

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

Thursday, November 27, 2014; 10:00–11:15 a.m.

Masakazu Tokura, President and COO

Entire Company

**Q. The net income target for FY2015 is ¥90 billion. Does that mean the extraordinary losses will all end with FY2014?**

A. We have been posting extraordinary losses of around ¥10 billion, and we hope to keep the FY2015 extraordinary losses within that range. While large extraordinary losses were posted in FY2013 and FY2014 because of various factors, the posting of losses from business restructuring will not be carried into FY2015, and we want to aim at achieving the ¥90 billion net income target.

**Q. Your company expects to post around ¥30 billion in extraordinary losses in the second half of FY2014. Will you be announcing business restructuring plans?**

A. While no major extraordinary loss items are expected, one priority item under the current Corporate Business Plan is not to carry any problematic businesses into the next Corporate Business Plan. So we will dispose of these as much as possible within the current fiscal year.

**Q. FY2015 is the final year of the present Corporate Business Plan. If the target of less than ¥900 billion in interest-bearing liabilities is achieved, will the next Corporate Business Plan focus on stepping up new investment, or continue to emphasize improved financial health?**

A. Our approach is to maintain a DE ratio of around 0.8 times. While this will depend on how we project operating cash flow, we expect there will be leeway for new investment under the next Corporate Business Plan. Regardless, the ¥400 billion which we are investing over three years under the current plan, even after reducing investment, is still considered large compared with other companies, and we want to continue making well-balanced investments. Under the next Corporate Business Plan, we want to actively and boldly advance the specialty chemicals business, where the pace of technological innovation is accelerating, to avoid missing business opportunities.

**Q. Do you think a DE ratio of around 0.8 to 1.0 times is optimal under the business structure of your company?**

A. If the DE ratio improves to around 0.8 times, we want to actively make investments for growth while maintaining that level.

## Specialty Chemicals

**Q. We understand that you are considering increased investment in the separator business. What sort of profit contribution do you expect from the separator business through 2020?**

A. Sales of electric vehicles are projected to greatly increase. For that reason, the demand for lithium-ion secondary batteries is also projected to increase. Our separator business faced difficulties for around the first ten years, but the business is now on track following its transfer to the IT-related Chemicals Sector and efforts to boost productivity. Our separators are highly evaluated by customers for their performance, and we expect they will make large profit contributions in the future.

**Q. What are the competitive conditions of polarizing film for mobile display applications?**

A. In high-end and middle markets, the market share is divided among Sumitomo Chemical and another Japanese company. The market share changes after smartphone model changes, and at the moment our competitor has a slightly larger share. The gap versus our competitor is not that great, and we expect the share in the middle and high-end markets will remain basically split between the two for the time being.

**Q. It seems your company conducts a lot of business with Samsung. I would like to ask about the outlook for future sales.**

A. While our company's polarizing film has a high share at Samsung, we also have transactions with a wide range of display manufacturers, and our sales to Samsung are not so large in our total sales of polarizing film. As for touchscreen panels, we only sell these to Samsung, so we are directly affected by Samsung's sales trends. Several companies other than Samsung have now announced investments in OLEDs, and we are considering business opportunities to expand our customer base.

**Q. You explained about next-generation coated polarizing film for use in flexible OLEDs. What is the current development status of coated polarizing film for LCDs?**

A. There are two types of ultra-thin polarizing film: the coated type and the film type. They both have the same thickness, but the coated type is superior in having a low shrinking property, while the film type is superior in having high transparency, so they are adopted by users according to their needs. We hope to launch the coated type soon.

**Q. You gave some explanation about next-generation displays. Are you not considering the development of products integrating next-generation coated-type polarizing films with film-type touchscreen panels and window film? Also I think the share for LCD materials and components could be greatly expanded with products with a similar concept. What are your thoughts about these points?**

**A. We think these ideas have possibilities.**

**Q. In the crop protection chemicals business, it seems there were inventory adjustments in the US and Brazil. Do you have a sense that demand is now returning? Structurally I think this is a growth market, but amid the present decline in the grain market, what are your projections about future demand?**

**A. We think the impact of inventory adjustments from inclement weather is temporary and demand will recover. However, in South America prices are lower for bioethanol crops, so we need to watch future trends. Meanwhile, crop acreage in South America is anticipated to increase, and the market is expected to grow. As announced the other day, we have expanded our strategic partnership for flumioxazin with Monsanto to Latin America and we have also extended the termination date of the strategic partnership agreement with Monsanto in the United States from September 2017 to August 2020. Against this backdrop, we are moving ahead with strengthening flumioxazin production capacity as planned.**

#### Bulk Chemicals

**Q. The Basic Chemicals Sector continues to post operating losses. Are any efforts being made toward radical business restructuring in the MMA business?**

**A. Our MMA business is operated centered on our Singapore base, which has three monomer plant lines and three polymer plant lines. We are developing a high-performance catalyst that is expected to have a large rationalization effect, and we are examining a scheme for low-cost procurement of the main raw material MTBE.**

**Q. Your company is engaged in the petrochemicals business in Japan, Singapore, and Saudi Arabia. I would like to ask about the effect of crude oil prices on the Sumitomo Chemical Group overall.**

A. I think higher crude oil prices provide a tailwind to our company's performance. While we use naphtha as a raw material in Japan and Singapore, because the prices of both naphtha and petrochemical products change in line with changes in crude oil prices, the effect of changes in the price of crude oil on the profit is neutral. However, Petro Rabigh in Saudi Arabia uses fixed-price ethane, rather than naphtha, as one of the main raw materials, so at Petro Rabigh higher crude oil prices boost the relative cost competitiveness of petrochemical products using ethylene as a material. Meanwhile, lower crude oil prices offer us cost benefits by decreasing fuel costs as well as raw material costs for the feed additive methionine and other products whose selling prices do not move in line with crude oil prices.

**Q. What is your global strategy for polyolefins?**

A. In Japan, we have many high value-added differentiated products, so we will not lose much share even if many commodity products enter from China and the Middle East. We are producing high value-added products in Singapore as well. The issue is the same at every location: how to maintain competitiveness, such as by shifting towards higher value-added products. In Japan, based on the industrial competitiveness policy announced the other day by the Ministry of Economy, Trade and Industry, we must consider the infrastructure competitiveness of petrochemical complexes for all Japan. Our company is conducting operations with some segregation and division of roles between Japan and overseas, including the suspension of operations at the Chiba ethylene plant and integration of the ethylene procurement from Keiyo Ethylene Co.

**Q. The income from Petro Rabigh stabilized this term. Do you expect further improvements over the next one to two years? And to roughly what extent will Phase II contribute to income?**

A. Under the Corporate Business Plan, in FY2015 the majority of the ¥25 billion in equity in earnings of affiliates is expected to be from Petro Rabigh. We think achieving that target is entirely possible if the current high operating ratio is maintained and the refinery margin remains stable. Phase II will begin operations sequentially in the first half of 2016, but the full-scale performance contribution is expected to begin from 2017. Given the great difficulties experienced in launching Phase I, we will approach the launch of Phase II based on lessons learned from those experiences.

**Q. When Phase II is fully contributing, about how much will Phase II add onto the net income from Phase I?**

A. I would like to refrain from giving numerical figures at this time.

**Q. Do you have plans for further upgrades of the Petro Rabigh petroleum refining facilities?**

A. Further improving the refining facilities and increasing production of lighter products would improve profits, but that would require large investments. Once Phase I is stabilized and Phase II is on track, upgrading the refining facilities should be one of the issues to study.

#### 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.

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