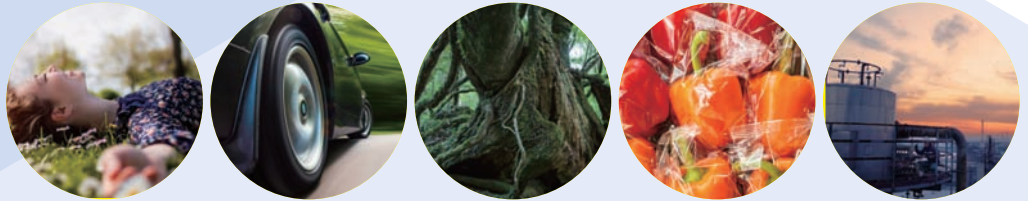


“Sustainable Growth” Starts with Action





Health Care



Mobility

**Sustainable Growth,
—Starts with Action—**



Food & Packaging



Basic Materials

Corporate Vision

Corporate Mission

Contribute broadly to society by providing high-quality products and services to customers through innovation and the creation of materials, while keeping in harmony with the global environment

Corporate Target

Constantly pursuing innovation and growth to become a chemical group with an undisputed global presence



Next Generation

The Mitsui Chemicals Group's Future Vision



Sustainable Development of Society and the Mitsui Chemicals Group

3 Mitsui Chemicals Group's Value Creation

- 3 To Our Stakeholders
- 4 Mitsui Chemicals Group's Value Creation Cycle
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Editorial Policy

In compiling this *Mitsui Chemicals Report 2017*, we sought to present a comprehensive overview of our various strategies and performance from both the financial and non-financial perspectives with the ultimate goal of creating a platform for meaningful dialogue with all stakeholders. While we have drawn on the disclosure framework for integrated reports issued by the International Integrated Reporting Council (IIRC), we have tried to avoid a rigid format. Our goal has been to provide a useful document that allows readers to gain a deeper understanding of our efforts toward the creation of value through innovation over the medium to long term.

Reporting Period and Scope

Period: April 1, 2016, to March 31, 2017

(Some data may postdate April 2017)

Scope: Mitsui Chemicals, Inc. and the Mitsui Chemicals Group (Other entities, if included, are identified in the text)

Forward-Looking Statements

This report contains forward-looking statements about future plans and strategies as well as forecasts and expectations regarding the performance of the Mitsui Chemicals Group. Actual results may differ materially from those projected, and the Mitsui Chemicals Group cannot guarantee that any forward-looking statements herein are accurate or that targets will be achieved. (Planned figures are as of May 12, 2017)

Investor Relations Website

For more detailed information, for example on the results for the fiscal year ended March 31, 2017, please visit:

<http://www.mitsuichem.com/en/ir/index.htm>

- Results information (summaries of financial results, financial data/graphs, etc.)
- CEO explanation materials
- Timely disclosure information
- Dividend information, etc.



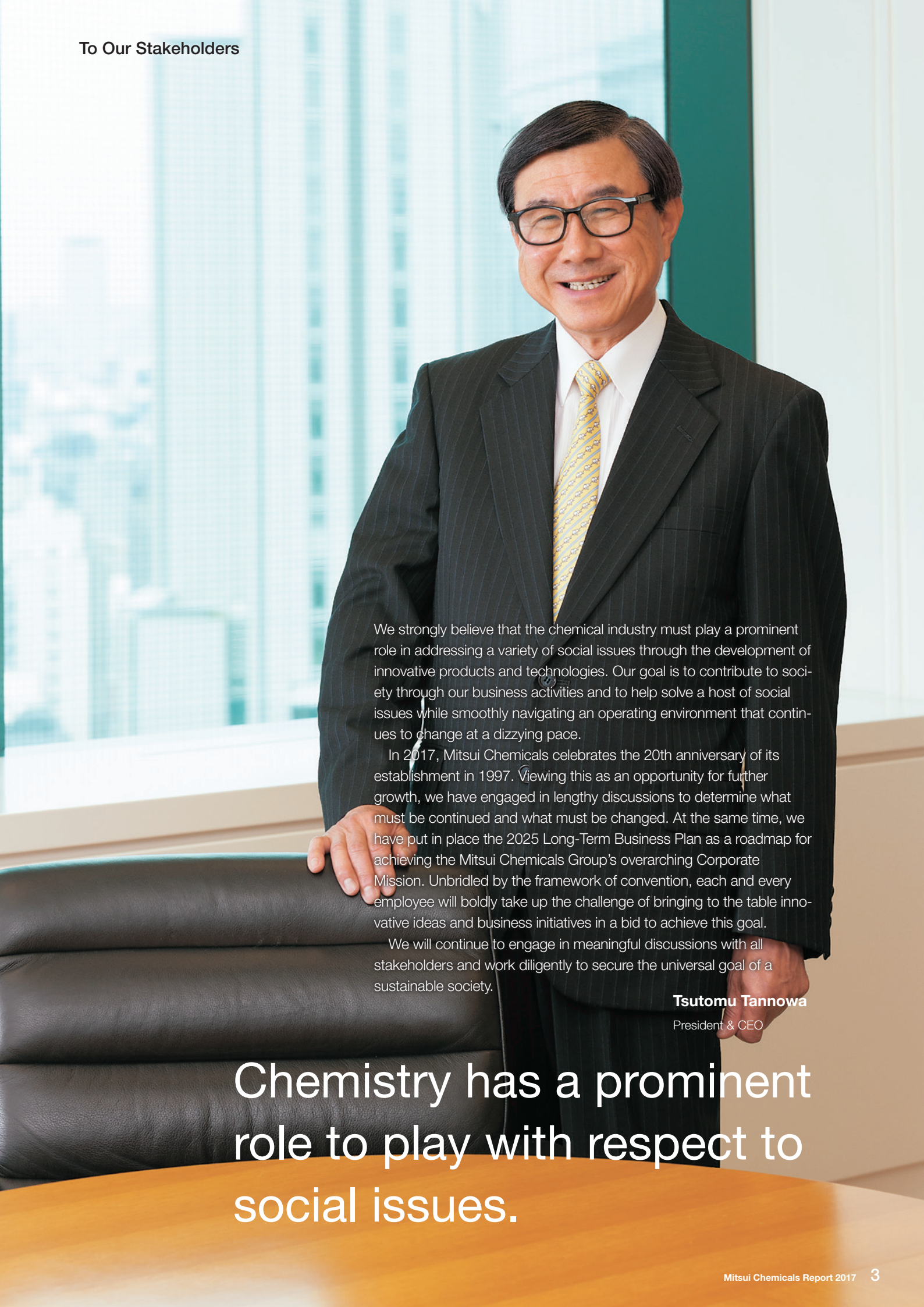
CSR Website

For more detailed reports pertaining to social and environmental issues please visit:

<http://www.mitsuichem.com/en/csr/index.htm>

- CSR in the Mitsui Chemicals Group
- Corporate governance
- Risk and compliance
- Responsible care
- Communications with society





We strongly believe that the chemical industry must play a prominent role in addressing a variety of social issues through the development of innovative products and technologies. Our goal is to contribute to society through our business activities and to help solve a host of social issues while smoothly navigating an operating environment that continues to change at a dizzying pace.

In 2017, Mitsui Chemicals celebrates the 20th anniversary of its establishment in 1997. Viewing this as an opportunity for further growth, we have engaged in lengthy discussions to determine what must be continued and what must be changed. At the same time, we have put in place the 2025 Long-Term Business Plan as a roadmap for achieving the Mitsui Chemicals Group's overarching Corporate Mission. Unbridled by the framework of convention, each and every employee will boldly take up the challenge of bringing to the table innovative ideas and business initiatives in a bid to achieve this goal.

We will continue to engage in meaningful discussions with all stakeholders and work diligently to secure the universal goal of a sustainable society.

Tsutomu Tannowa
President & CEO

**Chemistry has a prominent
role to play with respect to
social issues.**

Solving Social Challenges through Business Activities

Value Creation Cycle for Sustainable

Enhancing Our Brand Power

Social trust,
Economic confidence

Realizing the Mitsui Chemical Group's Future Vision

Solving Social Challenges and Customer Issues



Mobility



Health Care



Food & Packaging



Next Generation Business



Basic Chemicals

Creating New Customer Value

Driving force

100 years of technological strength

Global Platform & Superior Human Resources

Wide Range of Products & Services

Robust Customer Base

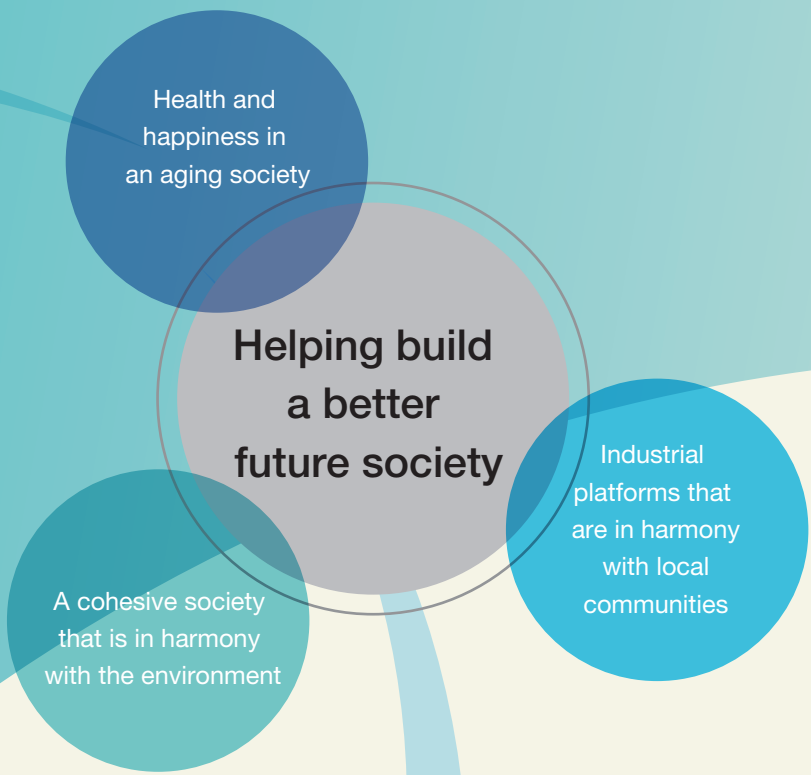
Re-investment

The Forces Driving Value Creation P. 53

1. R&D capabilities that realize customer needs
2. Diverse human resources that desire to take on challenges
3. Effective management system
4. Organizational culture that prioritizes safety
5. Relationships based on mutual trust with stakeholders
6. Robust financial structure

The Mitsui Chemicals Group's Strengths P. 6

Growth



Realizing Our Future Vision for Society

Value Creation Process
Solving social challenges and customer issues is integral to this process

Environmental and Social Targets P. 31

- Blue Value™
- Rose Value™
- Ensuring comprehensive safety, high quality, and fairness throughout the supply chain
- Reducing the environmental load of production and distribution

The Triple Bottom Line Management Approach

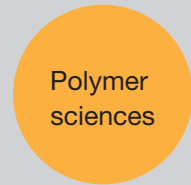


A foundation built over the course of two decades

Maximizing the Mitsui Chemicals Group's Strengths to Help Realize a

01 A century of technological progress

Creating materials to meet needs



02 A truly global platform & diverse human resources

Bases at locations worldwide and diverse human resources that play an essential role in global group management

03 A robust customer base

Diverse customers around the globe engaged in a wide range of industries

04 An extensive lineup of products & services

Competitive high-value-added products and services



Mobility



Health Care



Mobility

Challenges and Social Needs

- Energy conservation and environmental load reduction
- Diversifying automotive-related needs

Our Solutions

- Materials that help enhance fuel efficiency and lighten weight
- Materials that contribute to higher performance, including increased safety as well as improved design and comfort

- PP compounds for use as automotive materials

Global No. 2



Global No. 3

Asia No. 2



Health Care

Challenges and Social Needs

- A declining birthrate and aging population
- Growing awareness of ways to enhance the quality of life
- Improving public health in emerging countries

- High-performance nonwovens

Asia No. 1



Better Future Society

Mitsui Chemicals is drawing on capabilities accumulated over the course of a century in its four areas of strength to contribute to the realization of an ideal future society.

Manufacturing processes

Overseas affiliates
84

Overseas sales ratio
42%

Overseas employees
33%

Automobiles

Electronics and IT

Health care and Medicine

Agriculture

Food and Packaging

Housing and Construction



Food & Packaging



Next Generation Business



Basic materials

Our Solutions

- Hygiene materials that address the need for increased quality
- High-performance ophthalmic lens materials that address a wide range of needs

● Ophthalmic Lens Materials

Global No. 1



Food & Packaging

Challenges and Social Needs

- Growing awareness of food safety issues
- Securing the stability of the food supply

● Highly functional sealants

Asia No. 1



Our Solutions

- Packaging materials that contribute to food safety and the reduction of loss
- High-performance agrochemicals that contribute to stable production

● Pesticides for paddy-field use

Japan No. 2

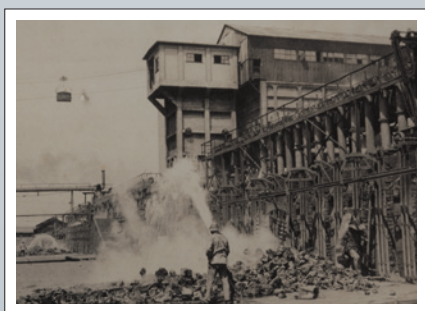


Addressing the social challenges of the times through materials innovation

1912

Helping solve food shortages

Began manufacturing raw materials for fertilizers from the exhaust gas produced as a byproduct of the coal business, thereby helping solve food shortages caused by the rapid population growth—a social problem of the times



1932

Helping to preserve the culture of indigo

Achieved Japan's first successful production of indigo-colored dye using chemical technology at a time when the survival of Japan's indigo culture was at stake



1977

Helping to make automobiles lighter

Developed such lighter weight materials as MILASTOMER™, which has been adopted for automobile bumper components, thereby improving fuel efficiency



Period of coal chemicals

- 1912 Mitsui Mining started coal chemical business
- 1916 Phenol production started
- 1924 First successful synthetic ammonia production in Japan using the Claude process started
- 1932 Omuta Works started production of synthetic dye "Indigo"
- 1933 Toyo Koatsu Industries established
- 1941 Mitsui Chemical Industry established
- 1943 Mitsui Chemical Industry started production of synthetic petroleum
- 1948 The world's first Urea fertilizer large-scale production started (Hokkaido)
- 1951 Nagoya Manufacturing Factory (currently Nagoya Works) started full-scale production of vinyl chloride

Transition to petrochemical business

- 1955 Mitsui Petrochemical Industries established
- 1958 Iwakuni-Otake Works started operations as first petrochemical complex in Japan
Hula hoop boom generated mass orders for HI-ZEX™ (polyethylene)
- 1960 Mitsui Polychemicals established a joint venture with DuPont (currently DuPont-Mitsui Polychemicals)
- 1962 Japan's first polypropylene plant started operations (currently Iwakuni-Otake Works)
- 1964 Osaka Manufacturing Factory (currently Osaka Works) started operations
- 1967 Chiba Factory (currently Ichikawa Works) started ethylene production
- 1968 Mitsui Toatsu Chemicals established
- 1975 Polyolefin adhesive agent ADMER™ launched
- 1977 MILASTOMER™ adopted for automobile bumper components

1912
Mitsui Mining started coal chemical business

1941
Mitsui Chemical Industry established

1933
Toyo Koatsu Industries established

1955
Mitsui Petrochemical Industries established

1968
Mitsui Toatsu Chemicals established

1912

1940

1950

1960

1970

1980

Period of coal chemicals

Transition to petrochemical business (Diversification of Raw Materials)

Mitsui Chemicals traces its origins to the coal business started by Mitsui Mining in 1892. In 1912, Mitsui Chemicals started its coal chemical business at the Omuta Works. For more than 100 years, the Mitsui Chemicals Group has continued to meet the changing needs of society. As one of Japan's leading chemical companies, the Group will continue to seek solutions to global environmental issues through its products and technology and to contribute to the lives of people around the world.

Acceleration to become a global company

- 1986** C&CT (currently Advanced Composites (ACP)) established as our first U.S. manufacturing site in response to a request by Honda Motor which began U.S.-based onsite master batch production
- 1987** Company established in Singapore (the current Mitsui Chemicals Asia Pacific)
- 1988** Company established in United States (the current Mitsui Chemicals America)
- 1990** Company established in Germany (the current Mitsui Chemicals Europe)
- 1994** Advanced Composites Mexicana, our first polypropylene compound manufacturing site, established (Mexico)
- 1996** Grand Siam Composites established (PP compounds, Thailand)
- 1997 Mitsui Chemicals founded**
- 1999** Company in China established (the current Mitsui Chemicals (China))
Mitsui Phenols Singapore (Phenol, Bisphenol A, Singapore)
- 2001** Mitsui Hygiene Materials (Thailand) established (Nonwoven fabrics, Thailand)
Mitsui Elastomers Singapore established (TAFMER™, Singapore)
- 2004** Mitsui Advanced Composites (Zhongshan) established (PP compounds, China)
- 2005** Prime Polymer established (Joint venture with Idemitsu Kosan for the polyolefin business)
- 2008** Mitsui Chemicals India (MCIND) established (India)
- 2009** Mitsui Chemicals Agro established (Agrochemical business integration with Sankyo Agro)
- 2010** Mitsui Chemicals Brasil (MCBR) established (Brazil)
Mitsui Chemicals Tohcello established (Film & Sheet business integration with Mitsui Chemicals Fabro).
- 2011** Acquisition of ACOMON (Ophthalmic lens materials, Switzerland)
Mitsui Chemicals Nonwovens (Tianjin) established (China)
- 2012** Prime Evolve Singapore established (EVOLUE™, Singapore)
Mitsui Chemicals Functional Composites (Shanghai) established (China)
Shanghai Sinopec Mitsui Elastomers established (EPT, China)
- 2013** Acquisition of dental material business of Heraeus Holding GmbH
- 2015** Mitsui Chemicals & SKC Polyurethanes established (Korea)
- 2016** Mitsui Chemicals Korea (MCKR) established (Korea)
- 2017** Mitsui Chemicals Thailand (MCTH) established (Thailand)

1997
Mitsui Chemicals
founded

To become a chemical group
with undisputed global presence

2017
20th anniversary
of Mitsui
Chemicals, Inc.

Our 2025 long-term
business plan
for sustainable growth
is launched

1990

2000

2010

2017

Acceleration to become a global company



Kicking off the 2025 Long-Term Business Plan for a New Stage of Growth

while taking up the enormous challenge of securing
the sustainable development of society and the Mitsui Chemicals Group

The Mitsui Chemicals Group has put in place a long-term business plan that will serve as the roadmap for its activities through to fiscal 2025.

Under the 2014 Mid-Term Business Plan, we worked diligently to reinforce our financial and operating position by transforming our business portfolio, expanding targeted business domains to drive growth, and restructuring our bulk and commodity product operations in the Basic Materials business.

Moving forward, we are now poised to enter the next stage of growth. Although our operating income goal for fiscal 2025 of ¥200 billion is lofty, we remain confident that it is well within our reach based on our performance to date. In order to achieve this target, we will actively undertake growth investments while accelerating the

pace at which we transform our business portfolio by creating new products and next generation businesses.

The Mitsui Chemicals Group will further advance its triple bottom line management approach, focusing on economy, environment, and society while working to resolve a variety of interconnected social issues. In this way, we will work toward the realization of our Future Vision for society.

In every sense, our 2025 Long-Term Business Plan encapsulates and documents our commitment to the sustainable development of society and the Group.

Tsutomu Tannowa
President & CEO

A Review of the 2014 Mid-Term Business Plan

Under our 2014 Mid-Term Business Plan, we worked diligently to expand targeted business domains to drive growth and restructured our bulk and commodity product operations in the Basic Materials business. As a measure of our success in each endeavor, we posted record-high operating income of ¥102.1 billion in fiscal 2016.

—What goals did you reach and where did you fall short under the 2014 Mid-Term Business Plan?

As far as operating performance is concerned, results exceeded expectations. In fact, results were almost double the fiscal 2016 targets of ¥60 billion and ¥30 billion for operating income and net income. Moreover, we met the 2020 targets for these two indicators—¥100 billion and ¥50 billion—around four years in advance. The outstanding results clearly reflect the willingness of each and every employee to tackle needed structural reform head-on and the Company's success in steadfastly carrying out a raft of growth strategies.

Besides the sound operating performance, several pending issues, including delays in the development of new businesses and products, are left to be addressed.

Thanks largely to the success of various measures aimed at reforming our business structure, we are now better positioned to capitalize on favorable trends in the market environment. It is vital, however, that we remain vigilant and avoid at all costs missing any opportunities.



—How did you push forward efforts aimed at transforming the business portfolio under the 2014 Mid-Term Business Plan?

Our restructuring was especially drastic in the Basic Materials business. Starting with the closure of Kashima Works, the measures implemented were not without considerable pain. On a positive note, and a major contributor to our subsequent success, the restructuring yielded results much earlier than expected. Coupled with an increase in sales of major products across all three growth domains, operating income came in at ¥71 billion yen in fiscal 2016. Taking into consideration the success of the measures to reform the structure of the Basic Materials business in conjunction with expansion in the Group's three growth domains, we have made significant strides in transforming our portfolio and securing definitive quantitative improvements.

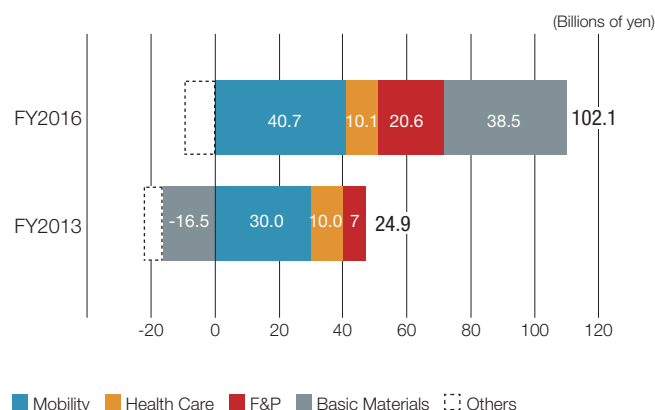
—How did you boost morale and encourage employees to achieve established targets throughout the period of the 2014 Mid-Term Business Plan?

After incurring three consecutive periods of loss from fiscal 2011 to fiscal 2013, we put forward the 2014 Mid-Term Business Plan with our backs very much to the wall. The circumstances placed employees under a nearly intolerable amount of pressure. For my part, I was determined to help restore a sense of pride and encourage each and every employee in the struggles that lay ahead. As our numbers have begun to recover, I am sensing growing confidence in the direction that we are taking. As a direct result of this positive cycle, we achieved record high operating income of ¥102.1 billion in fiscal 2016.

Mission of the 2014 Mid-Term Business Plan and Initial Targets

			FY16 (Results)
Implement restructuring	Operating income	¥ 60 billion	¥102.1 billion
	Net income	¥ 30 billion	¥ 64.8 billion
Further expand targeted business domains	New business and product sales	¥ 100 billion	¥ 75.0 billion
	ROA	4%	7.9%
Restore financial soundness	ROE	8%	15.6%
	Net D/E	1.2	0.79

Change in Operating Income by Business Segment: FY2013 → FY2016



Background of the 2025 Long-Term Business Plan

In the period following the Lehman shock in 2008, the external operating environment was fluctuating wildly. Undaunted by this difficult environment, and cognizant of the pressing need to adopt a long-term perspective to assure its ongoing management, the Mitsui Chemicals Group put in place the 2025 Long-Term Business Plan in a bid to ensure sustainable growth.

—Historically, the Company has put forward mid-term three-year business plans. What are your reasons for putting in place the 2025 Long-Term Business Plan?

There are two aspects to consider when discussing the rationale behind our long-term business plan.

From an external perspective, we have come to believe that a rigid plan for dealing with medium term concerns is of little or no use when conditions are volatile. Given the volatile nature of the operating environment, it is imperative that we maintain the flexibility to properly adapt. On the other hand, we must never lose sight of our intended direction nor fail to set proper goals and an ultimate destination. Taking each of these factors into consideration, we have striven to adopt a more realistic approach and are working toward achieving set goals while putting in place various plans on a rolling basis.

From an internal perspective, the Mitsui Chemicals Group tended to overemphasize planning. There have been concerns that significant time and effort has been spent on formulating each mid-term business plan, but the amount of effort put into actual implementation has been lacking. For example, there seems to be a notion that the mere incorporation of an issue into the mid-term business plan is tantamount to addressing it. By the same token, there is a tendency to accept that no matter not factored into the plan can be addressed under it. As I have mentioned, given the volatile nature of our environment, it is vital that we address each and every issue as and when it arises irrespective of whether or not it has been incorporated into the plan.

After much deliberation, we concluded that by abandoning our prior emphasis on mid-term business plans, we could bring about a change in employee mindsets.

The shift to the long-term business plan thus took into consideration both the external and internal perspectives.

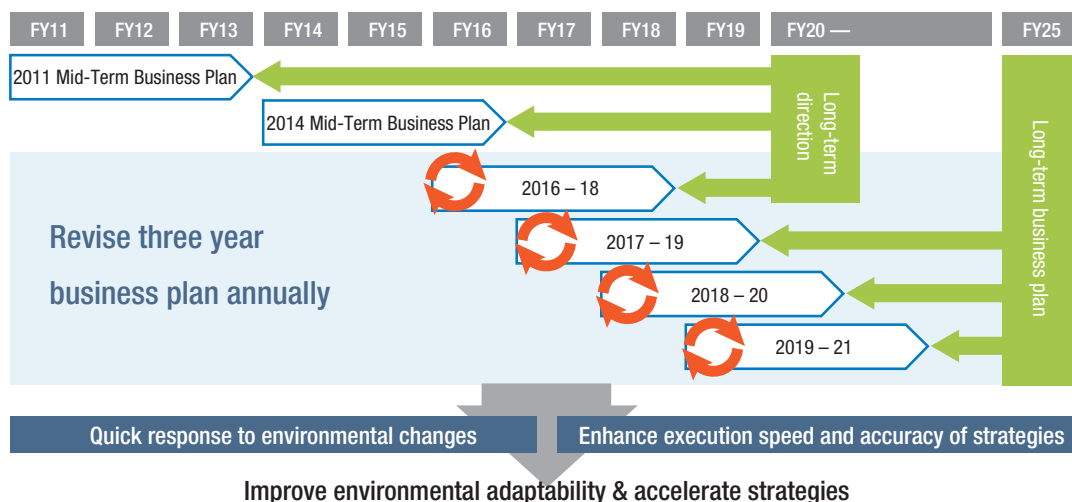
—Can you describe the nature of the internal deliberations involving the choice between continuing to formulate the usual mid-term business plans and shifting to a long-term plan?

Within the Mitsui Chemicals Group, management engaged in thoroughgoing discussions to determine what should be kept and what needed to be changed. First and foremost, we recognized the need to remain true to our Corporate Vision. To facilitate the realization of this vision, we decided to adopt a long-term perspective while working toward each goal based on a rolling approach that takes into consideration changes in the operating environment.

Naturally, the focus of specific measures was based on lengthy deliberations. On a personal note, I was convinced of the need of transition toward a long-term approach, which in the end attracted little opposition.



Changes to Business Plan Systems



Aiming for Growth in the Medium to Long Term

The Mitsui Chemicals Group has identified a future society to realize as “a cohesive society that is in harmony with the environment”, “health and happiness in an aging society” and, “industrial platforms that are in harmony with local communities”. With this in mind, we have set specific goals of our 2025 Long-Term Business Plan, which revolve around the triple bottom lines of the economy, the environment, and the society.

—Tell us about management’s approach to the triple bottom lines and the policy initiatives that you plan to promote to achieve established goals.

The Mitsui Chemicals Group made a clear commitment to “triple bottom line management approach” in fiscal 2007.

Aiming a sustainable growth, we acknowledge the critical need to maximize opportunities and minimize risks while maintaining optimal balance among the bottom lines. At the same time, we recognize the importance of appealing to a variety of stakeholders and solving a host of social issues. We believe this approach will maximize our corporate value.

Regarding economy, we will base our efforts on securing growth in domains where we are able to utilize our technological strengths and draw on the customer base that we have nurtured over many years. With the confidence gained over the period of the 2014 Mid-Term Business Plan, we will follow through and expand on business strategies of three growth domains to realize our long-term targets. Moreover, we will concentrate management

resources into fields where we can double up on our inherent strengths. In areas of new and next generation business, where we were slightly unachieved under the 2014 Mid-Term Business Plan, we will reinforce our endeavors in a bid to succeed.

From a long-term perspective, we clarify our targeted growth domains and the key growth drivers to set our economic targets.

Regarding environment and society, we have selected important social issues as our key issues, which we will help to resolve.

We have also identified three targets under the 2025 Long-Term Business Plan from the point of how we can overcome a variety of social challenges through our businesses and solutions.

We believe it is important to address to the environmental and social bottom lines as well.

⇒ To page 31 for details regarding environment and society targets of the 2025 Long-Term Business Plan

2025 Long-Term Business Plan Targets for Each Bottom Line

Economy:	Expand the three growth domains, engage in proactive investment, develop next generation businesses, strengthen the ongoing competitiveness of basic materials
Environment:	Maximize products and services to achieve a low-carbon, recycling-oriented, and cohesive society in harmony with the environment
Society:	Maximize products and services to achieve increased QOL and a smart society
	Pursue comprehensive safety, high quality, and fairness in the entire supply chain

—You plan to proactively engage in growth investments to secure operating income of ¥200 billion in fiscal 2025. Can you provide us with details?

We will firstly expand the production capacity of existing growth businesses, in which we own key strengths. Currently, facilities are almost in full operations. Closely monitoring the demand growth, we will invest judiciously.

For extending the Group’s business domains into peripheral areas, we recognize M&As as an effective tool. However, M&As involve considerable risks. We are making every effort to put in place an organizational platform and structure that will allow us to assess M&A opportunities in the best possible manner.

With regard to our Basic Materials business, we must continue to boost our competitive strengths. This urgency reflects the critical role that the Basic Materials business plays in providing a manufacturing platform for the Group as a whole. We are acutely aware that any effort to expand without the Basic Materials business will be in vain.

We will ramp up our investment activities while maintaining balance across the Group. In broad terms, 60% of growth investments will be directed toward expanding existing domains, while roughly 40% will involve M&As and alliances.

⇒ To page 30 for details regarding the growth investment

—What seeds do you hope to sow through the development of next generation business?

In the field of medical solutions, we are engaged in business involving a rapid diagnosis system for bacterial identification (sepsis). We are also pushing forward solar photovoltaic power generation diagnosis in areas that involve energy solutions.

We will put efforts to the fields which may contribute not only to the bottom line, but also to the society. For example, the business of rapid diagnosis systems for sepsis is extremely beneficial to the patients.

⇒ To page 50 for details regarding the Next Generation Business

Toward the Sustainable Development of Society and the Mitsui Chemicals Group

The 2025 Long-Term Business Plan documents our commitment to ensuring the sustainable development of society and the Group. Moving forward, we will engage in balanced triple bottom line management, and work toward the sustainable growth of society and the Group through our business activities.

—What do you see as the key to achieving the lofty targets set under the 2025 Long-Term Business Plan?

While we may indeed have set the bar high, we remain quietly confident that every challenge can be met. Two factors will be critical to achieving our targets. First, it is absolutely vital that we create new products and business by promoting customer-driven innovation. With this in mind, we must uncover the latent needs of consumers and customers and put forward solutions that help resolve social issues. Second, it is imperative that we reinforce both group and global operations management. Opportunities for national staff to apply themselves and excel will undoubtedly increase with continued globalization. For the Group to succeed within this environment, we must channel energies toward the promotion of diversity.

Under these circumstances, the Mitsui Chemicals Group will bolster its competitive strengths as well as its business foundation, guided by a policy that emphasizes the importance of human resource development as well as systems that allow employees to excel on the world stage along with robust financial, information, organizational, and technology platforms and that place safety as a top priority.

⇒ To page 20 for details regarding Customer-driven innovation

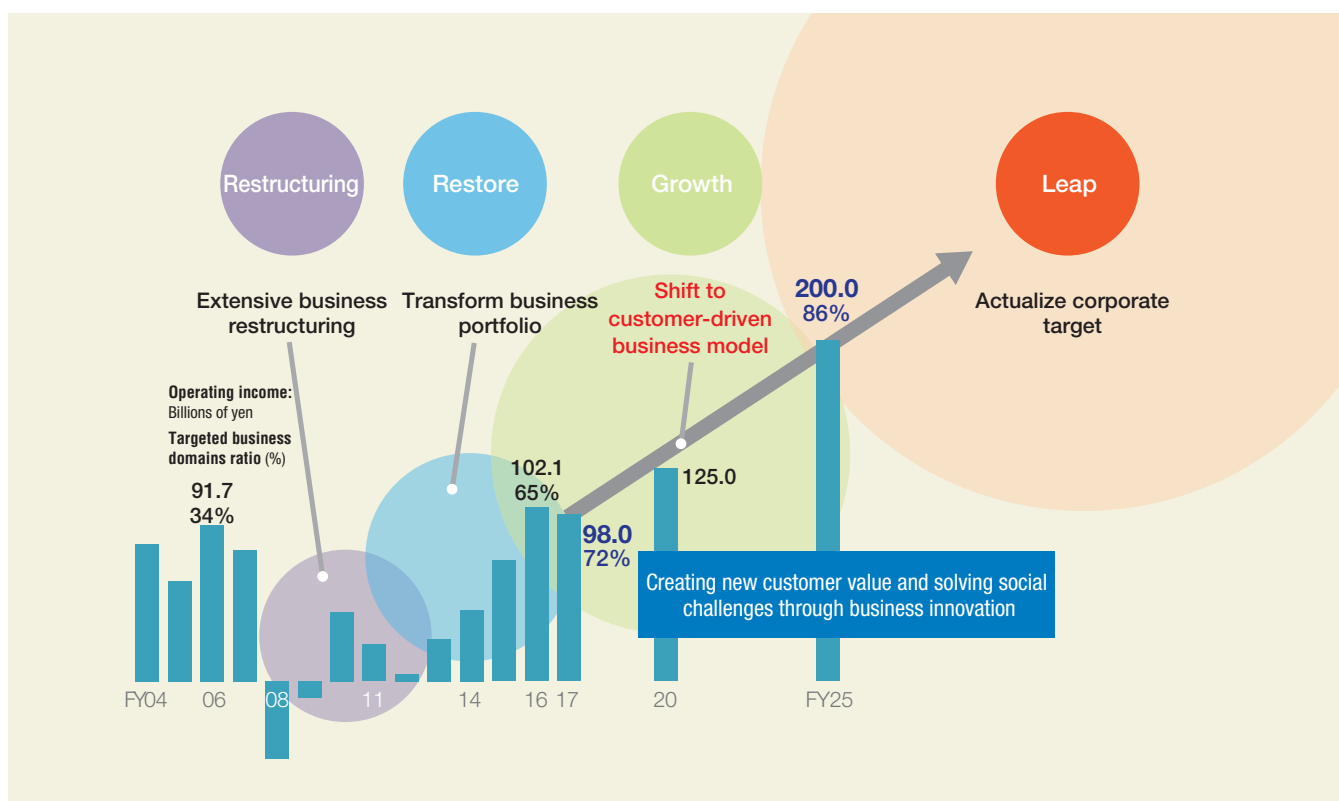
⇒ To page 62 for details regarding Diversity

⇒ To page 54 for details regarding Safety

— In closing

The 2025 Long-Term Business Plan documents our commitment to ensuring the sustainable development of society and the Group. All Group members will work toward adopting a growth-oriented and proactive mindset while accelerating the pace at which decisions are made and implemented as they strive to achieve established targets. Amid an operating environment characterized by ongoing volatility, every effort will be made to engage in balanced management that takes sustainability into consideration together with environmental and social concerns across such wide-ranging fields as poverty, hunger, resources, energy, climate change, and the environment.

The Mitsui Chemicals Group will consistently engage in meaningful dialogue with its stakeholders as it pursues its dreams and vision. We will create new customer value and strive for the sustainable growth of society and the Group through our business activities.





Measures for Governance Reform and New Growth

Masaharu Kubo

Representative Director Member of the Board, Executive Vice President (CFO)

Fostering lively debate at meetings, Mitsui Chemicals' Board of Directors has included outside directors for around 20 years. Looking to improve performance, in fiscal 2015 the Company introduced an efficacy evaluation to assess the Board's meetings. Furthermore, in fiscal 2016, the Company brought the total number of outside directors up to three by adding another in order to widen the perspectives brought to bear in the Board's deliberations. Through these measures to improve governance, Mitsui Chemicals aims to further improve its corporate value.

Yukiko Kuroda

Outside Director of Mitsui Chemicals, Managing Director and Founder of People Focus Consulting and Outside Director of CAC Holdings Corporation (as of June 27, 2017)

Currently, the SDGs have become shared global goals, and there is a lot of expectation regarding the chemical industry's contribution to the realization of these goals. As an index to measure this contribution, Mitsui Chemicals has established Blue Value™ and Rose Value™, incorporating them into the Company's goals. My dream is for the net sales of Blue Value™ and Rose Value™ products to constitute 80% of total net sales.



Hajime Bada

Outside Director of Mitsui Chemicals, Consultant of JFE Holdings, Inc. and Outside Audit & Supervisory Board Member of ASAGAMI CORPORATION (as of June 27, 2017)

Mitsui Chemicals' business performance has been steadily recovering. There isn't any doubt as to the direction the Company is going. Last year, the Company formulated a long-term business plan looking ahead to 2025, and that plan needs to be quickly implemented going forward. Despite the difficulties and risks of new business development and M&A activities, we aim to achieve our 2025 goals by increasing confidence in these activities through fundamental discussions from the earliest planning stages followed by steady implementation.

Hiromi Tokuda

Outside Director of Mitsui Chemicals and Advisor of DENSO CORPORATION (as of June 27, 2017)

Looking ahead, I think society will transform drastically as information technology becomes more widespread and AI technologies make further advancements. As the market structures and players change, we also need to change to continue to outperform the competition. It seems Mitsui Chemicals is now approaching an era of dynamic reform. I believe the Company can reach a new stage of greater growth if all employees foster a common understanding of the necessity of reform and make the next move together.

Steady Measures to Improve Efficacy

Kubo Fostering lively debate at meetings, Mitsui Chemicals' Board of Directors has included outside directors for around 20 years. In light of the efficacy evaluation of the Board of Directors conducted at the end of fiscal 2015, the Company accelerated the execution of its strategies by vesting greater authority in executive officers and radically altered the focus of the Board of Directors' discussions, moving away from day to day concerns and toward medium- to long-term strategies. Looking back on this year, I would like to hear your impressions of the Company's Board of Directors.

Kuroda I have been an outside director at Mitsui Chemicals since fiscal 2015. In fiscal 2016, the number of outside directors grew from two to three, so now we have the input of two individuals who are engaged in other indus-



tries in addition to the manufacturing industry, I feel we are now able to have further discussions.

Bada I feel that Mitsui Chemicals' Board of Directors' discussions are serious and grounded in reality. In addition, there is a corporate culture of encouraging the open sharing of information, which I think is also important from a corporate governance perspective.

Tokuda I also get that feeling of seriousness and candor. And, last year,

after the long-term business plan for 2025 was formulated, I was able to freely express my opinion in the discussions of long-term strategies.

Kubo Sometimes investors have questions about the Company's Board of Directors. I tell them that the Board has discussions that incorporate wide-ranging perspectives thanks to the different backgrounds of each participant. Director Kuroda specializes in corporate culture and diversity. Director Bada has experience relevant to the Company's Basic Materials domain, including reconstruction in the iron and steel industry. And, Director Tokuda is an expert in the Mobility domain and can give advice on the three growth domains. Upon hearing this, investors are appreciative of the Board's well balanced composition.

Kubo A meeting of only outside directors was held to discuss and evaluate the Board's efficacy in fiscal 2016. What was the nature of the opinions expressed? Also, what, if any, issues going forward were identified?

Tokuda First of all, I would like to point out that conducting an evaluation of efficacy is in itself progressive. I believe the Board will become better through measures such as this, which are based on quantitative assessments and that lead to concrete improvements. As far as issues go, I would like deeper discussions of the strategies Mitsui Chemicals intends to utilize in order to grow going forward.

Bada Because Mitsui Chemicals has a corporate culture that allows us to say what we think, including negative things, I believe we can use such evaluation to uncover points that can be improved upon. As for issues going forward, Mitsui Chemicals' business performance has been steadily recovering. I don't think there's any question about the direction the Company is going. Moreover, the long-term business plan has made clear the future direction of the Company, and I think the plan must be implemented quickly going forward. New business development and M&A will be particularly important, and the



Board needs to be part of the discussions of proposals for such activities from the earliest planning stages. Currently, the Board is involved only in making the final decision regarding each proposal, but I think it would be better to provide opportunities to it to participate in discussions at even earlier stages of the proposal creation process.

Kuroda I've conducted efficacy evaluations at other companies before, and I think Mitsui Chemicals is particularly quick to respond to issues uncovered by evaluations. During the efficacy evaluation conducted in fiscal 2016, I proposed adopting a more efficient system that would allow management to take action by unanimous written consent rather than requiring a formal meeting of the Board of Directors. This proposal was quickly implemented. Going forward, I would like to see steps taken to improve the objectivity of the evaluations, such as by outsourcing the surveys to a third-party expert.

Kubo Based on the results of the efficacy evaluation for fiscal 2016, the Company changed the proposal process for large-scale M&A and capital investment from fiscal 2017. Proposals are now discussed midway through the process. This practice yields insights that enable deeper consideration of issues before a final decision is reached. In addition, I would like this system for action by written consent to be used more, especially for simple matters, with relevant documents submitted in advance for confirmation, and thereby

making discussions at meetings of the Board more substantial.

Moving onto the Next Stage of Growth

Kubo Now as its business performance has recovered, the Mitsui Chemicals Group is pushing forward to enter a new stage of growth. At this stage, it is important for the Company to leverage its strengths while incorporating the opinions of its diversifying stakeholders and to be willing to change its own mindset. I'd like to ask you all what strengths you think the Group should leverage and what points it should change.

Kuroda To me, Mitsui Chemical's strength lies in its broad product portfolio and material technologies as well as the deep-rooted curiosity that drives its persistent, continuous technical development. I think the challenge will be to not just stop at the slogan of "customer-driven innovation" outlined in the long-term business plan but to push further to find out what specific steps can be taken to change the way people work.

Bada As mentioned before, I think a major strength is the Company's open and diligent corporate culture. This is the DNA of Mitsui Chemicals, a manufacturer with a long history, and I think it should be maintained going forward. On the other hand, I think when you have a group of people whose mindsets are relatively similar, there is a tendency toward the conservative. Innovation



requires coming up with fresh ideas and taking on new challenges. I think that in order to continue creating new businesses going forward it is important to bring together people of varying backgrounds and respect their different ways of thinking.

Tokuda I feel that Mitsui Chemicals has excellent material technologies and its employees with good personality. On the other hand, some say that the present era is one of once-in-a-century innovation. In the field of mobility alone, major changes are expected, including an increase in electric and self-driving cars accompanying changes in the major market players. For Mitsui Chemicals to respond to these changes and continue to grow, the Company might need to change the materials it handles and its very business model. To make the next move with the aim of transformation, speed and a fighting spirit are important. I think Mitsui Chemicals can continue growing further by spreading these ideas through discussions.

Kubo In addition to its regular hiring, Mitsui Chemicals is currently looking to hire around 100 experienced people who can hit the ground running. We are searching for experts in the design of automobiles and other products; specialists in areas related to pharmaceuticals; and people with various backgrounds related to the Company's focus areas. The Company is strengthening personnel training and utilization measures, including those for overseas employees. Going forward, we will promote customer-driven innovation by bringing together the strengths of diverse personnel.

Kubo What kind of company do you want Mitsui Chemicals to be when 2025 comes rolling in? I would like to hear your dreams.

Tokuda I want Mitsui Chemicals to be a company that makes people say, "Mitsui Chemicals is awesome" and "Mitsui Chemicals is our most valued partner." The best means to accomplish that is people. Because everyone in the



Company is excellent, I think the Company can achieve tremendous growth just by giving its employees space to work and letting them do their thing. I would also like the Board of Directors to discuss how to go on training personnel.

Bada I think a good company is the one that you would want your own sons and daughters to work for. It is therefore important for said company to provide value to its customers and shareholders, of course, but also to all its stakeholders, including its employees and local communities, and to get them to recognize that value. I want Mitsui Chemicals to be a widely respected company where people around the world would like their sons and daughters to work.

Kuroda My dream is to make Mitsui Chemicals a company where Blue Value™ and Rose Value™ products constitute 80% of total net sales. The chemical industry has a large responsibility vis-à-vis the SDGs. The expansion of these products will not only contribute greatly to the SDGs, I think it will also lead to stable profit growth for the Company and become a source of pride for its employees.

Kubo Thank you very much. The Company is now entering a new stage. I would hope that every effort is made to push forward a wide range of ongoing activities aimed at enhancing the Mitsui Chemicals Group's corporate value.



Our Customers' First Choice for Solutions

Shigeru Isayama
Member of the Board,
Senior Managing Executive Officer (CTO)

Helping Solve Social and Customer Issues through Customer-Driven Innovation

The pursuit of innovation is one of the basic strategies set out in our 2025 Long-Term Business Plan. In the face of constantly changing social needs, the accuracy of our response depends on a clear understanding of what society and customers want. We aim to advance customer-driven innovation by providing new value that combines technologies and services based on customer needs.

Vigorous Research Drives Value Creation for Customers

For the past few years, I have focused on changing the mindset of our researchers. When I was put in charge of research in 2013, the Company's financial performance was poor and, due in part to personnel cuts, the morale of our researchers was low. Happily, research is a rewarding endeavor in itself, and vigorous research is key to creating new value for our customers. In our aim to be our customers' first choice for solutions, we are striving to revitalize our research efforts with the objective of forming an industry-leading research and development team.

New Value Propositions with "Chef-Style" Research

Mitsui Chemicals is a company that excels at production. Thanks to our cutting-edge technologies, our products have won leading shares of the global market and drive the Company's financial performance. That said, the creation of materials requires more than a serious commitment to research. Neither is it simply a question of supply. We must increase our points of contact with society in order to be able to propose comprehensive solutions. Amid accelerating technological innovation and customer product cycles around the world, we are calling upon our researchers to engage in "chef-style" research wherein we tell our customers about the array of "ingredients" (materials) from which they can order so we can create the "dish" (product) they want. Like a chef, mixing and processing, we engage in production that combines the chosen materials, including, if required, outside-sourced materials. Mitsui Chemicals aims to provide new value through such customer-driven business models.

Working Together Internally and with External Entities to Spark Innovation

The acquisition of Kyowa Industrial Co., Ltd., a die manufacturer, was the event that kicked off our initiative to change the mindsets of our researchers. We began with reaffirming the importance of keenly understanding our customers' needs in the materials industry. Mitsui Chemicals is constantly exploring new directions, such as the development of ultra-compact cars and drones. We aim to deliver solutions to society in fields where we previously had no significant presence—for example, creating robot materials and conducting research that led to a world-first system for identifying sepsis-causing bacteria—collaborating, as needed, with experts across different fields and focusing on open innovation initiatives. Mitsui Chemicals aims to help its customers and society address the problems they face by proposing a variety of solutions that combine resources from inside and outside the Company.

⇒ To page 50 for details regarding Next Generation Business

Eyeing Medium- to Long-Term Growth

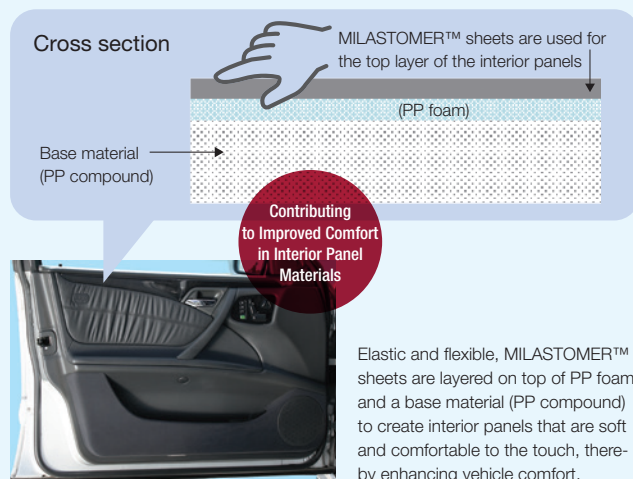
As the new "chef-style" research gains traction, I expect our R&D staff to come into contact more often with finished product makers and final consumers, in addition to parts and materials makers. We must broadly disseminate information about our various solutions to prospective customers. We will translate our customers' desires into materials and systems, designing and making them for all to see. Mitsui Chemicals plans to expand and strengthen the necessary foundations for promoting this kind of customer-driven innovation.

To become our customers' first choice for solutions, we will pursue innovation and propose solutions from the standpoint of creating value for customers. The Company will continue broadening the potential of its materials and turning them into businesses. Mitsui Chemicals aims to create value that does not yet exist in the world while contributing with pride to the success of our customers and society through continuous new business creation.

⇒ To page 60 for details regarding R&D strategies

Addressing Sensory Needs with Teamwork

**Comfortable and soft interior materials
Technologies that bring tactile comfort
and textures that appeal to senses**



Automobile door trim

1) Functional Needs and Sensory Needs

Customers have diverse needs. For example, people who usually to use sunscreen and tanning oils want materials that are oil resistant. In this case, it is clear what the issue is and what course to take. In recent years, however, customer desire for materials that are comfortable and soft has grown. Such sensations as feeling good to the touch, softness, and moistness are subjective and depend on the person. Thus, by their very nature, these qualities are particularly challenging to identify and provide. Moreover, how sensory needs are met differs among automakers and with each car model.

2) Teamwork Approach to Identifying the Comfort Desired by Customers

The touch and feel of MILASTOMER™ can be changed by adjusting the composition ratio of resins and rubber. Increasing the ratio of resins makes the material harder and smoother. Increasing the ratio of rubber makes it more pliant and moist. Occasionally, customer needs are contradictory, calling for a pliant but smooth feel.

A comfortable driving experience is the most important factor. The aim is to put the final consumer driving the car in a good mood. What kind of materials should be designed to create the materials desired by customers? How does one define the comfort customers crave? To understand customer needs better, our development teams and sales managers together pay numerous visits to our customers. Through repeated conversations with customers, we are able to identify their genuine needs. Once identified, these concepts can be embodied in materials design by fine-tuning the ratio of resins and rubber. Through exhaustive testing, we create prototypes that gradually zero in on customer needs.

