due to inaction.” Still, we need to further spread this philosophy for personnel into each workplace. At our company, if you were to try something and fail, your evaluation will certainly not be negatively impacted by it. I think this is a very good corporate culture, but on the other hand, employees will also not be blamed for not trying anything new. Since trying something new is labor and time intensive, and will inevitably be avoided in certain aspects, I believe that one way to spur people into action would be to create a system where they will be blamed if they do not try to do anything new. However, this is not a simple matter, so we are having our human resources department review this issue.

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Cautionary Statement

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