

Summary of Consolidated Financial Results for Third Quarter of FY2017

Feb 2, 2018
Mitsui Chemicals, Inc.

1. Summary of Income Statement

(Unit : Billions of Yen)

	3rd Q of FY2016	3rd Q of FY2017	Incr. (Decr.)	FY2016	Outlook for FY2017 (announced Feb. 2)		
					FY 2017	Incr. (Decr.)	
Net sales	870.1	959.8	89.7	1,212.3	1,365.0	152.7	
Operating income	71.6	75.7	4.1	102.1	105.0	2.9	
Ordinary income	69.5	78.9	9.4	97.2	108.0	10.8	
Profit attributable to owners of parent	50.0	60.9	10.9	64.8	78.0	13.2	
Comprehensive income	61.0	89.1	28.1	85.4			
Exchange rate	Yen / US\$	107	112	5	108	111	3
Domestic standard naphtha price	Yen / KL	32,300	39,900	7,600	34,700	42,200	7,500

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

· Net Sales

(Unit : Billions of Yen)

	3rd Q of FY2016	3rd Q of FY2017	Incr. (Decr.)	Breakdown		FY2016	Outlook for FY2017 (announced Feb. 2)	
				Volume	Price		FY 2017	Incr. (Decr.)
Health Care	100.0	103.4	3.4	1.8	1.6	134.2	140.0	5.8
Food & Packaging	132.0	144.6	12.6	8.8	3.8	182.5	198.0	15.5
Basic Materials	395.4	459.0	63.6	13.4	50.2	565.6	678.0	112.4
Others	26.6	18.0	(8.6)	-	(8.6)	36.7	27.0	(9.7)
Total	870.1	959.8	89.7	32.2	57.5	1,212.3	1,365.0	152.7

· Operating Income (Loss)

(Unit : Billions of Yen)

	3rd Q of FY2016	3rd Q of FY2017	Incr. (Decr.)	Breakdown			FY2016	Outlook for FY2017 (announced Feb. 2)	
				Volume	Price*	Fixed Costs etc.		FY 2017	Incr. (Decr.)
Health Care	7.9	7.9	0.0	1.8	(0.1)	(1.7)	10.1	12.0	1.9
Food & Packaging	14.9	14.5	(0.4)	3.2	(1.3)	(2.3)	20.6	22.0	1.4
Basic Materials	23.9	26.5	2.6	0.6	4.5	(2.5)	38.5	36.0	(2.5)
Others	(0.7)	(0.7)	0.0	-	-	0.0	(0.3)	(1.0)	(0.7)
Adjustment	(5.5)	(5.4)	0.1	-	-	0.1	(7.5)	(7.0)	0.5
Total	71.6	75.7	4.1	8.5	4.8	(9.2)	102.1	105.0	2.9

* Price includes both selling and purchasing price variances.

3. Extraordinary Gains and Losses

(Unit : Billions of Yen)

	3rd Q of FY2016	3rd Q of FY2017	Incr. (Decr.)	FY2016	Outlook for FY2017 (announced Feb. 2)	
					FY 2017	Incr. (Decr.)
Gain on sales of non-current assets & investment securities	2.0	3.5	1.5	2.6	3.5	0.9
Gain on transfer of business	-	0.6	0.6	-	0.6	0.6
Gain on forgiveness of debts	-	2.0	2.0	-	2.0	2.0
Loss on sales and disposal of non-current assets	(2.8)	(1.1)	1.7	(7.3)	(5.1)	2.2
Impairment loss	(0.4)	-	0.4	(4.1)	-	4.1
Loss on valuation of investment securities	-	-	-	(0.2)	-	0.2
Others	-	-	-	(2.4)	-	2.4
Total	(1.2)	5.0	6.2	(11.4)	1.0	12.4

4. Summary of Balance Sheet

(Unit : Billions of Yen)

	Assets				Liabilities and Net assets		
	As of Mar. 31, 2017	As of Dec. 31, 2017	Incr. (Decr.)		As of Mar. 31, 2017	As of Dec. 31, 2017	Incr. (Decr.)
Current assets	678.9	695.0	16.1	Interest-bearing liabilities	439.9	423.7	(16.2)
Tangible fixed assets	409.4	417.8	8.4	Other liabilities	371.0	379.3	8.3
Intangible fixed assets	35.2	36.4	1.2	Shareholders' equity	449.7	509.6	59.9
Investments and others	202.0	232.5	30.5	Non-controlling interests	64.9	69.1	4.2
Total assets	1,325.5	1,381.7	56.2	Total liabilities and net assets	1,325.5	1,381.7	56.2
[Inventories]	247.5	271.3	23.8	[Net D/E Ratio]	0.79	0.70	(0.09)

