

Q&A Summary for CEO Explanation Business Results & Outlook on May 2017

Date	May 29, 2017 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 Shigeru Isayama, Senior Managing Executive Officer & CTO
Reference	CEO Explanation of 2025 Long-Term Business Plan

Q&A

Q1. In addition to enhancements in the functionality of polyolefins, what are your thoughts on the need to upgrade and expand engineering plastics as well as growth in the Mobility Domain?

A1. The Mitsui Chemicals Group not only possesses polyolefin, but also polyurethane products and technologies. Based on our ability to address a wide range of needs by enhancing the functionality of these products and technologies, we will first fine-tune our activities in each area. Looking ahead, we also recognize the need to consider opportunities in areas that involve the combination of glass and carbon fibers as well as the upgrade and expansion of engineering plastics.

Q2. Fiber reinforced plastic materials are attracting attention for their use in structural parts. Do you see glass fiber reinforced plastic (GFRP) and carbon fiber reinforced plastic (CFRP) as competing or separate products?

A2. We recognize that CFRP is distinguished by its outstanding robust and lightweight properties. Meanwhile, as a material that provides a clean surface finish and allows us to put forward paint-free and other proposals that help reduce costs, our GFRP is being increasingly adopted in the manufacture of rear doors, where the need to utilize polymer resins is high. Currently, we are in the process of establishing production technologies in the leadup to increased production.

Q3. Tell us about the use of polypropylene (PP) compounds in Europe.

A3. Use by European manufacturers is progressing steadily.

Q4. Efforts to expand agrochemical products are expected to enter an important period over the next several years. What are your plans over the next three years?

A4. In order to expand our agrochemical products business, it is imperative that we acquire overseas approvals and permits and undertake sales of the Group's agrochemicals including new active ingredients. In carrying out these endeavors, we will take up an equity interest or increase our investments in local companies in regions where it is difficult to expand sales channels on our own. Moving forward, we plan to progressively expand our operations.

Q5. Why did operating income exceed initial forecasts in FY2016 in the Basic Materials Domain?

A5. Profits improved significantly in FY2016. In addition to the reduction of fixed costs attributable to restructuring, this improvement was attributable to the cumulative effect of several factors including continuous high run rates underpinned by firm demand and soaring overseas market conditions. Not only the impact of temporary factors, but also the makeup of our earnings is becoming increasingly robust thanks to the positive flow-on effects of restructuring. Over the next few years, we believe we can secure operating income around the 20 to 30 billion yen level.

Q6. What are your thoughts on operating conditions in the Basic Materials Domain in the future?

A6. We are not anticipating any major change in FY2017. This is mainly due to ongoing firm demand and the limited impact of shale-derived chemicals. As outlined in a summary of the Asia Petrochemical Industry Conference that was held the other day, demand for ethylene is projected to expand at an

annual rate of between 3 and 4 percent mainly in Southeast Asia. From a long-term perspective, it is commonly held that supply will effectively counterbalance demand. While there is a perceived risk in the short term of excess supply totaling roughly five million tons due to ethane cracker growth in North America, this equates to only around 3% of the 150 million-ton global supply. While there is only a limited chance of any major disruption in market conditions looking at the players involved in boosting production, we recognize the need to monitor trends in the China market, which has a substantial inflow of chemical products.

Q7. What is your forecast for operating income in the Basic Materials Domain as production of shale-derived chemicals begins in earnest over FY2018?

A7. We have undertaken investments at our Ichihara Works in Japan to ensure that there is no discernable drop in efficiency even when operating rates are running at 70%. We took steps to limit the effects of such factors as the inflow of commodity polyethylene by lifting the differentiation ratio and working to restructure our operations to minimize any direct impact from shale-derived chemicals. Moreover, we are confident that a structure is now in place to secure operating income of between 20 and 30 billion yen in the Basic Materials Domain, thanks to efforts aimed at reviewing the balance between our petrochemical- and basic chemical-related portfolios.

Q8. What is your outlook for the phenol and PTA businesses?

A8. We expect that phenol supply and demand will tighten owing mainly to the upswing in demand for derivatives. While we see signs that trends in PTA supply growth are beginning to settle in the short term, these trends are not sufficient to bring about an improvement in the terms of trade. Despite difficulties in expanding profits, we do plan to continue promoting rationalization.

