



Share Our Vision

共創

Kyo

So

Co-creation,  
Collaboration,  
Cooperation

# Share Our Vision

# 共創

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So

**Co-creation,  
Collaboration,  
Cooperation**

Sharing a common vision with our stakeholders, we are committed to creating value together with the aim of realizing a sustainable society.

President & CEO

淡輪 敏

Tsutomu Tannowa

Calligraphy by Tsutomu Tannowa





## 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

## The Mitsui Chemicals Group's Future Vision



Sustainable Development of Society and the Mitsui Chemicals Group

# The Mitsui Chemicals Group's Value Creation Process

## Solving Social Challenges through Business Activities



Social issues that the chemicals industry must help resolve

## Mitsui Chemicals Group's Selection of Key Issues (Materiality)

### Impact of the Mitsui Chemicals Group's business on society

- Measures to address climate change (reducing GHG emissions)
- Air environment preservation
- Water resource protection and control
- Biodiversity
- Industrial waste control
- Efficient use of resources
- Stable supply of industrial materials
- Optimization of domestic production
- Safety and prevention
- Product stewardship
- Quality of products and services
- Employment and human resources
- Labor conditions
- Communication with society

### Social challenges that the Mitsui Chemicals Group should help to resolve

- Low environmental-footprint products and services
- Development of renewable energy
- Shift to urbanization and smart cities
- Declining birthrate and aging population
- Quality of life (QOL)
- Advancement of medical and pharmaceutical fields
- Food problem

### Basic subjects

- CSR procurement
- Compliance

## 2014 Mid-Term Business Plan Creating New Customer Value through Innovation



Customer's Needs

Pursuing Customer Value

### Solutions

Materials

Parts / Components

End Products

Systems



## Business Environment Risks

- Markets in advanced countries reaching maturity
- Reported slowdowns of growth in China and emerging countries
- Rapid fluctuations in exchange rates, oil prices, etc.
- Overcapacity centered on Asia
- Increase in geopolitical risk, including situation in Middle East

## How the Mitsui Chemicals Group Creates Value

In accordance with its corporate mission of “keeping in harmony with the environment,” the Mitsui Chemicals Group works to help resolve social challenges through business activities that emphasize striking a balance between economic, environmental and social considerations.

Promoting “creating new customer value through innovation” under its fiscal 2014 Mid-Term Business Plan, the Group seeks to maximize the worth and utility of its “value-creating resources”—while constantly striving to enhance the business foundation that underpins those resources—by working with all its stakeholders and targeting the sustainable development.

# Sustainable Development of Society and the Mitsui Chemicals Group

## Value We Want to Create with Society

### Promoting Human Well-being

- Promote the realization of lifestyles that realize a sense of safety and affluence
- Contribute to global environmental protection

### Contributing to the Value of Shareholders' Investments

- Maintain stable returns on profits to shareholders by ensuring sustainable profit growth

### Increasing Customer Satisfaction

- Act with the utmost integrity when interacting and fulfilling the needs of customers
- Provide solutions that expand potential
- Provide products and services that can realize new value

### Contributing to Local Communities

- Ensure ongoing safe business operations, pursue the development of local economies and the realization of stable employment
- Contribute to environmental load reduction, seek out solutions to current issues

### Promoting Happiness and Self-Fulfillment of Employees

- Cultivate pride by giving employees a real sense of development and meaningful work
- Create workplace environments that allow people to work in a healthy and lively manner
- Treat employees in accordance with corporate performance, motivation and achievements



## Value-Creating Resources

**R&D capabilities** that create new businesses and new products

**Diverse human resources** that desire to take on challenges

**Global network** encompassing production, sales, and research

Relationships based on mutual trust with **stakeholders**

Organizational culture that **prioritizes safety**

**Frontline capabilities** with high aspirations

Robust **financial structure**

## Our Foundation

Corporate governance, risk and compliance management,  
Mitsui Chemicals brand, core values, action guidelines

## 1 Our Vision

- 1 Corporate Vision / The Mitsui Chemicals Group's Future Vision
- 2 The Mitsui Chemicals Group's Value Creation Process

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### Editorial Policy

The Mitsui Chemicals Group's annual report for fiscal 2015, the year ended March 31, 2016, entitled the *Mitsui Chemicals Report 2016*, and represents a further evolution in its reporting.

In compiling this report we sought not only to secure our readers' deeper understanding of the Group, but also 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, which continue to attract attention globally, 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, 2015, to March 31, 2016  
(Some data may postdate April 2016)

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

### Investor Relations Website

For more detailed information, for example on the results for the fiscal year ended March 31, 2016, please visit:  
<http://www.mitsuichem.com/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/csr/index.htm>

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



# Chemistry must play a prominent role in addressing a variety of social issues.



I believe that the chemical industry has an extremely important role to play in addressing a wide variety of global issues.

Reflecting in its Corporate Vision, the Mitsui Chemicals Group again took stock of its purpose and significance. In the course of reassessing the areas in which we can best serve society, we have established the Mitsui Chemicals Group's Future Vision.

Aiming for the sustainable growth and the development of both society and the Mitsui Chemicals Group, we are working to resolve social challenges along the three axes of the economy, the environment, and society.

The "Share Our Vision: — 共創 Kyo So; Co-creation, Collaboration, Cooperation" concept focuses on the need to promote a deep sense of awareness and mutual understanding of the Mitsui Chemicals Group's Future Vision and the value that we hope to create. This concept also blends the strengths of the Group's human resources and culture, the wellspring that drives our value-creation endeavors, with the aspirations of all stakeholders while serving as a rallying call to make this vision a reality.

The Mitsui Chemicals Group will continue to promote meaningful dialogue with stakeholders and engage in activities aimed at realizing the common global vision of creating a sustainable society.

**Tsutomu Tannowa**  
President & CEO

# Share Our Vision

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Co-creation,  
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Our Vision

# Delivering a Sense of Genuine Happiness

The role of the Mitsui Chemicals Group is to ascertain those technologies, products, and services that society and customers genuinely need. Lending a keen ear to the voices of customers, we will make the most of our comprehensive strengths to provide a host of solutions.



## To Our Stakeholders

"It would be great to have these products and services."  
"Is this possible?"

The Mitsui Chemicals Group works diligently to uncover customers' requirements and identify deep-seated needs. We then take great pains to utilize the necessary technologies to give shape to and commercialize this demand. Taking into consideration the productivity of customers as well as the requirements of end consumers, we strive to provide the technologies, products, and solutions that are genuinely in need while constantly promoting dialogue with customers.

We recognize that strong ties of trust with customers are a source of research and development strength. As a provider of genuine solutions, we aspire to be the first company that customers come to for help.

## From Our Stakeholders

Pages 18 to 25, Co-creation with Customers

### Actions

- Implement 2014 Mid-Term Business Plan "Creating New Customer Value through Innovation"
- Execute research and development strategies

### Indicators

- Operating income
- ROA, ROE
- Research and development expenses

### Related pages

- Creating Value in Targeted Business Domains p. 18
- Co-creation with Customers—A History of Development p. 24
- Strategies Aimed at Creating New Value p. 26
- Our Operations p. 40
- Research and Development / Intellectual Property p. 53

# Our Vision

## Building ties of mutual respect with colleagues worldwide and working to ensure the growth of the Group while realizing our full potential

Human resources are the wellspring of the value creation process. Based on the fundamental principle that people need to be treated well so they can motivate and strengthen one another as they work to create a better future, the Mitsui Chemicals Group aims to strike a balance between sustainable growth and the happiness and self-fulfillment of its employees.



### Actions

- Develop global human resources
- Promote diversity & inclusion
- Manage employee health

### Indicators

- Ratio of local employees appointed to the general manager
- Ratio of female employees

### Related pages

- Human Resource Management p. 61
- Health Management p. 63

## From Our Stakeholders

My role is to swiftly expand the Group's business in India. Key to this endeavor is the development of our local employees. The shortest path to success is for people who have spent their lives in India and are well versed in the ways of the market to consider what steps are required to secure business growth. Because it is vital that all employees fully accept and understand the Mitsui Chemicals way, I am committed to building a corporate culture conducive to the creation of businesses that are grounded in the Company's spirit, going beyond the appointment of a select few individuals. I strongly believe this will in turn lead to the genuine localization of management.

**Toshihiro Omura**

Managing Director, Mitsui Chemicals India Pvt. Ltd.

Mitsui Chemicals India Pvt. Ltd. is a company overflowing with youthful vitality. Mitsui Chemicals, Inc., on the other hand, has a long history and its own rich culture. A part of this culture is the reliability that fosters a deep sense of trust. Bringing these qualities together in India, a market exhibiting powerful growth, the opportunity exists for employees to thrive in concert with the company. Looking ahead, I would like to help nurture our young staff and to instill a strong sense of commitment toward achieving established goals.

While building strong ties of trust between Mitsui Chemical's head office and operations in India, we will work to swiftly expand our business.

**Suraj Arya**

Deputy Managing Director, Mitsui Chemicals India, Pvt. Ltd.

# Our Vision

**Safety is paramount; not only our own safety but that of our families, colleagues, and society as a whole must be assured.**

We are committed to putting safety first in everything that we do. Safe production operations are an absolute requirement of management and a basic premise of corporate survival. In addition to enhancing our technological capabilities and passing on our expertise, we will continue to engage earnestly in the necessary activities to foster a culture that is grounded in safety.

## Action

- Promote Responsible Care (RC) activities
  - Labor safety
  - Process safety and disaster prevention

## Indicator

- Work-related significant occupational injury frequency rate

## Related pages

- Discussion on Safety p. 55
- Responsible Care p. 58



# From Our Stakeholders

Increasing safety awareness is hard, cultivating a safety culture is even harder. It is all about building the right safety mind-set and behavior in people. A leader is expected to play an important part in building a safety culture by serving as a role model.

It is always an uphill task to ensure that the workplace is safe and that people work safely. SCG Chemical pushes hard every day to ensure that a safety mindset becomes ingrained.

Working collaboratively with Mitsui Chemicals, SCG Chemical's Operation Excellence Training Center (OETC) has been set up with the objective of honing the skills of trainers. OETC builds on the knowledge and best practices of the two companies' highly skilled senior training staff. The knowledge these trainers possess will be passed on to the next generation, thus securing effective and safe petrochemicals plant operations into the future.

We believe that safety is the foundation that supports sustainable business growth.

**Cholanat Yanaranop**  
President  
SCG Chemical Co., Ltd.

## Our Vision

**We are committed to earning the trust of shareholders and investors through sustainable earnings growth and the return of profits as well as by engaging in direct dialogue.**

In addition to increasing the transparency of management and taking seriously the opinions of stakeholders, the Mitsui Chemicals Group works diligently to further enhance its corporate value as a part of efforts to prove worthy of the trust of shareholders and investors.

### Actions

- Convey messages from top management
- Execute business and financial strategies
- Improve and expand IR activities

### Indicators

- Net D/E ratio
- Consolidated dividend payout ratio / DOE

### Related pages

- Messages from the President and CFO p. 30
- Discussion between an Analyst and the President p. 36
- Interview with an Institutional Investor p. 39
- IR Activities p. 74

## From Our Stakeholders

The Mitsui Chemicals Group maintains a positive approach toward the disclosure of information and conveying messages from top management to all stakeholders.

Looking ahead, the Group will continue to promote constructive dialogue with shareholders, investors, and analysts. The Group will focus on increasing its corporate value and market capitalization by engaging in kyo so, or co-creation, with stakeholders.

**Takato Watabe**  
Managing Director

Morgan Stanley MUFG Securities Co., Ltd., Equity Research

# Our Vision

## Maintaining an approach toward governance that is unique to Mitsui Chemicals while endeavoring to enhance corporate value

Drawing on the various comments and proposals that are grounded in the wide-ranging experience of outside directors, we are striving to become a better corporate group while promoting business reforms.



### Actions

- Enhance corporate governance
- Ensure thorough risk and compliance management

### Indicators

- Assessment of the efficacy of the Board of Directors

### Related pages

- Discussion between Outside Directors and a Responsible Officer p. 64
- Corporate Governance p. 66
- Risk and Compliance Management p. 70

## From Our Stakeholders

Kyo So, or co-creation, begins with the sharing of dreams. Interacting with customers to ascertain how best to build the ideal society while working in unison to uncover wide-ranging solutions is key to building long-term ties of mutual trust and enhancing the Group's corporate value. I hope that each and every employee shares in this aspiration going forward.

**Yukiko Kuroda**, Outside Director

Ensuring that deliberations by the Board of Directors incorporate a more focused approach toward the long-term nature of corporate strategies will, I believe, become increasingly important. Looking solely from the outside is insufficient to clearly realize a medium- to long-term perspective. It is vital that the Mitsui Chemicals Group understand prevailing expectations and exactly what others require. I would therefore like to see the Group make definitive inroads into customers' domains and to use this in the development of new materials and products.

**Yoshio Suzuki**, Outside Director  
(June, 2016)



## Our Vision

**We are driven by the desire to forever preserve the abundance of our planet and engage the next generation in dialogue.**

Promoting harmony with the environment as part of our management philosophy, we pursue environmentally friendly business activities. In order to foster sustainability—a desire shared by all who live on this planet—we engage in activities that convey the enjoyment and possibilities of chemistry to children, who will lead the next generation, and contribute to the revitalization of local communities.

## To Our Stakeholders

**“This is the first time I’ve ever seen a firefly!”**  
**“It’s amazing how many living things there are!”**

We want even more people to know about all the many living things that inhabit rice fields.

We invite farmers and consumers to participate in the “Wildlife Survey on Rice Fields,” which we conduct to promote serious consideration about the future of agriculture, food, and the environment. We also invite neighboring elementary school children to take part in events that provide them the opportunity to observe a wide variety of wildlife by going into rice fields.

Beyond the manufacture and sale of agrochemicals, we conduct surveys to assess the impact of agrochemicals on wildlife inhabiting rice paddies to improve products and facilitate development. Through these activities, we will provide environmentally friendly, high-quality products and services.

### Actions

- Contribute to the environment and society through our business activities
- Promote Responsible Care (RC) activities  
Preserve the environment
- Conduct local community-based social contribution activities

### Indicators

- Blue Value™, environmental contribution indicator
- Greenhouse gas emissions
- Average landfill ratio for industrial waste

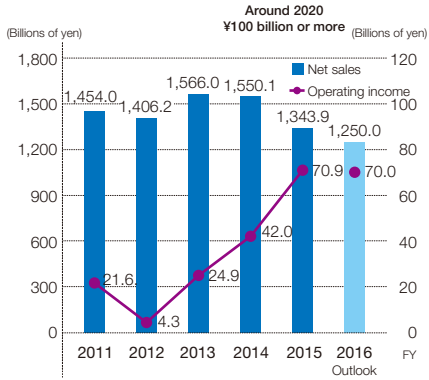
### Related pages

- Quantifying Environmental Contributions p. 29
- Responsible Care p. 58
- Social Contribution Activities  
<http://www.mitsui-chem.com/csr/society/>

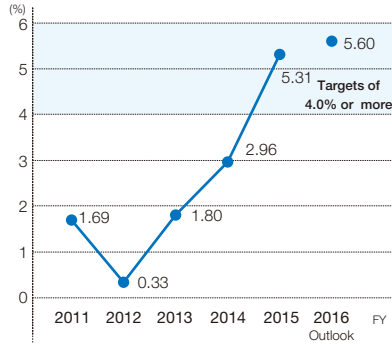
# Value Creation Indicators

(As of May 13, 2016)

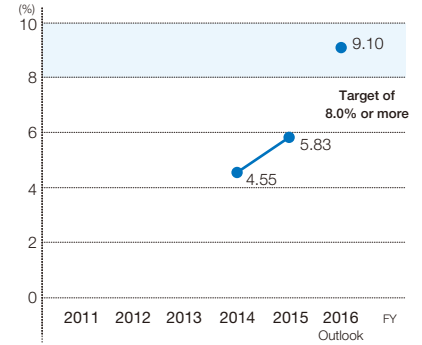
## Net sales/Operating income



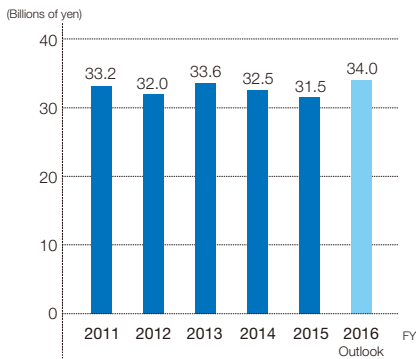
## ROA



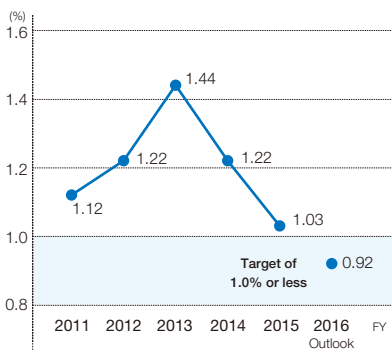
## ROE



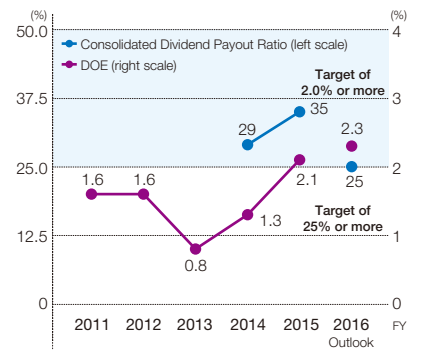
## R&D expenses



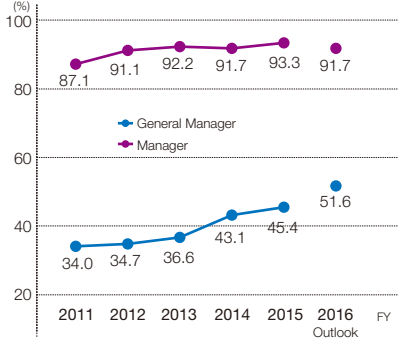
## Net D/E ratio



## Consolidated dividend payout ratio/DOE

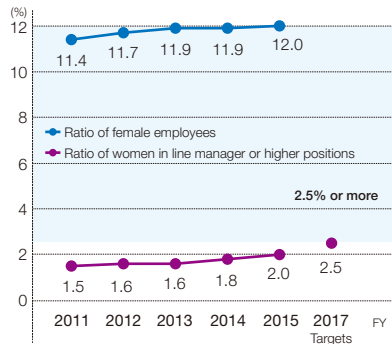


## Ratio of local employees appointed to the general manager\*

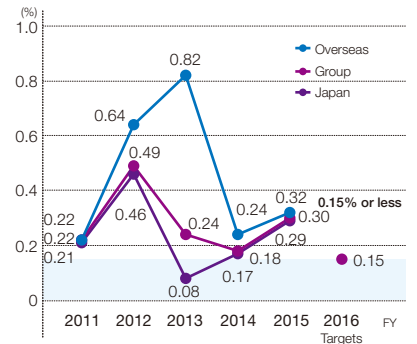


\*Promotion of local human resources at overseas affiliated companies (excluding mergers and acquisitions)

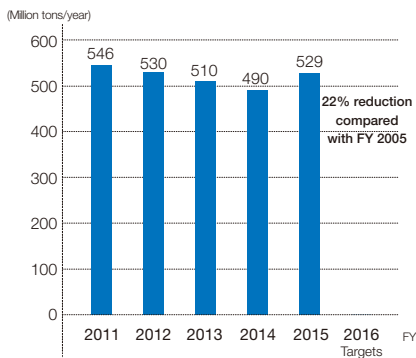
## Ratio of female employees



## Work-related significant occupational injury frequency rate

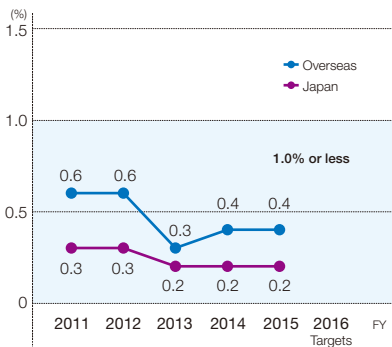


## Greenhouse gas emissions\*

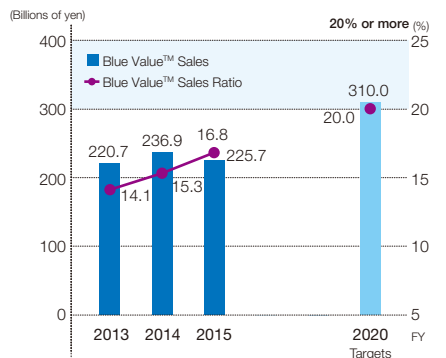


\*Management targets based on operations at full capacity  
Graph display based on operating results

## Average landfill ratio for industrial waste



## Blue Value™ product\* sales



\*Environmental contribution products

Our Vision

Share Our Vision

Our Value Creation Stories

Our Strategic Focus

Our Operations

Our Resources

Our Foundation

Financial Section

## Consolidated Financial and Non-Financial Highlights

(Millions of yen / Thousands of U.S. dollars, except where indicated)	2006/3	2007/3	2008/3	2009/3	2010/3	2011/3	
<b>For the Year</b>							
<b>Operating Results (for the year)</b>							
Net sales	¥1,472,435	¥1,688,062	¥1,786,680	¥1,487,615	¥1,207,735	¥1,391,713	
Operating income (loss)	58,705	91,678	77,176	(45,493)	(9,461)	40,548	
Profit attributable to owners of parent	44,125	52,297	24,831	(95,237)	(28,010)	24,854	
Reference: Ordinary income (loss)	61,989	95,478	66,146	(50,768)	(13,132)	38,851	
EBITDA <sup>1</sup>	136,905	167,864	155,719	38,873	69,275	117,089	
Net cash provided by operating activities	79,709	100,565	92,423	54,882	70,173	73,196	
Net cash used in investing activities	(58,247)	(133,618)	(78,206)	(76,253)	(42,913)	(43,204)	
Free cash flows	21,462	(33,053)	14,217	(21,371)	27,260	29,992	
<b>Financial Position (at year-end)</b>							
Total current assets	¥608,995	¥733,150	¥726,361	¥529,606	¥604,556	¥665,976	
Property, plant and equipment, net	532,324	542,340	564,805	522,641	498,183	467,735	
Total investments and other non-current assets	187,571	222,693	178,082	136,692	135,347	161,916	
Total assets	1,328,890	1,498,183	1,469,248	1,188,939	1,238,086	1,295,627	
Total current liabilities	475,074	591,253	569,560	377,858	386,203	442,298	
Total non-current liabilities	314,692	336,678	335,461	412,950	432,879	422,228	
Total shareholders' equity & Total accumulated other comprehensive income (loss)	464,021	504,509	500,044	349,908	377,283	383,740	
Interest-bearing debt	423,938	498,323	485,972	535,391	494,219	480,701	
<b>Other</b>							
Depreciation and amortization	¥70,099	¥70,207	¥72,596	¥81,374	¥74,878	¥69,237	
Capital expenditures	81,400	72,671	84,667	81,041	49,054	45,137	
R&D expenses	37,146	36,943	42,130	40,628	38,131	36,166	
<b>Per Share Data</b>							
Net income (loss) per share (basic)	¥56.20	¥66.68	¥32.22	¥(125.46)	¥(33.04)	¥24.80	
Cash dividends per share	8.00	10.00	12.00	9.00	3.00	6.00	
<b>Ratios</b>							
Return (operating income (loss)) on sales	3.99%	5.43%	4.32%	(3.06%)	(0.78%)	2.91%	
Return (net income (loss)) on equity	10.15%	10.80%	4.94%	—	—	6.53%	
Return (operating income (loss)) on assets	4.63%	6.49%	5.20%	—	—	3.20%	
Net D/E Ratio	0.85	0.92	0.93	1.39	1.11	1.04	
<b>Social Data</b>							
Employees	Consolidated	12,473	12,511	12,814	12,964	12,892	12,782
	Non-consolidated	8,584	8,695	8,671	8,557	8,297	7,878
Percentage of women	Non-consolidated	9.0%	9.3%	9.8%	10.4%	10.8%	11.2%
<b>Environmental Data<sup>2</sup></b>							
WSOI frequency rate <sup>3</sup>	Consolidated	—	—	—	—	—	0.28
Energy consumption	Consolidated <sup>4</sup>	—	—	—	—	99	103
Greenhouse gas emissions	Domestic <sup>5</sup>	595	589	567	514	493	490
	Consolidated <sup>6</sup>	—	—	—	—	558	568
Landfill disposal volume	Consolidated <sup>7</sup>	—	—	53,141	30,098	18,799	18,163
Landfill rate for industrial waste	Consolidated <sup>7</sup>	—	—	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. For details, refer to Responsible Care, p. 58-60.

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 domestic and overseas consolidated subsidiaries (fiscal 2015: domestic 22, overseas 15)

5. Data reflect the total of six manufacturing sites and domestic consolidated subsidiaries (fiscal 2015: domestic 22)

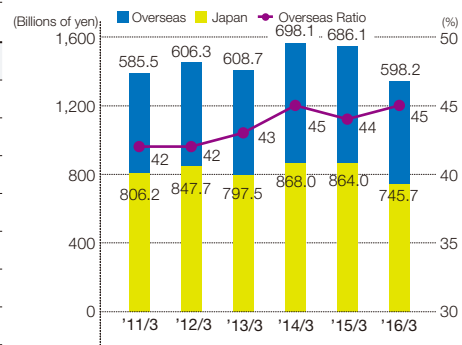
6. GHG emissions for overseas consolidated subsidiaries are calculated in accordance with Japan's Law Concerning the Promotion of Measures to Cope with Global Warming (2005 Amendment) based on energy consumption figures. Data reflect the total of domestic and overseas consolidated subsidiaries (fiscal 2015: domestic 22, overseas 15)

7. Data reflect the total of manufacturing sites of domestic and overseas consolidated subsidiaries and companies eligible for RC support (fiscal 2015: domestic 22, overseas 23)

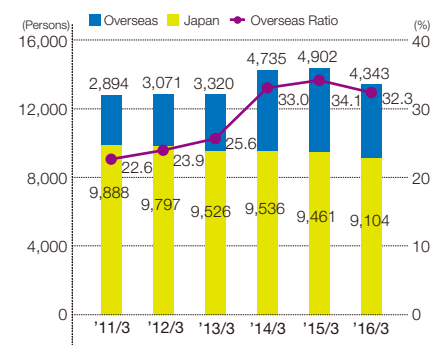


2012/3	2013/3	2014/3	2015/3	2016/3	2016/3	
					(Millions of yen)	(Thousands of U.S. dollars)
¥1,454,024	¥1,406,220	¥1,566,046	¥1,550,076	<b>¥1,343,898</b>	<b>\$11,926,677</b>	
21,564	4,290	24,899	42,040	<b>70,926</b>	<b>629,446</b>	
(1,007)	(8,149)	(25,138)	17,261	<b>22,963</b>	<b>203,789</b>	
22,884	9,206	22,522	44,411	<b>63,183</b>	<b>560,729</b>	
89,854	49,729	73,828	90,218	<b>117,416</b>	<b>1,042,031</b>	
43,302	18,512	43,476	58,287	<b>145,913</b>	<b>1,294,933</b>	
(42,452)	(58,136)	(89,781)	(35,036)	<b>(36,365)</b>	<b>(322,728)</b>	
850	(39,624)	(46,305)	23,251	<b>109,548</b>	<b>972,204</b>	
					(Millions of yen)	(Thousands of U.S. dollars)
¥661,311	¥715,396	¥777,015	¥731,708	<b>¥628,210</b>	<b>\$5,575,168</b>	
430,629	446,637	425,840	433,629	<b>413,402</b>	<b>3,668,815</b>	
164,363	175,962	229,307	246,453	<b>217,336</b>	<b>1,928,789</b>	
1,256,303	1,337,995	1,432,162	1,411,790	<b>1,258,948</b>	<b>11,172,772</b>	
451,507	493,908	507,056	448,499	<b>364,259</b>	<b>3,232,685</b>	
389,025	415,173	515,459	491,992	<b>451,452</b>	<b>4,006,496</b>	
367,436	376,779	352,843	406,235	<b>381,971</b>	<b>3,389,874</b>	
464,773	507,183	581,260	548,713	<b>472,986</b>	<b>4,197,604</b>	
					(Millions of yen)	(Thousands of U.S. dollars)
¥62,749	¥43,864	¥48,143	¥48,251	<b>¥48,640</b>	<b>\$431,665</b>	
44,814	56,649	113,200	47,531	<b>43,405</b>	<b>385,206</b>	
33,176	31,997	33,569	32,473	<b>31,493</b>	<b>279,491</b>	
					(Yen)	(U.S. dollars)
¥(1.01)	¥(8.14)	¥(25.10)	¥17.24	<b>¥22.95</b>	<b>\$0.20</b>	
6.00	6.00	3.00	5.00	<b>8.00</b>	<b>0.07</b>	
1.48%	0.31%	1.59%	2.71%	<b>5.28%</b>		
—	—	—	4.55%	<b>5.83%</b>		
1.69%	0.33%	1.80%	2.96%	<b>5.31%</b>		
1.12	1.22	1.44	1.22	<b>1.03</b>		
12,868	12,846	14,271	14,363	<b>13,447</b>	(Persons)	
7,633	7,266	7,129	6,931	<b>6,733</b>	(Persons)	
11.4%	11.7%	11.9%	11.9%	<b>12.0%</b>		
0.22	0.49	0.24	0.18	<b>0.30</b>	(Target 0.15)	
99	94	89	86	<b>89</b>	PJ	
467	453	449	428	<b>469</b>	Ten thousand tons	
546	530	510	490	<b>529</b>	Ten thousand tons	
1,147	1,179	630	689	<b>963</b>	Tons	
0.4%	0.4%	0.2%	0.2%	<b>0.4%</b>		

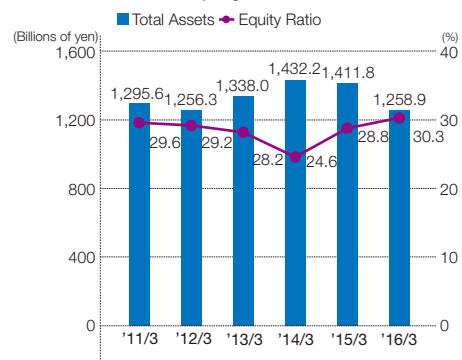
### Net sales by region



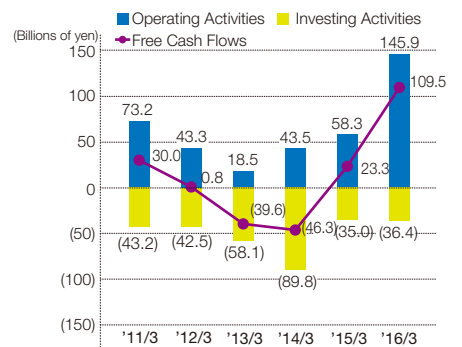
### Number of employees by region

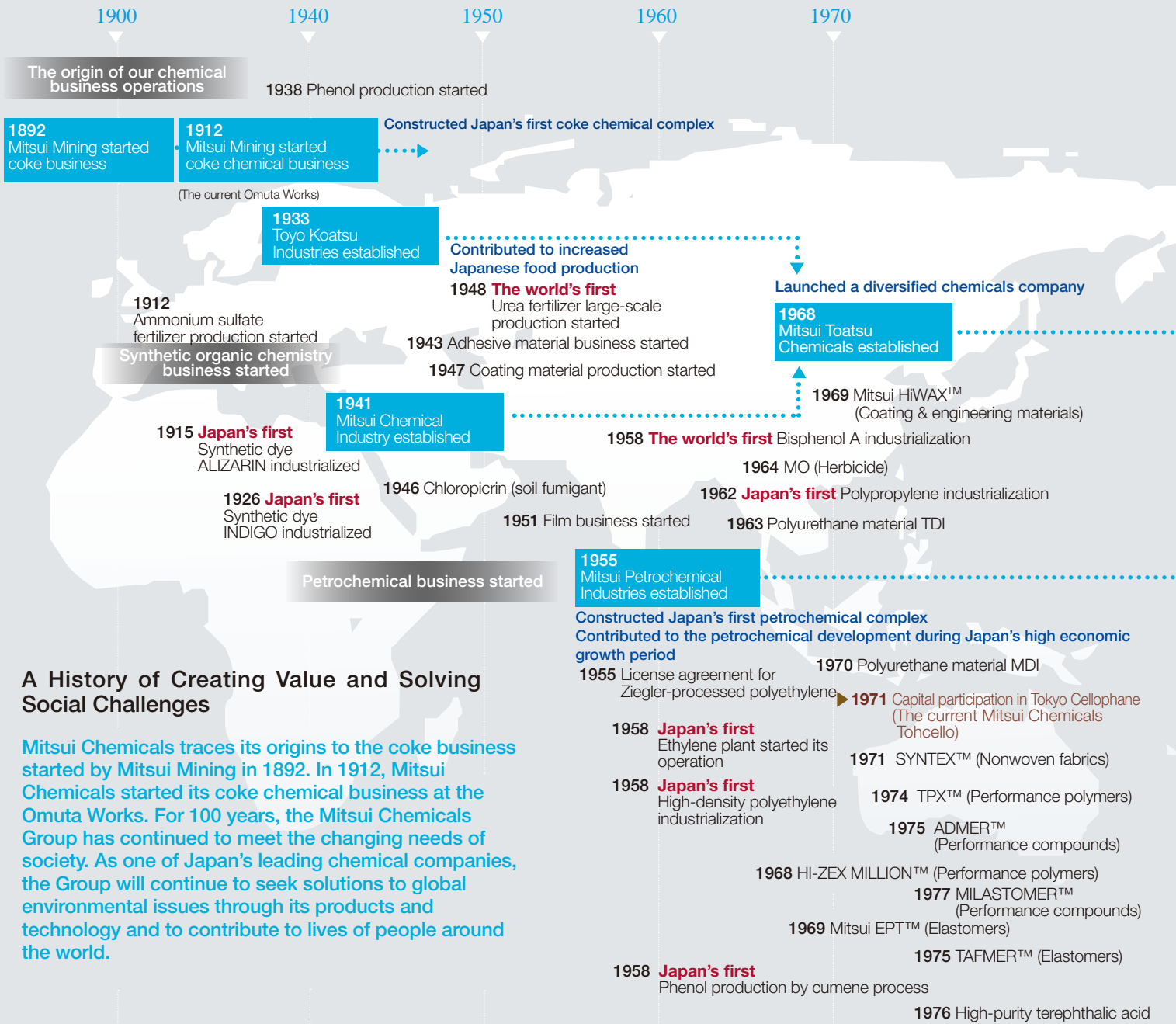


### Total assets/Equity ratio



### Cash flows





## A History of Creating Value and Solving Social Challenges

Mitsui Chemicals traces its origins to the coke business started by Mitsui Mining in 1892. In 1912, Mitsui Chemicals started its coke chemical business at the Omuta Works. For 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 lives of people around the world.

**PP Compounds' Automotive Materials Market Position**

**Global No. 2**

### Social Needs and Challenges

- Energy conservation and environmental load reduction
- Diversifying automotive 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



**High Performance Nonwovens Market Position**

**Asia No. 1**

- 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 for disposable diaper use
- Hygiene materials that address the need for increased quality



**Ophthalmic Lens Materials Market Position**

**Global No. 1**

- Aging societies in developed countries
- Growing awareness toward enhancing the quality of life
- Growing interest in vision care

- High-performance ophthalmic lens materials that address a wide range of needs
- Vision care-related high-performance, high-value-added materials



1980 1990 2000 2010

Strengthen domestic business alliances

- 1987 Company in Singapore established (the current Mitsui Chemicals Asia Pacific)
- 1988 Company in U.S. established (the current Mitsui Chemicals America)
- 1990 Company in Germany established (the current Mitsui Chemicals Europe)
- 1999 Company in China established (the current Mitsui Chemicals China)

- ▶ 2006 Mitsui Chemical Polyurethane established (the current polyurethane business sector) Acquisition of polyurethane business from Takeda Pharmaceutical
- ▶ 2007 Mitsui Chemical Agro established (Agrochemical business integration with Sankyo Agro)
- ▶ 2005 Prime Polymer established (Joint venture with Idemitsu Kosan for the polyolefin business)

Strove to establish a global presence as a diversified chemical company

- 1987 Trebon™ (Insecticide)
- 1983 Toner binder
- 1987 ICROS™ TAPE (for semiconductor manufacturing process)
- 1988 SOLAR EVA™ (Encapsulant sheets for solar power systems)
- 1987 MR™ series (Ophthalmic lens materials)

1997 Mitsui Chemicals established

Accelerating global operations

2001 STARKLE™ (Insecticide)

- ▶ 2015 Mitsui Chemicals & SKC Polyurethanes established (Korea)

2004 Functional wax by metallocene catalytic method

- ▶ 2013 Acquisition of Heraeus Kulzer (Dental materials, Germany)

▶ 2004 MITSUI ADVANCED COMPOSITES (ZHONGSHAN) established (PP compounds, China)

- ▶ 2011 Acquisition of ACOMON (Ophthalmic lens materials, Switzerland)

- ▶ 1986 ADVANCED COMPOSITES established (PP compounds, U.S.)

▶ 1996 GRAND SIAM COMPOSITES established (PP compounds, Thailand)

- ▶ 2014 Whole You established (Healthcare, U.S.)

▶ 2001 MITSUI HYGIENE MATERIALS established (Nonwoven fabrics, Thailand)

- ▶ 2012 PRIME EVOLVE SINGAPORE established
- ▶ 2011 MITSUI CHEMICALS NONWOVENS (TIANJIN) established (China)

1982 Polyethylene film

1998 **The world's first** Metallocene catalytic method EVOLUE™ (Gas-phase process)

- ▶ 2012 SHANGHAI SINOPEC MITSUI ELASTOMERS established (China)

1995 APEL™ (Performance polymers)

1997 Metallocene catalytic method TAFMER™ (Elastomers)

- ▶ 2012 MITSUI CHEMICALS FUNCTIONAL COMPOSITES (Shanghai) established (EPT, China)

Strengthen overseas business

▶ 2001 MITSUI ELASTOMERS SINGAPORE established (TAFMER™)

2008 Metallocene catalytic method Mitsui EPT™

Began establishing a global production and delivery system

- ▶ 2006 SHANGHAI SINOPEC MITSUI CHEMICALS established (Phenol, Bisphenol A, China)

▶ 1999 MITSUI PHENOLS SINGAPORE established

Dental Materials Business Bases Worldwide

24 Countries

- Aging societies in developed countries
- Growing awareness of health in emerging countries
- Growing interest in oral care

- High-quality dental materials based on polymer technologies
- Artificial teeth and dentures that employ CAD/CAM systems



EVOLUE™ (Highly Functional Sealant) Market Position

Asia No. 1

- Growing awareness of food safety issues
- Securing a stable supply of food
- Energy conservation and environmental load reduction

- Packaging materials that contribute to food safety and the reduction of loss
- Enhancing food processing productivity



Hybrid Rice Seeds Productivity

1.5 times

- Ensuring an adequate supply of food against a backdrop of explosive population growth
- Safe and stable increase in food production

- High-productivity hybrid rice seedlings (non-genetically modified)
- High-performance agrochemicals that contribute to stable production



Our Vision

Share Our Vision

Our Value Creation Stories

Our Strategic Focus

Our Operations

Our Resources

Our Foundation

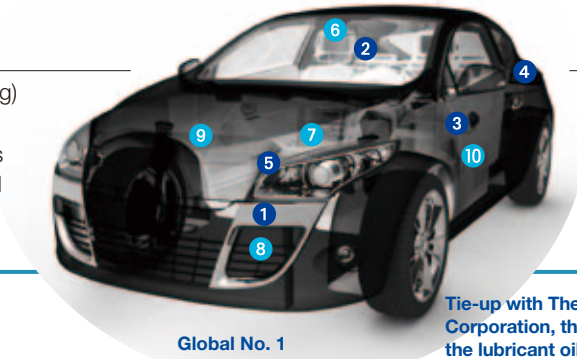
Financial Section

# Mobility

Global automobile production is expected to increase at an annual rate of 3%. Against this backdrop, consumer needs are becoming increasingly sophisticated with the market calling for lighter and safer vehicles that offer more innovative designs and greater comfort. The Mitsui Chemicals Group is drawing on its broad lineup of materials, superior technological capabilities, and outstanding product quality to deliver solutions that meet the diverse needs of customers at the earliest possible opportunity.

## Mobility Product Lineup

Although plastic accounts for around 10% (or approximately 100kg) 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 • Designing



Global No. 3, Asia No. 2

**2 Interior surfaces**  
Olefin thermoplastic elastomers  
**MILASTOMER™**

- Recyclable • Designing
- 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 of 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  
**Adopted in 2016**  
**Commenced mass production from 2016**

\*Details can be found in "A History of Development" (Page 25)

**7 Lithium ion battery safety material**

**STOBA™**  
• Durable • Safe and reliable  
• Lightweight



Exclusive license with Industrial Technology Research Institute of Taiwan  
Working to improve performance; developing automotive applications  
**Aiming to commence mass production by FY2016**

**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 nylon resin with aluminum

**9 Parts around engine**

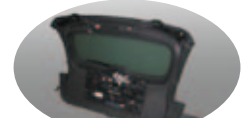
**ARLEN™**  
• Heat resistance  
• Improved fuel efficiency



Inserted into water jacket  
**Commenced 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 FY2014**



### Metal-Resin Integration Technology POLYMETAC™

Developed by the Mitsui Chemicals Group, POLYMETAC™ is a metal-resin integration technology that can strongly adhere and bond various metals to resins—an achievement that was not possible using conventional methods. By substantially reducing the number of parts, including bolts and other fasteners, POLYMETAC™ is not only a source of lightweight solutions but also a means to minimize the number of steps required in the manufacturing process.

In 2015, Aerosense Inc. took the long-awaited step of adopting hybrid products made from carbon fiber reinforced plastic (CFRP) bonded to aluminum parts using POLYMETAC™ technology in the frames of its new autonomous unmanned aerial vehicles. The Group provided total support in shaping and designing the parts, which greatly enhance the structural rigidity of aerial vehicles while significantly reducing weight and enabling simpler designs. In this manner, the Mitsui Chemicals Group has also helped to extend flight distances.

The Group is currently working with component manufacturers to jointly develop automotive parts using POLYMETAC™ with the aim of having these parts used in new car models by around 2020.



## Aiming to Become the World Leader in PP Compounds

With a share of around 60%, the Mitsui Chemicals Group's automotive material PP compound business is the market leader in sales to Japanese automobile manufacturers while ranking second globally. 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.

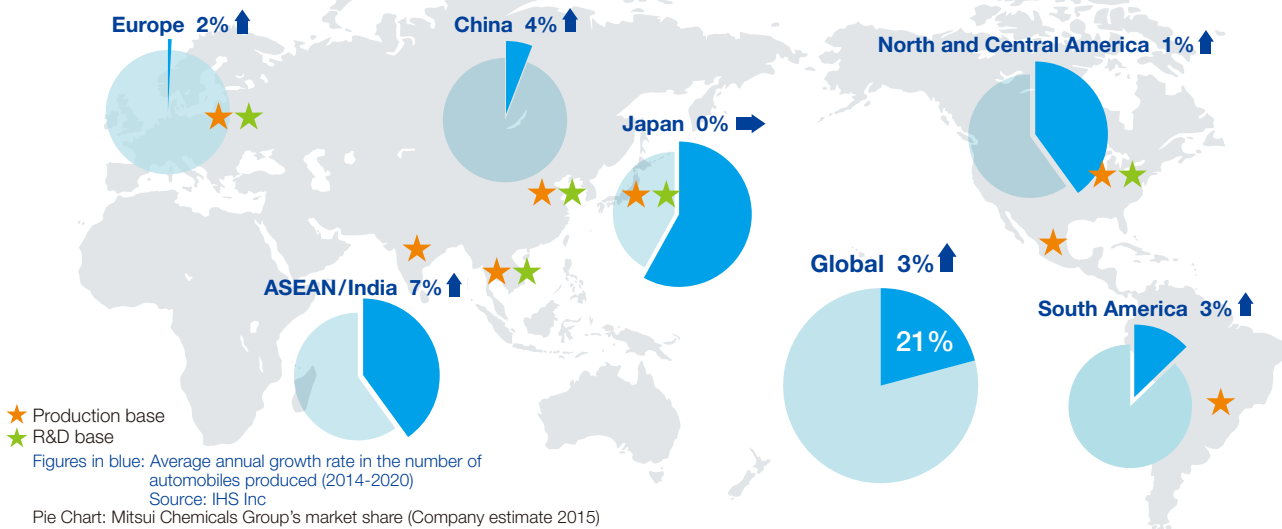
PP compounds combine polypropylene with other polymers and additional agents to achieve functionality and performance that polypropylene alone is unable to provide. Leveraging its proven expertise in material design technologies in combination with proprietary resins, the Mitsui Chemicals Group is providing 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 production and R&D bases in eight and five regions, respectively, worldwide.

The Mitsui Chemicals 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.

### The Group's Market Share and Automobile Market Growth Rate



### Recognized by General Motors as a 2015 Supplier of the Year

Advanced Composites (ACP), a subsidiary based in the U.S., was recognized by automobile manufacturer General Motors (GM) as one of its best global suppliers.

This recognition is bestowed on companies that consistently exceed GM's expectations by creating outstanding value and delivering innovative products and services. This is the third time ACP has received this award following its wins in 2012 and 2013.



### Co-creation with Customers

What are customers looking for? What do users really need? Drawing input from a wide range of sources, including the automobile industry, we are participating in seminars and lectures while taking every opportunity to promote the exchange of opinions as we work toward creating new value.

**I**n order to create a new vehicle and new value, it is vital that we team up with a wide range of industries. We are looking for breakthrough materials that go well beyond conventional thinking.

Our goal is to contribute to society through innovative vehicles that incorporate cutting-edge materials. Accordingly, we hold high expectations of material makers.

(Lecture held on June 12, 2015)



Kiyoshiba Mase  
General Manager  
Organic Material Engineering Division  
Toyota Motor Corporation

**R**ather than undertake individual surveys to ascertain the needs of each OEM, I would prefer to see material manufacturers put forward proposals that directly tackle specific issues. Only in this way can we hope to engage in fruitful discussions and debate.

(Lecture held on January 28, 2016)



Masato Ishibashi  
Chief Engineer,  
Manager  
Honda R&D Co., Ltd.  
Automobile R&D Center



# Healthcare

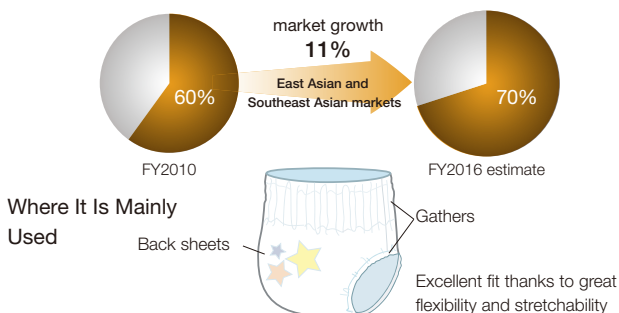
Interest in “Health” has grown in response to the low birthrates and aging populations of developed countries coupled with economic growth in emerging countries. Recognizing the increasingly diverse nature of the market’s needs, the Mitsui Chemicals Group provides products that help improve the Quality of Life (QOL) while bolstering health and happiness in an aging society.

