

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

Date	May 30, 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
Reference	CEO Explanation Business Results and Outlook posted on May 30, 2018

Q&A

■ Mobility

Q1. What is the future growth outlook for PP compounds overall, based on trends such as weight reduction and electrification?

A1. Automobile production is failing to grow in North America, but output is increasing for full-sized cars that use large quantities of resins, such as sport utility vehicles (SUVs) and pickup trucks. Weight reduction is also continuing as an overall trend for cars. We expect the quantity of resins used per vehicle to keep rising. Regarding the shift to electric vehicles (EVs), PP compounds may be adopted for hoods and other sections as a result of a power source switch from engines to motors, which lowers thermal resistance requirements. We are planning to make proposals to cash in on that possibility. We are also expecting the shift to expand our varied products for lithium ion batteries (LIBs), such as POLYMETAC™.

Q2. What is the outlook for expanding the PP compound business in Europe? Can you please explain the synergy with ARRK Corporation?

A2. Our new facility in Europe will begin operating in FY2020. We expect the output of the facility to rise to the maximum level immediately after its launch because the current sales volume for outsourced production is close to 30,000 tons. We are already in the stage of studying the expansion of this facility as the next step. With ARRK Corporation, we can expect mutual complementary effects because the company has the strong relationship with European auto maker, to which we have had little access traditionally. While it's supposed that our collaboration with ARRK Corporation will require a certain period of time before profit contributions are made, we will advance our initiatives steadily.

Q3. We understand that you are continuing your study on building a new TAFMER™ plant in North America, including the possibility of reconsidering its location in response to a substantial rise in construction costs. Don't you think it's time to make a decision on its construction in view of demand and trends among your competitors?

A3. Construction costs in North America have not shown any signs of decline yet, but we are proceeding with our examination from a range of angles. To cite one example, we can adopt a method in which construction costs are reduced by building a plant in an area where construction is inexpensive until the intermediate stage and assembling it in North America at the final stage. We will proceed with our examination of various options such as this one and make a decision at an early stage.

Q4. What is the outlook for capacity expansion of LUCANT™?

A4. With regard to LUCANT™, we are studying a potential site in Japan in an effort to make a decision at an early stage.

Q5. We understand that you are raising solutions proposal capabilities in the Mobility segment through steps including the acquisition of shares in ARRK Corporation. Is this approach effective in other segments as well?

A5. The ratio of our products for automobiles to sales for the Mobility segment is around 60%. We are manufacturing products in other fields as well. ARRK Corporation is handling components and the like other than those for automobiles as well. We can expect synergy to occur in fields other than automobiles in the Mobility segment and other segments.

■ Health Care

Q6. The operating income target for the Health Care segment set in your 2025 Long-Term Business Plan is ¥45 billion. There is a huge discrepancy between this income target and the existing conditions. You have also adopted a high operating income target of ¥25 billion for new businesses. How are you going to achieve these targets?

A6. In the Health Care segment, we are continuing to make investments to bolster nonwoven fabric capacities. We are working to achieve growth by expanding products with advanced functions, such as stretching and crimping, and new products including AIRYFA™. Regarding dental materials, we posted an impairment loss this fiscal year for goodwill and the like in step with a sales decline in Germany. Dental materials are expected to make profit contributions if and when sales in Germany recover and digital products, which are our future growth drivers, expand. Our FY2025 operating income target is a hurdle that has been set high, but we will not perform unreasonable mergers and acquisitions in order to add up profits for just achieving it. We seek to achieve our targets by accumulating steady efforts while solidifying our foundations through steps including mergers and acquisitions to gain insufficient technologies for developing peripheral areas. In addition, we have been sowing seeds for our future growth in fields such as new mobility, new healthcare and next-generation businesses. It's supposed that more time is needed before they contribute to our profits, we will advance our initiatives steadily.

Q7. What are the current conditions of Whole You?

A7. Among Whole You products, dentures did not reach the stage of expanding sales. We pulled out of this market and returned our dentures to the research stage. We planned to sell our TouchFocus™ products in the United States, but made a switch to sell them in Japan. Their sales commenced in February 2018. We will focus on expanding their sales from now on.

■ Food & Packaging

Q8. What is the progress for your five new active ingredients for agrochemicals? Can you please explain the accuracy of the FY2022 sales target of ¥100 billion for the agrochemicals business set in the ongoing business plan?

A8. We concluded a long-term commercialization agreement with BASF for Broflanilide, an insecticide whose scale was the largest among the five active ingredients, and signed a joint development agreement with Bayer for Quinofumelin, a germicide. We are advancing our efforts to market these two active ingredients. The conclusion of these agreements reflects the two companies' evaluations for the potential of these active ingredients. They are expected to contribute to our profits in the Food & Packaging segment in the future. Looking at their progress, there are areas where delays from the initial plan have occurred. There is a possibility that we will take a little longer to achieve the FY2022 sales target of ¥100 billion as a result of these delays. Despite this possibility, we will advance our initiatives steadily.

■ Basic Materials

Q9. Your FY2018 operating income forecast for the Basic Materials segment is ¥33 billion. The amount is ¥5.9 billion less than the same income posted in FY2017. The forecast seems conservative in consideration of factors such as the normalization of the market conditions for phenols. What is the future outlook for the Basic Materials segment?

