MGC

ANNUAL REPORT 2017

Fiscal year ended March 31, 2017

MITSUBISHI GAS CHEMICAL COMPANY, INC.

Message from the Management

Toshikiyo Kurai
Representative Director, President

Kazuo Sakai
Representative Director, Chairman

In fiscal 2016, MGC Group posted consolidated net sales of ¥556,480 million, a year-on-year decrease of 6.2%, and consolidated net income of ¥47,958 million, a year-on-year increase of 40.5%. Net income per share was ¥221.57.

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

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

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

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

The year-end dividend payout for fiscal 2016 was ¥22 per share (an increase of ¥6 per share when taking the one-for-two reverse stock split conducted on October 1, 2016 into consideration; or ¥11 per share, an increase of ¥3 per share, without taking the reverse stock split into consideration). Since the interim dividend payout was ¥16 when taking into consideration the reverse stock split (¥8 without taking the reverse stock split into consideration), the annual dividend for fiscal 2016 is ¥38 per share (¥19 without taking the reverse stock split into consideration).

MGC Group engages in a wide range of businesses extending from resources and energy to chemicals and raw materials such as methanol and polycarbonates, BT materials, and functional products such as the AGELESS oxygen absorber. Through our business, we provide value to society. We will continue to invest management resources in these core businesses and increase earnings capacity.

Changes to existing businesses caused by impacts from the external environment such as economic conditions cannot be avoided, and as a result, the continuity of the earnings capacity of those businesses cannot be guaranteed. If a determination is made that a business is no longer profitable, after investigating all possibilities, structural reforms will be implemented.

In addition, one of the fundamental policies of the Group's medium-term management plan is the creation and development of new business, and we constantly search for new sources of earnings including mergers and acquisitions.

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

June 2017

Contents

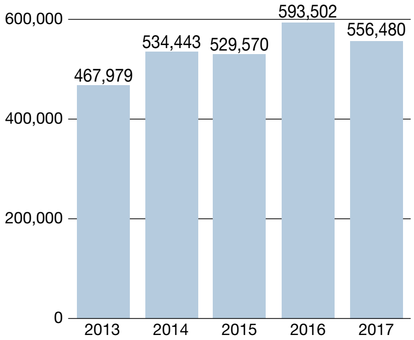
Financial Highlights

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

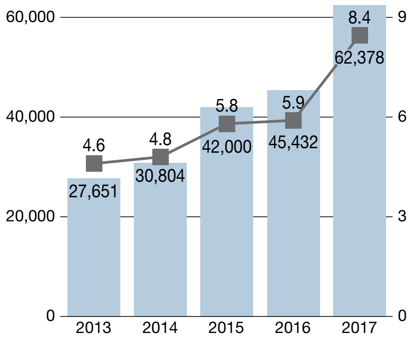
	Millions of yen					Thousands of U.S. dollars
	2013	2014	2015	2016	**2017**	**2017**
For the year:						
Net sales	¥467,979	¥534,443	¥529,570	¥593,502	**¥556,480**	**$4,960,157**
Natural Gas Chemicals	153,995	185,307	184,873	165,497	**142,901**	**1,273,741**
Aromatic Chemicals	128,222	139,476	121,126	203,348	**191,933**	**1,710,785**
Specialty Chemicals	131,611	153,377	164,684	168,721	**170,894**	**1,523,255**
Information & Advanced Materials	53,274	55,467	58,241	55,251	**50,197**	**447,428**
Other	875	813	642	684	**553**	**4,929**
Gross profit	67,967	74,149	77,210	123,046	**131,249**	**1,169,881**
Selling, general and administrative expenses	56,545	62,661	62,213	89,028	**87,486**	**779,802**
Operating income (loss)	11,421	11,488	14,996	34,018	**43,762**	**390,070**
EBITDA	35,417	44,296	72,228	75,034	**88,025**	**784,606**
Ordinary income	27,651	30,804	42,000	45,432	**62,378**	**556,003**
Net income attributable to owners of the parent	(7,793)	14,921	43,346	34,134	**47,958**	**427,471**
R&D costs	15,332	16,122	16,873	18,936	**19,267**	**171,735**
Capital expenditure	30,982	25,409	22,226	30,512	**35,010**	**312,060**
Depreciation and amortization	23,096	23,528	23,770	26,705	**25,631**	**228,461**
At year end:						
Total assets	¥613,908	¥657,838	¥790,784	¥739,582	**¥741,639**	**$6,610,562**
Current assets	261,397	287,642	372,166	341,237	**326,674**	**2,911,792**
Current liabilities	195,438	178,897	225,068	214,676	**188,426**	**1,679,526**
Working capital	65,958	108,745	147,097	126,561	**138,248**	**1,232,267**
Total net assets	294,895	323,858	422,851	423,135	**476,749**	**4,249,479**
Interset-bearing debt	182,644	204,489	215,614	181,427	**118,713**	**1,058,142**
Per share of common stock (Yen/U.S. dollars):						
Net income – basic	¥ (34.5)	¥ 66.07	¥ 191.94	¥ 153.85	**¥ 221.57**	**$ 1.97**
Net income – diluted	—	—	—	—	**—**	**—**
Net assets	1,256.81	1,382.52	1,672.25	1,707.01	**1,983.60**	**17.68**
Cash dividends	24.00	24.00	28.00	32.00	**38.00**	**0.34**
Ratios:						
Gross profit margin (%)	14.5	13.9	14.6	20.7	**23.6**	
Operating income margin (%)	2.4	2.1	2.8	5.7	**7.9**	
Return on sales (%)	(1.7)	2.8	8.2	5.8	**8.6**	
Return on assets (ROA) (%)	4.6	4.8	5.8	5.9	**8.4**	
Return on equity (ROE) (%)	(2.8)	5.0	12.6	9.0	**11.9**	
Current ratio (times)	1.34	1.61	1.65	1.59	**1.73**	
Net assets ratio (%)	46.2	47.5	47.8	51.0	**57.7**	
Number of employees	5,323	5,445	8,254	8,176	**8,034**	

Notes: 1. U.S. dollar amounts are translated from yen, for convenience only, at the approximate rate of ¥112.19 = US$1 prevailing on March 31, 2017.
2. EBITDA = Net income before taxes + Interest expense + Depreciation and amortization
3. Ordinary income, a common indicator in Japan, corresponds to income before income taxes and minority interests, less any extraordinary profit or loss.
4. Cash dividends for each year represent the total of the interim dividend and the year-end dividend declared as applicable to the respective year.
5. Return on assets = Ordinary income / Average total assets
6. The calculation of return on equity uses net assets excluding minority interests.
7. 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 amount per share in the above table are calculated assuming that the reverse stock split had been conducted at the beginning of FY2012.

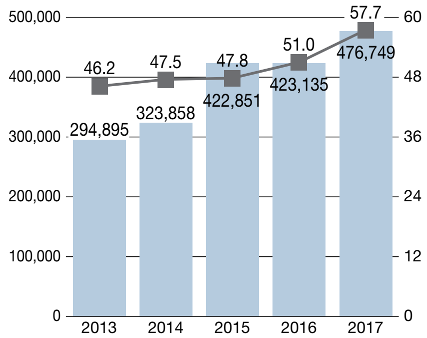
Net Sales
(Millions of yen)



Ordinary income and ROA
(Millions of yen, %)



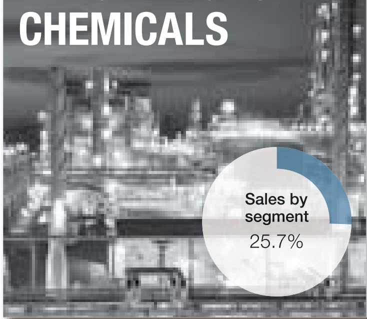
Net assets and Equity ratio
(Millions of yen, %)

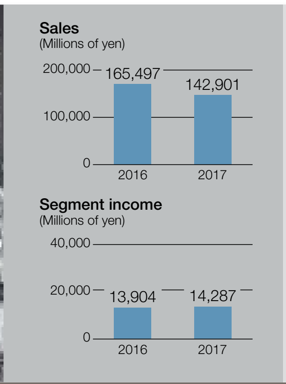


MGC at a Glance

Mitsubishi Gas Chemical Company, Inc. (MGC) was established in 1951 through a merger between Japan Gas Chemical Co., Inc. and Mitsubishi Edogawa Chemical Co., Ltd. Today MGC Group includes over 150 affiliates at home and abroad. Starting in 2000, MGC introduced an “internal company” system to broadly develop its businesses—spanning basic chemicals to functional materials and products—based on its four companies: Natural Gas Chemicals, Aromatic Chemicals, Specialty Chemicals, and Information & Advanced Materials. In addition to exploration of natural gas and petroleum and development of geothermal energy, MGC is also at the global forefront of the promotion of the next-generation clean energy, DME. MGC is active worldwide in a variety of sectors, including automobiles, electronics, life sciences, the environment and energy. Since its establishment, MGC has continually aimed to create its own technologies, and as a result,

NATURAL GAS CHEMICALS

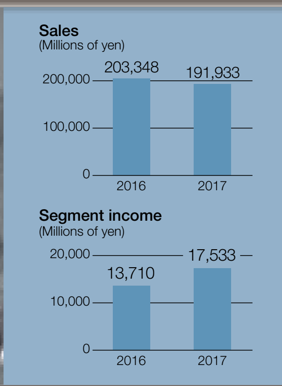




Outline

Starting from the raw material of natural gas, deploys the methanol chain and ammonia chain across a wide field ranging from basic chemicals to functional materials. Also promoting the use of biotechnology and the development of energy and resources.

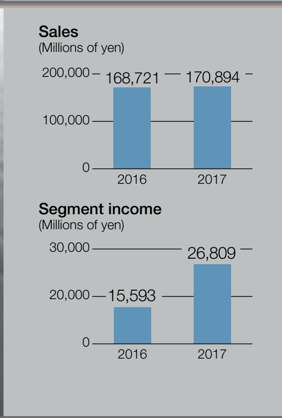
AROMATIC CHEMICALS



Outline

Develops unique aromatic products centered on the meta-xylene chain, including aromatic aldehydes, which are used as intermediates in pharmaceuticals, agrochemicals and fragrances, and monomers and additives for resins. One of our core products, Nylon-MXD6, is a derivative of meta-xylene that is used for PET bottles and food packaging because of its excellent gas barrier performance. The foamed plastics business operated by JSP, our consolidated subsidiary, and the products are used in a wide range of fields including automobiles, housing and food packaging.

SPECIALTY CHEMICALS



Outline

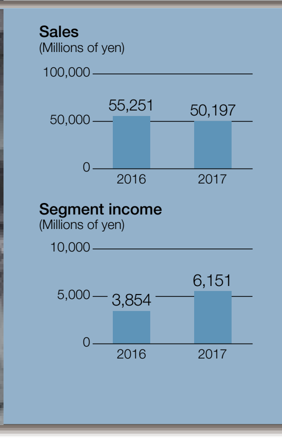
Inorganic Chemicals

Develops a range of products from industrial-use hydrogen peroxide, to chemicals for use in the electronics industry and environmental agents. Also involved in the development of functional thermosetting resin, and has a product lineup that ranges from monomers for high refractive index plastic lenses to photoresist monomers.

Engineering Plastics

Mainly involved in development of engineering plastics, including polycarbonate and polyacetal. Also develops special polycarbonate for specific optical applications as well as polycarbonate sheet & film with excellent surface coating technology.

