

FY2014-15-16

CEO Explanation

Creating New Customer Value through Innovation



淡輪 敏

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Business Performance

FY15 Financial Results and FY16 Outlook

FY2015 Financial Results & FY2016 Outlook

(Billion yen)

△ Denotes a minus

Items	FY2014	FY2015	FY2016	Increase (Decrease)	
	Results	Results	Outlook	FY14→FY15	FY15→FY16
Sales	1,550	1,344	1,250	△ 206	△ 94
Operating income	42.0	70.9	70.0	28.9	△ 0.9
Non-operating income	2.4	△ 7.7	△ 8.0	△ 10.1	△ 0.3
Ordinary income	44.4	63.2	62.0	18.8	△ 1.2
Special gains/losses	△ 8.6	△ 21.9	△ 6.0	△ 13.3	15.9
*Net income	17.3	23.0	36.0	5.7	13.0
Exchange rate(Yen/US \$)	110	120	110	10	△ 10
Domestic Standard Naphtha price(Yen/KL)	63,500	42,800	33,000	△ 20,700	△ 9,800

*Net income always refers to Profit attributable to owners of parent

FY2016 Operating Income Outlook

*After segment adjusted

(Billion yen)

△ Denotes a minus

Segment	*FY2014	*FY2015	FY2016
	Results	Results	Outlook
Mobility	30.8	44.9	39.0
Health Care	9.2	11.6	15.0
Food & Packaging	13.5	20.3	20.0
Basic Materials	△6.5	1.0	4.0
Others	△5.0	△6.9	△8.0
Total	42.0	70.9	70.0

Increase (Decrease)		Remarks
FY14→FY15	FY15→FY16	
14.1	△5.9	Increase sales volume Exchange fluctuations
2.4	3.4	Increase sales volume -Vision care, Nonwovens, Dental materials
6.8	△0.3	Increase sales volume Exchange fluctuations
7.5	3.0	High run rate of crackers Terminate PU plants
△1.9	△1.1	
28.9	△0.9	

- ✓ Downturns in terms of trade and exchange rates will be offset **by sales growth in targeted business domains from capacity expansion and successful restructuring efforts**
- ✓ FY2016 will be an important year in preparation for future growth



Operating Income



Net Income

Mobility

Health Care

Food & Packaging

Basic Materials

**FY2014
Results**

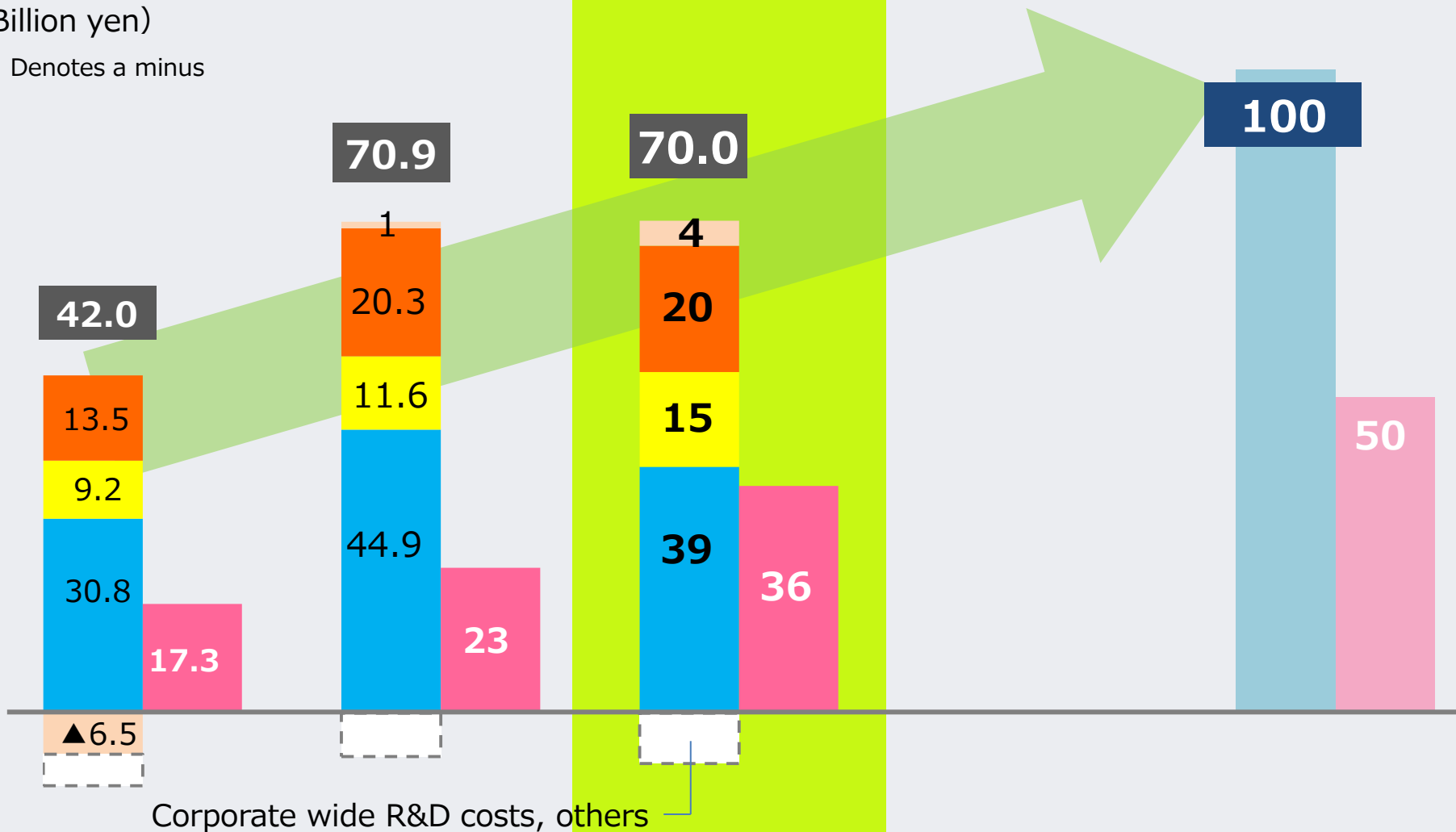
**FY2015
Results**

**FY2016
Outlook**

**Around 2020
Target**

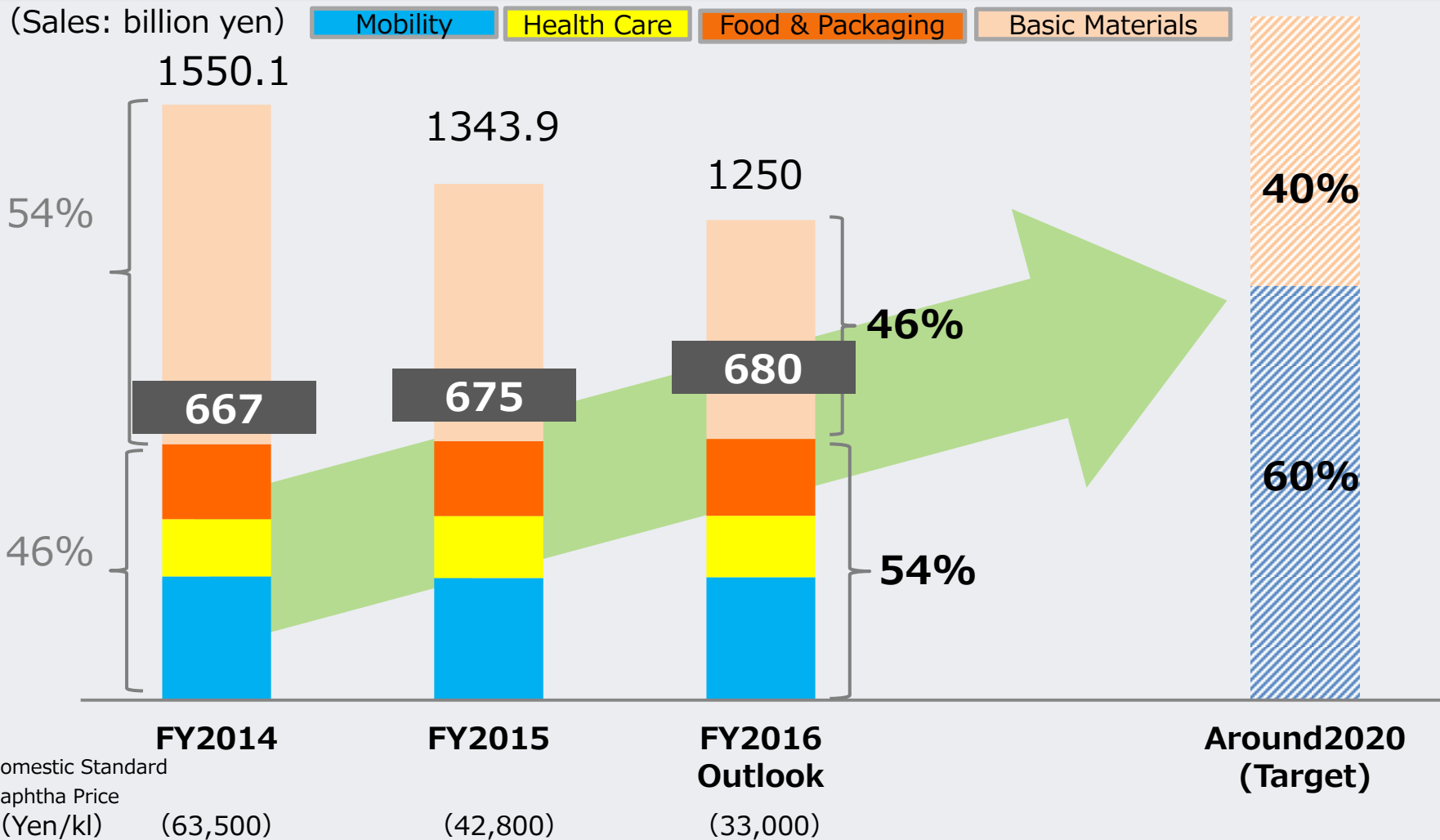
(Billion yen)

▲ Denotes a minus



Sales Portfolio in Business Domains

- ✓ Basic Materials sales share will continue to decrease due to successful restructuring and
- ✓ Efforts to steadily expand targeted business domains necessary for stable portfolio resilient to economic changes will continue and will offset weaker naphtha prices



Summary of FY2016 Management Targets

(FY15→FY16)

