Summary of Consolidated Financial Results for First Quarter of FY2016

Aug. 2, 2016
Mitsui Chemicals, Inc.

1. Summary of Income Statement

(Unit : Billions of Yen)

		1st Q of FY2015	1st Q of FY2016	Incr. (Decr.)	FY2015	Outlook for FY2016 (announced Aug. 2) First Half	Outlook for FY2016 (announced Aug. 2) Full Year
Net sales		379.1	293.7	(85.4)	1,343.9	583.0	1,215.0
Operating income		22.7	25.5	2.8	70.9	44.0	80.0
Ordinary income		23.3	23.3	0.0	63.2	40.0	71.0
Profit attributable to owners of parent		16.8	16.2	(0.6)	23.0	25.0	44.0
Comprehensive income		21.2	(1.8)	(23.0)	(14.4)		
Exchange rate	Yen / US$	121	108	(13)	120	107	103
Domestic standard naphtha price	Yen / KL	48,800	31,600	(17,200)	42,800	32,300	32,700

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

・Net Sales

(Unit : Billions of Yen)

	1st Q of FY2015	1st Q of FY2016	Incr. (Decr.)	Breakdown		FY2015	Outlook for FY2016 (announced Aug. 2)	
				Volume	Price		First Half	Full Year
Mobility	86.2	74.7	(11.5)	1.0	(12.5)	318.2	149.0	305.0
Healthcare	49.2	35.1	(14.1)	(10.5)	(3.6)	161.1	71.0	150.0
Food & Packaging	50.3	44.4	(5.9)	(1.1)	(4.8)	195.2	88.0	192.0
Basic Materials	184.2	130.7	(53.5)	(21.6)	(31.9)	630.8	257.0	529.0
Others	9.2	8.8	(0.4)	(0.4)	-	38.6	18.0	39.0
Total	379.1	293.7	(85.4)	(32.6)	(52.8)	1,343.9	583.0	1,215.0

・Operating Income (Loss)

(Unit : Billions of Yen)

	1st Q of FY2015	1st Q of FY2016	Incr. (Decr.)	Breakdown			FY2015	Outlook for FY2016 (announced Aug. 2)	
				Volume	Price※	Fixed Costs etc.		First Half	Full Year
Mobility	12.8	12.0	(0.8)	1.4	(1.6)	(0.6)	44.9	21.0	39.0
Healthcare	2.2	3.2	1.0	0.1	0.0	0.9	11.6	6.0	15.0
Food & Packaging	6.5	5.7	(0.8)	(0.3)	0.0	(0.5)	20.3	10.0	20.0
Basic Materials	2.9	7.0	4.1	(1.2)	2.1	3.2	1.0	11.0	14.0
Others	(0.3)	(0.4)	(0.1)	-	-	(0.1)	(0.1)	0.0	1.0
Adjustment	(1.4)	(2.0)	(0.6)	-	-	(0.6)	(6.8)	(4.0)	(9.0)
Total	22.7	25.5	2.8	0.0	0.5	2.3	70.9	44.0	80.0

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)

	1st Q of FY2015	1st Q of FY2016	Incr. (Decr.)	FY2015	Outlook for FY2016 (announced Aug. 2) First Half	Outlook for FY2016 (announced Aug. 2) Full Year
Gain on sales of non-current assets & investment securities	0.3	0.2	(0.1)	5.1	0.2	0.2
Gain on transfer of business	-	-	-	3.7	-	-
Loss on sales and disposal of non-current assets	(0.7)	(0.8)	(0.1)	(5.6)	(2.9)	(5.9)
Impairment loss	-	(0.3)	(0.3)	(24.1)	(0.3)	(0.3)
Loss on restructuring of subsidiaries and affiliates	(0.1)	-	0.1	(1.0)	-	-
Total	(0.5)	(0.9)	(0.4)	(21.9)	(3.0)	(6.0)

4. Summary of Balance Sheet

(Unit : Billions of Yen)