INFORMATION AND ADVANCED MATERIALS



Outline

Electronic Materials

Mainly involved in laminate materials for printed circuit boards and entry sheets, used in mechanical drilling of printed circuit boards. Its core product BT laminate material led the move towards using plastic material for semiconductor packaging, and it still remains synonymous with semiconductor package boards.

Oxygen Absorbers

Expanding the business with a focus on oxygen absorber AGELESS which was developed based on the idea to create an oxygen-free packaging environment that prevents food deterioration by oxidation. Currently it is not only used for preserving food freshness but also in other areas as a total solution for maintaining quality, including for pharmaceuticals, medical devices, electronic / metal parts and important cultural assets.

it has developed over 90% of the products it handles.

A wide array of MGC technologies appear in a broad range of business sectors, with MGC Group playing a variety of roles, including its activities as a global methanol supplier, a laminate maker for plastic packaging for semiconductors, a key Asian engineering plastic maker, a maker of chemicals for use in the global electronics industry, a developer and maker of the AGELESS oxygen absorber that revolutionized the food distribution sector, and the world's first petrochemical maker to succeed in industrially producing highly-pure metaxylene.

The "Gas Chemical" in MGC's name comes from its predecessor, Japan Gas Chemical Co., Inc., which aimed to be a chemicals company that used domestic natural gas rather than depend on imported raw materials.

Major Products

Methanol
Methanol
Methanol/Ammonia Series Chemicals and other Organic Chemicals
Formalin, Ammonia, Methylamine and its derivatives, Methyl methacrylate, Methacrylic acid ester, Dimethyl ether, polyols, etc.
Energy
Crude oil, Geothermal power generation, etc.
Life Science related Products
Functional food materials

Major Subsidiaries

- Japan Finechem Co., Inc.

Major Affiliates

- Japan Saudi Arabia Methanol Co., Inc.
- Metanol de Oriente, Metor, S.A.
- Brunei Methanol Company Sdn. Bhd.

Major Products

Commodity Aromatic Chemicals
Meta-xylene, Para-xylene, Ortho-xylene, Purified isophthalic acid, Phthalic anhydride, Plasticizers, etc.

Specialty Aromatic Chemicals
Meta-xylenediamine (MXDA), MX-Nylon, Aromatic aldehydes, etc.

Foamed Plastics
Foamed polystyrene, Foamed polyolefin, etc.

Major Subsidiaries

- JSP Corporation
- JSP International Group Ltd.
- Fudow Co., Ltd.

Major Products

Inorganic Chemicals
Hydrogen peroxide, Super-pure hydrogen peroxide, Persulfates, "Hybrid chemicals", Chemical polishing agent, etc.
Plastic Lens Monomer

Engineering Plastics
Polycarbonate resin, Polyacetal resin, Polyphenylene ether resin, Polycarbonate sheets and films, etc.

Major Subsidiaries

- MGC Pure Chemicals America, Inc.
- MGC Filsheet Co., Ltd.
- Thai Polyacetal Co., Ltd.
- Mitsubishi Gas Chemical Engineering Plastics (Shanghai) Co., Ltd.

Major Affiliates

- Mitsubishi Engineering-Plastics Corporation
- Korea Engineering Plastics Co., Ltd.
- Thai Polycarbonate Co., Ltd.

Major Products

Electronic Materials
Printed circuit board materials (epoxy resin-based copper-clad laminates, BT resin-based copper-clad laminates), LE sheet for drilling holes in printed circuit boards, Printed circuit boards, etc.

Oxygen Absorbers
Ageless®, PharmaKeep®, etc.

Major Subsidiaries

- MGC Electrotechno Co., Ltd.
- MGC Electrotechno (Thailand) Co., Ltd.

Major Affiliates

- Granopt Co., Ltd.
- Tai Hong Circuit Industrial Co., Ltd.

Major Subsidiaries

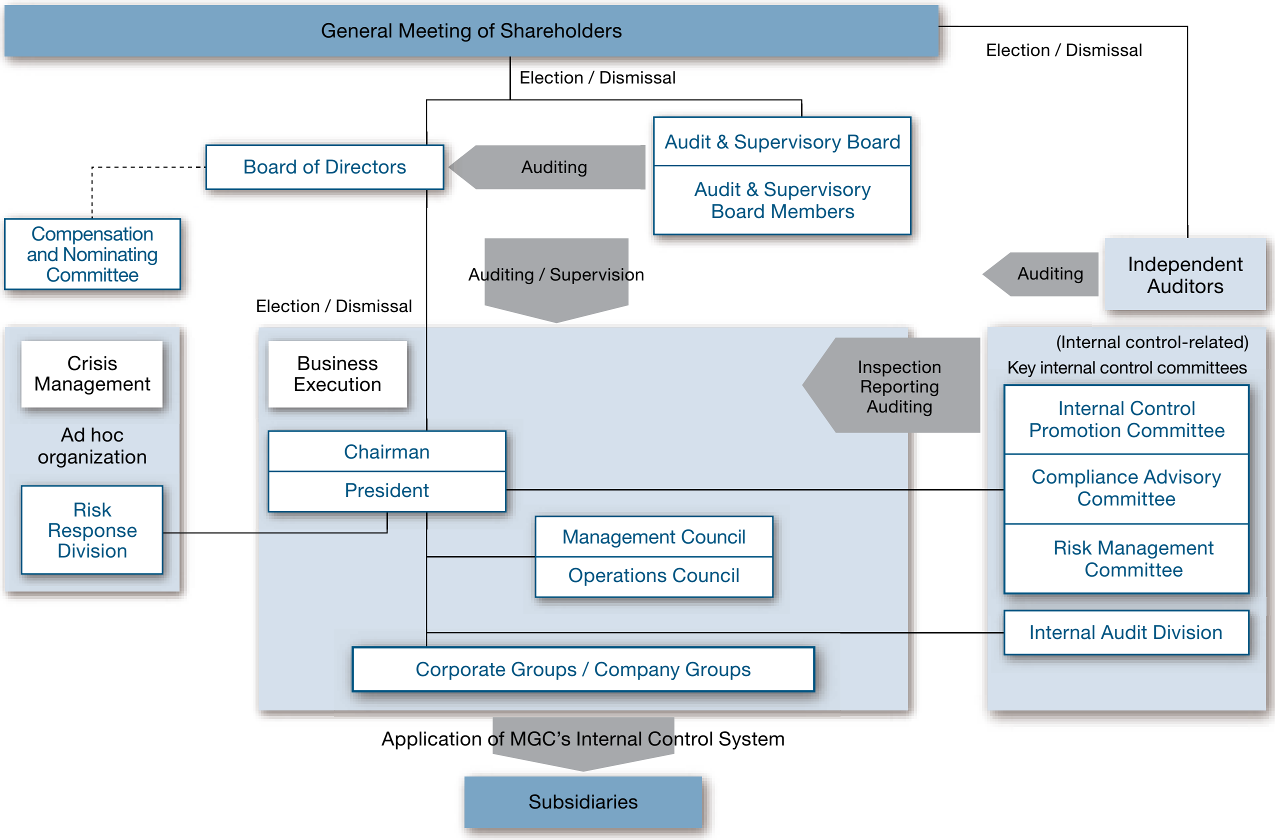
- Tokyo Shokai, Ltd.
- Ryoko Chemical Co., Ltd.
- Ryoyo Trading Co., Ltd.
- Mitsubishi Gas Chemical America, Inc.
- Mitsubishi Gas Chemical Singapore Pte. Ltd.
- MGC Montney Holdings Ltd.

Affiliate

- Japan U-Pica Co., Ltd.

Corporate Governance

Corporate Governance Framework



Corporate Governance Policy

Mitsubishi Gas Chemical Company, Inc. (MGC) strives to operate effective corporate governance systems and continuously reinforce and enhance those systems in order to meet the expectations of all stakeholders including shareholders.

The specifics of our basic policy on corporate governance are as follows.

1. Ensure the rights of and equality among shareholders.
2. Engage in appropriate collaboration with stakeholders other than shareholders.
3. Conduct appropriate information disclosures and maintain transparency.
4. Properly carry out the responsibilities of the Board of Directors and other bodies.
5. Engage in constructive dialogue with shareholders.

Corporate Governance System

MGC has adopted a corporate auditing system and, to carry out the functions of business execution, uses an executive officer system, which clearly separates the decision making of management and supervisory functions from business executions.

The Board of Directors decides the basic policies of management, as well as important matters relating to items decreed by law and Articles of Incorporation. The Board of Directors oversees business execution, while executive officers carry out the functions of business execution.

MGC has set the term of office for directors at one year to clarify the accountability of management. There is also a stipulation that MGC directors may concurrently serve as an officer at a maximum of three companies other than MGC Group companies, to ensure that they can fully concentrate on MGC's management.

For matters arising in the course of its business execution that may have a significant effect on the company, MGC makes its decisions on the basis of multifaceted deliberations. The Management Council deliberates on management policies and the Operations Council deliberates on specific plans for the implementation of these. MGC receives advice from attorneys and other experts when necessary in the course of its decision making and business execution.

To ensure transparency, objectivity, and appropriateness in the process of determining director and executive officer compensation and in nominating and appointing directors and corporate auditors prior to submission to the Board of Directors, proposals concerning compensation and appointment of officers are referred to a Compensation and Nominating Committee. From fiscal 2015, this committee comprises the Chairman of the Board, the President, and the outside directors.

In MGC's Articles of Incorporation, the Board of Directors is stipulated to comprise 15 or fewer members and as of June 27, 2017 there are 12 members.

MGC's Audit & Supervisory Board is comprised of four members (three full-time) and of these, two are outside members. The outside members have no special interests

Board of Directors, Audit & Supervisory Board Members and Executive Officers

Representative Director, Chairman
Kazuo Sakai

Representative Director, President
Toshikiyo Kurai

Representative Directors, Senior Managing Executive Officers
Kunio Kawa
Kenji Inamasa

Directors, Managing Executive Officers
Masahiro Johno
Yasuhiro Sato
Masashi Fujii
Susumu Yoshida
Masamichi Mizukami
Masato Inari

Outside Directors
Kazuo Tanigawa
Tsugio Sato

Audit & Supervisory Board Members
Takashi Kimura
Takayuki Watanabe
Katsuhiko Sugita
Yasuomi Matsuyama

Executive Officers
Chiharu Kubota
Toshiya Takagi
Eiji Tsukiji
Kinji Hiramoto
Hiroya Fujii
Kazuhide Horiguchi
Tomohiko Okubo
Takao Ota
Hiroyuki Otsuka
Nobuhisa Ariyoshi
Kenji Kato
Yoshihiro Kayano
Naruyuki Nagaoka
Yasuo Teraoka

Executive General Manager
Shinichi Mitsuda

in the company. Their tasks are to attend important meetings such as those held by the Board of Directors, to conduct audits of each division and surveys of subsidiaries, to strive to ascertain the process for important decision-making and the state of business execution, to ensure the rationality of the decisions and compliance with the law and corporate ethics, and in addition, to audit the execution of business. MGC has assigned fulltime staff to aid all of its Audit & Supervisory Board Members in the execution of their duties.

Decision Policies and Method for Officer Compensation

Director Compensation

Compensation to Directors (excluding Outside Directors) consists of monthly compensation which is the total of a basic compensation decided in accordance with each Director's position and duties and performance-based compensation reconsidered every fiscal year and reserved retirement benefit.

Reserved retirement benefit consists of a reserved sum that reflects each Director's performance based on internal rules to be paid in full upon retirement.

