

Q&A Summary for CEO Explanation Business Results & Outlook in November 2018

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| Date | Nov 15, 2018 | 15:00-16:30 |
| Place | Meeting room at the Head Office of Mitsui Chemicals Inc. | |
| Speakers and Respondents | Tsutomu Tannowa, President & CEO Masaharu Kubo, Executive Vice President & CFO Hideki Matsuo, Senior Managing Executive Officer & CTO | |
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Q&A

■ Mobility

Q1. Mitsui Chemicals' portfolio shows a high ratio of products for automobiles. Their potential in the medium and long terms seem high, but we are also concerned about their slowdown in the short term. What is the future outlook for those products?

A1. We have confidence in the lineup of our products in the Mobility segment, including PP compounds which are staple products for the segment. Automobiles are said to have entered a period of transformation. In the meantime, all-solid-state batteries may take some time to become widespread when we look at one of the trends associated with the shift to electric vehicles (EVs). There are difficulties involved in forecasting the speed at which the shift to EVs will progress. However, we believe that demand for weight reduction and the shift from metals to resins will continue as trends. Resins currently account for about 10% of per-vehicle automobile weight. Issues that must be solved to increase their ratio include the combination of lightness and strength. To offer total solutions for these issues, we recently acquired shares in ARRK Corporation, a company equipped with design, prototyping and evaluation functions, in addition to taking over Kyowa Industrial Co., Ltd, a company that carries out the mold business. We will pursue our potential further by acquiring technologies that are in short supply, such as those for engineering plastics, as needed, and by increasing the solutions we can offer, in addition to meeting customer demand through these initiatives.

Q2. Can you explain the progress of your initiatives for expanding the sales of PP compounds for European OEMs?

A2. Our PP compounds began with their supply to Japanese OEMs. And we have also expanded the sales of PP compounds for American OEMs. The sales volume of PP compounds for European OEMs had not been large, but their adoption by those OEMs advanced as a result of our initiatives up to this point, leading to our recent decision to establish a new business base in the Netherlands. To state further, Europe accounts for about 60% of the net sales for ARRK Corporation, whose shares we acquired. P+Z Engineering GmbH, a subsidiary of ARRK Corporation, is playing a part in developing products for European OEMs as well. As these facts suggest, ARRK Corporation has advantages in Europe. We will continue to expand the volume of PP compounds sold to European OEMs, making the most of the advantages that the Mitsui Chemicals Group has as a group.

Q3. Outside Europe, where do you think you need to expand PP compound capacity in the future?

A3. We are studying capacity expansion for a line at our base in India in fiscal 2020. Our base in Thailand requires the study of capacity expansion as well, because the utilization rate is rising there in step with the recovery of automobile production in the country. The timing and scale of our investments vary according to the models we adopt, but we will keep making appropriate investments to expand capacity as needed in order to fulfill our supply responsibility while maintaining a surplus of a certain level.

Q4. Will PP compounds continue their growth at the rate of 5% or so? What do you think is the outlook for the development of compounds like MOSTRON™-L? We understand that the quantity of PP compounds used per automobile is 50 to 60 kilograms at present. Will the quantity of PP compounds used expand in the future?

A4. The number of automobiles produced worldwide is expected to grow at an annual rate of about 2%. We are aiming to achieve growth at or above this annual growth rate for the number of cars produced by expanding our businesses in regions where growth rates are high, such as India, South America and China, and entering new customer clusters like European OEMs. We are also seeking to expand our businesses by

increasing the number of used parts through added functions, even though the weight of the parts will decrease with the spread of the weight reduction efforts. The business of MOSTRON™-L, a glass fiber reinforced polypropylene, is not large in scale, but we can expect the business to produce added value that is higher than that of conventional PP compounds. Looking at the trends for eco-friendly products, demand is rising for PP compounds that are able to achieve an equivalent texture with no coating.

Q5. We think that products in the Mobility segment, such as TPX™ and engineering plastics, are beginning to operate at high rates in addition to PP compounds and elastomers. Can you explain the timing for building up capacity for those products?

