

Summary of Consolidated Financial Results for Second Quarter of FY2016

Nov. 1, 2016
Mitsui Chemicals, Inc.

1. Summary of Income Statement

(Unit : Billions of Yen)

| | 2nd Q of FY2015 | 2nd Q of FY2016 | Incr. (Decr.) | FY2015 | Outlook for FY2016 (announced Nov. 1) | |
|---|-----------------|-----------------|---------------|---------|---------------------------------------|---------------|
| | | | | | FY2016 | Incr. (Decr.) |
| Net sales | 708.6 | 568.7 | (139.9) | 1,343.9 | 1,174.0 | (169.9) |
| Operating income | 41.4 | 45.4 | 4.0 | 70.9 | 88.0 | 17.1 |
| Ordinary income | 41.2 | 41.9 | 0.7 | 63.2 | 80.0 | 16.8 |
| Profit attributable to owners of parent | 28.5 | 27.8 | (0.7) | 23.0 | 50.0 | 27.0 |
| Comprehensive income | 23.2 | 7.7 | (15.5) | (14.4) | | |

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

·Net Sales

(Unit : Billions of Yen)

| | 2nd Q of FY2015 | 2nd Q of FY2016 | Incr. (Decr.) | Breakdown | | FY2015 | Outlook for FY2016 (announced Nov. 1) | |
|------------------|-----------------|-----------------|---------------|-----------|---------|---------|---------------------------------------|---------------|
| | | | | Volume | Price | | FY2016 | Incr. (Decr.) |
| Mobility | 164.5 | 141.7 | (22.8) | 5.5 | (28.3) | 318.2 | 295.0 | (23.2) |
| Healthcare | 87.4 | 67.2 | (20.2) | (11.4) | (8.8) | 161.1 | 142.0 | (19.1) |
| Food & Packaging | 96.6 | 88.3 | (8.3) | 0.3 | (8.6) | 195.2 | 182.0 | (13.2) |
| Basic Materials | 341.3 | 253.2 | (88.1) | (29.0) | (59.1) | 630.8 | 516.0 | (114.8) |
| Others | 18.8 | 18.3 | (0.5) | (0.5) | - | 38.6 | 39.0 | 0.4 |
| Total | 708.6 | 568.7 | (139.9) | (35.1) | (104.8) | 1,343.9 | 1,174.0 | (169.9) |

·Operating Income (Loss)

(Unit : Billions of Yen)

| | 2nd Q of FY2015 | 2nd Q of FY2016 | Incr. (Decr.) | Breakdown | | | FY2015 | Outlook for FY2016 (announced Nov. 1) | |
|------------------|-----------------|-----------------|---------------|-----------|--------|------------------|--------|---------------------------------------|---------------|
| | | | | Volume | Price※ | Fixed Costs etc. | | FY2016 | Incr. (Decr.) |
| Mobility | 24.0 | 21.1 | (2.9) | 2.7 | (5.0) | (0.6) | 44.9 | 40.0 | (4.9) |
| Healthcare | 5.1 | 5.4 | 0.3 | 0.1 | (0.3) | 0.5 | 11.6 | 15.0 | 3.4 |
| Food & Packaging | 10.9 | 11.0 | 0.1 | 0.5 | 0.0 | (0.4) | 20.3 | 19.0 | (1.3) |
| Basic Materials | 4.3 | 11.8 | 7.5 | (1.6) | 5.3 | 3.8 | 1.0 | 22.0 | 21.0 |
| Others | 0.0 | (0.3) | (0.3) | - | - | (0.3) | (0.1) | 1.0 | 1.1 |
| Adjustment | (2.9) | (3.6) | (0.7) | - | - | (0.7) | (6.8) | (9.0) | (2.2) |
| Total | 41.4 | 45.4 | 4.0 | 1.7 | 0.0 | 2.3 | 70.9 | 88.0 | 17.1 |

With the aim of accelerating the business strategies outlined in the 2014 Mid-Term Business Plan, the Group undertook minor reorganization in some of its business segments on April 1, 2016.

※ Price includes both selling and purchasing price variances.

