

Investors' Meeting for Current Priority Management Issues and Business Strategy  
Q&A Summary

Date and time: Wednesday, November 30, 10:00 to 11:30 a.m.  
Presenter: Masakazu Tokura, President

Entire Company

- Q. You said operating income of 200 billion yen can be achieved for fiscal 2018, the final year of the Corporate Business Plan, even assuming the present level of exchange rates. Operating income for the current fiscal year is forecast at 120 billion yen. Why do you think you can increase operating income by 80 billion yen by fiscal 2018?**
- A. Operating income for the current fiscal year is expected to decrease by 40 billion yen from the previous fiscal year's record-high income. Fluctuations of the exchange rate and actuarial differences in retirement benefits will reduce operating income by 30 billion yen and 10 billion yen, respectively. Foreign exchange losses will also reduce non-operating income by about 5 billion yen to 6 billion yen. Toward fiscal 2018, we plan to increase our production capacity for the feed additive methionine, whose market prices are expected to recover gradually. Our distribution collaboration with ITOCHU Corp. is also expected to allow for quick ramp-up. Moreover, we will expand our OLED-related materials business. We also expect benefits from the acquisitions of Excel Crop Care Ltd. and Tanaka Chemical Corp. There is no point in discussing the exchange rate, but assuming an exchange rate of 100 yen to the dollar, it will reduce our profit by about 40 billion yen from our estimate under the Corporate Business Plan. Assuming an exchange rate of about 110 yen to the dollar, our operating income target of 200 billion yen can be achieved as our earnings are expected to increase due to a positive effect brought about by carrying out early investments.

**Q. Slide 40 in the presentation shows a cash flow target for fiscal 2016-2018. As for investment cash flow, is the total projected amount of investment over the course of three years unchanged from the Corporate Business Plan, even though you decided to make investments earlier? As for operating cash flow, you said there will be advance payments received from ITOCHU. Except for effects caused by exchange-rate fluctuations, is there any change since March, when you announced the Corporate Business Plan?**

A. Projected investment cash flow for fiscal 2016-2018 has not changed very much from our estimate under the Corporate Business Plan. Our investments are concentrated in fiscal 2016 due to active M&A. The investment cash flow target of 800 billion yen under the Corporate Business Plan assumed we would invest 300 billion yen in strategic M&A investments. We could invest the entire 300 billion yen, if necessary, while assessing our ability to generate cash flow. But at present, as shown in slide 17, we plan investment cash flow of 700 billion yen, keeping strategic M&A investments within 200 billion yen. In addition to rigorously selecting investments, we want to unwind cross-shareholdings and effectively use cash and cash equivalents on a larger scale than envisioned in the Corporate Business Plan. Through such efforts, we hope to achieve our target for interest-bearing liabilities of one trillion yen or less in fiscal 2018, even after carrying out M&A.

### Specialty Chemicals

**Q. Your company bought 6.6 billion yen of Tanaka Chemical Corp.'s new shares through a private placement. Is it correct to think that there is a reasonable prospect for the adoption of positive-electrode materials that will be newly developed?**

A. Tanaka Chemical produces positive-electrode materials and their precursors. Tanaka Chemical's precursors feature world-leading competitiveness. The capital infusion will be used for gradually increasing production capacity for positive-electrode materials and precursors. We look forward to the future, as our products are highly competitive.

**Q. What is the situation for finding new customers for your separators?**

A. In addition to major customers, we plan to expand separator sales, and have already won orders. Besides increasing production capacity, we aim to develop higher value-added separators, and have already launched a research and development group.

**Q. Your company recently decided to expand your production capacity for separators in South Korea, with an investment of 20 billion yen. What is your estimate of the amount of investment in lithium-ion secondary battery-related fields during the period of the Corporate Business Plan?**

A. As shown in the graph of our capital expenditure and investment plan, major investments are concentrated in fiscal 2016, including the acquisition of Tanaka Chemical and the increase in separator production capacity in South Korea. Although I can't tell you the details of our investment plan for fiscal 2017 and fiscal 2018 yet, we are considering investments in separators, and we may decide to make an additional investment of about several billion yen to 10 billion yen. We are considering making an investment to raise production capacity in Ehime, or Daegu, South Korea, where there is enough space on our existing production site and a clean room. Unfortunately, there is a high possibility that the Trans-Pacific Partnership pact will be nullified. When we export to the United States, South Korea has an advantage in terms of tariffs, as South Korea has a free trade agreement with the United States. From this standpoint, it is more beneficial to invest in South Korea to boost production capacity.

