

Questions from the Internet Briefing for Institutional Investors and Analysts on Mitsui Chemicals Group's Consolidated Financial Results of the 2nd Quarter of Fiscal 2019

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Reference	Results of the 1st Half of FY2019 & Outlook for FY2019

Q&A

Q1. Please explain the movement and impact of operating income in the Mobility segment from Q1 (April – June) to Q2 (July – September) of FY2019. How much impact did the decline of raw material prices have?

A1. Operating income declined slightly, mainly due to the appreciation of the yen, in addition to a slight decrease in the sales volume of PP compounds. Falling raw material prices did not have a major impact on the terms of trade, although there were fluctuations in raw material prices in Japan and overseas, including PP compounds.

Q2. Please explain the trends of PP compounds overseas by region. Does seasonality affect the sales of products for ICT?

A2. Sales of PP compounds in the first half of FY2019 maintained the year-ago level mainly in sales to Japanese firms. By region, our sales remained generally firm in North America on the back of the growth of large cars that use a lot of resin per vehicle. In China, while the production of automobiles was sluggish, Japanese cars remained firm, and our sales remained generally on par with the year-ago level. In Thailand, against a backdrop of falling automobile production volume, our sales also remained slightly weak. While sales are expected to decline slightly from the first half to the second half, we anticipate that sales will generally maintain the year-ago level in the full year.

We do not anticipate any particular seasonal factor for ICT. APEL™ is expected to remain firm from the first half to the second half on the back of an increase in the number of cameras installed per smartphone.

Q3. Please explain the trends of ophthalmic lens materials.

A3. Sales of ophthalmic lens materials remained firm in the first half, and we expect this trend to continue in the second half.

■ Food & Packaging

Q4. Please explain the trends of packaging films and industrial films.

A4. Sales of packaging films declined, mainly reflecting the effect of bad weather and an increase in imported products. Sales of industrial films fell in Q4 of FY2018 (January – March), but continued to remain firm in Q2 of FY2019 (July – September) after recovering in Q1 (April – June) of FY2019.

Q5. Please explain the movement of operating income from the first half to the second half in the Food & Packaging segment.

A5. From the first half to the second half, we anticipate an increase in operating income mainly because agrochemicals will enter the demand season.

Q6. Please explain the movement of operating income from Q1 (April – June) to Q2 (July – September) of FY2019 in the Basic Materials segment.

A6. From Q1 to Q2 of FY2019, operating income declined mainly due to the effects of inventory valuation differences and the time lag of the sales price formula associated with the fall in naphtha prices, and the impact of regular maintenance as well as the deteriorated market conditions for phenol.

Q7. How much impact do regular maintenance and issues have on operating income for FY2019 in Basic Materials? Also please summarize factors that are expected to improve income from the first half to the second half.

A7. Issues of a naphtha cracker and typhoons at Ichihara Works, operation shut-down at Shimonoseki Mitsui Chemicals and others are expected to have a negative impact that decreases income by about ¥4 billion for the full year. From the first half to the second half, income is expected to increase mainly due to the elimination of the effect of regular maintenance, the reduction of the impact of the issues and an improvement in the market conditions for phenol.

Q8. Regarding operating income for the first half of FY2019 in Basic Materials, it was indicated that the terms of trade deteriorated ¥12 billion year on year. Please explain its breakdown.

A8. That was due to the negative impact of inventory valuation differences, the time lag of the sales price formula, the deteriorated market conditions for phenols and olefin and other factors.

Q9. It had been stated that operating income in Basic Materials would be able to maintain around ¥30 billion even when the business environment deteriorated, but it fell significantly below ¥30 billion. What were the factors behind the significant deterioration of operating income even though the market conditions for phenol did not decline that much compared with their worst period in the past?

A9. In the phenol-related business, the market conditions for acetone have deteriorated significantly, and the total profitability of phenol and acetone is at a historic low, in addition to the harsh market conditions for ethylene, part of which we export. Due to these factors as well as the impact of the issues and others, operating income fell significantly below ¥30 billion. We will closely examine the floor of the income level.

Q10. Please explain the market trends for each product in Basic Materials.

