

# Financial Results for FY2019 Second Quarter

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October 30, 2019



**(Cautionary Statement)**

Statements made in this material with respect to Sumitomo Chemical's current plans, estimates, strategies and beliefs that are not historical facts are forward-looking statements about the future performance of Sumitomo Chemical. These statements are based on management's assumptions and beliefs in light of the information currently available to it, and involve risks and uncertainties. The important factors that could cause actual results to differ materially from those discussed in the forward-looking statements include, but are not limited to, general economic conditions in Sumitomo Chemical's markets; demand for, and competitive pricing pressure on, Sumitomo Chemical's products in the marketplace; Sumitomo Chemical's ability to continue to win acceptance for its products in these highly competitive markets; and movements of currency exchange rates.

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# 1. Financial Results for FY2019 Second Quarter

Unit: Billions of yen

	FY2018 2nd Quarter	FY2019 2nd Quarter	Difference	Ratio
Sales revenue	1,122.1	<b>1,107.6</b>	-14.6	-1.3%
Core operating income (Equity in earnings)	102.1 (23.9)	<b>84.5</b> <b>(12.2)</b>	-17.6 (-11.7)	-17.2% -
Non-recurring items	-10.2	<b>18.0</b>	28.2	-
Operating income	91.9	<b>102.5</b>	10.6	11.5%
Finance income/expenses	10.4	<b>-5.9</b>	-16.3	-
(Gain/loss on foreign currency transactions)	(10.2)	<b>(-6.8)</b>	(-17.1)	-
Income tax expenses	-20.8	<b>-46.6</b>	-25.8	-
Net income attributable to non-controlling interests	-20.0	<b>-20.4</b>	-0.4	-
Net income attributable to owners of the parent	61.5	<b>29.7</b>	-31.8	-51.7%
ROE	6.4%	<b>3.0%</b>		
Exchange rate(yen/\$)	110.26	<b>108.60</b>		
Naphtha price(yen/KL)	51,100	<b>42,700</b>		
Overseas sales revenue ratio	64.6%	<b>66.8%</b>		

