

Questions from the Internet Briefing for Institutional Investors and Analysts on Mitsui Chemicals Group's Consolidated Financial Results of the 3rd Quarter of Fiscal 2017

Date	February 2, 2018
Speaker	Osamu Yoshida, Deputy General Manager, Corporate Communications Division
Reference	Results for 3rd Quarter of FY2017 & Outlook for FY2017

Q&A

■Mobility

Q1. Please tell us about the status of polypropylene (PP) compound sales in the 3Q results.

A1. PP compound sales remained solid globally. While automobile sales volumes continued to decline in North America, the number of large-sized models such as SUVs and pickup trucks, on which we focus, increased year on year. In addition, total sales rose compared with the same period of the previous fiscal year, reflecting strong sales of our PP compounds in Thailand, China and India, etc.

Q2. Please explain business trends other than PP compounds in the Mobility segment and the impact of the new and expanded competitor facilities of EPT.

A2. In the Mobility segment, sales remained firm overall. In performance compounds, the sales volume of both ADMER™ and Milastomer™ are growing. In performance polymers, sales of APEL® and TPX® are increasing, and in elastomers, sales of TAFMER™ are growing. In terms of the impact of new and expanded competitor facilities of EPT, we have incorporated the certain softening of market prices in our outlook for FY2017.

Q3. Could you tell us about the impact of the production adjustment of smartphones on profits and losses in the Mobility segment?

A3. We have incorporated the impact of the production adjustment of smartphones in our outlook for FY2017 that we announced this time. While a certain impact is expected, we are likely to achieve our earnings targets, which we formulated at the beginning of the year, even after factoring in the impact.

Q4. Please tell us about the purpose of the acquisition of ARRK and the future direction of your M&As.

A4. The aim of the acquisition of ARRK is to strengthen our ability to propose solutions to customers by participating in the initial stage of automobile development through the acquisition of the design and experimental production functions of ARRK and combining them with the material technologies of Mitsui Chemicals. Because ARRK also has strengths in European automobile manufacturers, synergies with Mitsui Chemicals that has strengths in Japanese manufacturers are expected. Regarding the future direction of M&As, we will continue to work on M&As that will complement the capabilities that Mitsui Chemicals is short of, as is the case with the acquisition of ARRK.

Q5. Could you explain when ARRK, which has become a consolidated subsidiary, will be reflected in the consolidated financial results of Mitsui Chemicals, and its impact on the Company's profits and losses?

Q5. It will be reflected in the consolidated results from 4Q of FY2017. Its impact on our profits and losses is currently being investigated and is not reflected in our outlook for FY2017 this time. However, we expect that the impact will be minor. We will incorporate the impact on profits and losses from the next fiscal year in our plan for FY2018 and announce it publicly in May.

■Health Care

Q6. Could you explain the business trends of the Health Care segment?

A6. In vision care, sales of ophthalmic lens monomer remain solid. In nonwoven fabrics, distribution inventory adjustments of disposable diapers have been completed, and sales of the Company's nonwoven fabrics also remain firm against the backdrop of the strong exports of premium disposable diapers to China. However, earnings are being affected by rising raw materials prices. In dental materials, sales are slightly exceeding the year-ago level at present, but the cumulative total for 1-3Q fell slightly short of the year-ago level because some of the sales in 1Q were brought forward to 4Q of FY2016.

Q7. Please explain the reasons for the increase in segment operating income from 2Q (July – September) to 3Q (October – December).

A7. In vision care, operating income remains stable. In dental materials, sales are seasonal and decline in 2Q due to the effect of the summer vacation but increase from 3Q, and this is the major factor for the increase in operating income in the Health Care segment. In nonwoven fabrics, while the sales volume remained steady, rising raw materials prices continued, which continues to put pressure on earnings because of the time lag with price revisions.

■Food & Packaging

Q8. Please tell us about the business trends in the Food & Packaging segment.

A8. Overall sales remain solid. In coatings & engineering materials, sales of both coating materials and adhesives exceed the year-ago level. In terms of trade, the segment is affected by rising raw materials prices and is working to pass them to product prices. In films and sheets, sales of packaging films continue to remain stable, and we have announced price hikes following the rising raw materials prices and are currently undertaking negotiations. In industrial films, sales of ICROS™ remain solid. While we have factored in the impact of production adjustments of smartphones, we expect that sales of ICROS™ will continue to remain firm because its applications are wide-ranging other than smartphones, such as memories for servers. In agrochemicals, while demand is flat or increasing slightly, sales of the Company's products are increasing year on year, mainly overseas. An increase in research and development expenses is expected going forward for the launch of new active ingredients, but we will absorb increasing costs through sales expansion, mainly overseas, and will be prepared for further sales expansion after the launch while maintaining profitability.

