

Toray Industries, Inc.

Announcement of Business Results
For the Fiscal Year Ended March 2018 and
Business Forecast for the Fiscal Year
Ending March 2019

Transcript

May 10, 2018

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Descriptions of predicted business results, projections, and business plans for the Fiscal Year Ending March 2019 contained in this material are based on predictive forecasts of the future business environment made at the present time.

The material in this presentation is not a guarantee of the Company's future business performance.

<General>

Q. Please explain your thinking behind the free cash flow for FY2018.

- A. For FY2018, despite the increase in cash flow as a result of sales activities associated with the expansion of business, we are forecasting a negative free cash flow mainly from the increase in capital investment and approximately 120-billion-yen acquisition of TenCate. However, the cash flow will be properly controlled by means of promoting total cost reduction, due diligence of investments, tighter working capital management, etc. Although our D/E ratio will worsen due to the procurement of required acquisition capital, etc., it is forecasted to fall below 1.0, a guideline value set forth in the Medium-term Management Program.

<Fibers & Textiles >

Q. Please describe the quantitative trends of fibers & textiles for apparel, airbags, and PP spunbond for hygiene products, which would compose the assumption for the Fibers & Textiles segment forecast for FY2018.

- A. The Fibers & Textiles segment is forecasted to increase its sales by 51.4 billion yen and its operating income by 6.6 billion yen compared to the previous year. For apparel applications, we will work to upgrade our business model by continuing to expand the business model that integrates fibers to textiles to final products. For industrial applications, we plan to increase the production capacity. PP spunbond for hygiene products in the Republic of Korea has commenced its operation in April 2018. Also, our new factory in Mexico has started the production of textiles for airbags. We will also seek to expand automotive applications such as ultra-microfiber non-woven fabric with suede texture. We will continue our effort to further pass on price increase to the selling prices and to reduce the total cost of both sales and manufacturing to counter the rise of raw materials' prices.

<Performance Chemicals>

Q. Please explain quantitatively the sales growth compared to the previous year for each of the four sub-segments under the Performance Chemicals business.

- A. In terms of the sales for resins & chemicals, resin related materials increased by 20%, chemicals increased by 10%, polyester film increased by 10%, and other films (including battery separators) increased by 15% from the previous year.

Q. Please explain the background reason for the Performance Chemicals 4Q operating income not meeting the forecast announced at the time of FY2017 3Q financial results.

- A. A major portion of the rise of raw materials' prices has been passed on to the selling prices at the time of the 3Q financial results, but there has been another step up in raw materials' prices during 4Q. This was caused by difficulties in procuring raw materials brought on by the effect of material manufacturers moving towards oligopoly and Chinese environmental regulations. Subsequently, the unusual cold wave in the United States has led to material manufacturers declaring force majeure, which then caused a more than expected steep rise in raw materials' prices, and this has impacted our results.

Also, for smartphones related materials, we have incorporated a certain amount of downturn due to a sign of production adjustment that we observed, but subsequently the orders from February to March of 2018 drastically decline. The decline of smartphones in China was especially significant, which we think was an effect from lag in sales of so-called flagship smartphones, which in turn seem to have made consumers hold back their purchases of other models. Accordingly, the films and electronic & information materials

made a downturn relative to the forecast.

Q. The Performance Chemicals business is forecasted to increase its operating income compared to the previous FY2018. Please explain the thinking behind this forecast.

A. The Performance Chemicals business is forecasted to increase its sales by 76.7 billion yen and operating income by 7.6 billion yen.

In the resin business, given that the global automobile production remains stable, we will seek to expand the sales of automotive applications in response to the growth of the resin business which is fueled by weight reduction and motorization needs. Also, the additional capacity of polyolefin foam, PEF, which started its operation in 2018, will be leveraged to expand sales.