5. Summary of Cash Flow

(Unit : Billions of Yen)

	3rd Q of FY2016	3rd Q of FY2017	Incr. (Decr.)	FY2016	Outlook for FY2017 (announced Feb. 2)	
					FY 2017	Incr. (Decr.)
Cash flows from operating activities	73.8	58.4	(15.4)	100.4	101.0	0.6
Cash flows from investing activities	(29.8)	(36.4)	(6.6)	(47.4)	(98.0)	(50.6)
Free cash flows	44.0	22.0	(22.0)	53.0	3.0	(50.0)
Cash flows from financing activities	(35.5)	(41.8)	(6.3)	(47.6)	(23.0)	24.6
Others	(0.5)	(0.2)	0.3	(0.7)	-	0.7
Net incr.(decr.) in cash and cash equivalents	8.0	(20.0)	(28.0)	4.7	(20.0)	(24.7)
Cash and cash equivalents at the end of period	86.2	62.9	(23.3)	82.9		

6. Dividends

	Annual Dividends per Share (yen)				
	1st Q	Interim (2nd Q)	3rd Q	Year-end (4th Q)	Annual
FY2016 Result	-	5.00	-	9.00	14.00
FY2017 Outlook	-	9.00	-	40.00	-

Note: FY2017 outlook is calculated based on the number of shares after the 5-to-1 share consolidation, which was conducted on October 1, 2017. Without the consideration of the share consolidation, FY2017's year-end dividend is expected to be 8 yen per share, and the annual dividend is expected to be 17 yen per share. FY2016's year-end dividend is comprised by a 7 yen regular dividend and a 2 yen memorial dividend.

7. Number of shares outstanding (common stock)

	FY2016	3rd Q of FY2017
Number of shares outstanding at term-end (including treasury stock)	204,404,015	204,454,615
Number of shares of treasury stock at term-end	4,336,714	4,493,872
Average number of shares	200,098,172 *	200,070,115

*3rd Q of FY2016

Note: The Group conducted 5-to-1 share consolidation on October 1, 2017. "Number of shares outstanding at term-end (including treasury stock)", "Number of shares of treasury stock at term-end" and "Average number of shares" are 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 nine-month period from Apr 1, 2017 to Dec 31, 2017, hereinafter the “third quarter”), the economy of the United States and Europe enjoyed constant recovery. However, the state of geopolitical risks and government policy trends in major countries remained and careful attention was paid to fluctuations in the global economy. In Japan, the economy continued to gradually recover amid improvements in the employment and individual income.

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

(Billions of Yen)

	Net Sales	Operating Income	Ordinary Income	Profit Attributable to Owners of Parent
The third quarter	959.8	75.7	78.9	60.9
Same period of previous year	870.1	71.6	69.5	50.0
Change	89.7	4.1	9.4	10.9
Change (%)	10.3	5.7	13.5	21.7

Net Sales increased 89.7 billion yen, or 10.3%, compared with the corresponding period of the previous fiscal year to 959.8 billion yen. This was mainly attributable to increase in sales prices due to the rise in naphtha and other raw materials and fuel prices, and changes in foreign exchange rates.

Operating income was 75.7 billion yen, an increase of 4.1 billion yen or 5.7% year on year. This result was due to healthy sales and improved terms of trade although fixed costs increased from major scheduled maintenance.

Ordinary income was 78.9 billion yen, increased 9.4 billion yen or 13.5% year on year. This result was due to the increase in share of profit of entities accounted for using equity method and improved foreign exchange gains and losses, in addition to increased operating income.

Extraordinary income was 5.0 billion yen, due to increases in gain on transfer of business and gain on forgiveness of debts from non-controlling interest of a liquidated subsidiary, in addition to gain on sales of non-current assets and investment securities.

As a result of the aforementioned factors, **profit before income taxes** amounted to 83.8 billion yen, an increase of 15.5 billion yen, or 22.7% year on year.