3. Extraordinary Gains and Losses

(Unit : Billions of Yen)

| | 2nd Q of FY2015 | 2nd Q of FY2016 | Incr. (Decr.) | FY2015 | Outlook for FY2016 (announced Nov. 1) | |
|---|-----------------|-----------------|---------------|--------|---------------------------------------|---------------|
| | | | | | FY2016 | Incr. (Decr.) |
| Gain on sales of non-current assets & investment securities | 1.2 | 0.5 | (0.7) | 5.1 | 0.5 | (4.6) |
| Gain on transfer of business | 3.7 | - | (3.7) | 3.7 | - | (3.7) |
| Loss on sales and disposal of non-current assets | (2.1) | (2.4) | (0.3) | (5.6) | (7.2) | (1.6) |
| Impairment loss | (2.7) | (0.3) | 2.4 | (24.1) | (0.3) | 23.8 |
| Loss on restructuring of subsidiaries and affiliates | (0.2) | - | 0.2 | (1.0) | - | 1.0 |
| Total | (0.1) | (2.2) | (2.1) | (21.9) | (7.0) | 14.9 |

4. Summary of Balance Sheet

(Unit : Billions of Yen)

| | Assets | | | | Liabilities and Net assets | | |
|-------------------------|---------------------|---------------------|---------------|----------------------------------|----------------------------|---------------------|---------------|
| | As of Mar. 31, 2016 | As of Sep. 30, 2016 | Incr. (Decr.) | | As of Mar. 31, 2016 | As of Sep. 30, 2016 | Incr. (Decr.) |
| Current assets | 628.2 | 604.6 | (23.6) | Interest-bearing liabilities | 473.0 | 455.2 | (17.8) |
| Tangible fixed assets | 413.4 | 401.4 | (12.0) | Other liabilities | 342.7 | 318.0 | (24.7) |
| Intangible fixed assets | 40.2 | 34.9 | (5.3) | Shareholders' equity | 381.9 | 384.4 | 2.5 |
| Investments and others | 177.1 | 174.6 | (2.5) | Non-controlling interests | 61.3 | 57.9 | (3.4) |
| Total assets | 1,258.9 | 1,215.5 | (43.4) | Total liabilities and net assets | 1,258.9 | 1,215.5 | (43.4) |
| [Inventories] | 240.7 | 233.2 | (7.5) | [Net D/E Ratio] | 1.03 | 0.92 | (0.11) |

5. Summary of Cash Flow

(Unit : Billions of Yen)

| | 2nd Q of FY2015 | 2nd Q of FY2016 | Incr. (Decr.) | FY2015 | Outlook for FY2016 (announced Nov. 1) | |
|--|-----------------|-----------------|---------------|--------|---------------------------------------|---------------|
| | | | | | FY2016 | Incr. (Decr.) |
| Cash flows from operating activities | 86.7 | 67.5 | (19.2) | 145.9 | 110.0 | (35.9) |
| Cash flows from investing activities | (12.7) | (20.6) | (7.9) | (36.4) | (69.0) | (32.6) |
| Free cash flows | 74.0 | 46.9 | (27.1) | 109.5 | 41.0 | (68.5) |
| Cash flows from financing activities | (58.5) | (22.3) | 36.2 | (79.0) | (40.0) | 39.0 |
| Others | (0.7) | (3.4) | (2.7) | (2.9) | (3.0) | (0.1) |
| Net incr.(decr.) in cash and cash equivalents | 14.8 | 21.2 | 6.4 | 27.6 | (2.0) | (29.6) |
| Cash and cash equivalents at the end of period | 65.4 | 99.4 | 34.0 | 78.2 | | |

6. Accounting Fundamentals

| | | 2nd Q of FY2015 | 2nd Q of FY2016 | Incr. (Decr.) | FY2015 | Outlook for FY2016 (announced Nov. 1) | |
|---------------------------------|------------|-----------------|-----------------|---------------|--------|---------------------------------------|---------------|
| | | | | | | FY2016 | Incr. (Decr.) |
| R & D expenses | ¥ Billions | 15.7 | 14.8 | (0.9) | 31.5 | 32.0 | 0.5 |
| Depreciation & amortization | ¥ Billions | 25.3 | 21.5 | (3.8) | 48.6 | 46.0 | (2.6) |
| Capital expenditures | ¥ Billions | 21.1 | 18.7 | (2.4) | 43.4 | 54.0 | 10.6 |
| Financing incomes & expenses | ¥ Billions | (2.5) | (1.1) | 1.4 | (2.6) | (3.0) | (0.4) |
| Interest-bearing liabilities | ¥ Billions | 491.6 | 455.2 | (36.4) | 473.0 | 442.0 | (31.0) |
| Net D/E Ratio | | 1.00 | 0.92 | (0.08) | 1.03 | 0.90 | (0.13) |
| Number of employees | person | 13,626 | 13,487 | (139) | 13,447 | 13,400 | (47) |
| Exchange rate | Yen / US\$ | 122 | 105 | (17) | 120 | 103 | (17) |
| Domestic standard naphtha price | Yen / KL | 48,000 | 31,450 | (16,550) | 42,800 | 32,200 | (10,600) |
| Number of group companies | company | 132 | 132 | - | 131 | 132 | 1 |