MILASTOMER™ has seen its market grow 10% annually for the past few years, reflecting its use in a wide variety of applications, ranging from automobile parts, such as interior panels and weatherstrip parts, to construction materials, parts for home appliances, sporting goods, and daily necessities. In the automotive field, demand for more comfortable automobile interiors is growing along with ever stronger requirements for reducing the weight of vehicles, improved safety, and stricter VOC regulations. As an interior surface material, the Company's MILASTOMER™ is increasingly being used in luxury vehicles all over the world. It currently enjoys a high share of the global market.

The sensation of comfort comprises elements that appeal to one's senses and sensibilities, such as touch, texture, and warmth. For interior panel materials, the key is identifying and incorporating the appropriate level of softness desired by customers at the material design stage. Through innovative R&D and strong teamwork, the Mitsui Chemicals Group focuses on meeting the everyday desires of customers.

MILASTOMER™ customers are located around the world. We are able to address their diverse needs through tight-knit teamwork in the MILASTOMER™ business. At an early stage, the sales managers put together schedules with customers, and the development and analysis teams work together to meet the schedule deadlines. If a customer needs several hundred kilograms of sample materials for testing, our team draws up plans to perform trial production in actual plants with the cooperation of the production division. Our development capabilities are made possible through the unified efforts of production, sales, and research personnel, with everyone working toward the same vision.

3) Rapidly Addressing Sensory Needs

Each automaker and each car model has unique needs with regard to interior panel materials. To win the trust of customers, development addressing these diverse needs must progress quickly. For this reason, we aim to put in place a sensory evaluation system based on our own indicators that will quantify the sensations of comfort and softness.

While tending to diverse needs, we are working to expand the MILASTOMER™ business by continuing to develop high-quality products that provide comfortable driving experiences for consumers.



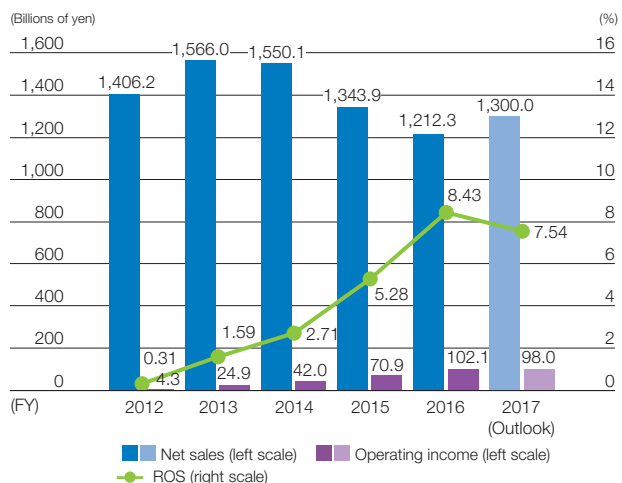
Meeting to discuss test results



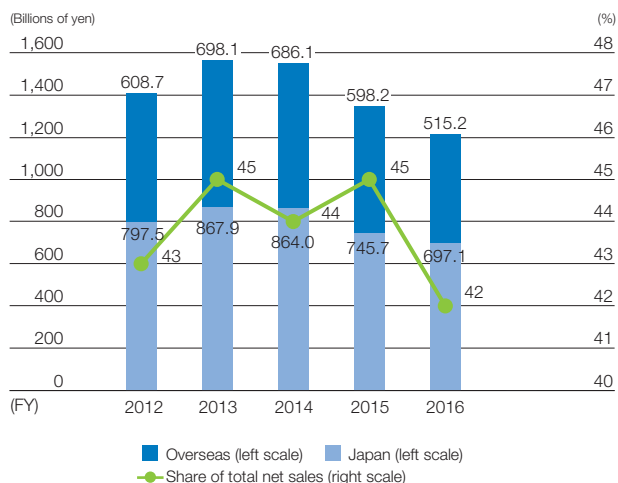
Checking test products

Financial and Non-Financial Highlights

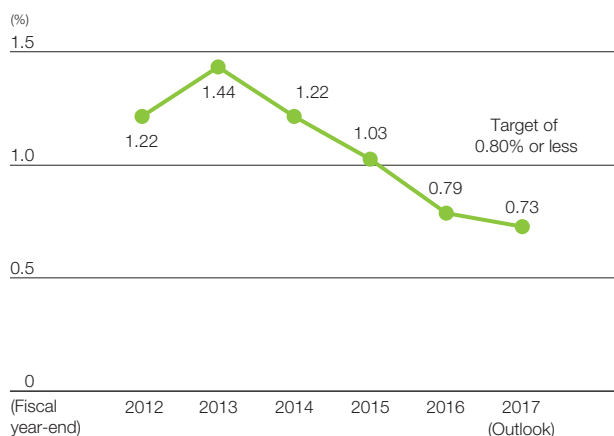
Net Sales/Operating Income/ROS



Overseas Sales/Share of Total Net Sales



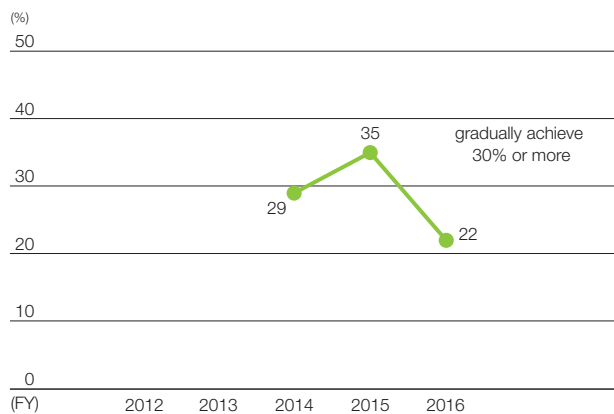
Net D/E Ratio



ROE

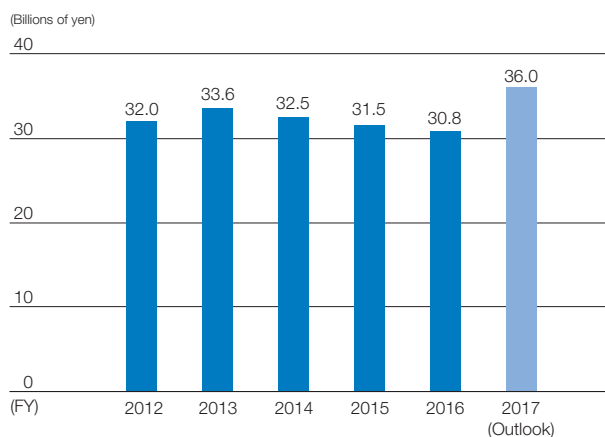


Total Return Ratio

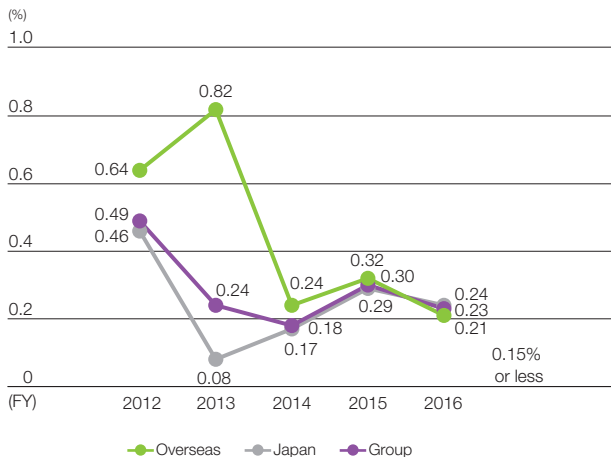


Total return ratio = (dividends paid + treasury stock acquired) / profit attributable to owners of parent

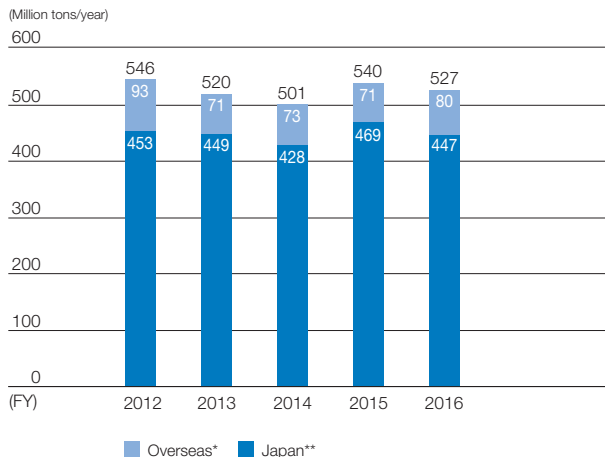
R&D Expenses



Work-related Significant Occupational Injury Frequency Rate

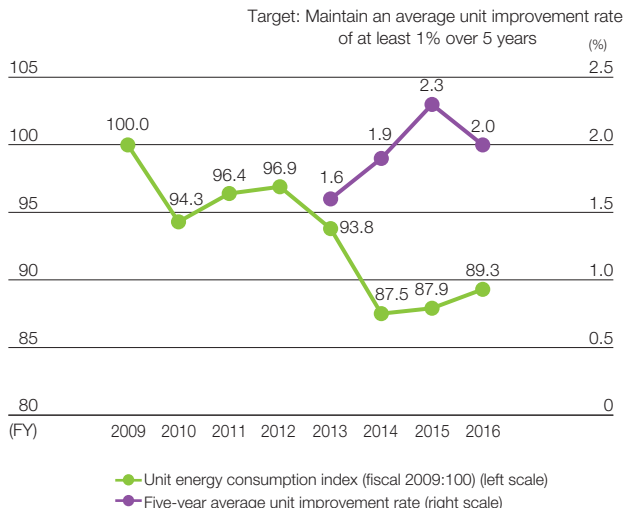


Greenhouse Gas Emissions

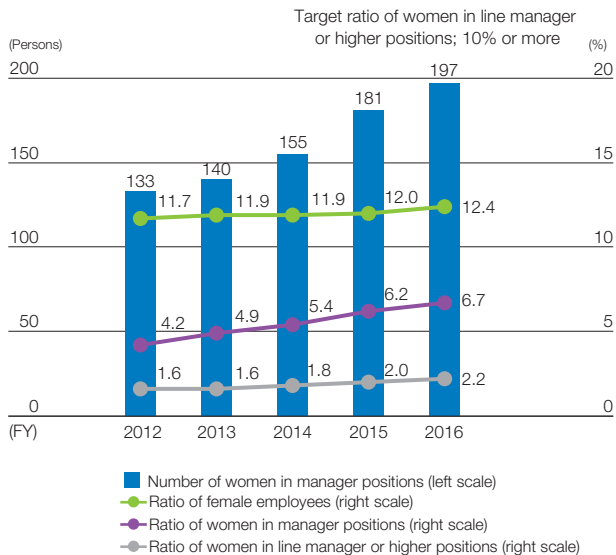


* Overseas: GHG emissions calculated in accordance with Japan's Law Concerning the Promotion of Measures to Cope with Global Warming (2005 Amendment) based on energy consumption figures for overseas consolidated subsidiaries. (22 companies in FY2016) (CO₂ emission factors from electricity generation were retroactively changed to International Energy Agency (IEA) emission factors by country.)
 ** Japan: Six manufacturing sites and domestic consolidated subsidiaries (15 companies in FY2016)

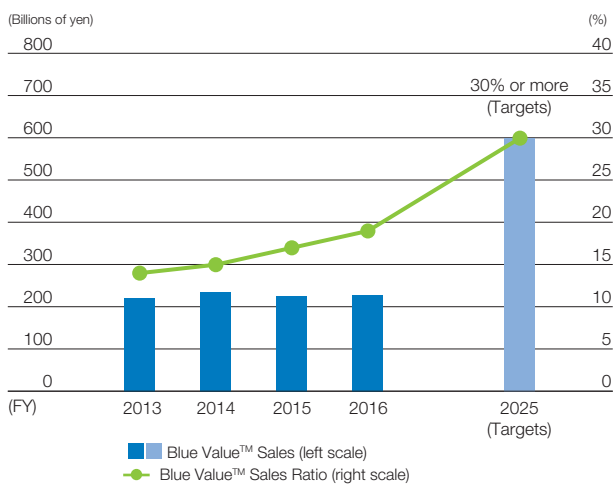
Per-Unit Energy Consumption



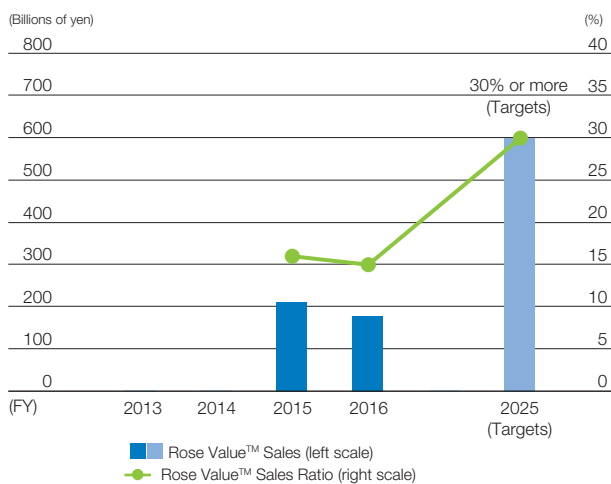
Female Employees/Ratio in Woman Manager Positions



Blue Value™



Rose Value™



Financial and Non-Financial Highlights

For the Year		2006	2007	2008	2009	2010
Operating Results (for the year)						
Net sales		¥1,688,062	¥1,786,680	¥1,487,615	¥1,207,735	¥1,391,713
Operating income (loss)		91,678	77,176	(45,493)	(9,461)	40,548
Profit attributable to owners of parent		52,297	24,831	(95,237)	(28,010)	24,854
Reference: Ordinary income (loss)		95,478	66,146	(50,768)	(13,132)	38,851
EBITDA ¹		167,864	155,719	38,873	69,275	117,089
Net cash provided by operating activities		100,565	92,423	54,882	70,173	73,196
Net cash used in investing activities		(133,618)	(78,206)	(76,253)	(42,913)	(43,204)
Free cash flows		(33,053)	14,217	(21,371)	27,260	29,992
Financial Position (at year-end)						
Total current assets		¥733,150	¥726,361	¥529,606	¥604,556	¥665,976
Property, plant and equipment, net		542,340	564,805	522,641	498,183	467,735
Total investments and other non-current assets		222,693	178,082	136,692	135,347	161,916
Total assets		1,498,183	1,469,248	1,188,939	1,238,086	1,295,627
Total current liabilities		591,253	569,560	377,858	386,203	442,298
Total non-current liabilities		336,678	335,461	412,950	432,879	422,228
Total shareholders' equity & total accumulated other comprehensive income (loss)		504,509	500,044	349,908	377,283	383,740
Interest-bearing debt		498,323	485,972	535,391	494,219	480,701
Other						
Depreciation and amortization		¥70,207	¥72,596	¥81,374	¥74,878	¥69,237
Capital expenditures		72,671	84,667	81,041	49,054	45,137
R&D expenses		36,943	42,130	40,628	38,131	36,166
Per Share Data						
Net income (loss) per share (basic)		¥66.68	¥32.22	¥(125.46)	¥(33.04)	¥ 24.80
Cash dividends per share		10.00	12.00	9.00	3.00	6.00
Ratios						
Return (operating income (loss)) on sales		5.43%	4.32%	(3.06)%	(0.78)%	2.91%
Return (net income (loss)) on equity		10.80%	4.94%	—	—	6.53%
Return (operating income (loss)) on assets		6.49%	5.20%	—	—	3.20%
Net D/E ratio		0.92	0.93	1.39	1.11	1.04
Social Data						
Employees	Consolidated	12,511	12,814	12,964	12,892	12,782
	Non-consolidated	8,695	8,671	8,557	8,297	7,878
Percentage of women	Non-consolidated	9.3%	9.8%	10.4%	10.8%	11.2%
Environmental Data²						
WSOI frequency rate ³	Consolidated	—	—	—	—	0.28
Energy consumption	Consolidated ⁴	—	—	—	99	103
Greenhouse gas emissions	Domestic ⁵	589	567	514	493	490
	Consolidated ⁶	—	—	—	571	583
Landfill disposal volume	Consolidated ⁷	—	53,141	30,098	18,799	18,163
Landfill rate for industrial waste	Consolidated ⁷	—	14.5%	8.7%	6.1%	5.4%

1. EBITDA = Operating income + Depreciation and amortization + Equity in earnings of non-consolidated subsidiaries and affiliates

2. Based on the change of aggregations method and revision of law, only to show comparable data continuously.

3. Work-related Significant Occupational Injury (WSOI) frequency rate: The number of deaths or WSOLs per million hours worked

4. Data reflect the total of six manufacturing sites and consolidated subsidiaries (fiscal 2016: domestic 15, overseas 23)

5. Data reflect the total of six manufacturing sites and domestic consolidated subsidiaries (fiscal 2016: domestic 15)

6. GHG emissions for overseas consolidated subsidiaries are calculated in accordance with Japan's Law Concerning the Promotion of Measures to Cope with Global Warming (2005 Amendment) based on energy consumption figures. (CO₂ emission factors from electricity generation were retroactively changed to International Energy Agency (IEA) emission factors by country.) Data reflect the total of domestic and overseas consolidated subsidiaries (fiscal 2016: domestic 15, overseas 22)

7. Data reflect the total of manufacturing sites of domestic and overseas consolidated subsidiaries and companies eligible for RC support (fiscal 2016: domestic 22, overseas 23)

2011	2012	2013	2014	2015	2016	2016
					(Millions of yen)	(Thousands of U.S. dollars)
¥1,454,024	¥1,406,220	¥1,566,046	¥1,550,076	¥1,343,898	¥1,212,282	\$10,805,615
21,564	4,290	24,899	42,040	70,926	102,149	910,500
(1,007)	(8,149)	(25,138)	17,261	22,963	64,839	577,939
22,884	9,206	22,522	44,411	63,183	97,196	866,352
89,854	49,729	73,828	90,218	117,416	146,414	1,305,054
43,302	18,512	43,476	58,287	145,913	100,440	895,267
(42,452)	(58,136)	(89,781)	(35,036)	(36,365)	(47,395)	(422,453)
850	(39,624)	(46,305)	23,251	109,548	53,045	472,814
					(Millions of yen)	(Thousands of U.S. dollars)
¥661,311	¥715,396	¥777,015	¥731,708	¥628,210	¥678,938	\$6,051,680
430,629	446,637	425,840	433,629	413,402	409,429	3,649,425
164,363	175,962	229,307	246,453	217,336	237,158	2,113,896
1,256,303	1,337,995	1,432,162	1,411,790	1,258,948	1,325,525	11,815,001
451,507	493,908	507,056	448,499	364,259	392,783	3,501,052
389,025	415,173	515,459	491,992	451,452	418,107	3,726,776
367,436	376,779	352,843	406,235	381,971	449,692	4,008,307
464,773	507,183	581,260	548,713	472,986	439,868	3,920,742
					(Millions of yen)	(Thousands of U.S. dollars)
¥62,749	¥43,864	¥48,143	¥48,251	¥48,640	¥44,057	\$392,700
44,814	56,649	113,200	47,531	43,405	45,383	404,519
33,176	31,997	33,569	32,473	31,493	30,770	274,267
					(Yen)	(U.S. dollars)
¥(1.01)	¥(8.14)	¥(25.10)	¥17.24	¥22.95	¥64.81	\$0.58
6.00	6.00	3.00	5.00	8.00	14.00	0.12
1.48%	0.31%	1.59%	2.71%	5.28%	8.43%	
—	—	—	4.55%	5.83%	15.59%	
1.69%	0.33%	1.80%	2.96%	5.31%	7.90%	
1.12	1.22	1.44	1.22	1.03	0.79	
12,868	12,846	14,271	14,363	13,447	13,423	(Persons)
7,633	7,266	7,129	6,931	6,733	6,516	(Persons)
11.4%	11.7%	11.9%	11.9%	12.0%	12.4%	
0.22	0.49	0.24	0.18	0.30	0.23	(Target 0.15)
99	94	89	86	89	88	PJ
467	453	449	428	469	447	Ten thousand tons
561	546	520	501	540	527	Ten thousand tons
1,147	1,179	630	689	963	973	Tons
0.4%	0.4%	0.2%	0.2%	0.4%	0.4%	

Start

In November 2016, we unveiled our 2025 Long-Term Business Plan.

In the lead-up to 2025, the world will continue to change drastically, with changes in the global environment, the rise of emerging markets, the maturation of developed markets, and the ceaseless advance of technology. We will respond promptly to these changes as we aim for sustainable growth and development.

Leveraging the strengths amassed over its 100-year history, the Group will continue working to raise its profile around the world as a highly profitable company that gives back to the community. We will boldly take on challenges and steadily advance to the next stage of our business.

The Mitsui Chemicals Group Has Commenced Its 2025 Long- *Sustainable Growth* *—Starts with*

S



Term Business Plan.

Action

2025 Long-Term Business Plan

To realize the future society it envisions, the Mitsui Chemicals Group is taking a triple bottom line management approach focused on economy, environment, and society as it continues working to solve its main business issues. We believe this is what must be continued and constitutes the realization of our corporate mission.

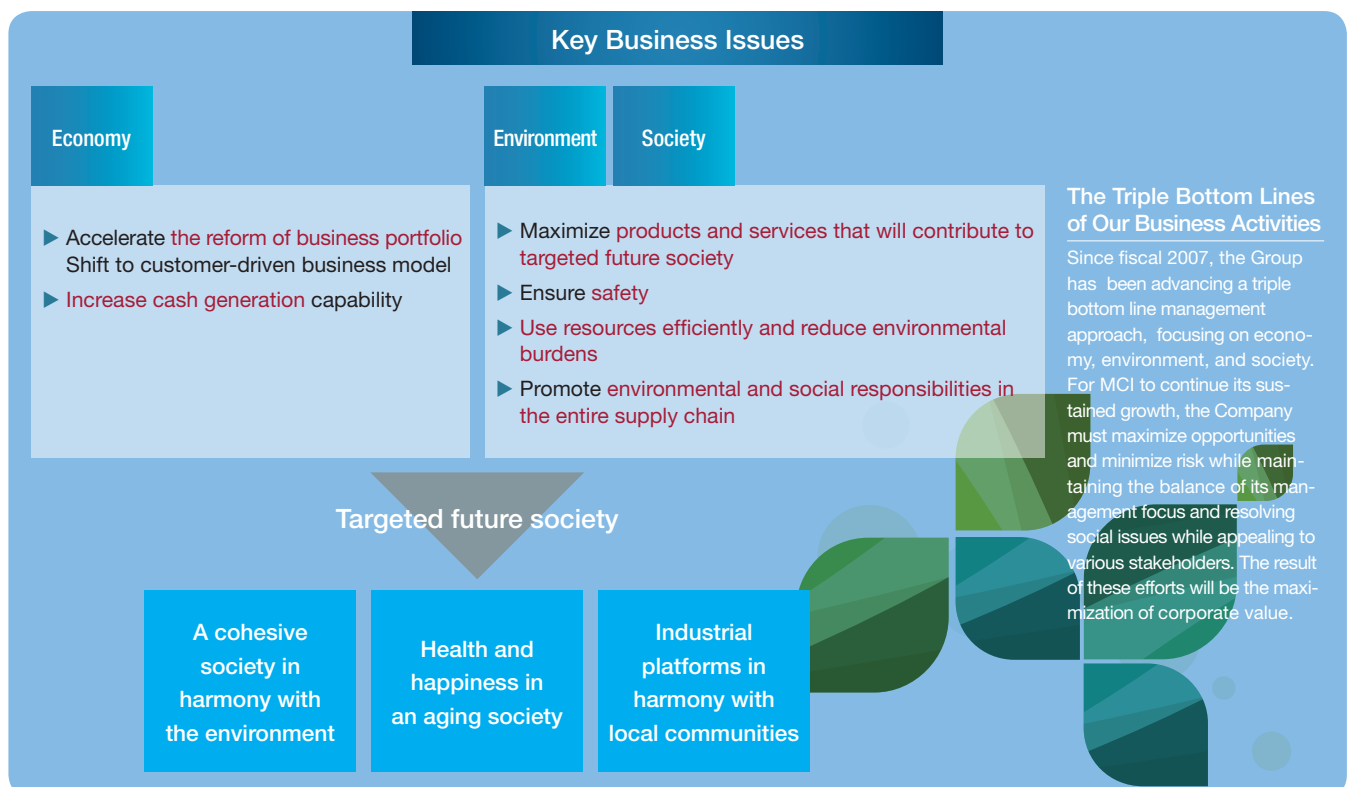
What Must be Continued Toward 2025

- ✓ **Corporate Mission**

Contribute broadly to society by providing high-quality products and services to customers through innovation and the creation of materials, while keeping in harmony with the global environment
- ✓ **Corporate Target**

Constantly pursuing innovation and growth to become a chemical group with an undisputed global presence
- ✓ **Reason for MCI Group's Existence**

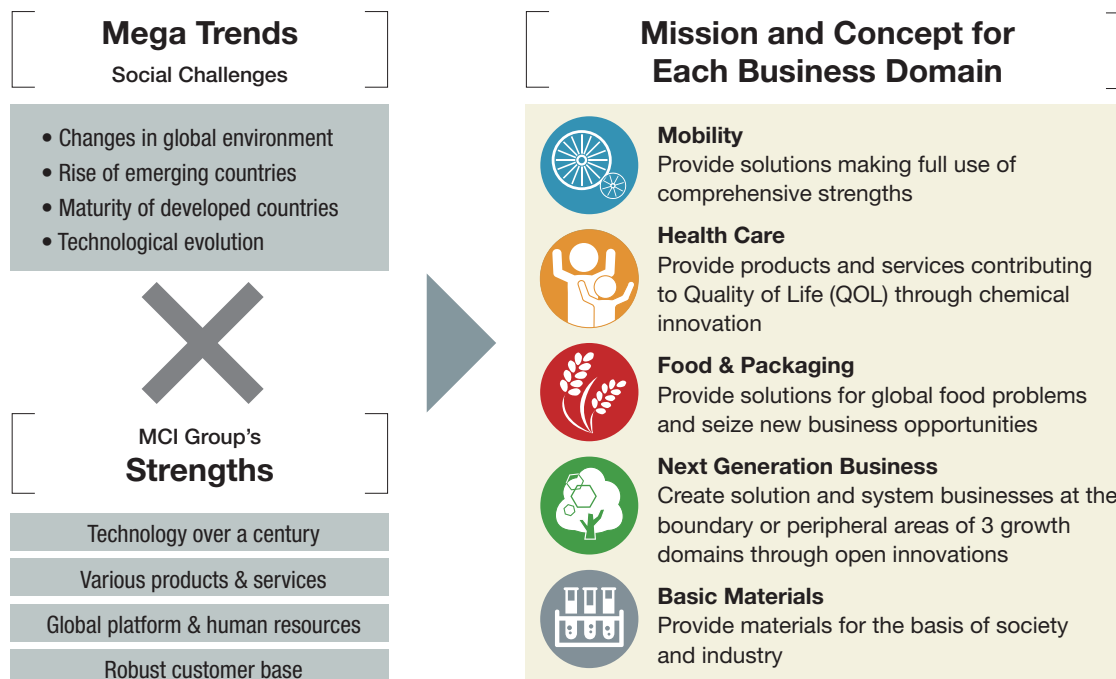
Contribute broadly by solving various social issues through business activities



01

Contribute to Building a Better Future Society in Five Domains

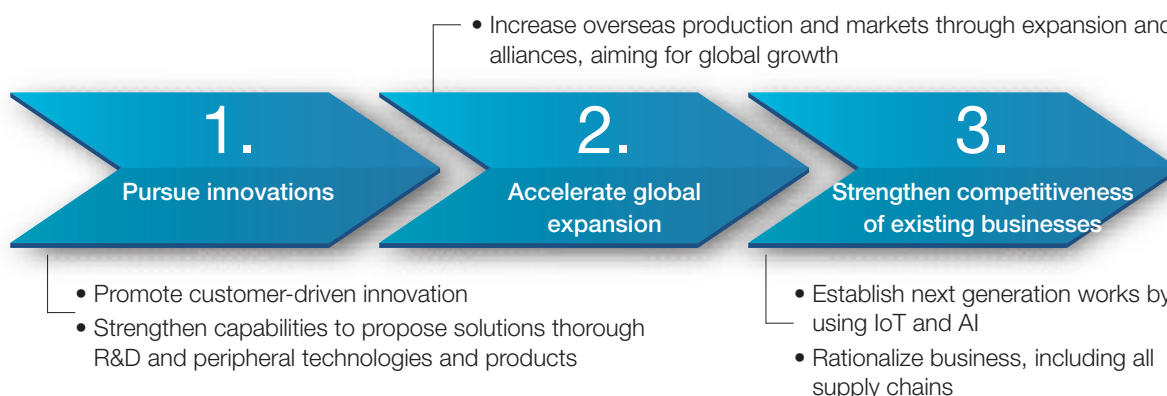
We added Next Generation Business as a new domain in addition to the three targeted business domains of Mobility, Health Care and Food & Packaging as well as the Basic Materials domain. By further elaborating and embodying the missions and concepts of these five domains, we aim to resolve various social issues and contribute to an ideal future society.



02

Key Business Measures: Three Basic Strategies

The following are three basic strategies to resolve key business issues and provide value to society.



Customer-driven innovation

We imagine what customers, consumers, and society want, and the potential needs and wants of customers, many of which customers themselves are unaware of, and create not only products, but also new products/businesses, including service and design.

Specifically, by combining external resources, such as open innovation, cooperation with venture companies, and intelligence (trend analysis, exploration of opportunity/risk), with optimal internal resources using a cross-sectional approach, we will create a market.

Enhancement of group/global management

In fiscal 2016, overseas markets accounted for 42% of our net sales, and this will continue to increase. By striking a balance between the promotion of local production for local consumption and the global efficiency of the Group as a whole, we will enhance global management.

To accelerate business expansion, we will step up the promotion and utilization of local staff, offering them more opportunities for advancement. Along with the promotion of diversity, we will incorporate new ideas generated by employees representing a diverse range of values.

03

2025 Long-Term Business Plan Target

	Operating income	¥200 billion	
Net Sales	¥2,000 billion	ROE	10% or over
ROS	10%	Net D/E	0.8 or less

Stable dividends and further dividends increase

- Maximize products and services to achieve a low-carbon, recycling-oriented, and cohesive society in harmony with environment
- Maximize products and services to achieve improved QOL and a smart society
- Pursue thorough safety, high quality, and fairness in the entire supply chain

04

Proactively Investing Management Resources

To achieve our targets, we plan to earmark ¥1 trillion for growth investments over 10 years, focusing 94% of the total on targeted business domains. We also plan to increase R&D expenditures to ¥70 billion by fiscal 2025—roughly double the amount spent in fiscal 2016.

Growth Investment
¥1 trillion*

94% is for targeted business domains
About 3 times more than in the last 10 years
Active investment that maintains financial discipline

* Excluding maintenance investments
* Total amount for 10 years, between FY16-FY25

Strategic Investment
¥400 billion*

* Total for the 10-year period (FY16-FY25)

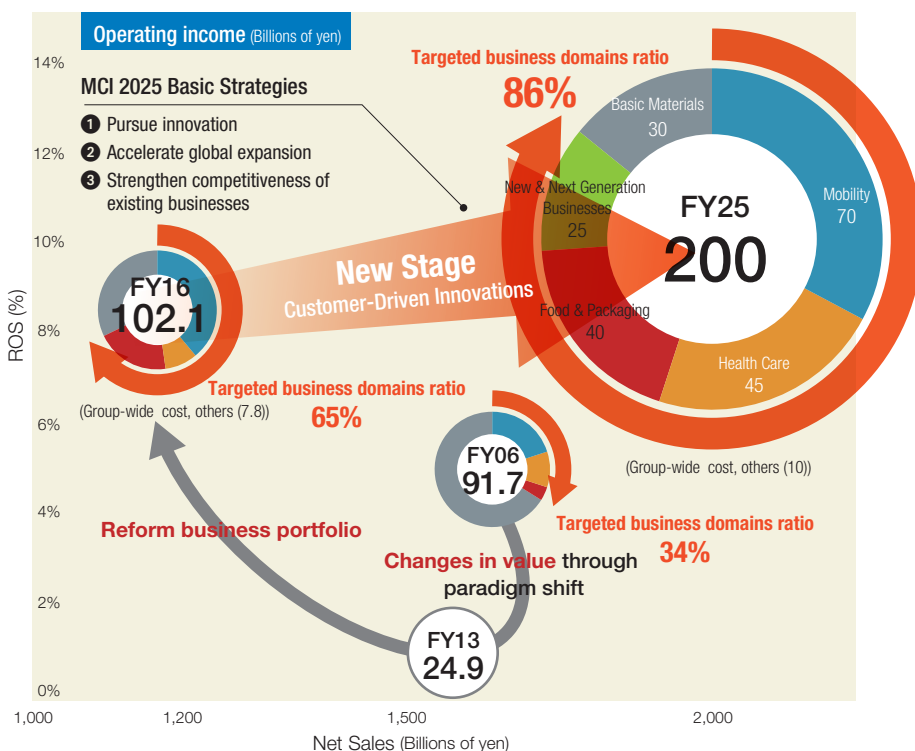
R&D Expenses
(FY25 ¥70 billion*)

2x

* In comparison to FY16

05

Entering a New Stage on the Road toward Sustainable Development



Over the last decade, the Group's earnings structure has changed greatly. The Group is promoting basic strategies under its Long-Term Business Plan. To realize our vision by fiscal 2025, we will maintain our aim of achieving growth from a long-term perspective.

06

Setting Environmental and Social Targets

In the 2025 Long-Term Business Plan, alongside economic targets we have identified environmental and social targets that take into full consideration the impact our business operations can have in the way of social contributions and helping to resolve social issues. Mitsui Chemicals will continue to address issues related to its supply chain and the demands of various stakeholders as it continuously affirms its commitment to meeting the demands of society and supporting the drive toward meeting SDGs and other goals even as it leverages Group-wide strengths.

Target 1: Maximize products and services to achieve a low-carbon, recycling-oriented, and cohesive society in harmony with the environment

Expand sales of environmentally oriented products and services	Make greater contributions to reducing environmental impact throughout the value chain • Blue Value™ products sales ratio: 30% or more	P. 32
Reduce environmental load in production and logistics	Efficiently use resources and reduce emissions of substances that impact the environment across the Group • GHG emissions reduction rate*: 25.4% or more compared with FY2005 (2030) • Per-unit energy consumption reduction rate*: Continue by an average of over 1% per year over five years	P. 69

Target 2: Maximize products and services to achieve improved QOL and a smart society

Expand sales of products and services that contribute to a healthy and happy society	Maximize our contribution to QOL • Rose Value™ products sales ratio: 30% or more	P. 32
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Target 3: Pursue comprehensive safety, high quality, and fairness throughout the supply chain

Ensure safety	Maintain a high level of safety worldwide • Incidence of major accidents: Continue at zero • Work-related significant occupational injury frequency rate: Continue at less than 0.15	P. 54
Provide high quality products and services	Ensure a stable supply of products that meet customer demand • Incidence of customer non-conformance: Less than 10 ppm	P. 69
Implement product stewardship	Manage risks throughout the supply chain • Product risk assessment implementation rate: 99% or more (2020) • Provision ratio of the latest safety information for all products: Continue at 100%	
Continue as a company that is fair and trusted by society	Be fair in all global business activities • Incidence of major legal and regulatory violations: Continue at zero	P. 68
	Encourage sustainability among business partners • Supplier sustainability assessment and improvement support (Sustainable procurement ratio): 70% or more	P. 70
	Support Group employees in their active work and use of their capabilities • Ratio of women in line manager or higher positions**: 10% or more • Increase employee engagement	P. 62

* Mitsui Chemicals, Inc. and domestic consolidated subsidiaries

** Mitsui Chemicals, Inc. registered employees



For details, visit the website below.

http://www.mitsuichem.com/en/csr/mitsuichem_csr/vision.htm

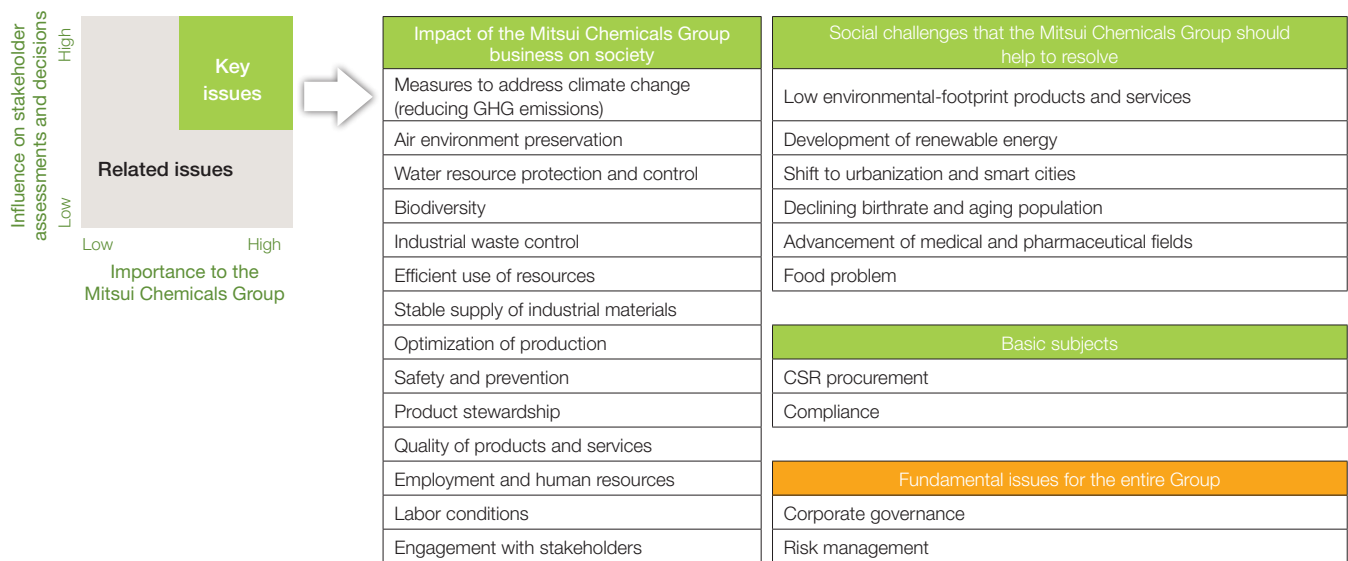
07

Initiatives Aimed at Addressing Key Issues

Aiming to contribute to the realization of an ideal future society, in 2014 the Group selected key issues (materiality) to address. It is focusing on corporate governance and risk management as issues critical to the entire Group.

In 2017, we revised this list of issues, realizing that efforts to address such key issues are necessarily tied to resolving social issues and achieving long-term management targets. We referenced various international guidelines, including the UN Global Compact signed in 2008, and the opinions of stakeholders and considered the characteristics of businesses and the location of those activities. We also looked at the various impacts of the Group's business activities.

In the years to come, in addition to reflecting changes in society and changes in the Group's business activities, we will reassess the materiality of these issues as necessary. We are aiming to promote the sustainable growth of both society and the Group through our business activities.



For details, visit the website below.

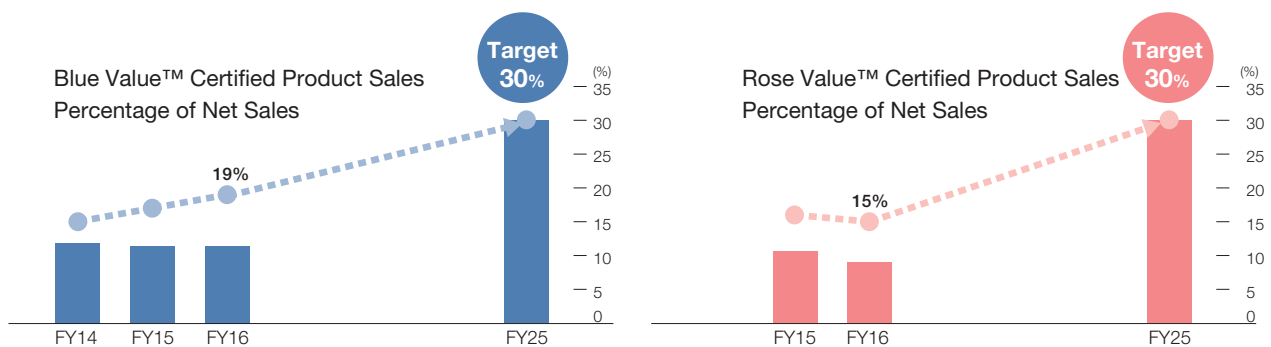
<http://www.mitsuichem.com/en/csr/materiality/index.htm>

08

Visualizing Our Environmental and Social Contributions

The Group uses Blue Value™ and Rose Value™ to visualize the contributions of its products and services to the environment and society with the aim of helping to realize an ideal future society, specifically “a cohesive society that is in harmony with the environment” and “health and happiness in an aging society”. These visualizations enable us to communicate the value of these products and services to all stakeholders. We use unique indices to evaluate products and services by application, and those receiving high environmental contribution values or Quality of Life (QOL) improvement contribution values are certified as Blue Value™ and Rose Value™, respectively.

Under the 2025 Long-Term Business Plan, we established the ratio of Blue Value™ and Rose Value™ products to total net sales as Key Performance Indicators (KPIs) for our environmental and social targets.



The growing percentages of net sales that these certified products account for is testament to the Group's steady contribution toward the realization of an ideal future society. We also believe that contributing to the development of a sustainable society through these measures will lead to the achievement of the economic targets of our long-term business plan.

Blue Value™ and Rose Value™

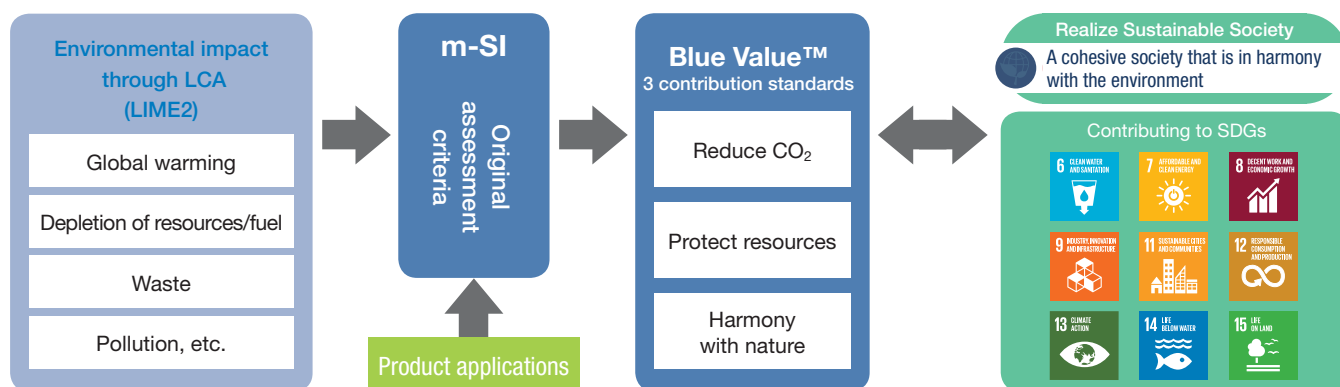
Aims

- ✓ Visualize our contributions to the environment and society through our business activities
- ✓ Identify the contributing elements of each product throughout its life cycle from production to disposal, sorted by application
- ✓ Develop and provide products and services with a high contribution value, then share them with stakeholders
- ✓ Aim to realize an ideal future society by building a Blue & Rose Value Chain

Blue Value™

Most chemical products go through various life stages, from initial production and processing to use as finished products and then final disposal after use. At each stage, we visualize how much we can lower a given product's environmental impact and share this with various stakeholders, a practice that often leads to further environmental contributions. Based on this idea, we created Blue Value™ as a measure of environmental contribution as we work toward helping realize the ideal future of “a cohesive society that is in harmony with the environment.”

We evaluate products and technologies by application using our exclusive mitsui Sustainability Index (m-SI^{*}) and certify Blue Value™ products by verifying the degree to which they contribute to the environment based on three factors: reducing CO₂, protecting resources, and coexisting with nature.

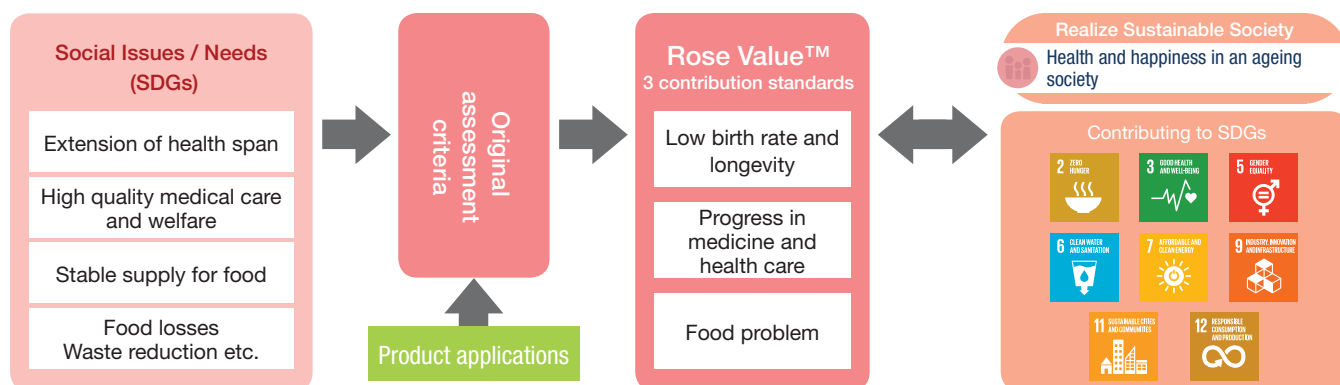


* m-SI: mitsui Sustainability Index established in 2013

Rose Value™

We created Rose Value™ in 2016 to quantify the QOL improvement contributions the Group's products can provide to help realize the ideal future of “health and happiness in an aging society.”

This exclusive social impact evaluation index takes into consideration social needs, such as sustainable development targets. We certify Rose Value™ products and services if they meet standards pertaining to three contribution factors: assuring QOL for all in a rapidly aging society, contributing to progress in medicine and health care, and addressing food problems.



The Group is contributing to the development of a sustainable society and promoting the added value of its products to shareholders through the Blue Value™ and Rose Value™ brands.



For details, visit the website below.

http://www.mitsuichem.com/en/csr/mitsuichem_csr/visualization.htm

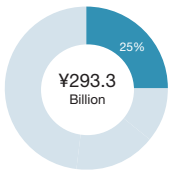
Mobility

P. 36

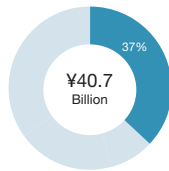
Health Care

P. 40

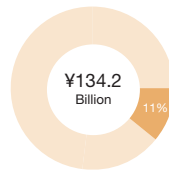
FY2016 Net Sales



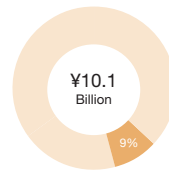
FY2016 Operating Income



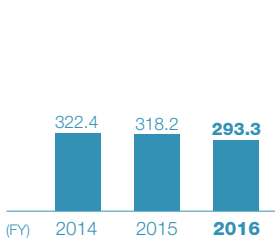
FY2016 Net Sales



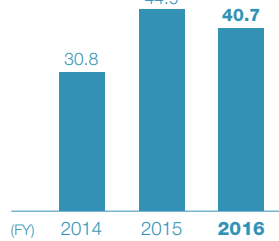
FY2016 Operating Income



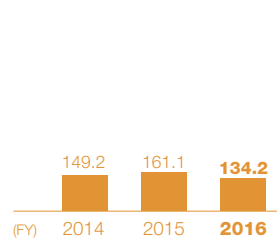
Trends in Net Sales
(Billions of yen)



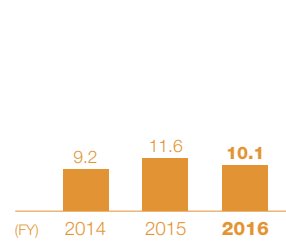
Trends in Operating Income
(Billions of yen)



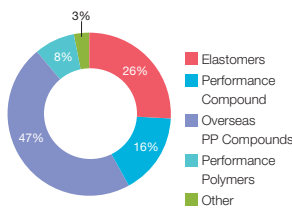
Trends in Net Sales
(Billions of yen)



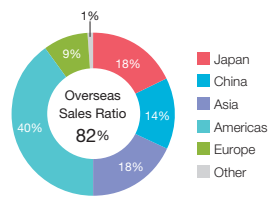
Trends in Operating Income
(Billions of yen)



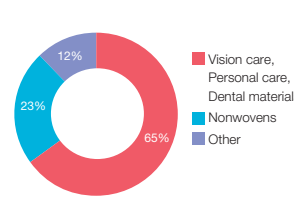
Sales by Product



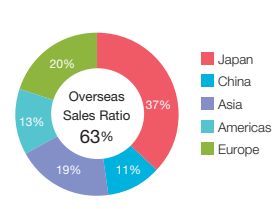
Sales by Region



Sales by Product



Sales by Region



Main Products

- Elastomers**
 Ethylene propylene rubber (Mitsui EPT™),
 Alpha-olefinic copolymer (TAFMER™),
 Liquid polyolefinic oligomer (LUCANT™)
- Performance Compounds**
 Adhesive polyolefin (ADMER™), Thermoplastic olefinic elastomer (MILASTOMER™),
 Engineering plastics (ARLEN™)
- Overseas PP Compounds**
- Performance Polymers**
 Specialty polyolefins (TPX™, APEL™,
 HI-ZEX MILLION™, MIPELON™, LUBMER™),
 Semiconductor manufacturing material
 (Mitsui PELLICLE™)

Main Products

- Vision Care Materials**
 Ophthalmic lens materials (MR™, RAV7™),
 Photochromic lenses materials (SunSensors™)
- Nonwovens**
 Nonwoven fabrics (SYNTEX™, TAFNEL™),
 Breathable films (ESPOIR™), Polyolefin synthetic pulp (SWP™, KEMIBESTO™)
- Personal Care Materials**
 Acrylamide, Medical materials
- Dental Materials**
 Restoratives (Charisma™, Venus™), Adhesives
 (Super-Bond™, i-Bondv™), Artificial teeth, Denture
 materials (Pala™, Impression (Flexitime™),
 Digital equipment / materials (Cara™, Dima™)



Next Generation Business

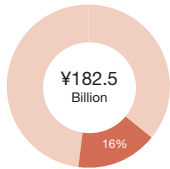
P. 50



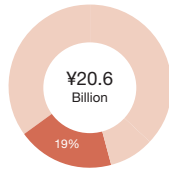
Food & Packaging

P. 44

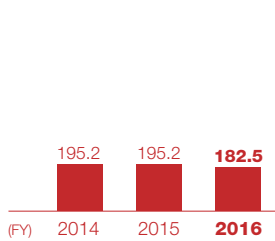
FY2016 Net Sales



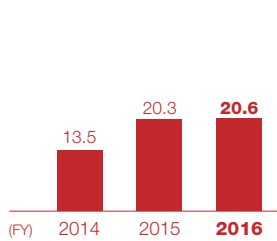
FY2016 Operating Income



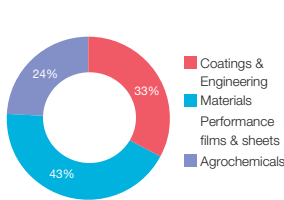
Trends in Net Sales
(Billions of yen)



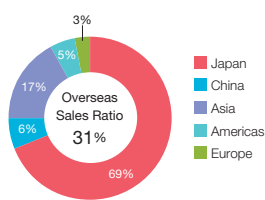
Trends in Operating Income
(Billions of yen)



Sales by Product



Sales by Region



Main Products

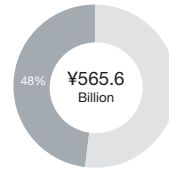
- **Coatings & Engineering Materials**
Polyurethane resins, Packaging adhesive, Polyolefin resins, Coating resins, Sealants for displays
- **Packaging Films**
Biaxially oriented polypropylene films, Cast polypropylene films, Linear low-density polyethylene film
- **Industrial Films & Sheets**
Semiconductor and electronic components manufacturing processes films, Foam sheets, Encapsulant sheets for solar cells
- **Agrochemicals**
Insecticides, Fungicides, Herbicides, Non-crop specialty chemicals



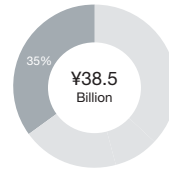
Basic Materials

P. 48

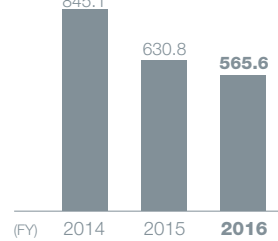
FY2016 Net Sales



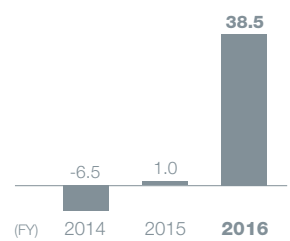
FY2016 Operating Income



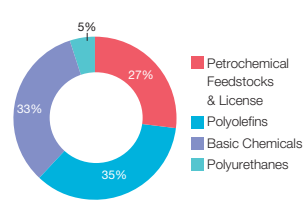
Trends in Net Sales
(Billions of yen)



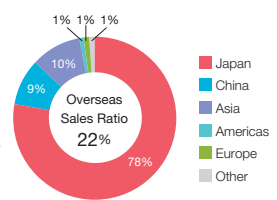
Trends in Operating Income
(Billions of yen)



Sales by Product



Sales by Region



Main Products

- **Petrochemicals**
Ethylene, Propylene, High density polyethylene, Metallocene linear low density polyethylene (EVOLUE™), Linear low-density polyethylene, Polypropylene, Olefin polymerization catalysts
- **Basic chemicals**
Phenol, Bisphenol A, Acetone, Isopropyl alcohol, Methyl isobutyl ketone, Purified terephthalic acid, PET resin, Ethylene oxide, Ethylene glycol, Hydroquinone, Meta/Para-cresol, Ammonia, Urea, Melamine, Semiconductor gas
- **Polyurethane raw materials**

The net sales and operating income graphs exclude companywide development costs and some other costs.