▲ Denotes a minus

	FY2014		FY2015		FY2016(outlook)
Sales ▲7%	1550.1 billion yen	➤	1343.9	➤	1,250 -Naphtha price declines -Termination of large-scale plants -PU business reassigned to non-consolidated status
Operating income ▲1%	42.0 billion yen	➤	70.9	➤	70.0 -Achievement of restructuring -Expansion of targeted business domains
Net income +57%	17.3 billion yen	➤	23.0	➤	36.0 -Normal level of extraordinary losses
ROE 3.3 point	4.5%	➤	5.8%	➤	9.1% -Improve net income
Net D/E 0.11point	1.22	➤	1.03	➤	0.92 -Reduce interest-bearing debt
Increase dividends 3 consecutive terms	¥5/share	➤	¥8/share	➤	¥9/share -Increase dividends for three consecutive terms

Progress of Mid-Term Business Plan

Summary of 2014 Mid-Term Business Plan

Mission of 2014MTBP

Transform business portfolio

Restore financial soundness and ability to generate cash flow

Accelerate approach to global management

Results (FY16 Outlook)



For sustainable growth

Further expansion
of targeted business domains

Strong cash flow
✓Investment
✓Dividends

Stable profitability
in Basic Materials

Mobility Business Sector



- Elastomers Division
- Performance Compound Division
- Performance Polymers Division
- Mitsui Elastomers Singapore
- Compound Administration Division

Basic Materials Business Sector

- Phenols Division
- PTA&PET Division
- Industrial Chemicals Division
- Petrochemicals Feedstock Division
- Licensing Division
- Prime Polymer
- Mitsui Chemicals & SKC Polyurethanes



Health Care Business Sector



- Vision Care Materials Division
- Personal Care Materials Division
- Nonwovens Division
(H-Project Division)

New Businesses & New Products

- New Health Care Business Development Division
- New Mobility Business Development Division
- Next Generation Business Development Division
- Robot Materials Business Development Division

Food & Packaging Business Sector



- Coating & Engineering Materials Division
- Mitsui Chemicals Tohcello
- Mitsui Chemicals Agro

Increasing Investments

To further grow targeted business domains, investments will be increased **76%** over initial plans

**14MTBP
Revised
(FY14-16)**

**14MTBP
Re-Revised
(FY14-16)**

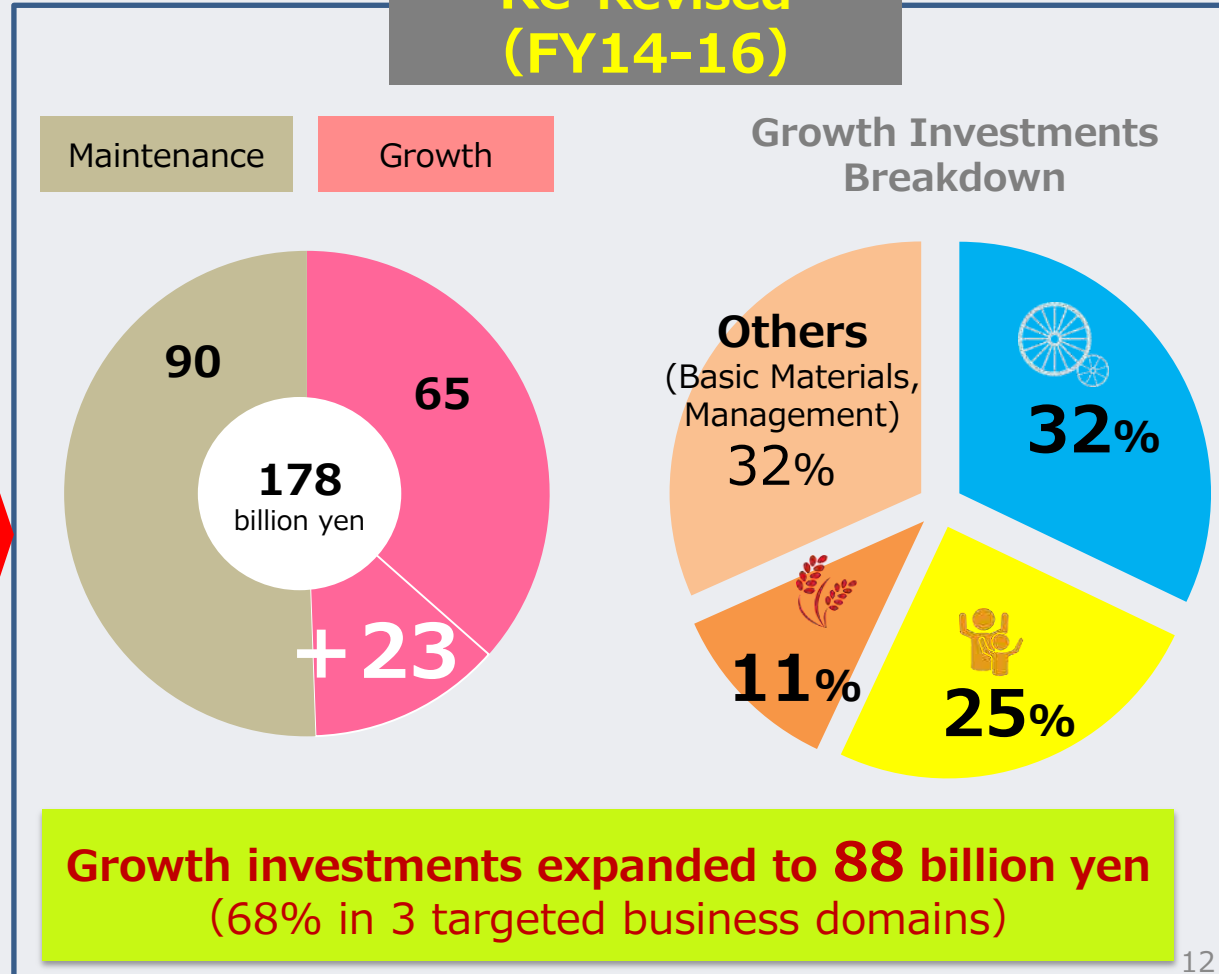
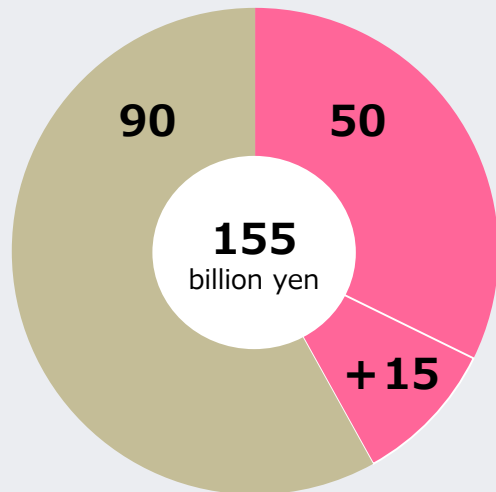
(Billion yen)

Maintenance

Growth

Maintenance

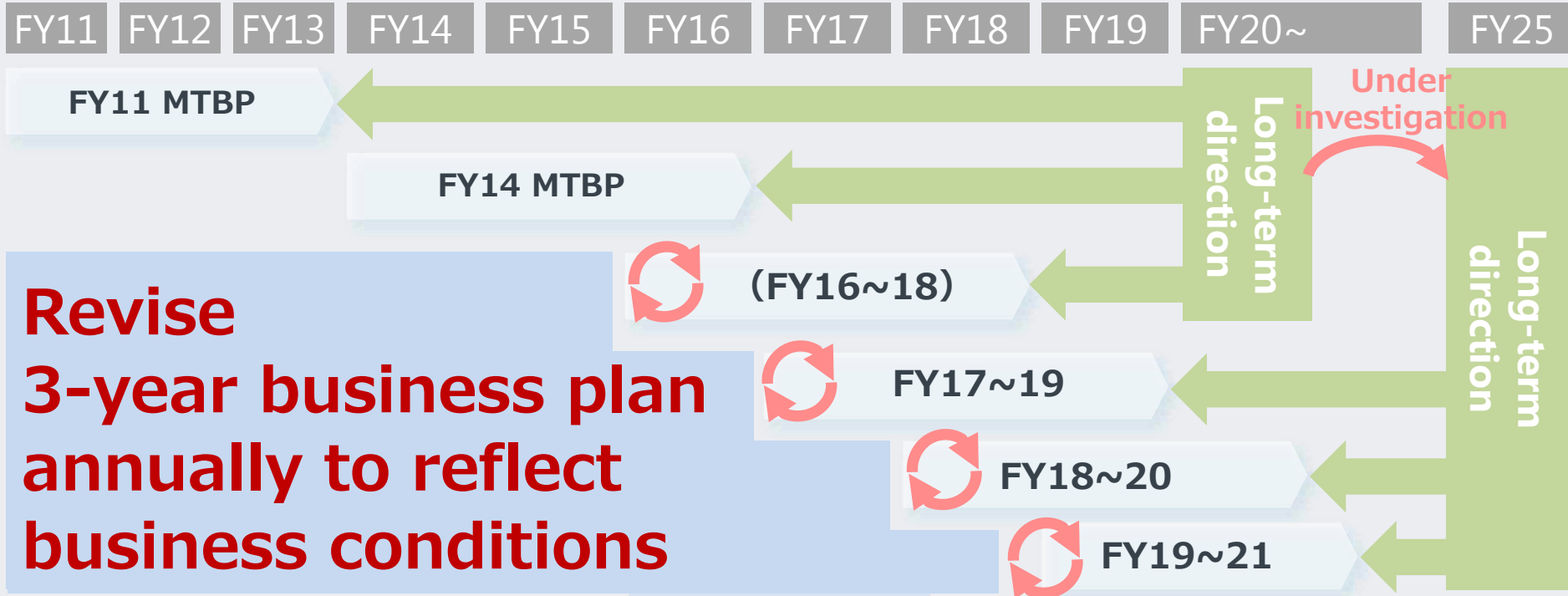
Growth



**Growth investments
50→65 billion yen**

**Growth investments expanded to 88 billion yen
(68% in 3 targeted business domains)**

✓ Transform management planning to improve adaptability to environment changes



**Revise
3-year business plan
annually to reflect
business conditions**

**Quick response
to environment changes**

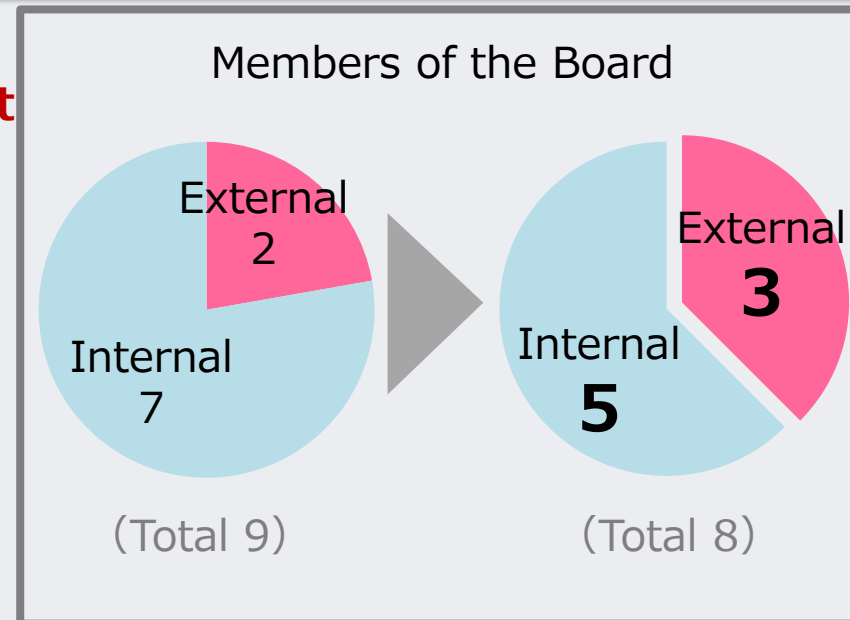
**Enhance executing speed
and accuracy of strategies**

