

Questions from the Internet Briefing for Institutional Investors and Analysts on Mitsui Chemicals Group's Consolidated Financial Results of the 1st Quarter of Fiscal 2019

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

Q&A	
<b>■ Mobility</b>	
<b>Q1. Please explain the business trends of the Mobility segment.</b>	
<b>A1.</b>	The production of automobiles worldwide slowed mainly in China and India, and sales of elastomers and performance compounds in Q1 of FY2019 decreased, but overseas PP compounds maintained sales, mainly to Japanese customers. In the ICT-related business, despite slowdown in the smartphone market, sales of APEL™ remained steady thanks to an increase in the number of cameras installed per smartphone. We plan to expand the sales of each product through Q2 of FY2019.
<b>Q2. Regarding the operating income of the Mobility segment in Q1 of FY2019, please explain why, year on year, terms of trade lowered despite decline in raw material prices.</b>	
<b>A2.</b>	This was due to effects of raw material price fluctuations and time lag of sales price revisions in some products.
<b>■ Health Care</b>	
<b>Q3. Please elaborate on the business trends of the Health Care segment.</b>	
<b>A3.</b>	Sales of monomers for ophthalmic lenses were firm in Q1 of FY2019. Although we anticipate a certain level of adjustment in Q2, we do not expect any major changes in the trends. As for nonwovens, exports of disposable diapers to China continued to decline in FY2019, and sales of nonwovens remained sluggish. We assume that the distribution inventory of disposable diapers in China is currently being resolved, so we are projecting recovery in sales of nonwovens during Q2. Both of the two new product lines launched in the second half of FY2018 are in operation, and as a result depreciation expenses increased compared to Q1 of FY2018. Sales of dental materials were steady in Q1 of FY2019 and rose year on year. Since Q2 is a low-demand period for dental materials, sales are expected to decrease from Q1, but are predicted to be solid year on year.
<b>Q4. Please explain the factors for the decline in the operating income of the Health Care segment from Q1 (April - June) to Q2 (July - September) of FY2019.</b>	
<b>A4.</b>	This is because we are factoring in a certain level of sales adjustments and the effects of regular maintenance work in monomers for ophthalmic lenses.
<b>■ Food &amp; Packaging</b>	
<b>Q5. Please elaborate on the sales trends of agrochemicals and ICROS™.</b>	
<b>A5.</b>	In terms of agrochemicals, there was no significant change in the market environment, but sales in Q1 of FY2019 decreased from the previous year because some sales were brought forward to Q4 of FY2018. From Q2 onwards, we expect that sales will roughly move along the planned line. ICROS™ sales declined in Q4 of FY2018 because of the slowdown in

semiconductors, but sales rose in Q1 of FY2019, surpassing the previous year's level. We expect a certain increase in sales in Q2 and beyond.

#### ■ Basic Materials

**Q6. With regard to the operating income of the Basic Materials segment, please describe the results of Q1 (April - June) of FY2019 over Q4 (January - March) of FY2018 as well as the prediction for Q2 (July - September) over Q1 of FY2019.**

**A6.** From Q4 of FY2018 to Q1 of FY2019, operating income increased. While worsened market conditions for olefin and phenol and the cracker issue at Ichihara Works had a negative impact on operating income, naphtha prices, which had fallen substantially in Q4 of FY2018, began to rise in Q1 of FY2019, leading to a positive effect of inventory valuation differences that exceeded the negative effect of the time lag of the sales price formula. Reduction of fixed costs also contributed to the rise in operating income. From Q1 to Q2 of FY2019, we expect operating income will decline. While decrease in the impact of the cracker issue that occurred at Ichihara Works in Q1 and better phenol market conditions are expected to have a positive impact on operating income, naphtha prices are predicted to fall again, leading to a negative net effect of inventory valuation differences and the time lag of the sales price formula. Regular maintenance work at Ichihara Works is also expected to be a negative factor.

**Q7. With regard to the operating income of the Basic Materials segment, please explain the factors behind the year-on-year decline in terms of trade.**

**A7.** The main factors were deterioration of olefin market conditions, which reflected sluggish demand largely due to the US-China trade friction as well as softening of the supply-demand balance owing to construction of new crackers mainly in North America; and decline in the market conditions for phenols and other related products, which was mainly due to a slump in demand resulting from stricter environmental audits following a chemical explosion accident in Jiangsu, China.

**Q8. How significant are the effects of inventory valuation differences, the time lag of the sales price formula, and issues relating to certain products?**

**A8.** The effects of inventory valuation differences and the time lag of the sales price formula account for most of the quarter-on-quarter changes in operating income of the Basic materials from Q4 of FY2018 to Q1 of FY2019 and from Q1 to Q2 of FY2019. The remaining factors, including the issues relating to certain products, have positive and negative effects on operating income that roughly offset each other overall. The impact of the issues relating to certain products resulted in a decrease of slightly less than ¥1 billion in operating income in Q1.

