

Summary of Consolidated Financial Results for Second Quarter of FY2018

Nov 1, 2018
Mitsui Chemicals, Inc.

1. Summary of Income Statement

(Unit : Billions of Yen)

	2nd Q of FY2017	2nd Q of FY2018	Incr. (Decr.)
Net sales	620.9	720.9	100.0
Operating income	48.2	49.7	1.5
Ordinary income	49.9	58.4	8.5
Profit attributable to owners of parent	38.2	41.8	3.6
Comprehensive income	53.4	56.1	2.7

FY2017	Outlook for FY2018 (announced Nov. 1)	
	FY2018	Incr. (Decr.)
1,328.5	1,540.0	211.5
103.5	106.0	2.5
110.2	117.0	6.8
71.6	80.0	8.4
93.1		

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

·Net Sales

(Unit : Billions of Yen)

	2nd Q of FY2017	2nd Q of FY2018	Incr. (Decr.)	Breakdown	
				Volume	Price
Mobility	153.4	195.2	41.8	31.1	10.7
Health Care	68.1	71.2	3.1	3.5	(0.4)
Food & Packaging	95.0	96.6	1.6	(0.7)	2.3
Basic Materials	292.2	346.3	54.1	5.7	48.4
Others	12.2	11.6	(0.6)	-	(0.6)
Total	620.9	720.9	100.0	39.6	60.4

FY2017	Outlook for FY2018 (announced Nov. 1)	
	FY2018	Incr. (Decr.)
331.0	401.0	70.0
139.1	147.0	7.9
195.8	206.0	10.2
637.7	761.0	123.3
24.9	25.0	0.1
1,328.5	1,540.0	211.5

·Operating Income (Loss)

(Unit : Billions of Yen)

	2nd Q of FY2017	2nd Q of FY2018	Incr. (Decr.)	Breakdown		
				Volume	Price*	Fixed Costs etc.
Mobility	22.0	20.1	(1.9)	2.8	(2.8)	(1.9)
Health Care	4.8	6.3	1.5	1.4	(0.4)	0.5
Food & Packaging	10.1	8.8	(1.3)	0.1	(1.0)	(0.4)
Basic Materials	15.4	18.4	3.0	(0.7)	6.8	(3.1)
Others	(0.5)	(1.2)	(0.7)	-	-	(0.7)
Adjustment	(3.6)	(2.7)	0.9	-	-	0.9
Total	48.2	49.7	1.5	3.6	2.6	(4.7)

FY2017	Outlook for FY2018 (announced Nov. 1)	
	FY2018	Incr. (Decr.)
42.3	42.5	0.2
10.8	13.0	2.2
19.9	21.5	1.6
38.9	37.0	(1.9)
(0.9)	(1.0)	(0.1)
(7.5)	(7.0)	0.5
103.5	106.0	2.5

* Price includes both selling and purchasing price variances.

3. Extraordinary Income and Losses

(Unit : Billions of Yen)

	2nd Q of FY2017	2nd Q of FY2018	Incr. (Decr.)
Gain on sales of non-current assets & investment securities	3.2	0.2	(3.0)
Gain on transfer of business	-	0.7	0.7
Gain on forgiveness of debts	2.0	-	(2.0)
Loss on sales and disposal of non-current assets	(0.4)	(1.2)	(0.8)
Impairment loss	-	(0.7)	(0.7)
Loss on valuation of investment securities	-	(0.2)	(0.2)
Loss on fire	-	(1.5)	(1.5)
Other	-	-	-
Total	4.8	(2.7)	(7.5)

FY2017	Outlook for FY2018 (announced Nov. 1)	
	FY2018	Incr. (Decr.)
3.6	0.2	(3.4)
0.6	0.7	0.1
2.0	-	(2.0)
(2.4)	(7.5)	(5.1)
(15.0)	(0.7)	14.3
(5.1)	(0.2)	4.9
-	(1.5)	(1.5)
0.3	-	(0.3)
(16.0)	(9.0)	7.0

4. Summary of Balance Sheet

(Unit : Billions of Yen)

	Assets				Liabilities and Net assets		
	As of Mar. 31, 2018	As of Sept. 30, 2018	Incr. (Decr.)		As of Mar. 31, 2018	As of Sept. 30, 2018	Incr. (Decr.)
Current assets	731.3	774.8	43.5	Interest-bearing liabilities	463.7	467.0	3.3
Tangible fixed assets	432.9	436.9	4.0	Other liabilities	380.4	396.0	15.6
Intangible fixed assets	31.5	30.6	(0.9)	Shareholders' equity	511.6	553.5	41.9
Investments and others	235.6	248.9	13.3	Non-controlling interests	75.6	74.7	(0.9)
Total assets	1,431.3	1,491.2	59.9	Total liabilities and net assets	1,431.3	1,491.2	59.9
[Inventories]	274.3	309.8	35.5	[Net D/E Ratio]	0.75	0.67	(0.08)

Note: Balance sheet as of Mar. 31, 2018 is restated due to amendments to accounting standards for tax effect accounting.