7. Dividends

| | Annual Dividends per Share (yen) | | | | |
|----------------|----------------------------------|---------|-------|-------------|------------------|
| | 1st Q | Interim | 3rd Q | End of Term | Annual Dividends |
| FY2015 Result | - | 4.00 | - | 4.00 | 8.00 |
| FY2016 Outlook | - | 5.00 | - | 5.00 | 10.00 |

8. Number of shares outstanding (common stock)

| | FY2015 | 2nd Q of FY2016 |
|---|-----------------|-----------------|
| 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 | 21,483,760 | 21,532,126 |
| Average number of shares | 1,000,787,101 * | 1,000,512,656 |

*2nd Q of FY2015

9. Topics

- Mitsui Chemicals commences operations at Korean subsidiary (April 2016)
- Construction starts at new facility for high performance nonwovens at Nagoya Works in Japan (April 2016, 15,000 tons/annum, commercial operations in FY2017)
- New system house base starts operations in Mexico (April 2016)
- Termination of MDI plant at Omuta Works in Japan (May 2016, 60,000 tons/annum)
- Mitsui Chemicals Agro and PI Industries entered into an agreement to establish a joint venture for agrochemical registration in India (May 2016)
- Construction starts to expand facilities for polypropylene compounds (July 2016, Total for U.S., Mexico, and India 50,000 tons/annum, commercial operations in FY2017)
- Construction starts to expand facilities for premium high performance nonwovens in Japan (July 2016, 6,000 tons/annum, commercial operations in FY2017)
- Taiwan joint venture for electrolyte solution starts operations (July 2016, 1,500 tons/annum)
- Mitsui Chemicals Agro reached an agreement for the business and capital tie-up with Cuulong in Vietnam (August 2016)
- Startup of Evolve™ Plant in Singapore (August 2016, 300,000 tons/annum)
- NTT Com and Mitsui Chemicals Succeeded Quality Prediction of Chemical Products using AI (September 2016)
- New High Performance Sunglass Lens Material NeoContrast™ (September 2016)

1. Operating Results

(1) Overview

In the fiscal period under review (the six-month period from Apr 1, 2016 to Sep 30, 2016, hereinafter the “first half”), the economy of the United States and Europe enjoyed constant recovery, while the gradual slowing of economic growth in China, and the BREXIT issue spurred a sense of uncertainties in the outlook for the global economy. In Japan, the economy was less than robust, such as the export environment, becoming unfavorable due to the continuing strong yen, but improvements in the employment environment and workers’ salaries supported a modest but constant recovery.

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 |
|------------------------------|-----------|------------------|-----------------|---|
| The first half | 568.7 | 45.4 | 41.9 | 27.8 |
| Same period of previous year | 708.6 | 41.4 | 41.2 | 28.5 |
| Change | (139.9) | 4.0 | 0.7 | (0.7) |
| Change (%) | (19.7) | 9.6 | 1.7 | (2.4) |

Net Sales decreased 139.9 billion yen, or 19.7%, compared with the corresponding period of the previous fiscal year to 568.7 billion yen. This was mainly attributable to 104.8 billion yen decrease in sales prices and 35.1 billion yen decrease in sales volume. Sales prices were lower because of the drop in naphtha, other raw materials and fuel prices and changes in foreign exchange rates. Sales volume fell, due to the impact of unification of accounting periods in the dental materials and other businesses and transfer of polyurethane materials business in the previous fiscal year.

Operating income was 45.4 billion yen, an increase of 4.0 billion yen or 9.6% year on year. This result was due to healthy sales in the Mobility segment and reduced fixed costs attributable to the effect of business structure improvement in the Basic Materials segment.

Ordinary income was 41.9 billion yen, increased 0.7 billion yen or 1.7% year on year. This result largely reflected a worse in foreign exchange gains and losses, although operating income increased.

Extraordinary income and losses declined to 2.2 billion yen loss, due to an increase in loss on disposal of non-current assets.

As a result of the aforementioned factors, **profit before income taxes** amounted to 39.7 billion yen, a fall of 1.4 billion yen, or 3.4% year on year.

Profit attributable to owners of parent after accounting for income taxes and non-controlling interests was 27.8 billion yen, a fall of 0.7 billion yen, or 2.4% compared with the corresponding period of the previous fiscal year. Earnings per share for the period was 27.75 yen.

