

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

Date and time: Monday, November 27, 3:30 to 5:00 p.m.
Presenter: Masakazu Tokura, President

Specialty Chemicals

Q. With the exit of competitors in the resorcinol business, your operating income significantly increased in the first half of fiscal 2017, but I would like to ask about your plans to increase your production capacity. In addition, it appears that there has been a delay in the scale-up in production volumes of a North American automobile manufacturer, but what impact is that having on your separator business? Lastly I would also like to ask about the expected contributions to your future results of high-purity alumina, liquid crystal polymer (LCP), and polyethersulfone (PES), all of which are expected to grow.

A. We have an annual production capacity of 20,000 tons of resorcinol at our Chiba Works and 10,000 tons at our Oita Works. By expanding the annual production capacity at our Oita Works to 12,000 tons, we plan to expand our total annual production capacity, including Chiba Works, to 32,000 tons. In addition to Indspec Chemical Corp. exiting the business, a competing manufacturer in China is, out of necessity, running at a low capacity utilization rate because of the impact of some environmental regulations. As a result, supplies of resorcinol are very tight in relation to demand, and we, too, are struggling to meet inquiries from our customers. After increasing the annual capacity at our Oita Works by 2,000 tons, we need to think about the next steps we should take.

The North American automobile manufacturer expects to be able to meet its production target of 5,000 cars per week sometime during the first three months of 2018. Other automobile manufacturers apparently think it is quite a different matter to go from producing a few tens of thousands of vehicles to producing several hundreds of thousands of vehicles, but the North American automobile manufacturer is confident that it will be able to overcome the hurdles it is facing. For the time being, we will keep our annual production capacity for separators at its current level of 300 million m², but we will increase it up to 400 million m² while keeping an eye on demand trends.

Sumitomo Chemical's PES has a high market share in aircraft applications, but it is also used in automotive and medical applications, and growth is expected in all applications. For that reason, we are constructing a new production facility at our Chiba Works to double our existing annual

capacity of 3,000 tons, and we aim to get the new production facility up to full capacity as quickly as possible after its start of operations next spring. For automotive applications, we want to leverage our strengths and significantly increase sales.

Q. I would like to ask for details about your outlook for your OLED-related materials businesses, including circularly polarizing film for smartphone applications, OLED light-emitting materials for large-screen TVs, and film-type touchscreen panels. In addition, for each product, how are you viewing your medium-term returns?

A. By 2020, we would like to boost the share of the IT-related Chemical Sector's sales accounted for by OLED-related products to around 50%. We expect to increase sales of such products as circularly polarizing film, film-type touchscreen panels, and window film.

Our newly-developed liquid crystal coated-type circularly polarizing plates are used in OLED TVs. Amid a trend toward bigger TVs and better picture quality, OLED TVs, which have higher contrast and a wider viewing angle compared to LCD TVs, are now starting to spread and their sales are expected to grow. In components and materials for smartphones, which started to be used in OLED panels for high-end models, Sumitomo Chemical's circularly polarizing film is widely used, and we expect sales to increase with the spread of OLED smartphones. In addition, our manufacturing technology for touchscreen panels offers a wide choice of film substrate. With this advantage, our manufacturing technology enables functional integration of materials and components, such as integration of touchscreen panels and polarizing films. Accordingly, the touchscreen panel and other OLED-related materials business is expected to expand in a variety of new areas, and we have great expectations for its future potential. Moreover, regarding PLED light-emitting materials, one display manufacturer is considering an investment in mass production using our materials and we are looking forward to it with great anticipation.

Q. The recovery in the methionine market is a bit slower than the pace you predicted, and I would like to ask about what is behind that. In addition, how do you see the demand for methionine moving going forward?

A. Compared to the peak price in 2015, the price for methionine has temporarily fallen to about half its peak. It seems that the price fell as supply-demand conditions softened and lower prices were anticipated because many companies announced capacity increases in 2015. The current price has increased by about 10% over the lowest price, and we predict that the price will rise by about 5% in the fourth quarter, compared to the third quarter. We do not expect that the price will recover to the levels it reached at its peak, but the current price is still low compared to past prices, and we expect the price will recover further.

In 2018 and 2019, both we and our competitors plan to complete methionine production capacity expansions, which will temporarily expand supply in relation to demand, but we expect that methionine demand will afterwards expand, causing a tightening of supply. We think that, as the market is looking at this area coolly, prices will return fairly gradually.

Q. Are you aiming to increase revenue in your methionine business by stealing a march on your competitors and setting up a new plant before the methionine market recovers next year?

A. There may be some differences between the market's outlook and our outlook, but that is what we are aiming to achieve. In around the autumn of 2018, when our new plant will be set up, we are hoping that prices will have risen.

Q. With regard to your agrichemical business outside Japan, in the recent second quarter conference call, you said that sales volume would recover in the second half, but are you seeing concrete signs of a recovery in demand? In addition, will it become more difficult to compete with genetically modified organisms (GMOs) in the next year and beyond? I have heard talk that GMO demand is increasing, so I would also like to ask about the impact of that.