Mobility

“Remaining highly alert to changes in the automotive and ICT markets, we will meet new market needs with solutions that leverage our extensive product lineup and outstanding comprehensive technological strengths.”



Takayoshi Shimogori Director, Managing Executive Officer, Business Sector President, Mobility Business Sector

Social Issues and Needs

Concerns about global warming and awareness of environmental preservation are growing worldwide. Countries around the world are reinforcing CO₂ emissions restrictions and demand for increased vehicle fuel efficiency is growing. In addition, the development of autonomous vehicles and car sharing and other changes in the environment surrounding the Mobility business are prompting the creation of new, diversified demand, namely for ways of increasing the use of electrical components and improving comfort.

Business Vision

The Mitsui Chemicals Group defines mobility as the full range of modes of transportation for both people and things, most notably automobiles. Within the Mobility domain, the Group seeks to achieve sustainable growth in global markets by providing solutions to diversifying needs and reinforcing the competitiveness of its businesses.

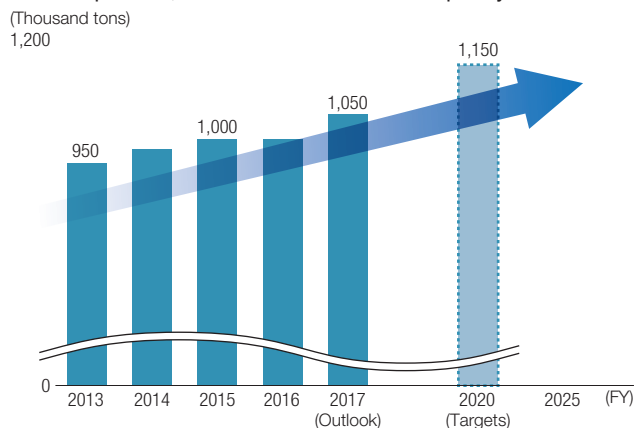
Aiming to Become the World Leader in PP Compounds

The Mitsui Chemicals Group's automotive material PP compound business ranks second globally and first in Asia. The Group has also built up a solid track record in North America and holds around 30% share in the U.S. automobile manufacturing sector.

PP compounds combine polypropylene with other polymers and additional agents to achieve functionality and performance that polypropylene alone is unable to provide. Leveraging its proven expertise in material design technologies in combination with proprietary resins, the Mitsui Chemicals Group is providing highly acclaimed high-quality PP compounds that address various customer needs.

Moreover, the Group is building a structure that is finely attuned to the global strategies of automobile manufacturers. In a bid to address customer needs in a timely manner, the Group currently maintains eight production sites and five R&D bases worldwide. The Group is progressively increasing production capacity in line with growing demand and its efforts to increase its market share. Moving forward, every effort will be made to identify markets that exhibit continued growth and to further reinforce Group operations.

PP Compounds, Increase in Production Capacity



2016 Supplier of the Year by General Motors

Advanced Composites, Inc. (hereafter, "ACP"), a subsidiary in the United States, was granted the "2016 Supplier of the Year" award by General Motors Company (hereafter, "GM"), a U.S. automotive manufacturer. Having been awarded this honor in 2012, 2013 and 2015, ACP was given this award for the fourth time in two consecutive years.

"We have selected 118 winners from among approximately 20,000 suppliers, and these are 'the best of best suppliers,' so to speak. ACP contributes to our business expansion in Asia and Europe as well as in North America. I hope we can build an even better relationship with the company," said Christopher Naegeli, GM Executive Director, Global Thermal Systems, Raw Materials Purchasing, about the granting of the award.

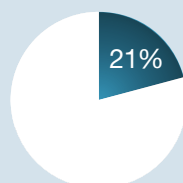


TAFMER™

Region	Market Share	Market Growth Rate*
Global	2nd	6%
Asia	1st	9%
Japan	1st	-

Global Share FY2016

* FY2015-18



PP Compounds

Region	Market Share	Market Growth Rate*
Global	2nd	3%
Asia	1st	3%
Japan	1st	-

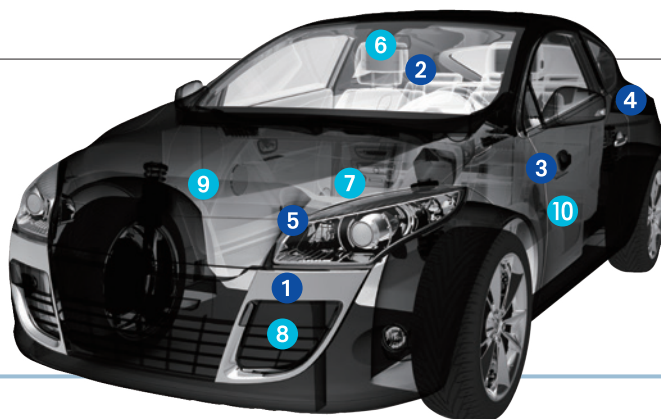
Global Share FY2016

* FY2015-18

Strengths	Opportunities & Risks ▼	Challenges
<ul style="list-style-type: none"> • A broad materials lineup • High technological capabilities and quality • Customer base • Technical support • Proposal capabilities based on excellence in products and technologies 	<ul style="list-style-type: none"> • Expanding need for lighter weight materials • Expanding needs for more safety and comfort • Stagnant growth in developed countries ▼ • Growth in emerging countries 	<ul style="list-style-type: none"> • To capture trend toward lighter weight for business growth • To capture new market needs in which ICT and automotives are integrated • To achieve continuous growth by capturing business in growing regions

Strategic Product Lineups

Although plastic accounts for 10% (or approximately 100 kg) of an automobile's total weight, it comprises 70% of the 30,000 parts that comprise an automobile. The Mitsui Chemicals Group is able to meet a wide array of social needs through highly functional polymeric materials and performance compounds, fields in which the Group excels.



World-Leading Product Lineups

Global No. 2, Asia No. 1

1 Bumpers

PP compounds

PRIME POLYPRO™ TAFMER™

- Lightweight
- Impact resistant
- Designable



Global No. 3, Asia No. 2

2 Interior surfaces

Olefin thermoplastic elastomers

MILASTOMER™

- Recyclable
- Designable
- Low density, lightweight



Asia No. 1

3 Door sealing

Ethylene propylene rubber

Mitsui EPT™

- Easy to process
- Weather and heat resistant



Global No. 1

4 Fuel tanks

Adhesive polyolefin

ADMER™

- Moldable in multiple layers
- Lightweight due to resin fuel tanks



Tie-up with The Lubrizol Corporation, the leader in the lubricant oil industry

5 Gear lubricant oil additives

Liquid polyolefinic oligomer

LUCANT™

- Improved fuel efficiency
- Extended service life



New Product Development

6 In-vehicle camera lenses

APEL™

- Lightweight
- Compact
- Safe and reliable



Developing application based on materials for smartphones
Commenced mass production in FY2016

7 Lithium ion battery safety material

STOBA®

- Safe and reliable
- Durable

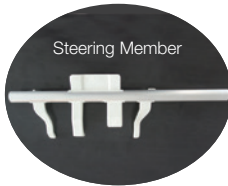


Exclusive license with Industrial Technology Research Institute of Taiwan
Working to improve performance
Developing automotive applications

8 Metal/resin integral molding parts

POLYMETAC™

- Lightweight
- Reduced production processes



Aiming for commercialization for automobiles by around 2020
Integral injection molding eliminates processes using screws or welding
Provides the same strength as metal parts at half the weight by combining polypropylene resin with aluminum

9 Parts around engine

ARLEN™

- Heat resistance
- Improved fuel efficiency



Inserted into water jacket
Commenced mass production in FY2014

10 Exterior materials

Glass fiber reinforced plastics materials/Carbon fiber reinforced plastics materials, etc.

- Lightweight
- Improved fuel efficiency



Use for rear-door, hood interior panels
Commenced in mass production FY2014

Fiscal 2016 Business Overview and Results

Fiscal 2016 Results

Net sales: **¥293.3** billion (-¥24.9 billion)

Operating income: **¥40.7** billion (-¥4.2 billion)

- Although sales remained firm for elastomers, which are primarily used in automotive components and as resin modifiers, the stronger yen exerted negative effects and terms of trade deteriorated.
- Thanks mainly to the start-up of a new compound company in China, sales steadily increased for performance compounds despite the effect of the stronger yen.
- Although sales also remained firm for performance polymers, especially those for ICT-related applications, the stronger yen exerted negative effects.
- In the overseas polypropylene and compound business, although the number of automobiles produced increased, primarily in North America, the stronger yen exerted negative effects and terms of trade deteriorated.

Aiming for Medium- and Long-Term Growth

Fiscal 2017 Targets

Net sales: **¥310.0** billion (+¥16.7 billion)

Operating income: **¥42.0** billion (+¥1.3 billion)

Fiscal 2025 Target

Operating income: **¥70.0** billion + New businesses

● Fiscal 2017 Plan

By capturing growth in ICT-related markets and increasing automobile production we expect to expand sales by major products. Although terms of trade are expected to get worse, earnings are expected to rise in fiscal 2017 with a boost from higher sales. As for PP compounds and MILASTOMER™, we will increase production capacity and enhance our supply network to meet growing global demand. Furthermore, we will carry out plans to raise production capacity for existing products and promote new business creation as we work to implement mobility business strategies aiming for long-term growth.

● Growing Toward 2025

Boosting production capacity for many of the Group's products in the next business term is essential to translate current demand growth into business opportunities. Accordingly, the Mitsui Chemicals Group will steadily increase its production capacity in line with its business plan for each product. In addition to expanding and reinforcing existing businesses, energies will be channeled toward promoting the Mobility strategy across the Group as a whole. Moving forward, every effort will be made to strengthen the Group's ability to provide its customers with optimal solutions.

Elastomers

The Mitsui Chemicals Group is evaluating the need to increase production capacity for both TAFMER™ and LUCANT™, which are growing globally. Led by its EPT business activities, the Group is also looking to steadily expand high-value-added businesses by introducing new differentiated products. In this regard, the Group will focus on both quantitative and qualitative expansion.

Performance Compounds

The Mitsui Chemicals Group will promptly boost production capacity to fully capture growing global demand for ADMER™ and MILASTOMER™, over the medium to long term. In addition, the

Group will realize steady profit from investment in increasing production capacity in China and Japan.

Overseas PP Compounds

In FY2017, the Mitsui Chemicals Group will increase its production capacity in North America, Mexico, and India in light of the forecast upswing in demand and ensure that these investments lead to stable profit. The Group will assess the potential of establishing a direct production base in Europe as a part of efforts to strengthen its global business structure.

Performance Polymers

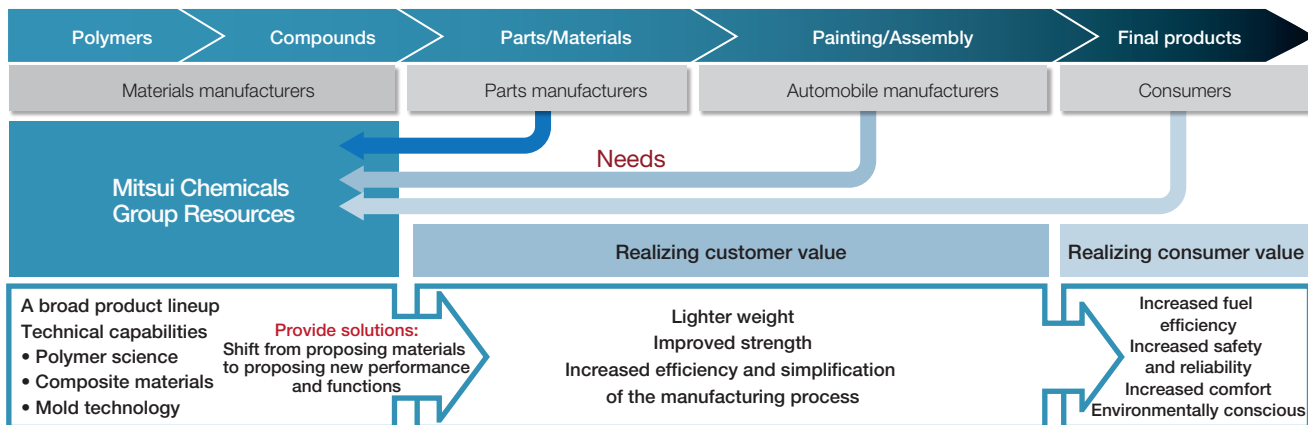
APEL™ enjoys a strong reputation in the optical lens application market and offers excellent optical characteristics and heat resistance. Efforts are under way to promote its use in automotive camera lenses, which are currently primarily glass. Precisely identifying growth opportunities in the ICT market, the Group will also take concrete steps to reinforce its production framework for each product.

Providing New Products and Total Solutions

In FY2016, the Mitsui Chemicals Group completed plants at a joint venture company in China and its Nagoya Factory to produce electrolyte solutions for LIBs, which are expected to see strong demand growth going forward. We are working to quickly commercialize such products and technologies as the metal resin integral technology POLYMETAC™ as well as STOBA™, which helps to prevent LIB thermal runaway as we seek to meet customer needs with a broad-ranging product lineup.

The Group also established the Mobility Development Center, a test center for introducing plastic materials for automotive parts and molding technologies for such materials, based on the outstanding mold technologies of Kyowa Industrial Co., Ltd. which was acquired in 2014. By combining diverse materials, such as plastic compounds, and composite materials as well as molding technologies, we will put forward practical total solutions to better address customer needs.

Business Model



We will realize customer and consumer value with solutions based on the actual forms and therefore closer to the customers' needs for materials, parts and mold technology that our Group possesses.

TOPICS: Helping to Address Social Issues

Improved Fuel Efficiency: Making Cars Lighter with Multi-Material Components

Around the world, as environmental regulations become ever more stringent and customer needs grow more sophisticated along with the trend toward safety and greater comfort, the traditional solution proposal method focusing on a single material is becoming obsolete. Today, proposals involving multiple materials and a range of products are becoming the norm. Leveraging our current product lineup and technical capabilities, we must switch to offering multi-material solutions, where different types of materials are combined to create optimal materials.

The Group is implementing a new business model that realizes customer value by making use of its range of multi-materials, including glass fiber reinforcements and metal resin composites, and by providing solutions combining materials and fabrication technologies at the Mobility Development Center established in

April 2017.

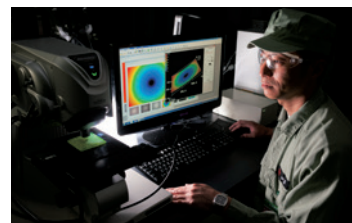


Metal mold creation, maintenance, tests, trials, and exhibition of each type
Bolstering our solution proposal capabilities

Improved Safety: Improving Driving Technology with ICT

With the rise of next-generation automobiles featuring autonomous driving support technology to meet new needs for improved safety, customers are demanding performance improvements in view and sensing cameras. Most automotive lenses are currently made of glass, but the switchover to plastic lenses is expected to gain momentum mainly because of the greater degree of design freedom offered by plastic as well as mass producibility and cost savings.

The Group is moving quickly to develop automotive applications for APEL™, which boasts a high adoption track record for use as convex imaging lenses for mobile cameras, such as those installed in smartphones. The product is a transparent optical resin (cyclo olefin copolymer) featuring high refraction and low birefringence, but lenses for automotive applications require long-term reliability. We will enhance APEL™ for use as a plastic automotive lens, ensuring top performance in the area of environmental resistance, such as to heat and humidity. This will help improve the performance of sensors and improve autonomous driving support technology.

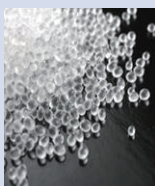


Introduction to Blue Value™ and Rose Value™ Products

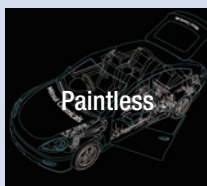
Blue Value™

Reducing GHG emissions and preserving resources

Reduce GHG emissions 13.3% by using paintless PP compound.



Develop high gloss grade
Develop ultra low gloss grade



Bumpers and interior surfaces / PP compounds

Blue Value™

Reducing GHG emissions

Reduce weight of fuel tanks 10-30% by using resin instead of metals.



Adhesive polyolefin ADMER™

Health Care

“ We offer products and services that improve quality of life (QOL) for a healthy and long-lived society, by strengthening and expanding existing businesses and creating new growth platforms through peripheral and downstream business development. ”



Osamu Hashimoto Managing Executive Officer,
Business Sector President, Health Care Business Sector

Social Issues and Needs

Health awareness has been on the rise against a backdrop of declining birthrates and aging populations in advanced countries and economic growth in emerging countries. Customer values have diversified, and individual preferences and needs have grown. Customers have come to look for “care” which fits their life stage.

Business Vision

The Mitsui Chemicals Group aims to establish new growth platforms by creating and providing products and services that help improve QOL through innovation in chemicals.

Advances in the Dental Materials Business

Subsidiary Sun Medical Co., Ltd. boasts a large market share dental adhesives, a core product line selling 30 years in Japan. In 2013, the Mitsui Chemicals Group acquired Heraeus Kulzer GmbH, which, with well-known brands, is the sixth-largest maker of dental materials in the world.

Consolidating under the Kulzer brand in 2017, we are expanding the business globally. Leveraging the strengths of these two companies, we are using the polymer science technologies of Mitsui Chemicals to look to revolutionized dental materials to provide products and services needed by dentists and dental laboratories.

Nowadays, development of digitalization is also seen in dental materials business. Crowns, bridges and other oral repair items are more often designed and produced by digital instruments. The

Group is rapidly responding to the trend of digital solutions and expanding its business into new fields of diagnosis, treatment and prevention besides its traditional field of oral restoration.



Highly Functional Hygiene Nonwoven Fabrics with Excellent Flexibility and Stretchability

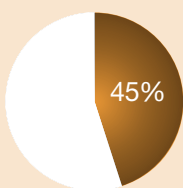
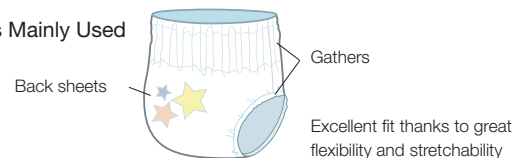
In East and Southeast Asia, disposable diapers are being used by more consumers, especially high-quality, highly functional premium disposable diapers made in Japan have risen in popularity in China. In addition to such basics as leakproof, breathability, and no diaper rash, consumers desire higher functionality, such as comfort and a snug fit. Developed with the technologies of the Mitsui Chemicals Group, our nonwoven fabric features excellent flexibility and stretchability that satisfies these advanced consumer needs, winning accolades as a result. We fully leverage our three-pronged Asian production structure in Japan, Thailand, and China to ensure a reliable supply of highly functional nonwoven fabric and are constantly expanding our supply capacity to meet growing demand.

Moreover, we are developing the product for such new fields as medical applications in a bid to maintain and expand our top-level share of the Asian market for high-performance nonwoven fabrics.

The Group's Market Share



Where It Is Mainly Used

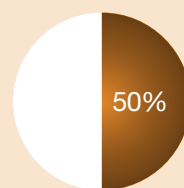


Ophthalmic Lens Monomers (MR™ series, RAV7™ series)

	Market Share	Market Growth Rate*
Global	1st	4%

* FY2014-20

Global Share FY2016



SYNTEX™ (High-performance spunbonded nonwoven hygienic materials)

	Market Share	Market Growth Rate*
Asia	1st	8%
Japan	1st	

* FY2016-20

Asia Share FY2016

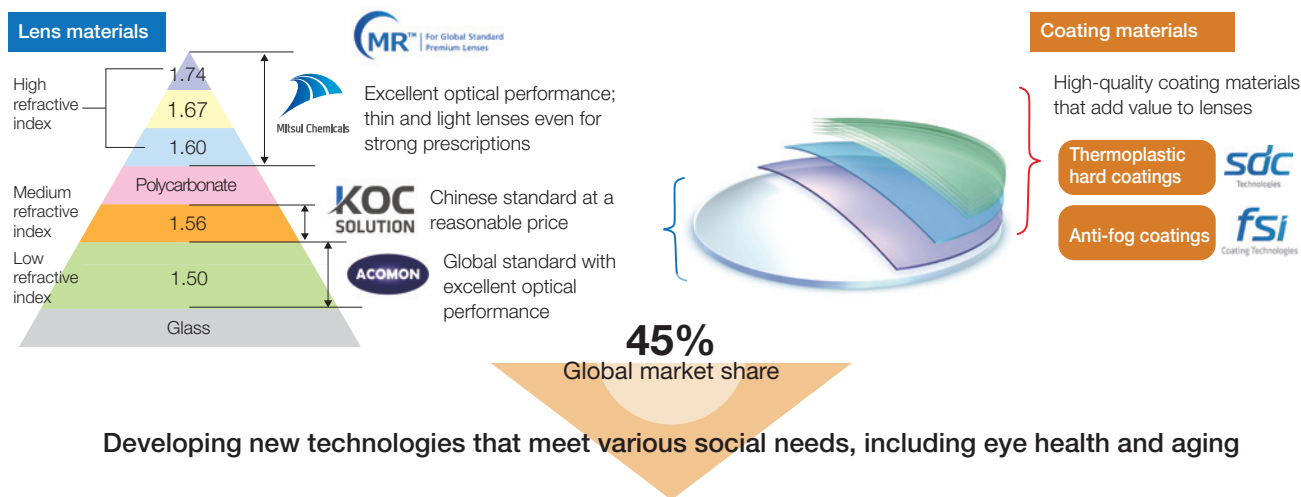
Strengths	Opportunities & Risks ▼	Challenges
<p>(Vision Care)</p> <ul style="list-style-type: none"> • A broad product lineup (Nonwovens) • Comprehensive technological capabilities that extend from base resins to final processing • A robust customer base (Dental Materials) • Global brand power • A deep understanding of the dental industry • Research and development capabilities that cover materials ranging from basic to dental 	<p>(Vision Care)</p> <ul style="list-style-type: none"> • Global market growth (Nonwovens) • Growing popularity of disposable diapers made in Japan; a growing export market for premium disposable baby diapers • Steps to increase production capacity by competitors in East and Southeast Asia ▼ (Dental Materials) • Rapid changes in trends (growing shift toward compact instruments) and expansion of the digital dental technology market 	<p>(Vision Care)</p> <ul style="list-style-type: none"> • Further business growth through the release and nurturing of new products into the market (Nonwovens) • Full production and sales on the back of strategic collaboration with lead users • Definitive implementation of production capacity increase and enhancement plans (Dental Materials) • Business growth through product investments that support and promote digitization

A World Leader in Vision Care Materials

The Mitsui Chemicals Group offers a wide range of ophthalmic plastic lens materials, from low-refractive to high-refractive indices. In particular, our MR™ series of world-leading high refractive lens materials have become the de facto standard for thin and light-weight lens materials.

The Mitsui Chemicals Group aims to provide comprehensive solutions for diverse needs, instead of simply providing lens materials for vision correction. We are expanding the potential of lens materials, addressing social needs for health and comfort, by leveraging our technologies in wavelength control, polarization, and photochromic technologies.

Expanding Market Share by Offering a Wide Range of Refractive Lens Materials



Developing new technologies that meet various social needs, including eye health and aging

Ensuring Eye Health and Comfort by Controlling the Amount of Light



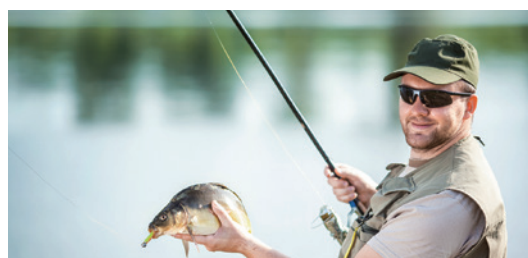
UV+ Light wavelength technology to cut high-energy visible light in the 400-420 nm part of the spectrum, in addition to blocking all ultraviolet wavelengths



NeoContrast Light wavelength technology to decrease glare and support contrast sensitivity



Varilux Photochromic technology to control the light by darkening and lightening in response to ultraviolet light



UrbanPola™ Polarization technology to provide clear sight by cutting the diffuse reflection of light



For details, visit the website below.

<http://www.mitsuichem.com/en/service/healthcare/vision/index.htm>

Fiscal 2016 Business Overview and Results

Fiscal 2016 Results

Net sales: **¥134.2** billion (-¥26.9 billion)

Operating income: **¥10.1** billion (-¥1.5 billion)

- In vision care materials, sales of ophthalmic lens materials were healthy.
- In nonwoven fabrics, consumption of premium diapers remained firm, but sales volume was impacted by the usage of distribution stock.
- In dental materials, although the sales volume decreased due to unification of accounting periods in the previous fiscal period, sales were healthy mainly in Europe and North America. Because of the impairment loss booked in the previous fiscal year, amortization expenses of goodwill and other fixed expenses decreased.

Aiming for Medium- and Long-Term Growth

Fiscal 2017 Targets

Net sales: **¥140.0** billion (+¥5.8 billion)

Operating income: **¥13.0** billion (+¥2.9 billion)

Fiscal 2025 Target

Operating income: **¥45.0** billion + New businesses

● Fiscal 2017 Plan

Mitsui Chemicals will continue to respond precisely to trends in demand for vision care materials and nonwoven fabrics. In dental materials, we will address the switch to digital solutions and execute sales growth measures tailored to regional characteristics.

● Growing Toward 2025

Growth investments that have been undertaken in each business area are expected to progressively contribute to earnings from fiscal 2017. While strengthening existing businesses and expanding overseas, the Group is enhancing its ability to provide health care solutions by expanding its lineup of new products and creating new businesses in areas peripheral to existing operations.

Vision Care

Given projections of continued growth in demand in the ophthalmic lens market, Mitsui Chemicals anticipates sales to increase steadily with the commencement of operations in March 2016 of large-scale XDI production facilities, a core raw material for lenses. In high-quality coating materials, an area in which the Group has placed considerable emphasis on upgrading and expanding capabilities, every effort is being made to strengthen sales of innovative products that

draw on new technologies and materials to address increasingly diverse needs. Moreover, the Group is looking develop new opportunities that will help broaden the potential of lens materials.

Hygiene

In February 2017, operations commenced at a newly expanded breathable film facility in Thailand. In March 2018, Mitsui Chemicals plans to launch operations at two high-performance nonwoven facilities in Japan. These new facilities will increase the Group's nonwoven production capacity by roughly 20% to 115,000 tons per year. As the disposable diaper market in Asia continues to experience growth, we will maintain our leading position by vigorously addressing the needs of the premium disposable diaper market.

Oral Care

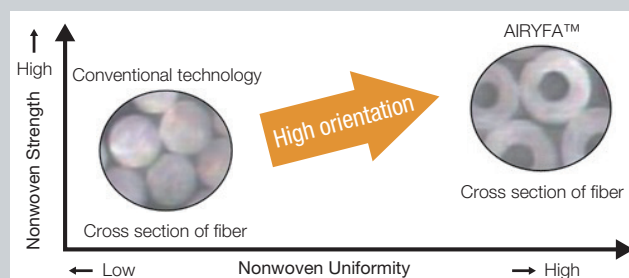
Our highly cost competitive structure for the dental materials business is gradually coming together. Taking full advantage of technological synergies across the Group, we are steadily promoting the transition from metal to plastic materials as a part of a drive to establish a third core business in the Health Care domain.

We are working to provide a continuous stream of health care solutions, including a mouthpiece that helps to alleviate obstructive sleep apnea syndrome (OSAS) now available in the United States.

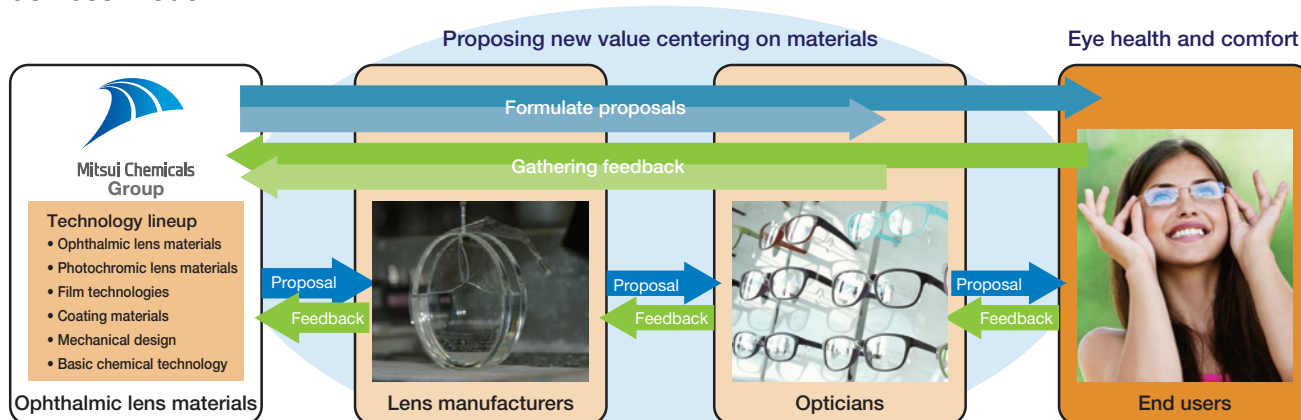
Mitsui Chemicals Developed AIRYFA™ The World's First High Strength Flexible Nonwoven

AIRYFA™ is a high-performance nonwoven that is gentle on skin, simultaneously materializing softness and strength. By capitalizing on its proprietary polyolefin spinning technology and producing this thin textile with a hollow structure that is characterized by a superior soft feeling and evenness, Mitsui Chemicals has simultaneously realized both softness and strength, which the conventional technology could not achieve.

This is an eco-friendly nonwoven that takes global environmental issues into consideration since the thin textile with a hollow structure reduces the amount of plastic used as a raw material.



Business Model



A new business model and new materials aimed at optimizing eye health

TOPICS: Helping to Address Social Issues

Second Do Green™ Activity in India

The Mitsui Chemicals Group is developing plant-derived products under the Do Green™ name to help realize a society in harmony with the environment. Do Green™ MR-160™ and MR-174™ are the world's first plant-derived, high refractive index lens monomer materials and have acquired JORA and USDA certification as bio-based products in Japan and the United States, respectively. These products offer the same high level of quality as lens materials made from conventional fossil materials. In its marketing of Do Green™ products, the Mitsui Chemicals Group works diligently to foster environmental awareness while endeavoring to help solve social issues.

Over a four-day period beginning on November 12, 2016, the Mitsui Chemicals Group carried out Do Green™ activities in Mathura, Uttar Pradesh, India, with the cooperation of community organizers, local residents, volunteers, and three local accredited NPOs: The Institute of Cultural Affairs, Holistic Child Development India, and Naujhil Integrated Rural Project for Health and Development.

At this event, which expands on another we conducted in 2015, we gave eye examinations to 805 farmers and local residents (5 times the previous year's attendance), providing new basic



eyeglasses to 224 people requiring them. Another 193 people diagnosed with cataracts will receive treatment arranged by the local NPOs and paid for with donations from the government and local companies.

Thanks to the help provided by organization and volunteers who agree with the Do Green™ concept, we were able to deepen our commitment to supporting ocular health.

Through Do Green™ activities, the Mitsui Chemicals Group aims to contribute to the realization of a cohesive society in harmony with the environment.



Do Green™ MR-174™ possesses USDA BioPreferred™ certification: The United States Department of Agriculture grants this certification to products derived from plants and other renewable agricultural, marine, and forestry materials that offer natural alternatives to conventional petroleum-derived products.



Introduction to Blue Value™ and Rose Value™ Products

Rose Value™

Sophistication of medicine and medical care

Expand solutions from correction for visual acuity to health and comfort



Ophthalmic lens materials MR™ Series

Rose Value™

Comfortable life and Prevention of infection

In addition to such basics as being leak proof, having breathability, and causing no diaper rash, we are searching for higher functionality, such as comfort and a snug fit.



Hygiene nonwoven fabrics SYNTEX™



Food & Packaging

“This sector supports the sustainable growth of the Mitsui Chemicals Group as it provides solutions to global food challenges by making full use of resources within and outside the Group, expands into new business areas, and expands overseas.”



Takayoshi Shimogori Director, Managing Executive Officer, Business Sector President, Food & Packaging Business Sector

Social Issues and Needs

Rapid growth in the world's population has led to severe shortages of food, making it imperative for society to reduce food loss and waste and stabilize agricultural production. Moreover, needs have been rising for safe and reliable food sources that also have less of an impact on the environment.

Business Vision

Put in place a next-generation pipeline that will serve as another cornerstone by maximizing the use of resources both within and outside the Group, accelerating new business expansion as well as overseas business development, for the sustainable growth of the Mitsui Chemicals Group.

Global Development of High-Performance Agrochemicals That Help Ensure Food Supply Stability

In fiscal 2016, although the global market is expected to expand over the long term, inclement weather conditions and an increase in distribution inventories negatively impacted Brazil and other emerging markets where growth is expected. Domestic market conditions also faltered.

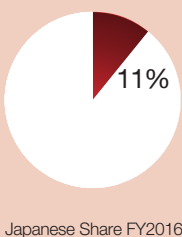
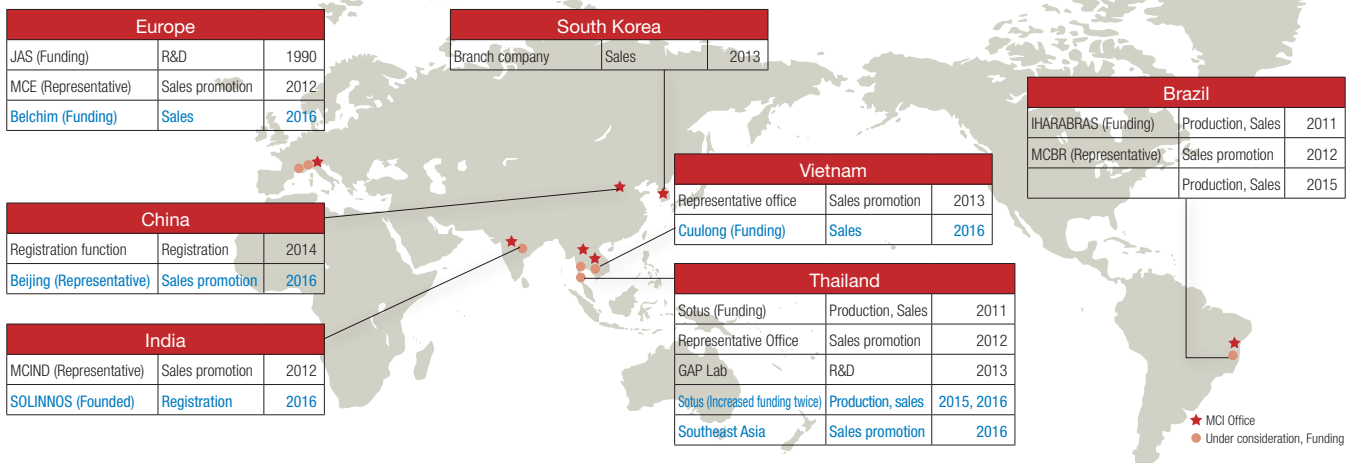
Aiming for deeper market penetration, particularly in such priority areas as India and Southeast Asia, the Mitsui Chemicals Group, in addition to measures that included establishing local bases and pursuing tie-ups with local companies, focused on the development of products that match local needs, technical promotion and strengthening its overseas development.

In other areas, including the United States and Europe, the Group continued to collaborate with world-leading agrochemical manufacturers.

The Group has successively registered its leading insecticide dinotefuran and fungicide penthiopyrad in principal markets worldwide and these high-performance agrochemicals are receiving high acclaim.

Recently, pesticide resistance has become a major problem worldwide, creating a need for the development of agrochemicals that demonstrate the utmost commitment to safety and minimum environmental impact. The Group company Mitsui Chemicals Agro Inc. possesses advanced agrochemical creation technology and has a long history in the fields of molecular design, organic synthesis, and biological evaluation. By employing its unique technology to reveal the mechanisms by which agrochemicals function and to discover new active ingredients, Mitsui Chemicals Agro helps ensure food supply stability as a R&D-based agrochemical manufacturer with a global presence.

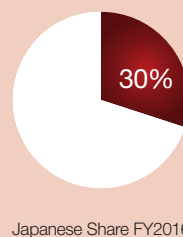
Overseas Development of Agrochemical Business



Agrochemicals

	Market Growth Rate*
Global	2.7%
Asia	3.9%
Japan	0.3%

* FY2015-20



T.U.X™

(Share as highly-functional sealant)

	Share (FY2016)	Market Growth Rate*
Japan	1st	1-2%

* FY2016-18

Strengths

- A lineup of highly functional products
- Research capabilities in designing and creating new materials; developmental capabilities rooted in collaboration with partner companies
- Good rapport with influential customers

Opportunities & Risks ▼

- Increasing need for environmental contribution
- Need for boosting food production and reducing food loss due to long-term population growth
- An expansion in demand for packaging materials due to the development of the food processing industry and improving standards of living in Asia
- A decrease in demand in Japan and a murky outlook for China and other emerging economies ▼

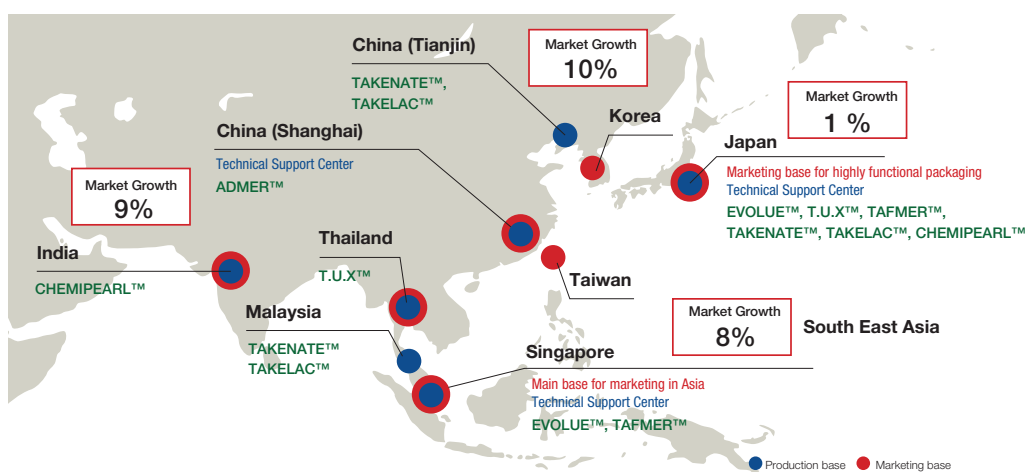
Challenges

- Strengthening of global market cultivation by establishing a “market-oriented” framework
- Emphasis on high added-value market
- Expanding development and investment in highly functional products that can also meet niche market needs
- Developing a lineup of next-generation core products

More Functional Food Packaging and Development in Asia

The packaging materials market in Asia has considerable growth potential as living standards improve and the region develops as a food processing and export center. Keeping ahead of its rivals, for fine-tuned response to consumer needs, the Mitsui Chemicals Group has production bases in Asia for EVOLUE™, which has

a 60% or so share of the market in Asia as a highly functional sealant used for the innermost layer of packaging, and for the adhesives TAKENATE™ and TAKELAC™. We are promoting business development in Asia through technical support and cross-sectional marketing.



Highly functional packaging meets functionality requirements through the multilayered construction of different materials. We offer a variety of material solutions to help solve problems.

Highly functional sealant: EVOLUE™ and T.U.X™

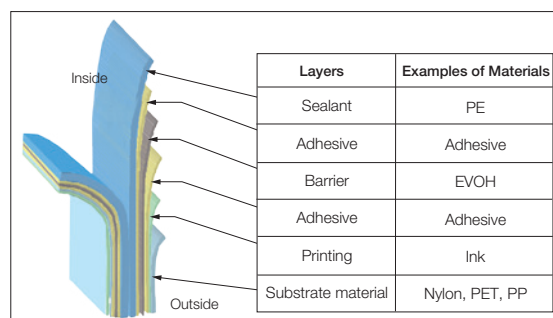
Tough, low odor, heat-sealing strength
Enhance productivity by down-gauged packaging and processing suitability

Resin modifier: TAFMER™

Facilitates easy opening (Heat-seal strength control)
Contributes to high-speed packaging (Low-temperature heat sealability),
Enhanced impact resistance

Adhesive resin: ADMER™, TAKENATE™, TAKELAC™, and CHEMPEARL™

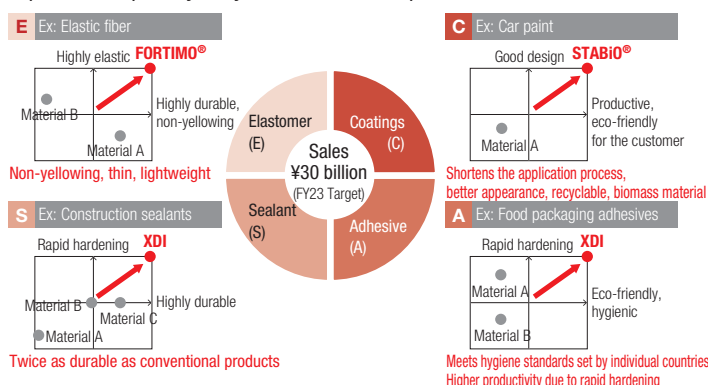
For multilayered structures of different materials



Developing Applications for Coatings & Engineering Materials

To better meet the varied needs of consumers, we are developing a wide range of applications for products in our extensive lineup of coatings and engineering materials, including TAKENATE™, TAKELAC™, and CHEMPEARL™, which are employed in highly functional packaging materials. The Group was the first in the world to develop the specialty isocyanates FORTIMO™ and STABIO™. These products join a lineup that includes meta-xylylene diisocyanate (XDI), a high-performance product that enjoys wide market recognition. We are developing a wide range of applications for this lineup of specialty isocyanates as well as semiconductor products that incorporate them. All our new products create new customer value and are expected to help strengthen and expand the coatings & engineering materials business.

Expansion of Specialty Isocyanate Product Lineup



Fiscal 2016 Business Overview and Results

Fiscal 2016 Results

Net sales: **¥182.5** billion (-¥12.7 billion)

Operating income: **¥20.6** billion (+¥0.3 billion)

- In coatings & engineering materials, sales were healthy.
- In performance films and sheets, sales of packaging materials were healthy.

- In agrochemicals, sales volume decreased in overseas markets. Performance was affected by a stronger yen.

Aiming for Medium- and Long-Term Growth

Fiscal 2017 Targets

Net sales: **¥190.0** billion (+¥7.5 billion)

Operating income: **¥20.5** billion (-¥0.1 billion)

Fiscal 2025 Target

Operating income: **¥40.0** billion + New businesses

● Fiscal 2017 Plan

In fiscal 2017, despite risks posed by rising raw materials prices, we expect to secure a stable profit based thanks to an expansion in sales amid firm domestic demand and wider overseas expansion. Building on sales growth in its lineup of specialty isocyanate products, high-performance packaging materials, fungicides, and insecticides, the Group will expand its marketing efforts, especially in Asia, and focus on further sales expansion.

● Growing Toward 2025

The Mitsui Chemicals Group recognizes the pressing need to reduce food loss and waste, ensure food safety, and increase food production as a part of its efforts to address a variety of social issues. In addition to placing particular emphasis on high-growth and high-value-added markets, the Group will work to capture a share of burgeoning demand overseas, especially in Asia, while further expanding its business. In addition, the Group will endeavor to promote increased collaboration between business divisions and to develop core products that will provide the platform for further growth.

Coatings & Engineering Materials

The Mitsui Chemicals Group is promoting the use of CHEMIPEARL™, a particulate aqueous dispersion made of fine polyolefin particles, in the pharmaceutical packaging field. In addition, the Group is looking to take full advantage of the properties and potential of its lineup of specialty isocyanates not found in existing products in order to secure growth by cultivating high-value-added

markets in such wide-ranging areas as packaging, automobiles, information appliances, apparel, and construction materials.

Functional Films & Sheets

In packaging films, the Mitsui Chemicals Group is injecting management resources into highly functional food-use fields. The Group is placing considerable weight on expanding business in Asia, which is continuing to experience economic growth, and working to capture the growing market for high-performance films. In the industrial-use films and sheets field, the Group is working to develop and introduce next-generation products, focusing on electronic materials in a timely manner while accurately monitoring customer needs.

Agrochemicals

As a part of the progressive release of next-generation agrochemicals comprising five new active ingredients that are now within the pipeline, the Mitsui Chemicals Group is looking to introduce the new herbicide cyclopyrimorate and the new insecticide broflanilide to the market around 2019. At the same time, the Group will continue its research in the agrochemicals field.

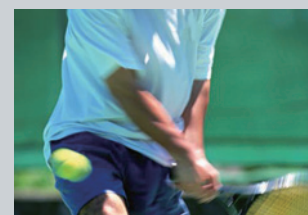
Honing in on the growth markets of Asia as well as Central and South America, the Group will also work to expand the scope of existing active ingredient registrations in numerous countries while accelerating the pace of market release. Specifically, energies will be channeled toward developing new formulations of existing active ingredients based on the knowledge of local needs derived from partner companies in each country. In this manner, the Group will endeavor to expand its overseas business.

FORTIMO™ Adopted for New YONEX Tennis String REXIS

The world's first polyurethane elastomer FORTIMO™ has been adopted for the new tennis string REXIS manufactured by YONEX CO., LTD.

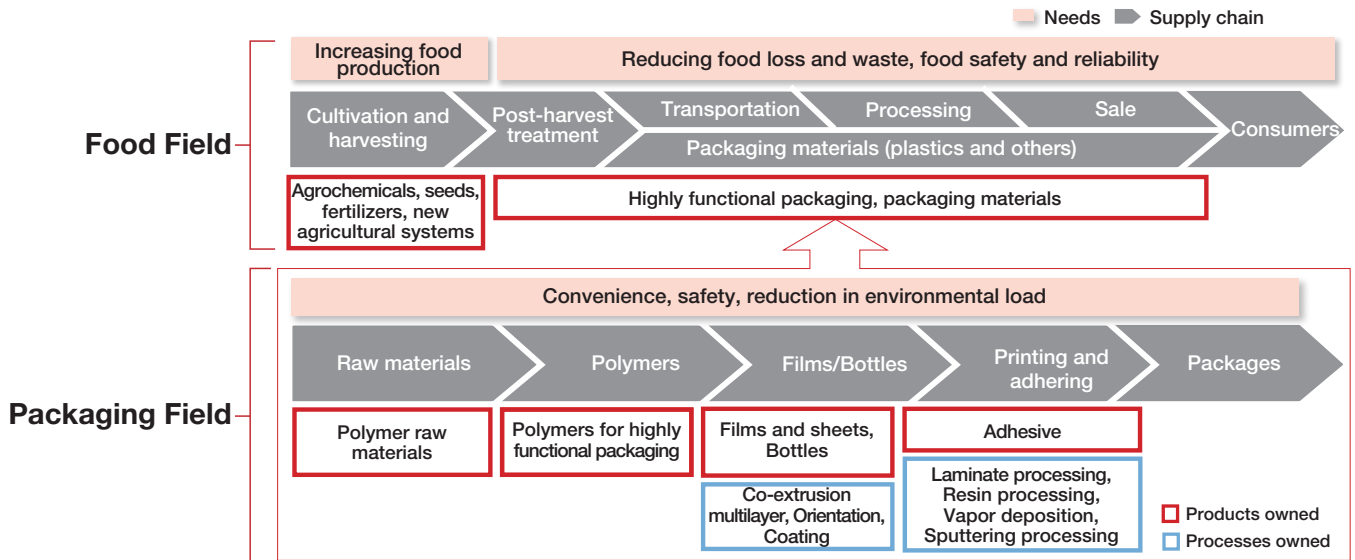
Harnessing YONEX's new manufacturing technology and the flexibility and high elasticity that characterizes FORTIMO™, REXIS delivers deep bite and high repulsion, improving ball speed by 4%* compared with existing products. Further, with FORTIMO™'s characteristics of high durability and non-yellowing, the product has achieved 21%* improved durability compared with existing products.

