

Business Report for the 90th Fiscal Year

(from April 1, 2016 to March 31, 2017)

mitsubishi gas chemical company, inc.

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BUSINESS REPORT

(from April 1, 2016 to March 31, 2017)

1. Commentary on Results

(1) Overview of results for this period

During the fiscal year 2016 (April 1, 2016-March 31, 2017), the world economy suffered from continued uncertainty about the future. While the U.S. market showed a recovery trend, the slowdown of China and other emerging economies caused concerns. The Japanese economy continued to experience slow upswing owing to an ongoing improvement in employment.

The MGC Group suffered a drop in net sales compared with the previous fiscal year. The gain from higher sales volume for engineering plastics was more than offset by negative contributions such as the stronger yen.

Group operating income was higher than the previous year figure. The negative impact of the stronger yen was more than offset by the improved profitability primarily of engineering plastics, which was due to lower prices of fuels and raw materials among other reasons.

Group ordinary income posted a year-on-year growth. There were positive factors including not only the increase in operating income, but also higher equity in earnings of affiliates and improvement of exchange gains and losses.

The Group posted a year-on-year growth in the net income attributable to parent company shareholders. Despite a decline in gain on sales of investment securities, there was a positive impact of the growth in ordinary income.

In fiscal 2016, the MGC Group achieved ¥556.4 billion in consolidated net sales, a decrease of ¥37.0 billion (6.2%) from the previous year. Consolidated operating income was ¥43.7 billion, an increase of ¥9.7 billion (28.6%). Equity in earnings of affiliates was ¥21.0 billion, an increase of ¥4.3 billion (26.3%). Consolidated ordinary income was ¥62.3 billion, an increase of ¥16.9 billion (37.3%). The Group achieved a profit attributable to owners of parent of ¥47.9 billion, an increase of ¥13.8 billion (40.5%).

(2) Results by business segment

Natural Gas Chemicals Segment

The methanol business recorded declines in both revenue and earnings. The business suffered from lower sales prices.

Methanol and ammonia-based chemicals suffered declines in revenue and earnings, due to stronger yen. Crude oil and other energy sources declined in both revenue and earnings due to lower crude oil prices.

In fiscal 2016, the Natural Gas Chemicals Segment achieved consolidated net sales of ¥142.9 billion, a decrease of ¥22.5 billion (13.7%) from the previous year and an operating income of ¥2.5 billion, a decrease of ¥1.5 billion (38.3%). Additionally, due to ¥12.7 billion equity in earnings of affiliates, coming primarily from overseas methanol producing companies, the segment achieved ordinary income of ¥14.2 billion, an increase of ¥0.3 billion (2.8%).

Aromatic Chemicals Segment

Specialty aromatic chemical products suffered lower net sales owing to negative factors such as the stronger yen. By contrast, earnings from these products increased year on year due to higher sales volumes and lower prices of fuels and raw materials.

Commodity aromatic chemical products suffered a decline in revenue with the discontinued sale of purified terephthalic acid and the stronger yen. Earnings from these products grew, however, primarily due to the improvement in profitability of purified isophthalic acid.

Despite being affected by the stronger yen, foamed plastics achieved an increase in earnings. Positive reasons included lower prices of raw materials and the successful sales of high-value products.

In fiscal 2016, the Aromatic Chemicals Segment achieved consolidated net sales of ¥191.9 billion, a decrease of ¥11.4 billion (5.6%), an operating income of ¥18.3 billion, an increase of ¥3.0 billion (20.2%), and an ordinary income of ¥17.5 billion, an increase of ¥3.8 billion (27.9%).

Specialty Chemicals Segment

Inorganic chemicals suffered reductions in both revenue and earnings despite lower prices of fuels and raw materials. In addition to the stronger yen, a lower sales volume of chemicals for semiconductors and LCD applications explains these results.

The engineering plastics business posted higher earnings. Major positive factors include higher sales volume and improved profitability resulting from reductions in fuel and raw material prices for polycarbonate, polyacetal and polycarbonate sheets and films.

In fiscal 2016, the Specialty Chemicals Segment posted consolidated net sales of ¥170.8 billion, an increase of ¥2.1 billion (1.3%) from the previous year and an operating income of ¥21.6 billion, an increase of ¥8.5 billion (65.6%). Due to ¥6.8 billion equity in earnings of affiliates, ordinary income was ¥26.8 billion, an increase of ¥11.2 billion (71.9%).

Information & Advanced Materials Segment

Electronics materials posted a drop in revenue due to reasons including the dissolution of Japan Circuit Industrial Co., Ltd., the subsidiary producer of printed circuit boards, at the end of September 2016, while achieving higher earnings primarily due to growth in the sales volume of BT materials for semiconductor package.

Oxygen absorbers such as AGELESS® posted slightly lower earnings levels compared with the previous year. The appreciation of the yen more than canceled the positive impact of prior-year level developments in the sale of products for domestic food applications.

In fiscal 2016, the Information & Advanced Materials Segment achieved consolidated net sales of ¥50.1 billion, a decrease of ¥5.0 billion (9.1%) and an operating income of ¥4.8 billion, an increase of ¥0.7 billion (19.3%). Due to ¥1.2 billion in equity in earnings of affiliates from two new equity-method affiliates, ordinary income was ¥6.1 billion, an increase of ¥2.2 billion (59.6%).

Other Business Segments

In the year ended March 31, 2017, the other business segment achieved consolidated net sales of ¥0.5 billion, a decrease of ¥0.1 billion (19.0%). Operating income was ¥0.2 billion, a decrease of ¥0.0 billion (8.4%) , and ordinary income was ¥0.3 billion, an increase of ¥0.0 billion (15.7%).

Results by Business Segment

Segment	FY2015 (April 2015 - March 2016)		FY2016 (April 2016 - March 2017)		Year-on-Year Increase/ Decrease (%)
	Amount (millions of yen)	Percentage Total (%)	Amount (millions of yen)	Percentage Total (%)	
Natural Gas Chemicals Segment	165,497	27.9	142,901	25.7	(13.7)
Aromatic Chemicals Segment	203,348	34.3	191,933	34.5	(5.6)
Specialty Chemicals Segment	168,721	28.4	170,894	30.7	1.3

Information & Advanced Materials Segment	55,251	9.3	50,197	9.0	(9.1)
Other Business Segments	684	0.1	553	0.1	(19.0)
Total	593,502	100.0	556,480	100.0	(6.2)

Note: The figures shown in parentheses represent loss or minus.

(3) Capital Expenditures

Capital expenditures for the current fiscal year were focused on reinforcing the production capabilities for existing products and on maintaining/ renovating equipment and facilities. Major expenditures incurred are as follows:

1) Major facilities completed during the current fiscal year

QOL Innovation Center Shirakawa

<< Phase 1 Summary >>

1. Office Building
2. Production Facilities for oxygen absorbers “Ageless®”
3. Production Facilities for film and sheet
4. Utility Facilities

2) Construction initiated or continuing through the current fiscal year

No applicable items.

(4) Funding

The funds for equipment and facilities as well as for working capital for the current fiscal year were provided by MGC’s own resources and borrowings from financial institutions.

(5) Assets and Earnings Position

1) MGC Group (consolidated basis)

Classification	FY2013 April 2013 – March 2014	FY2014 April 2014 – March 2015	FY2015 April 2015 – March 2016	FY2016 April 2016 – March 2017
Sales (millions of yen)	534,443	529,570	593,502	556,480
Ordinary income (millions of yen)	30,804	42,000	45,432	62,378
Profit attributable to owners of parent (millions of yen)	14,921	43,346	34,134	47,958
Net income per Share (yen)	66.07	191.94	153.85	221.57
Total assets (millions of yen)	657,838	790,784	739,582	741,639
Net assets (millions of yen)	323,858	422,851	423,135	476,749

Note 1: As the standard for recording net sales, MGC and its domestic consolidated subsidiaries had previously used the delivery basis, but from FY2014, have changed that to the inspection method. Figures for FY2013 above contain values that reflect a retroactive application of this change in accounting policy.

Note 2: In applying the equity method to the overseas associated company METANOL DE ORIENTE, METOR, S.A.(METOR), METOR’s financial statements created in compliance with US-GAAP were previously used as a basis, but as of FY2015, METOR’s financial statements created in compliance with IFRS are used as a basis. Figures for FY2014 above contain values that reflect a retroactive application of this change in accounting policy.

Note 3: As of the fiscal year under review, accounting item "Net income" has changed to "Profit attributable to owners of parent" due to application of "Accounting Standard for Business Combinations" (Accounting Standards Board of Japan Statement No. 21, September 13, 2013), etc.

