

Summary of Consolidated Financial Results for Third Quarter of FY2018

Feb. 6, 2019
Mitsubishi Gas Chemical Company, Inc (TSE 4182)

1. Summary of Income Statement (April 1- Dec 31, 2018)

Millions of yen, rounded down

	Apr. 1 -Dec. 31, 2017	Apr. 1 -Dec. 31, 2018	Change (%)
Net Sales	471,110	499,625	6.1
Operating income	48,952	38,398	(21.6)
Ordinary income	64,261	62,672	(2.5)
Net income attributable to owners of the parent	43,919	50,160	14.2
Comprehensive income	56,528	49,271	(12.8)
Net income per share (Yen)	203.71	234.81	

2. Financial Position

Millions of yen, rounded down

	As of Mar. 31, 2018	As of Dec. 31, 2018
Total Assets	785,687	803,583
Net Assets	519,144	551,799
Equity Ratio(%)	59.5	62.2

3. Dividends

	FY2017	FY2018
Interim dividend per share (Yen)	24.00	35.00
Year-end dividend per share (Yen)	35.00	35.00(Forecast)
Annual Dividend per share (Yen)	59.00	70.00(Forecast)

(Note) Revision of cash dividend forecast during this period: None

4. Consolidated Business Forecasts for FY2018 (April 1, 2018 - March 31, 2019)

Millions of yen, rounded down

	Full Year
Net Sales	650,000
Operating income	45,000
Ordinary income	76,000
Net income attributable to owners of the parent	61,000
Net income per share (Yen)	285.54

(Note) Revision of consolidated business forecasts during this period: Yes
Please refer to "Revision of Business Performance" for details.

5. Number of Shares Outstanding (Common Stock)

	Mar31,2018	Dec31,2018
Number of shares outstanding at term end (including treasury stock)	231,739,199	231,739,199
Number of shares of treasury stock at term-end	18,135,027	18,098,910

	Apr. 1 -Dec. 31, 2017	Apr. 1 -Dec. 31, 2018
Average shares outstanding during period	215,597,970	213,626,854

1. These quarterly financial results are not subject to quarterly review procedures. At this time of disclosure of these financial results, the quarterly financial statement review procedures based on the Financial Instrument and Exchange Law have not been completed.
2. Forecasts, etc., recorded in this document contain forward-looking statements that are based on management's estimates, assumptions and projections at the time of publication. A number of factors could cause actual results to differ materially from expectations.

Consolidated Financial Statements

1. Consolidated Balance Sheets

(Millions of yen, rounded down)

	As of Mar. 31, 2018	As of Dec. 31, 2018
ASSETS		
Current assets		
Cash and deposits	101,090	84,553
Trade notes and accounts receivable	165,606	164,546
Short-term investments securities	121	81
Merchandise and finished goods	57,958	70,299
Work in progress	11,044	12,415
Raw materials and supplies	34,750	36,313
Other	14,847	18,220
Allowance for doubtful accounts	(1,170)	(1,020)
Total current assets	384,249	385,409
Noncurrent assets		
Property, plant and equipment		
Buildings and structures, net	80,823	79,753
Machinery, equipment and vehicles, net	81,359	78,245
Other, net	58,535	68,241
Total property, plant and equipment	220,717	226,240
Intangible assets		
Goodwill	3,911	3,934
Other	4,499	4,839
Total intangible assets	8,411	8,774
Investments and other assets		
Investment securities	161,391	172,146
Other	11,471	11,567
Allowance for doubtful accounts	(555)	(554)
Total investments and other assets	172,308	183,159
Total noncurrent assets	401,437	418,173
Total assets	785,687	803,583

Consolidated Balance Sheets (continued)

(Millions of yen, rounded down)

	As of Mar. 31, 2018	As of Dec. 31, 2018
LIABILITIES		
Current liabilities		
Trade notes and accounts payable	88,720	90,711
Short-term loans payable	71,155	61,495
Income taxes payable	4,133	2,510
Provision	5,643	3,138
Asset retirement obligations	1,522	1,550
Other	35,660	39,188
Total current liabilities	206,835	198,594
Noncurrent liabilities		
Bonds payable	10,000	10,000
Long-term loans payable	25,328	17,016
Provision	3,549	4,160
Projected benefit obligations	4,592	4,605
Asset retirement obligations	2,420	2,447
Other	13,815	14,959
Total noncurrent liabilities	59,707	53,189
Total liabilities	266,543	251,783
NET ASSETS		
Shareholders' equity		
Capital stock	41,970	41,970
Capital surplus	34,578	34,652
Retained earnings	399,033	434,240
Treasury stock	(19,966)	(19,929)
Total shareholders' equity	455,616	490,934
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	17,261	12,276
Deferred gains or losses on hedges	(0)	(1)
Revaluation reserve for land	222	222
Foreign currency translation adjustment	(7,614)	(5,236)
Remeasurements of defined benefit plans	1,878	1,373
Total accumulated other comprehensive	11,747	8,635
Non controlling interest	51,780	52,230
Total net assets	519,144	551,799
Total liabilities and net assets	785,687	803,583