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

Additionally, in order to create commonly-held values with shareholders and further motivate Directors to work to increase medium- to long-term corporate value, guidelines have been established, and the minimum number of MGC shares to be held by Directors has been stipulated. A set amount of Director compensation is contributed to the share ownership plan of Directors for the acquisition of MGC shares.

Furthermore, compensation proposals will be discussed in the Compensation and Nominating Committee, consisting of the Chairman, the President, and outside directors, prior to proposal at the Board of Directors.

Audit & Supervisory Board Members' Compensation

Corporate auditors' compensation consists of a basic compensation amount only limited to the amount stipulated by the General Meeting of Shareholders and is determined in consultation with corporate auditors.

Compensation (For Fiscal 2016)

Classification	Total amount of compensation (¥ million)	Total amount of compensation by type (¥ million)		Number of subject executives (persons)
		Basic compensation	Reserved retirement benefits	
Directors (other than outside directors)	469	373	96	12
Audit & Supervisory Board Members (other than outside members)	51	51	—	4
Outside Officers	52	52	—	4
Total	574	478	96	20

Note: In the above reserved retirement benefits for directors, provision has been made for the current fiscal year with respect to reserved retirement benefits for 12 directors other than outside directors. At the 90th Ordinary General Meeting of Shareholders held on June 27, 2017, it was resolved to provide a total of ¥97 million in reserved retirement benefits for payment to 10 directors other than outside directors at the time of their retirement with respect to the performance of their duties from June 28, 2016 to June 27, 2017.

Management's Discussion and Analysis

1. Results of Operations

1) Net Sales & Operating Income

In fiscal 2016, MGC Group posted consolidated net sales of ¥556,480 million, a year-on-year decrease of 6.2%, and consolidated operating income of ¥43,762 million, a year-on-year increase of 28.6%.

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

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

2) Non-Operating Revenue

The Group posted non-operating revenue of ¥28,414 million, a year-on-year increase of 9.0%. The main factor contributing to the increase was greater investment income under the equity method.

Non-operating expenses were ¥11,128 million, a year-on-year decrease of 21.9%. The main cause of the decrease was a decline in foreign exchange losses.

As a result, net income before income taxes was ¥61,048 million, a year-on-year increase of 33.2%. Net income attributable to owners of the parent was ¥47,958 million, a year-on-year increase of 40.5%.

3) Dividend

The year-end dividend payout for fiscal 2016 was ¥22 per share (an increase of ¥6 per share when taking the one-for-two reverse stock split conducted on October 1, 2016 into consideration; or ¥11 per share, an increase of ¥3 per share, without taking the reverse stock split into consideration). Since the interim dividend payout was ¥16 when taking into consideration the reverse stock split (¥8 without taking the reverse stock split into consideration), the annual dividend for fiscal 2016 is ¥38 per share (¥19 without taking the reverse stock split into consideration).

2. Segment Information

1) Natural Gas Chemicals

Net sales in the natural gas chemicals segment were ¥142,901 million, a year-on-year decrease of 13.7%, and segment income was ¥14,287 million, a year-on-year increase of 2.8%.

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

Methanol and ammonia-based chemicals suffered declines in revenue and earnings due primarily to the stronger yen.

Crude oil and other energy sources declined in both revenue and earnings due primarily to lower crude oil sales prices.

2) Aromatic Chemicals

Net sales in the aromatics chemicals segment were ¥191,933 million, a year-on-year decrease of 5.6%, and segment income was ¥17,533 million, a year-on-year increase of 27.9%.

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

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

Despite being affected by the stronger yen, foamed plastics achieved an increase in earnings. This was largely attributable to lower prices of raw materials and the brisk sales of high-value products.

3) Specialty Chemicals

Net sales in the specialty chemicals segment were ¥170,894 million, a year-on-year increase of 1.3%, and segment income was ¥26,809 million, a year-on-year increase of 71.9%.

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

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

4) Information & Advanced Materials

Net sales in the information & advanced materials segment were ¥50,197 million, a year-on-year decrease of 9.1%, and segment income was ¥6,151 million, a year-on-year increase of 59.6%.

Electronic materials posted a drop in revenue due to reasons including the dissolution of Japan Circuit Industrial Co., Ltd., the subsidiary producer of printed circuit boards, at the end of September 2016. Nevertheless, they achieved higher earnings primarily due to growth in the sales volume of BT materials for semiconductor packaging, which represent this segment's core product category.

Oxygen absorbers such as AGELESS® posted slightly lower earnings levels compared with the previous year. Although the sales of products for domestic food applications stayed on par with the prior-year level, this was offset by the appreciation of the yen.

5) Other

Net sales in the other business segment were ¥553 million, a year-on-year decrease of 19.0%, and segment income was ¥328 million, a year-on-year increase of 15.7%.

3. Financial Position

As of March 31, 2017, total consolidated assets were ¥741.6 billion, ¥2.0 billion higher than at the end of the previous fiscal year.

Current assets decreased by ¥14.5 billion to ¥326.6 billion. The main causes were decreases in cash and deposits and merchandise and finished goods.

Noncurrent assets increased by ¥16.6 billion to ¥414.9 billion primarily due to an increase in investment securities.

Total liabilities decreased by ¥51.5 billion to ¥264.8 billion. Current liabilities fell by ¥26.2 billion primarily due to decreases in short-term loans payable and current portion of bonds. Noncurrent liabilities fell by ¥25.3 billion primarily as a result of reductions in long-term loans payable and lease obligations.

Net assets increased by ¥53.6 billion to ¥476.7 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, 2017, the shareholders' equity ratio was 57.7%, compared to 51.0% on March 31, 2016. Net assets per share at the end of the fiscal year were ¥1,983.60, compared to ¥1,707.01 at the end of the previous fiscal year.

4. Cash Flow

As of March 31, 2017, total cash and cash equivalents were ¥67.1 billion, ¥8.6 billion lower than at the end of the previous fiscal year.

1) Operating Activity Cash Flow

Net cash provided by operating activities decreased by ¥1.9 billion from the previous year to ¥82.7 billion. This was primarily due to a decrease in dividends received from affiliates accounted for by the equity method.

2) Investing Activity Cash Flow

Net cash outflow from investing activities was ¥31.1 billion, a decrease of ¥0.8 billion from the previous year. This was primarily due to lower expenditures for the acquisition of investment securities.

3) Financing Activity Cash Flow

Net cash outflow from financing activity was ¥60.2 billion, an increase of ¥12.8 billion from the previous year. This was primarily due to outflows from the redemption of corporate bonds.

5. Capital Expenditure

MGC Group (including MGC and consolidated subsidiaries) capital expenditures for the consolidated fiscal year were ¥35,010 million.

By segment, capital expenditure of ¥9,009 million, ¥10,556 million, ¥8,172 million, ¥6,674 million, and ¥596 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 2016, the second year of the MGC Advance2017 medium-term management plan, we worked in close collaboration with group companies and conducted active research and development in line with a fundamental policy of creating and developing new business in order to achieve the Group vision of creating values to share with society.

The Advanced Business Development Division has enhanced its structure, promoting efforts to commercialize research and development themes transferred to the Division. It is also continuously generating commercialization projects in new business fields and focusing on nurturing these projects through participation in investment partnerships, collaboration with venture firms, and joint studies with public-sector research institutions.

MGC is striving to share and improve the technologies it has acquired and developed over many years under its research and development system based on its research laboratories in Tokyo, Niigata, and Hiratsuka, the MGC Chemical Analysis Center, the Advanced Business Development Division and the Research and Development Division of corporate groups, Planning and Development divisions of company groups, as well as the research divisions of individual plants. We are generating synergy by combining those technologies, while being engaged in research and development utilizing MGC's comprehensive strengths through joint-development with affiliates and outsourcing of research. We are thus working to strengthen the competitiveness of our existing products and develop new products and grades.

There are a total of 864 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 ¥19,267 million.

Research and development costs by segment were as follows:

Natural Gas Chemicals Company:	¥3,655 million
Aromatic Chemicals Company:	¥5,549 million
Specialty Chemicals Company:	¥5,317 million
Information and Advanced Materials Company:	¥4,745 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 27, 2017).

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 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. 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 operating results and financial condition 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, 2017

Assets

	Millions of yen		Thousands of U.S. dollars (note 2)
	2017	2016	2017
Current assets:			
Cash (note 3)	¥ 75,017	¥ 84,097	$ 668,660
Trade notes and accounts receivable (note 19)	138,410	136,401	1,233,711
Short-term investments (note 4)	139	121	1,239
Inventories	94,630	100,113	843,480
Deferred income taxes (note 9)	5,818	4,585	51,858
Other current assets	13,725	16,962	122,337
Less allowance for doubtful receivables	1,067	1,043	9,511
Total current assets	326,674	341,237	2,911,792
Property, plant and equipment (note 6):			
Buildings and structures	199,782	191,841	1,780,747
Machinery, equipment and vehicles	449,490	452,024	4,006,507
Land	38,114	38,188	339,727
Leased assets	807	23,917	7,193
Construction in progress	12,233	16,672	109,038
Other	46,877	45,794	417,836
	747,305	768,439	6,661,066
Less accumulated depreciation	529,248	537,914	4,717,426
Net property, plant and equipment	218,057	230,525	1,943,640
Intangible assets, net:			
Goodwill	4,258	4,543	37,953
Leased assets	22	5	196
Software	1,722	1,651	15,349
Other	2,367	2,540	21,098
Net intangible assets	8,370	8,740	74,606
Investments and other assets:			
Investments in securities (notes 4, 5 and 6)	178,913	150,431	1,594,732
Long-term loans receivable	2,658	1,538	23,692
Deferred income taxes (note 9)	2,161	2,418	19,262
Net defined benefit asset (note 8)	12	—	107
Other investments and other assets (note 5)	5,475	5,131	48,801
Less allowance for doubtful receivables	683	441	6,088
Total investments and other assets	188,537	159,079	1,680,515
Total assets	¥741,639	¥739,582	$6,610,562

See accompanying notes to consolidated financial statements.

Liabilities and Net Assets

	Millions of yen		Thousands of U.S. dollars (note 2)
	2017	2016	**2017**
Current liabilities:			
Trade notes and accounts payable	**¥ 68,506**	¥ 60,819	**$ 610,625**
Short-term debt and current installments of long-term debt (note 6)	**74,770**	110,450	**666,459**
Accrued expenses	**15,171**	14,772	**135,226**
Accrued income taxes (note 9)	**3,394**	3,365	**30,252**
Accrued bonuses	**5,351**	5,345	**47,696**
Other current liabilities (note 9)	**21,233**	19,923	**189,259**
Total current liabilities	**188,426**	214,676	**1,679,526**
Non-current liabilities:			
Long-term debt (note 6)	**43,942**	70,977	**391,675**
Net defined benefit liability (note 8)	**5,936**	9,078	**52,910**
Provision for directors' retirement benefits (note 8)	**387**	554	**3,450**
Deferred income taxes (note 9)	**17,382**	12,426	**154,934**
Other non-current liabilities (note 7)	**8,814**	8,734	**78,563**
Total non-current liabilities	**76,464**	101,771	**681,558**
Total liabilities	**264,890**	316,447	**2,361,084**
Stockholders' equity:			
Common stock (note 10): Authorized 492,428,000 shares; issued 241,739,199 shares in 2017 and 2016 *	**41,970**	41,970	**374,098**
Additional paid-in capital (note 10)	**35,602**	35,603	**317,337**
Retained earnings (note 11)	**360,833**	311,250	**3,216,267**
Treasury stock, at cost; 25,923,628 shares in 2017 and 20,917,855 shares in 2016 *	**(21,829)**	(15,566)	**(194,572)**
Total stockholders' equity	**416,576**	373,258	**3,713,130**
Accumulated other comprehensive income:			
Net unrealized gain on other securities (note 4)	**18,101**	9,816	**161,342**
Deferred losses on hedges	**(0)**	(3)	**(0)**
Surplus on revaluation of land	**222**	222	**1,979**
Foreign currency translation adjustments	**(6,271)**	(4,613)	**(55,896)**
Remeasurements of defined benefit plans (note 8)	**(538)**	(1,736)	**(4,795)**
Total accumulated other comprehensive income	**11,514**	3,686	**102,629**
Non-controlling interests	**48,658**	46,190	**433,711**
Total net assets	**476,749**	423,135	**4,249,479**
Commitments and contingencies (note 20)			
Total liabilities and net assets	**¥741,639**	¥739,582	**$6,610,562**

*Shares have been restated, as appropriate, to reflect a one-for-two reverse split of stocks effective on October 1,2016.
See accompanying notes to consolidated financial statements.

