

Sumitomo Chemical Announces Consolidated Financial Results for FY2017

Beginning this consolidated fiscal year, the Sumitomo Chemical Group is adopting international financial reporting standards (IFRS) in place of Japanese GAAP, which it previously used, and is therefore restating figures for the previous consolidated fiscal year using IFRS for comparative analysis.

The world economy remained strong for this fiscal year, with the US continuing to see economic expansion supported by rising employment numbers and strong consumer demand, Europe continuing its steady recovery, despite issues such as the UK leaving the EU, and emerging nations, including China, seeing movement towards economic recovery.

At the same time, the Japanese economy has continued a steady trend toward recovery due to improvements in wages and the job market as well as strong corporate earnings.

Under these circumstances, the Sumitomo Chemical Group undertook group-wide efforts to improve business performance. At the same time, the Group worked to further accelerate its transformation into a more resilient Sumitomo Chemical that continues to grow, based on the current three-year Corporate Business Plan for fiscal 2016 to 2018 that has a basic policy of further improving business portfolio, generating more cash flow, and accelerating the launch of next-generation businesses.

As a result, the Sumitomo Chemical Group's sales revenue for this fiscal year totaled ¥2,190.5 billion, an increase of ¥251.4 billion compared with the previous fiscal year. The Group posted core operating income of ¥262.7 billion, operating income of ¥250.9 billion, and net income attributable to owners of the parent of ¥133.8 billion, all of which surpassed the results for the previous fiscal year.

The Sumitomo Chemical Group's financial results by business segment for the fiscal year are as follows.

“Core operating income” is a gain and loss concept that reflects recurring earning capacity. It excludes gains and losses from non-recurring factors from operating income, including share of profit of investments accounted for using the equity method.

Petrochemicals & Plastics

Market prices of petrochemical products and synthetic resins rose because of higher feedstock prices. Market prices of raw materials for synthetic fibers and methyl methacrylate (MMA) also increased. In addition, for associates accounted for using the equity method, the earnings of Petrochemical Corporation of Singapore (Pte.) Ltd. remained strong, while the earnings of Rabigh Refining and Petrochemical Company improved due chiefly to a continued high level of capacity utilization and rising market price of petrochemical products. As a result, the segment's sales revenue grew by ¥116.3 billion compared with the previous fiscal year, to ¥674.1 billion. Core operating income increased by ¥35.7 billion, to ¥94.6 billion.

Energy & Functional Materials

Shipments of resorcinol, a raw material for adhesives, and engineering plastics increased due to a rise in demand. Shipments of separators for lithium-ion secondary batteries also rose due to production capacity expansion. In addition, the acquisition of a manufacturer of cathode materials in the previous fiscal year pushed up sales. As a result, the segment's sales revenue increased by ¥44.6 billion compared with the previous fiscal year, to ¥251.0 billion. Core operating income grew by ¥13.2 billion, to ¥19.2 billion.

IT-related Chemicals

Shipments of touchscreen panels and polarizing film increased due to growth in demand while selling prices declined. The weaker yen had a positive effect on sales from overseas subsidiaries in yen terms. As a result, the segment's sales revenue increased by ¥10.2 billion compared with the previous fiscal year, to ¥368.7 billion. Core operating income rose by ¥3.6 billion, to ¥12.3 billion.

Health & Crop Sciences

Sales of the feed additive methionine dropped due to lower market prices. Meanwhile, the acquisition of an Indian agrochemicals company in the previous fiscal year boosted sales. As a result, the segment's sales revenue increased by ¥19.1 billion compared with the previous fiscal year, to ¥339.7 billion. Core operating income declined by ¥3.5 billion, to ¥44.0 billion.

Pharmaceuticals

In North America, sales of Latuda[®] (atypical antipsychotic) and other drugs increased steadily. In Japan, sales of Trulicity[®] (type 2 diabetes drug), Aimix[®] (anti-hypertension drug) and other drugs rose as well. As a result, the segment's sales revenue increased by ¥59.3 billion from the previous fiscal year, to ¥500.2 billion. Core operating income grew by ¥24.9 billion, to ¥94.8 billion.

Others

In addition to the above five segments, the Sumitomo Chemical Group engages in supplying electrical power and steam, providing services for the design, engineering, and construction management of chemical plants, providing transport and warehousing, and conducting materials and environmental analysis. The segment's sales revenue increased by ¥2.0 billion from the previous fiscal year, to ¥56.8 billion. Core operating income grew by ¥0.9 billion, to ¥11.1 billion.