**Improve environmental adaptability
& accelerate strategies**

✓ Strengthen monitoring & supervisory functions of the Board of Directors

- **Increase ratio of outside directors**
- Appoint outside directors with **management experience** to enhance not only monitoring & supervisory functions but also re-activate the Board of Directors' Meeting

Name	Experience
Yukiko Kuroda	Consultant & Management
Hajime Bada	Former CEO of JFE Holdings
Hiromi Tokuda	Former Vice President of Denso Corp.

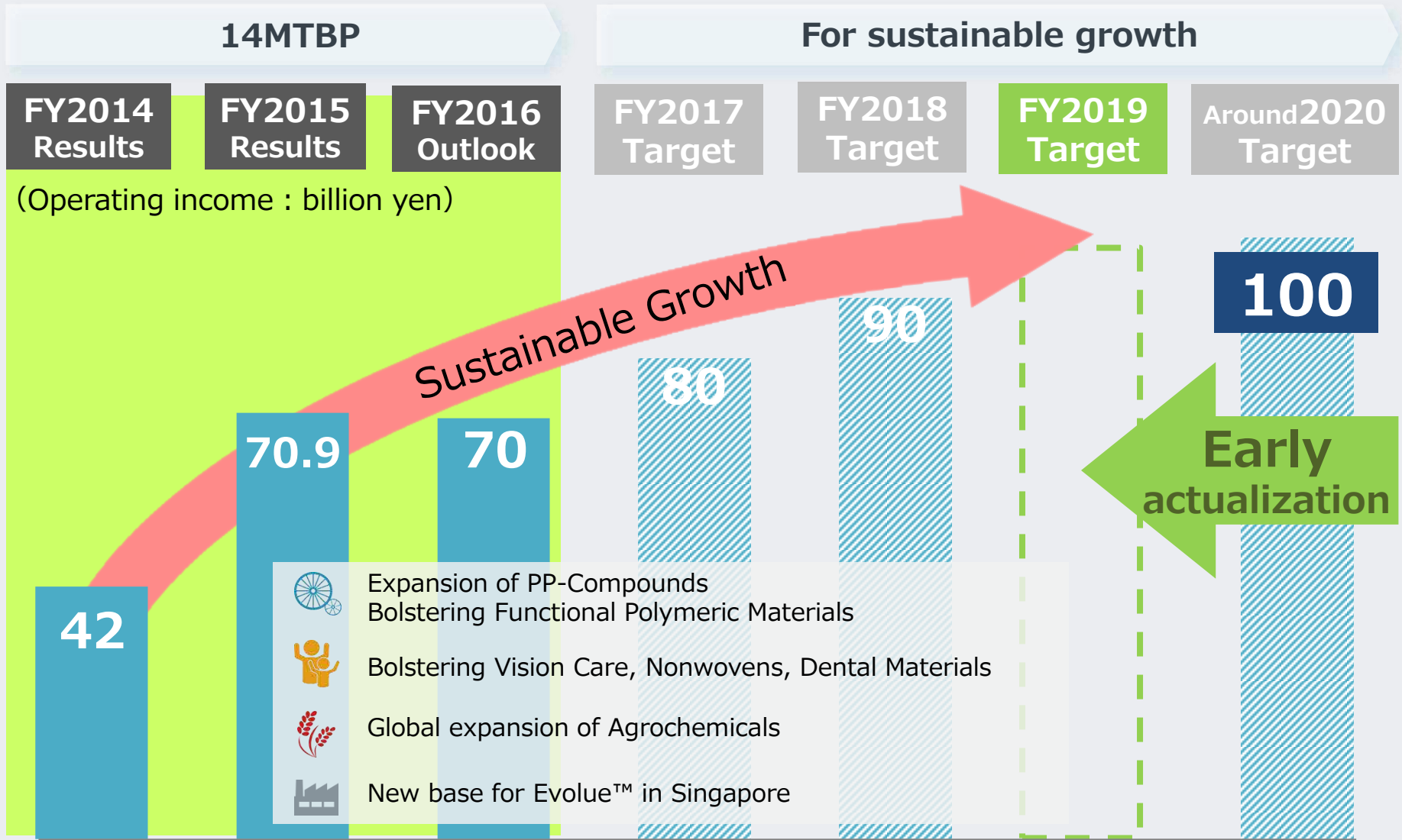


✓ Accelerate Strategy Execution

- Change organization to **4 business sectors** in line with mid-term business plan to accelerate transformation of business portfolio
- **Expanded delegation of authority to executive officers** to accelerate execution of business strategies

Improve management transparency & accelerate strategies

Future Growth Image



- ✓ Continue current strategy & target sustainable growth
- ✓ Target **early actualization** of 100 billion yen operating income



Topics of Business Domains

4 domains to resolve social challenges



Targeted business domains for growth drivers



Contribute solutions to reduce weight, enhance comfort, improve safety, and meet design needs through a wide product lineup, high technology, and high quality.



Contribute solutions to better health and happiness in an aging society by improving the quality of life (QOL)



Contribute solutions to global food problems and safer & reliable food needs through packaging materials and agrochemicals.



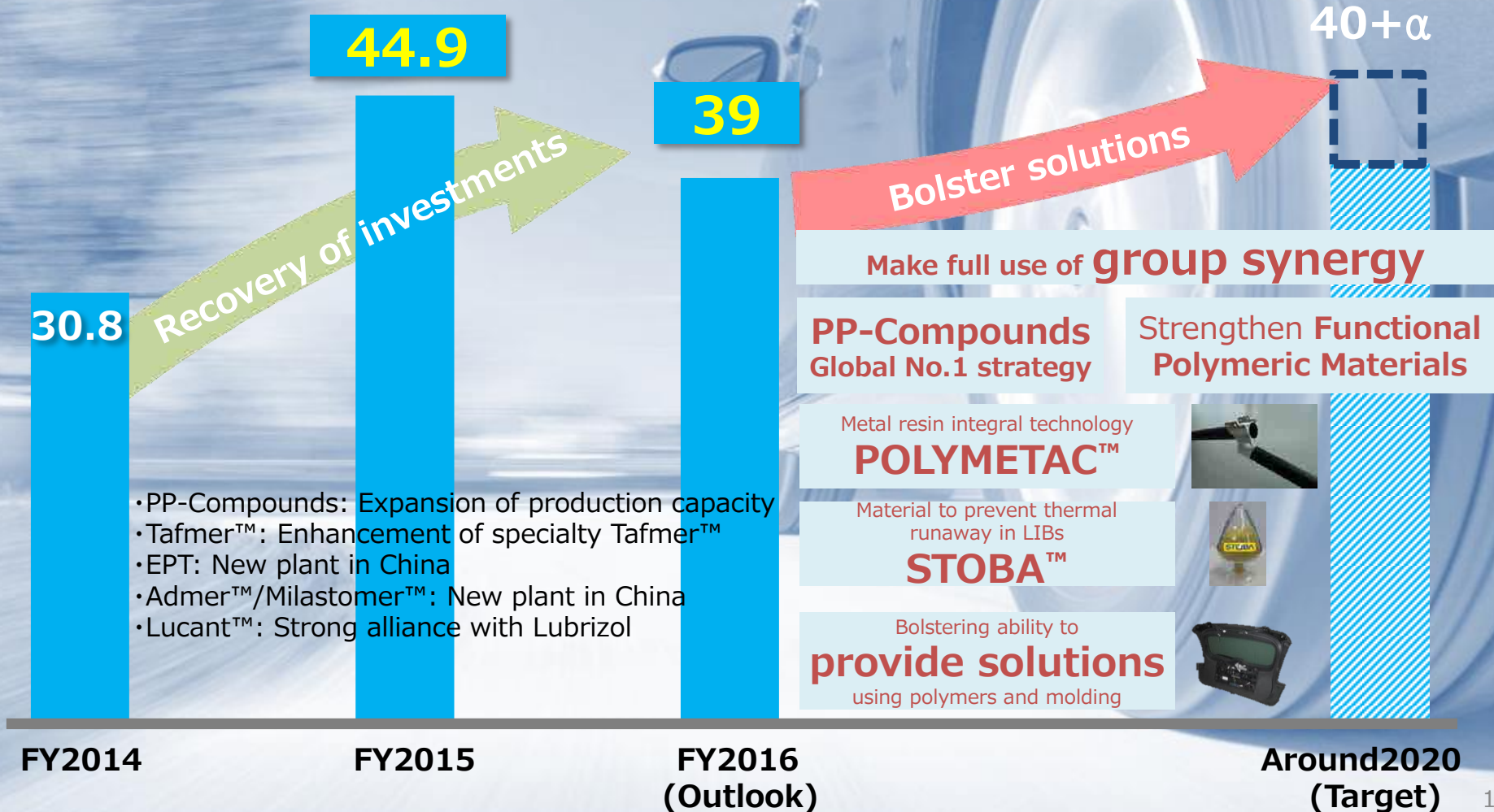
Contribute materials & technology to various industries for a better society in harmony with the local community



