

Sumitomo Chemical Announces Consolidated Financial Results for FY2016

During the twelve months ended March 31, 2017 (Fiscal 2016), the world economy faced growing uncertainty due to the British vote to exit from the European Union and the inauguration of the new U.S. administration, but the global economy was robust in general, led by the strengthening U.S. economy due to the good employment situation and on expectations of a fiscal expansion. In Japan, although consumer spending remained weak, the economy continued to stay on a moderate recovery path due to improvement in wages and the job market as well as strong corporate earnings.

The business environment surrounding the Sumitomo Chemical Group was initially tough due to the stronger yen and an economic slowdown in emerging countries in the first half of fiscal 2016, but there were signs from late in fiscal 2016 that the situation was improving due to the weaker yen after the U.S. presidential election and higher market prices for petrochemical products.

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 Group's sales for fiscal 2016 decreased by ¥147.5 billion compared with the previous fiscal year, to ¥1,954.3 billion. The Group posted operating income of ¥134.3 billion and ordinary income of ¥166.6 billion, both representing decreases from the previous fiscal year. Net income attributable to owners of the parent was ¥85.5 billion, showing an increase from the previous fiscal year.

The Sumitomo Chemical Group's financial results by business segment for fiscal 2016 are as follows.

Petrochemicals & Plastics

Market prices of petrochemical products and synthetic resins declined because of lower feedstock prices. Shipments of petrochemical products decreased due to the restructuring of the petrochemical business at the Chiba Works. The stronger yen had a negative effect on sales from overseas subsidiaries in yen terms. As a result, the segment's sales decreased by ¥85.1 billion compared with the previous fiscal year, to ¥572.0 billion. Operating income declined by ¥2.2 billion, to ¥26.6 billion.

Energy & Functional Materials

Selling prices of aluminum declined due chiefly to the stronger yen. Shipments of resorcinol, a raw material for adhesives, and engineering plastics increased due to a rise in demand. As a result, the segment's sales decreased by ¥3.1 billion compared with the previous fiscal year, to ¥205.9 billion. Operating income increased by ¥4.4 billion, to ¥7.2 billion.

IT-related Chemicals

Selling prices of polarizing film dropped. Selling prices of touchscreen panels also declined, but shipments increased due to growth in demand. The stronger yen had a negative effect on sales from overseas subsidiaries in yen terms. As a result, the segment's sales decreased by ¥26.1 billion compared with the previous fiscal year, to ¥358.4 billion. Operating income declined by ¥9.5 billion, to ¥10.3 billion.

Health & Crop Sciences

Sales of the feed additive methionine dropped due to lower market prices. The stronger yen had a negative effect on sales. As a result, the segment's sales decreased by ¥39.7 billion compared with the previous fiscal year, to ¥319.3 billion. Operating income declined by ¥31.4 billion, to ¥46.2 billion.

Pharmaceuticals

In Japan, although sales of Aimix® (anti-hypertension drug), Trierief® (therapeutic agent for Parkinson's disease) and other drugs increased, overall sales declined due largely to the impacts of Japanese National Health Insurance drug price revisions and a decrease in shipments of patent-expired originator drugs. In North America, sales of Latuda® (atypical antipsychotic) and other drugs increased steadily. The stronger yen had a negative effect on sales from overseas subsidiaries in yen terms. The segment's sales increased by ¥8.7 billion compared with the previous fiscal year, to ¥444.2 billion. Operating income rose by ¥12.4 billion, to ¥55.1 billion, due to the expansion of sales in North America.

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 decreased by ¥2.2 billion compared with the previous fiscal year, to ¥54.4 billion. Operating income declined by ¥2.1 billion, to ¥5.7 billion.

Equity in earnings of affiliates increased by ¥21.0 billion compared with the previous fiscal year, to ¥41.2 billion. Earnings of Petrochemical Corporation of Singapore remained strong. Earnings of Rabigh Refining and Petrochemical Company (Petro Rabigh), which deteriorated in the previous fiscal year due to periodic plant maintenance, improved in fiscal 2016 due chiefly to increased shipments after periodic plant maintenance.

(Note) Change in Business Segment Classification

As of April 1, 2016, battery materials and engineering plastics, which had been included in the IT-related Chemicals Segment, were transferred to the Energy & Functional Materials Segment.

The Company decided to pay a year-end dividend of ¥7 per share. As a result, the Company's annual dividend for fiscal 2016 is ¥14 per share, including an interim dividend of ¥7 per share.

