

Summary of Consolidated Financial Results for Second Quarter of FY2014

Nov. 5, 2014
Mitsui Chemicals, Inc.

1. Summary of Income Statement

(Unit : Billions of Yen)

	2nd Q of FY2013	2nd Q of FY2014	Incr. (Decr.)
Net sales	731.6	776.0	44.4
Operating income	11.0	18.6	7.6
Ordinary income (loss)	10.7	19.4	8.7
Net income (loss)	1.0	7.4	6.4
Comprehensive income	18.9	21.3	2.4

FY2013	Outlook for FY2014 (announced Nov. 5)	
	FY2014	Incr. (Decr.)
1,566.0	1,623.0	57.0
24.9	40.0	15.1
22.5	38.0	15.5
(25.1)	14.0	39.1
10.2		

2. Net Sales and Operating Income (Loss) (by business segment)

· Net Sales

(Unit : Billions of Yen)

	2nd Q of FY2013	2nd Q of FY2014	Incr. (Decr.)	Breakdown	
				Volume	Price
Functional Chemicals	77.8	105.2	27.4	26.4	1.0
Functional Polymeric Materials	81.0	85.7	4.7	2.0	2.7
Polyurethane	76.3	75.0	(1.3)	(3.9)	2.6
Basic Chemicals	204.1	165.2	(38.9)	(46.9)	8.0
Petrochemicals	241.3	290.8	49.5	26.8	22.7
Films and Sheets	39.4	40.5	1.1	0.2	0.9
Others	11.7	13.6	1.9	1.9	-
Total	731.6	776.0	44.4	6.5	37.9

FY2013	Outlook for FY2014 (announced Nov. 5)	
	FY2014	Incr. (Decr.)
190.4	220.0	29.6
176.7	177.0	0.3
163.8	162.0	(1.8)
376.2	346.0	(30.2)
552.4	603.0	50.6
79.9	84.0	4.1
26.6	31.0	4.4
1,566.0	1,623.0	57.0

· Operating Income (Loss)

(Unit : Billions of Yen)

	2nd Q of FY2013	2nd Q of FY2014	Incr. (Decr.)	Breakdown		
				Volume	Price*	Fixed Costs etc.
Functional Chemicals	7.9	7.8	(0.1)	2.1	(0.8)	(1.4)
Functional Polymeric Materials	7.4	7.2	(0.2)	1.9	(2.0)	(0.1)
Polyurethane	(4.1)	(3.5)	0.6	(0.2)	0.3	0.5
Basic Chemicals	(8.0)	(4.4)	3.6	(1.5)	1.6	3.5
Petrochemicals	9.8	12.3	2.5	0.9	1.0	0.6
Films and Sheets	0.9	1.7	0.8	0.7	(0.5)	0.6
Others	(0.6)	0.3	0.9	-	-	0.9
Adjustment	(2.3)	(2.8)	(0.5)	-	-	(0.5)
Total	11.0	18.6	7.6	3.9	(0.4)	4.1

FY2013	Outlook for FY2014 (announced Nov. 5)	
	FY2014	Incr. (Decr.)
15.0	16.5	1.5
11.9	14.5	2.6
(5.2)	(3.5)	1.7
(17.4)	(7.5)	9.9
25.3	24.0	(1.3)
0.9	3.0	2.1
(0.6)	0.5	1.1
(5.0)	(7.5)	(2.5)
24.9	40.0	15.1

* Price includes both selling and purchasing price variances.

3. Extraordinary Gains and Losses

(Unit : Billions of Yen)

	2nd Q of FY2013	2nd Q of FY2014	Incr. (Decr.)
Gain on sales of fixed assets	0.0	0.2	0.2
Insurance income	-	-	-
Loss on sales and disposal of fixed assets	(0.9)	(1.5)	(0.6)
Loss on Impairment	-	(1.8)	(1.8)
Business structure improvement expenses	-	-	-
Others	(1.5)	(0.2)	1.3
Total	(2.4)	(3.3)	(0.9)

FY2013	Outlook for FY2014 (announced Nov. 5)	
	FY2014	Incr. (Decr.)
2.5	0.2	(2.3)
4.1	-	(4.1)
(2.3)	(4.0)	(1.7)
(0.5)	(1.8)	(1.3)
(36.8)	-	36.8
-	(1.4)	(1.4)
(33.0)	(7.0)	26.0