(2) Results by Business Segment

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

With the aim of accelerating the business strategies outlined in the 2014 Mid-Term Business Plan, the Group undertook minor reorganization in some of its business segments on April 1, 2016. Specifically, overseas polypropylene compound businesses, which had been

components of the Petrochemicals segment, were integrated with the former Functional Polymeric Materials segment, which, in turn, has been reclassified as the Mobility segment. Moreover, the Company reclassified the Food & Packaging segment by incorporating the coatings & engineering materials business that had been a part of the Polyurethane segment. The former Basic Chemicals segment was integrated with the Petrochemicals segment—after relocating its overseas polypropylene compound businesses—as well as the polyurethane materials business, which had been a part of the Polyurethane segment, thereby forming the new Basic Materials segment.

Accordingly, segment information for the corresponding period of the previous fiscal year is based on this reclassification.

Mobility

Net sales decreased 22.8 billion yen compared with the same period of the previous fiscal year to 141.7 billion yen and comprised 25% of total sales. Operating income decreased 2.9 billion yen to 21.1 billion yen year on year. The decrease in income was due to the effect of a stronger yen and the unfavorable trading terms in spite of an increase in sales volume.

The business performances of **elastomers**, which are primarily used in automotive components and as resin modifiers, is affected by the unfavorable trading terms and the effect of a stronger yen despite its healthy sales.

Sales expanded in **performance compounds**. This was contributed to the start-up of the subsidiary in China, in spite of the impact of a stronger yen.

In **functional polymers**, in spite of the impact of a stronger yen, the Group quickly responded to the growing demand for ICT (information communication technology) -related products.

In overseas **polypropylene compound** businesses, although the production volume increased mainly in North America, trading terms including the effect of foreign exchange were unfavorable.

Healthcare

Net sales decreased 20.2 billion yen year on year to 67.2 billion yen and comprised 12% of total sales. On the other hand, operating income increased 0.3 billion yen compared with the same period of the previous fiscal year to 5.4 billion yen, mainly due to healthy sales and reduction of fixed costs.

Sales of ophthalmic lens materials, which are **vision-care materials**, were healthy.

In **non-woven fabrics**, although the demand for premium disposable diapers was continuingly strong, the sales volume was affected by the digestion of distribution stock.

In **dental materials**, although the sales volume decreased due to unification of accounting periods in the previous fiscal period, sales were healthy mainly in Europe and North America. Because of the impairment loss booked in the previous fiscal year, amortization expenses of goodwill and other fixed expenses decreased.

Food & Packaging

Net sales decreased 8.3 billion yen compared with the same period of the previous fiscal year to 88.3 billion yen and comprised 15% of total sales. Operating income increased 0.1 billion yen to 11.0 billion yen year on year, due to healthy sales and improvement in trading terms, in spite of the impact of stronger yen.

In **coatings & engineering materials**, trading terms were improved at an overseas subsidiary.

In **performance films and sheets**, sales performance in packaging materials was healthy and trading terms are improved.

In **agrochemicals**, sales decreased both in domestic and overseas markets. Performance was affected by a stronger yen.

Basic Chemicals

Net sales decreased 88.1 billion yen compared with the same period of the previous fiscal year to 253.2 billion yen and accounted for 45% of total sales. On the other hand, operating income increased 7.5 billion yen year on year, to 11.8 billion yen. This was mainly attributable to the effect of business structure improvement and firm domestic demand.

Naphtha cracker operating rates grew compared with the same period of the previous fiscal year. Performances of **polyethylene** and **polypropylene** were firm, backed by domestic demand.

In **phenols**, the market environment was severe but slowly improved in comparison with the same period of the previous fiscal year. The effect of business structure improvement gradually emerged.

In **PTA**, although conditions remained severe mainly due to market stagnation in China, the effect of business structure improvement gradually emerged.

In **polyurethane materials**, income was improved, mainly due to the reduction of fixed costs resulting from business structure improvement.

Others

Net sales decreased 0.5 billion yen to 18.3 billion yen, comprised 3% of total sales. Operating loss was 0.3 billion yen, a worsening of 0.3 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 1,215.5 billion yen, a decrease of 43.4 billion yen compared with the end of the previous fiscal year.

Total liabilities at the end of the first half decreased 42.5 billion yen compared with the previous fiscal year-end to 773.2 billion yen. **Interest-bearing debt** amounted to 455.2 billion yen, a fall of 17.8 billion yen compared with the previous fiscal year-end. As a result, the interest-bearing debt ratio was 37.4%, a decrease of 0.2 percentage point.

Net assets totaled 442.3 billion yen, a fall of 0.9 billion yen compared with the previous fiscal year-end. The **ratio of shareholders' equity to total assets** was 31.6%, up 1.3 percentage point from the previous fiscal year-end.

