

Q&A Summary for CEO Explanation Business Results & Outlook in November 2017

Date	November 15, 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 Business Results and Outlook posted on November 15, 2017

Q&A

■ Mobility

Q1. Tell us about progress in expanding the polypropylene (PP) compounds business.

A1. We are working to expand our activities in Europe where our share of the market is low. While we are considering steps to establish our own operating base in the future, taking into consideration strong sales conditions, we plan to quickly narrow-down our selection efforts to identify a candidate base and put in place a supply structure and systems.

Q2. What are your thoughts on the direction of PP compounds growth in light of growing efforts to improve strength through the use of glass and carbon fiber reinforced polymers as well as the growing trend toward electric vehicles?

A2. With respect to efforts aimed at enhancing strength through the use of fibers, while also taking into consideration such factors as costs, we anticipate that glass fiber will become mainstream. However, in light of advances in OEM designs that partially employ tape-like carbon fiber as a means to ensure that the polymers used provide a level of strength that is comparable to metal, we are also developing materials that can accommodate this additional trend. At the same time, we expect the potential exists for further increases in the application of PP compounds should the requirements for heat resistance standards decline as a result of the growing penetration of electric vehicles.

Q3. Tell us about any other product development initiatives in response to the growing trend toward electric vehicles.

A3. Demand for electrical components is increasing in line with the growing trend toward electric vehicles. While metal parts currently make up the majority of electrical and related components, we are promoting the development of products that have the potential to further reduce weight using our metal resin integral molding technology.

Q4. What is the status of plans to establish new and expand existing elastomer-based product manufacturing facilities? Can you tell us when a decision will be made?

A4. We are currently planning to establish new and expand existing facilities for LUCANT™ and TAFMER™. Up to now, we have identified North America as a candidate location. In light of the sharp rise in construction costs in North America, we intend to make a decision during this current fiscal year or alternatively at an early stage next fiscal year after reconsidering plans, which also includes a review of the location with respect to the manufacture of LUCANT™. As far as activities regarding TAFMER™ are concerned, we are placing a priority on the debottlenecking of the existing facilities.

■ Health Care

Q5. What is the current status of the Dental Materials business? What are your thoughts on strengthening business in Asia?

A5. While results in the Dental Materials business had declined owing mainly to the slump in sales in North America as well as delays in addressing the growing trend from large to more compact digital equipment, we are seeing a recovery in North American sales in addition to progress in development activities that better respond to the demand for compact digital equipment. In Asia, Kulzer's contribution as a percentage of sales is limited. At the same time, Mitsui Chemicals has traditionally developed business in Japan mainly through Sun Medical Co., Ltd. Moving forward, we will engage in balanced business development activities across Europe, the Americas, and Asia by combining other resources and expand our business in Asia.

■ Food & Packaging

Q6. Tell us about the direction of future growth in the film business.

A6. We are projecting steady growth in industrial films led mainly by sales of ICROS™ Tape. In order to ensure adequate supply, we have decided to establish a new facility in Taiwan. Turning to packaging films, demand is firm. We are anticipating this demand to grow especially in Southeast Asia in line with the increase in the middle-income demographic.

Q7. What are the advantages of ICROS™ Tape over competing products?

A7. ICROS™ Tape is a surface protective tape that is used in the silicon wafer back-grinding process for the manufacture of semiconductor integrated circuits. The detailed design of materials that deliver specific characteristics is an important prerequisite in the protection for delicate circuitry. As a material that can be finely tuned to fit individual manufacturing process requirements, ICROS™ Tape's competitive advantage rests in its ability to precisely meet the diverse needs of customers and is the principal reason for its high market share. Moreover, any ICROS™ Tape quality-related issues are linked directly to the opportunity loss of customers. Accordingly, another key factor in its high market share is the strict adherence to quality control and management.

Q8. You are targeting net sales of 100 billion yen in FY2022 in the Agrochemicals business. What is the status of efforts aimed at developing five new active ingredients as well as the Group's overseas business?

A8. We have already released one of the five active ingredients that we plan to bring to the market. Currently, we are carrying out registration procedures for the second and third active ingredients. As far as the remaining two active ingredients are concerned, we are taking preparatory steps to apply for registration. In light of the increasingly stringent application data requirements imposed by each country, we anticipate a slight delay in completing the market release of all five active ingredients, which was initially set for FY2022. Meanwhile, we are also pushing forward investments in connection with our overseas business development activities. Efforts are progressing steadily in line with plans.

■ Basic Materials

Q9. What are your thoughts on shale gas cracker operations in North America and the impact of coal to olefin (CTO) activities in China?