The Company has decided to pay a year-end dividend of ¥12 per share. As a result, the Company's annual dividend for fiscal 2017 is ¥22 per share, including an interim dividend of ¥10 per share.

Net cash provided by operating activities in fiscal 2017 was ¥293.3 billion, an increase of ¥107.5 billion compared to the previous fiscal year, due chiefly to a rise in operating income and a decrease in income taxes paid. Net cash used in investing activities was ¥154.5 billion, a decrease in cash outflows of ¥51.2 billion compared to the previous fiscal year, due mainly to the acquisition of Cynapsus Therapeutics Inc. (the present Sunovion CNS Development Canada ULC) and Tolero Pharmaceuticals Inc. by Sumitomo Dainippon Pharma, a subsidiary of Sumitomo Chemical, in the previous fiscal year. This resulted in free cash flow of ¥138.7 billion for fiscal 2017, compared with negative ¥19.9 billion for the previous fiscal year. Net cash used in financing activities was ¥94.3 billion. The balance of cash and cash equivalents at the end of the fiscal year increased by ¥38.6 billion over the previous fiscal year, to ¥231.9 billion.

For fiscal 2018, the Company forecasts that sales revenue will increase by 13.7%, to ¥2,490.0 billion, while core operating income and operating income are projected to be ¥240.0 billion and ¥205.0 billion, respectively, and net income attributable to owners of the parent to be ¥130.0 billion, assuming an exchange rate of ¥110.0/US\$ and a naphtha price of ¥47,000/kl.

The Company plans to pay an interim dividend of ¥11 per share and a year-end dividend of ¥11 per share, making the Company's annual dividend for fiscal 2018 ¥22 per share, unchanged from the previous fiscal year.

Consolidated statements of profit or loss
Years ended March 31, 2018(FY2017) and 2017(FY2016)

	Millions of yen		Thousands of US dollars*
	FY2017	FY2016	FY2017
Sales revenue	2,190,509	1,939,069	20,618,496
Cost of sales	(1,440,635)	(1,308,824)	(13,560,194)
Gross profit	749,874	630,245	7,058,302
Selling, general and administrative expenses	(557,888)	(533,890)	(5,251,205)
Other operating income	25,262	14,661	237,783
Other operating expenses	(21,644)	(26,787)	(203,727)
Share of profit of investments accounted for using the equity method	55,319	42,238	520,698
Operating income	250,923	126,467	2,361,851
Finance income	11,542	10,700	108,641
Finance expenses	(21,654)	(14,829)	(203,822)
Income before taxes	240,811	122,338	2,266,670
Income tax expenses	(62,653)	(13,238)	(589,731)
Net income	178,158	109,100	1,676,939
Net income attributable to:			
Owners of the parent	133,768	76,540	1,259,111
Non-controlling interests	44,390	32,560	417,828
Net income	178,158	109,100	1,676,939

	Yen		US dollars*
	FY2017	FY2016	FY2017
Earnings per share:			
Basic earnings per share	81.81	46.81	0.77
Diluted earnings per share	81.77	46.77	0.77

	Yen		US dollars*
	FY2017	FY2016	FY2017
Dividends per share:			
Interim dividends	10.00	7.00	0.09
Year-end dividends	12.00	7.00	0.11
For the year	22.00	14.00	0.21

(Note)

*U.S. dollar amounts are translated from yen, for convenience only, at the rate of
¥106.24= \$1 prevailing on March 31, 2018.

Consolidated statements of comprehensive income
Years ended March 31, 2018(FY2017) and 2017(FY2016)

	Millions of yen		Thousands of US dollars*
	FY2017	FY2016	FY2017
Net income	178,158	109,100	1,676,939
Other comprehensive income:			
Items that will not be reclassified to profit or loss			
Remeasurements of financial assets measured at fair value through other comprehensive income	18,236	5,619	171,649
Remeasurements of defined benefit plans	4,975	7,258	46,828
Share of other comprehensive income of investments accounted for using the equity method	455	1,954	4,283
Total items that will not be reclassified to profit or loss	23,666	14,831	222,760
Items that may be subsequently reclassified to profit or loss			
Cash flow hedge	2,349	(483)	22,110
Exchange differences on translation of foreign operations	(16,907)	1,586	(159,140)
Share of other comprehensive income of investments accounted for using the equity method	(2,705)	(4,072)	(25,461)
Total items that may be subsequently reclassified to profit or loss	(17,263)	(2,969)	(162,491)
Other comprehensive income, net of taxes	6,403	11,862	60,269
Total comprehensive income	184,561	120,962	1,737,208
Total comprehensive income attributable to:			
Owners of the parent	142,421	88,258	1,340,559
Non-controlling interests	42,140	32,704	396,649
Total comprehensive income	184,561	120,962	1,737,208

(Note)

*U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥106.24= \$1 prevailing on March 31, 2018.