Profit attributable to owners of parent after accounting for income taxes and non-controlling interests was 60.9 billion yen, an increase of 10.9 billion yen, or 21.7% compared with the corresponding period of the previous fiscal year. The Group conducted 5-to-1 share consolidation on October 1, 2017 and earnings per share for the period were 304.24 yen.

(2) Results by Business Segment

The status of each segment during the third quarter is as follows.

Mobility

Net sales increased 18.7 billion yen compared with the same period of the previous fiscal year to 234.8 billion yen and comprised 24% of total sales. Operating income increased 1.8 billion yen to 32.9 billion yen year on year. The increase in income was due to the effect of an increase in sales volume and the favorable trading terms.

In **elastomers**, which are primarily used in automotive components and as resin modifiers, business performance was affected by a weaker yen, and the Group was able to meet healthy demand.

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

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

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

Health Care

Net sales increased 3.4 billion yen year on year to 103.4 billion yen and comprised 11% of total sales. Operating income was 7.9 billion yen, same level as the same period of the previous fiscal year, mainly due to steady sales although raw material prices increased.

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

In **nonwoven fabrics**, sales of premium paper diapers remained firm, but profits were impacted by an increase in raw material prices.

In **dental materials**, sales volume decreased due in part to advanced shipment in the same period of previous fiscal year.

Food & Packaging

Net sales increased 12.6 billion yen compared with the same period of the previous fiscal year to 144.6 billion yen and comprised 15% of total sales. On the other hand, operating income decreased 0.4 billion yen to 14.5 billion yen year on year, due to increases in raw material prices and fixed costs of R&D in spite of steady sales.

In **coatings & engineering materials**, although sales were healthy, profits were impacted by an increase in raw material prices.

In **performance films and sheets**, sales volume increased although profits had impacts from an increase in raw material prices.

In **agrochemicals**, sales remained steady mainly in overseas.

Basic Materials

Net sales increased 63.6 billion yen compared with the same period of the previous fiscal year to 459.0 billion yen and accounted for 48% of total sales. Operating income increased 2.6 billion yen year on year, to 26.5 billion yen. This was mainly attributable to the effect of firm domestic demand and business structure improvement.

Naphtha cracker operating rates kept at high level as the same period of the previous fiscal year. Performances of **polyethylene** and **polypropylene** were firm, backed by domestic demand.

In **phenols**, the overseas market environment was same level as the same period of the previous fiscal year and the result of business structure improvement emerged.

In **purified terephthalic acid (PTA)**, conditions remained severe mainly due to market stagnation in China.

Others

Net sales decreased 8.6 billion yen to 18.0 billion yen, comprised 2% of total sales. Operating loss was 0.7 billion yen, same level as the same period of the previous year.

2. Financial Position

(1) Status of Assets, Liabilities and Net Assets

Total assets at the end of the third quarter stood at 1,381.7 billion yen, an increase of 56.2 billion yen compared with the end of the previous fiscal year.

Total liabilities at the end of the third quarter decreased 7.9 billion yen compared with the previous fiscal year-end to 803.0 billion yen. **Interest-bearing debt** amounted to 423.7 billion yen, a fall of 16.2 billion yen compared with the previous fiscal year-end. As a result, the interest-bearing debt ratio was 30.7%, a decrease of 2.5 percentage point.

Net assets totaled 578.7 billion yen, an increase of 64.1 billion yen compared with the previous fiscal year-end. The **ratio of shareholders' equity to total assets** was 36.9%, 3.0 percentage point up from the previous fiscal year-end.

Accounting for the aforementioned factors, the **net debt-equity ratio** stood at 0.70 at the end of the third quarter, 0.09 point down from the previous fiscal year-end.

3. Outlook for Fiscal 2017 (Year Ending March 31, 2018)

(1) Revision of Financial Forecasts for Fiscal 2017

(Overview)

Revised financial forecasts are based on the following assumptions:

- a) Exchange rate for the full year is 111 yen/US\$ (Jan – Mar: 110 yen/US\$)
- b) Average price of domestic naphtha is 42,200 yen /kl (Jan – Mar: 49,000 yen/kl)

Concerning the Group's financial performance in the third quarter, steady sales mainly in Mobility and expectation of high level operation in each manufacturing facilities including naphtha cracker in Basic Materials, operating income, ordinary income and profit attributable to owners of parent are expected to be higher than previously announced.