Consolidated Statement of Income

Mitsubishi Gas Chemical Company, Inc. and Consolidated Subsidiaries
For the year ended March 31, 2017

	Millions of yen		Thousands of U.S. dollars (note 2)
	2017	2016	2017
Net sales (note 19)	¥556,480	¥593,502	$4,960,157
Cost of sales (note 13)	425,231	470,455	3,790,275
Gross profit	131,249	123,046	1,169,881
Selling, general and administrative expenses (notes 12 and 13)	87,486	89,028	779,802
Operating income	43,762	34,018	390,070
Other income (expenses):			
Interest income	423	512	3,770
Dividend income	1,789	2,223	15,946
Interest expenses	(1,346)	(2,494)	(11,998)
Equity in earnings of affiliates	21,074	16,683	187,842
Gain on sale of investments in securities (note 4)	761	3,444	6,783
Loss on liquidation of subsidiaries and affiliates (note 15)	(667)	(1,101)	(5,945)
Personnel expenses for seconded employees	(1,646)	(1,240)	(14,672)
Loss on sale/disposal of property, plant and equipment	(634)	(918)	(5,651)
Impairment loss (note 14)	(1,124)	(1,529)	(10,019)
Other, net	(1,343)	(3,764)	(11,971)
	17,286	11,815	154,078
Profit before income taxes	61,048	45,833	544,148
Income taxes (note 9)**:**			
Current	7,640	6,793	68,099
Deferred	34	291	303
	7,675	7,084	68,411
Profit	¥ 53,372	¥ 38,748	$ 475,729
Profit attributable to non-controlling interests	5,414	4,614	48,257
Profit attributable to owners of parent	¥ 47,958	¥ 34,134	$ 427,471

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, 2017

	Millions of yen		Thousands of U.S. dollars (note 2)
	2017	2016	2017
Profit	¥53,372	¥38,748	$475,729
Other comprehensive income (loss) arising during the year (note 16)**:**			
Net unrealized gain (loss) on other securities	8,264	(10,746)	73,661
Deferred gains (losses) on hedges	3	(3)	27
Foreign currency translation adjustments	(2,192)	(6,928)	(19,538)
Remeasurements of defined benefit plans	2,113	(3,795)	18,834
Shares of other comprehensive income of affiliates accounted for by the equity method	(624)	(6,057)	(5,562)
Total other comprehensive income (loss) arising during the year	7,564	(27,530)	67,421
Comprehensive income	¥60,937	¥11,217	$543,159
Comprehensive income attributable to:			
Owners of the parent	¥ 56,526	¥ 9,151	$503,842
Non-controlling interests	4,410	2,066	39,308

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, 2017

	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, 2015	¥41,970	¥35,595	¥279,540	¥ (8,131)	¥348,974	¥20,612	¥—	¥217	¥4,950	¥2,888	¥28,669	¥45,207	¥422,851
Changes arising during year:													
Cash dividends			(6,694)		(6,694)								(6,694)
Profit attributable to owners of parent			34,134		34,134								34,134
Increase due to change in the fiscal period of affiliates accounted for by the equity method			4,277		4,277								4,277
Change of scope of consolidation			(6)		(6)								(6)
Purchase of treasury stock				(7,435)	(7,435)								(7,435)
Disposition of treasury stock		0		0	0								0
Change in treasury stock of parent arising from transactions with non-controlling shareholders		7			7								7
Net changes other than stockholders' equity						(10,795)	(3)	5	(9,564)	(4,625)	(24,982)	982	(23,999)
Total changes during the year	—	8	31,710	(7,434)	24,283	(10,795)	(3)	5	(9,564)	(4,625)	(24,982)	982	283
Balance as of March 31, 2016	¥41,970	¥35,603	¥311,250	¥(15,566)	¥373,258	¥ 9,816	¥(3)	¥222	¥(4,613)	¥(1,736)	¥ 3,686	¥46,190	¥423,135
Changes arising during year:													
Cash dividends			**(6,986)**		**(6,986)**								**(6,986)**
Profit attributable to owners of parent			**47,958**		**47,958**								**47,958**
Change of scope of consolidation			**(16)**		**(16)**								**(16)**
Change of scope of equity method			**8,627**		**8,627**								**8,627**
Purchase of treasury stock				**(6,264)**	**(6,264)**								**(6,264)**
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**	**—**	**(1,658)**	**1,198**	**7,827**	**2,467**	**10,295**
Total changes during the year	**—**	**(0)**	**49,583**	**(6,263)**	**43,318**	**8,284**	**3**	**—**	**(1,658)**	**1,198**	**7,827**	**2,467**	**53,614**
Balance as of March 31, 2017	**¥41,970**	**¥35,602**	**¥360,833**	**¥(21,829)**	**¥416,576**	**¥18,101**	**(0)**	**¥222**	**¥(6,271)**	**¥(538)**	**¥11,514**	**¥48,658**	**¥476,749**

	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, 2016	$374,098	$317,346	$2,774,311	$(138,747)	$3,327,017	$87,494	$(27)	$1,979	$(41,118)	$(15,474)	$32,855	$411,712	$3,771,593
Changes arising during year:													
Cash dividends			**(62,269)**		**(62,269)**								**(62,269)**
Profit attributable to owners of parent			**427,471**		**427,471**								**427,471**
Change of scope of consolidation			**(143)**		**(143)**								**(143)**
Change of scope of equity method			**76,896**		**76,896**								**76,896**
Purchase of treasury stock				**(55,834)**	**(55,834)**								**(55,834)**
Disposition of treasury stock		**0**		**0**	**9**								**9**
Change in treasury stock of parent arising from transactions with non-controlling shareholders		**(9)**			**(9)**								**(9)**
Net changes other than stockholders' equity					**—**	**73,839**	**27**	**—**	**(14,779)**	**10,678**	**69,766**	**21,989**	**91,764**
Total changes during the year	**—**	**(0)**	**441,956**	**(55,825)**	**386,113**	**73,839**	**27**	**—**	**(14,779)**	**10,678**	**69,766**	**21,989**	**477,886**
Balance as of March 31, 2017	**$374,098**	**$317,337**	**$3,216,267**	**$(194,572)**	**$3,713,130**	**$161,342**	**$(0)**	**$1,979**	**$(55,896)**	**$ (4,795)**	**$102,629**	**$433,711**	**$4,249,479**

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, 2017

	Millions of yen		Thousands of U.S. dollars (note 2)
	2017	2016	**2017**
Cash flows from operating activities:			
Profit before income taxes	**¥61,048**	¥45,833	**$544,148**
Adjustments to reconcile profit before income taxes to net cash provided by operating activities:			
Depreciation and amortization	**25,631**	26,705	**228,461**
Loss on sale/disposal of property, plant and equipment	**538**	903	**4,795**
Impairment loss	**1,124**	1,529	**10,019**
Loss on reduction of non-current assets	**987**	—	**8,798**
Loss on business withdrawal	**870**	—	**7,755**
Loss on liquidation of subsidiaries and affiliates	**667**	1,101	**5,945**
Equity in earnings of affiliates	**(21,074)**	(16,683)	**(187,842)**
Increase (decrease) in allowance for doubtful receivables	**246**	(111)	**2,193**
Decrease in net defined benefit liability	**(1,158)**	(33)	**(10,322)**
(Decrease) increase in provision for directors' retirement benefits	**(141)**	79	**(1,257)**
Interest and dividend income	**(2,213)**	(2,735)	**(19,725)**
Interest expenses	**1,346**	2,494	**11,998**
Gain on sale of short-term investments and investments in securities	**(690)**	(3,444)	**(6,150)**
Loss on devaluation of short-term investments and investments in securities	**240**	19	**2,139**
(Increase) decrease in trade notes and accounts receivable	**(3,930)**	12,900	**(35,030)**
Decrease in inventories	**3,948**	7,790	**35,190**
Increase (decrease) in trade notes and accounts payable	**8,416**	(15,215)	**75,016**
Other, net	**(2,301)**	3,422	**(20,510)**
Sub total	**73,555**	64,557	**655,629**
Interest and dividend received	**2,409**	2,689	**21,473**
Dividend received from affiliates accounted for by the equity method	**12,288**	18,692	**109,528**
Interest paid	**(1,391)**	(2,506)	**(12,399)**
Income taxes paid	**(5,226)**	(874)	**(46,582)**
Proceeds from subsidy income	**1,015**	1,909	**9,047**
Other, net	**59**	203	**526**
Net cash provided by operating activities	**82,711**	84,671	**737,240**
Cash flows from investing activities:			
Capital expenditures	**(32,291)**	(29,072)	**(287,824)**
Proceeds from sale of property, plant and equipment	**875**	457	**7,799**
Purchase of investments in securities and subsidiaries	**(2,308)**	(7,338)	**(20,572)**
Proceeds from sale of investments in securities	**2,482**	4,257	**22,123**
Decrease in long-term loans receivable	**177**	416	**1,578**
Payments for sales of shares of subsidiaries resulting in change in scope of consolidation	**(313)**	—	**(2,790)**
Other, net	**260**	(643)	**2,317**
Net cash used in investing activities	**(31,119)**	(31,922)	**(277,378)**
Cash flows from financing activities:			
Decrease in short-term debt	**(4,063)**	(12,639)	**(36,215)**
Proceeds from long-term debt	**1,741**	7,136	**15,518**
Payments on long-term debt	**(27,828)**	(25,092)	**(248,043)**
Redemption of bonds	**(15,000)**	—	**(133,702)**
Purchase of treasury stock	**(6,266)**	(7,437)	**(55,852)**
Dividends paid to stockholders	**(6,986)**	(6,694)	**(62,269)**
Dividends paid to non-controlling stockholders of subsidiaries	**(1,654)**	(1,238)	**(14,743)**
Other, net	**(158)**	(1,368)	**(1,408)**
Net cash used in financing activities	**(60,217)**	(47,335)	**(536,741)**
Effect of exchange rate changes on cash and cash equivalents	**(48)**	(2,255)	**(428)**
(Decrease) increase in cash and cash equivalents	**(8,673)**	3,157	**(77,306)**
Cash and cash equivalents at beginning of year	**75,828**	72,678	**675,889**
Increase (decrease) in cash and cash equivalents resulting from change of scope of consolidation	**22**	(7)	**196**
Cash and cash equivalents at end of year (note 3)	**¥67,177**	¥75,828	**$598,779**

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, 2017

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 71 subsidiaries (77 in 2016). The Company and its consolidated subsidiaries are collectively referred to as "MGC."