A5. TPX has been growing steadily. The timing for considering the establishment of new plants for the product and the expansion of their existing counterparts is right now. ARLEN™, one of our engineering plastics, has been showing steady growth as well. We will advance our study regarding the need to expand the manufacturing capacity for the material. We will take steps, including tie-ups, to expand our engineering plastics lineup because we cannot call the lineup sufficient yet.

Q6. How will you sell POLYMETAC™ materials and components?

A6. We will sell these products flexibly in response to customer requests, including metal surface treatment by Mitsui Chemicals and component molding by customers and complete processing including component molding by Mitsui Chemicals.

■ Health Care

Q7. Can you tell us about the progress of your measures for improving profits from dental materials? When will these measures start making profit contributions?

A7. Kulzer GmbH had experienced difficult conditions since we took it over, but the company lightened its amortization burdens by posting a loss on goodwill impairment in full. Kulzer GmbH is turning itself into an organization that is able to make profit contributions little by little through various measures. In the digital field, we developed 3D printer inks using our polymer technologies. The market for dental materials made using 3D printers is anticipated to expand substantially from now on, and we will focus on these materials as a growth driver. Dental adhesives made and sold by Sun Medical Co., Ltd., our consolidated subsidiary in Japan, have been performing strongly as well. We will expand their sales by developing overseas markets for them. It will take some time before the dental materials business starts making profit contributions on a full-scale basis. We will advance our initiatives steadily.

■ Food & Packaging

Q8. Can you explain the outline of an parasiticide for animal health use for which you concluded a global license agreement with Bayer Animal Health?

A8. There are many regulations for parasiticide for animal health use, in the same way as there are regulations for pharmaceuticals. Product development with internal efforts alone will take time because we have no extensive knowledge of these regulations. For this reason, we chose to develop a parasiticide for animal health use rapidly under a license agreement with Bayer Animal Health. We have four new pipelines, in addition to five new active ingredients including the parasiticide for animal health use. We are developing these agrochemicals at a rapid pace considering the scale of the business. Though these pipelines will require more time to be launched, we will proceed steadily with our initiatives toward that goal.

■ Basic Materials

Q9. We understand that basic materials have the potential to achieve income of about ¥60 billion in 2025. Which products will you develop to raise your overall profit rate in cases where the profit rates for various products are fixed?

A9. We have many one-of-a-kind products in the Basic Materials segment, such as hydroquinone, meta para cresol and ammoniac products, in addition to silane gas used for ICT. We are expanding investments in these products. Our image may still be that of a petrochemical company in certain sectors, but we are

reducing profit volatility and improving the profit rate by raising self-consumption rates for those differentiated products with high added value and working to achieve a portfolio conversion within the Basic Materials segment, in addition to increasing their competitiveness as raw materials.

Q10. Petrochemical market conditions are fluctuating widely in Asia. To what extent will the fluctuations in market conditions affect operating income for the Basic Materials segment?

A10. Our petrochemical business focuses on Japan. We have introduced a price structure based on a material-linked formula for many of our products. In addition, we are self-consuming ethylene at a high rate. Market conditions affect exports, but the volume of ethylene for export is limited. For butadiene, we adopt a price structure that reflects market conditions. And a posting period delay occurs for products based on a material-linked formula when the prices of their raw materials shift sharply. However, our initiatives have minimized the effects of fluctuations in market conditions up to this point.

Q11. Can you explain the supply and demand outlook for olefin and polyolefin?

A11. We have been carefully observing the effects that shale may have on olefin and polyolefin. In the past, we assumed that shale-derived polyolefin was supplied to regions centered on South America and Europe and that the remainder went to Asia, including China. However, supply figures for the most recent period show that shipments to China and other Asian destinations have not increased under the effects of a trade war between the United States and China. We are continuing to pay close attention to the supply trends. In other upstream fields, the price of heavy oil C surpassed the price of gasoline in a reversal. We will observe the trends in their prices closely as well, because such phenomena can affect utilities costs.

Q12. Can you explain the future outlook for phenol supply and demand?

