Q&A for FY2017 (Year Ended March 31, 2018) Financial Results Presentation, Teijin Limited

1. Date and time: **Explanatory Meeting, 2:30 p.m.–3:30p.m. (JST), Wednesday May 9, 2018**

2. Speaker: **Jun Suzuki CEO, Kazuhiro Yamamoto CFO**

3. Q&A session:

Q1: In the Materials Business Field, net sales in Composites, others business increased in the fourth quarter (January-March) of FY2017 (the fiscal year ended March 31, 2018). Did the adoption of the products of Teijin's U.S. subsidiary Continental Structural Plastics Holdings Corporation (CSP) for use in the *Jeep®* model of FCA US LLC have a major positive impact on net sales? Please also explain the trends in the Materials Business Field from the second half of FY2017 (the fiscal year ended March 31, 2018) to FY2018 (the fiscal year ending March 31, 2019).

A1: With the adoption of CSP products for use in the *Jeep®* model, sales have been increasing since January 2018, and this increasing trend in sales is expected to continue throughout FY2018. We believe that it will be difficult for CSP's earnings to cover the amortization of goodwill in FY2018. However, we expect CSP to become profitable in FY2019 as initially planned. Looking at the Materials Business Field as a whole, sales are projected to trend firmly, due partly to a tightening supply-demand balance for aramid fibers and polycarbonate resin. That said, in FY2018 earnings for both aramid fibers and polycarbonate resin are projected to be soft, as regular maintenance for aramid fibers, which is conducted once every two years, will be carried out in FY2018 and the disclosed market spread (the difference between the selling price and raw materials price) for polycarbonate resin is expected to gradually decrease.

Q2: The transformation strategy for the Materials Business Field calls for net sales to increase between ¥35.0 billion and ¥40.0 billion through FY2019. Could you please explain whether the main factors behind this projected increase will be contributions to sales from CSP's automotive composites and lithium-ion battery (LIB) separators?

A2: CSP will make the main contribution to the increase in net sales. While LIB separators were sluggish in FY2016 and FY2017, we have high hopes LIB for separators in FY2018 following the decision to adopt Teijin's LIB separators for use in major new smartphone models. Beginning with FY2019, we expect opportunities to emerge on the use of LIB separators in automotive applications. At this stage, we cannot discuss specific matters, but we are focusing on research and development activities for automotive applications.

Q3: In carbon fibers, the price of acrylonitrile, a raw material, is rising considerably at present. How will you address transferring the burden of rising costs to carbon fiber prices? In addition, there have been news articles about the adoption of Teijin's carbon fiber reinforced plastic (CFRP) for use in GM pickup trucks. Could you please discuss your outlook for the adoption of Teijin products for use in automobiles going forward?

A3: Aircraft applications represent over 50% of the net sales of carbon fibers. Given that sales prices are determined by formulas when contracts are signed, it will be difficult to raise prices, in principle. I cannot discuss specific details on composites for automotive applications. However, we are addressing not just the CFRP deal with GM but also multiple new deals from FY2019 onward by pushing ahead with capital investments and other initiatives.

Q4: You noted that capital expenditures will increase in the run-up to FY2019. Could you please explain whether these capital expenditures will primarily consist of capital investments at CSP, or will most of the capital expenditures be used for CFRP, including carbon fiber?

A4: With these investments, it's not an either-or situation. The CFRP business that Teijin has long been developing and CSP's glass fiber reinforced plastic (GFRP) business are now completely integrated and managed in a unified manner under CSP. Accordingly, we intend to execute well-balanced investments in both CFRP and GFRP.

Q5: In polycarbonate resins, I believe that the spread between the product sales price and raw materials cost increased from the third quarter to the fourth quarter of FY2017. Could you please explain your assumptions for FY2018? Would it be correct for me to assume that changes in the spread now have a smaller impact on earnings because Teijin has optimized the scale of production through plant closures and other measures?

A5: The spread for polycarbonate resins is expected to remain favorable until the beginning of FY2018, but is forecast to decline in the second half of the fiscal year. Having developed high-performance resins, we cannot easily raise the price any further. The statistical correlation between the spread of high-performance resins and the disclosed spreads of commodity products has weakened.

Q6: Sales in the Composites, others business is forecast to increase by ¥7.5 billion in FY2018 compared to FY2017. However, the extent of this increase seems small in comparison to the sales growth rate from the third quarter to the fourth quarter of FY2017 and CSP's initial plans. Can I correctly assume that sales growth at CSP is proceeding as planned? I believe that the increase in LIB separator sales is included in the Composites, others business. Could you please discuss the extent to which LIB separators will contribute to sales growth?