5. Summary of Cash Flow

(Unit : Billions of Yen)

	2nd Q of FY2017	2nd Q of FY2018	Incr. (Decr.)	FY2017	Outlook for FY2018 (announced Nov. 1)	
					FY2018	Incr. (Decr.)
Cash flows from operating activities	49.1	53.5	4.4	82.7	105.0	22.3
Cash flows from investing activities	(21.0)	(26.8)	(5.8)	(75.1)	(90.0)	(14.9)
Free cash flows	28.1	26.7	(1.4)	7.6	15.0	7.4
Cash flows from financing activities	(16.6)	(12.0)	4.6	(10.2)	(15.0)	(4.8)
Others	(0.5)	0.6	1.1	(1.5)	-	1.5
Net incr.(decr.) in cash and cash equivalents	11.0	15.3	4.3	(4.1)	0.0	4.1
Cash and cash equivalents at the end of period	93.9	94.1	0.2	78.8		

6. Accounting Fundamentals

		2nd Q of FY2017	2nd Q of FY2018	Incr. (Decr.)	FY2017	Outlook for FY2018 (announced Nov. 1)	
						FY2018	Incr. (Decr.)
R & D expenses	¥ Billions	16.2	17.7	1.5	33.4	36.0	2.6
Depreciation & amortization	¥ Billions	22.1	24.3	2.2	45.7	50.0	4.3
Capital expenditures	¥ Billions	27.0	24.5	(2.5)	81.2	74.0	(7.2)
Financing incomes & expenses	¥ Billions	(0.7)	(0.3)	0.4	(0.7)	(1.0)	(0.3)
Interest-bearing liabilities	¥ Billions	438.0	467.0	29.0	463.7	482.0	18.3
Net D/E Ratio	percentage	0.70	0.67	(0.03)	0.75	0.70	(0.05)
Number of employees	person	13,521	17,640	4,119	17,277	17,700	423
Exchange rate	Yen / US\$	111	110	(1)	111	110	(1)
Domestic standard naphtha price	Yen / KL	37,600	51,100	13,500	41,900	54,600	12,700
Number of group companies	company	130	156	26	154	156	2

7. Dividends

	Annual Dividends per Share (yen)				
	1st Q	Interim (2nd Q)	3rd Q	Year-end (4th Q)	Annual
FY2017 Result	-	9.00	-	45.00	-
FY2018 Result/Outlook	-	50.00	-	50.00	100.00

Note: FY2017's year-end dividend is calculated based on the number of shares after the 5-to-1 share consolidation, which was conducted on October 1, 2017. Annual dividends in FY2017 are expressed as "-".

8. Number of shares outstanding (common stock)

	FY2017	2nd Q of FY2018
Number of shares outstanding at term-end (including treasury stock)	204,454,615	204,510,215
Number of shares of treasury stock at term-end	5,766,674	5,770,918
Average number of shares	200,083,164 *	198,713,149

*2nd Q of FY2017
Note: The Group conducted 5-to-1 share consolidation on October 1, 2017. "Average number of shares" is calculated assuming 5-to-1 share consolidation was conducted in the beginning of the previous year.

1. Operating Results

(1) Overview

In the fiscal period under review (the six-month period from Apr 1, 2018 to Sept 30, 2018, hereinafter the “first half”), the economy of the United States enjoyed constant recovery. On the other hand, the state of trade policy in the United States and geopolitical risks remained and careful attention was paid to fluctuations in the global economy. In Japan, although attention was paid to the impact of successive natural disasters on the economy, it continued to gradually recover amid steady corporate profits and improvements in the employment and incomes.

The Mitsui Chemicals Group (hereinafter the “Group”) reported the following operating results for the first half.

