

Sumitomo Chemical Announces Consolidated Financial Results for FY2018

The state of the world economy for this fiscal year, continued to be strong, due to factors such as rising employment numbers and strong consumer demand in the US. At the same time, clouds can be seen in the growth of the Chinese economy, due to the impact of factors such as the trade conflict with the US and deleveraging by the government, while in Europe, the economy has been rapidly slowing down since the autumn of last year, due to a variety of factors, particularly the economic slowdown in China.

The Japanese economy continues to see improvements in wages and the job market, and conditions have remained generally favorable, but there have been negative influences from factors including the slowdowns in the economies of China and Europe, among others, deteriorations in the domestic market due to a weakness in Asian market conditions for petrochemical products, and the sudden slump in IT-related demand, particularly in smartphones.

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 its 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 ¥2,318.6 billion, an increase of ¥128.1 billion compared with the previous fiscal year. The Group posted core operating income of ¥204.3 billion, operating income of ¥183.0 billion, and net income attributable to owners of the parent of ¥118.0 billion, all of which fell short of 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 the share of profit from investments accounted for using the equity method.

Petrochemicals & Plastics

Market conditions for petrochemical products rose because of higher feedstock prices. Market conditions for raw materials for synthetic fibers and methyl methacrylate (MMA) also improved. In addition, shipments of products increased from the Rabigh Phase II project in this fiscal year. As a result, the segment's sales revenue grew by ¥83.4 billion compared with the previous fiscal year, to ¥757.5 billion. Core operating income declined by ¥33.0 billion compared with the previous fiscal year, to ¥61.6 billion, due to factors such as the impact of periodic plant maintenance at the Chiba Works in Japan and in Singapore, as well as margin erosion for petrochemical products.

Energy & Functional Materials

Shipments of separators for lithium-ion secondary batteries rose on higher demand. Shipments of high purity alumina also increased, primarily for use in battery materials. As a result, the segment's sales revenue increased by ¥31.9 billion compared with the previous fiscal year, to ¥282.9 billion, and core operating income grew by ¥3.8 billion, to ¥23.0 billion.

IT-related Chemicals

Although selling price of polarizing film declined, shipments increased due to growth in demand for TV and mobile applications. Shipments of touch sensor panels also increased due to growth in demand. As a result, the segment's sales revenue increased by ¥28.1 billion compared with the previous fiscal year, to ¥396.8 billion, and core operating income rose by ¥13.9 billion, to ¥26.2 billion.

Health & Crop Sciences

Shipments of crop protection chemicals decreased due to factors such as frequent extreme weather in North America toward the end of this fiscal year, and revenue from feed additive methionine fell due to declining market conditions. Moreover, while there was an increase in sales due to the recent consolidation of agriculture-related retail businesses in Japan, depreciation of emerging market currencies had a negative effect on sales from subsidiaries outside Japan in yen terms. As a result, the segment's sales revenue fell by ¥1.6 billion compared with the previous fiscal year, to ¥338.1 billion. Core operating income declined by ¥24.2 billion, to ¥19.7 billion, compared with the previous fiscal year, due to factors including margin erosion in methionine and reduced shipments of crop protection chemicals.

Pharmaceuticals

In North America, sales of Latuda® (atypical antipsychotic), Aptiom® (antiepileptic drug), and other treatments increased. On the other hand, results in Japan were adversely impacted by drug price revisions instituted by Japan's National Health Insurance. As a result, the segment's sales revenue declined by ¥8.1 billion compared with the previous fiscal year, to ¥492.1 billion. Because of the impact of the drug price revisions, and because a one-time gain was recorded in the previous fiscal year on the transfer of a business, core operating income declined by ¥14.0 billion, to ¥80.8 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 declined by ¥5.6 billion from the previous fiscal year, to ¥51.1 billion, and core operating income declined by ¥1.6 billion, to ¥9.4 billion.

The Company has decided to pay a year-end dividend of ¥11 per share. As a result, the Company's annual dividend for fiscal 2018 is ¥22 per share, including an interim dividend of ¥11 per share.

Net cash provided by operating activities in fiscal 2018 was ¥208.1 billion, a decrease of ¥85.1 billion compared to the previous fiscal year, due chiefly to a rise in working capital and a decrease in income before taxes. Net cash used in investing activities was ¥180.8 billion, an increase in cash outflows of ¥26.3 billion compared to the previous fiscal year, due mainly to an increase in outflows for the purchase of fixed assets. This resulted in free cash flow of ¥27.3 billion for fiscal 2018, compared with ¥138.7 billion for the previous fiscal year. Net cash used in financing activities was ¥60.9 billion. The balance of cash and cash equivalents at the end of the fiscal year fell by ¥30.3 billion from the previous fiscal year, to ¥201.7 billion.

