

## Summary of Q&A session of IR Day for institutional investors and analysts

Time and date: 13:30 to 17:20, Monday, November 30, 2020

Answered by:

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### <Current Priority Management Issues and Business Strategy>

**Q. You have listed improving your business portfolio as one of your priority initiatives for this fiscal year, but has it had any effect? Also, your involvement in Petro Rabigh is becoming a drag on the stock price of your company, so I would like to ask for your thoughts on improving your business portfolio in light of this point.**

A. Slide 22 shows our forecasts by Sector for fiscal 2020 and our targets for some point later in the decade, listed as 202X, but if possible, we would like to achieve the core operating income levels shown on the slide by 2024 or 2025.

For example, if we look at the performance forecasts for the Energy & Functional Materials and IT-related Chemicals Sectors, their future shape is coming into view to some degree. As for how we add to that, the heads of the Sectors will explain that today, and we are already making steady progress.

The Health & Crop Sciences Sector's performance in fiscal 2019 was fairly sluggish, but in fiscal 2020, we expect a recovery in performance, and the sense I get is that we are proceeding along the correct path to reach our target of core operating income of 80 billion yen, particularly because we have secured bases in India and Brazil.

In our Pharmaceuticals Sector, there were some parts of the strategic collaboration with Roivant that caused some concern, but because the alliance has had an extremely smooth start, we are seeing a very strong response, and the contribution to earnings is coming into view.

Moreover, while there are concerns about Petro Rabigh, with the nature of Saudi Arabia, and with our capital contribution ratio of 37.5%, we are not directly involved in its business. We set up the Rabigh business by investing a significant amount of management funds over many years, but we expect that the time is finally coming when it will become a cash cow that contributes to our earnings. In particular, because the Phase I loans will mature at the end of fiscal 2021, we expect that, from then on, both Phase I and Phase II will be able to employ their full strength.

**Q. Your company has led the industry in digital transformation (DX) efforts, including expanding your number of data scientists, but what stage is your transformation at now?**

**Also, I think that making progress in DX has become easier for some companies with the spread of COVID-19, but how has this affected your company?**

A. We started discussing digital transformation around 2018 as one of the major policies in our Corporate Business Plan, and we started this process slightly earlier than the global trend. We began with the goal of improving productivity, and we have gained a variety of insights into the production side of this process, as with a great many of the items we introduced to you today, and we are proceeding with implementation. Moreover, while we did not touch on R&D in our explanations today, we have had a number of cases where digital transformation has been applied, such as in the improvement of our organization, and we are making steady progress here as well. Recently, we held an online event to announce some of our efforts in this area, including both successful and unsuccessful examples of company-wide DX, with 12 teams from various laboratories and plants presenting their efforts. We are making progress in sharing these sorts of experiences and insights, extending them horizontally throughout the company. This recent DX presentation event was only for Sumitomo Chemical proper, but we would like to expand future events to Group companies as well, to make DX promotion a single unified movement across the Sumitomo Chemical Group as a whole.

**Q. It is being seen as certain that the next US president will be the Democratic candidate, Joe Biden, so I think many things about the next four years will change compared to the last four, from a variety of perspectives, such as the evaluation of environment-related efforts, but what are the positives and negatives from the perspective of your company's performance?**

A. While it is difficult to say to what degree our company's performance is connected with the US presidency, Mr. Biden has positioned the four issues of the coronavirus response, rebuilding the economy, racial issues, and climate change as areas he wants to focus on, and we feel that these are truly essential for the current moment. If his administration is able to restore and grow the US economy, this will lead to a positive situation for the global economy, and our company's results would also move in a positive direction. In that sense, we feel that we would be extremely grateful if the US were able to fulfill its leadership role in rebuilding the international order, and that would also create favorable conditions for our company. At the same time, it seems that even with the change in the president, the fundamental stance on the divisions between the US and China will not change, so we will need to take continued caution with regard to this point as we move forward with our business operations.