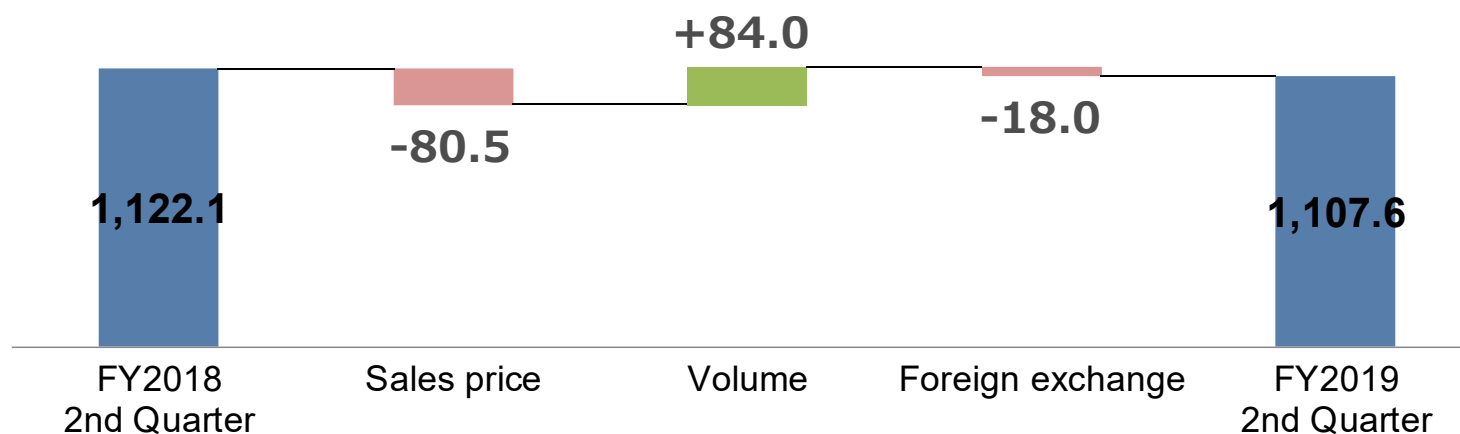
# Sales Revenue by Business Segment

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Unit: Billions of yen

	FY2018 2nd Quarter	FY2019 2nd Quarter	Difference	Ratio	Sales price variance	Shipping volume variance	Foreign currency conversion variance
Petrochemicals & Plastics	380.4	<b>352.2</b>	-28.2	-7.4%	-55.5	31.3	-4.0
Energy & Functional Materials	140.9	<b>131.0</b>	-9.8	-7.0%	-6.5	-1.1	-2.2
IT-related Chemicals	195.4	<b>206.9</b>	11.4	5.9%	-13.5	29.7	-4.8
Health & Crop Sciences	138.1	<b>146.3</b>	8.2	5.9%	-5.0	17.3	-4.1
Pharmaceuticals	242.7	<b>247.4</b>	4.7	2.0%	0.0	7.7	-2.9
Others & Adjustments	24.6	<b>23.7</b>	-0.9	-3.6%	0.0	-0.9	0.0
<b>Total</b>	<b>1,122.1</b>	<b>1,107.6</b>	<b>-14.6</b>	<b>-1.3%</b>	<b>-80.5</b>	<b>84.0</b>	<b>-18.0</b>

## Analysis



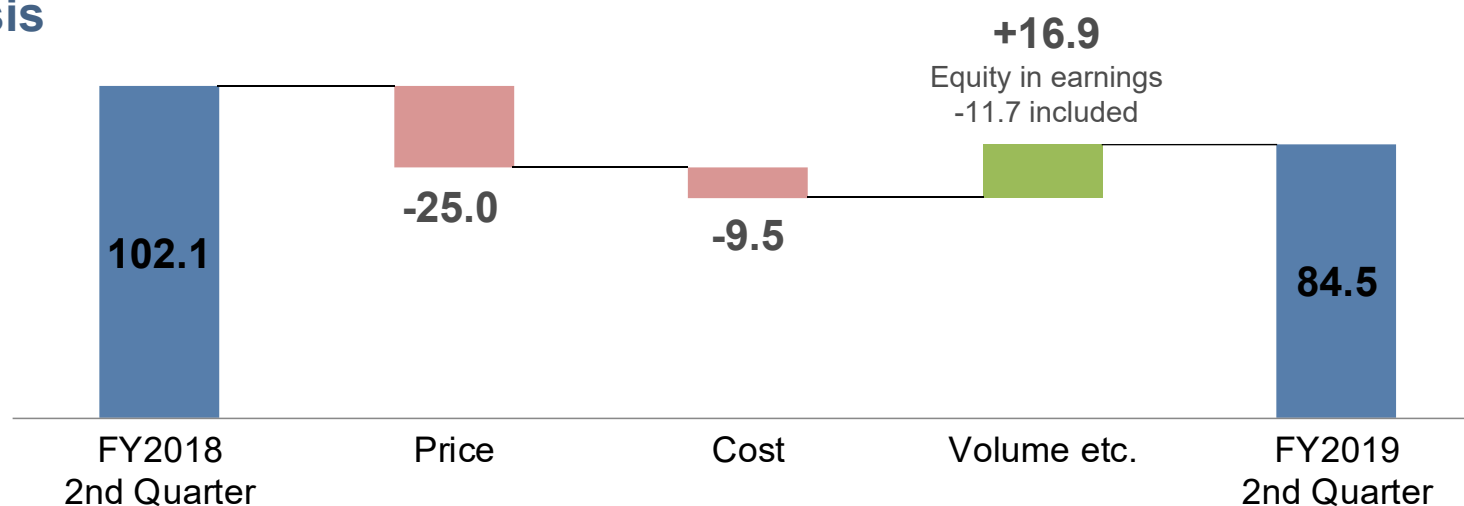
# Core Operating Income by Business Segment