4. Summary of Balance Sheet

(Unit : Billions of Yen)

	Assets				Liabilities and Net Assets		
	As of Mar. 31, 2014	As of Sept. 30, 2014	Incr. (Decr.)		As of Mar. 31, 2014	As of Sept. 30, 2014	Incr. (Decr.)
Current assets	777.1	779.8	2.7	Interest-bearing liabilities	581.3	576.2	(5.1)
Tangible fixed assets	425.8	423.9	(1.9)	Other liabilities	441.3	430.1	(11.2)
Intangible fixed assets	72.2	68.8	(3.4)	Shareholders' equity	352.8	371.2	18.4
Investments and others	157.1	162.8	5.7	Minority interests	56.8	57.8	1.0
Total assets	1,432.2	1,435.3	3.1	Total liabilities and net assets	1,432.2	1,435.3	3.1
[Inventory]	301.2	329.1	27.9	[Net D/E Ratio]	1.44	1.39	(0.05)

5. Summary of Cash Flows

(Unit : Billions of Yen)

	2nd Q of FY2013	2nd Q of FY2014	Incr. (Decr.)	FY2013	Outlook for FY2014 (announced Nov. 5)	
					FY2014	Incr. (Decr.)
Cash flows from operating activities	34.5	15.1	(19.4)	43.5	51.0	7.5
Cash flows from investing activities	(79.9)	(16.8)	63.1	(89.8)	(46.0)	43.8
Free cash flows	(45.4)	(1.7)	43.7	(46.3)	5.0	51.3
Cash flows from financing activities	68.0	(11.7)	(79.7)	66.9	(30.0)	(96.9)
Others	1.4	0.5	(0.9)	5.6	-	(5.6)
Net incr.(decr.) in cash and cash equivalents	24.0	(12.9)	(36.9)	26.2	(25.0)	(51.2)
Cash and cash equivalents at the end of period	69.0	58.3	(10.7)	71.2		

6. Accounting Fundamentals

		2nd Q of FY2013	2nd Q of FY2014	Incr. (Decr.)	FY2013	Outlook for FY2014 (announced Nov. 5)	
						FY2014	Incr. (Decr.)
R & D expenses	¥ Billions	15.3	15.8	0.5	33.6	32.0	(1.6)
Depreciation & amortization	¥ Billions	23.0	23.7	0.7	48.1	48.0	(0.1)
Capital expenditures	¥ Billions	76.8	19.1	(57.7)	113.2	48.0	(65.2)
(Excluding business combination)	¥ Billions	20.8	16.0	(4.8)	53.8	45.0	(8.8)
Financing incomes & expenses	¥ Billions	(1.7)	(1.6)	0.1	(3.3)	(4.0)	(0.7)
Interest-bearing liabilities	¥ Billions	588.9	576.2	(12.7)	581.3	560.0	(21.3)
Net D/E Ratio		1.33	1.39	0.06	1.44	1.35	(0.09)
Number of employees	person	14,431	14,345	(86)	14,271	14,250	(21)
Exchange rate	Yen / US\$	99	103	4	100	105	5
Domestic standard naphtha price	Yen / KL	64,700	70,400	5,700	67,300	67,700	400
Number of group companies	company	137	138	1	135	137	2

7. Dividends

	Annual Dividends per Share (Yen)				
	1st Q	Interim	3rd Q	End of Term	Annual Dividends
FY2013 Result	-	3.00	-	-	3.00
FY2014 Outlook	-	2.00	-	3.00	5.00

8. Number of Shares Outstanding (Common Stock)

	FY2013	2nd Q of FY2014
Number of shares outstanding at term-end (including treasury stock)	1,022,020,076	1,022,020,076
Number of shares of treasury stock at term-end	20,788,036	20,882,768
Average number of shares	1,001,553,684 *	1,001,180,875

*2nd Q of FY2013

Qualitative Information Concerning Quarterly Consolidated Results

(1) Qualitative Information Concerning Consolidated Operating Results (Overview)

In the fiscal period under review (the six-month period from Apr 1, 2014 to Sept 30, 2014, hereafter “the first half”), although the United States saw economic recovery, Europe experienced improving economic conditions, China and emerging markets’ pace of economic growth have been slowing down. In Japan, due in part to a contraction following a surge in demand ahead of the consumption tax hike, the economy is gradually recovering but the pace was slow and remained lackluster during the period under review.