**Q. With regard to US-China relations, do you not feel that the future is perhaps easier to forecast under a President Biden than under his predecessor?**

A. That may be true, but at the same time, he may be stricter with regard to issues such as human rights problems and unfair trade practices. This is unclear at the moment, so we cannot take an optimistic view.

**Q. With regard to subsidiaries publicly listed on stock exchanges and other related companies, while many of your competitors are working to clarify and simplify their structures, my understanding is that you feel that, as long as your corporate governance is functional, there is no problem. I think that with regard to this and other issues, such as ensuring that digital transformation penetrates the entire structure, you would make progress more efficiently and easily if you completely integrated your organization, so I would once again like to ask for your thoughts on this issue.**

A. Speaking as the management of Sumitomo Chemical, we feel that the question of whether having both a subsidiary and the parent company publicly listed is a problem or not, so long as the autonomy of the subsidiary and the rights of the minority shareholders are protected, is a question that must be judged on a case-by-case basis and cannot be generalized. From the perspective of improving the business value of both companies, we feel that this is something that must be judged on the basis of specific examples, in light of the timing and the economic circumstances. As we explained in our presentation, with regard to Urovant, a subsidiary of a subsidiary, we decided to do away with the listing by bringing it under 100% ownership. In this way, when we determine that such a move is desirable from a business perspective, we will take such a move without hesitation. We expect that we will continue to make this sort of individual determination going forward.

**Q. While I feel the sense of uncertainty was particularly strong in 2020, due to factors such as COVID-19 and the US-China trade conflict, as this uncertainty resolves going forward, will it become easier to take this sort of action (delisting subsidiaries)?**

A. I think that one of the major factors in the uncertainty has been the economic environment, but we feel that it is rather the circumstances of the individual business that is the more important basis for making that determination.

**Q. You have set forth creating a resilient financial structure as one of the initiatives in your Corporate Business Plan, and I think this has taken a step forward with the resolution of the completion guarantee for Petro Rabigh. I would like to ask about your thoughts on creating a resilient financial structure going forward.**

A. The fact that we were able to take on contingent liabilities was an extremely major factor, and contingent liabilities are not part of the interest-bearing liabilities or D/E ratio measurements that we take as standards for our company. There has been no change to our intentions to reduce interest-bearing liabilities through repeated implementation of measures such as strengthening our cashflow generation capabilities and exercising strict judgement in the selection of investments, and we intend to achieve a D/E ratio of 0.7 by around 2024.

**Q. Looking at the facts on the ground, including factors such as extremely long-term liabilities, I think you have made progress in making your finances more resilient, but what are your thoughts?**

A. The fact that we were able to issue 250 billion yen of subordinated, or hybrid bonds, shortly before the COVID-19 pandemic has been extremely helpful in strengthening our company's financial structure. Moreover, while we had to secure cash-on-hand during the COVID-19 pandemic, we were able to raise this immediately beforehand, so we did not have to scramble.

**Q. You have said that your growth strategies are proceeding smoothly in your various businesses, so I would like to ask what you feel is the largest issue facing your company at the moment.**

A. While we have largely focused our remarks on the positive side today, we are aware that there are also numerous issues that must be resolved for our businesses to further take off. For example, in the methionine business, where market conditions have not recovered in a uniform way, there is an issue of whether or not we will be able to add some technical special feature unique to Sumitomo Chemical, or some sort of quality or performance special feature that will allow us to not be so highly impacted by market conditions, and this is something that we are wracking our brains working with the business sectors to resolve. Beyond that, we have any number of items where we need to take action, and where there is a great deal of potential. I would appreciate it if the heads of the various Sectors would delve into this issue in their explanations today.