## High Performance Hygienic Nonwovens That Offer Superior Flexibility and Stretchability

The rate of disposable diaper market penetration in East and Southeast Asia continues to increase. The popularity of high-quality, high performance premium disposable diapers made in Japan also continues to mount, particularly in China. As a consumer product, disposable diapers must be leak-proof yet breathable enough to wick away moisture and sweat to prevent rash. In addition to these basic functions, consumers are looking for nonwovens that promise more comfort and a soft fit. In meeting each of these needs, the nonwovens that offer superior flexibility and stretchability developed by the Mitsui Chemicals Group using its proprietary technologies are attracting wide acclaim. In order to ensure stable supply amid growing demand, every effort is being made to maximize the use of the Group’s three Asian production bases in Japan, Thailand, and China while continuously bolstering capacity.

The Mitsui Chemicals Group is strengthening its endeavors to identify applications in a wide range of new areas, including the medical field. Moving forward, the Group will work to maintain and expand its top share of the high performance nonwovens market in Asia.

### The Group’s Market Share and Market Growth Rate



\* Details can be found in “Co-creation with Customers—A History of Development” (page 24)

## New Developments in the Dental Materials Business

Historically, dental materials focused mainly on the “oral repair” field. And, with a proven track record in Japan that spans 30 years, Sun Medical Co., Ltd., a Mitsui Chemicals subsidiary, enjoys a high market share. In 2013, Mitsui Chemicals acquired Heraeus Kulzer GmbH, a comprehensive dental materials manufacturer ranked sixth in the world and recognized for its strong brand strength. Currently, digital technologies are also playing an important role in the manufacture and supply of dental materials. A growing number of oral repair products, including crowns and bridges, are being designed and produced using digital instruments. As a result, the Mitsui Chemicals Group has been quick address this trend toward digitization. In addition, we are reinforcing activities in such new fields as preventive care, cosmetic dentistry, and diagnosis from the more traditional oral repair.

By adding the Mitsui Chemicals’ polymer science technologies to the strengths of the two aforementioned subsidiaries, the Mitsui Chemicals Group is working to promote further innovation in the field of dental materials. In this manner, we will deliver products and services that address the needs of dentists and dental laboratories.



## Next-Generation Healthcare Solutions

Launched in the United States in November 2014, the Whole You™ brand concept revolves around the goal of providing innovative solutions that address issues faced by people with sensory and physical mobility challenges. As a chemicals company with considerable expertise in materials, we are striving to help people free their potential and fully enjoy the possibilities life has to offer. Specifically, we are leveraging our strengths in material science and processing technologies to develop innovative materials.

Under the Whole You™ brand, we commenced sales in May 2015 of the Sleep Appliance, an oral device designed to help sleep apnea patients sleep comfortably and wake up feeling refreshed, in September 2015 introduced the Nexteeth full denture designed using CAD/CAM technology to offer more comfort and a fuller smile, and in May 2016 the Dynamover™ knee brace with unique five-zone weaving technology to provide the freedom to move the way you want to went to test market.

From this base in the United States, the world’s largest healthcare market, we will help improve the quality of life of people all around the world.

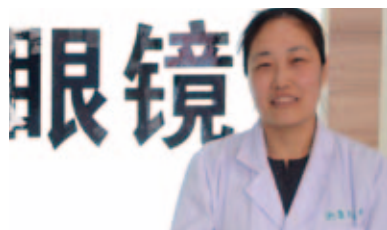


Whole You™



## Co-Creation with Customers

The Mitsui Chemicals Group places importance on maintaining direct contact with customers and pursuing co-creation with retail stores as well as regional lens product manufacturers to track new market needs and create new value in order to provide and promote materials developed in answer to genuine demand.



**I**n China, the MR™ Series is positioned as a high refractive index lens material that is expected to drive trends in the future. However, our sales staff is having difficulty figuring out how best to introduce the features of MR™ Series lenses to customers. I am confident that sales could expand if we were provided with documents and tools that allow us to more easily explain product features to customers.

Jia Yan  
Branch manager  
Kang Ji Optical shop (Eyeglass retail store launched in 2013)

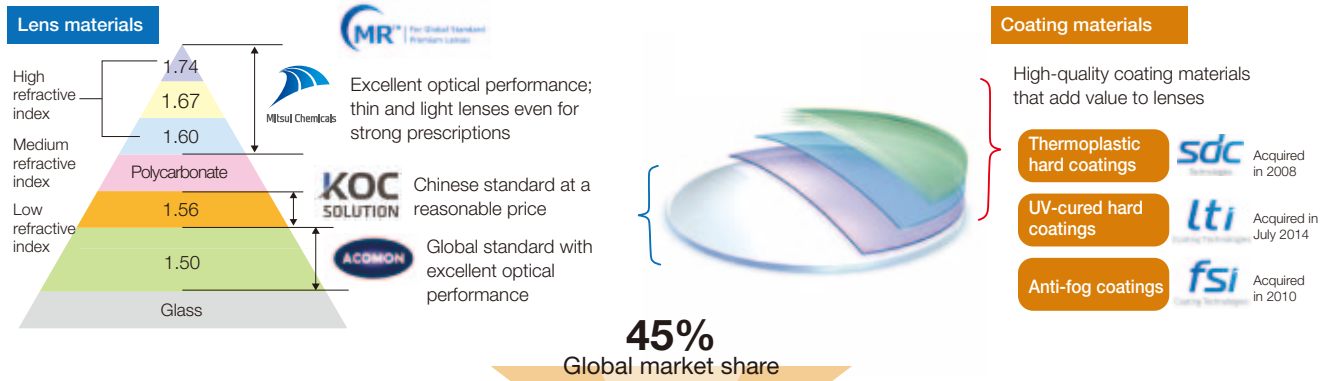
## A World Leader in Vision Care Materials

The Mitsui Chemicals Group offers a wide range of ophthalmic plastic lens materials with low- to high-refractive indices. In particular, our MR™ Series leads the world as a high refractive lens material, and has attracted wide acclaim as the de facto standard due to its thin and lightweight properties.

Rather than simply providing lens materials that help correct vision, the Mitsui Chemicals Group is working diligently to provide

comprehensive solutions that address diverse needs. We are upgrading and expanding our lineup of high-quality coating materials and developing new technologies and materials that address the increasingly diverse needs of society as well as calls for improved health and comfort. Through these means, we are expanding the potential of lens materials.

### 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

Clear lenses that protect the eyes from a wide range of harmful light

HEV light passes through the cornea and lenses

Wavelength (nm): 300, 400, 500, 600, 700, 800, 900

Ultraviolet, Visible light, Infrared

Sunglass lens that provide clear vision by cutting diffuse reflections

Polarization technology

Clear lenses that protect the eyes from glare and help enhance color contrast and brightness

Wavelength controlling technology

Photochromic lenses that darken in UV light

Photochromic technology

Harmony with the environment

Lenses using plant-derived materials

Plant-derived materials



Our company receives of SunSensors™ brand materials. Raising the Group's profile while setting prices at appropriate levels are essential considerations when working to forge a definitive presence in Brazil's lens material market. Marketing a high-quality product is difficult if the price is set too high. I would like to see Mitsui Chemicals take the lead in promoting joint development that matches the needs of the Brazilian market with laboratories. As a partner, I am committed to working with Mitsui Chemicals to provide marketing, distribution, and other support.

Antonio Carlos Machado Abreu  
Director  
Macprado (Lens manufacturer established in 1968)



# Food & Packaging

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. The Mitsui Chemicals Group provides products that address these needs.

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

In fiscal 2015, while domestic market conditions hovered at around the prior years' level and the global market looked set for long-term growth, Brazil's market faltered, with a reversal in its previous expansionary trend.

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, including E. I. du Pont de Nemours and Company and BASF SE.

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.

The Group will help ensure food supply stability through ongoing innovation in the area of high-performance agrochemicals that demonstrate the utmost commitment to safety and minimum environmental impact.



### Continual Innovation Leveraging Technological Prowess to Achieve of Active Ingredients with New Modes of Action

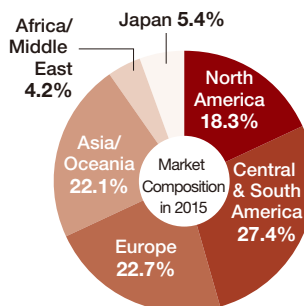
The complexity of new active ingredient development is growing along with the need for ever-higher levels of performance and the increasing stringency of regulations governing safety and environmental impact.

Resistance to pests and diseases is becoming a global issue and the Group is working to develop new, high-performance agrochemicals that not only are safe and environmentally sound but possess new modes of action that set them apart from existing agrochemicals.

The Group's greatest technological advantages with regard to new active ingredient discovery lie in the comprehensive strengths it has gained through experience, for example, its accumulated expertise and knowledge in a range of cornerstone technological fields within the domains of molecular design, organic synthesis, and biological evaluation.

With unique technologies that elucidate chemicals' mechanisms of action, the Group is able to create active ingredients that feature

### Global Market Composition and Growth Rates



(Phillips McDougall Industry Overview)

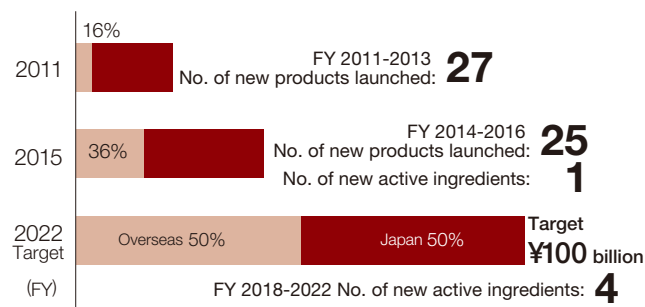
### Average annual growth rates (2010-2015)

North America	3%
Central & South America	11%
Europe	2%
Asia/Oceania	7%
Africa/Middle East	9%
Japan	-5%

### Growth rate forecast (2015-2020)

World	2.7%
Asia	3.9%
Japan	0.3%

### The Group's Sales Growth



The complexity of new active ingredient development is growing along with the need for ever-higher levels of performance and the increasing stringency of regulations governing safety and environmental impact.

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With unique technologies that elucidate chemicals' mechanisms of action, the Group is able to create active ingredients that feature

new modes of action. In fiscal 2015, the Group received an academic award in connection with the elucidation of the action of tolprocarb, a new active ingredient under development.

In March 2016, the Group launched tolprocarb, a new fungicide to control rice blast disease that is the first of five new pipeline products featuring innovative active ingredients. The Group plans to launch the remaining four pipeline products in succession.



Pesticide Science Society of Japan (PSSJ) Achievement Award (Research) 2015	Study on the structure and insecticide sensitivity of insect nervous system receptors
PSSJ Research Paper Award 2016	Action mechanism of the novel rice blast fungicide tolprocarb

### Overseas Development and Schedule for New Product Launches

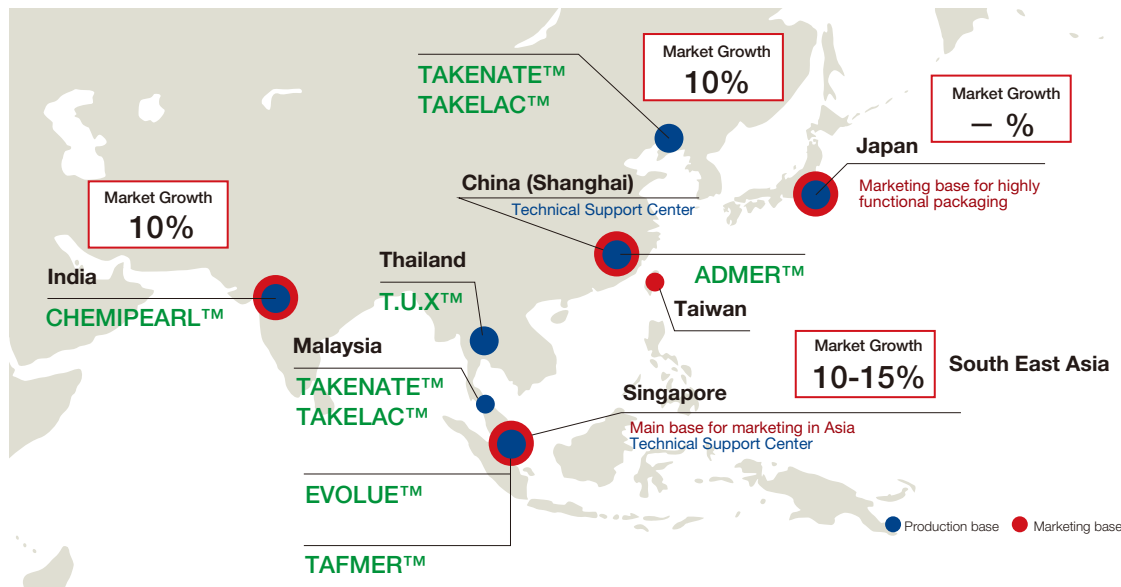
	2012	2013	2014	2015	2016	2017	2018	2019	2020-
Insecticide dinotefuran	◆ India	◆ China			◆ Brazil				
Fungicide penthiopyrad	◆ United States, Canada		◆ Europe						
Next-generation agrochemicals/ Five new active ingredients					◆ Tolprocarb (Fungicide)		◆ Herbicide		◆ Fungicide ◆ Insecticide ◆ Insecticide



## 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 established 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 bolstering 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™

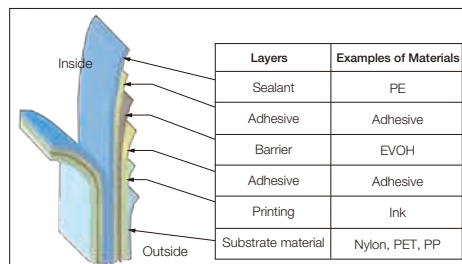
Tough, low odor, heat-sealing strength  
Enhance productivity by down-gauged packaging and processing suitability

### 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 CHEMIPEARL™

For multilayered structures of different materials



## Co-creation with Customers

**C** PPC Public Company Limited is a plastic products manufacturer established under the name Charoen Pokphand Petrochemical Company Limited in 1988 in Thailand. We produce plastic products used in various fields, particularly products with food-related and industrial applications. Our various products feature high performance and quality both in appearance and usability. We aim to offer a positive and satisfying experience for customers through products that fulfill their needs and that are in harmony with modern lifestyle needs. We will thus continue to pursue innovation while looking to fulfill our responsibilities to society and the environment.

CPPC's policies and projects call for us to seek out good partners who share our attitude and business principles. We recognize



Chaipong Chinapapom  
Vice Chairman  
CPPC Public Company Limited

(A plastic manufacturer and member of the Thailand-based Charoen Pokphand (CP) Group)

that the Mitsui Chemicals Group is a very attractive company that has business principles in common with our own and has proven itself in various joint projects with us in the past. With a shared focus on the environment and product lines that span different industries, our collaboration will ultimately yield mutual benefits in the form of cross-industry and commercial innovation. We look forward to further business development along with the creation of significant benefits for society and the environment.

**M**itsui Chemicals needs to be more aggressive in materials development; it needs to create such solutions as more effective packaging that cuts down on overall plastic consumption. This is a practical goal for the petrochemical industry.



Mohammad Bin Hashim  
Deputy General Manager  
Product Development & Technical Division  
Daibochi Plastic And Packaging Industry Berhad

(Malaysian packaging manufacturing company that supplies TAFMER™)



Defining “Gentle to the Skin.” What Constitutes a Thick yet Thin Diaper?

# Satisfying the Senses

Nonwoven Fabric Materials Department, Functional Materials Laboratory, R&D Center

## From Basic Functions to Sensory Satisfaction

From 1963 onward, as disposable diapers started to gain popularity as an alternative to cloth diapers and their fulfillment of such basic requirements as producing no leaks, offering improved breathability and causing no diaper rash gradually became commonplace, demand shifted to satisfying such needs as comfort and fit. Through innovative technological development, the Mitsui Chemicals Group has successively realized highly functional and enhanced performance products that have met this demand, leading to its establishment as Asia’s No. 1 maker of high performance nonwoven for premium diapers.

In 2016, the Company received a Special Technology Prize at the Japan Chemical Industry Association (JCIA) Awards for the development of the world’s first practical nonwoven fabric that, in addition to the conventional functions, displays “gentleness to the skin” as well as “amenability of design” and that succeeded in improving “amenity.”

What is meant by “gentleness to the skin” in this context? It encompasses a level of comfort that precludes the development of rough skin, specifically, softness when in direct contact with the skin and an excellent fit that allows the diaper to follow the body’s contours and movements without compromising that softness. Translating “gentleness to the skin” into the measurable evaluation indices of smoothness, fluffiness, and flexibility, the Company utilized original resin design technologies and controlled the fiber configuration to successfully develop an innovative, high nonwoven.



## Birth of Stretch Nonwovens

The pursuit of diapers with “underwear-like comfort” brought drastic changes to the market as manufacturers tried tighter-fitting designs, including the widespread use of string rubber and stretch film with poor breathability. The Mitsui Chemicals Group’s response was to begin developing stretch nonwovens in the latter half of the 1990s.

Although the process would be beset with difficulties, we took on the challenge of creating nonwovens incorporating special resins, an area other companies were not exploring, with an eye to achieving a balance between stretchability and gentleness to the skin as well as to creating distinctive products that would set us apart. To enable mass production, we repeatedly enhanced resin design, production facilities, and processes. One innovation was the introduction of technology commonly used in an unrelated industry on the recommendation of an equipment manufacturer with whom we have had a long-standing relationship. We improved on this technology, which went on to be adopted for essential processes. This flexibility that allows us to incorporate external networks and technologies from different fields is one factor that has led to our current success.

We carried out a successful trial production run in 2005. Following test sales, market release came in 2007. Adoption has been expanding in earnest since 2010. Today, we are continuing to pursue development, and are now creating nonwovens that offer improved elasticity and combine current stretchable fibers with fibers that have a positive bearing on comfort and durability.

## Toward Meeting More Sensory Needs

“I would like a nonwoven fabric that is both thick and thin.” This seemingly contradictory request from a customer came as a response to a survey of consumers to determine their desires at every stage from buying diapers to disposing of them. “When making a purchase, I would like the packs to be compact, but filled with as many diapers as possible. I would however ask that each diaper have a full, thick, and soft feel when removed from the pack.” More simply put, what we arrived at was customers were concerned with the cushioning and smooth properties of diapers. Using these as indicators, we developed and repeatedly tested helically shaped, three-dimensionally controlled crimped fibers. The helical structure produces a fabric that is thick and soft at rest, but thins when pressed even lightly due to the same principles that govern springs.

The most important thing is for the diaper to be flexible when it reaches the end consumer. For that reason, feedback from dialogue with consumers is reflected in the diaper design process and collaborating with them is essential.

Flexible nonwoven fabric with unprecedented three-dimensional fluffiness through the use of helical fibers. Highly stretchable nonwovens that offers the characteristics of plastics thanks to the use of two types of fiber. Both achievements represent agglomerations of know-how that other companies cannot produce. We are proud that the Group’s high performance nonwovens, which draw on our knowledge as a resin manufacturer, have made possible a new design of diapers that are both fluffy and slim.

We want present and future customers to be satisfied with our products. With that thought in mind, in the years to come we will continue to develop further improvements in quality to meet diversifying needs.



# Taking on the Challenges Presented by Lenses for Automotive Cameras

Hard Polymer Department, Polymeric Materials Laboratory, R&D Center

Relationships  
of Trust:  
The Source of  
Development  
Capabilities

## Specific Characteristics Demanded of Automotive Lenses

A transparent optical resin (cyclo olefin copolymer), APEL™ features high refraction and low birefringence while displaying excellent moisture-proof properties and resistance to chemicals. The product commands an overwhelming share of the market for pickup lenses for optical discs while boasting a high adoption track record for use as convex imaging lenses for mobile cameras, such as those installed in smartphones.

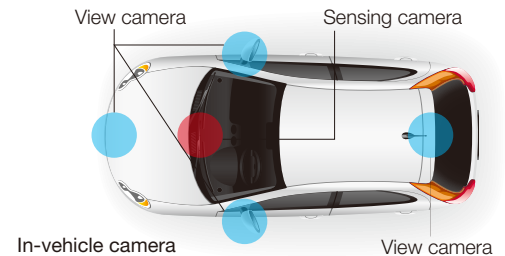
The next target market for APEL™ is that for automotive lenses, the installation of which is expected to rapidly increase. APEL™ will enter the market via view cameras—used to record and display information from inside and outside a vehicle on an in-vehicle display—and sensing cameras—used to detect, analyze and automatically control data from inside and outside a vehicle.

With autonomous driving coming ever closer to realization at an ever accelerating pace, customers are demanding performance improvements, particularly with regard to the cameras that form driving support systems. Unlike the features needed for smartphone applications, such as thinness and image quality, the top priority for lenses for automotive applications is long-term reliability. Performance requirements regarding environmental resistance, such as to heat and humidity, as well as resistance to yellowing and deformation are also remarkably high. Current glass lens performance exceeds that obtainable from plastic.

With annual production of automotive cameras forecast to more than double from the current 80 million units by 2020, it is however expected that the replacement of glass with plastic lenses will accelerate because of the freedom of design plastic enables as well as greater compatibility with mass production and cost benefits.

The Mitsui Chemicals Group began designing lenses specifically for the automotive sector in 2013. At first it proved difficult to achieve high levels of both optical performance and environmental resistance, but through repeated trial and error experiments we were able to meet customers' demanding performance requirements.

Our accumulated know-how as a resin manufacturer has been key to our success; it took us only six months to secure the capability to deliver the required performance, including heat and environmental resistance. By autumn 2014, we were able to set our sights on mass production, having chosen to adopt APEL™ as the best possible material for automotive lenses. Mass production will start in fiscal 2016, and it is expected that the APEL™ lenses will actually be installed in automobiles in fiscal 2017.



## Source of Development Capabilities

Several relationships of trust were major drivers behind the success of our development efforts.

The first relationships of trust were those with customer lens makers. The creation and testing of trial products was greatly aided by these customers supplying us with actual lens molds that we could use to design and manufacture evaluation molds. When pursuing product development aimed at fulfilling customer specifications, it is best to be able to make and evaluate in-house the exact same products and techniques the customer will use. We were able to work so closely with our customers thanks to years of work building relationships of trust. We were under pressure not only because of the stringent requirements; customers had great expectations of APEL™, and our commitment to meeting those expectations strengthened our resolve.

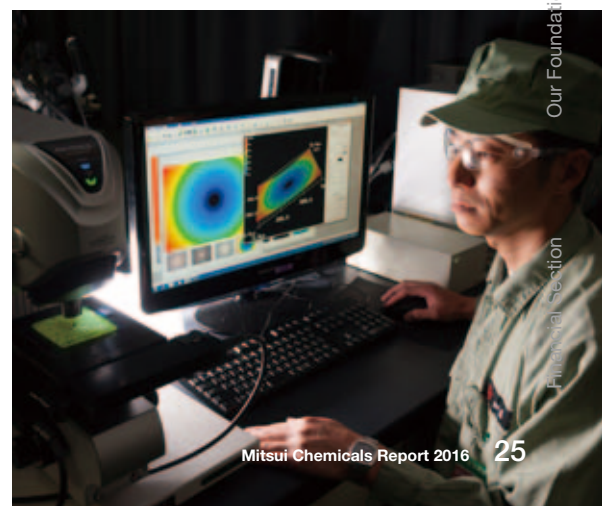
Another set of relationships of trust is internal, held together by communications between the Group's manufacturing, sales and research departments. In this regard, sales representatives take steps to quickly identify the evaluation schedules of customers and to then share this information with research and production units. Supporting such communication, we promote a unified development approach. As a result, even as it was operating at full capacity producing lenses for smartphones, the Manufacturing Department was able to complete trial products on the shortest possible schedule using the plant's existing equipment.

The development activities that began in spring 2013 are a prime example. The fact that we were able to make important decisions in a time frame of less than one year reflects the strong relationships of mutual trust and shared vision among all those within and outside the Group involved in the decision-making process.

## Relationships of Trust That Will Gain in Value

A resin manufacturer's interest does not end with merely selling its product; ultimately, the manufacturer's success rests on the resin it has sold performing to specifications, in this case as part of the automotive camera or sensor that is the end product. It is essential that the manufacturer be able to ensure the ongoing stable production of lenses with the precision that customers demand. For that reason, we constantly strive to further improve our products' physical properties in terms of compatibility with the processing equipment and ease of production. Also, to circumvent delays due to manufacturing hiccups, we are always working on improvements with production equipment manufacturers.

Ultimately, we want to produce lenses with the specific optical characteristic of never blurring, no matter how intense the heat and humidity. The Group will fine tune APEL™ as a lens material with an established presence and accelerate improvements in performance of automotive cameras and sensors.



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## Strategies Aimed at Creating New Value

### New Business and Product Creation Strategy

The creation of new businesses and products is essential to the transformation of the Group's business portfolio and achieving operating income of ¥100 billion around 2020, two key objectives under the 2014 Mid-Term Business Plan.

The Mitsui Chemicals Group is promoting marketing-driven R&D. To create new businesses and products, the Group is focusing its attention on uncovering where market opportunities lie and identifying exactly what customers need. (p. 53)

### Building Technology Platforms

The Mitsui Chemicals Group maintains a wealth of technological expertise that serves as the wellspring of its product and service creation capabilities. When creating new businesses and products, the Group draws on the strengths of its individual and combined proprietary technologies. In areas where the Group is weak, considerable importance is also placed on combining its internal resources with external technologies through a process of open innovation. To this end, the Group has taken stock of its internal technologies and put in place technology platforms. Efforts to strengthen and acquire technologies and to develop human resources are based on these technology platforms. In addition, the Group's technology platforms are playing a key role in accelerating product development that combines multiple technologies, materials, and solution proposals.

#### Objectives for Building Technology Platforms

- Take stock of existing technologies in order to uncover areas that need to be strengthened and identify technologies that need to be acquired while implementing measures aimed at reinforcing and securing technologies
- Develop and acquire necessary human resources and build a development pipeline
- Accelerate the pace of composite product development by combining multiple technologies

### Realizing an Organizational Structure That Ensures Effective Solution Proposals

The Mitsui Chemicals Group established the R&D Center in fiscal 2015 in order to strengthen collaboration across the Group's network of laboratories and ensure the efficient application of its various technologies. In addition, business segments have adopted a revised market-oriented organizational structure while the various R&D divisions have been reorganized by function and technology.

Through this reorganization, the Mitsui Chemicals Group has put in place a comprehensive structure that recognizes the need to advance solution proposals that combine the strengths of the Group's technologies, materials, and services to address market needs.

Looking ahead, the Mitsui Chemicals Group will continue to put forward solutions based on material and product innovation as it strives to address a wide range of social issues by promoting increasingly close-knit ties between research and marketing.

#### Mitsui Chemicals Named as Thomson Reuters 2015 Global Top 100 Innovators

Mitsui Chemicals was named one of 2015's Top 100 Global Innovators by Thomson Reuters, one of the world's leading information services companies. Based on patent data, the Top 100 Global Innovator Award recognizes the world's preeminent companies in terms of intellectual property.

Of the four selection criteria, Mitsui Chemicals received particularly high marks for exceptional growth in "global reach" and "invention influence." In particular, Thomson Reuters recognized how Mitsui Chemicals' aggressive intellectual property strategy focused on the international market and the commercialization of its innovations is having profound effects on the global market.

The aim of Mitsui Chemicals' intellectual property strategy is to build up and maintain an intellectual property portfolio that will give it a sustainable competitive advantage, an outcome closely related to the successful transformation of its business portfolio. Mitsui Chemicals appreciates Thomson Reuters' recognition of its efforts and will continue to pursue the creation of new customer value through innovative R&D as well as intellectual property activities. (p. 54)

2015 THOMSON REUTERS  
**TOP 100**  
GLOBAL INNOVATORS

#### Shigeru Isayama

CTO & Senior Managing Executive Officer



The Mitsui Chemicals Group reorganized its development operations across the board in fiscal 2016. Restructuring and newly establishing platforms, the Group has put in place the four New Mobility Business Development, New Health Care Business Development, Next Generation Business Development and Robot Materials Business Development divisions with the aim of accelerating new business creation.

**TOPICS**  
Next Generation Business  
Development Division

The Mitsui Chemicals Group launched a new diagnostics and consulting business for photovoltaic power generation in March 2014.

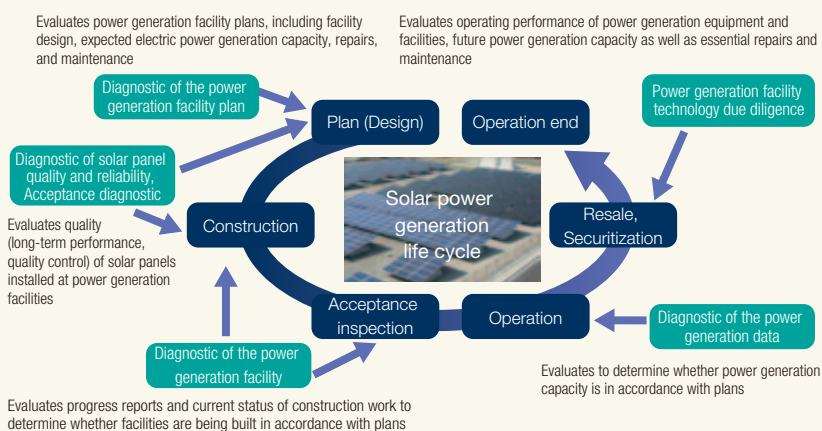
The Mitsui Chemicals Group has been providing the world with encapsulant sheets for solar cells for more than 25 years. Drawing on this proven track record, the Group is well-versed in the damage that long-term outdoor exposure can have on solar panels. In addition, the Group maintains several solar power generation facilities, including the Tahara Solar-Wind™ solar power generation facility. The Group thus boasts considerable expertise in key areas related to the development of power generation facilities, including their repair and maintenance. Applying this knowledge and in tune with the life cycles of photovoltaic power generation facilities, we also provide consulting services from a third-party perspective.

The feed-in tariff (FIT) scheme for renewable energy was launched in July 2012. As a result, activities in connection with the planning and construction of photovoltaic power generation facilities have risen dramatically. Because a significant percentage of the photovoltaic power generation facilities constructed since 2015 have been located on sites with a considerable incline, including golf courses and mountainous regions, construction and maintenance costs associated with such facilities have increased. At the same time, electricity purchase prices under the FIT scheme have declined. For these reasons,

interest in the Group's power generation facility plan diagnostic services has grown as both domestic and international business operators with a high degree of expertise in the field increasingly enter the market.

The Tokyo Stock Exchange established a new market for infrastructure funds in April 2015 and saw the first public listing of a photovoltaic power generation facility fund in June 2016. This triggered considerable activity in the secondary market and an acceleration in the purchase and sale of photovoltaic power generation facilities. Due to a rise in the incidence of defects resulting in a drop in power generation capacity at facilities while online, the Group is enjoying a steady increase in requests for the performance of due diligence (asset value assessment) from entities active in the secondary market.

Through this business, the Mitsui Chemicals Group will contribute to the stable development and operation of photovoltaic power generation, which plays an important role in the renewable energy field.



**TOPICS**  
Robot Materials Business  
Development Division

Robots are attracting attention as a method for alleviating social problems, such as declines in working populations as well as lower birthrates, and growing numbers of the elderly. Robots are already assisting people in a variety of settings, and some researchers predict that a society in which people and robots coexist is not too far in the future. With regard to industrial and service robots, there are emerging needs, including for stringent safety precautions when considering their co-existence with people as well as for better performance.

Aiming to respond to those needs, the Mitsui Chemicals Group established the Robot Materials Business Development Division in April 2016. Transcending organizational boundaries, the new division integrates the Group's materials, processing, and analysis technologies and, when advantageous, proactively pursues collaborative activities with entities from other industries as well as projects involving academic and government concerns. Working to provide not only materials but also robotic parts processing, we will furnish total solutions to the robot industry.

In the field of industrial robots, we began the supply of soft exterior covers for robots that work with people. Our products were chosen for their achievement of a superior balance between the design specifications, elasticity, and durability demanded by the customer. Moreover, aiming to strengthen the international competitiveness of Japanese industrial robots, we have joined a multi-industry project team set up within the Japan Robot Association (JARA) that is researching such elemental technologies as next-generation robot materials.

In the field of service robots, we are advancing the development of sensors that ensure robots are aware of people and their surrounding

environment. For example, for Tsukuba Challenge 2016, in which autonomous mobile robots were tasked with clearing various hurdles while coexisting with people in urban settings, we provided shock-absorbing bumpers equipped with built-in in-house developed piezoelectric fiber sensors and are now evaluating those sensors' usefulness. In addition, we have deployed a service robot created by the Robot Materials Business Development Division at exhibitions and other events that is playing a role in uncovering issues and gathering feedback that can be used to develop new technological breakthroughs and reveal potential needs relating to materials.

With regard to cooperation between industry and academia, we are progressing with basic research on pneumatically driven robotic arms in collaboration with Professor Sadao Kawamura (a former president of The Robotics Society of Japan) of Ritsumeikan University and Professor Yoshiro Tajitsu of Kansai University. This research is expected to lead to the creation of new robotic arms that will be able to work side by side with people.

We are confident that these initiatives will not only lead to improvements in robot safety and performance, but help robots spread to every corner of society and contribute to social development.



Photo courtesy Mitsubishi Electric Corporation

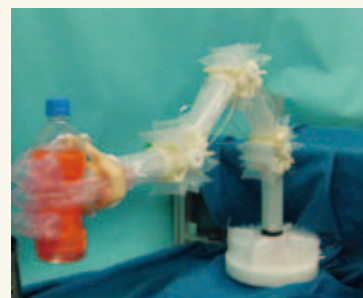


Photo courtesy Ritsumeikan University

# Initiatives Aimed at Addressing Key Issues

## Selection of Key Issues (Materiality)

By engaging in business activities that emphasize the balance between economic, environmental, and social considerations, the Mitsui Chemicals Group is reinforcing its management foundation.

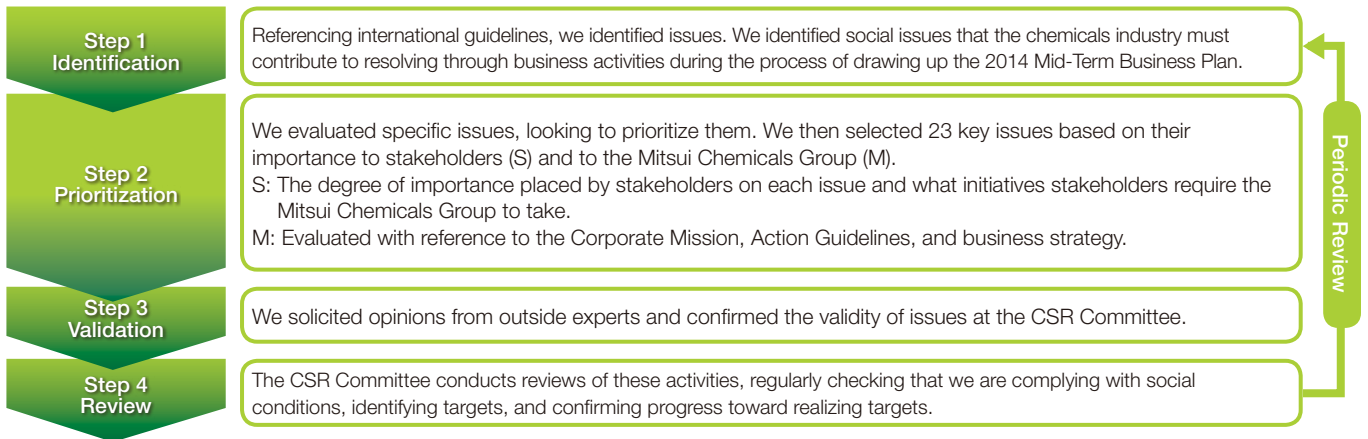
Since establishing a dedicated CSR department in 2005, the Mitsui Chemicals Group has engaged in CSR activities based on the Group's concept of realizing its corporate mission through its main businesses. In 2008, Mitsui Chemicals became a signatory to the United Nations Global Compact and has endeavored to meet the growing call for international guidance.



When drawing up the fiscal 2014 Mid-Term Business Plan, we took stock of our Corporate Vision. Having thus identified the social issues we must help resolve through our business

activities in order to secure the sustainable development of society and of the Group, we are focusing on realizing "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."

Looking to realize these aims, we selected a number of key issues (Materiality) to address. With reference to a number of international guidelines, the Group took into consideration the qualities that distinguish its businesses and the characteristics of the areas in which it operates—factors that greatly influence how its business activities contribute to society—as well as the opinions of stakeholders. 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.



## Identification of Key Issues (Materiality)

We organized the selected key issues into the three categories presented below while designating corporate governance and risk management as fundamental group-wide issues.

Through initiatives addressing these key issues, we are contributing to the resolution of issues identified in the Sustainable

Development Goals (SDGs) formulated in 2015 and are aiming to promote the sustainable growth of both society and the Group through our business activities.



Impact of the Mitsui Chemicals Group business on society	Social challenges that the Mitsui Chemicals Group should help to resolve
Measures to address climate change (reducing GHG emissions)	Low environmental-footprint products and services
Air environment preservation	Development of renewable energy
Water resource protection and control	Shift to urbanization and smart cities
Biodiversity	Declining birthrate and aging population
Industrial waste control	Quality of life (QOL)
Efficient use of resources	Advancement of medical and pharmaceutical fields
Stable supply of industrial materials	Food problem
Optimization of domestic production	<b>Basic subjects</b>
Safety and prevention	CSR procurement
Product stewardship	Compliance
Quality of products and services	
Employment and human resources	<b>Fundamental issues for the entire Group</b>
Labor conditions	Corporate governance
Communication with society	Risk management

To track contributions to the resolution of social issues the Group has made through business activities, we are creating indicators. One such indicator is Blue Value™, which calculates product value in terms of contribution to the environment.



For more detailed information on our key issue (Materiality) initiatives, please visit the relevant page on our website. <http://www.mitsuichem.com/csr/materiality/>

## Creating a Better Future with Blue Value™

To help realize a sustainable society that is in harmony with the environment, the Mitsui Chemicals Group developed Blue Value™, which provides a way of sharing value with stakeholders by visualizing how the environmental orientation of products can be furthered.

Many chemical products find use as final products following their manufacture and initial processing; however, many others are further processed and undergo several life cycle stages prior to disposal. We endeavor to anticipate and visualize what kind of environmental loading reduction can be made. By sharing that information with stakeholders we hope to join them in making our products even more environmentally oriented.

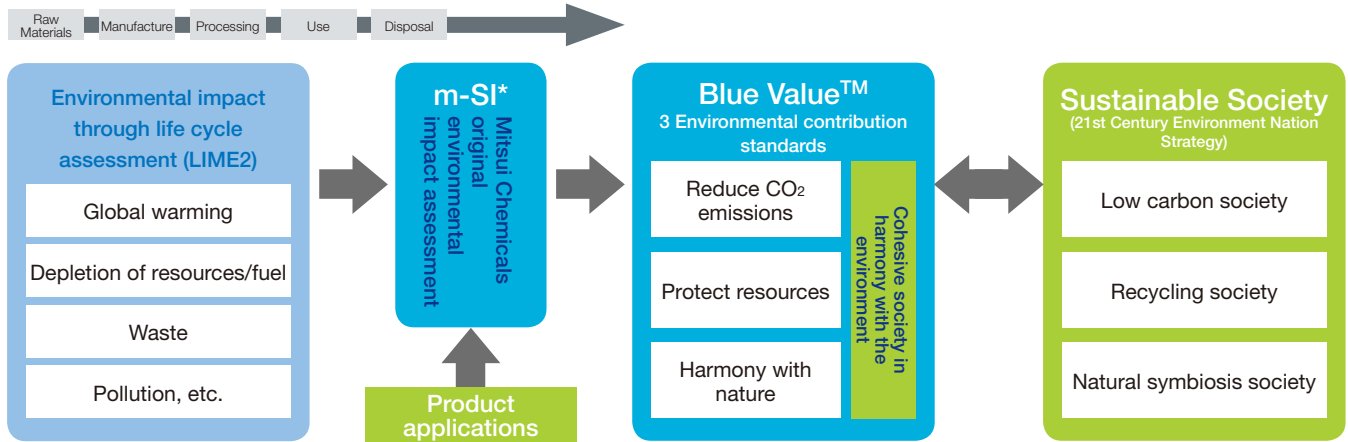
To assess the environmental impact of products and technologies, the Group applies its exclusive Mitsui Sustainability

Index (m-SI), which evaluates products and technologies based on three environmental contribution elements—CO<sub>2</sub> reduction, resource protection, and coexistence with nature. Products that are certified as exhibiting Blue Value™ are considered complete products and technologies.

**Aims of Blue Value™**

- Quantify levels of environmental contribution throughout product life cycle stages, from development to disposal
- Ensure that stakeholders know and understand how the Group is making significant contributions to the environment through product development and release as well as the provision of services
- Develop a Blue Value™ Chain to support a sustainable society coexisting in harmony with the environment

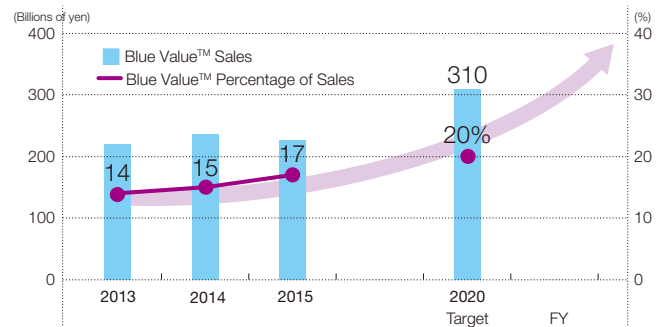
### Assessing Environmental Contributions throughout Product Life Cycle Stages



\*m-SI: Mitsui Sustainability Index established in 2013

The expansion of Blue Value™ products not only allows us to quantify our level of contribution to the environment, it is indicative of our steady progress toward helping realize a sustainable society that coexists in harmony with the environment. This year, we set our targets up to and including 2020.

Increasing the value added of its Blue Value™ products, the Group will share the Blue Value™ brand with its many stakeholders while aiming to further deepen and expand its engagement in joint environmental load reduction.



### Blue Value™-Certified Product, No-Paint Instrument Panel Materials for GHG Reduction

In terms of global market share, the Mitsui Chemicals Group's PP compounds for automotive applications rank second. PP compounds are utilized in many automotive components, including instrument panels. Up to around 30 years ago, the plastics used in instrument panels were mainly high-density engineering plastics. Since that time, technological advances have led to them being superseded by low-density PP compounds, resulting in instrument panels that are 15% to 16% lighter.

Through further technological innovation, the Group has developed a PP compound that enables the painting process to be eliminated.

As plastics are easily scratched, conventional plastic automotive components often must be painted. The painting process requires the use of volatile organic compounds (VOCs) and leads to the emission of greenhouse gases

(GHGs), which are contributory factors to air pollution and global warming, respectively. The Group's no-paint instrument panel materials thus enable a reduction in environmental impact. By eliminating the painting process, we have achieved a 13.3% reduction in GHG emissions for our customers at the processing stage.



## Creating New Customer Value through Innovation

The Mitsui Chemicals Group is endeavoring to help resolve a variety of social challenges through our business activities. In this regard, every effort is being made to ensure the sustainable growth and development of both society and the Group.

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In fiscal 2015, the second year of its 2014 Mid-Term Business Plan, the Mitsui Chemicals Group reported steady progress in transforming its portfolio. Throughout the fiscal year under review, the Group worked diligently to carry out key elements of the plan by expanding targeted business domains to drive growth and restructuring its bulk and commodity product operations in the Basic Materials Business.

Under the 2014 Mid-Term Business Plan, the Mitsui Chemicals Group is committed to “Creating New Customer Value through Innovation.” Guided by this overarching theme, the Group is transitioning from its former product-oriented approach to a market-oriented approach. Looking at every facet of its operations, including technologies, products and services, the Group is taking into consideration such wide-ranging factors as utility value to end consumers as it works diligently to build an innovative business portfolio that is capable of maximizing sustainable earnings by providing optimal solutions that deliver value and address profound needs.

We have defined those domains in which we are able to leverage the strengths of the Group's robust platform as our “Optimum Business Portfolio.” This portfolio comprises the three “Mobility,” “Healthcare” and “Food & Packaging” targeted business domains that are expected to drive growth along with the “Basic Materials” business, which supports both industry and society.

Based on our “New Business and Product Creation Strategy,” we are working to entrench the Group's focus on market-driven research and development while simultaneously creating core businesses that will provide value and address profound needs in the future. (See p. 26)

Naturally, we recognize the critical role that a robust management foundation plays in ensuring sustainable growth and development and addressing changes in the environment. Under the 2014 Mid-Term Business Plan, we will endeavor to nurture a diverse pool of human resources capable of excelling on the world stage as a part of efforts to push forward our “Business Support Strategy,” which is designed to reinforce our financial, information and organization platforms. With safety as a top priority, we will also promote our “Production and Technology Strategy” in order to strengthen our competitiveness. In a bid to bolster our business platform, we are therefore working diligently to clarify and carry out each of the aforementioned basic strategies. (See p. 52)

**Tsutomu Tannowa**  
President & CEO





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Financial Section

## Fiscal 2015 Overview

In fiscal 2015, operating income came in at ¥70.9 billion, up 69% compared with the previous fiscal year. This result surpassed the fiscal 2016 target of the 2014 Mid-Term Business Plan.

With such positive factors as lower raw material costs and the weak yen, the Mitsui Chemicals Group has taken significant steps toward ensuring that its business portfolio is less susceptible to changes in economic conditions, an overarching theme of its 2014 Mid-Term Business Plan.

Looking at the global economy, the United States, Europe and especially the United Kingdom and Germany saw modest but constant recovery in fiscal 2015. In contrast, economic growth continued to slow in China and other emerging markets. In Japan, the economy continued to gradually improve amid a rise in corporate earnings and an improvement in the employment environment.

Under these circumstances, the Mitsui Chemicals Group worked intensively to expand business in targeted business domains for growth while also restructuring the Basic Materials business. As a result, earnings grew in each business.

In the Mobility domain, functional polymeric materials products and especially polypropylene compounds and elastomers contributed to steady returns on growth-oriented investments aimed at capturing increased demand driven by expanding automobile production and sales, particularly in North and Central America. Looking ahead, we will continue to reinforce our capacity when appropriate in line with the timing with our customers' needs. In response to the increased use of electrical components in automobiles and the growing focus on such new trends as automated driving systems, we will strive to deliver a broad product lineup that offers a higher level of sophistication while putting forward comprehensive proposals to resolve a host of social issues. (See pp. 18 and 42)

In the Healthcare domain, sales volumes of ophthalmic lens materials and nonwoven fabrics for hygiene materials grew steadily due to increased overseas demand. Commercial operations commenced at a large-scale facility producing XDI, a principal raw material used in the manufacture of high-refractive index lens products. Turning to the Group's highly functional non-woven fabrics used in premium disposable diapers, the decision was made to expand capacity at two production facilities in Japan as well as a breathable film facility in Thailand. In this manner, we are doing all that is necessary to secure a supply structure that is capable of maximizing the benefits of robust demand. In dental materials, there were signs of a delay in meeting profit targets set when businesses were first acquired.

