

Questions from the Internet Briefing for Institutional Investors and Analysts on Mitsui Chemicals Group's Consolidated Financial Results of the 3rd Quarter of Fiscal 2018

Date	February 5, 2019
Speaker	Taro Koike, Deputy Director, Corporate Communications Division
Reference	Results for 3rd Quarter of FY2018 & Outlook for FY2018

Q&A

■ **Mobility**

Q1. Please explain the business trends of the Mobility segment.

A1. In the Mobility segment, the sales volume remained firm in all businesses. As for automobiles, overseas PP compounds remained strong globally. The cumulative total sales of automobiles in North America from the beginning of the year remained unchanged from the previous year, but sales of large-size cars such as light trucks, which we focus on, grew year on year. Therefore, the general trend remained the same. In addition, automobile sales in Asia, including Thailand and India, are growing, and in China sales of Japanese cars are strong. As a result, sales of our PP compounds are increasing year on year in all bases. In terms of ICT, despite the slowdown of smartphones, the trends of dual and triple cameras remain unchanged and sales of APEL® remain firm.

Q2. Regarding the FY2018 forecast for operating income of the Mobility segment, please explain the details reviewed from the previously announced value.

A2. We have not significantly revised sales volumes. Regarding the terms of trade, price revisions were not achieved against the plan due to falling raw material prices during Q3. Although the drop in raw material prices will have a positive effect, the impact of the total terms of trade on income has not changed significantly from the previous forecast. In addition, the revised results forecast of the ARRK Group contributed positively.

Q3. Please explain the trend in the terms of trade of overseas PP compounds.

A3. Although prices of propylene and PP were on an upward global trend from the latter half of Q1 (April – June) of FY2018, the prices fell from the latter half of Q3 (October – December), and their level at the end of March 2018 is expected to continue in Q4 (January – March) of FY2018.

■ **Health Care**

Q4. Please explain the business trends of vision care and nonwoven fabrics.

A4. Regarding vision care, sales of monomers for ophthalmic lens (optical plastic lens) remained strong. As for nonwoven fabrics, sales of high-performance nonwovens remain stable, but the export volume of disposable diapers continues to decrease, and the sales volume of general-purpose nonwovens declined. Two new production lines of high-performance nonwovens started in October, and we will strive to expand sales going forward.

■ **Food & Packaging**

Q5. Please explain the business trends of the Food & Packaging segment.

A5. Sales of agrochemicals remain firm. Although sales of both coatings & engineering materials and packaging films remain stable, sales price revisions were not achieved against the plan due to falling raw material prices during Q3 (October – December). From Q4 (January – March)

onward, the terms of trade are expected to improve as the prices of raw materials decline. Sales of ICROS™ for Q3 (October – December) remained the same as in Q2 (July – September) due mainly to the poor sales of smartphones and the effect of DRAM production adjustment. As we believe that the effect of production adjustment, among others, will continue in the future, we will keep an eye on the trends.

Q6. Please explain the trends in operating income in the Food & Packaging segment from Q2 (July - September) to Q3 (October - December) and Q4 (January - March).

A6. From Q2 to Q3, operating income declined mainly because agrochemicals entered the non-demand season. From Q3 to Q4, it is expected to increase because agrochemicals enter the demand season, and the terms of trade for coatings & engineering materials and packaging films will improve due to falling raw material prices.

Q7. How do you expect ICROS™ sales for Q4(January - March) compared with Q3(October - December)?

A7. We expect that sales will decrease mainly because Q4 is a non-demand season.

Q8. We note that research and development expenses for agrochemicals often arise in Q4 (January - March), but is there a possibility that these expenses might increase more than planned?

A8. No significant increase is expected.

■ Basic Materials

Q9. Please explain the trends in operating income in the Basic Materials segment from Q2 (July - September) to the Q3 (October - December) and Q4 (January - March)

A9. From Q2 to Q3, major facilities such as crackers continued to operate at a high level. While the deferment of repair expenses and the weakening of market conditions were factors in the decrease of approx. ¥1 billion in operating income, respectively, the reduction of the impacts of regular maintenance and the fire at Osaka Works was a factor for an increase of approx. ¥4 billion in operating income. This resulted in a ¥1.7 billion increase in operating income overall. From Q3 to Q4, while facilities will continue to operate at a high level, we anticipate an inventory valuation loss of over ¥10 billion due to a sharp drop in raw material prices. Part of the loss will be offset by the time lag effect of sales price formula, but it will not be possible to offset all of the loss because of the sharp fall in raw material prices. Therefore we expect a decrease in operating income.

Q10. In the Basic Materials segment, the inventory valuation loss could not be offset by the time lag effect of sales price formula in Q4 (January - March), which resulted in a decrease in operating income, but if the raw material price stabilizes, will it become an improvement factor from the next fiscal year?

A10. Depending on the sales and other situations, certain improvements are expected.

Q11. What are the factors for the large increase in the fixed cost difference compared to the same period last year in operating income for the third quarter of the Basic Materials segment?

A11. It is mainly due to the impact of the fire at Osaka Works, issues with some other products, and the effect of the regular maintenance of phenol in Singapore.

Q12. Please explain the market trends of phenol and acetone. Have you secured profit in a total of phenol and acetone?

A12. Demand for phenol continues to be steady. Market conditions, which temporarily surged as a result of trouble at some phenol manufacturers and so on, settled after the restart, but remained at a certain level. Going forward, demand will temporarily decline due to the Lunar New Year, but it is expected to increase after the New Year thanks to the recovery of demand for BPA for polycarbonate and the launch of phenol-method caprolactam. On the supply front, there are no plans for new expansion. Some manufacturers will enter the regular maintenance period and market conditions are expected to remain firm. Regarding acetone, demand remained generally steady, but market conditions were sluggish due to the oversupply of acetone as a result of the high operation of phenol. We expect the market conditions to rise around the end of the Lunar New Year mainly due to regular maintenance by some manufacturers. We have secured a certain profit when combining phenol and acetone.

■ Group-Wide Issues

Q13. In the initial plan of the year, the fixed cost difference of operating income from FY2017 to FY2018 was -¥5.5 billion, but it increased to -¥9.2 billion at the end of the third quarter. What are the main factors for it?

A13. The main factors are the impact of the fire at Osaka Works and issues of some products. Excluding these, the difference is expected to be roughly at the same level as the initial plan.

Q14. What was the impact of the fire at Osaka Works on the third quarter results?

A14. Sales opportunity loss and increased costs of over ¥3 billion were the factors for a decline in operating income. In addition, we recorded an extraordinary loss of ¥6.3 billion.

Q15. What is the factor for the deterioration of the Q4 (January - March) forecast for equity in earnings of non-consolidated subsidiaries and affiliates compared with Q3 (October - December)?

A15. The main factor is TDI's declining market conditions.

Q16. Regarding the forecast for FY2018, among income at each stage, while items up to ordinary income were revised down from the previously announced value, why did net income remain unchanged?

A16. The main factor is that extraordinary income increased from the previous forecast mainly due to the partial transfer of equity interests, such as SMPC and TPRC, and the sale of other assets.

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