Corporate Report 2018

Financial Section

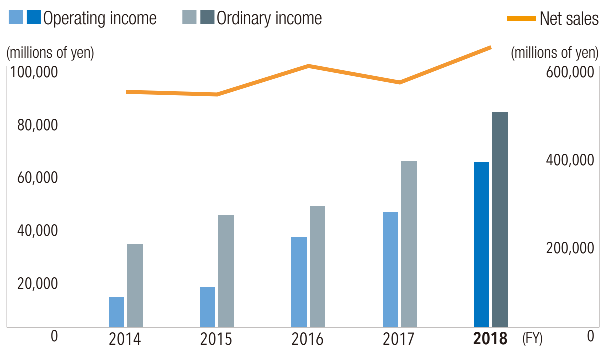
Consolidated Financial Summary

Mitsubishi Gas Chemical Company, Inc. and Consolidated Subsidiaries
For the years ended March 31

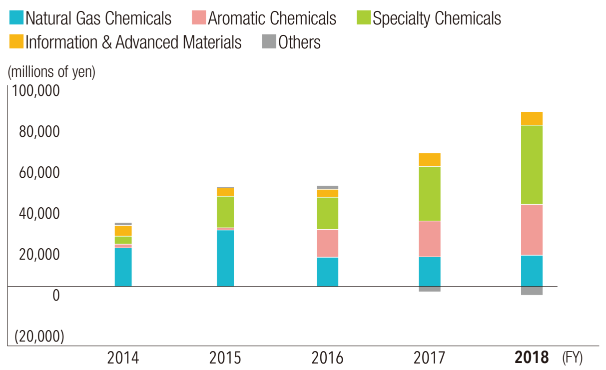
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2018
Operating results (Millions of yen)												(Thousands of U.S. dollars)*2
Net sales	¥519,329	447,647	384,528	451,033	452,217	467,979	534,443	529,570	593,502	556,480	**635,909**	**$ 5,985,589**
Operating income	47,366	(3,103)	4,090	23,363	9,083	11,421	11,488	14,996	34,018	43,762	**62,741**	**590,559**
Ordinary income	61,759	6,975	7,365	36,394	26,116	27,651	30,804	42,000	45,432	62,430	**80,711**	**759,704**
Net income attributable to owners of the parent	40,209	7,014	5,827	18,950	12,327	(7,793)	14,921	43,346	34,134	48,013	**60,531**	**569,757**
Equity in earnings of affiliates	21,312	14,706	8,794	17,873	20,532	19,045	20,466	27,895	16,683	21,125	**18,277**	**172,035**
Financial position (Millions of yen)												(Thousands of U.S. dollars)*2
Current assets	¥268,659	215,298	218,082	244,522	254,037	261,397	287,642	372,166	341,237	326,674	**391,009**	**$ 3,680,431**
Total assets	601,386	530,592	539,431	577,045	595,250	613,908	657,838	790,784	739,582	738,188	**792,489**	**7,459,422**
Current liabilities	213,530	161,088	160,297	182,527	193,464	195,438	178,897	225,068	214,676	188,426	**207,078**	**1,949,153**
Net assets	312,021	272,083	278,094	288,257	292,111	294,895	323,858	422,851	423,135	473,370	**519,144**	**4,886,521**
Interest-bearing debt	150,573	174,934	165,848	182,679	185,185	182,644	204,489	215,614	181,427	118,713	**106,964**	**1,006,815**
Cash flows (Millions of yen)												(Thousands of U.S. dollars)*2
Operating activity cash flow	¥ 40,394	49,027	31,326	39,773	37,348	31,169	27,182	76,982	84,671	82,711	**90,720**	**$ 853,916**
Investing activity cash flow	(20,907)	(41,253)	(33,662)	(24,626)	(37,274)	(30,818)	(29,883)	(23,531)	(31,922)	(31,119)	**(33,614)**	**(316,397)**
Financing activity cash flow	(22,251)	11,541	(15,354)	(1,849)	(9,876)	(14,356)	7,124	(25,005)	(47,335)	(60,217)	**(33,038)**	**(310,975)**
Total cash and cash equivalents at end of year	37,235	53,065	36,048	46,768	35,701	26,907	37,310	72,678	75,828	67,177	**90,304**	**850,000**
Per share data (Yen)												(U.S. dollars)*2
Earnings per share (EPS)*1	¥ 174.02	30.61	25.78	83.85	54.56	(34.50)	66.07	191.94	153.85	221.83	**281.39**	**$ 2.65**
Net assets per share *1	1,308.49	1,171.80	1,191.13	1,230.50	1,246.92	1,256.81	1,382.52	1,672.25	1,707.01	1,967.94	**2,187.99**	**$ 20.60**
Rations (%)												
Operating income margin	9.1	(0.7)	1.1	5.2	2.0	2.4	2.1	2.8	5.7	7.9	**9.9**	**9.9**
Return on equity (ROE)	13.7	2.5	2.2	6.9	4.4	(2.8)	5.0	12.6	9.0	12.0	**13.6**	**13.6**
Return on assets (ROA)	10.2	1.2	1.4	6.5	4.5	4.6	4.8	5.8	5.9	8.4	**10.5**	**10.5**
Equity ratio	50.3	49.9	49.9	48.2	47.3	46.2	47.5	47.8	51.0	57.5	**59.0**	**59.0**
Others (Millions of yen)												(Thousands of U.S. dollars)*2
Capital expenditure	¥ 39,448	35,119	27,567	35,400	42,423	30,982	25,409	22,226	30,512	35,010	**30,959**	**$ 291,406**
Depreciation and amortization	24,521	28,934	29,535	28,950	27,763	23,096	23,528	23,770	26,705	25,631	**27,027**	**254,396**
Research and Development cost	13,562	14,707	16,198	16,380	17,449	15,332	16,122	16,873	18,936	19,267	**18,987**	**178,718**
Number of employees	4,686	4,902	4,920	4,979	5,216	5,323	5,445	8,254	8,176	8,034	**8,009**	**8,009**

*1 With and 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, each amounts per share in the above table are calculated assuming that the reverse stock split had been conducted at the beginning of FY2007.
*2 U.S. dollar amounts are translated from yen, for convenience only, at the approximate rate of ¥106.24= US$1 prevailing on March 31, 2018.

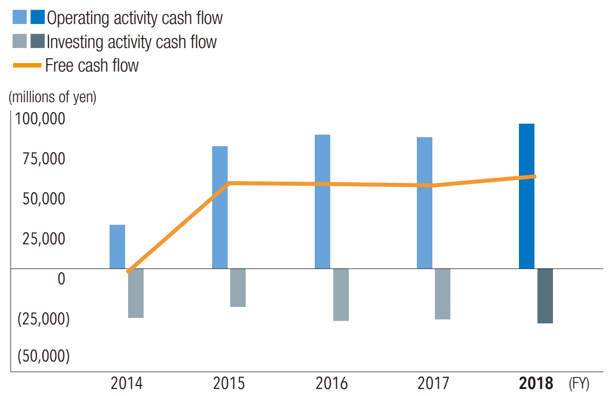
Net sales / Operating income / Ordinary income



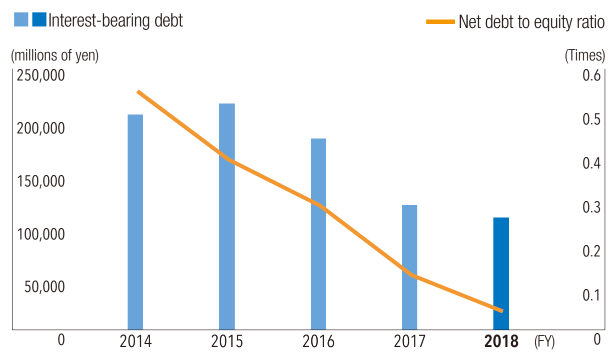
Ordinary income by business segment



Cash flows



Interest-bearing debt / Net debt to equity ratio



Management's Discussion and Analysis

1. Results of Operations

1) Net Sales & Operating Income

In fiscal 2017, MGC Group posted consolidated net sales of ¥635,909 million, a year-on-year increase of 14.3%, and consolidated operating income of ¥62,741 million, a year-on-year increase of 43.4%.

There was a significant increase in revenue and earnings at the Group operating income level, with an increase in sales volume of engineering plastics, chemicals for semiconductors, m-xylene and specialty aromatic chemicals, in addition to that there was also a large improvement in market conditions for methanol, purified isophthalic acid, polycarbonate, methanol derivatives, alongside a weaker yen.

2) Non-operating Revenue

The Group posted non-operating revenue of ¥27,288 million, a year-on-year decrease of 4.1%. This was primarily due to the decrease in equity in earnings of overseas methanol-producing companies.

Non-operating expenses were ¥16,608 million, a year-on-year increase of 49.2%. This was primarily due to the increase in loss on valuation of investment securities.

As a result, net income attributable to owners of the parent was ¥60,531 million, a year-on-year increase of 26.1%.

3) Dividend

The year-end dividend payout for FY2017 was ¥35 per share. Since the interim dividend payout was ¥24, the annual dividend for FY2017 is ¥59 per share.

2. Segment Information

1) Natural Gas Chemicals

Net sales in the natural gas chemicals segment were ¥167,035 million, a year-on-year increase of 16.9%, and segment income was ¥14,928 million, a year-on-year increase of 4.0%.

The methanol business recorded higher revenue due to a rise in market conditions.

For methanol and ammonia-based chemicals, despite a rise in the price of raw materials, improved market conditions for neopentyl glycol and MMA-related products led to higher revenue and earnings.

Crude oil and other energy sources improved slightly due to higher crude oil prices.

2) Aromatics Chemicals

Net sales in the aromatics chemicals segment were ¥212,050 million, a year-on-year increase of 10.5%, and segment income was ¥25,106 million, a year-on-year increase of 43.2%.

Specialty aromatic chemical products recorded higher revenue and earnings primarily owing to an increase in the sales volume of m-xylenediamine and aromatic aldehydes and a weaker yen.

Commodity aromatic chemical products posted significantly higher revenue and earnings due to the increase in sales volume associated with the restarting of operations of the one series m-xylene production facility that had been suspended, in addition to the significant improvement in market conditions of purified isophthalic acid, which is in increasing demand for PET bottles, especially in emerging countries.

The foamed plastics business achieved higher sales due to product price revision, accompanied by an increase in sales volume and a rise in the price of raw materials, but profit suffered a slight drop due primarily to the rise in raw fuel prices.

3) Specialty Chemicals

Net sales in the specialty chemicals segment were ¥203,561 million, a year-on-year increase of 19.1%, and segment income was ¥38,633 million, a year-on-year increase of 44.1%.

Inorganic chemicals recorded higher revenue and earnings due to higher sales volume of chemicals for semiconductors in line with a market expansion for semiconductors.

The engineering plastics business posted significantly higher revenue and earnings. Major positive factors include substantially improved performance in the polycarbonate market amid continued strong demand primarily in China, in addition to higher sales volume in special polycarbonates and polycarbonate sheets and films.

4) Information & Advanced Materials

Net sales in the information & advanced materials segment were ¥52,735 million, a year-on-year increase of 5.1%, and segment income was ¥6,349 million, a year-on-year increase of 3.6%.

Electronics materials posted higher revenue and earnings due to reasons including strong sales volume of BT materials for semiconductor packages, primarily for memory applications.

Oxygen absorbers such as Ageless posted higher sales volume centered on exports, and lower earnings compared with the previous year due to fixed costs rose from production commencement at a new plant.

5) Other

Net sales in the other business segment were ¥526 million, a year-on-year decrease of 4.9%, and segment income was ¥261 million, a year-on-year decrease of 20.4%.

3. Financial Position

As of March 31, 2018, total consolidated assets were ¥792.4 billion, ¥54.3 billion higher than at the end of the previous fiscal year.

Current assets increased by ¥64.3 billion to ¥391.0 billion. The main causes were increases in cash and deposits and trade notes and accounts receivable.

Noncurrent assets decreased by ¥10.0 billion to ¥401.4 billion primarily due to an decrease in investment securities.

Total liabilities increased by ¥8.5 billion to ¥273.3 billion. Current liabilities increased by ¥18.6 billion primarily due to increases in trade notes and accounts payable. Noncurrent liabilities fell by ¥10.1 billion primarily as a result of reductions in long-term loans payable.

Net assets increased by ¥45.7 billion to ¥519.1 billion. This was attributable primarily to an increase in retained earnings resulting from the reporting of net income attributable to owners of the parent company.

As a result, as of March 31, 2018, the shareholders' equity ratio was 59.0%, compared to 57.5% on March 31, 2017. Net assets per share at the end of the fiscal year were ¥2,187.99, compared to ¥1,967.94 at the end of the previous fiscal year.

4. Cash Flow

As of March 31, 2018, total cash and cash equivalents were ¥90.3 billion, ¥23.1 billion higher than at the end of the previous fiscal year.

1) Operating Activity Cash Flow

Net cash provided by operating activities increased by ¥8.0 billion from the previous year to ¥90.7 billion. This was primarily due to increases in income before income taxes and dividends received from affiliates accounted for by the equity method.

2) Investing Activity Cash Flow

Net cash outflow from investing activities was ¥33.6 billion, an increase of ¥2.4 billion from the previous year. This was primarily due to higher expenditures for the purchase of noncurrent assets.

3) Financing Activity Cash Flow

Net cash outflow from financing activity was ¥33.0 billion, a decrease of ¥27.1 billion from the previous year. This was primarily due to lower expenditures for repayment of long-term debt and redemption of corporate bonds.

5. Capital Expenditure

MGC Group (including MGC and consolidated subsidiaries) capital expenditures for the consolidated fiscal year were ¥30,959 million.

By segment, capital expenditure of ¥6,076 million, ¥11,301 million, ¥11,004 million, ¥1,937 million, and ¥640 million were made in natural gas chemicals, aromatic chemicals, specialty chemicals, information and advanced materials, and other business segments and company-wide assets, respectively.

6. Research and Development

In fiscal 2017, the final year of the MGC Advance 2017 medium-term management plan, we continued working to achieve the Group vision of "creating values to share with society" conducting active research and development aimed at the fundamental objectives of strengthening the earning power of existing businesses, with a focus on core businesses, and creating and developing new businesses.