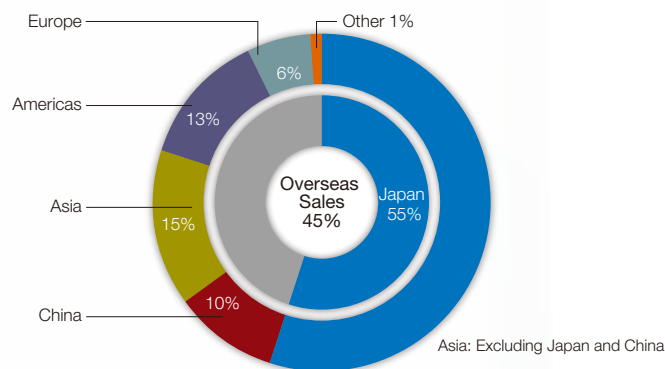
The Group is looking to improve business performance in this area by identifying all relevant issues and implementing effective measures. (See pp. 20 and 44)

In the Food & Packaging domain, specifically agrochemicals, the Mitsui Chemicals Group enhanced its overseas bases by stepping up its investment in the Brazilian company Iharabras S.A. and acquiring additional shares of the Thai company Sotus International Co., Ltd. We are working to further develop our overseas operations involving existing products. Plans are also in place to release new products as part of efforts to create a new pipeline. Sales trends affecting the functional films and sheets used in food packaging materials as well as such electronics products as smartphones were firm. This, in turn, helped to expand earnings. Moving forward, we will strive to expand our activities in high-value-added areas. (See pp. 22 and 46)

In the Basic Materials domain, positive effects have steadily materialized thanks to the establishment of an optimized domestic production system, efforts to maintain stable operations at full capacity, and the implementation of other business restructuring measures. The Mitsui Chemicals Group recognizes that the Basic Materials domain is the wellspring of its manufacturing activities and the foundation on which all industries stand. In order to broadly provide materials and technologies both within and outside the Group, every effort will be made to further stabilize our earnings structure. (See p. 48)

Under the 2014 Mid-Term Business Plan, we have continued to promote global management and worked diligently to expand our overseas business in line with the strategy of each business. As a result, overseas sales as a percentage of total sales has risen to 45% in 2015.

We will continue to promote measures aimed at transforming our business portfolio with the aim of securing sustainable growth and direct our energies toward further expansion.



FY2015 Consolidated Sales  
¥1,343.9 billion



# Accelerating the Pace of Business Strategy Implementation

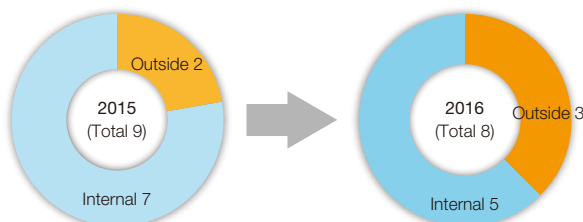
## Overhauling Our Governance Structure

Based on its Corporate Governance Guidelines established in September 2015, the Mitsui Chemicals Group undertook a review of its corporate governance structure. Every effort was made to put in place a flexible management structure that exhibits increased transparency and is capable of making bold decisions in a timely manner.



In April 2016, we took steps to restructure our organization and established four business units to pursue synergies between businesses and accelerate the pace at which we transform our portfolio.

We also undertook a review of the effectiveness our management structure with regard to strengthening corporate governance and ensuring that oversight is conducted in a timely manner. Until now, each in-house member of the Board has been responsible for overseeing both the monitoring and executive functions of particular businesses. With the decision to restructure, steps have been taken to draw a greater distinction between supervisory and executive responsibilities. Members of the Board are now asked to focus on business oversight while the authority delegated to executive officers has been expanded to allow them to better concentrate on business execution. This structure ensures the speedy implementation of Group strategies. Moreover, we have reduced the number of internal directors while increasing the ratio of outside directors. In doing so, we have strengthened the monitoring and oversight functions of the Board of Directors.



Strengthening the Board of Directors by Altering the composition

The Mitsui Chemicals Group regularly evaluates the effectiveness of its governance. Outside directors review the results of each evaluation and the Board of Directors serves as a forum at which future issues and measures are deliberated upon. Moving forward, we will continue to do what is necessary to further enhance the oversight function of the Board. (See p. 64)

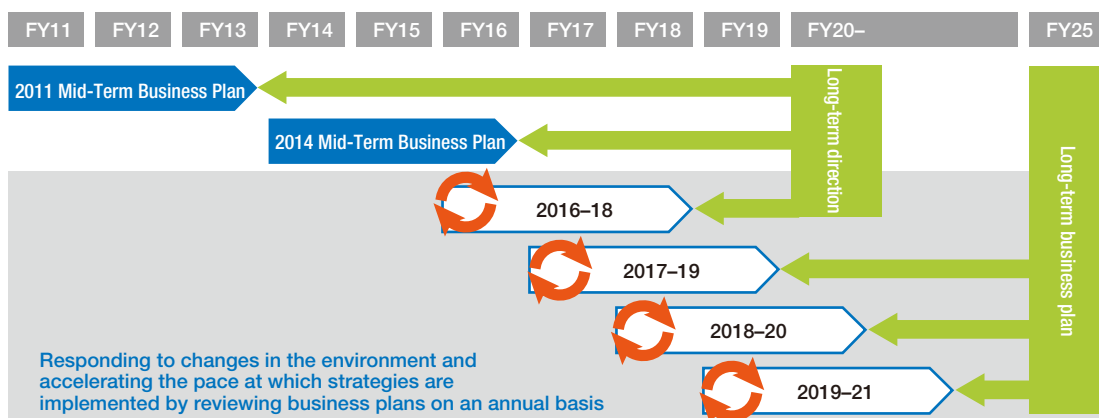
## Changes to Business Plan Systems

The Mitsui Chemicals Group has changed its business plan system from a mid-term structure covering a three- to four-year period to a rolling review structure that looks three years into the future and is formulated at the same time each annual budget is drawn up. This allows us to better adapt to changes in our operating environment while increasing the speed and precision at which we carry out strategies.

Increasing uncertainty, beginning with movements in foreign currency exchange rates and crude oil prices, continue to negatively impact the operating environment surrounding the Mitsui Chemicals Group. With economic conditions shifting at a dizzying pace, it has become extremely difficult to predict the future. Under these conditions, the value of numerical targets becomes rather pointless. Far more important are the timing and effect of actions taken in response to changes in the operating environment. In accordance with the rolling business plan system, the Group will commit to numerical targets limited to the first year of

each plan. Targets for the second and third years will be reviewed thereafter, taking into account changes in business conditions as well as the Group's strategies. With this in mind, we have identified targets through to fiscal 2018.

This is not to say that we are focusing entirely on the present. In order to effectively utilize this rolling system, we must place equal emphasis on the short and long term when determining an optimal direction. Currently, we are taking steps to put in place a long-term vision that carries the Group to 2025.



## Toward Sustainable Growth

As with our fiscal 2016 operating income target of ¥70.0 billion, we will look to achieve our 2020 operating income target of ¥100.0 billion in advance of the stated fiscal 2019 deadline. We will work diligently to realize sustainable growth through our business activities for both society and the Group.

In fiscal 2016, the global economy is showing signs of increased instability. In addition to the decision by the United Kingdom to leave the European Union, trends in foreign currency exchange rates and business conditions remain unclear. Taking each of these factors into consideration, the danger of increased downside risk seems very real. Despite this forecast, the Mitsui Chemicals Group is projecting operating income and profit attributable to owners of parent to come in at around ¥70.0 billion and ¥36.0 billion, respectively, roughly the same levels recorded in fiscal 2015. The Group's operations are currently progressing steadily. This is largely due to higher sales, the effects of such factors as the shutdown of Kashima Works, and the suspension of MDI production at Omuta Works as well as the positive flow-on effects of measures implemented in each business domain. While growth investments already made are expected to contribute progressively to profits, we believe that efforts to accelerate the pace of new business and product creation will play an increasingly important role from fiscal 2017. Looking ahead, we will work diligently to achieve our targets in advance.

In 2015, the call was made to all stakeholders in the international community to participate in achieving the 17 sustainable development goals (SDGs) that stand at the heart of the "Transforming Our World: The 2030 Agenda for Sustainable Development" adopted during the United Nations Sustainable Development Summit in September 2015. In addition, the Paris Agreement within the United Nations Framework Convention on Climate Change held in December 2015 was adopted by consensus by participating developed and emerging nations.

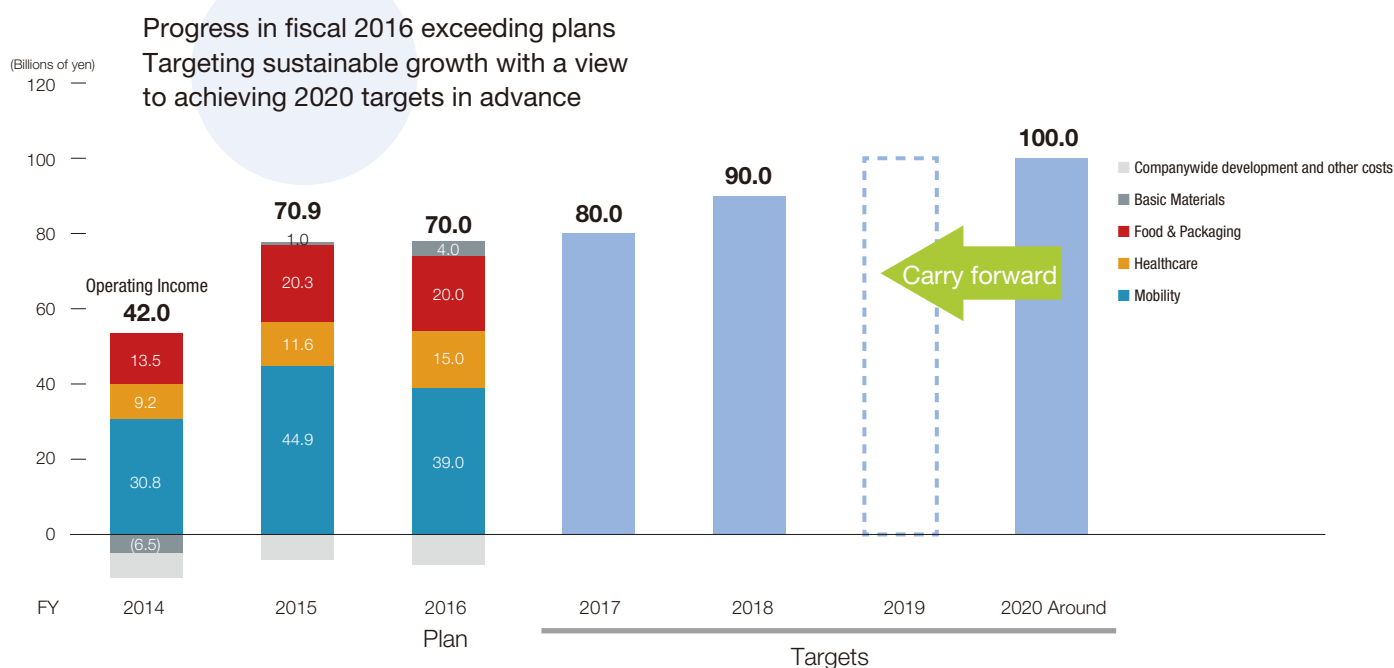
Representative of a growing trend, 2015 was a historic year that saw all stakeholders in the international community coming together to voice their concerns regarding such wide-ranging issues as poverty, hunger, natural resources and energy, climate change and the environment, and the need to secure a sustainable society.

The Mitsui Chemicals Group is, in turn, committed to engaging in balanced management while actively addressing the environmental and social concerns of its stakeholders. Moving forward, the Group will make every effort to secure the sustainable growth and development of society and the Group through its business activities.

(June 2016)

	Net Sales	Operating Income	Profit attributable to owners of parent	ROA	ROE	Net D/E (Times)	Dividends (Yen per Share)
FY2016 Plan	1,250.0	70.0	36.0	5.6%	9.1%	0.92	9
FY2015 Results	1,343.9	70.9	23.0	5.3%	5.8%	1.03	8

(As of May 13, 2016)





**Masaharu Kubo**  
CFO & Senior Managing Executive Officer

We will maintain optimal balance between the needs to strengthen our profitability, secure our financial health, and provide adequate returns to our shareholders as a part of efforts to increase our corporate value on a continuous and sustainable basis.

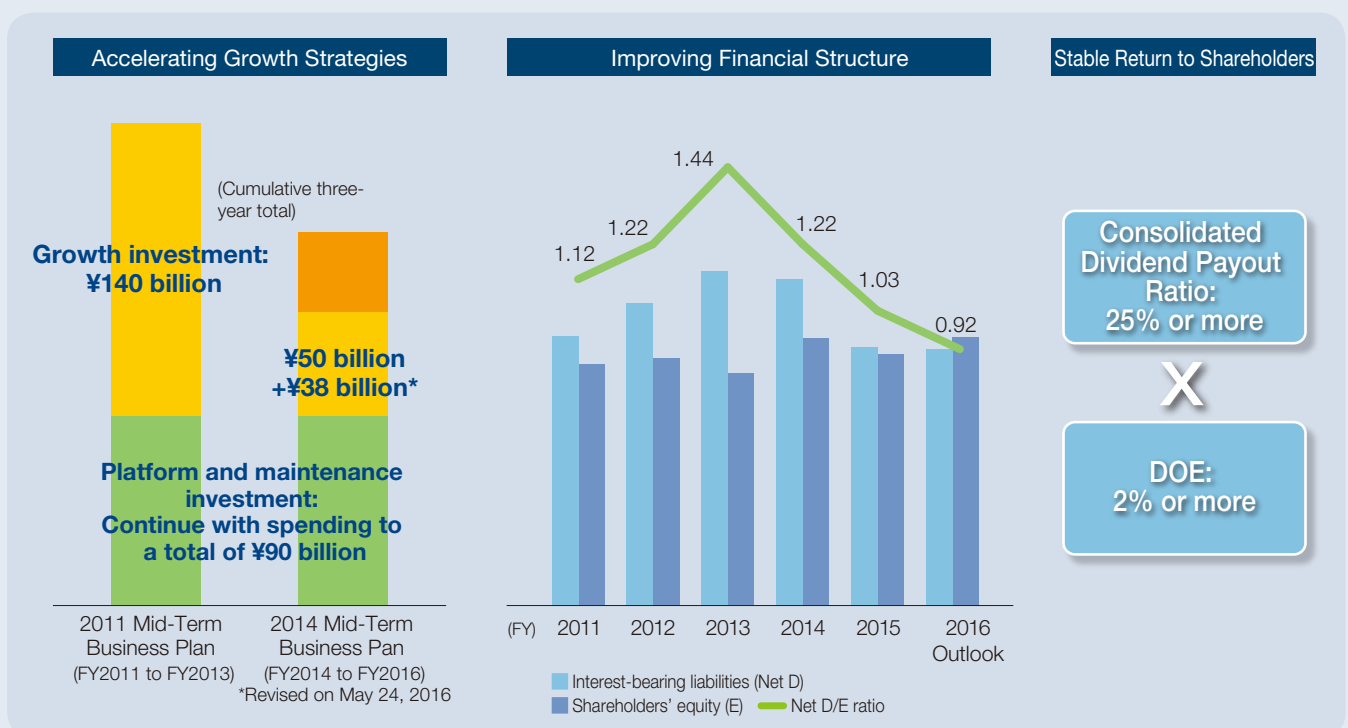
Under the current 2014 Mid-term Business Plan, we have worked diligently to bolster our capabilities, aiming to quickly generate robust cash flows and restore us to sound financial health. To this end, we have strengthened the profitability of existing businesses and rebuilt the bulk and commodity product businesses.

As a result, we are seeing growth in the targeted Mobility, Healthcare, and Food & Packaging business domains as well as steady progress in rebuilding business activities in the Basic Materials domain. In fiscal 2015, the Mitsui Chemicals Group achieved its earnings goal a year ahead of schedule. At ¥70.9 billion, operating income substantially exceeded the fiscal 2016 target of ¥60 billion. The Group was also successful in attaining consolidated cash flows in excess of ¥100 billion. With regard to financial health, we are well positioned to record a net D/E ratio of less than 1.00 in fiscal 2016, the target we had set for around 2020.

Taking the aforementioned factors into consideration, we have decided to increase the amount earmarked for growth investments to ¥88 billion, ¥38 billion more than the ¥50 billion originally intended for this purpose at the start of the current Mid-term Business Plan. To further accelerate the pace at which we implement our growth strategies, we will focus mainly on increasing production of those products for which there is an urgent need to ensure supply capacity capable of meeting robust demand. Such growth investments are, in turn, expected to help boost earnings from fiscal 2017.

In endeavoring to ensure the adequate return of profits to shareholders, we are striving to raise our annual dividend, increasing it each fiscal year since 2013, when it fell to ¥3 per share. For fiscal 2016, our goal is to pay an annual dividend of ¥9 per share. With dividend payout ratio and dividend on equity (DOE) targets of 25% or more and 2% or more, respectively, we will work tirelessly to improve the return of profits to shareholders while recognizing the need to ensure our continuous and sustained growth and the development of our corporate value.

(June 2016)





# Realizing *Sustainable Growth* by Improving Quality

**Takato Watabe**

Managing Director, Equity Research  
Morgan Stanley MUFG Securities Co., Ltd.

**Tsutomu Tannowa**

President & CEO

## Vision for around 2020

—Two years have passed since the 2014 Mid-Term Business Plan commenced. Let's begin our conversation with your outlooks for around 2020.

### Tannowa:

Our primary mission under the 2014 Mid-Term Business Plan was to reform the business portfolio by expanding targeted growth business domains and restructuring the bulk and commodity products businesses. In fiscal 2015, we generated operating income of ¥70.9 billion, far more than we had initially forecast. We are becoming more confident in our ability to attain our target of operating income of ¥100 billion well ahead of our 2020 schedule.

What is your impression of the Mitsui Chemicals' growth story?

### Watabe:

My impression is that Mitsui Chemicals is now on a clear path toward recovery. In February 2014, Mitsui Chemicals made the difficult decision to restructure the bulk and commodity products businesses, and progress since then has gone to plan. In addition, you can now see growth in the three targeted business domains.

Indeed, Mitsui Chemicals has faced headwinds in the external business environment with the yen weakening and crude oil prices declining. Regardless, its sales volumes have expanded, indicating that growth has been the result of effective management and not simply external factors.

—What are your thoughts on the targeted growth business domains?

### Watabe:

Mitsui Chemicals is quite strong in the Mobility domain. Among the diversified chemicals makers in Japan, the profitability of Mitsui Chemicals' Petrochemicals business is exceptionally strong, especially for PP compounds. These strengths derive from the Group's extensive polymer technologies. I have high expectations for growth in these areas.

Mitsui Chemicals has a broad lineup in the Functional Polymeric Materials business, and sales have also been increasing in other fields including electronics.

### Tannowa:

The Mobility business has a broad lineup of polymer products for applications other than automobiles. I believe we are effectively leveraging this strength through higher levels of complexity.

**Watabe:**

What about the Healthcare domain?

**Tannowa:**

Profit growth in the Healthcare domain seems to be slower than in the Mobility domain. We are continuing to focus on spurring growth in this domain.

We need to invest in the nonwoven fabric business in order to ensure that we have sufficient supply capacity to meet robust demand. In ophthalmic lens materials, we have commenced operations of expanded production facilities for xylene diisocyanate (XDI), a raw material used to make high refractive index ophthalmic lenses, a specialty of Mitsui Chemicals. In addition to improving the functionality of our products, we are keen to expand the range of applications and fulfill a larger variety of customer needs.

**Watabe:**

Over the past few years, many companies have pivoted toward the provision of solutions to customers. Mitsui Chemicals has also put "Creating New Customer Value" at the forefront of its activities and appears to be moving in this direction based on the three targeted growth business domains.

Lately, it seems that Mitsui Chemicals has expanded its product lineup. I think that this aligns with the "Revival of Mitsui Chemicals" mentioned elsewhere. Please provide more details about this endeavor.

### Structural Reform That Makes the Most of Basic Materials

**Tannowa:**

The concept behind the 2014 Mid-Term Business Plan is to thoroughly utilize our technological strengths and our customer base. The Plan is indeed based on the combination of polymer technologies, organic synthesis technologies that for example are also linked to the development of agrochemicals, and basic material technologies.

In particular, polymers are an important downstream for petrochemical complexes. Adding value in this area is a strength of Mitsui Chemicals, and at the same time is an important task for the Group.

**Tannowa:**

I believe that, in the context of the overall debate about restructuring, it is not necessary for us to maintain our own ethylene center. If we are able to secure the necessary volume at a stable price, I have no issues with procuring ethylene from external sources. The key is enhancing and maintaining our overall competitiveness, including in downstream derivatives, as we have always stated. I hope that market participants base their judgments on our competitiveness.

**Watabe:**

Is Mitsui Chemicals' purpose in producing toluene diisocyanate (TDI), a raw material for polyurethane, similar to that for manufacturing meta-xylylene diisocyanate (XDI), namely, to facilitate the development of high-performance products?

**Tannowa:**

That is one reason why. Another reason is to support the overall operations of Omuta Works.

#### —What is your impression of the restructuring thus far?

**Watabe:**

I was surprised by management's decision to restructure the bulk and commodity products businesses in February 2014, wondering how things had deteriorated so much. It must have been a difficult decision to shut down Kashima Works, but I think it was the right move.

However, I do not think it is simply a matter of scaling down the Basic Materials business, because of the cash flow it generates.

**Tannowa:**

I agree. Basically, the problem of weak commodity prices was caused by excess production capacity, underlining the importance of having in place a business structure able to withstand such trends. Looking at the big picture, I see no need to rush into a downward spiral.

#### —Speaking of ethylene, market conditions have not been that weak lately. The issues, such as the ethylene center in Asia and shale gas producers in North America, are problems for 2018 and beyond, based on market opinions. What do you think about that?

**Watabe:**

The ethylene center in Japan has been operating at nearly full capacity, and is likely to remain at this level for the time being. Are there any moves to build one large facility with other conglomerates, for example?

**Tannowa:**

Including Mitsui Chemicals, there are four chemical producers in Chiba Prefecture. Mitsui Chemicals and Idemitsu Kosan Co., Ltd. have formed a limited liability partnership and largely finished efforts to optimize operations, including downstream activities, accordingly. Our plants remain efficient as long as the utilization rate stays above 70%, so any excess can be addressed by suspending operations at some of the facilities that they supply. Our greater degree of flexibility regarding options ensures that we have the ability to align our operations with trends at other companies.

**Watabe:**

Overseas, it looks like Mitsui Chemicals will steadily ramp up operations at its shale gas ethane crackers in North America, albeit a bit behind schedule. However, I don't have an exact guideline for coal chemicals in China. Rather than shale gas in North America, coal chemicals in China have been considered a threat. What are your thoughts?

**Tannowa:**

Coal chemical production requires a fair amount of water, so water is apparently viewed as a bottleneck. Given uncertainties regarding profitability, supply capacity is unlikely to expand that much. However, our policy to

take the necessary steps now to prepare for when coal chemical production is up and running in earnest in China remains unchanged.

### Improving the Quality of Global Regional Strategies

#### —In the Mobility business, the North American market has been seeing strong growth. What are your views on growth in North America?

**Watabe:**

Sales have expanded in North America, but investment in our production facilities has been less than in Japan and Asia. I think that Mitsui Chemicals should shift more investment to North America, given prospects for growth in demand and its competitiveness there, including shale gas in the United States.

**Tannowa:**

For example, our LUCANT™ gear oil additive is the outcome of a partnership with Lubrizol Corporation, so we need to have a supply base in North America. The key here is figuring out who to partner with and what markets to target.

**Watabe:**

Mitsui Chemicals is somewhat of a latecomer to developing business in Europe. I think that growth in Europe would accelerate expansion in the Mobility business.

**Tannowa:**

Indeed, Europe is a major factor in the Mitsui Chemicals Group's regional strategy, and we will pursue growth in this region.

We have been targeting Southeast Asia for growth in the Basic Materials business so far. It is important that we anticipate the type of functional products that will satisfy future needs in Southeast Asia. One of these products is EVOLUE™, a raw material for high functional sealant film, that we are launching.

**Watabe:**

Mitsui Chemicals has been shifting from commodity products to specialty products, striving



to improve quality in line with the needs of each region. As a global regional strategy, does Mitsui Chemicals intend to do the same in Asia?

**Tannowa:**

That's correct.

### Growth Investments and M&A

—Mitsui Chemicals has announced its decision to increase growth investments. What is your take on this?

**Watabe:**

I have a rather positive view when it comes to expanding the investment framework in order to improve the quality of the portfolio, because such a move has the potential to create growth drivers. However, this does not mean Mitsui Chemicals has relaxed its financial discipline, right?

**Tannowa:**

Of course not. We are taking a balanced approach between stepped up investment and tightening investment criteria. We are also carefully considering the timing of investments. The first priority is warding off supply shortages through investment. Next, we are initiating preparations to increase supply capacity after taking into consideration the increase in future demand.

—Do you see a need for M&A in Mitsui Chemicals' business portfolio?

**Watabe:**

Not really. I am interested in M&A that would buy time for non-contiguous growth. I also think that partnerships and capital participation that seek out synergies can be quite beneficial. In this context, I believe that Mitsui Chemicals' technologies are a good match with mold producer Kyowa Industrial Co., Ltd.

### Industry Reorganization

—Major industry reorganization is under way in Europe and the United States. Do you think that reorganization is needed in Japan as well?

**Watabe:**

From the standpoint of the equity market, investment valuations have historically been low for Japanese chemicals companies, owing to the large number of companies in the sector and weak profitability in the face of competition from Asia.

As demand grows for agrochemicals and functional materials, Mitsui Chemicals cannot lose out to competition from other Japanese companies. In this case, industry restructuring may be necessary.

**Tannowa:**

In my opinion, the key here is whether companies can benefit from scale. Combining the operations of companies and eliminating redundancies in peripheral operations does not always result in a considerable boost to pricing through stronger competitiveness and

higher market share in the business.

I think that, ultimately, it is important to have perspective on each business. For example, the agrochemicals business needs scale, because R&D spending is a key. We are confident in our R&D capabilities, but looking ahead, we must consider our options with regard to teaming up with other companies.

### Boosting Speed with Management System Reforms

—Mitsui Chemicals announced new reforms to its management system the other day.

**Watabe:**

Statistics have shown that companies with excellent governance systems have high returns. We are considering how to reflect corporate governance systems in valuations of companies.

What are your criteria when making decisions about reforms?

**Tannowa:**

Since being appointed CEO, I have worked to improve not just the structure but how our corporate governance system functions—while setting out a vision for corporate governance.

I am aware that our governance system lacks speed. To fix this issue, we are revising the agenda criteria for the Board of Directors so that there is more focus on evaluating the broader direction of business strategies and major investment proposals. We are also making progress on delegating decision-making authority from the CEO to executive officers. By reducing the number of agenda items submitted to the Board of Directors, we are ensuring that each agenda item can be fully deliberated.

Moreover, it is quite important to incorporate the views of outsiders, especially those with business experience, in our decision-making process. Mitsui Chemicals has cut-back two inside directors and added one outside director. By reducing the number of inside directors, we have given business divisions in particular more independence on various matters without placing a director directly in charge. This has also accelerated decision making.

Also, in my efforts to enhance corporate governance, I have focused on improving overall speed, while ensuring proper risk management.

### Expand Shareholder Returns by Improving ROE through Stable Profit Growth

**Watabe:**

Mitsui Chemicals has increased dividends each year for the past two years. What are your thoughts on shareholder returns?

**Tannowa:**

We aim for sustainable growth over the long term. We intend to increase dividends alongside stable growth in profits. I believe this approach is the most reassuring for investors.

**Watabe:**

Mitsui Chemicals has set a target for ROE. The Group came close to achieving an ROE of 10% when it posted record-setting operating income of ¥91.7 billion in fiscal 2006. ROA is on a par with levels in fiscal 2006, but the net income margin could still improve, in my opinion. What measures are being taken to improve ROE?

**Tannowa:**

I think that stable profit growth is a key here, as we reform our business portfolio. We would like to achieve ROE of at least 10% as soon as possible.

**Watabe:**

Mitsui Chemicals aims to expand net income, the numerator in the ROE equation, by improving quality, correct?

**Tannowa:**

Yes. We will not squeeze shareholders' equity only for the purpose of increasing the ROE score.

**Watabe:**

Since the content of equity is different, Japanese companies tend to have lower ROE than their counterparts in Europe and the United States. However, ROE has become a global benchmark, so I hope that Mitsui Chemicals attains an ROE of at least 8%.

Companies with low levels of shareholders' equity naturally have high ROE. I would like to see Mitsui Chemicals improve ROE by increasing its EBITDA margin and operating margin.

### Expectations for Mitsui Chemicals

—In conclusion, what are your expectations for the Mitsui Chemicals Group?

**Watabe:**

The chemicals industry serves a wide range of customers and has deep ties to the automotive, housing, electric power, electronics, and other industries. I believe Mitsui Chemicals is a company that can improve the general standard of living by increasing quality on various fronts. I hope that Mitsui Chemicals sets its sights on operating income of more than ¥100 billion.

In line with the old saying "Mitsui is People," I think that Mitsui Chemicals has a good, optimistic atmosphere. I wish the best for you and the Group.

**Tannowa:**

I think we still need to work on our ability to consistently create new products and businesses in order to meet expectations. We are focusing our efforts on making steady progress toward sustainable growth.

June 15, 2016

Moderator:  
Osamu Yoshida  
IR Group Leader, Deputy General Manager,  
Corporate Communications Division





**Kazuya Uesako**  
 Head of Materials Team  
 Investment Research Department  
 Sumitomo Mitsui Trust Bank, Limited

Non-financial information plays an important role when evaluating corporate value over the medium to long term. On this occasion, we spoke with Kazuya Uesako about the use of MBIS®, a method developed by Sumitomo Mitsui Trust Bank for evaluating non-financial information.

**● What is MBIS®?**

MBIS® is a means for evaluating the strengths of companies in order to ensure sustainable growth. This evaluation method increases confidence in companies' performance forecasts while fostering trust in their ability to enhance corporate value going forward.

Financial data comprises information that reflects business performance, with all other areas seen as non-financial information. The overly general evaluations given to date in such areas as women's participation and the employment of outside directors have not significantly impacted corporate performance and are not regarded as valuable non-financial information. By systematically evaluating non-financial information using MBIS® while leveraging the expertise of analysts in other sectors, we aim to establish more sophisticated analysis content and ensure consistent quality throughout organizations.

**● Which evaluation category do you focus on in particular?**

That would be Management (M). Within this, I focus on the ability to execute strategies. Beyond management systems, I also evaluate ancillary mechanisms and the ability of frontline employees to implement strategies. I place particular emphasis on the ability to improve and reform businesses when addressing risks and environmental changes.

	MBIS®	Example Checkpoints
M	Management	Ability to execute strategies, ability to improve/reform businesses, scandal/risk management, capital/investment efficiency
B	Business Franchise	Customer value, customer base, entry barriers
I	Industry	Market assumptions, competitive environment, regulations/policies
S	Strategy	Business portfolio, environmental/social policies, marketing, investment/M&A, etc.

**● Which evaluation category is most important for chemical companies?**

In my opinion, that would be "business portfolio" under Strategy (S). It is necessary for chemical companies to ceaselessly pursue innovation while eliminating obsolete areas as manufacturers in emerging countries catch up. I focus on whether companies are making ongoing, appropriate portfolio improvements, which includes creating new businesses.

**● How do you evaluate the Mitsui Chemicals Group?**

I evaluate the Mitsui Chemicals Group based on additional checkpoints under the Management and Strategy categories. I give the Group high marks for its ability to execute strategies, the ability of its frontline employees to promote its strategic vision throughout the organization, and business portfolio innovation that strikes a good balance between restructuring unprofitable businesses and accelerating the growth of target businesses.

**● What medium- and long-term issues do you think the Group faces?**

I believe there are three issues.

**① Shifting from austerity to growth-oriented strategies**

To make this shift, it is important to be willing to take on challenges. Is the Group making this shift effectively? I focus on this change in attitude.

**② Sowing the seeds of growth from 2020 onward**

I think the Group will very likely reach its ¥100 billion operating income target through organic growth. After that, however, seeds need to be sown for growth that has not yet been realized. To this end, the focus needs to be on how much to invest in new businesses, how much profit to aim for, and how many product candidates are being put forward.

**③ Pay heed to businesses not in target domains**

I am concerned about declining forward momentum in, for example, electronic material businesses, which do not appear to fit into the Group's segments, as well as businesses that straddle segments. Looking ahead, I would like to focus on how the Group ensures forward momentum at an organizational level.

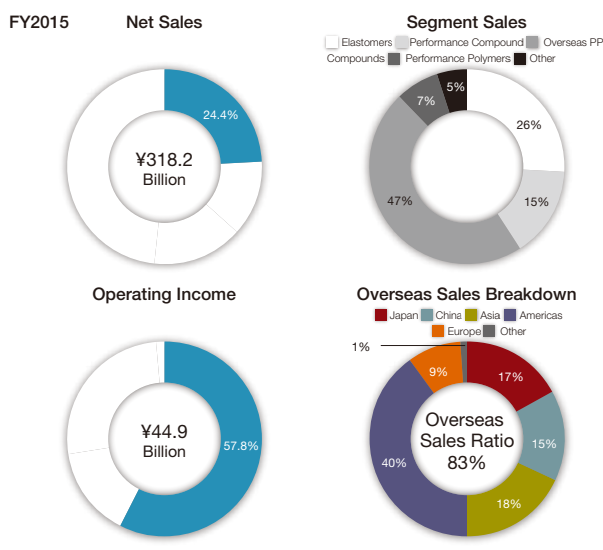
**● Do you have any requests regarding information disclosure?**

I would like to see corporate governance innovation added to the topics discussed at regular IR meetings. I would also like to see more opportunities for dialogue with outside directors. Moreover, I think plant tours and business briefings are valuable events that help to foster a deeper understanding of the Group through direct interaction. I would certainly like such activities to continue.

Taking Mr. Uesako's opinions to heart, we will focus on efforts to enhance corporate value over the medium to long term as well as initiatives that more deeply instill these ideas within the Mitsui Chemicals Group. (See p. 74)



# Mobility



## Main Products

### Elastomers

Ethylene-propylene rubber (Mitsui EPT™), Alpha-olefin copolymer (TAFMER™), Liquid polyolefin oligomer (LUCANT™)

### Performance Compounds

Adhesive polyolefin (ADMER™), Thermoplastic olefin elastomer (MILASTOMER™), Engineering plastics (ARLEN™)

### Overseas PP Compounds

### Performance Polymers

Specialty polyolefins (TPX™, APEL™, HI-ZEX MILLION™), Semiconductor manufacturing material (Mitsui PELLICLE™)

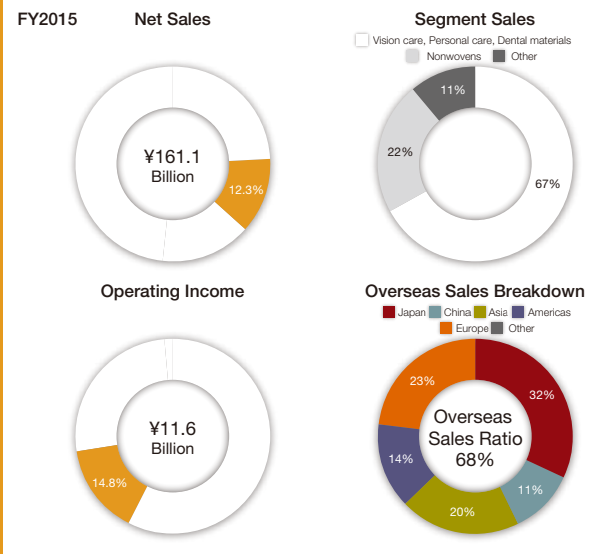


The Mobility business is positioned as one of the Group's key earnings pillars. Responding with agility and speed to changes in the automobile industry in line with the demand for lightweight models and integration of ICT and automobiles, the Group is experiencing continuous growth globally. The Mitsui Chemicals Group defines mobility as everything that moves, an area that encompasses the ICT, robot- and aircraft-related fields. We will endeavor to realize market needs by creating new value through chemicals.

**Takayoshi Shimogori**  
Managing Executive Officer  
Business sector president, Mobility Business Sector



# Healthcare



## Main Products

### Vision Care Materials

Ophthalmic lens materials (MR™, RAV7™)

### 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 (Flextime®), Digital Equipment / Materials (Cara®, Dima®)



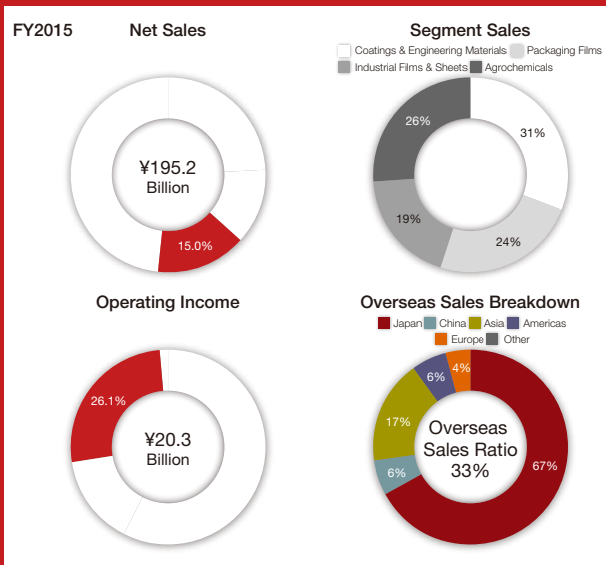
We will endeavor to expand the Healthcare business by steadily reinforcing existing businesses and launching new ventures in a timely manner. Taking a perspective that looks beyond the conventional, we will strive to accurately grasp changes in market needs and values. Boldly addressing each new challenge, we will play a leading role in transforming the Mitsui Chemical Group's business portfolio as a whole.

**Yasunori Nishiyama**  
Executive Officer  
Business Sector President, Healthcare Business Sector

The Mitsui Chemicals Group undertook a review of certain business segments on April 1, 2016. The Functional Polymeric Materials Business Sector and the overseas PP compounds business, which has historically been included in the Petrochemicals Business Sector, have been integrated and renamed the Mobility Business Sector. The Coatings & Engineering Division from the Polyurethane Business Sector has been reallocated to the newly established Food & Packaging Business Sector. Furthermore, the Basic Chemicals Business Sector and the Petrochemicals Business Sector, excluding the overseas PP compounds business, and the Polyurethane Materials Business, which formed a part of the Polyurethane Business Sector, have been integrated and reallocated to the newly established Basic Materials Business Sector.



# Food & Packaging



## Main Products

### Coatings & Engineering Materials

Polyurethane resins, Coating resins, Polyolefin 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



In the Food & Packaging business, we manufacture and market a wide range of highly functional products in the adhesive, coating, film and sheet as well as agrochemicals fields. Building on this business as a cornerstone of the Group's sustainable growth, we work diligently to generate new business and to expand our activities through the release of new products. Moving forward, we are assessing various M&A opportunities and implementing other measures aimed at accelerating the pace of growth.

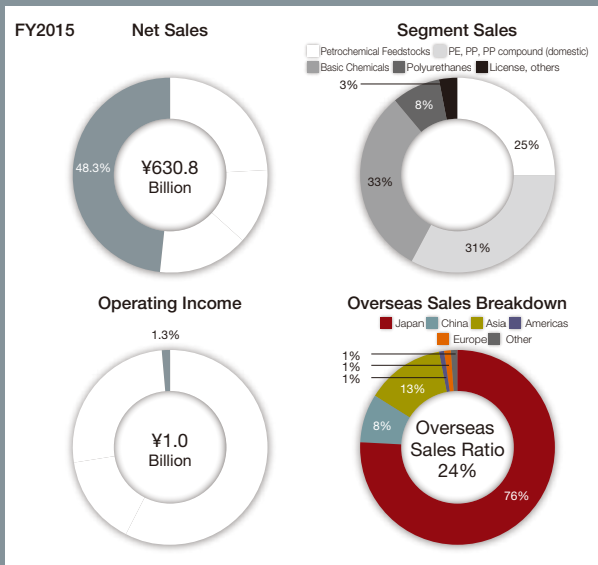
### Minoru Koshibe

Executive Vice President

Business Sector President, Food & Packaging Business Sector



# Basic Materials



## Main Products

### Petrochemicals

Ethylene, Propylene, High density polyethylene, Metallocene linear low density polyethylene (EVOLUE™), Linear low-density polyethylene, Polypropylene, PP compounds, Olefin polymerization catalysts

### Basic chemicals

Phenol, Bisphenol A, Acetone, Methyl isobutyl ketone, Purified terephthalic acid, PET resin, Ethylene oxide, Ethylene glycol, Hydroquinone, Meta/Para-cresol, Ammonia, Urea, Melamine, Semiconductor gas

### Polyurethanes

Polyurethane raw materials (TDI, MDI, PPG)



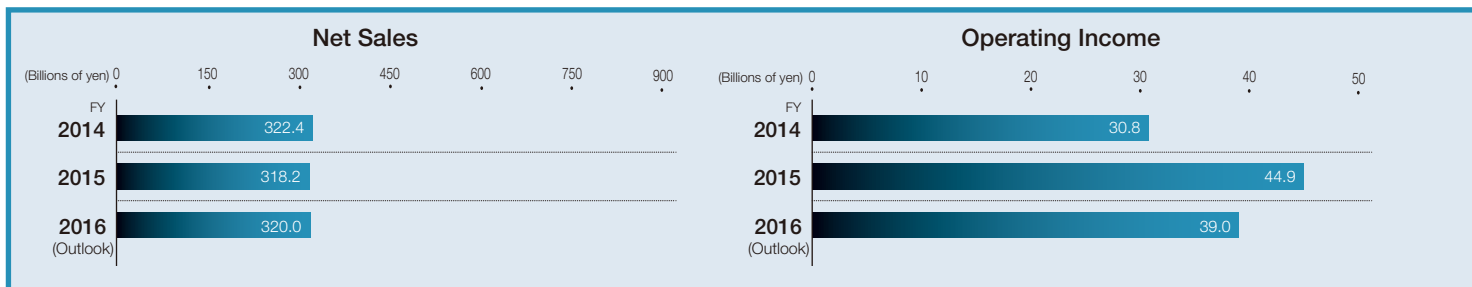
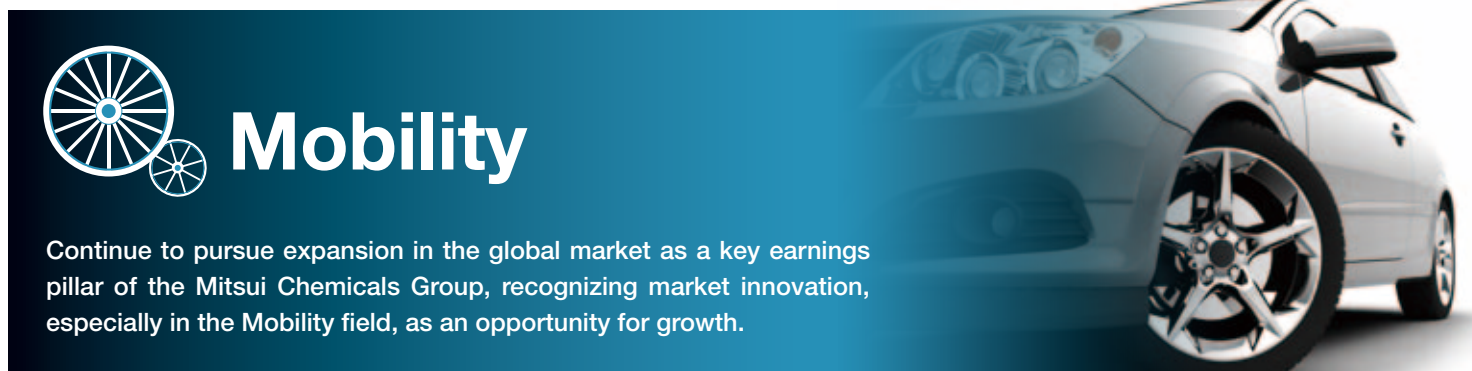
In Basic Materials, we are rigorously implementing drastic business reforms in order to significantly improve earnings. Moving forward, we will put in place a stable earnings platform by further reinforcing our cost competitiveness and sales capabilities. With a firm presence in Asia thanks largely to our distinctive technologies and materials, the Mitsui Chemicals Group will work to provide the basic materials required to support a variety of industries.

### Yasuji Omura

Executive Vice President

Business Sector President, Basic Materials Business Sector

Operating results by business segment data are estimates only and have not been audited (p. 40-49). In addition, fiscal 2016 forecasts are as of the Group's announcement on May 13, 2016. The operating income (loss) graph does not include group-wide R&D and other costs.



### Fiscal 2015 Business Overview and Results

● **Business Overview: Analysis of Year-on-Year Change**

In the Mobility domain, earnings from the sale of elastomers, performance compounds and overseas polypropylene compounds increased. This largely reflected successful efforts to capture the upswing in demand associated with the increase in automobile production in North and Central America as well as the positive flow-on effects of the weak yen. In the functional polymer materials business, the growth in sales also contributed to higher earnings. This again reflected successful efforts to capture the surge in demand for ICT-related applications and the favorable impact of the downturn in the value of the yen.

● **Progress under the Mid-Term Business Plan**

■ **Elastomers**

In December 2014, operations commenced at the new EPT plant of the Company's joint venture with China Petroleum & Chemical Corp. (Sinopec) in Shanghai, China. After entering into a strategic alliance making The Lubrizol Corporation the exclusive worldwide seller of the lubricant additive LUCANT™ to the industry in September 2014, the Mitsui Chemicals Group undertook steps to boost production capacity by roughly 40% in February 2016 in order to address the upswing in demand.

■ **Performance Compounds**

Operations at new plants that produce ADMER™ and MILASTOMER™, in which the Mitsui Chemicals Group boasts high global market shares, com-

menced in Shanghai, China, in March 2015. As a trusted, high-adhesion resin widely used in automobile fuel tanks and food packaging, ADMER™ commands the top market share worldwide. In addition to pioneering its use on the interior surfaces of automobiles, the Mitsui Chemicals Group is promoting the application of MILASTOMER™ in such growth fields as window sash seals and airbag covers. Buoyed by strong demand, the Group is experiencing an increase in sales that exceeds the rate of automobile production growth.

■ **Overseas PP Compounds**

The Mitsui Chemicals Group continues to progressively increase production capacity in order to address growth in the automotive materials market. The Group has established a global supply structure that is capable of delivering one million tons annually.

■ **Performance Polymers**

The Mitsui Chemicals Group has expanded its share of the APEL™ market with a particular focus on the camera lenses used in such mobile devices as smartphones. The Group is also steadily expanding the use of TPX™, which is already established as the de facto standard in release films employed in the flexible circuit manufacturing process.

### Aiming for Medium- and Long-Term Growth

● **Fiscal 2016 Plan**

The Mitsui Chemicals Group has achieved the goals set out in its earnings plan early by making the most of its past capital expenditure to boost supply capabilities and thereby increase sales. While earnings in fiscal 2016 are projected to decline due to a deterioration in the terms of trade, the Group will take definitive steps increase its sales volume in line with the growth in the market.

In addition to further reinforcing each business, the Mitsui Chemicals Group will push forward a Mobility strategy that maximizes product and business synergies.

● **Toward Medium-to-Long-Term Growth around 2020**

Boosting production capacity for many of the Group's products in the next business term is essential to ensuring that current growth in demand translates into new 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 seeing an increase in global demand. Led by its EPT business activities, the Group is also looking to steadily expand high-value-added businesses by introducing new products that will distinguish it from the rest of the field. 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 ensure that it fully capitalizes on the growth in demand for ADMER™ and MILASTOMER™, which are expected to enjoy high rates of global growth over the medium to long term.

■ **Overseas PP Compounds**

In addition to increasing its production capacity in North America, Mexico, and India in light of the forecast upswing in demand, the Mitsui Chemicals 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**

The Mitsui Chemicals Group will release a new grade of APEL™, which enjoys a high position in the optical lens application market, for use in automotive camera lenses. In addition to existing high optical characteristics, the new grade will offer high heat resistance. Volume production is scheduled to commence during fiscal 2016. Recognizing the ICT market as an opportunity for growth, the Group will also take concrete steps to increase production to meet demand.