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

KOKUKA SANGYO CO., LTD. and its five subsidiaries were excluded from the scope of consolidation due to sales of a part of shares during the year ended March 31, 2017. MGC Finance Co., LTD. was excluded from the scope of consolidation due to close of its business operations during the year ended March 31, 2017. JSP International LTD. was included in the scope of consolidation due to the increase of materiality during the year ended March 31, 2017.

Investments in an unconsolidated subsidiary and 15 affiliates (12 in 2016) are accounted for by the equity method.

Te An Ling Tian (Nanjing) Fine Chemical Co., Ltd. was excluded from the scope of application of the equity method due to the sale of all shares. RYODEN KASEI Corporation, TAI HONG CIRCUIT INDUSTRIAL CO., LTD., and GRANOPT Co., Ltd. were included in the scope of application of the equity method due to the increase of materiality. KOKUKA SANGYO CO., LTD. was excluded from the scope of consolidation and included in the scope of application of the equity method due to sales of a part of shares.

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 (35 in 2016) 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, 2017.

(s) Additional Information

Effective from the year ended March 31, 2017, the Company has adopted the "Revised Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26, March 28, 2016).

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, 2017, which was ¥112.19 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, 2017 and 2016 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Cash	**¥ 75,017**	¥ 84,097	**$668,660**
Time deposits with maturities of over three months	**(7,979)**	(8,390)	**(71,120)**
Short-term investments	**139**	121	**1,239**
Cash and cash equivalents	**¥ 67,177**	¥ 75,828	**$598,779**

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

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 proceeds from sales of shares of KOKUKA SANGYO CO., LTD. and its five subsidiaries are as follows:

	Millions of yen	Thousands of U.S. dollars
	2017	**2017**
Current assets	**¥ 2,007**	**$ 17,889**
Non-current assets	**18,249**	**162,662**
Current liabilities	**(3,481)**	**(31,028)**
Non-current liabilities	**(15,418)**	**(137,428)**
Net unrealized gain on other securities	**(4)**	**(36)**
Non-controlling interests	**(339)**	**(3,022)**
Investment account after sale of shares	**(675)**	**(6,017)**
Loss on sales of shares	**(127)**	**(1,132)**
Selling price of shares	**¥ 210**	**$ 1,872**
Cash and cash equivalents	**(523)**	**(4,662)**
Payments for sales of shares of subsidiaries resulting in change in scope of consolidation	**¥ (313)**	**$ (2,790)**

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, 2017 and 2016 are summarized as follows:

	Millions of yen			
	Balance sheet amount	Gross unrealized gain	Gross unrealized loss	Fair value
March 31, 2017				
Government bond securities	**¥ 0**	**¥ 0**	**¥ –**	**¥ 0**
	¥ 0	**¥ 0**	**¥ –**	**¥ 0**
March 31, 2016				
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, 2017				
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, 2017 and 2016 are summarized as follows:

	Millions of yen			
	Balance sheet amount	Gross unrealized gain	Gross unrealized loss	Acquisition cost
March 31, 2017				
Equity securities	**¥ 52,454**	**¥ 26,365**	**¥ (530)**	**¥ 26,619**
Other securities	**9**	**—**	**(0)**	**10**
	¥ 52,465	**¥ 26,365**	**¥ (530)**	**¥ 26,629**
March 31, 2016				
Equity securities	¥ 42,008	¥ 16,015	¥ (1,715)	¥ 27,707
Other securities	10	0	—	10
	¥ 42,018	¥ 16,015	¥ (1,715)	¥ 27,717

	Thousands of U.S. dollars			
	Balance sheet amount	Gross unrealized gain	Gross unrealized loss	Acquisition cost
March 31, 2017				
Equity securities	**$467,546**	**$235,003**	**$ (4,724)**	**$237,267**
Other securities	**80**	**—**	**(0)**	**89**
	$467,644	**$235,003**	**$ (4,724)**	**$237,356**

Securities classified as other securities for which fair value is not available are unlisted equity securities amounting to ¥11,405 million ($101,658 thousand) and ¥11,219 million as of March 31, 2017 and 2016, respectively.

For the years ended March 31, 2017 and 2016, proceeds from the sale of other securities are ¥1,960 million ($17,470 thousand) and ¥9,347 million, respectively. Gross realized gains are ¥860 million ($7,666 thousand) and ¥3,444 million for the years ended March 31, 2017 and 2016, respectively. Gross realized losses are ¥1 million ($9 thousand) for the year ended March 31, 2017.

The Company recognized impairment losses on securities of ¥240 million ($2,139 thousand) and ¥19 million for the years ended March 31, 2017 and 2016, 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, 2017 and 2016 are ¥115,421 million ($1,028,799 thousand) and ¥97,390 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 0.5% as of March 31, 2017 and 2016, respectively.

Long-term debt as of March 31, 2017 and 2016 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
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**	¥ —	**$ 419,779**
Loans, principally from banks, maturing in installments through 2025 with weighted average interest of 1.16% as of March 31, 2016, partially secured by mortgage of property, plant and equipment and securities	**—**	75,159	**—**
Lease liabilities maturing in installments through 2023 as of March 31, 2017	**547**	—	**4,876**
Lease liabilities maturing in installments through 2024 with weighted average interest rate of 3.2% as of March 31, 2016	**—**	15,567	**—**
Unsecured bonds, due 2016 with interest of 0.670%	**—**	15,000	**—**
Unsecured bonds, due 2021 with interest of 0.572%	**10,000**	10,000	**89,135**
	57,642	115,727	**513,789**
Less current installments:			
Loans	**13,599**	28,211	**121,214**
Lease liabilities	**100**	1,538	**891**
Unsecured bonds	**—**	15,000	**—**
	¥ 43,942	¥ 70,977	**$ 391,675**

(Note) The weighted average interest rate on lease liabilities as of March 31, 2017 is 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, 2018, are as follows:

	Millions of yen	Thousands of U.S. dollars
Year ending March 31,		
2019	¥ 16,508	$ 147,143
2020	12,025	107,184
2021	946	8,432
2022	4,015	35,788

The aggregate annual maturities of bonds after March 31, 2018, are as follows:

	Millions of yen	Thousands of U.S. dollars
Year ending March 31,		
2019	¥ —	$ —
2020	—	—
2021	10,000	89,135
2022	—	—

Property, plant and equipment and securities with a book value as of March 31, 2017 of ¥22,522 million ($200,749 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 1.579% 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, 2017 and 2016:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Balance at beginning of year	**¥ 3,912**	¥ 3,685	**$ 34,869**
Liabilities incurred due to the acquisition	**11**	126	**98**
Accretion expenses	**66**	100	**588**
Liabilities settled	**(65)**	—	**(579)**
Other	**5**	—	**45**
Balance at end of year	**¥ 3,930**	¥ 3,912	**$ 35,030**

(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
	2017	2016	**2017**
Retirement benefit obligation at beginning of year	**¥ 42,432**	¥ 42,529	**$378,216**
Service costs	**2,181**	2,411	**19,440**
Interest costs	**372**	380	**3,316**
Actuarial gains and losses arising during year	**21**	(76)	**187**
Retirement benefits paid	**(4,197)**	(2,781)	**(37,410)**
Other	**(34)**	(30)	**(303)**
Retirement benefit obligation at end of year	**¥ 40,775**	¥ 42,432	**$363,446**

(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
	2017	2016	**2017**
Plan assets at beginning of year	**¥ 34,943**	¥ 38,512	**$311,463**
Expected return on plan assets	**460**	482	**4,100**
Actuarial gains and losses arising during year	**2,003**	(3,436)	**17,854**
Contribution from employer	**1,566**	1,296	**13,958**
Retirement benefits paid	**(2,665)**	(1,892)	**(23,754)**
Other	**(18)**	(20)	**(160)**
Plan assets at end of year	**¥ 36,289**	¥ 34,943	**$323,460**

(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
	2017	2016	**2017**
Net defined benefit liability at beginning of year	**¥ 1,589**	¥ 1,569	**$ 14,163**
Decrease due to change of scope of consolidation	**(80)**	—	**(713)**
Retirement benefit expenses	**293**	268	**2,612**
Retirement benefits paid	**(291)**	(114)	**(2,594)**
Contribution to plans	**(76)**	(115)	**(677)**
Other	**3**	(19)	**27**
Net defined benefit liability at end of year	**¥ 1,438**	¥ 1,589	**$ 12,818**

(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
	2017	2016	**2017**
Funded retirement benefit obligation	**¥40,428**	¥ 42,217	**$360,353**
Plan assets	**(37,750)**	(36,433)	**(336,483)**
	¥ 2,678	¥ 5,783	**$ 23,870**
Unfunded retirement benefit obligation	**3,246**	3,295	**28,933**
Net balance of liability and asset recorded on the consolidated balance sheet	**¥ 5,924**	¥ 9,078	**$ 52,803**
Net defined benefit asset	**¥ (12)**	—	**(107)**
Net defined benefit liability	**5,936**	¥ 9,078	**$ 52,910**
Net balance of liability and asset recorded on the consolidated balance sheet	**¥ 5,924**	¥ 9,078	**$ 52,803**

(e) Retirement benefit expenses and components thereof:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Service costs	**¥ 2,181**	¥ 2,411	**$ 19,440**
Interest costs	**372**	380	**3,316**
Expected return on plan assets	**(460)**	(482)	**(4,100)**
Amortization of actuarial gains and losses	**291**	(521)	**2,594**
Amortization of past service costs	**126**	126	**1,123**
Retirement benefit expenses applying the simplified method	**293**	268	**2,612**
Retirement benefit expenses under defined benefit plans	**¥ 2,805**	¥ 2,183	**$ 25,002**

(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
	2017	2016	**2017**
Past service costs	**¥ 126**	¥ 113	**$ 1,123**
Actuarial gains and losses	**2,171**	(4,820)	**19,351**
Total	**¥ 2,297**	¥ (4,707)	**$ 20,474**

(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
	2017	2016	**2017**
Unrecognized past service costs	**¥ 4**	¥ 176	**$ 36**
Unrecognized actuarial gains and losses	**(1,146)**	1,348	**(10,215)**
Total	**¥ (1,141)**	¥ 1,525	**$ (10,170)**

(h) Plan assets

(i) Components of plan assets

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

	2017	2016
Debt securities	**31%**	32%
Equity securities	**48**	45
Cash	**4**	6
Other	**17**	17
Total	**100%**	100%

(Note) Total plan assets include retirement benefit trusts of 34% and 31% as of March 31, 2017 and 2016, respectively, that are set up for corporate pension plans.

(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

	2017	2016
Discount rate	**Mainly 0.8%**	Mainly 0.8%
Expected long-term rate of return on plan assets	**Mainly 2.5%**	Mainly 2.5%

Defined contribution plans

The required contribution of MGC to the defined contribution plans amounted to ¥471 million ($4,198 thousand) and ¥537 million as of March 31, 2017 and 2016, 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, 2017 and 2016, the liabilities for retirement and severance benefits related to the plans were ¥387 million ($3,450 thousand) and ¥554 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 2017 and 33.1% in 2016.