Supporting industry & society

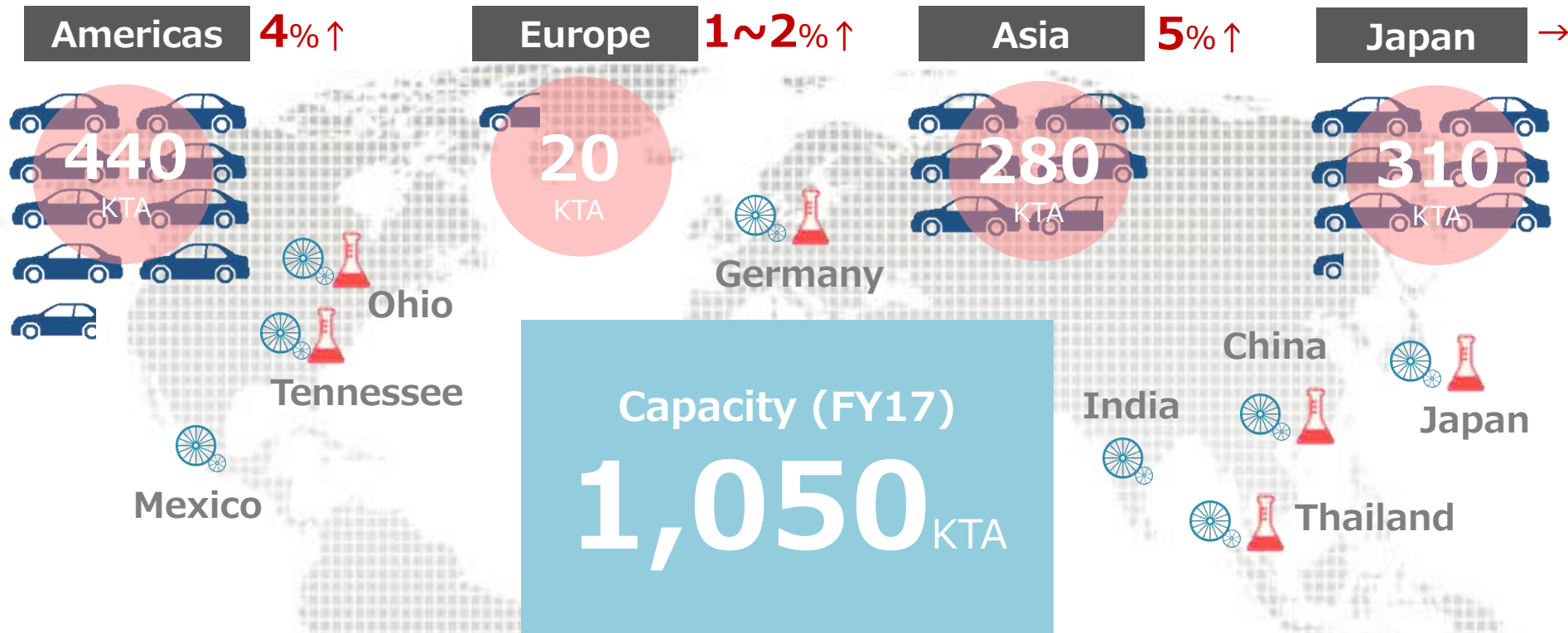
- ✓ **Early actualization of steady expansion** in mobility domain
- ✓ **FY16 forecast includes volume growth** and softening in terms of trade

(Operating income : billion yen)



Build production and R&D bases to support global strategies of OEMs

- ✓ Increase production capacity and S&B of high value-added lines in growth markets
(production capacity: **+40%** against FY11)
- ✓ Establish new R&D bases to bolster expansion in strategic markets (Europe, China)



Manufacturing bases

R&D bases

Capture growth opportunities by strengthening 8 strategic bases in worldwide network

Overseas Sales
70%

Balanced
Portfolio

Stable
Profitability

Mobility **45%**

- ✓ Comfort
- ✓ Small/Lightweight
- ✓ Metal alternatives for heat resistant use around engines
- ✓ Polymers for motor related material and electronic components

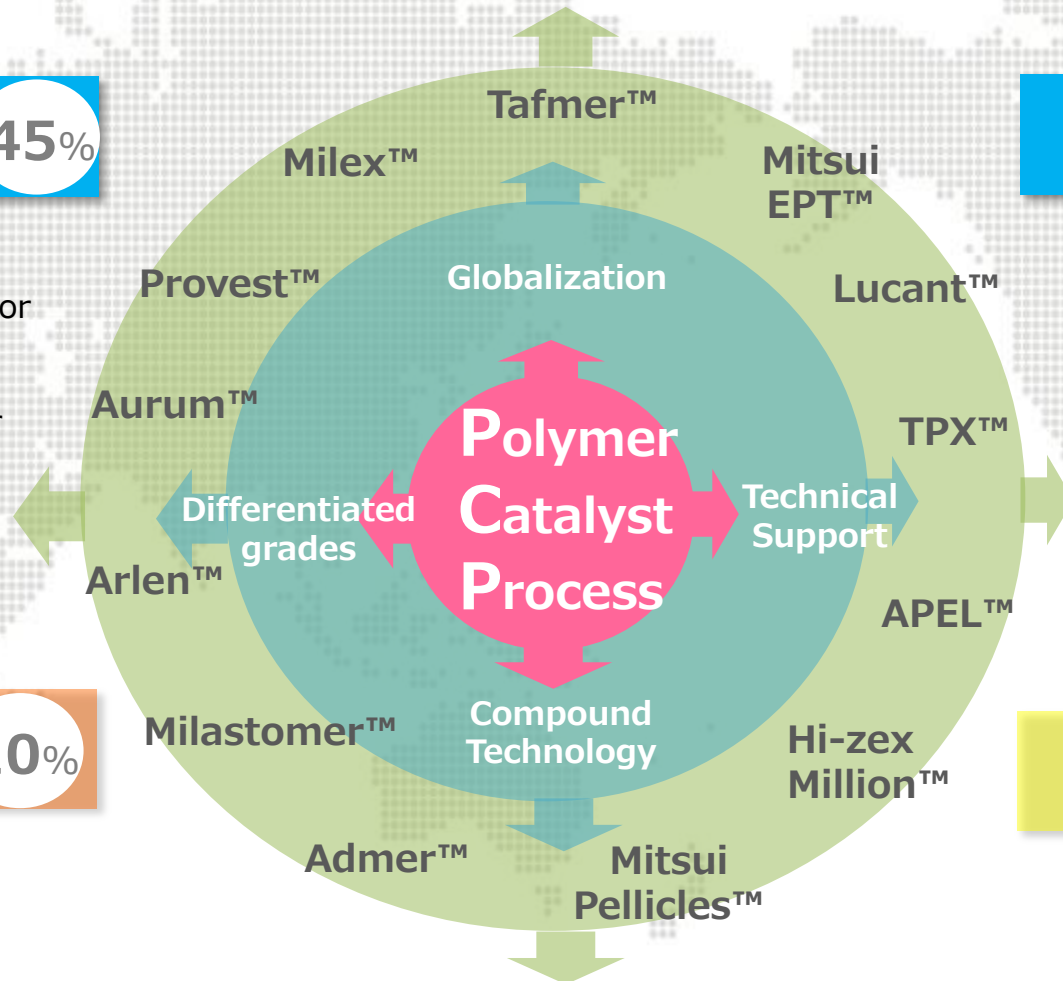
ICT **15%**

- ✓ Semiconductor miniaturization
- ✓ Thin/small electric circuits
- ✓ High-definition displays
- ✓ Small, high-definition cameras
- ✓ Small, high volume batteries
- ✓ Longer-life

Food & Packaging **10%**

- ✓ Barrier control
- ✓ Easy-peel

Healthcare
Others **30%**



- ✓ Improve **productivity and quality** through our **“on-site” capabilities**
- ✓ Continue high-profit portfolio through strong development capabilities to launch **differentiated products and grades**


Lucant™ (Additives for lubricant)



Expand business as lubricant additives for **better fuel efficiency** of automobiles

- ✓ Expand **global sales** by strategic alliance with Lubrizol
- ✓ Increase production by **de-bottlenecking** (approx. 40% capacity increase at end of FY2015)

APEL™ (For automotive lenses)



Strengthen automotive lens business which contributes to **“smart” automobiles**

- ✓ Horizontal deployment of smartphone lens material which already has high global market shares
- ✓ Establish most effective operations at 2 domestic production sites
- ✓ Establish **heat resistant grade** for automotive lens applications

- ✓ Collaborate with RimOnO, which unveiled its ultra-compact prototype mobility, **as a development partner in terms of materials**
- ✓ **Soft vehicles with polyurethane foam** exteriors and interiors
- ✓ Possibilities of **new value with materials not conventionally used in automobiles**



<Ultra-compact EV>



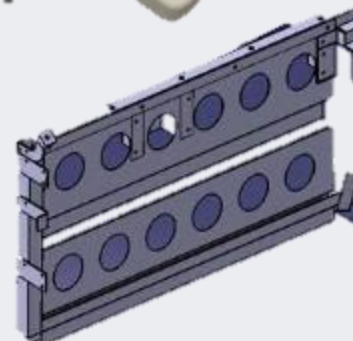
(Exterior)

- ✓ Good absorption by full body PU foams



(Seat)

- ✓ PU foams + gel with a thinness of 50mm
- ✓ Study feasibility of use of civil engineering materials for lighter seats



(Door panel) *Under consideration*

- ✓ Arlen™ exterior panels for lighter weights
- ✓ Toughness coat™ for better shape retention

4 domains to resolve social challenges



Targeted business domains for growth drivers



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Contribute materials & technology to various industries for a better society in harmony with the local community