	Assets				Liabilities and Net assets		
	As of Mar. 31, 2016	As of Jun. 30, 2016	Incr. (Decr.)		As of Mar. 31, 2016	As of Jun. 30, 2016	Incr. (Decr.)
Current assets	628.2	607.1	(21.1)	Interest-bearing liabilities	473.0	466.4	(6.6)
Tangible fixed assets	413.4	404.8	(8.6)	Other liabilities	342.7	319.1	(23.6)
Intangible fixed assets	40.2	36.0	(4.2)	Shareholders' equity	381.9	376.6	(5.3)
Investments and others	177.1	173.1	(4.0)	Non-controlling interests	61.3	58.9	(2.4)
Total assets	1,258.9	1,221.0	(37.9)	Total liabilities and net assets	1,258.9	1,221.0	(37.9)
[Inventory]	240.7	233.8	(6.9)	[Net D/E Ratio]	1.03	1.04	0.01

5. Summary of Cash Flow

(Unit : Billions of Yen)

	1st Q of FY2015	1st Q of FY2016	Incr. (Decr.)	FY2015	Outlook for FY2016 (announced Aug. 2)	
					First Half	Full Year
Cash flows from operating activities	35.5	20.9	(14.6)	145.9	55.0	107.0
Cash flows from investing activities	(12.1)	(11.2)	0.9	(36.4)	(31.0)	(68.0)
Free cash flows	*23.4*	*9.7*	*(13.7)*	*109.5*	*24.0*	*39.0*
Cash flows from financing activities	(18.8)	(9.7)	9.1	(79.0)	(35.0)	(46.0)
Others	0.0	(2.8)	(2.8)	(2.9)	-	-
Net incr.(decr.) in cash and cash equivalents	4.6	(2.8)	(7.4)	27.6	(11.0)	(7.0)
Cash and cash equivalents at the end of period	55.2	75.4	20.2	78.2		

6. 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	-	4.00	-	5.00	9.00

7. Number of shares outstanding (common stock)

	FY2015	1st 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	21,500,544
Average number of shares	1,000,821,370 *	1,000,524,717

*1st Q of FY2015

8. 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)

1. Operating Results
(1) Overview
In the fiscal period under review (the three-month period from Apr 1, 2016 to Jun 30, 2016, hereinafter the “first quarter”), the economy of the United States enjoyed constant recovery, while the gradual slowing of economic growth in China and other emerging nations, and the U.K. referendum vote in favor of leaving the European Union spurred a sense of uncertainties in the outlook for the global economy. In Japan, although the economy was less than robust, 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 quarter.

(Billions of Yen)

	Net Sales	Operating Income	Ordinary Income	Profit Attributable to Owners of Parent
The first quarter	293.7	25.5	23.3	16.2
Same period of previous year	379.1	22.7	23.3	16.8
Change	(85.4)	2.8	0.0	(0.6)
Change (%)	(22.5)	12.3	0.2	(3.6)

Net Sales decreased 85.4 billion yen, or 22.5%, compared with the corresponding period of the previous fiscal year to 293.7 billion yen. This was mainly attributable to 52.8 billion yen decrease in sales prices and 32.6 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 25.5 billion yen, an increase of 2.8 billion yen or 12.3% year on year. This result was due to improvement in trading terms caused by the drop in naphtha, other raw materials and fuel prices and reduced fixed costs attributable to the effect of business structure improvement.

Ordinary income was 23.3 billion yen, increased 0.04 billion yen or 0.2% 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 0.9 billion yen loss, due to an increase in loss on sales and disposal of non-current assets.

As a result of the aforementioned factors, **profit before income taxes** amounted to 22.4 billion yen, a fall of 0.3 billion yen, or 1.6% year on year.

Profit attributable to owners of parent after accounting for income taxes and non-controlling interests was 16.2 billion yen, a fall of 0.6 billion yen, or 3.6% compared with the corresponding period of the previous fiscal year. Earnings per share for the period was 16.20 yen.