Note 4: With an effective date of October 1, 2016, MGC conducted a reverse stock split for MGC's ordinary shares on a 2:1 basis. As a result, net income per share in the above table is calculated assuming that the reverse stock split had been conducted at the beginning of FY2013.

2) MGC (Non-consolidated basis)

Classification	FY2013 April 2013 – March 2014	FY2014 April 2014 – March 2015	FY2015 April 2015 – March 2016	FY2016 April 2016 – March 2017
Sales (millions of yen)	417,583	385,213	311,118	299,234
Ordinary income (millions of yen)	27,586	46,655	33,908	31,409
Net income (millions of yen)	5,123	42,857	30,868	27,996
Net income per Share (yen)	22.69	189.77	139.13	129.35
Total assets (millions of yen)	397,436	435,857	413,583	426,324
Net assets (millions of yen)	176,853	222,621	229,025	251,521

Note 1: As the standard for recording net sales, MGC had previously used the delivery basis, but from FY2014, has changed that to the inspection method. Figures for FY2013 above contain values that reflect a retroactive application of this change in accounting policy.

Note 2: With an effective date of October 1, 2016, MGC conducted a reverse stock split for MGC's ordinary shares on a 2:1 basis. As a result, net income per share in the above table is calculated assuming that the reverse stock split had been conducted at the beginning of FY2013.

(6) Challenges to Be Resolved

Fiscal 2016 marks the second fiscal year of the medium-term management plan “MGC Advance2017 Big dreams only MGC Group can realize!”. Under the group vision of “creating values to share with society,” Group does not limit itself solely to economic value but aims to create a broader type of value for society.

In “MGC Advance2017,” the Group has set forth five basic policies and will execute every measure to realize big dreams that only MGC Group can realize.

- Medium-term management plan “MGC Advance2017 Big dreams only MGC Group can realize!”

- Basic Strategies

- Enhancing the profitability of existing businesses, especially core businesses
- Restructuring underperforming businesses
- Development and creating new businesses
- Improving group-wide operational efficiency
- Improving total enterprise quality in support of sustainable growth

The Group’s core businesses range from resource energy that provides a base for business, chemical products and materials such as methanol, hydrogen peroxide, polycarbonate and MXDA/MX-Nylon to specialty products such as sheets & films, foamed plastics, electronics chemicals, BT materials and oxygen absorber Ageless®, providing various types of values under the group vision “Creating values to share with society”. By concentrating management resources on these core businesses, the Group will seek to further strengthen its profitability. In the 90th fiscal year, MGC strengthened its production capabilities in the area of specialty polycarbonate resins. In addition, the Group decided to participate in the natural gas-fired power generation project at Soma Port in Fukushima Prefecture, and to reinforce the production capabilities for glycidyl methacrylate.

Regarding the restructuring of unprofitable businesses, the Group is continuing to work towards reforming its business structures in a way that responds to changes in business environment.

Regarding the creation and development of new businesses, in addition to developing specialty polycarbonate resins with high refractive indices and low birefringence and establishing a joint venture for the production of monoclonal antibody pharmaceuticals, the Company participated in a public-private fund that aims to provide support to commercialize promising next generation technologies in the materials and chemicals field.

Concerning improving group-wide operational efficiency, by sharing the vision among the Group, and by building and implementing a unified group strategy, the Group will aim to improve group corporate value.

To improve total enterprise “quality” in support of sustainable growth, it is necessary to improve quality of management in all areas. For this purpose, the Group has established the following priority issues: safe and stable production, strengthening of internal controls and compliance structures, securing and fostering of personnel that will be future leaders of the Group, and realizing a healthy and strong financial structure.

(7) Major Businesses (As of March 31, 2017)

Major products and businesses by segment are as follows:

1) Natural Gas Chemicals Segment	<p>Methanol</p> <p>Methanol/Ammonia Based Chemicals and other Organic Chemicals formalin, ammonia, methylamine and its derivatives, methyl methacrylate, methacrylic acid ester, dimethyl ether, polyols, etc.</p> <p>Energy crude oil, geothermal power generation, etc.</p> <p>Life Science Related Products functional food materials</p>
2) Aromatic Chemicals Segment	<p>Commodity Aromatic Chemicals m-xylene, p-xylene, o-xylene, purified isophthalic acid, phthalic anhydride, plasticizers, etc.</p> <p>Specialty Aromatic Chemicals m-xylenediamine (MXDA), MX-Nylon, aromatic aldehydes, etc.</p> <p>Foamed Plastics foamed polystyrene, foamed polyolefin, etc.</p>
3) Specialty Chemicals Segment	<p>Inorganic Chemicals hydrogen peroxide, super-pure hydrogen peroxide, persulfates, “hybrid chemicals”, chemical polishing agent, etc.</p> <p>Plastic Lens Monomer</p> <p>Engineering Plastics polycarbonate resin, polyacetal resin, polyphenylene ether resin, polycarbonate sheets and films, etc.</p>
4) Information & Advanced Materials Segment	<p>Electronics Materials printed circuit board materials (epoxy resin-based copper-clad laminates, BT resin-based copper-clad laminates), LE sheet for drilling holes in printed circuit boards, printed circuit boards, etc.</p> <p>Oxygen Absorber Ageless®, PharmaKeep®, etc.</p>
5) Other Segment	Insurance Agent, Real Estate, etc.

(8) Principal Places of Business (As of March 31, 2017)

1) MGC

Head Office: 5-2, Marunouchi 2-chome, Chiyoda-ku, Tokyo, Japan

	Name	Location
Branch Offices:	Osaka Branch	Osaka Prefecture
Research Institutes:	Tokyo Techno Park	Tokyo
	Niigata Research Laboratory	Niigata Prefecture
	Hiratsuka Research Laboratory	Kanagawa Prefecture
Plants:	Niigata Plant	Niigata Prefecture
	Mizushima Plant	Okayama Prefecture
	Yokkaichi Plant	Mie Prefecture
	Yamakita Plant	Kanagawa Prefecture
	Kashima Plant	Ibaraki Prefecture

2) Subsidiaries

Company Name	Head Office	Business and Production Site
Kinoe Terminal Co., Ltd.	Tokyo	Hiroshima Prefecture, etc.
Tokyo Shokai, Ltd.	Tokyo	Osaka Prefecture, etc.
Japan Finechem Co., Inc.	Tokyo	Kagawa Prefecture, etc.
Ryoko Chemical Co., Ltd.	Tokyo	Osaka Prefecture, etc.
MGC Electrotechno Co., Ltd.	Tokyo	Fukushima Prefecture
MGC Pure Chemicals America, Inc.	U.S.A.	---
MGC Filsheet Co., Ltd.	Saitama Prefecture	Osaka Prefecture
Thai Polyacetal Co., Ltd.	Thailand	Thailand
Mitsubishi Gas Chemical America, Inc.	U.S.A.	---
Ryoyo Trading Co., Ltd.	Tokyo	Osaka Prefecture, etc.
Mitsubishi Gas Chemical Singapore Pte. Ltd.	Singapore	---
Samyoung Pure Chemicals Co., Ltd.	Korea	Korea
Mitsubishi Gas Chemical Engineering-Plastics (Shanghai) Co., Ltd.	China	---
MGC Pure Chemicals Taiwan, Inc.	Taiwan	---
MGC Pure Chemicals Singapore Pte. Ltd.	Singapore	---
JSP Corporation	Tokyo	Tochigi Prefecture, etc.
Eiwa Chemical Industry Co., Ltd.	Kyoto	Aichi Prefecture, etc.
Marine Transport and Terminal Co., Ltd.	Niigata	---

(9) Number of Employees (As of March 31, 2017)

1) MGC Group (Consolidated)

Segment	Number of Employees	Change from End of FY2014
Natural Gas Chemicals Segment	1,048	(125)
Aromatic Chemicals Segment	3,705	145
Specialty Chemicals Segment	2,193	(7)
Information & Advanced Materials Segment	823	(160)
Other Segments	22	1
Corporate (Shared)	243	4
Total	8,034	(142)

Notes: 1. Only employees working within the Group are included in the headcount (excludes individuals on assignment from the Group to companies outside of the Group and includes individuals on assignment from outside of the Group to companies within the Group).

2. The employees in the Corporate (Shared) segment are individuals who belong to administrative departments that cannot be classified into specific business segments.

2) MGC (Non-Consolidated)

Number of Employees	Change from End of FY2015	Average Age	Average Duration in Employment
2,323	(21)	40 years old and 3 month	17 years and 1 month

Note: Only employees working within MGC are included in the headcount (excludes individuals on assignment from MGC to other companies and includes individuals on assignment from other companies to MGC).