Consolidated statements of cash flows
Years ended March 31, 2018(FY2017) and 2017(FY2016)

	Millions of yen		Thousands of US dollars*
	FY2017	FY2016	FY2017
Cash flows from operating activities:			
Income before taxes	240,811	122,338	2,266,670
Depreciation and amortization	107,103	110,308	1,008,123
Impairment loss	12,378	36,525	116,510
Reversal of impairment loss	(3,477)	—	(32,728)
Share of profit of investments accounted for using the equity method	(55,319)	(42,238)	(520,698)
Interest and dividend income	(10,101)	(8,967)	(95,077)
Interest expenses	10,646	11,145	100,207
Business structure improvement expenses	14,210	18,186	133,754
Changes in fair value of contingent consideration	(8,383)	6,507	(78,906)
Gain on sale of property, plant and equipment	(6,801)	(1,035)	(64,015)
Gain on step acquisitions	—	(2,840)	—
Increase in trade receivables	(24,617)	(43,452)	(231,711)
Increase in inventories	(55,626)	(3,292)	(523,588)
Increase in trade payables	73,607	31,665	692,837
Increase in provisions	10,514	17,232	98,965
Others, net	(7,170)	(17,592)	(67,491)
Subtotal	297,775	234,490	2,802,852
Interest and dividends received	41,742	42,978	392,903
Interest paid	(10,534)	(11,322)	(99,153)
Income taxes paid	(28,747)	(64,303)	(270,585)
Business structure improvement expenses paid	(6,986)	(16,067)	(65,757)
Net cash provided by operating activities	293,250	185,776	2,760,260
Cash flows from investing activities:			
Purchase of property, plant and equipment, and intangible assets	(149,207)	(137,989)	(1,404,433)
Proceeds from sale of property, plant and equipment, and intangible assets	10,200	3,424	96,009
Purchase of investments in subsidiaries	(13,236)	(99,388)	(124,586)
Purchase of other financial assets	(14,276)	(7,451)	(134,375)
Proceeds from sales and redemption of other financial assets	6,092	35,596	57,342
Others, net	5,907	111	55,600
Net cash used in investing activities	(154,520)	(205,697)	(1,454,443)
Cash flows from financing activities:			
Net (decrease) increase in short-term borrowings	(82,586)	109,154	(777,353)
Net increase (decrease) of commercial paper	34,000	(24,000)	320,030
Proceeds from long-term borrowings	81,690	33,557	768,919
Repayments of long-term borrowings	(58,984)	(49,326)	(555,196)
Proceeds from issuance of bonds	39,790	29,837	374,529
Redemption of bonds	(55,000)	(55,000)	(517,696)
Repayments of lease obligations	(3,281)	(2,995)	(30,883)
Cash dividends paid	(27,797)	(21,258)	(261,643)
Cash dividends paid to non-controlling interests	(15,569)	(16,880)	(146,546)
Payments for acquisition of subsidiaries' interests from non-controlling interests	(6,588)	(4,475)	(62,011)
Others, net	61	863	576
Net cash used in financing activities	(94,264)	(523)	(887,274)
Effect of exchange rate changes on cash and cash equivalents	(5,832)	(1,892)	(54,895)
Net increase (decrease) in cash and cash equivalents	38,634	(22,336)	363,648
Cash and cash equivalents at beginning of year	193,295	215,631	1,819,419
Cash and cash equivalents at end of year	231,929	193,295	2,183,067

(Note)

*U.S. dollar amounts are translated from yen, for convenience only, at the rate of
¥106.24= \$1 prevailing on March 31, 2018.

