

Summary of Consolidated Financial Results for Third Quarter of FY2019

Feb 5, 2020
Mitsui Chemicals, Inc.

1. Summary of Income Statement

(Unit : Billions of Yen)

	3rd Q of FY2018	3rd Q of FY2019	Incr. (Decr.)	FY2018	Outlook for FY2019 (announced Feb. 5)	
					FY2019	Incr. (Decr.)
Net sales	1,114.8	999.1	(115.7)	1,482.9	1,355.0	(127.9)
Operating income	74.6	53.0	(21.6)	93.4	76.0	(17.4)
Ordinary income	86.2	50.5	(35.7)	103.0	71.0	(32.0)
Profit attributable to owners of parent	57.9	27.1	(30.8)	76.1	50.0	(26.1)
Comprehensive income	61.9	24.3	(37.6)	79.2		
Exchange rate Yen / US\$	111	109	(2)	111	109	(2)
Domestic standard naphtha price Yen / KL	52,100	42,300	(9,800)	49,400	43,200	(6,200)

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

·Net Sales

(Unit : Billions of Yen)

	3rd Q of FY2018	3rd Q of FY2019	Incr. (Decr.)	Breakdown		FY2018	Outlook for FY2019 (announced Feb. 5)	
				Volume	Price		FY2019	Incr. (Decr.)
				Mobility	294.5		277.7	(16.8)
Health Care	109.7	106.7	(3.0)	0.3	(3.3)	146.6	144.0	(2.6)
Food & Packaging	146.5	139.4	(7.1)	(7.9)	0.8	199.4	195.0	(4.4)
Basic Materials	545.7	462.2	(83.5)	(10.3)	(73.2)	716.5	619.0	(97.5)
Others	18.4	13.1	(5.3)	(5.0)	(0.3)	25.0	18.0	(7.0)
Total	1,114.8	999.1	(115.7)	(21.7)	(94.0)	1,482.9	1,355.0	(127.9)

·Operating Income (Loss)

(Unit : Billions of Yen)

	3rd Q of FY2018	3rd Q of FY2019	Incr. (Decr.)	Breakdown			FY2018	Outlook for FY2019 (announced Feb. 5)	
				Volume	Price*	Fixed Costs etc.		FY2019	Incr. (Decr.)
				Mobility	31.5	29.4		(2.1)	(0.7)
Health Care	9.7	9.8	0.1	1.1	0.0	(1.0)	13.6	14.5	0.9
Food & Packaging	11.8	11.8	0.0	(1.6)	2.1	(0.5)	17.8	19.5	1.7
Basic Materials	27.5	8.6	(18.9)	(3.1)	(16.3)	0.5	27.8	10.5	(17.3)
Others	(1.6)	(1.5)	0.1	-	-	0.1	(1.4)	(2.0)	(0.6)
Adjustment	(4.3)	(5.1)	(0.8)	-	-	(0.8)	(7.1)	(7.5)	(0.4)
Total	74.6	53.0	(21.6)	(4.3)	(13.2)	(4.1)	93.4	76.0	(17.4)

* Price includes both selling and purchasing price variances.

3. Extraordinary Income and Losses

(Unit : Billions of Yen)

	3rd Q of FY2018	3rd Q of FY2019	Incr. (Decr.)	FY2018	Outlook for FY2019 (announced Feb. 5)	
					FY2019	Incr. (Decr.)
Gain on sales of non-current assets & investment securities	3.5	0.6	(2.9)	3.7	0.6	(3.1)
Gain on transfer of business	0.7	-	(0.7)	0.7	-	(0.7)
Insurance income	-	-	-	11.4	-	(11.4)
Gain on contribution of securities to retirement benefit trust	-	7.1	7.1	-	25.1	25.1
Loss on sales and disposal of non-current assets	(2.0)	(2.1)	(0.1)	(4.4)	(4.4)	0.0
Impairment loss	(0.9)	(1.2)	(0.3)	(1.4)	(1.2)	0.2
Loss on business of subsidiaries and affiliates	-	(0.9)	(0.9)	-	(0.9)	(0.9)
Loss on valuation of investment securities	(0.2)	(0.0)	0.2	(0.2)	(0.0)	0.2
Loss on valuation of investments in capital	-	(7.6)	(7.6)	-	(7.6)	(7.6)
Loss on sales of business	-	(0.6)	(0.6)	-	(0.6)	(0.6)
Loss on fire	(6.3)	-	6.3	(7.5)	-	7.5
Total	(5.2)	(4.7)	0.5	2.3	11.0	8.7

