

## Q&A Summary for CEO Explanation Business Results & Outlook in May 2019

Date	May 31, 2019 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
Reference	CEO Explanation Business Results and Outlook posted on May 31, 2019

### Q&A

#### ■ Mobility

**Q1. Given that you are planning multiple investments in plants and equipment mainly in the Mobility segment. the burden of depreciation expenses is expected to increase. What is the degree of certainty of achieving operating income of ¥140 billion in 2021?**

**A1.** Of the investment projects in the Mobility segment, the amount of investment in LUCANT™ is large, and the burden of depreciation expenses will increase to a certain extent. In PP compounds, however, sequential expansion in line with demand is possible, and the amount of investment is also not large. Therefore, a steady recouping of the investment is anticipated. In addition, EUV pellicles' contribution to profits is also expected with a certain degree of certainty. We will increase the degree of certainty of achieving our operating income plan by focusing on investing in those high-degree-of-certainty projects.

**Q2. You said that TAFMER™ would firmly maintain its position at the top of global market share. but it seems that the debottlenecking you are currently carrying out will lack the production capacity to maintain market share. It seems that if a new plant is constructed, it will be a large investment. and profitability will be squeezed by the increasing burden of depreciation expenses. Can you explain your future policy?**

**A2.** We are considering the construction of a new plant in North America because debottlenecking alone is insufficient. If a new plant is constructed in North America, there will be some risk because the investment will be large partly due to rising plant construction expenses. On the other hand, it is necessary to take into consideration the impact of not making the investment in TAFMER™ because of the internal consumption needs of TAFMER™ for PP compounds. In North America, securing the necessary number of construction personnel is difficult at the moment because of the tightening supply, and even if labor is secured, the construction period has been prolonged due to quality issues with construction personnel. This has become a factor in rising construction costs. We are currently examining a construction method in which parts of the plant are manufactured in other regions and then assembled in North America. While this method has a benefit of minimizing the delay in the construction period, there is the issue of transporting parts. Therefore, we are examining our options, including the location of parts manufacturing.

**Q3. In automotive materials, there are CASE-related areas, such as separators, where significant growth can be expected from now on. What impact do you expect on Mitsui Chemicals' products?**

**A3.** Automobiles are said to be in a once-in-a-century period of change at the moment, but we think that materials that satisfy both light weight and strength will continue to be needed because the need for weight saving will inevitably remain, no matter how the powertrain changes. While carbon fiber is light and excels in strength, its cost is high. Therefore, we will meet these needs with the lower priced glass fiber reinforced polypropylene and the partial reinforcement of automotive parts using carbon fiber composite materials. As for autonomous driving, we are developing APEL™ for the camera lenses of on-vehicle sensors. Because demand for on-vehicle sensors is expected to grow rapidly in the years ahead, we will develop materials to meet these needs.

**Q4. Demand for PP compounds is expanding in North America, driven by the growth of large automobiles such as light trucks, which use large quantity of resin per automobile. Is there a risk that demand will decline in the future as a result of progress in the downsizing of automobiles due to environmental regulations? Environmental regulations are also expected to be tightened in China. Is there a possibility that this will have an impact on sales of PP compounds?**

**A4.** In North America, while there was a period of time when sales of small automobiles increased due to rising gasoline prices, consumers' orientation toward large automobiles such as SUVs and pickup trucks continues to be strong. We think that the market trend driven by large automobiles will not undergo significant change. Close attention needs to be paid to environmental regulations in China, but we think that the regulatory risk is not significant because our products are geared toward Japanese automobiles, which have excellent environmental performance.

**Q5. How do you think that the number of automobiles produced will fluctuate in fiscal 2019? Is it possible for PP compounds to keep growing at a higher rate than the growth of the number of automobiles produced?**

**A5.** The expected number of automobiles produced in fiscal 2019 has slightly slowed down from our estimate at the time that we formulated the budget. However, we expect that the quantity of resin used in automobiles will increase by about 10% from the current level of 50 to 60 kilograms of PP compounds per automobile. Given that the weight saving trend remains unchanged, we aim for high growth in PP compounds that exceeds the rate of growth in the automobile production volume by continuing to develop materials that enable higher usage of resin in automobiles.

