Questions from the Internet Briefing for Institutional Investors and Analysts on Mitsui Chemicals Group’s Consolidated Financial Results for Fiscal 2019

Date	May 14, 2020
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Reference	Results for FY2019 & Outlook for FY2020

Q&A

■ **Mobility**

Q1. Please explain the trends of each business in the Mobility segment from Q3 (October – December) to Q4 (January – March) of FY2019 and into FY2020.

A1. From Q3 to Q4 of FY2019, sales of APEL™ continued to hold firm. In Q4, PP compounds achieved sales generally on par with the level in Q3 although they were partially affected by the novel coronavirus. In FY2020, we expect that sales of products for automobiles, such as PP compounds, elastomers and performance compounds, will decline significantly and that sales of PP compounds in particular will fall substantially. We expect that sales of products for information and communication technology applications, such as APEL™, will remain relatively firm.

Q2. What is the reason why sales of PP compounds in Q4 (January – March) of FY2019 were on par with the level in Q3 (October – December) amid the impact of COVID-19?

A2. While sales significantly declined, especially in China, due to the impact of the novel coronavirus in Q4, sales in Q4 came to generally the same level as in Q3 because sales in Q3 had decreased due to strikes in North America.

Q3. Please explain the purpose of making ARRK a wholly owned subsidiary.

A3. Currently, Mitsui Chemicals and ARRK each set their own medium- to long-term business plans and are operated as an independent listed company. As fairness and transparency of the governance system of a listed subsidiary are demanded even more strongly, in order for the two companies to collaborate, certain procedures are necessary to dissolve any structural conflict of interest between Mitsui Chemicals, which is the controlling shareholder of ARRK, and ARRK’s minority shareholders. For this reason, certain constraints are imposed on the sharing of strategies and the effective use of management resources by both companies. Therefore, we have decided to make ARRK a wholly owned subsidiary for the purpose of removing these constraints and further strengthening our ability to provide our customers with optimal solutions through the flexible and integrated operation of the Group.

Q4. What is the reason for choosing share exchange as the method of making ARRK a wholly owned subsidiary?

A4. We have chosen this method, taking into comprehensive consideration various factors including the fact that, with share exchange, the shareholders of ARRK will be able to continue to receive benefits from the enhanced corporate value of the Group brought by this integration as shareholders of Mitsui Chemicals.

Q5. What is the reason why you have made the decision to make ARRK a wholly owned subsidiary at this time? Does the deteriorating business performance of ARRK due to

the impact of COVID-19 have something to do with the decision as a backdrop?

A5. For two years after we made ARRK a consolidated subsidiary, we have assigned employees of Mitsui Chemicals to ARRK to assist in its management and simultaneously promoted efforts to strengthen solution businesses other than ARRK within Mitsui Chemicals. As a result, Mitsui Chemicals' level of understanding of the development support business has increased and we have come to recognize that more integrated operation has become necessary. We have been proceeding with detailed deliberations about this transaction since last October, and the approval of a general meeting of shareholders of ARRK will be required. We have therefore proposed this transaction at this time ahead of the annual general meeting of shareholders at the end of June, and the impact of COVID-19 has no bearing.

■Health Care

Q6. Please explain your forecast for each business in the Health Care segment in FY2020.

A6. While we expect that sales of vision care and dental materials will decrease mainly in the first half, we expect that sales of nonwovens will increase associated with a rise in demand.

Q7. Please explain the purpose of strengthening the tie-up with Shofu.

A7. Shofu, Mitsui Chemicals and Sun Medical concluded an agreement for a business and capital tie-up in May 2009 and have since been pursuing collaboration in the dental materials business. Shofu has strong research and development capabilities and enhanced sales channels and develops business as a comprehensive manufacturer of dental materials, equipment and instruments. Mitsui Chemicals has research and development capabilities in the materials field as a materials manufacturer and is developing a dental materials business globally at Sun Medical and Kulzer, which are subsidiaries. Recently, Shofu and Mitsui Chemicals have decided to strengthen their business and capital tie-up for the purpose of increasing their presence in the dental materials market through bolstering their research and development in the materials field and their sales, marketing and production functions, taking advantage of their strengths, and leading it to the enhancement of their corporate values.

■Food & Packaging

Q8. Please explain your forecast for each business in the Food & Packaging segment in FY2020.

A8. We expect that sales of coating and engineering materials for automotive use and sales of ICROS™ Tape will decline but expect that sales of food packaging films will be relatively firm and that sales of agrochemicals will expand.

Q9. Please explain the sales trends of ICROS™ Tape in Q4 (January – March) of FY2019.

A9. Sales of ICROS™ Tape decreased from the previous quarter on a quarter-on-quarter basis in Q4 of FY2019 because it was an off-demand season, but increased in comparison with Q4 of FY2018.