6

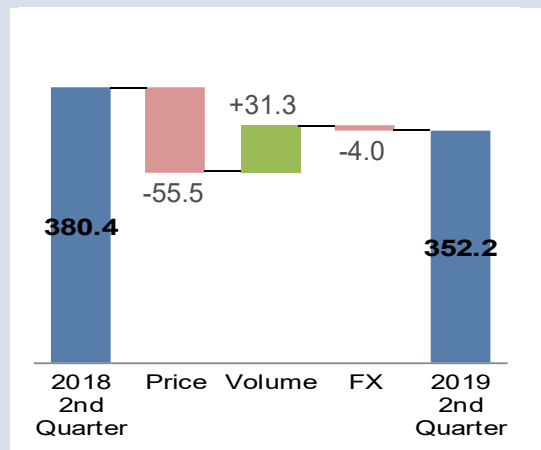
Unit; Billions of yen

	FY2018 2nd Quarter	FY2019 2nd Quarter	Difference	Price variance	Cost variance	Shipping volume variance and other	Total
Petrochemicals & Plastics	35.4	17.4	-18.0	-5.5	-1.0	-11.5	-18.0
Energy & Functional Materials	12.8	12.5	-0.3	-1.0	-1.5	2.2	-0.3
IT-related Chemicals	14.8	15.3	0.5	-13.5	-1.5	15.5	0.5
Health & Crop Sciences	2.5	-8.2	-10.7	-5.0	-7.5	1.8	-10.7
Pharmaceuticals	39.3	46.9	7.6	0.0	2.0	5.6	7.6
Others & Adjustments	-2.7	0.6	3.3	0.0	0.0	3.3	3.3
<b>Total</b>	<b>102.1</b>	<b>84.5</b>	<b>-17.6</b>	<b>-25.0</b>	<b>-9.5</b>	<b>16.9</b>	<b>-17.6</b>

## Analysis



## Sales Revenue



**Total ¥352.2 billion (-28.2 from FY2018 2nd Quarter)**

### Sales price

**-55.5**

- Lower market prices

### Volume

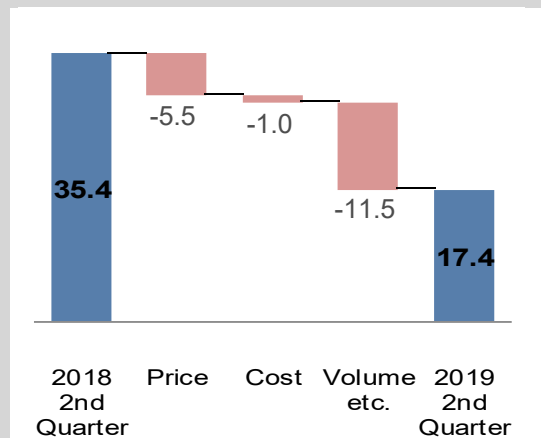
**+31.3**

- Increase in shipment of Rabigh products

### Foreign exchange

**-4.0**

## Core Operating Income



**Total ¥17.4 billion (-18.0 from FY2018 2nd Quarter)**

### Price variance

**-5.5**

- Decrease in profit margin on MMA

### Cost variance

**-1.0**

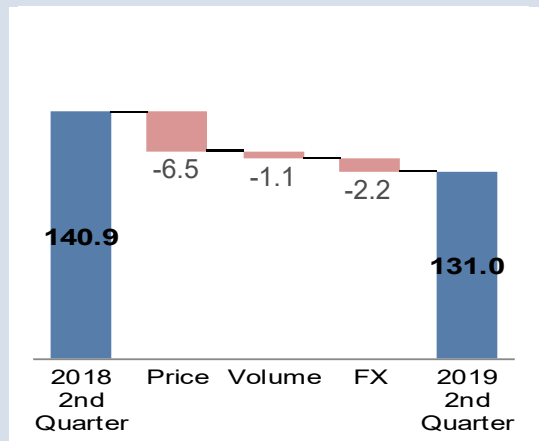
### Volume variance etc.