<Petrochemicals & Plastics>

**Q. I recognize that market conditions have a considerable impact on earnings in this sector. I think the current market is probably better than the conditions you talked about on page 6, but why is it so good under these circumstances? Also, I would like to know your views on the next fiscal year. Tell us about the market sentiment and your ideas for the next fiscal year, including the situation of aromatic hydrocarbons, which are mostly made in PRC Phase 2.**

A. The figures on page 6 show conditions through October, and some of them are even better currently. Furthermore, this weekend, some other manufacturers are scheduled to stop production at their crackers due to problems. The current high margins are a reflection of these factors, so I assume that these figures will not last for too long. Starting next year, I don't expect the figures to fall as extremely as in the beginning of this year, but I personally think that it would be impossible to expect margins as high as \$500 or \$400 against the backdrop of increased production capacity in polyolefin production facilities, especially in China. Still, I would like to make a move in Singapore so that we can ensure steady earnings regardless of the circumstances. As for aromatic hydrocarbons, the para-xylene market is very bad, but this is probably because of over-supply. Although the benzene market was also bad, we are currently seeing a sharp rebound, which I find a bit too extreme. Volatility is extremely high, which is not very desirable. My personal opinion is that market conditions for Rabigh's aromatic hydrocarbons will not be as bad going forward as those of this year, but will not be strong enough to make us feel totally optimistic.

**Q. Does that mean it will be difficult to turn a profit?**

A. I'm sorry, but I can't answer that because it's about a listed company.

**Q. I think that many domestic petrochemical facilities have been aging and deteriorated considerably over time, and would like to know once again about their positioning. In the future, mega plants such as Crude oil-to-Chemicals will be constructed, and market conditions will become extremely volatile. Is the domestic aromatic hydrocarbons business going to withstand that?**

A. We would like to maintain the current position of our domestic business (in the tripolar system of Japan, Singapore, and Saudi Arabia) as a facility for the development of high-value-added products and as a mother plant and mother laboratory for our plants outside Japan. Even if there are temporary losses due to delays in reflecting higher naphtha prices in our selling prices, the Company will continue to strengthen the financial structure of its petrochemicals business so that this business as a whole will not be in the red. Regarding resins, it is desirable to make high-value-added products and mono-material products as soon as possible, although it may not be possible this year. Regarding aging facilities, I think the key is the state of the six affiliated polyethylene plants using the high pressure method at a relatively small scale. However, since these plants are important consumers of ethylene, it is important to consider how we survive with high-value-added products and how far their adaptability will be utilized. We would like to pursue low fish-eye products to the limit, and expand our margins through applications such as dry resist film. My personal opinion is that Crude oil-to-Chemicals will not pay at this stage because it would require too much capital investment.

**Q. In past examples, market conditions were undermined by an unreasonable number of plants constructed in China without consideration of profitability. What is your take on this?**

A. What is currently under construction in China is a regular refinery. The product coming out of the refinery is connected to crackers to be integrated, so I think it is a little different from Crude oil-to-Chemicals. As you say, the oil refining margin will be considerably tighter because huge plants are being built one after another. The operation of such old plants, including those in Europe and the U.S., will be gradually halted. Shell, Exxon, and others are moving ahead to halt the operation of old plants, and I think this trend will continue. There may be more suspensions of old plants in Japan.

**Q. In connection with page 5, I would like to ask you about Singapore. As the operating rate is high and efforts to increase added value are steadily progressing, you say that you must consider increasing production capacity. Is that realistic? Alternatively, is it possible to manufacture high-value-added products at Rabigh by adjusting your equipment there and then send them to Singapore?**

A. At present, there are changes resulting from the coronavirus, and the situation differs depending on the product. The use of our products for food packaging applications has been increasing for hygienic reasons, amid demand for retort pouch in Southeast Asia. We believe that this demand will definitely increase in the future, and we have established good relationships with excellent customers who can meet such increased demand. On the other hand, the primary key is how to secure propylene as a raw material. In Singapore as a whole, propylene is in a slightly short position; to produce new polypropylene, manufacturing must start from propylene in upstream. In the adjacent Johor Bahru, RAPID is coming online, and propylene is now in a position of surplus, but there is no assurance that it will remain in this position in the future. I would like to come up with a great idea for securing propylene. Rabigh is a large facility, capable of producing 350,000 tons of polypropylene in one line, and basically operates with an emphasis on efficiency. There, switchover of production grades is avoided as much as possible because it ends up in losses. The policy at Rabigh is to efficiently manufacture polypropylene of a certain volume as one grade (base powder). Therefore, we feel it would be difficult to shift the manufacturing focus to high-value-added products just because we want to.