Under these conditions, the Mitsui Chemicals Group (hereafter “the Group”) reported the following operating results for the first half.

(Billions of Yen)

	Net Sales	Operating Income	Ordinary Income	Net Income
Current first half	776.0	18.6	19.4	7.4
First half in previous fiscal year	731.6	11.0	10.7	1.0
Change	44.4	7.6	8.7	6.4
Change (%)	6.1	69.1	81.3	616.3

Net Sales increased 44.4 billion yen, or 6.1%, compared with the first half of the previous fiscal year to 776.0 billion yen. This was mainly attributable to 37.9 billion yen increase in sales prices and 6.5 billion yen increase in sales volume. Sales prices were higher because of the rise in naphtha, other raw material and fuel prices as well as the impact of weaker yen. The higher sales volume was due to the improved production ratio in the Petrochemicals segment and, the sales of the dental materials business, which was acquired last year, in the Functional Chemicals segment.

Operating income was 18.6 billion yen, an increase of 7.6 billion yen or 69.1% year on year. This result was mainly due to increased sales volume in the Functional Chemicals segment and the Functional Polymeric Materials segment, in addition to lowered fixed costs.

Ordinary income was 19.4 billion yen increased 8.7 billion yen or 81.3% year on year. This result largely reflected an increase in operating income and the improved non-operating income/loss of 1.1 billion yen, mainly from foreign exchange gain.

Extraordinary income and loss was a loss of 3.3 billion yen, 0.9 billion yen worse, year on year. The main reasons were the impairment losses and removal costs booked.

As a result of the aforementioned factors, **net income before income taxes and minority interests** amounted to 16.1 billion yen, an improvement of 7.8 billion yen, or 93.8%, year on year.

Net income after accounting for income taxes and minority interests was 7.4 billion yen, a growth of 6.4 billion yen, or 616.3%, compared with the first half of the previous fiscal year. Net income per share for the period was 7.36 yen.

(Results by Business Segment)

The status of each segment during the first half is as follows.

Functional Chemicals

Net sales increased 27.4 billion yen compared with the first half of the previous fiscal year to 105.2 billion yen and comprised 14% of total sales. Operating income fell 0.1 billion yen compared with the corresponding period of the previous fiscal year to 7.8 billion yen mainly due to increased fixed costs in spite of expanded sales.

The **dental materials** business contributed to the growth of sales while amortization expenses of goodwill also incurred.

Sales were favorable for ophthalmic lens materials in **healthcare materials** and nonwoven fabrics in **hygiene materials** as well as for **agrochemicals**, primarily as a result of higher overseas demand.

Functional Polymeric Materials

Net sales increased 4.7 billion yen compared with the first half of the previous fiscal year to 85.7 billion yen and comprised 11% of total sales. Operating income fell 0.2 billion yen to 7.2 billion yen year on year due to unfavorable trading terms although the Group promptly responded to increased market demand.

Profits dropped for **elastomers**, which are used primarily in automotive components and resin modifiers. This was caused by the unfavorable trading terms, which were led by the increase in raw materials' prices, in spite of the expanding demand in North America.

Profits increased for **performance compounds** thanks to the impact of weaker yen and proper response to expanding demand for automotive applications, primarily in North America and Asia.

Profits from **specialty polyolefins** were boosted by the weaker yen impact and quick response to demand for IT-related products, especially in smartphones.

Polyurethane

Net sales decreased 1.3 billion yen compared with the first half of the previous fiscal year to 75.0 billion yen and comprised 10% of total sales. Operating loss decreased 0.6 billion yen year on year to 3.5 billion yen due to the impact of weaker yen although overseas markets for polyurethane materials declined.

In **coating materials**, profit expanded as overseas demand increased. On the other hand, conditions remained harsh for **polyurethane materials**, which are used mainly in furniture manufacturing, due to weak demand.