(10) Main Subsidiaries and Affiliates (As of March 31, 2017)

Company	Issued Share Capital (millions of yen)	Ratio of Voting Rights (%)	Principal Business
Kinoe Terminal Co., Ltd.	493	75.5	Storage services for methanol
Tokyo Shokai, Ltd.	200	99.9 (3.2)	Sale of compound resins and electronic materials
Japan Finechem Co., Inc.	274	94.9 (10.1)	Manufacture and sale of organic synthetic chemicals, including polymeric initiators and raw materials for agrichemicals, and electronics parts
Ryoko Chemical Co., Ltd.	100	100.0 (2.5)	Sale of industrial chemicals
MGC Electrotechno Co., Ltd.	500	100.0	Manufacture and sale of printed circuit board materials
MGC Pure Chemicals America, Inc.	(thousands of USD) 5,000	90.0 (20.0)	Manufacture and sale of super pure hydrogen peroxide and other products
MGC Filsheet Co., Ltd.	50	100.0 (45.4)	Manufacture and sale of polycarbonate sheets/films
Thai Polyacetal Co., Ltd.	(millions of THB) 840	70.0	Manufacture and sale of polyacetal resins
Mitsubishi Gas Chemical America, Inc.	(thousands of USD) 1,084	100.0	Sale of chemicals and other products
Ryoyo Trading Co., Ltd.	90	81.7 (58.5)	Sale of chemicals and insurance agency business
Mitsubishi Gas Chemical Singapore Pte. Ltd.	(thousands of USD) 1,161	100.0	Sale of chemicals and other products
Samyoung Pure Chemicals Co., Ltd.	(millions of KRW) 3,500	51.0	Manufacture and sale of super pure hydrogen peroxide and other products
Mitsubishi Gas Chemical Engineering-Plastics (Shanghai) Co., Ltd.	(millions of RMB) 1,504	91.0	Manufacture and sale of polycarbonate resins
MGC Pure Chemicals Taiwan, Inc.	(millions of NTD) 80	85.0	Manufacture and sale of super pure hydrogen peroxide and other products
MGC Pure Chemicals Singapore Pte. Ltd.	(thousands of USD) 7,106	100.0 (10.0)	Manufacture and sale of super pure hydrogen peroxide and other products
JSP Corporation	10,128	54.0 (0.2)	Manufacture and sale of foamed polystyrene and foamed polyolefin
Eiwa Chemical Industry Co., Ltd.	420	90.9	Manufacture and sale of blowing agents, blowing agent activators, and resin processing products
Marine Transport and Terminal Co., Ltd.	400	100.0 (40.0)	Handles shipping cargo of methanol and other chemical products, lorry shipping, pipeline conveyance, and storage
Mitsubishi Engineering-Plastics Corporation	3,000	50.0	Sale and manufacture of engineering plastics
Japan U-Pica Co., Ltd.	1,100	46.1 (8.1)	Manufacture and sale of unsaturated polyester resins, coating resins, and methacrylic acid esters
Japan Saudi Arabia Methanol Co., Inc.	2,310	47.4	Import and sale of methanol, and investment in and finance for foreign companies
Korea Engineering Plastics Co., Ltd.	(millions of KRW) 12,600	40.0	Manufacture and sale of engineering plastics, mainly polyacetal resins
Brunei Methanol Company Sdn.Bhd.	(thousands of USD) 189,400	50.0	Manufacture and sale of methanol

Company	Issued Share Capital (millions of yen)	Ratio of Voting Rights (%)	Principal Business
Tai Hong Circuit Industrial Co., Ltd.	(millions of NTD) 1,104	50.0	Manufacture and sale of printed circuit boards (single-sided boards, double-sided boards, and double layer boards)
Ryoden Kasei Co.,Ltd	300	45.0	Manufacture and sale of electric/electronic related materials and their applied products.
Granopt Co., Ltd.	150	50.0	Manufacture and sale of magneto-optics crystal

Note: The figures in parentheses represent the percentage of voting rights indirectly held by MGC's subsidiaries, included in totals.

(11) Major Creditors (As of March 31, 2017)

Creditor	Balance of Borrowings (millions of yen)
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	23,188
Japan Bank for International Cooperation	11,331
Mitsubishi UFJ Trust and Banking Corporation	10,763
The Norinchukin Bank	10,410
Mizuho Bank, Ltd.	7,810
Meiji Yasuda Life Insurance Company	6,682
Nippon Life Insurance Company	6,379
Development Bank of Japan Inc.	4,575
The Bank of Yokohama, Ltd.	4,250

2. Matters Related to Stock (As of March 31, 2017)

(1) **Authorized Shares** 492,428,000 (Decrease by 492,428,000 from end of FY2015)

(2) **Issued and Outstanding Shares** 241,739,199 (Decrease by 241,739,199 from end of FY2015)

(3) **Number of Shareholders** 19,843 (Decrease by 4,328 from end of FY2015)

(4) **Principal Shareholders** (ten largest shareholders)

Name of shareholder	Investment to MGC	
	Number of Shares Held (thousand Shares)	Percentage to Total Shares Outstanding (%)
Japan Trustee Services Bank, Ltd. (Trust account)	9,242	4.3
Nippon Life Insurance Company	8,795	4.1
The Master Trust Bank of Japan, Ltd. (Trust account)	8,646	4.0
Meiji Yasuda Life Insurance Company	8,397	3.9
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	5,401	2.5
The Norinchukin Bank	5,026	2.3
Asahi Glass Co., Ltd.	4,835	2.2
The Bank Of New York Mellon 140044	3,811	1.8
Japan Trustee Services Bank, Ltd. (Trust account 5)	3,584	1.7
Mitsubishi UFJ Trust and Banking Corporation	3,506	1.6

Notes: 1. MGC holds 25,923 thousand shares of treasury stock, which is not included in the above list of principal shareholders.

2. “Percentage to Total Shares Outstanding” is calculated excluding treasury stock.

※With an effective date of October 1, 2016, MGC conducted a reverse stock split for MGC’s ordinary shares on a 2:1 basis, while also changing the number of authorized shares from 984,856 thousand shares to 492,428 thousand shares. Additionally, on the same date, the trading unit was changed from 1,000 shares to 100 shares.

3. Matters Related to Stock Acquisition Rights (As of March 31, 2017)

(1) **Matters on stock acquisition rights, etc. granted in compensation for the performance of corporate officers’ duties among which corporate officers hold**

No applicable item.

(2) **Matters on stock acquisition rights, etc. granted to employees and others during FY2016 in compensation for the performance of their duties**

No applicable item.

(3) **Other important matters on stock acquisition rights, etc.**

No applicable item.

4. Matters Related to Corporate Officers (As of March 31, 2017)

(1) Directors and Audit & Supervisory Board Members

Position	Responsibility in MGC and important positions concurrently held at other companies, etc.	Name
Representative Director	Chairman	Kazuo Sakai
Representative Director	President	Toshikiyo Kurai
Representative Director	Senior Managing Executive Officer Administrative Management of Finance & Accounting Center and Corporate Communications Division	Kunio Kawa
Representative Director	Senior Managing Executive Officer Administrative Management of Production Technology Division, Environment & Safety Division and Business Strategy Division General Manager of Business Strategy Division	Kenji Inamasa
Director	Managing Executive Officer President of Specialty Chemicals Company	Katsushige Hayashi
Director	Managing Executive Officer President of Information & Advanced Materials Company, and General Manager of Oxygen Absorbers Division, Information & Advanced Materials Company	Masahiro Jono
Director	Managing Executive Officer Deputy Chairperson of Compliance Committee, Administrative Management of Risk Management, Administrative & Personnel Center and Purchasing & Logistics Center	Yasuhiro Sato
Director	Managing Executive Officer Administrative Management of LNG Project Team and President of Natural Gas Chemicals Company Outside Director of Katakura & Co-op Agri Corporation	Masashi Fujii
Director	Managing Executive Officer Chairperson of Internal Control Promotion Committee, Administrative Management of Compliance, Internal Audit Division and Corporate Planning Division	Susumu Yoshida
Director	Managing Executive Officer Administrative Management of Research & Development Division, Advanced Business Development Division, and General Manager, Advanced Business Development Division	Masamichi Mizukami
Director	Director of The Educational Foundation for Tokyo Polytechnic University Professor Emeritus of The University of Tokyo	Yoshimasa Nihei
Director	Chairperson of Japan Society for Human Resource Management	Kazuo Tanigawa

Position	Responsibility in MGC and important positions concurrently held at other companies, etc.	Name
Audit & Supervisory Board Member (Standing)	-	Takashi Kimura
Audit & Supervisory Board Member (Standing)	-	Takayuki Watanabe
Audit & Supervisory Board Member (Standing)	-	Katsuhiko Sugita
Audit & Supervisory Board Member	President of Seiwa Business Link Co. Ltd External Audit & Supervisory Board Member of Keisei Electric Railway Co., Ltd.	Yasuomi Matsuyama

Notes: 1. MGC has adopted the executive officer system.