A6: The increase in sales of CSP will account for most of the sales growth of ¥7.5 billion. That said, the extent of the increase in sales of CSP will be reduced by the accelerated materialization in FY2017 of a portion of the positive effect of the adoption of GFRP in the new *Jeep®* model.

Q7: In regard to the analysis of changes in the EBITDA forecast for FY2018 versus the actual result in FY2017 in the Materials Business Field, the contribution from the difference in sales volume is +¥6.5 billion. Could you also please discuss which products other than CSP products will have the greatest impact on the increase in sales volume?

A7: Earnings will improve significantly for products in the Polyester Fibers & Trading and Retail Business Group, which was sluggish in the previous fiscal year. LIB separators are also expected to contribute to the difference in sales volume. However, we believe that the increase in earnings from CSP products has a higher degree of certainty than LIB separators, which are highly susceptible to market trends.

Q8: Looking at the outlook for FY2019 and FY2020 in the Healthcare Business Field, I believe the expiration of the patent for the hyperuricemia and gout treatment *FEBURIC®* (febuxostat) will first have an impact overseas. Could you please explain Teijin's outlook? Could you also please discuss your measures to offset the negative impacts of the patent expiration, including measures to expand the home healthcare business and the new healthcare business?

A8: The outlook for *FEBURIC®* will vary depending on conditions in each country, so it will be impractical to clearly discuss the situation in each country. We believe that the patent expiration will start to have a slight impact overseas from FY2019. In FY2020, we expect the patent expiration to have an even larger impact. We are hopeful that certain new drug candidates will emerge from the new drug pipeline from 2021 to 2022, but we will need to watch these developments cautiously. That said, we would like you to understand that Teijin's healthcare business is not just a pharmaceuticals business. Leveraging our strengths developed through the pharmaceuticals business, we seek to generate profits by comprehensively managing a portfolio of businesses, including the development of the home healthcare and community healthcare businesses, as well as the new healthcare business.

Q9: I have high hopes for the diabetes treatments in your new drug pipeline. Because these treatments are currently in the Phase 2 development stage, I believe that development costs will start to increase from around 2019. The costs will overlap with the period that will be impacted by the patent expiration for *FEBURIC®*. Could you please explain the steps you will take, such as the multi-faceted activities and new initiatives you discussed earlier, to cover the drop in earnings during this period of transition?

A9: We do not intend to mitigate such a period of transition through pharmaceuticals alone. We have high expectations for a development candidate called ITM-058, which is an osteoporosis drug in Phase 3, to carry us through such a period. We believe that the diabetes drugs currently in Phase 2 will require a little more time. At this time, we are counting on ITM-058. As you point out, diabetes drugs could require substantial costs to advance development, so we are looking at various options, including licensing out drug candidates. Currently, we are cautiously assessing the investment-return relationship.

Q10: Your forecasts for FY2018 do not show a very large increase in advance development costs in the Healthcare Business Field. Could you please explain whether these costs are expected to increase next year and beyond? Could you please also discuss why earnings are expected to soften in the second half compared with the first half in your forecasts for FY2018 in the Healthcare Business Field?

A10: With regard to advance development costs, as we make gradual progress on the commercialization of new initiatives, we will start to generate sales, and as a result, we expect to advance to a stage of generating business profits, despite bearing the burden of advance development costs. Looking at the difference in earnings between the first half and second half of FY2018, we expect to see earnings decrease in the second half as part of the usual trend experienced by Teijin in normal years. Accordingly, we have not incorporated any special factors into the forecast.

Q11: You noted that the transformation strategy in the Healthcare Business Field has fallen slightly behind schedule. Could you please explain the background and how you will put the strategy back on schedule?

A11: The delays in implementing the strategy do not mean that we will stop allocating resources. Rather, we will continue to allocate resources to the Healthcare Business Field. In FY2017, we proactively allocated resources to this field. In FY2018, we will start to see the benefits emerge. In order to achieve the transformation strategy’s net sales target of ¥50.0 billion in the Healthcare Business Field in FY2019, we will need to consider strategic actions including alliances and M&As as explained in the management policy for FY2018 and implement new resource allocations. At this stage, we cannot discuss these measures in detail, nor have we factored any measures into our forecasts.