REXIS is the best string for players of a range of abilities, from athletes seeking ball speed to senior players wishing to hit the ball with greater ease.



* Result of machine tests by YONEX CO., LTD.

Business Model



TOPICS: Helping to Address Social Issues

Promoting Solutions for Retaining Freshness

Food loss and food waste are major global problems. To help resolve these problems, the Group has decided to partner with the Group company Mitsui Chemicals Singapore R&D Center in evaluating the freshness of Japanese produce exports. We are undertaking this partnership as part of our efforts to roll out food packaging materials across Asia against a backdrop of government policies promoting exports of agricultural products.

In addition to a dedicated evaluation space, the center boasts analytic equipment capable of analyzing and evaluating freshness retention. Based on current tests administered by local government offices and research organizations, the center will continue to develop new materials and products, including freshness-retaining films.



Introduction to Blue Value™ and Rose Value™ Products

Blue Value™ **Rose Value™** **Reducing GHG emissions and Solution to food problems**

Leak-proof packaging contributes to safe distribution and using low temperature heat-sealing also contributes to customers' productivity and energy-saving.

Highly functional sealant film T.U.X™

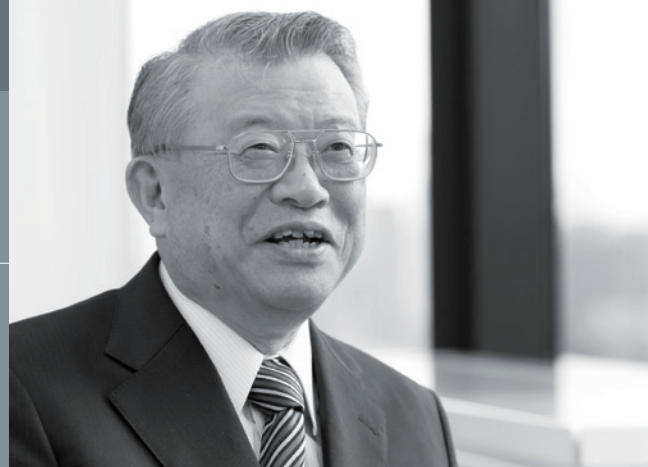
Rose Value™ **Solution to food problems**

Superior insecticidal activities and favorable toxicological properties (safe for animals, etc.) contribute to a variety of applications in agricultural production.

Agrochemical insecticide TREBON™

Basic Materials

“We are committed to building a framework that will serve as a cornerstone business while supporting the Mitsui Chemicals Group as a whole. To this end, we will put in place a stable earnings foundation based on the competitive advantage of our domestic facilities and our ability to gain a share of the Asian market in value-added fields.”



Yasuji Omura Executive Vice President
Business Sector President, Basic Materials Business Sector

Mission and Vision of the Basic Materials Business Sector

In the Basic Materials Business Sector, Mitsui Chemicals provides materials across such wide-ranging fields as automobiles, housing, consumer electronics, infrastructure, and food packaging. Every effort is being made to forge a presence in Asia and to secure stable profits by providing distinctive technologies and high value-added products while further reinforcing cost competitiveness.

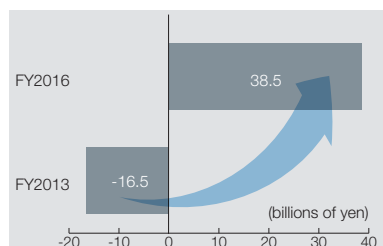
Over the past several years, the Basic Materials Business Sector has undertaken a major restructuring of its activities, including substantial cutbacks in production capacity. At the same time, positive steps are being taken to substantially improve our earnings structure by restructuring the bulk and commodity product business, which is a key target under the 2014 Mid-Term Business Plan.

Moreover, we are working diligently to improve the operational stability and profitability of ethylene, a basic raw material for petrochemical products. Specifically, we are expanding sales of EVOLUE™, a core product in our high-value-added polymer lineup.

Despite the cloud of uncertainty that continues to hover over petrochemicals supply and demand from 2018, we adhere strictly to a policy of rationalization, make every effort to add value to our derivatives lineup, and maintain high run rates in line with the growing trend toward local production for local consumption. As a result, we will put in place a stable earnings platform that is resilient to changes in the external environment, including shifts in market conditions and the balance between supply and demand.

Minimize the Downward Profit Risk by Business Structure Improvement

Operating income from Basic Materials domain



	Examples of restructuring strategy	Scale
Petrochemicals	Withdrawal from Keiyo Ethylene	170KTA
Polyolefin	Terminated 3 polyolefin plants	280KTA
Phenols	Terminated 3 plants	410KTA
PTA	Withdrawal from PTA in Indonesia	500KTA
Polyurethanes	Established JV with SKC Shut down Kashima Works Terminated MDI plant in Omuta	224KTA



Fiscal 2016 Business Overview and Results

Fiscal 2016 Results

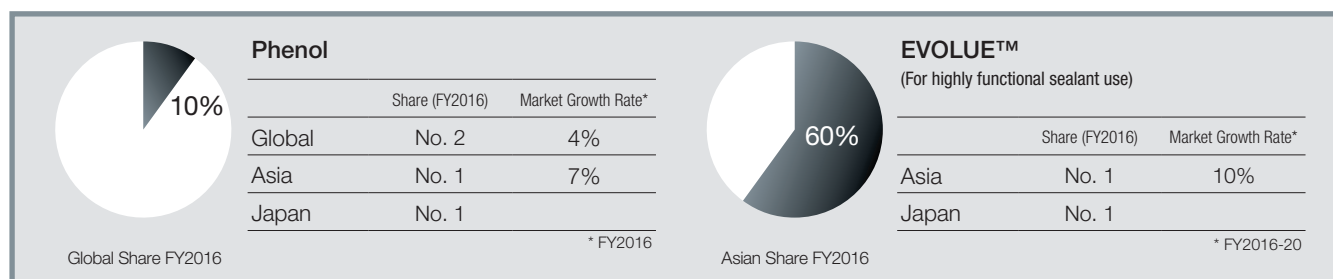
Net sales: **¥565.6 billion** (-¥65.2 billion)

Operating income: **¥38.5 billion** (+¥37.5 billion)

In petrochemicals, operating rates remained at high levels for naphtha cracker facilities and each derivative plant on the back of firm domestic demand. Triggered mainly by disruptions at major suppliers, conditions in overseas markets for petrochemicals were also strong. This, in turn, led to a substantial improvement in the terms of trade compared with the previous fiscal year. Despite their low levels, market conditions for phenol are showing a modest year-on-year upswing. At the same time, efforts to promote structural business reforms are gradually bearing fruit.

In polyurethane materials, fixed expenses dropped significantly as the capacity at domestic TDI facilities was cut by half and steps were taken to shutdown MDI facilities in Japan. In addition, trends in the polyurethane system businesses of Mitsui Chemicals & SKC Polyurethanes Inc. (MCNS) are sound with solid progress being made to promote overseas expansion.

Accounting for each of these factors, operating income improved substantially compared with the previous fiscal year.



Strengths

- Domestic structure based on two naphtha cracker facilities (one east, one west)
- Metallocene and other polyolefin catalytic technologies
- Robust cost competitiveness and polyurethane system business global facility network growth underpinned by the establishment of MCNS

Opportunities & Risks ▼

- Infusion of U.S. shale oil- and Chinese coal chemical-derived production ▼
- Bulk and commodity product price deterioration in Asia ▼
- Influx of imported products and worsening export terms amid the strong yen
- Surging crude oil prices ▼
- Shrinking domestic demand and slowing Chinese economic growth ▼
- Rising need for highly functional packaging and eco-friendly products

Challenges

- Expanding value-added fields through new polyolefin products
- Accelerating global expansion of new system houses by leveraging synergies with MCNS
- Establishing a stable earnings structure by completing restructuring

Aiming for Medium- and Long-Term Growth

Fiscal 2017 Targets

Net sales: **¥630.0** billion (+¥64.4 billion)
 Operating income: **¥29.5** billion (-¥9.0 billion)

Fiscal 2025 Target

Operating income: **¥30.0** billion

● Fiscal 2017 Plan

In petrochemicals, operating rates are expected to remain at high levels for naphtha cracker and derivatives facilities on the back of firm domestic demand. Meanwhile, expenses are projected to increase due to large-scale regular maintenance work at the Company's Ichihara Works that is conducted every four years. With regard to our overseas bases, sales of EVOLUE™ have been sound since the start of commercial operations at a facility in Singapore in August 2016. Looking ahead, operating rates are anticipated to increase.

In the basic chemicals and polyurethanes businesses, we expect to post stable earnings. This largely reflects successful efforts to put in place an optimal production system and structure that is resilient to changes in market conditions.

● Growing Toward 2025

Despite a delay, the impact of the expansion of facilities for polyethylene and other production derived from shale gas and Chinese coal chemicals is expected to be felt in Asia from 2018. We will look to build a Basic Materials business that has a strong presence in the Asian market by reinforcing our cost competitiveness and shifting to high-value-added products

Petrochemicals

In the petrochemical feedstock business, energies will be channeled toward further reinforcing the cost competitiveness of

naphtha cracker operations by ensuring full sales on full production capacity and the stable procurement of raw materials at low prices. In the polyolefin business, we will secure stable profits while at the same time considering the implementation of a scrap and build policy with respect to small-scale and obsolete facilities in Japan.

By promoting sales of EVOLUE™, we intend to capture a share of demand in the highly functional sealant field, which is projected to enjoy rapid growth in the Asian market. At the same time, we will step up the utilization rate at our plant in Singapore, which has an annual capacity of 300,000 tons. Meanwhile, we will look to create new demand by addressing increasingly differentiated needs through bases in Japan. Among a host of initiatives, we will continue to promote the development of the metallocene long-chain branching-type PE, EVOLUE™ E, a next-generation product that is easy to process while remaining exceptionally strong.

Basic Chemicals

In the basic chemicals business, we will maintain our focus on stabilizing earnings. To this end, we will establish full sales and full run rates through local production for local consumption, promote thoroughgoing rationalization, and strengthen derivatives.

Polyurethanes

In the polyurethanes business, we will accelerate the pace of global business development focusing mainly on the systems business of Mitsui Chemicals & SKC Polyurethane. In addition to utilizing existing bases, we will consider setting up new production bases for the system house business.

Introduction to

Blue Value™ and Rose Value™ Products

Blue Value™

CO₂ reduction and Co-existence with nature

Reduce NOx emissions that lead to fuel conservation

Exhaust gas (NOx) reduction agent AdBlue™





Next Generation Business

Creation of Solutions Businesses at the Boundaries and in the Peripheral Areas of Targeted Growth Domains

“In New Business and Next Generation Business—newly added to the Group’s 2025 Long-Term Business Plan—we are bringing to bear our combined knowledge to take on new challenges in areas with high potential. We have already begun to plant seeds expected to yield growth 10 to 20 years into the future.”

Next Generation Business Mission

In Next Generation Business, our mission is to create solutions businesses through open innovation at the boundaries and in the peripheral areas of the three targeted growth domains of Mobility, Health Care and Food & Packaging. Across every business sector, collaborative initiatives are being undertaken, including in the New Health Care Business Development Division, the New Mobility Business Development Division, the Next Generation Business Development Division, and the Robot Materials Business Development Division.

For its part, the Next Generation Business Development Division’s mission is to challenge new business models. Instead of focusing on the development of large-scale next-generation businesses, its aim is to start small and build on successes while keeping an eye on the big picture. The division first examines whether

there are customers wanting to buy a given product or service. Then, rather than devising a standard five-year, ¥1 billion in annual sales business plan, the division considers what it can begin selling tomorrow and works forward from that point, creating a new business model based on selling the “knowledge” of the Mitsui Chemicals Group. All the projects currently under examination in the four fields of agriculture, IoT, energy, and medicine originated from contacts with venture companies, universities, and other external entities. New businesses often cannot take off without external collaboration building win-win relationships. The Next Generation Business Development Division’s Corporate Venture Capital (CVC) Group is promoting the expansion of new businesses through open innovation.

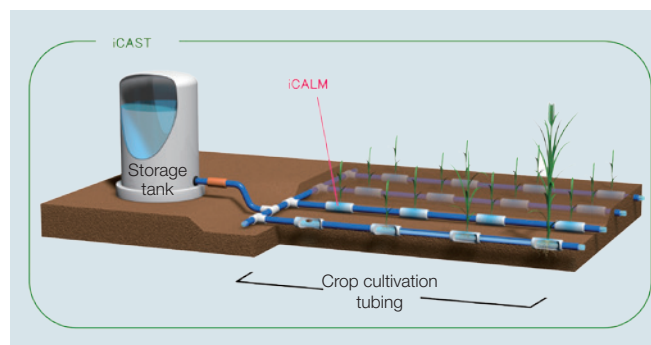
Agricultural Systems Solutions

The iCAST™ Plant Cultivation System

iCAST™ originated with an idea conceived by an employee who had been given a blank canvas and encouraged by his manager to come up with new agriculture-related concepts.

What can Mitsui Chemicals do globally to give back to society? Reflecting a market-oriented approach to helping solve food and water shortages, the basic idea behind iCAST™ was to create a new plant cultivation system that would conserve water while improving crop yield in food-producing areas facing water shortages.

This system ensures that plants receive the necessary elements for growth (water, nutrients and air) in only the necessary amounts as required. The system uses the absolute minimum amounts of water and fertilizer needed to grow healthy plants. iCAST™ is undergoing medium-scale testing in Japan as well as on farms in America and Australia that are facing severe water shortages.



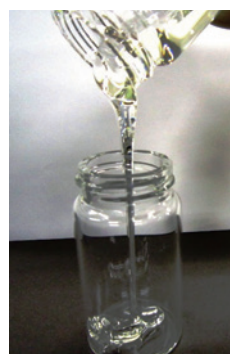
An Integrated Plant Cultivation System

Liquid nutrients in a storage tank are sent through plant cultivation tubes to iCALM™ plant cultivation materials. Plants absorb the nutrients necessary for healthy growth from iCALM™ in appropriate amounts as needed.

IoT Solutions

ECRIOS™—Creating New Possibilities in Flexible Displays

ECRIOS™ is a varnish for colorless polyimide with outstanding chemical resistance and heat resistance to temperatures in excess of 260°C. The flexible display manufacturing process subjects resins to harsh chemicals and high-temperature environments. ECRiOS™ stands up to such harsh conditions. Experienced in working in cooperation with customers to clear such product performance hurdles, we are positioned to provide innovative solutions like the revolutionary ECRiOS™ in new markets.



A precursor of the colorless polyamide ECRiOS™

Fiscal 2025 Target

Operating income: **¥25.0 billion**
 (Includes new businesses in other targeted business domains)

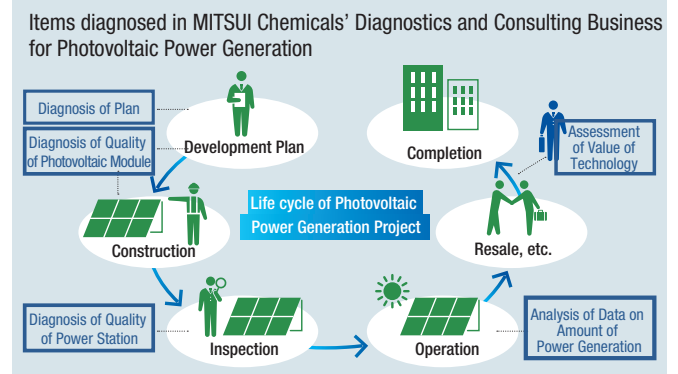
Energy Solutions

An employee with over 10 years of experience in encapsulants saw some solar panels as he was going down the street one day and found himself questioning whether they really could last for 20 years.

One of subsidiary Mitsui Chemicals Tohcello, Inc.'s greatest strengths is its ability to predict the product service lives of panels thanks to its degradation prediction technology for the solar panel encapsulants that it has manufactured and sold for more than 25 years. Moreover, the subsidiary is now able to draw on its experience developing and operating the Tahara Solar-Wind™ solar power generation facility, a joint venture, to more accurately predict the volume of electricity generated. Specifically, it uses data accumulated at the Mobara Branch Factory and the prototype power plant at the Sodegaura Center while sharing power generation data with power plants nationwide in cooperation with investment funds.

By reporting on our findings, we aim to contribute to a healthy solar power market. Next, we have set our sights on Asia, and

then the world. We are therefore taking a flexible approach to discovering needs for various services.



Medical Solutions

Rapid Identification System for Sepsis-Causing Bacteria

“Can plants cells be cultivated to produce the enzymes necessary to perform genetic testing?” This project began with this inquiry from Toyama University to our subsidiary Hokkaido Mitsui Chemicals, Inc. (HMCI).

Sepsis is a bacterial infection with a high mortality rate. Antibacterial drugs will kill the bacteria causing the infection, but because it takes 2-3 days to identify the particular strain, the current treatment is to use full-spectrum antibacterial drugs. There is the risk that such drugs will be ineffective or the bacteria will develop drug resistance. Sepsis is a disease where mortality rates increase by

the hour, so being able to quickly identify the causal bacteria is key.

Using a basic system already developed by Toyama University, it is already possible to increase the volume of bacterial DNA in a patient's blood sample to the level needed for testing, but false positives are a problem due to the foreign bacterial contamination of commercially sold enzymes that play a key role in identifying the bacteria. HMCI, which has researched and developed plant cells for more than 30 years, had the idea to devise a production process using yeast. In 2012, Mitsui Chemicals began research to commercialize this idea.

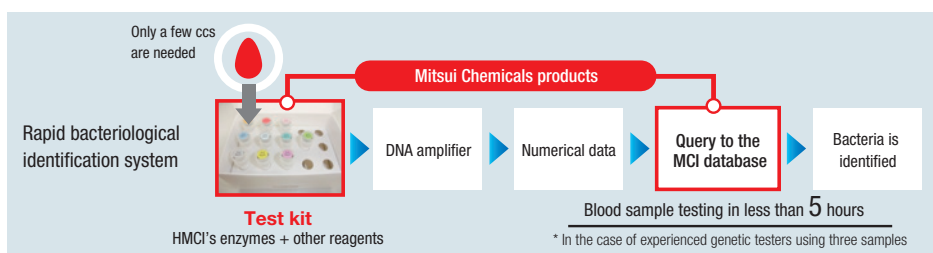
TOPICS: Helping to Address Social Issues

Helping to Save Lives by Contributing to the Development of a World-First Groundbreaking System

With Toyama University, the Mitsui Chemicals Group has jointly developed a world-first groundbreaking system that is able to identify the bacteria causing sepsis within about five hours. Previously, blood culture techniques that required large blood samples were used. The development of genetic testing methods that can use smaller blood samples has made it possible to more easily diagnose infants and small children. This joint development was

undertaken through an innovative setup scheme under the Industrial-Academic Collaboration Medical Innovation Promotion Program at the Japan Agency for Medical Research and Development.

At the 28th Japan Clinical Microbiology Conference and Technical Exhibition, this system was reported to have saved the lives of several infants and children. Helping to create a system that saves lives benefits both society and the Group. Although market development has only just begun, we aim to clear each hurdle and bring more diagnostic agents to market.

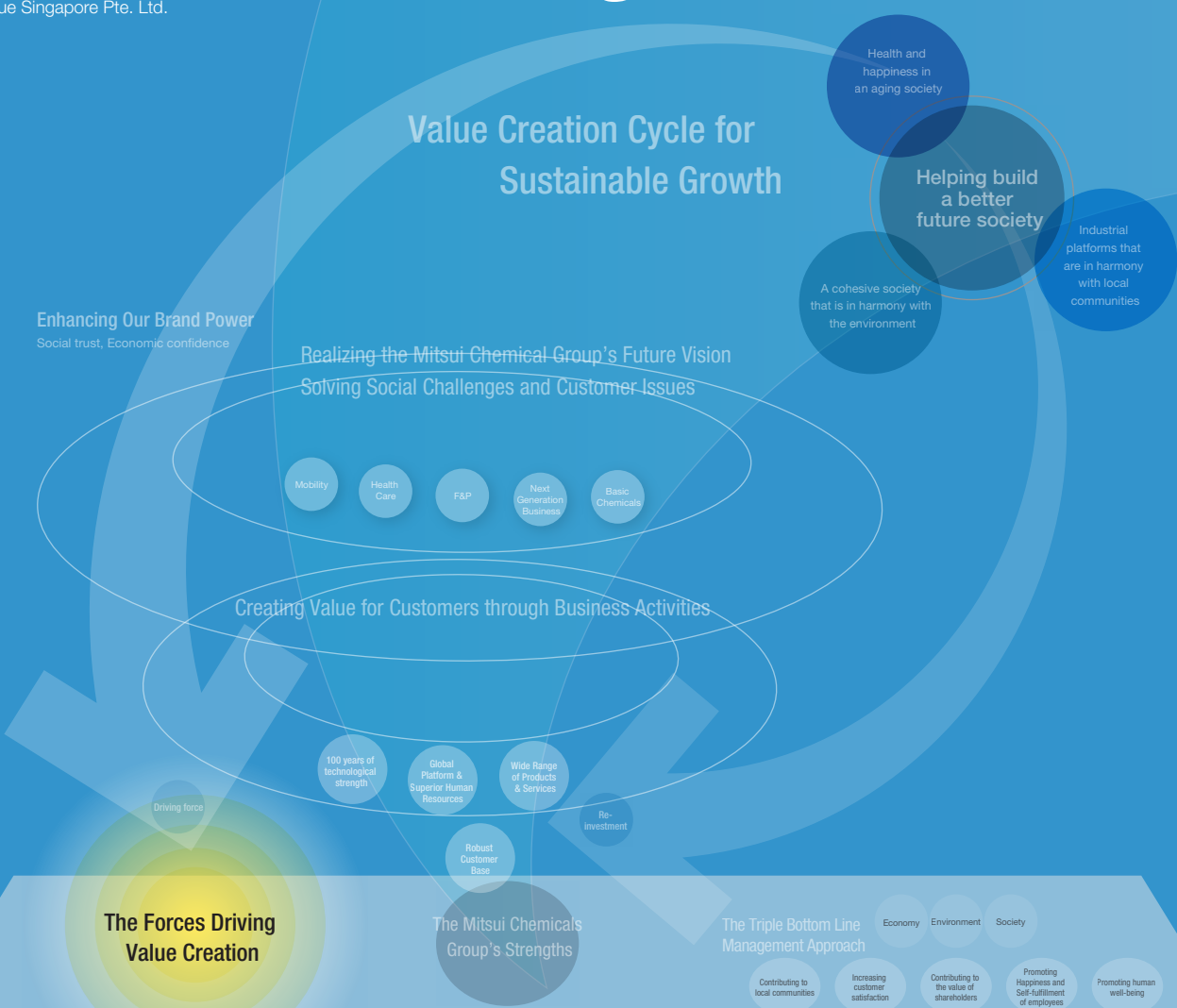


Every Employee at Mitsui Chemicals Continues Taking on New Challenges to Ensure Safety and Maximize Productivity



The Forces Driving Value Creation

Prime Evolve Singapore Pte. Ltd.



The Forces Driving Value Creation

In line with its Corporate Vision, the Mitsui Chemicals Group has made “keeping in harmony with the environment” part of its Corporate Mission and “constantly pursuing innovation and growth to become a chemical group with an undisputed global presence” its Corporate Target. Accordingly, the Group works to conduct management that emphasizes striking a balance between economic, environmental and social bottom lines.

As a corporate citizen, the Group seeks to maximize the worth and utility of its “Forces Driving Value Creation” to ensure the continued trust of its stakeholders and to fulfill its corporate social responsibility. At the same time, the Group constantly addresses ESG issues by working to solve environmental and social challenges through its business activities.



For details, visit the website below.
<http://www.mitsuichem.com/en/csr/index.htm>

The Forces Driving Value Creation	Initiatives explained in this report	Related pages
1. R&D capabilities that realize customer needs	Research and Development	P. 60
	Intellectual Property	P. 61
2. Diverse human resources that desire to take on challenges	Human Resource Management	P. 62
3. Effective management system	Corporate Governance	P. 64
	Risk and Compliance Management	P. 68
4. Organizational culture that prioritizes safety	Responsible Care	P. 69
	Special Feature: Safety	P. 54
5. Relationships based on mutual trust with stakeholders	Engagement with Our Stakeholders	P. 70
6. Robust financial structure	Financial Section	P. 75

Mitsui Chemicals has been included in leading global socially responsible investment indices.



August, 2017

On July 7th, Mitsui Chemicals was included in new investment indices for ESG investment. (“FTSE Blossom Japan Index,” “MSCI Japan ESG Select Leaders Index,” “MSCI Japan Empowering Woman Index (WIN).”)



2017 Constituent
 MSCI Japan ESG
 Select Leaders Index



2017 Constituent
 MSCI Japan Empowering
 Women Index (WIN)

After Five Years, We are Entering a New Stage of **Safety Assurance**



Terushige Ogawa, Ph.D.

Professor Emeritus at Yokohama National University, Senior Managing Director at the Research Institute for Safety Engineering

1968 Completed Master's Degree at Graduate School of Engineering, Kyoto University

1978 Doctor of Engineering, Kyoto University

1989 Professor at Engineering at Yokohama National University

2001 Professor at Graduate School of Engineering, Yokohama National University

2006 Professor at Graduate School of Environment and Information Sciences, Yokohama National University

2008 Professor Emeritus at Yokohama National University

2012 Chairman of the Explosion and Fire Accident Investigation Committee at Mitsui Chemical's Iwakuni-Ohtake Works

Specialization: Explosion safety engineering, science of energetic material, safety engineering of chemical processes

Committee appointments: Chairman of Japan Explosives Society, Chairman of Japan Society of Safety Engineering, Chairman

of Japan Society of Safety Engineering's Safety Competency Center Management Committee,

Member of Ministry of Economy, Trade and Industry Advisory Committee on Energy and Natural

Resources, Member of Industrial Structure Council's Process Safety Subcommittee, etc.

Awards: 2013 Received the Prime Minister's Award for Contribution to Safety

Remembering the Lessons Learned from Past Accidents

—Five years ago on April 22, an explosion and fire occurred at the resorcinol production facilities of Iwakuni-Ohtake Works. Today, we remember this accident in a frank discussion with Dr. Ogawa, who headed the Accident Investigation Committee.

Ogawa: On that day, a young employee, one of those who represent the future of Mitsui Chemicals, perished in the devastating accident. As I looked upon the terrible aftermath of the explosion and fire, I was painfully reminded of the importance of safety at chemical plants. I am well aware that Mitsui

Chemicals maintains a high level of safety throughout the entire company. Nonetheless, this accident happened, a telling example of the challenges in ensuring genuine safety.

Tannowa: I visited the site in early May, soon after the accident, and to this day I still clearly remember the shock I felt. Prior to the accident, I had been to the site on many occasions as the general manager of the Industrial Chemicals Division, and I was at a loss for words when I saw the devastation wrought on the plant. I feel great sorrow for losing a precious member of the Mitsui Chemicals family, and deeply regret inconveniencing local residents, government officials, and our customers. Although five years have passed since

the accident, I strongly believe we must keep our memory of the accident fresh in our hearts and minds.

Improving Safety Awareness, Refining the Ability to Take the Initiative

—In the Accident Investigation Committee's report on the accident, Dr. Ogawa wrote that even if weaknesses existed in safety, the accident would not have occurred if functions designed to supplement those weaknesses had been working effectively.

Tannowa: What do you think must take place on a daily basis at worksites to ensure the effectiveness of functions intended to supplement areas of weakness regarding safety?

Ogawa: Ensuring safety is not an easy task, and there is no magic formula to be learned. Currently, each of our worksites has appropriate safety measures in place, but **conditions on the ground are constantly changing. Basically, this means new risks could appear** at any time. In order to preempt the emergence of factors that lead to accidents, everyone on site must be vigilant and engage in safety activities every day without becoming complacent. **While trying to avoid getting stuck in a routine, we must systematically identify our weak points and steadfastly work to fix each and every one of them.**

—**Dr. Ogawa, you paid visits to Osaka Works in 2014 and Ichihara Works in 2015. What were your impressions of the undertakings at each facility?**

Ogawa: I came away with the impression that safety was being fervently practiced at both Osaka Works and Ichihara Works. Over time, the safety culture fostered at the two facilities has evolved slightly differently, but at both sites everyone works diligently to ensure safety by combining their efforts with fundamental safety measures.

Tannowa: When I make the rounds at each Works, I can see that our employees' approach to safety has changed dramatically. Just two years ago, when I was talking with former Chairman Higashi Ito of the Japan Society for

Safety Engineering, he noted that worksites are where value is created, but also where accidents occur. This gave me pause to think about how important it is to have a comprehensive understanding of each worksite. I will continue to visit manufacturing sites and confirm with my own eyes that employees there are working with enthusiasm and energy.

Ogawa: Looking at safety practices at other companies, I notice that a variety of initiatives have been taken to ensure the intentions of top management are conveyed to and motivation instilled in all employees. Maintaining and improving safety levels across the Company as a whole can best be achieved by increasing the motivation of employees on the front lines as well as their sensitivity toward safety. Safety can therefore be enhanced by companies continuing to develop frameworks and organizations that allow employees to think about how safety can be improved and take independent action.

Reaching a New Stage, Continuing Best Safety Practices

—**Last year, Mitsui Chemicals completed a safety reinforcement project at Iwakuni-Ohtake Works. As the discussion turned to the next safety initiative, management reported its progress to relevant government authorities and the members of the Accident Investigation Committee, gaining their approval. What are your thoughts on the changes made at Iwakuni-Ohtake Works?**

Ogawa: At first, I think everyone at Iwakuni-Ohtake Works may have felt unsure about what the Company was trying to do. Despite every effort being made to ensure safety prior to the accident, the explosion and fire still occurred. Even though all agreed it was necessary to reassess safety activities from the ground up, I believe there may have been some resistance initially. As the entire Company came together as one to implement fundamental safety measures, however, everyone at Works turned their eyes to the future and

enthusiastically pulled together to reinforce safety. At the liaison meeting marking the tail end of the past five years' efforts, I was relieved by the resolute progress that had been made. **I believe that when considering safety, it is crucial that we raise the level at the bottom rather than merely aiming for an acceptable average. From this perspective, it is also essential to ascertain the outcomes of initiatives.**

Tannowa: I feel the same. The magnitude of the shock experienced by our employees, including those at Iwakuni-Ohtake Works, is immeasurable. I believe our safety activities are on a firm footing; we have become aware of a number of ways to make improvements while reflecting on the accident and analyzing problems. As Dr. Ogawa said earlier, however, **it is difficult to avoid eventually becoming complacent or less vigilant when constantly practicing safety measures. Even as we strive to flexibly respond on a daily basis to constantly changing conditions, we must continue to pass along the lessons learned from the resorcinol accident while sparing no effort in improving safety awareness and implementing best safety practices.**

Ensuring Unwavering Safety through Changing Times

—**In November 2016, Mitsui Chemicals unveiled its 2025 Long-Term Business Plan. What are your thoughts on future safety initiatives?**

Tannowa: The resorcinol accident in 2012 put us in a very challenging situation as a company, including in terms of financial performance. From 2014, as progress was made under the Mid-Term Business Plan, we began to gradually see signs of recovery. Thanks to the tireless efforts of onsite employees, no devastating accidents or trouble have occurred since then. As the 2014 Mid-Term Business Plan was winding down, we unveiled our 2025 Long-Term Business Plan, communicating our intended future direction both internally





and externally. Our employees' positivity and willingness to take on new challenges are critical to the future of the Mitsui Chemicals Group. The business environment is likely to change considerably by 2025 as Mitsui Chemicals moves more quickly toward becoming a truly global corporation. It is my wish that **employees take on new challenges with optimism, infusing new ideas into safety activities and new techniques for performing work.**

Ogawa: Employees are becoming more diverse at business sites in Japan. Looking at operations from a global point of view, it is difficult to push forward a uniform set of safety activities given the different nationalities and cultures of diverse employees. I believe it is essential to have a system based on PDCA while sharing information daily and raising safety awareness among all employees.

Tannowa: I agree. It would be difficult to take a uniform approach to safety activities on a global basis as there are some major aspects of safety that only a local employee would understand. In the past, there were some safety problems overseas, and safety experts were dispatched from the Head Office on a roughly two-year basis to advise on safety measures. The results were good. I believe initiatives like this will become increasingly necessary in the future.

Ogawa: With regard to personnel training, I have long been involved in school education, and have come to understand **the importance of education**

through dialogue at worksites. A lecture is a one-way mode of communication and insufficient to imparting a true understanding of a topic. Through the exchange of opinions, knowledge is spread and thoughts deepened. By advancing dialogue-based training, the aim is for employees to not just to pick up new skills and techniques but also grow as human beings.

Tannowa: A proactive attitude nurtured in this way can play a critical foundational role in maintaining and improving worksite safety. In discussions about safety at each facility, section managers, and other line management-level employees have become more confident in their speech, and I hear that more and more employees at worksites use the singular "I" rather than the plural "we" in conversation. This is revealing in that it indicates that employees are approaching work problems and issues as matters of personal consequence, thinking and taking action on their own to find solutions. I am pleased beyond words that this change is occurring in an increasing number of employees. This has had a positive impact on section managers who are at the heart of the worksites, the chiefs and foremen who work under them, as well as the employees working onsite. As they collaborate, I believe this change will have a positive impact on the entire workplace.

—Along with increased globalization, technology is becoming more sophisticated, as shown by IoT and Big Data. As a company, how will Mitsui Chemicals tackle advances in technology?

Ogawa: Gathering, processing and utilizing data about corporate activities has become increasingly important. In my opinion, it will be challenging to build optimized frameworks onsite without the development of more advanced systems. In addition to its own technologies, I assume Mitsui Chemicals will have to cooperate with other companies in order to fully address the changing times.

Tannowa: I agree. Member companies of the Japan Petrochemical Industry

Association, where I am chairman, have begun to disclose, accumulate, and utilize their safety-related data. Although where to draw the line on data disclosure is a delicate issue, and the utilization of such data may become more difficult, by analyzing points in common across the companies and other trends, I hope a new type of information sharing will emerge.

Strong Safety Awareness Requires Everyone to Stay Vigilant

Ogawa: Being safe means staying vigilant and insisting on best practices. However, people have a tendency to choose the easier route. One can become complacent in one's daily routine, making a good-enough effort that will be sufficient as long as nothing serious happens. **More than anything else, this is the terrifying moment when safety becomes compromised.** Especially when financial performance is strong and expectations for growth are high, businesses tend to lose sight of risks. **Unexpected pitfalls lurk unseen.** I hope Mitsui Chemicals stays true to its course of action, continuing to share information daily and staying vigilant with a high awareness of safety.

Tannowa: Five years have passed since the accident. As president, I must engrave this memory on my heart and impress upon employees the importance of safety. **The survival and prosperity of the Mitsui Chemicals Group depends, as ever, on a management policy that makes safety our top priority and the establishment of a culture of safety.** We will continue to emphasize the importance of safety at all times in our messages to our employees. Five years after the accident, our safety activities have reached a new stage, but **we will never forget the lessons learned from the accident and continue to steadily implement our safety activities.**

Interviewer:
Atsushi Deguchi
General Manager, Safety & Environment Technology
Division, Production & Technology Sector

Special Feature: Safety II Safety First

Fostering a Culture of Safety

This year marks the fifth year since the explosion and accident occurred at Iwakuni-Ohtake Works' resorcinol production facility on April 22, 2012. In addition to the various people affected, including local residents and customers, we will never forget the valued colleague whose life was claimed by this terrible accident. Following President Tannowa's lead, we will continue to steadily implement safety activities in order to put safety first in everything we do.

■ Safety Day

The Mitsui Chemicals Group has designated April 22—the date of the accident at the Iwakuni-Ohtake Works—Safety Day and undertakes Group-wide safety-related activities under the direction of President Tannowa. On Safety Day, the president visits the Iwakuni-Ohtake Works to reflect once again on the events that triggered the accident and talk about the Company's steady implementation of preventive measures in addition to its efforts to regain trust with regard to safety. The speech is broadcast simultaneously to each domestic facility and all employees reaffirm their commitment to safety first in everything they do. In addition, a Safety Monument has been erected and a Safety Training room established at the Iwakuni-Ohtake Works to ensure that the lessons learned from this unfortunate accident are never forgotten. The entire Mitsui Chemicals Group is working as one to prevent this type of accident from ever happening again.



Safety Training Room: Displaying photos of the accident and broken pieces of the oxidation reactor, the purpose of the Safety Training Room is to educate new employees and plant operators about safety.



Safety Monument: Erected following the explosion and fire at the Group's Iwakuni-Ohtake Works, the Safety Monument is an expression of how seriously the Mitsui Chemicals Group takes the incident and symbolizes the pledge of each and every employee to prevent a recurrence.

Working to Open our Factories to the Local Community

As a member of the community, the Mitsui Chemicals Group believes trust based on close-knit relations with communities are crucial to the normal and stable operation of its businesses. With this in mind, we take steps to open our factories to the local community on an ongoing basis. We are committed to maintaining communication with members of the local community at each of our sites, to this end organizing a range of next-generation initiatives for children and the environment and working in harmony with local communities. To nurture close-knit relations with local communities, we arrange community meetings to discuss environmental preservation and safety initiatives in the areas where our works are located, and organize plant tours.

■ Initiatives to Promote Communication with the Local Community

- Interact with stakeholders by actively engaging in dialogue at meetings held to exchange opinions with residents of local communities
- Publish local magazines
- Hold various types of events in local communities (factory tours, Laboratory Class in the Wonders of Chemistry for Children, autumn festival, etc.)
- Clean up activities around factories, etc.

Message to the Mitsui Chemicals Group from Masaaki Yonemoto, the Mayor of Waki Town, where Iwakuni-Ohtake Works is located



Masaaki Yonemoto, Mayor (right), and Youji Kouchi, Vice Mayor (left), of Waki Town

Waki Town was the site of Japan's first petrochemical complex, and since then the municipality has grown together with Mitsui Chemicals. Given this ongoing prosperous coexistence, the explosion in April 2012 was a traumatic event for the town. However, the enduring impression I have is of the efforts made by Mitsui Chemical employees to deal with the accident and confirm the extent of the damage, their heartfelt apologies to affected residents, and their efforts to regain our trust. Moreover, the food and packages delivered from the Chamber of Commerce to the Company in appreciation for its efforts were a measure of the local residents' hope of an early recovery. Going forward, I hope Waki Town can maintain its strong mutually prosperous relationship with Mitsui Chemicals.

Special Feature: Safety III Strengthening Frontline Capabilities Toward Realizing a Global Standard for Safety

Measures to Improve Production Site Capabilities

Aiming to Continuously Enhance Corporate Value by Improving Production Site Capabilities in Changing Times

Even as a new generation of employees takes up the reins we are seeing a decline in the number of veteran production operators with extensive experience in dealing with problems. Moreover, production facilities across Japan are progressively aging due to fewer scrap-and-build opportunities as more production facilities are transferred overseas. However, despite the changing production conditions, efforts to maintain safe and stable operations must continue.

While the number of problems has decreased owing to automation and advances in safety technology, all issues relating to safety management cannot be solved solely through upgrades in machinery. The Mitsui Chemicals Group will continue working to train employees and enhance its facilities in order to realize the world's highest level of safety and, in turn, improve its production site capabilities.

(1) Plant Operation Technology Training Center

Developing Employees Proficient in Safety-Oriented Operations and Facilities via Hands-on Training That Cannot Be Experienced in Factories

—What type of personnel is the Plant Operation Technology Training Center aiming to develop?



Toshihide Kihara
General Manager
Plant Operation Technology Training Center
Safety & Environment Technology Division
Production & Technology Center

The Company opened the Mitsui Chemicals Plant Operation Technology Training Center in 2006 within the Mobarra Branch Factory in order to cultivate production operators who would strive to improve onsite production operations. With a focus on safety, the center trains employees to be self-reliant problem solvers with proficiency in all operations and equipment. We receive around 400 to 600 domestic and roughly 40 overseas Mitsui Chemicals Group employees annually for training. In addition, from fiscal 2015 we began contributing to increasing safety on an industry-wide basis by accepting a wide range of trainees from outside the Company for hands-on education programs.

While our core training approach is on-the-job training, we also conduct off-the-job training at the center to enable employees to deal with problems that there are fewer opportunities to experience on site. Specifically, we aim to develop employees proficient in operational safety by simulating workplace accidents and operational/facility-related problems that help them improve their ability to identify dangers and abnormalities.

—What measures will the Plant Operation Technology Training Center take in line with the 2025 Long-Term Business Plan?

The 2025 Long-Term Business Plan has set the strategic safety objective of achieving the world's highest level of safety as the Company transforms its business portfolio and amid ongoing globalization. Training production operators is a necessary part of reaching this objective. Moving proactively, we will strengthen systems for both on-the-job training on site and off-the-job training at the center.

Moreover, one aspect reforming Mitsui Chemicals business portfolio involves strengthening training programs specifically tailored to employees in non-petrochemicals and fabrication fields. In light of increasing globalization, we intend to not only enhance the center's training curriculum but also create educational opportunities at the Company's domestic production facilities. To this end, we will dispatch instructors to the various sites and upgrade portable educational materials. We are also creating systems and mechanisms for providing training opportunities at domestic affiliated companies and overseas production facilities with the aim of contributing to the realization of global strategic safety objectives.

Moving training even closer to the workplace increases training opportunities for more employees and helps to raise awareness of how to apply what they learn to the job. Through these efforts, we are working to raise the level of safety at each workplace, factory, and throughout the Company.

—As the general manager of the center, please share your thoughts on what needs to be done to achieve the world's highest level of safety.

In order to steadily achieve success in our safety education program, I think we must cultivate a management approach able to effectively balance three areas: (1) nurturing individual knowledge acquisition/technological education, (2) facility/operational system enhancement, and (3) fostering a culture of safety. The center will more proactively contribute to on-the-job training programs to support the development of employees who are able to find ways to enhance safety individually and solve problems on their own. Realizing the world's highest level of safety contributes to the sustained enhancement of the Mitsui Chemicals Group's corporate value.



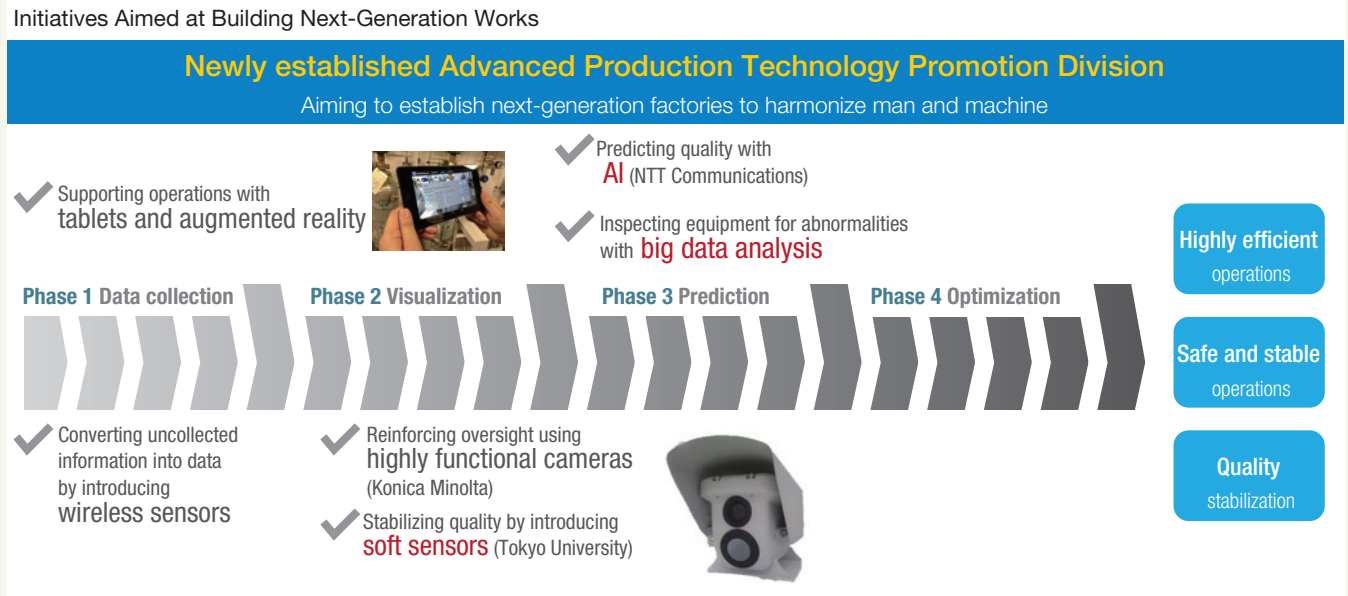
(2) Building Next-Generation Works

We aim to reinforce our competitiveness by building next-generation works boasting cutting-edge technologies.

The Mitsui Chemicals Group intends to build next-generation works that use artificial intelligence (AI) and IoT technologies and are staffed by human resources who excel in safety, operations, and facility management. At next-generation works, cutting-edge technologies are used predictively, like weather forecasts, to identify problems before they arise and thus allowing preemptive countermeasures to be taken to ensure steady operations are maintained. A next-generation works is also expected to boast abnormality detection abilities that mimic those of veteran operators. We anticipate that such advanced safety functions will facilitate the safer and more reliable operation of chemical plants and contribute to smarter maintenance.

■ Mitsui Chemicals aims to create next-generation works where people and machines work in harmony

Mitsui Chemicals aims to build next-generation works where a wide variety of high-performance products can be produced while maintaining safe and reliable operations, deploying AI and other cutting-edge technologies to prevent problems before they occur.



■ Case Study for Using AI

Using AI to Successfully Forecast Product Quality

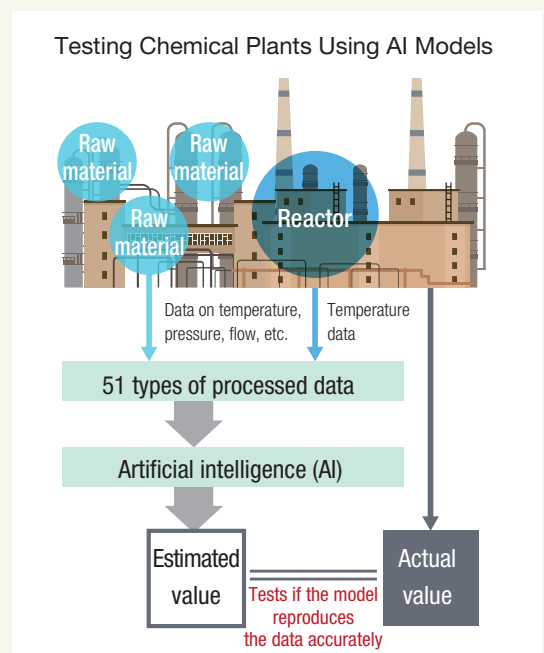
Mitsui Chemicals was able to successfully predict the quality of gas products with high accuracy 20 minutes after data was collected using NTT Communications' AI platform, which uses deep learning techniques on data vectors from the gas product production process to create a model. (See our September 15, 2016 press release for more details.)

■ Future Issues and Challenges

We are improving the accuracy of AI and examining its potential to contribute to not only safe and reliable operations and smarter plant maintenance but also the establishment of an optimal multi-item production system for value-added domestic chemical products. In addition, we are looking to share this technology worldwide.

Instead of blindly putting our trust in AI and other advanced technologies, we are working to ascertain why AI makes the predictions it does. In doing so, it is also important that we incorporate efforts to prevent the creation of "black box" technologies and to train technical staff to be able to analyze process data at plants, such as the temperature of raw materials, pressure, and reactor temperature. With few AI experts in Japan, Mitsui Chemicals is hard pressed to introduce AI technology on its own. The key will be developing AI through open innovation, partnerships and alliances across the chemicals, engineering, and IT sectors.

Mitsui Chemicals will make every effort to overcome these issues and strengthen the competitiveness of its plants by creating next-generation works where safe and reliable operations are possible thanks to cutting-edge technologies.



Research and Development

R&D Strategies

Quickly Identify and Find Solutions to Diversifying Customer Needs. Create New Customer Value based on Our Materials Proposal Capabilities.

Research and Development (R&D) Basic Policy

Committed to contributing to society, the Mitsui Chemicals Group works to provide solutions to a variety of social issues in such areas as the global environment, natural resources, energy, and food. These solutions are backed by material and product innovation spearheaded by the Group's R&D Division. At the same time, the Group strives to ensure its own sustainable development.

R&D Initiatives for Medium- to Long-Term Growth

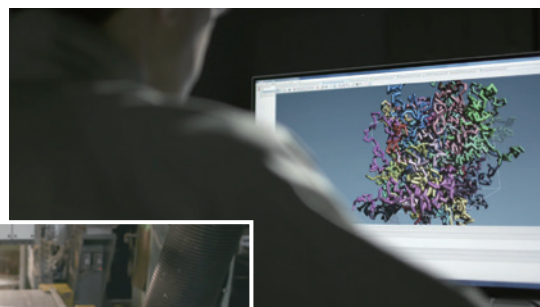
In order to achieve its fiscal 2025 operating income target of ¥200 billion, it is vital for Mitsui Chemicals to expand into three growth domains—Mobility, Health Care, and Food & Packaging—while creating new businesses and products for the next generation. To this end, we will pursue customer-driven innovation by engaging in market-driven R&D while working to increase our solutions proposal capabilities aimed at realizing comprehensive value that goes beyond materials-oriented proposals.

R&D Strategies Looking toward 2025: Growth in Targeted Business Domains & Creating New Businesses/Products

In the R&D Division, we will expand and enhance necessary platforms to pursue customer-driven innovation to achieve growth in targeted business domains and create new businesses/products. The 2025 Long-Term Business Plan will expand resource allocations and double the Company's R&D budget to ¥70 billion in fiscal 2025 compared with fiscal 2016.