Basic Chemicals

Net sales decreased 38.9 billion yen year on year to 165.2 billion yen and accounted for 21% of total sales. Due to impact of changes in consolidation subsidiaries and, improved trading terms, which were caused by industrial-wide phenols production facilities' periodic maintenance in Asia, operating loss was 4.4 billion yen, 3.6 billion yen better than the first half of the previous fiscal year.

The business environment for **phenols**, **PTA**, and other products remained severe against the slow recovery of demand and market stagnation in China.

Petrochemicals

Net sales increased 49.5 billion yen compared with the first half of the previous fiscal year to 290.8 billion yen and comprised 37% of total sales. Operating income increased 2.5 billion yen year on year to 12.3 billion yen primarily because of increased net sales, improved market condition for by-products primarily those of butadiene and favorable trading terms.

Operating rate of naphtha crackers grew compared to the corresponding period of the previous fiscal year. Profits expanded for overseas businesses mainly due to the increased production of automobiles in North and Central America.

Films and Sheets

Net sales increased 1.1 billion yen compared with the first half of the previous fiscal year to 40.5 billion yen and comprised 5% of total sales. Operating income increased 0.8 billion yen to 1.7 billion yen year on year due to increased sales of high-value-added products, the impact of weaker yen, and cost-cutting efforts.

In **packaging films**, despite a sales price revision implemented from the beginning of the fiscal year, profits decreased due to higher prices of raw materials, contracted demand following a surge ahead of the consumption tax hike and sales price revision and decreased demand caused by unseasonal weather.

In **industrial films** for electronic and information applications, profits rose due to increased demand related to high-value-added products, especially smartphones, and the impact of weaker yen.

In **encapsulant sheets** applied to solar modules, profits fell due to a continuing severe business environment, which was caused by a decline in sales prices in tandem with fiercer competition, in spite of efforts to expand sales of new products and minimize costs.

Others

Net sales increased 1.9 billion yen to 13.6 billion yen, comprised 2% of total sales. Operating profit was 0.3 billion yen, 0.9 billion yen better year on year.

(2) Qualitative Information Concerning Consolidated Financial Position Status of Assets, Liabilities and Net Assets

Total assets at the end of the first half stood at 1,435.3 billion yen, up 3.1 billion yen compared with the end of the previous fiscal year.

Total liabilities at the end of the first half decreased 16.3 billion yen compared with the previous fiscal year-end to 1,006.3 billion yen. **Interest-bearing debt** amounted to 576.2 billion yen, a decline of 5.1 billion yen compared with the previous fiscal year-end. As a result, the interest-bearing debt ratio was 40.1%, an improvement of 0.5 percentage point.

Net assets totaled 429.0 billion yen, a rise of 19.4 billion yen compared with the previous fiscal year-end. The **ratio of shareholders' equity to total assets** was 25.9%, up 1.3 percentage point from the previous fiscal year-end.

Accounting for the aforementioned factors, the **net debt-equity ratio** stood at 1.39 at the end of the first half, a decrease of 0.05 point from the previous fiscal year-end.

Cash Flow Status

Cash and cash equivalents (hereafter called “cash”) fell 12.9 billion yen to 58.3 billion yen as of the end of the first half compared with the previous fiscal year-end.

Cash Flows from Operating Activities

Net cash provided by operating activities decreased 19.4 billion yen to 15.1 billion yen. This was due to an increase of working capital mainly consists of decreased account payables and increased inventories.

Cash Flows from Investing Activities

Net cash used in investing activities decreased 63.1 billion yen to 16.8 billion yen compared with the same period of the previous fiscal year. This mainly attributed to diminished outflows for the acquisition of dental business in the first half of previous fiscal year.

Cash Flows from Financing Activities

Net cash used in financing activities was 11.7 billion yen. This was primarily due to the repayment of interest-bearing debt.

(3) Qualitative Information Concerning Consolidated Results Forecasts (Revision of Financial Results Forecasts for Fiscal 2014 and Reasons for the difference)

Revisions on financial forecasts for the FY 2014, which were announced on Aug 1, 2014, as *Differences between Financial Forecasts and Actual Results for the First Half and, Revisions of Financial Forecasts for FY2014 and Cash Dividend Projection*, are as follows.