Net cash provided by operating activities in fiscal 2016 was ¥187.4 billion, a decrease of ¥73.7 billion compared to the previous fiscal year, due chiefly to a decline in operating income and an increase in income taxes paid. Net cash used in investing activities was ¥199.7 billion, an increase in cash outflows of ¥146.1 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. This resulted in free cash flow of negative ¥12.3 billion for fiscal 2016, compared with positive ¥207.5 billion for the previous fiscal year. Net cash used in financing activities was ¥8.1 billion. The balance of cash and cash equivalents at the end of the fiscal year decreased by ¥22.3 billion over the previous fiscal year, to ¥193.3 billion.

For fiscal 2017, the Company forecasts that sales will increase by 12.1%, to ¥2,190.0 billion, while operating income and ordinary income are projected to be ¥165.0 billion and ¥185.0 billion, respectively, and net income attributable to owners of the parent to be ¥100.0 billion, assuming an exchange rate of ¥110.0/US\$ and a naphtha price of ¥37,000/kl.

The Company plans to pay an interim dividend of ¥7 per share and a year-end dividend of ¥7 per share, making the Company's annual dividend for fiscal 2017 ¥14 per share, unchanged from the previous fiscal year.

Consolidated Statements of Income
Years ended March 31, 2017(FY2016) and 2016(FY2015)

	FY2016		FY2015
	Yen (Millions)	USD (Thousands) ^{*1}	Yen (Millions)
Net sales	1,954,283	17,419,405	2,101,764
Cost of sales	1,285,764	11,460,594	1,404,801
Selling, general and administrative expenses	534,183	4,761,414	532,517
Operating income	<u>134,336</u>	<u>1,197,397</u>	<u>164,446</u>
Other income (expenses):			
Interest and dividend income	8,856	78,938	9,321
Interest expenses	(10,499)	(93,582)	(11,976)
Equity in earnings of affiliates	41,205	367,279	20,240
Loss on foreign currency transactions	(1,145)	(10,206)	(8,518)
Cost of inactive facilities	(3,385)	(30,172)	(3,209)
Gain on sale of investment securities	27,288	243,230	15,831
Gain on step acquisitions	3,372	30,056	-
Gain on sale of property, plant and equipment	1,035	9,225	-
Impairment loss	(34,271)	(305,473)	(24,688)
Restructuring charges	(18,865)	(168,152)	(4,791)
Other, net	<u>(2,736)</u>	<u>(24,387)</u>	<u>913</u>
Income before income taxes and non-controlling interests	145,191	1,294,153	157,569
Income taxes	<u>28,138</u>	<u>250,807</u>	<u>45,171</u>
Net income	<u>117,053</u>	<u>1,043,346</u>	<u>112,398</u>
Net income attributable to non-controlling interests	<u>31,571</u>	<u>281,406</u>	<u>30,947</u>
Net income attributable to owners of the parent	85,482	761,940	81,451
	FY2016		FY2015
	Yen	USD ^{*1}	Yen
Net income per share	52.31	0.47	49.84
Dividends per share:			
Interim dividends	7.00	0.06	8.00 ^{*2}
Year-end dividends	7.00	0.06	6.00
For the year	14.00	0.12	14.00

(Note)

*1 U.S. dollar amounts are translated from yen, for convenience only, at the rate of

¥112.19= \$1 prevailing on March 31, 2017.

*2 Interim dividends include an ordinary dividend of ¥6 per share and a commemorative dividend of ¥2 per share.

Consolidated Statements of Comprehensive Income
Years ended March 31, 2017(FY2016) and 2016(FY2015)

	FY2016		FY2015
	Yen (Millions)	USD (Thousands)*	Yen (Millions)
Net income	117,053	1,043,346	112,398
Other comprehensive income :			
Valuation difference on available-for-sale securities	(13,867)	(123,603)	(19,852)
Deferred losses on hedges	(145)	(1,292)	(494)
Foreign currency translation adjustment	1,483	13,219	(52,613)
Remeasurements of defined benefit plans	2,825	25,180	(19,493)
Share of other comprehensive income of associates accounted for using the equity method	(1,912)	(17,043)	(9,031)
Total other comprehensive income	(11,616)	(103,539)	(101,483)
Comprehensive income	105,437	939,807	10,915
Comprehensive income attributable to :			
Owners of the parent	75,745	675,149	(4,667)
Non-controlling interests	29,692	264,658	15,582

(Note)

*U.S. dollar amounts are translated from yen, for convenience only, at the rate of
¥112.19= \$1 prevailing on March 31, 2017.