Q9. Why did new business and new product sales fall below 2014 Mid-Term Business Plan targets?

A9. We have identified sales from businesses and products released to the market or acquired within the past five years as new business and product sales. There are basically three reasons why sales fell below targets. First, sales of existing products have been robust while we have experienced delays in the trial production of such new nonwoven products as AIRYFA™ and next-generation polyethylene Evolve-E at actual plants. Second, sales from the dental materials business acquired in 2013 have not met expectations. And third, we have struggled to set up new businesses. In an effort to address delays in trial operations at actual plants, we have worked to secure production capacity by commencing commercial operations at an EVOLUE™ plant in Singapore and boosting production of nonwovens. With a view to expanding dental material business sales, we are endeavoring to reenergize sales in North America and to provide the necessary materials in support of efforts aimed at upgrading and expanding products that address the need for compact digital instruments. As far as the setup of new businesses is concerned, we are at long last seeing some progress notwithstanding considerable time and effort to establish a supply chain. Our goal is to make up for lost time at the earliest possible opportunity.

Q10. What is the significance of identifying a separate Next Generation Business Domain in its own right?

A10. The Next Generation Business Domain comprises products and services that are not covered by other domains. In other words, we have identified a separate area through which to commercialize peripheral products and services. The rapid diagnostic system for bacterial identification business was launched by combining certain elements of the Health Care Business and big data technologies. Looking also at the photovoltaic plant business, where it is difficult to engage in business solely on a materials basis, together with the diagnostic business, we are looking to set up businesses that are capable of operating on an ongoing basis in line with the 30 to 50 year unit life of photovoltaic plants based on a concept that covers the entire life cycle from construction, through resale to securitization, operating advice and disposal.

Q11. How do you plan to bring about a self-sustaining balance between offensive and defensive activities when looking to expand the Next Generation Business?

A11. We have identified a basic stance that clearly outlines those areas where we will not go to enclaves even for businesses where profit growth supposed to be a given. However, we recognize the need to take on a certain amount of risk in order to ensure timely action when looking to expand peripheral domains. We plan to engage in activities that we consider are highly effective based on deliberations on an individual project basis even when there is a certain level of risk.

Q12. Tell us about initiatives in FY2017 and the increase in R&D expenses.

A12. Our policy is to upgrade and expand the functions that support various solutions across a wide range of areas including the Mobility Development Center as well as the design of components. We will ramp up hiring activities in each of these fields and undertake the necessary capital investment. Recognizing that the cycle of adoption for automobiles is roughly four years, we will work to secure results in capturing actual demand four years from now. As far as open innovation is concerned, we will inject an amount equivalent to roughly 3% of our total R&D expenditure. We will work to generate synergies while introducing the vitality of sources from outside the Group.

Q13. Notwithstanding forecasts of robust demand and the significant number of products for which facilities are projected to run at full capacity in FY2017, capital expenditure levels would appear to be low. Can you elaborate?

A13. We acknowledge that expanding supply capacity is a pressing issue. However, we will withhold any decision regarding the timing and location of capital expenditure to the last minute while maximizing the use of existing capacity. This reflects the current nature of construction costs, which continue to hover at extremely high levels especially in North America, and other factors including difficulties in securing human resources.

Q14. What are your reasons for increasing the absolute amount of investment in maintaining business platforms compared with the past three years?

A14. In addition to the Basic Materials Domain, maintenance investments include expenditures to maintain all of the Group's business domains. While facility operating rates are running at a high level, we intend to channel the necessary resources to address the urgent issue of obsolescence attributable to corrosion.

Q15. In this instance, you have introduced the total return ratio as a part of efforts to increase returns to shareholders. Can you elaborate in light of your aim to expand investments? Moreover, what is your policy regarding the acquisition of treasury stock and timing?

A15. We are now in the position to generate sufficient operating cash flows to allow us to balance the needs to both expand investments and increase returns to shareholders. As far as the acquisition of treasury stock is concerned, our decision whether or not to proceed will reflect the price of our shares and market conditions. Turning to the reversal of the Company's capital reserve as a potential source for increasing returns to shareholders, details of which were disclosed on a timely basis the other day, we would suggest that this reflects management's commitment to shareholders.

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.