■ **Providing New Products and Total Solutions**

Among a host of endeavors, the Mitsui Chemicals Group will work diligently to quickly commercialize a wide range of products and technologies. This includes the metal resin integral technology, POLYMETAC™, and STOBA™, which helps to prevent LIB thermal runaway. The Group will also put forward practical total solutions to address the wide ranging material, component and other composite needs of customers by leveraging the outstanding mold technologies of Kyowa Industrial Co., Ltd. acquired in 2014.

## Strengths

- A broad materials lineup
- High technological capabilities and quality
- Customer base
- Technical supports
- Proposal capabilities based on excellence in products and technologies

## Opportunities & Risks▼

- Expanding need for lighter weight materials
- Expanding needs for increased safety and comfort
- Stagnant growth in developed countries
- Growth in emerging countries

## Challenges

- To capture trend toward lighter weight for business growth
- To capture new market needs in which ICT and Automotive are integrated
- To achieve continuous growth by capturing business in growing regions

### TAFMER™

N/A

Global Share FY2015

	Share	Rate of Market Growth*
Global	No. 1	8%
Asia	No. 1	10%
Japan		

\*FY2014-2017

21%

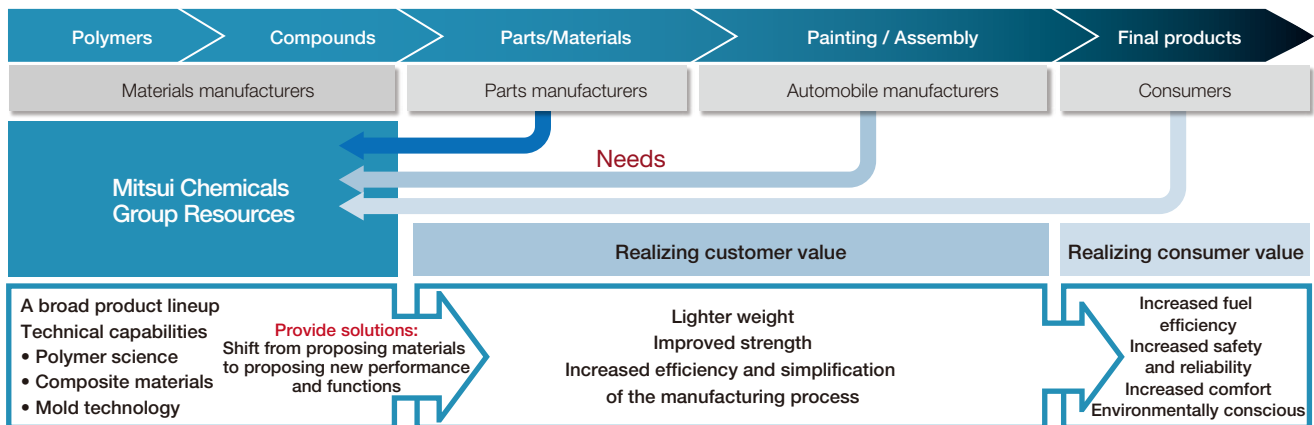
Global Share FY2015

### PP Compounds

	Share	Rate of Market Growth*
Global	No. 2	3%
Asia	No. 1	
Japan	No. 1	

\*FY2015-2020

## Automobile Component 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

### ● Realizing Improved Fuel Efficiency by Promoting Weight-Saving Materials

Our goal: "To hold in check any increase in CO<sub>2</sub> emissions."

Reducing the weight of products plays an essential role in improving fuel efficiency, and providing solutions based on materials is the avowed mission of The Mitsui Chemicals Group's Mobility Business.

#### ■ Reducing Weight by Replacing Metals



ADMER™ is unique in that it adheres to a variety of functional materials, making it ideal for use in multi-layer processing to create innovative material solutions. Adhering strongly even to gas barrier resins, ADMER™ has been adopted for bonding the multilayered plastic of fuel tanks for automobiles. Replacing a conventional metal fuel tank with one made of plastic realizes 10% to 30% cut in weight.

#### ■ Reducing Weight by Making Products Thinner

Using plastic bumpers rather than metal has become a standard and highly successful way of making automobiles lighter. Now, however, it is time to go a step further and to reduce weight by making bumpers less bulky.

The Mitsui Chemicals Group's PP compounds realize improvements in impact strength due to the higher level of material complexity of polypropylene and the resin modifier TAFMER™. Providing the required impact resistance and rigidity, these materials are making the realization of less bulky bumpers possible.



#### ■ Toward Optimal Solution Proposals Involving Multiple Materials

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 its extensive materials platform, which includes POLYMETAC™ metal resin integral technology, the Group is implementing a new business model that realizes customer value by providing multiple material solutions.

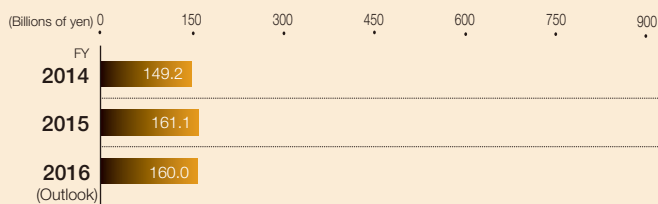


# Healthcare

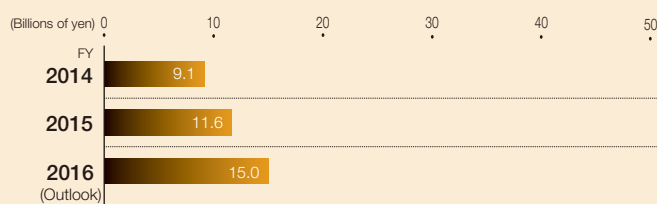
Take the lead in transforming the Mitsui Chemicals Group's business portfolio by establishing a new foundation for growth through the strengthening and expansion of core businesses as well as peripheral and downstream development.



## Net Sales



## Operating Income



## Fiscal 2015 Business Overview and Results

### ● Business Overview: Analysis of Year-on-Year Change

In addition to global growth in the ophthalmic lens market, expansion in the premium baby-use disposable diaper export market continued during the fiscal year under review on the back of the rising popularity of products made in Japan. Buoyed by this upswing in overseas demand and other factors, sales and earnings from the Group's ophthalmic lens materials and nonwovens operations were robust. Turning to personal care materials, domestic sales of acrylamide as well as licensing agreements with other companies were firm.

### ● Progress under the Mid-term Business Plan

#### ■ Vision Care

Positioned as a core business, the Mitsui Chemicals Group's plastic ophthalmic lens materials encompass a wide range of low- through high-refractive index products. In particular, our MR™ series of world-leading refractive lens materials have attracted high acclaim and have become the de facto standard in thin and lightweight lens materials. Commercial operations commenced at a large-scale facility engaged in the production of XDI, an MR™ series raw material, in March 2016. Moving forward, this initiative is expected to help drive further MR™ series sales growth. In the fiscal year under review, the Mitsui Chemicals Group upgraded and expanded its product lineup, releasing products that address the increasingly diverse health- and comfort-related needs of society

as well as products that are made from plant-based materials.

#### ■ Nonwovens

In nonwovens for high performance hygiene material use, an area in which the Mitsui Chemicals Group maintains a leading market share in Asia, efforts to steadily expand sales proved successful. Three production bases in Asia, including a production facility in China that commenced commercial operations in December 2013, continued to run at full capacity. In addition, the Group worked to harness its competitive advantage across a wide area, including the spinning and post-processing of PP raw materials, to develop a variety of unique products. Moving forward, plans are in place to boost capacity at two production facilities in Japan as well as breathable film production in Thailand.

#### ■ Dental Materials

The Mitsui Chemicals Group posted an impairment loss on goodwill of ¥19.5 billion due mainly to the slump in the principal North American market, which contributed to a delay in the Group securing the level of profit originally forecast at the time of business acquisition. After acquiring Heraeus Kulzer GmbH, a dental materials business, every effort is therefore being made to improve profitability. Recognizing this as a key management issue, the Mitsui Chemicals Group is working to reinforce its sales structure and to rebuild its business promotion system.

## Aiming for Medium- and Long-Term Growth

### ● Fiscal 2016 Plan

The Mitsui Chemicals Group will continue to respond to demand trends for ophthalmic lens materials and nonwovens. Turning to dental materials, the Group is making steady progress in reinforcing sales and promotional activities, including efforts to rebuild its business promotion systems in North America. Looking ahead, particular emphasis will be placed on expanding sales in Europe and the United States.

### ● Toward Growth 2020 and Beyond

Growth investments that have been undertaken in each business area are expected to progressively contribute to earnings from fiscal 2017. In existing business areas, we are taking positive steps to upgrade and expand new products and applications and to roll out a succession of new business such as Whole You™. In the future, the Mitsui Chemicals Group will continue push forward initiatives aimed at providing innovative healthcare solutions.

#### ■ Vision Care

The Mitsui Chemicals Group is fully cognizant of the needs of the ophthalmic lens market, which is projected to enjoy ongoing demand growth. With this in mind, the Group is projecting a steady increase in sales of XDI once its large-scale XDI facility commences commercial operations in March 2016. 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 new products that draw on new technologies and materials to address increasingly diverse needs. Moreover, the Group is

looking to develop new opportunities that will help broaden the potential of lens materials.

#### ■ Nonwovens

Plans are in place for a new breathable film facility in Thailand and two high-performance nonwovens facilities in Japan to come online in January 2017 and March 2018, respectively. The new facilities will employ improved manufacturing processes based on the Group's innovative proprietary technologies, yielding a structure capable of producing 115,000 tons per year. This represents an increase in production of roughly 20%. Turning to the disposable diaper market in Asia, which continues to experience growth, we will maintain our leading position by vigorously addressing the needs of the premium disposable diaper market.

#### ■ Dental Materials • Whole You™

There are clear signs that the Group's work to create a highly cost competitive structure in its dental materials business is meeting with success. 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 Healthcare domain in a timely manner.

In addition, we commenced sales of full denture and oral appliance products to help those suffering from obstructive sleep apnea syndrome (OSAS) under the new healthcare Whole You™ brand, which was launched to address the needs of patients and consumers in the United States. In such ways, we are working to provide a continuous stream of healthcare solutions.

## Strengths

### (Vision Care)

- A broad product lineup (Nonwovens)

- Comprehensive technological capabilities that extend from base resins to final processing
- A robust customer base

### (Dental Materials)

- Global brand prowess
- A deep understanding of the dental industry
- Research and development capabilities that cover a wide range of materials that includes dental materials

## Opportunities & Risks▼

### (Vision Care)

- An expansive global market (Nonwovens)
- Growing popularity of disposable diapers made in Japan; a growing export market for premium disposable baby diapers
- Steps to increase production capacity by rival manufacturers in East and Southeast Asia▼

### (Dental Materials)

- Rapid changes in trends (growing shift toward compact instruments) and expansion of the digital dental technology market

## Challenges

### (Vision Care)

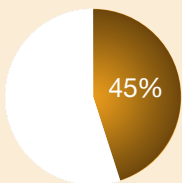
- Further business growth through the release and nurturing of new products to the market

### (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

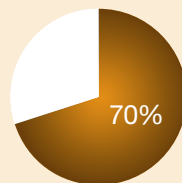


Global Share FY2015

### Ophthalmic Lens Monomers MR™ Series, RAV7™ Series

	Share	Rate of Market Growth
Global	No. 1	4%
Asia	No. 1	
Japan	No. 1	

\*FY2014-20



Asian Share FY2015

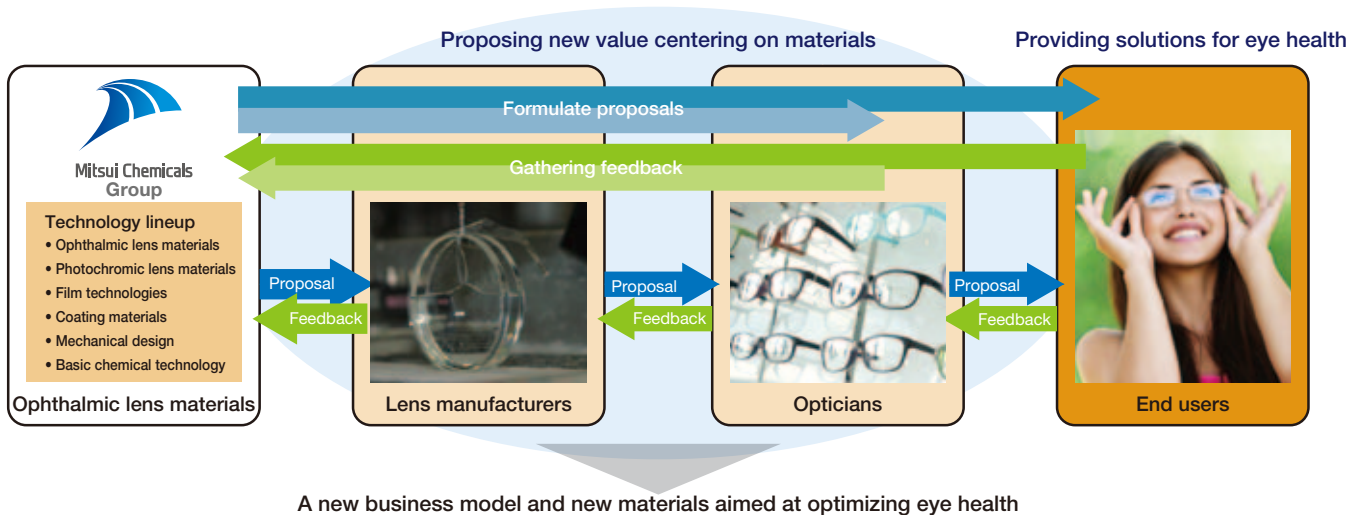
### SYNTEX™

High performance spunbonded nonwoven hygienic materials

	Share	Rate of Market Growth
Asia	No. 1	11%
Japan	No. 1	

\*FY2010-16

## Ophthalmic Lens Materials Business Model



## TOPICS: Helping to Address Social Issues

### ● Developing Products Derived from Plants and Engaging in Do Green™ Activities

As part of the Mitsui Chemicals Group's efforts to realize a cohesive society in harmony with the environment, the Group offers a wide selection of plant-derived products under the name Do Green™, including the poly-isocyanate STABIO™; the polyol Econykol™ for use in eco-friendly automobile cushions; and the Do Green™ MR™ series of high-refractive index lens monomer materials.

Do Green™ MR™-60 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. Do Green™ MR™-174™ has been adopted by Thai Optical Group, Thailand's leading manufacturer of ophthalmic lenses. Building on local sales in Thailand, we began exporting Do Green™ MR™-174 lens products to Europe and the United States in fiscal 2016.

In its marketing of Do Green™ products, the Mitsui Chemicals Group works diligently to foster environmental awareness while endeavoring to improve the lives of producers of raw plant materials and to help solve issues confronting agricultural regions.

As one initiative, the Group provided eye examinations and conducted a survey of 153 castor farmers and rural residents of Gujarat, India, from October 2015 in an effort to help improve local people's quality of vision and aid in addressing social issues facing farmers. The concept of individual



health management, including the idea of maintaining eye health through regular vision correction, has not yet taken hold in emerging countries and the consequent decrease in education and work opportunities caused by such ocular maladies as amblyopia and cataracts make this a social issue. The Group's activities serve as an opportunity to raise awareness of the importance of maintaining and improving ocular health.

Through Do Green™ activities, the Mitsui Chemicals Group will contribute to the realization of a cohesive society in harmony with the environment by continuously developing plant-derived materials.



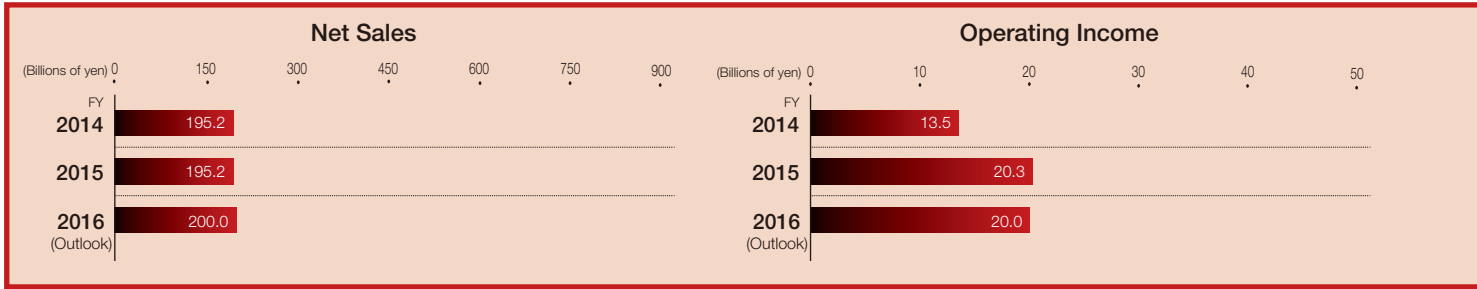
Do Green™ MR™ -174 possesses USDA BioPreferred® certification: The United States Department of Agriculture grants this certification to products derived from plants and other renewable agricultural, marine, and forestry materials that offer natural alternatives to conventional petroleum-derived products.





# Food & Packaging

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.



## Fiscal 2015 Business Overview and Results

### ● Overview and Year-on-Year Trends

Earnings from coatings & engineering materials increased on the back of successful efforts to expand sales in response to growth in overseas demand. Functional films and sheets also contributed to the increase in profit, buoyed by firm sales of packaging films, particularly in Japan, positive steps to address the upswing in demand for industrial-use films and sheets in such high-value-added fields as smartphones, and increased sales of new products. In the agrochemical field, higher sales of insecticides in Asia and fungicides in Europe led to earnings growth. In addition, overall weakness in the value of the yen contributed to higher profits.

### ● Progress under the Mid-Term Business Plan

#### ■ Coatings & Engineering Materials

Commercial operations commenced at new plants in 2016. Included in the start of operations at special isocyanate plants are meta-xylylene diisocyanate (XD) as well as such one-of-a-kind special isocyanates as polyurethane elastomer FORTIMO™ and the biomass-based polyisocyanate STABIO™.

#### ■ Functional Films & Sheets

Following the establishment of a T.U.X™ food packaging sealant film production and sales base in Thailand, commercial operations commenced in January 2014. There is growing demand for highly functional packaging

materials, and the Mitsui Chemicals Group is endeavoring to cultivate this market. In addition, the Group has taken the step of setting up the Fabricated Products Business Coordination Division to better harness the strengths of a comprehensive structure that extends from the development of plastics and resins to the processing of films.

#### ■ Agrochemicals

The Mitsui Chemicals Group decided to underwrite a capital increase by Brazilian agrochemical vendor IHARABRAS S/A. INDÚSTRIAS QUÍMICAS in August 2015 and to acquire additional shares of Sotus International Co., Ltd. in Thailand in January 2016 as a part of efforts to reinforce and expand its overseas business. Further expanding its presence in Asia, a region where growth is anticipated, the Group completed the acquisition of 20% of the total outstanding shares of Cuulong Joint Stock Company in Vietnam in August 2016 and in September 2016 established SOLINNOS Agro Sciences Private Limited, a joint venture with PI Industries Limited that has been set up to provide agrochemical registration services in India.

Kicking off the progressive release of next-generation agrochemicals comprising five new active ingredients that are now within the pipeline, the Mitsui Chemicals Group introduced three formulations of the new fungicide tolprocarb in March 2016.

## Aiming for Medium- and Long-Term Growth

### ● Fiscal 2016 Plan

Despite achieving earnings targets ahead of schedule, the Mitsui Chemicals Group is factoring a slight downturn into its calculations for fiscal 2016 due in large part to fluctuations in foreign currency exchange rates. Drawing on the wide range of applications and outstanding performance of its lineup of specialty isocyanate products, and backed by the growth in sales of its new fungicide tolprocarb and other factors, including the reinforcement of the Group's marketing structure, especially in Asia, the Mitsui Chemicals Group is focusing on expanding sales.

### ● Toward Growth from 2020 and Beyond

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 reinforce and expand opportunities in the coatings materials, adhesives, sealant, and elastomer fields. Expanding

beyond packaging applications, every effort is being made to secure growth by cultivating high-value-added markets in such wide-ranging areas as 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 trends.

#### ■ 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.

Addressing individual needs at each stage of the supply chain, the Mitsui Chemicals Group will provide new functional value through products and services that address the performance and functional needs of end users.



## Strengths

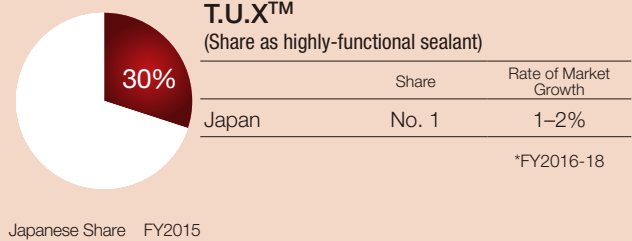
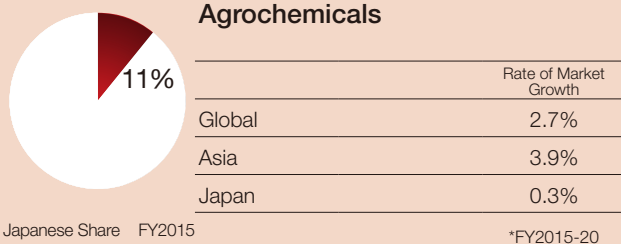
- A lineup of highly functional products
- Research capabilities in designing and creating new materials; developmental capabilities rooted in collaboration with partner companies
- Good rapport with influential customers

## Opportunities & Risks▼

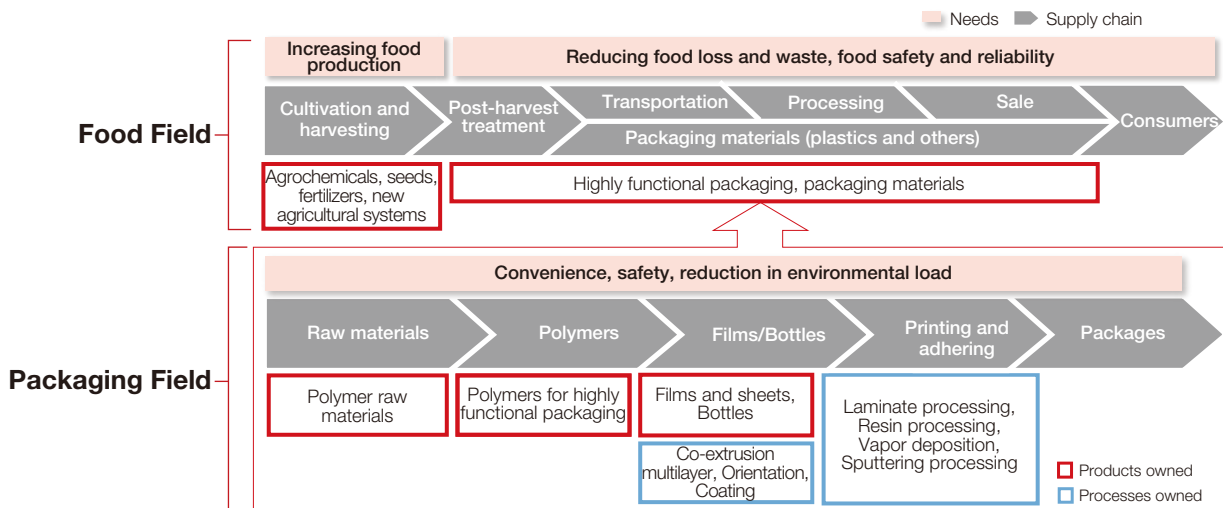
- Increasing need for environmental contribution
- Need for boosting food production and reducing food loss due to long-term population growth
- An expansion in demand for packaging materials due to the development of the food processing industry and improving standards of living in Asia
- A decrease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

## Challenges

- Strengthening of market cultivation that includes Asia and India 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



## Supply Chain Needs and Our Businesses



Addressing individual needs at each stage of the supply chain, the Mitsui Chemicals Group will provide new functional value through products and services that address the performance and functional needs of end users.

## TOPICS: Helping to Address Social Issues

### ● Reducing Food Loss and Waste

Group company Mitsui Chemical Tohcello, Inc. received the Minister of Agriculture, Forestry and Fisheries Award at the Third Food Industry Mottainai Awards for its contributions to reducing food loss—a major global issue along with waste—for the development of the freshness-retaining film Spash™.

Utilizing proprietary technology, Spash™ helps keep produce fresh by preventing wilting, discoloration, and other deterioration. The award lauds Spash™ for allowing best-by dates for produce to be pushed back and thus contributing to lower food waste throughout the supply chain, from the harvester to the distributor, wholesaler, retailer, and consumer.

Low cost and with a wide range of possible applications, Spash™ is expected to gain wide acceptance and we plan to expand sales, especially to serve the growing fresh cut vegetable market. In addition, we are moving forward with new product development, including of industrial-use freshness retaining materials and dried food storage materials.

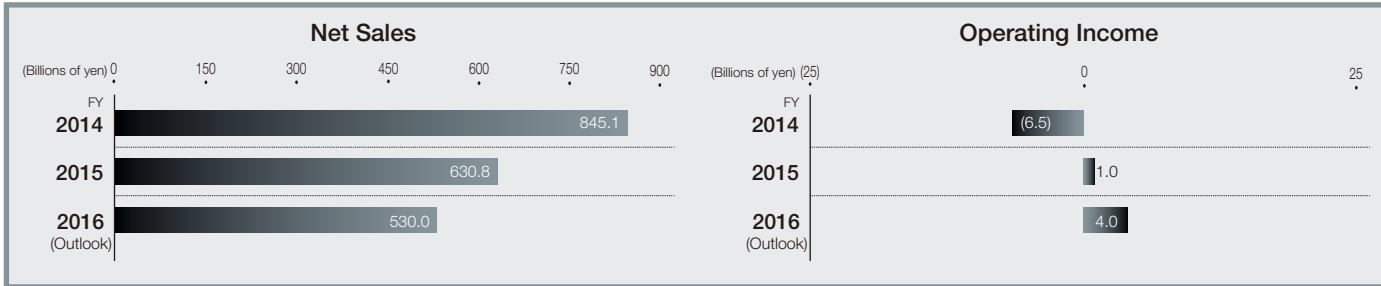
Looking ahead, we will continue working to reduce food loss and waste through revolutionary technologies and products.

In-store shelf sales (example): Cut lettuce (Conditions: 4th day at a storage temperature of 10°C)	
Other general packaging	Spash™
	
Discoloration, stale appearance	Considerable
Discoloration, stale appearance	Slight



# Basic Materials

Build a framework to support the Mitsui Chemicals Group as a foundation business by establishing a stable earnings foundation based on domestic business competitiveness and gaining a share of the Asian market in value-added fields.



## Fiscal 2015 Business Overview and Results

### ● Business Overview: Analysis of Year-on-Year Changes

In petrochemicals, operating rates remained at high levels for naphtha crackers and other production facilities. Polyethylene and polypropylene earnings increased on the back of firm domestic demand and a downturn in the ratio of imported products as a result of the weak yen. The market for the basic chemical phenol remained weak. This was largely attributable to the start-up of new facilities by competitors and the prolonged economic slowdown in China. Despite a difficult business environment, we were successful in reducing our operating loss by realizing the positive effects of efforts to restructure the business. An improvement in the terms of trade attributable to the drop in raw material and fuel prices helped to boost earnings from industrial chemicals. Earnings from polyurethane materials, on the other hand, declined owing mainly to the deterioration in overseas market conditions as a result of such factors as excess supply caused by weak demand and an increase in production capacity in the Middle East and Asia.

### ● Progress under the Mid-Term Business Plan

The Mitsui Chemicals Group has steadily progressed in the restructuring of its bulk and commodity products business.

#### ■ Petrochemicals

• The Group completed its withdrawal from Keiyo Ethylene Co., Ltd. (March 2015) and took positive steps toward putting in place a full capacity naphtha cracker structure.

• Forward momentum was made toward optimal production in line with domestic demand trends. The Group also shut down operations at commodity plants where its competitive strengths were low and continued its shift toward high-value-added products.

• Polyethylene and polypropylene decreased 14% and 20%, respectively, compared with the levels recorded in fiscal 2010, as of the end of fiscal 2014.

#### ■ Basic Chemicals

• After shutting down operation at certain phenol and BPA facilities in Japan and Singapore, the Group took steps to secure full capacity in Singapore as a part of efforts to establish an optimal production structure. Operations commenced at a state-of-the-art facility in China in 2014.

• The Mitsui Chemicals Group sold its PTA business in Indonesia. The Group continued to secure a position as the only integrated manufacturer of PTA and PET in Japan.

#### ■ Polyurethanes

• The Mitsui Chemicals Group established Mitsui Chemicals & SKC Polyurethane Inc. (MCNS) in July 2015, a joint-venture company with SKC Co., Ltd. based in South Korea. A new Works in Mexico came online in April 2016 as a part of efforts to strengthen the polyurethane systems business. Operations commenced at a bio-polyol joint venture in India in January 2016.

• At the same time, operations were terminated at the TDI facility of Kashima Works and the MDI facility at Omuta Works in March 2016 and May 2016, respectively, in a bid to strengthen the competitiveness of the Group's operations by reducing production capacity in Japan.

## Aiming for Medium- and Long-Term Growth

### ● Fiscal 2016 Plan

Turning to petrochemical feedstock, naphtha cracker operations are projected to run at a high level due mainly to firm ethylene market conditions. A new EVOLUE™ facility in Singapore is scheduled to come online in August 2016. Losses incurred in the Basic Chemicals business are expected to narrow as a result of steady progress in business restructuring efforts and an improvement in market conditions in Asia. Thanks largely to the effects of business restructuring, earnings in the polyurethane materials business are also forecast to improve.

### ● Expansion from 2020 and Beyond

The Mitsui Chemicals Group is committed to building a stable earnings platform by promoting the shift to distinctive technologies and high-value-added materials, greater cost competitiveness, and enhanced sales capabilities.

#### ■ Petrochemicals

Energies will be channeled toward enhancing the added value of the Group's products and uncovering demand.

Boasting the strengths of proprietary catalyst and processing technologies, EVOLUE™ is in high demand for use in liquid and powder packaging due to its impressive strength as well as airtight, low odor, low fish-eye, and heat sealant properties. This high-performance sealant is expected to expand rapidly in the Asian market. The Mitsui Chemicals Group will work to capture

the upswing in demand for high-performance sealant materials in Asia through the start of full-fledged operations at its base in Singapore in 2016.

Meanwhile, the Group will look to create new demand by addressing the needs of an increasingly sophisticated market through its bases in Japan. Among a host of initiatives, the Group 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.

#### ■ Polyurethanes

Every effort will be made to maximize the comprehensive synergy effects of MCNS.

Building on the strengths of its systems business that provides polyurethane material compounds and its ability to upgrade and expand technological services of the highest quality to address the demands of customers, the Mitsui Chemicals Group established a new facility in Mexico in April 2016 and will boost sales for automotive interior application in North America.

Furthermore, plans are in place to expand the Group's global operations through the establishment of new system house bases. Operations at the Group's facility in India, the first in the world to manufacture bio-polyol using castor oil, are slated to reach full capacity by 2020. Utilizing the system house network, particular emphasis will be placed on expanding sales of bio-polyurethane that meet the need for environmentally friendly materials.

## Strengths

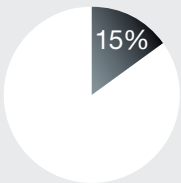
- Domestic structure based on two naphtha cracker facilities (one east, one west)
- Metallocene and other polyolefin catalytic technologies
- Robust cost competitiveness and system house business global facility network growth underpinned by the establishment of MCNS

## Opportunities & Risks▼

- Infusion of U.S. shale oil- and Chinese coke 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

- Maintaining domestic bases by increasing our competitive edge
- Expanding value-added fields through new polyolefin products
- Accelerating global expansion of new system houses by leveraging synergies with MCNS
- Ensuring businesses in the red return to the black after completing restructuring

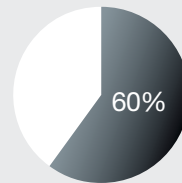


Asian Supply Capacity FY2015

### Phenol

	Supply capacity	Rate of Market Growth*
Global	No. 2	3%
Asia	No. 1	7%
Japan	No. 1	

\*FY2015



Asian Share FY2015

### EVOLUE™

(Share as highly-functional sealant)

	Share	Rate of Market Growth*
Asia	No. 1	10%
Japan	No. 1	

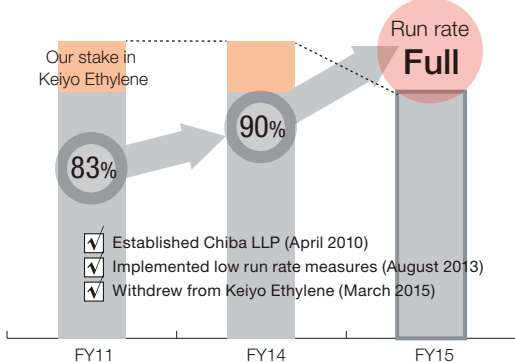
\*FY2015-20

## Measures aimed at strengthening the competitiveness of the domestic petrochemicals business

### Ethylene cracker capacity

Toward full operation

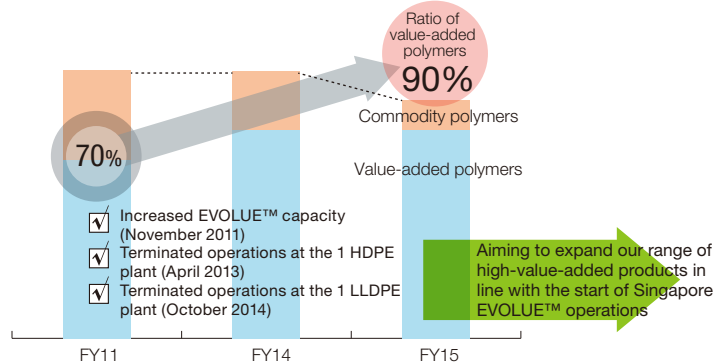
Reduce export rate below 10%



### High value added to ethylene-based polymers

Usage rate of in-house derivatives: 60% → 80%

Ratio of ethylene-based value-added polymers: 70% → 90%



The Mitsui Chemicals Group is shifting toward distinctive technologies and high-value-added materials as a part of efforts to address a wide range of risks, including those associated with the inflow of products derived from U.S.-based shale as well as coal chemicals in China, and the deterioration in domestic demand. The Group is putting in place a stable earnings base by further strengthening its cost competitiveness and marketing capabilities.

## TOPICS: Helping to Address Social Issues

### ● Energy Conservation Project Using LNG Cold Energy

The large-scale energy conservation joint project undertaken by Mitsui Chemicals, Inc., its wholly owned subsidiary Osaka Petrochemical Industries, Ltd., and Osaka Gas Co., Ltd.—which integrates an ethylene plant with a liquefied natural gas (LNG) plant to use cold energy—was selected by the International Partnership for Energy Efficiency Cooperation (IPEEC) for its first list of International Top Ten Best Practices\* in energy efficiency.

Operations for this world's first energy-saving process commenced in October 2010. It uses LNG-generated cold energy on a large-scale at Mitsui Chemicals' Osaka Works OPC ethylene plant. Natural gas is super cooled to  $-160^{\circ}\text{C}$  to liquefy it for transport and storage. In its liquefied state, LNG boils off gas. When returning to its gaseous state, natural gas possesses cooling (cold energy) properties that absorb surrounding heat.

At Mitsui Chemicals' Osaka Works OPC ethylene plant, naphtha undergoes thermal decomposition at high temperatures, after which base materials such as ethylene and propylene are separated and purified using large amounts of cold energy. With Osaka Gas's adjacent Izumi Kita Plant supplying the OPC ethylene plant with LNG at  $-160^{\circ}\text{C}$ , we are able to significantly reduce CO<sub>2</sub> emissions through the efficient collection and use of cold energy produced by LNG.

This innovative energy saving process received the fiscal 2011 Energy Conservation Award from the Ministry of Economy, Trade and Industry (METI)."

Looking ahead, the Mitsui Chemicals Group will help reduce environmental impacts and greenhouse gases caused by our production activities while promoting improvements to and expanded use of energy-saving technologies.

\* The IPEEC selects and awards examples of best practices and best available technologies in participating countries. The IPEEC's Top Ten lists were incorporated as a leading program at the G20 Energy Ministers Meeting on June 30, 2016.

\*\* Hosted by the Japanese Energy Conservation Center and sponsored by METI



Mobility		Capacity	Timing
<b>PP compounds</b>	<b>Secure position as global leader with 8 bases</b>	(FY10 740KTA → FY15 1000KTA)	
• Increased production capacity (U.S., Mexico, China, Thailand)		+260KTA	As needed
<b>TAFMER™(*)</b>	<b>Secure world's top share</b>		
• Enhanced production of specialty TAFMER™ in Singapore		+8KTA	Feb. 2014
<b>Mitsui EPT™</b>	<b>Strengthen market share in Asia</b>		
• Established a new production base with Sinopec in China		+75KTA	Dec. 2014
<b>ADMER™(*), MILASTOMER™</b>	<b>Secure world's top share</b>		
• Established a new production base in China		+11KTA	Mar. 2015
<b>STOBA™</b>	<b>LIB safety technology first in the world</b>		
• Signed an exclusive license agreement			Sep. 2014
<b>POLYMETAC™</b>	<b>Metal resin integral molding technology</b>		
• Participated financially in a subsidiary of Sentronic International Corp.			Dec. 2015

\* Includes Food &amp; Packaging

Healthcare		Capacity	Timing
<b>Vision care</b>	<b>Implement world-leading strategy based on total solutions</b>		
• Strengthen ophthalmic lens materials lineup			
Acquired ACOMON in Switzerland, Acquired KOC in Korea			Apr. 2011, Mar. 2013
Acquired photochromic lens materials SunSensors™ operations from Corning			May 2014
Launched new lens materials UV <sup>+</sup> 420cut™ for eye protection			Oct. 2014
Launched plant-derived high refractive lens materials Do Green™			Jan. 2015
Increased production capacity for XDI (Materials for ophthalmic lens)		+5KTA	Mar. 2016
• Expansion of lens coating businesses			
Established SDC Asia Pacific in Singapore			Sep. 2013
Acquired LTI in U.S. (hard coating materials)			Jul. 2014
<b>Dental materials</b>	<b>Secure global bases</b>		
• Acquired Heraeus Kulzer, the dental materials business of Heraeus Holding			Jun. 2013
Secure global bases spread over 24 countries			
• Newly entered denture market			
Acquired DENTCA in U.S.			Jun. 2013
Acquired EGS Solutions (CAD software, 3D scanner for dental materials) in Italy			Jul. 2014
<b>Nonwovens</b>	<b>Secure 3 bases in Asia</b>	(FY11 79KTA → FY17 115KTA)	
• Increase production capacity in Japan		+15KTA +21KTA	Apr. 2012, Target Mar. 2018
• Established a new production base in China		+15KTA	Dec. 2013

Food & Packaging		Capacity	Timing
<b>Coating &amp; engineering materials</b>	<b>Strengthen specialty isocyanate operations</b>		
• Increased production capacity for specialty isocyanate XDI in Japan		+5KTA	Mar. 2016
• Start commercial production for 2 new specialty isocyanates in Japan		+2KTA	Target 2016
<b>T.U.X™</b>	<b>Expand and strengthen market share of EVOLUE™ in Asia</b>		
• Established a new production base in Thailand		+15KTA	Jan. 2014
<b>Agrochemicals</b>	<b>Secure global bases, promotion of global registration</b>		
• Established overseas bases			
Acquired stake in Sotus in Thailand; Acquired stake in Iharabras in Brazil			May 2011, Sep. 2011
Established new R&D base in Thailand			Feb. 2014
Concluded a business and capital alliance with Cuulong in Vietnam			Aug. 2016
Established a joint-venture for agrochemicals registration with PI Industries in India			Sep. 2016
• Promote registration of active ingredients (India, North America, China, Europe, Brazil)			As needed
• Next generation agrochemicals	Launched the fungicide tolprocarb to market		Mar. 2016
	Launch New pipeline		From 2019

## Basic Materials

Capacity

Timing

### Phenols

Establish local production for local consumption; Reduce costs

- Phenol

Terminated one facility in Japan

-250KTA

Sep. 2014

Established a new production base with Sinopec in China

+250KTA

Dec. 2014

- Bisphenol-A

Terminated one facility in Japan

-90KTA

Mar. 2014

Suspended operation of one facility in Singapore

-70KTA

Mar. 2014

### PTA

Achieve sustainability through collaboration with local production for local consumption of derivatives (PET); Promote integrated alliances

- Transferred all shares in AMI (Indonesia) to BP Global

-540KTA

Feb. 2014

### Polyurethanes

Establish optimal production system for commodity polyurethane materials

- Terminated one PPG production facility in Japan

-28KTA

Jun. 2012

- Established a new Bio-Polyol production base with joint-venture companies in India

+8KTA

Jan. 2016

- Shut-down Kashima Works in Japan

Terminated TDI operations

-117KTA

Mar. 2016

Sold off organic acid business to Fuso Chemical

Business rights: Oct. 2014

Maleic anhydride

-32KTA

After terminating operations of TDI

Fumaric acid

-15KTA

After terminating operations of TDI

- Terminated MDI operations in Japan

-60KTA

May 2016

- Started new joint venture with Korean SKC

Jul. 2015

### Ethylene center

Establish optimal operation system for low run rate

- Implemented low run rate measures in Japan

Aug. 2013

- Withdrawal from Keiyo Ethylene in Japan

Transfer-22.5%

Mar. 2015

### Polyolefin

Establish optimal operation system for low run rate

- Terminated two polypropylene (PP) facilities in Japan

-180KTA

Mar. 2011, Jul. 2013

- Terminated two polyethylene (PE) facilities in Japan

-190KTA

Apr. 2013, Oct. 2014

### EVOLUE™ (Metallocene linear low density polyethylene)

Strengthen market share in Asia

- Increased production capacity in Japan

+50KTA

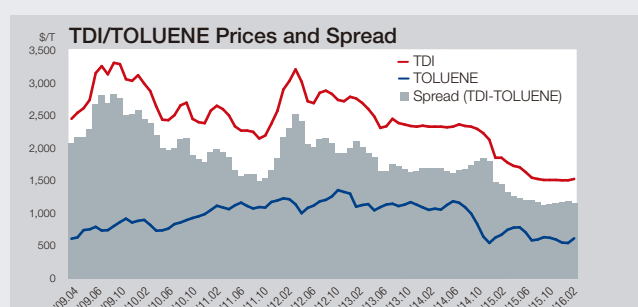
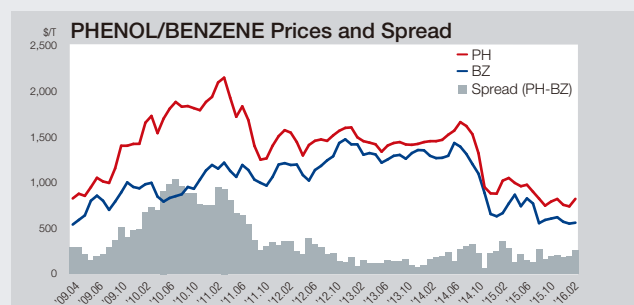
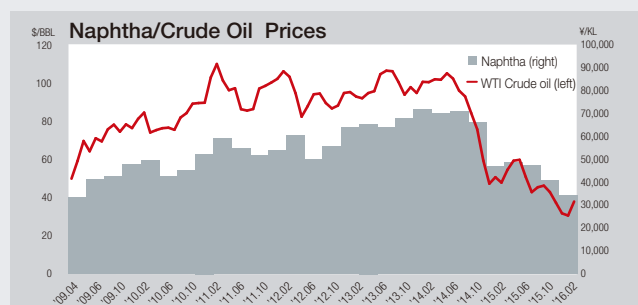
Nov. 2011

- Established a new production base in Singapore

+300KTA

Aug. 2016

Products Prices FY2009 - 2015



# Our Resources

## Value-Creating Resources of the Mitsui Chemicals Group



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 help resolve social challenges through business activities that emphasize striking a balance between economic, environmental and social considerations.

As a corporate citizen, the Group seeks to maximize the worth and utility of its “value-creating resources”—the wellspring of the Group’s strength—to ensure the continued trust of its stakeholders and to fulfill its corporate social responsibility. At the same time, the Group constantly works to enhance the driving forces behind value creation by ensuring its business foundation, including the corporate governance structure that underpins all of its value-creating resources, is constantly reinforced.

## Value-Creating Resources

- R&D capabilities that create new businesses/products
- Diverse human resources that desire to take on challenges
- Global network encompassing production, sales, and research
- Relationships based on mutual trust with stakeholders
- Organizational culture that prioritizes safety
- Frontline capabilities with high aspirations
- Robust financial structure



**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. 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 Strategy**

The Mitsui Chemicals Group has identified Mobility, Healthcare, and Food & Packaging as its three targeted business domains. Positioned as the driving force behind the Group's growth, Mitsui Chemicals engages in R&D in each domain on a priority basis as a part of efforts to contribute to society. Moving forward, the Group will pursue market-driven R&D while creating new customer value by exploring customer needs.

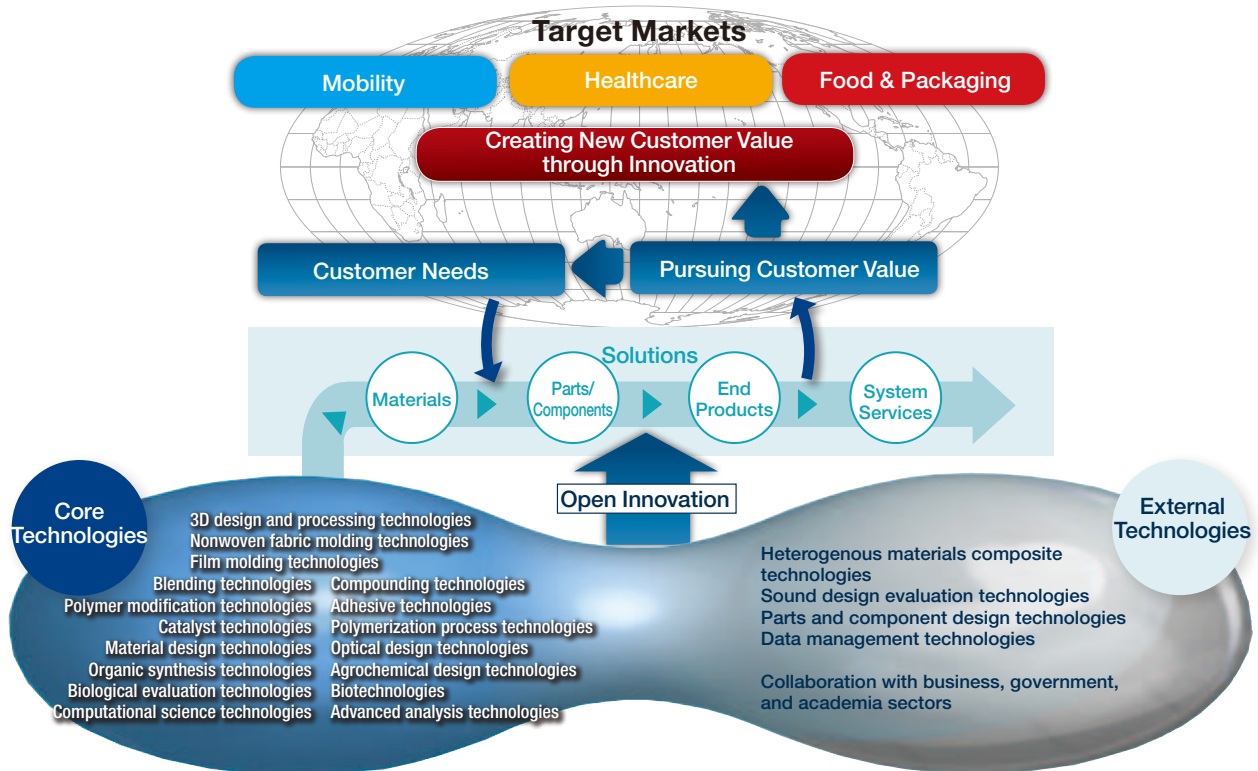
To accelerate new business and next-generation product creation while developing existing peripheral and downstream areas of business, the Group's R&D Strategy Division is consolidating information pertaining to market and customer needs as well as trends in industry, academia, and the public sector, including the activities of venture businesses. In addition, the Group has put in place an R&D management system to ensure that this information is optimally shared and evaluated. Building on this solid information platform, we will devise proprietary solutions that address social issues by actively exploiting open innovation and combining our core technologies with technologies from external sources.