4. Summary of Balance Sheet

(Unit : Billions of Yen)

	Assets				Liabilities and Net assets		
	As of Mar. 31, 2019	As of Dec. 31, 2019	Incr. (Decr.)		As of Mar. 31, 2019	As of Dec. 31, 2019	Incr. (Decr.)
Current assets	786.7	752.4	(34.3)	Interest-bearing liabilities	485.0	518.4	33.4
Tangible fixed assets	443.1	477.3	34.2	Other liabilities	384.4	336.2	(48.2)
Intangible fixed assets	29.4	29.1	(0.3)	Shareholders' equity	551.9	550.9	(1.0)
Investments and others	241.9	225.5	(16.4)	Non-controlling interests	79.8	78.8	(1.0)
Total assets	1,501.1	1,484.3	(16.8)	Total liabilities and net assets	1,501.1	1,484.3	(16.8)
[Inventories]	301.9	293.3	(8.6)	[Net D/E Ratio]	0.68	0.73	0.05

5. Summary of Cash Flow

(Unit : Billions of Yen)

	3rd Q of FY2018	3rd Q of FY2019	Incr. (Decr.)	FY2018	Outlook for FY2019 (announced Feb. 5)	
					FY2019	Incr. (Decr.)
Cash flows from operating activities	67.4	86.2	18.8	109.5	115.0	5.5
Cash flows from investing activities	(32.2)	(64.0)	(31.8)	(64.3)	(100.0)	(35.7)
Free cash flows	35.2	22.2	(13.0)	45.2	15.0	(30.2)
Cash flows from financing activities	(20.3)	(14.5)	5.8	(14.1)	(30.0)	(15.9)
Others	0.1	(0.5)	(0.6)	(0.1)	0.0	0.1
Net incr.(decr.) in cash and cash equivalents	15.0	7.2	(7.8)	31.0	(15.0)	(46.0)
Cash and cash equivalents at the end of period	93.8	117.0	23.2	109.8		

6. Dividends

	Annual Dividends per Share (yen)				
	1st Q	Interim (2nd Q)	3rd Q	Year-end (4th Q)	Annual
FY2018 Result	-	50.00	-	50.00	100.00
FY2019 Result/Outlook	-	50.00	-	50.00	100.00

7. Number of shares outstanding (common stock)

	FY2018	3rd Q of FY2019	
Number of shares outstanding at term-end (including treasury stock)	204,510,215	204,580,115	
Number of shares of treasury stock at term-end	9,452,793	9,461,057	
Average number of shares	198,172,081 *	195,100,629	*3rd Q of FY2018

1. Operating Results

(1) Overview

In the fiscal period under review (the nine-month period from Apr 1, 2019 to Dec 31, 2019, hereinafter the “third quarter”), the economy of the United States enjoyed constant recovery. On the other hand, the state of trade policy in the United States, the Chinese economy’s deceleration and geopolitical risks remained unsettled, and careful attention was paid to fluctuations in the global economy. In Japan, although the economy continued to gradually recover amid improvements in the employment and incomes, the prospects of the economy became increasingly sluggish and uncertain.

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
Third quarter	999.1	53.0	50.5	27.1
Same period of previous year	1,114.8	74.6	86.2	57.9
Change	(115.7)	(21.6)	(35.7)	(30.8)
Change (%)	(10.4)	(29.0)	(41.5)	(53.2)

Net Sales decreased 115.7 billion yen, or 10.4%, compared with the same period of the previous fiscal year to 999.1 billion yen. This was mainly attributable to decrease in sales prices due to the fall in naphtha, other raw materials and fuel prices.

Operating income was 53.0 billion yen, a decrease of 21.6 billion yen or 29.0% compared with the same period of the previous fiscal year. This result was due to unfavorable terms of trade.

Ordinary income was 50.5 billion yen, decreased 35.7 billion yen or 41.5% compared with the same period of fiscal year. This result was due to decrease in share of profit of entities accounted for using equity method, in addition to the decrease of operating income.

Extraordinary income and losses were 4.7 billion yen loss, due to a loss on valuation of investments in capital, although gain on contribution of securities to retirement benefit trust was recognized.