**Q. If propylene were available, would you rather eager to increase polypropylene production?**

A. That is the case.

**Q. In terms of capital investment, are there any plans to increase in-house production of propylene from upstream? You say that there is demand, but can you secure sufficient profitability? If you are going to increase production, could you share with us your idea on the size of your investment?**

A. It is difficult to increase upstream production of propylene because it will come to a considerable amount of money. I think it would be possible to work with other companies, for example, to have offtake rights. There is no doubt that the demand will grow, and it will grow at a rate of 4% or more. However, we don't intend to pursue general-purpose products, but rather only manufacture products that are profitable, with the main focus on film-based random and terpolymers. As for scale, a rough image is that the production size would be about 0.3 million tons according to recent models.

**Q. In the past, the production of high-end products was influenced by the sluggish market conditions of low-end products. To what extent do you emphasize on investment discipline with regard to feasibility studies for an investment, or even in earlier stages?**

A. I am afraid that I cannot give any specific figures now, but in the case of TPC, Shell, our partner, is also involved, and I think that no agreement can be reached on the basis of half-hearted performance figures.

<Energy & Functional Materials>

**Q. Sales revenue is shown on page 5. Could you kindly give us a breakdown of sector specific core operating income for fiscal 2019 or fiscal 2020?**

A. I cannot provide you with specific figures, but for fiscal 2019, resorcinol and alumina, namely the fundamental businesses for stable earnings, accounted for more than a half of all operating income. With regards to super engineering plastics and battery materials, the operating income of battery materials suffered slightly in 2019. The rest of the items did fairly well, as our subsidiaries, including Taoka Chemical and Koei Chemical, contributed a great deal to the results.

**Q. Which sector are you going to focus on developing going forward with the aim of achieving 30 billion yen?**

A. For battery components, including cathode materials from Tanaka Chemical, manufacturing facilities are ready to produce them. Joint development with our customers is also under way concurrently. Considerable growth is expected in the future in this area. We also aim to double the sales of super engineering plastics.

**Q. Currently, resorcinol, your breadwinner, seems to be affected by reorganizations that have reduced the number of players. Are you factoring in the risk of other players entering in this area?**

A. The operating rates of Chinese manufacturers dropped temporarily as a result of environmental problems. This has made global supply and demand extremely tight, forcing some customers to reduce the use of resorcinol or opt for using new technologies or using resorcinol in new ways. With their environmental problems settling down, Chinese manufactures have resumed producing a relatively stable supply, and this is likely to cause more slack in supply and demand in the future. Our company, however, has strengths such as having extremely long-term relationships of trust with leading global companies. We are also working on exploring new uses of resorcinol, and beefing up our product portfolio.



**Q. About battery materials, I think that your company's high-capacity type separators for nickel batteries are extremely strong, but there has been a return to LFP in some cases. In the wake of ignition accidents with the NCM811 and NCM622 batteries, I wonder how that will impact your separator business. Rumor has it that a leading EV manufacturer is set to make the cell size of their 46800 battery larger, with a tabless structure. Could you elaborate on your roadmap regarding cathode materials and the separator businesses?**

A. Various types of cathode materials are used in batteries, including LFP, NCM, and NCA. LFP has been conventionally used in buses in China, and a leading EV manufacturer has recently announced the use of LFP. However, its future growth potential is limited in view of the cruising distance it allows.