2. Of the Directors, Messrs. Susumu Yoshida and Masamichi Mizukami and of the Audit & Supervisory Board Members Messrs. Takayuki Watanabe and Katsuhiko Sugita newly assumed their offices as of June 28, 2016.
3. Of the Directors, Messrs. Yoshimasa Nihei and Kazuo Tanigawa are Outside Directors as stipulated in Article 2, Item 15 of the Companies Act.
4. Of the Audit & Supervisory Board Members, Messrs. Takashi Kimura and Yasuomi Matsuyama are Outside Audit & Supervisory Board Members as stipulated in Article 2, Item 16 of the Companies Act.
5. Audit & Supervisory Board Member, Mr. Takashi Kimura, has been involved with financial institutions for a number of years, and has experience in corporate management as a manager, and possesses a considerable degree of knowledge regarding finance and accounting.
6. Audit & Supervisory Board Member, Mr. Katsuhiko Sugita, has been involved in the Finance Department of MGC for a number of years, and has experience in management through his role in administrative management of the Finance & Accounting Division, and possesses a considerable degree of knowledge regarding finance and accounting.
7. MGC has registered Directors, Messrs. Yoshimasa Nihei and Kazuo Tanigawa, and Audit & Supervisory Board Members, Messrs. Takashi Kimura and Yasuomi Matsuyama, as independent directors/auditors at Tokyo Stock Exchange, Inc.
8. There is no material business relation between MGC and the other companies, etc. in which Director, Mr. Yoshimasa Nihei, serves concurrently.
9. There is no material business relation between MGC and the other companies, etc. in which Director, Mr. Kazuo Tanigawa, serves concurrently.
10. There is no material business relation between MGC and the other companies, etc. in which Audit & Supervisory Board Member, Mr. Yasuomi Matsuyama, serves concurrently.
11. Corporate Officers who have retired during the current fiscal year are as follows:
Representative Director Mr. Katsuhiko Sugita
(Retired upon expiry of the term of office on June 28, 2016)
Director Mr. Yoshihiro Yamane
(Retired upon expiry of the term of office on June 28, 2016)
Audit & Supervisory Board Members Mr. Kunio Oya
(Retired upon resignation on June 28, 2016)
Audit & Supervisory Board Members Mr. Jin Hata
(Retired upon expiry of the term of office on June 28, 2016)
12. Effective from April 1, 2017, "Responsibility in MGC and important positions concurrently held at other companies, etc." changed as follows.

Position	Responsibility in MGC and important positions concurrently held at other companies, etc.	Name
Director	—	Katsushige Hayashi
Director	Managing Executive Officer Chairperson of Internal Control Promotion Committee,	Yasuhiro Sato

	Administrative Management of Compliance, Risk Management, Internal Audit Division, Corporate Planning Division, Administrative & Personnel Center and Purchasing & Logistics Center	
Director	Managing Executive Officer President of Specialty Chemicals Company	Susumu Yoshida
Director	Managing Executive Officer Deputy Chairperson of Compliance Committee, Administrative Management of Research & Development Division and Advanced Business Development Division	Masamichi Mizukami

(2) Total of Compensation and Other Amounts Related to Corporate Officers During the Fiscal Year

Classification	Number	Amount of Compensation, etc. (millions of yen)
Directors	14	489
Audit & Supervisory Board Members	6	85
Total	20	574
(Outside Corporate Officers [included above])	(4)	(52)

Note: The amount of compensation and other benefits to Directors during the fiscal year under review includes ¥96 million provision for reserved retirement benefits. Such provision includes no amount for Outside Directors, who are outside the scope of the reserved retirement benefits system.

(3) Policies and Methods for Deciding Compensation and Other Benefits of Corporate Officers

1) Directors' Compensation

Compensation to Directors (excluding Outside Directors) consists of monthly compensation which is the total of a basic compensation decided in accordance with each Director's position and duties and performance-based compensation reconsidered every fiscal year and reserved retirement benefit. Reserved retirement benefit consists of a reserved sum that reflects each Director's performance based on internal rules to be paid in full upon retirement.

In addition to these forms of compensation, a bonus amount that is considered appropriate may be paid upon resolution of a General Meeting of Shareholders.

Additionally, to incentivize Directors to share shareholder values and further motivate them to increase medium- to long-term corporate value, guidelines have been created that establish a minimum number of MGC shares to be held and a set amount of Director compensation to be used to contribute to Director share ownership through the acquisition of MGC's shares.

Furthermore compensation proposal is supposed to be discussed in the Compensation and Nominating Committee consisting of the Chairman, the President, and Outside Directors prior to proposal at the Board of Directors.

2) Audit & Supervisory Board Members' Compensation

Audit & Supervisory Board Members' compensation consists only of a basic compensation and is decided among the Audit & Supervisory Board Members within the amount stipulated by the General Meeting of Shareholders.

(4) Matters Related to Outside Corporate Officers

1) Relations between MGC and Other Companies in which Officers Concurrently Hold Important Positions

The relations between MGC and other companies in which the outside corporate officers concurrently hold important positions are as described in (1).

2) Major Activities of Outside Corporate Officers

Outside Director	Major Activities
Yoshimasa Nihei	Attending 11 of 12 Board of Directors meetings and other important meetings, Mr. Nihei made comments as necessary from an external perspective to ensure appropriate and proper decision-making of MGC, drawing on his advanced expertise concerning industrial chemistry, environmental and safety engineering and other areas, as well as on his extensive experience holding prominent positions in various organizations, including universities and academic societies.
Kazuo Tanigawa	Attending all of 12 Board of Directors meetings and other important meetings, Mr. Tanigawa made comments as necessary from an external perspective to ensure appropriate and proper decision-making of MGC, drawing on his years of experience and knowledge as a manager in a company operating businesses globally.

Outside Audit & Supervisory Board Member	Major Activities
Takashi Kimura	Attending all of 12 Board of Directors meetings and other important meetings, Mr. Kimura made comments from an external perspective, drawing on his long experience with financial institutions and in business management and asked questions and offered advice as a Standing Audit & Supervisory Board Member to ensure the appropriate execution of business by Directors. Further, Mr. Kimura attended all of 14 Audit & Supervisory Board meetings and stated his views and opinions concerning the performance of duties of Audit & Supervisory Board Members including audit method, in addition to exchanging views on audit results and participating in such activities as discussions on important matters related to auditing.
Yasuomi Matsuyama	Attending all of 12 Board of Directors meetings, Mr. Matsuyama made comments as necessary from an external perspective to ensure proper decision-making by the Board of Directors, drawing on his long experience with financial institutions and in business management. Further, Mr. Matsuyama attended all of 14 Audit & Supervisory Board meetings and stated his views and opinions concerning the performance of duties of Audit & Supervisory Board Members including audit method, in addition to exchanging views on audit results and participating in such activities as discussions on important matters related to auditing.

3) General Intent of Limitation of Liability Agreement

MGC has entered into a Limitation of Liability Agreement with each Outside Corporate Officers to limit their liabilities pursuant to Article 423 Paragraph 1 of the Companies Act to the amount stipulated in Article 427 Paragraph 1 of said Act.

5. Matters Related to Independent Auditor

(1) Name of Independent Auditor

BDO Toyo & Co.

(2) Amounts of Fee and Other Payments Made to Independent Auditor in FY2016

1) Fee for the audit performed as stipulated in Article 2 Paragraph 1 of the Certified Public Accountants Law	¥62 million
2) Aggregate amount of cash and other monetary payments made by MGC and MGC's subsidiaries	¥67 million

Notes: 1. The fee for audit pursuant to the Companies Act and that for audit pursuant to the Financial Instruments and Exchange Act are not differentiated in the Audit Agreement between MGC and Independent Auditor. As such, the amount in 1) includes the amount of the fee and other payments for the audit due pursuant to the Financial Instruments and Exchange Act.

2. Of MGC's main subsidiaries, the financial statements of JSP Corporation and foreign subsidiaries are audited (as stipulated in the Companies Act or Financial Instruments and Exchange Act, including equivalent foreign laws and ordinances) by certified public accountants or accounting firms (including those with equivalent foreign certifications) other than MGC's Independent Auditor.