Specific Measures to Strengthen Cornerstone Technologies

1. Technology platform enhancement	Beyond working to further develop and increase the sophistication of our technologies, we will strategically enhance technological platforms, including evaluation technologies and design methods, which are needed to provide solutions.
2. Manufacturing structure enhancement	As part of boosting our proposal capabilities for a diverse array of customers, we will enhance systems geared toward the rapid production and proposal of prototypes. To begin this process, we newly established the Mobility Development Center in April 2017. We will propose solutions to customers focusing on the mobility field through the design and processing evaluation of component parts.
3. Intelligence function enhancement	We will enhance intelligence functions that will enable us to integrate, analyze, and interpret information from both inside and outside the Company in order to quickly identify signs of changes in new markets, leading to new business creation.
4. Information dissemination capability enhancement	We will strengthen the external appeal of the Company's materials/technologies capabilities and promote the wide-ranging information dissemination to customers in untapped fields and new customers in target fields. We aim to be the company which customers in a wide array of fields turn to first.
5. Personnel training	We aim to develop researchers with far-reaching knowledge and strong technical skills as well as high-level communication skills to identify latent customer needs and, creativities.

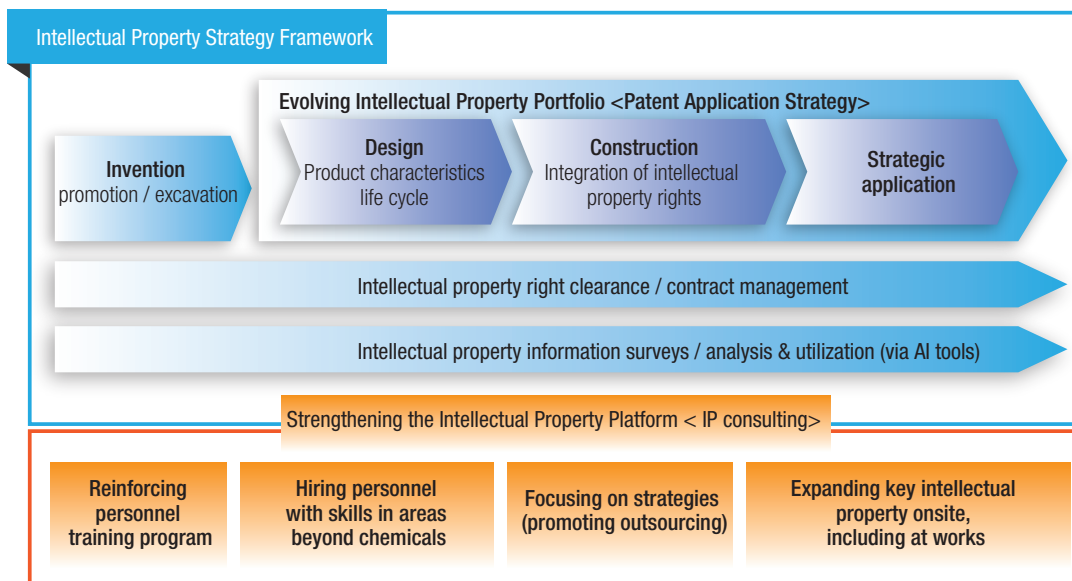


Intellectual Property

Group Intellectual Property Strategy

The Mitsui Chemicals Group regards intellectual property as a wide range of intangible assets that contribute to its business, including a host of rights under contract and trade secrets, as well as intellectual property rights like patents, confidential know-how, utility models, designs, brands (trademarks), and copyrights. The Group understands the importance of strategically leveraging an optimal mix of intellectual property.

The Basic Strategies of the 2025 Long-Term Business Plan are to (1) promote customer-driven innovation and strengthen our ability to propose solutions, (2) accelerate global expansion by strengthening overseas production and sales channels, and (3) strengthen the competitiveness of existing businesses by streamlining and establishing next-generation works that employ such advanced technologies as IoT and AI. From the foundation of these Basic Strategies, the Company will reassess its policy (patent application strategy) for acquiring and utilizing intellectual property that gives it an edge over the competition. Through tight-knit cooperation among business divisions, R&D divisions, production/technology divisions and other concerned departments, the Mitsui Chemicals Group aims to maximize the business opportunities afforded by intellectual property while minimizing any associated business risk.



Evolving Intellectual Property Portfolio

The Mitsui Chemicals Group believes there are three key factors to success in its customer-driven business strategy:

- (1) In existing basic business domains, rebuild the competitiveness of intellectual property for products at mature phase, including via business acquisition and
- (2) In business domains that drive growth, including new products, acquire intellectual property with an eye on solutions-based businesses, including patents aiming specific applications, and
- (3) In next-generation business development domains, acquire intellectual property related to parts and materials operations, including the essential materials and processes of products.

The Company is building and strengthening its intellectual property portfolio in accordance with the characteristics of its products and processes, maturity of markets, and each stage of product life cycles.

Building a Highly Exclusive Patent Portfolio

Over the past decade, the Group has maintained around 3,800 patents (held as patent families) in Japan and across the world, comprising patents effectively owned by the Company and major subsidiaries. We believe we have competitive advantages in terms of patent quality indicators, such as the ratio of highly evaluated patents held and the patent grant success rate. As we are expanding operations in the Mobility, Health Care, and Food & Packaging domains, strengthening the competitiveness of Basic Materials domains and, pushing forward with the development of new businesses with an eye to the next generation. With the aim of building an elaborate and highly exclusive patent portfolio, we intend to expand and augment our holdings of patents and other intellectual property while maintaining high quality standards.

Strengthening the Intellectual Property Platform of the Mitsui Chemicals Group

To execute this intellectual property strategy, the Mitsui Chemicals Group is strengthening its intellectual property platform by (1) reinforcing and supporting the training of personnel who have advanced technical knowledge and skills related to intellectual property, (2) hiring personnel with adaptable skills for managing intellectual property in areas beyond those related to chemicals, (3) promoting outsourcing, directing our focus to the creation and execution of intellectual property strategies which enhance the performance of infringements judgment, intellectual property right clearance, and contract management (transition to intellectual property consulting), (4) promoting invention by expanding key intellectual property personnel onsite, including at works, and (5) examining the introduction of AI tools to advance the analysis of big data.

Our Approach to Human Resources Development

In line with its Human Resources Management Policy, the Mitsui Chemicals Group trains human resources who are able to excel on the global stage from a long-term perspective.

The Group's basic approach to human resource development is to proactively support employees striving to grow independently and autonomously and to thereby foster human resources who will create the value demanded by society now and in the future while engaging with global markets and working closely with colleagues on a daily basis.

Global Human Resources Management

In keeping with the accelerating global business management, the number of countries in which the Company has established bases has grown to 27. Furthermore, foreign nationals account for more than 30% of Group employees, and the training of global human resources is presenting the Group with challenges of unprecedented importance.

Ideal Qualities of Global Leaders

To support ongoing market expansion in Japan and overseas, the Company will, in addition to securing exceptional employees who are familiar with local areas, coordinate with its domestic and overseas bases while reinforcing its management efficiency and global leadership. Continually refining its definition of the ideal qualities of such global leaders, the Group is securing exceptional employees with diverse backgrounds and providing structured training for global leaders that involves their optimal placement at local bases around the world. To secure the foundation of these efforts, the Company is promoting improvements in such areas as competencies

(qualification requirements) and preparing a human resource database as well as grading systems, assignment frameworks, and compensation systems for common use by all its bases worldwide.

Ideal Qualities of Global Leaders

- Able to strategically and efficiently lead global business development
- Able to rapidly develop businesses in tune with regional characteristics

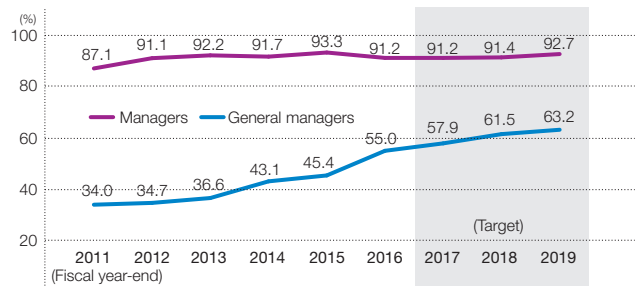
Overseas Practical Placements for the Development of Next-Generation Human Resources for Management Positions

Looking to develop the next generation of global managers, the Company targets young and mid-level employees when choosing Japan-based employees for dispatch overseas, while at overseas bases it selects locally hired employees for dispatch to Japan and proactively provides practical placement training. For Mitsui Chemicals employees in Japan, these initiatives are directed at facilitating the acquisition of the essentials of global management from a young age; for employees at overseas bases, the Group's approach helps to deepen their understanding of, for example, the Group's products, technologies, quality standards, and approach to safety.

Encouragement of Promotions of Locally Hired Human Resources to Executive Positions

The Company's Basic Policy, which extends to its Corporate Mission and Action Guidelines, defines three Core Values: Challenge, Diversity, and One Team. Promoting the global commonization and standardization of its training programs, which are centered on realizing a corporate culture embodying these virtues and reinforcing leadership, the Company is encouraging the promotion of locally hired human resources to a wide range of important positions, including such ranks as managing director of an overseas subsidiary or affiliate.

Promotions of Locally Hired Employees



TOPICS

Start of Key Talent Management Operations



With a view to securing the human resources needed for the realization of Group global management, at an early stage the Company widely selected exceptional, high potential personnel—irrespective of their nationality, the region in which they were hired, or the company to which they were assigned—and set up a key talent management system under which their training is strategically and systematically undertaken. Having commenced the full-scale operation of the system in fiscal 2016, the Company will engage in key talent management across the Group as a whole to give added impetus to its global management.

(1) Key Talents and Management Candidates

From among the Group's worldwide human resources the Company selects those who consistently demonstrate high levels of performance, competence (qualification requirements), potential, and enthusiasm as key talents. From these key talents, the Company then selects as management candidates those who have the potential to become future managements.

(2) Employee Development Committees Established

The Company is establishing employee development committees as bodies that undertake the selection of key talents and manager candidates, approve the training programs, and confirm the results gained from them.

Reviewing the work experience of selected human resources, the employee development committees decide on their employees' assignments from five perspectives: business outlook, business restructuring, new business development, Companywide projects, and overseas subsidiary operations.

Diverse Human Resources Produce Diverse Ideas That Drive Innovation, Ensuring Sustainable Growth

Diversity is one of the Group's Core Values. Accordingly, we aim to remain a company in which the recognition of the diverse human resources producing diverse ideas at our bases all around the world is not based on such outward attributes as gender, age, or nationality. Moreover, we fully intend to remain a company in which everyone is able to actively make the most of their individuality and capabilities regardless of hard-to-see differences as upbringing, cultural values and personality.

TOPICS

Respect for Diversity Increases Team Cohesion and Is Linked to New Value Creation

A shared business roadmap linking together all those around the world who are working toward the Group's ongoing global business expansion is essential. At the same time, knowledge of the various business bases' cultures and customs and showing respect for their diversity is linked to smooth communications across regions and organizations as well as to improvements in teamwork.

◆ Of One Mind in the TAFMER Business and at TAFMER Global Meeting

Promoting customer-oriented business development, the TAFMER™ business is building a technical support framework made up of nine sales bases worldwide and four technical support bases located in four areas: Japan, Asia, Europe, and North America. A global meeting is held regularly in Singapore, where the Company has put in place head office functions. The meeting welcomes not only relevant people from the sales bases but also those from various in-house units, such as the technical support, R&D, manufacturing, supply chain, and quality control divisions. At the meeting, we explore issues various divisions are confronting as they work toward their targets and promote discussion aimed at resolving those issues as well as to ensuring a uniform understanding of the measures to be implemented.

Diverse human resources from all over the world come together in one place, learn about the cultures and customs of other regions, and improve their understanding of each other. Team cohesion is enhanced by respect for diversity. We believe that this cohesion will lead to TAFMER™ business expansion and the creation of new value.



Mitsui Elastomers Singapore Pte. Ltd.

Respect for and Employment of Diverse Individuality—Diversity & Inclusion

To ensure the sustainable growth of society and corporate entities, we must nurture a corporate culture that respects diversity and continue appointing exceptional human resources on the front lines. Differences in circumstances, values, and ways of thinking lead to diverse human resources. When employees are able to develop a mutual understanding of those differences and achieve maximum performance as an organization, diversity becomes a source of innovation.

The Group believes that “creating a company in which diverse human resources are able to excel” is key to achieving the targets of its 2025 Long-Term Business Plan. In 2016, with a view to training managers capable of managing diverse human resources, we participated in the IkuBoss Corporate Alliance organized by the specified non-profit organization Fathering Japan, held seminars to promote the participation and advancement of women in the workplace and gave our support to a “Declaration on Action” by a group of male leaders who will “Create a Society in which Women Shine.” Also, to promote the active participation of women in our company, we formulated numerical targets covering the recruitment of women, their promotion to management positions, and work style reforms and drew up an action plan toward meeting those targets.

■ Creating Mechanisms That Support the Ongoing Career Advancement of Diverse Human Resources

We are promoting systems that expand and improve our support systems and enable us to balance life events, such as childbirth or becoming a caregiver, with sustainable career development. In addition to the promotion of a work-life balance, the initiatives under these systems include reduced working hours for childbirth and child rearing, paid family care leave, a teleworking system, and subsidies to assist with babysitting and nursing care.

In addition, the Group is working to foster a climate in which each and every diverse employee works with enthusiasm, such as proactive initiatives to employ people with disabilities and the holding of study groups on the subject of inclusion, while also striving to foster workplace environments in which employees can excel.

■ Support Program for Those Returning to Work from Childcare Leave

To create an environment in which employees who are raising children return to work from taking leave for childbirth or from looking after their children in a seamless manner and work with a high degree of motivation, we have instituted a workplace return to work support program to serve as a mechanism in support of career continuation.

On each of three occasions—before maternity leave, at a point during childcare leave, and after returning from childcare leave—an interview is held between the employee and his or her superior to discuss working style options for the employee after returning to work, the workplace acceptance system, and professional responsibilities while deepening their mutual understanding. In this way, we are putting systems in place that support work-life compatibility so that employees facing life-changing events are not forced into choosing to quit due to anxieties about taking time off for childbirth and child rearing but rather they are able to continue advancing their careers.



Took childcare leave on the birth of his child
Kazuki Kimura Hybrid Materials Department
New Products Development Laboratory

(FY)	2013	2014	2015	2016
Number of Employees Taking Childcare Leave	69	96	95	78
(FY)	2013	2014	2015	2016
Ratio of Employees with Disabilities	2.0	2.1	2.2	2.3

Basic View on Corporate Governance

The Mitsui Chemicals Group is constantly engaged in business activities to realize its Corporate Vision, which consists of its Corporate Mission and Corporate Target. We recognize that efforts to achieve effective corporate governance as part of that process will allow us to:

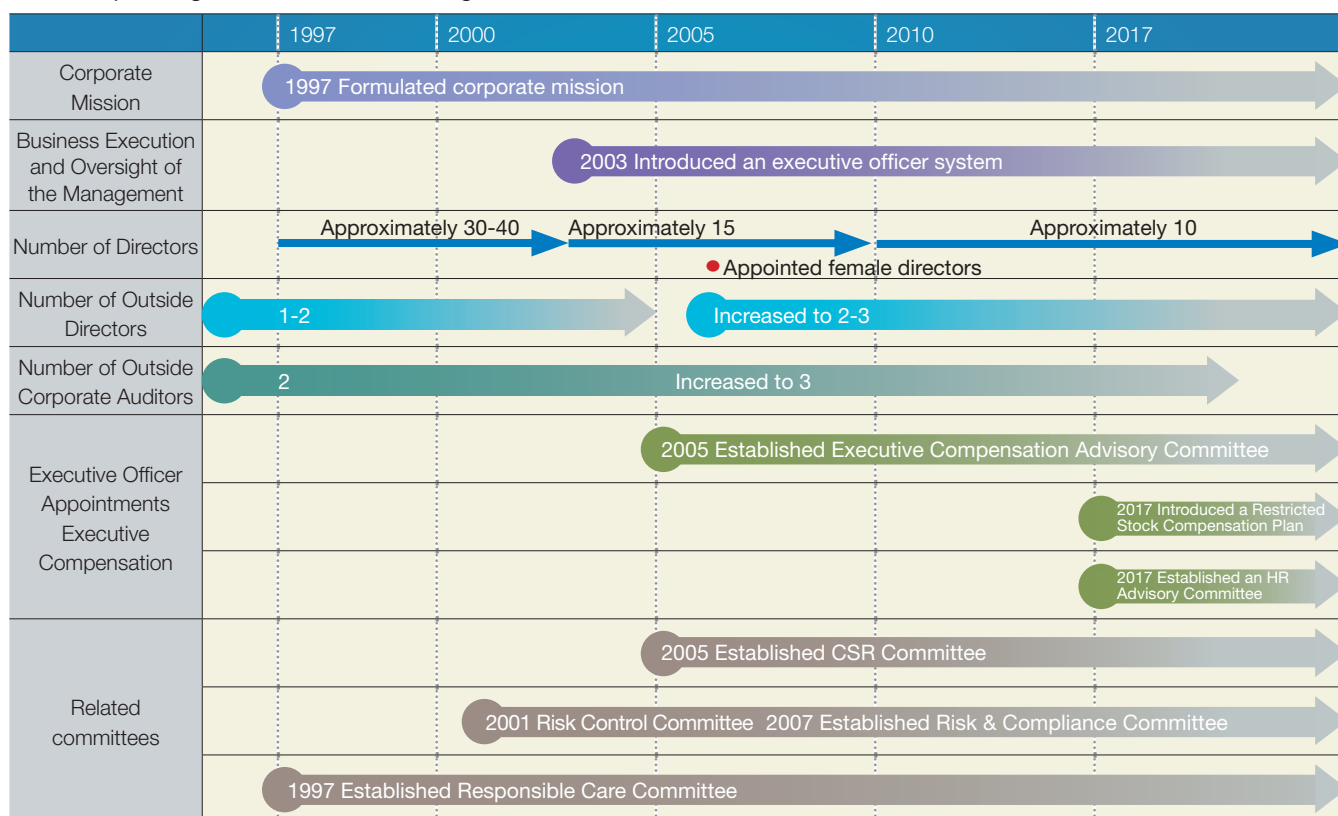
- (i) maintain and develop trust with Mitsui Chemicals' shareholders and all other diverse stakeholders of the Group, and
- (ii) create a framework that can execute transparent, fair, timely, and decisive decision making, through which the Group can achieve sustainable growth and increased corporate value over the medium to long term.

Accordingly, the Company holds the enhancement of our corporate governance to be one of its key management issues, and it is undertaking measures to achieve this aim.

Please also visit our website (URL: <http://www.mitsuichem.com/en/corporate/governance/index.htm>) as the Company has posted the Corporate Governance Guidelines outlining the basic view and policy, etc. concerning the Company's Corporate Governance.

History of Corporate Governance Reforms

We have continuously instituted reforms since the founding of the Mitsui Chemicals with the aim of raising the effectiveness of our corporate governance to an even higher level.



Revision of Executive Compensation System

Mitsui Chemicals has decided to introduce a restricted stock compensation plan under which it will provide compensation to the Company's Directors (excluding Outside Directors; hereinafter, the "eligible Directors"), granting them restricted stock with the aim of furnishing an incentive to work toward sustainable improvement in the Company's corporate value while simultaneously promoting the concept of shared value with the Company's shareholders. An overview of the restricted stock compensation plan is available on the Company's website. The Company also grants the same restricted stock to Executive Officers and Chief Senior Directors as well.

 http://www.mitsuichem.com/en/ir/pdf/170512e_2.pdf?1505112397272

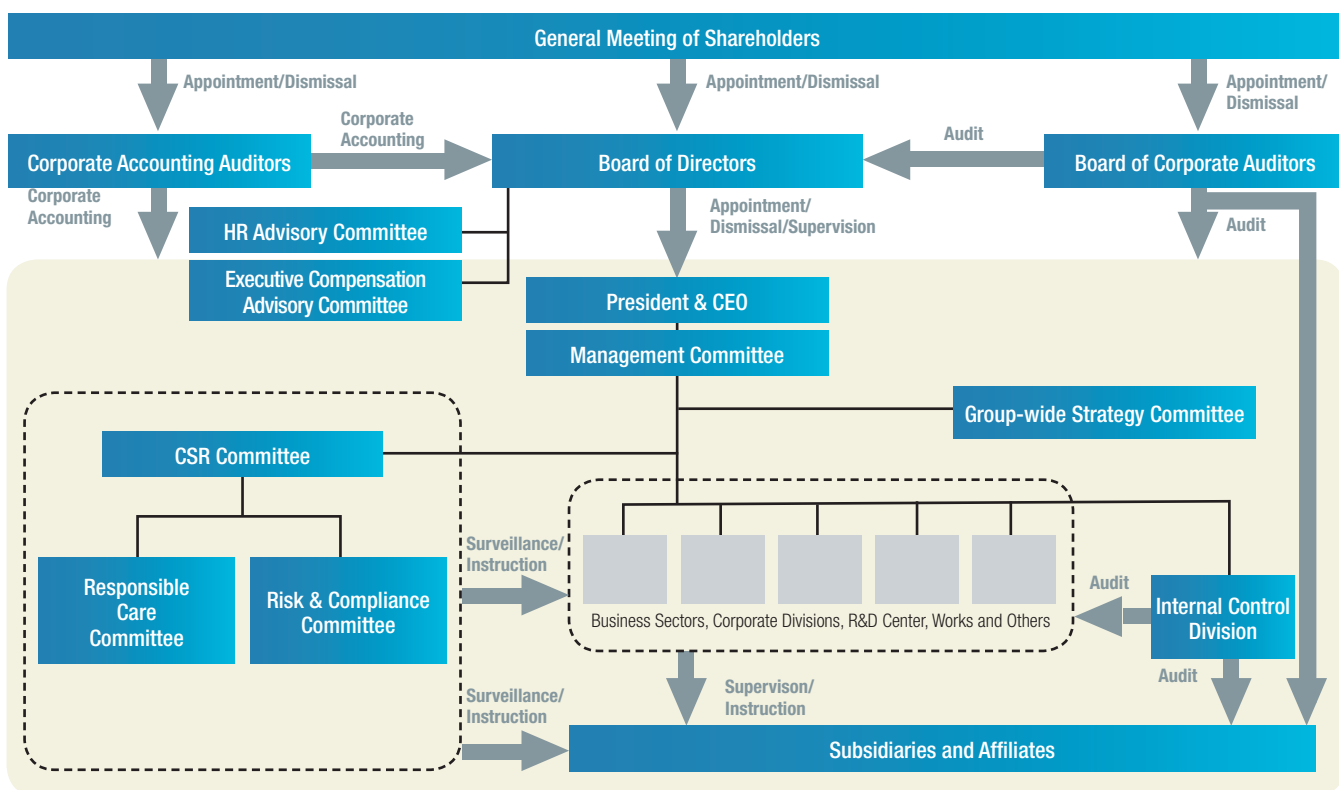
Reference: Comparison of the Previous and Current Systems

	Previous System	Current System
Basic compensation	Basic compensation: No more than 60 million yen per month (Annual: No more than 720 million yen)	No more than 600 million yen per year (Outside Directors: No more than 60 million yen per year)
Bonuses	Bonus payments: Determined at the General Meeting of Shareholders (Separate from basic compensation)	<ul style="list-style-type: none"> • Basic compensation • Bonus payments (Included in basic compensation)
Restricted stock compensation		No more than 120 million yen per year
Total	No more than 60 million yen per month (Annual: No more than 720 million yen) *Bonuses are considered a separate form of compensation	No more than 720 million yen per year

Corporate Governance Framework

The Board of Directors of the Mitsui Chemicals makes key management decisions and oversees the operations of each individual director, and, as a company with a board of corporate auditors, the status of each director's performance of his or her duties is audited by the corporate auditors and the Board of Corporate Auditors independently from the Board of Directors.

Within this framework, the Company strives to realize smooth and efficient management, undertaking initiatives aimed at, for example, clarifying official authority and decision-making procedures in light of Company rules, clarifying management supervision and business execution roles by introducing an executive officer system, ensuring that important matters are referred to the Management Committee for discussion, and ensuring a broad range of perspectives inform strategic discussions undertaken at the Group-wide Strategy Committee. In addition, as part of its internal control system the Company's corporate auditors conduct audits to ensure the propriety of business operations while the Internal Control Division works to ensure sound risk management.



General Meeting of Shareholders

The General Meeting of Shareholders makes important decisions as the supreme decision-making body of the Company while being a valuable venue for direct and constructive dialogue with shareholders.

Board of Directors: eight (including three outside directors)

The Board of Directors decides business strategies, business plans, and all other important matters related to management. The Board also oversees the overall management of the Group through reporting on such matters as the performance and duties of individual directors, important operations of subsidiaries and affiliates, and the implementation status of compliance and risk management systems by the Company and its subsidiaries and affiliates.

Moreover, the Board of Directors deliberates important corporate management policies from the intermediate stage and takes steps to reinforce management supervisory functions by providing advice to executives.

Board of Corporate Auditors: five (including three outside auditors)

Corporate auditors conduct audits on such matters as the directors' performance of duties in accordance with audit policies and plans established by the Board of Corporate Auditors.

Corporate auditors, the accounting auditor, and the Internal Control Division (Mitsui Chemicals' internal audit department) mutually cooperate to conduct audits by reporting each annual plan, audit results, and all other relevant information by exchanging opinions and information among themselves while taking into account the independence of each audit.

HR Advisory Committee (composed of the president, who serves as chair, and three outside directors)

To ensure the transparency and the validity of executive officer appointments, the Company has established the HR Advisory Committee as a consultative body of the Board of Directors as well as a mechanism to determine the system for proposing executive officer candidates.

Executive Compensation Advisory Committee (composed of the three representative directors (including the president, who serves as chair, and six outside directors)

To ensure the transparency of performance evaluations and the validity of the compensation levels, the Company has established the Executive Compensation Advisory Committee as a consultative body of the Board of Directors as well as a mechanism to determine the system of executive compensation and evaluate the performance of directors.

Management Committee

To ensure appropriate and efficient decision making, the Company has established the Management Committee to review items that need to be discussed in advance of being put on the agenda of Board of Directors meetings and to deliberate on important matters related to business execution.

Group-wide Strategy Committee

The Company has established the Group-wide Strategy Committee to deliberate on strategy from a Company-wide perspective related to management and operational issues.

Corporate Auditor System and the Status of Audits

As a measure of their independence from the Board of Directors, corporate auditors conduct audits of directors and the performance of their duties as well as audits of such wide-ranging matters as internal corporate control, business performance, and the Group's financial status. Pursuant to relevant laws and ordinances, corporate auditors therefore request reports on the Company's businesses, exercise their authority in the election and dismissal of accounting auditors, and investigate the status of operations and assets. Specifically, corporate auditors attend not only the meetings of the Board of Directors but also Management Committee and other important meetings, have regular meetings with the president and others to exchange opinions, and officially receive and check the final-decision documents of executive directors and records of important meetings. In addition, they conduct corporate auditor audits at the Group's major places of business and affiliated companies in Japan and overseas as well as confirm the status of business execution. Each outside auditor is charged with the responsibility of auditing the operations of the Group from an objective and independent perspective

Evaluation of the Effectiveness of the Board of Directors

In principle, the Mitsui Chemicals analyzes and evaluates the effectiveness of the Board of Directors every year in accordance with "3. Structure and Operation of the Board of Directors," Section 1, Chapter 4 (4) of the Company's Corporate Governance Guidelines, by such methods as self-evaluation performed by respective directors.

Based on evaluation survey results for fiscal 2015, the Company took steps to increase the Board of Directors' supervisory functions by (1) raising agenda criteria, (2) expanding reporting items, (3) introducing items for deliberation, and (4) increasing the number of outside directors.

Taking these measures into account, the Company conducted its fiscal 2016 survey of all directors and corporate auditors in early February 2017. Based on the survey results, a report together with the outcome of an early March meeting consisting only of outside directors and outside corporate

Total Compensation for Directors and Corporate Auditors

Mitsui Chemicals' basic policies regarding the determination of compensation for directors (excluding outside directors) are as follows.

- Compensation is commensurate with the authority delegated to the individual by the Company's management and will be tied to the growth and performance improvement of the Mitsui Chemicals Group.
- Compensation schemes are devised to reflect both corporate performance and the performance of the individual director.
- Compensation for those in higher positions more strongly reflects their contributions to medium- and long-term corporate growth.
- We ensure transparency and maintain accountability to our shareholders and other related parties regarding the determination of compensation for directors.

Compensation for directors (excluding outside directors) comprises monthly compensation (a fixed amount) and bonuses. The proportion of compensation comprising bonuses is set at a level considered appropriate as an incentive for the sustained growth of Mitsui Chemicals.

Compensation for outside directors and corporate auditors solely comprises monthly compensation (a fixed amount), the level of which is established with reference to third-party surveys regarding compensation for corporate managers in Japan and other information.

based on extensive experience in his or her field.

With regard to financial audits, the Company has appointed Ernst & Young ShinNihon LLC as its accounting auditor. This firm independently conducts financial audits in accordance with the Companies Act and the Financial Instruments and Exchange Act. This firm also conducts audits of the internal control system in relation to financial reporting.

The Internal Control Division was established as an internal organization that conducts accounting and business audits of the Group, including affiliates. The Internal Control Division reports to the Management Committee the results of audits that are based on annual audit plans discussed in advance by the Management Committee and instituted.

Corporate auditors, the accounting auditor, and the Internal Control Division mutually cooperate to conduct audits by reporting each annual plan, audit results, and all other relevant information by exchanging opinions and information among themselves while taking into account the independence of each audit.

auditors were presented at the end of March to a meeting of the Board of Directors where future challenges and measures were discussed.

The Company has confirmed that as a result of the measures implemented in fiscal 2016, the Board of Directors has improved overall in line with its increased supervisory functions. On the other hand, the Company has confirmed and shared with all concerned parties as a future issue the need for a management review in order to further expand the number of items introduced for deliberation as compared with fiscal 2016 as well as to enhance the Board of Directors' deliberations.

The Company will review and implement necessary measures as appropriate to reinforce the supervisory functions of the Board of Directors based on the result of the annual evaluation of effectiveness.

Total Compensation for Fiscal 2016

Classification	Number of Persons Receiving Payment	Amounts Paid (Millions of Yen)	Outside Officers	
			Number of Persons Receiving Payment	Amounts Paid (Millions of Yen)
Members of the Board	12	372	4	32
Corporate Auditors	6	98	3	35
Total	18	470	7	67

Notes:

- The amount of Board of Directors compensation of under ¥60 million per month was approved at the 8th General Meeting of Shareholders held on June 28, 2005.
- The amount of corporate auditor compensation of under ¥11 million per month was approved at the 8th General Meeting of Shareholders held on June 28, 2005.
- The figures in the table above include amounts paid to four members of the board and one corporate auditor who retired as of the close of the Annual General Meeting of Shareholders for the Company's 19th Business Term held on June 24, 2016, covering the period from April 2016 through to the date of retirement.
- Moreover, the following scheduled bonus amounts to be paid to members of the board are on the agenda for the Annual General Meeting of Shareholders for the Company's 20th Business Term to be held on June 27, 2017. Five members of the board in office as of March 31, 2017: ¥92 million. Three members of the board retired at the conclusion of the Annual General Meeting of Shareholders for the Company's 19th Business Term on June 24, 2016 (amount from April 2016 to the date of retirement): ¥14 million.

Capability of the Board of Directors as a Whole and Views on Diversity

(1) The number of directors of Mitsui Chemicals will be 12 or less, as stipulated in the Articles of Incorporation, and the appropriate number within said limit will be decided when necessary with due consideration given to the authority delegated to each executive officer and the need to streamline decision making in response to business expansion. In principle, Mitsui Chemicals will select multiple individuals from outside the Company, including corporate managers, academics, and legal professionals, to serve as independent outside directors in order to benefit from opinions informed by their rich experience and insight when, for example,

formulating management policies as well as to increase oversight effectiveness with regard to director operations.
 (2) Mitsui Chemicals' selection of executive directors will take into consideration the specific characteristics of each business and disregard such factors as gender or nationality to ensure that the body of executive directors possesses balanced business experience in such vital areas as business planning, operations, production and technology, research and development, accounting and finance, human resources and, general and legal affairs.

Outside Directors and Outside Corporate Auditors

Mitsui Chemicals believes that management's accountability and transparency is best served by obtaining opinions from independent outside directors and corporate auditors at meetings of the Board of Directors. The Company also believes that appropriate decision making at meetings of the Board of Directors is made possible by obtaining advice from persons with specialized knowledge.

To ensure that these objectives are achieved, the content of materials presented at Board of Directors meetings is explained to outside directors and outside corporate auditors in advance. In addition, the Company provides newly elected outside directors and outside corporate auditors with opportunities to deepen their understanding of the Company's business. These opportunities include explanations of the Company's business activities and tours of business locations.

When selecting candidates for outside directors and outside corporate auditors, the Company considers each individual based on the selection criteria set out in the Company's Corporate Governance Guidelines. Moreover, all the outside

directors and outside corporate auditors of the Company not only satisfy the selection criteria but also meet the criteria for independence set by the financial instruments exchange and the Independence Standards for Independent Outside Directors and Independent Outside Corporate Auditors provided as an Appendix to the Company's Corporate Governance Guidelines. All the outside directors and outside corporate auditors also put themselves in the position of a stakeholder, and provide beneficial and candid advice regarding improving the corporate value of the Mitsui Chemicals Group. As outside directors and outside corporate auditors have no risk of a conflict of interest with general shareholders, even from a practical standpoint, the Company regularly submits a notice to the Tokyo Stock Exchange to this effect stating that all its outside directors and outside corporate auditors are independent officers. Furthermore, there are no special interests between the Company and any of its outside directors and outside corporate auditors.

Major Activities of Outside Directors and Attendance at Meetings of the Board of Directors and Board of Auditors

Major Activities of the Board of Directors and Board of Auditors		Attendance at Meetings of the Board of Directors and Board of Auditors	
		Board of Directors (Total Number of Meetings Held: 11)	Board of Auditors (Total Number of Meetings Held: 15)
Outside Directors			
Yukiko Kuroda*	Director Yukiko Kuroda primarily speaks about sound and efficient corporate management from the point of view of one concerned with the validity of business execution and corporate social responsibility based on her extensive experience as a corporate manager and as an outside executive officer and consultant at other companies.	11/11	—
Hajime Bada*	Director Hajime Bada primarily speaks about sound and efficient corporate management from the point of view of one concerned with the validity of business execution and the intrinsic nature of the Mitsui Chemicals Group based on his extensive experience as a corporate manager and president of an industry organization.	9/9 (All nine meetings held after his appointment)	—
Hiromi Tokuda*	Director Hiromi Tokuda primarily speaks about sound and efficient corporate management from the point of view of one concerned with the validity of business execution and strategy based on his extensive experience related to the Mobility domain, which is a main focus of the Company.	9/9 (All nine meetings held after his appointment)	—
Outside Corporate Auditors			
Hiromu Matsuda*	Auditor Hiromu Matsuda has been involved for many years in financial institution management and has experience serving as an auditor for other companies; hence, he speaks about sound and efficient corporate management from the perspective of one concerned with ensuring that the execution of the Company's business is appropriate based on his extensive, all-round knowledge and experience in management.	11/11	13/15
Osamu Sekine*	Auditor Osamu Sekine speaks about sound and efficient corporate management from the perspective of one concerned with ensuring that the execution of the Company's business is appropriate based on his specialist knowledge and extensive experience not only in the legal profession but also as an outside officer of other companies.	11/11	15/15
Hiroyuki Nishio*	Hiroyuki Nishio has been involved in the management of financial institutions as well as private-sector companies for many years and has experience serving as an outside officer of other companies. Based on his all-round knowledge and experience in management, Mr. Nishio advocates sound and efficient corporate management with a view to ensuring that the Company's business is executed in an appropriate manner and improving the profitability and stability of business.	11/11	15/15

* Independent Officer specified under the regulations of the Tokyo Stock Exchange

In addition, Auditor Hiromu Matsuda resigned his position as of the end of the 20th General Meeting of Shareholders held on June 27, 2017.

Risk and Compliance Management

Risk and compliance management systems must be firmly in place and effectively run for a company to fulfill its social responsibilities and earn the trust of its stakeholders. The Mitsui Chemicals Group makes concerted efforts to enhance such systems as the basis for corporate activities.

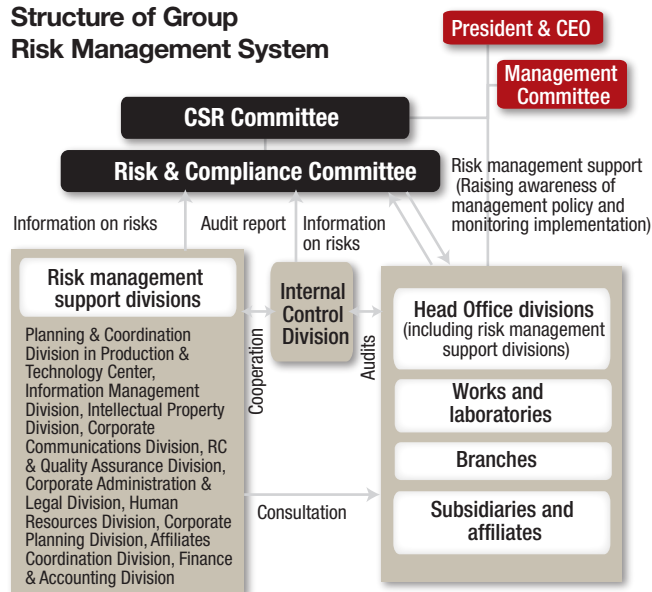
Risk Management System

The Mitsui Chemicals Group Risk Management System has been introduced to facilitate the early discovery of risks and prevention of risks materializing. Key risks are identified in the fiscal year budgets of each Group company and division, risk conditions are analyzed, and measures are taken to address these risks.

The Group also uses compliance checklists as part of a risk management PDCA* cycle designed to monitor progress and to prevent risks from materializing. The risk management system has internal control systems, and the status of internal corporate control systems is reported to the Board of Directors.

* PDCA: Cyclical implementation of the plan, do, check, action process.

Structure of Group Risk Management System



Compliance

As an indication of the priority given to compliance with laws and regulations over any pursuit of profit, the Mitsui Chemicals Group has identified compliance with the laws and regulations as the first item in its Group Action Guidelines formulated in February 2006. In addition to putting in place a risk management framework that includes the Risk & Compliance Committee and Risk Hotline, Mitsui Chemicals is acutely aware of the critical need to have its employees who drive its risk management framework forward strictly adhere to all laws and regulations. With this in mind, the Company has undertaken four initiatives in an effort to promote compliance. In addition to preparing a basic Compliance Guidebook, we conduct compliance awareness education and training as well as workplace discussions covering case studies of violations of laws and regulations. From a skills and knowledge perspective, we also conduct legal and regulatory compliance training.

Declaration on Preventing Bribery

Amid the accelerating development of global business and in light of growing international concern over bribery scandals in recent years, a key issue the Mitsui Chemicals Group must address is the upgrading and strengthening of systems to prevent bribery around the world.

To prevent bribery in countries and regions where it has operations, the Mitsui Chemicals Group complies fully with regulations, including the Unfair Competition Prevention Act in Japan, the Foreign Corrupt Practices Act in the United States and the Bribery Act in the United Kingdom. The Mitsui Chemicals Group always prioritizes compliance with laws and regulations over profit in instances where decisions hinge on profit or compliance.



For more information about risk and compliance management systems, as well as specific initiatives, click on the link:
<http://www.mitsuichem.com/en/csr/compliance/index.htm>

Responsible Care

The following three objectives for the environment and society have been set in the 2025 Long-Term Business Plan. (See page 28)

Supporting these three objectives, the Mitsui Chemicals Group's RC activities focus on contributing to sustainable development and improved QOL through initiatives aimed at achieving SDGs. Beginning in fiscal 2018, we are commencing activities to spread awareness of the SDGs internally.

- 1) Maximize products and services to achieve low carbon, recycling-oriented and cohesive society in harmony with the environment
- 2) Maximize products and services to achieve improved QOL and a smart society
- 3) Pursue thorough safety, high quality, and fairness in the entire supply chain

Contributing to Sustainable Development through Responsible Care Activities

The chemical industry voluntarily carries out Responsible Care (RC) activities. The aim is to help improve QOL and ensure the sustainable development of society by minimizing the impact of business operations on the environment and society while also providing revolutionary technologies and solutions that address social issues.

The Group has established the Responsible Care Policy below. In line with this policy, we aim to carry out RC activities, live up to the expectations and trust placed in us from local communities and society, and, through our businesses, contribute to the sustainable development of society.

Responsible Care Policy

The Mitsui Chemicals Group, based on its corporate missions and action guidelines, acknowledges its business challenge is not only to comply with laws and regulations of the countries in which it does business, but to continuously contribute to the improvement of safety, health, the environment, and quality, for the sustainable development of society. We will expand our business focus while continuing to improve and maintain good communication with all our stakeholders and business partners.

We pledge safety is our top priority and focus on achieving zero accidents and occupational injuries.

In 2012, an explosion and fire led to the death of one of our own employees, and we lost the trust placed in us by society. Pledging to prevent such an accident from ever happening again, we have strictly implemented fundamental safety activities. Safe and reliable production is an absolutely essential tenet of management, and central to our survival as a corporation. We will continue to engage in best safety practices while improving and passing along technical skills with the aim of fostering a culture of safety.

We make efforts to assess risks of our products throughout their life cycles to ensure the health and safety of all persons and to protect the environment by reducing their environmental impact.

Through assessments of risks to people and the environment and the proper management of chemical substances throughout the entire life cycle of a product (from development to production, distribution, use, final consumption, and disposal), we aim to minimize the impact of chemical substances on people and the environment, ensure the health of people that interact with the product, and mitigate environmental impact across the entire life cycle.

We contribute to improving quality of life and protecting the environment through our business activities by developing beneficial technology and products.

Mitsui Chemicals proactively contributes to the realization of a cohesive society in harmony with the environment and health and happiness in an aging society for the sustainable development of society through business activities that solve various social issues related to the environment, natural resources, energy, and food supply.

We provide high-quality products and services that satisfy customer needs and respond to the trust that they place in us.

Mitsui Chemicals continues to create new value, constantly thinking about the technologies, products and services that are genuinely needed by society and its customers. With a two-pronged approach to quality management, entailing quality management based on built-in quality activities and quality assurance based on activities aimed at winning customer trust, Mitsui Chemicals supplies products and services that satisfy customers, maintaining the trust placed by its customers through activities undertaken from the customer's point of view in order to solve their problems.

We actively promote the well-being of all our employees.

Our employees' well-being is directly linked to the Company's well-being. We believe promoting the health of our employees is of benefit to society. The Mitsui Chemicals Group proactively works to help every employee live a healthy life. Mental health is just as important as physical health. We therefore help our employees maintain their own health and promote the creation of positive and healthy work environments.

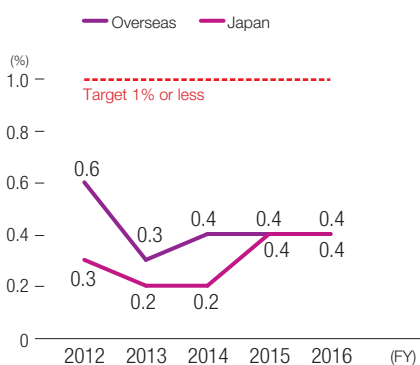
Note: Bold text is taken directly from our Responsible Care Policy; italic text is a more detailed explanation.

RC Highlights

Below are some of the Group's RC activities.

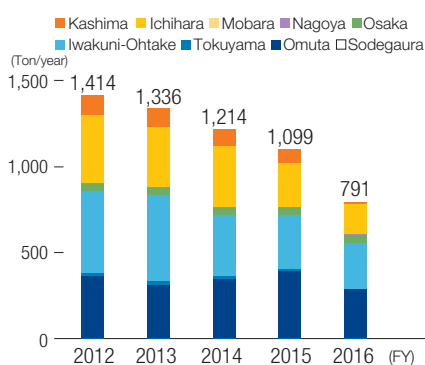
(1) Initiatives to minimize industrial waste

Average landfill ratio for industrial waste



(2) Initiatives to protect the atmosphere and water environments

Emissions of substances subject to the PRTR Act



(3) Initiatives to reduce the environmental load of logistics

The Mitsui Chemicals Group is working to create a distribution system with a lower environmental impact in part by improving loading efficiency, switching to more energy efficient modes of transport, and creating a shared distribution system operated by chemical manufacturers in the Keiyo area.



For more details about RC, please visit the URL below for detailed information about the RC promotion structure.

<http://www.mitsuichem.com/en/csr/rc/>

Engagement with Our Stakeholders

Engagement with Our Stakeholders

For the Mitsui Chemicals Group to maintain its position in society, we believe it is imperative to be vigilant in perceiving what our stakeholders demand and expect of us. With this in mind, we are fully committed to engaging in a wide range of activities while taking to heart the importance of communication with our various stakeholders.

With Our Shareholders and Other Investors

The basic stance of the Mitsui Chemicals Group is that it should release appropriate information in an impartial and timely manner. Top management, including the president and CFO, and all the Group's departments are working together to expand opportunities for dialogue with shareholders, other investors, and analysts. Through these dialogues, we will continue striving to further their understanding of the Group's business strategies and plans.

Management actively participates in business performance presentations and small meetings with institutional investors and analysts, visits to Japan- and overseas-based investors, IR conferences, and other similar events. They themselves explain matters that are of great concern to all our stakeholders and highly value being able to directly answer questions.

In addition, the management team, IR department, and all other departments have come together to enhance business strategy presentations and domestic and overseas plant tours while providing opportunities for promoting greater understanding of the superiority and future growth potential of Mitsui Chemical's businesses and products. These events have received very positive feedback because key individuals and frontline supervisors for each business explain concrete measures and engage in direct dialogue.

Going forward, the Group aims to further develop the relationships of trust it has with all its stakeholders, including shareholders and other investors. To this end, we disclose information in an appropriate and timely manner to promote fairness and transparency while continuing to promote active communication throughout the entire Group, including top management.



A plant tour for a nonwoven fabric manufacturing site in Thailand



Mitsui Chemicals, Inc. received "2016 Awards for Excellence in Corporate Disclosure" in the chemicals and fiber sector, sponsored by The Securities Analysts Association of Japan (SAAJ).

With Local Communities

To ensure regular and stable business operations at each site, the Group considers it important to build relationships of trust based on close-knit relationships with community members. We therefore hold community meetings and plant tours to which we invite neighboring residents. At the community meetings, we go over an outline of the plant, our environmental protection activities, safety measures, ways we give back to the community, and other initiatives. We also hold lively discussions where local residents talk about any impact on their daily lives or request they have regarding the plant.



A community meeting at Iwakuni-Ohtake Works

With Our Customers

We are endeavoring to provide optimal solutions that take into consideration such issues as utility value for final consumers across the full range of our technologies, products, and services.

Mitsui Chemicals' Industrial Chemicals Division received the Best Performance Award at the fiscal 2015 awards ceremony for business partners held by Kao Corporation's Purchasing Division on March 3, 2016. We received high marks for rapidly meeting customer needs in such areas as maintaining safe production and stable supply on a daily basis as well as readily responding to production increases and new subcontractors. In addition, we have certified our supply chains ahead of the competition with the Roundtable on Sustainable Palm Oil, which is promoted by Kao.



With Our Suppliers

As we rely on our suppliers to help us to enhance the Group's corporate value through our purchasing activities, we regard all of our suppliers as good partners. We always deal with our suppliers fairly and in good faith and make every effort to ensure the mutually sustainable development of our corporate activities. As such, all purchasing divisions within the Mitsui Chemicals Group engage in purchasing activities in accordance with the following Purchasing Policy.

1. Legal compliance
2. Equal opportunities and transparency
3. Harmony with the environment
4. CSR-oriented selection



A quality assurance seminar for packaging material partners

With Employees

The Group is committed to giving its employees a sense of personal and professional motivation, with the goal of helping them find happiness and self-fulfillment. Placing top priority on ensuring occupational health, we encourage our employees to take good care of their health and make every effort to provide appropriate working environments.

We are committed to reducing occupational health risks and improving working conditions via the Occupational Safety and Health Management System scheme and through onsite inspections conducted by industrial physicians and health care managers.



The Group strives to ensure that our sites are always open to the local community. We are committed to maintaining communication with members of the local community at all of our sites, organizing a range of initiatives for the environment and children, who are the future leaders of society, and working in harmony with local communities.

With the idea of raising awareness of the numerous living things other than pests that inhabit rice fields, the group company Mitsui Chemicals Agro, Inc. has been conducting the Wildlife Survey on Rice Fields using its own products since 2012. Through these surveys, the company provides opportunities for children to learn about biodiversity.