2. Consolidated Statements of Income

(Millions of yen, rounded down)

	Apr. 1 -Dec. 31, 2017	Apr. 1 -Dec. 31, 2018
Net sales	471,110	499,625
Cost of sales	353,474	390,064
Gross profit	117,635	109,560
Selling, general and administrative expenses	68,682	71,161
Operating income	48,952	38,398
Non-operating income		
Interest income	323	435
Dividend income	2,007	2,089
Equity in earnings of affiliates	14,000	24,494
Other	3,304	2,707
Total non-operating income	19,636	29,726
Non-operating expenses		
Interest expense	784	791
Personnel expenses for seconded employees	1,151	1,248
Rent expenses	835	1,187
Other	1,556	2,225
Total non-operating expenses	4,328	5,452
Ordinary income	64,261	62,672
Extraordinary income		
Gain on sales of investment securities	1,105	989
Gain on sales of non-current assets	-	714
Total extraordinary income	1,105	1,704
Extraordinary losses		
Provision for loss on guarantees	1,007	711
Loss on valuation of investment securities	8,320	669
Loss on disposal of non-current assets	154	120
Loss on liquidation of subsidiaries and affiliates	162	-
Amortization of goodwill	102	-
Loss on withdrawal from business	100	-
Total extraordinary losses	9,847	1,501
Income before income taxes, etc.	55,520	62,875
Income taxes, etc.	7,230	9,757
Net income	48,289	53,117
Net income attributable to non-controlling interests	4,369	2,957
Net income attributable to owners of the parent	43,919	50,160

(Consolidated Statements of Comprehensive Income)

(Millions of yen, rounded down)

	Apr. 1 -Dec. 31, 2017	Apr. 1 -Dec. 31, 2018
Net income	48,289	53,117
Other comprehensive Income		
Valuation difference on available-for-sale securities	4,171	(5,010)
Deferred gains or losses on hedges	(3)	(1)
Foreign currency statements translation adjustment	2,878	(1,041)
Remeasurements of defined benefit plans	(217)	(458)
Share of other comprehensive income of associates accounted for using equity method	1,410	2,665
Total other comprehensive Income	8,238	(3,846)
Comprehensive income	56,528	49,271
Comprehensive income attributable to owners of the parent	51,206	47,048
Comprehensive income attributable to non-controlling interests	5,321	2,222

3. Segment Information

(Billions of yen, rounded down)

	FY 2017 1-3Q	FY 2018 1-3Q	Change	FY2017 Full Year Result	FY 2018 Full Year Forecast
Net sales	471.1	499.6	28.5	635.9	650.0
Natural Gas Chemicals	124.1	144.3	20.2	174.7	186.3
Aromatic Chemicals	161.6	162.7	1.1	213.1	213.0
Specialty Chemicals	152.3	158.7	6.3	205.0	210.4
Information and Advanced Materials	39.9	40.8	0.9	52.7	51.1
Other and Adjustment	(6.9)	(7.1)	(0.1)	(9.8)	(10.9)
Operating income (loss)	48.9	38.3	(10.5)	62.7	45.0
Natural Gas Chemicals	3.2	3.1	(0.1)	5.4	3.2
Aromatic Chemicals	21.6	15.5	(6.1)	25.6	17.6
Specialty Chemicals	22.2	17.8	(4.4)	29.6	23.3
Information and Advanced Materials	3.5	3.7	0.2	4.2	3.4
Other and Adjustment	(1.8)	(1.8)	(0.0)	(2.2)	(2.7)
Non-operating profit	15.3	24.2	8.9	17.9	31.0
Ordinary income	64.2	62.6	(1.5)	80.7	76.0
Natural Gas Chemicals	10.9	20.7	9.7	14.2	27.0
Aromatic Chemicals	20.9	15.0	(5.9)	24.5	16.6
Specialty Chemicals	27.9	23.0	(4.9)	37.9	29.2
Information and Advanced Materials	4.7	4.3	(0.3)	5.5	4.3
Other and Adjustment	(0.3)	(0.4)	(0.1)	(1.6)	(1.3)