**Q. As for polarizing film for LCDs, slide 32 showed that your company is implementing a restructuring of your supply capabilities. Are you thinking about consolidating or closing production sites? How will you cope with the very severe external environment?**

A. The current demand for polarizing film is brisk, and we produce 10 million square meters of polarizing film a month. Despite the robust demand, prices have fallen to a very low level, so we are working to increase supply by improving productivity. At present, we have production lines in Taiwan, South Korea and Japan, and we are considering a reorganization of our production system to conduct business operations more efficiently.

**Q. The performance of the IT-related Chemicals Sector deteriorated significantly in the first half of the current fiscal year due to the impact of exchange rate fluctuations. What are the business prospects for the next fiscal year? What is your forecast for the business of polarizing film and touchscreen panels for mobile devices?**

A. The performance of our polarizing film business has bottomed out, and has since been improving. As for touchscreen panels, we continue operating at full capacity amid steady demand for OLED displays. Full-scale production of touchscreen panels will continue for the time being. We are not worried about the future, as demand is expected to expand further in fiscal 2017.

**Q. Are you confident that your touchscreen panels will be adopted by a North American manufacturer?**

A. We cannot comment on the issue here, as combinations of components will be decided by display manufacturers and hand set makers. There have been a lot of inquiries about our touchscreen panels, and at present, we have a shortage of production capacity.

**Q. You said OLED components are expected to account for more than half of your sales of display components in the medium and long term. What is your estimate of sales of display components from 2018 to 2020?**

A. We do not expect a significant increase in sales, because there is a possibility that prices will fall. We rely on outside suppliers for many of the main materials for polarizing film, which is a key component of LCDs. As for OLED components, we have a high percentage of in-house processing, and we hope it will create high added value for our products.

**Q. Your new methionine plant is expected to start operations in mid-2018. We would like to reconfirm the competitiveness of your methionine business.**

A. Market prices for methionine are falling compared with last year's very high prices. Our methionine business has maintained a double-digit profitability, and has never been in the red during the past 10 years, even when market prices for methionine have remained low. Compared with existing plants, the new plant is larger in scale and more cost-competitive by using our methods of streamlining. In addition, we have decided to enter into a distribution collaboration with ITOCHU to strengthen our marketing capabilities.

The main sources of our competitiveness are our accumulated technologies, such as integrated production, from raw materials to finished products, and the handling of toxic gases and other environmentally friendly practices.

**Q. In the crop protection business, the business environment is tough due to the shrinking agrochemicals market in Brazil and a strong yen. When do you think the business environment will improve? After the current Corporate Business Plan, when do you plan to launch new products, following on flumioxazin, and to expand the biorational and postharvest businesses?**

A. In the medium and long term, the world population will reach about 10 billion by 2050, increasing from the current seven billion, and the current trend toward expansion of food production will continue. So we are not worried about the long-term trend. In the short term, however, factors such as crop yields and the weather will affect the agrochemicals market. The agrochemicals market in Brazil hit its peak in 2014, and shrank sharply in 2015 due to the effects of Brazil's economic conditions, but our shipments are expected to increase gradually. In the United States, farmers' earnings have decreased due to a fall in grain prices caused by bumper harvests. U.S. farmers have refrained from buying agrochemicals, but we think it is a temporary phenomenon.