For fiscal 2019, the Company forecasts that sales revenue will increase by 5.2% compared to fiscal 2018, to ¥2,440.0 billion, while core operating income and operating income are projected to be ¥205.0 billion and ¥190.0 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 ¥43,000/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 2019 ¥22 per share, unchanged from the previous fiscal year.

Consolidated statements of profit or loss
Years ended March 31, 2019(FY2018) and 2018(FY2017)

	Millions of yen		Thousands of US dollars*
	FY2018	FY2017	FY2018
Sales revenue	2,318,572	2,190,509	20,889,918
Cost of sales	(1,576,299)	(1,440,635)	(14,202,171)
Gross profit	742,273	749,874	6,687,747
Selling, general and administrative expenses	(590,062)	(557,888)	(5,316,353)
Other operating income	11,154	25,262	100,496
Other operating expenses	(17,594)	(21,644)	(158,519)
Share of profit of investments accounted for using the equity method	37,201	55,319	335,174
Operating income	182,972	250,923	1,648,545
Finance income	16,615	11,542	149,698
Finance expenses	(11,217)	(21,654)	(101,063)
Income before taxes	188,370	240,811	1,697,180
Income tax expenses	(35,904)	(62,653)	(323,489)
Net income	152,466	178,158	1,373,691
Net income attributable to:			
Owners of the parent	117,992	133,768	1,063,087
Non-controlling interests	34,474	44,390	310,605
Net income	152,466	178,158	1,373,691

	Yen		US dollars*
	FY2018	FY2017	FY2018
Earnings per share:			
Basic earnings per share	72.17	81.81	0.65
Diluted earnings per share	72.12	81.77	0.65

	Yen		US dollars*
	FY2018	FY2017	FY2018
Dividends per share:			
Interim dividends	11.00	10.00	0.10
Year-end dividends	11.00	12.00	0.10
For the year	22.00	22.00	0.20

(Note)

*U.S. dollar amounts are translated from yen, for convenience only, at the rate of
¥110.99= \$1 prevailing on March 31, 2019.

Consolidated statements of comprehensive income
Years ended March 31, 2019(FY2018) and 2018(FY2017)

	Millions of yen		Thousands of US dollars*
	FY2018	FY2017	FY2018
Net income	152,466	178,158	1,373,691
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	(7,341)	18,236	(66,141)
Remeasurements of defined benefit plans	667	4,975	6,010
Share of other comprehensive income of investments accounted for using the equity method	1,496	455	13,478
Total items that will not be reclassified to profit or loss	(5,178)	23,666	(46,653)
Items that may be subsequently reclassified to profit or loss			
Cash flow hedge	561	2,349	5,055
Exchange differences on translation of foreign operations	4,782	(16,907)	43,085
Share of other comprehensive income of investments accounted for using the equity method	(4,485)	(2,705)	(40,410)
Total items that may be subsequently reclassified to profit or loss	858	(17,263)	7,730
Other comprehensive income, net of taxes	(4,320)	6,403	(38,922)
Total comprehensive income	148,146	184,561	1,334,769
Total comprehensive income attributable to:			
Owners of the parent	110,448	142,421	995,117
Non-controlling interests	37,698	42,140	339,652
Total comprehensive income	148,146	184,561	1,334,769

(Note)

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Consolidated statements of cash flows
Years ended March 31, 2019(FY2018) and 2018(FY2017)