A wildlife survey under way in a rice field

Board of Directors



Representative Director, Member of the Board President & CEO

Tsutomu Tannowa

Apr. 1976 Joined Mitsui Toatsu Chemicals, Inc.
Apr. 2007 Executive Officer of the Company
Apr. 2010 Managing Executive Officer of the Company
Jun. 2012 Member of the Board, Managing Executive Officer of the Company
Apr. 2013 Member of the Board, Senior Managing Executive Officer of the Company
Apr. 2014 President & CEO of the Company (to present)



Representative Director, Member of the Board Executive Vice President

Masaharu Kubo

Apr. 1980 Joined the Company
Apr. 2010 Executive Officer of the Company General Manager, Corporate Administration Div.
Apr. 2013 Managing Executive Officer of the Company
Jun. 2013 Member of the Board, Managing Executive Officer of the Company
Apr. 2014 Member of the Board, Senior Managing Executive Officer of the Company
Apr. 2016 Representative Director, Member of the Board, Senior Managing Executive Officer of the Company
Apr. 2017 Representative Director, Member of the Board, Executive Vice President of the Company (to present)



Representative Director, Member of the Board Senior Managing Executive Officer

Shigeru Isayama

Apr. 1980 Joined the Company
Apr. 2007 Executive Officer of the Company General Manager, Information & Electronics Materials Div., Performance Materials Business Sector
Apr. 2009 Executive Officer of the Company General Manager, Business Planning & Development Div., Performance Materials Business Sector
Jun. 2009 Member of the Board of the Company Business Sector Vice President, Performance Materials Business Sector, and General Manager, Business Planning & Development Div., Performance Materials Business Sector
Jun. 2011 Assistant to the President of the Company Representative in the Americas, and General Manager, Mitsui Chemicals America, Inc.
Apr. 2013 Managing Executive Officer of the Company
Jun. 2013 Member of the Board, Managing Executive Officer of the Company
Apr. 2016 Representative Director, Member of the Board, Senior Managing Executive Officer of the Company (to present)



Member of the Board Senior Managing Executive Officer

Hideki Matsuo

Apr. 1982 Joined Mitsui Toatsu Chemicals, Inc.
Apr. 2013 Executive Officer of the Company Center Executive, Production & Technology Center
Apr. 2014 Managing Executive Officer of the Company Center Executive, Production & Technology Center
Jun. 2016 Member of the Board, Managing Executive Officer of the Company Center Executive, Production & Technology Center
Apr. 2017 Member of the Board, Senior Managing Executive Officer of the Company Center Executive, Production & Technology Center (to present)

Audit & Supervisory Board Members



Corporate Auditor

Akio Ayukawa

Apr. 1975 Joined the Company
Jun. 2011 Executive Officer of the Company Business Sector President, Petrochemicals Business Sector
Jun. 2012 Managing Executive Officer of the Company Business Sector President, Petrochemicals Business Sector
Apr. 2014 Managing Executive Officer of the Company
Jun. 2014 Member of the Board, Managing Executive Officer of the Company
Apr. 2015 Member of the Board, Senior Managing Executive Officer of the Company
Jun. 2016 Corporate Auditor (to present)



Corporate Auditor

Yasushi Nawa

Apr. 1978 Joined the Company
Jun. 2005 General Manager, Functional Fabricated Products Business Div., Functional Chemicals Business Group of the Company
Apr. 2007 Deputy General Manager of Mitsui Chemicals Asia Pacific, Ltd.
Apr. 2008 General Manager of Mitsui Chemicals Asia Pacific, Ltd.
Apr. 2009 Contract Assistant to Executive Officer of the Company General Manager of Mitsui Chemicals Asia Pacific, Ltd.
Oct. 2009 Executive Officer of the Company General Manager, New Business Development Div.
Apr. 2012 Contract Assistant to Executive Officer of the Company General Manager of Mitsui Chemicals Asia Pacific, Ltd.
Apr. 2014 Executive Officer of the Company Representative in Asia and General Manager of Mitsui Chemicals Asia Pacific, Ltd.
Apr. 2015 Retired as Executive Officer of the Company Assistant to the President of the Company
Jun. 2015 Corporate Auditor of the Company (to present)

Executive Officers



President & CEO

Tsutomu Tannowa

Overall corporate and group management



Executive Vice President

Yasuji Omura

Business Sector President, Basic Materials Business Sector



Executive Vice President

Masaharu Kubo

Executive Advisor (CFO), Responsibilities: Corporate Administration & Legal Division, Finance & Accounting Division, CSR Committee, Risk Compliance Committee



Senior Managing Executive Officer

Shigeru Isayama

Executive Advisor, (CTO), Responsibilities: New Mobility Business Development Division, Next Generation Business Development Division, Robot Materials Business Development Division, R&D Center, Intellectual Property Division



Senior Managing Executive Officer

Hideki Matsuo

Center Executive, Production & Technology Center Responsibilities: Fabricated Products Business Coordination Division, Works



Managing Executive Officer

Takayoshi Shimogori

Business Sector President, Food & Packaging Business Sector Business Sector President, Mobility Business Sector



Managing Executive Officer

Shinji Ogawa

Responsibilities: RC & Quality Assurance Division, Purchasing Division, Logistics Division, Information System Division, Responsible Care Committee



Managing Executive Officer

Shin Fukuda

Center Executive, R&D Center



Managing Executive Officer

Osamu Hashimoto

Business Sector President, Health Care Business Sector General Manager, New Health Care Business Development Division Responsibilities: H-Project Division



Member of the Board
Managing Executive Officer

Takayoshi Shimogori

Apr. 1985 Joined the Company
Apr. 2012 Senior Director of the Company
General Manager, Performance Compound Div.,
Functional Polymeric Materials Business Sector
Apr. 2014 Executive Officer of the Company
General Manager, Performance Compound Div.,
Functional Polymeric Materials Business Sector
Apr. 2015 Executive Officer of the Company
Business Sector President, Functional
Polymeric Materials Business Sector
Apr. 2016 Managing Executive Officer of the Company
Business Sector President,
Mobility Business Sector
Apr. 2017 Managing Executive Officer of the Company
Business Sector President, Food & Packaging
Business Sector, and Business Sector
President, Mobility Business Sector
Jun. 2017 Member of the Board, Managing Executive
Officer of the Company
Business Sector President, Food & Packaging
Business Sector, and Business Sector
President, Mobility Business Sector (to present)

Independent Officers



Member of the Board
Outside Director

Yukiko Kuroda

Apr. 1986 Joined Sony Corporation
Jan. 1991 Representative Director of People Focus
Consulting
Jun. 2010 Outside Audit & Supervisory Board Member
of Astellas Pharma Inc.
Mar. 2011 Outside Director of CAC Corporation
(currently CAC Holdings Corporation)
(to present)
Apr. 2012 Managing Director and Founder of People
Focus Consulting (to present)
Jun. 2013 Outside Director of Marubeni Corporation
Jun. 2015 Member of the Board of the Company
(to present)



Member of the Board
Outside Director

Hajime Bada

Apr. 1973 Joined Kawasaki Steel Corporation (currently
JFE Steel Corporation)
Jun. 2000 Director of Kawasaki Steel Corporation
Apr. 2003 Senior Vice President of JFE Steel
Corporation
Apr. 2005 Representative Director, President and
CEO of JFE Steel Corporation
May 2006 Chairman of The Japan Iron and Steel
Federation
Apr. 2010 Representative Director, President and
CEO of JFE Holdings, Inc.
Apr. 2015 Director of JFE Holdings, Inc.
Jun. 2015 Advisor of JFE Holdings, Inc. (to present)
Jun. 2016 Member of the Board of the Company
(to present)
Jun. 2016 Outside Corporate Auditor of ASAGAMI
CORPORATION (to present)



Member of the Board
Outside Director

Hiromi Tokuda

Apr. 1971 Joined Nippondenso Co., Ltd.
(currently DENSO CORPORATION)
Jun. 2000 Director of DENSO CORPORATION
Jun. 2004 Managing Officer of DENSO CORPORATION
Jun. 2006 Senior Managing Director of
DENSO CORPORATION
Jun. 2008 Executive Vice President of
DENSO CORPORATION
Jun. 2011 President and CEO, Representative Director
of Nippon Soken, Inc. (currently SOKEN, Inc.)
Jun. 2014 Advisor, Senior Technical Executive of
DENSO CORPORATION
Jun. 2016 Member of the Board of the Company
(to present)
Jun. 2016 Advisor of DENSO CORPORATION
(to present)

Independent Officers



Outside Corporate Auditor

Hiroki Nishio

Apr. 1974 Joined the Mitsui Bank, Limited
Apr. 2007 Senior Managing Director of Sumitomo Mitsui Banking Corporation
Jun. 2008 Representative Director and Senior Managing Director of
Sumitomo Mitsui Financial Group, Inc.
Jun. 2009 Corporate Auditor of Sumitomo Mitsui Financial Group, Inc.
Corporate Auditor of Sumitomo Mitsui Banking Corporation
Jun. 2011 Representative Director and President of Muromachi Co., Ltd.
Representative Director and President of Muromachi Building
Co., Ltd.
Jun. 2014 Outside Director of SANKI ENGINEERING CO., LTD. (to present)
Jun. 2015 Corporate Auditor of the Company (to present)
Jun. 2016 Special Advisor of Muromachi Co., Ltd. (to present)



Outside Corporate Auditor

Katsuyoshi Shinbo

Apr. 1984 Registered as an attorney
Nov. 1999 Attorney at Shinbo Law Office
(currently Shinbo & Partners) (to present)
Jun. 2015 Outside Corporate Auditor of Sumitomo Mitsui Banking
Corporation (to present)
Jun. 2017 Corporate Auditor of the Company (to present)



Outside Corporate Auditor

Shozo Tokuda

Nov. 1981 Joined Asahi Accounting Company (currently KPMG AZSA LLC)
Aug. 1985 Registered as a certified public accountant
Jul. 2002 Representative Partner of Asahi & Co. (currently KPMG AZSA LLC)
Jun. 2006 Board Member of KPMG AZSA & Co. (currently KPMG AZSA LLC)
Jun. 2010 Senior Board Member of KPMG AZSA & Co. (currently KPMG AZSA LLC)
Jul. 2015 Senior Partner of KPMG AZSA LLC (to present)
Jun. 2017 Outside Corporate Auditor of ITOCHU ENEX CO., LTD. (to present)
Jun. 2017 Corporate Auditor of the Company (to present)

Executive Officer	Akihiro Ichimura	Representative in Europe President, Mitsui Chemicals Europe
Executive Officer	Yasunori Nishiyama	Representative in the Americas President, Mitsui Chemicals America President, Whole You
Executive Officer	Akira Misawa	CEO & Chairman, Kulzer
Executive Officer	Koichiro Sato	Business Sector Vice President, Mobility Business Sector Responsibilities: Nagoya Branch
Executive Officer	Junichi Mano	Business Sector Vice President, Basic Materials Business Sector
Executive Officer	Yoshihisa Fujimaki	President, Mitsui Chemicals Tohcello
Executive Officer	Hiroshi Tsunashima	General Manager, Osaka Works
Executive Officer	Keishi Susowake	General Manager, Omuta Works

Executive Officer	Satoshi Ozawa	Executive Vice President, Mitsui Chemicals Agro
Executive Officer	Tadashi Yoshino	Business Sector Vice President, Basic Materials Business Sector Responsibilities: Osaka Branch, Fukuoka Branch
Executive Officer	Yoshinori Andou	General Manager, Human Resources Division Responsibilities: Mitsui Chemicals Asia Pacific, Mitsui Chemicals China, Mitsui Chemicals America, Mitsui Chemicals Europe, Affiliates Coordination Division
Executive Officer	Akio Hirahara	General Manager, Corporate Planning Division
Executive Officer	Ichiro Kondo	General Manager, Ichihara Works
Executive Officer	Yasuhiro Hosomi	General Manager, Iwakuni-Ohtake Works
Executive Officer	Takehiko Takagi	General Manager, Nagoya Works General Manager, Fabricated Products Business Coordination Division
Executive Officer	Akihiro Tachibana	Business Sector Vice President, Health Care Business Sector General Manager, Nonwovens Division, Health Care Business Sector
Executive Officer	Hajime Nakajima	General Manager, Finance & Accounting Division
Executive Officer	Hiroshi Nishio	General Manager, Internal Control Division

Corporate Data

(As of March 31, 2017)

Date Incorporated

July 25, 1947

(Inaugurated October 1, 1997)

Paid-in Capital

¥125,053 million

Number of Employees

13,423 (Consolidated)

Shares of Common Stock Issued and Outstanding

1,022,020,076

Number of Shareholders

65,074

Stock Listing

Tokyo

Transfer Agent

Sumitomo Mitsui Trust Bank, Limited

Offices

Head Office

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Minato-ku, Tokyo 105-7122, Japan

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Oststrasse 10, 40211 Düsseldorf, Germany

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Facsimile: +49-211-17332-701

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3 HarbourFront Place, #10-01 HarbourFront Tower 2,
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Phone: +65-6534-2611

Facsimile: +65-6535-5161

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Mitsui Chemicals (China) Co., Ltd.
Room 2501, Bank of China Tower,
200 Yin Cheng Road, Central,
Pudong New Area, Shanghai 200120, China

Phone: +86-21-5888-6336

Facsimile: +86-21-5888-6337

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Management's Discussion and Analysis

Overview

In the fiscal period under review (the twelve-month period from April 1, 2016 to March 31, 2017, hereinafter “fiscal 2016”), the economy of the United States and Europe continued to improve, backed by firm personal consumption, while China and emerging markets experienced stagnation and deceleration in certain areas. Furthermore, careful attention needs to be paid to fluctuations in the global economy, including those caused by the United Kingdom’s decision to leave the European Union and the U.S. presidential election.

In Japan, despite signs of delayed recovery in some sectors, the economy continued to gradually improve amid rising employment and incomes.

In the domestic chemical industry, domestic naphtha crackers operated at a consistently high capacity due to steady crude oil prices and the effects of business structure improvement, including a reduction in superfluous domestic facilities.

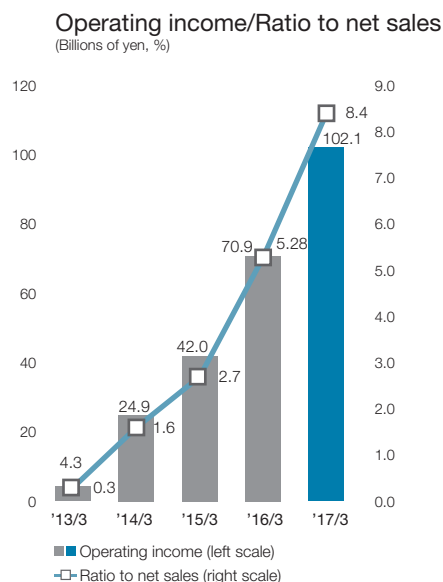
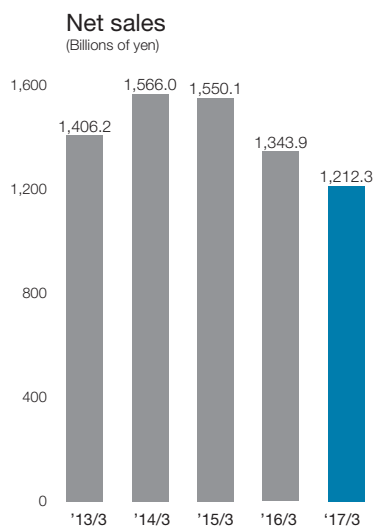
Under these circumstances, as outlined in the 2014 Mid-Term Business Plan, the Mitsui Chemicals Group (hereinafter “the Group”) worked to intensively expand business in the three business domains for growth of Mobility, Health Care, and Food & Packaging while also steadily carrying out business restructuring in the area of Basic Materials. In fiscal 2016, the final year of the business plan, we established a framework to support operations in the four business domains while promoting the plan’s basic strategies and undertaking the efforts outlined below. In addition, we formulated a long-term business plan with an eye to fiscal 2025, aiming to achieve greater sustained growth.

In Mobility, functional polymeric materials products—especially polypropylene compounds and elastomers—have contributed to steady returns on growth-oriented investments. The aim of these investments was to capture increased demand driven by expanding automobile sales. In particular, demand for polypropylene compounds is expected to rise further due mainly to the trend toward lighter automobiles. To ensure its world-class supply capability, the Group decided to expand its production capacity to a total of 1,050 thousand tons across eight regions around the world.

In Health Care, sales of ophthalmic lens materials were healthy and, with the start of large-scale equipment operations in March 2016, we established a supply system capable of supporting further sales expansion. We boosted the production capacity of our nonwoven fabric facilities in Thailand and China as well as in Nagoya and Yokkaichi to meet the ongoing rise in demand for premium disposable diapers—the main application for this material. In dental materials, the Group is working hard to promote sustainable growth, including through an enhancement of its sales framework.

In Food & Packaging, we continued to expand our overseas agrochemical business during the fiscal year, establishing the India-based JV SOLINNOS Agro Science Private Limited with PI Industries Limited and promoting business and capital alliances with Cuulong Joint Stock Company in Vietnam and Belchim Crop Protection NV in Europe. In the packaging field, we stepped up sales activities centered on performance films and sheets to capture stable domestic demand and accelerated the development of applications for the world’s first eco-friendly high-performance polyurethane materials, FORTIMO™ and STABIO™.

In Basic Materials, which is centered on petrochemicals and basic chemicals, the positive effects of business structure improvement have been steadily materializing, with the establishment of an optimized domestic production system and efforts to maintain stable operations at full capacity.



Operating Results

Net Sales

Net sales decreased ¥131.6 billion, or 9.8%, compared with the previous fiscal year to ¥1,212.3 billion. This was attributable to a ¥102.5 billion yen decrease in sales prices and a ¥29.1 billion decrease in sales volume. Sales prices were lower because of the drop in the prices of naphtha, other raw materials, and fuel as well as changes in foreign exchange rates. Sales volume fell, due to the impact of the unification of accounting periods in the dental materials and other businesses and transfer of business in the Polyurethane segment in the previous fiscal year.

Net sales overseas were ¥515.2 billion, dropping 2.0 percentage points as a percentage of total net sales compared with the previous fiscal year to 42.5%.

Operating Income

Operating income was ¥102.1 billion, an increase of ¥31.2 billion or 44.0% year on year. This result was due to improvement in terms of trade and reduced fixed costs attributable to the effect of business structure improvement in the Basic Materials segment.

Ordinary Income

Ordinary income was ¥97.2 billion, an increase of ¥34.0 billion or 53.8% year on year. This result reflected an increase in operating income in addition to an increase in equity in earnings of affiliates.

Profit before Income Taxes

Extraordinary income and losses improved ¥10.5 billion year on year to a ¥11.4 billion loss, reflecting the booking of a goodwill impairment loss in the dental materials business in the previous fiscal year.

As a result of the aforementioned factors, profit before income taxes amounted to ¥85.8 billion, an improvement of ¥44.5 billion, or 107.7% year on year.

Profit Attributable to Owners of Parent

Profit attributable to owners of parent after accounting for income taxes and non-controlling interests was ¥64.8 billion, a rise of ¥41.8 billion, or 182.4% compared with the previous fiscal year. Earnings per share for the period was ¥64.81.

Segment Information

Business Segment Results

The status of each segment during fiscal 2016 is as follows.

With the aim of accelerating the business strategies outlined in the 2014 Mid-Term Business Plan, the Group undertook minor reorganization in some of its business segments on April 1, 2016. Specifically, overseas polypropylene compound businesses, which had been components of the Petrochemicals segment, were integrated with the former Functional Polymeric Materials segment, which, in turn, has been reclassified as the Mobility segment. Moreover, the Group reclassified the Food & Packaging segment by incorporating the coatings & engineering materials business that had been a part of the Polyurethane segment. The former Basic Chemicals segment was integrated with the Petrochemicals segment—after relocating its overseas polypropylene compound businesses—as well as the polyurethane materials business, which had been a part of the Polyurethane segment, thereby forming the new Basic Materials segment.

Accordingly, segment information for the corresponding period of the previous fiscal year is based on this reclassification.

Mobility

Net sales decreased ¥24.9 billion compared with the previous fiscal year to ¥293.3 billion and comprised 24% of total sales. Operating income decreased ¥4.2 billion to ¥40.7 billion year on year. The decrease in income, occurring despite an increase in sales volume, was due to the effect of a stronger yen and the unfavorable trading terms.

In elastomers, which are primarily used in automotive components and as resin modifiers, business performance was affected by the unfavorable trading terms and the stronger yen despite healthy sales.

In performance compounds, sales expanded in spite of the impact of the stronger yen due to the start-up of a subsidiary in China.

In functional polymers, which are primarily used in ICT (information communications technology) products, business performance was affected by the stronger yen despite healthy sales.

In the overseas polypropylene compound businesses, although the automobile industry saw production volumes increase, mainly in North America, trading terms turned unfavorable due, in part, to the impact of the stronger yen.

Mobility	Millions of yen		Change (%)
	2017/3	2016/3	
Net sales	¥293,283	¥318,224	(7.8)
Operating income (loss)	40,716	44,943	(9.4)
Total assets	241,814	242,495	(0.3)
Depreciation and amortization	9,241	10,427	(11.4)
Capital expenditures	10,447	6,722	55.4

Health Care

Net sales decreased ¥26.9 billion year on year to ¥134.2 billion and comprised 11% of total sales. Operating income decreased ¥1.5 billion compared with the previous fiscal year to ¥10.1 billion, mainly due to the decrease in sales volume of nonwoven fabrics although vision care materials enjoyed healthy sales and fixed costs associated with dental materials were reduced.

In vision care materials, sales of ophthalmic lens materials were healthy.

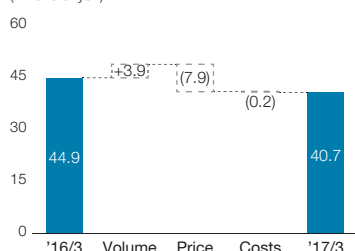
In nonwoven fabrics, consumption of premium disposable diapers remained firm, but the sales volume was impacted by the depletion of distribution stock.

In dental materials, although the volume of sales was down due to the unification of accounting periods in the previous fiscal period, sales were healthy, particularly in Europe and North America. Because of the impairment loss booked in the previous fiscal year, amortization expenses of goodwill and other fixed expenses decreased.

Health Care	Millions of yen		Change (%)
	2017/3	2016/3	
Net sales	¥134,198	¥161,139	(16.7)
Operating income (loss)	10,118	11,538	(12.3)
Total assets	206,186	213,192	(3.3)
Depreciation and amortization	10,197	13,042	(21.8)
Capital expenditures	8,745	6,153	42.1

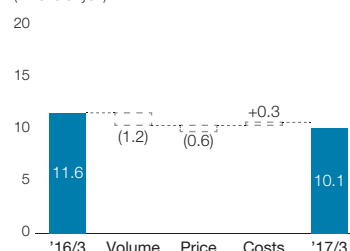
Mobility (Change in operating income)

(Billions of yen)



Health Care (Change in operating income)

(Billions of yen)



Food & Packaging

Net sales decreased ¥12.7 billion compared with the previous fiscal year to ¥182.5 billion and comprised 15% of total sales. On the other hand, operating income increased ¥0.8 billion to ¥20.6 billion year on year due to healthy sales in some areas.

In coatings & engineering materials, sales were healthy.

In performance films and sheets, sales of packaging materials were healthy.

In agrochemicals, the sales volume decreased overseas. Performance was affected by the stronger yen.

Food & Packaging	Millions of yen		Change (%)
	2017/3	2016/3	
Net sales	¥182,468	¥195,240	(6.5)
Operating income (loss)	20,606	20,271	1.7
Total assets	209,310	207,216	1.0
Depreciation and amortization	6,687	7,131	(6.2)
Capital expenditures	7,145	8,901	(19.7)

Basic Materials

Net sales decreased ¥65.2 billion compared with the previous fiscal year to ¥565.6 billion and accounted for 47% of total sales. On the other hand, operating income increased ¥37.5 billion year on year, to ¥38.5 billion. This was mainly attributable to the effect of business structure improvement and firm domestic demand.

Naphtha cracker operating rates grew compared with the same period of the previous fiscal year. The performances of polyethylene and polypropylene were firm, backed by domestic demand.

In phenols, the market environment was severe in comparison with the previous fiscal year. The effect of business structure improvement gradually emerged.

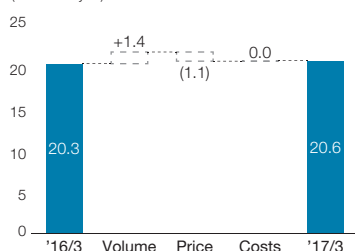
In purified terephthalic acid (PTA), although conditions remained severe mainly due to market stagnation in China, the effect of business structure improvement gradually emerged.

In polyurethane materials, operating income improved, mainly due to the reduction of fixed costs resulting from business structure improvement.

Basic Materials	Millions of yen		Change (%)
	2017/3	2016/3	
Net sales	¥565,617	¥630,744	(10.3)
Operating income (loss)	38,504	1,055	3,550
Total assets	544,307	488,015	11.5
Depreciation and amortization	13,341	13,483	(1.1)
Capital expenditures	14,221	17,642	(19.4)

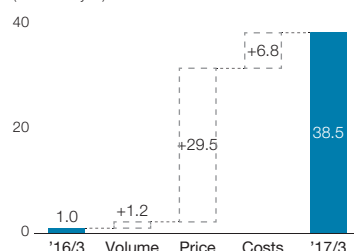
Food & Packaging (Change in operating income)

(Billions of yen)



Basic Materials (Change in operating income)

(Billions of yen)



Others

Net sales decreased ¥1.9 billion to ¥36.7 billion and comprised 3% of total sales. Operating loss was ¥0.3 billion, a worsening of ¥0.2 billion year on year.

Others	Millions of yen		
	2017/3	2016/3	Change (%)
Net sales	¥36,716	¥38,551	(4.8)
Operating income (loss)	(353)	(106)	—
Total assets	59,396	51,505	15.3
Depreciation and amortization	4,234	4,247	(0.3)
Capital expenditures	3,936	3,548	10.9

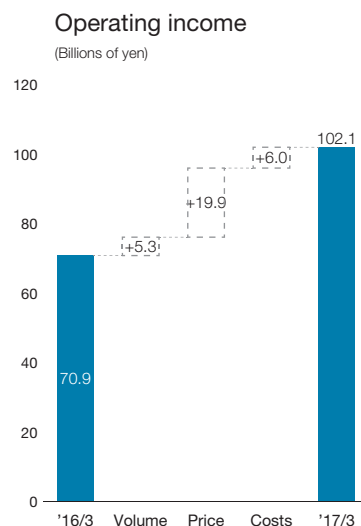
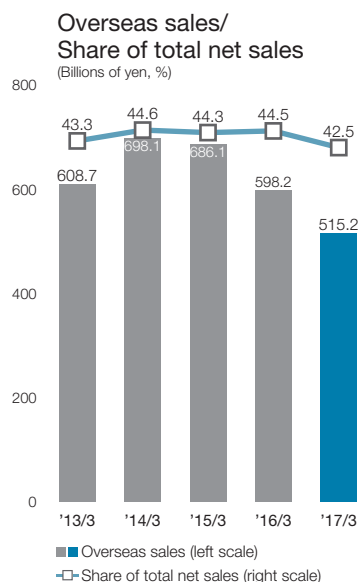
Net Sales

	Billions of yen				
	2017/3	2016/3	Increase (Decrease)		
			Total	Volume contribution	Price contribution
Mobility	¥ 293.3	¥ 318.2	¥ (24.9)	¥ 10.1	¥ (35.0)
Health Care	134.2	161.1	(26.9)	(14.4)	(12.5)
Food & Packaging	182.5	195.2	(12.7)	(0.2)	(12.5)
Basic Materials	565.6	630.8	(65.2)	(24.6)	(40.6)
Others	36.7	38.6	(1.9)	—	(1.9)
Total	¥1,212.3	¥1,343.9	¥(131.6)	¥(29.1)	¥(102.5)

Operating Income (Loss)

	Billions of yen					
	2017/3	2016/3	Increase (Decrease)			
			Total	Volume contribution	Price*	Fixed and other cost differential
Mobility	¥ 40.7	¥44.9	¥ (4.2)	¥ 3.9	¥ (7.9)	¥(0.2)
Health Care	10.1	11.6	(1.5)	(1.2)	(0.6)	0.3
Food & Packaging	20.6	20.3	0.3	1.4	(1.1)	0.0
Basic Materials	38.5	1.0	37.5	1.2	29.5	6.8
Others	(0.3)	(0.1)	(0.2)	—	—	(0.2)
Adjustments	(7.5)	(6.8)	(0.7)	—	—	(0.7)
Total	¥102.1	¥70.9	¥31.2	¥ 5.3	¥19.9	¥ 6.0

*Price = Price contribution + Variable cost differential



Financial Position

Assets

Total assets at the end of the fiscal year stood at ¥1,325.5 billion, an increase of ¥66.6 billion compared with the end of the previous fiscal year.

Liabilities

Total liabilities at the end of the fiscal year decreased ¥4.8 billion compared with the previous fiscal year-end to ¥810.9 billion. Interest-bearing debt amounted to ¥439.9 billion, a fall of ¥33.1 billion compared with March 31, 2016. As a result, the interest-bearing debt ratio was 33.2%, a decrease of 4.4 points.

Net Assets

Net assets totaled ¥514.6 billion, an increase of ¥71.4 billion compared with the previous fiscal year-end. The ratio of shareholders' equity to total assets was 33.9%, up 3.6 points from the previous fiscal year-end.

Accounting for the aforementioned factors, the net debt-equity ratio stood at 0.79 at the end of the fiscal year, down 0.24 point from the previous fiscal year-end.

Capital Resources and Liquidity

Cash Flows

Cash and cash equivalents (hereinafter called "cash") increased ¥4.7 billion to ¥82.9 billion as of the end of this fiscal year compared with the previous fiscal year-end.

Cash Flows from Operating Activities

Net cash provided by operating activities decreased ¥45.5 billion to ¥100.4 billion due to an increase in working capital.

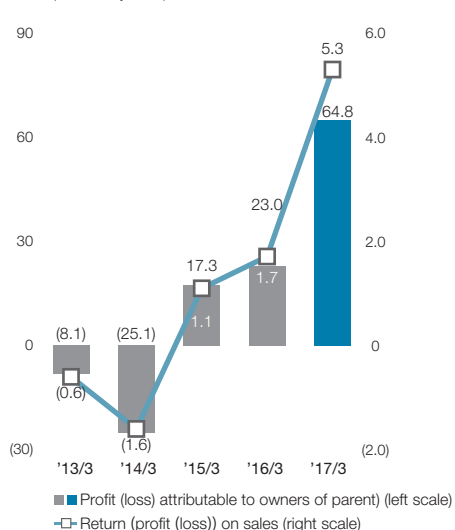
Cash Flows from Investing Activities

Net cash used in investing activities increased ¥11.0 billion compared with the previous fiscal year to ¥47.4 billion due to inflows from the transfer of the polyurethane materials business in the previous fiscal year.

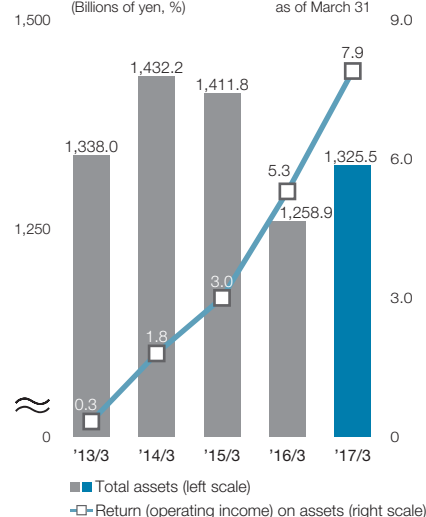
Cash Flows from Financing Activities

Net cash used in financing activities decreased ¥31.4 billion compared with the previous fiscal year to ¥47.6 billion due primarily to the decrease in repayments of interest-bearing debt.

Profit (loss) attributable to owners of parent
(Billions of yen, %)



Total assets/
Return (operating income) on assets
(Billions of yen, %) as of March 31



Cash Flows Related Performance Indicators

	2017/3	2016/3	2015/3	2014/3	2013/3
Shareholders' equity ratio (%)	33.9	30.3	28.8	24.6	28.2
Shareholders' equity ratio on a market value basis (%)	41.5	29.8	27.4	17.7	15.4
Ratio of interest-bearing debt to cash flows	4.4	3.2	9.4	13.4	27.4
Interest coverage ratio (times)	17.3	20.7	7.7	5.6	2.7

Notes: Shareholders' equity ratio: shareholders' equity to total assets.
 Shareholders' equity ratio on a market value basis: market capitalization to total assets.
 Ratio of interest-bearing debt to cash flows: interest-bearing debt to cash flows.
 Interest coverage ratio: cash flows to interest paid.
 Each of the indicators was calculated using consolidated financial figures.
 The market capitalization was calculated by multiplying the closing share price as of the end of the period with the number of shares outstanding (excluding treasury stock).
 Operating cash flow figures have been used for cash flow calculations.
 Interest-bearing debt is the portion of total debt booked on the consolidated balance sheet on which interest is being paid. Interest paid is the amount of interest paid as reported in the consolidated statements of cash flows.

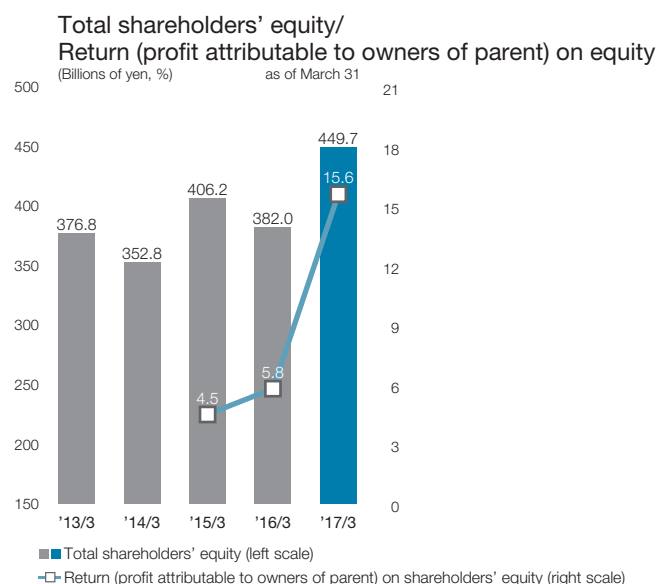
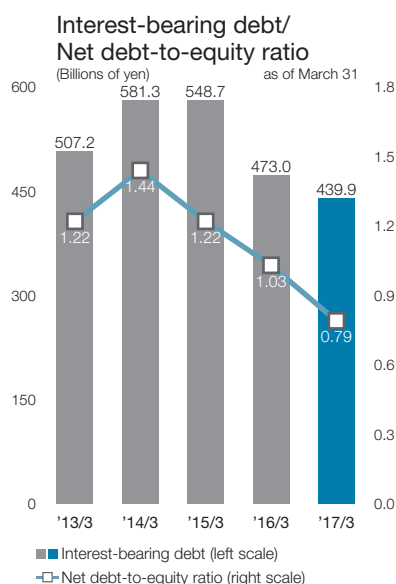
Fund Procurement

In connection with its fund procurement activities, the Group adopts the following basic policies.

1. Maintain a high credit rating so that low-cost funds can be procured, mainly through bonds, loans and commercial paper whenever necessary.
2. Utilize a certain level of indirect financing to preserve the stability of fund procurement activities.
3. Employ securitization and other schemes to liquidate assets in an effort to diversify fund procurement means.

Financial Liquidity

With regard to asset efficiency, the Group will ensure sufficient levels of liquidity in hand while at the same time securing alternative sources of fund procurement, including credit and overdraft facilities.



Capital Expenditures (Summary)

The Company and its consolidated subsidiaries undertook capital expenditures totaling ¥45.4 billion in fiscal 2016. This amount includes expenditures on intangible fixed assets as well as long-term prepaid expenses. Expenditures by business segment were as follows.

Mobility

At Advanced Composites, Inc., a production facility for polypropylene compound was under construction. The total amount of capital expenditures in the Mobility segment was ¥10.4 billion.

Health Care

At the Nagoya works and Sunrex Industry Co., Ltd., a nonwovens fabric production facility was under construction. The total amount of capital expenditures in the Health Care segment was ¥8.7 billion.

Food & Packaging

The total amount of capital expenditures in the Food & Packaging segment was ¥7.1 billion.

Basic Materials

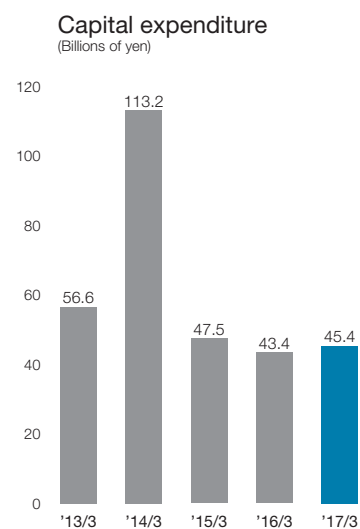
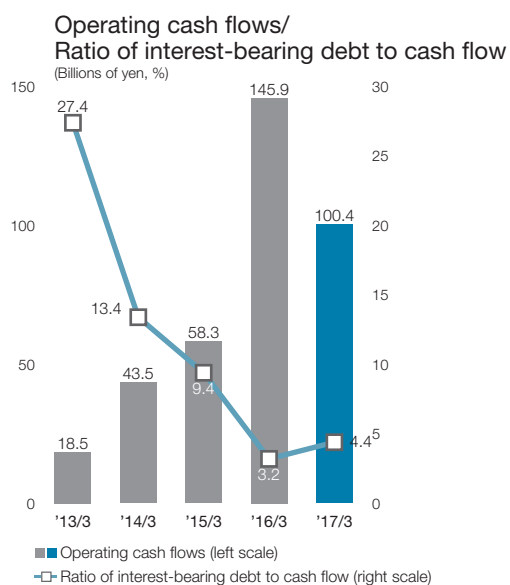
The total amount of capital expenditures in the Basic Materials segment was ¥14.2 billion.

Others

The total amount of capital expenditures in the Others segment was ¥3.9 billion.

Corporate Expenses

The total amount of capital expenditures recorded under corporate expenses was ¥0.9 billion and was related to the development of new businesses.



Research and Development

Research and development at Mitsui Chemicals, Inc. and its consolidated subsidiaries is conducted by their research and development divisions. The research and development expenses in the fiscal year ended March 31, 2017 amounted to ¥30.8 billion. The Group's research and development organizations are as listed as below:

- R&D Strategy Division
- Mitsui Chemicals Singapore R&D Center Pte. Ltd.
- Synthetic Chemicals Laboratory
- Polymeric Materials Laboratory
- Functional Materials Laboratory
- New Products Development laboratory
- Process Technology Center
- Advancing Analysis Laboratory
- R&D Administration Division

Major research and development issues confronting corporate research, development for new businesses and, each business sector, and their research and development expenses for fiscal 2016 are briefly stated as follows.

Corporate Research

The Company is playing a central role in the fundamental technology development for each segment's product family. The Company also engages in the basic research of computing science and advanced analytical technique to support its product development. Mitsui Chemicals Singapore R&D Centre Pte Ltd. is leading the basic research in consideration of new business creation in Asia.

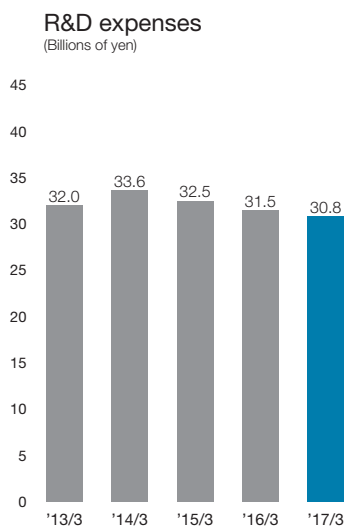
Research and development expenses relating to corporate research amounted to ¥3.8 billion and were allocated among all reportable segments.

Development for New Businesses

The Company is playing a central role in research and development activities by project, all of which are aimed at new businesses creation in the Mobility domain and the Health Care domain. In fiscal 2016, the Company worked on the development and assessment of metal and resin injection assembly technology, which lightens automobiles and improves mileage, components of lithium-ion batteries for a higher safety level, and technology development for solar power consultation.

In the Food & Packaging domain, the Company and Mitsui Chemicals Tohcello, Inc. collaborated in research and development for new business development.

Research and development expenses related to new businesses creation amounted to ¥2.8 billion. Those are presented in corporate expenses and other segments.



Mobility

The Company engages in the development of elastomers, performance compounds, and performance polymer resins in the Mobility domain. In fiscal 2016, the Company placed considerable weight on development activities encompassing new polyolefin elastomers for automobiles and packaging, engineering plastic compounds for use as heat-resistant materials for automobiles, and polyolefins for ICT.

Research and development expenses related to this segment were ¥6.6 billion.

Health Care

The Company engages in development in the Health Care domain in such areas as vision-care, oral-care materials, and highly functional non-woven fabrics for both hygiene material use and medical use. Kulzer GmbH and Sun Medical Co., Ltd. engage in the product development of dental materials. In fiscal 2016, efforts were mainly directed toward materials for glass lenses and dental materials.

Research and development expenses related to this segment were ¥3.9 billion.

Food & Packaging

Mitsui Chemicals Tohcello Inc. takes the lead in developing food packaging materials and fabricated products, including Food & Packaging in the fields of IT and energy. Mitsui Chemicals Agro, Inc. engages in agrochemical research and development. In fiscal 2016, priority was placed on food packaging materials, integrated circuit and semiconductor materials, solar cell components, highly-functional agrochemicals, and pesticides for disinfection.

Research and development expenses related to this segment were ¥9.3 billion.

Basic Materials

The Company engages in the research and development of phenol and its derivative products, industrial chemicals such as hydroquinone, purified terephthalic acid (PTA), and PET resin for strengthening its business in the Basic Materials domain.

In addition, Mitsui Chemicals & SKC Polyurethanes Inc. are active in the development of such functional products as polyurethane foam materials in the Mobility domain.

Also, together with Prime Polymer Co., Ltd. the Company is developing such highly-functional products as PP compounds in the Mobility domain and highly-functional catalysts that strengthen the competitiveness of its polyolefin resin in the Food & Packaging domain.

Research and development expenses related to this segment were ¥4.4 billion.

Business Risks

The Mitsui Chemicals Group recognizes that management activities may be threatened by a wide range of conceivable and apparent risks. For this reason, the Group is dedicated to crafting initiatives able to prevent or minimize the escalation of these risks.

The items detailed below represent some of the risks that could potentially and adversely impact the Group's future operating performance and financial position. Readers are cautioned that this partial list does not constitute all of the risks faced by the Group.

Please note that the risks discussed below were those deemed relevant as of March 31, 2017.

(1) External operating environment

The Mitsui Chemicals Group businesses may be influenced by certain elements of the operating environment outside of the Group, including customer, market, alliance partner trends and the business operations of rival firms as well as changes in legal systems. In the event that actual circumstances upon which the Group's business strategies are based change as a result of these environmental influences, the Group's ability to implement these strategies on schedule could be impaired, and anticipated results may not materialize. The Group takes into consideration risks posed by such unavoidable environmental changes. With respect to products, a variety of risks could conceivably result in a decline in profitability. These include, but are not limited to, an erosion of market demand, loss of customers, and deterioration in market conditions caused by oversupply due to increased production capacity at rival firms or the market entry of low-priced products. Profitability may also decline due to drastic changes in the cost of raw materials, as well as the impact of supply stoppages due to accidents or bankruptcies at raw material manufacturers. Other conceivable risks include an increase in the tax burden attributable to changes in legal systems. The occurrence of any or all of these risks could adversely impact the Group's business development as well as operating performance and financial position.

(2) Overseas activities (Country risk)

The Mitsui Chemicals Group is involved in a wide range of activities outside of Japan, from the export of products to production at overseas bases. These activities overseas are subject to various risks, including difficulties in securing personnel, deterioration in political and economic conditions, regulations regarding imports and foreign capital, deterioration in public safety and security, labor unrest, and the outbreak of terrorism or warfare. The occurrence of such risks could impair the Group's business activities overseas, which may adversely impact operating performance.

(3) Changes in laws and tightening of regulations

The business development of the Mitsui Chemicals Group is subject to a wide range of legal acts and ordinances, which include a variety of licensing and regulatory requirements. Consequently, the Group remains keenly aware that its continued survival as a corporation is contingent on strict compliance with laws and regulations. To this end, the Group has enacted training programs that incorporate examples of legal violations within and outside Mitsui Chemicals together with other initiatives aimed at promoting legal compliance.

Other risks faced by the Group are the prospect of major changes to or a tightening of laws relevant to the Group, or unexpected amendments to laws and regulations overseas. Restrictions placed on the Group's activities, as well as increased costs associated with compliance with amended laws or more stringent regulations, could impair the Group's business activities, thus adversely impacting operating performance and financial position.

(4) Causes of changes in segment operating performance

The Mitsui Chemicals Group engages in the manufacture and sale of a wide array of products led by mobility, health care, food & packaging and basic materials. Assumed risks for each key business are as follows.

i. Mobility

Mobility segment products are primarily produced from ethylene, propylene, and other naphtha derivatives. As described below, segment product earnings could be adversely impacted by temporary delays in passing higher raw material prices on to product prices in the event of a sharp increase in naphtha supply prices caused by circumstances in the Middle East or global economic conditions.

ii. Health Care

Health care segment product earnings could be adversely impacted by price competition caused by the business expansion of rivals.

iii. Food & Packaging

Performance films and sheets products are primarily produced from polyethylene, polypropylene and other naphtha derivatives handled by the Basic Materials segment. As described below, those product earnings could be adversely impacted by delays in passing higher raw material prices on to product prices in the event of a sharp swing in naphtha supply prices caused by circumstances in the Middle East or global economic conditions.

Agrochemicals earnings could be adversely affected by such factors as changing global weather patterns, the appearance of harmful insects, and fluctuations in the cost of tests required for the development and registration of new products.

iv. Basic Materials

Petrochemicals products are primarily produced from naphtha. Naphtha supply volume and prices could fluctuate sharply due to circumstances in the Middle East or global economic conditions. In the event of a sharp increase or decrease in naphtha prices, segment product earnings could be adversely impacted by delays in passing such fluctuations on to product prices, the emergence of inventory valuation losses, or other factors.

Basic chemicals products could be adversely impacted by a rapid deterioration in market conditions caused by an oversupply, as these products are vulnerable to fluctuations in this overcrowded market.

(5) Financial risks

Major financial risks faced by the Mitsui Chemicals Group are increased concerns about customer confidence due to deteriorating economic conditions, currency exchange losses due to dramatic fluctuations in exchange rates, and rising interest rates and a reluctance to lend by financial institutions with respect to fund procurement. The occurrence of any one of these risks could adversely impact the Group's financial position.

(6) Impairment of fixed assets

The Mitsui Chemicals Group has adopted the accounting standard for the impairment of fixed assets. Looking ahead, any downturn in profitability due to a marked deterioration in operating conditions or other factors, or drop in the market value of fixed assets held by the Group, may cause impairment losses to be recorded and have an adverse impact on the Group's operating performance and financial position.

(7) Impairment of marketable securities

The Mitsui Chemicals Group holds marketable securities with fair values that are mainly from its customers and financial institutions in order to maintain and strengthen relationships with them. Any incidence of impairment attributable to a substantial drop in the market prices of marketable securities held by the Group may adversely impact the Group's operating performance and financial position.

(8) Deferred tax assets

The Mitsui Chemicals Group determines the collectability of deferred tax assets based on forecasts and assumptions related to future taxable income. Any change in the forecasts and assumptions related to future taxable income may adversely impact the operating performance and financial position of the Group. Any change in a key parameter that is significant enough to require a revision of deferred tax asset calculations, such as a shift in the income tax rate due to an amendment to the taxation regulations, may also adversely impact the operating performance and financial position of the Group.

(9) Retirement benefits plans

The retirement benefit obligation and retirement benefit expenses applicable to employees and former employees of the Mitsui Chemicals Group are calculated on an actuarial valuation basis that incorporates a variety of factors, including a wide range of basic rates and pension asset investment yields. Any fluctuations in retirement benefit expenses attributable to such factors as a drop in the market values of pension assets, a change in the interest rate, or a revision to the retirement benefit plan may adversely impact the operating performance and financial position of the Group.

(10) Corporate acquisition, capital alliance and business reorganization

Aiming for a transformation of its business portfolio, the Mitsui Chemicals Group engages in a variety of activities, including the acquisition of companies and the establishment of business alliances. Any failures to realize the growth synergy benefits or other expected merits due to such factors as a deterioration in the operating environment of the Group and the companies in which it is invested, may adversely impact the operating performance and financial position of the Group.

In addition, business reorganization, along with the withdrawal from unprofitable businesses and the liquidation of subsidiaries or affiliates, may also adversely impact the operating performance and financial position of the Group.

(11) Accidents and disasters

In an effort to ensure workplace safety, the Mitsui Chemicals Group vigorously promotes OHSAS 18001 certification of the occupational health and safety management systems used in its production activities at works. Business continuity plans have also been formulated to quickly reestablish the business chain of command in the event that head office functions are affected by a major earthquake in the Tokyo metropolitan area. Nevertheless, the Group faces risks from a variety of unforeseen events, including damage to production facilities caused by natural disasters such as major earthquakes and typhoons, plant accidents, and accidents during the course of product transport or storage at warehousing facilities outside the Group. The occurrence of these risks may not only impede plant operations or the supply of products to customers, thereby adversely impacting the Group's operating performance and financial position, but could also potentially undermine the social standing of the Group.

(12) Quality

To uphold its quality assurance system, the Mitsui Chemicals Group vigorously promotes efforts to obtain ISO 9001 certification of the quality management systems at each of its plants. Nevertheless, the Group faces risks from the discovery of unforeseen quality defects in its products and product liability lawsuits. Because many of the Group's products are used as raw materials in finished consumer goods, the appearance of large-scale customer recalls due to product defects could potentially result in massive damages. The occurrence of these risks may not only adversely impact the Group's operating performance and financial position, but could also potentially undermine the social standing of the Group.

(13) The environment

As a group that handles a wide range of chemical substances, the Mitsui Chemicals Group has made harmony with the environment one of its long-term management targets. In addition to ensuring compliance with environmental laws and regulations, the Group promotes initiatives for reducing greenhouse gas (GHG) emissions and minimizing the amount of industrial waste sent to landfill for final disposal.

Environmental risks relevant to the Group include the incurrence of new social responsibilities due to tighter environmental regulations or changes in public sentiment regarding environmental protection, as well as the discovery of environmental pollution stemming from actions taken by the Group prior to the enactment of environmental laws. These and other situations could increase costs associated with legal compliance and environmental countermeasures and have other consequences, which could adversely impact the Group's operating performance and financial position.

(14) Intellectual property

Possessing a significant array of proprietary technologies and expertise, the Mitsui Chemicals Group manages information in accordance with strict rules. Nevertheless, information leaks could potentially occur due to unforeseen circumstances. In addition, the Group could potentially be subject to unfavorable court judgment in the event of a future legal dispute concerning intellectual property. The occurrence of such events could adversely impact the Group's operating performance and financial position.

Consolidated Balance Sheets

mitsui chemicals, inc. and consolidated subsidiaries
March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2017/3	2016/3	2017/3
ASSETS			
Current assets			
Cash and deposits (Note 13)	¥ 84,120	¥ 79,578	\$ 749,799
Notes and accounts receivable-trade	271,706	245,345	2,421,838
Inventories (Note 5)	247,544	240,686	2,206,471
Deferred tax assets (Note 18)	16,192	11,007	144,327
Accounts receivable-other	52,279	44,913	465,986
Other	7,628	7,480	67,992
Allowance for doubtful accounts	(531)	(799)	(4,733)
Total current assets	678,938	628,210	6,051,680
Non-current assets			
Property, plant and equipment			
Buildings and structures	335,957	328,354	2,994,536
Accumulated depreciation	(232,255)	(227,510)	(2,070,193)
Buildings and structures, net	103,702	100,844	924,343
Machinery, equipment and vehicles	988,248	979,458	8,808,699
Accumulated depreciation	(861,563)	(866,582)	(7,679,499)
Machinery, equipment and vehicles, net	126,685	112,876	1,129,200
Land	155,441	157,697	1,385,516
Construction in progress	11,465	31,307	102,193
Other	72,481	70,313	646,055
Accumulated depreciation	(60,345)	(59,635)	(537,882)
Other, net	12,136	10,678	108,173
Total property, plant and equipment	409,429	413,402	3,649,425
Intangible assets			
Goodwill	7,407	9,408	66,022
Other	27,781	30,765	247,625
Total intangible assets	35,188	40,173	313,647
Investments and other assets			
Investment securities (Notes 15 and 16)	141,873	124,942	1,264,578
Net defined benefit asset (Note 6)	31,103	17,571	277,235
Deferred tax assets (Note 18)	6,755	6,362	60,210
Other	24,610	29,070	219,360
Allowance for doubtful accounts	(2,371)	(782)	(21,134)
Total investments and other assets	201,970	177,163	1,800,249
Total non-current assets	646,587	630,738	5,763,321
Total assets	¥1,325,525	¥1,258,948	\$11,815,001

The accompanying notes are an integral part of these consolidated financial statements.