4. Other Information 1

		FY2014	FY2015	FY2016	FY2017	FY2018 Forecast
Investments (Billions of yen)	Full year	22.2	30.5	35.0	30.9	44.0
	1-3Q	14.7	22.6	24.1	23.2	28.7
Depreciation & amortization (Billions of yen)	Full year	23.7	26.7	25.6	27.0	27.0
	1-3Q	17.8	19.8	18.8	20.0	20.3
R&D expenditures (Billions of yen)	Full year	16.8	18.9	19.2	18.9	20.0
	1-3Q	12.3	13.7	14.2	14.2	13.8
Number of Staff	Year-end	8,254	8,176	8,034	8,009	8,152
ROA (Ordinary income)		5.8%	5.9%	8.4%	10.6%	9.4%
ROE (Net income)		12.6%	9.0%	12.0%	13.6%	12.4%

5. Other Information 2

	FY2014		FY2015		FY2016		FY2017		FY2018	
	Result		Result		Result		Result		Result	Forecast
	First half	Second half	First half	Second half	First half	Second half	1-3Q	4Q	1-3Q	4Q
Exchange Rate (JPY/USD, Average)	103	117	122	118	105	112	112	108	111	110
Exchange Rate (JPY/EUR, Average)	139	139	135	130	118	119	129	133	129	125
crude oil (Dubai) (USD/BBL)	104	63	56	36	43	51	53	64	71	55
Methanol (USD/MT, Asian average spot price)	432	358	301	230	230	327	319	395	394	310
Mixed Xylene (USD/MT)	1,100	730	740	630	660	680	660	765	825	650
Bisphenol A (USD/MT)*	1,600 ~2,000	1,200 ~1,900	950 ~1,500	850 ~1,100	1,000 ~1,200	1,000 ~1,400	1,100 ~1,700	1,600 ~1,700	1,200 ~1,900	1,200 ~1,500
Polycarbonate (USD/MT)*	2,500 ~2,700	2,300 ~2,700	2,100 ~2,650	2,000 ~2,400	2,200 ~2,500	2,400 ~2,800	2,500 ~3,600	3,600 ~3,900	2,100 ~3,800	2,100 ~2,500

*Describe the minimum and maximum values during the period

Note: Methanol price forecasts are expressed for the following periods.

FY2014:

1H: January-June

2H: July-December

FY2015-FY2016:

1H: April-September

2H: October-March

Qualitative Information

Consolidated Business Results for This Period

Overview of Results

(Billions of yen)

	Apr.1-Dec.31, 2017	Apr.1-Dec.31, 2018	Change
Net sales	471.1	499.6	28.5
Operating income	48.9	38.3	(10.5)
Ordinary income	64.2	62.6	(1.5)
Net income attributable to owners of the parent	43.9	50.1	6.2

Over the first nine months of the fiscal year ending March 2019 (April 1– December 31, 2018), the world economy continued to show signs of a slow recovery. However, concerns about trade friction, the deceleration of China’s economic growth and the volatility of financial and capital markets reinforced existing economic uncertainty. The Japanese economy also manifested signs of a slow recovery. Despite increased costs for production and logistics due to a labor shortage, employment and private income continued to improve.

The management environment surrounding the MGC Group saw such changes as increases in raw material and fuel prices. However, the market prices of polycarbonates and purified isophthalic acid saw the end of a prolonged high and began to decline.

Against this backdrop, the MGC Group adhered to the Group Vision of “Creating values to share with society” in a bid to improve its corporate value. In the first fiscal year of the MGC Advance 2020 Medium-term Management Plan, the Group moved ahead with the plan’s basic policies: “strengthening the earnings power of existing businesses with a focus on core businesses,” “creating and developing new businesses” and “implementing investment strategies to form an optimal business portfolio.”

The MGC Group achieved growth in net sales compared with the same period of the previous fiscal year, primarily because of the market prices of methanol, which, despite a downward trend from last November onward, remained higher than the levels recorded in the same period of the previous fiscal year. Also contributing were strong overall sales volumes.

Operating income fell compared with results for the same nine-month period of the previous fiscal year. While sales volumes of specialty polycarbonates increased, the profitability of foamed plastics has deteriorated due to hikes in raw material and fuel prices. Furthermore, the lower market prices of purified isophthalic acid and polycarbonates also led to the decrease in earnings.

Although the Group's overseas methanol producing companies served as key contributors to an increase in equity in earnings of affiliates, ordinary income decreased year on year due to the decline in operating income.