(Billions of Yen)

	Net Sales	Operating Income	Ordinary Income	Profit Attributable to Owners of Parent
First Half	720.9	49.7	58.4	41.8
Same period of previous year	620.9	48.2	49.9	38.2
Change	100.0	1.5	8.5	3.6
Change (%)	16.1	3.1	16.9	9.4

Net Sales increased 100.0 billion yen, or 16.1%, compared with the corresponding period of the previous fiscal year to 720.9 billion yen. This was mainly attributable to healthy sales and increase in sales prices due to the rise in naphtha, other raw materials and fuel prices.

Operating income was 49.7 billion yen, an increase of 1.5 billion yen or 3.1% year on year. This result was due to favorable terms of trade and healthy sales although fixed costs increased.

Ordinary income was 58.4 billion yen, increased 8.5 billion yen or 16.9% year on year. This result was due to increase in share of profit of entities accounted for using equity method.

Extraordinary income and losses were 2.7 billion yen loss, due to a decrease of gain on sales of non-current assets & investment securities, a loss on fire and because gain on forgiveness of debts is no longer recorded.

As a result of the aforementioned factors, **profit before income taxes** amounted to 55.7 billion yen, an increase of 1.0 billion yen, or 1.7% year on year.

Profit attributable to owners of parent after accounting for income taxes and non-controlling interests was 41.8 billion yen, an increase of 3.6 billion yen, or 9.4% compared with the corresponding period of the previous fiscal year. Earnings per share for the period were 210.15 yen.

(2) Results by Business Segment

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

Mobility

Net sales increased 41.8 billion yen compared with the same period of the previous fiscal year to 195.2 billion yen and comprised 27% of total sales. On the other hand, operating income decreased 1.9 billion yen to 20.1 billion yen year on year. The decrease in income was due to increase of raw material prices and fix costs in spite of an increase in sales volume.

In **elastomers**, which are primarily used in automotive components and as resin modifiers, business performance was affected by increase of raw material prices although the Group was able to meet healthy demand.

In **performance compounds**, the Group was able to satisfy healthy demand especially in Asia and Europe.

In **performance polymers**, which are primarily used in information communication technology (ICT) - related products, sales remained healthy.

In overseas **polypropylene compound** businesses, the Group was able to meet increasing production volume of the automobile industry mainly in Asia.

The Group consolidated its newly consolidated subsidiaries of ARRK Group in **solution** business as of January 2018.

Health Care

Net sales increased 3.1 billion yen year on year to 71.2 billion yen and comprised 10% of total sales. Operating income increased 1.5 billion yen compared with the same period of the previous fiscal year to 6.3 billion yen, mainly due to firm sales overall although increase of raw material prices had an impact.

In **vision care materials**, sales of ophthalmic lens materials were firm.

In **nonwoven fabrics**, sales were impacted by decreasing export of disposable diapers from Japan overall but high performance grade products were stable.

In **dental materials**, sales were stable.

Food & Packaging

Net sales increased 1.6 billion yen compared with the same period of the previous fiscal year to 96.6 billion yen and comprised 13% of total sales. On the other hand, operating income decreased 1.3 billion yen to 8.8 billion yen year on year, due to increase of raw material prices and fixed costs although sales were overall firm.

In **coatings & engineering materials**, sales were firm but profit was affected by increase of raw material prices.

In **performance films and sheets**, sales were overall firm although profit had impacts from increase of raw material prices.

In **agrochemicals**, sales were firm.

Basic Materials

Net sales increased 54.1 billion yen compared with the same period of the previous fiscal year to 346.3 billion yen and comprised 48% of total sales. Operating income increased 3.0 billion yen year on year, to 18.4 billion yen. This was mainly attributable to the effect of firm domestic demand and rise of market environment.

Naphtha cracker operating rates were lower than the same period of the previous fiscal year due to a fire at Osaka Works' utility plant, but kept at high level overall. Performances of **polyethylene** and **polypropylene** were firm, backed by domestic demand.

In **phenols**, demand was firm and the oversea market environment was at higher level than the same period of the previous fiscal year.

Others

Net sales decreased 0.6 billion yen to 11.6 billion yen, comprised 2% of total sales. Operating loss was 1.2 billion yen, an increase of 0.7 billion yen year on year.

2. Consolidated Financial Position Status of Assets, Liabilities and Net Assets

Total assets at the end of the first half stood at 1,491.2 billion yen, an increase of 59.9 billion yen compared with the end of the previous fiscal year.

Total liabilities at the end of the first half increased 18.9 billion yen compared with the previous fiscal year-end to 863.0 billion yen. **Interest-bearing debt** amounted to 467.0 billion yen, an increase of 3.3 billion yen. As a result, the interest-bearing debt ratio was 31.3%, 1.1 percentage point decrease from the previous fiscal year-end.