Together, the four companies' research and development divisions; the Advanced Business Development Division, which serves as the corporate research and development arm; and the Research & Development Division, the corporate support division, created a structure for leveraging synergies, advancing the effort to strengthen the earning power of existing businesses and create new businesses.

The Advanced Business Development Division is accelerating efforts to create business in new fields by engaging in research and development activities through outside partnerships, including participation in investment partnerships, collaboration with venture firms, and joint studies with public-sector research institutions. It also continues to promote commercialization of its own research and development themes, and has announced its entry into the short-range optical routing and factory-grown vegetable businesses.

There are a total of 884 MGC Group research and development personnel, including those in affiliate research and development divisions, making up around 11% of the total workforce. Expenditures on research totaled ¥18,987 million.

Research and development costs by segment were as follows:

Natural Gas Chemicals Company:	¥3,618 million
Aromatic Chemicals Company:	¥5,302 million
Specialty Chemicals Company:	¥4,632 million
Information and Advanced Materials Company:	¥5,434 million

7. Risk Factors

The following are the main foreseeable risks that have the potential to affect MGC Group's operating results, stock price and financial condition. Please note that the following does not represent an exhaustive list of risks. All forward-looking statements in the text are based on the judgment of MGC Group as of the date of submission of financial statements (June 26, 2018).

1) Economic Conditions

The business revenues of MGC Group are affected by economic conditions in the countries and regions where the Group's products are sold. In particular, market-sensitive commodities such as methanol, methanol derivatives, general-purpose aromatic chemicals, and polycarbonate resin are generally prone to declines in sales volume and selling prices during times of economic downturn, which adversely affects MGC Group's operating results and financial condition. In addition, rapid increases in raw material prices could also have an adverse effect on MGC Group's operating results and financial condition.

2) Overseas Business

MGC Group has established subsidiaries and affiliates and conducts manufacturing and sales in Asia, North America, South America, the Middle East and other regions. MGC Group makes large investments in plant and equipment at overseas subsidiaries and affiliates. The Group takes various measures to mitigate risks, but the situation in each country, such as political instability including war, terrorist attacks, and riots, or social or economic turmoil, can cause difficulties for local manufacturing activities, remittance of dividends, and recovery of investment.

Other risks that could have an adverse effect on MGC Group's operating results and financial condition include problems due to differences in legal systems, the possibility of restrictions on investments or nationalization or expropriation of assets by foreign governments, and personnel or labor issues.

3) Business Characteristics

MGC Group manufactures and sells a variety of products ranging from chemical and material products to functional products including those in the information communication and medical- and food-related fields, and conducts its business in a competitive environment. The Group competes mainly on the basis of price in commodity products, and on the basis of categories including price, market trends, quality, function, delivery time and customer service in specialty products and high-value-added products. A rise in the level of competition in these areas could lead to lower selling prices or a decrease in sales volume.

In addition, because of their characteristics, the businesses of MGC Group have risks such as those described below.

For example, MGC Group purchases raw materials including mixed xylene and electric power from outside suppliers. The Group takes measures such as purchasing from various suppliers to reduce the risk that procurement will become impossible. However, the inability of a major supplier to deliver necessary raw materials or other items could be detrimental to the Group's production activities.

Many of MGC Group's manufacturing bases have multiple production facilities that share electricity, water supply, steam, and other utilities. Consequently, if a shared utility at any base shuts down due to an accident or other trouble, the production activities of the entire base could be suspended.

The products manufactured and sold by MGC Group include some products that are sold only to specific customers. MGC Group reduces risks with measures such as entering into long-term supply contracts with these customers; however, sales could decline if customers discontinue using these products.

Electronic material products, for which the electronics industry is the primary customer segment, typically have a short product life and are constantly exposed to competition in technological innovation. Therefore, sales could decline if existing products become obsolete or if new product development is delayed.

For products other than commodity and basic chemicals, including engineering plastics and electronic materials, selling prices could drop and sales volume could decline due to the emergence of alternative products offering the same functions.

MGC Group takes all possible measures to mitigate these risks, but they could have an adverse effect on the Group's operating results and financial condition.

4) Product Defects

As stated earlier, MGC Group is engaged in a wide range of businesses and nearly all of its manufacturing bases conduct production activities in accordance with globally recognized quality management standards and ship products that conform to specifications agreed upon with customers. However, the possibility exists that defective products could be manufactured or shipped. In the event that a product with a quality defect is shipped, MGC Group may have to compensate the customer who used the defective product, users of final products, or others not only for direct damages but also for opportunity loss. In addition, MGC may lose social credibility.

To deal with this type of risk, MGC Group has obtained product liability insurance and other liability insurance.

However, the full amount of the damages for which MGC Group is ultimately liable may not be covered by this insurance, and therefore MGC Group's operating results and financial condition could be adversely affected.

5) Exchange Rate Fluctuations

The Group's business results and financial situation have been affected by exchange rate fluctuations. With regards to the impact of exchange rate fluctuations on transactions in foreign currencies such as imports and exports, MGC Group has, to a degree, hedged risk through forward exchange transactions. However, it is impossible to completely hedge the risk of exchange rate changes. Depending on the trend of exchange rates, there is the possibility of a negative impact on the Group's business results and financial situation such as decreased sales or increased losses.

Financial balance data that is valued in local currencies for MGC Group overseas subsidiaries are translated into yen when creating the Group's consolidated balance sheet. Depending on the exchange rate at the time, MGC Group's business results and financial situation could be adversely affected.

6) Interest Rate Fluctuations

When procuring essential funds, MGC Group considers their terms, financial situation, and financial environment, and determines factors such as the amounts to procure and the period and method of procurement. The Group combines fixed and variable interest rates when procuring funds in order to hedge against future interest rate changes. However, if interest rates rise, the amount of interest payments also rises, which may adversely affect MGC Group's operating results and financial condition.

7) Marketable Security Market Price Fluctuations

MGC Group's assets include market priced marketable securities. If the market prices of the Group's marketable securities were to fall sharply, appraisal losses might occur, adversely affecting the Group's operating results and financial condition.

8) Legal Restrictions

MGC Group handles hazardous chemical substances including poisonous and deleterious substances, hazardous materials and high-pressure gas as part of its business, and is subject to various legal restrictions, both in Japan and overseas, at each stage, including manufacturing, storage, distribution and sale. In addition, with rising environmental awareness worldwide, regulations on chemical substances are becoming increasingly stringent, which could disrupt MGC Group's business activities.

Accordingly, the Group's operating results and financial condition could be adversely affected by penalties, social sanctions, remediation costs and other consequences of the failure of MGC Group to comply with legal regulations related to its business activities as well as restrictions on business that may result in the event of changes in laws and regulations or their interpretation or operation, or the tightening of regulations, and increase in costs to address these changes.

9) Natural Disasters

MGC Group has manufacturing bases not only in Japan but also in the rest of Asia, North America, South America, the Middle East and other regions. The production activities at these bases could be suspended or otherwise disrupted if equipment is damaged or trouble occurs due to the effects of natural disasters such as earthquakes, windstorms and floods. In some cases, material loss or opportunity loss caused by natural disasters may be excluded from the coverage of casualty insurance, and thus could have an adverse effect on MGC Group's operating results and financial condition.

10) Accidents and Disasters

MGC Group routinely handles hazardous chemical substances including poisonous and deleterious substances, hazardous materials and high-pressure gas as part of its business. Although MGC Group makes efforts to ensure maintenance and stable operation of production facilities while doing its best to construct a security and disaster prevention system, explosions, fires, toxic gas leaks or other accidents may occur as a result of equipment malfunction or human error. Such events could not only damage production facilities and harm employees, but also, depending on the circumstances, damage the area surrounding the production facility, harm customers, or cause environmental pollution and other damage. MGC Group takes out fire insurance, profit insurance, oil pollution insurance, liability insurance and other insurance against these risks. However, MGC Group's operating results and financial condition could be adversely affected if this insurance does not cover the full amount of the damages for which MGC Group is ultimately liable.

11) Research and Development

MGC Group conducts basic and applied research to develop new products and processes and improve existing products and processes. Research and development is complex and long-term, and results are uncertain. If MGC Group does not continue to develop new products that are accepted in the market, or if the markets for products newly developed by MGC Group do not grow as much as anticipated, the Group's future operating results and financial condition could be adversely affected.

12) Joint Ventures

MGC Group owns a number of production joint ventures not only in Japan but also overseas including Saudi Arabia, Venezuela, Thailand, China, and South Korea, and procures and sells a variety of other products. Although the Group strives to maintain its profit through joint venture agreements and other business-related agreements, there is no guarantee that the joint venture partners will make decisions that are best for MGC Group or the joint ventures as the Group does not control its joint venture partners. Moreover, these agreements might also not be renewed. Such circumstances could have an adverse effect on MGC Group's operating results and financial condition.

13) Intellectual Property

MGC Group files and obtains patents in Japan and overseas to protect the research findings used in its businesses and licenses. The Group also imposes confidentiality obligations on the parties of numerous patent licensing agreements and technology agreements in an effort to protect intellectual property while striving not to infringe on the rights of others. However, there is a possibility that MGC Group may fail to protect its own right or get involved in a dispute with a third party. Such circumstances could adversely affect the Group's operating results and financial condition.

14) Lawsuits

MGC Group faces the risk of lawsuits and other legal risks in its domestic and overseas businesses. If a major lawsuit were to be filed against the Group in the future and if the verdict were unfavorable, it could have an adverse effect on the Group's operating results and financial condition.

Consolidated Balance Sheet

Mitsubishi Gas Chemical Company, Inc. and Consolidated Subsidiaries
March 31, 2018

Assets

	Millions of yen		Thousands of U.S. dollars (note 2)
	2018	2017	2018
Current assets:			
Cash (note 3)	¥ 101,090	¥ 75,017	$ 951,525
Trade notes and accounts receivable (note 19)	165,606	138,410	1,558,791
Short-term investments (note 4)	121	139	1,139
Inventories	103,753	94,630	976,591
Deferred income taxes (note 9)	6,759	5,818	63,620
Other current assets	14,847	13,725	139,750
Less allowance for doubtful receivables	1,170	1,067	11,013
Total current assets	391,009	326,674	3,680,431
Property, plant and equipment (note 6):			
Buildings and structures	203,544	199,782	1,915,889
Machinery, equipment and vehicles	450,543	449,490	4,240,804
Land	38,458	38,114	361,992
Leased assets	760	807	7,154
Construction in progress	12,347	12,233	116,218
Other	46,923	46,877	441,670
	752,577	747,305	7,083,744
Less accumulated depreciation	531,859	529,248	5,006,203
Net property, plant and equipment	220,717	218,057	2,077,532
Intangible assets, net:			
Goodwill	3,911	4,258	36,813
Leased assets	14	22	132
Software	2,141	1,722	20,152
Other	2,343	2,367	22,054
Net intangible assets	8,411	8,370	79,170
Investments and other assets:			
Investments in securities (notes 4, 5 and 6)	161,391	175,461	1,519,117
Long-term loans receivable	2,632	2,658	24,774
Deferred income taxes (note 9)	2,137	2,161	20,115
Net defined benefit asset (note 8)	1,221	12	11,493
Other investments and other assets (note 5)	5,522	5,475	51,977
Less allowance for doubtful receivables	555	683	5,224
Total investments and other assets	172,350	185,085	1,622,270
Total assets	¥ 792,489	¥ 738,188	$ 7,459,422

See accompanying notes to consolidated financial statements.

Liabilities and Net Assets

	Millions of yen		Thousands of U.S. dollars (note 2)
	2018	2017	2018
Current liabilities:			
Trade notes and accounts payable	¥ 88,720	¥ 68,506	$ 835,090
Short-term debt and current installments of long-term debt (note 6)	71,256	74,770	670,708
Accrued expenses	16,591	15,171	156,165
Accrued income taxes (note 9)	4,133	3,394	38,902
Accrued bonuses	5,422	5,351	51,035
Other current liabilities (note 9)	20,954	21,233	197,233
Total current liabilities	207,078	188,426	1,949,153
Non-current liabilities:			
Long-term debt (note 6)	35,707	43,942	336,098
Net defined benefit liability (note 8)	4,592	5,936	43,223
Provision for directors' retirement benefits (note 8)	339	387	3,191
Deferred income taxes (note 9)	16,640	17,309	156,627
Other non-current liabilities (note 7)	8,986	8,814	84,582
Total non-current liabilities	66,266	76,391	623,739
Total liabilities	273,345	264,817	2,572,901
Stockholders' equity:			
Common stock (note 10): Authorized 492,428,000 shares; issued 231,739,199 and 241,739,199 shares in 2018 and 2017	41,970	41,970	395,049
Additional paid-in capital (note 10)	34,578	35,602	325,471
Retained earnings (note 11)	399,033	357,245	3,755,958
Treasury stock, at cost; 18,135,027, and 25,923,628 shares in 2018 and 2017	(19,966)	(21,829)	(187,933)
Total stockholders' equity	455,616	412,989	4,288,554
Accumulated other comprehensive income:			
Net unrealized gain on other securities (note 4)	17,261	18,101	162,472
Deferred losses on hedges	(0)	(0)	(0)
Surplus on revaluation of land	222	222	2,090
Foreign currency translation adjustments	(7,614)	(6,249)	(71,668)
Remeasurements of defined benefit plans (note 8)	1,878	(351)	17,677
Total accumulated other comprehensive income	11,747	11,722	110,570
Non-controlling interests	51,780	48,658	487,387
Total net assets	519,144	473,370	4,886,521
Commitments and contingencies (note 20)			
Total liabilities and net assets	¥ 792,489	¥ 738,188	$ 7,459,422

Consolidated Statement of Income

Mitsubishi Gas Chemical Company, Inc. and Consolidated Subsidiaries
For the year ended March 31, 2018