**-11.5**

- Increase in shipment volume after the FY2018 periodic plant maintenance in the Chiba works and Singapore
- Decrease in equity in earnings of affiliates



### Sales Revenue



**Total ¥131.0 billion (-9.8 from FY2018 2nd Quarter )**

**Sales price**

-6.5

- Lower market price for aluminum
- Decline in the selling price of cathode materials

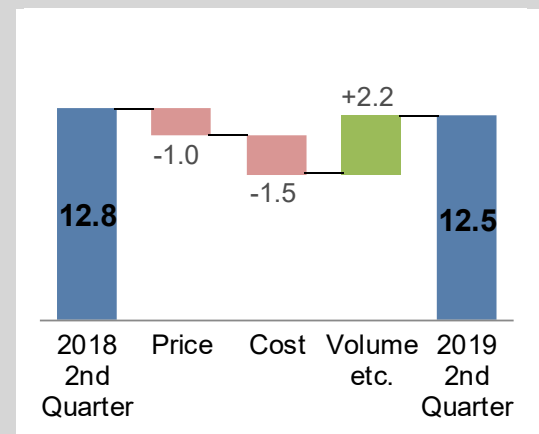
**Volume**

-1.1

**Foreign exchange**

-2.2

### Core Operating Income



**Total ¥12.5 billion (-0.3 from FY2018 2nd Quarter )**

**Price variance**

-1.0

- Decrease in profit margin on aluminum

**Cost variance**

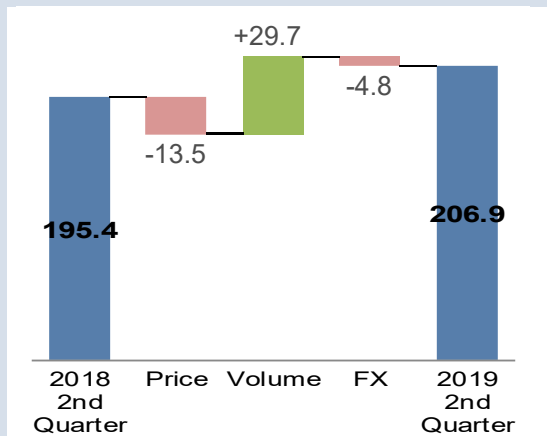
-1.5

**Volume variance etc.**

+2.2

- Increase in shipment volume after the FY2018 periodic plant maintenance in the Chiba works
- Increase in shipment of lithium-ion secondary battery separator

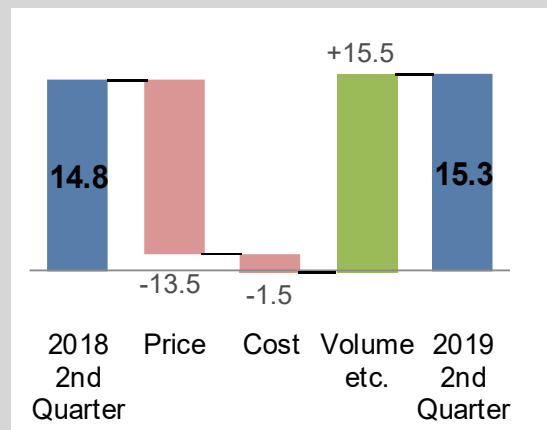
### Sales Revenue



### Total ¥206.9 billion (+11.4 from FY2018 2nd Quarter )

<b>Sales price</b>	<b>-13.5</b>	<ul style="list-style-type: none"> <li>■ Decline in the selling price of polarizing film</li> <li>■ Decline in the selling price of touchscreen panels</li> </ul>
<b>Volume</b>	<b>+29.7</b>	<ul style="list-style-type: none"> <li>■ Increase in shipments of polarizing film</li> <li>■ Increase in shipments of touchscreen panels</li> </ul>
<b>Foreign exchange</b>	<b>-4.8</b>	