A9. While three companies have newly commenced polyethylene activities in North America, cracker operations are yet to commence. At this stage, the overall amount of supply has not increased. We are looking at the start up of cracker operations during the 1Q and 2Q of 2018. We anticipate that the effects of start up will be felt in earnest from the middle of next year. Taking into consideration transportation, repacking infrastructure and other costs, however, difficulties exist in quantifying the actual impact. Although CTO activities continue to be promoted as a national policy, we think that the ability significantly impact the balance between supply and demand is waning. This is largely because of the difficulties in reaching an adequate level of profitability under current oil prices, and the strengthening of environmental regulations. Looking ahead, we will closely monitor environmental regulation and other trends.

Q10. What are your thoughts in the impact of waste plastic import regulations in China?

A10. While it would appear that waste plastic import regulations will drive up demand for virgin resin polymer over the short term, the mid- to long-term effects and the future of such factors as environmental regulations are uncertain. We will continue to carefully watch conditions in the future.

Q11. In the last CEO explanation of business results and outlook, you mentioned that you were looking to secure operating income of around 20 to 30 billion yen in the Basic Materials domain. In this presentation you are projecting stable operating income in excess of 30 billion yen. What specific progress was made?

A11. In addition to steady progress in the local production for local consumption of such large-scale products as phenol, PTA and TDI, improvements in the captive use of ethylene and the high value added products ratio with respect to the olefin chain are helping to minimize the impact of movements in market conditions. While potential exists for operating income to fall below 30 billion yen in the event of major changes in the external

environment, we anticipate that we can secure operating income of around 30 billion yen so long as the range of change is normal.

Q12. Securing competitive raw materials has been identified as a measure designed to further strengthen competitiveness in the Basic Materials domain. Can you provide us with specific details?

A12. As far as crackers are concerned, and in addition to the current use of naphtha, we will diversify available raw materials including LPG. We are taking into account a variety of considerations and initiatives such as securing competitiveness by engaging in production using raw materials that are relatively inexpensive at that time.

Q13. While it is our understanding that a round of structural reforms has been completed in the Basic Materials domain, are there any additional cost reduction items that will help further strengthen competitiveness?

A13. While a round of structural reforms has been completed for major products, there is room for further rationalization in connection with utility costs. This includes strengthening regional alliances.

Q14. What is your stance toward high value added products in the Basic Materials domain in the future?

A14. High value added products in the Basic Materials domain include EVOLUE™, hydroquinone, cresol and specialty gases. We plan to boost production capacity in line with future demand.

■ **Group-wide**

Q15. While details of your future rolling budget for the Group's FY18-FY20 performance outlook are to be released in May 2018, what do you currently see as major factors that will contribute to an increase in profit as well as future risks?

A15. A number of factors are expected to help increase earnings. In addition to boosting the production capacity of such products as highly functional nonwoven fabrics and ICROS™ Tape, we anticipate profits will benefit from an increase in EVOLUE™ operating rates, where steps have already been taken to expand capacity, and implement other initiatives including efforts to ensure the supply of PP compounds, MILASTOMER™ and other products in line with demand. As far as risks are concerned, shale gas cracker operations are one factor. While we can expect to see an impact over the 2018-2019 period, demand is also expanding steadily. Looking ahead, we anticipate the return to balanced demand and supply around 2020.

Q16. What are the reasons for lower extraordinary losses compared with historic levels?

A16. One factor is the completion of a round of restructuring efforts pushed forward to date. Currently, the amount of extraordinary loss comes in at about the level of normal facility retirement.

Q17. What initiatives are being undertaken with respect to the shift to a customer-driven business model?

A17. Currently, we are working to promote increased awareness toward the shift from a "Farmer" to a "Chef" type approach with respect to our research and development activities. Traditionally, our strengths were derived from the development of new materials, but for the most part, the development of applications was left to customers. If we equate end products to say food, for example, the thrust of our R&D activities would historically be categorized as reflecting a "Farmer" type approach and the provision of ingredients. Today, however, increasingly diverse and sophisticated customer requirements dictate the need to put forward solutions that are based on a "Chef" type approach toward R&D. Again, if we equate our activities to that of a chef in the food industry, this would mean acquiring the skills of a first-class chef, who is capable of satisfying the tastes of customers. In specific terms, this means that we must deliver materials that in the example of food combine a variety of ingredients and condiments. At the same time, we must ensure an optimal mix between our own materials and the contributions of other companies in order to genuinely meet the needs of customers. In addition to the customers that deal directly with the Company, we must also ascertain the requirements of indirect customers at the tip of the value chain, which are then retroactively incorporated into the development process. Through these and other means, we are working to reform our R&D style.

Q18. What is your approach to the return of profits to shareholders?

A18. Moving forward, we will target a total return ratio of 30% on a progressive basis. In principle, we will focus mainly on efforts aimed at increasing dividends on a continuous and stable basis. In the event that temporary factors contribute to a surge in net income, or if we consider that the price of our shares are low and do not reflect the proper value, we will also consider the acquisition of treasury stock on a flexible basis.

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.