Q9. Could you explain the developments in operating income in the Food & Packaging segment from 2Q (July – September) to 3Q (October – December) and 4Q (January – March)?

A9. Operating income declined about ¥1 billion from 2Q to 3Q, but the major factor was a decrease in sales due to the entry of agrochemicals into the non-demand season. The major factor for an increase in operating income from 3Q to 4Q is a rise in sales due to the entry of agrochemicals into the demand season, in contrast.

Q10. Could you tell us about your plan to launch Broflanilide, a new active ingredient of agrochemicals, and its contribution to your financial results?

Q10. We plan to launch Broflanilide in FY2020. Regarding its contribution to our financial results, we have been aiming to double net sales in the agrochemicals business by FY2022, and we expect that Broflanilide will become a major growth driver for this target.

■Basic Materials

Q11. Could you explain the developments of operating income in the Basic Materials segment from 2Q (July – September) to 3Q (October – December) and 4Q (January – March)?

A11. Operating income increased ¥6.5 billion from 2Q to 3Q, but about half of the increase came from the difference in whether or not regular maintenance is carried out. The rest was mainly due to an improvement in the market conditions of phenols and gains on valuation of inventories associated with rising raw materials prices. Regarding the decrease of ¥1.6 billion in operating income from 3Q to 4Q, we have factored in the lower margin of petrochemicals and the delay in repair expenses, etc. to a certain extent.

Q12. Please tell us about trends in phenols and your outlook for phenol market conditions.

A12. In 1H of FY2017, market conditions in China were weak due to the inflow of inexpensive US products but have now become normalized, reflecting the effects of the hurricane, the announcement by Shell of the suspension of phenol plants in the United States, and the possibility that an antidumping tax will be applied to exports to China. In addition, demand for phenols remains firm, mainly on the back of the strong performance of polycarbonate in the downstream market and the startup of new plants of caprolactam based on a manufacturing method using phenols as a raw material. We expect that the market conditions will remain stable going forward.

Q13. Could you explain your outlook for the TDI market conditions from 4Q?

A13. While the level of more than \$4,000/t continues against the backdrop of problems on the supply side, we expect that the market conditions will calm down along with the resolution of the problems.

Q14. What are the operating rates for major products?

A14.	Cracker	3Q: Full capacity	4Q: Full capacity
	Polyolefin	3Q: Full capacity	4Q: Full capacity
	Phenols	3Q: Full capacity (excl. regular maintenance)	4Q: Full capacity
	PTA	3Q: Around 80% in Japan	4Q: Around 80% in Japan
	TDI	3Q: Full capacity	4Q: Full capacity

■Group-Wide Issues

Q15. Could you explain the impact of rising raw materials prices on each business?

A15. With respect to polyolefin and packaging films in Japan, we are currently working on a price revision following rising raw materials prices. The prices of PP compounds are based on a formula linked with raw materials, and rising raw materials prices will therefore be reflected in sales prices, although there will be some time lag. In nonwoven fabrics, we are also revising prices based on raw materials prices, and rising raw materials prices will also be reflected in sales prices, although the time lag will occur. In olefin, because many crackers schedule regular maintenance from spring, we expect that the tight situation will continue in 1H of FY2018. From 2H, however, we will need to pay close attention to the impact of the startup of crackers derived from shale in North America, and we will incorporate it in our earnings targets for FY2018 and announce it publicly in May.

Q16. What are the factors for the year-on-year increase in fixed costs in the 3Q results of FY2017?

A16. Fixed costs have increased ¥9.2 billion year on year overall, of which the increase of ¥2.5 billion in the Basic Materials segment is mostly due to the scale difference of regular maintenance from the previous fiscal year. In the three growth domains, temporary factors such as the fixed costs of some inventories are included, and a substantive increase due to the input of resources such as research and development expenses accounts for about half of the total.

Q17. In the 3Q results, expected cash flows from investing activities for FY2017 increased ¥18 billion from your outlook at the time of the 2Q results. Given that the acquisition amount of ARRK is around ¥30 billion, this suggests that the cash flows have decreased in other areas. Are there any specific projects in which cash flows have declined much more than initially expected?

Q17. There is no large project in which cash flows have declined, but we have numerous plans for small and medium-sized rationalization investments. The time lag in these plans is the major factor for the decline in cash flows from investing activities.

Q18. What is your outlook for research and development expenses in 4Q (January – March)?

Q18. We expect that research and development expenses in 4Q will generally show a similar trend to those in 1-3Q.

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.