	Millions of yen		Thousands of U.S. dollars (note 2)
	2018	2017	**2018**
Net sales (note 19)	**¥ 635,909**	¥ 556,480	**$ 5,985,589**
Cost of sales (note 13)	**481,326**	425,231	**4,530,553**
Gross profit	**154,583**	131,249	**1,455,036**
Selling, general and administrative expenses (notes 12 and 13)	**91,841**	87,486	**864,467**
Operating income	**62,741**	43,762	**590,559**
Other income (expenses):			
Interest income	**485**	423	**4,565**
Dividend income	**2,096**	1,789	**19,729**
Interest expenses	**(1,069)**	(1,346)	**(10,062)**
Equity in earnings of affiliates	**18,277**	21,125	**172,035**
Gain on sale of investments in securities (note 4)	**1,926**	761	**18,129**
Rent expenses	**(1,264)**	(454)	**(11,898)**
Loss on valuation of investments in securities	**(8,297)**	—	**(78,097)**
Provision for loss on guarantees	**(1,088)**	—	**(10,241)**
Loss on liquidation of subsidiaries and affiliates (note 15)	**(162)**	(667)	**(1,525)**
Personnel expenses for seconded employees	**(1,449)**	(1,646)	**(13,639)**
Loss on sale/disposal of property, plant and equipment	**(1,115)**	(634)	**(10,495)**
Impairment loss (note 14)	**(11)**	(1,124)	**(104)**
Other, net	**2,352**	(888)	**22,139**
	10,680	17,337	**100,527**
Profit before income taxes	**73,421**	61,099	**691,086**
Income taxes (note 9)**:**			
Current	**9,330**	7,640	**87,820**
Deferred	**(1,842)**	30	**(17,338)**
	7,487	7,671	**70,473**
Profit	**¥ 65,933**	¥ 53,427	**$ 620,604**
Profit attributable to non-controlling interests	**5,402**	5,414	**50,847**
Profit attributable to owners of parent	**¥ 60,531**	¥ 48,013	**$ 569,757**

See accompanying notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

Mitsubishi Gas Chemical Company, Inc. and Consolidated Subsidiaries
For the year ended March 31, 2018

	Millions of yen		Thousands of U.S. dollars (note 2)
	2018	2017	**2018**
Profit	**¥ 65,933**	¥ 53,427	**$ 620,604**
Other comprehensive income arising during the year (note 16)**:**			
Net unrealized (loss) gain on other securities	**(827)**	8,264	**(7,784)**
Deferred (losses) gains on hedges	**(0)**	3	**(0)**
Foreign currency translation adjustments	**2,102**	(2,192)	**19,785**
Remeasurements of defined benefit plans	**2,204**	2,113	**20,745**
Shares of other comprehensive income of affiliates accounted for by the equity method	**(1,775)**	(297)	**(16,707)**
Total other comprehensive income arising during the year	**1,702**	7,891	**16,020**
Comprehensive income	**¥ 67,636**	¥ 61,319	**$ 636,634**
Comprehensive income attributable to:			
Owners of the parent	**¥ 60,555**	¥ 56,908	**$ 569,983**
Non-controlling interests	**7,080**	4,410	**66,642**

See accompanying notes to consolidated financial statements.

Consolidated Statement of Changes in Net Assets

Mitsubishi Gas Chemical Company, Inc. and Consolidated Subsidiaries
For the year ended March 31, 2018

	Millions of yen												
	Stockholders' equity					Accumulated other comprehensive income							
	Common stock (note 10)	Additional paid-in capital (note 10)	Retained earnings (note 11)	Treasury stock	Total	Net unrealized gain on other securities (note 4)	Deferred losses on hedges	Surplus on revaluation of land	Foreign currency translation adjustments	Remeasure-ments of defined benefit plans (note 8)	Total	Non-controlling interests	Total net assets
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
Cumulative effects of changes in accounting standards at overseas affiliates			(3,392)		(3,392)					(118)	(118)		(3,510)
Restated balances as of April 1, 2016	41,970	35,603	307,858	(15,566)	369,865	9,816	(3)	222	(4,613)	(1,855)	3,568	46,190	419,624
Changes arising during year:													
Cash dividends			(6,986)		(6,986)								(6,986)
Profit attributable to owners of parent			48,013		48,013								48,013
Change of the scope of consolidation			(16)		(16)								(16)
Change of the scope of equity method			8,377		8,377								8,377
Purchase of treasury stock				(6,264)	(6,264)								(6,264)
Disposition of treasury stock		0		0	1								1
Change in treasury stock of parent arising from transactions with non-controlling shareholders		(1)			(1)								(1)
Net changes other than stockholders' equity					—	8,284	3	—	(1,636)	1,503	8,154	2,467	10,622
Total changes during the year	—	(0)	49,387	(6,263)	43,123	8,284	3	—	(1,636)	1,503	8,154	2,467	53,746
Balance as of March 31, 2017	¥ 41,970	¥ 35,602	¥ 357,245	¥ (21,829)	¥ 412,989	¥ 18,101	¥ (0)	¥ 222	¥ (6,249)	¥ (351)	¥ 11,722	¥ 48,658	¥ 473,370
Changes arising during year:													
Cash dividends			**(9,927)**		**(9,927)**								**(9,927)**
Profit attributable to owners of parent			**60,531**		**60,531**								**60,531**
Purchase of treasury stock				**(7,010)**	**(7,010)**								**(7,010)**
Disposition of treasury stock		**0**		**0**	**0**								**0**
Retirement of treasury stock		**(8,873)**		**8,873**									**—**
Transfer to additional paid-in capital from retained earnings		**8,816**	**(8,816)**										**—**
Change in treasury stock of parent arising from transactions with non-controlling shareholders		**(966)**			**(966)**								**(966)**
Net changes other than stockholders' equity						**(839)**	**(0)**	**—**	**(1,365)**	**2,229**	**24**	**3,122**	**3,146**
Total changes during the year	**—**	**(1,024)**	**41,787**	**1,863**	**42,626**	**(839)**	**(0)**	**—**	**(1,365)**	**2,229**	**24**	**3,122**	**45,773**
Balance as of March 31, 2018	**¥ 41,970**	**¥ 34,578**	**¥ 399,033**	**¥ (19,966)**	**¥ 455,616**	**¥ 17,261**	**¥ (0)**	**¥222**	**¥ (7,614)**	**¥ 1,878**	**¥ 11,747**	**¥ 51,780**	**¥ 519,144**

	Thousands of U.S. dollars (note 2)												
	Stockholders' equity					Accumulated other comprehensive income							
	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Total	Net unrealized gain on other securities	Deferred losses on hedges	Surplus on revaluation of land	Foreign currency translation adjustments	Remeasure-ments of defined benefit plans	Total	Non-controlling interests	Total net assets
Balance as of March 31, 2017	$ 395,049	$ 335,109	$ 3,362,622	$ (205,469)	$ 3,887,321	$ 170,378	$ (0)	$ 2,090	$ (58,820)	$ (3,304)	$ 110,335	$ 458,001	$ 4,455,666
Changes arising during year:													
Cash dividends			**(93,439)**		**(93,439)**								**(93,439)**
Profit attributable to owners of parent			**569,757**		**569,757**								**569,757**
Purchase of treasury stock				**(65,983)**	**(65,983)**								**(65,983)**
Disposition of treasury stock		**0**		**0**	**0**								**0**
Retirement of treasury stock		**(83,518)**		**83,518**									**—**
Transfer to additional paid-in capital from retained earnings		**82,982**	**(82,982)**										**—**
Change in treasury stock of parent arising from transactions with non-controlling shareholders		**(9,093)**			**(9,093)**								**(9,093)**
Net changes other than stockholders' equity						**(7,897)**	**(0)**	**—**	**(12,848)**	**20,981**	**226**	**29,386**	**29,612**
Total changes during the year	**—**	**(9,639)**	**393,326**	**17,536**	**401,224**	**(7,897)**	**(0)**	**—**	**(12,848)**	**20,981**	**226**	**29,386**	**430,845**
Balance as of March 31, 2018	**$ 395,049**	**$ 325,471**	**$ 3,755,958**	**$ (187,933)**	**$ 4,288,554**	**$ 162,472**	**$ (0)**	**$ 2,090**	**$ (71,668)**	**$ 17,677**	**$ 110,570**	**$ 487,387**	**$ 4,886,521**

See accompanying notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Mitsubishi Gas Chemical Company, Inc. and Consolidated Subsidiaries
For the year ended March 31, 2018

	Millions of yen		Thousands of U.S. dollars (note 2)
	2018	2017	2018
Cash flows from operating activities:			
Profit before income taxes	¥ 73,421	¥ 61,099	$ 691,086
Adjustments to reconcile profit before income taxes to net cash provided by operating activities:			
Depreciation and amortization	27,027	25,631	254,396
Loss on sale/disposal of property, plant and equipment	1,094	538	10,297
Impairment loss	11	1,124	104
Loss on reduction of non-current assets	—	987	—
Loss on business withdrawal	236	870	2,221
Loss on liquidation of subsidiaries and affiliates	162	667	1,525
Equity in earnings of affiliates	(18,277)	(21,125)	(172,035)
Increase in allowance for doubtful receivables	4	246	38
Increase (decrease) in net defined benefit liability	43	(1,158)	405
Increase (decrease) in provision for directors' retirement benefits	33	(141)	311
Increase in provision for loss on guarantees	1,088	—	10,241
Interest and dividend income	(2,581)	(2,213)	(24,294)
Interest expenses	1,069	1,346	10,062
Gain on sale of short-term investments and investments in securities	(2,146)	(690)	(20,200)
Loss on devaluation of short-term investments and investments in securities	8,327	240	78,379
Increase in trade notes and accounts receivable	(28,607)	(3,930)	(269,268)
Increase (decrease) in inventories	(9,759)	3,948	(91,858)
Increase in trade notes and accounts payable	21,357	8,416	201,026
Other, net	2,443	(2,301)	22,995
Sub total	74,948	73,555	705,459
Interest and dividend received	2,545	2,409	23,955
Dividend received from affiliates accounted for by the equity method	20,008	12,288	188,328
Interest paid	(974)	(1,391)	(9,168)
Income taxes paid	(5,838)	(5,226)	(54,951)
Proceeds from subsidy income	—	1,015	—
Other, net	29	59	273
Net cash provided by operating activities	90,720	82,711	853,916
Cash flows from investing activities:			
Capital expenditures	(36,546)	(32,291)	(343,995)
Proceeds from sale of property, plant and equipment	2,141	875	20,152
Purchase of investments in securities and subsidiaries	(1,548)	(2,308)	(14,571)
Proceeds from sale of investments in securities	4,949	2,482	46,583
(Increase) decrease in long-term loans receivable	(642)	177	(6,043)
Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation	804	—	7,568
Payments for sales of shares of subsidiaries resulting in change in scope of consolidation	—	(313)	—
Other, net	(2,773)	260	(26,101)
Net cash used in investing activities	(33,614)	(31,119)	(316,397)
Cash flows from financing activities:			
Decrease in short-term debt	(7,300)	(4,063)	(68,712)
Proceeds from long-term debt	10,359	1,741	97,506
Payments on long-term debt	(14,143)	(27,828)	(133,123)
Redemption of bonds	—	(15,000)	—
Purchase of treasury stock	(7,010)	(6,266)	(65,983)
Dividends paid to stockholders	(9,927)	(6,986)	(93,439)
Dividends paid to non-controlling stockholders of subsidiaries	(2,024)	(1,654)	(19,051)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(2,883)	—	(27,137)
Other, net	(108)	(158)	(1,017)
Net cash used in financing activities	(33,038)	(60,217)	(310,975)
Effect of exchange rate changes on cash and cash equivalents	(939)	(48)	(8,838)
Increase (decrease) in cash and cash equivalents	23,127	(8,673)	217,686
Cash and cash equivalents at beginning of year	67,177	75,828	632,314
Increase in cash and cash equivalents resulting from change of scope of consolidation	—	22	—
Cash and cash equivalents at end of year (note 3)	¥90,304	¥ 67,177	$ 850,000

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Mitsubishi Gas Chemical Company, Inc. and Consolidated Subsidiaries
For the year ended March 31, 2018

1. Summary of Significant Accounting Policies

(a) Basis of Presenting Consolidated Financial Statements

Mitsubishi Gas Chemical Company, Inc. (the Company) and its domestic subsidiaries maintain their books of account and prepare their financial statements in conformity with financial accounting standards of Japan, and its foreign subsidiaries in conformity with those of the countries of their domicile.

"Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" (ASBJ Practical Issues Task Force (PITF) No. 18, May 17, 2006) and "Practical Solution on Unification of Accounting Policies Applied to Associates Accounted for by the Equity Method" (ASBJ Practical Issues Task Force (PITF) No. 24, March 10, 2008) require that for the preparation of consolidated financial statements, the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should be unified, in principle, and financial statements prepared by foreign subsidiaries in accordance with IFRSs or the generally accepted accounting principles in the United States (U.S. GAAP) tentatively may be used for the consolidation process, however, the items listed in the PITF should be adjusted in the consolidation process so that profit (loss) is accounted for in accordance with Japan GAAP unless they are not material. The Company made necessary modification to the consolidated financial statements according to the PITF.

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations, and in conformity with accounting principles and practices generally accepted in Japan, which may differ in certain respects from accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

In preparing the accompanying consolidated financial statements, certain reclassifications have been made in the financial statements issued domestically in Japan in order to present them in a form which is more familiar to readers outside Japan. In addition, the notes to the consolidated financial statements include information which is not required under accounting principles generally accepted in Japan but is presented herein as additional information.

(b) Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and 70 subsidiaries (71 in 2017). The Company and its consolidated subsidiaries are collectively referred to as "MGC."

All significant intercompany accounts and transactions have been eliminated in consolidation.

JAPAN PIONICS CO., LTD. was excluded from the scope of consolidation due to the sale of the entirety of shares during the year ended March 31, 2018.

Investments in an unconsolidated subsidiary and 15 affiliates (15 in 2017) are accounted for by the equity method.

The Accounting Standards for Consolidation require the control or influence concept for the consolidation scope of subsidiaries and affiliates. Under the control or influence concept, a company in which the parent company or its consolidated subsidiaries, directly or indirectly, are able to exercise control over operations is fully consolidated, and a company over which the parent company and/or its consolidated subsidiaries have the ability to exercise significant influence is accounted for by the equity method.