**Development Matrix for the Creation of New Businesses and New Products**

New business and product creation is essential to the Group's achieving its target of ¥100 billion in operating income around 2020.

In order to increase the probability that the Group's development endeavors will succeed, steps have been taken to classify potential opportunities by market and technology and to then identify an appropriate direction while clarifying related issues and key success factors (KSF) by development domain.

- 1. New products: Technology development areas (Technical innovation)**  
Pursue development on the back of comprehensive proprietary technologies in existing markets where the Group excels
- 2. New products: Market development areas (Application innovation)**  
Apply existing technologies and products and roll out applications that match customers' needs in new markets
- 3. New business areas (Business model innovation)**  
Pursue M&As and open innovation and create new business by combining the Group's technologies with technologies from external sources



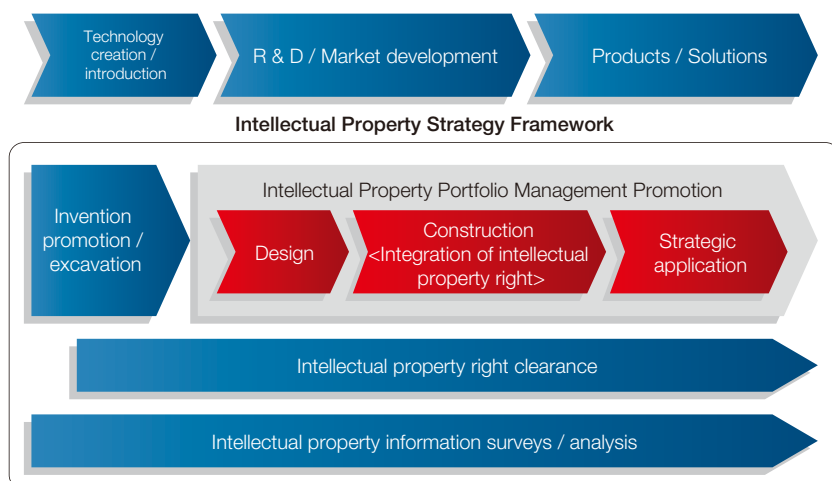
**Matrix for New Business and Product Creation**

M: Mobility, H: Healthcare, F: Food & Packaging, N: New Business

		<b>1. New products: Technology development areas (Technical innovation)</b>		<b>3. New business areas (Business model innovation)</b>	
Technologies	New	<b>Issues</b>	<b>Accelerating large-scale theme development with a clearly identified exit</b>	<b>Issues</b>	<b>Securing sufficient resources for downstream expansion</b>
		<b>KSF</b>	• Taking full advantage of the comprehensive strengths of product and production technology development	<b>KSF</b>	• Open innovation • Securing safety and reliability
Existing	Existing	<b>Examples of development</b>	M: Compounds for outer panel use H: New ophthalmic lens materials, functional nonwoven fabrics F: New agrochemical agents, new EVOLUE™, etc.	<b>Examples of development</b>	M: Integrated metal/resin parts; LIB components H: Whole You™ Dentures, electronic eyeglasses, mouthpieces, etc.
		<b>Existing Businesses</b>		<b>2. New products: Market development areas (Application innovation)</b>	
		<b>Issues</b>	<b>Co-creation with customers</b>	<b>Issues</b>	<b>Co-creation with customers</b>
		<b>KSF</b>	• Selecting lead customers and sharing milestones • Strengthening product prototype proposals	<b>KSF</b>	• Selecting lead customers and sharing milestones • Strengthening product prototype proposals
		<b>Examples of development</b>	M: Engineering plastics F: Overseas development of agrochemicals N: Robot components Diagnostics for photovoltaic power generation, etc.	<b>Examples of development</b>	M: Engineering plastics F: Overseas development of agrochemicals N: Robot components Diagnostics for photovoltaic power generation, etc.
		Existing		New	
		Markets (Business Model)			

## Intellectual Property Strategy

The Mitsui Chemicals Group regards intellectual property as a wide range of intangible assets that contribute to its business. Such assets include 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 Intellectual Property Division devises the intellectual property portfolio management scenarios necessary for the realization of strategies, including those for new and next generation business development, set by the business divisions and shares these scenarios among the business divisions, R&D divisions, and production and technology divisions. In addition, the Intellectual Property Division collaborates closely with departments inside and outside the Group. Every effort is made to maximize business opportunities that take full advantage of the Group's intellectual property rights and minimize associated risks.



### Building and Reinforcing an Intellectual Property Portfolio

Mitsui Chemicals and its major subsidiaries, Mitsui Chemicals Tohcello, Inc., Mitsui Chemicals Agro, Inc., Prime Polymer Co., Ltd., and Mitsui Chemicals & SKC Polyurethanes Inc., collectively possess more than 3,800 patents (held as patent families) in Japan and overseas as of March 31, 2016. Approximately 60% of these patents are related to the Group's Mobility, Healthcare, and Food & Packaging businesses as well as new and next-generation business development. Moreover, around 80% of the items for which patent applications were filed in fiscal 2015 are related to the growth driver domains identified above as well as new and next-generation business development.

Moving forward, every effort will be made to create and utilize the best mix of the wealth of intellectual property assets, including patent rights held by the Group, in order to build and strengthen an intellectual property portfolio that is capable of further expanding business success, including new and next-generation business development.

In the previous fiscal year, the Group's efforts and strategic activities to protect intellectual property rights both domestically and overseas received high acclaim. Based on an analysis of overall patent volume, Thomson Reuters, one of the world's leading information service companies, named Mitsui Chemicals one of the year's Top 100 Global Innovators.



### Patent Families

	Business Sector	Number of Items
Growth Drivers	Mobility	670
	Healthcare	407
	Food & Packaging	878
Supportive Earnings Platform	Basic Materials	1,051
New business development		412
Other (R&D divisions, etc.)		406
<b>Total</b>		<b>3,824</b>

(As of March 31, 2016)

### Furthering Intellectual Property Strategies in Key Overseas Regions

In addition to efforts aimed at developing new business in Europe and the United States as well as the implementation of brand strategies, measures to counter risks associated with intellectual property rights in emerging markets, such as those in Asia, are becoming increasingly important as the Group works to expand globally. Against this backdrop, Mitsui Chemicals is forming close ties with regional holding and local Group companies to ensure the deeper penetration and promotion of the Group's intellectual property strategy, which includes efforts to better protect the Mitsui Chemicals Group brand across overseas businesses, while addressing changes in the global business environment in a timely manner.

### Strengthening the Mitsui Chemicals Group's Intellectual Property Platform

Mitsui Chemicals is strengthening its operating platform to better ensure the uniform Group-wide management of its intellectual property assets so as to carry out its intellectual property strategy collaboratively with Group companies. In addition, we have established an intellectual property education and training system. By devising a program to develop human resources who are well versed in areas related to intellectual property, we are supporting and strengthening efforts to build an abundant pool of personnel with keen intellectual property mind-sets and skills.



# “There is No Easy Path to Ensuring Safety.”

We must continue our steady efforts to cultivate a safety culture!

## Masamitsu Tamura

Professor Emeritus, The University of Tokyo  
 1969 Completed the doctorate program specializing in fuel engineering at the University of Tokyo Graduate School of Engineering. Joined Toyobo Co., Ltd. (formerly Toyo Boseki K.K.)  
 1977 Appointed lecturer at Reactive Chemicals Department, Faculty of Engineering, University of Tokyo  
 1990 Professor of Reactive Chemicals Department, Faculty of Engineering, University of Tokyo, and served various other important posts  
 2004 After retiring from the University of Tokyo, appointed Professor Emeritus  
**Specialty**  
 Chemistry of nitrogen oxide, chemistry of energetic materials, chemistry of safety, etc.  
**Academic societies and organizations**  
 Chairman of Japan Explosives Society and the Japan Society for Safety Engineering, Director of Research Institute for Safety Engineering, Director of Disaster Information Center, etc.

**The more time passes, the more we must consciously make an effort to ensure workers realize the terrifying reality of accidents.**

### Tannowa:

**Even the rawest memories begin to fade with time and this cannot be helped. However, our memory of the accident at Iwakuni-Ohtake Works where we lost a precious life is something we must not allow to fade.** This is one of the reasons why I speak to our employees about the accident at each opportunity, including the beginning of the fiscal year. I have repeatedly communicated to everyone that **“the prerequisite to ensuring the sustainability of our company is safety”** and that **“safety is our top priority.”**

Four years have passed since that accident, and the number of employees who have joined the Company after the accident is increasing. How can we pass down the memory of the accident to this younger generation? The more time passes, the more aware we must be. We are preserving not just photos but also the equipment damaged in the explosion and its fragments

in an effort to communicate how destructive and terrifying the explosion was.

### Tamura:

**It is extremely meaningful in the cultivation of a safety culture that the top management speak about their strong commitment to safety. The role of the top management, first and foremost, is to clearly present the principles and policies regarding safety.** Then having understood this, it is important that the workers onsite conduct safety activities proactively. I think that it is also the role of the top management and managers to create an environment where workers can conduct these activities.

They need to provide the human, material, and financial resources and have systems for commendations. These systems for commendations are a message from the Company that “if you give your best effort, your efforts will be recognized.” The top management should also visit the worksites and exchange ideas and opinions with the employees. I believe that it will have a significant effect in improving the motivation of onsite workers.

### Tannowa:

I agree that there is no easy path to ensuring safety, so I go to the workplaces to communicate my message to our employees. I make an effort to hold direct exchanges with a wide range of employees twice a year in Japan and at least once a year at our overseas affiliates.

However, there is a strong feeling that “ensuring safety is something that everyone must naturally do” so it can be difficult to connect it to proper recognition. I hope that by recognizing steady efforts in safety activities, we can cultivate a safety culture.

### Combine self-assessment and third-party assessment to realize strengths and weaknesses

**—Professor Tamura, you emphasize that “Safety is not something that is provided to you from others. It is something you must feel yourself.” Can you be more specific?**

### Tamura:

Looking at recent industrial accidents, I get the sense that onsite capabilities which used to be the strength of monozukuri in



**Tamura**  
Improving frontline capabilities is essential to ensuring a safe environment.

Japan has gotten slightly weaker. I am considering whether we can cultivate an environment that ensures safety in order to recover onsite capabilities. **Our starting point is becoming aware of the actual situation regarding safety.** Only when we are aware of strengths and weaknesses can we implement effective measures. We must **expand safety activities in a way that fits the workplace by gathering and organizing good examples from your own and other companies, thinking for ourselves, and finding a method that is satisfying.** By doing this, I believe that workers become more aware of safety, and continuing such efforts will help to cultivate a safety culture.

#### Tannowa:

We are keenly feeling the importance of this point. It is vital that everyone is able to think autonomously. With safety activities, there is always a possibility that workers will feel as though they are being forced from above, but that only makes it harder for them to truly accept the activities. They must create manuals and SOPs (Standard Operating Procedures) that they are certain they can comply with. In order to do this, they must **thoroughly discuss and accept each item as something they truly need to follow.** Then they must take action based on these manuals and SOPs.

#### Tamura:

I think there are two ways to conduct assessments to understand your current situation. The first is to conduct self-assessment. The second is a third-party assessment. **The important aspect of self-assessment is reconfirming your**

**weaknesses, and that is a vital process in making improvements.** However, self-assessments lack objectivity, and that is why **it is effective to have additional third-party assessments. They will help you to see strengths and weaknesses that you did not notice before.** You can also utilize services like the Process Safety Capability Assessment provided by the Process Safety Capability Improvement Center of the Japan Society for Safety Engineering.

In order to conduct objective assessments, risk assessment is also important. This process starts by extracting hazards (hazard sources). By doing this, we can proceed to steps in risk management where risk assessment is conducted and safety measures are implemented where necessary. However, if there are omissions to the extraction of hazards, proper risk assessment cannot be conducted and safety measures cannot be implemented. It is also necessary to raise sensitivity towards hazards from a variety of perspectives including third-party assessments in order to prevent omissions in hazard extraction.

### Three Pillars of Fundamental Safety Measures at the Mitsui Chemicals Group

—The Mitsui Chemicals Group has continued fundamental efforts for the cultivation of a safety culture. What results have you noticed from these efforts, and what should be the focus in the future?

#### Tannowa:

During the three years following the acci-

dent at Iwakuni-Ohtake Works, we investigated what our fundamental issues were, and thoroughly discussed what measures would be effective. These efforts are starting to take root, and I think that things are getting better.

We have three priority issues in our fundamental safety measures. The first is **adjusting the management scope of onsite line managers such as section managers and chiefs, and ensuring they are appropriate.** The current trend in society is to make the divisions within organizations larger with the aim of increased efficiency, but this puts a lot of burden on the line managers, and we believe that this prevented them from properly managing the worksites and made it difficult for them to be aware of safety. We have implemented measures to change this situation.

#### Tamura:

It seems like this is an issue that many companies are concerned with. I think that the Mitsui Chemicals Group's efforts will serve as a model for other companies.

#### Tannowa:

The second priority issue is **improving and passing down technical skills.** At many of our Works, we are entering a period where the baby boomers are retiring en masse, and so generation change is progressing rapidly. We can replace the number of employees by hiring new ones, but we cannot avoid the reality that the average years of experience of our employees will drop.

We must figure out how to resolve this issue. One example is the Operation Technology Training Center. We will conduct training using these facilities to make up for what the employees lack in years of experience.

The third issue is **ensuring that safety is our top priority, cultivating a sense of professionalism, and giving employees a sense of accomplishment in their work.** We have created a system through our fundamental safety measures, so we will bring that down to the worksites and continue to promote the activities until our employees can conduct them naturally.

#### Tamura:

The passing down of skills is an issue shared by each company. When attempting to cultivate a sense of professionalism, I believe it is important to recognize and complement efforts at the worksite and enhance motivation. I hope that these efforts will be continued. In the future, I am sure it will also be important to properly assess the results of such efforts.

## Cooperate with other companies and educational institutions to enhance safety in Japan

—What do you think about the training of human resources in the worksites of the chemical industry?

### Tannowa:

Activities must be based on ensuring there is a safety culture. This is connected to the issue of training human resources at all levels from section managers to engineers and frontline employees as well as the employees of contractors. It is difficult to train only with classroom lectures, so I believe that **our first step is to provide opportunities to experience and actually sense things.** Additionally, **by providing employees with opportunities to interact with other companies and Works, I think they will be able to step out of their shells, and that their experiences and ways of thinking will accumulate to form our safety culture.**

The Mitsui Chemicals Group's Operation Technology Training Center is a training facility that allows employees to experience and sense issues with a particular focus on safety. While receiving visits by outside parties, the facility has received high assessments and many requests for use. As a result, the Center was opened to other companies from April 2015.

### Tamura:

I think that your efforts are valuable in that they contribute to improving safety technology throughout the chemical industry.

**I also agree that the most important factor in ensuring safety is people.**

I feel that the major cause of accidents and problems is the drop in onsite capabilities that I mentioned before. I think that perhaps one of the reasons behind this drop is changes in the environment and way of thinking regarding safety. Children these days grow up in a safe environment where there are no hazards. Therefore, they do not have as many opportunities to learn the skills for detecting and avoiding hazards. These social issues must be dealt with by creating a systematic program in safety education that starts with education at home, continues from elementary, secondary, and higher education on to training by companies, with thorough efforts at each stage. Additionally, companies must ensure they conduct proper safety training, but I think that there is also a need for companies to share and cooperate with programs at universities.

**In order for Japan to continue to provide the world with high-quality products, the entire country needs to work to enhance safety.**

From this perspective, I hope that the Mitsui Chemicals Group will continue your efforts as a leading company.

### Tannowa:

Thank you. We also conduct activities to show children what we can do with chemistry, and to experience the fun and mystery of science through chemical experiment classes for children called the "Wonders of Chemistry." As for our efforts with other companies, there are many common issues shared by each company regarding safety, so we hope to cooperate with others by sharing information to Big Data whenever possible.

## Cultivate a safety culture that fits the characteristics of each region

—What are your thoughts about safety training at our overseas sites?

### Tannowa:

I don't think that **we have any differences in our concepts and measures for our domestic and overseas sites.** We welcome trainees from our overseas affiliates at our Plant Operation Technology Training Center. I hope we can continue our steady efforts in this way.

However, thinking back to our past experiences, it is not practical to use the same training methods in all regions. Each country has unique situations and cultures. It is far easier to convey information when those providing instructions are well versed in local conditions.

### Tamura:

**The area of safety is a strength for Japan. One major theme is how we can expand our advanced knowledge, technology, and concepts in a way that fits the situation of each region.**

Another theme that I am also interested in recently is the economic effects of safety. The National Institute of Advanced Industrial Science and Technology is leading deliberations into creating a system for assessing economic effects of safety.

### Tannowa:

It is important to know that by continuing to ensure safety, we are actually cutting costs.

### Tamura:

Once the positive effects of ensuring safety become clear, I think it will be easier to convince people and it will make it easier to conduct safety activities.

### —In closing

**"Safety is our top priority." At the same time, we recognize that "safety is the prerequisite to ensuring the sustainability of our company".**

**Let us continue our steady efforts in safety activities with the understanding that "Safety is for yourself, for your family, for your colleagues, and for society."**

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



## Responsible Care

### Responsible Care Policy

The Mitsui Chemicals Group has established a basic policy on Responsible Care (RC).

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.
- 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.
- We contribute to improving quality of life and protecting the environment through our business activities by developing beneficial technology and products.
- We provide high quality products and services that satisfy customer needs and respond to the trust that they place in us.
- We actively promote the well-being of all our employees.

### RC Activities

The Mitsui Chemicals Group has defined six performance fields in which it engages in RC activities. These fields are: “environmental protection,” “process safety and disaster prevention,” “occupational health and safety,” “chemical safety,” “quality,” and “transport safety.”



For detailed information, please refer to the Company's website: <http://www.mitsuichem.com/csr/index.htm>

### RC Promotion

Under the direction of the senior managing executive officer who serves as chairman of the RC Committee, RC Committee members—consisting of the general managers who are responsible for each of the six RC performance fields as well as the general managers of business sectors—are tasked with periodically implementing RC activity-related policies, strategies, and plans as well as undertaking performance evaluations and conducting reviews of the RC system across the organization as a whole. Discussions and topics covered at each meeting are approved by the Management Committee with steps taken to ensure executives' commitment to RC activities. Every effort is made to share and thoroughly promote policies, strategies, and plans on a Group-wide basis. Based on these policies, strategies, and plans, RC activities are carried out by individual departments, including works and business divisions.

■ **The Responsible Care Global Charter and Shiodome Manifesto**  
On behalf of Mitsui Chemicals, President & CEO Tsutomu Tannawa once again signed the Responsible Care Global Charter following its revision in 2014, reaffirming the commitment to Responsible Care of the entire Mitsui Chemicals Group, including subsidiaries and affiliates in Japan and overseas. To ensure that this commitment is upheld, Mitsui Chemicals formulated the Responsible Care Shiodome Manifesto, a declaration that states the Company's Responsible Care policy and sets out frameworks for subsidiaries and affiliates based on the articles of the Responsible Care Global Charter. The manifesto was prepared in Japanese as well as English and Chinese to facilitate understanding among local employees, the presidents of all Group subsidiaries and affiliates that fall within the scope of Responsible Care support, all of whom signed the document in an acknowledgement of their commitment.

### ■ A Network that Spans Five Countries and Regions and SHE\* Meetings

In order to contribute to sustainable development through the promotion of responsible care, the Mitsui Chemicals Group has built a network that spans the five countries and regions of Japan, China, Asia, Europe, and the United States. This initiative facilitates the timely collation and analysis of information, including updates on environmental policies collected from each region as well as rollout across the Group.

In addition, the Company holds SHE\* meetings for each region that are attended by the RC officers of each subsidiary and affiliate. These meetings serve as a forum to communicate the status of activities and best practices as well as to promote improvements in such areas as occupational health and safety as well as environmental protection.

\* SHE: Safety, Health, and the Environment



The Responsible Care Global Charter



Shiodome Manifesto



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



FTSE4Good



August, 2016

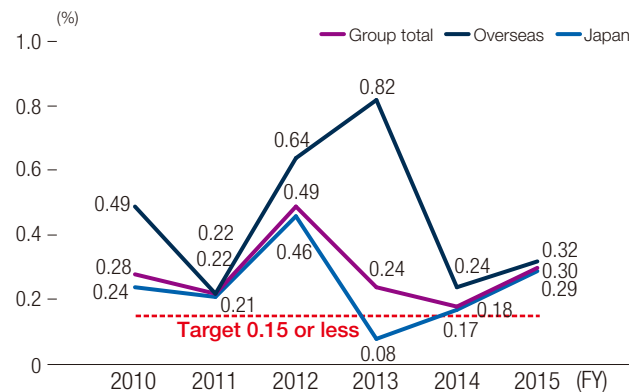
## Topic ① Initiatives Aimed at Preventing Accidents and Occupational Injuries

Guided by a management policy that makes safety a top priority, the Mitsui Chemicals Group as a whole is committed to preventing accidents and occupational injuries. At the same time, every effort is made to improve the Group's ability to ensure process safety and prevent disasters.

The Group continues to reflect seriously on the tragic accident that occurred at the Iwakuni-Ohtake Works in fiscal 2012. We remain committed to implementing all appropriate countermeasures and to promoting fundamental safety initiatives in a bid to prevent this kind of accident from ever happening again. Naturally, with the goal being to completely eliminate the incidence of major accidents, the Mitsui Chemicals Group targets a work-related significant occupational injury (WSOI)\* frequency rate of 0.15 for a world class level of safety.

In fiscal 2015, there were no serious accidents but the WSOI frequency rate rose to 0.30, as nearly half of all incidents that did occur involved workers being caught in mechanical equipment due to a lack of strict adherence to basic safety protocols. To address this issue in fiscal 2016, Mitsui Chemicals will further promote occupational injury prevention initiatives in this area.

WSOI Frequency Rate



- \* Mitsui Chemicals' definition of a work-related significant occupational injury (WSOI):
- An occupational injury that is directly related to operating activities and that resulted in days away from work or loss of life
  - A case leading to restricted work or transfer or a case requiring medical treatment where the cause is considered to be serious with the potential to lead to the loss of life or days away from work
  - Work-related significant occupational injury frequency rate: The number of deaths or WSOIs per million hours worked

## Topic ② Initiatives Aimed at Reducing Greenhouse Gas Emissions and Energy Consumption

Under the 2014 Mid-Term Business Plan, the Mitsui Chemicals Group has identified the goal of reducing greenhouse gas (GHG) emissions in Japan by 22% (compared to fiscal 2005, operating at full capacity) by fiscal 2016. In order to achieve this goal, the Group is actively promoting energy saving initiatives, taking steps to switch to alternative fuels, and developing innovative process technologies.

With the goal of reducing GHG emissions by 10,000 tons, the Group undertook thoroughgoing energy reduction efforts at its Works, including improving thermal energy recovery and enhancing refining efficiency. As a result of these endeavors, the Group was able to cut GHG emissions by 40,000 tons in fiscal 2015. Although the Group reduced energy use and shut down certain production facilities to reduce GHG emissions in compliance with Japan's Law Concerning the Promotion of Measures to Cope with Global Warming, actual emission volumes rose compared with last year due to increases in operating rates at large plants and the addition of NF<sub>3</sub> to the scope of the aforementioned law. Based on full capacity operations and including NF<sub>3</sub> emissions in calculations, the Group recorded an 18% reduction in emissions reductions compared with fiscal 2005.\*\*\*

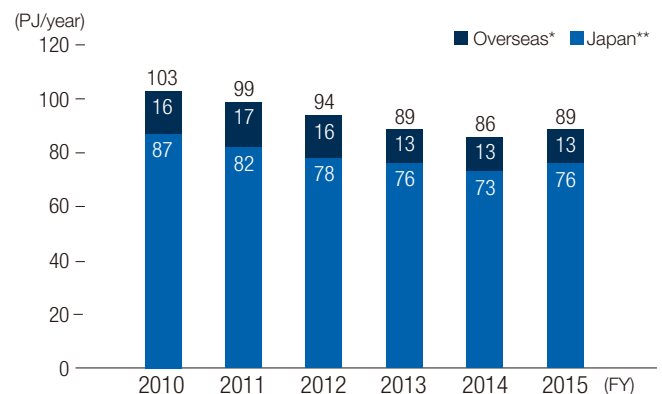
Moreover, the Group's average energy use per unit improved 2.3% over a five-year period owing to efforts to meet targets established under the Energy Conservation Law (reduce non-consolidated energy consumption per unit by over 1% annually over the mid to long term).

Turning to initiatives that contribute to the reduction of GHG emissions throughout society, one of Japan's largest hybrid solar and wind power joint projects commenced commercial operations in October 2014 in Tahara City, Aichi Prefecture.

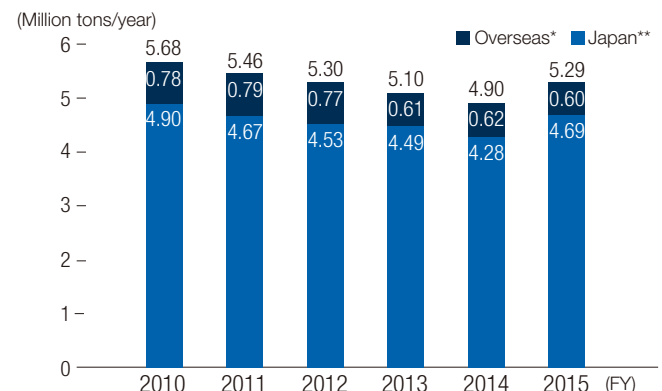
Mitsui Chemicals also calculates indirect CO<sub>2</sub> emissions (Scope 3) in conjunction with Scope 1 and Scope 2 emissions attributable to its business and production activities in order to identify GHG emissions along the entire supply chain, from the purchase of raw materials and after-sale product usage to disposal.

<b>Scope 1</b>
Direct emissions attributable to the use of fuels and plant processes.
<b>Scope 2</b>
Indirect emissions attributable the use of purchased energy and heat.
<b>Scope 3</b>
All other indirect emissions.

Energy Consumption



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 FY2015)

\*\* Japan: Six manufacturing sites and domestic consolidated subsidiaries (15 companies in FY2015)

\*\*\* Management targets based on operations at full capacity  
Graph display based on operating results

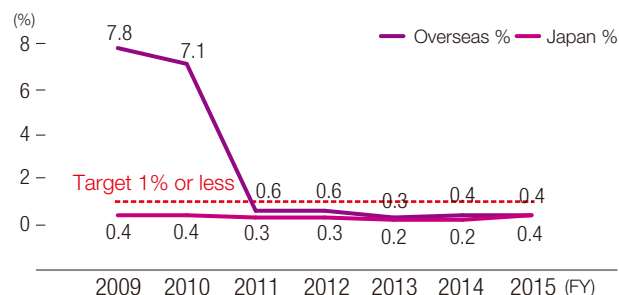
### Topic ③ Initiatives Aimed at Minimizing Industrial Waste

The Mitsui Chemicals Group is working to reduce the amount of industrial waste sent to landfill by promoting the 3Rs (Reduce, Reuse, Recycle). Our commitment to minimize\* industrial waste at all domestic manufacturing sites remains unchanged. We have also maintained the ongoing target of reducing the average landfill rate for industrial waste at overseas affiliates to below 1%.

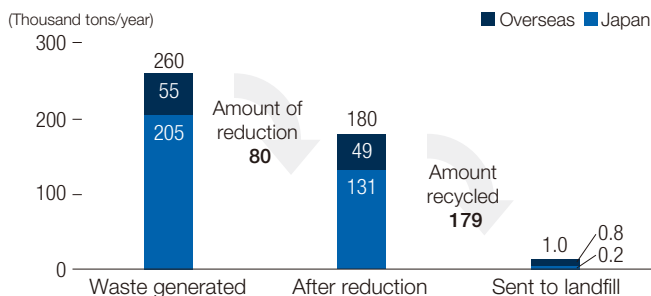
We were again successful in achieving our minimization goal at all domestic manufacturing sites, including domestic affiliates\*\* in fiscal 2015, an unbroken record that has continued since fiscal 2011. Moreover, the Group has maintained an average landfill rate for industrial waste at overseas affiliates\*\* of under 1% since fiscal 2009 with the rate coming in at around 0.4% in fiscal 2015. Efforts to promote minimization overseas are hindered by a variety of issues. This is largely attributable to differences in industrial waste disposal legislation and the structure of industry from country to country. Each Group company is working vigorously to promote resource recycling while reducing the amount of waste. The Group as a whole is working in unison to reduce the amount of industrial waste sent to landfill.

\* Maintaining a landfill disposal rate of 1% or less of industrial waste generated.  
 \*\* Domestic and overseas affiliates refer to production sites operated by consolidated subsidiaries and companies eligible for RC support (22 companies in Japan and 23 companies overseas).

Average Landfill Ratio for Industrial Waste



Progress in Reducing Industrial Waste Disposal (Fiscal 2015)



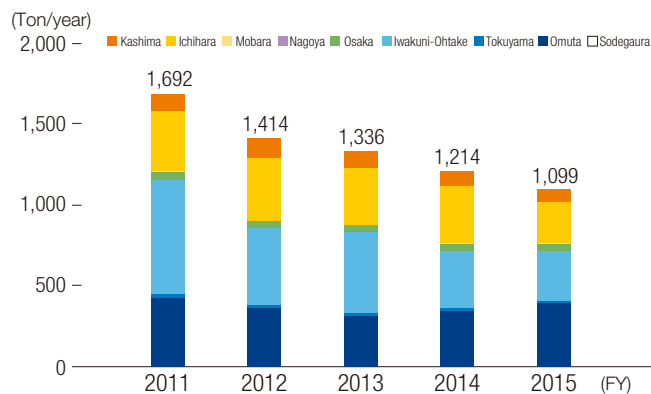
### Topic ④ Initiatives Aimed at Preserving Air and Water Quality

The Mitsui Chemicals Group continues to promote efforts aimed at preserving air and water quality and maintains emission levels of hazardous air pollutants as well as water contaminants, including chemical oxygen demand (COD), nitrogen and phosphorus, well below the required limits set under Japan's Air Pollution Control Act and all other applicable legal and regulatory requirements.

In addition, we submit a report to the Japanese government each year declaring the amounts of designated substances produced or used by the Company that were released into the environment or transferred elsewhere in accordance with the Act on Confirmation, etc. of Release Amounts of Specific Chemical Substances in the Environment and Promotion of Improvements to the Management Thereof (PRTR\* Act). The amount of emissions fluctuated between manufacturing sites in line with operating levels. In overall terms, emissions declined in fiscal 2015.

As the required level of chemicals management continues to increase, we will engage in thoroughgoing activities aimed at managing and reducing emissions in the future.

Emissions of Substances Subject to the PRTR Act



\* PRTR: Pollutant Release and Transfer Register

### Topic ⑤ Awards for Our Responsible Care Activities

Ichihara Works has been actively undertaking responsible care activities and contributing to the local community on an ongoing basis for many years in an effort to be a reliable and safe production facility for various stakeholders. In recognition of its efforts, Ichihara Works received the Responsible Care Award from the Japan Chemical Industry Association (JCIA) in May 2016.

In Singapore, Mitsui Phenols Singapore Pte. Ltd. (MPS) was presented the RC Award by the Singapore Chemical Industry Council (SCIC) in the health and safety category in recognition of MPS's outstanding track record of success in this area.



**Approach to Personnel Development**

Based on its Human Resource Management Policy, the Mitsui Chemicals Group develops human resources able to work on the world stage from a long-term perspective.

To foster human resources able to create the value demanded by society while engaging with global markets and interacting with colleagues on a daily basis, our basic approach to developing human resources is to proactively support employees who aim to grow on their own.

**Global Human Resource Management Strategy**

We focus on developing global human resources with the objective of accelerating global management.

Overseas business expansion requires exceptional human resources who are intimately familiar with local conditions. It is also important to strengthen global leadership and management capabilities to coordinate bases in Japan with bases overseas. As a medium-term initiative, the Mitsui Chemicals Group promotes global human resource management in a bid to methodically develop global leaders that fit its vision of global human resources, by securing talented personnel with diverse backgrounds and optimally assigning these personnel to bases around the world.

As platforms to implement the global human resource management system, we established common global competencies, human resources databases, and grading, assignment frameworks, and compensation systems.

To nurture the next generation of management personnel, we are proactively offering overseas practical job training to young and mid-career employees, sending employees in Japan to posts overseas, and sending local hires overseas to positions in Japan.

We have also put in place the Mitsui Chemicals Academy in a bid to globally standardize and share training programs that focus on spreading our corporate culture and strengthening leadership abilities. Through these training programs, a number of leaders in their 40s have emerged at overseas affiliates. Progress has also been made promoting locally hired employees to key positions. Currently, 45% of our general managers

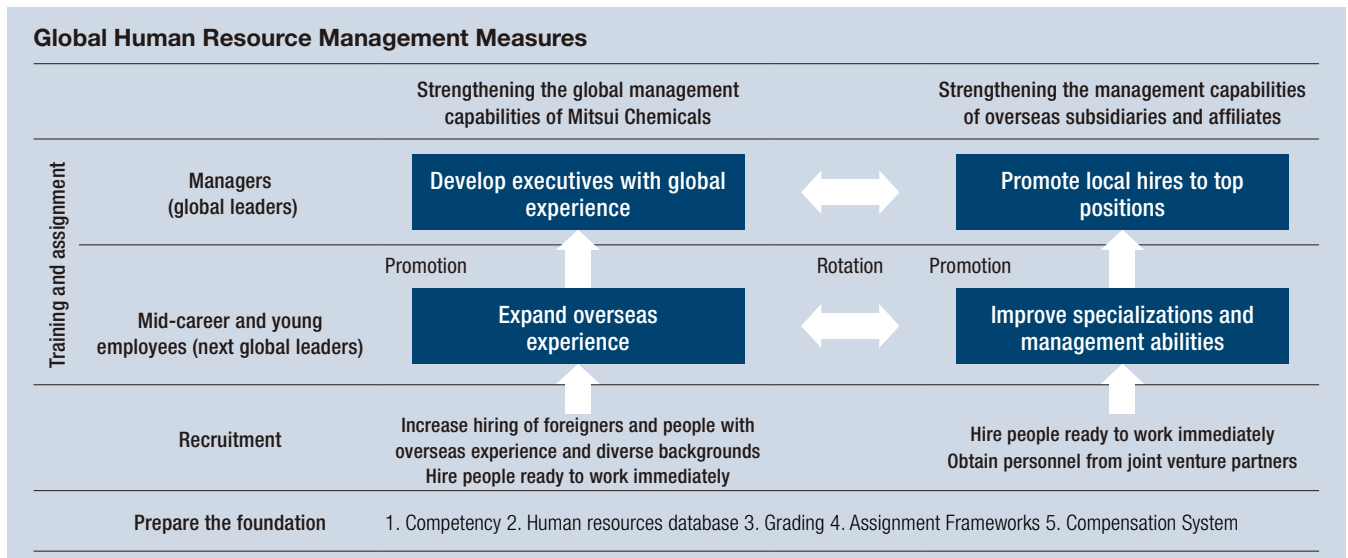
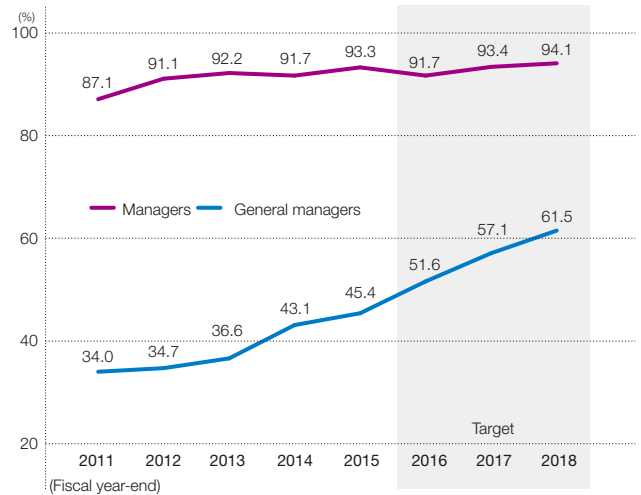
**Qualities of a Global Leader**

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

at overseas affiliates are locals, and we aim to raise this ratio to 60% by 2018. We are also promoting locals to positions of president and vice president. (This excludes cases of mergers and acquisitions.)

In fiscal 2015, we updated both our succession plans for key positions inside and outside Japan as well as our key talent management, which comprises screening standards and training processes for next-generation management candidates. In fiscal 2016, we began to implement these initiatives in earnest, working across the Group to accelerate global management.

**Promotions of Locally Hired Employees**



## Our Diverse, Young and Talented Team is the Driving Force of Our Growth



Mitsui Chemicals India (MCIND) was established in 2008. The culture at MCIND is vibrant, caring, youthful and always moving forward because of its balanced mix of visionary leaders, innovative managers and hardworking staff members.

Top management ensures that each member is aligned with the global vision and mission of the organization by engaging in clear communication and setting appropriate goals for team members. They ensure our growth and development through a variety of seminars, conferences and leadership programs.

MCIND trusts its employees, makes them feel valued and ensures their contributions to the growth of the organization are recognized at all levels. Employees are instilled with the ability to become leaders and provided the freedom to explore new horizons.

Unifying employees with diverse perspectives helps MCIND make better decisions and complete tasks successfully as it allows Team India to analyze problems from multiple angles and come up with effective and innovative solutions.

We—the members of Team MCIND—are proud to work at this company.

Rajni Srivastava, Senior Manager, Human Resources  
Priti Sahoo, Junior Executive, General Affairs & Administration

### Respect for Diversity—Diversity & Inclusion

It is vital that we have a corporate culture that respects diversity in order to strategically promote exceptional personnel.

The Mitsui Chemicals Group established the Promotion and Development of Women Team in 2006, to improve the work environment and provide training for career advances.

In 2011, this team was reorganized into the Diversity Promotion Team to include cross-cultural awareness in a rapidly changing business environment of globalization. Making a fresh start as the Diversity Promotion Department in 2015, we have commenced initiatives to address changing values about work styles and raise awareness of diversifying career paths among employees.

In Japan, we set up a team dedicated to supporting foreign employees at work and in their private lives and established a career consultation office for helping employees shape their own careers. In these and other ways, we have strengthened our systems for supporting the livelihoods of each and every employee without regard to their gender or nationality.

We have also set up a program dedicated to helping foreign employees maintain their lifestyles while working in Japan, as well as a career consultation service that encourages employees to be proactive about their careers. We continue to enhance our systems to support each and every employee regardless of their gender or nationality.

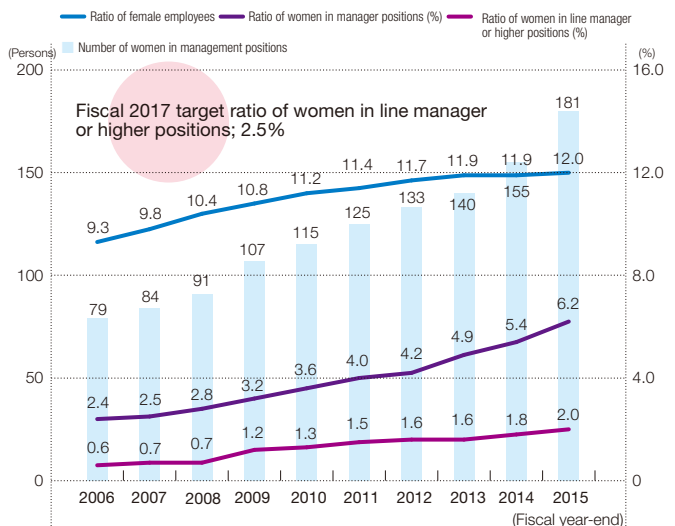
To promote work-life balance, we are enhancing support systems, such as shortened work hours, leave for nursing care, and assistance for baby sitter and caregiving services. We are working diligently to create environments that facilitate work for employees who hold diverse values.

The Mitsui Chemicals Group proactively employs people with disabilities, and has met the legally mandated ratio for

employing persons with disabilities since fiscal 2004.

We continue to focus efforts on providing work environments and fostering a corporate culture that supports persons with disabilities.

### Female Employees (Non-consolidated)



Fiscal year-end	2011	2012	2013	2014	2015	
Employees taking childcare leave	Female	21	23	19	29	33
	Male	58	48	50	67	62
	Total	79	71	69	96	95
Employees taking nursing care leave	0	0	1	1	0	

Fiscal year-end	2011	2012	2013	2014	2015
Ratio of employees with disabilities (%)	1.9	1.8	2.2	2.1	2.2



## Health Management

Based on the principle that healthy employees make for a healthy company—meaning that the health of its employees is key not only to increasing corporate activity but also to improving corporate value—the Mitsui Chemicals Group regards employee health as an important management issue.

### Promotion of Occupational Health

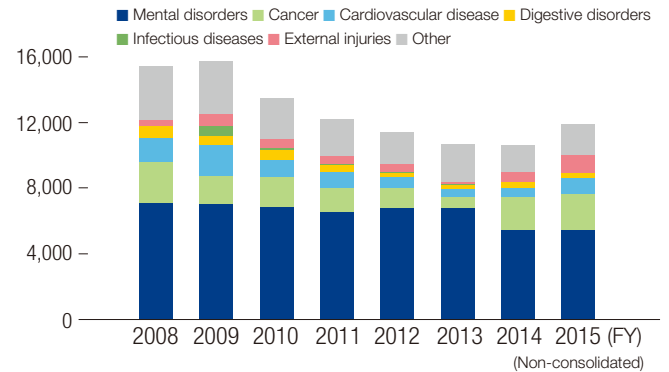
Based on regularly gathered and reviewed data on health management issues and measures taken to address them, the Group's industrial physicians formulate medium-term occupational health plans and annual plan proposals. In addition to annual plans enacted primarily by healthcare sections at each site, full-time industrial physicians, nurses and healthcare managers support the enhance-

ment of employee health. Occupational health audits that cover subsidiaries and affiliates are also regularly conducted and improvements carried out. In the case of overseas business sites, the industrial physicians from Head Office makes annual tours during which they conduct health interviews with employees and offer support from both the physical and the mental health standpoints.

### Employee Health

It is now eight years since we introduced comprehensive medical checkups that combine regular medical examinations with specialized medical tests and cancer screening. We have managed to increase the take-up ratio of those employees advised to receive special health guidance (aimed at combating metabolic syndrome) from 25% in 2009 to approximately 45% today. To support the self-motivated efforts of employees to secure their own health, we encourage not only individual workplace but also group-wide health promotion activities, such as health mileage contests. As a result, the observed rate of hypertension risk has remained at a significantly reduced level, and although the number of days off due to cancer has increased compared with fiscal 2013, given the increase in re-employed workers, it is felt that this rate is being kept sufficiently low. In addition, the number of days off taken on mental health grounds has also declined.

Number of Days Off due to Illness (sick days and special leave)



### Mental Healthcare

Mitsui Chemicals' efforts to address mental healthcare have several distinguishing features. Besides providing individual counseling to people in need of help, the Company conducts mental health-related training for new employees while working to improve its corporate culture through workplace stress questionnaires.

The Company utilizes its *New Workplace Stress Level Questionnaire*, a simplified questionnaire that combines occupational stress and mental health questionnaires to formulate an assessment along the two axes of general health risk and mental health culture, since 2011.

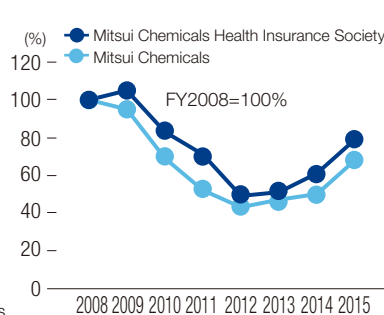
In addition to training and e-learning sessions, both new recruits and other employees are interviewed by an industrial physician every six months. The examining physician determines the state of each new employee in terms of lifestyle habits, physical condition and communication skills, gives advice, holds discussions that include managers when necessary, and offers new employees support related to their adaption to corporate life.

In addition to providing feedback to individuals based on questionnaire results, we explain results for each department to their heads and implement communication improvement plans designed to reduce stress in workplaces where the stress levels are found to be high. We also horizontally distribute case studies of workplaces where the mental health culture is good to serve as best practice examples.

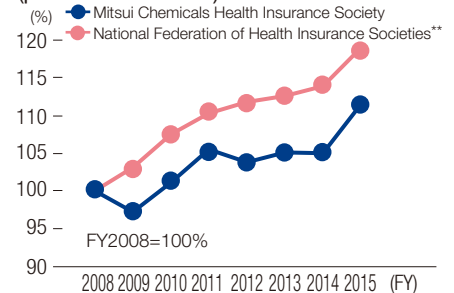
### Reducing Healthcare Costs

Compared with fiscal 2008, the amount of accident and sickness benefits is about 70% lower due to health promotion efforts. It has trended upward slightly since fiscal 2013 onward due to the increase in re-employed workers, who tend to be older, and we are strengthening our health measures accordingly. Given the general market increase in statutory benefit expenses,\* we feel confident that our control of healthcare costs is sufficient.

Trends in Accident and Sickness Benefits



Growth in Statutory Benefit Expenses\* (per insured worker)



\* Statutory benefit expenses: In addition to healthcare costs, such expenses include accident and sickness benefits, lump sum allowances for childbirth and nursing care, maternity allowances, and funeral expenses

\*\* Source: 2016 Health Insurance Society Budget Outlook prepared by the National Federation of Health Insurance Societies

### External Recognition

In March 2013, Mitsui Chemicals received a special award from the Development Bank of Japan (DBJ) under the DBJ Health Management Rating scheme.\* Mitsui Chemicals was given the highest ranking and recognized as a model company for health management, with attention drawn to the excellence of its initiatives for caring for the health of employees.

which go back many years, and contributions to the improvement and development of health and safety standards, have also received accolades, with the Head Office Health Section general manager and coordinating industrial physician having been commended by the Minister of Health, Labour and Welfare for "excellent workplaces, groups or meritorious individuals relating to health and safety."



In connection with a health guidance program conducted as part of the enhancement of employee health, the industrial physician at the Head Office Healthcare Section received the Best Thesis Award from the Japan Society for Occupational Health. In addition, the Company's guidance in health and safety activities,

\* One of the conditions of this financing scheme is that the company receiving the loan has excellent measures in place to manage the health of its employees, as evaluated by the Development Bank of Japan.

## Working toward a level of governance that contributes to the creation of value over the medium to long term



**Masaharu Kubo**

Representative Director  
Member of the Board  
Senior Managing Executive Officer

**Yukiko Kuroda**

Outside director

**Yoshio Suzuki**

Outside director

### Improving the Efficacy of the Board of Directors

#### **Kubo:**

The manner in which a board of directors operates and its function has attracted growing interest since the introduction of the Corporate Governance Code.