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, 2017 and 2016 is as follows:

	2017	2016
Statutory tax rate	**30.9%**	33.1%
Equity in earnings of affiliates	**(10.7)**	(14.2)
Dividend income eliminated in consolidation	**8.0**	18.7
Valuation allowance	**(5.7)**	2.3
Income not credited for tax purposes	**(8.1)**	(19.0)
Succession of operating loss carryforward associated with liquidation of subsidiaries	**(0.2)**	(9.0)
Foreign taxes	**1.9**	1.5
Adjustments of deferred tax assets due to change in statutory tax rate	**—**	0.4
Other	**(3.5)**	4.5
Effective tax rate	**12.6%**	18.3%

Significant components of deferred tax assets and liabilities as of March 31, 2017 and 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Deferred tax assets:			
Tax loss carryforward	**¥ 15,947**	¥ 17,105	**$142,143**
Net defined benefit liability	**6,216**	6,624	**55,406**
Devaluation loss on investments in securities	**1,262**	1,261	**11,249**
Accrued bonuses	**1,569**	1,579	**13,985**
Intercompany profits	**1,720**	1,573	**15,331**
Depreciation	**695**	893	**6,195**
Impairment loss	**3,254**	3,782	**29,004**
Asset retirement obligations	**1,241**	1,188	**11,062**
Other	**4,420**	7,375	**39,397**
	36,329	41,384	**323,817**
Valuation allowance	**(27,085)**	(32,246)	**(241,421)**
	9,244	9,137	**82,396**
Deferred tax liabilities:			
Net unrealized gain on other securities	**(7,513)**	(4,275)	**(66,967)**
Gain by contributing the assets to the trust	**(1,402)**	(1,402)	**(12,497)**
Tax purpose reserves etc. regulated by Japanese tax law	**(2,118)**	(2,019)	**(18,879)**
Asset retirement cost	**(357)**	(340)	**(3,182)**
Retained earnings of overseas consolidated subsidiaries and others	**(5,531)**	(4,578)	**(49,300)**
Other	**(1,980)**	(2,155)	**(17,649)**
	(18,904)	(14,772)	**(168,500)**
Net deferred tax liabilities	**¥ (9,659)**	¥ (5,634)	**$ (86,095)**

Net deferred tax assets and liabilities as of March 31, 2017 and 2016 are reflected in the accompanying consolidated balance sheet under the following captions:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Current assets - Deferred income taxes	**¥ 5,818**	¥ 4,585	**$ 51,858**
Investments and other assets - Deferred income taxes	**2,161**	2,418	**19,262**
Current liabilities - Other current liabilities	**(256)**	(212)	**(2,282)**
Non-current liabilities - Deferred income taxes	**(17,382)**	(12,426)	**(154,934)**

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, 2017 and 2016 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, 2016

The following was approved by the Board of Directors held on May 26, 2015.

(i) Total dividends	¥3,161 million
(ii) Cash dividends per common share	¥7
(iii) Record date	March 31, 2015
(iv) Effective date	June 8, 2015

The following was approved by the Board of Directors held on November 5, 2015.

(i) Total dividends	¥3,533 million
(ii) Cash dividends per common share	¥8
(iii) Record date	September 30, 2015
(iv) Effective date	December 4, 2015

(b) 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 ($31,491 thousand)
(ii) Cash dividends per common share	¥8 ($0.07)
(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 ($30,778 thousand)
(ii) Cash dividends per common share	¥8 ($0.07)
(iii) Record date	September 30, 2016
(iv) Effective date	December 6, 2016

(c) Dividends to be paid after the balance sheet date but the record date for the payment belongs to the year ended March 31, 2017

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

(i) Total dividends	¥4,747 million ($42,312 thousand)
(ii) Dividend source	Retained earnings
(iii) Cash dividends per common share	¥22 ($0.20)
(iv) Record date	March 31, 2017
(v) Effective date	June 8, 2017

Cash dividends per common share with the record date of March 31, 2017 have been restated, as appropriate, to reflect a one-for-two reverse split of stocks effective on October 1, 2016.

12. Selling, General and Administrative Expenses

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

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Freight	**¥ 19,353**	¥ 20,235	**$172,502**
Stevedoring and warehouse fee	**4,182**	4,430	**37,276**
Salaries	**16,908**	16,545	**150,709**
Employees' bonuses	**5,458**	5,570	**48,650**
Pension cost	**1,312**	1,015	**11,694**
Welfare	**3,400**	3,907	**30,306**
Transportation	**2,683**	2,670	**23,915**
Depreciation	**4,741**	4,210	**42,259**

13. Research and Development Costs

Research and development costs charged to income for the years ended March 31, 2017 and 2016 are ¥19,267 million ($171,735 thousand) and ¥18,936 million, respectively.

14. Long-Lived Assets

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 ($10,019 thousand) for the significant asset groups which are as follows:

Location	Usage	Classification	Millions of yen	Thousands of U.S. dollars
Niigata City, Niigata prefecture	Natural gas chemicals manufacturing facilities	Buildings, Machinery and equipment, etc.	¥ 1,029	$ 9,172

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 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	Thousands of U.S. dollars
	2017	**2017**
Buildings and structures	**¥ 183**	**$ 1,631**
Machinery and equipment	**766**	**6,828**
Other	**79**	**704**
Total	**¥ 1,029**	**$ 9,172**

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.

Year ended March 31, 2016

MGC reviewed its long-lived assets for impairment and, as a result, recognized an impairment loss in the amount of ¥1,529 million for the significant asset groups which are as follows:

Location	Usage	Classification	Millions of yen
Tokorozawa City, Saitama prefecture, etc.	Synthetic resin manufacturing facilities	Buildings, Machinery and equipment, etc.	¥ 615
Toyonaka City, Osaka	Synthetic resin manufacturing facilities	Buildings, Machinery and equipment, etc.	¥ 719

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.

Synthetic resin manufacturing facilities owned by a consolidated subsidiary of the Company were written down to a recoverable amount because of their profitability decline.

The recoverable amount was measured at the net selling value, which is principally calculated based on the assessment value of the assets for property tax purpose.

Impairment loss on the asset groups consisted of the following:

	Millions of yen
	2016
Buildings and structures	**¥ 837**
Machinery, equipment and vehicles	**¥ 462**
Other	**35**
Total	**¥ 1,334**

Impairment loss on long-lived assets other than the above facilities was immaterial for the year ended March 31, 2016. The relevant disclosure is, therefore, omitted.

15. Loss on Liquidation of Subsidiaries and Affiliates

Year ended March 31, 2017

MGC recorded a loss on liquidation of subsidiaries and affiliates in the amount of ¥667 million ($5,945 thousand) associated with the liquidation of a consolidated subsidiary.

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

	Millions of yen	Thousands of U.S. dollars
Provision for loss on liquidation of subsidiaries and affiliates	¥ 513	$ 4,573

Year ended March 31, 2016

MGC recorded a loss on liquidation of subsidiaries and affiliates in the amount of ¥1,101 million associated with the liquidation of a consolidated subsidiary.

Components of loss on liquidation of subsidiaries and affiliates for the year ended March 31, 2016 are as follows:

	Millions of yen
Impairment loss	¥ 528
Provision for loss on liquidation of subsidiaries and affiliates	¥ 517

Significant impairment loss included in loss on liquidation of subsidiaries and affiliates is as follows:

Location	Usage	Classification	Millions of yen
Toyota City, Aichi prefecture	Electronic material manufacturing facilities	Buildings, Machinery and equipment, etc.	¥ 528

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.

Electronic material manufacturing facilities owned by a consolidated subsidiary of the Company were written down to a recoverable amount as liquidation of the subsidiary was determined. The reduced amount was included in loss on liquidation of subsidiaries and affiliates.

The recoverable amount is measured at the net selling value, which is principally calculated by the estimated selling price.

Impairment loss on this asset group consisted of the following:

	Millions of yen
	2016
Buildings and structures	**¥ 305**
Machinery, equipment and vehicles	**113**
Other	**108**
Total	**¥ 528**

16. Other Comprehensive Income (Loss)

The reclassification adjustment and the related income tax effects allocated to each component of other comprehensive income (loss) for the years ended March 31, 2017 and 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Net unrealized gain (loss) on other securities:			
Arising during the year	**¥ 12,320**	¥ (12,194)	**$109,814**
Reclassification adjustment	**(783)**	(3,433)	**(6,979)**
Before tax amount	**11,537**	(15,627)	**102,834**
Tax (expense) benefit	**(3,273)**	4,881	**(29,174)**
Net-of-tax amount	**8,264**	(10,746)	**73,661**
Deferred gains (losses) on hedges:			
Arising during the year	**(0)**	(5)	**(0)**
Reclassification adjustment	**5**	—	**45**
Before tax amount	**4**	(5)	**36**
Tax (expense) benefit	**(1)**	1	**(9)**
Net-of-tax amount	**3**	(3)	**27**
Foreign currency translation adjustments:			
Arising during the year	**(2,192)**	(6,928)	**(19,538)**
Remeasurements of defined benefit plans:			
Arising during the year	**1,997**	(3,525)	**17,800**
Reclassification adjustment	**299**	(395)	**2,665**
Before tax amount	**2,297**	(3,920)	**20,474**
Tax (expense) benefit	**(184)**	124	**(1,640)**
Net-of-tax amount	**2,113**	(3,795)	**18,834**
Share of other comprehensive income of affiliates accounted for by equity method:			
Arising during the year	**(580)**	(6,057)	**(5,170)**
Reclassification adjustment	**(44)**	—	**(392)**
Net-of-tax amount	**(624)**	(6,057)	**(5,562)**
Total other comprehensive income (loss)	**¥ 7,564**	¥ (27,530)	**$ 67,421**

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, 2017 and 2016 are as follows:

	Yen		U.S. dollars
	2017	2016	**2017**
Earnings per share	**¥ 221.57**	¥ 153.85	**$ 1.97**

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Profit attributable to owners of parent	**¥ 47,958**	¥ 34,134	**$427,471**
Profit not applicable to common stockholders	**—**	—	**—**
Profit attributable to common stockholders of parent	**¥ 47,958**	¥ 34,134	**$427,471**

	Number of shares	
	2017	2016
Weighted average number of shares outstanding on which earnings per share per share is calculated	**216,444,168**	221,866,819

The diluted earnings per share for the years ended March 31, 2017 and 2016 are not presented because there are no dilutive potential shares as of March 31, 2017 and 2016.

(b) Net assets per share

Net assets per share as of March 31, 2017 and 2016 are as follows:

	Yen		U.S. dollars
	2017	2016	**2017**
Net assets per share	**¥1,983.60**	¥1,707.01	**$ 17.68**

The Company completed a reverse stock split (share consolidation on a 2:1 basis) effective on October 1, 2016. In this connection, earnings per share and net assets per share in the above table are calculated on the assumption that the share consolidation had been implemented at the beginning of the year ended March 31, 2016.

18. Leases

Operating lease

Future minimum lease payments required under non-cancellable operating leases as of March 31, 2017 and 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Within one year	**¥ 1,368**	¥ 1,405	**$12,194**
Over one year	**2,485**	3,590	**22,150**
	¥ 3,854	¥ 4,995	**$34,352**

19. Balances and Transactions with Related Party

The Company has a 50% equity ownership in Mitsubishi Engineering-Plastics Corporation as of March 31, 2017 and 2016.

Balances with the company as of March 31, 2017 and 2016 and related transactions for the years then ended are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Balances:			
Trade accounts receivable	**¥ 8,102**	¥ 6,387	**$ 72,217**
Transactions:			
Sales	**31,977**	27,278	**285,025**

The Company has a 50% equity ownership in BRUNEI METHANOL COMPANY SDN. BHD. as of March 31, 2017 and 2016.

As of March 31, 2017 and 2016, the Company has guaranteed ¥9,373 million ($83,546 thousand) and ¥10,630 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, 2017.

As of March 31, 2017, the Company has guaranteed ¥6,719 million ($59,889 thousand) of the company's loans to financial institutions.