The difference between the cost and the underlying net assets at the date of investments in subsidiaries or affiliates is allocated to identifiable assets and liabilities based on fair market value at the date of investments.

The unallocated portion of the difference, which is recognized as goodwill, is being amortized using the straight-line method over an expected benefit period by each investment within 20 years.

The fiscal year-ends of 31 consolidated subsidiaries (31 in 2017) are December 31. For consolidation purposes, the Company uses their financial statements as of December 31 with necessary consolidation adjustments made to reflect any significant transactions which occurred between January 1 and March 31.

(c) Cash and Cash Equivalents

For the purpose of the statement of cash flows, MGC considers all highly liquid investments with insignificant risk of changes in value, which have maturities of generally three months or less when purchased, to be cash equivalents.

(d) Short-term Investments and Investments in Securities

Under the Accounting Standards for Financial Instruments, securities are classified into four categories – "trading securities," "held-to-maturity securities," "investments in affiliates" and "other securities." Securities classified as "trading securities" are stated at fair value and unrealized gains or losses are recorded in the consolidated statement of income. Securities classified as "held-to-maturity securities" are stated at amortized cost. Securities classified as "other securities" with fair value are stated at fair value and unrealized gains or losses, net of related taxes, are excluded from earnings and reported as accumulated other comprehensive income in the consolidated balance sheet. Debt classified as "other securities" for which fair value is not available are stated at the amortized cost. Equity securities classified as "other securities" for which fair value is not available are stated at the moving-average cost. Realized gains and losses on the other securities are computed using the moving-average cost. Securities held by the Company are classified as held-to-maturity securities, investments in affiliates and other securities.

(e) Inventories

Inventories held for sale in the ordinary course of business are measured at the lower of cost or net selling value, which is defined as the selling price less additional estimated manufacturing costs and estimated direct selling expenses, determined principally by the average method.

(f) Property, Plant and Equipment

Property, plant and equipment is carried substantially at cost. Depreciation of the property, plant and equipment is provided principally by the straight-line method based on the estimated useful lives.

The estimated useful lives are as follows:

Buildings and structures	7-50 years
Machinery, equipment and vehicles	8-15 years

(g) Intangible Assets

Intangible assets are carried at cost less accumulated amortization. The expenses for internal use computer software are deferred and amortized by the straight-line method over the estimated useful lives (5 years). Intangible assets other than software are deferred and amortized by the straight-line method at rates based on the estimated useful lives of the respective assets.

(h) Impairment of Long-lived Assets

The standard for the impairment of long-lived assets requires that fixed assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

Recognized impairment losses, except for those to be deducted directly from acquisition costs of corresponding fixed assets, are included in accumulated depreciation on the consolidated balance sheet.

(i) Allowance for Doubtful Receivables

An allowance for doubtful receivables is provided at an amount of uncollectible receivables based on historical loss ratios and an amount that takes into consideration the possibility of specific liabilities.

(j) Retirement Benefits

In calculating retirement benefit obligation, the benefit formula basis is used for the method of attributing expected retirement benefits to the periods up to the end of the current fiscal year.

Past service costs are amortized by the straight-line method over a certain period within the average remaining years of service of the eligible employees (10 years) when such past service costs occur.

Actuarial gains and losses are amortized by the declining-balance method over a certain period within the average remaining years of service of the eligible employees (10 years) from the year following the year in which the gains or losses occur.

The Company and certain subsidiaries have unfunded defined benefit pension plans for directors, corporate auditors and executive officers. The provision for the plans has been made in the accompanying consolidated financial statements for the vested benefits to which directors, corporate auditors and executive officers are entitled if they were to retire or sever immediately at the balance sheet dates (See note 8).

(k) Leases

All finance lease transactions are capitalized. Leased assets related to finance lease transactions without title transfer are depreciated on a straight-line method, with the lease periods as their useful lives and no residual value.

(l) Foreign Currency Translation

Under the Accounting Standards for Foreign Currency Transactions, foreign currency transactions are translated into yen on the basis of the rates in effect at the transaction dates, receivables and payables denominated in foreign currencies are translated into yen at the rate of exchange as of the balance sheet dates, and gains or losses resulting from the translation of foreign currencies are credited or charged to income. Assets and liabilities of overseas subsidiaries are translated into yen at the rate of exchange as of the balance sheet date, and revenues and expenses of them are translated into yen using the average rate in the year, and a comprehensive adjustment resulting from translation is presented as “Foreign currency translation adjustments” and “Non-controlling interests” in a component of net assets.

(m) Income Taxes

Income taxes in Japan applicable to the Company and its domestic consolidated subsidiaries consist of corporate tax, inhabitant tax and business tax.

The Accounting Standards for Income Taxes require that deferred income taxes be accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled, and the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

(n) Accrual for Environmental Measures

An accrual for environmental measures is provided at an estimated amount of disposal and transport costs of polychlorinated biphenyl waste based on the handling cost publicized by Japan Environmental Storage & Safety Corporation. The Act of Special Measures for Proper Handling of Polychlorinated Biphenyl Waste requires proper handling of polychlorinated biphenyl waste.

(o) Asset Retirement Obligations

The Company recognized an asset retirement obligation which is statutory or similar obligation with regard to the removal of assets as a liability. An asset retirement obligation is recognized as a liability at the time that the asset is incurred by its acquisition, construction, development or ordinary use. When an asset retirement obligation is recognized as a liability, the asset retirement cost corresponding to it is included in the cost of the relevant asset by the same amount.

(p) Accrued Business Structure Improvement Expenses

The Company provides a reasonably estimated amount of structural reform costs for unprofitable business.

(q) Provision for Loss on Liquidation of Subsidiaries and Affiliates

The Company provides a reasonably estimated amount for loss to be incurred in association with liquidation of subsidiaries and affiliates.

(r) Reclassifications

Certain reclassifications have been made to the prior years’ consolidated financial statements to conform to the presentation used for the year ended March 31, 2018.

(s) Additional Information
(Adoption of IFRS by Overseas Affiliates)

In applying the equity method to the financial statements of Japan Saudi Arabia Methanol Company, Inc. (JSA Methanol), an affiliate of the Company, the equity method was applied to the investments in SAUDI METHANOL COMPANY, an overseas affiliate of JSA Methanol, to recognize the affiliate’s profit and loss, which were included in the financial statements of JSA Methanol. From the fiscal year ended March 31, 2018, JSA Methanol applies the equity method to the financial statements of SAUDI METHANOL COMPANY prepared in accordance with IFRS.

In addition, the Company applies the equity method to the financial statements of Tai Hong Circuit Industrial Co., Ltd., an overseas affiliate of the Company, prepared in accordance with IFRS from the fiscal year ended March 31, 2018.

These changes have been applied retrospectively and the prior year consolidated financial statements have been restated.

As a result, profit before income taxes for the year ended March 31, 2017 increased by ¥51 million ($480 thousand) compared to the amount previously determined before retrospective application. In addition, retained earnings as of April 1, 2016 decreased by ¥3,392 million ($31,928 thousand) reflecting the cumulative effects on the beginning balance of net assets in the prior year.

(t) Accounting Pronouncements Not Yet Adopted

- “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, issued by the Accounting Standards Board of Japan on March 30, 2018)
- “Implementation Guidance on Accounting Standard for Revenue Recognition” (ASBJ Guidance No. 30, issued by the Accounting Standards Board of Japan on March 30, 2018)

The International Accounting Standards Board (IASB) and US Financial Accounting Standards Board (FASB) jointly developed comprehensive revenue recognition standards and issued “Revenue from Contracts with Customers” in May 2014 (IASB’s IFRS 15 and FASB’s Topic 606). Considering that IFRS 15 shall apply to fiscal years beginning on or after January 1, 2018, and Topic 606 shall apply to fiscal years beginning after December 15, 2017, the ASBJ developed a comprehensive accounting standard on revenue recognition and thus issued the accounting standard together with the implementation guidance.

The ASBJ established the accounting standard on revenue recognition by following the basic policies in developing it. The basic policies were: firstly, incorporating the core principle of IFRS 15 as the starting point from the perspective of facilitating comparability among financial statements, which is one of the benefits of ensuring consistency with IFRS 15; secondly, adding alternative treatments, but to the extent not impairing comparability, where consideration should be given to the practice having been used in Japan.

These ASBJ statement and implementation guidance will be applied from the fiscal year beginning on April 1, 2021.

The impact of the application of the Accounting Standard for Revenue Recognition on the consolidated financial statements is currently under evaluation.

2. Financial Statement Translation

The translations of the yen amounts into U.S. dollars are included solely for the convenience of the readers, using the prevailing exchange rate as of March 31, 2018, which was ¥106.24 to U.S. $1. This translation should not be construed as a representation that the amounts shown could be converted into U.S. dollars at such rate.

3. Cash and Cash Equivalents

(a) Reconciliation between “Cash” in the consolidated balance sheet and “Cash and cash equivalents” in the consolidated statement of cash flows as of March 31, 2018 and 2017 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Cash	¥ 101,090	¥ 75,017	$ 951,525
Time deposits with maturities of over three months	(10,907)	(7,979)	(102,664)
Short-term investments	121	139	1,139
Cash and cash equivalents	¥ 90,304	¥ 67,177	$ 850,000

(b) Details of the assets and liabilities of subsidiaries that have been excluded from the scope of consolidation due to sales of share

As of March 31, 2018

JAPAN PIONICS CO., LTD. has been excluded from the scope of consolidation due to the sale of the entirety of shares. The components of assets and liabilities at the time of the sale, the selling price and net proceeds from sales of shares of JAPAN PIONICS CO., LTD. are as follows:

	Millions of yen	Thousands of U.S. dollars
	2018	2018
Current assets	¥ 2,100	$ 19,767
Non-current assets	1,049	9,874
Current liabilities	(1,091)	(10,269)
Non-current liabilities	(3)	(28)
Loss on sales of shares	(1,245)	(11,719)
Selling price of shares	¥ 808	$ 7,605
Cash and cash equivalents	(4)	(38)
Payments for sales of shares of subsidiaries resulting in change in scope of consolidation	¥ 804	$ 7,568

As of March 31, 2017

KOKUKA SANGYO CO., LTD. and its five subsidiaries have been excluded from the scope of consolidation due to sales of a part of shares. The components of assets and liabilities at the time of sales, the selling price and net payments for sales of shares of KOKUKA SANGYO CO., LTD. and its five subsidiaries are as follows:

	Millions of yen
	2017
Current assets	¥ 2,007
Non-current assets	18,249
Current liabilities	(3,481)
Non-current liabilities	(15,418)
Net unrealized gain on other securities	(4)
Non-controlling interests	(339)
Investment account after sale of shares	(675)
Loss on sales of shares	(127)
Selling price of shares	¥ 210
Cash and cash equivalents	(523)
Payments for sales of shares of subsidiaries resulting in change in scope of consolidation	¥ (313)

4. Short-term Investments and Investments in Securities

Balance sheet amount, fair value and gross unrealized gain and loss of held-to-maturity securities with fair value as of March 31, 2018 and 2017 are summarized as follows:

	Millions of yen			
	Balance sheet amount	Gross unrealized gain	Gross unrealized loss	Fair value
March 31, 2018				
Government bond securities	¥ 0	¥ 0	¥ —	¥ 0
	¥ 0	¥ 0	¥ —	¥ 0
March 31, 2017				
Government bond securities	¥ 0	¥ 0	¥ —	¥ 0
	¥ 0	¥ 0	¥ —	¥ 0

	Thousands of U.S. dollars			
	Balance sheet amount	Gross unrealized gain	Gross unrealized loss	Fair value
March 31, 2018				
Government bond securities	$ 0	$ 0	$ —	$ 0
	$ 0	$ 0	$ —	$ 0

Balance sheet amount, acquisition cost, and gross unrealized gain and loss of other securities with fair value as of March 31, 2018 and 2017 are summarized as follows:

	Millions of yen			
	Balance sheet amount	Gross unrealized gain	Gross unrealized loss	Acquisition cost
March 31, 2018				
Equity securities	¥ 48,573	¥ 25,512	¥ (589)	¥ 23,650
Other securities	9	—	(0)	10
	¥ 48,584	¥ 25,512	¥ (589)	¥ 23,661
March 31, 2017				
Equity securities	¥ 52,454	¥ 26,365	¥ (530)	¥ 26,619
Other securities	9	—	(0)	10
	¥ 52,465	¥ 26,365	¥ (530)	¥ 26,629

	Thousands of U.S. dollars			
	Balance sheet amount	Gross unrealized gain	Gross unrealized loss	Acquisition cost
March 31, 2018				
Equity securities	$ 457,201	$ 240,136	$ (5,544)	$ 222,609
Other securities	85	—	(0)	94
	$ 457,304	$ 240,136	$ (5,544)	$ 222,713

Securities classified as other securities for which fair value is not available are unlisted equity securities amounting to ¥4,267 million ($40,164 thousand) and ¥11,405 million as of March 31, 2018 and 2017, respectively.

For the years ended March 31, 2018 and 2017, proceeds from the sale of other securities are ¥4,716 million ($44,390 thousand) and ¥1,960 million, respectively. Gross realized gains are ¥2,066 million ($19,447 thousand) and ¥860 million for the years ended March 31, 2018 and 2017, respectively. Gross realized losses are ¥1 million for the year ended March 31, 2017.

The Company recognized impairment losses on securities of ¥8,327 million ($78,379 thousand) and ¥240 million for the years ended March 31, 2018 and 2017, respectively.

The Company recognizes impairment losses on securities with market value when the market value declines by more than 50 percent. When the market value declines by more than 30 percent but less than 50 percent, the Company recognizes necessary impairment losses as a result of considering the possibility of recovery. The Company recognizes impairment losses on securities without market value when the value declines significantly due to an issuer's financial condition.

5. Investments in Affiliates

The aggregate carrying amounts of investments in affiliates as of March 31, 2018 and 2017 are ¥108,900 million ($1,025,038 thousand) and ¥111,969 million, respectively.