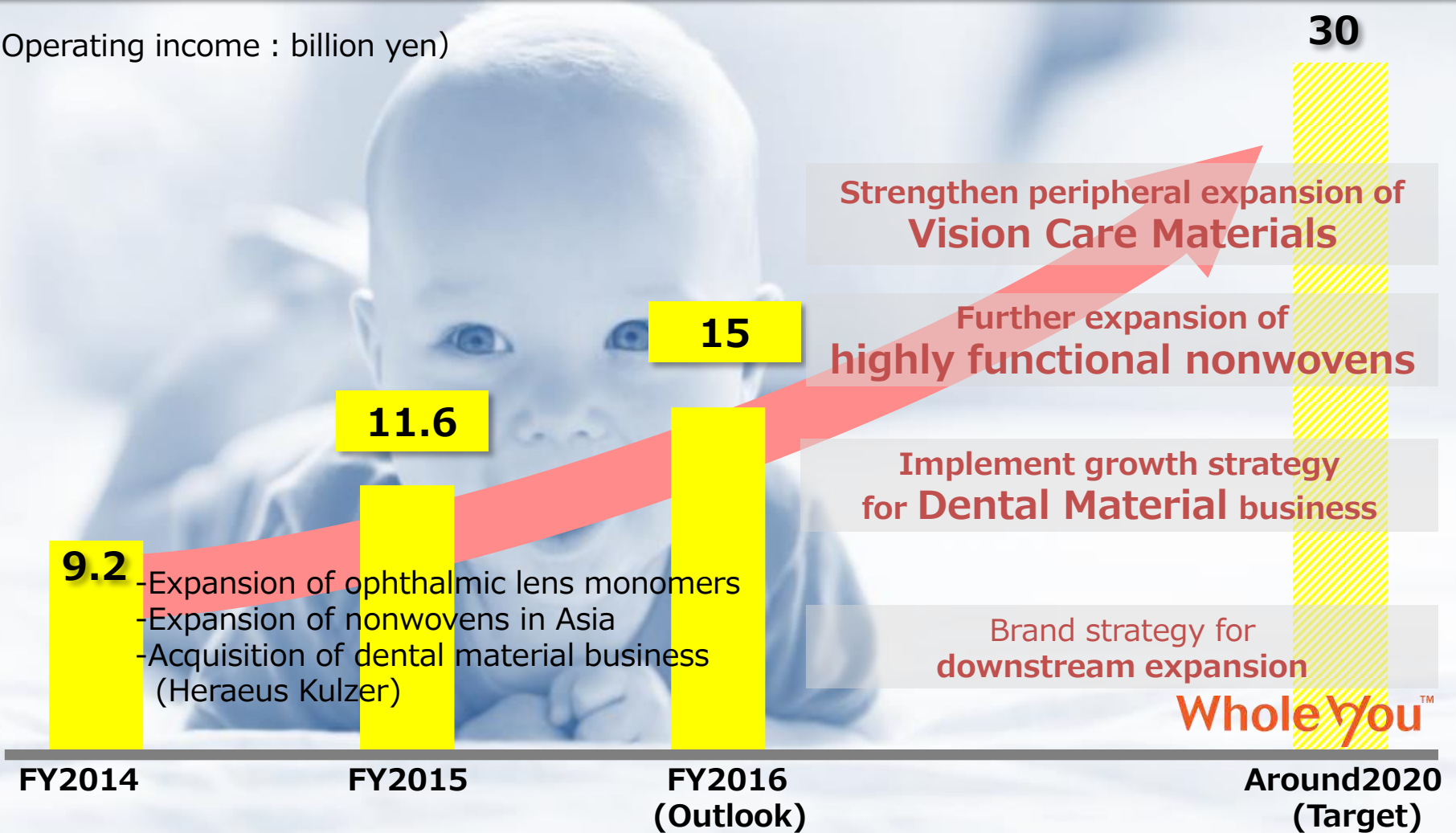


Supporting industry & society

✓ Increase sales by **start-up of large-scale facilities (XDI, Nonwovens)**

✓ Sustainable profit growth with new products and applications

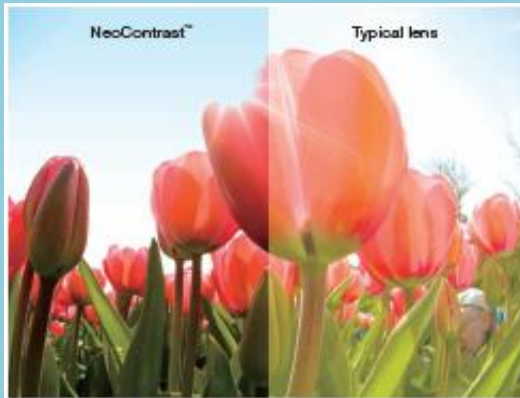
(Operating income : billion yen)



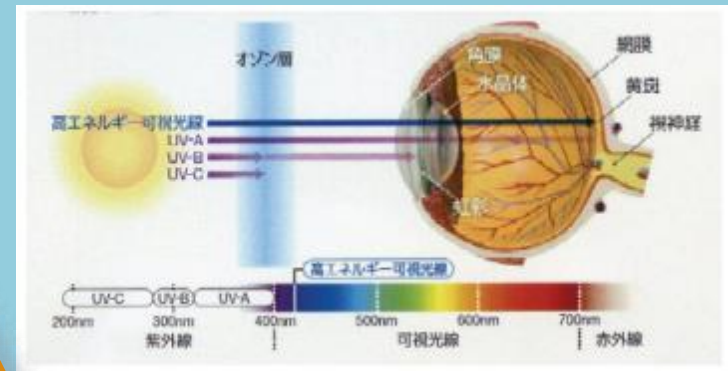
✓ Enhance QOV* by **high functionality, wavelength control technology, and other related technology**

*Quality of View

NeoContrast High contrast lenses



UV+ 420cut UV/Blue light cut lenses

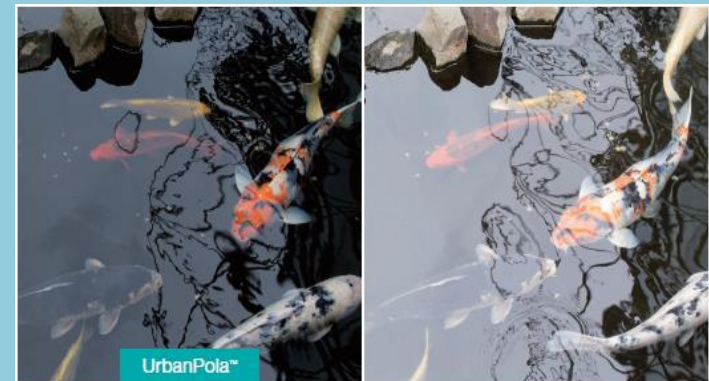


MRTM
Lens monomers
×
Dye tech.