It is now some 20-odd years since Mitsui Chemicals first appointed individuals from outside the Company to serve on its Board of Directors. The Board takes considerable pride in its track record and efforts to operate in a manner that is both proper and innovative. What are your impressions of the Company's Board of Directors?

#### **Suzuki:**

I am proud to have served as an outside director for six years since 2010. It is indeed a pleasure to be a Member of the Board and to know that I can freely express my opinion and ask questions. In carrying out its duties, the Board of Directors listens carefully to the explanations of executive officers, who elaborate on details documents that are distributed in advance. Prior to each meeting, the Board of Directors is provided with a wide assortment of materials, including the minutes of Management Committee. With the benefit of having reviewed materials prior to each meeting, directors are able to hone in on pertinent details and to ask searching questions as required.

#### **Kuroda:**

This is my first year to serve as an outside director. Since my appointment to the Board, I have had the opportunity to visit a number of worksites. With a first-hand view of the frontline, I now have a much better understanding of what, previously, were to me just letters and symbols on the periodic table of elements. This experience has allowed me to more effectively make comments during meetings of the Board.

#### **Kubo:**

As one of several new initiatives, steps were taken to assess the effectiveness of the Board of Directors.

To begin with, all of the directors and auditors were asked to complete a survey. A meeting solely comprising outside officers, was then held to deliberate on the results.

#### **Kuroda:**

Like many other companies, Mitsui Chemicals' Board of Directors spends a considerable amount of time deliberating on operational issues. This cuts into the time available to establish the necessary strategies for enhancing corporate value on a long-term basis. I believe this is an example of the Company's various in-house protocols failing to keep pace with corporate governance reform.

#### **Kubo:**

Taking this and similar points into consideration, it is nevertheless true that the

Board of Directors makes it a point to discuss the key issues confronting the Mitsui Chemicals Group and measures going forward. For example, we undertook a review of the criteria for setting agenda items for meetings of the Board of Directors and approved the substantial delegation of authority over the Group's operations to executive officers. In a major change of direction, this now allows the Board of Directors to focus on putting in place the strategies necessary to enhance corporate value over the medium to long term.



**Suzuki:**

In today's business environment where speed is at a premium along with global expansion, it is vital that companies broaden the responsibilities and authority of their executive officers. I tend to agree with the assessment that the old Mitsui Chemicals approach was somewhat narrower.

Seeing that the Company has recently addressed this issue, I am keen to lend my support to establishing an executive framework that is capable of meeting expectations.

**Kuroda:**

The initiatives that have been taken have freed the Board of Directors to adopt a more long-term perspective and to concentrate its energies on formulating business strategies. In this regard, I believe that Mitsui Chemicals can play a leading role in pioneering corporate governance reform.

**Kubo:**

Thank you.

I, too, would like to see the Board of Directors carry out its duties in a manner that addresses recent upheavals in society and to this end would like to conduct a timely and appropriate review of the Group's business strategies.

### The Future of the Mitsui Chemicals Group beyond the Mid-Term Business Plan

**Kubo:**

I would also like your thoughts on the Mid-Term Business Plan. Under the current plan, we identified Mobility, Healthcare and Food & Packaging as three targeted business domains underpinning growth. Accordingly, we have looked to expand business operations by selectively injecting resources into these three priority domains. Meanwhile, the focus of the Basic Materials business has been on restructuring operations and to shift to a structure that is capable of maintaining stable profits.

In this, the final year of the current Mid-Term Business Plan, there is every indication that we will achieve our targets. I would nevertheless like to hear your thoughts on our various initiatives.

**Suzuki:**

Between fiscal 2011 and fiscal 2013, the Mitsui Chemicals Group incurred three consecutive years of net loss. Over this

Yoshio Suzuki

Outside director of Mitsui Chemicals, Attorney at Ichibancho Sogo Law Office, Professor at the Chuo Law School and Outside Corporate Auditor of Samantha Thavasa Japan Limited  
(as of March 31, 2016)

period, the Board of Directors held lengthy discussions on how to arrest the situation and bring about a turnaround. Fortunately, the Group underwent a rebirth of sorts and reemerged as an extremely robust entity. All of the Group's business divisions have forged close collaborative ties with the R&D Division. The Group has also taken steps to continuously track and respond to customers' voices. One feature of the Group's business that stands out over the past few years is how hard employees at overseas plant construction sites have worked to promote the Group's success despite the frustrations of dealing with disparate cultures and practices. I strongly believe that the Group's current positive performance amid less than ideal conditions is the result of the unity shown by its employees.

Naturally, a heads down, earnest approach is an important part of business. It is important, however, that we also put aside any fears of failure and to have the courage and strength to charge boldly ahead with new ventures.

**Kuroda:**

We are now entering a phase in which, rather than simply reacting to the positive and negative signals of the operating environment, companies need to reinforce and hone their true strengths.

In order to extend its business further downstream, the Mitsui Chemicals Group will undoubtedly require a new skill set for handling such operations as corporate acquisition. In addition to the human resources necessary to ensure sustainability, the Group will require personnel with new and diverse capabilities. I would like to see the Group aggressively addressing this issue going forward.

**Suzuki:**

Looking at the status of management personnel, I would very much like to see women taking on more responsibility at the director and executive officer level. This will not only improve the Company's profile in terms of diversity, but also significantly increase its credibility on the world stage.

**Kubo:**

In closing, could you both provide your thoughts on what you would like to see with regard to the Group around 2020 and your aspirations.

Yukiko Kuroda

Outside director of Mitsui Chemicals, Managing Director and Founder of People Focus Consulting, Outside Director of CAC Holdings Corporation and Outside Director of Marubeni Corporation  
(as of March 31, 2016)

**Kuroda:**

The Mitsui Chemicals Group's operating income target of ¥100 billion is of course an important goal. At the same time, I believe that the Group should place equal importance on solving social challenges through its business activities, which remains the cornerstone of its future vision. In 2020, I would very much like to see the Group's employees take great pride in solving this or that social challenge.

**Suzuki:**

The Mitsui Chemicals Group provides a wide range of end and other products that in addition to delivering added convenience to people's lives help to make society safe and secure. I would like to see employees take pride in the contributions this Group makes to society and to go about their business with confidence.

Looking ahead, I would expect the Group to take the lead in opening up new markets on the world stage. I would hope that it can cultivate opportunities that are peripheral to its three growth domains and further showcase the Mitsui Chemicals brand to a wider consumer base.

**Kubo:**

Thank you very much. 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 over the medium to long term.

(June 8, 2016)

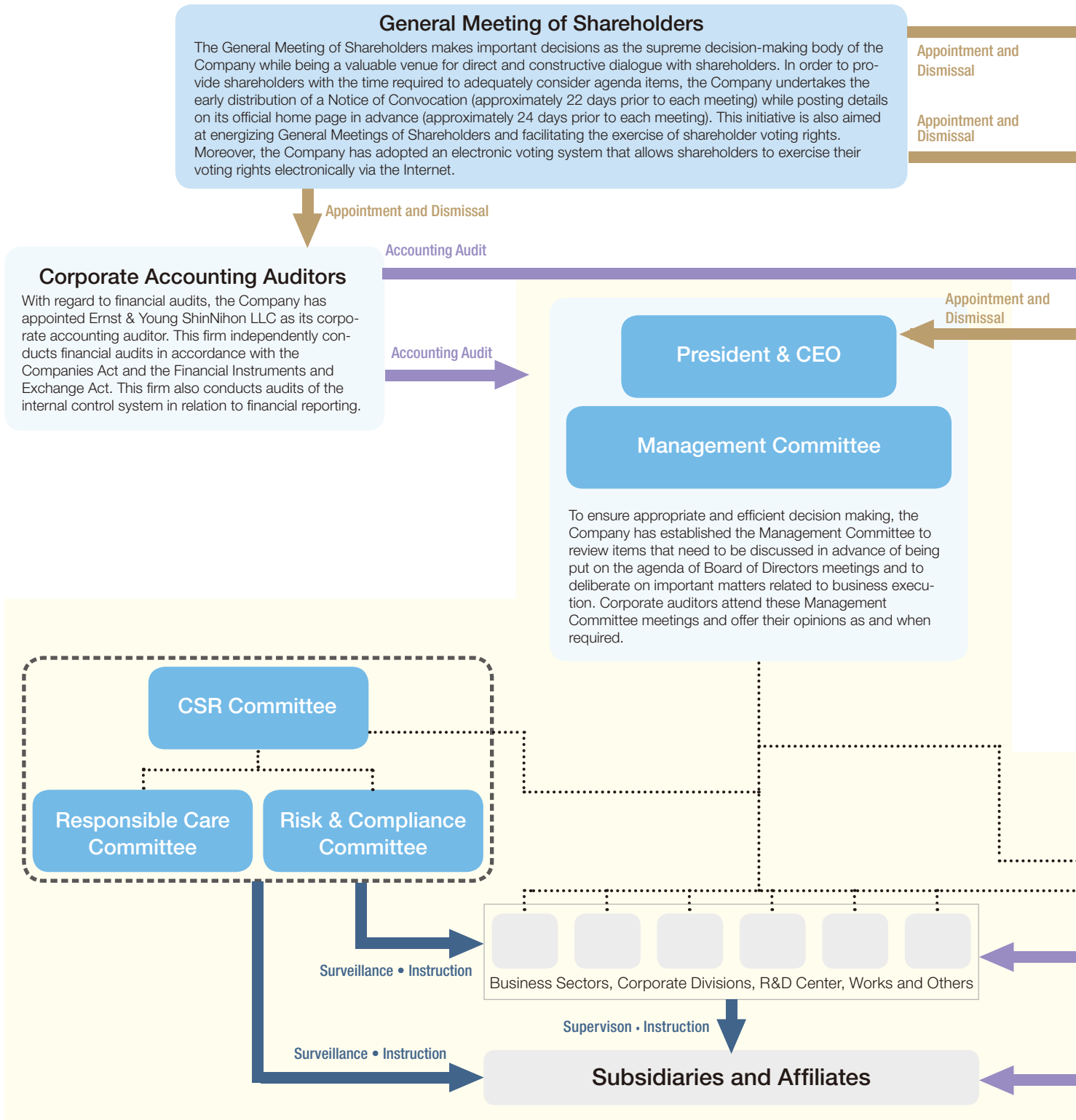
**Basic View on Corporate Governance**

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 a process will allow us to: (i) maintain and develop trusting relationships 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/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.

**Corporate Governance Framework**



## 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 Companywide Strategy Conference. 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.

Furthermore, the Mitsui Chemicals Group proactively undertakes IR and PR activities, ensures the timely and appropriate disclosure of information, and strives to maintain transparency. In its CSR activities, the Group works to protect the environment, ensure safety and quality, and comply with laws and regulations. It has also established various committees to build on the relationships of trust it enjoys with its stakeholders, including its shareholders.

### Board of Corporate Auditors

Corporate auditors: 5 (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. In fiscal 2015, the Board of Corporate Auditors convened 14 times (in principle, meetings are held in conjunction with those of the Board of Directors, but in practice meetings are held on an as-required basis).

Corporate auditors attend not only Board of Directors meetings but also such key internal meetings as those of the Management Committee to regularly exchange opinions with the president and other management, and receive and check approval forms from executive directors and minutes from key meetings.

In addition, corporate auditors conduct audits at the Group's major places of business and affiliates in Japan and overseas as well as confirm the status of business execution.

### Board of Directors

Directors: 8 (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.

As of fiscal 2015, the Board of Directors convened 10 times (regular meetings: once per month; extraordinary Board of Directors meetings held when necessary).

Audit

### Executive Compensation Advisory Committee

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. The president serves as the chair of the Executive Compensation Advisory Committee, which is composed of the representative directors (three including the president) and outside experts (three outside directors and three outside corporate auditors).

The Board of Directors determines the compensation for the Company's directors (excluding outside directors) after consulting with the Executive Compensation Advisory Committee on specific details based on the following basic policies.

- Compensation will be commensurate with the management position held and will be tied to the growth and performance improvement of the Group.
- Compensation schemes will be devised to reflect both corporate performance and the performance of the individual director
- Compensation for higher positions will more strongly reflect their contributions to medium- and long-term corporate growth.
- We will ensure transparency and maintain accountability to our shareholders and other related parties regarding the determination of compensation for directors.

### Group-wide Strategy Committee

To deliberate on strategy from a group-wide perspective related to management and operational issues.

### Internal Control Division

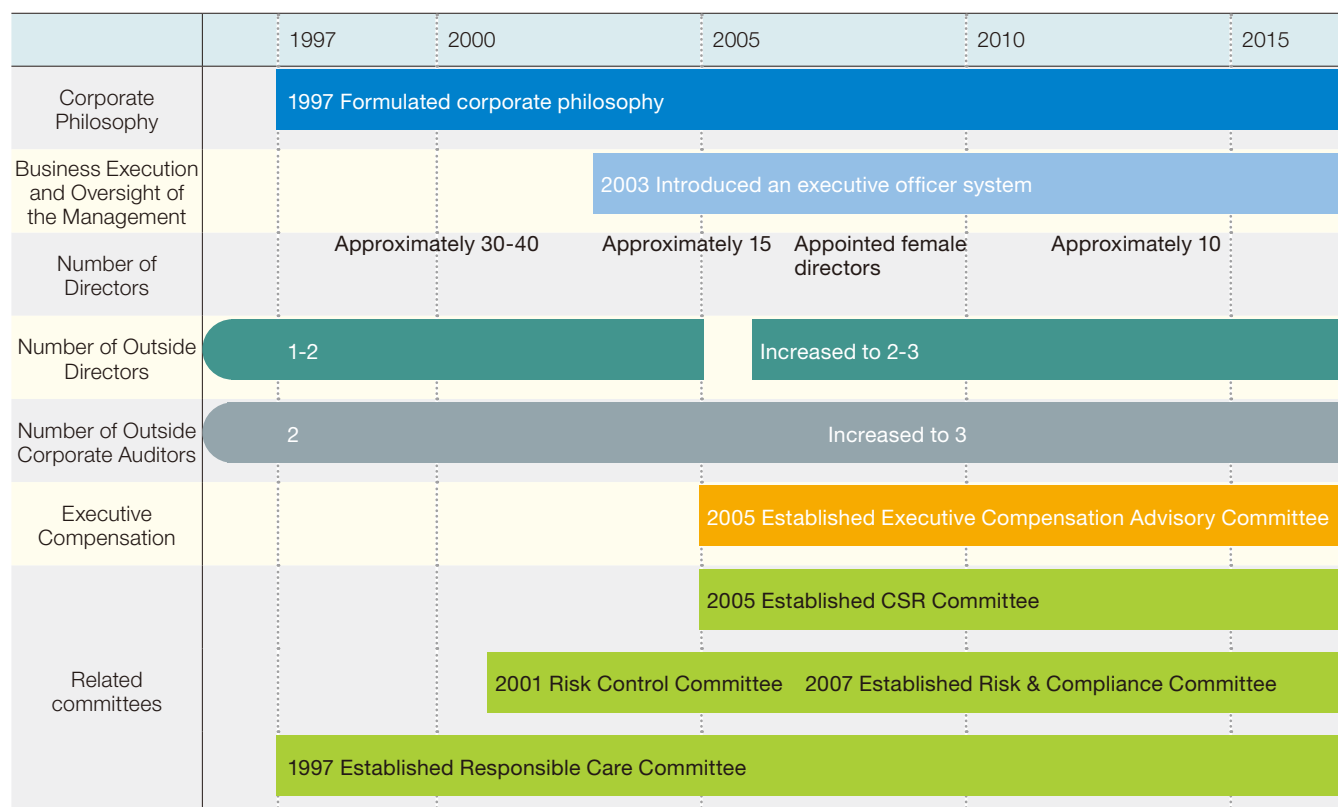
The Internal Control Division was established as an internal organization that conducts accounting and business audits of the Group, including affiliates. This Division reports to the Management Committee the results of audits, which are based on annual audit plans that are discussed in advance and instituted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

Audit

Audit

## 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. In regard to the Board of Directors, we have been promoting initiatives aimed at creating a system with greater emphasis on management audits. We have been employing experienced managers as outside directors since 2015, and in 2016 we undertook reforms to help establish a system that continues to ensure business execution is carried out mainly by executive officers.



### 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.

The Company conducted its fiscal 2015 survey of all directors and corporate auditors in mid-February 2016. Based on the survey results, a report together with the outcome of a mid-March meeting consisting only of outside directors and outside corporate auditors were presented at the end of March to a meeting of the Board of Directors where future challenges and measures were discussed.

As a result, the Company's Board of Directors confirmed that information necessary for deliberation was appropriately provided, that opinions were expressed by outside directors and outside cor-

porate auditors from their independent positions and that active discussions were held. Meanwhile, the Board of Directors confirmed and shared the conclusion that there remains the challenge of further engaging in discussions concerning medium- to long-term management issues, such as strategy and corporate direction with the aim of further reinforcing the supervisory functions of the Board of Directors, and that toward its realization, it is necessary to review criteria for resolution/report items for the Board of Directors and the deliberation process.

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

### Total Compensation for Directors and Corporate Auditors in Fiscal 2015

Compensation for directors (excluding outside directors) will be composed of monthly compensation (a fixed amount) and bonuses. The proportion of compensation composed of bonuses will be configured to function as an appropriate incentive for the sustained growth of the Group.

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

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.

#### Total Compensation for Fiscal 2015

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	10	428	3	20
Corporate Auditors	7	94	4	31
Total	17	522	7	51

The figures in the table above include amounts paid to one member of the board and two corporate auditors who retired as of the close of the Annual General Meeting of Shareholders for the Company's 18th Business Term held on June 24, 2015, covering the period from April 2015 through to the date of retirement. Moreover, the following bonuses were paid to members of the board based on a resolution of shareholders at the Annual General Meeting of Shareholders for the Company's 19th Business Term held on June 24, 2016.

- Seven members of the board in office as of March 31, 2016: ¥102 million

## 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 the Board of Directors and Board of Auditors 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: 10)	Board of Auditors (Total Number of Meetings Held: 14)
<b>Outside Directors</b>			
<b>Yoshio Suzuki*</b>	Director Yoshio Suzuki primarily speaks from the view of compliance promotion based on his legal knowledge and extensive experience not only in the legal profession but also as an outside officer of other companies.	10/10	—
<b>Yukiko Kuroda*</b>	Director Yukiko Kuroda primarily speaks from the view of globalization or validity ensures the business execution based on her extensive experience as a corporate manager and in-depth knowledge based on experience as a consultant.	8/8 (All eight meetings held after her appointment)	—
<b>Outside Corporate Auditors</b>			
<b>Hiromu Matsuda*</b>	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 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.	10/10	13/14
<b>Osamu Sekine*</b>	Auditor Osamu Sekine speaks 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.	10/10	14/14
<b>Hiroki Nishio*</b>	Hiroki 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.	8/8 (All eight meetings held after his appointment)	11/11 (All 11 meetings held after his appointment)

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

## Internal Control System

At a Board of Directors' meeting held on May 10, 2006, the Company formulated its basic policy on establishing an internal control system with the aim of putting in place a structure that would enable the Company to engage in proper and highly effective operations. Over the ensuing period, the Company has continued to promote this system in accordance with its basic policy. In accordance with a resolution of the Board of Directors at a meeting held

on March 31, 2015, effective from the fiscal year ended March 31, 2016, items related to the Company's subsidiary management and audit systems have been incorporated into the internal control system. After confirming the operating status of the internal control systems, a report on the results was disclosed in the Convocation Notice to Shareholders.

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

## 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 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.

## Risk and Compliance Management

### Risk and Compliance Management Basic Policy

The Mitsui Chemicals Group's basic stance toward risk management emphasizes early discovery as well as efforts to prevent risks from materializing. The Group constantly works to thoroughly enhance its risk management system to secure the trust of stakeholders, including shareholders, customers and the local community, and to fulfill its corporate social responsibilities.

From an organizational perspective, the Group established the Risk & Compliance Committee. Positioned under the CSR Committee and headed by a board director, this committee is a separate entity that is charged with the responsibility of deliberating on the Group's risk management policy while maintaining and operating its risk management system in accordance with established risk management regulations.

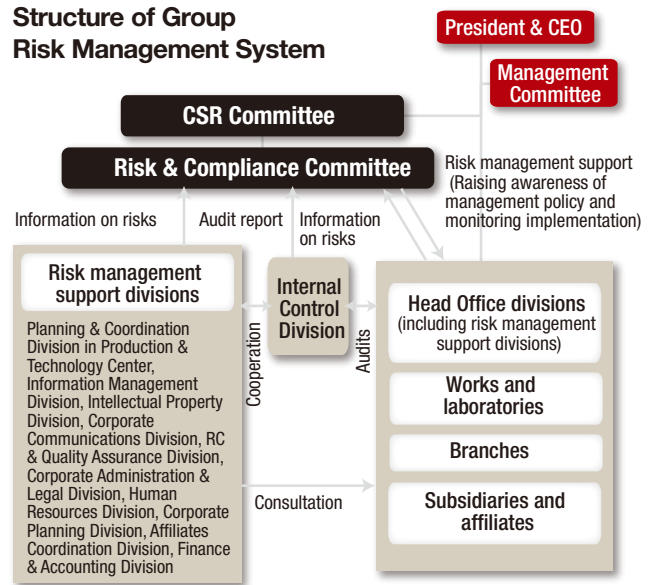
### Risk Management System

In line operations, the Group applies PDCA\* cycle management and bolsters risk management systems throughout the Group, including at subsidiary and affiliate companies.

The system involves identifying key risks, analyzing those risks, and taking appropriate countermeasures in the annual budget of each company and division. The Group also uses compliance checklists as part of a risk management PDCA\* cycle designed to monitor progress and to prevent risks from materializing. Moreover, any Group company or division can also enlist specialist help from the risk management supporting divisions.

\*PDCA: Plan, do, check, act

### Structure of Group Risk Management System



### Risk Hotline

As an adjunct to the aforementioned initiatives, the Group has established a risk hotline to enable employees who uncover potential illegal activities in the Group to report their suspicions directly to the Risk & Compliance Committee or an outside attorney. Any information pertaining to risks that is acquired through this hotline is properly and promptly reported to the Corporate Auditors.

Our Company regulations clearly state that employees using the hotline to report or seek advice about an incident must not receive unfavorable treatment.

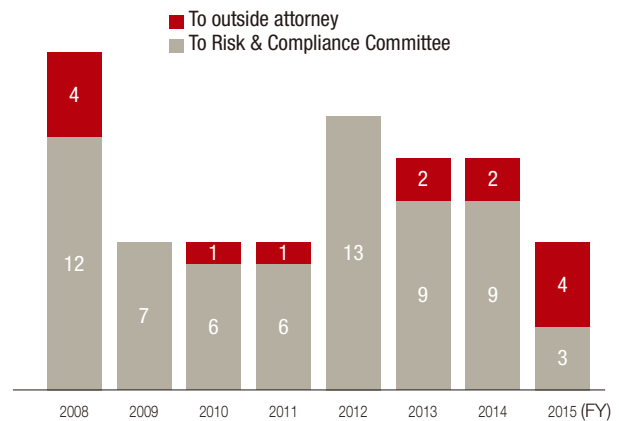
Extending beyond the scope of Mitsui Chemicals Group employees, this hotline is also open to reports and requests for advice from employees working for contractors at our works or other sites and those working for companies supplying us with items such as raw materials or parts.

### Business Continuity Plan

Mitsui Chemicals created a business continuity plan (BCP) in preparation for a major earthquake in the Tokyo metropolitan region. The plan calls for the creation of an emergency headquarters to quickly establish a command and control structure at key centers, including Osaka Works, if the functioning of the head office becomes paralyzed in addition to emergency customer response centers to provide prompt and appropriate support to our customers. We have also created BCPs in preparation for outbreaks of new strains of influenza and for large-scale plant accidents.

In light of the growing possibility of an earthquake along the Nankai Trough or a major earthquake centered beneath the Tokyo metropolitan region, we conduct comprehensive BCP training encompassing various response measures each year in order to enhance BCP efficacy. Based on this training, rules and regulations as well BCPs are reviewed and revised. Every effort

### Number of Reports Made



is made to ensure awareness and strict adherence within each workplace. Steps are also taken to check and provide all necessary equipment. Moreover, we conduct routine training in countermeasures against earthquakes and tsunami and set up an evacuation system for plant workers after plant operations have been safely shut down.

With respect to business operations, in order to secure an appropriate supply chain, systems are in place to acquire certain key raw materials from multiple suppliers as well as alternative items. Furthermore, countermeasures include the setting up of a production structure that is dispersed over multiple works for the Group's mainstay products and the securing of a certain level of inventories.

\* Business Continuity Plan (BCP): A practical plan for how an organization will minimize the decrease in business activity levels as well as recover and restore partially or completely interrupted critical functions as soon as possible after a disaster or extended disruption.



## 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 in order to strengthen the understanding of employees. From a skills and knowledge perspective, we also conduct legal and regulatory compliance training.

### 1. Workplace Discussions Encompassing Case Studies of Various Statutory and Regulatory Violations

The Company has been holding workplace discussions encompassing case studies of various statutory and regulatory violations since fiscal 2008. The causes, preventive measures and other subjects related to typical breaches in compliance are discussed in the workplace. Going beyond raising awareness about compliance, such discussions are effective in furthering communication among employees.

### 3. Training on the Observance of Laws and Regulations

The Mitsui Chemicals Group conducts training on statutory and regulatory compliance in an effort to improve employee knowledge of compliance matters. For almost all the courses, e-learning classes have been created. In order to ensure that employees keep abreast of the latest information and requirements, the Company's rules require that refresher courses be taken every three to five years.

### 2. Raising Awareness of Compliance

From senior management to new employees, compliance awareness-raising programs tailored to each level of employees are being implemented.

### 4. Distributing a Compliance Guidebook

The Mitsui Chemicals Group published a compliance guidebook containing important information on how to better observe compliance. Japanese, English, and Chinese editions of this booklet are published and distributed to all Group employees. Through published materials that employees can refer to at any time, the Mitsui Chemicals Group strives to continuously promote compliance.

## CSR-Oriented Procurement

As we regard all of our suppliers as good partners here at the Mitsui Chemicals Group, in April 2006 we formulated the Mitsui Chemicals Group Purchasing Policy in an effort to get our suppliers involved in our CSR-oriented purchasing activities. We have been purchasing supplies in accordance with the relevant policy ever since.

In selecting suppliers, we adopt a CSR-oriented approach. In specific terms, we will give priority to and seek to build stronger partnerships with companies that satisfy the following requirements. Moreover, we routinely conduct surveys to confirm the level of compliance with requirements. In addition to assessing

the results of surveys, we take steps to obtain feedback through visits and other measures.

- Strict compliance with laws and social norms
- Respect for human rights and consideration for working environments
- Commitment to environmental preservation and safety assurance
- Sound management
- Commitment to maintaining and improving appropriate standards in areas such as quality, price and delivery dates

## Policy on Conflict Minerals

We are fully aware of the essential need to address so-called conflict minerals here at the Mitsui Chemicals Group. We have conducted our own investigation and confirmed that we do not purchase or use any conflict minerals associated with inhumane acts committed by armed groups on the ground in the Democratic Republic of Congo or any of its neighboring countries. That includes gold (Au), tantalum (Ta), tungsten (W) and tin (Sn). If it comes to light that we have used any conflict minerals in the future, we will immediately halt procurement of the relevant minerals.

# Board of Directors, Audit & Supervisory Board Members and Executive Officers (As of June 24, 2016)

## 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  
Senior Managing Executive Officer

### 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 (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  
Managing Executive Officer

### Kenji Ueki

Apr. 1978 Joined the Company  
Apr. 2009 Contract Assistant to Executive Officer of the Company  
Mitsui Chemicals (Shanghai) Co., Ltd.  
Jun. 2009 Contract Assistant to Executive Officer of the Company  
Chairman and General Manager of Mitsui Chemicals (Shanghai) Co., Ltd.  
Apr. 2011 Executive Officer of the Company  
General Manager, Affiliates Coordination Div.  
Apr. 2013 Executive Officer of the Company  
General Manager, Purchasing Div., and General Manager, SCM Div.  
Apr. 2014 Managing Executive Officer of the Company  
Jun. 2014 Member of the Board, Managing Executive Officer of the Company (to present)

## Audit & Supervisory Board Members



New

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.  
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

### Minoru Koshibe

Responsibilities: Health Care Business Sector, New Health Care Business Development Division, H-Project Division  
Business Sector President, Food & Packaging Business Sector



Senior Managing Executive Officer

### Masaharu Kubo

Assistant to the President (CFO),  
Responsibilities: Corporate Administration & Legal Division, Finance & Accounting Division, Responsible Care Committee, Risk Compliance Committee



Senior Managing Executive Officer

### Shigeru Isayama

Assistant to the President (CTO),  
Responsibilities: New Mobility Business Development Division, Next Generation Business Development Division, Robot Materials Business Development Division, R&D Center, Intellectual Property Division



Managing Executive Officer

### Kenji Ueki

Responsibilities: Mitsui Chemicals Asia Pacific,  
Mitsui Chemicals China, Mitsui Chemicals America, Mitsui Chemicals Europe, Purchasing Division, Logistics Division, Affiliates Coordination Division, Information System Division, Business Efficiency Promotion Division, CSR Committee



Managing Executive Officer

### Hideki Matsuo

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



Managing Executive Officer

### Futoshi Hoshino

Center Executive, R&D Center  
General Manager, R&D Strategy Division



Managing Executive Officer

### Takayoshi Shimogori

Business Sector President, Mobility Business Sector  
Responsibilities: Nagoya Branch



New

Member of the Board Managing Executive Officer

**Hideki Matsuo**

Apr. 1982 Joined Mitsui Toatsu Chemicals, Inc.  
 Apr. 2009 Senior Director of the Company  
 Deputy General Manager, Planning & Development and License Div., Basic Chemicals Business Sector  
 Jun. 2009 Senior Director of the Company  
 General Manager, Planning & Development and License Div., Basic Chemicals Business Sector  
 Apr. 2010 Senior Director of the Company  
 Business Manager, Planning & Coordination Div., Petrochemicals Business Sector  
 Jun. 2011 Senior Director of the Company  
 Business Sector Vice President, Production & Technology Center  
 Apr. 2012 Senior Director of the Company  
 Business Sector Vice President, Production & Technology Center, and General Manager, Planning & Coordination Div., Production & Technology Center  
 Apr. 2013 Executive Officer of the Company  
 Business Sector President, Production & Technology Center  
 Apr. 2014 Managing Executive Officer of the Company  
 Business Sector President, Production & Technology Center (to present)  
 Jun. 2016 Member of the Board, Managing Executive Officer of the Company (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 (to present)  
 Jun. 2015 Member of the Board of the Company (to present)



New

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. (to present)  
 Jun. 2015 Advisor of JFE Holdings, Inc. (to present)  
 Jun. 2016 Member of the Board of the Company (to present)



New

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. (to present)  
 Jun. 2014 Advisor, Senior Technical Executive of DENSO CORPORATION (to present)  
 Jun. 2016 Member of the Board of the Company (to present)

**Independent Officers**

Outside Corporate Auditor

**Hiromu Matsuda**

Apr. 1971 Joined the Mitsui Trust and Banking Company, Limited.  
 Jun. 2001 Executive Director of the Chuo Mitsui Trust and Banking Company, Limited.  
 Jul. 2005 Senior Managing Officer of the company  
 Jun. 2006 Representative Director of Sanshin Shinko Inc.  
 Jun. 2008 Full-time Corporate Auditor of Keisei Electric Railway Co., Ltd.  
 Jun. 2011 Corporate Auditor of the Company (to present)



Outside Corporate Auditor

**Osamu Sekine**

Apr. 1969 Registered as an attorney  
 Jan. 1987 Established Tsunematsu Yanase & Sekine  
 Jan. 2000 Partner at Nagashima Ohno & Tsunematsu due to merger with Nagashima & Ohno  
 Jan. 2008 Advisor of Nagashima Ohno & Tsunematsu  
 Jan. 2013 Advisor of Aoyama Sogo Law Office (to present)  
 Jun. 2013 Corporate Auditor of the Company (to present)



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.  
 Jun. 2011 Representative Director and President of Muromachi Co., Ltd. (to present)  
 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. 2015 Representative Director and Chairman of Muromachi Building Co., Ltd. (to present)

Executive Officer	<b>Shinji Ogawa</b>	General Manager, R/C & Quality Assurance Division
Executive Officer	<b>Akihiro Ichimura</b>	Representative in Europe President, Mitsui Chemicals Europe
Executive Officer	<b>Shigeki Nagamatsu</b>	General Manager, Iwakuni-Ohtake Works
Executive Officer	<b>Tsukasa Iida</b>	General Manager, Ichihara Works
Executive Officer	<b>Shin Fukuda</b>	General Manager, Next Generation Business Development Division
Executive Officer	<b>Yasunori Nishiyama</b>	Business Sector President, Health Care Business Sector General Manager, New Health Care Business Development Division President, Whole You
Executive Officer	<b>Akira Misawa</b>	CEO & Chairman, Heraeus Kulzer
Executive Officer	<b>Koichiro Sato</b>	Representative in the Americas President, Mitsui Chemicals America

Executive Officer	<b>Junichi Mano</b>	Deputy Business Sector President, Basic Materials Business Sector
Executive Officer	<b>Yoshihisa Fujimaki</b>	President, Mitsui Chemicals Tohcello
Executive Officer	<b>Hiroshi Tsunashima</b>	General Manager, Osaka Works
Executive Officer	<b>Keishi Susowake</b>	General Manager, Omuta Works
Executive Officer	<b>Osamu Hashimoto</b>	General Manager, Corporate Planning Division
Executive Officer	<b>Satoshi Ozawa</b>	Executive Vice President, Mitsui Chemicals Agro
Executive Officer	<b>Tadashi Yoshino</b>	Deputy Business Sector President, Basic Materials Business Sector Responsibilities: Osaka Branch, Fukuoka Branch
Executive Officer	<b>Yoshinori Andou</b>	General Manager, Human Resources Division
Executive Officer	<b>Akio Hirahara</b>	General Manager, New Mobility Business Development Division

### Upgrading and Expanding IR Activities with the Utmost Importance Placed on Dialogue

The Mitsui Chemicals Group values constructive dialogue with its shareholders and other related parties and strives to create opportunities for such dialogue with senior and top management. Through this dialogue, we endeavor to foster greater understanding of the Group's business strategies and business plans and listen sincerely to the voices of our shareholders and other related parties, absorbing and reflecting management analysis and opinions from the point of view of our capital contributors, facilitating the sustainable growth and medium- to long-term increase of corporate value for the Group.

#### Upgrading and Expanding Communication through Dialogue

##### Engaging in Direct Dialogue and Management and Key Business Managers

The Mitsui Chemicals Group makes every effort to listen to the opinions of capital markets and places considerable weight on issues that are of particular concern to investors. The president makes it a point to reply to any questions directly and to provide necessary explanations as required. At the same time, the Group strives to engage shareholders, investors and analysts in direct dialogue. Management also works to participate in briefing sessions on the status of the Group's operations, explanatory meetings on the Group's mid-term business plan, IR conferences, and other meetings in addition to visiting investors in Japan and overseas.

Over and above the endeavors of management and the IR Division, all business divisions work in unison to improve the content and quality of business presentations and site tours. In fiscal 2015, one business presentation and five tours of facilities in Japan and overseas were held, focusing mainly on businesses that are contributing significantly to growth. These opportunities to engage in direct dialogue with key business and onsite managers are attracting high praise.

In addition, events such as these are valuable opportunities for each division to gather feedback from a wide range of different perspectives and to hear from a variety of stakeholders, including customers.



##### Upgrading and Expanding IR Tools

The Mitsui Chemicals Group strives to complement its direct dialogue with shareholders and investors by upgrading and expanding the content of its IR tools, which include useful information and the Group's website.

For individual investors to more easily gain an understanding of the Group and its activities, we provide an overview to describe exactly what kind of company Mitsui Chemicals is, and regularly post video messages from the president detailing progress under our mid-term business plan as well as materials pertaining to our financial results briefings online.

To deepen the understanding of stakeholders even further, we take steps to improve the quality of our integrated report.

##### Capturing First Place in the "BEST CEO" and "BEST INVESTOR RELATIONS PROGRAM" Categories

Established in 1967, *Institutional Investor*, a world renowned finance magazine based in the United States, has announced details of its annual "All-Japan Executive Team" over the past several years. Competing against a total of 28 other chemical companies, Mitsui Chemicals captured first place in the "BEST CEO" and "BEST INVESTOR RELATIONS PROGRAM" categories of "The 2016 All-Japan Executive Team" announced by Institutional Investor on May 31, 2016.

This exclusive annual ranking was first launched in 2013 and covers major Japanese companies spread across 25 industry sectors. Publicly listed companies in Japan are ranked in terms of their IR activities based on surveys of a total 570 global institutional investors and analysts.

Moving forward, the Mitsui Chemicals Group will continue to create opportunities to engage in dialogue with its shareholders and investors. Every effort will be made to deepen understanding of the Group's activities and measures aimed at resolving social issues through the Group's business endeavors.



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# Management's Discussion and Analysis

## Overview

In the fiscal year under review (the twelve-month period from April 1, 2015 to March 31, 2016, hereinafter “fiscal 2015”), the economy of the United States continued to improve, backed by robust personal consumption and a steady housing market, while European economies, particularly those of the United Kingdom and Germany, saw modest but constant recovery. Economic growth continued to slow in China and other emerging markets.

In Japan, the economy continued to gradually improve amid a rise in corporate earnings and an improvement in the employment environment, albeit without a feeling of robustness.

Overall, the chemical industry trended toward improvement. With crude oil prices and the yen both depreciating, utilization rates at ethylene production facilities in Japan remained high. In non-petroleum-based chemical products, the yen depreciation also helped bolster sales for healthcare materials, functional polymeric materials, agrochemicals, and other products.

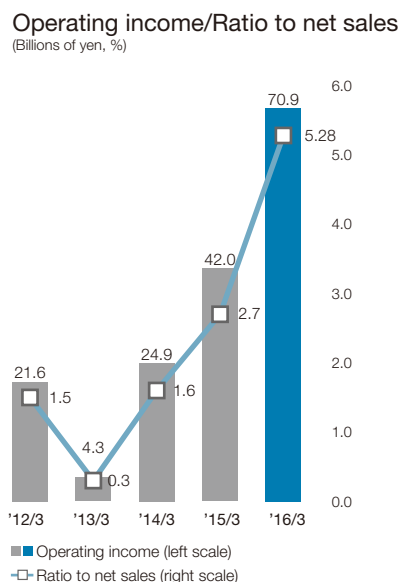
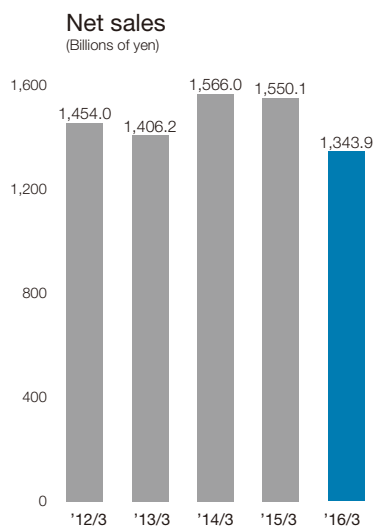
Under these circumstances, the Mitsui Chemicals Group (hereinafter “the Group”) worked intensively to expand business in the three targeted business domains for growth of Mobility, Healthcare, and Food & Packaging as outlined in the 2014 Mid-Term Business Plan while promoting business restructuring in the area of Basic Materials. The efforts undertaken in fiscal 2015, the middle year of the business plan, were as follows.

In Mobility, functional polymeric materials products—especially polypropylene compounds and elastomers, our original core businesses—have contributed to steady returns on growth-oriented investments. The aim of these investments was to capture increased demand driven by expanding automobile production and sales, especially in North and Central America. As for new business creation, we have accelerated the commercialization of POLYMETAC™ technology, which fuses metals and resins to offer durability and strength alongside reduced weight. In pursuing commercialization, the Group has striven to find practical applications for this technology.

In Healthcare, the original core businesses of ophthalmic lens materials and non-woven fabric remained firm due to increased overseas demand. In non-woven fabric, demand for premium disposable diapers was exceptional as was the subsequent increase in exports, spurring an expansion of facilities to keep up. In dental materials, due mainly to stagnant conditions in North America, the world’s largest market, there was a delay in meeting profit targets set when this business was acquired, resulting in an impairment loss on goodwill. The Group has been quick to address this setback and has already restructured its business promotion framework, including an enhancement of its sales framework, and is working hard to promote sustainable growth in dental materials. In addition, the Group launched the new healthcare brand Whole You™ in North America to broaden business areas and develop healthcare product businesses geared toward patients and consumers. Under this brand, we have developed and begun commercial sales of a number of new products.

In Food & Packaging, specifically agrochemicals, the Group enhanced its overseas bases by stepping up its investment in the Brazilian company Iharabras S.A. and acquiring additional shares of the Thai company Sotus International Co., Ltd. and launched a fungicide containing a new active ingredient. In addition, the Group established the Food & Packaging Office with the aim of creating new businesses. With a structure capable of harnessing group-wide synergies, the Office has worked to uncover new businesses and build business models by fostering original ideas and perspectives.

In Basic Materials, which is centered on petrochemicals and basic chemicals, positive effects have steadily materialized thanks to the establishment of an optimized domestic production system, efforts to maintain stable operations at full capacity, and the implementation of other business restructuring measures.



## Operating Results

### Net sales

Net sales decreased ¥206.2 billion, or 13.3%, compared with the previous fiscal year to ¥1,343.9 billion. This was mainly attributable to decreases of ¥197.6 billion in sales prices and ¥8.6 billion in sales volume. Sales prices were lower because of the drop in prices for naphtha and other raw materials as well as fuel. The fall in sales volume was attributable to the impact of a transfer of business in the Polyurethane segment and business restructuring in the Basic Chemicals segment.

Net sales overseas were ¥598.2 billion, an increase of 0.2% compared with the previous fiscal year to 44.5% in the total net sales.

### Operating income

Operating income was ¥70.9 billion, an increase of ¥28.9 billion or 68.7% year on year. This result was due to improvement in terms of trade in the Petrochemicals segment, the Functional Polymeric Materials segment and the Basic Chemicals segment.

### Ordinary income

Ordinary income was ¥63.2 billion, an increase of ¥18.8 billion or 42.3% year on year. This result largely reflected the increase in operating income.

### Profit before income taxes

Extraordinary income and losses amounted to a ¥21.9 billion loss, a worsening of ¥13.3 billion year on year. This was attributable to an impairment loss on goodwill of ¥19.5 billion in the dental materials business, as detailed in the April 27, 2016, announcement, *Notice on Extraordinary Losses and Revision of Consolidated Financial Outlook*, in spite of gain on sales of non-current assets and gain on transfer of business.

As a result of the aforementioned factors, profit before income taxes amounted to ¥41.3 billion, an improvement of ¥5.5 billion 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 ¥23.0 billion, a rise of ¥5.7 billion, or 33.0% compared with the previous fiscal year. Earnings per share for the period were ¥22.95.

## Segment Information

### Business Segment

The status of each segment during fiscal 2015 is as follows.

With the aim of accelerating the business strategies outlined in the 2014 Mid-Term Business Plan, specifically the new business and new product creation strategy and the business support strategy, the Group undertook minor reorganization in some of its business segments on April 1, 2015. Specifically, the Fine & Performance chemicals business and the License business were moved from the Functional Chemicals segment to the Basic Chemicals segment and the Petrochemicals segment, respectively. The Healthcare business, non-woven fabric business, and dental materials businesses were re-categorized into the Healthcare segment. In addition, the Films & Sheet segment and the Agrochemicals business of the Functional Chemicals segment were merged to form the new Food & Packaging segment.

For comparison purposes only, results from the previous fiscal year have been retroactively restated to reflect this change.

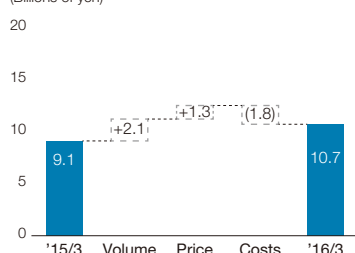
### Healthcare

Net sales increased ¥13.1 billion year on year to ¥151.3 billion and accounted for 11% of total sales.

Operating income increased ¥1.6 billion compared with the same period of the previous fiscal year to ¥10.7 billion mainly due to expanded sales despite increased fixed costs.

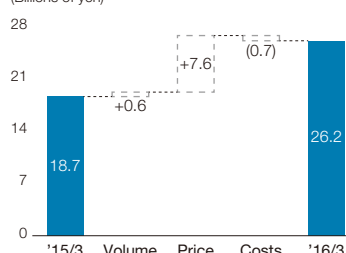
### Healthcare (Change in operating income)

(Billions of yen)



### Functional Polymeric Materials (Change in operating income)

(Billions of yen)



Sales of healthcare materials, such as ophthalmic lens materials and non-woven fabrics, expanded due mainly to rising overseas demand.

Amortization of goodwill and other fixed expenses increased for dental materials impacted by 15-month results due to the unification of accounting periods.

Healthcare	Millions of yen		Change (%)
	2016/3	2015/3	
Net sales	¥151,274	¥138,186	9.5
Operating income (loss)	10,660	9,152	16.5
Total assets	200,879	238,291	(15.7)
Depreciation and amortization	12,703	11,633	9.2
Capital expenditures	4,588	8,346	(45.0)

#### Functional Polymeric Materials

Net sales decreased ¥7.0 billion compared with the same period of the previous fiscal year to ¥167.5 billion and accounted for 12% of total sales. Operating income grew ¥7.5 billion to ¥26.2 billion year on year. The growth in income was due to the effect of a weaker yen and the Group's prompt response to increased market demand.

Profits increased for elastomers, which are primarily used in automotive components and as resin modifiers, mainly due to expanding global demand and the effect of a weaker yen.

Profits also increased for performance compounds thanks to the effect of a weaker yen and firm demand for automotive applications, primarily in North America and Asia.

Profits from functional polymers were boosted by the effect of a weaker yen and quick response to demand for IT-related products.

Functional Polymeric Materials	Millions of yen		Change (%)
	2016/3	2015/3	
Net sales	¥167,512	¥174,497	(4.0)
Operating income (loss)	26,198	18,665	40.4
Total assets	161,313	177,957	(9.4)
Depreciation and amortization	7,188	6,990	2.8
Capital expenditures	5,283	3,635	45.3

#### Polyurethane

Net sales fell ¥42.6 billion compared with the same period of the previous year to ¥112.2 billion and accounted for 8% of total sales. Operating loss increased ¥5.0 billion year on year to ¥8.5 billion, reflecting a decline in overseas markets for polyurethane materials.

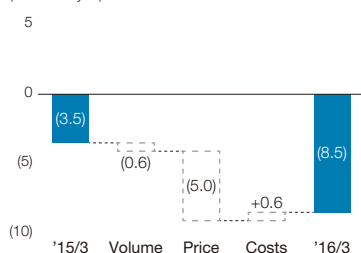
In coating materials, profit expanded due mainly to increased overseas demand and improved trading terms.

The Company transferred its polyurethane materials business to Mitsui Chemicals & SKC Polyurethanes Inc., established in July 2015. Conditions remained harsh in this business as income from contracted manufacturing worsened due to stagnant overseas market conditions.