6. Short-term and Long-term Debt

Short-term debt is represented by bank loans which are due within one year. The weighted average interest rate of short-term debt is 0.7% and 0.5% as of March 31, 2018 and 2017, respectively.

Long-term debt as of March 31, 2018 and 2017 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Loans, principally from banks, maturing in installments through 2026 with weighted average interest of 1.37% as of March 31, 2018, partially secured by mortgage of property, plant and equipment and securities	¥ 42,752	¥ —	$ 402,410
Loans, principally from banks, maturing in installments through 2021 with weighted average interest of 1.28% as of March 31, 2017, partially secured by mortgage of property, plant and equipment and securities	—	47,095	—
Lease liabilities maturing in installments through 2025 as of March 31, 2018	478	—	4,499
Lease liabilities maturing in installments through 2023 as of March 31, 2017	—	547	—
Unsecured bonds, due 2021 with interest of 0.572%	10,000	10,000	94,127
	53,230	57,642	501,035
Less current installments:			
Loans	17,423	13,600	163,997
Lease liabilities	100	100	941
	¥ 35,707	¥ 43,942	$ 336,098

Note: The weighted average interest rates on lease liabilities as of March 31, 2017 and 2018 are omitted because lease liabilities were recorded in the consolidated balance sheet based on the total lease payment which includes assumed interests portion.

The aggregate annual maturities of loans after March 31, 2019, are as follows:

	Millions of yen	Thousands of U.S. dollars
Year ending March 31,		
2020	¥ 13,650	$ 128,483
2021	2,813	26,478
2022	5,794	54,537
2023	1,251	11,775

The aggregate annual maturities of bonds after March 31, 2019, are as follows:

	Millions of yen	Thousands of U.S. dollars
Year ending March 31,		
2020	¥ —	$ —
2021	10,000	94,127
2022	—	—
2023	—	—

Property, plant and equipment and securities with a book value as of March 31, 2018 of ¥17,626 million ($165,907 thousand) were mortgaged to secure certain debts.

As is customary in Japan, both short-term and long-term bank loans are under general agreements which provide that security and guarantees for present and future indebtedness will be given upon request of the bank, and that the bank shall have the right, as the obligations become due or in the event of default, to offset cash deposits against obligations due the banks.

7. Asset Retirement Obligations

(a) Asset retirement obligations recognized on the consolidated balance sheet

The Company is obliged to restore its natural gas mining facilities except for mentioned below (b) according to law and land lease contracts. The asset retirement obligations are based on estimated future cash flows for the restorations. The obligations are calculated by using the estimated mine lives of 12 to 76 years and discounted rate of 0.828% to 2.385%.

Asbestos are used in part of fixed assets held by the Company and certain consolidated subsidiaries. The Company is obliged to conduct a special treatment when asbestos are removed. The asset retirement obligations are based on estimated future cash flows for the treatment. The obligations are calculated by using the estimated useful lives of the fixed assets mainly of 8 years and discounted rate mainly of 1.035%.

The Company and certain consolidated subsidiaries are obliged to restore their head offices and plant premises according to leasehold contracts. The asset retirement obligations are based on estimated future cash flows for the restorations. The obligations are calculated by using the estimated lease terms of 31 to 50 years and discounted rate mainly of 2.295%.

The following table provides a total asset retirement obligation for the years ended March 31, 2018 and 2017:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Balance at beginning of year	¥ 3,930	¥ 3,912	$ 36,992
Liabilities incurred due to the acquisition	17	11	160
Accretion expenses	75	66	706
Liabilities settled	(80)	(65)	(753)
Other	—	5	—
Balance at end of year	¥ 3,943	¥ 3,930	$ 37,114

(b) Asset retirement obligations not recognized on the consolidated balance sheet

The Company is obliged to restore its natural gas mining facilities according to law and land lease contracts, and the Company plans to use part of the facilities as storage facilities after mining continuingly. The Company and certain consolidated subsidiaries are obliged to restore their piers and pipelines according to law and lease contracts, and the piers and pipelines can be used for a substantial long-term with appropriate repair. Asset retirement obligations relating to these assets are not recognized because it is extremely difficult to estimate the time of fulfilling the obligations reasonably.

8. Retirement Benefits

MGC has defined retirement benefit plans such as lump-sum retirement benefit plans and defined benefit corporate pension plans, besides defined contribution pension plans.

In addition, the Company has also set up retirement benefit trusts.

Certain consolidated subsidiaries apply the simplified method in computing net defined benefit liability and retirement benefit expenses for their defined benefit corporate pension plans and lump-sum retirement benefit plans.

Defined benefit plans

(a) Reconciliation between retirement benefit obligations at beginning of year and end of year (excluding plans applying the simplified method):

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Retirement benefit obligation at beginning of year	¥ 40,775	¥ 42,432	$ 383,801
Service costs	2,164	2,181	20,369
Interest costs	370	372	3,483
Actuarial gains and losses arising during year	(121)	21	(1,139)
Retirement benefits paid	(1,965)	(4,197)	(18,496)
Other	23	(34)	216
Retirement benefit obligation at end of year	¥ 41,246	¥ 40,775	$ 388,234

(b) Reconciliation between plan assets at beginning of year and end of year (excluding plans applying the simplified method):

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Plan assets at beginning of year	¥ 36,289	¥ 34,943	$ 341,576
Expected return on plan assets	407	460	3,831
Actuarial gains and losses arising during year	2,497	2,003	23,503
Contribution from employer	1,577	1,566	14,844
Retirement benefits paid	(1,366)	(2,665)	(12,858)
Other	33	(18)	311
Plan assets at end of year	¥ 39,438	¥ 36,289	$ 371,216

(c) Reconciliation between net defined benefit liabilities of plans applying the simplified method at beginning of year and end of year:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Net defined benefit liability at beginning of year	¥ 1,438	¥ 1,589	$ 13,535
Decrease due to change of scope of consolidation	—	(80)	—
Retirement benefit expenses	257	293	2,419
Retirement benefits paid	(73)	(291)	(687)
Contribution to plans	(81)	(76)	(762)
Other	22	3	207
Net defined benefit liability at end of year	¥ 1,563	¥ 1,438	$ 14,712

(d) Reconciliation between retirement benefit obligations and plan assets at end of year and net defined benefit asset and defined benefit liability on the consolidated balance sheet:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Funded retirement benefit obligation	¥ 41,230	¥ 40,428	$ 388,084
Plan assets	(41,015)	(37,750)	(386,060)
	¥ 215	¥ 2,678	$ 2,024
Unfunded retirement benefit obligation	3,155	3,246	29,697
Net balance of liability and asset recorded on the consolidated balance sheet	¥ 3,371	¥ 5,924	$ 31,730
Net defined benefit asset	¥ (1,221)	¥ (12)	$ (11,493)
Net defined benefit liability	4,592	5,936	43,223
Net balance of liability and asset recorded on the consolidated balance sheet	¥ 3,371	¥ 5,924	$ 31,730

(e) Retirement benefit expenses and components thereof:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Service costs	¥ 2,164	¥ 2,181	$ 20,369
Interest costs	370	372	3,483
Expected return on plan assets	(407)	(460)	(3,831)
Amortization of actuarial gains and losses	(99)	291	(932)
Amortization of past service costs	81	126	762
Retirement benefit expenses applying the simplified method	257	293	2,419
Other	(41)	—	(386)
Retirement benefit expenses under defined benefit plans	¥ 2,324	¥ 2,805	$ 21,875

(f) Components of items recorded in remeasurements of defined benefit plans in other comprehensive income, before tax, are as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Past service costs	¥ 81	¥ 126	$ 762
Actuarial gains and losses	2,367	2,171	22,280
Total	¥ 2,449	¥ 2,297	$ 23,052

(g) Components of items recorded in remeasurements of defined benefit plans in accumulated other comprehensive income, before tax, are as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Unrecognized past service costs	¥ (76)	¥ 4	$ (715)
Unrecognized actuarial gains and losses	(3,513)	(1,146)	(33,067)
Total	¥ (3,590)	¥ (1,141)	$(33,791)

(h) Plan assets

(i) Components of plan assets

Percentages to total plan assets by major category are as follows:

	2018	2017
Debt securities	36%	31%
Equity securities	42	48
Cash	3	4
Other	19	17
Total	100%	100%

(ii) Determination of expected long-term rate of return on plan assets

The expected long-term rate of return on plan assets is determined considering current and expected allocation of plan assets and current and expected long-term rate of return derived from various components of plan assets.

(i) Actuarial assumptions

	2018	2017
Discount rate	Mainly 0.8%	Mainly 0.8%
Expected long-term rate of return on plan assets	Mainly 2.0%	Mainly 2.5%

Defined contribution plans

The required contribution of MGC to the defined contribution plans amounted to ¥493 million ($4,640 thousand) and ¥471 million as of March 31, 2018 and 2017, respectively.

Directors, corporate auditors and executive officers are not covered by the plans described above. For such persons, the Company and certain subsidiaries had unfunded defined benefit pension plans. Under the plans, directors, corporate auditors and executive officers are entitled to lump-sum payments based on the current rate of pay and length of service when they leave the companies. MGC provides for the amount of the vested benefits to which directors, corporate auditors and executive officers are entitled if they were to retire or sever immediately at the balance sheet dates. As of March 31, 2018 and 2017, the liabilities for retirement and severance benefits related to the plans were ¥339 million ($3,191 thousand) and ¥387 million, respectively.

9. Income Taxes

The Company and its domestic subsidiaries are subject to Japanese corporate, inhabitant and business taxes based on income which, in the aggregate, result in a statutory tax rate of approximately 30.9% in 2018 and 2017.

A reconciliation of the statutory tax rate and the effective tax rate as a percentage of profit before income taxes for the years ended March 31, 2018 and 2017 is as follows:

	2018	2017
Statutory tax rate	30.9%	30.9%
Equity in earnings of affiliates	(7.7)	(10.7)
Dividend income eliminated in consolidation	10.4	8.0
Valuation allowance	(4.7)	(5.7)
Income not credited for tax purposes	(10.6)	(8.1)
Succession of operating loss carryforward associated with liquidation of subsidiaries	(0.0)	(0.2)
Foreign taxes	0.6	1.9
Adjustments of loss on valuation of shares of subsidiaries and associates	(3.9)	(0.3)
Other	(4.9)	(3.2)
Effective tax rate	10.2%	12.6%

Significant components of deferred tax assets and liabilities as of March 31, 2018 and 2017 are as follows:

	Millions of yen 2018	2017	Thousands of U.S. dollars 2018
Deferred tax assets:			
Tax loss carryforward	¥ 8,749	¥ 15,947	$ 82,351
Net defined benefit liability	6,291	6,216	59,215
Devaluation loss on investments in securities	3,273	1,262	30,808
Accrued bonuses	1,559	1,569	14,674
Intercompany profits	1,520	1,720	14,307
Depreciation	605	695	5,695
Impairment loss	3,165	3,254	29,791
Asset retirement obligations	1,247	1,241	11,738
Other	4,001	4,420	37,660
	30,413	36,329	286,267
Valuation allowance	(20,401)	(27,085)	(192,027)
	10,011	9,244	94,230
Deferred tax liabilities:			
Net unrealized gain on other securities	(7,444)	(7,513)	(70,068)
Gain by contributing the assets to the trust	(1,356)	(1,402)	(12,764)
Tax purpose reserves etc. regulated by Japanese tax law	(1,982)	(2,118)	(18,656)
Asset retirement cost	(330)	(357)	(3,106)
Retained earnings of overseas consolidated subsidiaries and others	(4,898)	(5,459)	(46,103)
Other	(1,984)	(1,980)	(18,675)
	(17,997)	(18,832)	(169,399)
Net deferred tax liabilities	¥ (7,985)	¥ (9,587)	$ (75,160)

Net deferred tax assets and liabilities as of March 31, 2018 and 2017 are reflected in the accompanying consolidated balance sheet under the following captions:

	Millions of yen 2018	2017	Thousands of U.S. dollars 2018
Current assets - Deferred income taxes	¥ 6,759	¥ 5,818	$ 63,620
Investments and other assets - Deferred income taxes	2,137	2,161	20,115
Current liabilities - Other current liabilities	(242)	(256)	(2,278)
Non-current liabilities - Deferred income taxes	(16,640)	(17,309)	(156,627)

10. Common Stock

Under the Companies Act, the entire amount of the issue price of shares is required to be designated as stated common stock account although a company in Japan may, by resolution of its Board of Directors, account for an amount not exceeding 50% of the issue price of new shares as additional paid-in capital.

11. Retained Earnings and Dividends

The Companies Act provides that an amount equal to 10% of distributions from retained earnings paid by the Company and its Japanese subsidiaries be appropriated as a legal reserve. No further appropriations are required when the total amount of the additional paid-in capital and the legal reserve equals 25% of their respective stated capital. The Companies Act also provides that additional paid-in capital and legal reserve are available for appropriations by the resolution of the stockholders. Balances of the legal reserve are included in retained earnings in the accompanying consolidated balance sheet.

Cash dividends charged to retained earnings for the years ended March 31, 2018 and 2017 represent dividends paid out during those years. The amount available for dividends is based on the amount recorded in the Company's non-consolidated books of account in accordance with the Companies Act.

(a) Dividends paid during the year ended March 31, 2017

The following was approved by the Board of Directors held on May 26, 2016.

(i) Total dividends	¥3,533 million
(ii) Cash dividends per common share	¥8
(iii) Record date	March 31, 2016
(iv) Effective date	June 9, 2016

The following was approved by the Board of Directors held on November 2, 2016.

(i) Total dividends	¥3,453 million
(ii) Cash dividends per common share	¥8
(iii) Record date	September 30, 2016
(iv) Effective date	December 6, 2016

(b) Dividends paid during the year ended March 31, 2018

The following was approved by the Board of Directors held on May 26, 2017.

(i) Total dividends	¥4,747 million ($44,682 thousand)
(ii) Cash dividends per common share	¥22 ($0.21)
(iii) Record date	March 31, 2017
(iv) Effective date	June 8, 2017

The following was approved by the Board of Directors held on November 1, 2017.

