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

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Reference	Results of FY2018 & Outlook for FY2019

Q&A

■Mobility

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

A1. During Q4 of FY2018 in the Mobility segment, the sales volume remained firm in all businesses. While there was a slowdown in the production of automobiles worldwide, overseas sales of PP compounds grew primarily in Thailand and other Asian countries. TAFMER™ maintained steady sales despite the impact of rising market prices for raw materials in Asia that began in Q4. A slight increase in global automobile production is predicted for FY2019. While it seems necessary to closely observe the developments of the US-China trade disputes, PP compounds are expected to show higher growth in sales than for the amount of global production of automobiles due to ongoing global trends in automotive light-weighting. Sales of other auto-related products are also expected to grow further. APEL®, an ICT-related product, achieved growth in sales aided by the rising number of cameras loaded on a smartphone, despite a slowdown in overall smartphone shipments around the world in FY2018. There is believed to be room for further growth in the number of cameras to be incorporated into a smartphone, and APEL® is expected to maintain solid sales for FY2019 as well.

Q2. Regarding the forecast for operating income of the Mobility segment, please explain the details for the periods from the second half of FY2018 to the second half of FY2019.

A2. From the second half of FY2018 to the first half of FY2019, a ¥1.6 billion decrease in operating income is expected due to regular maintenance work along with the unfavorable terms of trade caused by the time lag of the sales price revision. Meanwhile, sales are generally expected to remain firm. From the first half to the second half of FY2019, a ¥2.5 billion growth in profit is expected to be achieved due to the absence of regular maintenance work and the promotion of sales through developing new customers and new applications in each product category.

■Health Care

Q3. Please elaborate on the business forecast regarding the Health Care segment for FY2019.

A3. Sales of monomers for ophthalmic lens and dental materials are expected to remain steady for FY2019. We will also strive toward growth in sales of nonwovens on the strength of two new product lines for high-performance nonwovens launched in the second half of FY2018, following a setback in sales experienced in FY2018.

Q4. Regarding the forecast for operating income of the Health Care segment, please explain the details for the periods from the second half of FY2018 to the second half of FY2019.

A4. Regarding the Health Care segment, we aim to achieve growth in sales across all product categories in FY2019. Sales for vision care materials are expected to remain steady and nonwovens will also grow, although a ¥1.3 billion drop is predicted in operating income, primarily due to the low-demand period for dental materials from the second half of FY2018 to the first half of FY2019. Sales of vision care materials are expected to remain steady with a ¥3.5 billion increase in profit reflecting sales expansion of nonwovens and dental materials entering a high-demand period from the first half to the second half of FY2019.

Q5. Please explain the current situation for sales of nonwovens.

A5. Sales of nonwovens in FY2018 were affected by the weak exports of disposable diapers to China. A full-fledged recovery in demand is yet to be seen, but we will take the necessary steps aiming to address the demand as soon as it recovers.

■Food & Packaging

Q6. Regarding the operating income of the Food & Packaging segment, please describe the results for the periods from Q3 (October - December) to Q4 (January – March) of FY2018, and your predictions for FY2019.

A6. For Q3 through Q4 of FY2018, operating income for this segment increased by ¥3.0 billion primarily because of agrochemicals entering the demand season. From the second half of FY2018 to the first half of FY2019, it is expected that coatings & engineering materials and packaging films will see an improvement in terms of trade, while operating income is expected to decline ¥1.5 billion, due to a seasonal gap in demand for agrochemical products. From the first half to the second half of FY2019, it is expected that the segment will achieve ¥5.5 billion in growth for operating income, thanks to agrochemicals entering the demand season along with the expected increase in sales of industrial films aided by a recovery in the semiconductor market, as well as the rise in sales of coating & engineering materials.

■Basic Materials

Q7. Please explain the decrease in the Basic Materials segment operating income for FY2018 from the previous estimate made at the time of the Q3 results announcement.

A7. Approximately half of the ¥3.2 billion decline in operating income was attributable to an increase in repair costs, issues of some products, while the other half was caused by some other factors including a surge in raw material prices overseas and adjustments made by certain customers to some of their product inventories.