Polyurethane	Millions of yen		Change (%)
	2016/3	2015/3	
Net sales	¥112,152	¥154,785	(27.5)
Operating income (loss)	(8,495)	(3,531)	—
Total assets	111,388	127,539	(12.7)
Depreciation and amortization	2,491	2,662	(6.4)
Capital expenditures	5,535	5,702	(2.9)

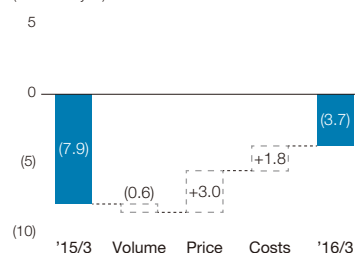
#### Polyurethane (Change in operating income)

(Billions of yen)



#### Basic Chemicals (Change in operating income)

(Billions of yen)





### Basic Chemicals

Net sales decreased ¥79.6 billion compared with the same period of the previous fiscal year to ¥251.2 billion and accounted for 19% of total sales. On the other hand, operating loss improved ¥4.2 billion year on year, to ¥3.7 billion. This was mainly attributable to the effect of business structure improvement.

Market conditions continued to be difficult for phenols. Although the market environment improved in comparison with the same period of the previous fiscal year, conditions continued to be unfavorable as a result of plant start-ups by competitors and the slowdown in the pace of growth in the Chinese economy.

Conditions in the market for PTA remained severe mainly due to market stagnation in China.

Basic Chemicals	Millions of yen		Change (%)
	2016/3	2015/3	
Net sales	¥251,245	¥330,829	(24.1)
Operating income (loss)	(3,651)	(7,857)	—
Total assets	163,138	177,811	(8.3)
Depreciation and amortization	6,802	7,194	(5.4)
Capital expenditures	6,094	4,457	36.7

### Petrochemicals

Net sales decreased ¥93.1 billion compared with the same period of the previous fiscal year to ¥491.3 billion and accounted for 37% of total sales. On the other hand, operating income increased ¥17.7 billion year on year to ¥39.3 billion, primarily due to firm domestic market demand and favorable foreign exchange rate.

Naphtha cracker operating rates grew compared with the same period of the previous fiscal year. Profits were firm for overseas polypropylene compound businesses mainly due to increased automobile production in North and Central America.

Petrochemicals	Millions of yen		Change (%)
	2016/3	2015/3	
Net sales	¥491,254	¥584,442	(15.9)
Operating income (loss)	39,262	21,587	81.9
Total assets	356,758	409,932	(13.0)
Depreciation and amortization	9,582	9,841	(2.6)
Capital expenditures	13,465	13,937	(3.4)

### Food & Packaging

Net sales grew ¥2.7 billion compared with the same period of the previous fiscal year to ¥131.9 billion and accounted for 10% of total sales. Operating income increased ¥4.8 billion to ¥13.9 billion year on year due to increased sales and favorable trading terms.

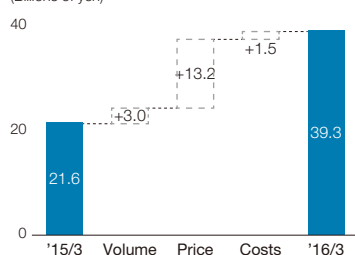
In performance films and sheets, profits rose due mainly to the satisfactory sales performance of packaging materials and increased demand related to high value-added products, especially smartphones, expanded sales by new products, and the effect of a weaker yen.

In agrochemicals, sales remained roughly even with the previous fiscal year. Profits from overseas businesses expanded due primarily to higher sales and a weaker yen.

Food & Packaging	Millions of yen		Change (%)
	2016/3	2015/3	
Net sales	¥131,910	¥129,149	2.1
Operating income (loss)	13,908	9,085	53.1
Total assets	157,442	163,939	(4.0)
Depreciation and amortization	5,317	5,793	(8.2)
Capital expenditures	4,453	4,193	6.2

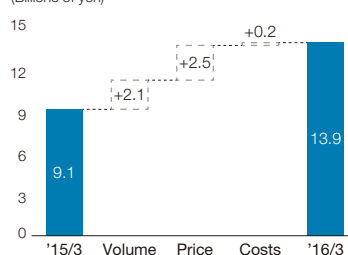
#### Petrochemicals (Change in operating income)

(Billions of yen)



#### Food & Packaging (Change in operating income)

(Billions of yen)



### Others

Net sales increased ¥0.3 billion to ¥38.5 billion, accounting for 3% of total sales. Operating loss was ¥0.1 billion, a worsening of ¥1.0 billion year on year.

Others	Millions of yen		
	2016/3	2015/3	Change (%)
Net sales	¥38,551	¥38,188	1.0
Operating income (loss)	(106)	884	—
Total assets	51,505	58,024	(11.2)
Depreciation and amortization	4,247	4,078	4.1
Capital expenditures	3,548	6,933	(48.8)

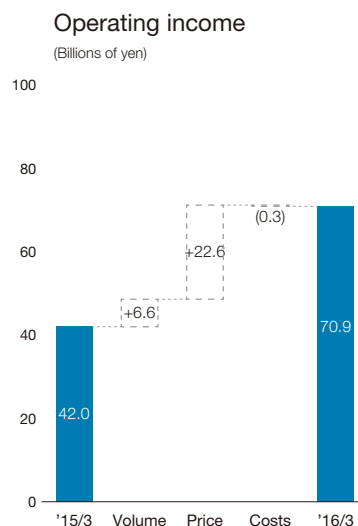
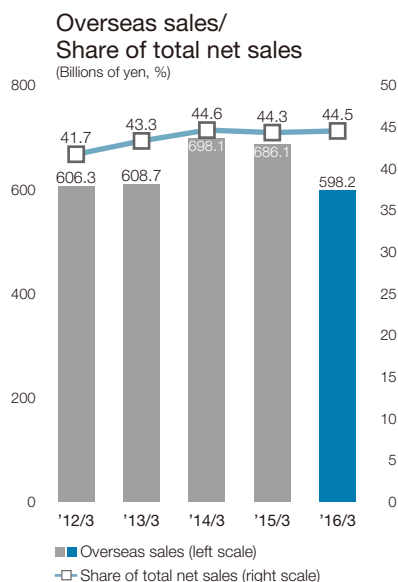
### Net Sales

	Billions of yen				
	2016/3	2015/3	Increase (Decrease)		
			Total	Volume contribution	Price contribution
Healthcare	¥ 151.3	¥ 138.2	¥ 13.1	¥ 14.2	¥ (1.1)
Functional Polymeric Materials	167.5	174.5	(7.0)	(3.4)	(3.6)
Polyurethane	112.2	154.8	(42.6)	(29.3)	(13.3)
Basic Chemicals	251.2	330.8	(79.6)	(15.6)	(64.0)
Petrochemicals	491.3	584.4	(93.1)	19.8	(112.9)
Food & Packaging	131.9	129.2	2.7	5.4	(2.7)
Others	38.5	38.2	0.3	0.3	—
<b>Total</b>	<b>¥1,343.9</b>	<b>¥1,550.1</b>	<b>¥(206.2)</b>	<b>¥ (8.6)</b>	<b>¥(197.6)</b>

### Operating Income (Loss)

	Billions of yen					
	2016/3	2015/3	Increase (Decrease)			
			Total	Volume contribution	Price*	Fixed and other cost differential
Healthcare	¥10.7	¥ 9.1	¥1.6	¥2.1	¥ 1.3	¥(1.8)
Functional Polymeric Materials	26.2	18.7	7.5	0.6	7.6	(0.7)
Polyurethane	(8.5)	(3.5)	(5.0)	(0.6)	(5.0)	0.6
Basic Chemicals	(3.7)	(7.9)	4.2	(0.6)	3.0	1.8
Petrochemicals	39.3	21.6	17.7	3.0	13.2	1.5
Food & Packaging	13.9	9.1	4.8	2.1	2.5	0.2
Others	(0.1)	0.9	(1.0)	—	—	(1.0)
Adjustments	(6.9)	(6.0)	(0.9)	—	—	(0.9)
<b>Total</b>	<b>¥70.9</b>	<b>¥42.0</b>	<b>¥28.9</b>	<b>¥6.6</b>	<b>¥22.6</b>	<b>¥(0.3)</b>

\*Price = Price contribution + Variable cost differential



## Financial Position

### Assets

Total assets at the end of the fiscal year stood at ¥1,258.9 billion, a decrease of ¥152.9 billion compared with the end of the previous fiscal year.

### Liabilities

Total liabilities at the end of the fiscal year decreased ¥124.8 billion compared with the previous fiscal year-end to ¥815.7 billion. Interest-bearing debt amounted to ¥473.0 billion, a fall of ¥75.7 billion compared with March 31, 2015. As a result, the interest-bearing debt ratio was 37.6%, a decrease of 1.3 percentage points.

### Net Assets

Net assets totaled ¥443.2 billion, a decrease of ¥28.1 billion compared with the previous fiscal year-end. The ratio of shareholders' equity to total assets was 30.3%, up 1.5 percentage points from the previous fiscal year-end.

Accounting for the aforementioned factors, the net debt-equity ratio stood at 1.03 at the end of the fiscal year, down 0.19 points from the previous fiscal year-end.

## Capital Resources and Liquidity

### Cash Flows

Cash and cash equivalents (hereafter called "cash") increased ¥27.6 billion to ¥78.2 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 grew ¥87.6 billion to ¥145.9 billion due to a decrease in working capital.

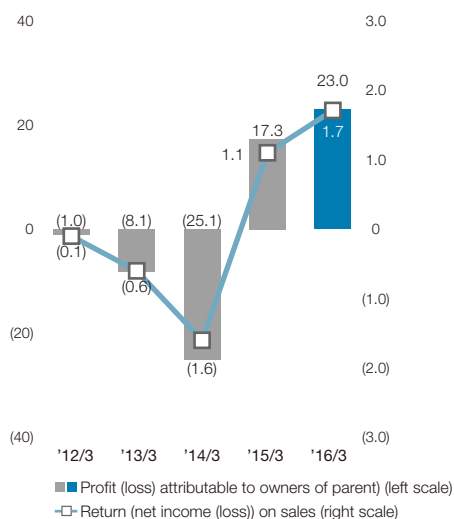
### Cash Flows from Investing Activities

Net cash used in investing activities increased ¥1.4 billion compared with the previous fiscal year to ¥36.4 billion due to outflows for increased capital expenditure in spite of inflows from the transfer of the Polyurethane materials business.

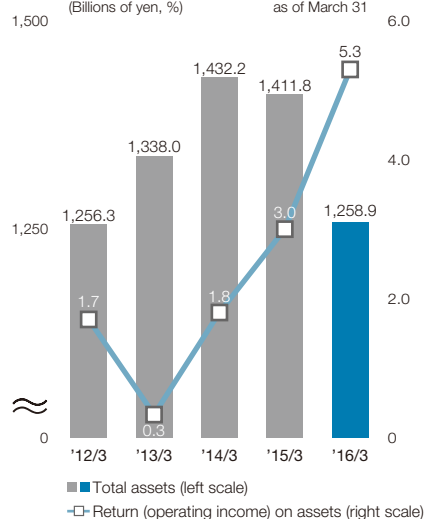
### Cash Flows from Financing Activities

Net cash used in financing activities increased ¥32.4 billion compared with the previous fiscal year to ¥79.0 billion due primarily to repayments of interest-bearing debts.

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

	2016/3	2015/3	2014/3	2013/3	2012/3
Shareholders' equity ratio (%)	30.3	28.8	24.6	28.2	29.2
Shareholders' equity ratio on a market value basis (%)	29.8	27.4	17.7	15.4	20.0
Ratio of interest-bearing debt to cash flows	3.2	9.4	13.4	27.4	10.7
Interest coverage ratio (times)	20.7	7.7	5.6	2.7	6.4

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 ¥43.4 billion in fiscal 2015. This amount included expenditures on intangible fixed assets as well as long-term prepaid expenses. Expenditures by business segment were as follows.

### Healthcare

The total amount of capital expenditures in the Healthcare segment was ¥4.6 billion.

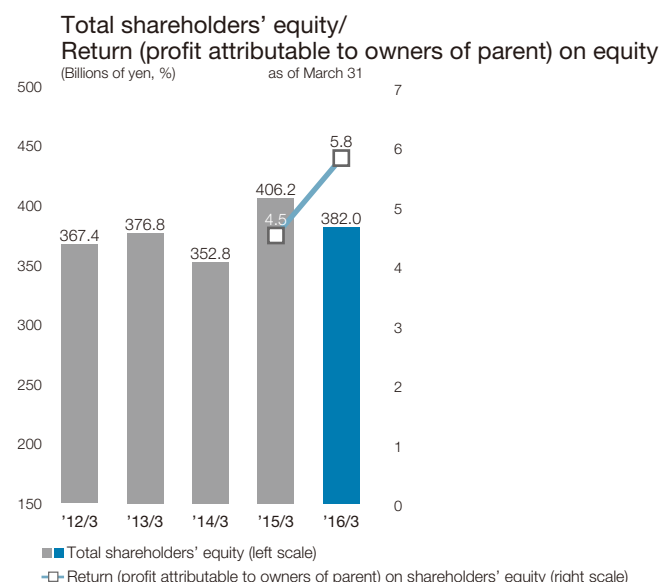
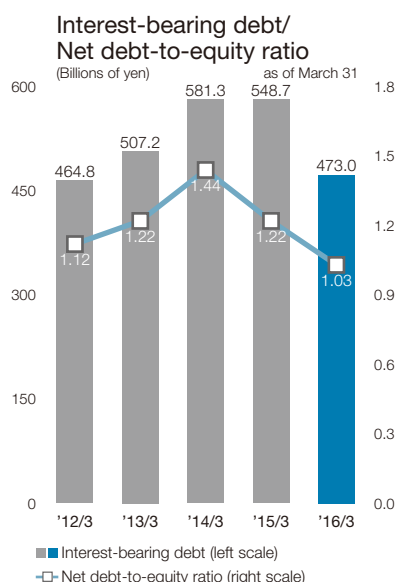
### Functional Polymeric Materials

The total amount of capital expenditures in the Functional Polymeric Materials segment was ¥5.3 billion.

### Polyurethane

At the Omuta works, new production facilities for meta-xylylene diisocyanate (XDI), FORTIMO™ new aliphatic isocyanates, and STABIO™ polyisocyanates were under construction.

The total amount of capital expenditures in the Polyurethane segment was ¥5.5 billion.



### Basic Chemicals

The total amount of capital expenditures in the Basic Chemicals segment was ¥6.1 billion.

### Petrochemicals

Prime Evolve Singapore Pte Ltd. built production facilities for metallocene linear low density polyethylene (Evolve®).

The total amount of capital expenditures in the Petrochemicals segment was ¥13.5 billion.

### Food & Packaging

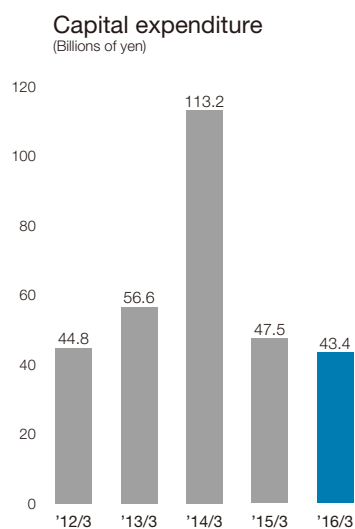
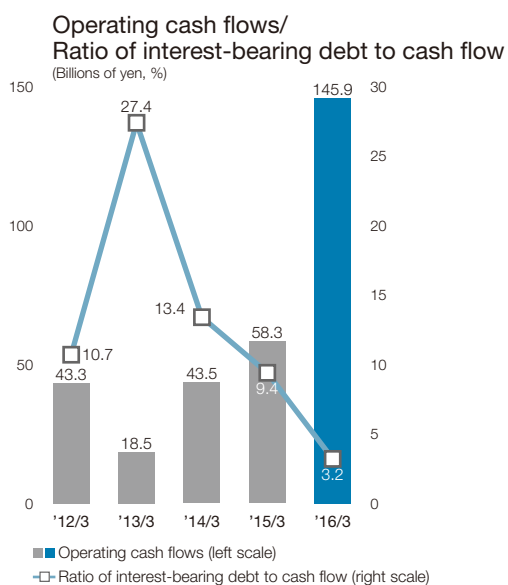
The total amount of capital expenditures in the Food & Packaging segment was ¥4.5 billion.

### Others

The total amount of capital expenditures in the Others segment was ¥3.5 billion.

### Corporate expenses

The total amount of capital expenditures recorded under the Corporate expenses was ¥0.4 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, 2016 amounted to ¥31.5 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 business and, each business sector, and their research and development expenses for fiscal 2015 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.

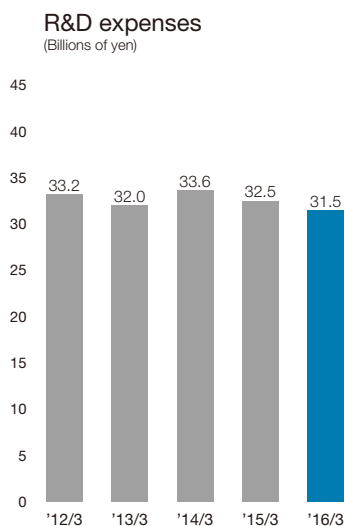
Research and development expenses relating to corporate research amounted to ¥3.7 billion and were allocated among all reportable segments.

### *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 Healthcare domain. In fiscal 2015, 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 ¥2.9 billion. Those are presented in corporate expenses and other segments.



### ***Healthcare***

The Company engages in development in the Healthcare domain such as vision-care, oral-care materials, and highly functional non-woven fabrics for both hygiene material use and medical use. Heraeus Kulzer GmbH and Sun Medical Co., Ltd. engage in the product development of dental materials. In fiscal 2015, efforts were mainly directed toward materials for glass lenses and dental materials.

Research and development expenses related to this segment were ¥4.1 billion.

### ***Functional Polymeric Materials***

The Company engages in the development of elastomers, performance compounds, and performance polymer resins in the Mobility domain. In fiscal 2015, 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 ¥5.5 billion.

### ***Polyurethane***

The Company is active in the development of functional products such as polyurethane foam materials and resins, acrylic resins, amino resins and polyolefin resins in the Mobility domain. In fiscal 2015, development activities were mainly directed toward the eco-friendly materials, specifically, polyurethane coating and foam materials made from non-fossil materials, coating materials, and adhesives from specialty isocyanates.

Research and development expenses related to this segment were ¥2.8 billion.

### ***Basic Chemicals***

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

Research and development expenses related to this segment were ¥0.6 billion.

### ***Petrochemicals***

Together with Prime Polymer Co., Ltd., the Company is developing high-functional products such as PP compound products in the Mobility domain and high-functional catalysts to strengthen polyolefin resin's competitiveness in the Food & Packaging domain.

Research and development expenses related to this segment were ¥5.0 billion.

### ***Food & Packaging***

Mitsui Chemicals Tohcello Inc. takes the lead in developing food packaging materials and fabricated products, including Food & Packaging in fields of IT and energy. Mitsui Chemicals Agro, Inc. engages in agro-chemical research and development. In fiscal 2015, priority was placed on food packaging materials, integrated circuit and semiconductor materials, solar cell components, high-functional agrochemicals, and pesticides for disinfection.

Research and development expenses related to this segment were ¥6.9 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, 2016.

#### (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, and alliance partner trends as well as the business operations of rival firms. 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 health-care, functional polymeric materials, polyurethane, basic chemicals, petrochemicals, and food & packaging. Assumed risks for each key business are as follows.

##### *i. Healthcare*

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

##### *ii. Functional Polymeric Materials*

Functional Polymeric Materials 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 onto product prices in the event of a sharp increase in naphtha supply prices caused by circumstances in the Middle East or global economic conditions.

##### *iii. Polyurethane*

Polyurethane segment product earnings could be adversely affected by a rapid deterioration in market conditions caused by a temporary oversupply due to an increase in production facilities at rival firms.

##### *iv. Basic Chemicals*

Basic Chemicals segment 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.

##### *v. Petrochemicals*

Petrochemicals segment 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.

##### *vi. Food & Packaging*

Performance films and sheets products are primarily produced from polyethylene, polypropylene and other naphtha derivatives handled by the Petrochemicals segment. As described above, 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.



**(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, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2016/3	2015/3	2016/3
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and deposits	¥ 79,578	¥ 52,004	\$ 706,230
Notes and accounts receivable-trade	245,345	299,052	2,177,361
Inventories (Note 5)	240,686	291,295	2,136,013
Deferred tax assets (Note 18)	11,007	9,118	97,684
Accounts receivable - other	44,913	70,981	398,589
Other	7,480	10,079	66,382
Allowance for doubtful accounts	(799)	(821)	(7,091)
<b>Total current assets</b>	<b>628,210</b>	<b>731,708</b>	<b>5,575,168</b>
<b>Non-current assets</b>			
<b>Property, plant and equipment</b>			
Buildings and structures	328,354	337,811	2,914,040
Accumulated depreciation	(227,510)	(229,306)	(2,019,081)
Buildings and structures, net	100,844	108,505	894,959
Machinery, equipment and vehicles	979,458	1,012,850	8,692,386
Accumulated depreciation	(866,582)	(888,755)	(7,690,646)
Machinery, equipment and vehicles, net	112,876	124,095	1,001,740
Land	157,697	160,188	1,399,512
Construction in progress	31,307	28,994	277,840
Other	70,313	73,035	624,006
Accumulated depreciation	(59,635)	(61,188)	(529,242)
Other, net	10,678	11,847	94,764
<b>Total property, plant and equipment</b>	<b>413,402</b>	<b>433,629</b>	<b>3,668,815</b>
<b>Intangible assets</b>			
Goodwill	9,408	34,978	83,493
Other	30,765	37,785	273,030
<b>Total intangible assets</b>	<b>40,173</b>	<b>72,763</b>	<b>356,523</b>
<b>Investments and other assets</b>			
Investment securities (Notes 15 and 16)	124,942	109,830	1,108,821
Net defined benefit asset (Note 6)	17,571	25,170	155,937
Deferred tax assets (Note 18)	6,362	5,853	56,461
Other	29,070	33,706	257,987
Allowance for doubtful accounts	(782)	(869)	(6,940)
<b>Total investments and other assets</b>	<b>177,163</b>	<b>173,690</b>	<b>1,572,266</b>
<b>Total non-current assets</b>	<b>630,738</b>	<b>680,082</b>	<b>5,597,604</b>
<b>Total assets</b>	<b>¥1,258,948</b>	<b>¥1,411,790</b>	<b>\$11,172,772</b>

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

		Millions of yen		Thousands of U.S. dollars (Note 4)
		2016/3	2015/3	2016/3
<b>LIABILITIES AND NET ASSETS</b>	<b>Current liabilities</b>			
	Notes and accounts payable-trade	¥ 118,331	¥ 164,193	\$ 1,050,151
	Short-term loans payable (Note 7)	86,490	122,062	767,572
	Current portion of long-term loans payable (Note 7)	25,892	36,192	229,783
	Current portion of bonds (Note 7)	20,142	20,142	178,754
	Accounts payable-other	71,744	60,496	636,706
	Income taxes payable (Note 18)	5,886	4,103	52,236
	Provision for directors' bonuses	164	93	1,455
	Provision for repairs	8,129	10,601	72,142
	Provision for business structure improvement	234	1,290	2,077
	Asset retirement obligations	—	25	—
	Other (Notes 7 and 18)	27,247	29,302	241,809
	<b>Total current liabilities</b>	<b>364,259</b>	<b>448,499</b>	<b>3,232,685</b>
	<b>Non-current liabilities</b>			
	Bonds payable (Note 7)	59,716	79,858	529,961
	Long-term loans payable (Note 7)	279,583	289,138	2,481,212
	Deferred tax liabilities (Note 18)	19,791	24,421	175,639
	Provision for directors' retirement benefits	277	283	2,458
	Provision for repairs	4,251	2,147	37,726
	Provision for environmental measures	786	956	6,976
	Provision for business structure improvement	2,648	10,846	23,500
	Net defined benefit liability (Note 6)	59,659	59,193	529,455
	Asset retirement obligations	3,991	4,268	35,419
	Other (Notes 7 and 18)	20,750	20,882	184,150
	<b>Total non-current liabilities</b>	<b>451,452</b>	<b>491,992</b>	<b>4,006,496</b>
	<b>Total liabilities</b>	<b>815,711</b>	<b>940,491</b>	<b>7,239,181</b>
	<b>Net assets</b>			
	Shareholders' equity (Note 11)			
	Capital stock	125,053	125,053	1,109,807
	Capital surplus	90,847	91,065	806,239
	Retained earnings	181,128	165,408	1,607,455
	Treasury stock	(14,607)	(14,454)	(129,633)
	<b>Total shareholders' equity</b>	<b>382,421</b>	<b>367,072</b>	<b>3,393,868</b>
	<b>Accumulated other comprehensive income (Note 12)</b>			
	Valuation difference on available-for-sale securities	14,650	21,018	130,014
	Deferred gains or losses on hedges	(48)	(331)	(426)
	Foreign currency translation adjustment	8,930	28,926	79,251
	Remeasurements of defined benefit plans	(23,982)	(10,450)	(212,833)
	<b>Total accumulated other comprehensive income (loss)</b>	<b>(450)</b>	<b>39,163</b>	<b>(3,994)</b>
	Non-controlling interests	61,266	65,064	543,717
	<b>Total net assets</b>	<b>443,237</b>	<b>471,299</b>	<b>3,933,591</b>
	<b>Total liabilities and net assets</b>	<b>¥1,258,948</b>	<b>¥1,411,790</b>	<b>\$11,172,772</b>

## Consolidated Statements of Operations

MITSUMI CHEMICALS, INC. AND CONSOLIDATED SUBSIDIARIES  
For the years ended March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2016/3	2015/3	2016/3
Net sales	¥1,343,898	¥1,550,076	\$11,926,677
Cost of sales (Notes 5 and 9)	1,069,451	1,308,542	9,491,045
Gross profit	274,447	241,534	2,435,632
Selling, general and administrative expenses (Notes 6 and 9)	203,521	199,494	1,806,186
Operating income	70,926	42,040	629,446
Non-operating income and expenses			
Non-operating income			
Interest income	637	367	5,653
Dividends income	3,434	4,751	30,476
Amortization of negative goodwill	—	23	—
Foreign exchange gains	—	5,147	—
Other	4,202	4,485	37,291
Total non-operating income	8,273	14,773	73,420
Non-operating expenses			
Interest expenses	6,623	7,353	58,777
Loss on suspension of operations	1,222	1,492	10,845
Share of loss of entities accounted for using equity method	2,150	73	19,081
Foreign exchange losses	1,929	—	17,119
Other	4,092	3,484	36,315
Total non-operating expenses	16,016	12,402	142,137
Ordinary income	63,183	44,411	560,729
Extraordinary income and losses			
Extraordinary income			
Gain on sales of non-current assets	1,236	135	10,969
Gain on sales of investment securities	3,820	2,126	33,901
Gain on transfer of business	3,738	—	33,174
Total extraordinary income	8,794	2,261	78,044
Extraordinary losses			
Loss on disposal of non-current assets	5,277	4,446	46,832
Loss on sales of non-current assets	293	24	2,600
Impairment loss (Note 10)	24,060	5,278	213,525
Loss on restructuring of subsidiaries and affiliates	1,045	—	9,274
Loss on revision of retirement benefit plan	—	181	—
Contract termination fees	—	903	—
Total extraordinary losses	30,675	10,832	272,231
Profit (loss) before income taxes	41,302	35,840	366,542
Income taxes - current	15,840	10,402	140,575
Income taxes - deferred	(4,005)	1,078	(35,543)
Total income taxes	11,835	11,480	105,032
Profit (loss)	29,467	24,360	261,510
Profit (loss) attributable to non-controlling interests	6,504	7,099	57,721
Profit (loss) attributable to owners of parent	¥ 22,963	¥ 17,261	\$ 203,789

Amounts per share of common stock:

	Yen		U.S. dollars (Note 4)
Earnings per share	¥22.95	¥17.24	\$0.204
Cash dividends per share	8.00	5.00	0.071

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

## Consolidated Statements of Comprehensive Income (Loss)

MITSUI CHEMICALS, INC. AND CONSOLIDATED SUBSIDIARIES  
For the years ended March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2016/3	2015/3	2016/3
Profit (loss)	¥ 29,467	¥24,360	\$ 261,510
Other comprehensive income (loss) (Note 12)			
Valuation difference on available-for-sale securities	(6,624)	4,644	(58,786)
Deferred gains or losses on hedges	413	(412)	3,665
Foreign currency translation adjustments	(20,275)	22,770	(179,934)
Remeasurements of defined benefit plans	(13,472)	10,613	(119,560)
Share of other comprehensive income (loss) of entities accounted for using equity method	(3,905)	4,225	(34,657)
Total other comprehensive income (loss)	(43,863)	41,840	(389,270)
Comprehensive income (loss)	¥(14,396)	¥66,200	\$(127,760)
Comprehensive income (loss) attributable to:			
Owners of parent	¥(16,650)	¥54,645	\$(147,764)
Non-controlling interests	2,254	11,555	20,004

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, 2016 and 2015

	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, 2014	¥125,053	¥91,065	¥149,287	¥(14,341)	¥16,678	¥(105)	¥6,551	¥(21,345)	¥56,804	¥409,647
Cumulative effects of changes in accounting policies	—	—	868	—	—	—	—	—	—	868
Restated balance	125,053	91,065	150,155	(14,341)	16,678	(105)	6,551	(21,345)	56,804	410,515
Dividends of surplus	—	—	(2,002)	—	—	—	—	—	—	(2,002)
Profit attributable to owners of parent	—	—	17,261	—	—	—	—	—	—	17,261
Purchase of treasury stock	—	—	—	(125)	—	—	—	—	—	(125)
Disposal of treasury stock	—	—	(6)	12	—	—	—	—	—	6
Net changes of items other than shareholders' equity	—	—	—	—	4,340	(226)	22,375	10,895	8,260	45,644
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 equity 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 March 31, 2016	¥125,053	¥90,847	¥181,128	¥(14,607)	¥14,650	¥(48)	¥8,930	¥(23,982)	¥61,266	¥443,237

	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, 2015	\$1,109,807	\$808,174	\$1,467,945	\$(128,275)	\$186,528	\$(2,938)	\$256,709	\$(92,741)	\$577,423	\$4,182,632
Cumulative effects of changes in accounting policies	—	—	(1,881)	—	—	—	—	—	—	(1,881)
Restated balance	1,109,807	808,174	1,466,063	(128,275)	186,528	(2,938)	256,709	(92,741)	577,423	4,180,751
Dividends of surplus	—	—	(62,176)	—	—	—	—	—	—	(62,176)
Profit attributable to owners of parent	—	—	203,789	—	—	—	—	—	—	203,789
Purchase of treasury stock	—	—	—	(1,429)	—	—	—	—	—	(1,429)
Disposal of treasury stock	—	—	(9)	71	—	—	—	—	—	62
Change in equity related to transactions with non-controlling interests	—	(1,935)	—	—	—	—	—	—	—	(1,935)
Change of scope of equity method	—	—	(213)	—	—	—	—	—	—	(213)
Net changes of items other than shareholders' equity	—	—	—	—	(56,514)	2,512	(177,458)	(120,092)	(33,706)	(385,257)
Balance at March 31, 2016	\$1,109,807	\$806,239	\$1,607,454	\$(129,633)	\$130,014	\$(426)	\$79,251	\$(212,833)	\$543,717	\$3,933,591

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, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2016/3	2015/3	2015/3
Cash flows from operating activities			
Profit (loss) before income taxes	¥ 41,302	¥ 35,840	\$ 366,542
Depreciation	45,487	45,767	403,683
Amortization of goodwill	3,153	2,484	27,982
Impairment loss	24,060	5,278	213,525
Increase (decrease) in net defined benefit liability	(1,307)	257	(11,599)
Decrease (increase) in net defined benefit asset	(3,466)	(63)	(30,760)
Increase (decrease) in allowance for doubtful accounts	116	(52)	1,029
Increase (decrease) in provision for repairs	(247)	(1,803)	(2,192)
Increase (decrease) in provision for environmental measures	(169)	(657)	(1,500)
Increase (decrease) in provision for business structure improvement	(9,225)	(4,336)	(81,869)
Interest and dividend income	(4,071)	(5,118)	(36,129)
Interest expenses	6,623	7,353	58,777
Share of (profit) loss of entities accounted for using equity method	2,150	73	19,081
Loss (gain) on sales of investment securities	(3,817)	(2,001)	(33,875)
Loss (gain) on valuation of investment securities	—	6	—
Loss on retirement of non-current assets	1,161	938	10,304
Loss (gain) on sales of non-current assets	(943)	(111)	(8,369)
Decrease (increase) in notes and accounts receivable - trade	24,235	5,782	215,078
Decrease (increase) in inventories	34,929	19,008	309,984
Increase (decrease) in notes and accounts payable - trade	(40,440)	(59,995)	(358,892)
Other, net	36,949	20,152	327,911
Subtotal	156,480	68,802	1,388,711
Interest and dividends income received	7,669	8,072	68,060
Interest expenses paid	(7,059)	(7,542)	(62,646)
Income taxes paid	(11,177)	(11,045)	(99,192)
Net cash provided by (used in) operating activities	145,913	58,287	1,294,933
Cash flows from investing activities			
Purchase of property, plant and equipment	(40,046)	(35,091)	(355,396)
Proceeds from sales of property, plant and equipment	1,759	681	15,611
Purchase of intangible assets	(1,340)	(2,385)	(11,892)
Purchase of long-term prepaid expenses	(3,863)	(685)	(34,283)
Purchase of investment securities	(42,920)	(3,245)	(380,902)
Proceeds from sales and redemption of investment securities	5,052	7,499	44,835
Proceeds from transfer of business	44,649	—	396,246
Purchase of shares of subsidiaries resulting in change in scope of consolidation	—	(2,238)	—
Other, net	344	428	3,053
Net cash provided by (used in) investing activities	(36,365)	(35,036)	(322,728)
Cash flows from financing activities			
Net increase (decrease) in short-term loans payable	(29,774)	(3,896)	(264,235)
Increase (decrease) in commercial papers	—	(15,000)	—
Proceeds from long-term loans payable	18,711	31,318	166,054
Repayment of long-term loans payable	(36,921)	(41,400)	(327,662)
Proceeds from issuance of bonds	—	1,000	—
Redemption of bonds	(20,142)	(13,000)	(178,754)
Proceeds from share issuance to non-controlling shareholders	39	156	346
Proceeds from sales of treasury stock	7	6	62
Purchase of treasury stock	(161)	(125)	(1,429)
Cash dividends paid	(7,006)	(2,002)	(62,176)
Dividends paid to non-controlling interests	(3,540)	(3,552)	(31,416)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(163)	—	(1,447)
Other, net	(91)	(111)	(807)
Net cash provided by (used in) financing activities	(79,041)	(46,606)	(701,464)
Effect of exchange rate change on cash and cash equivalents	(2,978)	2,767	(26,430)
Net increase (decrease) in cash and cash equivalents	27,529	(20,588)	244,311
Cash and cash equivalents at beginning of period	50,622	71,210	449,255
Cash and cash equivalents at end of period (Note 13)	¥ 78,151	¥ 50,622	\$ 693,566

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, 2016 and 2015

## 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 portion 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, 2016, the Group comprised 95 consolidated subsidiaries, five less than the previous fiscal year. This reflected the one new company, Mitsui Chemicals Korea, Inc. and the exclusion of six former subsidiaries due to the transfer of the polyurethane materials business, including Tianjin Cosmo Polyurethane Co., Ltd.

The equity method is applied to 36 non-consolidated subsidiaries and affiliates, one less than the previous fiscal year.

In order to improve the disclosure of consolidated financial information, from fiscal 2015, the accounting periods of Heraeus Kulzer GmbH and other 21 companies were changed from a December 31 year-end to a March 31 year-end. In addition, the provisional results of Acomon AG, and other five overseas companies, which end their accounting periods on December 31, were included in the consolidated financial statements. As a result, these above companies' 15-month results from January 1, 2015 to March 31, 2016 have been included in fiscal 2015'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 costs.

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 costs determined by the moving-average method. Costs of other securities sold are determined by the moving-average method.

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

Property, plant and equipment are stated at costs. 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 noncancellable 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 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:

Hedging instruments	Items hedged
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 at amounts 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 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 are 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 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 for 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. Provision for business structure improvement**

Provision for business structure improvement is recorded based on estimated expense at the end of the year.

#### **q. 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.



#### r. Amortization of goodwill

Goodwill arising from the difference between the acquisition costs and 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.

#### s. 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.

#### t. 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.

#### u. Consumption taxes

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

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### 3. Accounting changes

#### a. Changes in accounting policies

The Company and its consolidated subsidiaries have applied the "Accounting Standard for Business Combinations" (ASBJ Statement No. 21 revised September 13, 2013), "Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22 revised September 13, 2013), "Accounting Standard for Business Divestitures" (ASBJ Statement No. 7 revised September 13, 2015) and related standards effective from fiscal 2015. Under these revised standards, differences caused by changes in the Company's interest in subsidiaries which the Company retains control, shall be now recorded in capital surplus, and acquisition-related expenses shall be reported as expenses in the period in which they are incurred. As to business combinations taking place on or after April 1, 2015, i.e. the beginning of fiscal 2015, appraisal of purchase price allocation, pursuant to the final determination of provisional accounting, shall now be subject to the transitional treatments with any changes reflected in the consolidated financial statements for the period in which the business combination occurs. In addition, the presentation method of net income was amended and "minority interests" was changed to "non-controlling interests". The consolidated financial statements for the previous fiscal year have been reclassified to reflect this change in presentation.

The implementation of Accounting Standard for Business Combinations and its related standards is subject to the transitional treatments stipulated in the provisions of Article 58-2 (4) of Accounting Standard for Business Combinations, Article 44-5 (4) of Accounting Standard for Consolidated Financial Statements, and Article 57-4 (4) of Accounting Standard for Business Divestitures.

The effect of this change on operating income, ordinary income and profit before income taxes for fiscal 2015, was immaterial.

Regarding the consolidated statement of cash flows, cash flows from changes in ownership interests in subsidiaries that do not result in a change in the scope of consolidation are stated under "cash flows from financing activities". Cash flows from expenses due to the acquisition of subsidiaries and expenses related to the purchase or sales of ownership interests in subsidiaries, which do not result in a change in the scope of consolidation, are stated under "cash flows from operating activities".

As a result, the ending balance of capital surplus on the consolidated statement of changes in net assets decreased ¥218 million.

Furthermore, net assets per share at the end of fiscal 2015 decreased ¥0.22, compared with the previous fiscal year. The impact on earnings per share data was immaterial.

#### b. Changes in presentation

Consolidated balance sheet

"Accounts payable-other", which was included in "other" in "current liabilities" as of March 31, 2015, exceeded 5% of the total of liabilities and net assets as of March 31, 2016. Therefore, this is presented separately from fiscal 2015. To reflect this change in presentation, the consolidated balance sheet was reclassified.

Consequently, on the consolidated balance sheet, "other" in "current liabilities" of ¥89,798 million as of March 31, 2015 was reclassified to "accounts payable-other" in the amount of ¥60,496 million and "other" in the amount of ¥29,302 million.

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### 4. U.S. dollar amounts

The translation of yen amounts into U.S. dollar amounts is included solely for the convenience of readers, using ¥112.68=US\$1.00, the approximate rate of exchange in effect on March 31, 2016. 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, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016/3	2015/3	2016/3
Finished goods	¥163,116	¥204,175	\$1,447,604
Work in process	5,806	6,383	51,526
Raw materials and supplies	71,764	80,737	636,883
Total	¥240,686	¥291,295	\$2,136,013

## 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 for the years ended March 31, 2016 and 2015 were as follows:  
Movements in defined benefit obligation

	Millions of yen		Thousands of U.S. dollars
	2016/3	2015/3	2016/3
Defined benefit obligation as of April 1	¥197,917	¥208,726	\$1,756,452
Cumulative effects of changes in accounting policies	—	(953)	—
Restated balance	197,917	207,773	1,756,452
Service cost	5,239	5,103	46,494
Interest cost	1,234	2,001	10,951
Actuarial gains/losses	11,201	7,537	99,405
Prior service cost	13	(74)	115
Benefits paid	(13,469)	(13,619)	(119,533)
Decrease due to transfer to defined contribution plan	—	(11,150)	—
Others	(1,593)	346	(14,136)
Defined benefit obligation as of March 31	¥200,542	¥197,917	\$1,779,748

Movements in plan assets

	Millions of yen		Thousands of U.S. dollars
	2016/3	2015/3	2016/3
Plan assets as of April 1	¥163,894	¥163,438	\$1,454,508
Expected return on plan assets	3,653	3,653	32,419
Actuarial gains/losses	(5,937)	10,346	(52,689)
Employer contributions	5,609	5,577	49,778
Benefits paid	(8,179)	(9,158)	(72,586)
Decrease due to transfer to defined contribution plan	—	(9,956)	—
Others	(586)	(6)	(5,200)
Plan assets as of March 31	¥158,454	¥163,894	\$1,406,230

Funded status of the pension plans

	Millions of yen		Thousands of U.S. dollars
	2016/3	2015/3	2016/3
Funded retirement benefit obligation	¥ 152,433	¥ 149,939	\$ 1,352,796
Plan assets at fair value	(158,454)	(163,894)	(1,406,230)
	(6,021)	(13,955)	(53,434)
Unfunded retirement benefit obligation	48,109	47,978	426,952
Net liability for retirement benefits in the balance sheet	42,088	34,023	373,518
Net defined benefit liability	59,659	59,193	529,455
Net defined benefit asset	(17,571)	(25,170)	(155,937)
Net liability for retirement benefits in the balance sheet	¥ 42,088	¥ 34,023	\$ 373,518

## Retirement benefit expenses

	Millions of yen		Thousands of U.S. dollars
	2016/3	2015/3	2016/3
Service cost	¥ 5,239	¥ 5,103	\$ 46,495
Interest cost	1,234	2,001	10,951
Return on plan assets	(3,653)	(3,653)	(32,419)
Amortization of actuarial loss	3,190	7,379	28,310
Amortization of prior service cost	10	(78)	89
Premium severance pay	333	333	2,955
<b>Total</b>	<b>¥ 6,353</b>	<b>¥11,085</b>	<b>\$ 56,381</b>

## Remeasurements of defined benefit plans before tax effect included in other comprehensive income

	Millions of yen		Thousands of U.S. dollars
	2016/3	2015/3	2016/3
Prior service cost	¥ 4	¥ 4	\$ 35
Actuarial gains/losses	13,524	(10,082)	120,022
<b>Total</b>	<b>¥13,528</b>	<b>¥(10,078)</b>	<b>\$120,057</b>

## Remeasurements of defined benefit plans before tax effect included in accumulated other comprehensive income

	Millions of yen		Thousands of U.S. dollars
	2016/3	2015/3	2016/3
Unrecognized prior service cost	¥ (66)	¥ (70)	\$ (586)
Unrecognized actuarial gains/losses	25,032	11,508	222,151
<b>Total</b>	<b>¥24,966</b>	<b>¥11,438</b>	<b>\$221,565</b>

## Plan assets by category (%)

	2016/3	2015/3
Bonds	32%	30%
Stocks	53%	55%
Cash on hand and in banks	1%	1%
Other	14%	14%
<b>Total</b>	<b>100%</b>	<b>100%</b>

## Discount rate and rate of expected return on the pension plan assets

	2016/3	2015/3
Discount rate	Principally 0.0%	Principally 0.5%
Rate of expected return on the pension plan assets	Principally 2.5%	Principally 2.5%
Rate of estimated future salary increases	Principally 1.0-4.9%	Principally 1.0-4.9%

## Expenses for defined contribution plans

	Millions of yen		Thousands of U.S. dollars
	2016/3	2015/3	2016/3
<b>Total</b>	<b>¥602</b>	<b>¥484</b>	<b>\$5,343</b>

## 7. Loans and bonds

### 1. Loans payable breakdown

	Millions of yen		Thousands of U.S. dollars
	2016/3	2015/3	2016/3
Short-term loans payable (0.46%)	¥ 86,490	¥122,062	\$ 767,572
Current portion of long-term loans payable (1.78%)	25,892	36,192	229,783
Current portion of lease obligations	62	70	550
Long-term loans payable due in 2017 – 2024 (1.19%)	279,583	289,138	2,481,213
Long-term lease obligations due in 2017 – 2028	1,101	1,251	9,771
<b>Total</b>	<b>¥393,128</b>	<b>¥448,713</b>	<b>\$3,488,889</b>

The aforementioned interest rate is an average, shown as the weighted average interest rate on the outstanding balance as of March 31, 2016.

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
2018	¥20,281	\$179,988
2019	25,238	223,979
2020	57,402	509,425
2021	41,524	368,513

Maturities of lease obligations due within 5 years:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2018	¥101	\$896
2019	69	612
2020	68	603
2021	73	648

2. Bonds payable breakdown

	Millions of yen		Thousands of U.S. dollars
	2016/3	2015/3	2016/3
1.52% bonds due in 2015	¥ —	¥ 10,000	\$ —
1.84% bonds due in 2016	—	10,000	—
2.09% bonds due in 2016	10,000	10,000	88,747
1.96% bonds due in 2017	10,000	10,000	88,747
1.93% bonds due in 2017	10,000	10,000	88,747
1.246% bonds due in 2020	10,000	10,000	88,747
1.354% bonds due in 2021	10,000	10,000	88,747
0.651% bonds due in 2017	14,000	14,000	124,246
0.682% bonds due in 2018	15,000	15,000	133,120
0.49% bonds due in 2021	858	1,000	7,614
Total	¥79,858	¥100,000	\$708,715

Maturities of bonds payable due within 5 years:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2017	¥20,142	\$178,754
2018	24,142	214,253
2019	15,142	134,381
2020	142	1,260
2021	10,142	90,007

**8. Contingent liabilities**

Contingent liabilities at March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016/3	2015/3	2016/3
As endorser of trade notes discounted	¥ 178	¥ 198	\$ 1,580
As guarantor of indebtedness, principally of non-consolidated subsidiaries and affiliates	59,482	31,115	527,884
As issuer of commitments for guarantees	—	6	—

**9. Research and development expenses**

Research and development expenses for the years ended March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016/3	2015/3	2016/3
Research and development expenses	¥31,493	¥32,473	\$279,491

**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.

Among business assets in use, a goodwill impairment test related to the dental materials business was conducted and goodwill was written down to the recoverable amount. The amount of the write-down was presented extraordinary losses. The measurement of the recoverable amount is based on the present value of estimated future cash flows with a discount rate of 4.1%.

Other business assets in use, which are determined to be disposed of due to business withdrawal or other reasons, are stated at lower of the recoverable amount or book value based on the impairment test.

The amount which has been written down was presented as impairment loss within extraordinary losses. The measurement of the recoverable amount is based on net sales price or value in use. The net sales price mainly consists of estimated sales price, meanwhile value in use is considered zero as there was no expectation of future cash flows.

Idle properties which have a decline in the market price and not been scheduled for any future use are stated at the lower of the recoverable amount or book value according to the impairment test. The measurement of the recoverable amount is based on net sales price, which mainly consists of estimated sales price.

Impairment loss for the years ended March 31, 2016 and 2015 consisted of the following:  
Year ended March 31, 2016

Location	Major use	Asset category	Millions of yen	Thousands of U.S. dollars	Remarks*
Dental materials business (Europe, etc.)	Others	Goodwill	¥19,472	\$172,808	Business assets in use
Company housing (Nagoya city, Aichi prefecture)	Welfare facilities	Land	¥ 1,367	\$ 12,132	Business assets in use
Heraeus Kulzer Nordic AB (Sweden)	Production and sales	Intangible assets - others, machinery, equipment and vehicles	¥ 1,291	\$ 11,457	Business assets in use
Others	4 items	Production facilities	¥ 1,304	\$ 11,573	Business assets in use
	4 items	Production facilities	¥ 587	\$ 5,209	Idle properties
	1 item	Welfare facilities	¥ 39	\$ 346	Business assets in use
Total			¥24,060	\$213,525	

\* Goodwill impairment loss was ¥19,472 million. Other business assets in use comprised ¥1,367 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 buildings and structures, ¥234 million for machinery, equipment and vehicles, and ¥50 million for others. These amounts were included in impairment loss as ¥587 million, respectively.