■Basic Materials

Q10. How much impact do inventory valuation differences associated with the fall in naphtha prices in FY2020 have on the Basic Materials segment?

A10. We expect that the Basic Materials segment will post an operating loss before special items of ¥11.5 billion in FY2020, but this is a level at which we can achieve profitability if we exclude the impact of inventory valuation differences and the time lag of the sales price formula.

Q11. Please explain the breakdown of the increase/decrease in operating income before special items in the Basic Materials segment from FY2019 to FY2020.

A11. Of the decrease in operating income of ¥20.2 billion, by subsegment, we expect that operating income will decline significantly in petrochemicals. By factor, the impact of inventory valuation differences and the time lag of the sales price formula accounts for a little less than 70%, and the most of the rest are due to deteriorated equity in earnings of non-consolidated subsidiaries and affiliates at joint ventures involving phenol, purified terephthalic acid (PTA) and polyurethane.

Q12. Please explain the operating rates for crackers, polyolefin and phenol in Q4 (January – March) of FY2019 and FY2020.

A12. In Q4 of FY2019, the operating rates for crackers and polyolefin fell in the latter half. For phenol, full capacity was maintained except for regular maintenance. In FY2020, crackers are currently run at reduced operating rates. We are also making an appropriate adjustment to the operating rates for other products in response to demand trends.

Q13. Please explain your forecast for the market conditions of phenol.

A13. Although demand for phenol was stagnant in Q4 (January – March) of FY2019 due to the impact of the Chinese New Year and COVID-19, the balance between supply and demand improved due to a fall in supply associated with the regular maintenance of manufacturers. In Q1 (April – June) of FY2020, we expect that market conditions will temporarily decline due to a rise in supply after the regular maintenance of manufacturers, but will improve toward the second half owing to the recovery of demand. The market conditions for acetone are currently improving due to special demand for IPA. From Q2 (July – September), we expect that market conditions will also decline owing to the calming of the impact of the coronavirus. Comparing FY2019 with FY2020 on a full-year basis, we expect that the profitability of phenol and acetone in total will improve.

Q14. After the global financial crisis of 2007-2008, Prime Polymer recorded a significant operating loss, but what do you expect for the profit and loss status in FY2020? Please explain it in light of changes in the subsidiary's business structure.

A14. At the time of the global financial crisis of 2007-2008, a large inventory valuation loss was generated given that naphtha prices dropped significantly and that the inventory level was also high. This time, the drop of naphtha prices is relatively small, and we are also working to reduce inventories. Therefore, it is expected that the inventory valuation loss to be generated will not be as much as at that time. In addition, given that we have been making structural improvements such as higher ratios of high value-added products and the sales price formula after the financial crisis, we do not anticipate as much deterioration of income as experienced at that time.

■**Group-wide**

Q15. How much impact did the novel coronavirus have in FY2019?

A15. It became a factor to decrease income by about ¥4 billion in FY2019.

Q16. What assumptions do you make for your outlook for FY2020?

A16. We expect that automobile production will decline about 20% year on year, falling particularly significantly in the first half. We also expect that the production of semiconductors for FY2020 will decline year on year, with its production anticipated to fall in the first half and then recover to a certain extent in the second half.

Q17. Please explain the decrease in operating income before special items from FY2019 to FY2020 by factor.

A17. Of the decrease of ¥37.4 billion, about half is due to a fall in the sales volume associated with the impact of the coronavirus, and the most of the remainder is due to unfavorable terms of trade including effects of inventory valuation differences and the time lag of the sales price formula. We also expect that equity in earnings of non-consolidated subsidiaries and affiliates will deteriorate, among other factors. In addition, we have included cost reductions of about ¥3 billion.

Q18. How much impact did inventory valuation differences and the time lag of the sales price formula have in FY2019 and FY2020 on a company-wide basis?

A18. While the combined impact of inventory valuation differences and the time lag of the sales price formula on income is not large in FY2019, there is a negative impact of about ¥14 billion in the Basic Materials segment in FY2020. A certain level of inventory valuation loss has also arisen in the Mobility and other segments, and those have become a factor to decrease income by about ¥20 billion on a company-wide basis.

Q19. You plan to expand facilities and install new facilities in FY2020, but do you have an option to delay the operation of facilities for products for which demand is decreasing?

A19. We will adjust our production system in line with demand, including the time of operation.

Q20. Please explain your view on dividends. If the total return ratio is 30%, I wonder if this will turn out to be a considerable decrease in dividends.

A20. As of this moment, we have not yet determined dividends because the future outlook for the pandemic is uncertain; however, since boosting shareholder returns continues to be an important management issue, our policy of stably and continuously increasing dividends and flexibly acquiring treasury stock, with a total return ratio of 30% or more as a guide, remains unchanged. We will present our dividend forecast at the earliest possible time, while paying close attention to the future situation.