As for the recent EV fire accidents, a definitive cause has not been identified as to whether the accident resulted from the battery management system (BMS) or was caused by the cells. Our separators have been supplied to leading Japanese battery manufacturers. For automotive use alone, we have already sold sufficient separators to cover an area of a billion square meters, and fortunately there have been no reports of fire accidents caused by the cells. For batteries, it is not only the performance of the component materials alone but also their quality control and BMS that are critical. I know it will take time to achieve stable production, but I expect that our aramid separators with strong safety features will be in the limelight soon, especially as high-capacity batteries are becoming mainstream.

As for 46800 batteries (46 mm in diameter, 800 mm in height), we can cut costs by using the high-nickel cathode materials used in the current 21700 batteries as their bases. As for separators, there is no denying the fact that, as a whole, ceramic separators are more widely used, but battery capacities are expected to continue to increase, so we will continue to meet the needs of many users by bolstering our cost competitiveness through process improvement, on the basis of trust backed by our achievements in aramid-coated separators thus far.

**Q. Ceramic separators may relate to your high purity alumina business, so is it correct to say that there will be business opportunities in either the case of aramid-coated or ceramic-coated separators?**

A. Yes, it is. In the case of ceramic-coated separators, shipments of our alumina will increase.

**Q. As for LCP, do you mean that you have started shipping it for RF front-end modules for smartphones, using its low permittivity as a selling point?**

A. Exactly.

**Q. As companies that can even create full modules are competing on their overall strengths, and not only their flexibility performance, do you intend to continue to compete on the performance of a single item, or enter in the field as a customer of module manufacturers?**

A. For our product, materials are the first priority. Our customers include module manufacturers.

**Q. In that case, I believe the final product will be fairly complex, equipped with a variety of components. Rather than continue selling simple flexible substrate materials as you have done until now, might it not be necessary for you to proceed with development, or address a variety of performance requirements, in close communication with your customers, on the assumption that the product will be used as a part of a module?**

A. I agree that simply supplying our samples to our customers would not work. It is necessary for us to be in close contact with module manufacturers.

<IT-related Chemicals>

**Q. Your target is to bring the sales of your semiconductor materials business to a level of around 100 billion yen. Will it be possible to achieve that with the current business portfolio?**

A. We deemed this target attainable with our current business portfolio, and we think it will not be long before we achieve this target.

**Q. In describing your progress in EUV resists on slide 27, it states that the company earned a good evaluation in a competition geared toward mass production from 2023 onwards. Does that mean that your company's sales will rapidly increase from 2023?**

A. Paid shipments of EUV resists have started this year, and are on the right track to gradually increase over the course of the next year and year after. The question of which EUV resists the various foundries will adopt for mass production has mainly been settled, at least up to around 2022, based on the overall results in past competitions. Ongoing or upcoming competitions are mainly focused on use after 2023. In that sense, for us, the real competition will come in 2023 onward. Our vision is to dramatically increase the sales from then on.

**Q. Could you tell us more about how you are structuring your development hub to handle increased sales of EUV resists?**

A. Our Osaka facility is set to start the development and evaluation of cutting-edge EUV resists in the first half of fiscal 2022, which I think is great timing.

**Q. With regard to the scale of your future sales, what percentage does the resist business represent in the 100 billion yen of sales in your semiconductor materials business?**

A. Our semiconductor materials business includes photoresists, high purity chemicals for semiconductor processes, and compound semiconductors. The compound semiconductor business is relatively small scale, while photoresists and high purity chemicals for semiconductor processes are our main businesses. As for the breakdown of the 100 billion yen in sales, compound semiconductors account for a larger ratio than photoresists.

**Q. You explained that shipments of EUV resists started this year. Are you talking about DRAM, for use in the 1Z nm process, for example? For logic circuits, as of now, your competitors' products have been adopted for 5nm process nodes, but does this mean that your company has had a good response with 3nm process nodes?**

A. I am afraid I cannot share the details, but in the semiconductor industry, the application of EUV technology was first made for logic circuits, while in our company, the development of products for memory applications is more advanced. We are going to catch up in logic circuit applications in next-generation processes.

