

Q&A Summary for CEO Presentation Business Results & Outlook in June 2020

Date	June 2, 2020 15:00-16:30
Place	Online conference
Speakers and Respondents	HASHIMOTO Osamu, President & CEO MATSUO Hideki, Executive Vice President & CTO NAKAJIMA Hajime, Managing Executive Officer & CFO
Reference	CEO Presentation Business Results and Outlook posted on June 2, 2020

Q&A

■ Mobility

Q1. Please explain your forecast for automobile production going forward.

A1. For FY2020, we expect that automobile production will decline by about 20%, falling significantly in the first half, although the fall will be alleviated in the second half. We expect that it will take a certain amount of time for the automobile production to recover after that.

Q2. You plan to launch multiple new facilities in the Mobility segment, but will you be able to recoup the investments as planned amid stagnant demand due to the impact of COVID-19? In addition, is there a possibility that you will make an adjustment to the time to start operation in response to demand trends?

A2. Within the Mobility segment, demand for products for information and communication technology applications remains firm. In addition, relatively stable demand is expected for TAFMER™, which has applications other than automobiles, such as packaging materials. As for PP compounds, they will be affected by fluctuations in the automobile production, but we will flexibly adjust operation in response to demand while communicating closely with customers.

■ Food & Packaging

Q3. Is there a change to your plans to roll out new agrochemicals such as TENEBENAL™ ?

A3. There is no significant change.

■ Basic Materials

Q4. You said that you would pursue further restructuring in the Basic Materials segment, but what are its details?

A4. Although volatility has decreased due to the restructuring we have been implementing, the Basic Materials segment is expected to make a loss in FY2020. While this is mainly due to the impact of an inventory valuation loss, we think that more in-depth restructuring is necessary. We will consider measures beyond conventional ones, including further strengthening downstream businesses, and will draw up specific measures within FY2020 and put them into practice.

Q5. Income of non-consolidated subsidiaries and affiliates in the Basic Materials segment, including a urethane JV, is stagnant. Is there a possibility that you will cut stake, sell your interests or take other measures in the future?

A5. While these companies are JVs, there are cases in which it is not appropriate to evaluate JVs' merits on their own, because their production facilities serve as a core plant of our

manufacturing sites and are connected by pipes to other facilities, for example. We will examine various measures including improving profitability by strengthening downstream businesses.

Q6. In order to strengthen downstream businesses in the restructuring of the Basic Materials segment, you will need investment, and this will increase invested capital, the denominator of ROIC. Will you be able to secure the ROIC level you aim at after making the investment?

A6. While we maintain a certain level of ROIC in the three target domains in FY2020, the ROIC level in the Basic Materials segment is in the negative territory. While strengthening downstream businesses does require investment, making an investment can be an option if it contributes to improvement in profitability even though the invested capital increases. We are currently examining various options, and we will carry out our deliberations while taking into full account the return on capital.

Q7. In the Basic Materials segment, are there any products for which the recovery of demand is not expected down the road due to the impact of the trade conflict between the United States and China or COVID-19?

A7. Demand for products in the Basic Materials segment has not fallen particularly significantly overall, even though trends vary depending on the product. For instance, demand for products for automobiles has fallen while demand for products for daily necessity applications such as for food packaging remains firm.

■ **Group-wide**

Q8. How are you going to respond to the COVID-19 pandemic going forward?

A8. While it is difficult to forecast the future trends of COVID-19, we have set the target operating income before special items for FY2020 at ¥35.0 billion after internal deliberations based on several different assumptions. We will aim to achieve this target through the steady implementation of the measures against COVID-19 that we are currently taking, and will at the same time make preparations for a post-COVID-19 world.

Q9. Given that the materials industry is able to maintain growth by flexibly changing applications even with changes in the demand structure caused by the impact of COVID-19, etc., the revision of the long-term business plan is not necessarily needed, is it?

A9. Because we offer a range of products, some products are seeing decreased demand due to the impact of COVID-19 while other products are seeing increased demand, which has resulted in overall stability. However, we have been seeing changes which we had not assumed at the time of formulating the long-term business plan, such as rapid advancement of digital technologies including AI and rising awareness toward environmental and social sustainability including the marine plastic waste issue. In addition, while we have been pursuing portfolio reforms, there are some areas that are not necessarily making progress as planned, and further acceleration of the reforms is necessary. While we think that there will be no major change from the direction of the current long-term business plan, now that the plan has reached its halfway point, we will conduct a review once again and make revisions wherever necessary.

Q10. I think that close communication among customers and your staff from various

organizations within your Group is essential to strengthening your ability to propose solutions. Do you have sufficient communication while reducing the infection risk even under the influence of COVID-19?

A10. We are currently implementing telework. We are taking measures according to the characteristics of the workplace, such as maintaining the conventional working arrangement at the production sites by taking adequate steps against the infection risk, while teleworking is becoming the norm at the Head Office and branch offices, etc. As a result, there have been no infections at our offices and work sites in Japan as of this time. We are also developing a range of systems to enhance communication in the remote work environment. While in the past we often carried out prototyping of products with customers on site at our prototyping facilities, we are now, for example, making coordination with them through remote communication as much as possible to avoid slowdown of the process. Going forward, we are introducing a Center of Excellence (CoE) system to strengthen cooperation in our business sectors, and set in place a New Business Incubation Center to promote collaboration with startup firms and other outside partners. We will promote further communication inside and outside our Group so as to enhance our ability to propose solutions.

Q11. As you are strengthening communication in the remote work environment, are you taking measures against the risk of intellectual property leakage?

A11. Because the protection of intellectual property is an important issue, we are fully enforcing our risk management mechanisms as have been the case in the past.

Q12. Please explain your policy on shareholder returns, including your view on various indicators such as dividend-on-equity ratio (DOE).

A12. We expect headwinds in our financial results for FY2020, but we will adhere to our policy of enhancing shareholder returns. As for dividends, we intend to present specific amounts around the time when we announce the financial results for Q1 of FY2020, taking into consideration a variety of factors such as the profit level, the cash flow situation, and the balance between investments and shareholder returns, as well as our judgment as to whether the impact of COVID-19 is transient or not. As for indicators concerning shareholder returns, we will examine what indicators are appropriate, bearing in mind our medium- to long-term outlook for profit and loss.

Please note that this document has been translated from the original Japanese into English for the convenience of our stakeholders. The information was originally provided in Japanese. If there is any discrepancy, the Japanese language version is the official document and is available on our Japanese language website.