A9. Our FY2025 operating income target for the Basic Materials segment is ¥30 billion. Our basic way of thinking is to secure profits in excess of ¥30 billion in a stable manner. Basic materials are a business that is large in scale. They have substantial effects on consolidated profits and losses. For these reasons, we forecast our FY2018 operating income a little cautiously. In the long term, we will advance structural reforms, including business composition optimization, to improve our profitability.

Q10. Market conditions for ethylenes are showing large disparities in North America and other regions at present. What is the outlook for ethylenes and polyethylenes, taking the effects of the operation of shale-derived crackers into consideration?

A10. There has been a view that exporting shale-derived polyethylenes to other Asian countries is

difficult because of bottlenecks, including logistics infrastructure. The conditions for their export have grown more severe in the most recent period due to problems in areas including packing and the securing of transportation personnel. North American products account for about 6% of the polyethylenes imported by China at this point. Shale-derived products are not having a major impact. But we will keep observing the market trends. The market conditions for ethylenes are at low levels in North America compared with those in other regions, partly due to the low operation rate of derivatives. We think that disparities in the market conditions will start disappearing with the future improvement of the operation rate of derivatives.

Q11. What are the future trends for phenols and urethanes?

A11. The market conditions for phenols have been sluggish, but demand for them has remained firm against the background of strong demand for polycarbonate. In addition, new demand for phenols has been generated, as demonstrated by the launch of a caprolactam facility based on a manufacturing method using phenols. We predict that the supply and demand conditions for phenols will normalize from now on. Looking at the market conditions for urethanes, their prices have soared, with problems at competitors and other factors in the background. But we take the view that the conditions will calm down from now on. We established Mitsui Chemicals and SKC Polyurethanes Inc. to bolster downstream system houses. We will work to increase our profits stably through reliable initiatives.

Q12. What are your long-term measures for strengthening basic materials, such as scrapping and rebuilding naphtha crackers in Japan?

A12. With regard to crackers in Japan, we can cite measures against deterioration and scale differences with overseas crackers as two problems. Many of the crackers in Japan belong to the 500,000-ton class. On the other hand, crackers in the 1,500,000-ton class are becoming the mainstream overseas. Crackers in the 1,500,000-ton class are highly competitive, but they require joint initiatives with other companies in neighboring areas because they substantially exceed the respective companies' cracking capacities. Regarding deterioration, we are performing the partial replacement of various old and decrepit plants, including crackers, as required. We believe that we can continue safe and stable operations because the advancement of testing techniques is making maintenance more and more reliable. We will examine the applicability of new process technologies to our measures, including scrapping and rebuilding, as they are developed in the future.

■ Group-Wide Issues

Q13. We understand that you are now in a situation where you cannot expect profits to increase sharply because you have curbed investments by prioritizing the improvement of your financial standing. What is the future growth outlook for the Group?

A13. We had to curb investments during the period covered by the 2014-2016 Mid-Term Business Plan, but we made investments of a certain level under the Plan. We expect those investments to contribute to the growth of our profits from now on. Facilities for Evolve™, whose capacities have already been expanded, are not in full operation. In addition, new facilities for nonwoven fabrics and Icos™ tapes will commence operation in FY2018 and FY2019, respectively. We predict that the effects of these investments will add up and achieve operating income of ¥125 billion in FY2020.

Q14. Which of your next-generation businesses do you find particularly promising?

A14. Companies have developed rapid bacteriological tests, with inspections against bacteria responsible for sepsis as the main goal. The fatality rate for sepsis is high. Existing test methods also share the problem of the time needed for identifying the responsible bacteria. We will work to achieve the early practical application of our test method from the viewpoint of social contribution as well, because it can shorten the inspection time substantially compared with the methods that are currently in use. We also think that applications development will give piezoelectric sensors and next-generation display materials great potential.

Q15. You are planning to invest ¥360 billion over the next three years. This means you will invest about ¥120 billion per year. Are you thinking about continuing this pattern after FY2020? How will your free cash flows change as a result of the investments?

A15. We plan to invest ¥1 trillion in our growth over a period of 10 years according to our Long-Term Business Plan. In addition to this sum, investments for maintaining and renewing facilities of about ¥30 billion will emerge each year. Our investments will average about ¥130 billion per year. After FY2020, we will continue making investments of the same level as those from FY2018 to FY2020. We predict that cash flows from operating activities will surpass ¥100 billion with profit expansion in the future. Based on these figures, we expect free cash flows to generally remain in the neighborhood of zero.

Q16. We think working capital will increase with a rise in crude oil prices. What will the effects of this change be on your financial stability?

A16. We are managing our financial stability using the net D/E ratio as a major indicator. The target net D/E ratio set in our Long-Term Business Plan is 0.8 or less. We expect cash flows from operating activities to decrease and interest-bearing liabilities to increase temporarily with a rise in crude oil prices. However, shareholders' equity will expand with profit growth at the same time. We predict that the net D/E ratio will remain at the latest level of 0.7 to 0.8 for these reasons.

Q17. Mitsui Chemicals has adopted Creating New Customer Value through Innovations as its slogan since the period under the 2014 Mid-Term Business Plan. To what extent has this slogan taken root within the Group?

A17. Creating New Customer Value through Innovations is a concept that represents our initiatives for changing our corporate culture as well. We have witnessed concrete moves within the Group up until this point, such as the launch of the Robot Materials Business Development Division and an open laboratory activity called MOLp Café. We feel that the awareness of our employees is changing little by little. But getting a new corporate culture to take hold in the Group is an initiative that requires time. We will accumulate cases from now on in order to ensure that the culture is shared within the Group.

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.