In the film business, we will seek to incorporate added-value into the polyester films by utilizing our global operation. We will also attempt to expand the sales of high value-added products such as release films used in production lines for electronic parts as well as multilayered ceramic capacitors, MLCC. In regards to battery separators, we will increase the utilization of the newly added capacity in the Republic of Korea, which has started its operation sequentially during FY2017, and coating capacity to be sequentially started from the latter half for FY2018 so as to expand the sales in response to the expanding business.

In regards to the electronic & information materials business, we will seek to expand sales of OLED related materials, high-functional electric circuit materials, etc. in response to the growth of the market. However, with the anticipated rise in raw materials' prices, we will continue our effort to further pass on price increase to the selling prices and to reduce the total cost of both sales and manufacturing, but some level of impact will remain.

<Carbon Fiber Composite Materials>

Q. Please explain the primary factor that led to the improvement of operating income from 3Q to 4Q of FY2017 for the Carbon Fiber Composite Materials business.

A. For aerospace applications, despite the continuous decline in demand for large-scale aircrafts, the shipment is showing a recovery trend after the completion of inventory adjustment for Boeing 787 supply chain during October to December period. For industrial applications, the overall demand for compressed natural gas tanks in the United States and Asia as well as environment and energy related applications such as wind turbine blades are showing a recovery trend. Composite products for PC chassis and fuel cell vehicles were strong.

Q. The Carbon Fiber Composite Materials business in FY2018 is forecasted to have a sharp increase in sales relative to the decline in the operating income. Is this due to the effect of acquiring TenCate? Please also explain your M&A policy.

A. Although we have not completed the acquisition of TenCate, we have incorporated the amortization of its goodwill into our performance forecast based on certain assumptions.

Our basic M&A policy is to strengthen or complement our core technologies and business foundations.

We acquired ZOLTEK three years ago in the attempt to enhance the product line since Toray carries high-end regular tow but had no large tow. Also, Toray has a track record of thermoset prepreg for high-end applications such as for aircrafts, it only has limited experience with thermoplastic prepreg. We decided, therefore, to move forward with the acquisition anticipating to demonstrate a substantial synergy of being able to roll out to all types of industrial applications from aircrafts to automobiles by embracing TenCate's

thermoplastic CFRP technology.

Q. Even with the inclusion of TenCate goodwill, the Carbon Fiber Composite Materials business' decrease in operating income for FY2018 compared to the previous year is of significance. Could you please elaborate on this point?

A. For FY2018, the Carbon Fiber Composite Materials business is forecasted to increase its sales by 42.1 billion yen but decrease its operating income by 3.8 billion yen compared to the previous year but this is with TenCate goodwill amortized based on certain assumed criteria. Please note that if the goodwill is not amortized, then both sales and operating income are forecasted to increase.

I will also explain other Carbon Fiber Composite Materials businesses for the FY2018. Given that the inventory adjustment of Boeing 787 materials' supply chain has been completed during 2017 October to December period in the midst of strong final demand for aircrafts, we will further our sales expansion for the aerospace applications in anticipation of the demand being on a recovery trend. Also, we are expecting demand growth from the latter half of FY2019 due to the increase in the number of Boeing 787 assemblies per month from the current twelve.

For industrial applications, we will further expand our sales with anticipation of the overall demand to be on a recovery trend, particularly the environment and energy related applications such as compressed natural gas tanks and wind turbine blades. We will further expand our sales of wind turbine blade applications where the demand is growing by utilizing the additional large tow capacity that has sequentially started its operation in the 4Q of FY2017. As there are risks of raw materials' prices to rise, we will further pass on to our selling prices and shift to high value-added products. In addition, we will reduce the total cost for both sales and production, but we will have to brace for a certain degree of impact.

Q. TenCate acquisition being significantly large-scale, it is presumed that a similar level of synergy effect can be anticipated. How long in specific terms do you think it will take for the synergy effect to appear?

A. Although it is hard to say since the acquisition procedure is not yet complete, I would think that an early business expansion for aircraft applications can be achieved by thoroughly leveraging the efforts and relationships between Toray and Airbus/Boeing, whom TenCate has acquired qualification from.