**Q. With regard to logic circuit applications, you must be at the stage of offering paid samples. Do you mean that mass production of these samples will start from 2023 onward?**

A. For some EUV resists that are in an advanced evaluation stage, production volumes will start increasing a bit earlier than that.

**Q. If that is the case, won't sales start increasing a bit earlier than 2023? Do you mean that the products set to start mass production from 2023 onward will be used in a completely new process?**

A. As explained in slides, we started production slightly later than our competitors did. This year, we finally managed to start paid shipments. Currently, we are aiming to have our products adopted in processes further down the line. In consideration of the timing of mass production using these processes, our sales will dramatically increase around 2023. That is what I meant.

**Q. Is this process "further down the line" the latest process shown on slide 27?**

A. Yes, exactly.

**Q. I would like to clarify what you mean when you say that “antenna on display” (AoD), your product, cannot be developed by your company alone but by using existing technologies that may complement your technologies. On the left of slide 25, you show “antenna in package” (AIP) as the existing technology. Do you mean that, since AIP cannot be completely replaced, you have developed the product by complementing your technology with this existing technology? Or do you mean that your company must partner with a different company because it is fairly difficult to embed an antenna into a display using only your technology and production facilities?**

A. The former is the answer. We expect that, rather than going about it with our technology (AoD) alone, combining our technology with existing technology (AIP) will bring better communication performance. Instead of competing with players in the antenna field, we opted to install the antenna alongside AIP because we thought that would raise overall functionality and broaden the market. That is what I mean.

**Q. That means that your target is not display manufacturers but rather end customers (manufacturers of assembled products and telecom carriers). It seems that your approach is to propose the benefits of using your product concurrently with the existing ones so that they adopt your product eventually. Is it correct to understand that this can be done as an extension of your existing technology for incorporating touch sensors into displays?**

A. Yes, it is. In addition, as we will make efficient use of our existing plants in South Korea, the capital investment is unlikely to be huge.

**Q. How do you see the trends in market share over the medium term for OLED polarizers?**

A. In view of the past changes in market share, it is extremely difficult for any particular company to keep hold of a large market share. Since the OLED smartphone market is expected to continue to grow, we are continuing to expand our distribution channels to secure a large share.

**Q. Your company remains in a superior position in the market for circular polarizers. Provided that the ratio of OLED displays in the overall mobile market will increase, is it safe to say that this will be a benefit for your company’s market share?**

A. Yes, it is.

**Q. You presented several technologies for next generation displays on slide 16. It remains to be seen which ones will become mainstream. Could you tell us how you allocate your focus between the various technologies? Are there any LED-related areas where your company's materials are involved?**

A. I predict that each of the listed technologies will be used in a certain volume of marketed products. To the question of which ones will become mainstream, it is indeed difficult to say. Especially now, supply and demand for LCDs is extremely tight. So, a little delay is expected in the start of mass production of next generation displays. In such circumstances, we are doing everything we can to make our products compatible with any technology. Incidentally, for LED itself, there is no area in which our materials are involved.

**Q. As for printed OLEDs, there was some talk about collaborating with a Chinese manufacturer and JOLED. When do you see is the timing of mass production?**

A. Because it has not been long since the collaboration with a Chinese manufacturer and JOLED was announced in June of this year, I assume that mass production might start around 2023, provided that everything goes as scheduled. On the other hand, the adoption of the product will be decided a bit earlier. So, we see the critical period as the time leading up to a year from now, and we are proceeding with a plan to heavily invest our resources to develop the product.