3. MGC pays consideration to Independent Auditor for duties other than duties prescribed in Article 2, Paragraph 1 of the Certified Public Accountants Act (study and advice on accounting policy etc. related to the transition to International Financial Reporting Standards).

4. The Audit & Supervisory Board agreed to the amount listed above in 1) after confirming the content of the Independent Auditor's audit plan, the state of execution of audit, estimates of audit remuneration, etc. and as a result.

(3) Dismissal and Non-reappointment Policy on Independent Auditors

In the case that any of the items in Article 340, Paragraph 1 of the Companies Act apply to an Independent Auditor, that Independent Auditor's dismissal will be considered, and in the case that their dismissal is judged to be appropriate, the Audit & Supervisory Board will dismiss the Independent Auditor upon the consent of all Audit & Supervisory Board Members.

Also, in the case that the Audit & Supervisory Board recognizes that it has become difficult for the Independent Auditor to appropriately execute duties, or if otherwise judged necessary, the Audit & Supervisory Board will submit an agenda item regarding the dismissal or nonrenewal of the Independent Auditor to the General Meeting of Shareholders.

6. Resolution on Establishing Systems to Ensure Appropriate Business Operations

In following with the regulations of Article 362, Paragraph 4, Item 6 of the Companies Act, Paragraph 5 of the same Article, and Article 100, Paragraphs 1 and 3 of the Ordinance for Enforcement of the Companies Act, MGC resolved in the Board of Directors meeting with respect to systems to ensure appropriate business operations (Internal Control System). Additionally, the status of the maintenance and operation of internal controls is being reported to the Board of Directors on a yearly basis, and in addition to verifying and resolving upon the appropriateness of this resolution, the Board of Directors also deliberates and resolves upon a basic policy and plans regarding the following year's maintenance and operation of internal controls. The content of internal control resolutions and operational status during FY2016 are as follows.

(1) Content of Resolution on Systems to Ensure Appropriate Business Operations

① Systems for Ensuring Duties of Directors and Employees Are Executed in Compliance with Laws, Regulations, and Articles of Incorporation

- 1) MGC shall view “compliance” as broadly encompassing conformity with laws, regulations, Articles of Incorporation, and internal rules, as well as the conduct of fair, transparent, and free business based on an awareness of corporate responsibility to society, and shall establish “MGC Corporate Behavior Guidelines”, “Compliance Rules”, and “MGC Code of Conduct”.
- 2) Administrative Management of Compliance shall be appointed and a Compliance Advisory Committee chaired by said Officer shall be established as an organization directly under the President. The Compliance Committee shall examine and implement measures to enhance MGC’s compliance systems, as well as provide instructions and supervision regarding compliance.
- 3) In order to detect internal compliance violations and take corrective measures promptly, “Compliance Consultation Desk” shall be established as a means of receiving internal reports from officers, employees, their families, contractors, business partners, and the like.
- 4) In order to eliminate anti-social forces, in addition to clarifying its firm stance against such forces in “MGC Corporate Behavior Guidelines” and “MGC Code of Conduct”, MGC shall promote its policies in each relevant department.
- 5) An Internal Audit Division shall be established to conduct internal audits pursuant to the Internal Audit Rules in addition to auditing by Audit & Supervisory Board Members and by Independent Auditors.
- 6) In order to ensure that MGC and its Group companies construct, maintain and operate internal controls appropriately MGC shall establish an Internal Control Promotion Committee headed by the director responsible for the Internal Audit Division.
- 7) MGC shall issue “MGC Compliance Handbook” and distribute to officers and employees to ensure their understanding of the compliance system, as well as cultivate awareness of compliance through education and training.

② Systems for Ensuring Efficient Execution of Duties by Directors

- 1) MGC shall separate the decision-making, supervision, and business execution functions of the management and implement the Executive Officer system for expeditious decision-making and business execution. At the same time, the company system shall be adopted in the operating divisions to achieve efficient business management by clarifying accountability for performance.
- 2) In order to make decisions on matters that have material effect on MGC based on multifaceted considerations, a Management Council shall be established to deliberate on management policies and an Operations Council shall be established to deliberate on specific execution plans.
- 3) Organization Regulations, Segregation of Duties Rules, and Rules Defining Extent of Authority shall be established to clarify the duties and authorities of Directors to ensure efficient and appropriate execution of duties.
- 4) Performance shall be monitored based on numerical targets clarified through the Group's medium-term management plan, annual budget, and the like.

③ System for Archiving and Managing Information on Execution of Duties by Directors

Information pertaining to the execution of duties by Directors shall be archived and managed in accordance with the Document Control Procedures and other internal rules.

④ Rules and Other Systems for Managing Risk of Loss

- 1) MGC shall establish Risk Management Rules in order to understand and appropriately manage business risks.
- 2) A Risk Management Committee shall be chaired by the Administrative Management of Risk Management and shall be established as an organization directly under the President to identify the status of risk management and provide supervision and instructions on prioritizing risks and devising reduction measures.
- 3) Being a chemical manufacturer, MGC shall engage in responsible care (RC) activities as a voluntary undertaking to ensure environmental protection and safety through the life cycle of chemicals from production to disposal.

⑤ System for Ensuring Appropriate Execution of Business by MGC Group

While valuing the autonomous management of all Group companies and clarifying the managerial accountability of its Board of Directors, MGC has established the following systems that include the maintenance of various regulations to ensure the appropriate execution of business within the MGC Group.

Also regarding the appropriate execution of business within the MGC Group, companies within the Group are controlled through methods including the assignment of officers and the exercise of voting rights as required of the nature of the business, degree of importance, etc.

- In addition to establishing departments responsible for items relating to Group management as well as divisions that supervise individual Group companies, regulations such as Rules on Subsidiaries and Affiliates are maintained and a reporting system is created in order to receive regular and emergency reports from each of the Group companies.

- Regarding Internal Audit Rules, Group companies are also subject to internal audits. Also, regarding Basic Risk Management Rules, risk management conducted by Group companies are also subject to these rules, and instruction and education is carried out so that Group companies will maintain and improve appropriate risk management systems.
- MGC establishes “ MGC Corporate Behavior Guidelines” and “MGC Code of Conduct” as basic policies for the entire Group and seeks from each Group company the maintenance of compliance structures that meet them. Also, MGC's “Compliance Consultation Desk” is also available to the officers and employees of each Group company, as well as their families, contractors, business partners, etc.
- Through medium-term management plan, annual budget, etc. of Group companies, MGC clarifies each company's performance goals and conducts performance management based on these goals. Regarding important business activities performed by Group companies, MGC's supervisory division ensures appropriate decision-making through management discussions, etc.

⑥ Systems for Ensuring Effective Auditing of Audit & Supervisory Board Members

- 1) Matters Related to Employees Assisting with Audit & Supervisory Board Members’ Duties
Employees shall be assigned to assist Audit & Supervisory Board Members with their duties pursuant to consultations with Audit & Supervisory Board Members.
- 2) Matters Related to Independence from Directors of Employees Assisting with Audit & Supervisory Board Members’ Duties
Employees assigned to assist with the duties of Audit & Supervisory Board Members shall engage full time in said assignment and shall not be subject to orders and instructions from Directors. The prior consent of the Audit & Supervisory Board is required for their transfer, appraisal, and disciplinary punishment.
- 3) Matters related to the ensuring of the effectiveness of orders given to employees who assist Audit & Supervisory Board Members in their duties
It is made clear that employees who assist Audit & Supervisory Board Members in their duties are to obey instructions given to them by Audit & Supervisory Board Members, and employees who possess the aptitude for such duties are nominated.
- 4) Matters Related to Reports from Directors and Employees to Audit & Supervisory Board Members
 - i) In the event Directors or employees find violations of laws and regulations or facts and the like that may cause significant damage to MGC, they must report said violations, facts, and the like to the Audit & Supervisory Board Members in accordance with laws, regulations, Compliance Rules, and other internal rules.
 - ii) Directors and employees must report regularly, and promptly in the case of important matters, on the execution status of business operations including internal control of MGC and supervised Group companies, risk management and implementation of compliance to the Audit & Supervisory Board Members, as well as promptly conduct investigations and provide reports in the event Audit & Supervisory Board Members request investigations and reports concerning these status.
 - iii) Directors, Audit & Supervisory Board Members, and employees of Group companies will, based on laws and regulations, quickly conduct surveys and deliver reports in the case that a report is demanded from Audit & Supervisory Board Members.