A. Sumitomo Chemical is not involved in the GMO business, but resistance to agrichemicals will always emerge. Our product flumioxazin has found a new application as a countermeasure to resistance, giving rise to use in systemic pest control with Monsanto's Roundup. Monsanto has launched next generation products for their pest control system, but we are also selling products that support the new system, which we hope will be competitive.

In addition, our forecast for the agrichemical market going forward has not changed since we announced our results for the second quarter. We see signs that shipments are increasing due to the slight improvement in Brazil's economy and the impact of a reduction in inventory in America, as well, but we think that our performance this year will be in line with our full-year forecasts in the second quarter results announcement.

Q. In the life sciences field, I think that the reason you were forced to adopt a strategy of collaboration with major overseas manufacturers in your agrichemicals business is that you were unable to concentrate management resources within the agrichemicals business, but were forced to invest in a variety of businesses. Could you please give some details about how you will invest management resources in the life sciences?

A. Our agrichemicals business is small compared with those of major manufacturers outside Japan, in terms of revenue, but we believe there are two major reasons for this. These reasons are that not only have we not been involved in the GMO field, we have also not been able to build a sufficient global footprint. In order to enhance our global footprint, in addition to purchasing Excel Crop Care, an agrochemicals company of India, last year, we have also undertaken initiatives such as expanding our business collaboration with Nufarm. Building a global footprint is not something that can be done in a day, and we are currently considering further acquisitions and other measures. It would be best if we could sell the excellent agrichemicals we have developed internally entirely on our own, but in cases where we cannot sell them, we are also collaborating with major manufacturers outside Japan to have them sell these products for us. As for our pharmaceuticals business, we currently own just over 50% of Sumitomo Dainippon Pharma, and we would like to maintain this ownership ratio for the time being. Sumitomo Pharmaceuticals was born out of Sumitomo Chemical's pharmaceutical business unit, and merged with Dainippon Pharmaceuticals to create Sumitomo Dainippon Pharma. Thereafter, Sumitomo Dainippon Pharma purchased US-based Sepracor, achieving its current structure.

There are some foundational technologies in common between the agrichemicals business and the pharmaceuticals business. For example, iPS cell technology is a foundational technology that is used in both the agrichemicals business and the pharmaceuticals business. In addition to being used in regenerative and cellular medicine, such as in creating retinas from iPS cells to treat age-related macular degeneration, this technology can also be used to check whether there are any side effects of agrichemicals and pharmaceuticals using structures created from iPS cells. Moreover, Omics technology, which is used to analyze issues such as metabolisms, proteins, and toxicity, is also a foundational technology common to the two areas. Looked at from a global perspective, Sumitomo Chemical is a middling player in both agrichemicals and pharmaceuticals, but we would like to continue to do business as a solid medium-sized manufacturer with unique characteristics.

Bulk Chemicals

Q. For the Petrochemicals & Plastics Sector, over the last six months or so, the business environment for MMA and CPL has changed, so are you not planning to change your business strategy? In addition, you report that Petro Rabigh Phase I is going extremely smoothly, but are you not putting the same level of effort into setting up Phase II as you did when setting up Phase I? What do you expect the impact will be of the setup of Phase II taking until next fiscal year?

A. There are a variety of different viewpoints on how long the positive conditions in the petrochemicals business will last. In 2017-18, a number of petrochemical plants using shale gas as a raw material are planned to start operating in the United States. It is expected that the total production capacity for ethylene of these plants will exceed that of Japan, and we are keeping a close eye on the impact this will have on the global supply of petrochemical products. In addition, we are also focusing on regulatory trends in China toward petrochemical plants based on environmental issues. In China, both the central government and regional governments are tightening environmental regulations, which is becoming a major factor limiting the supply of a variety of petrochemicals, including not only olefin and polyolefin, but also CPL, MMA, and AN. We believe the question of whether these Chinese environmental regulations will continue going forward, or whether they will be relaxed after the completion of the National People's Congress, will be a key point in this area. It is said that the strong business environment for the petrochemicals business will continue until the beginning of 2018, but recently there have been some voices saying the strong business environment will continue throughout the whole of 2018.

At the moment, the prices of crude oil and naphtha are increasing due to growing geopolitical risks, reducing margins for polyolefin. Sumitomo Chemical takes an extremely conservative view of the business environment for the petrochemicals business for the second half of this fiscal year and for fiscal 2018, and we will have to keep a close eye on margin trends going forward.

Currently, our MMA monomer and polymer plants in Singapore have stopped one production line each. Because the MMA business is currently extremely strong, there are those who wonder if we can restart the suspended lines, but we need to consider business trends in light of a medium-to-long-term viewpoint, and hold careful deliberations.

CPL is also doing extremely well at present. Because we can manufacture CPL without ammonium sulfate byproducts using a proprietary vapor-phase manufacturing method, we have been receiving technical inquiries from China with regard to strengthening environmental

regulations. Taking this into consideration, we would like to take a close look at how we should handle the CPL business going forward during the period of the current Corporate Business Plan.

As for Petro Rabigh, we expect that Phase I will continue to produce good results in fiscal 2018 as well. With regard to Phase II, we are fully utilizing the lessons learned in Phase I, continuing to dispatch necessary personnel and transfer technology for Phase II in the process of setting up the plant.

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