### Core Operating Income



### Total ¥15.3 billion (+0.5 from FY2018 2nd Quarter )

<b>Price variance</b>	<b>-13.5</b>	<ul style="list-style-type: none"> <li>■ Decline in the selling price of polarizing film</li> <li>■ Decline in the selling price of touchscreen panels</li> </ul>
<b>Cost variance</b>	<b>-1.5</b>	
<b>Volume variance etc.</b>	<b>+15.5</b>	<ul style="list-style-type: none"> <li>■ Increase in shipments of polarizing film</li> <li>■ Increase in shipments of touchscreen panels</li> </ul>

## Sales Revenue



**Total ¥146.3 billion (+8.2 from FY2018 2nd Quarter)**

### Sales price

-5.0

- Lower market price for feed additive methionine

### Volume

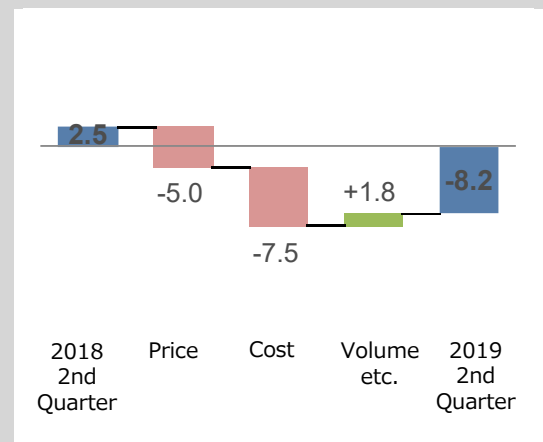
+17.3

- Increase in shipments of feed additive methionine due to the expansion of production capacity

### Foreign exchange

-4.1

## Core Operating Income



**Total ¥-8.2 billion (-10.7 from FY2018 2nd Quarter)**

### Price variance

-5.0

- Decrease in profit margin on feed additive methionine

### Cost variance

-7.5

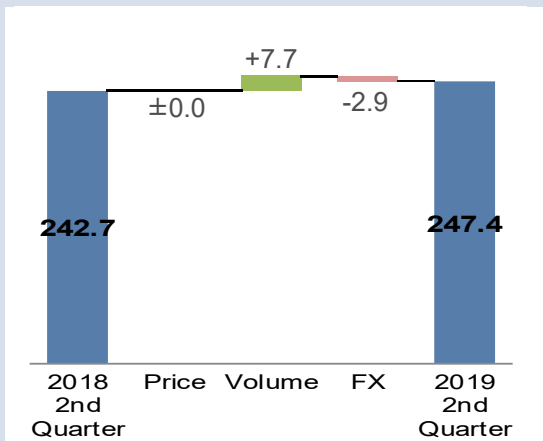
- Launch of new production line of feed additive methionine

### Volume variance etc.

+1.8

- Increase in shipments of feed additive methionine due to the expansion of production capacity
- Decrease in shipments of crop protection chemicals due to the impact of extreme weather in North America

### Sales Revenue



**Total ¥247.4 billion (+4.7 from FY2018 2nd Quarter )**

**Sales price**

0.0

**Volume**

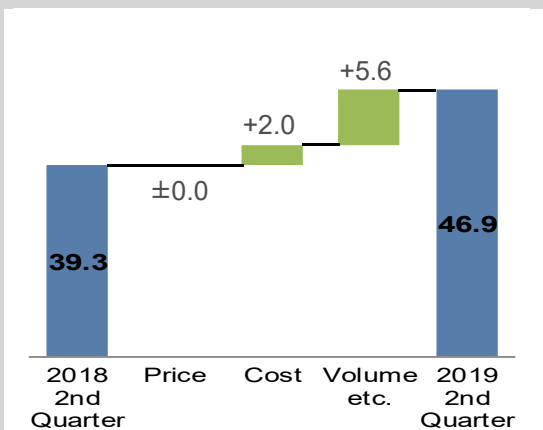
+7.7

- Increase in shipment of Latuda® in North America
- Decrease in shipment of long-listed brands in Japan