	Millions of yen		Thousands of US dollars*
	FY2018	FY2017	FY2018
Cash flows from operating activities:			
Income before taxes	188,370	240,811	1,697,180
Depreciation and amortization	112,495	107,103	1,013,560
Impairment loss	24,639	12,378	221,993
Reversal of impairment loss	(2,969)	(3,477)	(26,750)
Share of profit of investments accounted for using the equity method	(37,201)	(55,319)	(335,174)
Interest and dividend income	(10,849)	(10,101)	(97,748)
Interest expenses	10,623	10,646	95,711
Business structure improvement expenses	9,067	14,210	81,692
Changes in fair value of contingent consideration	(8,950)	(8,383)	(80,638)
Gain on sale of property, plant and equipment	(1,434)	(6,801)	(12,920)
Increase in trade receivables	(26,600)	(24,617)	(239,661)
Increase in inventories	(35,613)	(55,626)	(320,867)
Increase in trade payables	(18,673)	73,607	(168,240)
Increase in provisions	4,124	10,514	37,157
Others, net	38,041	(7,170)	342,742
Subtotal	245,070	297,775	2,208,037
Interest and dividends received	32,999	41,742	297,315
Interest paid	(10,940)	(10,534)	(98,567)
Income taxes paid	(50,161)	(28,747)	(451,942)
Business structure improvement expenses paid	(8,825)	(6,986)	(79,512)
Net cash provided by operating activities	208,143	293,250	1,875,331
Cash flows from investing activities:			
Purchase of property, plant and equipment, and intangible assets	(174,816)	(149,207)	(1,575,061)
Proceeds from sale of property, plant and equipment, and intangible assets	4,010	10,200	36,129
Purchase of investments in subsidiaries	(3,348)	(13,236)	(30,165)
Purchase of other financial assets	(9,126)	(14,276)	(82,224)
Proceeds from sales and redemption of other financial assets	2,420	6,092	21,804
Others, net	23	5,907	206
Net cash used in investing activities	(180,837)	(154,520)	(1,629,309)
Cash flows from financing activities:			
Net (decrease) increase in short-term borrowings	3,180	(82,586)	28,651
Net increase (decrease) of commercial paper	(4,000)	34,000	(36,039)
Proceeds from long-term borrowings	89,190	81,690	803,586
Repayments of long-term borrowings	(67,871)	(58,984)	(611,506)
Proceeds from issuance of bonds	49,725	39,790	448,013
Redemption of bonds	(77,000)	(55,000)	(693,756)
Repayments of finance lease obligations	(3,175)	(3,281)	(28,606)
Cash dividends paid	(37,606)	(27,797)	(338,823)
Cash dividends paid to non-controlling interests	(13,521)	(15,569)	(121,822)
Payments for acquisition of subsidiaries' interests from non-controlling interests	(2,205)	(6,588)	(19,867)
Others, net	2,417	61	21,777
Net cash used in financing activities	(60,866)	(94,264)	(548,392)
Effect of exchange rate changes on cash and cash equivalents	3,309	(5,832)	29,813
Net increase (decrease) in cash and cash equivalents	(30,251)	38,634	(272,556)
Cash and cash equivalents at beginning of year	231,929	193,295	2,089,639
Cash and cash equivalents at end of year	201,678	231,929	1,817,083

(Note)

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Segment information
Years ended March 31, 2019(FY2018) and 2018(FY2017)

Millions of yen

	Reporting segments								
	Petro-chemicals&Plastics	Energy & Functional Materials	IT-related Chemicals	Health & Crop Sciences	Pharma-ceuticals	Total	Others	Adjustments	Consoli-dated
FY2018									
Sales revenue									
Sales revenues from external customers	757,529	282,850	396,839	338,094	492,130	2,267,442	51,130	—	2,318,572
Inter-segment sales revenues	6,161	7,892	952	5,648	13	20,666	62,265	△82,931	—
Total sales revenue	763,690	290,742	397,791	343,742	492,143	2,288,108	113,395	△82,931	2,318,572
Segment profit (core operating income)	61,610	22,959	26,227	19,716	80,764	211,276	9,422	△16,446	204,252
Segment assets	756,996	312,096	389,744	591,995	896,702	2,947,533	282,911	△58,826	3,171,618
Other items									
Depreciation and amortization	22,047	15,437	31,087	18,714	16,260	103,545	5,647	3,303	112,495
Share of profit (loss) of investments accounted for using the equity method	31,230	20	5	△1,107	27	30,175	6,909	117	37,201
Impairment loss	535	878	200	—	22,996	24,609	19	11	24,639
Reversal of impairment loss	—	2,969	—	—	—	2,969	—	—	2,969
Investments accounted for using the equity method	165,455	214	455	26,853	1,055	194,032	108,286	△3,274	299,044
Capital expenditures	31,466	24,281	33,550	39,931	16,861	146,089	12,302	5,272	163,663
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

(Note)

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

Segment information

Years ended March 31, 2019(FY2018) and 2018(FY2017)

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

	Millions of yen	
	FY2018	FY2017
Segment profit	204,252	262,694
Impairment loss	(24,639)	(12,378)
Restructuring charges	(9,067)	(14,210)
Changes in fair value of contingent consideration	8,950	6,146
Reversal of impairment loss	2,969	3,477
Gain on sale of property, plant and equipment	1,434	6,801
Others, net	(927)	(1,607)
Operating income	182,972	250,923
Finance income	16,615	11,542
Finance expenses	(11,217)	(21,654)
Income before taxes	188,370	240,811

Overseas operations

Years ended March 31, 2019(FY2018) and 2018(FY2017)

	FY2018				FY2017
	Millions of yen	Thousands of US dollars*	Share (%)	Growth (%)	Millions of yen
Overseas operations	1,505,711	13,566,186	64.9	8.7	1,384,749

(Note)

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¥110.99= \$1 prevailing on March 31, 2019.

(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.