**Q. For organic electroluminescent materials from your company and competitors, I expect that optimization is being taken into account, including with regard to materials used in combination. If materials from different companies are used for each color in an RGB diode, the number of materials outside of luminescent materials increases, and the manufacturing process may become extremely cumbersome. Isn't there a risk that this will naturally prompt the procurement of all RGB luminescent materials from the same manufacturer, so that the same materials are used as much as possible? Is it all right to see the situation basically as winner-take-all?**

A. Yes, it is.

<Health & Crop Sciences>

**Q. You keep saying that an operating income of 80 billion yen is an extremely high target, but I wonder why you regard it as so high despite the fact that an operating income over 75 billion yen was once recorded in fiscal 2015. The president said a while ago that the company would like to explore a pricing scheme that is not dictated by the methionine market, but what is your take on this?**

A. Let me start with the first question. The reason that we regard 80 billion yen as a high target is because of a drastic change in the market environment surrounding crop protection products. Ongoing consolidation among leading overseas players is reinforcing their strengths as our competitors. We currently expect to launch a number of new agents in our A2020 (after 2020) and B2020 (before 2020) projects. Contributions from these new agents to our earnings will be reflected in a few years in North America, where flagship products, including Flumioxazine, are getting older and losing their competitive edge, compared with back in 2015. In addition, the world is rapidly moving towards sustainability. As more regulatory and social pressures over crop protection products are expected earlier than we had presumed, our chemical crop protection product business is expected to face headwinds. Meanwhile, we have strengths in the biorationals business, so by steadily growing this business, I hope that the company will manage to reach our target operating income of 80 billion yen. Now I will answer the second question. The methionine market is not set to pick up in the short term, since our competitors, mainly Chinese manufacturers, have several plans to increase methionine production, while Singaporean manufacturers are already increasing production. Meanwhile, the demand for chicken meat has been expanding year after year, and the demand for methionine will increase at an annualized rate of 6%. As both the methionine manufacturing process itself and stable operations with the process are said to be extremely difficult, it remains to be seen whether the current plans to increase production will proceed as scheduled. If the increased production does not proceed as scheduled, I assume that market conditions may recover in the future.

**Q. I have the impression that the post-merger integration of South American subsidiaries is at an advanced stage, and the target of 80 billion yen seems to be achievable. What is your take on synergy between regions going forward, and the penetration of your products in South America?**

A. There are two keys to business expansion in South America. One is early expansion of Indifilin sales, and the other is expansion of sales of biorational products by the sustainable solutions unit, which has been newly established. Indifilin is set to be launched in autumn, the timing of which is predicted on the time required for registration of approval in past applications. In view of the scale of the contribution of biorationals to agriculture in Brazil, we had anticipated before the coronavirus pandemic that the timing could be a bit front-loaded. In such case, the launch would have significantly contributed to our earnings in fiscal 2021. We are continuing to monitor market conditions, because the timing of Indifilin approval will determine the timing of its contribution to our earnings. In expanding sales of biorationals, boosting demand on the part of agricultural producers is vital, in addition to the strategy of pushing the product in our supply channels. The former Nufarm sales force has conventionally sold crop protection products, especially generics. Thus, it may take some time to build a sales structure to create demand for technology-based products, our specialty. Currently, VBC is providing training for the South American salesforce, hoping to deliver results in 2 to 3 years. With regards to synergy between regions, I think the use of the formulation plant in Fortaleza is extremely important. In addition, I believe that we can create synergy by expanding and reinforcing the manufacturing structure of the ECC active pharmaceutical ingredient (API) plant in India, and then manufacturing APIs in India and exporting them to geographical areas where we intend to increase our footprint, such as South America, instead of sourcing them from third parties as we have conventionally done.

**Q. On page 12, it says that almost half of the milestones have been achieved. It appears that the Nufarm sales force that specialized in generics is now becoming capable of selling the more sophisticated new products of Sumitomo Chemical. If Indifilin is launched in 2021, sales may reach their peak around 2025 to 2027. Therefore, the launch can significantly contribute to the income of 80 billion yen in fiscal 20XX. Am I expecting too much?**

A. I would like us to do whatever it takes to make that vision come true.

<Pharmaceuticals>

**Q. Regarding contract development and manufacturing for regenerative medicine and cell therapy on slide 14 and 15, I see it as a very promising market, but several competitors are ahead of you in this business. I have also heard that this business is difficult without a facility of a certain scale. Could you give us your view on the extent of its potential growth, including the point I mentioned, and specific actions to the extent possible?**

A. We are now in the process of constructing a relatively small production line using a part of DSP's Esaka Laboratory under the name S-RACMO. What is important for contract development and manufacturing for regenerative and cellular medicine is how much future experience and achievement we can accumulate. First, we would like to steadily build up our experience using the small facility under construction while making use of DSP's network relating to regenerative and cellular medicine. In doing so, we would like to expand the scale of our future business.

