THE KAITEKI COMPANY

KAITEKI Report
2014

Mitsubishi Chemical Holdings Corporation

Concept of the Reporting

The Mitsubishi Chemical Holdings Corporation (MCHC) Group is aiming to realize *KAITEKI* through its corporate activities. *KAITEKI* is an original concept of the MCHC Group that signifies "a sustainable condition which is comfortable for people, society and the Earth, transcending time and generations."

Aiming for the realization of *KAITEKI*, since April 2011, the MCHC Group has adopted a new management that we call "*KAITEKI* Management." *KAITEKI* Management consists of three types of management. Two of these are, "management with a focus on capital efficiency" utilizing conventional financial indexes and "management that strives to create innovations for society." The third management approach, "management that aims to improve sustainability" using our unique ESG (Environment, Society, and Corporate Governance) indexes offers a new perspective. We seek to increase the corporate value that these types of management generate.

Moreover, from fiscal 2013, we have been publishing this report as the *KAITEKI* Report which summarizes the progress, achievements, and outlook of *KAITEKI* Management in one volume.

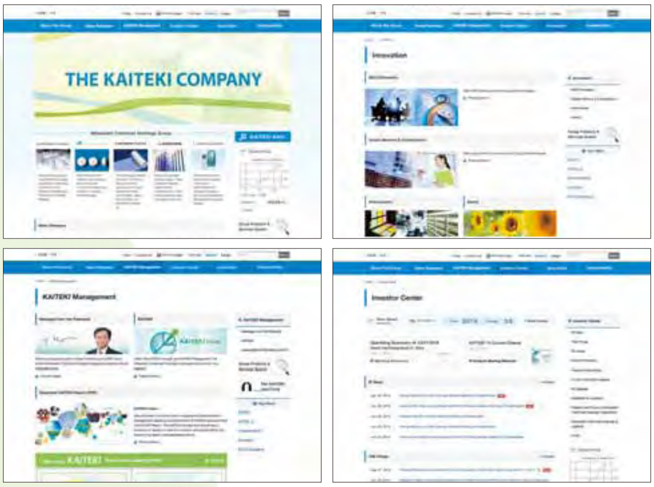
In preparation of the *KAITEKI* Report 2014, we referred to the International <IR> Framework published by the International Integrated Reporting Council in December 2013 as much as possible at the current stage, based on our view that this is a useful framework for reporting the aforementioned *KAITEKI* Management.

Matters that We Report in the *KAITEKI* Report 2014

The *KAITEKI* Report focuses on the aspects of the progress, performance and outlook of *KAITEKI* Management, which are material in light of the MCHC Group's aim to realize *KAITEKI*. When judging and identifying materiality, we refer to the decision criteria for our corporate activities that we established in May 2007 and we also implement a process to identify the material issues that the MCHC Group must tackle after taking into consideration the perspectives of all of our stakeholders (for the details please refer to P4).

Furthermore, as stated above, this publication places its focus on the annual summary of *KAITEKI* Management centered on material matters, and on reporting the *KAITEKI* concept simply in an easy-to-understand manner. More detailed information about *KAITEKI* Management is reported on the MCHC website.

WEB **MCHC website**
http://www.mitsubishichem-hd.co.jp/english/



Period Covered by the Report

Fiscal 2013 (April 2013–March 2014). Some information in fiscal 2014 is included.

Reporting Boundary

This report covers information relating to MCHC and the MCHC Group. For matters with a different reporting scope we clearly specify the covered reporting scope.

MCHC: Mitsubishi Chemical Holdings Corporation
MCC: Mitsubishi Chemical Corporation
MTPC: Mitsubishi Tanabe Pharma Corporation
MPI: Mitsubishi Plastics, Inc.
MRC: Mitsubishi Rayon Co., Ltd.
LSII: Life Science Institute, Inc.