(i) Total dividends	¥5,179 million ($48,748 thousand)
(ii) Cash dividends per common share	¥24 ($0.23)
(iii) Record date	September 30, 2017
(iv) Effective date	December 6, 2017

(c) Dividends to be paid after the balance sheet date but the record date for the payment belongs to the year ended March 31, 2018

The following was approved by the Board of Directors held on May 25, 2018.

(i) Total dividends	¥7,476 million ($70,369 thousand)
(ii) Dividend source	Retained earnings
(iii) Cash dividends per common share	¥35 ($0.33)
(iv) Record date	March 31, 2018
(v) Effective date	June 7, 2018

12. Selling, General and Administrative Expenses

Significant components of selling, general and administrative expenses are as follows:

	Millions of yen 2018	2017	Thousands of U.S. dollars 2018
Freight	¥ 21,047	¥ 19,353	$198,108
Stevedoring and warehouse fee	4,076	4,182	38,366
Salaries	17,574	16,908	165,418
Employees' bonuses	5,599	5,458	52,701
Pension cost	1,168	1,312	10,994
Welfare	3,532	3,400	33,245
Transportation	2,828	2,683	26,619
Depreciation	5,084	4,741	47,854

13. Research and Development Costs

Research and development costs charged to income for the years ended March 31, 2018 and 2017 are ¥18,987 million ($178,718 thousand) and ¥19,267 million, respectively.

14. Long-lived Assets

Year ended March 31, 2018

Impairment loss on long-lived assets was immaterial for the year ended March 31, 2018. The relevant disclosure is, therefore, omitted.

Year ended March 31, 2017

MGC reviewed its long-lived assets for impairment and, as a result, recognized an impairment loss in the amount of ¥1,124 million for the significant asset groups which are as follows:

Location	Usage	Classification	Millions of yen
Niigata City, Niigata prefecture	Natural gas chemicals manufacturing facilities	Buildings, Machinery and equipment, etc.	¥ 1,029

The long-lived assets that are used for business are grouped according to the classification which is used for monitoring the profit and loss continuously under the management accounting system, and the idle assets are grouped individually by each item.

A part of natural gas chemicals manufacturing facilities owned by the Company was written down to a recoverable amount by considering the circumstances of the operation.

The recoverable amount was measured using the value in use and evaluated at the memo value because future cash flows were negative.

Impairment loss on the asset groups consisted of the following:

	Millions of yen 2017
Buildings and structures	¥ 183
Machinery and equipment	766
Other	79
Total	¥ 1,029

Impairment loss on long-lived assets other than the above facilities was immaterial for the year ended March 31, 2017. The relevant disclosure is, therefore, omitted.

15. Loss on Liquidation of Subsidiaries and Affiliates

MGC recorded a loss on liquidation of subsidiaries and affiliates in the amount of ¥162 million ($1,525 thousand) and ¥667 million associated with the liquidation of a consolidated subsidiary for the years ended March 31, 2018 and 2017, respectively.

Components of loss on liquidation of subsidiaries and affiliates for the years ended March 31, 2018 and 2017 are as follows:

	Millions of yen 2018	2017	Thousands of U.S. dollars 2018
Provision for loss on liquidation of subsidiaries and affiliates	¥ 162	¥ 513	$ 1,525

16. Other Comprehensive Income

The reclassification adjustment and the related income tax effects allocated to each component of other comprehensive income for the years ended March 31, 2018 and 2017 are as

	Millions of yen 2018	2017	Thousands of U.S. dollars 2018
Net unrealized (loss) gain on other securities:			
Arising during the year	¥ 782	¥ 12,320	$ 7,361
Reclassification adjustment	(1,714)	(783)	(16,133)
Before tax amount	(932)	11,537	(8,773)
Tax benefit (expense)	104	(3,273)	979
Net-of-tax amount	(827)	8,264	(7,784)
Deferred (losses) gains on hedges:			
Arising during the year	(0)	(0)	(0)
Reclassification adjustment	0	5	0
Before tax amount	(0)	4	(0)
Tax benefit (expense)	0	(1)	0
Net-of-tax amount	(0)	3	(0)
Foreign currency translation adjustments:			
Arising during the year	2,081	(2,192)	19,588
Reclassification adjustment	20	—	188
Net-of-tax amount	2,102	(2,192)	19,785
Remeasurements of defined benefit plans:			
Arising during the year	2,615	1,997	24,614
Reclassification adjustment	(166)	299	(1,563)
Before tax amount	2,449	2,297	23,052
Tax expense	(244)	(184)	(2,297)
Net-of-tax amount	2,204	2,113	20,745
Share of other comprehensive income of affiliates accounted for by equity method:			
Arising during the year	(1,775)	(253)	(16,707)
Reclassification adjustment	—	(44)	—
Net-of-tax amount	(1,775)	(297)	(16,707)
Total other comprehensive income	¥ 1,702	¥ 7,891	$ 16,020

17. Per Share Information

(a) Earnings per share

Earnings per share, and reconciliation of the numbers and the amounts used in the earnings per share computations for the years ended March 31, 2018 and 2017 are as follows:

	Yen		U.S. dollars
	2018	2017	2018
Earnings per share	¥ 281.39	¥ 221.83	$ 2.65

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Profit attributable to owners of parent	¥ 60,531	¥ 48,013	$569,757
Profit not applicable to common stockholders	—	—	—
Profit attributable to common stockholders of parent	¥ 60,531	¥ 48,013	$569,757

	Number of shares	
	2018	2017
Weighted average number of shares outstanding on which earnings per share is calculated	215,117,047	216,444,168

The diluted earnings per share for the years ended March 31, 2018 and 2017 are not presented because there are no dilutive potential shares as of March 31, 2018 and 2017.

(b) Net assets per share

Net assets per share as of March 31, 2018 and 2017 are as follows:

	Yen		U.S. dollars
	2018	2017	2017
Net assets per share	¥2,187.99	¥1,967.94	$ 20.59

18. Leases

Operating lease

Future minimum lease payments required under non-cancellable operating leases as of March 31, 2018 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Within one year	¥ 1,238	¥ 1,368	$11,653
Over one year	2,846	2,485	26,788
	¥ 4,084	¥ 3,854	$38,441

19. Balances and Transactions with Related Party

The Company has a 50% equity ownership in Mitsubishi Engineering-Plastics Corporation as of March 31, 2018 and 2017.

Balances with the company as of March 31, 2018 and 2017 and related transactions for the years then ended are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Balances:			
Trade accounts receivable	¥ 13,089	¥ 8,102	$ 123,202
Transactions:			
Sales	37,670	31,977	354,575

The Company has a 50% equity ownership in BRUNEI METHANOL COMPANY SDN. BHD. as of March 31, 2018 and 2017.

As of March 31, 2018 and 2017, the Company has guaranteed ¥7,001 million ($65,898 thousand) and ¥9,373 million of the company's loans to financial institutions, respectively.

The affiliated company of the Company has a 35% equity ownership in CARIBBEAN GAS CHEMICAL LTD. as of March 31, 2018 and 2017.

As of March 31, 2018 and 2017, the Company has guaranteed ¥17,682 million ($166,434 thousand) and ¥6,719 million of the company's loans to financial institutions.

The condensed financial information of all of 16 affiliates (17 in 2017) accounted for by equity method, including the significant affiliate, Japan Saudi Arabia Methanol Company, Ltd., are as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Total current assets	¥ 205,101	¥ 170,149	$1,930,544
Total non-current assets	216,184	237,979	2,034,864
Total current liabilities	125,081	100,451	1,177,344
Total non-current liabilities	68,886	65,900	648,400
Total net assets	227,318	241,776	2,139,665
Sales	361,599	314,774	3,403,605
Profit before income taxes	73,569	63,337	692,479
Profit	43,652	58,190	410,881

20. Commitments and Contingencies

As of March 31, 2017, MGC was contingently liable with respect to recourse obligations related to trade notes receivable transferred in the amount of ¥9 million.

The Company guarantees certain obligations of its associated companies and employees, etc. As of March 31, 2018 and 2017, guarantees for affiliates and employees, etc. loans amounted to ¥25,160 million ($236,822 thousand) and ¥15,223 million, respectively.

21. Financial Instruments

Conditions of financial instruments

(a) Management policy

MGC raises necessary funds through bank borrowings and issue of bonds in accordance with a funds management plan. Surplus funds are invested in highly safe financial instruments. MGC raises funds through bank borrowings for short-term operating fund. MGC uses derivatives to avoid risks mentioned below and does not enter into derivatives for speculative purposes.

(b) Financial instruments and risks

Trade notes and accounts receivable are exposed to customer's credit risk. Maturities of trade notes and accounts payable are mostly within one year. Part of trade receivables and payables is denominated in foreign currency and is exposed to fluctuation risk of foreign exchange rates. MGC uses foreign exchange contracts to hedge the net position.

Short-term investments and investments in securities are mainly held-to-maturity bonds and equity securities held for business relations and are exposed to market fluctuation risk.

Borrowings, bonds and lease obligations for finance leases are mainly for financing of funds for capital expenditure and operating. Part of the liabilities is with variable interest rate and thus is exposed to interest rate fluctuation risk. MGC uses interest rate swaps to hedge the risk.

MGC uses foreign exchange contracts to hedge future fluctuation of foreign exchange rates of operating receivables and payables and forecasted transactions denominated in foreign currencies, interest rate swaps and currency swaps to hedge future fluctuation of interest rates and foreign exchange rates of borrowings.

Hedge accounting is applied for certain derivative transactions. MGC applies the deferral hedge accounting method for hedge accounting. MGC has entered into forward exchange contracts for receivables and payables and forecasted transactions denominated in foreign currencies, and interest rate swap agreements to manage interest rate exposures on certain borrowings. Hedges for fluctuation risk of foreign exchange rates that meet certain criteria are accounted for using the allocation method. If interest rate swap agreements are used as hedges and meet certain hedging criteria, the difference in amounts to be paid or received on the interest rate swap agreements is recognized over the life of the agreements as an adjustment to interest expense. MGC employs derivative transactions within actual demand and does not hold or issue derivative financial instruments for speculative purposes. The hedge effectiveness is assessed based on the fluctuation ratio of hedged items and hedging instruments by comparing the cumulative market fluctuations or cash flow fluctuations of hedged items and those of related hedging instruments. The Company omits to assess hedge effectiveness of interest rate swaps which qualify for hedge accounting and meet certain criteria.

(c) Financial instruments risk management

(i) Credit risk

To mitigate and quickly capture the collectability issues, sales administration divisions regularly monitor major customers' credit status, and perform due date controls and balance controls for each customer in accordance with trade receivables and credit control rules. Held-to-maturity securities are debt securities readily convertible into cash which are invested in accordance with investment of surplus funds rules.

Maximum risk as of March 31, 2018 and 2017 is represented by the carrying amount of financial assets exposed to credit risk.

(ii) Market risk

The finance departments have executed the transactions with market risk with the director's approval in accordance with the finance rules and the derivatives control rules.

To mitigate the foreign currency fluctuation risk recognized by currency and month, MGC enters into a forward exchange contract for hedging the cash flow fluctuation risk associated with operating receivables and payables and forecasted transactions denominated in foreign currencies and surplus funds. To mitigate the foreign currency and interest rate fluctuation risk, MGC enters into an interest rate swap and a currency swap for hedging the cash flow fluctuation risk associated with borrowings.

MGC regularly monitors a price and an issuer's financial condition, and continuously considers whether MGC holds the short-term investments or the investments in securities except for held-to-maturity bond.

(iii) Liquidity risk

To mitigate the liquidity risk, a finance department prepares and updates a funds management plan as necessary, and maintains an appropriate level of liquidity.

(d) Supplemental explanation regarding fair value of financial instruments

Fair value of financial instruments is measured based on the quoted market price, if available, or reasonably assessed value if a quoted market price is not available. Fair value of financial instruments for which a quoted market price is not available is calculated based on certain assumptions, and the fair value might differ if different assumptions are used. In addition, the contract amount of the derivative transactions described below in **Fair value of financial instruments** does not represent the market risk of the derivative transactions.

Fair value of financial instruments

Balance sheet amount, fair value, and differences as of March 31, 2018 and 2017 are as follows.

Financial instruments, of which it is extremely difficult to measure the fair value, are not included in the table below. (Please see "<2> Financial instruments of which the fair value is extremely difficult to measure.")

March 31, 2018	Millions of yen: Balance sheet amount	Fair value	Differences	Thousands of U.S. dollars: Balance sheet amount	Fair value	Differences
Assets:						
(1) Cash	¥ 101,090	¥ 101,090	¥ —	$ 951,525	$ 951,525	$ —
(2) Trade notes and accounts receivable	165,606	165,606	—	1,558,791	1,558,791	—
(3) Short-term investments and investments in securities	51,968	53,638	1,670	489,157	504,876	15,719
Total assets	¥ 318,665	¥ 320,335	¥ 1,670	$2,999,482	$3,015,201	$ 15,719
Liabilities:						
(1) Trade notes and accounts payable	¥ 88,720	¥ 88,720	¥ —	$ 835,090	$ 835,090	$ —
(2) Short-term borrowings	71,155	71,155	—	669,757	669,757	—
(3) Accrued expenses	16,591	16,591	—	156,165	156,165	—
(4) Bonds	10,000	10,074	74	94,127	94,823	697
(5) Long-term borrowings	25,328	25,965	636	238,404	244,399	5,986
Total liabilities	¥ 211,795	¥ 212,507	¥ 711	$1,993,552	$2,000,254	$ 6,692
Derivative transactions (*):						
Hedge accounting not applied	¥ (124)	¥ (124)	¥ —	$ (1,167)	$ (1,167)	$ —
Hedge accounting applied	—	(9)	(9)	—	(85)	(85)
Total derivative transactions	¥ (124)	¥ (134)	¥ (9)	$ (1,167)	$ (1,261)	$ (85)

March 31, 2017	Millions of yen: Balance sheet amount	Fair value	Differences
Assets:			
(1) Cash	¥ 75,017	¥ 75,017	¥ —
(2) Trade notes and accounts receivable	138,410	138,410	—
(3) Short-term investments and investments in securities	55,633	53,884	(1,749)
Total assets	¥ 269,061	¥ 267,312	¥ (1,749)
Liabilities:			
(1) Trade notes and accounts payable	¥ 68,506	¥ 68,506	¥ —
(2) Short-term borrowings	74,669	74,669	—
(3) Accrued expenses	15,171	15,171	—
(4) Bonds	10,000	10,107	107
(5) Long-term borrowings	33,495	34,011	515
Total liabilities	¥ 201,842	¥ 202,465	¥ 622
Derivative transactions (*):			
Hedge accounting not applied	¥ (60)	¥ (60)	¥ —
Hedge accounting applied	—	(23)	(23)
Total derivative transactions	¥ (60)	¥ (84)	¥ (23)

*Derivative receivables and payables are on net basis. Items that are net payables are shown in parenthesis.