A12. Market conditions for phenols have been improving, with firm demand in the background. In the meantime, market conditions have remained sluggish for acetone, a phenol byproduct, due to supply growth caused by increased phenol operations. We expect to keep securing profits of a certain level because demand for the phenol chain overall has been strong.

Q13. You recently transferred a portion of the shares held in SMPC. Can we understand that you completed the first stage of PTA restructuring with their transfer?

A13. We completed the first stage with the share transfer. However, this is not necessarily the end of our restructuring efforts. We will continue to advance our initiatives for enhancing PTA's competitiveness.

■ Group-Wide Issues

Q14. What are the points to which you attach importance from now on as you advance your 2025 Long-Term Business Plan?

A14. We attach the greatest importance to portfolio reforms. Social demand related to SDGs, ESG and the like are growing stronger today. We have approached business administration through the three axes of the economy, the environment and society from an early stage. The capacity to earn sufficiently, in other words, being a "strong company" equipped with a solid economic axis, is the basic premise for stable business administration. Taking it for granted, we aim to turn ourselves into a "good company" by pursuing values that cannot be expressed numerically, such as a corporate culture and engagement with stakeholders. We cannot survive unless we are a "strong company." At the same time, we cannot consider that we are qualified to exist unless we are a "good company." It will be essential for us to balance these two points. We think that results will follow naturally if we advance portfolio reforms for strengthening the economic axis, which is a basic premise.

Q15. Operating income targets for the Health Care and Next-Generation Business segments set in your 2025 Long-Term Business Plan are ¥45 billion and ¥25 billion, respectively. We think that you must sow seeds and develop businesses for the future in a hurry because those are high targets compared with your latest business results. Which of the new and next-generation businesses do

you expect to grow? Is there a possibility that you will change the target for the Health Care segment while keeping the long-term operating income target at ¥200 billion?

A15. Our vision care materials have technological foundations and a product lineup that are both strong. We can expect them to keep growing. Our dental materials are continuing to face an uphill battle, but we believe in their potential. We think the Health Care segment including these businesses can grow to income level of close to ¥40 billion through their respective organic development. In reality, it is difficult to predict which product in new and next-generation businesses will contribute to our profits, and to what extent. For example, POLYMETAC™ may expand rapidly if its adoption spreads to other customers. We will pursue our growth potential by sowing multiple seeds for the future like that. We are not thinking about reviewing the composition of the business-by-business operating income targets for 2025 at this point. We have set our operating income target for the Basic Materials segment at ¥30 billion. But the risk that our operating income will plunge below ¥30 billion has almost disappeared thanks to the results that structural reforms have achieved, and we assume our potential to expand operating income to about ¥60 billion. Profit component ratios in 2025 may differ from our targets in the end, but we are thinking about moving our overall operating income close to or beyond ¥200 billion.

Q16. What are the factors behind the rapid growth of ICROS™ Tape and other ICT-related materials in recent years? Which product do you expect to expand in the future?

A16. Rapid expansion in demand lies in the background, in addition to technologies accumulated over the years. The demand structure is undergoing significant changes as well. The important thing is how to deal with those changes swiftly. Sales of ICROS™ Tape increased in the most recent period. We will expand their production capacity in Taiwan in fiscal 2019. Technologies for MITSUI PELLICLE™ are also entering the next generation. We will definitely meet new technological demands. Various other products are expanding favorably as well. Our ICT-related materials are growing at an annual rate of about 7% overall. We seek future growth at the rate of 10% or so, expanding the lineup of products that are able to meet new demands.

Q17. What will the enhancement of cross-organizational functions in the ICT field change, and how specifically? Are there examples of success?

A17. We have just begun this initiative, and it will take time for it to achieve results. We introduced cross-organizational functions because information is not shared fully when the organizational units in charge of various products are separate. We will make Group-wide efforts to deal appropriately with trends that change at a rapid pace. We have developed our products separately up until this point. We will offer total solutions combining a variety of products and services and link them to the provision of new business opportunities using points in common such as customers, applications and technologies as their basis.

Q18. To what extent will fluctuations in the prices of raw materials affect functional products other than basic materials?