		Millions of yen		Thousands of U.S. dollars (Note 4)
		2017/3	2016/3	2017/3
LIABILITIES AND NET ASSETS	Current liabilities			
	Notes and accounts payable-trade	¥ 145,658	¥ 118,331	\$ 1,298,315
	Short-term loans payable (Note 7)	90,276	86,490	804,671
	Current portion of long-term loans payable (Note 7)	18,582	25,892	165,630
	Current portion of bonds payable (Note 7)	24,142	20,142	215,189
	Accounts payable-other	69,531	71,744	619,761
	Income taxes payable (Note 18)	5,735	5,886	51,119
	Provision for directors' bonuses	140	164	1,248
	Provision for repairs	12,173	8,129	108,503
	Provision for business structure improvement	—	234	—
	Other (Notes 7 and 18)	26,546	27,247	236,615
	Total current liabilities	392,783	364,259	3,501,052
	Non-current liabilities			
	Bonds payable (Note 7)	35,574	59,716	317,087
	Long-term loans payable (Note 7)	268,654	279,583	2,394,634
	Deferred tax liabilities (Note 18)	24,169	19,791	215,429
	Provision for directors' retirement benefits	251	277	2,237
	Provision for repairs	3,878	4,251	34,566
	Provision for environmental measures	732	786	6,525
	Provision for business structure improvement	—	2,648	—
	Net defined benefit liability (Note 6)	55,200	59,659	492,022
	Asset retirement obligations	4,196	3,991	37,401
Other (Notes 7 and 18)	25,453	20,750	226,875	
Total non-current liabilities	418,107	451,452	3,726,776	
Total liabilities	810,890	815,711	7,227,827	
Net assets				
Shareholders' equity (Note 11)				
Capital stock	125,053	125,053	1,114,654	
Capital surplus	90,491	90,847	806,587	
Retained earnings	236,961	181,128	2,112,140	
Treasury stock	(14,708)	(14,607)	(131,099)	
Total shareholders' equity	437,797	382,421	3,902,282	
Accumulated other comprehensive income (Note 12)				
Valuation difference on available-for-sale securities	20,337	14,650	181,273	
Deferred gains or losses on hedges	(25)	(48)	(223)	
Foreign currency translation adjustment	4,211	8,930	37,534	
Remeasurements of defined benefit plans	(12,628)	(23,982)	(112,559)	
Total accumulated other comprehensive income (loss)	11,895	(450)	106,025	
Non-controlling interests	64,943	61,266	578,866	
Total net assets	514,635	443,237	4,587,174	
Total liabilities and net assets	¥1,325,525	¥1,258,948	\$11,815,001	

Consolidated Statements of Operations

mitsui chemicals, inc. and consolidated subsidiaries
For the years ended March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2017/3	2016/3	2017/3
Net sales	¥1,212,282	¥1,343,898	\$10,805,615
Cost of sales (Notes 6 and 9)	919,268	1,069,451	8,193,850
Gross profit	293,014	274,447	2,611,765
Selling, general and administrative expenses (Notes 6 and 9)	190,865	203,521	1,701,265
Operating income	102,149	70,926	910,500
Non-operating income and expenses			
Non-operating income			
Interest income	941	637	8,388
Dividends income	2,679	3,434	23,879
Rent income	718	711	6,400
Share of profit of entities accounted for using equity method	208	—	1,854
Other	2,136	3,491	19,039
Total non-operating income	6,682	8,273	59,560
Non-operating expenses			
Interest expenses	5,749	6,623	51,243
Loss on suspension of operations	557	1,222	4,965
Share of loss of entities accounted for using equity method	—	2,150	—
Foreign exchange losses	1,257	1,929	11,204
Provision of allowance for doubtful accounts	1,370	—	12,211
Other	2,702	4,092	24,085
Total non-operating expenses	11,635	16,016	103,708
Ordinary income	97,196	63,183	866,352
Extraordinary income and losses			
Extraordinary income			
Gain on sales of non-current assets	253	1,236	2,255
Gain on sales of investment securities	2,381	3,820	21,223
Gain on transfer of business	—	3,738	—
Total extraordinary income	2,634	8,794	23,478
Extraordinary losses			
Loss on disposal of non-current assets	7,375	5,277	65,737
Loss on sales of non-current assets	10	293	89
Impairment loss (Note 10)	4,111	24,060	36,643
Loss on valuation of investment securities	196	—	1,747
Loss on restructuring of subsidiaries and affiliates	—	1,045	—
Contract termination fees	2,366	—	21,089
Total extraordinary losses	14,058	30,675	125,305
Profit (loss) before income taxes	85,772	41,302	764,524
Income taxes - current	15,704	15,840	139,976
Income taxes - deferred	(3,789)	(4,005)	(33,773)
Total income taxes	11,915	11,835	106,203
Profit (loss)	73,857	29,467	658,321
Profit (loss) attributable to non-controlling interests	9,018	6,504	80,382
Profit (loss) attributable to owners of parent	¥ 64,839	¥ 22,963	\$ 577,939

Amounts per share of common stock:

	Yen		U.S. dollars (Note 4)
Earnings per share	¥64.81	¥22.95	\$0.578
Cash dividends per share	14.00	8.00	0.125

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Comprehensive Income

MITSUI CHEMICALS, INC. AND CONSOLIDATED SUBSIDIARIES
For the years ended March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2017/3	2016/3	2017/3
Profit (loss)	¥73,857	¥ 29,467	\$658,321
Other comprehensive income (loss) (Note 12)			
Valuation difference on available-for-sale securities	5,647	(6,624)	50,334
Deferred gains or losses on hedges	0	413	0
Foreign currency translation adjustments	(3,870)	(20,275)	(34,495)
Remeasurements of defined benefit plans	11,380	(13,472)	101,435
Share of other comprehensive income (loss) of entities accounted for using equity method	(1,614)	(3,905)	(14,386)
Total other comprehensive income (loss)	11,543	(43,863)	102,888
Comprehensive income (loss)	¥85,400	¥(14,396)	\$761,209
Comprehensive income (loss) attributable to:			
Owners of parent	¥77,184	¥(16,650)	\$687,976
Non-controlling interests	8,216	2,254	73,233

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Changes in Net Assets

MITSUI CHEMICALS, INC. AND CONSOLIDATED SUBSIDIARIES
For the years ended March 31, 2017 and 2016

	Millions of yen									
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Non-controlling interests	Total net assets
Balance at April 1, 2015	¥125,053	¥91,065	¥165,408	¥(14,454)	¥21,018	¥(331)	¥28,926	¥(10,450)	¥65,064	¥471,299
Cumulative effects of changes in accounting policies	—	—	(212)	—	—	—	—	—	—	(212)
Restated balance	125,053	91,065	165,196	(14,454)	21,018	(331)	28,926	(10,450)	65,064	471,087
Dividends of surplus	—	—	(7,006)	—	—	—	—	—	—	(7,006)
Profit attributable to owners of parent	—	—	22,963	—	—	—	—	—	—	22,963
Purchase of treasury stock	—	—	—	(161)	—	—	—	—	—	(161)
Disposal of treasury stock	—	—	(1)	8	—	—	—	—	—	7
Change in ownership interest of parent related to transactions with non-controlling interests	—	(218)	—	—	—	—	—	—	—	(218)
Change of scope of equity method	—	—	(24)	—	—	—	—	—	—	(24)
Net changes of items other than shareholders' equity	—	—	—	—	(6,368)	283	(19,996)	(13,532)	(3,798)	(43,411)
Balance at April 1, 2016	¥125,053	¥90,847	¥181,128	¥(14,607)	¥14,650	¥(48)	¥8,930	¥(23,982)	¥61,266	¥443,237
Cumulative effects of changes in accounting policies	—	—	—	—	—	—	—	—	—	—
Restated balance	125,053	90,847	181,128	(14,607)	14,650	(48)	8,930	(23,982)	61,266	443,237
Dividends of surplus	—	—	(9,005)	—	—	—	—	—	—	(9,005)
Profit attributable to owners of parent	—	—	64,839	—	—	—	—	—	—	64,839
Purchase of treasury stock	—	—	—	(103)	—	—	—	—	—	(103)
Disposal of treasury stock	—	—	(1)	2	—	—	—	—	—	1
Change in ownership interest of parent related to transactions with non-controlling interests	—	(356)	—	—	—	—	—	—	—	(356)
Change of scope of equity method	—	—	—	—	—	—	—	—	—	—
Net changes of items other than shareholders' equity	—	—	—	—	5,687	23	(4,719)	11,354	3,677	16,022
Balance at March 31, 2017	¥125,053	¥90,491	¥236,961	¥(14,708)	¥20,337	¥(25)	¥4,211	¥(12,628)	¥64,943	¥514,635

	Thousands of U.S. dollars (Note 4)									
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Non-controlling interests	Total net assets
Balance at April 1, 2016	\$1,114,654	\$809,760	\$1,614,475	\$(130,199)	\$130,582	\$(428)	\$79,597	\$(213,762)	\$546,091	\$3,950,771
Cumulative effects of changes in accounting policies	—	—	—	—	—	—	—	—	—	—
Restated balance	1,114,654	809,760	1,614,475	(130,199)	130,582	(428)	79,597	(213,762)	546,091	3,950,771
Dividends of surplus	—	—	(80,265)	—	—	—	—	—	—	(80,265)
Profit attributable to owners of parent	—	—	577,939	—	—	—	—	—	—	577,939
Purchase of treasury stock	—	—	—	(918)	—	—	—	—	—	(918)
Disposal of treasury stock	—	—	(9)	18	—	—	—	—	—	9
Change in ownership interest of parent related to transactions with non-controlling interests	—	(3,173)	—	—	—	—	—	—	—	(3,173)
Change of scope of equity method	—	—	—	—	—	—	—	—	—	—
Net changes of items other than shareholders' equity	—	—	—	—	50,691	205	(42,063)	101,203	32,775	142,811
Balance at March 31, 2017	\$1,114,654	\$806,587	\$2,112,140	\$(131,099)	\$181,273	\$(223)	\$37,534	\$(112,559)	\$578,866	\$4,587,174

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Cash Flows

MITSUMI CHEMICALS, INC. AND CONSOLIDATED SUBSIDIARIES

For the years ended March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2017/3	2016/3	2017/3
Cash flows from operating activities			
Profit (loss) before income taxes	¥85,772	¥41,302	\$764,524
Depreciation	42,809	45,487	381,576
Amortization of goodwill	1,248	3,153	11,124
Impairment loss	4,111	24,060	36,643
Increase (decrease) in net defined benefit liability	(2,314)	(1,307)	(20,626)
Decrease (increase) in net defined benefit asset	(3,989)	(3,466)	(35,556)
Increase (decrease) in allowance for doubtful accounts	1,353	116	12,060
Increase (decrease) in provision for repairs	3,671	(247)	32,721
Increase (decrease) in provision for environmental measures	(54)	(169)	(481)
Increase (decrease) in provision for business structure improvement	(2,864)	(9,225)	(25,528)
Interest and dividend income	(3,620)	(4,071)	(32,267)
Interest expenses	5,749	6,623	51,243
Share of (profit) loss of entities accounted for using equity method	(208)	2,150	(1,854)
Loss (gain) on sales of investment securities	(2,379)	(3,817)	(21,205)
Loss on disposal of non-current assets	709	1,161	6,320
Loss (gain) on sales of non-current assets	(243)	(943)	(2,166)
Decrease (increase) in notes and accounts receivable - trade	(27,375)	24,235	(244,006)
Decrease (increase) in inventories	(8,014)	34,929	(71,432)
Increase (decrease) in notes and accounts payable - trade	27,580	(40,440)	245,833
Other, net	(8,425)	36,949	(75,095)
Subtotal	113,517	156,480	1,011,828
Interest and dividends income received	7,699	7,669	68,625
Interest expenses paid	(5,818)	(7,059)	(51,859)
Income taxes paid	(14,958)	(11,177)	(133,327)
Net cash provided by (used in) operating activities	100,440	145,913	895,267
Cash flows from investing activities			
Purchase of property, plant and equipment	(39,530)	(40,046)	(352,349)
Proceeds from sales of property, plant and equipment	1,082	1,759	9,644
Purchase of intangible assets	(1,968)	(1,340)	(17,542)
Purchase of long-term prepaid expenses	(1,431)	(3,863)	(12,755)
Purchase of investment securities	(10,390)	(42,920)	(92,611)
Proceeds from sales and redemption of investment securities (Note 16)	4,179	5,052	37,249
Proceeds from transfer of business (Note 13)	—	44,649	—
Purchase of shares of subsidiaries resulting in change in scope of consolidation	30	—	267
Other, net	633	344	5,644
Net cash provided by (used in) investing activities	(47,395)	(36,365)	(422,453)
Cash flows from financing activities			
Net increase (decrease) in short-term loans payable	4,154	(29,774)	37,026
Proceeds from long-term loans payable	10,000	18,711	89,135
Repayment of long-term loans payable	(27,818)	(36,921)	(247,954)
Redemption of bonds payable	(20,142)	(20,142)	(179,535)
Proceeds from stock issuance to non-controlling shareholders	8	39	71
Proceeds from sales of treasury stock	1	7	9
Purchase of treasury stock	(103)	(161)	(918)
Cash dividends paid	(9,005)	(7,006)	(80,265)
Dividends paid to non-controlling interests	(4,006)	(3,540)	(35,707)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(548)	(163)	(4,885)
Other, net	(116)	(91)	(1,034)
Net cash provided by (used in) financing activities	(47,575)	(79,041)	(424,057)
Effect of exchange rate change on cash and cash equivalents	(737)	(2,978)	(6,570)
Net increase (decrease) in cash and cash equivalents	4,733	27,529	42,187
Cash and cash equivalents at beginning of period	78,151	50,622	696,595
Cash and cash equivalents at end of period (Note 13)	¥82,884	¥78,151	\$738,782

The accompanying notes are an integral part of these consolidated financial statements.

Notes to Consolidated Financial Statements

MITSUI CHEMICALS, INC. AND CONSOLIDATED SUBSIDIARIES

For the years ended March 31, 2017 and 2016

1. Basis of preparation

The accompanying consolidated financial statements of Mitsui Chemicals, Inc. (the "Company") and its consolidated subsidiaries have been prepared in accordance with accounting principles generally accepted in Japan and have been compiled from those prepared by the Company as required under the Financial Instruments and Exchange Act, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards.

Certain amounts in the prior years' financial statements have been reclassified to conform to the current year's presentation.

2. Significant accounting policies

a. Consolidation

The accompanying consolidated financial statements include the accounts of the Company and significant companies over which the Company exerts control through majority voting rights or the existence of certain conditions evidencing substantial control by the Company.

The assets and liabilities of the consolidated subsidiaries, including the portions attributable to non-controlling shareholders, were evaluated using the fair value at the time the Company acquired control of the respective subsidiaries. The excess of the cost of investments in consolidated subsidiaries over the net assets acquired is deferred as goodwill and is amortized over a period of 20 years or less.

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

Investments in non-consolidated subsidiaries and affiliates, in which the Company has the ability to exercise significant influence over their operating and financial policies, are accounted for by the equity method.

Non-consolidated subsidiaries and affiliates in the process of liquidation are stated at cost or less.

As of March 31, 2017, the Group comprised 94 consolidated subsidiaries, one less than the previous fiscal year. This reflected the inclusion of one new company, SOLINNOS Agro Sciences Private Limited, and the exclusion of two former subsidiaries, of which Acomon AG was due to liquidation. Jiangsu KOC Optical Material Technology Co., Ltd. transferred part of its shares, becoming an equity-method affiliate.

The equity method is applied to 37 non-consolidated subsidiaries and affiliates, one more than the previous fiscal year.

In order to improve the disclosure of consolidated financial information, from fiscal 2016, the accounting period of Taiwan Mitsui Chemicals, Inc. was changed from a December 31 year-end to a March 31 year-end. As a result, its 15-month results from January 1, 2016 to March 31, 2017 have been included in fiscal 2016's consolidated results.

b. Foreign currency translation

Receivables and payables denominated in foreign currencies are translated into Japanese yen at the year-end rates. The Company and its consolidated subsidiaries have reported foreign currency translation adjustments as a component of accumulated other comprehensive income (loss) and non-controlling interests.

c. Inventories

Inventories are stated primarily at the lower of cost or market. Costs are determined by the weighted-average method.

d. Securities

Securities other than equity securities issued by subsidiaries and affiliates, which are held by the Company and its subsidiaries, are classified into two categories: held-to-maturity or other securities.

Held-to-maturity securities are carried at amortized cost.

Marketable securities classified as other securities are carried at fair value with changes in unrealized holding gain or loss, net of the applicable income taxes, included directly in net assets. Non-marketable securities classified as other securities are stated at cost determined by the moving-average method. Costs associated with other securities sold are determined by the moving-average method.

e. Property, plant and equipment (except for assets leased)

Property, plant and equipment are stated at cost. Depreciation is calculated principally by the straight-line method.

Maintenance, repairs and minor renewals are expensed as incurred. Major renewals and improvements are capitalized.

f. Intangible assets (except for leased assets)

Amortization of intangible assets of the Company and its consolidated subsidiaries is calculated by the straight-line method. The cost of software intended for internal use is amortized using the straight-line method over its estimated useful life (five years).

g. Research and development expenses

Expenses relating to research and development activities are charged to income as incurred.

h. Leases

The Company and its consolidated subsidiaries lease certain machinery and equipment under noncancelable leases referred to as finance leases.

Depreciation of leased assets is computed by the straight-line method over the respective lease terms. In addition, finance lease transactions starting on or before March 31, 2008 that do not transfer ownership of the leased property to the lessees are accounted for as operating leases.

i. Derivatives and hedge accounting

The Company and its consolidated subsidiaries state derivative financial instruments at fair value and recognize any changes in fair value as gains or losses unless the derivatives are being utilized for hedging purposes.

If the derivatives meet certain hedging criteria, the Company and its consolidated subsidiaries defer recognition of gains or losses resulting from changes in the fair value of the derivatives positions until the related losses or gains on the hedged items are recognized.

In cases where forward foreign exchange contracts used as hedges meet certain hedging criteria, the existing foreign currency receivables or payables are translated at their respective contract rates.

In addition, if interest rate swap contracts meet certain hedging criteria, the net amount to be paid or received under these swap contracts is added to or deducted from the interest on the assets or liabilities for which the swap contracts were executed.

The following summarizes hedging derivative financial instruments used by the Group and items hedged:

<u>Hedging instruments</u>	<u>Items hedged</u>
Forward foreign exchange contracts	Foreign currency receivables and payables
Interest rate swap contracts	Interest on loans
Currency swap contracts	Foreign currency loans

j. Allowance for doubtful accounts

The allowance for doubtful accounts is provided in an amount sufficient to cover probable losses on collection.

It consists of the estimated uncollectible amounts with respect to identified doubtful accounts and an amount calculated by a formula based on actual collection losses incurred in the past with respect to the remaining receivables.

k. Retirement benefit plans

The net defined benefit liability and net defined benefit asset have been recorded mainly at the amount calculated based on the retirement benefit obligation and the fair value of the pension plan assets as of the balance sheet date.

The retirement benefit obligation for employees is attributed to each period mainly by the straight-line method over the estimated years of service of the eligible employees.

Actuarial gain or loss is amortized in the following year in which the gain or loss is recognized by the straight-line method over a certain number of years (10 to 13 years), which are shorter than the average remaining years of service of the employees.

Prior service cost is recognized as incurred or is amortized by the straight-line method over a certain number of years (10 years), which is shorter than the average remaining years of service of the employees.

Unrecognized actuarial gain or loss and unrecognized prior service cost are recognized as remeasurements of defined benefit plans in accumulated other comprehensive income after adjustment for tax effects.

l. Accrued directors' bonuses

The Company and its consolidated subsidiaries provided for the accrual of the estimated amount of directors' bonuses at the end of the year.

m. Accrued directors' and corporate auditors' retirement benefits

Certain domestic consolidated subsidiaries accrue liabilities to secure the aggregate amount payable for directors' and corporate auditors' retirement benefits, pursuant to the internal regulations.

n. Provision for repairs

Provision for repairs of production facilities at plants is recorded based on estimated expense at the end of the year.

o. Provision for environmental measures

Provision for environmental measures is recorded based on estimated expense at the end of the year.

p. Amounts per share of common stock

The computation of earnings per share is based on the weighted average number of shares of common stock outstanding during each year.

Cash dividends per share represent the actual amount applicable to each respective year.

q. Amortization of goodwill

Goodwill arising from the difference between the acquisition costs and the value of the underlying net assets of acquired entities at the date of acquisition is amortized over periods not exceeding 20 years on a straight-line basis. Any immaterial amounts are fully recognized as expenses as incurred.

r. Cash and cash equivalents

In preparing the consolidated statements of cash flows, cash on hand, readily-available deposits and short-term highly liquid investments with maturities not in excess of three months from the date of purchase are considered cash and cash equivalents.

s. Consolidated taxation system

The Company and certain of its subsidiaries have adopted the consolidated taxation system, with the Company registered as the consolidated taxation parent company.

t. Consumption taxes

Transactions subject to consumption taxes are recorded in amounts exclusive of consumption taxes.

3. Accounting changes

Changes in presentation

Consolidated statements of operations

In the current fiscal year, "Rent income" which was previously included in "Other" of "Non-operating income," exceeded 10% of the total non-operating income. Therefore, it is presented as a separate line item from the fiscal year ended March 31, 2017. In compliance with this change in presentation, the prior year's consolidated statement of operations has been restated.

Consequently, in the consolidated statement of operations for the fiscal year ended March 31, 2016, ¥4,202 million previously classified as "other" has been reclassified to "Rent income" of ¥711 million and "Other" of ¥3,491 million.

4. U.S. dollar amounts

The translation of yen amounts into U.S. dollar amounts is included solely for the convenience of readers, using ¥112.19=US\$1.00, the approximate rate of exchange in effect on March 31, 2017. The translation should not be construed as a representation that yen amounts have been, or could in the future be, converted into U.S. dollars at the above or any other rate.

5. Inventories

Inventories at March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017/3	2016/3	2017/3
Finished goods	¥165,838	¥163,116	\$1,478,189
Work in process	5,974	5,806	53,249
Raw materials and supplies	75,732	71,764	675,033
Total	¥247,544	¥240,686	\$2,206,471

6. Retirement benefit plans

The Company and most of its consolidated subsidiaries have either funded or unfunded defined benefit plans and/or defined contribution plans. In addition, some overseas consolidated subsidiaries apply International Financial Reporting Standards for the recognition, measurement, and disclosure of employees' retirement benefits.

In addition, the Company and certain of its consolidated subsidiaries have set up an employees' retirement benefit trust.

Under these plans, all eligible employees are entitled to certain benefits based on their abilities, occupational roles, work performances, length of service and certain other factors.

The liabilities and expenses for severance and retirement benefits are determined based on the amounts calculated actuarially under certain assumptions.

The changes in the retirement benefit obligation during the years ended March 31, 2017 and 2016 were as follows:
Movements in defined benefit obligation

	Millions of yen		Thousands of U.S. dollars
	2017/3	2016/3	2017/3
Defined benefit obligation as of April 1	¥200,542	¥197,917	\$1,787,521
Service cost	5,228	5,239	46,600
Interest cost	229	1,234	2,041
Actuarial gains/losses	(1,961)	11,201	(17,479)
Past service cost	44	13	392
Benefits paid	(14,995)	(13,469)	(133,657)
Others	(883)	(1,593)	(7,871)
Defined benefit obligation as of March 31	¥188,204	¥200,542	\$1,677,547

Movements in plan assets

	Millions of yen		Thousands of U.S. dollars
	2017/3	2016/3	2017/3
Plan assets as of April 1	¥158,454	¥163,894	\$1,412,372
Expected return on plan assets	3,572	3,653	31,839
Actuarial gains/losses	6,748	(5,937)	60,148
Employer contributions	4,669	5,609	41,617
Benefits paid	(8,788)	(8,179)	(78,331)
Others	(548)	(586)	(4,885)
Plan asset as of March 31	¥164,107	¥158,454	\$1,462,760

Funded status of the pension plans

	Millions of yen		Thousands of U.S. dollars
	2017/3	2016/3	2017/3
Funded retirement benefit obligation	¥ 143,859	¥ 152,433	\$ 1,282,280
Plan assets at fair value	(164,107)	(158,454)	(1,462,760)
	(20,248)	(6,021)	(180,480)
Unfunded retirement benefit obligation	44,345	48,109	395,267
Net liability for retirement benefits in the balance sheet	24,097	42,088	214,787
Net defined benefit liability	55,200	59,659	492,022
Net defined benefit asset	(31,103)	(17,571)	(277,235)
Net liability for retirement benefits in the balance sheet	¥ 24,097	¥ 42,088	\$ 214,787

Retirement benefit expenses

	Millions of yen		Thousands of U.S. dollars
	2017/3	2016/3	2017/3
Service cost	¥5,228	¥5,239	\$46,600
Interest cost	229	1,234	2,041
Return on plan assets	(3,572)	(3,653)	(31,839)
Amortization of actuarial loss	2,530	3,190	22,551
Amortization of prior service cost	41	10	365
Premium severance pay	528	333	4,706
Total	¥4,984	¥6,353	\$44,424

Remeasurements of defined benefit plans before tax effect included in other comprehensive income

	Millions of yen		Thousands of U.S. dollars
	2017/3	2016/3	2017/3
Past service cost	¥ 3	¥ 4	\$ 27
Actuarial gains/losses	(11,426)	13,524	(101,845)
Total	¥(11,423)	¥13,528	\$(101,818)

Remeasurements of defined benefit plans before tax effect included in accumulated other comprehensive income

	Millions of yen		Thousands of U.S. dollars
	2017/3	2016/3	2017/3
Unrecognized past service cost	¥ (63)	¥ (66)	\$ (562)
Unrecognized actuarial gains/losses	13,606	25,032	121,277
Total	¥13,543	¥24,966	\$120,715

Plan assets by category (%)

	2017/3	2016/3
Bonds	34%	32%
Stocks	51%	53%
Cash on hand and in banks	1%	1%
Other	14%	14%
Total	100%	100%

Discount rate and rate of expected return on the pension plan assets

	2017/3	2016/3
Discount rate	Principally 0.1%	Principally 0.0%
Rate of expected return on the pension plan assets	Principally 2.5%	Principally 2.5%
Rate of estimated future salary increases	Principally 1.0-5.0%	Principally 1.0-4.9%

Expenses for defined contribution plans

	Millions of yen		Thousands of U.S. dollars
	2017/3	2016/3	2017/3
Total	¥475	¥602	\$4,234

7. Loans and bonds

1. Loans payable breakdown

	Millions of yen		Thousands of U.S. dollars
	2017/3	2016/3	2017/3
Short-term loans payable (0.50%)	¥ 90,276	¥ 86,490	\$ 804,671
Current portion of long-term loans payable (1.37%)	18,582	25,892	165,630
Current portion of lease obligations	116	62	1,034
Long-term loans payable due in 2018—2026 (1.17%)	268,654	279,583	2,394,634
Long-term lease obligations due in 2018—2028	2,524	1,101	22,497
Total	¥380,152	¥393,128	\$3,388,466

The aforementioned interest rate is an average, shown as the weighted average interest rate on the outstanding balance as of March 31, 2017.

The average interest rate for lease obligations is omitted because lease obligations are recorded on the balance sheet in an amount that includes the equivalent in interest, which is included in the total lease amount:

Maturities of loans payable due within 5 years:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2019	¥25,094	\$223,674
2020	57,013	508,183
2021	41,519	370,078
2022	38,135	339,914

Maturities of lease obligations due within 5 years:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2019	¥151	\$1,346
2020	136	1,212
2021	142	1,266
2022	143	1,275

2. Bonds payable breakdown

	Millions of yen		Thousands of U.S. dollars
	2017/3	2016/3	2017/3
2.09% bonds due in 2016	¥ —	¥10,000	\$ —
1.96% bonds due in 2017	—	10,000	—
1.93% bonds due in 2017	10,000	10,000	89,135
1.246% bonds due in 2020	10,000	10,000	89,135
1.354% bonds due in 2021	10,000	10,000	89,135
0.651% bonds due in 2017	14,000	14,000	124,788
0.682% bonds due in 2018	15,000	15,000	133,702
0.49% bonds due in 2021	716	858	6,381
	¥59,716	¥79,858	\$532,276

Maturities of bonds payable due within 5 years:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2018	¥24,142	\$215,189
2019	15,142	134,967
2020	142	1,266
2021	10,142	90,400
2022	10,148	90,454

8. Contingent liabilities

Contingent liabilities at March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017/3	2016/3	2017/3
As endorser of trade notes discounted	¥164	¥178	\$1,462
As guarantor of indebtedness, principally of non-consolidated subsidiaries and affiliates	69,084	59,482	615,777

9. Research and development expenses

Research and development expenses for the years ended March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017/3	2016/3	2017/3
Research and development expenses	¥30,777	¥31,493	\$274,329

10. Impairment loss

The Company and its consolidated subsidiaries have categorized their business assets in use based on business divisions or quasi-units. Assets that are to be disposed of due to business withdrawal or other reasons are assessed on individual basis. Idle properties, which are not in use, are also assessed on individual basis.

Business assets in use, which are determined to be disposed of due to business withdrawal or other reasons, are stated at the lower of recoverable amount or book value according to the impairment test.

The amount which has been written down is an extraordinary loss and recorded as impairment loss.

The measurement of recoverable amounts is based on net sales price or value in use. Net sales price mainly consists of estimated sales price, meanwhile value in use is measured based on the present value of future cash flows with a discount rate of 4.8%.

Idle properties which have a decline in the market price and which are not scheduled for any future use are stated at the lower of recoverable amount or book value according to the impairment test. The measurement of recoverable amounts is based on net sales price or value, which mainly consists of estimated sales price.

Impairment losses for the years ended March 31, 2017 and 2016 consisted of the following:
Year ended March 31, 2017

Location	Major use	Asset category	Millions of yen	Thousands of U.S. dollars	Remarks *
Shimonoseki Mitsui Chemicals, Inc. (Yamaguchi Prefecture)	Production and sales	Land, machinery, equipment and vehicles, buildings and structures, others	¥2,761	\$24,610	Business assets in use
Others	6 items	Production, etc.	¥ 836	\$ 7,451	Business assets in use
	1 item	Factory land	¥ 340	\$ 3,031	Idle properties
	2 items	Welfare facilities	¥ 174	\$ 1,551	Idle properties
Total			¥4,111	\$36,643	

* Business assets in use comprised ¥1,319 million for land, ¥1,086 million for buildings and structures, ¥818 million for machinery, equipment and vehicles, ¥209 million for intangible assets - others, and ¥165 million for other assets. These amounts were included in impairment loss as ¥3,597 million, respectively.

Idle properties comprised ¥340 million for land, and ¥174 million for building and structures. These amounts were included in impairment loss as ¥514 million, respectively.

Year ended March 31, 2016

Location	Major use	Asset category	Millions of yen	Remarks*
Dental materials business (Europe, etc.)	Others	Goodwill	¥19,472	Business assets in use
Company housing (Nagoya city, Aichi prefecture)	Welfare facilities	Land	¥ 1,367	Business assets in use
Kulzer Nordic AB (Sweden)	Production and sales	Intangible assets - others, Machinery, equipment and vehicles	¥ 1,291	Business assets in use
Others	4 items	Production facilities	¥ 1,304	Business assets in use
	4 items	Production facilities	¥ 587	Idle properties
	1 item	Welfare facilities	¥ 39	Business assets in use
Total			¥24,060	

* Goodwill impairment loss was ¥19,472 million. Other business assets in use comprised, ¥1,367 million for land, ¥1,261 million for intangible assets - others, ¥1,090 million for machinery, equipment and vehicles, and ¥283 million for other assets. These amounts were included in impairment loss as ¥4,001 million, respectively.

Idle properties comprised ¥303 million for building, structures, ¥234 million for machinery, equipment and vehicles, and ¥50 million for others. These amounts were included in impairment loss as ¥587 million, respectively.

11. Shareholders' equity

Under the Companies Act of Japan (the "Act"), the amount paid for new shares is required to be accounted for as common stock, although a company may account for the amount not exceeding one-half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

The Act provides that an amount equal to 10% of distribution from surplus shall be appropriated and set aside as legal earnings reserve or additional paid-in capital, until the total amount of legal earnings reserve and additional paid-in capital equals 25% of common stock. Legal earnings reserve and additional paid-in capital may be used to eliminate or reduce a deficit or may be transferred to common stock by resolution of the shareholders' meeting. The Act also stipulates that the amount of any such excess is available for appropriations by resolution of the shareholders. Legal earnings reserve is included in retained earnings in the accompanying consolidated financial statements.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with the Act.

Appropriations are not accrued in the financial statements for the period to which they relate, but are recorded in the subsequent accounting period when the shareholders' approval has been obtained. Retained earnings at March 31, 2017 include amounts representing the year-end cash dividends approved at the shareholders' meeting held on June 27, 2017.

	Millions of yen	Thousands of U.S. dollars
Cash dividends of ¥9 (US\$0.08) per share	¥9,003	\$80,248

12. Consolidated statements of comprehensive income

Reclassification adjustments and tax effects for components of other comprehensive income (loss) for the years ended March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017/3	2016/3	2017/3
Valuation difference on available-for-sale securities:			
Gains (losses) arising during the year	¥ 9,734	¥ (5,239)	\$ 86,763
Reclassification adjustment to profit or loss	(1,926)	(3,805)	(17,167)
Amount before income tax effect	7,808	(9,044)	69,596
Income tax effect	(2,161)	2,420	(19,262)
Total	5,647	(6,624)	50,334
Deferred gains or losses on hedges:			
Gains (losses) arising during the year	0	413	0
Adjustments of acquisition cost for assets	—	—	—
Amount before income tax effect	0	413	0
Income tax effect	—	—	—
Total	0	413	0
Foreign currency translation adjustments:			
Adjustments arising during the year	(3,774)	(19,456)	(33,639)
Reclassification adjustment to profit or loss	(96)	(819)	(856)
Total	(3,870)	(20,275)	(34,495)
Remeasurements of defined benefit plans:			
Adjustments arising during the year	8,909	(16,715)	79,410
Reclassification adjustment to profit or loss	2,514	3,187	22,408
Amount before income tax effect	11,423	(13,528)	101,817
Income tax effect	(43)	56	(383)
Total	11,380	(13,472)	101,435
Share of other comprehensive income of entities accounted for using equity method:			
Loss arising during the year	(1,637)	(4,273)	(14,591)
Reclassification adjustment to profit or loss	23	368	205
Total	(1,614)	(3,905)	(14,386)
Total other comprehensive income (loss)	¥11,543	¥(43,863)	\$102,888

13. Supplementary cash flow information

(1) Cash and cash equivalents at March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017/03	2016/03	2017/03
Cash and deposits	¥84,120	¥79,578	\$749,799
Deposit due over 3 months	(1,236)	(1,427)	(11,017)
Total	¥82,884	¥78,151	\$738,782

(2) Breakdown of assets and liabilities related to the transfer of a business for a consideration in cash and cash equivalents was as follows:

Year ended March 31, 2016

Polyurethane materials business	Millions of yen
Current assets	¥44,298
Non-current assets	16,143
Current liabilities	(10,540)
Non-current liabilities	(165)
Accumulated other comprehensive income	(572)
Non-controlling interests	(3,025)
Unrealized gain and other	3,313
Gain on sales of business	3,738
Business transfer price	¥53,190
Cash and cash equivalents	(8,541)
Proceeds from transfer of business	¥44,649

Not applicable for the year ended March 31, 2017.

14. Leases

Obligations under noncancellable operating leases at March 31, 2017 and 2016, were as follows:

Future minimum lease payments:

	Millions of yen		Thousands of U.S. dollars
	2017/3	2016/3	2017/3
Due within one year	¥174	¥61	\$1,551
Due after one year	97	26	865
Total	¥271	¥87	\$2,416

15. Financial instruments

(1) Status of financial instruments

1. Management policy

In light of plans for capital investment, the Group raises the funds it requires primarily through bank loans and bonds issuance. The Group invests temporary surplus funds in financial assets that have high levels of safety and liquidity. Further, the Group raises short-term working capital through bank loans and commercial paper issuance. The Group also utilizes derivative financial instruments to hedge various risks as described in detail below and does not enter into derivatives for trading or speculative purposes.

2. Details of financial instruments and associated risk

The trade notes and accounts receivable are exposed to credit risk of customers. In addition, foreign-currency operating receivables used to carry out overseas business operations are exposed to foreign currency exchange risk. However, foreign exchange forward contracts are used to hedge against such risk for a certain portion of this amount, excluding the amount that falls within the scope of the balance of trade notes and accounts payable denominated in the same foreign currencies as said foreign exchange forward contracts.

Short-term investment securities and investment securities, other securities, primarily the shares of companies with which the Group has operational relationships, are exposed to stock market fluctuation risk.

Almost all trade notes and accounts payable have payment due dates within three months. Funds denominated in foreign currencies are exposed to foreign currency exchange fluctuation risk. Foreign exchange forward contracts are used to hedge against such risks for a certain portion of said funds, excluding the amount that falls within the scope of the balance of trade notes and accounts receivable denominated in the same foreign currencies as said funds.

Loans payable and corporate bonds are primarily for fund raising related to capital investment, with a maximum maturity of nine years after the balance sheet date. Certain loans payable are exposed to foreign currency exchange risk and interest rate fluctuation risk, and derivative transactions such as foreign currency swaps and interest rate swaps are used to hedge these risks.

Derivative transactions such as foreign exchange forward contracts and foreign currency swaps are used in order to hedge foreign currency exchange risk associated with operating receivables and payables as well as loans payable denominated in foreign currencies and interest rate swaps are used for the purpose of hedging interest rate risk associated with bank loans.

In addition, hedging instruments and hedged items, hedging policy, and effectiveness of hedge transactions are described in "2. Significant accounting policies, i. Derivatives and hedge accounting."

3. Risk management

1) Credit risk management (risks of default of debtors)

To minimize the credit risk relating to operating receivables and long-term loans receivable, the Group performs due date controls and outstanding balance controls for each customer in accordance with internal customer credit management rules, and regularly screens customers' credit status.

Management of the Company believes that there is no significant risk of default by the counterparties to derivative transactions, as the Company and its consolidated subsidiaries only conduct transactions with high credit-rated financial institutions.

2) Market risk management (risks of exchange and interest rate fluctuations)

The Company and its consolidated subsidiaries utilize foreign exchange forward contracts and foreign currency swaps to hedge foreign currency exchange risk associated with operating receivables and payables as well as bank loans denominated in foreign currencies. Further, the Company and its consolidated subsidiaries also utilize interest rate swaps for the purpose of hedging interest rate fluctuation risk associated with loans payable.

The fair value of short-term investment securities and investment securities together with financial conditions of investees (trading partners) are periodically monitored. The possession of other securities other than held-to-maturity debt securities are reviewed continuously, taking market conditions and trade relations with the issuers into consideration.

Derivative transactions are authorized by the responsible director. Transactions are executed and managed by the financial section. The results of each transaction are reported by the financial section semi-annually at the Management Meeting. Derivative transactions entered into by consolidated subsidiaries are executed and managed in accordance with the management and other criteria for derivative transactions for each company.

3) Liquidity risk management (non-performance risk on payment due date)

The Company's finance department formulates and updates cash flow plans in a timely manner based on each department's estimated cash flow and manages liquidity risks through such measures as maintaining an accessible supply of cash. The cash flows of consolidated subsidiaries are managed in the same manner as those of the Company.

4. 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 estimated fair value might differ if different assumptions are used. In addition, the contract amount of the derivative transactions described below in "17. Derivatives" does not represent the market risk of the derivative transactions.

(2) Fair value of financial instruments

The carrying value on the consolidated balance sheet, fair value, and differences as of March 31, 2017 and 2016 are as follows. In addition, financial instruments, for which is extremely difficult to measure the fair value, are not included. (Please see Note 2)

Year ended March 31, 2017	Millions of yen		
	Carrying value	Fair value	Differences
Assets			
(1) Cash and deposits	¥ 84,120	¥ 84,120	¥ —
(2) Trade notes and accounts receivable	271,706	271,706	—
(3) Short-term investment securities and investment securities, other securities	47,327	47,327	—
Total	403,153	403,153	—
Liabilities			
(1) Trade notes and accounts payable	145,658	145,658	—
(2) Short-term bank loans	90,276	90,276	—
(3) Corporate bonds(*1)	59,716	60,810	1,094
(4) Long-term loans payable(*1)	287,236	297,378	10,142
Total	582,886	594,122	11,236
Derivative transactions(*2)	¥ (1)	¥ (1)	¥ —

*1 These amounts include the current portion of bonds payable and long-term loans payable, respectively.

*2 Derivative assets and (liabilities) are on net basis.

Year ended March 31, 2017	Thousands of U.S. dollars		
	Carrying value	Fair value	Differences
Assets			
(1) Cash and deposits	\$ 749,799	\$ 749,799	\$ —
(2) Trade notes and accounts receivable	2,421,838	2,421,838	—
(3) Short-term investment securities and investment securities, other securities	421,847	421,847	—
Total	3,593,484	3,593,484	—
Liabilities			
(1) Trade notes and accounts payable	1,298,315	1,298,315	—
(2) Short-term bank loans	804,671	804,671	—
(3) Corporate bonds(*1)	532,276	542,027	9,751
(4) Long-term loans payable(*1)	2,560,264	2,650,664	90,400
Total	5,195,526	5,295,677	100,151
Derivative transactions(*2)	\$ (9)	\$ (9)	\$ —

*1 These amounts include the current portion of bonds payable and long-term loans payable, respectively.

*2 Derivative assets and (liabilities) are on net basis.

Year ended March 31, 2016	Millions of yen		
	Carrying value	Fair value	Differences
Assets			
(1) Cash and deposits	¥ 79,578	¥ 79,578	¥ —
(2) Trade notes and accounts receivable	245,345	245,345	—
(3) Short-term investment securities and investment securities, other securities	41,252	41,252	—
Total	366,175	366,175	—
Liabilities			
(1) Trade notes and accounts payable	118,331	118,331	—
(2) Short-term bank loans	86,490	86,490	—
(3) Corporate bonds(*1)	79,858	81,767	1,909
(4) Long-term loans payable(*1)	305,475	319,833	14,358
Total	590,154	606,421	16,267
Derivative transactions(*2)	¥ (107)	¥ (107)	¥ —

*1 These amounts include the current portion of bonds payable and long-term loans payable, respectively.

*2 Derivative assets and (liabilities) are on net basis.

Note 1. Fair value measurement of financial instruments and items relating to short-term investment securities and derivative transactions.

Assets

1) Cash and deposits, and 2) Trade notes and accounts receivable

The relevant book values are used, because the carrying amount approximates fair value due to the short maturity of these instruments.

3) Short-term investment securities and investment securities

The fair value of equity securities equals quoted market price, if available. The fair value of debt securities equals quoted market price or provided price by financial institutions. Moreover, investment securities based on holding purpose are described in "16. Securities".

Liabilities

1) Trade notes and accounts payable, and 2) Short-term bank loans

The relevant book values are used, because the carrying amount approximates fair value due to the short maturity of these instruments.

3) Corporate bonds

The fair value of corporate bonds equals the quoted market price, if available. If the market prices of bonds are not available, fair value is calculated based on the present value of the total amount of principal and interest, discounted by the interest rate determined by taking into account the remaining maturity and credit risk.

4) Long-term loans payable

The fair value of long-term loans payable is calculated by applying a discount rate to the total of principal and interest. The discount rate is based on the assumed interest rate if a similar new loan was entered into. A portion of floating rate long-term loans payable subject to special treatment in the form of interest rate swaps (described in "17. Derivatives") is calculated by discounting the total amount of principal and interest—which is handled together with said interest rate swaps—against assumed interest to be paid when new loans of the same type are undertaken.

Derivative transactions

Contract amount, fair value, unrealized gain or loss, and others are described in “17. Derivatives”.

Note 2. Financial instruments of which the fair value is extremely difficult to measure.

Year ended March 31, 2017	Millions of yen	Thousands of U.S. dollars
Unlisted equity securities	¥17,880	\$159,372
Unlisted preferred securities	5,537	49,354
Year ended March 31, 2016	Millions of yen	
Unlisted equity securities	¥10,958	
Unlisted preferred securities	2,542	

The above are not included in “(3) Short-term investment securities and investment securities”, because there is no market value and the future cash flows cannot be estimated, as well as the fair value is extremely difficult to measure.

Note 3. The redemption schedule for monetary claims and held-to-maturity debt securities with maturities subsequent to the consolidated balance sheet date.

Year ended March 31, 2017	Millions of yen			
	Due within one year	Due over one year but within five years	Due over five years but within ten years	Due over ten years
Cash and deposits	¥ 84,120	¥ —	¥ —	¥ —
Trade notes and accounts receivable	271,706	—	—	—
Total	¥355,826	¥ —	¥ —	¥ —
	Thousands of U.S. dollars			
Year ended March 31, 2017	Due within one year	Due over one year but within five years	Due over five years but within ten years	Due over ten years
Cash and deposits	\$ 749,799	\$ —	\$ —	\$ —
Trade notes and accounts receivable	2,421,838	—	—	—
Total	\$3,171,637	\$ —	\$ —	\$ —
	Millions of yen			
Year ended March 31, 2016	Due within one year	Due over one year but within five years	Due over five years but within ten years	Due over ten years
Cash and deposits	¥ 79,578	¥ —	¥ —	¥ —
Trade notes and accounts receivable	245,345	—	—	—
Total	¥324,923	¥ —	¥ —	¥ —

Note 4. The redemption schedule for corporate bonds and long-term bank loans subsequent to the consolidated balance sheet date.

Year ended March 31, 2017	Millions of yen					
	Due within one year	Due over one year but within two years	Due over two years but within three years	Due over three years but within four years	Due over four years but within five years	Due over five years
Short-term loans payable	¥ 90,276	¥ —	¥ —	¥ —	¥ —	¥ —
Corporate bonds	24,142	15,142	142	10,142	10,148	—
Long-term loans payable	18,582	25,094	57,013	41,519	38,135	106,893
Total	¥133,000	¥40,236	¥57,155	¥51,661	¥48,283	¥106,893
	(Thousands of U.S. dollars)					
Year ended March 31, 2017	Due within one year	Due over one year but within two years	Due over two years but within three years	Due over three years but within four years	Due over four years but within five years	Due over five years
Short-term loans payable	\$ 804,671	\$ —	\$ —	\$ —	\$ —	\$ —
Corporate bonds	215,189	134,967	1,266	90,400	90,454	—
Long-term loans payable	165,630	223,674	508,183	370,078	339,914	952,785
Total	\$1,185,490	\$358,641	\$509,449	\$460,478	\$430,368	\$952,785
	Millions of yen					
Year ended March 31, 2016	Due within one year	Due over one year but within two years	Due over two years but within three years	Due over three years but within four years	Due over four years but within five years	Due over five years
Short-term loans payable	¥ 86,490	¥ —	¥ —	¥ —	¥ —	¥ —
Corporate bonds	20,142	24,142	15,142	142	10,142	10,148
Long-term loans payable	25,892	20,281	25,238	57,402	41,524	135,138
Total	¥132,524	¥44,423	¥40,380	¥57,544	¥51,666	¥145,286

16. Securities

Information on securities held by the Company and its subsidiaries at March 31, 2017 and 2016 was as follows:

(1) Other securities

Year ended March 31, 2017	Millions of yen			Thousands of U.S. dollars		
	Carrying value	Acquisition cost	Differences	Carrying value	Acquisition cost	Differences
Securities whose carrying value exceeds their acquisition value :						
(1) Equity securities	¥ 46,463	¥ 19,917	¥ 26,546	\$414,146	\$177,529	\$236,617
(2) Debt securities —corporate bonds	5	5	0	45	45	0
Securities whose carrying value does not exceed their acquisition value :						
(1) Equity securities	858	1,031	(173)	7,648	9,190	(1,542)
(2) Others	1	1	(0)	9	9	(0)
Total	¥47,327	¥20,954	¥26,373	\$421,847	\$186,772	\$235,075

Note: Unlisted equity securities with carrying value of ¥17,880 million and unlisted bonds with carrying value of ¥5,537 million as of March 31, 2017 have no market value and their future cash flows cannot be estimated. Those securities' fair value is extremely difficult to measure and not included in the table above.

Year ended March 31, 2016	Millions of yen		
	Carrying value	Acquisition cost	Differences
Securities whose carrying value exceeds their acquisition value :			
(1) Equity securities	¥ 40,210	¥ 20,823	¥ 19,387
(2) Debt securities —corporate bonds	5	5	0
Securities whose carrying value does not exceed their acquisition value :			
(1) Equity securities	1,036	1,519	(483)
(2) Others	1	1	(0)
Total	¥41,252	¥22,348	¥18,904

Note: Unlisted equity securities with carrying value of ¥10,958 million and unlisted bonds with carrying value of ¥2,542 million as of March 31, 2016 have no market value and their future cash flows cannot be estimated. Those securities' fair value is extremely difficult to measure and not included in the table above.

(2) Other securities sold during the fiscal years ended March 31, 2017 and 2016

Year ended March 31, 2017	Millions of yen			Thousands of U.S. dollars		
	Sales price	Gain on sales	Loss on sales	Sales price	Gain on sales	Loss on sales
Equity securities	¥4,088	¥2,354	¥(2)	\$36,438	\$20,982	\$(18)
Others	—	—	—	—	—	—
Total	¥4,088	¥2,354	¥(2)	\$36,438	\$20,982	\$(18)

Year ended March 31, 2016	Millions of yen		
	Sales price	Gain on sales	Loss on sales
Equity securities	¥4,314	¥3,563	¥(1)
Others	113	—	(0)
Total	¥4,427	¥3,563	¥(1)

(3) Impairment of investment securities

For the fiscal year ended March 31, 2017, the Group recognized impairment losses on investment securities of ¥196 million (¥196 million on other marketable securities with market values).

