

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

Date and time: Tuesday, May 26, 10:00 to 11:15 p.m.  
Presenter: Masakazu Tokura, President

Entire company

**Q. I would like to confirm your intentions regarding the company's business portfolio. Is it correct that you will not be expanding investment in the bulk chemicals field, positioning this as a business for earning cash flow, and that you will be aiming for growth in specialty chemicals?**

A. Expanding scale and increasing added value are both ways of achieving business growth. In the bulk chemicals field, we expect we can contribute to industries such as auto manufacturing, where Japan is strong, by expanding added value. In this field, however, I don't believe we can compete with state-owned and semi-state-owned corporations by expanding in scale.

One tenet of our company's management philosophy is that, in fields where we can compete based upon superior technology, we should create new value built on that technology. The field where we are going to be focusing investment, including for expanding the scale of our business, is the specialty chemicals field.

**Q. The Three-Year Corporate Business Plan for fiscal 2013 to 2015 called for highly selective capital investment, with priority on enhancing your financial strength. Will capital investment be expanded in the next Three-Year Plan?**

A. While we have succeeded in improving our financial strength in terms of our financial statements, I don't think we can yet say that our financial condition has become sufficiently sound in these three years. We will still need to continue with efforts to build up a stronger financial foundation. Reducing working capital by shortening the cash conversion cycle is something that requires a great deal of perseverance, and I intend to continue with these initiatives. In the past three years we were very selective with our investment, and were able to cut cash flow used in investing activities to around 300 billion yen. As to whether that selective investment policy hindered our business development, I certainly don't think this was the case. I would like to continue with around the same degree of selectiveness.

The aim in attempting to improve our financial strength in the current

Three-Year Corporate Business Plan was to achieve some financial leeway for future business development. I believe large strategic investments will also be necessary for the next stage of our business development. While continuing with the initiatives carried out up to now toward strengthening our financial base, we will be looking for opportunities for new advances through strategic investments.

**Q. Your strategy includes aiming for a D/E ratio of 0.7, and keeping it below 1.0. Further reducing leverage would seem to be another option for achieving greater management freedom. What is your thinking on this?**

A. Our company's mission is to provide new value to society through technical innovation, while achieving sustained growth as a corporation. It would be possible to go further in improving our financial strength, but we have to balance this with the need to continue with sustained growth in the next 50 and 100 years. Looking back at our company's past D/E ratios, the lowest level was around 0.6 in 2005-6. The business climate in that period resembles the current one, and it was a time of record profit, so I think we can look at the level around that time as one yardstick. If our business expansion proceeds and earnings stabilize, I believe it may be necessary to opt for a higher D/E ratio and raise our ROE. There is no single correct answer to your question, but I believe that a D/E ratio of between 0.6 and 0.7 is appropriate for finding the right balance between growth and financial soundness.

### Specialty Chemicals

**Q. Currently there are no big projects in the environment and energy field. Do you plan to aim for a major advances in this field, such as through large-scale M&A? Will you aim for organic growth?**

A. We lack the kind of business diversity in the environment and energy field that we have in other fields such as ICT and life sciences, so if there is a chance to buy technology and time through M&A, we will do so aggressively. That said, environment and energy is one concept, and there is no company dedicated to this field, so our M&A will likely be directed at specific technologies and businesses. I would like us to carry out active M&A at the whole business level, similar to the way we acquired the compound semiconductor materials business from Hitachi Metals in the IT-related Chemicals Sector. In April of this year we established the Energy & Functional Materials Sector to handle operations in the environment and energy field, and as the first step transferred to this new sector relevant businesses from the Petrochemicals & Plastics Sector and Basic Chemicals

Sector. In the future we will consider transferring and consolidating related businesses from IT-related Chemicals and other sectors.

**Q. At your November 2014 briefing you expressed concern that difficulties in the bioethanol business in South America might have a negative impact on farmers. What are the current trends in the crop protection chemicals market?**

A. The increase in shale oil production is said to have dampened bioethanol demand, which I assume is impacting farmer earnings. On the other hand, there is still strong demand for increased food production, and I understand that soy demand is doing especially well. As I noted earlier regarding long-term trends, there is a need to raise agriculture productivity because of limits on the arable land area, which means in the long run our prospects are highly favorable.

**Q. Looking back at 2014, while the cheaper yen and improving market conditions for methionine helped boost earnings, it would seem that sales growth of crop protection chemicals stalled somewhat. Is this your understanding?**

A. I wouldn't go so far as to say that sales growth of crop protection chemicals stalled, but we are aware of the effects of inventory adjustments and the bad weather in North America. Both of these factors, inventory adjustments and bad weather, were only temporary, and have now been resolved.

**Q. What kind of progress is being made in the separator business and DPF business?**

A. Our basic stance regarding the separator business is, as I explained earlier, that we are planning to invest in meeting customer demand growth. Taking into account the intentions of customers, we are close to completing studies regarding the pace at which we will move forward, and we plan to announce this strategy in the near future. This being a field with high growth expectations, we want to meet customer needs.

In the DPF business, bringing new technology, we entered a market that had been dominated by three or four companies. It has been harder than we expected, but at last we have won a customer order. In the Energy & Functional Materials Sector, we believe business will increase in assembly and processing fields, such as DPF. For this reason, the head of this sector is also the head of the IT-related Chemicals Sector. We intend to expand business by applying the assembly and processing technology built up in the IT-related Chemicals Sector to DPF and other products in the Energy & Functional Materials Sector.