However, net income attributable to owners of the parent grew year on year. This was mainly thanks to a decrease in extraordinary losses from the same period of the previous fiscal year in which the Group posted a loss on valuation of investment securities in connection with a shale gas and LNG project in Canada.

MGC issued a news release on December 4, 2018 entitled, "Notice about the Methanol Joint Venture in Saudi Arabia of JSMC, a MGC's Equity Method Affiliate." As stated in that release, MGC's equity method affiliate JSMC and Saudi Basic Industries Corp. (SABIC) agreed to the following two terms regarding the Saudi Methanol Company (AR-RAZI), whose joint venture agreement was set to expire on November 29, 2018. First, JSMC will sell 50% of its shares in AR-RAZI (this represents 25% of all AR-RAZI shares) to SABIC for US\$150 million to reduce its shareholding ratio to 25:75. And, second, JSMC will make a final decision by March 31, 2019 on whether to exercise its option to sell its remaining stake, which would end the joint venture status of AR-RAZI.

As for the expected impact on MGC's consolidated financial performance, although the transfer of shares is expected to generate a total loss of around ¥5.0 billion, MGC already recorded the originally projected ¥1.7 billion in tax-related expenses as equity in earnings (losses) of affiliated companies in the third quarter of the current fiscal year. The decrease in JSMC's shareholding for AR-RAZI will also likely affect MGC's equity in earnings (losses) of affiliated companies. However, MGC has not yet determined when its consolidated performance will be impacted because the transfer of shares must first be approved by each country's governmental authorities. In the third quarter of the fiscal year, MGC therefore calculated equity in earnings (losses) of affiliated companies related to JSMC at the pre-sale 50:50 shareholding ratio for the period after November 29, 2018, when the joint venture agreement was set to expire.

Results by Business Segment

Natural Gas Chemicals

(Billions of yen)

	Apr.1-Dec.31, 2017	Apr.1-Dec.31, 2018	Change
Sales	118.1	138.0	19.9
Operating income	3.2	3.1	(0.1)
Ordinary income	10.9	20.7	9.7

The methanol business grew in both revenue and earnings due to an increase in methanol market prices compared with the same period of the previous year.

Methanol and ammonia-based chemicals had higher revenue due to an overall increase in sales volumes and an increase in the market prices of MMA-based products. Earnings from these chemicals, however, decreased year on year, due to higher raw material prices.

Crude oil and other energy sources achieved prior-year-level earnings. Despite a crude oil price increase, crude oil sales volume dropped.

Aromatic Chemicals

(Billions of yen)

	Apr.1-Dec.31, 2017	Apr.1-Dec.31, 2018	Change
Sales	160.9	162.3	1.3
Operating income	21.6	15.5	(6.1)
Ordinary income	20.9	15.0	(5.9)

Specialty aromatic chemical products posted growth in both revenue and earnings compared with the same period of the previous fiscal year. The negative impact of higher raw material and fuel prices was more than offset by solid sales of meta-xylenediamine and aromatic aldehydes.

General-purpose aromatic chemical products suffered lower earnings. Negative influences included an increase in raw material and fuel prices and reduced profitability due to lower market prices of purified isophthalic acid.

Foamed plastics saw a decline in earnings primarily due to higher raw material and fuel prices.

Specialty Chemicals

(Billions of yen)

	Apr.1-Dec.31, 2017	Apr.1-Dec.31, 2018	Change
Sales	151.6	157.8	6.2
Operating income	22.2	17.8	(4.4)
Ordinary income	27.9	23.0	(4.9)

Although higher sales volumes helped drive up sales of inorganic chemicals, lower earnings were posted due to increasing competition in liquid chemicals used for semiconductor and LCD displays. The engineering plastics business saw a sales volume increase for specialty polycarbonates used in smartphone camera lenses. However, earnings decreased due to the deteriorating profitability of polycarbonates and polyacetal as well as a lower sales volume for films used in flat panel displays.

Information & Advanced Materials

(Billions of yen)

	Apr.1-Dec.31, 2017	Apr.1-Dec.31, 2018	Change
Sales	39.9	40.8	0.9
Operating income	3.5	3.7	0.2
Ordinary income	4.7	4.3	(0.3)

Electronic materials achieved growth in both revenue and earnings. This was thanks to a year-on-year increase in the sales volume of mainstay BT materials for semiconductor packaging that countered unfavorable factors emerging in the third quarter due to declining demand for materials for smartphones and an excess supply of those used in memory devices.

Oxygen absorbers such as AGELESS® saw a drop in earnings, primarily due to increasing competition in the domestic food market.