Regarding loss disposal, typically, when the fair value at the fiscal year end falls 50% or greater compared with the acquisition cost, the loss shall be recognized, in principle. When said fair value falls between 30% and 50% of the acquisition cost, if the rate of decrease remains at 30% or above for a two-year period prior to the end of the fiscal year-end, or if a significant downturn in performance occurs over an approximately three-year period, it shall be determined that there is no possibility of recovery and loss recognized.

17. Derivatives

The Company and certain of its subsidiaries had the following derivatives contracts outstanding at March 31, 2017 and 2016.

(1) Derivative transactions to which the Company did not apply hedge accounting

Currency related

Year ended March 31, 2017	Millions of yen				Thousands of U.S. dollars			
	Contract amount	(Contract amount over one year)	Fair value	Unrealized gain (loss)	Contract amount	(Contract amount over one year)	Fair value	Unrealized gain (loss)
Off-market transactions:								
Forward foreign exchange contracts for								
(1) Buying U.S. dollar	¥1,097	¥—	¥(1)	¥(1)	\$9,778	\$—	\$(9)	\$(9)
Total	¥1,097	¥—	¥(1)	¥(1)	\$9,778	\$—	\$(9)	\$(9)

Note: Fair value is based on information provided by financial institutions at the end of the fiscal year.

Year ended March 31, 2016	Millions of yen			
	Contract amount	(Contract amount over one year)	Fair value	Unrealized gain (loss)
Off-market transactions:				
Forward foreign exchange contracts for				
(1) Selling U.S. dollar	¥ 904	¥—	¥ (20)	¥ (20)
(2) Buying U.S. dollar	3,816	—	(86)	(86)
Total	¥4,720	¥—	¥(106)	¥(106)

Note: Fair value is based on information provided by financial institutions at the end of the fiscal year.

(2) Derivative transactions to which the Company applied hedge accounting

1. Currency related

Year ended March 31, 2017	Millions of yen			Thousands of U.S. dollars		
	Contract amount	(Contract amount over one year)	Fair value	Contract amount	(Contract amount over one year)	Fair value
Principle-based accounting method:						
Forward foreign exchange contracts for						
(1) Selling U.S. dollar (hedged item - loans receivable)	¥ 191	¥—	¥0	\$ 1,702	\$—	\$0
(2) Buying U.S. dollar (hedged item - trade accounts payable)	28	—	(0)	250	—	(0)
Alternative method(*):						
Forward foreign exchange contracts for						
(1) Selling U.S. dollar (hedged item - trade accounts receivable)	¥ 842	¥—	(Note 2)	\$ 7,505	\$—	(Note 2)
(2) Buying U.S. dollar (hedged item - trade accounts payable)	107	—	(Note 2)	954	—	(Note 2)
Total	¥1,168	¥—	¥0	\$10,411	\$—	\$0

*Foreign monetary obligations denominated in foreign currencies for which foreign exchange forward contracts are used to hedge the foreign currency fluctuation are translated at the contracted rate, if the forward contracts qualify for hedge accounting.

Notes:

1. Fair value is based on information provided by financial institutions at the end of the fiscal year.
2. For certain trade accounts receivable and payable denominated in foreign currencies for which foreign exchange forward contracts are used to hedge the foreign currency fluctuations, fair value of derivative financial instrument is included in the hedged trade accounts receivable or payable.

Year ended March 31, 2016	Millions of yen		
	Contract amount	(Contract amount over one year)	Fair value
Principle-based accounting method:			
Forward foreign exchange contracts for			
(1) Selling Swedish krona (hedged item - loans receivable)	¥ 69	¥—	¥(1)
(2) Buying U.S. dollar (hedged item - trade accounts payable)	26	—	(0)
Alternative method(*):			
Forward foreign exchange contracts for			
(1) Selling U.S. dollar (hedged item - trade accounts receivable)	¥252	¥—	(Note 2)
Total	¥347	¥—	¥(1)

*Foreign monetary obligations denominated in foreign currencies for which foreign exchange forward contracts are used to hedge the foreign currency fluctuation are translated at the contracted rate, if the forward contracts qualify for hedge accounting.

Notes:

1. Fair value is based on information provided by financial institutions at the end of the fiscal year.
2. For certain trade accounts receivable denominated in foreign currencies for which foreign exchange forward contracts are used to hedge the foreign currency fluctuations, fair value of derivative financial instrument is included in the hedged trade accounts receivable.

2. Interest related

Year ended March 31, 2017	Millions of yen			Thousands of U.S. dollars		
	Contract amount	(Contract amount over one year)	Fair value	Contract amount	(Contract amount over one year)	Fair value
Alternative method :						
Interest swap contracts						
(hedged item - long-term bank loans)						
Receiving floating rate and paying fix rate	¥106,089	¥100,969	(Note)	\$ 945,619	\$ 899,982	(Note)
Currency swap contracts						
(hedged item - long-term bank loans)						
Receiving floating rate and paying fix rate	¥ 20,655	¥ 20,655	(Note)	\$ 184,107	\$ 184,107	(Note)
Total	¥126,744	¥121,624	¥—	\$1,129,726	\$1,084,089	\$—

Note:

For certain long-term bank loans for which interest swap contracts are used to hedge the interest rate fluctuations, fair value of derivative financial instrument is included in the hedged loans payable.

Year ended March 31, 2016	Millions of yen		
	Contract amount	(Contract amount over one year)	Fair value
Alternative method:			
Interest swap contracts (hedged item - long-term bank loans)			
Receiving floating rate and paying fix rate	¥106,089	¥106,089	(Note)
Currency swap contracts (hedged item - long-term bank loans)			
Receiving floating rate and paying fix rate	¥ 20,655	¥ 20,655	(Note)
Total	¥126,744	¥126,744	¥—

Note:

For certain long-term bank loans for which interest swap contracts are used to hedge the interest rate fluctuations, fair value of derivative financial instrument is included in the hedged loans payable.

18. Income taxes

(1) The Company and its consolidated domestic subsidiaries are subject to a number of income taxes in Japan which, in the aggregate, resulted in statutory tax rates of approximately 30.9% and 33.1% for the years ended March 31, 2017 and 2016, respectively.

(2) The significant components of the Company and its consolidated subsidiaries' deferred tax assets and liabilities as of March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017/3	2016/3	2017/3
Deferred tax assets:			
Net defined benefit liabilities	¥ 27,427	¥ 32,350	\$ 244,469
Accrued bonuses	3,839	3,816	34,219
Depreciation	5,250	5,112	46,796
Accrued enterprise tax	976	740	8,699
Tax loss carryforwards	36,183	44,154	322,515
Provision for repairs	5,489	3,932	48,926
Unrealized gains on fixed assets	2,618	2,761	23,335
Loss on valuation of inventories	2,868	3,379	25,564
Loss on valuation of investment securities	4,187	4,724	37,321
Impairment loss	8,055	7,598	71,798
Other	17,044	19,163	151,920
Subtotal	113,936	127,729	1,015,562
Valuation allowance	(79,697)	(95,986)	(710,375)
Total deferred tax assets	34,239	31,743	305,187
Deferred tax liabilities:			
Net defined benefit assets	¥ (11,534)	¥ (10,313)	\$ (102,808)
Gain on contribution of securities to retirement benefit trust	(3,147)	(3,825)	(28,051)
Net unrealized holding gain on securities	(7,414)	(4,995)	(66,084)
Deferred gain on real properties	(212)	(277)	(1,890)
Retained earnings of overseas consolidated subsidiaries, etc.	(3,965)	(3,641)	(35,342)
Adjustment of book value based on fair value	(6,795)	(7,436)	(60,567)
Other	(2,572)	(3,703)	(22,925)
Total deferred tax liabilities	(35,639)	(34,190)	(317,667)
Net deferred tax assets (liabilities)	¥ (1,400)	¥ (2,447)	\$ (12,480)

“Allowance for doubtful accounts”, “Provision for environmental measures”, and “Provision for business structure improvement” which were presented separately in the previous fiscal year, are included in “Other” of deferred tax assets from fiscal 2016, due to its decreased materiality. To reflect this change in the presentation, the previous fiscal year’s significant components of deferred tax assets were reclassified.

“Allowance for doubtful accounts” in the amount of ¥917 million, “Provision for environmental measures” in the amount of ¥454 million, “Provision for business structure improvement” in the amount of ¥709 million and “Other” in the amount of ¥17,083 million in the previous fiscal year’s deferred tax assets were reclassified as “Other” in the amount of ¥19,163 million.

(3) The following table summarizes the significant differences between the statutory tax rate and effective tax rates for consolidated financial statement purposes for the years ended March 31, 2017 and 2016:

	2017/3	2016/3
Statutory tax rate	30.9%	33.1%
Non-deductible expenses	1.2	3.3
Permanently non-deductible items including dividend income	(0.7)	(1.4)
Changes in valuation allowance	(13.7)	(18.4)
Differences of statutory tax rate in overseas consolidated subsidiaries	(1.2)	(6.9)
Goodwill amortization	0.4	19.9
Other	(3.0)	(0.9)
Effective tax rate	13.9%	28.7%

Revision in the amount of deferred tax assets and deferred tax liabilities due to a change in corporate tax rates

On November 18, 2016, the Japanese Diet passed two laws related to delaying raising the consumption tax to 10% from April 1, 2017 to October 1, 2019. These laws are the Act for Partial Revision to the Partial Revision, etc. of Consumption Tax Act for Ensuring Stable Resources (Act No. 85, 2016) and the Act to Partially Amend the Act for partial amendment of the Local Tax Act and Local Allocation Tax Act and for the Drastic Reform of the Taxation System for Ensuring Stable Financial Resources for Social Security (Act No. 86, 2016). Following this, the timing of implementation for repealing the special local corporate tax and the subsequent reinstatement of corporate enterprise taxes, the revision of local corporate tax rates, and the revision of corporate inhabitant tax break rates, which had been scheduled for fiscal years beginning on or after April 1, 2017, was also postponed to fiscal years beginning on or after October 1, 2019.

Although there was no change in the statutory tax rate used in calculating deferred tax assets and deferred tax liabilities, as a result of the reclassification of national and local tax rates, the Company's amount of deferred tax assets (excluding deferred tax liabilities) decreased ¥468 million while corporate tax adjustments increased by an equal amount.

19. Segment information

(1) Overview of reportable segments

The reportable segments of the Group comprise those entities for which obtaining separate financial reports is possible and those are subject to regular review by the Board of Directors, which decides upon the distribution of management resources to said segments.

The Group positions segments distinguished by their products and services within its headquarters. Each segment proposes comprehensive domestic and overseas strategies in addition to pursuing business expansion in its respective product and service area.

The four reportable segments (distinguished by products and services) that therefore comprise the Group's operations are: Mobility, Health Care, Food & Packaging and Basic Materials.

Segment		Major Products
Reportable Segments	Mobility	Elastomers, performance compounds, functional polymers and, polypropylene compounds
	Health Care	Vision care materials, nonwoven fabrics, dental materials and, personal care materials
	Food & Packaging	Coating & engineering materials, performance films and sheets and, agrochemical products
	Basic Materials	Ethylene, propylene, polyethylene, polypropylene, catalysts, phenols, PTA, PET, polyurethane materials and, industrial chemical products
Others	Others	Other related businesses, etc.

(2) Methods to determine net sales, income or loss, assets, and other items by reportable business segment

The accounting methods by reportable business segment herein are almost the same as those described under "significant accounting policies". Income by reportable business segment is stated on an operating income basis. Intersegment net sales and transfers are based on the values of transactions undertaken between third parties.

(3) Information concerning net sales, income or loss, assets, and other items for each reportable segment

Year ended March 31, 2017	Reportable Segments					Total	Others (Note 1)	Sum total
	Mobility	Health Care	Food & Packaging	Basic Materials				
I. Net sales:								
Customers	¥293,283	¥134,198	¥182,468	¥565,617	¥1,175,566	¥36,716	¥1,212,282	
Inter-segment	10,217	2,166	5,132	57,379	74,894	50,747	125,641	
Total	¥303,500	¥136,364	¥187,600	¥622,996	¥1,250,460	¥87,463	¥1,337,923	
II. Segment income (loss)	¥ 40,716	¥ 10,118	¥ 20,606	¥ 38,504	¥ 109,944	¥ (353)	¥ 109,591	
III. Segment assets	¥241,814	¥206,186	¥209,310	¥544,307	¥1,201,617	¥59,396	¥1,261,013	
IV. Other items:								
Depreciation and amortization (Note 2)	¥ 9,241	¥ 9,049	¥ 6,687	¥ 13,341	¥ 38,318	¥ 4,134	¥ 42,452	
Amortization of goodwill	—	1,148	—	—	1,148	100	1,248	
Investment in equity method affiliates	16,666	4,628	2,322	46,381	69,997	2,760	72,757	
Capital expenditures (Note 2)	10,447	8,745	7,145	14,221	40,558	3,936	44,494	

Year ended March 31, 2017	Reportable Segments					Total	Others (Note 1)	Sum total
	Mobility	Health Care	Food & Packaging	Basic Materials				
I. Net sales:								
Customers	\$2,614,163	\$1,196,167	\$1,626,419	\$5,041,599	\$10,478,348	\$327,267	\$10,805,615	
Inter-segment	91,069	19,307	45,744	511,445	667,565	452,330	1,119,895	
Total	\$2,705,232	\$1,215,474	\$1,672,162	\$5,553,044	\$11,145,912	\$779,598	\$11,925,510	
II. Segment income (loss)	\$ 362,920	\$ 90,186	\$ 183,671	\$ 343,203	\$ 979,980	\$ (3,146)	\$ 976,834	
III. Segment assets	\$2,155,397	\$1,837,829	\$1,865,674	\$4,851,653	\$10,710,553	\$529,424	\$11,239,977	
IV. Other items:								
Depreciation and amortization (Note 2)	\$ 82,369	\$ 80,658	\$ 59,604	\$ 118,914	\$ 341,545	\$ 36,849	\$ 378,394	
Amortization of goodwill	—	10,233	—	—	10,233	891	11,124	
Investment in equity method affiliates	148,552	41,251	20,697	413,415	623,915	24,601	648,516	
Capital expenditures (Note 2)	93,119	77,948	63,687	126,758	361,512	35,083	396,595	

Year ended March 31, 2016	Reportable Segments					Total	Others (Note 1)	Sum total
	Mobility	Health Care	Food & Packaging	Basic Materials				
I. Net sales:								
Customers	¥318,224	¥161,139	¥195,240	¥630,744	¥1,305,347	¥38,551	¥1,343,898	
Inter-segment	11,531	2,728	4,675	71,358	90,292	56,432	146,724	
Total	¥329,755	¥163,867	¥199,915	¥702,102	¥1,395,639	¥94,983	¥1,490,622	
II. Segment income (loss)	¥ 44,943	¥ 11,538	¥ 20,271	¥ 1,055	¥ 77,807	¥ (106)	¥ 77,701	
III. Segment assets	¥242,495	¥213,192	¥207,216	¥488,015	¥1,150,918	¥51,505	¥1,202,423	
IV. Other items:								
Depreciation and amortization (Note 2)	¥ 10,427	¥ 10,145	¥ 7,131	¥ 13,317	¥ 41,020	¥ 4,157	¥ 45,177	
Amortization of goodwill	—	2,897	—	166	3,063	90	3,153	
Investment in equity method affiliates	18,391	4,208	2,061	46,639	71,299	3,015	74,314	
Capital expenditures (Note 2)	6,722	6,153	8,901	17,642	39,418	3,548	42,966	

Notes: 1. "Others" encompasses operations not included in reportable segments.

2. Depreciation and amortization and capital expenditures include amortization costs and expenditures under long-term prepaid expenses.

(4) Reconciliation of differences between total amounts of reportable segments and amounts in the consolidated financial statements (adjustments)

Net sales:	Millions of yen		Thousands of U.S. dollars
	2017/3	2016/3	2017/3
Total reportable segment sales	¥1,250,460	¥1,395,639	\$11,145,912
Net sales classified under "Others"	87,463	94,983	779,598
Elimination of intersegment transactions	(125,641)	(146,724)	(1,119,895)
Net sales recorded in Consolidated Statements of Operations	¥1,212,282	¥1,343,898	\$10,805,615
Income:	Millions of yen		Thousands of U.S. dollars
	2017/3	2016/3	2017/3
Total reportable segment income	¥109,944	¥77,807	\$979,980
Income (loss) classified under "Others"	(353)	(106)	(3,146)
Elimination of intersegment transactions	(596)	86	(5,312)
Corporate expenses (Note)	(6,846)	(6,861)	(61,022)
Operating income recorded in Consolidated Statements of Operations	¥102,149	¥70,926	\$910,500

Note: Corporate expenses mainly comprise general and administrative expenses not usually attributed to segments.

	Millions of yen		Thousands of U.S. dollars
	2017/3	2016/3	2017/3
Assets:			
Total reportable segment assets	¥1,201,617	¥1,150,918	\$10,710,553
Assets classified under "Others"	59,396	51,505	529,424
Elimination of intersegment transactions	(116,819)	(99,315)	(1,041,260)
Corporate assets (Note)	181,331	155,840	1,616,284
Assets recorded in Consolidated Balance Sheets	¥1,325,525	¥1,258,948	\$11,815,001

Note: Corporate assets are mainly attributed to the Company's surplus management funds (cash and savings), long-term investment funds (investment securities), deferred tax assets and administrative departments.

	Millions of yen		Thousands of U.S. dollars
	2017/3	2016/3	2017/3
Depreciation and amortization:			
Total reportable segment amounts	¥38,318	¥41,020	\$341,545
Amounts classified under "Others"	4,134	4,157	36,849
Adjustment amounts (Note)	357	310	3,182
Amounts from Consolidated Financial Statements	¥42,809	¥45,487	\$381,576

Note: Adjustment amounts are Depreciation and amortization expenses related to new businesses development.

	Millions of yen		Thousands of U.S. dollars
	2017/3	2016/3	2017/3
Amortization of goodwill:			
Total reportable segment amounts	¥1,148	¥3,063	\$10,233
Amounts classified under "Others"	100	90	891
Adjustment amounts	—	—	—
Amounts from Consolidated Financial Statements	¥1,248	¥3,153	\$11,124

	Millions of yen		Thousands of U.S. dollars
	2017/3	2016/3	2017/3
Amount of investment in equity method affiliates:			
Total reportable segment amounts	¥69,997	¥71,299	\$623,915
Amounts classified under "Others"	2,760	3,015	24,601
Adjustment amounts	—	—	—
Amounts from Consolidated Financial Statements	¥72,757	¥74,314	\$648,516

	Millions of yen		Thousands of U.S. dollars
	2017/3	2016/3	2017/3
Capital expenditures:			
Total reportable segment amounts	¥40,558	¥39,418	\$361,512
Amounts classified under "Others"	3,936	3,548	35,083
Adjustment amounts (Note)	889	439	7,924
Amounts from Consolidated Financial Statements	¥45,383	¥43,405	\$404,519

Note: Adjustment amounts are capital expenditures related to new businesses development.

Related Information

(Information by Region)

	Millions of yen		Thousands of U.S. dollars
	2017/3	2016/3	2017/3
Net sales:			
Japan	¥ 697,065	¥ 745,738	\$ 6,213,254
China	121,188	130,494	1,080,203
Asia	167,617	208,296	1,494,046
America	153,434	169,815	1,367,626
Europe	66,082	80,766	589,019
Other regions	6,896	8,789	61,467
Total	¥1,212,282	¥1,343,898	\$10,805,615

Notes: 1. Net sales are classified by country and region based on customer location.

2. Major countries and regions located in areas outside of Japan and China are as follows:

(1) Asia: Taiwan, South Korea, Thailand, Malaysia, Singapore, India

(2) America: The United States, Mexico

(3) Europe: Germany, France

(4) Other regions: Oceania, Africa

Property, plant and equipment:	Millions of yen		Thousands of U.S. dollars
	2017/3	2016/3	2017/3
Japan	¥321,672	¥324,054	\$2,867,207
Singapore	42,279	46,043	376,852
Asia	23,022	23,757	205,205
Other regions	22,456	19,548	200,161
Total	¥409,429	¥413,402	\$3,649,425

Note: Major countries and regions located in areas outside of Japan and Singapore are as follows:

(1) Asia: China, Taiwan, South Korea, Thailand, Malaysia, India

(2) Other regions: North America, Europe

(Information by main customers)

Net sales:	Millions of yen		Thousands of U.S. dollars
	2017/3	2016/3	2017/3
Mitsui & Co., LTD.	¥208,382	¥233,131	\$1,857,403

Note: Related segments are as follows:

Mobility, Health Care, Food & Packaging, Basic Materials, Others

Information Concerning Impairment Loss of Fixed Assets by Reportable Segment

Impairment loss:	Millions of yen		Thousands of U.S. dollars
	2017/3	2016/3	2017/3
Mobility	¥ 51	¥ 340	\$ 455
Health Care	85	21,375	758
Food & Packaging	405	821	3,610
Basic Materials	461	1,480	4,109
Others	2,769	—	24,680
Corporate Expenses	340	44	3,031
Total	¥4,111	¥24,060	\$36,643

Information Concerning the Amount of Amortization and Unamortized Balance of Goodwill by Reportable Segment

Amount of amortization:	Millions of yen		Thousands of U.S. dollars
	2017/3	2016/3	2017/3
Mobility	¥ —	¥ —	\$ —
Health Care	1,148	2,897	10,233
Food & Packaging	—	—	—
Basic Materials	—	166	—
Others	100	90	891
Corporate Expenses	—	—	—
Total	¥1,248	¥3,153	\$11,124

Unamortized balance:	Millions of yen		Thousands of U.S. dollars
	2017/3	2016/3	2017/3
Mobility	¥ —	¥ —	\$ —
Health Care	7,104	9,003	63,321
Food & Packaging	—	—	—
Basic Materials	—	—	—
Others	303	405	2,701
Corporate Expenses	—	—	—
Total	¥7,407	¥9,408	\$66,022

20. Information on related party transactions

(1) Related party transactions

Main transactions of the Company with its affiliated companies for the year ended March 31, 2017 were as follows:

Name of company	Chiba Chemicals Manufacturing LLP
Type of related party	Affiliated company
Location	Chiyoda-ku, Tokyo
Paid-in capital	¥200 million (US\$1,783 thousand)
Business	Manufacturing petrochemical materials and supplying to partners
Holding ratio of voting rights	Direct 50%
Relationship	Supply and purchases of raw materials
Transaction amount (Notes 1, 2)	¥767 million (US\$6,837 thousand)
Balance at end of year (Note 2)	Other accounts receivable : ¥13,851 million (US\$123,460 thousand) Accounts payable: ¥12,596 million (US\$112,274 thousand)

Notes: 1. The trade terms of the above transactions were shown on a net basis in the Consolidated Statements of Operations.

2. The trade terms of the above transactions were determined based on consideration of the market prices and others.

Name of company	Shanghai Sinopec Mitsui Chemicals Co.,Ltd.
Type of related party	Affiliated company
Location	Shanghai, China
Paid-in capital	¥15,867 million (US\$141,430 thousand)
Business	Manufacturing and sales of phenol, acetone and bisphenol A In China
Holding ratio of voting rights	Direct 50%
Relationship	Loan guarantee, interlocking directors
Transaction amount (Note 3)	¥18,482 million (US\$164,738 thousand)

Note: 3. The Company conducts loan guarantees for the related party without guarantee fees.

Name of company	Shanghai Sinopec Mitsui Elastomers, Co., Ltd.
Type of related party	Affiliated company
Location	Shanghai, China
Paid-in capital	¥10,675 million (US\$95,151 thousand)
Business	Manufacturing and sales of ethylene, propylene and diene copolymer rubber in China
Holding ratio of voting rights	Direct 50%
Relationship	Loan guarantee, interlocking directors
Transaction amount (Note 4)	¥14,411 million (US\$128,452 thousand)

Note: 4. The Company conducts loan guarantees for the related party without guarantee fees.

(2) Summary of financial information for significant affiliated companies

The Company's significant affiliates are Du Pont-Mitsui Fluorochemicals Company, Ltd. and Shanghai Sinopec Mitsui Chemicals Co., Ltd. for the year ended March 31, 2017.

Du Pont-Mitsui Fluorochemicals Company, Ltd.

	Millions of yen		Thousands of U.S. dollars
	2017/3	2016/3	2017/3
Balance Sheet			
Total current assets	¥17,359	¥15,575	\$154,729
Total non-current assets	13,563	13,029	120,893
Total current liabilities	11,299	9,452	100,713
Total non-current liabilities	253	1,504	2,255
Total net assets	19,370	17,648	172,654
Statement of Operations			
Net sales	28,172	27,172	251,110
Profit (loss) before income taxes	7,820	7,403	69,703
Profit (loss)	5,293	4,836	47,179

Shanghai Sinopec Mitsui Chemicals, Co., Ltd.

	Millions of yen		Thousands of U.S. dollars
	2017/3	2016/3	2017/3
Balance Sheet			
Total current assets	¥ 9,460	¥ 11,528	\$ 84,321
Total non-current assets	29,649	36,659	264,275
Total current liabilities	39,358	31,342	350,815
Total non-current liabilities	7,453	16,789	66,432
Total net assets	(7,702)	56	(68,651)
Statement of Operations			
Net sales	26,687	28,998	237,873
Profit (loss) before income taxes	(6,478)	(11,462)	(57,741)
Profit (loss)	(7,573)	(11,559)	(67,502)

21. Supplementary information

(Application of the implementation guidance on recoverability of deferred tax assets)

The Company has applied the "Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26 revised March 28, 2016) effective from the year ended March 31, 2017.

22. Subsequent events

1. Share consolidation

(1) Purpose of share consolidation

As announced in the "Action Plan for Consolidating Trading Units," the Japanese securities exchanges nationwide aim to consolidate the trading units for common shares of all domestically listed companies into 100 shares.

As an entity that is listed on the Tokyo Stock Exchange, the Company respects the intent of the action plan, and will accordingly revise the number of shares per share unit, which acts as the trading unit of the Company's shares, to 100 shares, from 1,000 shares currently adopted. Furthermore, the Company will consolidate its shares in order to devise a unit of investment at a level deemed preferable by the stock exchange (at least ¥50,000 and less than ¥500,000).

(2) Consolidation ratio

The Company will consolidate five (5) shares of common stock into one (1) share of common stock.

The total number of shares issued after the share consolidation will be 204,404,015 shares*.

In accordance with the provisions of the Companies Act of Japan, any fractional shares arising as a result of the share consolidation will be collectively sold, and proceeds of the sale will be accordingly distributed to the shareholders thereof, in proportion to their fractional holdings.

* The total number of shares issued after the share consolidation is a theoretical value calculated based on the total number of shares issued before the share consolidation, and the consolidation ratio.

(3) Effective date of the share consolidation

October 1, 2017

(4) Total number of authorized shares as of the effective date

600,000,000 shares

The share consolidation will decrease the number of authorized shares to one-fifth the current number.

(5) Decrease in number of shareholders due to share consolidation

The share consolidation will cause those 1,209 shareholders who each hold fewer than five shares (the total number of shares held by such shareholders is 2,184 shares) to forfeit their status as shareholders.

(6) Treatment of fractional shares

In accordance with Article 235 of the Companies Act of Japan, any fractional shares emerging as a result of the share consolidation will be collectively sold, and proceeds of the sale will be accordingly distributed to the shareholders thereof, in proportion to their fractional holdings.

(7) Other

Share consolidation relating to this proposal is subject to the approval of the proposal 4 “Partial amendments to the Articles of Incorporation.”

Any other necessary procedural issues shall be entrusted to the Board of Directors.

(Note) Although the share consolidation will result in a reduction in the total number of issued shares to one-fifth of the present number, there will be no change in net assets or the like, meaning that net assets per share will be five times the current amount. Therefore, there will be no change in the respective asset values of shares of the Company held by each shareholder, except when impacted by other factors such as fluctuations in the stock market.

2. Partial amendments to the Articles of Incorporation

(1) Purpose of revision

① In light of the current conditions of the businesses of the Company and its subsidiaries, the Company has made changes to the business purposes outlined in Article 2 (Purpose) of the current Articles of Incorporation in order to clarify its business lines.

② The Company has revised the number of its authorized shares to 600,000,000 shares, from the previous 3,000,000,000 shares, as set out in Article 6 (Total Number of Authorized Shares) of the current Articles of Incorporation. This change was made with the aim of ensuring a more optimal number of authorized shares in light of a decrease in the overall number of shares issued and was approved by the General Meeting of Shareholders.

③ The Company has revised Article 8 (Number of Shares per Unit) of the current Articles of Incorporation in order to change its number of shares per share unit to 100 shares, from the previous 1,000 shares. This is being done out of respect for the intent of the “Action Plan for Consolidating Trading Units” released by the Japanese securities exchanges nationwide and was approved by the General Meeting of Shareholders.

④ The Company has revised Article 18 (Voting Right by Proxy) of the current Articles of Incorporation to clarify that each proxy in writing must be submitted to the Company at the General Meeting of Shareholders in cases involving the exercise of voting rights by proxy.

⑤ In order to facilitate flexible operations of the Board of Directors, the Company has established new provisions under Article 24 (Omission of Resolutions of the Board of Directors) that make it possible to regard a resolution item as having been resolved by the Board of Directors, as long as all directors furnish their consent with respect to a resolution item in writing or by means of electromagnetic record, and as long as none of the corporate auditors raise objections in that regard. In the current Articles of Incorporation, the Articles from Article 24 onward will be renumbered accordingly.

⑥ The Company has revised Article 24 (Liability Exemption of Directors) and Article 31 (Liability Exemption of Auditors) of the current Articles of Incorporation, in accordance with changes with respect to the extent to which it is possible to enter into liability limitation contracts under the “Act for Partial Revision of the Companies Act” (Act No. 90 of 2014), in effect on May 1, 2015. Consent of all Corporate Auditors has been obtained with respect to revising Article 24 of the current Articles of Incorporation

⑦ The Company will establish supplementary provisions whereby the revisions of Article 6 (Total Number of Authorized Shares) and Article 8 (Number of Shares per Unit) of the current Articles of Incorporation take effect on October 1, 2017, the effective date of the share consolidation, and accordingly the supplementary provisions shall be deleted as of that same date.

3. Details of amendments

The following proposals to change parts of the current Articles of Incorporation were approved by the General Meeting of Shareholders.

(The underlined portion indicates the proposed place of amendment.)

Current Articles of Incorporation	Proposed Amendments	Remarks
(Purpose)	(Purpose)	
Article 2.	Article 2.	
The purpose of the Company shall be to engage in the following business:	The purpose of the Company shall be to engage in the following business:	
2.1 Manufacture, processing, sale and purchase of the following products:	2.1 Manufacture, processing, sale and purchase of the following products:	
a) to k) (Omitted)	a) to k) (Same as present)	
(Newly established)	l) <u>Composite materials such as metals and polymer compounds, and materials for robotics</u>	Newly established
l) Film, high-performance film and sheet for packaging and industrial uses, etc.	m) Film, high-performance film and sheet for packaging and industrial uses, etc.	
m) Civil engineering, building, housing and agricultural materials	n) Civil engineering, building, housing and agricultural materials	
n) Logistic materials such as pallets for loading, pallets for transport and packaging bags	o) Logistic materials such as pallets for loading, pallets for transport and packaging bags	
(Newly established)	p) <u>Metal molds</u>	Newly established
2.2 to 2.18 (Text omitted)	2.2 to 2.18 (Same as present)	
(Total Number of Authorized Shares)	(Total Number of Authorized Shares)	
Article 6.	Article 6.	
The total number of shares authorized to be issued by the Company shall be <u>three billion (3,000,000,000)</u> shares.	The total number of shares authorized to be issued by the Company shall be <u>six hundred million (600,000,000)</u> shares.	Amended
(Number of Shares per Unit)	(Number of Shares per Unit)	
Article 8.	Article 8.	
The number of shares of the Company per unit shall be <u>one thousand (1,000)</u> shares.	The number of shares of the Company per unit shall be <u>one hundred (100)</u> shares.	Amended
(Voting Right by Proxy)	(Voting Right by Proxy)	
Article 18.	Article 18.	

Current Articles of Incorporation	Proposed Amendments	Remarks
Shareholders may exercise their votes by proxy who shall be a shareholder of the Company and be able to exercise the voting right.	18.1 Shareholders may exercise their votes by proxy who shall be a shareholder of the Company and be able to exercise the voting right.	
(Newly established)	18.2 <u>A shareholder or proxy must submit written proof to the Company attesting to the proxy rights at each General Meeting of Shareholders.</u>	Newly established
(Newly established)	<u>(Omission of Resolutions of the Board of Directors)</u> <u>Article 24.</u> <u>The Company shall deem that a resolution of the Board of Directors has been adopted if the requirements stipulated by Article 370 of the Companies Act have been fulfilled.</u>	Newly established
(Liability Exemption of Directors)	(Liability Exemption of Directors)	
Article <u>24.</u>	Article <u>25.</u>	
<u>24.1</u> Under the provisions of Article 426 (1) of the Companies Act, the Company may, by resolution of the Board of Directors, exempt Directors (including persons who were Directors) from liability related to negligence of their duties, within the limits permitted by law.	<u>25.1</u> Under the provisions of Article 426 (1) of the Companies Act, the Company may, by resolution of the Board of Directors, exempt Directors (including persons who were Directors) from liability related to negligence of their duties, within the limits permitted by law.	
<u>24.2</u> Under the provisions of Article 427 (1) of the Companies Act, the Company may enter into a contract with <u>Outside Directors</u> limiting their liability for damages arising from negligence of their duties. However, the amount of the limit on liability for damages according to such a contract shall be limited to the total of the amount stipulated in the law.	<u>25.2</u> Under the provisions of Article 427 (1) of the Companies Act, the Company may enter into a contract with <u>Directors (excluding executive directors, etc.)</u> limiting their liability for damages arising from negligence of their duties. However, the amount of the limit on liability for damages according to such a contract shall be limited to the total of the amount stipulated in the law.	Amended
(Liability Exemption of Auditors)	(Liability Exemption of Auditors)	
Article <u>31.</u>	Article <u>32.</u>	
<u>31.1</u> Under the provisions of Article 426 (1) of the Companies Act, the Company may, by resolution of the Board of Directors, exempt Corporate Auditors (including persons who were Corporate Auditors) from liability related to negligence of their duties, within the limits permitted by law.	<u>32.1</u> Under the provisions of Article 426 (1) of the Companies Act, the Company may, by resolution of the Board of Directors, exempt Corporate Auditors (including persons who were Corporate Auditors) from liability related to negligence of their duties, within the limits permitted by law.	

Current Articles of Incorporation	Proposed Amendments	Remarks
<p><u>31.2</u> Under the provisions of Article 427 (1) of the Companies Act, the Company may enter into a contract with <u>Outside Corporate Auditors</u> limiting their liability for damages arising from negligence of their duties. However, the amount of the limit on liability for damages according to such a contract shall be limited to the total of the amount stipulated in the law.</p> <p>(Newly established)</p>	<p><u>32.2</u> Under the provisions of Article 427 (1) of the Companies Act, the Company may enter into a contract with <u>Corporate Auditors</u> limiting their liability for damages arising from negligence of their duties. However, the amount of the limit on liability for damages according to such a contract shall be limited to the total of the amount stipulated in the law.</p> <p><u>Supplementary Provision</u></p> <p><u>Amendments to Article 6 and Article 8 of these Articles of Incorporation take effect on October 1, 2017.</u></p> <p><u>Accordingly, these Supplementary Provisions shall be deleted as of October 1, 2017.</u></p>	<p>Amended</p> <p>Newly established</p>

4. Reduction in amount of legal capital surplus

(1) Purpose of reduction in amount of legal capital surplus

To secure agility and flexibility for future capital policies, such as the acquisition of treasury stock, the Company proposes to make a reduction in the amount of legal capital surplus and allocate it to other capital surplus in accordance with the provisions of the Article 448, Paragraph 1 of the Companies Act of Japan.

(2) Details of reduction in amount of legal capital surplus

① Amount of legal capital surplus to be reduced

The Company proposes to reduce the legal capital surplus of ¥93,782,722,186 by ¥40,000,000,000 and to allocate the full amount of the legal capital surplus reduction to other capital surplus. The total amount of the legal capital surplus after the reduction will be ¥53,782,722,186.

② Effective date of reduction in amount of legal capital surplus

June 27, 2017

Independent Auditor's Report



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Independent Auditor's Report

The Board of Directors
Mitsui Chemicals, Inc.

We have audited the accompanying consolidated financial statements of Mitsui Chemicals, Inc. and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2017, and the consolidated statements of operations, 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, all expressed in Japanese yen.

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 designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Mitsui Chemicals, Inc. and its consolidated subsidiaries as at March 31, 2017, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 4.

Ernst & Young ShinNihon LLC

June 27, 2017
Tokyo, Japan

Major Subsidiaries and Affiliates

(As of March 31, 2017)

This classification of Group companies to each segment is pursuant to the change in the segment classification as of April 1, 2017.

*Consolidated Subsidiary

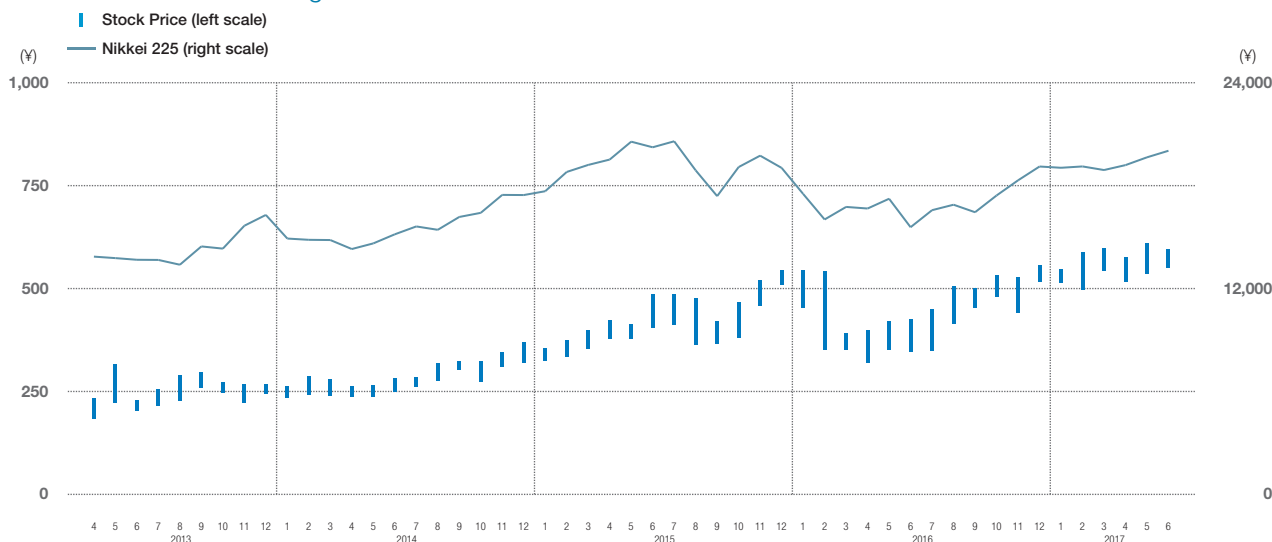
Companies	Major Products or Lines of Business		Paid-in Capital (In millions)	Equity Interest (%)
Mobility				
* Mitsui Elastomers Singapore Pte. Ltd.	Elastomer	US\$	96	100
* Zhang Jia Gang Free Trade Zone Mitsui Link-Upon Advanced Materials, Inc.	Engineering plastic compounds	US\$	5.7	60
* Mitsui Chemicals Functional Composites (Shanghai) Co., Ltd.	Manufacture and distribution of Milastomer™ and Admer™	¥	970	100
* Saxin Corporation	Molded synthetic resins	¥	128	71.4
* Sun Alloys Co., Ltd.	Compounded polymers	¥	50	100
* Advanced Composites, Inc.	Polypropylene compounds	US\$	44.3	62.8
* Advanced Composites Mexicana S.A. de C.V.	Polypropylene compounds	US\$	2.6	100
* Grand Siam Composites Co., Ltd.	Polypropylene compounds	Baht	64	48.2
* Mitsui Advanced Composites (Zhongshan) Co., Ltd.	Polypropylene compounds	US\$	15.3	70
* Mitsui Prime Advanced Composites India Pvt. Ltd.	Polypropylene compounds	Rupee	2,450	91
* Produmaster Advanced Composites Indústria e Comércio de Compostos Plásticos Ltda.	Polypropylene compounds	BRL	59	100
* Mitsui Chemicals Industrial Products, Co., Ltd.	Civil engineering and construction materials, and piping materials	¥	400	100
Shanghai Shinopec Mitsui Elastomers, Co., Ltd.	EPT	Yuan	637	50
Du Pont-Mitsui Polychemicals Co., Ltd.	Ethylene vinyl acetate copolymers and other ethylenic copolymers	¥	6,480	50
Du Pont-Mitsui Fluorochemicals Co., Ltd.	Fluorocarbon resins and gases, and other related chemicals	¥	2,880	50
Health Care				
* SDC Technologies, Inc.	High performance coating materials for plastics and non-ferrous metals	US\$	84	100
* Acomon S.R.L.	Plastic optical lens monomers	Euro	6	100
* KOC Solution Co., Ltd.	Plastic optical lens monomers	Won	500	51
* Toyo Beauty Supply Corporation	Cosmetics	¥	40	60
* Mitsui Fine Chemicals, Inc.	Fine chemical products	¥	400	100
* Yongsan Mitsui Chemicals, Inc.	Acrylamide	Won	5,606	50
* Sunrex Industry Co., Ltd.	Spunbonded nonwoven fabrics and fibers	¥	240	100
* Mitsui Hygiene Materials (Thailand) Co., Ltd.	Spunbonded nonwoven fabrics and breathable films	Baht	1,310	100
* Mitsui Chemicals Nonwovens (Tianjin) Co., Ltd.	Spunbonded nonwoven fabrics	Yuan	164	100
* Sun Medical Co., Ltd.	Dental materials	¥	100	70
* Heraeus Kulzer GmbH	Dental materials	Euro	25.1	80
* Yamamoto Chemicals, Inc.	Dyes, pigments and industrial chemicals	¥	350	100
* ESCO Company, LLC	Color formers and catalysts	US\$	18	100
Food & Packaging				
* Japan Composite Co., Ltd.	Unsaturated polyester resins and molding materials for FRP	¥	1,005	65
* Mitsui Chemicals MC, Ltd.	Polyurethane resins and compounds	¥	300	100
* Cosmo Scientex (M) Sdn. Bhd.	Polyurethane for packaging adhesives	RM	10	70
* Image Polymers Company, LLC	Toner resins	US\$	9.6	100
* Anderson Development Company	Specialty chemicals	US\$	19.2	100
* Mitsui Chemicals Tohcello, Inc.	Packaging films, industrial films, functional sheets	¥	3,450	100
* Siam Tohcello Co., Ltd.	T.U.X™ (sealant film)	Baht	592	55
* Mitsui Chemicals Agro Inc.	Agrochemical formulation products and public health insecticides	¥	350	100

*Consolidated Subsidiary

Companies	Major Products or Lines of Business	Paid-in Capital (In millions)	Equity Interest (%)
Basic Materials			
* Mitsui Phenols Singapore Pte. Ltd.	Phenol, acetone and bisphenol-A	US\$ 120	95
* Osaka Petrochemical Industries, Ltd.	Ethylene, propylene and other basic petrochemical products	¥ 100	100
* Prime Polymer Co., Ltd.	Polyethylene and polypropylene	¥ 20,000	65
* Evolve Japan Co., Ltd.	Polyethylene	¥ 100	75
* Prime Evolve Singapore Pte. Ltd.	Polyethylene	US\$ 115	80
* Shimonoseki Mitsui Chemicals, Inc.	Phosphoric acid and gases	¥ 3,000	100
* Toyo Phosphoric Acid, Inc.	Phosphoric acid	¥ 1,500	60
Shanghai Sinopec Mitsui Chemicals, Co., Ltd.	Phenol, acetone and bisphenol-A	Yuan 947	50
Siam Mitsui PTA Co., Ltd.	PTA	Baht 4,800	50
P.T. Petnesia Resindo	PET resin for bottles	US\$ 28	49.7
Thai Pet Resin Co., Ltd.	PET resin for bottles	Baht 900	40
Chiba Chemicals Manufacturing LLP	Joint operation of ethylene complex in Chiba	¥ 200	50
Mitsui Chemicals & SKC Polyurethanes Inc.	Development, manufacturing, and sales of polyurethane materials	Won 70,000	50
Honshu Chemical Industry, Ltd.	Fine chemicals	¥ 1,500	26.9
Others			
* Whole You, Inc.	Medical devices	US\$ 12	100
* Kyowa Industrial Co., Ltd.	Molds for automobile and the other products	¥ 95	100
* Mitsui Chemicals Singapore R&D Centre Pte. Ltd.	Research and development for the MCI Group (contract base)	US\$ 7	100
* Mitsui Chemical Analysis & Consulting Service, Inc.	Performing analysis, physical property measurements, and safety tests on chemicals	¥ 140	100
* MC Operation Support, Ltd.	Operation support for MCI Production sites	¥ 10	100
* MC Business Support, Ltd.	Placements, temporary work and insurance and travel agency	¥ 50	100
* Hokkaido Mitsui Chemicals, Inc.	Industrial plastics	¥ 1,500	100
* Mitsui Chemicals Asia Pacific, Ltd.	Sales and marketing of Mitsui Chemicals products, representative office function, and support of headquarter	S\$ 3	100
* Mitsui Chemicals (China) Co., Ltd.	Sales and marketing of Mitsui Chemicals products, representative office function, and support of headquarter	US\$ 9.6	100
* Mitsui Chemicals America, Inc.	Sales and marketing of Mitsui Chemicals products, representative office function, and support of headquarter	US\$ 169	100
* Mitsui Chemicals Europe GmbH	Sales and marketing of Mitsui Chemicals products, representative office function, and support of headquarter	Euro 1.2	100
* Mitsui Chemicals India, Pvt. Ltd.	Sales and marketing of Mitsui Chemicals products	Rupee 134	100
* Mitsui Chemicals Do Brasil Comércio Ltda.	Sales and marketing of Mitsui Chemicals products	US\$ 1.4	100
* Taiwan Mitsui Chemicals, Inc.	Sales and marketing of Mitsui Chemicals products	NT\$ 14	100
* Mitsui Chemicals Korea, Inc.	Sales and marketing of Mitsui Chemicals products	Won 1,000	100

Stock Information

Common Stock Price Range



Major Shareholders

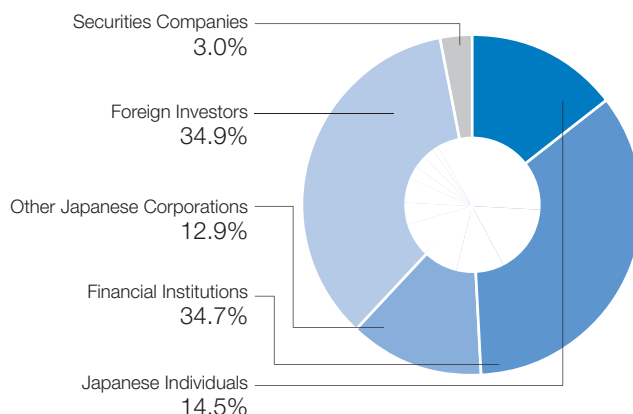
(As of March 31, 2017)

Major Shareholders	Number of shares held (Thousands)	Percentage of shares held (%)
Japan Trustee Services Bank, Ltd. (Trust account)	65,728	6.57
The Master Trust Bank of Japan, Ltd. (Trust account)	63,278	6.32
Toray Industries, Inc.	37,425	3.74
Japan Trustee Services Bank, Ltd. (Trust account 4)	21,089	2.10
Sumitomo Mitsui Banking Corporation	19,687	1.96
Japan Trustee Services Bank, Ltd. (Trust account 5)	17,489	1.74
Mitsui & Co., Ltd.	17,370	1.73
Japan Trustee Services Bank, Ltd. (MITSUI & CO., LTD. Retirement Benefit Trust Account re-entrusted by Sumitomo Mitsui Trust Bank, Limited)	17,370	1.73
CHASE MANHATTAN BANK GTS CLIENTS ACCOUNT ESCROW	16,376	1.63
GOVERNMENT OF NORWAY	15,523	1.55

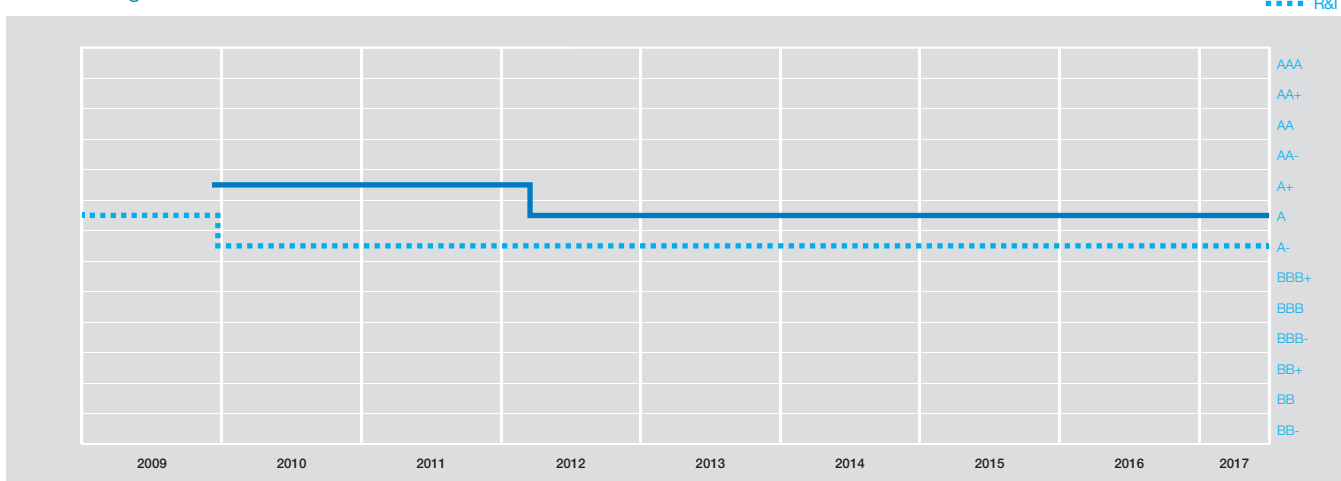
*The percentage of shares held is calculated after deducting the Company's treasury stocks (21,683,571 shares).
 *The company's holdings of treasury stock (21,683,571 shares) are not included in the above figures.

Composition of Shareholders

(As of March 31, 2017)



Credit Ratings



JCR: Japan Credit Rating Agency, Ltd.
 R&I: Rating and Investment Information



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Responsible Care

Printed in Japan