The condensed financial information of all of 17 affiliates (13 in 2016) 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
	2017	2016	**2017**
Total current assets	**¥170,849**	¥156,464	**$1,522,854**
Total non-current assets	**244,540**	209,912	**2,179,695**
Total current liabilities	**100,478**	94,522	**895,606**
Total non-current liabilities	**65,900**	60,667	**587,396**
Total net assets	**249,011**	211,187	**2,219,547**
Sales	**314,774**	299,783	**2,805,722**
Profit before income taxes	**63,199**	55,552	**563,321**
Profit	**58,080**	47,922	**517,693**

20. Commitments and Contingencies

As of March 31, 2017 and 2016, MGC was contingently liable with respect to recourse obligations related to trade notes receivable transferred in the amount of ¥9 million ($80 thousand) and ¥46 million, respectively.

The Company guarantees certain obligations of its associated companies and employees, etc. As of March 31, 2017 and 2016, guarantees for affiliates and employees, etc. loans amounted to ¥15,223 million ($135,689 thousand) and ¥10,239 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, 2017 and 2016 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, 2017 and 2016 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.")

	Millions of yen			Thousands of U.S. dollars		
March 31, 2017	Balance sheet amount	Fair value	Differences	Balance sheet amount	Fair value	Differences
Assets:						
(1) Cash	**¥ 75,017**	**¥ 75,017**	**¥ —**	**$ 668,660**	**$ 668,660**	**$ —**
(2) Trade notes and accounts receivable	**138,410**	**138,410**	**—**	**1,233,711**	**1,233,711**	**—**
(3) Short-term investments and investments in securities	**55,633**	**53,884**	**(1,749)**	**495,882**	**480,292**	**(15,590)**
Total assets	**¥ 269,061**	**¥ 267,312**	**¥ (1,749)**	**$2,398,262**	**$2,382,672**	**$ (15,590)**
Liabilities:						
(1) Trade notes and accounts payable	¥ 68,506	¥ 68,506	¥ —	$ 610,625	$ 610,625	$ —
(2) Short-term borrowings	74,669	74,669	—	665,558	665,558	—
(3) Accrued expenses	15,171	15,171	—	135,226	135,226	—
(4) Bonds	10,000	10,107	107	89,135	90,088	954
(5) Long-term borrowings	33,495	34,011	515	298,556	303,155	4,590
Total liabilities	¥ 201,842	¥ 202,465	¥ 622	$1,799,109	$1,804,662	$ 5,544
Derivative transactions (*):						
Hedge accounting not applied	¥ (60)	¥ (60)	¥ —	$ (535)	$ (535)	$ —
Hedge accounting applied	—	(23)	(23)	—	(205)	(205)
Total derivative transactions	¥ (60)	¥ (84)	¥ (23)	$ (535)	$ (749)	$ (205)

	Millions of yen		
March 31, 2016	Balance sheet amount	Fair value	Differences
Assets:			
(1) Cash	**¥ 84,097**	**¥ 84,097**	**¥ —**
(2) Trade notes and accounts receivable	**136,401**	**136,401**	**—**
(3) Short-term investments and investments in securities	**45,155**	**43,309**	**(1,846)**
Total assets	**¥ 265,654**	**¥ 263,808**	**¥ (1,846)**
Liabilities:			
(1) Trade notes and accounts payable	¥ 60,819	¥ 60,819	¥ —
(2) Short-term borrowings	93,911	93,911	—
(3) Current installments of bonds	15,000	15,000	—
(4) Accrued expenses	14,772	14,772	—
(5) Lease obligations (current)	1,538	1,538	—
(6) Bonds	10,000	9,810	(189)
(7) Long-term borrowings	46,947	46,678	(268)
(8) Lease obligations (non-current)	14,029	15,929	1,900
Total liabilities	¥ 257,018	¥ 258,460	¥ 1,442
Derivative transactions (*):			
Hedge accounting not applied	¥ (134)	¥ (134)	¥ —
Hedge accounting applied	—	(61)	(61)
Total derivative transactions	¥ (134)	¥ (195)	¥ (61)

*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		Thousands of U.S. dollars
	2017	2016	**2017**
Unlisted equity securities	**¥ 123,419**	¥ 105,398	**$ 1,100,089**

*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, 2017

	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	¥ 75,017	¥ —	¥ —	¥ —
(2) Trade notes and accounts receivable	138,410	—	—	—
(3) Short-term investments and investments in securities:				
Held-to-maturity securities:				
Government bonds	—	0	—	—
Total	¥ 213,427	¥ 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	$ 668,660	$ —	$ —	$ —
(2) Trade notes and accounts receivable	1,233,711	—	—	—
(3) Short-term investments and investments in securities:				
Held-to-maturity securities:				
Government bonds	—	0	—	—
Total	$ 1,902,371	$ 0	$ —	$ —

<4> The annual maturities of the bonds and long-term borrowings as of March 31, 2017

	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	13,599	16,508	12,025	946	4,015	¥ —

	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	$ —	$ —	$ —	$ 89,135	$ —	$ —
Long-term borrowings	121,214	147,143	107,184	8,432	35,788	—

22. Derivative Financial Instruments

The contract or notional amounts and fair value of derivative financial instruments held as of March 31, 2017 and 2016 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, 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)**
March 31, 2016			
Forward exchange contracts:			
To sell foreign currency:			
U.S. dollar	¥ 16,801	¥ 100	¥ 100
Euro	1,235	(6)	(6)
South Korean Won	—	—	—
New Taiwan dollar	787	13	13
To buy foreign currency:			
U.S. dollar	2,916	(128)	(128)
Currency swap agreements:			
Receive/U.S. dollar, Pay/Japanese Yen	363	(26)	(26)
Receive/U.S. dollar, Pay/Thai Baht	482	10	10
	¥ 22,586	¥ (37)	¥ (37)

	Thousands of U.S. dollars		
	Contract or notional amounts	Fair value	Valuation gain (loss)
March 31, 2017			
Forward exchange contracts:			
To sell foreign currency:			
U.S. dollar	**$ 164,426**	**$ 45**	**$ 45**
Euro	**12,568**	**62**	**62**
New Taiwan dollar	**3,975**	**(312)**	**(312)**
To buy foreign currency:			
U.S. dollar	**13,548**	**(267)**	**(267)**
New Taiwan dollar	**0**	**(0)**	**(0)**
Currency swap agreements:			
Receive/U.S. dollar, Pay/Japanese Yen	**3,031**	**(36)**	**(36)**
Receive/U.S. dollar, Pay/Thai Baht	**5,188**	**27**	**27**
	$ 202,754	**$ (472)**	**$ (472)**

*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, 2017			
Interest rate swap agreements:			
Receive/floating and pay/fixed	**¥ 5,620**	**¥ (7)**	**¥ (7)**
March 31, 2016			
Interest rate swap agreements:			
Receive/floating and pay/fixed	¥ 7,031	¥ (97)	¥ (97)

	Thousands of U.S. dollars		
	Contract or notional amounts	Fair value	Valuation gain (loss)
March 31, 2017			
Interest rate swap agreements:			
Receive/floating and pay/fixed	**$ 50,094**	**$ (62)**	**$ (62)**

*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, 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)**
March 31, 2016			
Forward exchange contracts:			
To sell foreign currency:	Accounts receivable		
U.S. dollar		¥ 4,438	¥ 168
Euro		27	(0)
To buy foreign currency:	Accounts payable		
U.S. dollar		2,120	(40)
Euro		29	0
To sell foreign currency:	Forecasted transactions		
U.S. dollar		173	(0)
To buy foreign currency:	Forecasted transactions		
U.S. dollar		241	(4)
		¥ 7,029	¥ 123

	Hedged items	Thousands of U.S. dollars Contract or notional amounts	Fair value
March 31, 2017			
Forward exchange contracts:			
To sell foreign currency:	**Accounts receivable**		
U.S. dollar		**$ 27,195**	**$ (0)**
Euro		**758**	**0**
Chinese Yuen		**374**	**0**
To buy foreign currency:	**Accounts payable**		
U.S. dollar		**18,665**	**(143)**
Euro		**749**	**(9)**
To sell foreign currency:	**Forecasted transactions**		
U.S. dollar		**36**	**(0)**
To buy foreign currency:	**Forecasted transactions**		
U.S. dollar		**—**	**—**
		$ 47,794	**$ (160)**

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

(b) Interest rate swap agreements

	Hedged items	Millions of yen Contract or notional amounts	Fair value
March 31, 2017			
Interest rate swap agreements:			
Receive/floating and pay/fixed	**Long-term borrowings**	**¥ 4,805**	**¥ (20)**
March 31, 2016			
Interest rate swap agreements:			
Receive/floating and pay/fixed	Long-term borrowings	¥ 11,205	¥ (56)

	Hedged items	Thousands of U.S. dollars Contract or notional amounts	Fair value
March 31, 2017			
Interest rate swap agreements:			
Receive/floating and pay/fixed	**Long-term borrowings**	**$ 42,829**	**$ (178)**

*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, 2017 and 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Consolidated balance sheet amount:			
Balance at beginning of the year	**¥ 5,955**	¥ 5,675	**$ 53,080**
Increase/(decrease)	**4,873**	279	**43,435**
Balance at end of the year	**¥ 10,828**	¥ 5,955	**$ 96,515**
Fair value	**¥ 13,805**	¥ 9,789	**$ 123,050**

Notes:

1. Consolidated balance sheet amount is its cost minus accumulated depreciation and accumulated impairment loss.
2. Increase for the year ended March 31, 2017 was mainly due to new rents executed by the Company of ¥4,938 million ($44,015 thousand). Increase for the year ended March 31, 2016 was mainly due to new rents executed by consolidated subsidiaries of ¥267 million.
3. Fair value is based on roadside value, etc.

Income from the rental property is ¥313 million ($2,790 thousand) and ¥389 million for the years ended March 31, 2017 and 2016, 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, enzymes and crude oil.

Aromatic chemicals business mainly produces and sells xylene isomers, xylene derivatives 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, printed circuit boards 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 is 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.