Accounting for the aforementioned factors, the **net debt-equity ratio** stood at 0.92 at the end of the first half, improved 0.11 point from the previous fiscal year-end.

3. Cash Flow Status

Cash and cash equivalents (hereafter called "cash") increased 21.2 billion yen to 99.4 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 19.2 billion yen to 67.5 billion yen. This

was due to a decrease in proceeds from account receivables – non-trade, although working capitals improved, which were contributed by lowered balances of account receivables – trade and inventories.

Cash Flows from Investing Activities

Net cash used in investing activities increased 7.9 billion yen to 20.6 billion yen compared with the same period of the previous fiscal year. This mainly attributed to proceeds from transfer of polyurethane materials business in the same period of the previous fiscal year.

Cash Flows from Financing Activities

Net cash used in financing activities decreased 36.2 billion yen to 22.3 billion yen compared with the same period of the previous fiscal year. This was primarily due to the decrease in repayment of interest-bearing debt.

4. Outlook for Fiscal 2016 (Year Ending March 31, 2017)

Revisions on financial forecasts and cash dividend projection for FY2016, which were announced on November 1, 2016, under the title of *Revision of Consolidated Financial Forecasts for FY2016 and Cash Dividend*, are as follows.

(Revision of Financial Forecasts for Fiscal 2016)

Outlook for the full year are based on the following assumptions:

- a) Exchange rate for the full year is 103 yen/US\$ (Oct – Mar: 100 yen/US\$)
- b) Average price of domestic naphtha is 32,200 yen /kl (Oct – Mar: 33,000 yen/kl)

(Billions of Yen)

| | Net Sales | Operating Income | Ordinary Income | Profit Attributable to Owners of Parent | Earnings per Share |
|--|-----------|------------------|-----------------|---|--------------------|
| Previous forecast (A) | 12,15.0 | 80.0 | 71.0 | 44.0 | 43.98 |
| Revised forecast (B) | 11,74.0 | 88.0 | 80.0 | 50.0 | 49.97 |
| Difference (B-A) | (41.0) | 8.0 | 9.0 | 6.0 | |
| Ratio (%) | (3.4) | 10.0 | 12.7 | 13.6 | |
| (Reference) FY2015 Actual (Apr1, 2015 - Mar 31, 2016) | 13,43.9 | 70.9 | 63.2 | 23.0 | 22.95 |

(Revision by Business Segment)

Outlook by FY2016 business segment is as follows.

(Billions of Yen)

| | Net Sales | | | | | | Total |
|-------------------|-----------|------------|------------------|-----------------|--------|------------|---------|
| | Mobility | Healthcare | Food & Packaging | Basic Materials | Others | Adjustment | |
| Previous forecast | 305.0 | 150.0 | 192.0 | 529.0 | 39.0 | — | 1,215.0 |
| Revised forecast | 295.0 | 142.0 | 182.0 | 516.0 | 39.0 | — | 1,174.0 |
| Difference | (10.0) | (8.0) | (10.0) | (13.0) | 0.0 | — | (41.0) |

(Billions of Yen)

| | Operating Income (Loss) | | | | | | |
|-------------------|-------------------------|------------|------------------|-----------------|--------|------------|-------|
| | Mobility | Healthcare | Food & Packaging | Basic Materials | Others | Adjustment | Total |
| Previous forecast | 39.0 | 15.0 | 20.0 | 14.0 | 1.0 | (9.0) | 80.0 |
| Revised forecast | 40.0 | 15.0 | 19.0 | 22.0 | 1.0 | (9.0) | 88.0 |
| Difference | 1.0 | 0.0 | (1.0) | 8.0 | 0.0 | 0.0 | 8.0 |

(Cash Dividends Forecasts for Fiscal 2016)

The Group initially announced an interim dividend of 4 yen per share for FY2016. However, as the Group's first half performance exceeded expectations, considering the recent business conditions, dividends of 5 yen per share will be paid, an increase of 1 yen per share over that previously announced.

The year-end dividend will be the same amount as previously announced. Accordingly, annual dividends per share will be 10 yen, an increase of 1 yen per share over that previously announced.

(Yen)

| | Annual Dividends per Share (Yen) | | | | |
|---------------------------|----------------------------------|---------|-------------------|-------------|------------------|
| | 1 st Q | Interim | 3 rd Q | End of Term | Annual Dividends |
| Previous forecast | — | 4.0 | — | 5.0 | 9.0 |
| Revised forecast | — | 5.0 | — | 5.0 | 10.0 |
| (Reference) FY2015 Actual | — | 4.0 | — | 4.0 | 8.0 |