**Q. It may depend on the scale, but for example, how long does it take after the decision is made to the start of actual construction of a plant? Are you saying that you can increase production capacity if a possible increase in order sizes is expected?**

A. Yes, exactly. If the plant is to be expanded, we consider that one or two years will be sufficient.

**Q. As for your approach to universal vaccines, do you intend to make them with virus-like particles or nucleic acids that can be chemically synthesized, or do you intend to make adjuvants universal? I would also like to know your view on the contribution Sumitomo Chemical can make, not DSP.**

A. Vaccines usually consist of antigens and adjuvants, which serve as activators. Vaccines with the optimal combination of these two are commercialized. There are a wide variety of antigens and adjuvants, some of which have universal characteristics. Taking account of the points you made in your question, we will continue to pursue various possibilities in terms of antigens. As for Sumitomo Chemical's contribution, since adjuvants are low molecular weight compounds, we can contribute through contract manufacturing, just as with active pharmaceutical ingredients (APIs) for small molecule drugs.

**Q. You have many candidate drugs in your pharmaceutical pipeline on slide 6. They may or may not be successful in the end. Does Sumitomo Chemical have a say in the financial decisions of DSP, such as to what extent the pipeline is expanded through M&A?**

A. As part of the Sumitomo Chemical Group, DSP is moving forward in alignment with the rest of Sumitomo Chemical so as to prevent a divergence in our management directions, and this includes an understanding of our constraints, including our financial constraints. So, it is very unlikely that DSP will suddenly come up with an idea to make a trillion yen acquisition, for example. For the time being, our first priority is to make the major acquisitions from last year contribute to our performance as early as possible.



**Q. Do you intend to compete in the market with the current pipeline through around 2024 or 2025?**

A. Yes. That is exactly the vision we would like to pursue. In drug development, there is a time lag between the purchase of a drug candidate and its launch as a product, not to mention any setbacks we face in the process. How much we can earn with the current pipeline and how much our financial position improves will determine any changes in our future M&A strategy.

**Q. What sort of scale of business do you have in mind for theranostics in Japan, specifically? To undertake nuclear medicine, the point of shipment and the site of its use must be in a close proximity owing to the properties of radioactivity. Is a global development possible? What is your take on this?**

A. As Nihon Medi-Physics is a joint venture, any decisions about plans for funding and investment for global development will be made in agreement with GE, our partner. Our basic approach as Sumitomo Chemical is to start theranostics first in Japan, and then license out the results of our development efforts overseas. Since out-licensing is our premise, global development is feasible. We expect it to have a certain market size for diagnostics and therapeutics in Japan.

**Q. Taking that into account, and in view of the proximity to the production site needed in nuclear medicine, I presume that the sales will not decrease even after the expiration of the market exclusivity period of FDG-PET. What is your take on this?**

A. It depends on how competitors will go about sales after the expiration. For instance, if competitors do not set up sites to cover local areas, our sales may not decrease so much.

(END)

#### Cautionary Statement

Statements made in this document with respect to Sumitomo Chemical's current plans, estimates, strategies and beliefs that are not historical facts are forward-looking statements about the future performance of Sumitomo Chemical. These statements are based on management's assumptions and beliefs in light of the information currently available to it, and involve risks and uncertainties. The important factors that could cause actual results to differ materially from those discussed in the forward-looking statements include, but are not limited to, general economic conditions in Sumitomo Chemical's markets; demand for, and competitive pricing pressure on, Sumitomo Chemical's products in the marketplace; Sumitomo Chemical's ability to continue to win acceptance for its products in these highly competitive markets; and movements of currency exchange rates.