**Foreign exchange**

-2.9

### Core Operating Income



**Total ¥46.9 billion (+7.6 from FY2018 2nd Quarter )**

**Price variance**

0.0

**Cost variance**

+2.0

- Decrease in sales expense in North America

**Volume variance etc.**

+5.6

- Increase in shipment of Latuda® in North America

# Breakdown of Non-recurring Items

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Unit; Billions of yen

	FY2018 2nd Quarter	FY2019 2nd Quarter	Difference
Changes in fair value of contingent consideration	-6.9	<b>41.8</b>	48.6
Impairment loss	-	<b>-19.3</b>	<b>-19.3</b>
Restructuring charges	-2.4	<b>-3.4</b>	<b>-1.0</b>
Others	-1.0	<b>-1.0</b>	<b>-0.1</b>
Non-recurring items	<b>-10.2</b>	<b>18.0</b>	28.2

				Unit; Billions of yen			
	31-Mar-19	30-Sep-19	Difference		31-Mar-19	30-Sep-19	Difference
Current assets	1,291.2	<b>1,330.5</b>	39.2	Liabilities	1,819.7	<b>1,884.1</b>	64.4
Cash and cash equivalents	201.7	<b>271.3</b>	69.6	Trade and other payables	482.9	<b>436.7</b>	<b>-46.1</b>
Trade and other receivables	550.0	<b>519.6</b>	<b>-30.4</b>	Interest-bearing Liabilities	839.5	<b>957.0</b>	117.5
Inventories	489.3	<b>493.6</b>	4.3	Others	497.3	<b>490.4</b>	<b>-7.0</b>
Others	50.3	<b>45.9</b>	<b>-4.4</b>	Equity	1,351.9	<b>1,322.0</b>	<b>-29.9</b>
Non-current assets	1,880.4	<b>1,875.6</b>	<b>-4.8</b>	Shareholders' equity	922.3	<b>932.7</b>	10.5
Property, plant and equipment	735.9	<b>785.4</b>	49.5	Other components of equity	76.4	<b>30.3</b>	<b>-46.2</b>
Goodwill and Intangible assets	343.5	<b>315.1</b>	<b>-28.4</b>	Non-controlling interests	353.2	<b>359.0</b>	5.8
Others	801.0	<b>775.1</b>	<b>-25.9</b>				
Total	3,171.6	<b>3,206.1</b>	34.4	Total	3,171.6	<b>3,206.1</b>	34.4
				Equity attributable to owners of parent to total assets	31.5%	<b>30.0%</b>	<b>-1.5%</b>
				D/E ratio (times)	0.6	<b>0.7</b>	0.1

Unit; Billions of yen

	FY2018 2nd Quarter	FY2019 2nd Quarter	Difference
Cash flows from operating activities	55.6	<b>69.9</b>	14.3
Cash flows from investing activities	<b>-83.1</b>	<b>-72.8</b>	10.3
Free cash flows	<b>-27.5</b>	<b>-2.9</b>	24.6
Cash flows from financing activities	22.0	<b>80.3</b>	58.2
Effect of exchange rate changes on cash and cash equivalents	7.3	<b>-7.8</b>	<b>-15.0</b>
Net change in cash and cash equivalents	1.8	<b>69.6</b>	67.8
Cash and cash equivalents at end of period	233.8	<b>271.3</b>	37.6

## 2. Outlook for FY2019



Unit: Billions of yen

	Previous Estimates	Revised Estimates	Difference	Ratio
Sales revenue	2,440.0	<b>2,330.0</b>	-110.0	-4.5%
Core operating income	205.0	<b>160.0</b>	-45.0	-22.0%
(Equity in earnings)	(23.0)	<b>(20.0)</b>	(-3.0)	-
Operating income	190.0	<b>170.0</b>	-20.0	-10.5%
Net income attributable to owners of the parent	100.0	<b>50.0</b>	-50.0	-50.0%
ROE	9.7%	<b>5.1%</b>		
Exchange rate(yen/\$)	110.00	<b>106.80</b> (2nd Half 105.00)		
Naphtha price(yen/KL)	43,000	<b>42,900</b> (2nd Half 43,000)		