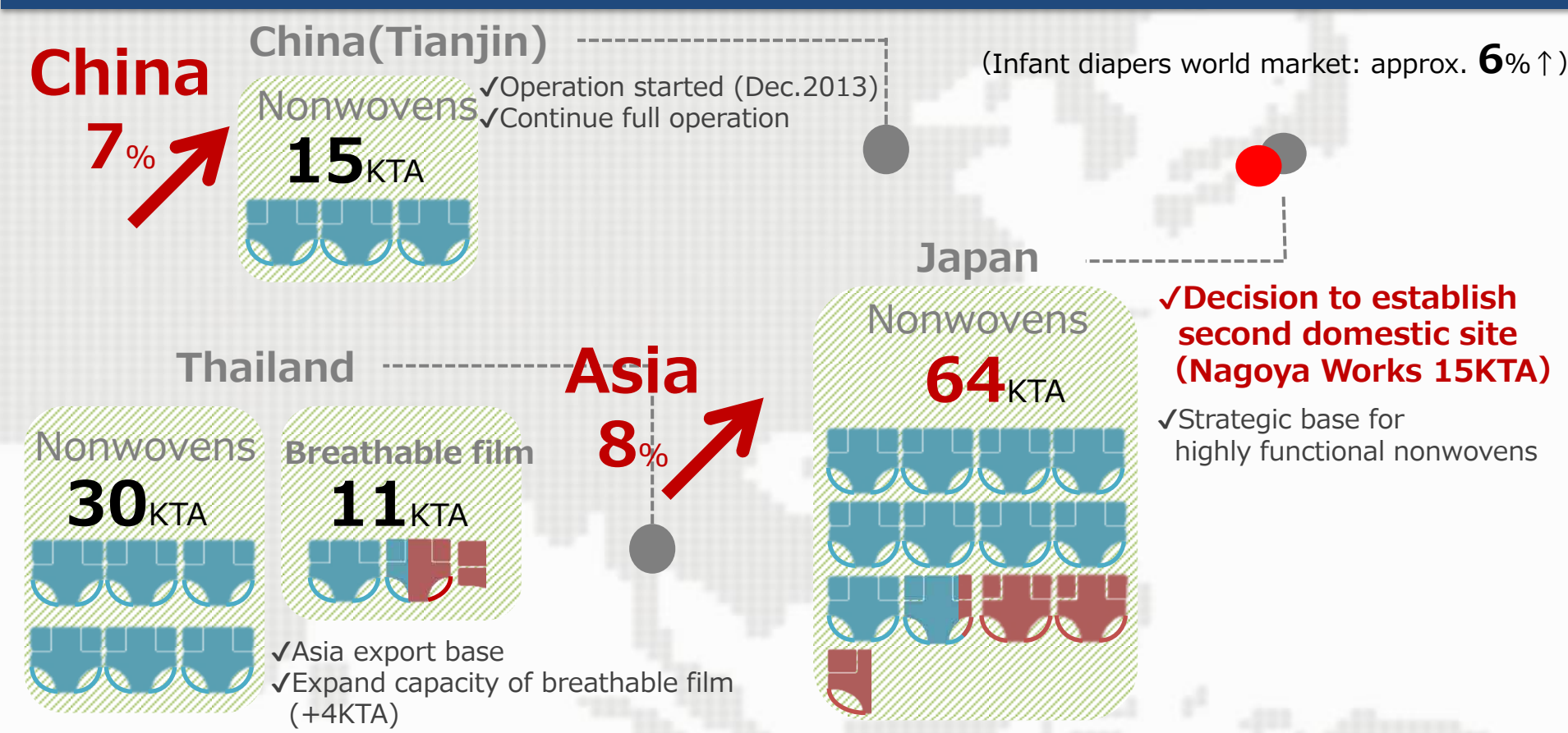
SunSensors Photochromic lenses



UrbanPola Polarized lenses

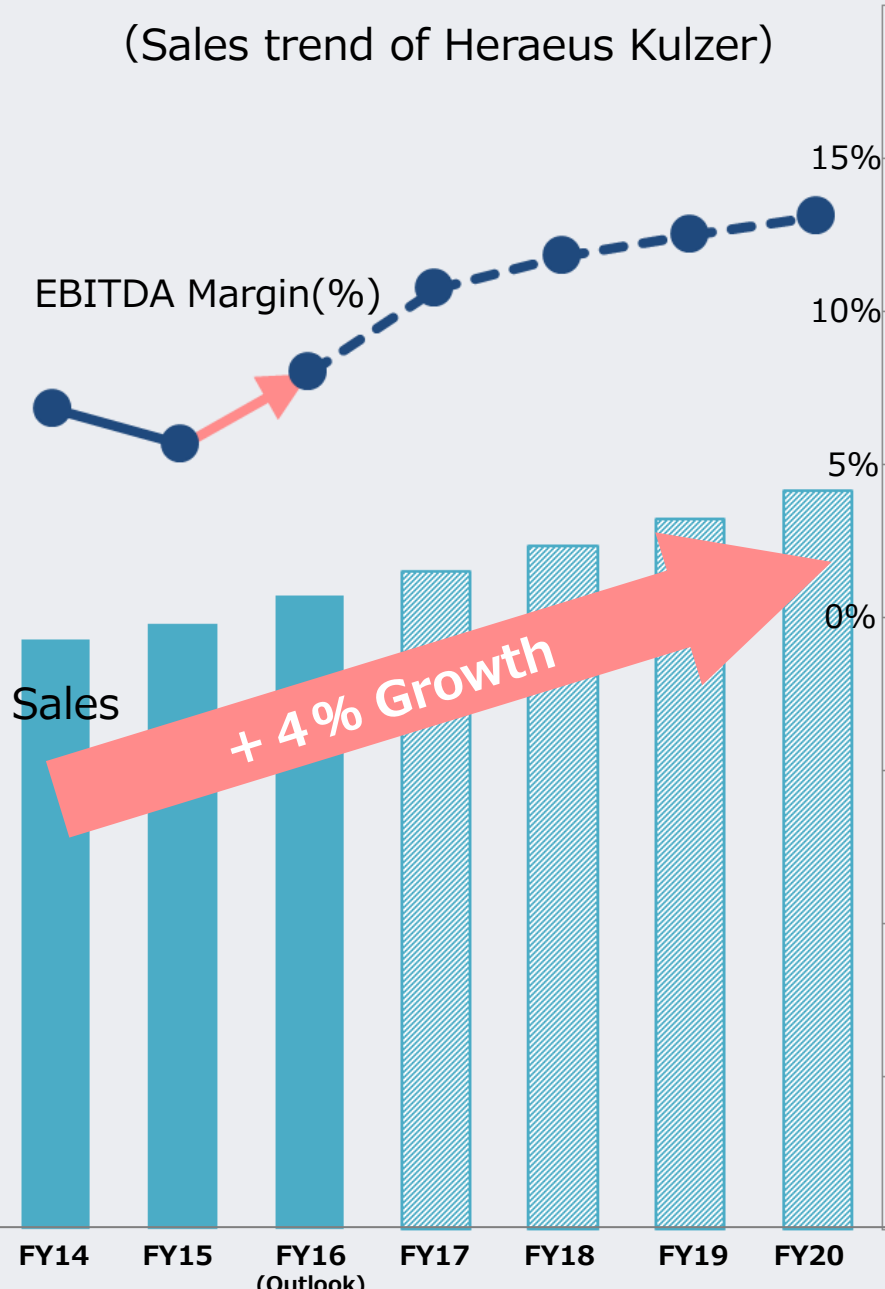


- ✓ **New base in Nagoya (15KTA, Mar. 2018 commercial operations)**
- ✓ Bolster breathable film capacity in Thailand (+4KTA, Jan.2017)
- ✓ Respond to rapid expansion of highly functional diapers needs in China (Growing affluence, expanding e-commerce, lower tariffs)
- ✓ **Urgent need to decide follow-up augmentation of highly functional nonwovens in FY16**



Strengthen No1 market share in Asia by expanding production capacities for highly functional nonwovens

(Sales trend of Heraeus Kulzer)



▲ Denotes a minus

FY15 Consolidated impairment loss of goodwill
▲ 19.5 billion yen

※ Effect on net income: ▲ 15.6 billion yen.
(non-cash, no effect on source of paying dividends)

- (+) Cost cuts completed
- (-) Drop in North American sales
- (-) Rapid changes in digital technology market



- ✓ **Change in corporate structure**
 - Strengthen development for digital market
 - Strengthen local strategies
- ✓ **Reinforce sales structure in N. America**
- ✓ **Strengthen small-scale digital line-up**
 - Market deployment of small milling machines & small 3D scanners
 - Accelerate market deployment of CAD/CAM software
- ✓ **Actualize new strategic business model**

Execute action for sales growth
Aim for EBITDA margin over 15%

4 domains to resolve social challenges



Targeted business domains for growth drivers



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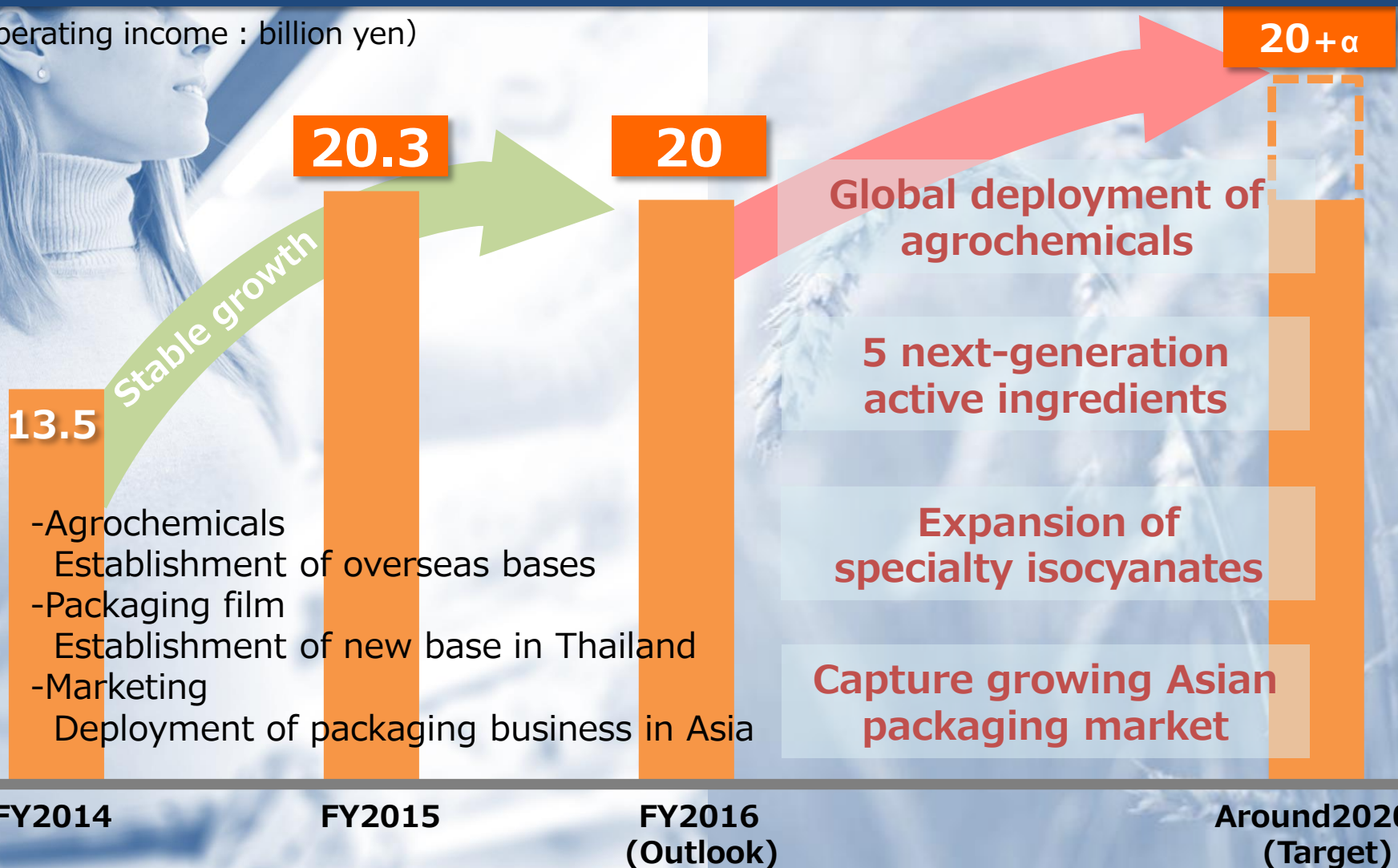


Supporting industry & society



- ✓ Food & Packaging expansion **ahead of schedule**
- ✓ Further expansion through establishment of overseas agrochemical bases and strengthening of packaging business marketing structure

(Operating income : billion yen)





Secure overseas bases
(9 + α)

Actualize and strengthen
global deployment

Development of compounds through market-driven business model

27 grades

25 grades

5 next-generation active ingredients

Start sales of new fungicide

100

- Herbicide
- Insecticide

- Animal health use
- Fungicide

Successor ingredients pipeline

(Sales: billion yen)

Domestic

Overseas

37

16%

FY11

44

27%

FY13

47

35%

FY14

50

36%

FY15

50

36%

FY16
(Outlook)

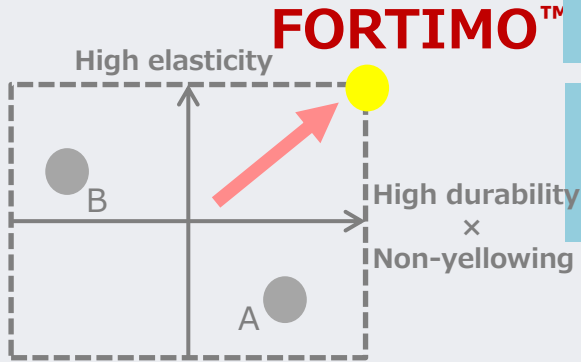
Overseas
50%

FY22
(Target)



Strengthen specialty isocyanates for CASE applications

E e.g.) Elastic Fibers

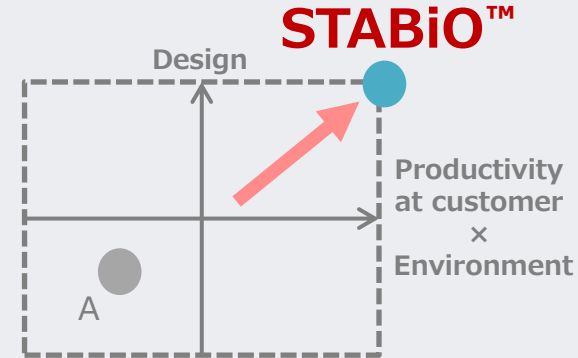


Non-yellowing, thin, and lightweight

XDI (5_{KTA})

