Questions from the Internet Briefing for Institutional Investors and Analysts on Mitsui Chemical Group's Consolidated Financial Results of the First Quarter of Fiscal 2017

Date	August 2, 2017
Speaker	Osamu Yoshida, Deputy General Manager, Corporate Communications Division
Reference	Results of the First Quarter of FY2017 & Outlook for FY2017

Q&A

■Mobility

Q1. Please tell us about the operating income trends from the 4Q of FY2016 to the 1Q of FY2017, and could you also outline the trends during the 2Q?

A1. From the 4Q of FY2016 to the 1Q of FY2017, mainly the sales of elastomers and performance polymers were steady, and earnings increased due to an improvement in terms of trade associated with falling raw material prices. From the 1Q to the 2Q, we are anticipating a decrease in operating income due to the impact of regular maintenance and the time lag of fixed costs, but demand is expected to remain steady, and we are expecting the basic tone to remain unchanged.

Q2. Could you explain the reasons for the worsening terms of trade in the 1Q of FY2017 compared with the same period in the previous fiscal year and any future from the deterioration of automobile sales in North America?

A2. In the 1Q of FY2016, as raw material prices fell, the terms of trade were favorable. In the 1Q of 2017, however, the prices of raw materials were stable and thus comparatively worse, but the business situation, including the quantitative aspect, remains favorable. Although a decrease in the number of North American automobile unit sales is anticipated, as we are advancing the adoption of our PP compounds for large vehicles that utilize large amounts of resin per unit, such as SUVs and pickup trucks, we are anticipating a leveling off of the sales volume of our materials.

Q3. Please explain the situations with regard to automotive sector materials other than in North America and ICT-related applications.

A3. In automotive applications, the sales volume of our materials for vehicles for export is increasing in Thailand, and China is also favorable due to the strong Japanese OEM presence there. With regard to ICT applications, performance polymers remain steady.

■Health Care

Q4. Could you please explain the reason for the increase in operating income from the 4Q of FY2016 to the 1Q of FY2017?

A4. Sales, mainly of vision care materials, were stable.

Q5. Could you please provide an explanation about the state of recovery from the distribution inventory adjustment phase for nonwovens?

A5. From last year's inventory adjustments we are currently entering the recovery phase, and sales volume exceeded the previous quarter. On the earnings side, we are still affected by the rising prices of raw materials, but are expecting to recover from the 2Q onward.

Q6. Please tell us about the trends in the vision care materials business and the status of its development into peripheral fields.

A6. Sales of high refractive index ophthalmic lens monomers are steadily increasing. Factoring in the contribution to profits from our move into the peripheral field in the second half, we will advance a future plan.

■**Food & Packaging**

Q7. Please tell us about the operating income trends from the 1Q to the 2Q of FY2017.

A7. Demand for packaging films and industrial films was stable, and we are anticipating an increase in sales volume. For agrochemicals, we are anticipating an increase in R&D expenses and a slight decrease in overall segment income in the 2Q.

■**Basic Materials**

Q8. Could you please explain the reason for the decrease in operating income from the 4Q of FY2016 to the 1Q of FY2017 and also during the 2Q of FY2017?

A8. The major part of the income decrease from the 4Q of FY2016 to the 1Q of FY2017 was attributable to a softening of the market for petrochemicals, centered on butadiene. The decrease from the 1Q to the 2Q was mainly due to regular maintenance and the time lag of fixed costs.

Q9. Please explain the reasons behind the market deterioration from the 1Q to the 2Q of FY2017.

A9. In the previous outlook, we anticipated that the olefin market, which had been rising from the latter half of FY2016, would gradually soften, and we regard the outlook as being similar this time as well.

Q10. With regard to operating income in the 1Q of FY2017, could please provide a breakdown of those businesses that are showing an increase in comparison with the same period of the previous fiscal year?

A10. Centered on petrochemicals, earnings from both basic chemicals and urethane are increasing.

Q11. Tell us about the prospects for the Asian olefin market.

A11. Amid feelings that demand for ethylene is tight, we assume that the market conditions are becoming structured to respond sensitively to regular maintenance at suppliers and any problems at plants. Also impacted by major suppliers' regular maintenance in the 1Q of FY2017, olefin market prices remained at a high level. However, we are expecting shale-based olefins to be offered during the course of FY2018 and are making a business outlook factoring in their impact over the full year.

Q12. Would it be possible for you to briefly explain to what extent Mitsui Chemicals ethylene and butadiene profit or loss are affected by market conditions?

A12. Ethylene has high captive use and is thus not greatly affected by market conditions. Butadiene is sold directly, but the volume is small. Although, structurally, the overall impact on operating results is not significant, as there was a sharp rise in the market in the 4Q of FY2016, this was a contributory factor in the decrease in operating income during the 1Q of FY 2017.

Q13. Could you please explain the Asian market forecast for TDI and phenols?

A13. The 1Q market price for TDI remained at the more than $3,000/t level. We are assuming that the price will gradually soften in the 2Q, due to such factors as the resolution of problems on the supply side. In the case of phenols, conditions in the 1Q were harsh primarily in the Chinese market, and we are expecting similar levels in the 2Q as well.

Q14. What are the operating rates for major products in the 1Q and 2Q of FY2017?

A14.

Cracker	1Q: Almost full capacity	2Q: Generally full capacity (excl. regular maintenance)
Polyolefin	1Q: Almost full capacity	2Q: Almost full capacity (excl. regular maintenance)
Phenols	1Q: Full capacity	2Q: Generally full capacity (excl. regular maintenance)
PTA	1Q: Around 80% in Japan	2Q: Around 80% in Japan
TDI	1Q: Full capacity (excl. regular maintenance)	2Q: Full capacity

Q15. Could you please explain the reason why the operating rate for crackers is expected to be down, even if the effect of regular maintenance work is excluded, from the 1Q to the 2Q of FY2017?

A15. Since derivatives also undergo regular maintenance in the 2Q, we are expecting a slight reduction in the operating rate in accordance with that.

■ Group-Wide Issues

Q16. Could you please explain the reasons for the improvement in equity in earnings from non-consolidated affiliates and subsidiaries for the 1Q of FY2017 compared with the same period in the previous fiscal year and with the preceding quarter?

A16. In both the same period in the previous fiscal year and in the preceding quarter, the improvement was mainly due to the better performance from our polyurethane and Chinese phenol equity-method affiliates.

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.