Net assets totaled 628.2 billion yen, an increase of 41.0 billion yen compared with the previous fiscal year-end. The **ratio of shareholders' equity to total assets** was 37.1%, 1.4 percentage point increase from the previous fiscal year-end.

Accounting for the aforementioned factors, the **net debt-equity ratio** stood at 0.67 at the end of the first half, 0.08 percentage point decrease from the previous fiscal year-end.

Consolidated balance sheet as of FY2017 is restated due to amendments to accounting standards for tax effect accounting. Consequently, comparison with the end of the previous fiscal year is calculated based on the restated figures.

3. Cash Flow Status

Cash and cash equivalents (hereafter called "cash") increased 15.3 billion yen to 94.1 billion yen as of the end of this fiscal year compared with the previous fiscal year-end.

Cash Flows from Operating Activities

Net cash provided by operating activities increased 4.4 billion yen to 53.5 billion yen compared with the same period of the previous fiscal year due primarily to an increase of profit before income taxes.

Cash Flows from Investing Activities

Net cash used in investing activities increased 5.8 billion yen compared with the same period of the previous fiscal year to 26.8 billion yen due primarily to increase of cash outflows from capital investment.

Cash Flows from Financing Activities

Net cash used in financing activities decreased 4.6 billion yen compared with the same period of the previous fiscal year to 12.0 billion yen due primarily to increase in borrowings of interest-bearing debts.

4. Outlook for Fiscal 2018 (Year Ending March 31, 2019)

(1) Overview

Revised financial forecasts are based on the following assumptions:

- a) Exchange rate for the full year is 110 yen/US\$ (Oct – Mar: 110 yen/US\$)
- b) Average price of domestic naphtha is 54,600 yen /kl (Oct – Mar: 58,000 yen/kl)

Net sales are expected to be higher in Mobility and Basic Materials than previously announced, due to increase in sales prices as a result of rise in naphtha, other raw materials and fuel prices. In addition, ordinary income is expected to be higher primarily due to an increase in share of profit of entities accounted for using equity method.

(Billions of Yen)

	Net Sales	Operating Income	Ordinary Income	Profit Attributable to Owners of Parent	Earnings per Share (yen)
Previous forecast (A)	1,490.0	106.0	112.0	80.0	402.65
Revised forecast (B)	1,540.0	106.0	117.0	80.0	402.56
Difference (B-A)	50.0	0.0	5.0	0.0	
Ratio (%)	3.4	0.0	4.5	0.0	
(Reference) FY2017 Actual (Apr 1, 2017 - Mar 31, 2018)	1,328.5	103.5	110.2	71.6	358.38

Note: Mitsui Chemicals, Inc. (the “Company”) has resolved at a meeting of its Board of Directors held on November 1, 2018 to repurchase its own shares. Outlook for earnings per share is calculated without considering the impact of this matter.

(2) Revision by Business Segment

Outlook by FY2018 business segment is as follows.

(Billions of Yen)

	Net Sales						
	Mobility	Health Care	Food & Packaging	Basic Materials	Others	Adjustment	Total
Previous forecast	388.0	150.0	210.0	717.0	25.0	-	1,490.0
Revised forecast	401.0	147.0	206.0	761.0	25.0	-	1,540.0
Difference	13.0	(3.0)	(4.0)	44.0	0.0	-	50.0

(Billions of Yen)

	Operating Income (Loss)						
	Mobility	Health Care	Food & Packaging	Basic Materials	Others	Adjustment	Total
Previous forecast	45.0	13.0	23.0	33.0	0.0	(8.0)	106.0
Revised forecast	42.5	13.0	21.5	37.0	(1.0)	(7.0)	106.0
Difference	(2.5)	0.0	(1.5)	4.0	(1.0)	1.0	0.0

5. Subsequent Events

Repurchase of Own Shares

The Company has resolved at a meeting of its Board of Directors held on November 1, 2018 to repurchase its own shares in accordance with Article 156 of the Companies Act applicable pursuant to paragraph 3 Article 165 of the Act as below.

- a) Reason for repurchase
In order to improve the shareholder return as well as capital efficiency
- b) Class and total number of shares to be repurchased
Common stock up to 5,000,000 shares
- c) Total amount of repurchase
Up to 10.0 billion yen
- d) Repurchase period
From November 2, 2018 to January 31, 2019
- e) Repurchase method
Market purchases based on the discretionary dealing contract regarding repurchase of own shares