Year ended March 31, 2015

Location	Major use	Asset category	Millions of yen	Remarks*
PTA & PET business (Iwakuni City and Waki-cho, Yamaguchi Prefecture)	Production facilities	Machinery, equipment and vehicles, buildings and structures, others	¥1,963	Business assets in use
Polyurethane materials business, etc. (Omura City, Fukuoka Prefecture, etc.)	Production facilities, etc.	Machinery, equipment and vehicles, buildings and structures, others	¥1,669	Business assets in use
Others	9 items	Production facilities, etc.	¥1,571	Business assets in use
	1 item	Welfare facilities	¥ 68	Business assets in use
	1 item	Production facilities	¥ 7	Idle properties
Total			¥5,278	

\* Business assets in use comprised ¥3,548 million for machinery, equipment and vehicles, ¥1,544 million for building and structures, and ¥179 million for other assets. These amounts were included in impairment loss as ¥5,271 million, respectively.

Idle properties comprised ¥4 million for machinery, equipment and vehicles, and ¥3 million for buildings and structures and others. These amounts were included in impairment loss as ¥7 million, respectively.

## 11. Shareholders' equity

Under the Corporate Law of Japan (the "Law"), 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 Law 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 Law 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 Law.

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, 2016 include amounts representing the year-end cash dividends approved at the shareholders' meeting held on June 24, 2016.

	Millions of yen	Thousands of U.S. dollars
Cash dividends of ¥4 (\$0.04) per share	¥4,002	\$35,517

## 12. Consolidated statements of comprehensive income

Reclassification adjustments and tax effects for components of other comprehensive income (loss) for the years ended March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016/3	2015/3	2016/3
Valuation difference on available-for-sale securities:			
Gains (losses) arising during the year	¥ (5,239)	¥ 8,009	\$ (46,495)
Reclassification adjustment to profit or loss	(3,805)	(1,858)	(33,768)
Amount before income tax effect	(9,044)	6,151	(80,263)
Income tax effect	2,420	(1,507)	21,477
Total	(6,624)	4,644	(58,786)
Deferred gains or losses on hedges:			
Gains (losses) arising during the year	413	(852)	3,665
Adjustments of acquisition cost for assets	—	439	—
Amount before income tax effect	413	(413)	3,665
Income tax effect	—	1	—
Total	413	(412)	3,665
Foreign currency translation adjustments:			
Adjustments arising during the year	(19,456)	22,770	(172,666)
Reclassification adjustment to profit or loss	(819)	—	(7,268)
Total	(20,275)	22,770	(179,934)
Remeasurements of defined benefit plans:			
Adjustments arising during the year	(16,715)	2,704	(148,341)
Reclassification adjustment to profit or loss	3,187	7,374	28,284
Amount before income tax effect	(13,528)	10,078	(120,057)
Income tax effect	56	535	497
Total	(13,472)	10,613	(119,560)
Share of other comprehensive income (loss) of entities accounted for using equity method:			
Gains (losses) arising during the year	(4,273)	4,093	(37,922)
Reclassification adjustment to profit or loss	368	132	3,266
Total	(3,905)	4,225	(34,656)
Total other comprehensive income (loss)	¥(43,863)	¥41,840	\$(389,271)

## 13. Supplementary cash flow information

(1) Cash and cash equivalents at March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016/3	2015/3	2016/3
Cash	¥78,151	¥50,141	\$693,566
Cash equivalents	—	481	—
Total	¥78,151	¥50,622	\$693,566

(2) Breakdown of assets and liabilities of companies that were newly included in the scope of consolidation as consolidated subsidiaries following the acquisition of shares and assets, related acquisition costs and net disbursement were as follows:

Not applicable for the year ended March 31, 2016.

Year ended March 31, 2015

Kyowa Industrial Co. Ltd. and other 3 subsidiaries	Millions of yen
Current assets	¥ 3,924
Non-current assets	3,206
Goodwill	1,546
Current liabilities	(4,287)
Non-current liabilities	(2,111)
Non-controlling interests	(120)
Acquisition value of shares and assets	2,158
Cash and cash equivalents	(964)
Payments due to loans assumed	1,044
Net disbursement due to the acquisition	¥ 2,238

(3) 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	Thousands of U.S. dollars
Current assets	¥44,298	\$393,131
Non-current assets	16,143	143,264
Current liabilities	(10,540)	(93,539)
Non-current liabilities	(165)	(1,464)
Accumulated other comprehensive income (loss)	(572)	(5,076)
Non-controlling interests	(3,025)	(26,846)
Unrealized gain and other	3,313	29,401
Gain on sales of business	3,738	33,174
Business transfer price	¥53,190	\$472,045
Cash and cash equivalents	(8,541)	(75,799)
Proceeds from transfer of business	¥44,649	\$396,246

Not applicable for the year ended March 31, 2015.

## 14. Leases

Obligations under noncancellable operating leases at March 31, 2016 and 2015, were as follows:

Future minimum lease payments:

	Millions of yen		Thousands of U.S. dollars
	2016/3	2015/3	2016/3
Due within one year	¥61	¥113	\$541
Due after one year	26	88	231
Total	¥87	¥201	\$772

## 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 maxi-

imum 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, 2016 and 2015 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, 2016	Millions of yen		
	Carrying value	Fair value	Differences
<b>Assets</b>			
(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	—
<b>Total</b>	<b>366,175</b>	<b>366,175</b>	<b>—</b>
<b>Liabilities</b>			
(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
<b>Total</b>	<b>590,154</b>	<b>606,421</b>	<b>16,267</b>
Derivative transactions(*2)	¥ (107)	¥ (107)	¥ —



\*1 These amounts include the current portion of corporate bonds and long-term loans payable, respectively

\*2 Derivative assets and (liabilities) are on net basis.

Year ended March 31, 2016	Thousands of U.S. dollars		
	Carrying value	Fair value	Differences
<b>Assets</b>			
(1) Cash and deposits	\$ 706,230	\$ 706,230	\$ —
(2) Trade notes and accounts receivable	2,177,360	2,177,360	—
(3) Short-term investment securities and investment securities, other securities	366,099	366,099	—
<b>Total</b>	<b>3,249,689</b>	<b>3,249,689</b>	<b>—</b>
<b>Liabilities</b>			
(1) Trade notes and accounts payable	1,050,151	1,050,151	—
(2) Short-term bank loans	767,572	767,572	—
(3) Corporate bonds(*1)	708,715	725,657	16,942
(4) Long-term loans payable(*1)	2,710,996	2,838,419	127,423
<b>Total</b>	<b>5,237,434</b>	<b>5,381,799</b>	<b>144,365</b>
Derivative transactions(*2)	\$ (950)	\$ (950)	\$ —

\*1 These amounts include the current portion of corporate bonds and long-term loans payable, respectively

\*2 Derivative assets and (liabilities) are on net basis.

Year ended March 31, 2015	Millions of yen		
	Carrying value	Fair value	Differences
<b>Assets</b>			
(1) Cash and deposits	¥ 52,004	¥ 52,004	¥ —
(2) Trade notes and accounts receivable	299,052	299,052	—
(3) Short-term investment securities and investment securities, other securities	50,017	50,017	—
<b>Total</b>	<b>401,073</b>	<b>401,073</b>	<b>—</b>
<b>Liabilities</b>			
(1) Trade notes and accounts payable	164,193	164,193	—
(2) Short-term bank loans	122,062	122,062	—
(3) Corporate bonds(*1)	100,000	102,475	2,475
(4) Long-term loans payable(*1)	325,330	335,507	10,177
<b>Total</b>	<b>711,585</b>	<b>724,237</b>	<b>12,652</b>
Derivative transactions(*2)	¥ (485)	¥ (485)	¥ —

\*1 These amounts include the current portion of corporate bonds 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 because of 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 because of 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”) are 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, 2016	Millions of yen	Thousands of U.S. dollars
Unlisted equity securities	¥10,958	\$97,248
Unlisted preferred securities	2,542	22,559
Year ended March 31, 2015	Millions of yen	
Unlisted equity securities	¥9,678	
Unlisted preferred securities	—	

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, 2016	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	¥ 79,578	¥ —	¥ —	¥ —
Trade notes and accounts receivable	245,345	—	—	—
Total	¥324,923	¥ —	¥ —	¥ —
Year ended March 31, 2016	Thousands of U.S. dollars			
	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	\$ 706,230	\$ —	\$ —	\$ —
Trade notes and accounts receivable	2,177,361	—	—	—
Total	\$2,883,591	\$ —	\$ —	\$ —
Year ended March 31, 2015	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	¥ 52,004	¥ —	¥ —	¥ —
Trade notes and accounts receivable	299,052	—	—	—
Total	¥351,056	¥ —	¥ —	¥ —

Note 4. The redemption schedule for corporate bonds and long-term bank loans subsequent to the consolidated balance sheet date.

Year ended March 31, 2016	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 bank loans	¥ 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
Year ended March 31, 2016	Thousands of U.S. dollars					
	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 bank loans	\$ 767,572	\$ —	\$ —	\$ —	\$ —	\$ —
Corporate bonds	178,754	214,253	134,381	1,260	90,007	90,060
Long-term loans payable	229,783	179,988	223,979	509,425	368,513	1,199,308
Total	\$1,176,109	\$394,241	\$358,360	\$510,685	\$458,520	\$1,289,368
Year ended March 31, 2015	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 bank loans	¥122,062	¥ —	¥ —	¥ —	¥ —	¥ —
Corporate bonds	20,142	20,142	24,142	15,142	142	20,290
Long-term loans payable	36,192	26,344	20,670	23,529	54,900	163,695
Total	¥178,396	¥46,486	¥44,812	¥38,671	¥55,042	¥183,985

## 16. Securities

Information on securities held by the Company and its subsidiaries at March 31, 2016 and 2015 was as follows:

### (1) Held-to-maturity debt securities

Not applicable for both years ended March 31, 2016 and 2015.

### (2) Other securities with maturities

Year ended March 31, 2016	Millions of yen			Thousands of U.S. dollars		
	Carrying value	Acquisition cost	Difference	Carrying value	Acquisition cost	Difference
Securities whose carrying value exceeds their acquisition value:						
(1) Equity securities	¥40,210	¥20,823	¥19,387	\$356,851	\$184,798	\$172,054
(2) Debt securities - corporate bonds	5	5	0	44	44	0
Securities whose carrying value does not exceed their acquisition value:						
(1) Equity securities	1,036	1,519	(483)	9,194	13,481	(4,287)
(2) Others	1	1	0	9	9	0
<b>Total</b>	<b>¥41,252</b>	<b>¥22,348</b>	<b>¥18,904</b>	<b>\$366,099</b>	<b>\$198,332</b>	<b>\$167,767</b>

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.

Year ended March 31, 2015	Millions of yen		
	Carrying value	Acquisition cost	Difference
Securities whose carrying value exceeds their acquisition value:			
(1) Equity securities	¥47,457	¥21,304	¥26,153
(2) Debt securities - corporate bonds	6	6	0
Securities whose carrying value does not exceed their acquisition value:			
(1) Equity securities	2,073	2,874	(801)
(2) Others	481	481	0
<b>Total</b>	<b>¥50,017</b>	<b>¥24,665</b>	<b>¥25,352</b>

Note: Unlisted equity securities with carrying value of ¥9,678 million as of March 31, 2015 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.

### (3) Other securities sold during the fiscal years ended March 31, 2016 and 2015.

Year ended March 31, 2016	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	¥4,314	¥3,563	¥(1)	\$38,285	\$31,621	\$(9)
Others	113	—	(0)	1,012	—	(0)
<b>Total</b>	<b>¥4,427</b>	<b>¥3,563</b>	<b>¥(1)</b>	<b>\$39,297</b>	<b>\$31,621</b>	<b>\$(9)</b>

Year ended March 31, 2015	Millions of yen		
	Sales price	Gain on sales	Loss on sales
Equity securities	¥3,681	¥1,951	¥101
Others	512	—	—
<b>Total</b>	<b>¥4,193</b>	<b>¥1,951</b>	<b>¥101</b>

### (4) Impairment of investment securities

For the fiscal years ended March 31, 2016 and 2015, the Group recognized impairment losses on investment securities, in the amounts of ¥6 (¥6 million on other marketable securities without market value) and ¥6 million (¥6 million on other marketable securities without market value), respectively.

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, 2016 and 2015.

### (1) Derivative transactions to which the Company did not apply hedge accounting

#### Currency related

Year ended March 31, 2016	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) Selling U.S. dollar	¥ 904	¥—	¥ (20)	¥ (20)	\$ 8,023	\$—	\$(177)	\$(177)
(2) Buying U.S. dollar	3,816	—	(86)	(86)	33,866	—	(764)	(764)
<b>Total</b>	<b>¥4,720</b>	<b>¥—</b>	<b>¥(106)</b>	<b>¥(106)</b>	<b>\$41,889</b>	<b>\$—</b>	<b>\$(941)</b>	<b>\$(941)</b>

Note: Fair value is based on information provided by financial institutions at the end of the fiscal year.

Year ended March 31, 2015	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	¥2,250	¥—	¥(64)	¥(64)
(2) Buying U.S. dollar	3,352	—	14	14
<b>Total</b>	<b>¥5,602</b>	<b>¥—</b>	<b>¥(50)</b>	<b>¥(50)</b>

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, 2016	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 Swedish krona (hedged item - loans receivable)	¥ 69	¥—	¥(1)	\$ 612	\$—	\$(9)
(2) Buying U.S. dollar (hedged item - trade accounts payable)	26	—	(0)	231	—	(0)
Alternative method(*):						
Forward foreign exchange contracts for						
(1) Selling U.S. dollar (hedged item - trade accounts receivable)	¥252	¥—	(Note 2)	\$2,236	\$—	(Note 2)
<b>Total</b>	<b>¥347</b>	<b>¥—</b>	<b>¥(1)</b>	<b>\$3,079</b>	<b>\$—</b>	<b>\$(9)</b>

\*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 the derivative financial instrument is included in the hedged trade accounts receivable.

Year ended March 31, 2015	Millions of yen		
	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 - trade loans receivable)	¥ 485	¥ —	¥ (15)
(2) Buying U.S. dollar (hedged item - trade accounts payable)	1,294	—	(7)
(3) Buying JPY (hedged item - loans payable)	43	—	(0)
(4) Buying Singaporean dollar (hedged item - fixed assets)	2,404	—	(208)
(5) Buying JPY (hedged item - fixed assets)	1,024	—	(148)
(6) Buying Euro (hedged item - fixed assets)	257	—	(57)
Alternative method(*):			
Forward foreign exchange contracts for			
(1) Selling U.S. dollar (hedged item - trade accounts receivable)	¥ 226	¥ —	(Note 2)
(2) Buying U.S. dollar (hedged item - trade accounts payable)	90	—	(Note 2)
(3) Buying Euro (hedged item - trade accounts payable)	1	—	(Note 2)
<b>Total</b>	<b>¥5,824</b>	<b>¥—</b>	<b>¥(435)</b>

\*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 trade accounts payable denominated in foreign currencies for which foreign exchange forward contracts are used to hedge the foreign currency fluctuations, fair value of the derivative financial instrument is included in the hedged trade accounts receivable or trade accounts payable.

## 2. Interest related

Year ended March 31, 2016	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 / Paying fixed rate	¥106,089	¥106,089	(Note)	\$ 941,507	\$ 941,507	(Note)
Currency swap contracts						
(hedged item - long-term bank loans)						
Receiving floating / Paying fixed rate	¥ 20,655	¥ 20,655	(Note)	\$ 183,307	\$ 183,307	(Note)
<b>Total</b>	<b>¥126,744</b>	<b>¥126,744</b>	<b>¥—</b>	<b>\$1,124,814</b>	<b>\$1,124,814</b>	<b>\$—</b>

Note:

For certain long-term bank loans for which interest swap contracts are used to hedge the interest rate fluctuations, fair value of the derivative financial instrument is included in the hedged loans payable.

Year ended March 31, 2015	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 / Paying fixed rate	¥103,089	¥102,089	(Note)
Currency swap contracts (hedged item - long-term bank loans)			
Receiving floating / Paying fixed rate	¥ 20,655	¥ 20,655	(Note)
<b>Total</b>	<b>¥123,744</b>	<b>¥122,744</b>	<b>¥—</b>

**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 33.1% and 35.6% for the years ended March 31, 2016 and 2015, respectively.

(2) The significant components of the Company and its consolidated subsidiaries' deferred tax assets and liabilities as of March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016/3	2015/3	2016/3
Deferred tax assets:			
Allowance for doubtful accounts	¥ 917	¥ 464	\$ 8,138
Net defined benefit liabilities	32,350	29,448	287,096
Accrued bonuses	3,816	3,823	33,866
Depreciation	5,112	6,701	45,367
Accrued enterprise tax	740	504	6,567
Tax loss carryforwards	44,154	49,422	391,853
Provision for repairs	3,932	4,330	34,895
Provision for environmental measures	454	310	4,029
Provision for business structure improvement	709	5,167	6,292
Unrealized gains on fixed assets	2,761	1,585	24,503
Loss on valuation of inventories	3,379	3,162	29,988
Loss on valuation of investment securities	4,724	4,410	41,924
Impairment loss	7,598	7,687	67,430
Other	17,083	13,333	151,607
Subtotal	127,729	130,346	1,133,555
Valuation allowance	(95,986)	(101,017)	(851,846)
<b>Total deferred tax assets</b>	<b>31,743</b>	<b>29,329</b>	<b>281,709</b>
Deferred tax liabilities:			
Net defined benefit assets	(10,313)	(9,809)	(91,525)
Gain on contribution of securities to retirement benefit trust	(3,825)	(3,343)	(33,946)
Net unrealized holding gain on securities	(4,995)	(7,415)	(44,329)
Deferred gain on real properties	(277)	(293)	(2,458)
Retained earnings of overseas consolidated subsidiaries, etc.	(3,641)	(4,503)	(32,313)
Adjustment of book value based on fair value	(7,436)	(8,880)	(65,992)
Other	(3,703)	(4,757)	(32,862)
<b>Total deferred tax liabilities</b>	<b>(34,190)</b>	<b>(39,000)</b>	<b>(303,425)</b>
<b>Net deferred tax assets (liabilities)</b>	<b>¥ (2,447)</b>	<b>¥ (9,671)</b>	<b>\$ (21,716)</b>

“Unrealized gains on fixed assets”, which was included in “Other” of deferred tax assets in the previous fiscal year, is presented separately from fiscal 2015, due to its increased materiality. To reflect this change in presentation, the previous fiscal year's significant components of deferred tax assets were reclassified.

“Other” in the previous fiscal year's deferred tax assets, in the amount of ¥14,918 million, was reclassified as “Unrealized gains on fixed assets” in the amount of ¥1,585 million and “Other” in the amount of ¥13,333 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, 2016 and 2015:

	2016/3	2015/3
Statutory tax rate	33.1%	35.6%
Non-deductible expenses	3.3	3.4
Permanently non-deductible items including dividend income	(1.4)	(3.5)
Changes in valuation allowance	(18.4)	(0.1)
Differences of statutory tax rate in overseas consolidated subsidiaries	(6.9)	(8.2)
Goodwill amortization	19.9	2.0
Other	(0.9)	2.8
Effective tax rate	28.7%	32.0%

Change of deferred tax assets and deferred tax liabilities due to change in effective statutory tax rate.

The “Act on Partial Revision of the Income Tax Act” (Act No. 15 of 2016) and the “Act on Partial Revision of the Local Tax Act” (Act No. 13 of 2016) were promulgated on March 29, 2016, lowering the corporate tax rate from fiscal years beginning on or after April 1, 2016. Accordingly, the effective statutory tax rate used for calculating deferred income tax assets and deferred income tax liabilities is slated to fall from 32.3% to 30.9% for the fiscal years beginning April 1, 2016 and 2017, resulting in a temporary difference in assets or liabilities extinguished. The rate is scheduled to drop further to 30.6% in the fiscal year beginning April 1, 2018, again resulting in a temporary difference in assets or liabilities extinguished.

As a result of this tax rate change, the amount of deferred tax liabilities (net of deferred tax assets) decreased by ¥63 million, income taxes–deferred increased ¥171 million, valuation difference on available-for-sale securities increased by ¥289 million, and remeasurements of defined benefit plans decreased by ¥55 million.

## 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 six reportable segments (distinguished by products and services) that therefore comprise the Group operations are: Healthcare, Functional Polymeric Materials, Polyurethane, Basic Chemicals, Petrochemicals and Food & Packaging.

	Segment	Major Products
Reportable Segments	Healthcare	Healthcare materials, nonwoven materials and dental materials
	Functional Polymeric Materials	Elastomers, performance compounds, and performance polymer
	Polyurethane	Polyurethane materials, coating materials, adhesive materials, and molding materials
	Basic Chemicals	Phenols, bisphenol-A, PTA, PET, ethylene oxide, specialty gas and other chemical products
	Petrochemicals	Ethylene, propylene, polyethylene, polypropylene and catalysts
	Food & Packaging	Performance films and sheets, and agrochemical 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, 2016	Reportable Segments							(Millions of yen)	
	Healthcare	Functional Polymeric Materials	Polyurethane	Basic Chemicals	Petrochemicals	Food & Packaging	Total	Others (Note 1)	Sum total
I. Net sales:									
Customers	¥151,274	¥167,512	¥112,152	¥251,245	¥491,254	¥131,910	¥1,305,347	¥38,551	¥1,343,898
Inter-segment	2,753	19,092	2,383	19,758	105,754	3,881	153,621	56,432	210,053
Total	¥154,027	¥186,604	¥114,535	¥271,003	¥597,008	¥135,791	¥1,458,968	¥94,983	¥1,553,951
II. Segment income (loss)	¥ 10,660	¥ 26,198	¥ (8,495)	¥ (3,651)	¥ 39,262	¥ 13,908	¥ 77,882	¥ (106)	¥ 77,776
III. Segment assets	¥200,879	¥161,313	¥111,388	¥163,138	¥356,758	¥157,442	¥1,150,918	¥51,505	¥1,202,423
IV. Other items:									
Depreciation and amortization (Note 2)	¥ 9,806	¥ 7,188	¥ 2,325	¥ 6,802	¥ 9,582	¥ 5,317	¥ 41,020	¥ 4,157	¥ 45,177
Amortization of goodwill	2,897	—	166	—	—	—	3,063	90	3,153
Investment in equity method affiliates	735	18,391	33,506	15,672	1,571	1,424	71,299	3,015	74,314
Capital expenditures (Note 2)	4,588	5,283	5,535	6,094	13,465	4,453	39,418	3,548	42,966

Year ended March 31, 2016	Reportable Segments							(Thousands of U.S. dollars)	
	Healthcare	Functional Polymeric Materials	Polyurethane	Basic Chemicals	Petrochemicals	Food & Packaging	Total	Others (Note 1)	Sum total
I. Net sales:									
Customers	\$1,342,510	\$1,486,617	\$ 995,314	\$2,229,721	\$4,359,727	\$1,170,660	\$11,584,549	\$342,128	\$11,926,677
Inter-segment	24,432	169,436	21,148	175,346	938,534	34,443	1,363,339	500,816	1,864,155
Total	\$1,366,942	\$1,656,053	\$1,016,462	\$2,405,067	\$5,298,261	\$1,205,103	\$12,947,888	\$842,944	\$13,790,832
II. Segment income (loss)	\$ 94,604	\$ 232,499	\$ (75,390)	\$ (32,401)	\$ 348,438	\$ 123,429	\$ 691,179	\$ (941)	\$ 690,238
III. Segment assets	\$1,782,739	\$1,431,603	\$ 988,534	\$1,447,799	\$3,166,116	\$1,397,249	\$10,214,040	\$457,091	\$10,671,131
IV. Other items:									
Depreciation and amortization (Note 2)	\$ 87,025	\$ 63,791	\$ 20,634	\$ 60,366	\$ 85,037	\$ 47,187	\$ 364,040	\$ 36,892	\$ 400,932
Amortization of goodwill	25,710	—	1,473	—	—	—	27,183	799	27,982
Investment in equity method affiliates	6,523	163,214	297,355	139,084	13,942	12,638	632,756	26,758	659,514
Capital expenditures (Note 2)	40,717	46,885	49,121	54,082	119,499	39,519	349,823	31,487	381,310

Year ended March 31, 2015	Reportable Segments							(Millions of yen)	
	Healthcare	Functional Polymeric Materials	Polyurethane	Basic Chemicals	Petrochemicals	Food & Packaging	Total	Others (Note 1)	Sum total
I. Net sales:									
Customers	¥138,186	¥174,497	¥154,785	¥330,829	¥584,442	¥129,149	¥1,511,888	¥ 38,188	¥1,550,076
Inter-segment	1,226	20,237	3,090	28,927	145,620	3,946	203,046	65,494	268,540
Total	¥139,412	¥194,734	¥157,875	¥359,756	¥730,062	¥133,095	¥1,714,934	¥103,682	¥1,818,616
II. Segment income (loss)	¥ 9,152	¥ 18,665	¥ (3,531)	¥ (7,857)	¥ 21,587	¥ 9,085	¥ 47,101	¥ 884	¥ 47,985
III. Segment assets	¥238,291	¥177,957	¥127,539	¥177,811	¥409,932	¥163,939	¥1,295,469	¥ 58,024	¥1,353,493
IV. Other items:									
Depreciation and amortization (Note 2)	¥ 9,205	¥ 6,990	¥ 2,625	¥ 7,194	¥ 9,841	¥ 5,793	¥ 41,648	¥ 4,059	¥ 45,707
Amortization of goodwill	2,428	—	37	—	—	—	2,465	19	2,484
Investment in equity method affiliates	661	21,126	9,923	24,839	1,833	1,512	59,894	3,412	63,306
Capital expenditures (Note 2)	8,346	3,635	5,702	4,457	13,937	4,193	40,270	6,933	47,203

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
	2016/3	2015/3	2016/3
Total reportable segment sales	¥1,458,968	¥1,714,934	\$12,947,888
Net sales classified under "Others"	94,983	103,682	842,944
Elimination of intersegment transactions	(210,053)	(268,540)	(1,864,155)
Net sales recorded in Consolidated Statements of Operations	¥1,343,898	¥1,550,076	\$11,926,677
<b>Income:</b>			
Total reportable segment income	¥77,882	¥47,101	\$691,179
Income classified under "Others"	(106)	884	(941)
Elimination of intersegment transactions	11	(184)	98
Corporate expenses (Note)	(6,861)	(5,761)	(60,890)
Operating income recorded in Consolidated Statements of Operations	¥70,926	¥42,040	\$629,446

Note: Corporate expenses mainly comprise general and administrative expenses not usually attributed to segments.



	Millions of yen		Thousands of U.S. dollars
	2016/3	2015/3	2016/3
<b>Assets:</b>			
Total amounts of reportable segment assets	¥1,150,918	¥1,295,469	\$10,214,040
Assets classified under "Others"	51,505	58,024	457,091
Elimination of intersegment transactions	(99,315)	(91,515)	(881,390)
Corporate assets (Note)	155,840	149,812	1,383,031
Assets recorded in Consolidated Balance Sheets	¥1,258,948	¥1,411,790	\$11,172,772

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
	2016/3	2015/3	2016/3
<b>Depreciation and amortization:</b>			
Total amounts of reportable segment amounts	¥41,020	¥41,648	\$364,040
Amounts classified under "Others"	4,157	4,059	36,892
Adjustment amounts (Note)	310	60	2,751
Amounts from Consolidated Financial Statements	¥45,487	¥45,767	\$403,683

Note: Adjustment amounts are depreciation and amortization expenses related to new businesses development.

	Millions of yen		Thousands of U.S. dollars
	2016/3	2015/3	2016/3
<b>Amortization of goodwill:</b>			
Total amounts of reportable segment amounts	¥3,063	¥2,465	\$27,183
Amounts classified under "Others"	90	19	799
Adjustment amounts	—	—	—
Amounts from Consolidated Financial Statements	¥3,153	¥2,484	\$27,982

	Millions of yen		Thousands of U.S. dollars
	2016/3	2015/3	2016/3
<b>Investment in equity method affiliates:</b>			
Total amounts of reportable segment amounts	¥71,299	¥59,894	\$632,756
Amounts classified under "Others"	3,015	3,412	26,758
Adjustment amounts	—	—	—
Amounts from Consolidated Financial Statements	¥74,314	¥63,306	\$659,514

	Millions of yen		Thousands of U.S. dollars
	2016/3	2015/3	2016/3
<b>Capital expenditures:</b>			
Total amounts of reportable segment amounts	¥39,418	¥40,270	\$349,823
Amounts classified under "Others"	3,548	6,933	31,487
Adjustment amounts (Note)	439	328	3,896
Amounts from Consolidated Financial Statements	¥43,405	¥47,531	\$385,206

Note: Adjustment amounts are capital expenditures related to new businesses development.

## Related Information

(Information by region)

	Millions of yen		Thousands of U.S. dollars
	2016/3	2015/3	2016/3
<b>Net sales:</b>			
Japan	¥ 745,738	¥ 863,966	\$ 6,618,193
China	130,494	165,459	1,158,094
Asia	208,296	265,487	1,848,562
America	169,815	166,400	1,507,055
Europe	80,766	74,273	716,773
Other regions	8,789	14,491	78,000
Total	¥1,343,898	¥1,550,076	\$11,926,677

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

	Millions of yen		Thousands of U.S. dollars
	2016/3	2015/3	2016/3
<b>Property, plant and equipment:</b>			
Japan	¥324,054	¥332,554	\$2,875,879
Singapore	46,043	45,748	408,617
Asia	23,757	33,399	210,836
Other regions	19,548	21,928	173,482
<b>Total</b>	<b>¥413,402</b>	<b>¥433,629</b>	<b>\$3,668,814</b>

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)

	Millions of yen		Thousands of U.S. dollars
	2016/3	2015/3	2016/3
<b>Net sales:</b>			
Mitsui & Co., LTD.	¥233,131	¥298,933	\$2,068,965

Note: Related segments are as follows:

Functional Chemicals, Functional Polymeric Materials, Polyurethane, Basic Chemicals, Petrochemicals and Films and Sheets

### Information Concerning Impairment Loss of Fixed Assets by Reportable Segment

	Millions of yen		Thousands of U.S. dollars
	2016/3	2015/3	2016/3
<b>Impairment loss:</b>			
Healthcare	¥21,385	¥ 32	\$189,785
Functional Polymeric Materials	209	138	1,855
Polyurethane	1,141	1,677	10,126
Basic Chemicals	184	2,009	1,633
Petrochemicals	342	18	3,035
Food & Packaging	755	952	6,701
Others	—	452	—
Corporate Expenses	44	—	390
<b>Total</b>	<b>¥24,060</b>	<b>¥5,278</b>	<b>\$213,525</b>

### Information Concerning the Amount of Amortization and Unamortized Balance of Goodwill by Reportable Segment

	Millions of yen		Thousands of U.S. dollars
	2016/3	2015/3	2016/3
<b>Amount of amortization:</b>			
Healthcare	¥2,897	¥2,428	\$25,710
Functional Polymeric Materials	—	—	—
Polyurethane	166	37	1,473
Basic Chemicals	—	—	—
Petrochemicals	—	—	—
Food & Packaging	—	—	—
Others	90	19	799
Corporate Expenses	—	—	—
<b>Total</b>	<b>¥3,153</b>	<b>¥2,484</b>	<b>\$27,982</b>

	Millions of yen		Thousands of U.S. dollars
	2016/3	2015/3	2016/3
<b>Unamortized balance:</b>			
Healthcare	¥9,003	¥34,299	\$79,898
Functional Polymeric Materials	—	—	—
Polyurethane	—	167	—
Basic Chemicals	—	—	—
Petrochemicals	—	—	—
Food & Packaging	—	—	—
Others	405	512	3,594
Corporate Expenses	—	—	—
<b>Total</b>	<b>¥9,408</b>	<b>¥34,978</b>	<b>\$83,492</b>

## Information Concerning the Amount of Amortization and Unamortized Balance of Negative Goodwill by Reportable Segment

Amount of amortization:	Millions of yen		Thousands of U.S. dollars
	2016/3	2015/3	2016/3
Healthcare	¥—	¥23	\$—
Functional Polymeric Materials	—	—	—
Polyurethane	—	—	—
Basic Chemicals	—	—	—
Petrochemicals	—	—	—
Food & Packaging	—	—	—
Others	—	—	—
Corporate Expenses	—	—	—
Total	¥—	¥23	\$—

## 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, 2016 were as follows:

Name of company	Chiba Chemicals Manufacturing LLP
Type of related party	Affiliated company
Location	Chiyoda-ku, Tokyo
Common stock	¥200 million (US\$1,775 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)	¥755 million (US\$6,700 thousand)
Balance at end of year (Note 2)	Other accounts receivable: ¥9,258 million (US\$82,162 thousand) Accounts payable: ¥7,985 million (US\$70,864 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	¥17,382 million (US\$154,260 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)	¥23,380 million (US\$207,490 thousand)

Note: 3. 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, 2016.

Du Pont-Mitsui Fluorochemicals Company, Ltd.

	Millions of yen		Thousands of U.S. dollars
	2016/3	2015/3	2016/3
Balance Sheet			
Total current assets	¥15,575	¥14,981	\$138,223
Total non-current assets	13,029	13,957	115,628
Total current liabilities	9,452	8,995	83,884
Total non-current liabilities	1,504	1,585	13,348
Total net assets	17,648	18,358	156,621
Statement of Operations			
Net sales	27,172	25,559	241,143
Profit (loss) before income taxes	7,403	6,942	65,699
Profit (loss)	4,836	4,361	42,918

Shanghai Sinopec Mitsui Chemicals, Co., Ltd.

	Millions of yen		Thousands of U.S. dollars
	2016/3	2015/3	2016/3
Balance Sheet			
Total current assets	¥ 11,528	¥—	\$ 102,307
Total non-current assets	36,659	—	325,337
Total current liabilities	31,342	—	278,151
Total non-current liabilities	16,789	—	148,997
Total net assets	56	—	497
Statement of Operations			
Net sales	28,998	—	257,348
Profit (loss) before income taxes	(11,462)	—	(101,722)
Profit (loss)	(11,559)	—	(102,583)

Note: Shanghai Sinopec Mitsui Chemicals Co., Ltd. was added from the year ended March 31, 2016 due to its increased importance.

## 21. Business combination

### Establishment of Joint Venture for Polyurethane Material Businesses with SKC

On December 22, 2014, the Company agreed to the basic terms of a joint venture agreement with SKC Co., Ltd. (Seoul, Korea; "SKC") regarding the combination of the two companies' polyurethane material businesses ("business combination"). The Company and SKC launched Mitsui Chemicals & SKC Polyurethanes Inc. (the "Korean affiliate") on July 1, 2015.

The Company established a new business company in Japan (the "Japanese affiliate") which absorbed the Company's split-off polyurethane material business ("company split") for a cash consideration. All shares of the new business company are held by the Korean affiliate.

Therefore, the Company holds 50% of the shares of the Korean affiliate, to which it applies equity method accounting.

#### 1. Outline of the company split

##### (1) Name and outline of the Japanese affiliate

- Company name: Mitsui Chemicals & SKC Polyurethanes Inc.
- Location: 1-5-2 Higashi-Shimbashi, Minato-ku, Tokyo, Japan
- Business: Manufacturing, sales, and development of polyurethane materials
- Paid-in capital: ¥18 billion

##### (2) Business of the company split

Manufacturing, sales, and development of polyurethane materials

##### (3) Reasons for the company split

To maximize synergy effects by integrating the two parents' system products businesses. The knowledge and information accumulated by the Company and SKC over the years will be shared and utilized to provide total solutions to customers.

##### (4) Date

July 1, 2015

##### (5) Legal form

- Legal form: Absorption-type split for a cash consideration

- Other transactions under the business combination: The Company injected all its shares of the Japanese affiliate in the form of capital into the Korean affiliate concurrently with the effective date of the company split. A gain on negative goodwill in the amount of ¥3.1 billion was recorded under share of profit of entities accounted for using equity method.

- Outline of the Korean affiliate:

Company name: Mitsui Chemicals & SKC Polyurethanes Inc.

Location: Seoul, Korea

Business: Manufacturing, sales, and development of polyurethane materials

Paid-in capital: KRW 70 billion

Shareholding ratio: The Company 50%, SKC 50%

(An equity method affiliate)

2. Outline of the accounting

(1) Profit (loss) transferred: ¥3,738 million

(2) Breakdown of assets and liabilities of the business transferred based on fair value (as of July 1, 2015)

Current assets	¥44,298 million
Non-current assets	¥16,143 million
Total assets	¥60,441 million
Current liabilities	¥10,540 million
Non-current liabilities	¥165 million
Total liabilities	¥10,705 million

(3) Accounting

Accounting was conducted in compliance with “Accounting Standard for Business Divestitures” (ASBJ Statement No. 7, revised September 13, 2013) and “Guidance on Accounting Standard for Business Combinations” and “Accounting Standard for Business Divestitures” (ASBJ Guidance No. 10, revised September 13, 2013).

Any capital previously invested in the transferred polyurethane materials business was considered liquidated and all related profits and losses have been recognized as gains or losses on business transfer.

3. Business segment involved in the business transfer

Polyurethane

4. Estimated impact on the consolidated statement of operations as a result of the business transfer

Net sales	¥14.4 billion
Operating income	¥0.5 billion

## 22. Subsequent events

There were no applicable items.

# 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, 2016, 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, 2016, 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 24, 2016  
Tokyo, Japan

## Corporate Data

(As of March 31, 2016)

### Date Incorporated

July 25, 1947

(Inaugurated October 1, 1997)

### Paid-in Capital

¥125,053 million

### Number of Employees

13,447 (Consolidated)

### Shares of Common Stock Issued and Outstanding

1,022,020,076

### Number of Shareholders

69,624

### Stock Listing

Tokyo

### Transfer Agent

Sumitomo Mitsui Trust Bank, Limited

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## Major Subsidiaries and Affiliates

(As of March 31, 2016)

This classification of Group companies to each segment is pursuant to the change in the segment classification as of April 1, 2016.

\*Consolidated Subsidiary

Companies	Major Products or Lines of Business		Paid-in Capital (In millions)	Equity Interest (%)
<b>Mobility</b>				
* Mitsui Elastomers Singapore Pte. Ltd.	Elastomer	US\$	96	100
* Mitsui Chemicals Functional Composites (Shanghai) Co., Ltd.	Manufacture and distribution of Milastomer™ and Admer™	¥	970	100
* Zhang Jia Gang Free Trade Zone Mitsui Link-Upon Advanced Materials, Inc.	Engineering plastic compounds	US\$	5.7	60
* 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
* Mitsui Advanced Composites (Zhongshan) Co., Ltd.	Polypropylene compounds	US\$	15.3	70
* Grand Siam Composites Co., Ltd.	Polypropylene compounds	Baht	64	48.2
* Mitsui Prime Advanced Composites India Pvt. Ltd.	Polypropylene compounds	Rupee	1,980	90
* Produmaster Advanced Composites Indústria e Comércio de Compostos Plásticos Ltda.	Polypropylene compounds	BRL	1.2	70
* Mitsui Chemicals Industrial Products, Co., Ltd.	Civil engineering and construction materials, and piping materials	¥	400	100
Shanghai Sinopec 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
<b>Healthcare</b>				
* 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
* 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
* Mitsui Fine Chemicals, Inc.	Fine chemical products	¥	400	100
* Yamamoto Chemicals, Inc.	Dyes, pigments and industrial chemicals	¥	350	100
* ESCO Company, LLC	Color formers and catalysts	US\$	18	100
<b>Food &amp; Packaging</b>				
* Mitsui Chemicals Tohcello, Inc.	Packaging films, industrial films, functional sheets	¥	3,450	100
* MC Tohcello (Malaysia) Sdn. Bhd.	Functional sheets	RM	7.5	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
* Japan Composite Co., Ltd.	Unsaturated polyester resins and molding materials for FRP	¥	1,005	65
* MC Industries, Ltd.	Synthetic resin compounds and wood preservatives	¥	300	100
* Image Polymers Company, LLC	Toner resins	US\$	9.6	100

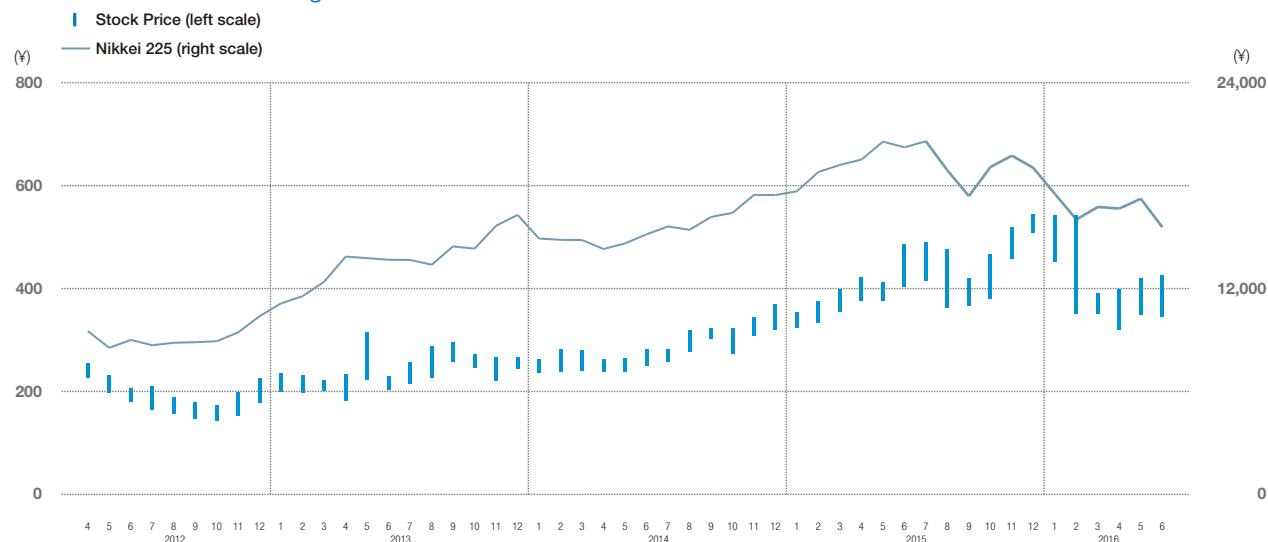


\*Consolidated Subsidiary

Companies	Major Products or Lines of Business	Paid-in Capital (In millions)	Equity Interest (%)
<b>Basic Materials</b>			
* 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	¥ 400	75
* Prime Evolve Singapore Pte. Ltd.	Polyethylene	US\$ 115	80
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
<b>Others</b>			
* 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
* Shimonoseki Mitsui Chemicals, Inc.	Phosphoric acid and gases	¥ 3,000	100
* Toyo Phosphoric Acid, Inc.	Phosphoric acid	¥ 1,500	60
* 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 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	US\$ 9.6	100
* Mitsui Chemicals India, Pvt. Ltd.	Sales and marketing of Mitsui Chemicals products	Rupee 134	100
* Mitsui Chemicals Do Brasil Comercio 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
* Anderson Development Company	Specialty chemicals	US\$ 19.2	100

# Stock Information

## Common Stock Price Range



## Major Shareholders

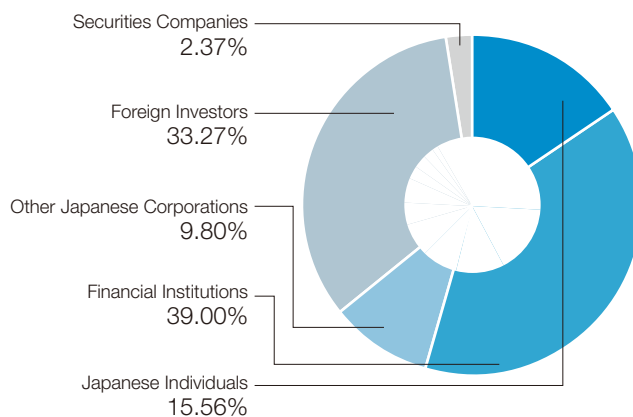
(As of March 31, 2016)

Major Shareholders	Number of shares held (Thousands)	Percentage of shares held (%)
Japan Trustee Services Bank, Ltd. (Trust account)	64,702	6.33
The Master Trust Bank of Japan, Ltd. (Trust account)	62,155	6.08
Japan Trustee Services Bank, Ltd. (Toray Industries Inc. Retirement Benefit Trust Account re-entrusted by Sumitomo Mitsui Trust Bank, Limited)	37,425	3.66
Sumitomo Mitsui Banking Corporation	21,946	2.14
Japan Trustee Services Bank, Ltd. (Trust account 4)	21,247	2.07
The Nomura Trust and Banking Co., Ltd. (Trust account)	18,922	1.85
Mitsui & Co., Ltd. (Standing Proxy: Trust & Custody Services Bank, Ltd.)	17,370	1.69
Japan Trustee Services Bank, Ltd. (MITSUI & CO., LTD. Retirement Benefit Trust Account re-entrusted by Sumitomo Mitsui Trust Bank, Limited)	17,370	1.69
The Norinchukin Bank	12,732	1.24
Mitsui Sumitomo Insurance Company, Limited	12,621	1.23

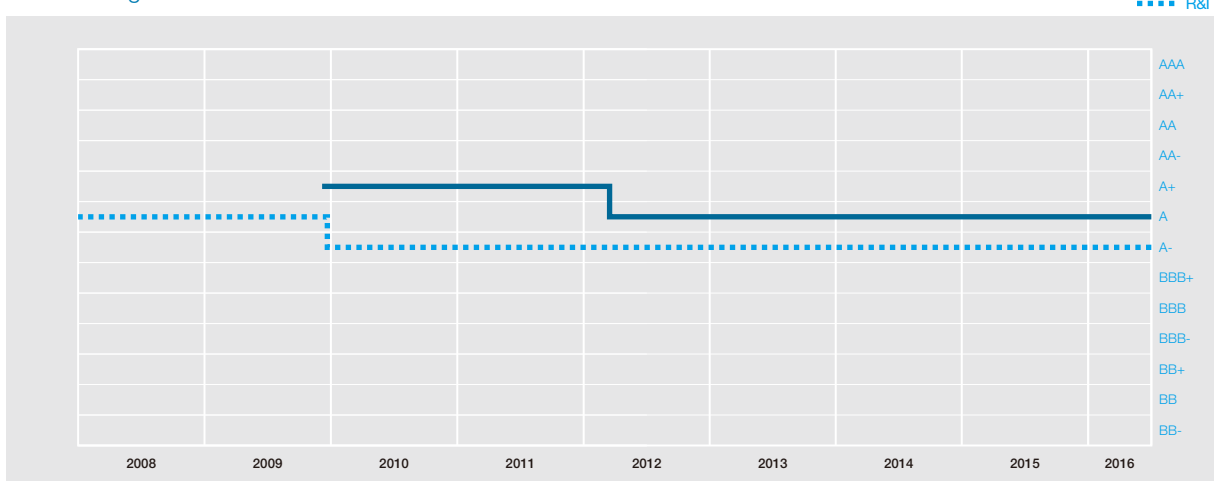
\*The company's holdings of treasury stock (21,483,760 shares) are not included in the above figures.

## Composition of Shareholders

(As of March 31, 2016)



## Credit Ratings



JCR: Japan Credit Rating Agency, Ltd.  
R&I: Rating and Investment Information



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Responsible Care

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