Segment information
Years ended March 31, 2018(FY2017) and 2017(FY2016)

Millions of yen

	Reporting segments					Total	Others	Adjustments	Consolidated
	Petro-chemicals&Plastics	Energy & Functional Materials	IT-related Chemicals	Health & Crop Sciences	Pharmaceuticals				
FY2017									
Sales revenue									
Sales revenues from external customers	674,116	250,988	368,709	339,698	500,227	2,133,738	56,771	—	2,190,509
Inter-segment sales revenues	6,461	6,449	885	3,650	10	17,455	70,776	(88,231)	—
Total sales revenue	680,577	257,437	369,594	343,348	500,237	2,151,193	127,547	(88,231)	2,190,509
Segment profit (core operating income)	94,567	19,189	12,341	43,964	94,786	264,847	11,052	(13,205)	262,694
Segment assets	769,570	290,920	357,697	555,598	869,658	2,843,443	295,625	(70,383)	3,068,685
Other items									
Depreciation and amortization	22,963	13,916	29,571	16,181	15,084	97,715	5,925	3,463	107,103
Share of profit (loss) of investments accounted for using the equity method	48,373	(46)	(1,897)	1,625	(10)	48,045	7,086	188	55,319
Impairment loss	3,192	132	4,045	2,846	2,147	12,362	16	—	12,378
Reversal of impairment loss	—	3,477	—	—	—	3,477	—	—	3,477
Investments accounted for using the equity method	157,504	194	6,848	31,114	686	196,346	101,415	(3,391)	294,370
Capital expenditures	17,408	22,521	24,498	56,334	21,238	141,999	12,620	4,220	158,839
FY2016									
Sales revenue									
Sales revenues from external customers	557,852	206,414	358,473	320,613	440,974	1,884,326	54,743	—	1,939,069
Inter-segment sales revenues	8,809	5,480	1,109	4,422	9	19,829	49,730	(69,559)	—
Total sales revenue	566,661	211,894	359,582	325,035	440,983	1,904,155	104,473	(69,559)	1,939,069
Segment profit (core operating income)	58,884	6,030	8,714	47,440	69,871	190,939	10,146	(16,538)	184,547
Segment assets	709,379	248,756	339,598	492,114	841,024	2,630,871	263,598	(16,276)	2,878,193
Other items									
Depreciation and amortization	22,846	12,706	31,723	16,174	15,456	98,905	7,498	3,905	110,308
Share of profit (loss) of investments accounted for using the equity method	33,986	—	(762)	2,273	47	35,544	6,645	49	42,238
Impairment loss	8,746	12,685	12,286	554	2,254	36,525	—	—	36,525
Investments accounted for using the equity method	144,789	—	5,469	26,507	821	177,586	94,712	(3,579)	268,719
Capital expenditures	30,640	21,913	33,534	24,168	14,947	125,202	5,092	6,055	136,349

Segment information

Years ended March 31, 2018(FY2017) and 2017(FY2016)

Adjustments to income before taxes from segment profit were as follows:

	Millions of yen	
	FY2017	FY2016
Segment profit	262,694	184,547
Business structure improvement expenses	(14,210)	(18,186)
Impairment loss	(12,378)	(36,525)
Gain on sale of property, plant and equipment	6,801	1,035
Changes in fair value of contingent consideration	6,146	(6,507)
Reversal of impairment loss	3,477	—
Gain on step acquisitions	—	2,840
Others, net	(1,607)	(737)
Operating income	250,923	126,467
Finance income	11,542	10,700
Finance expenses	(21,654)	(14,829)
Income before taxes	240,811	122,338

Overseas operations

Years ended March 31, 2018(FY2017) and 2017(FY2016)

	FY2017				FY2016
	Millions of yen	Thousands of US dollars*	Share (%)	Growth (%)	Millions of yen
Overseas operations	1,384,749	13,034,159	63.2	17.0	1,183,424

(Note)

*U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥106.24= \$1 prevailing on March 31, 2018.

(Cautionary statement)

This release of financial results is exempt from audit procedures.

Statements made in this release with respect to the Company's current plans, estimates, strategies and beliefs that are not historical facts are forward-looking statements about the future performance of Sumitomo Chemical. These statements are based on management's assumptions and beliefs in light of the information currently available to it, and involve risks and uncertainties.

The important factors that could cause actual results to differ materially from those discussed in the forward-looking statements include, but are not limited to, general economic conditions in Sumitomo Chemical's markets; demand for, and competitive pricing pressure on, Sumitomo Chemical's products in the marketplace; Sumitomo Chemical's ability to continue to win acceptance for its products in these highly competitive markets; and movements of currency exchange rates.