(2) Results by Business Segment

The status of each segment during the first quarter 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 11.5 billion yen compared with the same period of the previous fiscal year to 74.7 billion yen and comprised 25% of total sales. Operating income decreased 0.8 billion yen to 12.0 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 effect of unfavorable trading terms and a stronger yen despite 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 14.1 billion yen year on year to 35.1 billion yen and comprised 12% of total sales. On the other hand, operating income increased 1.0 billion yen compared with the same period of the previous fiscal year to 3.2 billion yen, mainly due to healthy sales and reduction of fixed costs.

Sales of ophthalmic lens materials, which are **vision-care materials,** and **non-woven fabrics**, were healthy.

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 5.9 billion yen compared with the same period of the previous fiscal year to 44.4 billion yen and comprised 15% of total sales. Operating income decreased 0.8 billion yen to 5.7 billion yen year on year, due to the decrease in sales.

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 53.5 billion yen compared with the same period of the previous fiscal year to 130.7 billion yen and accounted for 45% of total sales. On the other hand, operating income increased 4.1 billion yen year on year, to 7.0 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 0.4 billion yen to 8.8 billion yen, comprised 3% of total sales. Operating loss was 0.4 billion yen, a worsening of 0.1 billion yen 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 quarter stood at 1,221.0 billion yen, a decrease of 37.9 billion yen compared with the end of the previous fiscal year.

Total liabilities at the end of the first quarter decreased 30.2 billion yen compared with the previous fiscal year-end to 785.5 billion yen. **Interest-bearing debt** amounted to 466.4 billion yen, a fall of 6.6 billion yen compared with the previous fiscal year-end. As a result, the interest-bearing debt ratio was 38.2%, an increase of 0.6 percentage point.

Net assets totaled 435.5 billion yen, a fall of 7.7 billion yen compared with the previous fiscal year-end. The **ratio of shareholders' equity to total assets** was 30.8%, up 0.5 percentage point from the previous fiscal year-end.

Accounting for the aforementioned factors, the **net debt-equity ratio** stood at 1.04 at the end of the first quarter, up 0.01 point from the previous fiscal year-end.

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

(Revision of Financial Results Forecasts for Fiscal 2016 and Reasons for the Difference)

Revisions on financial forecasts for the first half of FY 2016, which were announced on July 27, 2016, under the title of *Notice on Revision of Consolidated Financial Outlook,* are as follows.

Outlook above are based on the following assumptions:
a) Exchange rate for the first half is 107 yen/US$
b) Average price of domestic naphtha is 32,300 yen /kl

Regarding financial forecasts for the full year, in the Mobility, Healthcare and Food & Packaging segments, sales are expected to be healthy. In the Basic Materials segment, the Group expects firm demand and continued high operating rates at naphtha crackers and other facilities.

Although the business environment of the second half remains uncertain, with the assumption of risks of the fluctuations in foreign exchange rates and changes in economic environment, operating income, ordinary income and profit attributable to owners of parent of the full year are expected to be higher than the previous forecast.

Outlook for the full year are based on the following assumptions:
a) Exchange rate for the full year is 103 yen/US$
b) Average price of domestic naphtha is 32,700 yen /kl

(Billions of Yen)

	Net Sales	Operating Income	Ordinary Income	Profit Attributable to Owners of Parent
First half	583.0	44.0	40.0	25.0
Full year	1,215.0	80.0	71.0	44.0

(Revision by Business Segment)

Outlook by FY2016 business segment is as follows.

(Billions of Yen)

	Net Sales						
	Mobility	Healthcare	Food & Packaging	Basic Materials	Others	Adjust-ment	Total
First half	149.0	71.0	88.0	257.0	18.0	-	583.0
Full year	305.0	150.0	192.0	529.0	39.0	-	1,215.0

(Billions of Yen)

	Operating Income (Loss)						
	Mobility	Healthcare	Food & Packaging	Basic Materials	Others	Adjust-ment	Total
First half	21.0	6.0	10.0	11.0	0.0	(4.0)	44.0
Full year	39.0	15.0	20.0	14.0	1.0	(9.0)	80.0