<1> Fair value measurement of financial instruments

Assets:

・Cash and Trade notes and accounts receivable
The carrying amount approximates fair value because of the short maturity of these instruments.

・Short-term investments and Investments in securities
The fair value of equity securities is calculated by quoted market price and the fair value of bond securities is estimated based on quotes from counterparties. Please see note 4 Short-term Investments and Investments in Securities for information by category.

Liabilities:

・Trade notes and accounts payable, Short-term borrowings, and Accrued expenses
The carrying amount approximates fair value because of the short maturity of these instruments.

・Bonds
The fair value of bonds issued by the Company is calculated by market price.

・Long-term borrowings
Fair value of long-term borrowings is based on the present value of future cash flows discounted using the current borrowing rate for similar debt of a comparable maturity.

Derivative Transactions:
Please see note 22 Derivative Financial Instruments.

<2> Financial instruments of which the fair value is extremely difficult to measure

	Millions of yen: 2018	2017	Thousands of U.S. dollars: 2018
Unlisted equity securities	¥ 109,545	¥ 119,968	$1,031,109

*It is extremely difficult to measure the fair value, and thus above are not included in “Assets (3) Short-term investments and investments in securities.”

<3> Projected future redemption of monetary claim and securities with maturities as of March 31, 2018

	Millions of yen: Due within one year	Due after one year through five years	Due after five years through ten years	Due after ten years
(1) Cash	¥ 101,090	¥ —	¥ —	¥ —
(2) Trade notes and accounts receivable	165,606	—	—	—
(3) Short-term investments and investments in securities:				
Held-to-maturity securities:				
Government bonds	0	0	—	—
Total	¥ 266,697	¥ 0	¥ —	¥ —

	Thousands of U.S. dollars: Due within one year	Due after one year through five years	Due after five years through ten years	Due after ten years
(1) Cash	$ 951,525	$ —	$ —	$ —
(2) Trade notes and accounts receivable	1,558,791	—	—	—
(3) Short-term investments and investments in securities:				
Held-to-maturity securities:				
Government bonds	0	0	—	—
Total	$ 2,510,326	$ 0	$ —	$ —

<4> The annual maturities of the bonds and long-term borrowings as of March 31, 2018

	Millions of yen: Due within one year	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
Bonds	¥ —	¥ —	¥ 10,000	¥ —	¥ —	¥ —
Long-term borrowings	17,423	13,650	2,813	5,794	1,251	1,818

	Thousands of U.S. dollars: Due within one year	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
Bonds	$ —	$ —	$ 94,127	$ —	$ —	$ —
Long-term borrowings	163,997	128,483	26,478	54,537	11,775	17,112

22. Derivative Financial Instruments

The contract or notional amounts and fair value of derivative financial instruments held as of March 31, 2018 and 2017 are summarized as follows:

Derivative financial instruments to which hedge accounting is not applied are summarized as follows:

(a) Forward exchange contracts and currency swap agreements

	Millions of yen		
	Contract or notional amounts	Fair value	Valuation gain (loss)
March 31, 2018			
Forward exchange contracts:			
To sell foreign currency:			
U.S. dollar	¥ 17,305	¥ (0)	¥ (0)
Euro	2,289	17	17
New Taiwan dollar	554	(7)	(7)
To buy foreign currency:			
U.S. dollar	654	3	3
Canadian dollar	1,008	(40)	(40)
New Taiwan dollar	5	(0)	(0)
Currency swap agreements:			
Receive/U.S. dollar, Pay/Japanese Yen	547	(18)	(18)
Receive/U.S. dollar, Pay/Thai Baht	582	(20)	(20)
	¥ 22,946	¥ (67)	¥ (67)
March 31, 2017			
Forward exchange contracts:			
To sell foreign currency:			
U.S. dollar	¥ 18,447	¥ 5	¥ 5
Euro	1,410	7	7
New Taiwan dollar	446	(35)	(35)
To buy foreign currency:			
U.S. dollar	1,520	(30)	(30)
New Taiwan dollar	0	(0)	(0)
Currency swap agreements:			
Receive/U.S. dollar, Pay/Japanese Yen	340	(4)	(4)
Receive/U.S. dollar, Pay/Thai Baht	582	3	3
	¥ 22,747	¥ (53)	¥ (53)

	Thousands of U.S. dollars		
	Contract or notional amounts	Fair value	Valuation gain (loss)
March 31, 2018			
Forward exchange contracts:			
To sell foreign currency:			
U.S. dollar	$ 162,886	$ (0)	$ (0)
Euro	21,546	160	160
New Taiwan dollar	5,215	(66)	(66)
To buy foreign currency:			
U.S. dollar	6,156	28	28
Canadian dollar	9,488	(377)	(377)
New Taiwan dollar	47	(0)	(0)
Currency swap agreements:			
Receive/U.S. dollar, Pay/Japanese Yen	5,149	(169)	(169)
Receive/U.S. dollar, Pay/Thai Baht	5,478	(188)	(188)
	$ 215,983	$ (631)	$ (631)

* The fair value of forward exchange contracts and currency swap agreements is estimated based on quotes from counterparties.

(b) Interest rate swap agreements

	Millions of yen		
	Contract or notional amounts	Fair value	Valuation gain (loss)
March 31, 2018			
Interest rate swap agreements:			
Receive/floating and pay/fixed	¥ 5,979	¥ (57)	¥ (57)
March 31, 2017			
Interest rate swap agreements:			
Receive/floating and pay/fixed	¥ 5,620	¥ (7)	¥ (7)

	Thousands of U.S. dollars		
	Contract or notional amounts	Fair value	Valuation gain (loss)
March 31, 2018			
Interest rate swap agreements:			
Receive/floating and pay/fixed	$ 56,278	$ 41,331	$ (537)

*The fair value of interest rate swap agreements is estimated based on quotes from counterparties.

Derivative financial instruments to which hedge accounting is applied are summarized as follows:

(a) Forward exchange contracts

		Millions of yen	
	Hedged items	Contract or notional amounts	Fair value
March 31, 2018			
Forward exchange contracts:			
To sell foreign currency:	**Accounts receivable**		
U.S. dollar		¥ 1,495	¥ 45
To sell foreign currency:	**Forecasted transactions**		
U.S. dollar		7	(0)
To buy foreign currency:	**Forecasted transactions**		
U.S. dollar		23	(0)
		¥ 1,526	¥ 44
March 31, 2017			
Forward exchange contracts:			
To sell foreign currency:	Accounts receivable		
U.S. dollar		¥ 3,051	¥ (0)
Euro		85	0
Chinese Yuen		42	0
To buy foreign currency:	Accounts payable		
U.S. dollar		2,094	(16)
Euro		84	(1)
To sell foreign currency:	Forecasted transactions		
U.S. dollar		4	(0)
To buy foreign currency:	Forecasted transactions		
U.S. dollar		—	—
		¥ 5,362	¥ (18)

		Thousands of U.S. dollars	
	Hedged items	Contract or notional amounts	Fair value
March 31, 2018			
Forward exchange contracts:			
To sell foreign currency:	**Accounts receivable**		
U.S. dollar		$ 14,072	$ 424
To sell foreign currency:	**Forecasted transactions**		
U.S. dollar		66	(0)
To buy foreign currency:	**Forecasted transactions**		
U.S. dollar		216	(0)
		$ 14,364	$ 414

*The fair value of forward exchange contracts is estimated based on quotes from counterparties.

(b) Interest rate swap agreements

		Millions of yen	
	Hedged items	Contract or notional amounts	Fair value
March 31, 2018			
Interest rate swap agreements:			
Receive/floating and pay/fixed	**Long-term borrowings**	¥ 2,535	¥ (9)
March 31, 2017			
Interest rate swap agreements:			
Receive/floating and pay/fixed	Long-term borrowings	¥ 4,805	¥ (20)

		Thousands of U.S. dollars	
	Hedged items	Contract or notional amounts	Fair value
March 31, 2018			
Interest rate swap agreements:			
Receive/floating and pay/fixed	**Long-term borrowings**	$ 23,861	$ (85)

* The fair value of interest rate swap agreements is estimated based on quotes from counterparties.

23. Investment and Rental Property

The Company and certain consolidated subsidiaries own land and buildings for rent in Tokyo and other areas (hereafter "rental property").

The amounts recognized in the consolidated balance sheet and fair values related to the rental property for the years ended March 31, 2018 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Consolidated balance sheet amount:			
Balance at beginning of the year	¥ 10,828	¥ 5,955	$ 101,920
Increase/(decrease)	814	4,873	7,662
Balance at end of the year	¥ 11,642	¥ 10,828	$ 109,582
Fair value	¥ 14,410	¥ 13,805	$ 135,636

Notes:
1. Consolidated balance sheet amount is its cost minus accumulated depreciation and accumulated impairment loss.
2. Increase for the year ended March 31, 2018 and 2017 were mainly due to new rents executed by the Company of ¥1,093 million ($10,288 thousand) and ¥4,938 million, respectively.
3. Fair value is based on roadside value, etc.

Rent income from the rental property is ¥334 million ($3,144 thousand) and ¥313 million for the years ended March 31, 2018 and 2017, respectively.

Gain on sales from the rental property is ¥144 million ($1,355 thousand) and ¥15 million for the years ended March 31, 2018 and 2017, respectively.

24. Segment Information

The Company introduced company-based organization for clarifying management's responsibility in operation and for managing efficiently. Each company develops a business strategy for their products and services and conducts business.

The reported segments of the Company are the business units for which the Company is able to obtain respective financial information separately in order for the Board of Directors to conduct periodic investigation to determine distribution of management resources and evaluate their business results. "Natural gas chemicals business," "Aromatic chemicals business," "Specialty chemicals business" and "Information and advanced materials business" are the Company's reported segments.

Natural gas chemicals business mainly produces and sells methanol, ammonia, amines, methacrylates, polyols, functional food materials and crude oil.

Aromatic chemicals business mainly produces and sells meta-xylenediamine, MX-Nylon, meta-xylene, purified isophthalic acid and foaming plastics.

Specialty chemicals business mainly produces and sells inorganic chemicals and engineering plastics.

Information and advanced materials business mainly produces and sells printed circuit board materials and oxygen absorber (AGELESS).

Segment sales, profit, assets, liabilities and others are calculated by accounting methods similar to those employed to prepare the accompanying consolidated financial statements. Segment profit are calculated based on "Keijo-soneki" disclosed in the consolidated statement of income under accounting principles generally accepted in Japan (See note 25). Intersegment revenue and transfer are based on arm's-length transactions.

(Adoption of IFRS by overseas affiliates)

As described in Note 1 (s), effective from the year ended March 31, 2018, the Company's overseas affiliate and an overseas affiliate of the Company's affiliate have adopted IFRS. Those changes have been applied retrospectively and the prior year segment information has been restated. As a result, for the year ended March 31, 2017, segment profit of Natural gas chemicals business increased by ¥72 million ($678 thousand) and Specialty chemicals business decreased by ¥21 million ($198 thousand) compared to the respective amount before retrospective application of IFRS.

The reported segment information for the Company and its consolidated subsidiaries for the years ended March 31, 2018 and 2017 is summarized as follows:

	Millions of yen						
	2018						
	Natural gas chemicals	Aromatic chemicals	Specialty chemicals	Information and advanced materials	Other	Adjustments	Consolidated
Sales:							
Sales to third parties	¥ 167,035	¥ 212,050	¥ 203,561	¥ 52,735	¥ 526	¥ —	¥ 635,909
Inter-segment sales	12,444	3,429	1,553	39	79	(17,546)	—
	¥ 179,480	¥ 215,479	¥ 205,115	¥ 52,774	¥ 606	¥ (17,546)	¥ 635,909
Segment profit	¥ 14,928	¥ 25,106	¥ 38,633	¥ 6,349	¥ 261	¥ (4,567)	¥ 80,711
Segment assets	¥ 184,299	¥ 215,481	¥ 233,080	¥ 77,071	¥ 31,181	¥ 51,374	¥ 792,489
Others:							
Depreciation and amortization	¥ 5,145	¥ 8,527	¥ 9,170	¥ 3,595	¥ 19	¥ 568	¥ 27,027
Amortization of goodwill	—	241	0	—	129	—	370
Interest income	70	190	212	27	0	(17)	485
Interest expenses	89	644	650	107	7	(429)	1,069
Equity in earnings (losses) of affiliates	9,391	(121)	7,930	899	177	—	18,277
Investments in affiliates accounted for by the equity method	56,916	457	22,344	10,318	3,548	(88)	93,496
Capital expenditures	6,076	11,301	11,004	1,937	0	640	30,959

	Millions of yen						
	2017						
	Natural gas chemicals	Aromatic chemicals	Specialty chemicals	Information and advanced materials	Other	Adjustments	Consolidated
Sales:							
Sales to third parties	¥ 142,901	¥ 191,933	¥ 170,894	¥ 50,197	¥ 553	¥ —	¥ 556,480
Inter-segment sales	10,656	2,546	1,326	2	68	(14,600)	—
	¥ 153,557	¥ 194,480	¥ 172,220	¥ 50,200	¥ 622	¥ (14,600)	¥ 556,480
Segment profit	¥ 14,359	¥ 17,533	¥ 26,809	¥ 6,129	¥ 328	¥ (2,730)	¥ 62,430
Segment assets	¥ 178,974	¥ 192,047	¥ 209,897	¥ 73,067	¥ 38,783	¥ 45,417	¥ 738,188
Others:							
Depreciation and amortization	¥ 5,069	¥ 8,506	¥ 8,671	¥ 3,027	¥ 20	¥ 335	¥ 25,631
Amortization of goodwill	—	241	0	—	33	—	275
Interest income	101	187	118	23	1	(8)	423
Interest expenses	152	799	777	138	13	(535)	1,346
Equity in earnings (losses) of affiliates	12,848	7	6,835	1,208	225	—	21,125
Investments in affiliates accounted for by the equity method	61,384	567	21,029	9,798	3,341	877	96,998
Capital expenditures	9,009	10,556	8,172	6,674	7	589	35,010