# Estimates of Sales Revenue by Business Segment for Year

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Unit; Billions of yen

	Previous Estimates	Revised Estimates	Difference
Petrochemicals & Plastics	765.0	<b>705.0</b>	<b>-60.0</b>
Energy & Functional Materials	310.0	<b>280.0</b>	<b>-30.0</b>
IT-related Chemicals	425.0	<b>425.0</b>	-
Health & Crop Sciences	390.0	<b>365.0</b>	<b>-25.0</b>
Pharmaceuticals	495.0	<b>500.0</b>	5.0
Others & Adjustments	55.0	<b>55.0</b>	-
<b>Total</b>	<b>2,440.0</b>	<b>2,330.0</b>	<b>-110.0</b>

# Estimates of Core Operating Income by Business Segment for Year

18

Unit; Billions of yen

	Previous Estimates	Revised Estimates	Difference
Petrochemicals & Plastics	40.0	<b>24.0</b>	<b>-16.0</b>
Energy & Functional Materials	25.0	<b>23.0</b>	<b>-2.0</b>
IT-related Chemicals	27.0	<b>27.0</b>	-
Health & Crop Sciences	37.0	<b>11.0</b>	<b>-26.0</b>
Pharmaceuticals	81.0	<b>81.0</b>	-
Others & Adjustments	<b>-5.0</b>	<b>-6.0</b>	<b>-1.0</b>
Total	205.0	<b>160.0</b>	<b>-45.0</b>

## 3. Hybrid Bonds Issuance

# Hybrid Bonds Issuance of up to JPY 250 billion

A means of financing specific growth investments to promote further improvements in our business portfolio while building a more robust financial structure

## Strategic Investments for Sustained Growth

- ◆ Acquisition of Nufarm's South American business
- ◆ Investment in the Petro Rabigh Phase II Project

## Build a More Robust Financial Structure

- ◆ 50% of the funds raised will be deemed as equity by the rating agencies
- ◆ Strive for debt to equity ratio of approximately 0.7 over the medium- to long-term

## Overview of the Hybrid Bonds (Subordinated Bonds)

Item	Description
What a hybrid bond is	Combines features of both equity and debt: while there is no equity dilution, a hybrid bond has aspects and features similar to equity, such as an option to defer interest payments, extremely long-term redemption periods, and subordination in liquidation or bankruptcy proceedings
Aggregate amount of the issue	Up to JPY 250 billion
Issue date (scheduled)	December 2019
Maturity (scheduled)	60 years (December 2079)
First optional redemption date (scheduled)	NC10: December 2029 / NC5: December 2024
Certification of equity by rating agencies	50% of the funds raised will be deemed as equity by the rating agencies (Rating and Investment Information, Inc. and Japan Credit Rating Agency, Ltd.)

**(Reference: Segment Information)**

Unit; Billions of yen

	FY2018 2nd Quarter	FY2019 2nd Quarter	Difference
Capital Expenditures	88.8	<b>62.3</b>	<b>-26.5</b>
Depreciation and Amortization	51.3	<b>65.4</b>	14.1
Research & Development Expenses	80.6	<b>79.4</b>	<b>-1.2</b>
Number of Employees (as of September 30)	32,399	<b>33,076</b>	677



Unit; Billions of yen

	FY2018 2nd Quarter	FY2019 2nd Quarter	Difference
Petrochemicals & Plastics	18.7	<b>12.6</b>	<b>-6.0</b>
Energy & Functional Materials	11.6	<b>11.6</b>	<b>-0.0</b>
IT-related Chemicals	17.5	<b>12.7</b>	<b>-4.8</b>
Health & Crop Sciences	24.1	<b>11.2</b>	<b>-12.9</b>
Pharmaceuticals	9.2	<b>9.4</b>	0.2
Others & Adjustments	7.7	<b>4.7</b>	<b>-3.0</b>
<b>Total</b>	<b>88.8</b>	<b>62.3</b>	<b>-26.5</b>