Recently there has been a series of mergers and acquisitions in the agrochemicals industry, such as Bayer's proposed acquisition of Monsanto to combine Bayer's strengths in agricultural chemicals with Monsanto's strengths in genetically modified organisms (GMOs). GMOs have received widespread attention, but, as we said at a previous briefing, GMOs are not omnipotent. Weeds evolve resistance to Monsanto's glyphosate herbicide that is used in combination with GMOs. Our herbicide flumioxazin is used to kill glyphosate-resistant weeds. The emergence of resistance is not limited to herbicides, but also occurs to fungicides and other chemicals. We are developing blockbuster crop protection chemicals B2020 and A2020 to control weeds and fungi that have resistance to existing herbicides and fungicides. Three out of four B2020 products under development are fungicides. As some of them are effective against fungi that are resistant to existing fungicides, we are hastening the development of these products.

We cannot enter the GMO row crop business, as it would require an investment of 1 trillion to 2 trillion yen. But major overseas agrochemicals manufacturers engaged in the GMO business are our competitors as well as business partners, and we want to form alliances with them to provide crop protection chemicals.

The major agrochemicals manufacturers are paying attention to biorational products, such as microbial pesticides. We have the largest market share in this field, and we also lead the world in the postharvest business. Moreover, we are considering the commercialization of digital farming. In this way, we want to expand business in the field of specialty crop protection products.

## Bulk Chemicals

**Q. In the Rabigh Phase I Project, the gross profit margin on petrochemical products is about 20 percent to 40 percent. What is your estimate of the gross profit margin in the Rabigh Phase II Project?**

A. In the Rabigh II Project, we plan to produce a variety of high-priced, high value-added petrochemical products. The source of profit for Petro Rabigh is the availability of low-cost ethane at fixed prices. In the Rabigh II Project, we will increase procurement of ethane from 95 million cubic feet to 125 million cubic feet per day and produce high value-added petrochemical products, such as paraxylene and benzene, using naphtha as the feedstock. We think the profitability of the Rabigh Phase I and Rabigh Phase II Projects will be roughly the same.

**Q. How is your premarketing research progressing for the Rabigh II Project?**

A. The Rabigh II Project's products will include not only those to be produced under license from Sumitomo Chemical but also those we have not handled before, such as phenol and paraxylene. We will sell the products that we have not offered before with the help of trading firms. Regarding the products to be produced under license from Sumitomo Chemical, Sumitomo Chemical Asia Pte Ltd has launched premarketing research. We want to sell the Rabigh II Project's products in regions whose markets are expected to grow, and to customers with whom we will have long-term transactional relationships.

**Q. You said your operations in Singapore are performing well. How do you see the supply and demand of olefin and polyolefin for the next fiscal year in the Asian market?**

A. Until a little while ago, we were concerned about a possible sharp increase in the supply of petrochemical products using shale gas from the United States or ethane gas from the Middle East as feedstock. Currently, the launch of operations of plants for such products has been delayed due to a steep decline in crude oil prices, but construction projects for competitive plants have continued. Although it depends on the outcome of an OPEC meeting, operations of petrochemical plants that use shale gas as feedstock are expected to gradually increase, as shale gas has become a major source of petrochemical feedstock. It is said that construction of the petrochemical plants using U.S.-produced shale gas as feedstock is now a year behind schedule. We know these plants overseas will start operations someday, and we think it may happen in the second half of 2017, at the earliest.

**Q. You have already launched a restructuring of the solution styrene-butadiene rubber (S-SBR) business. How about the caprolactam and methyl methacrylate (MMA) businesses?**

A. As for the MMA business, we have currently benefited from higher market prices. We are also working to shift toward higher value-added applications by developing new applications for polymers, and to streamline operations by introducing a new catalyst.

As for the caprolactam business, as you know, we have seen improvements in supply-demand conditions, and profit margins have improved recently due to the postponement of production capacity expansions by Chinese makers and suspension of production by U.S. manufacturers. As our rationalization efforts are beginning to yield results, such as the development of the new catalyst for our vapor-phase process caprolactam plant, earnings are expected to improve for the caprolactam business. Just getting out of the red, however, will not be enough. If the business does not contribute to a certain degree to the company's bottom line, it is meaningless to continue the business for the next five to 10 years. We are reviewing the caprolactam business in this type of rigorous way. We want to assess the profitability of the caprolactam business without spending too much time.

(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.