Q8. An approximately ¥6.0 billion downward revision was made to the Basic Materials segment for the FY2018 operating income estimate when the Q3 results were announced. This downward revision was primarily attributed to an inventory valuation loss associated with a decline in naphtha prices and the time lag effect of the sales price formula. Given this background for the downward revision made earlier, please describe why the effects of an inventory valuation loss and the time lag of sales price formula were limited to ¥2.0 billion for the entire period of FY2018?

A8. Naphtha prices were on an upward path through the end of Q2 of FY2018. Thus, the effects of inventory valuation and the time lag of the sales price formula were positive when the business result estimate for FY2018 was made at the time of the Q2 results announcement. However, naphtha prices began to fall in Q3 of FY2018, leaving the effects of inventory valuation and the time lag of the sales price formula in the negative territory. Given this background, the operating income estimate for FY2018 at the end of Q3 was revised downward by around ¥6.0 billion from that at the end of Q2. For the entire period of FY2018, the effects of the inventory valuation and the time lag of the sales price formula resulted in a decline of around ¥2.0 billion in operating income.

Q9. What is your outlook on the market price developments for major product lines in the Basic Materials segment for FY2019?

A9. Market prices of petrochemical products are expected to fall, because new crackers will be built around the world, leaving the market to soften from FY2018 through FY2019. The market is expected to remain almost unchanged in FY2019 in terms of supply and demand for phenol, being more or less in line with the level experienced in FY2018. There was a surge in the price of Bisphenol A during the first half of FY2018, but the price has since remained stable and is expected to remain stable in FY2019. We expect that the prices of acetone will recover over the course of FY2019 following the weak market in FY2018.

Q10. Please explain the current market trends of phenol.

A10. Market prices of phenol have fallen due to a temporary setback in demand caused by the delayed launch of phenol-method caprolactam and the environmental audit in relation to the chemical plant explosion in Jiangsu, China. Going forward, we expect to see an improvement in market prices as the demand recovers.

■Group-Wide Issues

Q11. Quantity variance in operating income rose ¥6.0 billion in FY2018 on a year-on-year basis. For FY2019, you expect a ¥11.0 billion increase in quantity variance under operating income. Which products do you expect to grow?

A11. At the beginning of the year, a ¥12.0 billion increase in the quantity variance for FY2018 on a year-on-year basis was expected by way of sales expansion across major product lines. The quantity variance in operating income for the Mobility segment remained more or less in line with the budget. In the Health Care segment, vision care materials and dental materials remained strong in terms of sales volume, while nonwovens declined in sales volume. In the Food & Packaging segment, sales volume of industrial films dropped, primarily reflecting a slowdown in the semiconductor industry. For FY2019, we aim to achieve a recovery in the business that suffered a setback in sales volume during the preceding fiscal year, while seeking to maintain firm growth in sales volume for the other business.

Q12. How much of the growth in operating income from FY2018 to FY2019 do you think was attributable to temporary factors such as issues relating to certain products?

A12. A fire at the Osaka works and the issues relating to certain products resulted in a ¥5.0 billion decline in operating income for FY2018, but we expect to resolve these adverse impacts in FY2019. Inventory valuation loss and the time lag of the sales price formula associated with the lower naphtha prices resulted in a ¥2.0 billion plunge in operating income during the same year. This issue is expected to be resolved in terms of operating income forecast for FY2019.

Q13. Please elaborate on your forecast for equity in earnings of non-consolidated subsidiaries and affiliates and the TDI market developments for FY2019.

A13. Equity in earnings of non-consolidated subsidiaries and affiliates is expected to be ¥8.0 billion in FY2019, a decrease of ¥2.8 billion from the preceding year, reflecting TDI's declining market conditions partially offset by higher earnings for other equity method subsidiaries and affiliates. During Q1 of FY2019, TDI's market conditions remained weak. Given this situation, it seems that market conditions remain challenging despite current signs of recovery.

Q14. You expect a ¥3.5 billion increase in depreciation and amortization charges for FY2019 on a year-on-year basis. Please explain the increase in detail.

A14. Contributors to the higher depreciation and amortization charges will include full-year depreciation for the production facilities of nonwovens launched in the latter half of FY2018, along with the production facilities of ICROS™ to be launched in Taiwan.

Q15. Please explain the reasons for the higher capital expenditure forecast for FY2019 on a year-on-year basis.

A15. We plan to increase capacity by expanding the production facilities of ICROS™ in Taiwan and LUCANT™, along with debottlenecking of Tafmer™ and capacity expansion at other facilities.

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.