

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

Date and time: Wednesday, December 2, 10:00 to 11:15 a.m.
Presenter: Masakazu Tokura, President

Entire company

Q. In the current Three-Year Corporate Business Plan for fiscal 2013 to 2015, you have achieved significant results in enhancing the company's financial strength and have also made progress in business restructuring. In the restructuring of your methyl methacrylate (MMA) business and the development of next-generation businesses, however, challenges still seem to remain. What do you think of this?

A. Regarding business restructuring, two issues remain in the bulk chemicals area. In our caprolactam business, we closed our liquid-phase process plant, but we have continued operations at our plant that uses our proprietary environmentally-friendly vapor-phase process technology. While the business environment for caprolactam remains tough, we expect inquiries from customers who want to introduce our unique vapor-phase process technology. We are working to improve this technology further.

As for our MMA business, the competitiveness of MMA monomer is important. Our isobutylene direct oxidation method is cost-competitive when using isobutylene as raw material. In the Rabigh Phase II Project, a plant using this technology is now under construction. Sumitomo Chemical Singapore produces MMA monomer by using MTBE as raw material, but a rise in MTBE prices has reduced its cost competitiveness. Because of this, we continue to seek means to secure MTBE at low cost. We are also working on the development of new applications for MMA, which is a material with excellent properties.

As for the development of next-generation businesses, the large-screen television market, a main target market for our polymer OLED technology, has been slow to take off. Our polymer OLED technology is a very important basic technology that has a broad range of possible applications, such as lighting, solar cells, biosensors and organic semiconductors. We will continue to improve our polymer OLED technology, aiming for commercialization of various related businesses.

Q. You said your company will continue to be very selective about your investment for the next Three-Year Corporate Business Plan. Do you plan to take more risk through M&A?

A. We have rigorously selected investment opportunities, and will continue to do so. We would like to limit our normal investment to levels slightly exceeding depreciation costs. Separately from normal investment, we want to make strategic investments, and will consider M&A for such investments.

For the development of next-generation businesses, we intend to carry out small and medium-scale M&A to supplement our own technologies and other resources in order to accelerate the commercialization process.

We will also aggressively pursue opportunities for large-scale M&A in order to significantly expand our business in the life sciences field, where we have strengths. At present, no investment has been decided yet.

To make large-scale investments flexibly, we will continue to enhance our financial strength.

Q. Your operating income and ordinary income for the current business year are both expected to exceed your estimates announced earlier. What are your earnings forecasts for the next fiscal year? What are your predictions for trends in your main businesses for the next fiscal year?

A. In fiscal 2015, the business environment has been good not only for us but also for the entire petrochemical industry. Profit margins on petrochemical products have declined in Asia since September and October, but we don't think that margins will drop to the levels experienced around 2012. Prices of methionine were higher during the first half of fiscal 2015 and are expected to stabilize at slightly lower levels. In the specialty chemicals field, sales of IT-related chemicals, crop protection chemicals, and pharmaceuticals are expected to expand. The business environment for fiscal 2016, the first year of the next Three-Year Corporate Business Plan, needs to be carefully watched.

Q. As you will complete business restructuring in the current fiscal year, there will be no extraordinary losses related to restructuring from the next fiscal year, and net income is expected to increase. You said you are targeting a dividend payout ratio of 30%. Can we expect a larger dividend for the next fiscal year?

A. Based on stable dividend payments, we would like to return profits appropriately to shareholders and other stakeholders.

OLED-related Specialty Chemicals

Q. The use of OLED displays is expected to spread. How will it affect your touchscreen panels and polarizing film businesses? When do you plan to begin commercialization of polymer OLED?

A. As for OLED displays, which are often in the news these days, the business environment differs by application, such as uses in smartphones and televisions.

The global smartphone market is estimated at 1.4 billion to 1.5 billion units, of which more than 200 million units use OLED displays. Our touchscreen panels, both glass-type and film-type products, have benefited from increasing demand for OLED displays. A major smartphone manufacturer is reported to adopt OLED displays, but supply is limited, so production capacity needs to be increased to meet the manufacturer's demand.

We supply glass-type touchscreen panels to an OLED display manufacturer, and we expect this business will grow further. As OLED displays are in limited supply, the major smartphone manufacturer may adopt higher-value-added flexible displays. In that case, demand for our film-type touchscreen panels is expected to rise.

We also supply anti-reflection circular polarizing films for OLED displays, so demand for our circular polarizing films is also anticipated to grow. For flexible displays, we produce touchscreen panels, and we are also developing window film and barrier film.

As OLED is a new technology that is high in added value, including OLED-related components, an increase in the use of OLED displays for smartphones will benefit us.

We will further focus on the development of our polymer OLED technology, which is expected to be used for medium-sized OLED displays for tablet and notebook PCs as well as large-sized OLED displays for televisions.