	Thousands of U.S. dollars						
	2018						
	Natural gas chemicals	Aromatic chemicals	Specialty chemicals	Information and advanced materials	Other	Adjustments	Consolidated
Sales:							
Sales to third parties	$ 1,572,242	$ 1,995,953	$ 1,916,049	$ 496,376	$ 4,951	$ —	$ 5,985,589
Inter-segment sales	117,131	32,276	14,618	367	744	(165,154)	—
	$ 1,689,383	$ 2,028,229	$ 1,930,676	$ 496,743	$ 5,704	$ (165,154)	$ 5,985,589
Segment profit	$ 140,512	$ 236,314	$ 363,639	$ 59,761	$ 2,457	$ (42,988)	$ 759,704
Segment assets	$ 1,734,742	$ 2,028,247	$ 2,193,901	$ 725,442	$ 293,496	$ 483,566	$ 7,459,422
Others:							
Depreciation and amortization	$ 48,428	$ 80,262	$ 86,314	$ 33,838	$ 179	$ 5,346	$ 254,396
Amortization of goodwill	—	2,268	0	—	1,214	—	3,483
Interest income	659	1,788	1,995	254	0	(160)	4,565
Interest expenses	838	6,062	6,118	1,007	66	(4,038)	10,062
Equity in earnings (losses) of affiliates	88,394	(1,139)	74,642	8,462	1,666	—	172,035
Investments in affiliates accounted for by the equity method	535,730	4,302	210,316	97,120	33,396	(828)	880,045
Capital expenditures	57,191	106,372	103,577	18,232	0	6,024	291,406

Notes:

1. Other includes listed affiliates and real estate business which are not included in reported segments.
2. Adjustments in the above tables are made for the followings:

(1) Adjustments in segment profit

	Millions of yen 2018	Millions of yen 2017	Thousands of U.S. dollars 2018
Elimination of intersegment transactions	¥ 99	¥ 49	$ 932
Unallocated company-wide expenses	(4,666)	(2,780)	(43,919)
	¥ (4,567)	¥ (2,730)	$ (42,988)

* Company-wide expenses are administrative expenses, financial income and expenses and other income and expenses which are not allocated to reported segments.

(2) Adjustments in segment assets

	Millions of yen 2018	Millions of yen 2017	Thousands of U.S. dollars 2018
Elimination of intersegment balances	¥ (43,009)	¥ (30,331)	$ (404,829)
Unallocated company-wide assets	94,384	75,748	888,404
	¥ 51,374	¥ 45,417	$ 483,566

*Company-wide assets are cash, investments in securities, and deferred taxes assets which are not allocated to reported segments.

(3) "Adjustments in depreciation and amortization" of ¥568 million ($5,346 thousand) and ¥335 million are depreciation and amortization of company-wide assets which are not allocated to reported segments for the years ended March 31, 2018 and 2017, respectively.
(4) "Adjustments in interest income" of ¥(17) million ($(160) thousand) and ¥(8) million are mainly elimination of intersegment transactions for the years ended March 31, 2018 and 2017, respectively.
(5) "Adjustments in interest expenses" of ¥(429) million ($ (4,038) thousand) and ¥(535) million are mainly elimination of intersegment transactions for the years ended March 31, 2018 and 2017, respectively.
(6) "Adjustments in investments in affiliates accounted for by the equity method" of ¥(88) million ($(828) thousand) and ¥877 million are mainly investments which are not allocated to reported segments for the years ended March 31, 2018 and 2017, respectively.
(7) "Adjustments in capital expenditures" of ¥640 million ($6,024 thousand) and ¥589 million are related to company-wide assets which are not allocated to reported segments for the years ended March 31, 2018 and 2017, respectively.

3. Segment profit is adjusted with "Keijo-soneki" disclosed in the consolidated statement of income under accounting principles generally accepted in Japan (See note 25).

Related information

1. Information by products and services
   Disclosures are omitted because the classification of products and services are same as the classification of the reported segments.

2. Geographical information
   (1) Sales

	Millions of yen 2018	Millions of yen 2017	Thousands of U.S. dollars 2018
Japan	¥ 282,671	¥ 262,772	$ 2,660,683
Asia:			
China	95,707	78,060	900,857
Other	149,533	125,893	1,407,502
U.S.A.	51,367	50,279	483,500
Other	56,630	39,474	533,038
Total	¥ 635,909	¥ 556,480	$ 5,985,589

Note: Geographical sales are classified by customer's location.

(2) Property, plant and equipment

	Millions of yen 2018	Millions of yen 2017	Thousands of U.S. dollars 2018
Japan	¥ 162,150	¥ 164,134	$ 1,526,261
Asia	36,732	36,223	345,745
Other	21,834	17,699	205,516
Total	¥ 220,717	¥ 218,057	$ 2,077,532

3. Information by major customers
   Disclosures are omitted because no particular customer whose sales are over 10% of sales in the consolidated statement of income exists.

Information of impairment loss on fixed assets by reported segments

Millions of yen, 2018

	Natural gas chemicals	Aromatic chemicals	Specialty chemicals	Information and advanced materials	Other	Adjustments	Consolidated
Impairment loss	¥ —	¥ —	¥ 11	¥ —	¥ —	¥ —	¥ 11

Millions of yen, 2017

	Natural gas chemicals	Aromatic chemicals	Specialty chemicals	Information and advanced materials	Other	Adjustments	Consolidated
Impairment loss	¥ 1,124	¥ —	¥ —	¥ —	¥ —	¥ —	¥ 1,124

Thousands of U.S. dollars, 2018

	Natural gas chemicals	Aromatic chemicals	Specialty chemicals	Information and advanced materials	Other	Adjustments	Consolidated
Impairment loss	$ —	$ —	$ 104	$ —	$ —	$ —	$ 104

Information of balance of goodwill by reported segments

Millions of yen, 2018

	Natural gas chemicals	Aromatic chemicals	Specialty chemicals	Information and advanced materials	Other	Adjustments	Consolidated
Goodwill	¥ —	¥ 3,911	¥ —	¥ —	¥ —	¥ —	¥ 3,911

Millions of yen, 2017

	Natural gas chemicals	Aromatic chemicals	Specialty chemicals	Information and advanced materials	Other	Adjustments	Consolidated
Goodwill	¥ —	¥ 4,155	¥ 0	¥ —	¥ 102	¥ —	¥ 4,258

Thousands of U.S. dollars, 2018

	Natural gas chemicals	Aromatic chemicals	Specialty chemicals	Information and advanced materials	Other	Adjustments	Consolidated
Goodwill	$ —	$ 36,813	$ —	$ —	$ —	$ —	$ 36,813

Information of negative goodwill incurred by reported segments

No negative goodwill was incurred for the years ended March 31, 2018 and 2017.

25. The Statement of Income Disclosure under Accounting Principles Generally Accepted in Japan

Under accounting principles generally accepted in Japan, an ordinary income, "Keijo-soneki" should be disclosed in the statement of income. The ordinary income is an income figure with certain adjustments made to profit before income taxes.

Followings are the summary information of the statement of income under accounting principles generally accepted in Japan.

	Millions of yen 2018	Millions of yen 2017	Thousands of U.S. dollars 2018
Sales	¥ 635,909	¥ 556,480	$ 5,985,589
Gross profit	154,583	131,249	1,455,036
Operating income	62,741	43,762	590,559
Ordinary income	80,711	62,430	759,704
Profit before income taxes	73,421	61,099	691,086
Profit	65,933	53,427	620,604

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Independent Auditor's Report

To the Board of Directors of
Mitsubishi Gas Chemical Company, Inc.

We have audited the accompanying consolidated financial statements of Mitsubishi Gas Chemical Company, Inc. and its consolidated subsidiaries, which comprise the consolidated balance sheet as of March 31, 2018, and the consolidated statement of income, comprehensive income, changes in net assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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

Auditor's Responsibility
Our responsibility is to express an opinion on these 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 depend on the auditor's 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 auditor considers 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 present fairly, in all material respects, the consolidated financial position of Mitsubishi Gas Chemical Company, Inc. and its consolidated subsidiaries as of March 31, 2018, and their financial performance and cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Emphasis of Matter
Without qualifying our opinion, we draw attention to the following:
As discussed in Note 1 to the consolidated financial statements, in applying the equity method to the financial statements of Japan Saudi Arabia Methanol Company, Inc. (JSA Methanol), an affiliate of the Company, the equity method was applied to the investments in SAUDI METHANOL COMPANY, an oversea affiliate of JSA Methanol to recognize the affiliate's profit and loss., which were included in the financial statements of JSA Methanol. From the fiscal year ended March 31, 2018, JSA Methanol applies the equity method to the financial statements of SAUDI METHANOL COMPANY prepared in accordance with International Financial Reporting Standards (IFRS).

In addition, the Company applies the equity method to the financial statements of Tai Hong Circuit Industrial Co., Ltd., an overseas affiliate of the Company, prepared in accordance with IFRS from the fiscal year ended March 31, 2018.

Convenience Translation
Our audits also comprehended the translation of Japanese yen amounts into United States dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 2 to the consolidated financial statements. Such United States dollar amounts are presented solely for the convenience of readers outside Japan.

BDO Toyo & Co.
Tokyo, Japan
June 26, 2018

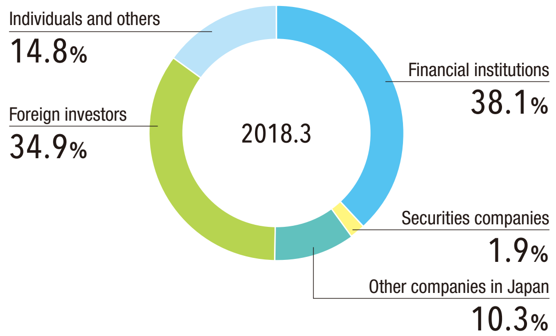
BDO Toyo & Co.

Shareholder Information

Information for Shareholders (As of March 31, 2018)

Listing
First Section of the Tokyo Stock Exchange
Ticker symbol
4182
Total number of authorized shares
492,428,000
Number of outstanding shares
231,739,199
Stock transaction units
100 - shares
Number of shareholders
20,088

Composition of shareholders

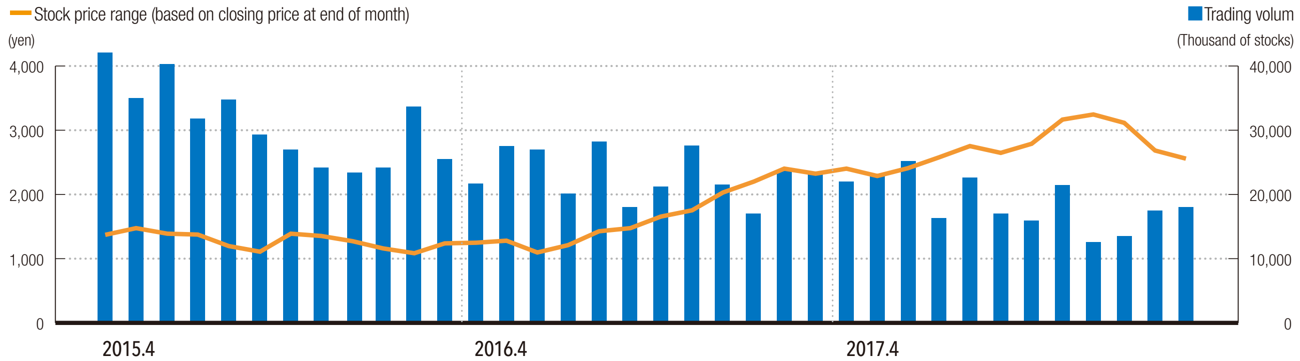


Major shareholders

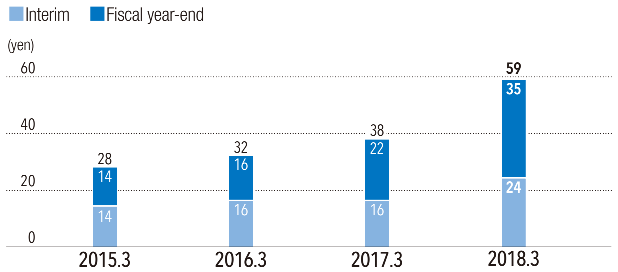
Name of shareholder	Number of shares held (thousands)	Percentage of total outstanding shares
Japan Trustee Services Bank, Ltd. (Trust Account)	10,155	4.8%
The Master Trust Bank of Japan, Ltd. (Trust Account)	9,119	4.3%
Meiji Yasuda Life Insurance Company	8,797	4.1%
Nippon Life Insurance Company	8,795	4.1%
The Norinchukin Bank	5,026	2.4%
Asahi Glass Co., Ltd.	4,835	2.3%
CHASE MANHATTAN BANK GTS CLIENTS ACCOUNT ESCROW	4,048	1.9%
GOVERNMENT OF NORWAY	3,896	1.8%
Japan Trustee Services Bank, Ltd. (Trust Account 9)	3,836	1.8%
Mitsubishi Tokyo UFJ Trust and Banking Corporation	3,506	1.6%

1. MGC holds 18,135 thousand shares of treasury stock, which is not included in the above list of major shareholders.
2. Percentage to Total Shares Outstanding does not include treasury stock.

Monthly stock price range and trading volume



Dividend per share



Notes: With and 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, the share price, market trading volume and dividend per share in the graph are calculated assuming that the reverse stock split had been conducted at the beginning of April, 2014.