As a result of the aforementioned factors, **profit before income taxes** amounted to 45.8 billion yen, a decrease of 35.2 billion yen, or 43.4% compared with the same period of fiscal year.

Profit attributable to owners of parent after accounting for income taxes and non-controlling interests was 27.1 billion yen, a decrease of 30.8 billion yen, or 53.2% compared with the same period of the previous fiscal year. Earnings per share for the period were 139.03 yen.

(2) Results by Business Segment

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

Mobility

Net sales decreased 16.8 billion yen compared with the same period of the previous fiscal year to 277.7 billion yen and comprised 28% of total sales. Operating income decreased 2.1 billion yen to 29.4 billion due to increase of fixed costs of inventory.

In **elastomers**, sales were affected by slowing demand mainly in Asia.

In **performance compounds**, sales were affected by deceleration of automotive production in the United States, Europe and China.

In **performance polymers**, the Group captured demand and sales remained healthy, despite the demand for information communication technology (ICT) - related products were stagnating in general.

In overseas **polypropylene compound** businesses, sales volume kept relatively constant to the same period of the previous fiscal year, while the automotive production was globally decelerating.

In **solution** business, sales remained healthy as the Group captured demand for the development of products for Japanese customers, while its demand was declining in Europe.

Health Care

Net sales decreased 3.0 billion to 106.7 billion yen and comprised 11% of total sales compared with the same period of the previous fiscal year. On the other hand, operating income increased 0.1 billion yen to 9.8 billion yen, mainly due to increase of sales volume, despite of increased fixed costs.

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

In **nonwoven fabrics**, sales volume stayed around the same level as the same period of the previous fiscal year.

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

Food & Packaging

Net sales decreased 7.1 billion yen compared with the same period of the previous fiscal year to 139.4 billion yen and comprised 14% of total sales. On the other hand, operating income was 11.8 billion yen, similar level to the same period of the previous fiscal year. This was due to favorable terms of trade, despite of decreasing sales volume.

In **coatings & engineering materials**, sales were stable and terms of trade were in favor.

In **performance films and sheets**, sales were firm in industrial films and sheets, although sales volume decreased in the area of packaging films.

In **agrochemicals**, sales volume decreased due to time lag of shipment.

Basic Materials

Net sales decreased 83.5 billion yen compared with the same period of the previous fiscal year to 462.2 billion yen and comprised 46% of total sales. Operating income decreased 18.9 billion yen to 8.6 billion yen, due to the effect of overseas market.

Naphtha cracker operating rates were lower than the same period of the previous fiscal year due to facility defects at Ichihara Works and a typhoon, but kept at high level overall. Performances of **polyethylene** and **polypropylene** were impacted as a result of slowing demand for the packaging products.

In **olefins** and **phenols**, overseas market was at lower level than the same period of the previous fiscal year.

Others

Net sales decreased 5.3 billion yen to 13.1 billion yen, comprised 1% of total sales. On the other hand, operating loss was 1.5 billion yen, decrease of 0.1 billion yen.

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

Total assets at the end of the third quarter stood at 1,484.3 billion yen, a decrease of 16.8 billion yen compared with the previous fiscal year-end.

Total liabilities at the end of the third quarter decreased 14.8 billion yen compared with the previous fiscal year-end to 854.6 billion yen. **Interest-bearing debt** amounted to 518.4 billion yen, an increase of 33.4 billion yen. As a result, the interest-bearing debt ratio was 34.9%, 2.6 percentage point increase from the previous fiscal year-end.

Net assets totaled 629.7 billion yen, a decrease of 2.0 billion yen compared with the previous fiscal year-end. The **ratio of shareholders' equity to total assets** was 37.1%, 0.3 percentage point increase from the previous fiscal year-end.

Accounting for the aforementioned factors, the **net debt-equity ratio** stood at 0.73 at the end of the third quarter, 0.05 percentage point increase from the previous fiscal year-end.

For overseas consolidated subsidiaries following International Financial Reporting Standard (IFRS) and US GAAP, IFRS 16 – Leases and ASC Topic842 – Leases were applied from the first quarter. As a result, the closing balance of lease assets and leases liabilities increased by 21.3 billion yen and 21.5 billion yen respectively.