As anticipated, production of liquid crystal displays (LCDs) is increasing in China, which is expected to become the world's largest manufacturer of LCDs. Amid the increase in LCD production in China, display manufacturers are accelerating their shift toward OLED technology. We have a wide range of OLED-related businesses, such as polymer OLED, touchscreen panels, window films and barrier films. We view the expansion of the OLED display market as a good opportunity.

Q. What components do you aim to supply for flexible displays? Are you developing four films--two barrier films, one touchscreen panel and one window film?

A. We have been developing all of them, and we have already launched our flexible touchscreen panel. To commercialize flexible display materials, we need to develop new materials, such as a film with high barrier properties. Organic-inorganic hybrid technology is a basic technology for developing new materials. We think flexible display materials are an area where we have our strengths as a materials manufacturer. We want to expand this business by offering a set of components.

Other Specialty Chemicals

Q. What is the projected scale of the CO2 separation membrane business in the future?

A. It depends on whether we will sell our CO2 selective membrane system or only lease the CO2 separation membrane. Assuming that we sell the CO2 selective membrane system to domestic chemical plants, the scale of the business is estimated at 10 billion yen. After the full-fledged takeoff of the carbon capture and storage (CCS) market, the scale of this business is expected to be larger.

Q. Slide 30 of the presentation material shows methionine demand-supply balance. We are concerned that an increase in supply may be larger than that shown in the slide, amid news reports on capacity expansion plans by competitors. Will you increase your production capacity, as already reported?

A. It was reported that we plan to build a new plant, but it was not our announcement. The dotted line in slide 30 indicates supply capacity expected earlier. Actual supply situations are shown by a bar graph, and supply growth has been lower than expected. Competitors are reported to be planning to increase their production capacity from 2017 to 2020. If all their plans are realized, supply-demand conditions are expected to soften temporarily. Demand for methionine is expected to grow sharply, and suppliers are limited due to a complicated manufacturing process. We have a competitive manufacturing process, and we want to consider significantly increasing our capacity by taking advantage of that strength.

Q. When do you plan to decide on a new methionine plant?

A. When boosting production capacity, we want to decide quickly due to a long construction period.

Q. A South Korean manufacturer is reported to supply lithium-ion secondary batteries to a U.S. maker of electric cars. Do all the lithium-ion secondary batteries supplied to the U.S. maker use your separators?

A. Regarding this news, we think it will have no influence on our separator business and Gigafactory-related business. As cost competitiveness is important in this field, we will continue to work diligently on technology development.

Q. What is the current status regarding your businesses of diesel particulate filters (DPF), solution styrene-butadiene rubber (S-SBR), and high-purity alumina? Demand for high-purity alumina for use in sapphire glass is expected to grow strongly for the next fiscal year. What is your opinion?

A. Our DPF has been adopted by a European carmaker, and shipments have already started. We don't think the diesel car market will shrink sharply, but we must closely watch how the diesel emissions scandal affects the market. New technologies will be required in the future, and we, as a newcomer in the DPF business, want to turn the current crisis into an opportunity.

As for S-SBR, we worked with a major customer on the development of S-SBR, and started a manufacturing plant with an annual production capacity of 40,000 tons. We already began supplying S-SBR to the major customer, but we have made slow progress in acquiring new customers. We are placing emphasis on finding new customers, and aim to bring the plant to full operation as soon as possible.

Regarding high-purity alumina, we doubled the production capacity of our Ehime Works and also built a new plant in South Korea. Demand for high-purity alumina used in coatings for battery materials and in LED sapphire substrates is expanding. With the increasing range of uses, demand for high-purity alumina is anticipated to grow steadily, and we expect our plants will operate at full capacity in two to three years.

Bulk Chemicals

Q. In the Petrochemicals & Plastics Sector, do you aim to increase licensing revenues?

A. So far, we have used our technologies for our Group's operations. From now on, we will license our technologies to other companies if it will not affect our businesses. We recently licensed our technologies of manufacturing polypropylene (PP) and propylene oxide (PO) to S-OIL Corp. of South Korea, and we believe it will not affect our operations. Our PO production technology is based on a PO-only process, where PO alone is manufactured without generating coproduct of styrene monomer. As our proprietary PO-only production technology is environmentally friendly, we have received many inquiries from companies other than S-OIL.

Q. Petro Rabigh's earnings are expected to be low in fiscal 2015 due to the influence of periodic plant maintenance and inventory valuation losses. Do you expect earnings to recover in fiscal 2016?

A. Petro Rabigh posted a large amount of inventory valuation losses in fiscal 2015 due to a sharp fall in crude oil prices. In fiscal 2016, if oil prices stabilize, there will be no valuation loss. Margins on ethane declined due to a drop in oil prices, but refining margins are high. In the Rabigh Phase II Project, plants are expected to start operations one after another from fiscal 2016, and expenses are anticipated to exceed revenues at the beginning. It is difficult to forecast Petro Rabigh's earnings because it is not clear yet how investments will be capitalized or expensed.

Cautionary Statement

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