- iv) The Compliance Committee must promptly report to Audit & Supervisory Board Members the content of consultations and reports involving MGC or Group companies received through “Compliance Consultation Desk”.
- 5) Matters related to the treatment of individuals who make reports, etc. to Audit & Supervisory Board Members
 Individuals responsible for aforementioned reports and surveys as well as those who work together with them, etc. shall not be subject to work reassignment, discrimination, or other unfavorable treatment as a result of that action, and knowledge of this prohibition will be made well-known.
- 6) Matters related costs, etc., resulting from the execution of Audit & Supervisory Board Members' duties
 - i) In order to defray costs that occur as the result of the execution of Audit & Supervisory Board Members' duties, an appropriate budget shall be established each fiscal year based on projected activities.
 - ii) If a request for prepayment or settling of accounts regarding costs necessary for the execution of Audit & Supervisory Board Members' duties is received, MGC shall promptly comply.
 - iii) Even in cases where costs incurred as the result of the execution of Audit & Supervisory Board Members' duties exceed the amount budgeted for each fiscal year, Audit & Supervisory Board Members and the related Directors shall meet and as a rule make considerations to respond to the necessity of those costs.
- 7) Other Systems for Ensuring Effective Auditing of Audit & Supervisory Board Members
 - i) Representative Directors shall arrange for regular exchange of views with Audit & Supervisory Board Members. Further, the Internal Audit Division and the Independent Auditor shall communicate and deliberate with Audit & Supervisory Board Members to ensure the effectiveness of Audit & Supervisory Board Members' operations.
 - ii) Audit & Supervisory Board Members may attend Board of Directors Meetings and other important meetings in order to understand the decision making status regarding important matters and the execution status of business operations, in addition to reviewing important documents and requesting explanations of Directors and employees on the execution of business operations.
 - iii) In the case that the Audit & Supervisory Board requests the use of independent external specialists, MGC shall bear those costs, excepting cases where their use is deemed not necessary to the execution of Audit & Supervisory Board Members' duties.

(2) Summary of Operational Status of Systems to Ensure Appropriate Business Operations

① Systems for Ensuring Duties of Directors and Employees Are Executed in Compliance with Laws, Regulations, and Articles of Incorporation

- 1) MGC seeks to conduct CSR activities and achieve thorough compliance, by emphasizing publication of the “MGC Corporate Behavior Guidelines” Directives for Corporate Actions” etc. by delivering it through the President’s message. Furthermore, the Compliance Advisory Committee met twice during the fiscal year under review, deliberated specific items, and undertook measures to enhance the compliance system. The “Compliance Consultation Desk” ,in addition to the internal desk, has had an external desk established as well, in order to lower the hurdle in making reports.

- 2) The Internal Control Promotion Committee met three times during the fiscal year under review, and deliberated the readiness and operational status of internal controls. Furthermore, after being approved by the Board of Directors, information concerning basic policies and plans relating to internal controls deliberated by the Committee is spread to MGC officers, employees, and all Group Companies.
- 3) Internal audits are performed based on audit plan, and measures are undertaken to maintain the proper performance of duties. Items designated by internal audits are responded to within timeframes established by the audited division.
- 4) To eliminate anti-social forces, in addition to the creation of a response manual and spreading information internally, when entering into contracts with outside parties, MGC seeks a pledge that the party is not an anti-social force, and contracts can be nullified, etc. if it is later determined that the party is an anti-social force.

② Systems for Ensuring Efficient Execution of Duties by Directors.

- 1) MGC is working to reinforce the management execution system and strengthen its governance through clearly defining the functions and responsibilities of management, by placing an Executive Officer system that makes prompt decision-making possible, and allows the Board of Directors to concentrate on making decisions on the most important business matters and conduct supervision over business execution.

Regarding matters that have material effect on MGC, decisions are made via considerations through multifaceted deliberations at a Management Council that deliberates on management policies and at an Operations Council that deliberates on specific execution plans, and the advice of attorneys and other professionals is received as needed.

- 2) Based on the medium-term management plan and annual budget, performance is regularly monitored.
- 3) Duties and authorities of Directors, officers and employees are reviewed on a yearly basis to work toward ensuring efficient and appropriate execution of duties.

③ System for Archiving and Managing Information on Execution of Duties by Directors

Information pertaining to the execution of duties by Directors is archived and managed in accordance with the Document Control Procedures and other internal rules through the creation of management registers and their archival for an established length of time.

④ Rules and Other Systems for Managing Risk of Loss

- 1) Standards, By-Laws, and an Operational Manual, etc. have been established under the Risk Management Rules as systems to manage risk during ordinary periods and emergencies. Additionally, the Risk Management Committee met three times during the fiscal year under review, providing supervision and instructions on the status of risk management.
- 2) In addition to voluntary responsible care (RC) activities, in accordance with policies established at environmental safety meetings attended by all Directors, MGC strives to protect the environment and maintain safety, and continuously repeats the PDCA cycle for the protection of the environment and maintenance of safety, including confirming the progress of activities with internal audits.

⑤ System for Ensuring Appropriate Execution of Business by MGC Group

- 1) Based on regulations such as Rules on Subsidiaries and Affiliates, Group companies are managed through supervisory divisions, and regular reports on management status, etc. are received from Group companies. Additionally, a reporting system has been created for times of emergency. While a medium-term management plan and annual budget that include Group

companies are formulated and performance management is being conducted, MGC aims to ensure appropriate decision-making through the assignment of officers, etc.

- 2) To ensure the appropriate execution of business within MGC Group companies and enhance risk management, the Internal Audit Division systematically conducts internal audits at major Group companies, and through a supervisory division the Risk Management Committee strives to maintain and enhance each Group company's risk management system. Additionally, MGC states that the "Compliance Consultation Desk" is available for use by all individuals involved in the Company Group's business activities.

⑥ Systems for Ensuring Effective Auditing of Audit & Supervisory Board Members

- 1) Aside from attending meetings of the Board of Directors, Executive Officers, and other important committees, Audit & Supervisory Board Members exchange opinions with Representative Directors and the Board of Directors, receives reports from each department, and periodically conducts onsite audits of key subsidiaries. Furthermore, Audit & Supervisory Board Members strive to enhance the effectiveness of audits, including by exchanging opinions with the head of the Internal Control Promotion Division and Independent Auditor.
- 2) Through various committees related to internal control, risk management and compliance, reports are provided to Audit & Supervisory Board Members, on the status of business execution, etc. Also, consultations and reports discussed with "Compliance Consultation Desk" are quickly reported, and it has come to be well understood that unfavorable treatment of individuals who make reports is prohibited.
- 3) Staff dedicated to audit functions based on instructions from Audit & Supervisory Board Members are placed, and all costs required for business activity audits are defrayed.

7. Policy on Appropriation of Retained Earnings, etc.

The MGC Group places the improvement of corporate value through business expansion and growth as a challenge of the greatest importance, takes into consideration investment and lending plans, financial health, and future business trends in order to realize future business growth, and works to achieve an optimal allotment of retained earnings and returns to shareholders. Retained earnings are allotted to be used as investment and lending funds for business expansion and growth and to strengthen the corporate structure. Regarding dividends, the decision to continue steady dividends is made taking into account trends in business results, while regarding the purchase of treasury stock, in order to enhance returns to shareholders and improve capital efficiency, MGC's basic policy is to consider the market environment, etc. while conducting such purchases in a flexible manner.

The year-end dividend payout for FY2016 was ¥22 per share (an increase of ¥6 per share when taking the reverse stock split on a 2:1 basis conducted on October 1, 2016 into consideration; or ¥11 per share, an increase of ¥3 per share without taking the reverse stock split into consideration). Since the interim dividend payout was ¥16 when taking into consideration the reverse stock split (¥8 without taking the reverse stock split into consideration), the annual dividend for FY2016 is ¥38 per share (¥19 without taking the reverse stock split into consideration), which resulted in 17.2% of dividend payout ratio on a consolidated basis.

Regarding dividends for next fiscal year, ¥22 per share is planned be the interim dividend, while the year-end dividend is planned to be ¥22 per share.