**Q9. Please explain the trends of domestic polyolefin.**

**A9.** Demand for domestic polyolefin has not changed significantly, and sales have been stable.

**Q10. Please elaborate on the market trends of phenol and BPA.**

**A10.** For phenol, in Q1 of FY2019, the overall supply capacity did not change, but demand remained sluggish due to the impact of stricter environmental audits following the explosion accident in Jiangsu, China, resulting in deteriorating market conditions. From Q2 onwards, while the effects of environmental audits will remain, the audits are expected to end

successively. Due to this factor as well as improvement in the supply-demand balance through operation adjustments by phenol manufacturers, we are factoring in a certain level of market recovery in the current announcement of the business performance forecast. For BPA, as with phenol, market conditions declined owing to the sluggish demand following the explosion in China, as well as the inflow of BPA made in South Korea and Taiwan into China caused by a decrease in polycarbonate production in Asia. From Q2 onwards, the forecast factors in improvements in market conditions, mainly as a result of a decrease in BPA supply through operation adjustments by phenol makers.

**Q11. Will operating income be impacted if the TDI market conditions further deteriorate in the future?**

**A11.** Urethane is the product by a joint venture with an equity ratio of 50%, which will affect equity in earnings of non-consolidated subsidiaries and affiliates but will not affect operating income.

**Q12. Please explain the operational status of major product facilities.**

**A12.** The operating rates of crackers and polyolefin facilities remained at high levels excluding the effects of facility issues and regular maintenance work. Phenol facilities were also in full operation apart from these effects.

**Q13. Will the shutdown of a refinery in Osaka have any impact?**

**A13.** We do not expect a significant impact.

**Q14. Shimonoseki Mitsui Chemicals did not report more than 50 leaks in the past 10 years and received administrative action. What was behind this? Is there any impact on the business results?**

**A14.** The background leading to this violation of the law was that, because in all of the 52 unreported high-pressure gas leakage incidents the amount of leakage was small, Shimonoseki Mitsui Chemicals determined at their own judgement that it was unnecessary to notify the authorities. We believe that Shimonoseki Mitsui Chemicals had a poor understanding of the law and lacked awareness of the seriousness of the issue, and also that there were problems with their method of equipment health inspections and their internal communication system. Going forward, the entire Mitsui Chemicals Group will take measures to prevent any future incidents of this kind, not only by addressing equipment issues and correcting procedures to ensure no repeat incidents occur at the leakage sites, but also by investigating the inherent causes. The impact on the business results is currently being examined.

**Q15. Are the products concerning the leakage incidents still being produced at Shimonoseki Mitsui Chemicals? What is the scale of the sales?**

**A15.** Production is currently being suspended. Sales are not that high.

**■ Group-Wide Issues**

**Q16. How significant are the effects of the cracker issue and regular maintenance work at Ichihara Works?**

**A16.** Due to the impact of the cracker issue, in Q1, operating income was down slightly less than

¥1 billion, and total income including non-operating income and expenses was down approximately ¥2 billion. The impact is expected to increase slightly on an annual basis. Due to the impact of regular maintenance work, operating income is expected to decrease by about ¥2 to 3 billion in Q2.

**Q17. Please explain the reason for the downward revision of the forecast for equity in earnings of non-consolidated subsidiaries and affiliates for 1H by ¥1 billion from the previous announcement, and why you expect a decline in equity in earnings of non-consolidated subsidiaries and affiliates from Q1 to Q2 of FY2019.**

**A17.** The reason for the downward revision from the previous announcement is that we factored in the deteriorating market conditions for urethane and phenol. We expect a decrease in operating income from Q1 to Q2 primarily due to the effects of regular maintenance work at urethane-related and other affiliates.

**Q18. The forecast for non-operating income and expenses for the first half was revised downward from the previous announcement; and “Others” excluding equity in earnings of non-consolidated subsidiaries and affiliates, gain/loss on foreign exchange, and interest expenses, interest and dividend income decreased by ¥2.4 billion. What is the breakdown of this? And what is the reason why net income was down ¥8 billion, while income before tax was revised downward by the same amount of ¥8 billion?**

**A18.** “Others” in non-operating income and expenses was down slightly more than ¥1 billion due to the cracker issue at Ichihara Works and, together with various factors, it was down ¥2.4 billion in total. Income before tax decreased in the entire Mitsui Chemicals Group, but due to the difference in the profit composition of companies with different tax rates within the group, the amount of income taxes remained at the same level as in the previous announcement. As a result, net income was revised downward by the same amount as income before tax.

**Q19. Please explain why operating cash flow in Q1 of FY2019 was at a low level in consideration of operating income. In addition, while operating income is expected to decline from Q1 to Q2, what is the reason for the significant improvement in operating cash flow?**

**A19.** In Q1, operating cash flow was at a low level primarily because of deteriorating working capital and the payment of income taxes. From Q1 to Q2, however, it is expected to improve through improvements in working capital, such as inventory removal through regular maintenance work and a drop in raw material prices.

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