Consolidated Statements of Cash Flows
Years ended March 31, 2017(FY2016) and 2016(FY2015)

	FY2016		FY2015
	Yen (Millions)	USD (Thousands)*	Yen (Millions)
Cash flows from operating activities:			
Income before income taxes and non-controlling interests	145,191	1,294,153	157,569
Depreciation and amortization	110,281	982,984	116,602
Income taxes paid	(65,088)	(580,159)	(41,227)
Other, net	(2,938)	(26,187)	28,228
Net cash provided by operating activities	187,446	1,670,791	261,172
Cash flows from investing activities:			
Acquisition of securities	(1,330)	(11,855)	(1,290)
Proceeds from sale and redemption of securities	35,596	317,283	35,251
Acquisition of property, plant and equipment	(131,755)	(1,174,392)	(89,765)
Other, net	(102,253)	(911,426)	2,126
Net cash used in investing activities	(199,742)	(1,780,390)	(53,678)
Cash flows from financing activities:			
Net increase (decrease) in short-term debt	76,096	678,278	(19,404)
Net decrease in long-term debt	(40,705)	(362,822)	(122,421)
Cash dividends paid	(21,258)	(189,482)	(17,988)
Other, net	(22,255)	(198,369)	(18,143)
Net cash used in financing activities	(8,122)	(72,395)	(177,956)
Effect of exchange rate changes on cash and cash equivalents	(1,885)	(16,803)	(14,252)
Net change in cash and cash equivalents	(22,303)	(198,797)	15,286
Net decrease in cash and cash equivalents resulting from change in fiscal period of consolidated subsidiaries	-	-	(1,691)
Cash and cash equivalents at beginning of year	215,592	1,921,669	201,997
Cash and cash equivalents at end of year	193,289	1,722,872	215,592

(Note)

*U.S. dollar amounts are translated from yen, for convenience only, at the rate of
¥112.19= \$1 prevailing on March 31, 2017.

Segment Information
Years ended March 31, 2017(FY2016) and 2016(FY2015)

Yen (Millions)

		Petro-chemicals& Plastics	Energy & Functional Materials	IT-related Chemicals	Health & Crop Sciences	Pharmaceuticals	Subtotal	Others	Adjustments	Consolidated
FY2016										
Net Sales	[a]	572,017	205,934	358,426	319,271	444,189	1,899,837	54,446	-	1,954,283
(Share)		(29.3%)	(10.5%)	(18.3%)	(16.3%)	(22.7%)	(97.2%)	(2.8%)	-	(100.0%)
(Growth)		(-12.9%)	(-1.5%)	(-6.8%)	(-11.1%)	(2.0%)	(-7.1%)	(-3.9%)	-	(-7.0%)
Operating income	[b]	26,604	7,199	10,325	46,154	55,099	145,381	5,705	(16,750)	134,336
[b] / [a]		(4.7%)	(3.5%)	(2.9%)	(14.5%)	(12.4%)	(7.7%)	(10.5%)		(6.9%)
Total assets		696,991	231,967	337,273	483,722	856,450	2,606,403	268,088	(12,439)	2,862,052
Depreciation and amortization		19,721	10,991	31,720	15,446	15,158	93,036	5,192	3,909	102,137
Amortization of goodwill		402	281	74	1,826	5,560	8,143	1	-	8,144
Investment on affiliates applied to equity methods		142,017	27	5,250	25,675	821	173,790	98,441	-	272,231
Capital expenditures		27,720	19,063	33,654	23,936	14,927	119,300	4,735	6,080	130,115
FY2015*										
Net Sales	[a]	657,093	209,007	384,532	359,013	435,478	2,045,123	56,641	-	2,101,764
(Share)		(31.3%)	(9.9%)	(18.3%)	(17.1%)	(20.7%)	(97.3%)	(2.7%)	-	(100.0%)
Operating income	[b]	28,767	2,809	19,874	77,518	42,686	171,654	7,830	(15,038)	164,446
[b] / [a]		(4.4%)	(1.3%)	(5.2%)	(21.6%)	(9.8%)	(8.4%)	(13.8%)	-	(7.8%)
Total assets		688,186	221,447	337,069	447,357	766,357	2,460,416	254,275	(52,541)	2,662,150
Depreciation and amortization		21,776	11,765	34,915	14,217	16,258	98,931	5,280	3,883	108,094
Amortization of goodwill		402	15	73	2,037	5,980	8,507	1	-	8,508
Investment on affiliates applied to equity methods		145,010	22	458	24,216	772	170,478	91,780	-	262,258
Capital expenditures		20,702	20,552	26,737	15,546	13,873	97,410	3,667	2,676	103,753

(Note)

*Segment information of the previous fiscal year is reclassified in accordance with the change in reported segments.

Overseas Operations
Years ended March 31, 2017(FY2016) and 2016(FY2015)

	FY2016				FY2015
	Yen (Millions)	USD(Thousands)*	Share (%)	Growth (%)	Yen (Millions)
Overseas operations	1,186,712	10,577,699	60.7	-8.0	1,289,232

(Note)

*U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥112.19= \$1 prevailing on March 31, 2017.

(Cautionary Statement)

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.