Consolidated Balance Sheet

(As of March 31, 2017)

(millions of yen)

Account item	Amount	Account item	Amount
(Assets)		(Liabilities)	
Total current assets	326,674	Total current liabilities	188,426
Cash and deposits	75,017	Notes and accounts payable-trade	68,506
Notes and accounts receivable-trade	138,410	Short-term loans payable	74,669
Short-term investment securities	139	Accrued expenses	15,171
Merchandise and finished goods	51,671	Lease obligations	100
Work in process	10,652	Income taxes payable	3,394
Raw materials and supplies	32,306	Deferred tax liabilities	256
Deferred tax assets	5,818	Provision for bonuses	5,351
Other	13,725	Provision for environmental measures	1
Allowance for doubtful accounts	(1,067)	Provision for business structure improvement	132
Total noncurrent assets	414,965	Provision for loss on liquidation of subsidiaries and associates	624
Property, plant and equipment	218,057	Asset retirement obligations	98
Buildings and structures, net	79,594	Other	20,119
Machinery, equipment and vehicles, net	81,147	Total noncurrent liabilities	76,464
Land	38,114	Corporate bonds	10,000
Lease assets, net	546	Long-term loans payable	33,495
Construction in progress	12,233	Lease obligations	447
Other	6,421	Deferred tax liabilities	17,382
Total Intangible assets	8,370	Provision for directors' retirement benefits	387
Goodwill	4,258	Provision for environment measures	271
Lease assets	22	Provision for business structure improvement	1,053
Software	1,722	Other provision	200
Other	2,367	Net defined benefit liability	5,936
Total investments and other assets	188,537	Asset retirement obligations	3,832
Investments in securities	178,913	Other	3,455
Long-term loans receivable	2,658	Total liabilities	264,890
Deferred tax assets	2,161	(Net assets)	
Net defined benefit asset	12	Total shareholders' equity	416,576
Other	5,475	Capital stock	41,970
Allowance for doubtful accounts	(683)	Capital surplus	35,602
		Retained earnings	360,833
		Treasury stock	(21,829)
		Total accumulated other comprehensive income	11,514
		Valuation difference on available-for-sale securities	18,101
		Deferred gains or losses on hedges	(0)
		Revaluation reserve for land	222
		Foreign currency translation adjustments	(6,271)
		Remeasurements of defined benefit plans	(538)
		Non-controlling interests	48,658
		Total net assets	476,749
Total assets	741,639	Total liabilities and net assets	741,639

Consolidated Statement of Income

(From April 1, 2016 to March 31, 2017)

(millions of yen)

Account item	Amount	
Net sales		556,480
Cost of sales		425,231
Gross profit		131,249
Selling, general and administrative expenses		87,486
Operating income		43,762
Non-operating income		
Interest and dividend income	2,213	
Equity in earnings of affiliates	21,074	
Other	2,569	25,857
Non-operating expenses		
Interest expenses	1,346	
Foreign exchange losses	1,219	
Other	4,674	7,240
Ordinary income		62,378
Extraordinary income		
Subsidy income	1,015	
Gain on sales of investment securities	761	
Gain on sales of non-current assets	579	
Compensation income	201	2,557
Extraordinary loss		
Impairment loss	1,124	
Loss on reduction of non-current assets	987	
Loss on business withdrawal	870	
Loss on liquidation of subsidiaries and associates	667	
Loss on sales of investment securities	127	
Loss on disposal of non-current assets	111	3,888
Income before income taxes and minority interests		61,048
Income taxes-current	7,640	
Income taxes-deferred	34	7,675
Net income		53,372
Profit attributable to non-controlling interests		5,414
Profit attributable to owners of parent		47,958

Consolidated Statement of Changes in Net Assets

(From April 1, 2016 to March 31, 2017)

(millions of yen)

	Shareholders' equity					Accumulated other comprehensive income						Non-controlling interests	Total net assets
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Valuation and translation adjustments	Deferred gains or losses on hedges	Revaluation reserve for land	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total of accumulated other comprehensive income		
Balance as of April 1, 2016	41,970	35,603	311,250	(15,566)	373,258	9,816	(3)	222	(4,613)	(1,736)	3,686	46,190	423,135
Changes of items during period													
Dividends of surplus			(6,986)		(6,986)								(6,986)
Profit attributable to owners of parent			47,958		47,958								47,958
Change of scope of consolidation			(16)		(16)								(16)
Change of scope of equity method			8,627		8,627								8,627
Purchase of treasury stock				(6,264)	(6,264)								(6,264)
Disposal of treasury stock		0		0	1								1
Change in treasury shares of parent arising from transactions with non-controlling shareholders		(1)			(1)								(1)
Net changes of items other than shareholders' equity						8,284	3	-	(1,658)	1,198	7,827	2,467	10,295
Total changes of items during the period	-	(0)	49,583	(6,263)	43,318	8,284	3	-	(1,658)	1,198	7,827	2,467	53,614
Balance as of March 31, 2017	41,970	35,602	360,833	(21,829)	416,576	18,101	(0)	222	(6,271)	(538)	11,514	48,658	476,749

In accordance with laws and regulations and Article 15 of the Articles of Incorporation, the Notes to Consolidated Financial Statements are posted on MGC's website (http://www.mgc.co.jp/ir/g_meeting.html) and are not included in this business report.

Independent Auditors' Audit Report on Consolidated Financial Statements (Certified Copy)

INDEPENDENT AUDITORS' REPORT

May 18, 2017

To: The Board of Directors
Mitsubishi Gas Chemical Company, Inc.

BDO Toyo & Co.

Shinichi Nakashio, CPA
Designated Partner,
Engagement Partner

Kiichi Yonebayashi, CPA
Designated Partner,
Engagement Partner

Hiroaki Izawa, CPA
Designated Partner,
Engagement Partner

We have audited the consolidated financial statements of namely, the consolidated balance sheet, the consolidated statement of income, the consolidated statement of changes in net assets and the notes to consolidated financial statements of Mitsubishi Gas Chemical Co., Inc. (the "Company") from April 1, 2016 to March 31, 2017, in accordance with paragraph 4, Article 444 of the Companies Act.

Management's Responsibility for the Financial Statements, etc.

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected and applied depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company and consolidated subsidiaries and the results of its operations for the period covered thereby in conformity with accounting principles generally accepted in Japan.

Conflicts of Interest

We have no interest in the Company which should be disclosed in compliance with the Certified Public Accountants Act.

Non-consolidated Balance Sheet

(As of March 31, 2017)

(millions of yen)

Account item	Amount	Account item	Amount
(Assets)		(Liabilities)	
Total current assets	191,513	Total current liabilities	126,937
Cash and deposits	32,958	Electronically recorded obligations-operating	212
Notes receivable-trade	510	Accounts payable-trade	33,479
Accounts receivable-trade	85,846	Short-term loans payable	62,483
Merchandise and finished goods	25,382	Lease obligations	77
Work in process	6,593	Accrued payable-other	11,316
Raw materials and supplies	16,472	Income taxes payable	854
Prepaid expenses	1,076	Accrued expenses	12,101
Deferred tax assets	4,241	Deposits received	299
Short-term loans receivable	11,993	Provision for bonuses	2,714
Accounts receivable-other	5,456	Provision for environmental measures	1
Other	3,562	Provision for loss on liquidation of subsidiaries and associates	203
Allowance for doubtful accounts	(2,580)	Asset retirement obligations	98
Total noncurrent assets	234,810	Other	3,095
Total property, plant and equipment	107,038	Total noncurrent liabilities	47,865
Buildings, net	25,699	Corporate bonds	10,000
Structures, net	12,584	Long-term loans payable	17,012
Machinery and equipment, net	38,714	Lease obligations	401
Vehicles, net	64	Provision for retirement benefits	3,689
Tools and appliances, net	3,469	Provision for directors' retirement benefits	126
Land	19,131	Provision for environment measures	271
Lease assets, net	478	Provision for business structure improvement	1,036
Construction in progress	6,896	Asset retirement obligations	3,594
Total intangible assets	929	Deferred tax liabilities	9,872
Goodwill	0	Other	1,860
Patent right	4	Total liabilities	174,802
Software	853		
Other	71	(Net assets)	
Total investments and other assets	126,843	Total shareholders' equity	234,448
Investments in securities	51,270	Capital stock	41,970
Stocks and investments in capital of subsidiaries and affiliates	70,373	Total capital surpluses	35,726
Long-term loans receivable	2,402	Legal capital surplus	35,668
Long-term prepaid expenses	279	Other capital surplus	57
Other	2,555	Total earned surpluses	178,582
Allowance for doubtful accounts	(39)	Legal retained earnings	6,999
		Other retained earnings	171,583
		Reserve for mine prospecting	2,530
		Reserve for advanced depreciation of noncurrent assets	2,551
		General reserve	76,500
		Retained earnings brought forward	90,001
		Treasury stock	(21,829)
		Total valuation and translation adjustments	17,072
		Valuation difference on available-for-sale securities	17,072
		Total net assets	251,521
Total assets	426,324	Total liabilities and net assets	426,324

Non-consolidated Statement of Income

(From April 1, 2016 to March 31, 2017)

(millions of yen)