A10. The market conditions for olefin are expected to continue to remain weak. The market conditions for phenol declined from Q1 (April – June) to the middle of Q2 (July – September) of FY2019, but turned up slightly in the second half of Q2 partly thanks to the effect of production cutback of companies. In the second half of FY2019, although an increase in supply is anticipated associated with the easing of production cutbacks and the start-up of new phenol manufacturers, the market conditions are expected to improve slightly due to the new demand for phenol-based caprolactam and others. The market conditions for acetone are expected to moderately improve in the second half along with the new operation of acetone-based methyl methacrylate (MMA) and isopropyl alcohol (IPA). The market conditions for bisphenol-A (BPA) declined from Q1 to Q2, but the market conditions are expected to improve to a certain extent

due to the operation of new polycarbonate in China and other factors.

Q11. Will the issues in the Basic Materials segment also have an impact in the next fiscal year?

A11. There will not be an impact in the next fiscal year.

Q12. Please explain the market trends of urethane.

A12. The market conditions for urethane remained at a low level on the back of sluggish demand. While the market conditions are expected to improve slightly after October associated with the entry into a demand season, the rise is anticipated to be held down compared with usual years.

Q13. At the beginning of the year, it had been forecasted that the Group-wide, full-year operating income for FY2019 would increase mainly due to the volume difference from FY2018, but it was reduced by ¥21 billion from the initial plan on a year-on-year basis in the revision. Please explain this according to each factor.

A13. As of the beginning of the year, the positive volume effect of ¥11 billion was expected from FY2018 to FY2019, but the volume effect has been revised downward mainly in the three targeted business domains in the revision. By segment, the volume effect has been revised downward mainly in elastomers and performance compounds in Mobility due to the impact of the falling automobile production volume. In Health Care, the sales volume of nonwoven fabrics has been revised downward, and in Food & Packaging, the sales of packaging films and industrial films have been revised downward. In Basic Materials, a fall in income is anticipated due to the issues, in addition to the deteriorated terms of trade owing to the decline in the market conditions for phenol and olefin.

Q14. Please explain the reason for the downward revision of the forecast for equity in earnings of non-consolidated subsidiaries and affiliates for FY2019 from the initial plan.

A14. The main reason is the downward revision of income of a urethane joint venture and a phenol joint venture in China associated with the deteriorated market conditions for urethane and phenol. Regarding the income forecast for the urethane joint venture in the second half, we have also factored in the effects of production cutback and other factors, in addition to the deteriorated market conditions.

Q15. Please explain the content of a loss on valuation of investments in capital of ¥7.3 billion.

A15. A valuation loss was generated in the Company's investments in capital associated with the deteriorated business performance of Nghi Son Refinery and Petrochemical Limited Liability Company (NSRP) in which the Company invests.

Q16. Is there any major change in profit items as a result of the introduction of IFRS?

A16. As a result of the introduction of IFRS, an item called operating income before special items will be added. If we calculate operating income before special items based on the results forecasts for FY2019 announced at this time, operating income before special items and current operating income are expected to be generally at the same level, given that there are a variety of positive and negative factors. These factors include the addition of equity in earnings of non-

consolidated subsidiaries and affiliates, expenses for idle period and loss on disposal of non-current assets, as well as the effect of changes in accounting standards such as the discontinuation of amortization of goodwill. In the forecasts for FY2019, profit (loss) attributable to owners of parent under IFRS will increase about ¥10 billion yen compared with the profit under the current accounting standards, because it will improve about ¥3 billion due to the discontinuation of amortization of goodwill and other factors, and because a loss on valuation of investments in capital of about ¥7 billion, which was recorded as extraordinary losses this time, will be excluded from profit (loss) attributable to owners of parent under IFRS as an item of other comprehensive income.

Q17. It was said that profit would improve about ¥3 billion for the full year due to the discontinuation of amortization of goodwill and other factors as a result of introducing IFRS, but the amortization of goodwill for the first half stated in the statements of cash flows is about ¥300 million. What is the difference?

A17. The effect of the discontinuation of amortization of goodwill and other factors of about ¥3 billion includes the amortization of goodwill that is recorded under the equity in earnings of non-consolidated subsidiaries and affiliates, but the amortization of goodwill stated in the statements of cash flows does not include the amortization of goodwill that is recorded under the equity in earnings of non-consolidated subsidiaries and affiliates.

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