**Q6. Are EUV pellicle materials different from those of existing products? If so, what technical breakthrough did you have?**

**A6.** In EUV lithography, the wavelength of the light source is short and high source power is used, so EUV pellicles could not be produced with existing materials. While many companies have undertaken development of materials, their performance did not reach the required level. However, ASML succeeded in developing a material that meets requirements, including developing lithography equipment, and we have recently obtained an exclusive license to produce EUV pellicles.

**Q7. Can you explain the background of your obtaining the exclusive license from ASML for EUV pellicles? Also, how large is the market size?**

**A7.** We believe that the strong customer base we have, in addition to our production and sales results, has led to the acquisition of the exclusive license. We expect that the market size will expand rapidly in the years ahead although the market is still in the initial phase.

#### ■ Health Care

**Q8. While profit stability has been increasing in the Health Care segment, there is still a large gap in operating income with its target of ¥45 billion in the Long-Term Business Plan. Is there a possibility that you will expand new business fields in the future to achieve the target?**

**A8.** While there is a large gap with the target in the Long-Term Business Plan in the Health Care segment, earnings stability is high. The direction in which other companies are expanding their health care business is different. We think that we should prioritize steady growth by leveraging our strengths and also invest in the expansion of production capacity of our vision care materials. While M&A possibilities slightly outside our core fields of business are an option, we will adhere to our policy of not moving into distant market segments. We will aim for steady growth, even if the time it takes to achieve that target is delayed to some extent, rather than calculating back from the target operating income to force investments and increase subsequent burdens as a result.

**Q9. Can you explain the current trends in dental materials?**

**A9.** In the dental materials business, the rebuilding of Kulzer, which we had acquired, was a major challenge. In particular, the accuracy of profit estimation was a problem. Kulzer repeatedly set a high profit target and ended up falling short of it. Therefore, we have changed the policy so that Kulzer will set achievable targets, even if they are not high, and rebuild the performance management method to steadily achieve them. As a result, Kulzer achieved its target in fiscal 2018 and plans to increase profits further in fiscal 2019. This does not yet allow for optimism, but we think that the foundation is taking shape.

■ **Food & Packaging**

**Q10. The semiconductor market is slowing. Is ICROS™ also facing change?**

**A10.** With the slowdown of the semiconductor market, sales of our ICROS™ TAPE are also falling. Although we have incorporated the projected recovery of the semiconductor market into our budget for the second half and beyond, some forecast that the recovery will be delayed. Therefore, we will closely watch this trend.

**Q11. Can you explain the content of cooperation with BASF in insecticide TENEBENAL™ and its projected sales up to 2025?**

**A11.** We are advancing the global development of TENEBENAL™ based on a long-term commercialization agreement which we have signed with BASF. We will work on its development, taking advantage of the potential of TENEBENAL™ as an insecticide and the global network of BASF. While it is not possible to make a general forecast for sales up to 2025 because it depends on the timing of our receiving approval, we will steadily progress.

■ **Basic Materials**

**Q12. You undertook large-scale structural reforms in the Basic Materials segment from 2013 to 2016. Is there any additional large-scale restructuring project?**

**A12.** There is no end to structural reforms, but we have already implemented all large-scale projects. Therefore, we will carry out investments to strengthen the competitiveness of crackers going forward. We asked an overseas specialized agency to evaluate the competitiveness of our crackers, and received the evaluation that the competitiveness of our crackers compares well with new large crackers in Asia, and that our crackers have high energy efficiency. With regard to the crackers at our Ichihara Works, however, not having a spare furnace has become a bottleneck for maintenance. We will improve the maintenance capability and the olefin yield by adding one cracking furnace in the future to collectively increase competitiveness. In addition, the construction of new gas turbines and the diversification of raw materials for crackers will strengthen our overall competitiveness, including derivative products.

**Q13. Operating income in the Basic Materials segment in fiscal 2018 fell below ¥30 billion due to problems and other factors. There seem to be many problems recently. What is behind this? Are the resources invested in maintenance sufficient? Please explain these things including specific measures for the future.**

**A13.** The operation of the crackers at the Ichihara Works was suspended in fiscal 2019 due to problems with the electric system, but we did not reduce repair expenses, and there were few problems stemming from the deterioration of equipment. However, it is true that unexpected problems are occurring, and we need to construct a mechanism to be able to predict events that were not predictable with existing technologies, in addition to the improvement of maintenance technologies. Currently, we are advancing efforts to use AI and IoT to predict problems. We will further ramp up our efforts in the future.