Account item	Amount	
Net sales		299,234
Cost of finished goods sold		243,228
Gross profit		56,006
Selling, general and administrative expenses		38,422
Operating profit		17,583
Non-operating income		
Interest and dividend income	17,242	
Other	1,837	19,080
Non-operating expenses		
Interest expenses	611	
Other	4,643	5,254
Ordinary income		31,409
Extraordinary income		
Subsidy income	874	
Gain on sales of investment securities	761	
Gain on sales of non-current assets	576	
Compensation income	201	
Gain on sales of shares of subsidiaries and associates	190	2,603
Extraordinary loss		
Impairment loss	1,029	
Provision of allowance for doubtful accounts	1,001	
Loss on reduction of non-current assets	874	
Loss on support to subsidiaries and affiliates	801	
Loss on valuation of shares of subsidiaries and associates	545	
Loss on sales of shares of subsidiaries and associates	423	
Provision for loss on liquidation of subsidiaries and associates	203	
Loss on disposal of non-current assets	111	4,990
Income before income taxes		29,022
Income taxes-current	1,989	
Income taxes-deferred	(963)	1,026
Net income		27,996

Non-Consolidated Statement of Changes in Net Assets

(April 1, 2016 to March 31, 2017)

(millions of yen)

	Shareholders' equity												Valuation and translation adjustments	Total net assets
	Capital stock	Capital surplus			Retained earnings						Treasury stock	Total Shareholders' equity	Valuation difference on available-for-sale securities	
		Legal capital surplus	Other capital surplus	Total capital surplus	Legal retained earnings	Other retained earnings				Total retained earnings				
						Reserve for mine prospecting	Reserve for advanced depreciation of noncurrent assets	General reserve	Retained earnings brought forward					
Balance as of April 1, 2016	41,970	35,668	57	35,725	6,999	2,064	2,670	76,500	69,337	157,571	(15,566)	219,701	9,323	229,025
Changes during fiscal year														
Dividends of surplus									(6,986)	(6,986)		(6,986)		(6,986)
Net income									27,996	27,996		27,996		27,996
Reversal of reserve for advanced depreciation of non-current assets							(119)		119	-		-		-
Provision of reserve for mine prospecting						465			(465)	-		-		-
Purchase of treasury stock											(6,264)	(6,264)		(6,264)
Disposal of treasury stock			0	0							0	1		1
Net changes of items other than shareholders' equity													7,749	7,749
Total changes of items during the period	-	-	0	0	-	465	(119)	-	20,663	21,010	(6,263)	14,747	7,749	22,496
Balance as of March 31, 2017	41,970	35,668	57	35,726	6,999	2,530	2,551	76,500	90,001	178,582	(21,829)	234,448	17,072	251,521

In accordance with laws and regulations and Article 15 of the Articles of Incorporation, the Notes to Non-consolidated Financial Statements are posted on MGC's website (http://www.mgc.co.jp/ir/g_meeting.html) and are not included in this business report.

Independent Auditors' Audit Report (Certified Copy)

INDEPENDENT AUDITORS' REPORT

May 18, 2017

To: The Board of Directors
Mitsubishi Gas Chemical Company, Inc.

BDO Toyo & Co.

Shinichi Nakashio, CPA
Designated Partner,
Engagement Partner

Kiichi Yonebayashi, CPA
Designated Partner,
Engagement Partner

Hiroaki Izawa, CPA
Designated Partner,
Engagement Partner

We have audited the financial statements of namely, the balance sheet, the statement of income, the statement of changes in net assets, the notes to financial statements and the supporting schedules of Mitsubishi Gas Chemical Co., Inc. (the "Company") for the 90th business year from April 1, 2016 to March 31, 2017, in accordance with item 1, paragraph 2, Article 436 of the Companies Act.

Management's Responsibility for the Financial Statements, etc.

Management is responsible for the preparation and fair presentation of the financial statements and the related supporting schedules in accordance with accounting principles generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the financial statements and the related supporting schedules that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the financial statements and the related supporting schedules based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and the related supporting schedules are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the related supporting schedules. The procedures selected and applied depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements and the related supporting schedules, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements and the related supporting schedules in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements and the related supporting schedules.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements and the related supporting schedules referred to above present fairly, in all material respects, the financial position and results of operations of Mitsubishi Gas Chemical Company, Inc. applicable to the 90th fiscal year ended March 31, 2017, in conformity with accounting principles generally accepted in Japan.

Conflicts of Interest

We have no interest in the Company which should be disclosed in compliance with the Certified Public Accountants Act.

Audit & Supervisory Board's Audit Report (Certified Copy)

AUDIT REPORT

We, the Audit & Supervisory Board, deliberated and prepared this audit report as follows on the execution of duties by MGC Directors during the 90th business term from April 1, 2016 to March 31, 2017, based on the audit report prepared by each Audit & Supervisory Board Member:

1. Method and Description of Audit by Audit & Supervisory Board Members and Audit by Audit & Supervisory Board

- (1) We determined the audit policy, audit duty assignments and the like, received reports from each Audit & Supervisory Board Member on individual audit status and results, received reports from the Directors and Independent Auditor on the status of the execution of their duties, and requested explanation as necessary.
- (2) Each Audit & Supervisory Board Member conducted the audit by following method as well as we made efforts to collect information and enhance the auditing environment by communicating with the Directors, Internal Audit Division, other employees, and others in accordance with the Audit & Supervisory Board Members' Audit Standards, audit policy, audit duties, and the like as determined by the Audit & Supervisory Board.
 - i) We attended the Board of Directors' Meetings and other important meetings, received reports from Directors, employees and others on the status of execution of their duties, requested explanation as necessary, examined important decision-rendering documents and other documents, and investigated the state of activities and assets at the head office and principal business offices. With respect to subsidiaries, we communicated and exchanged information with the division controlling each subsidiary in MGC, the directors and Audit & Supervisory Board Members of subsidiaries, requested business reports therefrom as necessary, and visited major subsidiaries to investigate the state of activities and assets.
 - ii) With respect to the contents of resolutions of the Board of Directors regarding the development of systems necessary to ensure that the execution of duties by directors complies with laws and regulations and the articles of incorporation, and other systems prescribed by Article 100, paragraph 1 and 3 of Ordinance for Enforcement of the Companies Act as systems necessary to ensure the properness of operations of group of enterprises consisting of stock company and its subsidiaries, and the systems developed based on such resolutions (internal control systems), as stated in the business report, we periodically received reports from the Directors, employees and others, requested explanations as necessary and made opinions, regarding establishment and management of such systems.
 - iii) We monitored and verified that the Independent Auditor maintained its independence and performed its auditing duties adequately, as well as received reports from the Independent Auditor on the performance status of its duties and requested explanations as necessary. We received a notice from the Independent Auditors to the effect that "structures for ensuring that duties are appropriately performed" (matters stipulated in the items under Article 131 of the Regulations on Corporate Accounting) were being improved pursuant to Quality Management Standards for Auditing (October 28, 2005; Business Accounting Council) and requested explanations as necessary.

The business report and its supplementary schedules for this business term, the non-consolidated financial statements (non-consolidated balance sheet, non-consolidated statement of income, non-consolidated statement on changes in net assets and notes to non-consolidated financial statements), their supplementary schedules, and consolidated financial statements (consolidated balance sheet, consolidated statement of income, consolidated statement on changes in net assets and notes to the consolidated financial statements) for this business term were examined based on the foregoing method.

2. Results of Audit

- (1) Audit Result of Business Report, etc.
 - i) The business report and its supporting schedules are recognized as correctly presenting

the state of MGC in accordance with the laws, regulations and the Articles of Incorporation.

ii) No dishonest acts or material violations of laws, regulations or the Articles of Incorporation were recognized in connection with the performance by Directors of their duties.

iii) We acknowledge that the Board of Directors' resolutions with respect to the internal control systems are appropriate. We also acknowledge that in terms of the development and maintenance of said systems, continuous improvements are being made and therefore, did not find any matter to be mentioned regarding such internal control systems.

(2) Audit Result of Non-Consolidated Financial Statements and Their Supplementary Schedule
We are of the opinion that the method and results of the audit performed by the Independent Auditor, BDO Toyo & Co., are appropriate.

(3) Audit Result of Consolidated Financial Statements
We are of the opinion that the method and results of the audit performed by the Independent Auditor, BDO Toyo & Co., are appropriate.

May 25, 2017

Mitsubishi Gas Chemical Company, Inc. Audit & Supervisory Board

Standing Audit & Supervisory Board Member
(Outside Audit & Supervisory Board Member)
Takashi Kimura

Standing Audit & Supervisory Board Member
Takayuki Watanabe

Standing Audit & Supervisory Board Member
Katsuhiko Sugita

Outside Audit & Supervisory Board Member
Yasuomi Matsuyama

- END -