(Billions of Yen)

	Net Sales	Operating Income	Ordinary Income	Profit Attributable to Owners of Parent	Earnings per Share (yen)
Previous forecast (A)	1,300.0	103.0	105.0	73.0	364.83
Revised forecast (B)	1,365.0	105.0	108.0	78.0	390.41
Difference (B-A)	65.0	2.0	3.0	5.0	
Ratio (%)	5.0	1.9	2.9	6.8	
(Reference) FY2016 Actual (Apr 1, 2016 - Mar 31, 2017)	1,212.3	102.1	97.2	64.8	※ 324.05

※ The Group conducted 5-to-1 share consolidation on October 1, 2017. Earnings per share for FY2016 are calculated assuming 5-to-1 share consolidation was conducted in the beginning of the previous year. Without the consideration of the share consolidation, earnings per share are 64.81 yen.

(Revision by Business Segment)

Outlook by FY2017 business segment is as follows.

(Billions of Yen)

	Net Sales						
	Mobility	Health Care	Food & Packaging	Basic Materials	Others	Adjustment	Total
Previous forecast	314.0	143.0	195.0	621.0	27.0	—	1,300.0
Revised forecast	322.0	140.0	198.0	678.0	27.0	—	1,365.0
Difference	8.0	(3.0)	3.0	57.0	0	—	65.0

(Billions of Yen)

	Operating Income (Loss)						
	Mobility	Health Care	Food & Packaging	Basic Materials	Others	Adjustment	Total
Previous forecast	43.0	13.0	22.0	33.0	(1.0)	(7.0)	103.0
Revised forecast	43.0	12.0	22.0	36.0	(1.0)	(7.0)	105.0
Difference	0.0	(1.0)	0	3.0	0.0	0.0	2.0

4. Subsequent Events**(1) Business Combination (Tender Offer for ARRK Corporation Shares through Subsidiary)**

On November 29, 2017, the Mitsui Chemicals' (the Company) wholly-owned subsidiary, MC Investment 01 Corporation agreed to make a tender offer (the "Tender Offer") for ordinary and preferred shares issued by Tokyo Stock Exchange-listed ARRK Corporation ("ARRK"). In accordance with this agreement, the Tender Offer was conducted from November 30, 2017 and completed on January 17, 2018, resulting in ARRK becoming a consolidated subsidiary of the Company on January 24, 2018.

(Overview of Business Combination)**a) Name of acquired company and nature of business**

Name of acquired company: ARRK Corporation

Nature of business: Manufacture and marketing of industrial design models; product development, planning, design and engineering; design and manufacture of various types of metallic molds; production and marketing of small-lot molded products and other comprehensive services regarding to the development of new products.

b) Rationale for business combination

The purchase of shares was intended to help both the Company and ARRK further expand their business foundations by mutually putting each other's technologies to use to achieve continued growth in the global market. The Company aims to use the strengths of ARRK to broaden the range of business domains for its own products and services, strengthen its ability to offer solutions in the Mobility domain, and bring more products to commercialization. Meanwhile, ARRK will be able to apply the materials expertise of the Company, utilizing its diverse lineup of products and materials

technologies in carrying out design, prototyping and analytical activities aimed at enhancing the value of its comprehensive development assistance services.

c) Date of business combination

January 24, 2018

d) Legal type of business combination

All-cash tender offer

e) Name of resulting entity

ARRK Corporation

f) Share of voting rights acquired

Percentage of voting rights held immediately before date of business combination: — %
Percentage of voting rights acquired on date of business combination: 74.69% (ordinary shares and preferred shares)

The Company has the right to exchange each preferred share it acquires for three ordinary shares. Consequently, when calculating the total number of share certificates to be purchased, each preferred share is counted as three ordinary shares.

g) Main rationale for selecting the acquiring entity

The acquisition company (MC Investment 01 Corporation), a subsidiary of the Company, has acquired all shares of ARRK Corporation for cash.

h) Breakdown of acquisition cost and consideration paid

Consideration paid (cash): 30.1 billion yen

Acquisition cost: 30.1 billion yen

i) Details and amounts of main acquisition-related costs

Advisory fees directly related to acquisition are not yet determined.

j) Amount and reason for goodwill arising from the acquisition, amortization method and period

Not yet determined

k) Amounts and breakdown of assets acquired and liabilities assumed on date of business combination

Not yet determined