**Q14. What is the trend in demand for olefin and polyolefin?**

**A14.** Domestic demand for polyolefin continues to be firm. The utilization rate also remains high for crackers in Japan, and we also continue full operation of crackers. In terms of exports of olefin, while our export ratio is not high, we will pay close attention to the impact of changes in the

environment, which we are observing in some areas.

**Q15. What is the supply and demand environment of phenol?**

**A15.** The supply and demand environment of phenol and bisphenol-A continues to be at an appropriate level, but market conditions for acetone are at a historically low level because the supply of acetone, a by-product, is increasing more than demand, reflecting the rising utilization rate of phenol plants on the back of firm demand. However, we have derivatives of acetone, such as IPA, and we will secure profitability overall by strengthening them.

■ **Group-Wide Issues**

**Q16. Although operating income reached a ¥100 billion level due to progress in the business portfolio reforms, what do you think about the fact that market evaluations do not make much progress?**

**A16.** The fact that market evaluations are at a low level is not something we are happy with, but we think that what we should do is to demonstrate our performance through delivering results, by continuing to secure stable profits in order to dispel our image as the company centering on petrochemicals, which tend to show a volatile performance.

**Q17. The name of Mitsui Chemicals is mentioned as a possible buyer of Hitachi Chemical Company. What do you think about this?**

**A17.** Although we are interested in the contents of Hitachi Chemical Company's business and paying close attention to the situation, its share price has remained high since the media coverage. Given this, we think that it will be difficult to ensure economic efficiency even if we did acquire the company.

**Q18. What is the reason for your incorporating ROIC in your management indicators this time? How will you utilize it in the future?**

**A18.** Based on our recognition that management with an awareness of capital cost is important, we have been holding discussions for portfolio reforms by internally evaluating our businesses and affiliates using ROIC for some time. Recently we have also disclosed ROIC by segment externally as an indicator that shows the portfolio reforms quantitatively from the standpoint of investment efficiency. Companies that have utilized ROIC are working to enhance their corporate value by promoting specific measures to improve KPI, by putting ROIC into KPI for business segments after decomposing ROIC. How we will utilize ROIC is a subject for future examination, but we will strive to improve the investment efficiency and reduce the capital cost as a company-wide effort.

**Q19. You showed your outlook for ROIC by segment in 2021. but can you explain the transition of ROIC in each segment? Also, what are factors for the improvement of ROIC in the Health Care segment through fiscal 2021?**

**A19.** As for the transition of ROIC by segment, we expect that ROIC will continue to remain high in the Mobility segment because its profit will also grow, although invested capital will increase significantly associated with the implementation of large investment in plants and equipment. In the Basic Materials segment, while invested capital will increase given investment in plant and equipment, we expect ROIC to improve due to stronger competitiveness and an improvement in profitability. In the Health Care and the Food & Packaging segments, we will make a certain amount of investment, but ROIC is expected to improve because profit growth is large. Profit growth in the Health Care segment will be driven by the sales expansion of vision care materials, and we also expect that profits of nonwoven fabrics and dental materials, which are sluggish at the moment, will recover.

**Q20. The actual amount of investments in plants and equipment was lower than the plans in the past. What is the degree of certainty that you will make investments of ¥430 billion over the next three years, as just announced?**

**A20.** The reason why the amount of investments in plant and equipment was lower than the plans in the past was that we tried to determine the timing of investment following rising construction

costs. We believe that it would be better to carry forward these projects after fully determining their economic efficiency even if we postpone the implementation. Although we have many investment projects, we will execute them carefully.

**Q21. Are there any direct or indirect impacts from the trade conflict between the United States and China?**

**A21.** As we are promoting local production for local consumption, we have succeeded in minimizing the direct impact of declining exports. However, we will pay close attention to future developments because we will be affected by sluggish domestic demand in China even if we carry out local production for local consumption. On the other hand, Japanese automobile manufacturers remain strong although the number of automobiles produced declined year on year in 2018. Because our PP compounds are sold mainly to Japanese companies, we are not suffering special impacts even in China where the number of automobiles produced fell significantly. We think that the largest risk is a fall in overall demand as a result of sinking consumer confidence due to intensified trade conflict between the United States and China. As for the future outlook, it is difficult to make a projection, but we will deal with risks with the utmost care and attention.

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.