A18. Price revisions for functional products take time compared with the revisions for products in the Basic Materials segment because the prices of functional products with high added value are not revised frequently.

Q19. Volume expansion contributed to operating income growth in fiscal 2018, but the growth decreased in size due to a rise in fixed costs. Can you explain the upward trend for fixed costs in the following and subsequent fiscal years?

A19. Our fixed costs grew because we invested more resources in areas such as sales and R&D to ensure our future growth. These are investments aimed at increasing sales. We will cover the fixed costs increase with the effects of income growth achieved through volume expansion. We are proactively investing in plants and equipment at the moment. Depreciation expenses will rise with their operation, but we will work to sustain operating income growth as an overall trend.

Q20. You planned growth investments amounting to ¥1 trillion in your 2025 Long-Term Business Plan.

The pace of growth in the amount of investments seemed slow in the most recent period. What is the future outlook for the growth investments? Can you explain the outlook together with your financial standing and shareholder returns?

A20. Slight investment delays occurred in the most recent period, but projects emerged. We have made no major changes to our Long-Term Business Plan. We take the view that cash flows from operating activities and cash flows from investing activities will remain at roughly the same levels. Though our interest-bearing liabilities will increase because we will return our profits to shareholders, equity capital will also increase with the profit growth. Therefore, we expect the net D/E ratio to come to the level of 0.7 to 0.8.

Q21. You said that cash flows from operating activities and cash flows from investing activities will remain at the same levels. Which will you prioritize, the repayment of interest-bearing liabilities or shareholder returns, when free cash flows become positive?

A21. We think that free cash flows may become positive, depending on the timing. We will choose whether to retain them or return them to shareholders appropriately, taking factors such as the size of subsequent investment projects and our financial conditions into consideration. Regarding shareholder returns, we will combine flexible treasury stock acquisition with a sustained dividend increase based on our policy of achieving a total return ratio of 30% or more. We recently announced treasury stock acquisition worth ¥10 billion. We decided on that acquisition by taking into consideration factors such as the total payout ratio of 25% based on the dividends we planned at the beginning of this fiscal year and net income forecasted at this point, favorable results for the first six months and the level of our share price in the most recent period. We will improve our shareholder returns based on that policy while maintaining our financial standing.

Q22. In the Long-Term Business Plan, you earmarked ¥400 billion of your planned growth investments amounting to ¥1 trillion for strategic investments. To what extent have you executed strategic investments up to this point? What are your thoughts about the order of priority regarding future investment fields? What is your system for studying investments?

A22. We focused our strategic investments on M&A in our Long-Term Business Plan. The acquisition of shares in ARRK Corporation amounts to large-scale M&A at this point. Basically, three growth fields will remain our main investment fields, but we have multiple products with high added value in the Basic Materials segment. We will expand our investments in these products and make other investments to raise our competitiveness at the same time. Regarding investment studies, we have established the Investment and Financing Assessment Meeting, which is performing advance screening for investment projects submitted to the Management Committee for discussion. The Meeting consists of the CFO acting as its chairperson, the General Manager of the Corporate Planning Division, the General Manager of the Finance & Accounting Division, the Center Executive of the R&D Center, the Center Executive of the Production & Technology Center and business division representatives. The Council is screening investment projects from various perspectives including Group strategies, financial strategies, technological strategies and business strategies.

Q23. Can you explain your thought about the ocean plastics pollution and your opportunities related to this problem, including those for biodegradable plastics?

A23. Individual companies face limits in their responses to the issue of ocean plastics. We think this is an issue that parties such as industry organizations must address on a global scale. From the viewpoint of dealing with the garbage problem, preventing plastic waste from flowing into rivers and the ocean is an important point. On this point, Japan has not lagged behind other countries in any sense in terms of initiatives, such as garbage collection based on waste categories and recycling. From now on, we think it will be vital for Japan to advance effective measures, such as the introduction of its initiatives to areas that are mainly responsible for the outflow of plastic waste to the ocean. Regarding biodegradable plastics, there are some issues that must be solved, including their applications, separation and collection methods. Therefore, we think that developing a system for preventing their outflow into the ocean will be the required first step.

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