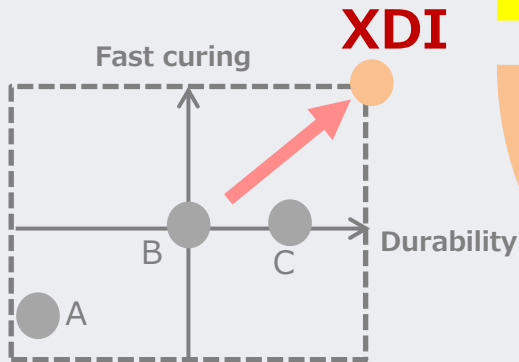
New Specialty Isocyanates (2_{KTA})

C e.g.) Automotive Paint



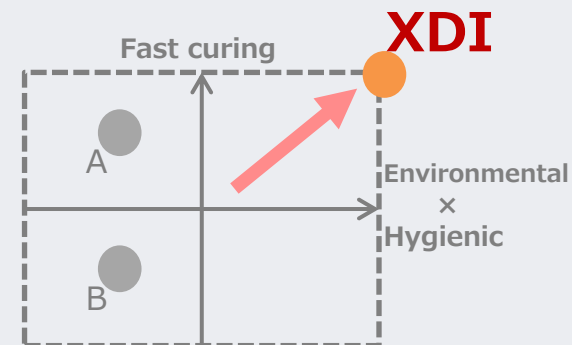
Shortening painting process
Improved appearance, Resiliency
Bio-mass material

S e.g.) Sealants for building materials

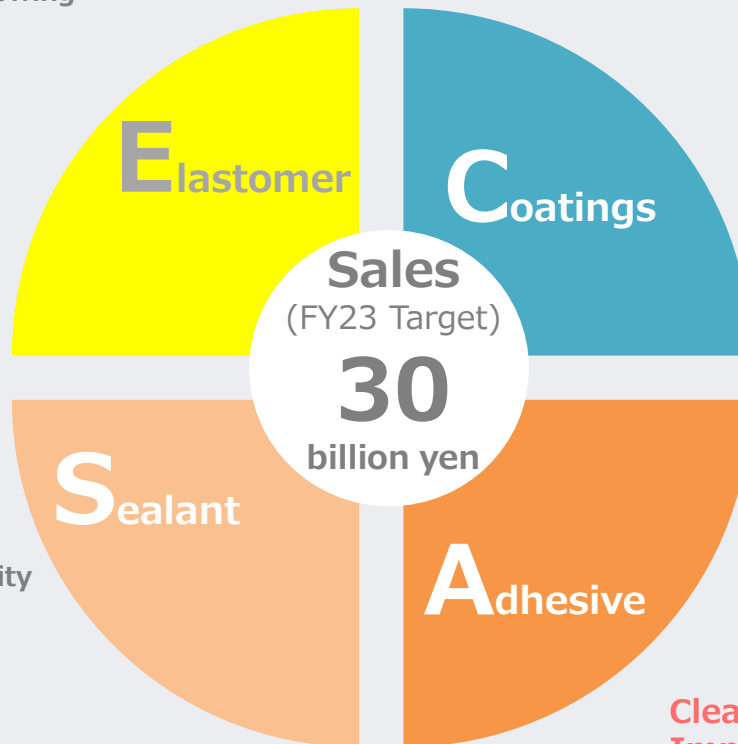


Double durability to conventional products

A e.g.) Food Packaging Adhesive



Clear hygienic regulations worldwide
Improve productivity due to fast curing



4 domains to resolve social challenges



Targeted business domains for growth drivers



Contribute solutions to reduce weight, enhance comfort, improve safety, and meet design needs through a wide product lineup, high technology, and high quality.



Contribute solutions to better health and happiness in an aging society by improving the quality of life (QOL)



Contribute solutions to global food problems and safer & reliable food needs through packaging materials and agrochemicals.



Contribute materials & technology to various industries for a better society in harmony with the local community



Supporting industry & society

- ✓ **Successful completion of restructuring** which was planned
- ✓ **Establish stable profitability** in Basic Materials

Phenols	Japan	Optimize production (Terminate Chiba Phenol, Ichihara BPA)
	China Sinopec JV	Commercial operation of state-of-the-art plant for region top cost competitiveness (Dec.2014)
	Singapore	Fully running 1 PH line and 2 BPA lines
PTA	Japan	Only domestic integrated manufacturer of PTA-PET
Poly-urethanes	Japan	Transfer of organic acid business to Fuso Chemical (Oct. 2014) Establish PU material business JV "MCNS" with Korean SKC (Jul. 2015) Early termination of Kashima TDI plant (Mar.2016) Terminate Omuta MDI plant (May 2016)
Petro-chemicals	Vietnam	Construction of facilities for future low-cost raw materials (Completion in 2016, tentative)
	Japan	Withdrawal from Keiyo Ethylene (Mar. 2015) → Full operations of crackers

✓ **Strengthen production sites for raw materials to reinforce high value-added polyurethane system products**

- Start-up of bio-polyol plant in India (8KTA, Jan. 2016)
- Enhance capacity of MDI plant in Korea (250KTA→**350KTA**, Jun. 2017)

✓ **Actualize synergy effects of JV**

- Expand sales of automotive use materials in North America (FY15→FY17 : 250%)
- Improve productivity by 5% in Korea polyol plant by optimizing operations at Korea and Japan plants



Study further expansion of system products



Mobility

Business Sector

Basic Materials

Business Sector



New Businesses & New Products

· Robot Materials

Business Development Division



Health Care

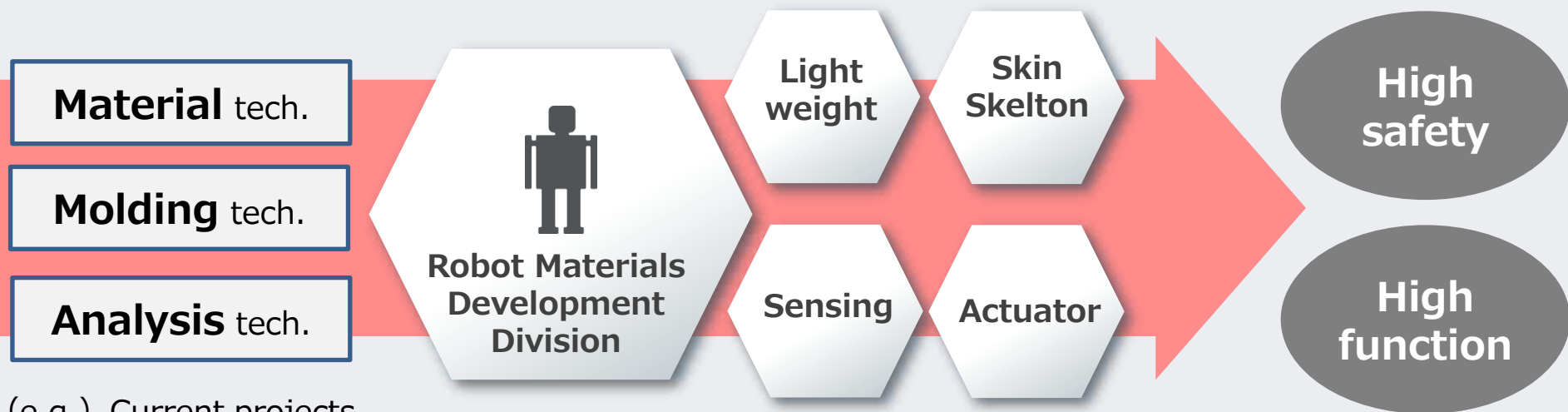
Business Sector



Food & Packaging

Business Sector

- ✓ **Robotic society with humankind** grows needs for **safer and more functional** robots
- ✓ **Provide total solutions** to the robot industry through development and sales of innovative new products by capitalizing on Group material, molding, and analysis technologies,



(e.g.) Current projects

- **Project with Japan Robot Association**

“Research of elemental technology for next-generation robot materials and prototype development of next-generation robots”

- **Project with Universities**

Development of robot arms that can co-work with humans

“Basic research in pneumatic drive robot arms”