Financial forecast revisions are based on the following assumptions:

- Exchange rate for the fiscal year is 105 yen/US\$ (Oct – Mar: 107 yen/US\$)
- Average price of domestic naphtha for the fiscal year is 67,700 yen/kl (Oct – Mar: 65,000 yen/kl)

Primarily with the improvement in trading terms for the Petrochemicals segment and the Basic Chemicals segment and, lowered fixed costs, operating income, ordinary income and net income are expected to be higher than the previously announced outlook.

(Revision of Financial Results Forecasts for Fiscal 2014)

(Billions of Yen)

	Net Sales	Operating Income	Ordinary Income	Net Income (Loss)	Net Income per Share
Previous Forecast (A)	1,680.0	35.0	31.0	12.0	11.99 yen
Revised Forecast (B)	1,623.0	40.0	38.0	14.0	13.98 yen
Difference (B-A)	(57.0)	5.0	7.0	2.0	—
Ratio (%)	(3.4)	14.3	22.6	16.7	—
FY2013 Actual (Reference) (Apr1, 2013 - Mar 31, 2014)	1,566.0	24.9	22.5	(25.1)	(25.10) yen

(Revision by Business Segment)

Revision of FY 2014 by business segment is as follows.

(Billions of Yen)

	Net Sales								
	Functional Chemicals	Functional Polymeric Materials	Poly urethane	Basic Chemicals	Petro chemicals	Films and Sheets	Others	Corporate expenses	Total
Previous forecast	221.0	181.0	182.0	374.0	612.0	85.0	25.0	—	1,680.0
Revised forecast	220.0	177.0	162.0	346.0	603.0	84.0	31.0	—	1,623.0
Difference	(1.0)	(4.0)	(20.0)	(28.0)	(9.0)	(1.0)	6.0	—	(57.0)

(Billions of Yen)

	Operating Income (Loss)								
	Functional Chemicals	Functional Polymeric Materials	Poly urethane	Basic Chemicals	Petro chemicals	Films and Sheets	Others	Corporate expenses	Total
Previous forecast	16.5	14.5	1.0	(9.0)	19.5	1.0	(0.5)	(8.0)	35.0
Revised forecast	16.5	14.5	(3.5)	(7.5)	24.0	3.0	0.5	(7.5)	40.0
Difference	—	—	(4.5)	1.5	4.5	2.0	1.0	0.5	5.0

(Revision of Cash Dividends Forecasts for Fiscal 2014)

The Group initially announced no interim dividend for FY2014. However, concerning the Group's financial condition and the first half's performance, which was higher than expectation, dividends of 2 yen per share will be paid.

The year-end dividends will be 3 yen per share, the same as previously announced.

Therefore, the annual dividend per share will be 5 yen per share, 2 yen higher than the previous forecasts.

(Yen per share)

	1Q	2Q	3Q	4Q	Annual
Previous Forecast	—	—	—	3.0	3.0
Revised Forecast	—	2.0	—	3.0	5.0
FY2013Actual(Reference)	—	3.0	—	—	3.0

(4) Information on Differences between Financial Forecasts and Actual Results for the First Half of Fiscal 2014

(Difference between Forecast and Actual Operating Results)

There is a difference between forecasts announced on August 1, 2014 and actual operating results for the first half of the fiscal year. The reason for the differences is as follows.

(Billions of Yen)

	Net Sales	Operating Income	Ordinary Income	Net Income	Net Income per Share
Previous Forecast (A) (announced Aug 1, 2014)	770.0	16.0	13.0	4.0	4.00 yen
Actual (B)	776.0	18.6	19.4	7.4	7.36 yen
Difference (B-A)	6.0	2.6	6.4	3.4	
Ratio (%)	0.8	16.1	49.4	84.1	
FY2013 Actual (Reference) (Apr 1 - Sept 30, 2013)	731.6	11.0	10.7	1.0	1.03 yen

(Reason for Difference)

Operating income, ordinary income and net income rose higher than previously announced forecasts primarily due to the improvement in trading terms for the Petrochemicals segment and the Basic Chemicals segment and, lowered fixed costs.