3. Outlook for Fiscal 2019 (Year Ending March 31, 2020)

In the announcement under the title of *Notice Regarding Establishment of Employees' Retirement Benefit Trust, the Recording of Extraordinary Income, and Revisions of Financial Forecasts for FY2019* on February 5, 2020, the Group revised its financial forecasts for FY2019 as follows.

(1) Overview

Revised financial forecasts are based on the following assumptions:

- a) Exchange rate for the full year is 109 yen/US\$ (Jan – Mar: 109 yen/US\$)
- b) Average price of domestic naphtha is 43,200 yen /kl (Jan – Mar: 46,000 yen/kl)

Considering the recent business condition in the third quarter, net sales, operating income and ordinary income are expected to be lower than previously announced. On the other hand, profit attributable to owners of parent is expected to increase as a result of recognizing gain on contribution of securities to retirement benefit trust in the fourth quarter.

(Billions of Yen)

	Net Sales	Operating Income	Ordinary Income	Profit Attributable to Owners of Parent	Earnings per Share (yen)
Previous forecast (A)	1,365.0	84.0	79.0	42.0	215.27
Revised forecast (B)	1,355.0	76.0	71.0	50.0	256.66
Difference (B-A)	(10.0)	(8.0)	(8.0)	8.0	
Ratio (%)	(0.7)	(9.5)	(10.1)	19.0	
(Reference) FY2018 Actual (Apr 1, 2018 - Mar 31, 2019)	1,482.9	93.4	103.0	76.1	385.60

(2) Revision by Business Segment

Outlook by FY2019 business segment is as follows.

(Billions of Yen)

	Net Sales						
	Mobility	Health Care	Food & Packaging	Basic Materials	Others	Adjustment	Total
Previous forecast	385.0	145.0	200.0	615.0	20.0	-	1,365.0
Revised forecast	379.0	144.0	195.0	619.0	18.0	-	1,355.0
Difference	(6.0)	(1.0)	(5.0)	4.0	(2.0)	-	(10.0)

(Billions of Yen)

	Operating Income (Loss)						
	Mobility	Health Care	Food & Packaging	Basic Materials	Others	Adjustment	Total
Previous forecast	41.0	14.5	19.5	17.5	(1.5)	(7.0)	84.0
Revised forecast	41.0	14.5	19.5	10.5	(2.0)	(7.5)	76.0
Difference	0.0	0.0	0.0	(7.0)	(0.5)	(0.5)	(8.0)

4. Subsequent Events

(1) Repurchase of Own Shares

The Group has announced that it resolved at a meeting of its Board of Directors held on February 5, 2020 to repurchase its own shares in accordance with Article 156 of the Companies Act applicable pursuant to paragraph 3 Article 165 of the Act.

1. Reason for Repurchase

In order to improve the shareholder return as well as capital efficiency

2. Detail of Repurchase

(a) Class of shares to be repurchased

Common stock of Company

(b) Total number of shares to be repurchased

Up to 5,500,000 shares

(c) Total amount of repurchase

Up to JPY 10,000,000,000

(d) Repurchase period

From February 6, 2020 to May 13, 2020

(e) Repurchase method

Market purchases based on the discretionary dealing contract regarding repurchase of own shares

(2) Establishment of Employees' Retirement Benefit Trust

The Group has announced that it has resolved at a meeting of its Board of Directors held on February 5, 2020, to establish a retirement benefit trust for employees and contribute a portion of listed shares held by the Group in order to restore retirement benefit finances and improve asset efficiency. As a result, the Group expects to record extraordinary income in the financial results for the fourth quarter of the fiscal year ending March 31, 2020.

1. Date of establishment of employees' retirement benefit trust

By March 31, 2020 (planned)

2. Contribution to the retirement benefit trust

Approximately 30.0 billion yen (planned)

3. Impact on financial results

The Group plans to record approximately 18.0 billion yen in extraordinary income as gain on contribution of securities to retirement benefit trust in the financial results for the fourth quarter of the fiscal year ending March 31, 2020, due to the establishment of the employees' retirement benefit trust.

The amount of contribution to the retirement benefit trust and gain on contribution of securities to retirement benefit trust may change in the future as these amounts will be decided depending on the share price on the date of establishment.

The Group also recorded 7.1 billion yen in gain on contribution of securities to retirement benefit trust in the financial results for the third quarter of the fiscal year ending March 31, 2020, due to the establishment of the employees' retirement benefit trust, separate from above.