Unit; Billions of yen

	FY2018 2nd Quarter	FY2019 2nd Quarter	Difference
Petrochemicals & Plastics	10.3	<b>12.9</b>	2.6
Energy & Functional Materials	6.8	<b>8.4</b>	1.6
IT-related Chemicals	13.7	<b>14.3</b>	0.6
Health & Crop Sciences	8.2	<b>13.6</b>	5.3
Pharmaceuticals	8.1	<b>9.8</b>	1.7
Others & Adjustments	4.1	<b>6.4</b>	2.3
<b>Total</b>	<b>51.3</b>	<b>65.4</b>	<b>14.1</b>

Unit; Billions of yen

	FY2018 2nd Quarter	FY2019 2nd Quarter	Difference
Petrochemicals & Plastics	3.2	<b>3.3</b>	0.1
Energy & Functional Materials	3.9	<b>3.7</b>	<b>-0.2</b>
IT-related Chemicals	9.1	<b>8.9</b>	<b>-0.1</b>
Health & Crop Sciences	14.2	<b>14.5</b>	0.3
Pharmaceuticals	42.5	<b>42.1</b>	<b>-0.4</b>
Others & Adjustments	7.9	<b>6.9</b>	<b>-1.0</b>
<b>Total</b>	<b>80.6</b>	<b>79.4</b>	<b>-1.2</b>

# Sales Revenue by Business Segment (Quarterly)

27

Unit: Billions of yen

	FY2018				FY2019		FY2019 (Estimated)	
	1Q	2Q	3Q	4Q	1Q	2Q	1st Half	2nd Half
Petrochemicals & Plastics	185.6	194.8	196.5	180.6	177.5	174.7	352.2	352.8
Energy & Functional Materials	68.5	72.3	73.8	68.2	64.9	66.1	131.0	149.0
IT-related Chemicals	89.2	106.3	105.5	95.9	102.5	104.4	206.9	218.1
Health & Crop Sciences	69.4	68.8	74.5	125.4	71.9	74.4	146.3	218.7
Pharmaceuticals	124.3	118.4	129.1	120.3	125.8	121.7	247.4	252.6
Others & Adjustments	11.9	12.7	12.6	14.0	10.7	13.0	23.7	31.3
<b>Total</b>	<b>548.9</b>	<b>573.2</b>	<b>592.0</b>	<b>604.4</b>	<b>553.2</b>	<b>554.3</b>	<b>1,107.6</b>	<b>1,222.4</b>

# Core Operating Income by Business Segment (Quarterly)

28

Unit: Billions of yen

	FY2018				FY2019		FY2019 (Estimated)	
	1Q	2Q	3Q	4Q	1Q	2Q	1st Half	2nd Half
Petrochemicals & Plastics	17.8	17.6	16.4	9.8	13.0	4.4	17.4	6.6
Energy & Functional Materials	5.9	6.9	7.4	2.8	5.6	7.0	12.5	10.5
IT-related Chemicals	4.3	10.5	7.5	3.9	7.8	7.5	15.3	11.7
Health & Crop Sciences	2.6	-0.2	1.5	15.8	-4.6	-3.6	-8.2	19.2
Pharmaceuticals	19.7	19.6	20.0	21.5	23.0	23.9	46.9	34.1
Others & Adjustments	-2.1	-0.6	0.1	-4.4	-0.5	1.1	0.6	-6.6
Total	48.2	53.9	52.8	49.3	44.3	40.2	84.5	75.5

Company	Sales Revenue		Profit Trends
	FY2018 2nd Quarter	FY2019 2nd Quarter	
The Polyolefin Company (Singapore) (Millions of USD)	564	<b>547</b>	↗ Due to slightly Improved profit margins.
Petrochemical Corporation of Singapore (Millions of USD)	1,399	<b>1,244</b>	↘ Due to worsed profit margins.
Rabigh Refining and Petrochemical Company (Millions of SAR)	20,599	<b>17,460</b>	↘ Lower margin on oil refining and petrochemical.
Dongwoo Fine-Chem (Billions of KRW)	1,143.7	<b>1,311.6</b>	↗ Increased due to higher sales volume and foreign exchange despite lower selling price.
Valent U.S.A. and Subsidiaries (Millions of USD)	317	<b>305</b>	↗ Increased due to difference of product mix.