Other projects are underway in Japan and overseas 36

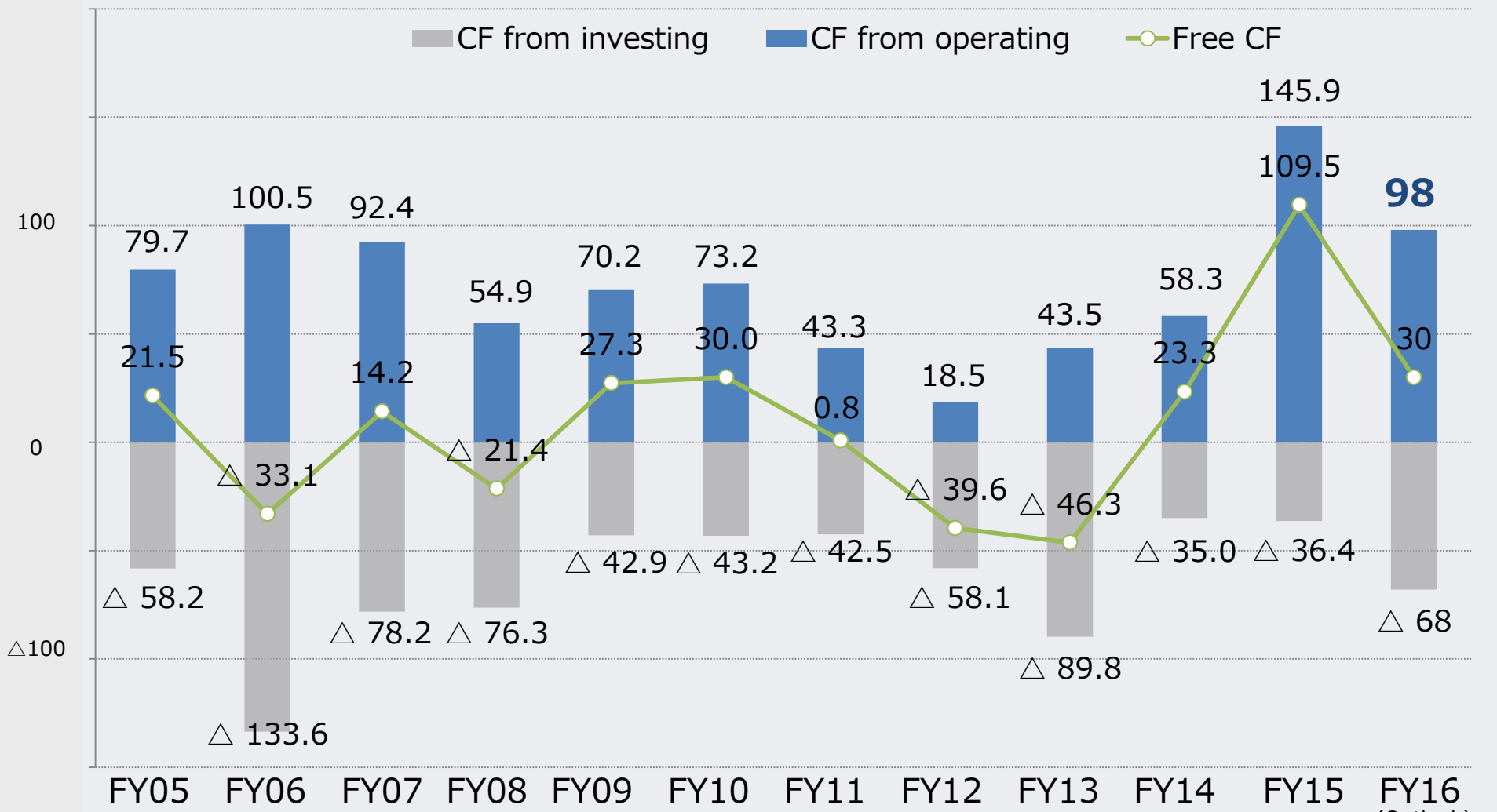


Management Target

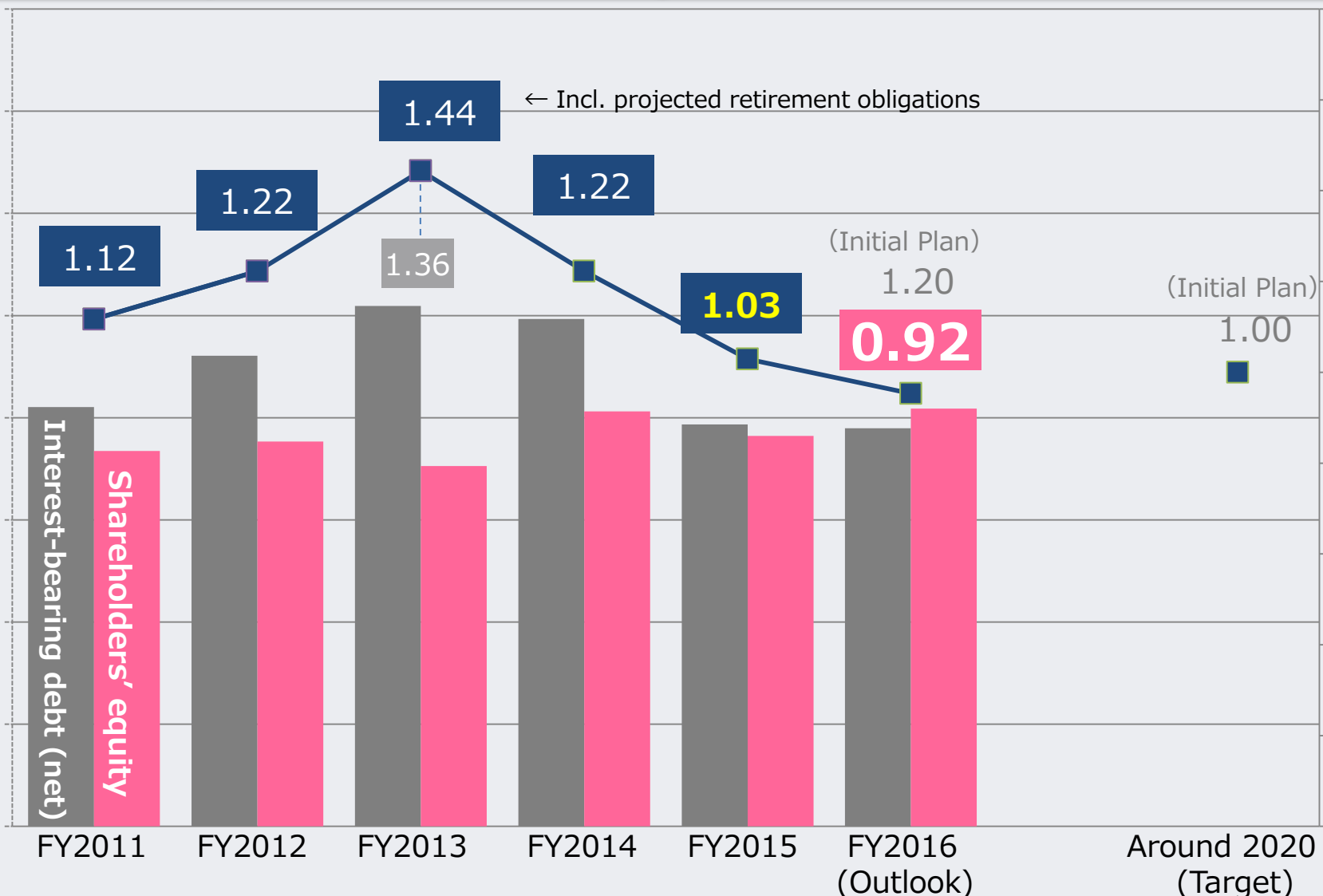
Continue high level of operating cash flow

(Billion yen)

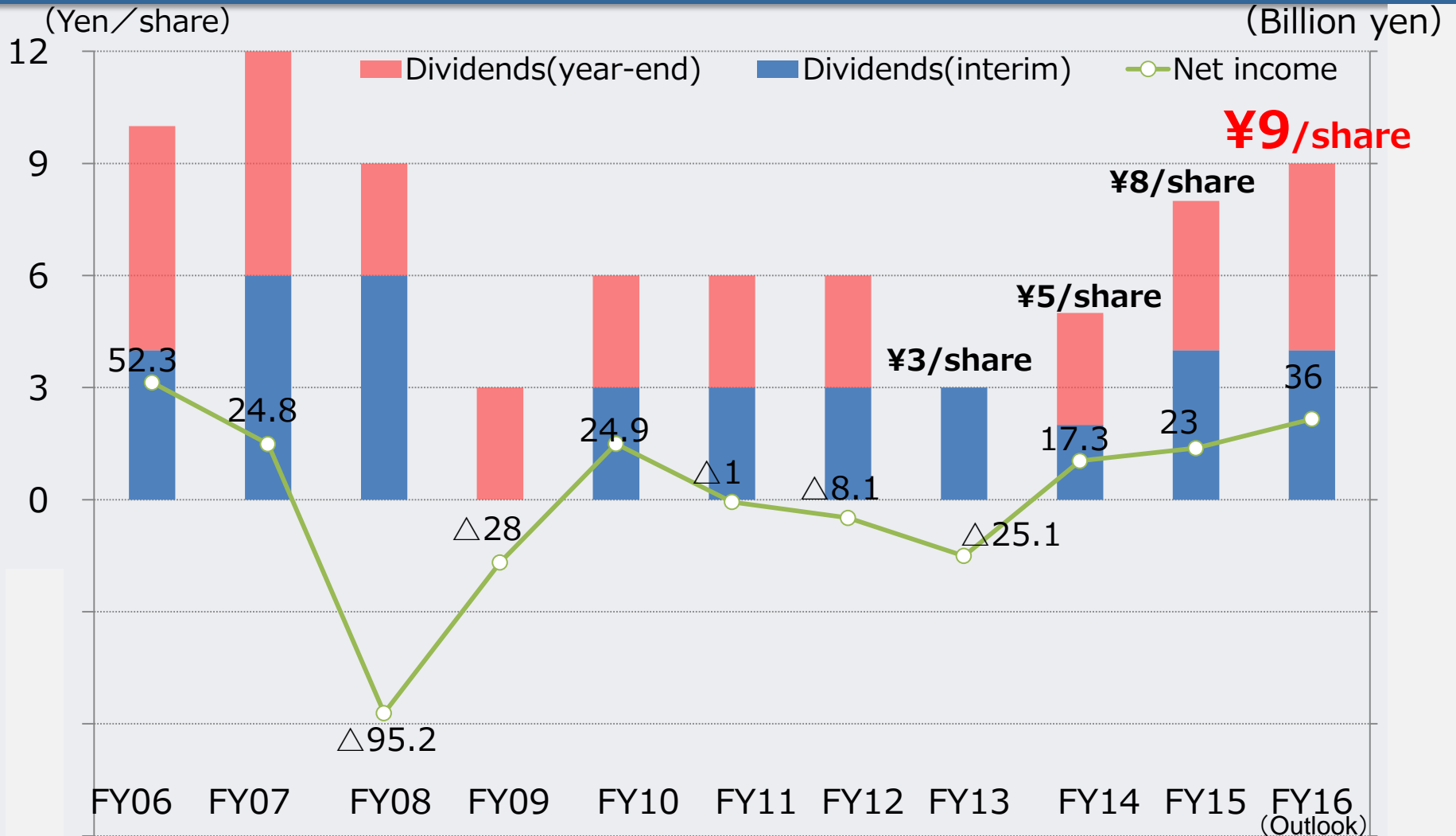
△ Denotes a minus



- ✓ Achieve goals of the mid-term business plan **ahead of schedule** & improve net D/E less than 1.0
- ✓ **Investment phase** for sustainable growth



- ✓ Increase dividends for three consecutive terms
- ✓ Target continued further high dividends



Target: Consolidated payout ratio over 25%, DOE over 2%

FY2016 Outlook

Operating income

70 billion yen

Net income

36 billion yen

OP-ROA

5.6%

Net D/E

0.92

ROE

9.1%

Dividends

¥9/share

Summary of 2014 Mid-Term Business Plan

▲ Denotes a minus

	FY2013 Results	FY2014 Results	FY2015 Results	FY2016 Outlook	FY2016 Initial Target
Sales	1,566 Billion yen	1,550	1,344	1,250	1,750
Operating income	24.9 Billion yen	42	70.9	70	60
Net income	▲25.1	17.3	23	36	30
ROA	1.8%	3.0%	5.3%	5.6%	4.0%
ROE	—	4.5%	5.8%	9.1%	8.0%
Net D/E	1.44	1.22	1.03	0.92	1.20
Dividends	¥3	¥5	¥8	¥9	Payout ratio: 25% ↑ DOE2% ↑

The background of the slide is a bright blue sky filled with soft, white, fluffy clouds. A large, solid blue arrow points from the left side of the slide towards the right, partially overlapping the sky and clouds. The text is centered within the blue arrow.

**Creating new customer value and
solving social challenges
through business activities**

Challenge Diversity One Team



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