**Q. Slide 46 of the presentation material lists numerical targets toward sustained growth. I would like to know if there are any human resource or technology constraints in the way of meeting those goals.**

A. Specialty chemicals is a growth field, but it is also one with a very fast pace of technical innovation. So not only do we need to take a bold approach, we also need to be highly flexible in responding to trends. Our company has a number of different basic technologies in the specialty chemicals field. These include assembly and processing technologies and analysis and evaluation technologies in IT-related Chemicals, as well as technologies relating to the mechanisms of bio-organisms developed for medicine and crop protection chemicals. With these technologies as a foundation, we intend also to develop business as necessary by means of M&A and by acquiring and selling off businesses.

### Bulk Chemicals

**Q. Because of the stable operation of Petro Rabigh, you can now expect quarterly net income of around 10 billion yen and annual equity in earnings for Sumitomo Chemical of around 15 billion yen. In Phase II, now under construction, what level of earnings do you assume? Do you expect the same level of contribution to earnings as from Phase I?**

A. Phase I is now to the point of ongoing stable operations. In Phase I, the source of competitiveness is the use of ethane gas as the raw material. While ethane used to be 1/25th the price of naphtha, the price of crude oil has fallen by half, reducing the price advantage of ethane over naphtha to about 1/13th to 1/12th. Despite this shrinking of the price advantage, however, the petrochemical business of Petro Rabigh continues to be highly competitive. As for the oil refining business, the refinery margin has risen, greatly contributing to improved performance. Earnings from Petro Rabigh are affected by crude oil price trends. The medium- to long-term consensus for the price of crude oil is that it will rise to around 80 dollars per barrel. If it does settle at such a level, we can expect Petro Rabigh to remain competitive.

Regarding Phase II profitability, I can't give specific figures because Petro Rabigh is a listed company. We looked at the profitability of Phase II in the same way as Phase I, and decided to invest because the return on investment was seen as being above a certain level. You should therefore be aware that we can achieve investment returns on Phase II in line with those for Phase I. Phase I uses 1.2 million tons of ethane gas as a raw material, and for Phase II we are expecting to receive an additional supply of 400,000 tons. In addition, since Phase II will be producing high added value products,

the impact of crude oil price fluctuations on profitability will be less than for Phase I. In Phase I there were difficulties in achieving stable operation. Learning from that experience, we are putting every effort into ensuring the smooth startup of Phase II operation. While the Phase II complex will start going into operation from 2016, we estimate that it will start contributing to actual earnings in fiscal 2017 or possibly slightly later. At the very latest, we expect to achieve a high operating rate with a healthy contribution to earnings by fiscal 2018.

**Q. At a panel discussion held by the Chemical Daily at the beginning of the year, you said technology was a necessary condition but not a sufficient one. Even though you have technology in the bulk chemicals field, I wonder if this is really a business your company should be involved in. Do you have an exit strategy for the bulk chemicals field, or do you think this is a business you should stick with even in the long term?**

A. If, as in American-style capitalism, Japanese corporations are also capable of making drastic changes to their business portfolio, and it is acceptable to society and is an effective management measure, that kind of option exists. I don't believe Japanese corporations are in that kind of position today. Accordingly, just as we did in the current Three-Year Corporate Business Plan, we will make portfolio changes, but these need to be carried out in a planned manner.

**Q. You have factored in an extraordinary loss of 20 billion yen in your fiscal 2015 forecast, so as not to have negative impacts carry over into the next Three-Year Corporate Business Plan. In the business restructuring scheduled in the current Three-Year Plan, do you expect the performance of your business in the bulk chemical field to become solid? In the next Three-Year Plan, is there no possibility that you will post extraordinary losses on the order or tens or hundreds of billions of yen?**

A. Our domestic sites in the Petrochemicals & Plastics Sector are at the minimum necessary scale for "mother laboratories" and "mother factories," having been downsized to a scale beyond which they cannot be shrunk further. Our domestic sites will continue selling high added value petrochemical products to the Japanese market. Our Singapore site uses naphtha as a raw material, but is very highly competitive because it sells high added value products to blue chip customers in Asia. Since high added value products can be sold at higher prices than ordinary petrochemical products, we can secure a higher margin than ordinary naphtha-based petrochemical plants. For this reason, we are not worried about our Singapore site.

As for caprolactam, we will shut down one line of our two-line plant, and are

looking carefully at demand trends even as we refine the gas phase process plant technology of the remaining line. While we believe the chances of a big improvement in the caprolactam demand structure are low, the gas phase process is a proprietary manufacturing method of our company, one that does not produce ammonium sulfate, and I believe the day will come when people start paying attention to its advantages.

Because plans for expanding methyl methacrylate (MMA) monomer production capacity are limited, the supply-demand balance is tight. The MMA business is profitable for each company engaged in it, and it should remain so even from a long-term view. We use an isobutylene direct oxidation process, and are working to make it more competitive, including in the procurement of raw materials.

While we cannot say there are no remaining risks, the risks have substantially decreased compared to the start of the current Three-Year Plan. Technology changes rapidly, even with newly-started businesses, and it doesn't take long for businesses to run into performance problems. A quick and bold response is the way to reduce risk.

## Other

**Q. President Tokura, you are going to be appointed as a Vice Chairman of Keidanren. Will this not interfere with your company duties? What will be the management structure after you take up that position?**

A. Fortunately I have both the physical and mental strength to fulfill my duties, and intend to do so with the help of all involved. I plan to focus mainly on my company duties.

## 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.