The reported segment information for the Company and its consolidated subsidiaries for the years ended March 31, 2017 and 2016 is summarized as follows:

	Natural gas chemicals	Aromatic chemicals	Specialty chemicals	Information and advanced materials	Other	Adjustments	Consolidated
	Millions of yen						
	2017						
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	¥ 14,287	¥ 17,533	¥ 26,809	¥ 6,151	¥ 328	¥ (2,730)	¥ 62,378
Segment assets	¥ 182,089	¥ 192,047	¥ 209,897	¥ 73,404	¥ 38,783	¥ 45,417	¥ 741,639
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	12,775	7	6,835	1,229	225	—	21,074
Investments in affiliates accounted for by the equity method	64,499	567	21,029	10,139	3,341	873	100,450
Capital expenditures	9,009	10,556	8,172	6,674	7	589	35,010

	Natural gas chemicals	Aromatic chemicals	Specialty chemicals	Information and advanced materials	Other	Adjustments	Consolidated
	Millions of yen						
	2016						
Sales:							
Sales to third parties	¥ 165,497	¥ 203,348	¥ 168,721	¥ 55,251	¥ 684	¥ —	¥ 593,502
Inter-segment sales	10,202	2,546	1,524	1	109	(14,385)	—
	¥ 175,699	¥ 205,895	¥ 170,246	¥ 55,252	¥ 793	¥ (14,385)	¥ 593,502
Segment profit	¥ 13,904	¥ 13,710	¥ 15,593	¥ 3,854	¥ 283	¥ (1,914)	¥ 45,432
Segment assets	¥ 193,931	¥ 195,454	¥ 199,925	¥ 64,386	¥ 45,370	¥ 40,513	¥ 739,582
Others:							
Depreciation and amortization	¥ 6,176	¥ 8,298	¥ 8,882	¥ 3,001	¥ 11	¥ 336	¥ 26,705
Amortization of goodwill	—	242	0	—	37	—	280
Interest income	94	262	114	55	2	(16)	512
Interest expenses	809	1,058	1,126	210	14	(724)	2,494
Equity in earnings (losses) of affiliates	11,301	(38)	5,259	—	160	—	16,683
Investments in affiliates accounted for by the equity method	59,430	555	16,678	—	3,135	1,367	81,167
Capital expenditures	5,306	10,630	9,904	3,885	308	477	30,512

	Natural gas chemicals	Aromatic chemicals	Specialty chemicals	Information and advanced materials	Other	Adjustments	Consolidated
	Thousands of U.S. dollars						
	2017						
Sales:							
Sales to third parties	$ 1,273,741	$ 1,710,785	$ 1,523,255	$ 447,428	$ 4,929	$ —	$ 4,960,157
Inter-segment sales	94,982	22,694	11,819	18	606	(130,136)	—
	$ 1,368,723	$ 1,733,488	$ 1,535,074	$ 447,455	$ 5,544	$ (130,136)	$ 4,960,157
Segment profit	$ 127,346	$ 156,280	$ 238,961	$ 54,827	$ 2,924	$ (24,334)	$ 556,003
Segment assets	$ 1,623,041	$ 1,711,801	$ 1,870,906	$ 654,283	$ 345,690	$ 404,822	$ 6,610,562
Others:							
Depreciation and amortization	$ 45,182	$ 75,818	$ 77,289	$ 26,981	$ 178	$ 2,986	$ 228,461
Amortization of goodwill	—	2,148	0	—	294	—	2,451
Interest income	900	1,667	1,052	205	9	(71)	3,770
Interest expenses	1,355	7,122	6,926	1,230	116	(4,769)	11,998
Equity in earnings (losses) of affiliates	113,869	62	60,923	10,955	2,006	—	187,842
Investments in affiliates accounted for by the equity method	574,909	5,054	187,441	90,373	29,780	7,781	895,356
Capital expenditures	80,301	94,090	72,841	59,488	62	5,250	312,060

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		Thousands of U.S. dollars
	2017	2016	**2017**
Elimination of intersegment transactions	**¥ 49**	¥ 1	**$ 437**
Unallocated company-wide expenses	**(2,780)**	(1,915)	**(24,779)**
	¥ (2,730)	¥ (1,914)	**$ (24,334)**

*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		Thousands of U.S. dollars
	2017	2016	**2017**
Elimination of intersegment balances	**¥ (30,331)**	¥ (29,688)	**$ (270,354)**
Unallocated company-wide assets	**75,748**	70,201	**675,176**
	¥ 45,417	¥ 40,513	**$ 404,822**

*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 ¥335 million ($2,986 thousand) and ¥336 million are depreciation and amortization of company-wide assets which are not allocated to reported segments for the years ended March 31, 2017 and 2016, respectively.

(4) "Adjustments in interest income" of ¥(8) million ($(71) thousand) and ¥(16) million are mainly elimination of intersegment transactions for the years ended March 31, 2017 and 2016, respectively.

(5) "Adjustments in interest expenses" of ¥(535) million ($(4,769) thousand) and ¥(724) million are mainly elimination of intersegment transactions for the years ended March 31, 2017 and 2016, respectively.

(6) "Adjustments in investments in affiliates accounted for by the equity method" of ¥873 million ($7,781 thousand) and ¥1,367 million are mainly investments which are not allocated to reported segments for the years ended March 31, 2017 and 2016, respectively.

(7) "Adjustments in capital expenditures" of ¥589 million ($5,250 thousand) and ¥477 million are related to company-wide assets which are not allocated to reported segments for the years ended March 31, 2017 and 2016, 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		Thousands of U.S. dollars
	2017	2016	**2017**
Japan	**¥ 262,772**	¥ 274,101	**$ 2,342,205**
Asia:			
China	**78,060**	71,465	**695,784**
Other	**125,893**	141,644	**1,122,141**
U.S.A.	**50,279**	60,721	**448,159**
Other	**39,474**	45,569	**351,850**
Total	**¥ 556,480**	¥ 593,502	**$ 4,960,157**

Notes:

1. Geographical sales are classified by customer's location.

(2) Property, plant and equipment

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Japan	**¥ 164,134**	¥ 175,015	**$ 1,463,000**
Asia	**36,223**	38,320	**322,872**
Other	**17,699**	17,188	**157,759**
Total	**¥ 218,057**	¥ 230,525	**$ 1,943,640**

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 2017						
	Natural gas chemicals	Aromatic chemicals	Specialty chemicals	Information and advanced materials	Other	Adjustments	Consolidated
Impairment loss	¥ 1,124	¥ —	¥ —	¥ —	¥ —	¥ —	¥ 1,124

	Millions of yen 2016						
	Natural gas chemicals	Aromatic chemicals	Specialty chemicals	Information and advanced materials	Other	Adjustments	Consolidated
Impairment loss	¥ 172	¥ 142	¥ 1,335	¥ 528	¥ —	¥ —	¥ 2,178

	Thousands of U.S. dollars 2017						
	Natural gas chemicals	Aromatic chemicals	Specialty chemicals	Information and advanced materials	Other	Adjustments	Consolidated
Impairment loss	$ 10,019	$ —	$ —	$ —	$ —	$ —	$ 10,019

Information of balance of goodwill by reported segments

	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

	Millions of yen 2016						
	Natural gas chemicals	Aromatic chemicals	Specialty chemicals	Information and advanced materials	Other	Adjustments	Consolidated
Goodwill	¥ —	¥ 4,401	¥ 1	¥ —	¥ 141	¥ —	¥ 4,543

	Thousands of U.S. dollars 2017						
	Natural gas chemicals	Aromatic chemicals	Specialty chemicals	Information and advanced materials	Other	Adjustments	Consolidated
Goodwill	$ —	$ 37,035	$ 0	$ —	$ 909	$ —	$ 37,953

Information of negative goodwill incurred by reported segments

No negative goodwill was incurred for the years ended March 31, 2017 and 2016.

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		Thousands of U.S. dollars
	2017	2016	**2017**
Sales	**¥ 556,480**	¥ 593,502	**$ 4,960,157**
Gross profit	**131,249**	123,046	**1,169,881**
Operating income	**43,762**	34,018	**390,070**
Ordinary income	**62,378**	45,432	**556,003**
Profit before income taxes	**61,048**	45,833	**544,148**
Profit	**53,372**	38,748	**475,729**

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, 2017, 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, 2017, and their financial performance and cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

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 27, 2017

BDO Toyo & Co.

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Corporate Data / Investor Information

As of March 31, 2017

Mitsubishi Gas Chemical Company, Inc.

Establishment
April 21, 1951

Paid-in Capital
¥41.97 billion

Outstanding Shares
241,739,199

Number of Shareholders
19,843

Listing (Ticker Code)
Tokyo (4182)

Stock Transaction Units
100 - shares

Annual General Meeting of Shareholders
The annual general meeting of Shareholders is normally held in June in Tokyo, Japan.

Independent Auditor
BDO Toyo & Co.

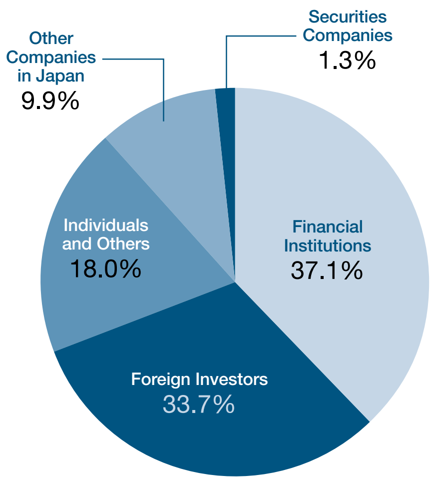
Transfer Agent and Registrar
Mitsubishi UFJ Trust and Banking Corp.

Major Shareholders

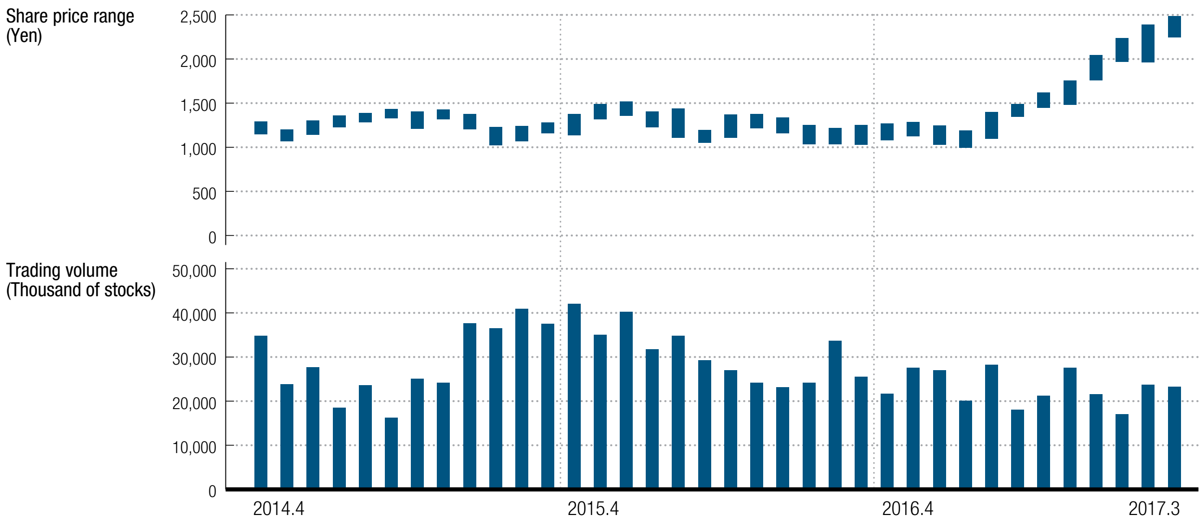
Name	Number of shares held (Thousands)	Shareholding ratio (%)
Japan Trustee Services Bank, Ltd. (Trust Account)	9,242	4.3
Nippon Life Insurance Company	8,795	4.1
The Master Trust Bank of Japan, Ltd. (Trust Account)	8,646	4.0
Meiji Yasuda Life Insurance Company	8,397	3.9
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	5,401	2.5
The Norinchukin Bank	5,026	2.3
Asahi Glass Co., Ltd.	4,835	2.2
THE BANK OF NEW YORK MELLON 140044	3,811	1.8
Japan Trustee Services Bank, Ltd. (Trust Account 5)	3,584	1.7
Mitsubishi UFJ Trust and Banking Corporation	3,506	1.6

Notes: 1. MGC holds 25,923 thousand shares of treasury stock, which is not included in the above list of major shareholders.
2. Percentage to Total Shares Outstanding does not include treasury stock.
3. With an effective date of October 1, 2016, MGC conducted a reverse stock split for MGC's ordinary shares on a 2:1 basis, while also changing the number of authorized shares from 984,856 thousand shares to 492,428 thousand shares. Additionally, on the same date, the trading unit was changed from 1,000 shares to 100 shares.

Compositions of Shareholders



Monthly Stock Price Range and Trading Volume



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 and market trading volume in the graph on the left are calculated assuming that the reverse stock split had been conducted at the beginning of April, 2014.

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