Disclaimer

This report contains forward-looking statements based on the Company's current assumptions and beliefs in light of the information currently available to it, and are subject to risks and uncertainties that may be beyond the Company's control. Actual results could differ largely due to numerous factors, including but not limited to the following: Group companies engage in businesses across an extremely wide range of different fields, such as information and electronics, performance chemicals, polymer processing products, pharmaceuticals, carbon and inorganic products, and petrochemicals, and these businesses are subject to influences such as domestic and global demand, exchange rates, price and procurement volume of crude oil and naphtha, market trends, the speed of technological innovation, National Health Insurance (NHI) price revisions in Japan, product liabilities, lawsuits, and laws and regulations.

Product names, brand names, and service names used in this report are denoted in italics and are trademarks or registered trademarks of the MCHC Group in Japan and/or overseas. Other product names, brand names, and service names may also be protected.

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Value

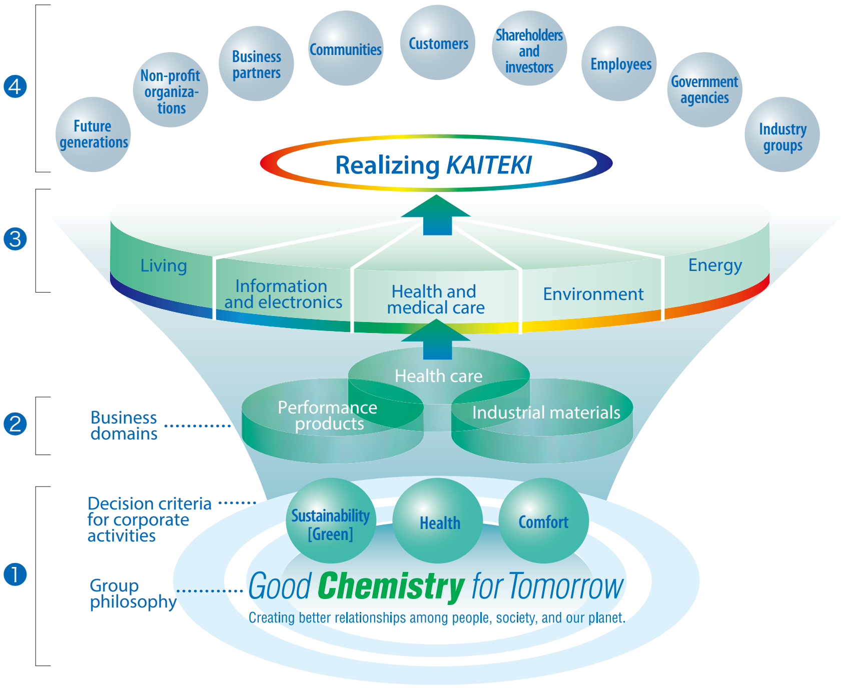
As THE KAITEKI COMPANY, the MCHC Group aims
to realize *KAITEKI* together with all our stakeholders.

MCHC Group's Concept of Value

Through increasing corporate value, the MCHC Group aims to realize *KAITEKI*, a sustainable condition which is comfortable for people, society and the Earth, transcending time and generations.

❶ Group Philosophy and the decision criteria for corporate activities

The word "chemistry" has a secondary meaning, referring to the compatibilities, relationships and connections between objects, between people and between people and objects. The MCHC Group includes these meanings in the Group's philosophy of Good Chemistry for Tomorrow, and it promotes corporate activities to create better relationship among people, society, and our planet. Based on this philosophy, the MCHC Group has debated "What is Good Chemistry that the future requires?" In other words, the MCHC Group discussed what businesses it needs to develop for the future. The MCHC Group therefore set Sustainability [Green], Health and Comfort as it decision criteria for corporate activities.



❷ Business domains of the MCHC Group

The MCHC Group is a corporate Group comprising the following operating companies: MCC, MTPC, MPI, MRC and LSII.

With its operations spread over three business domains, Performance Products, Health Care and Industrial Materials, the Group operates businesses in five segments: Electronics Applications, Designed Materials, Health Care, Chemicals, and Polymers.

❸ Realizing *KAITEKI* through our corporate activities

KAITEKI, an original concept of the MCHC Group, means "a sustainable condition which is comfortable for people, society and the earth, transcending time and generations."

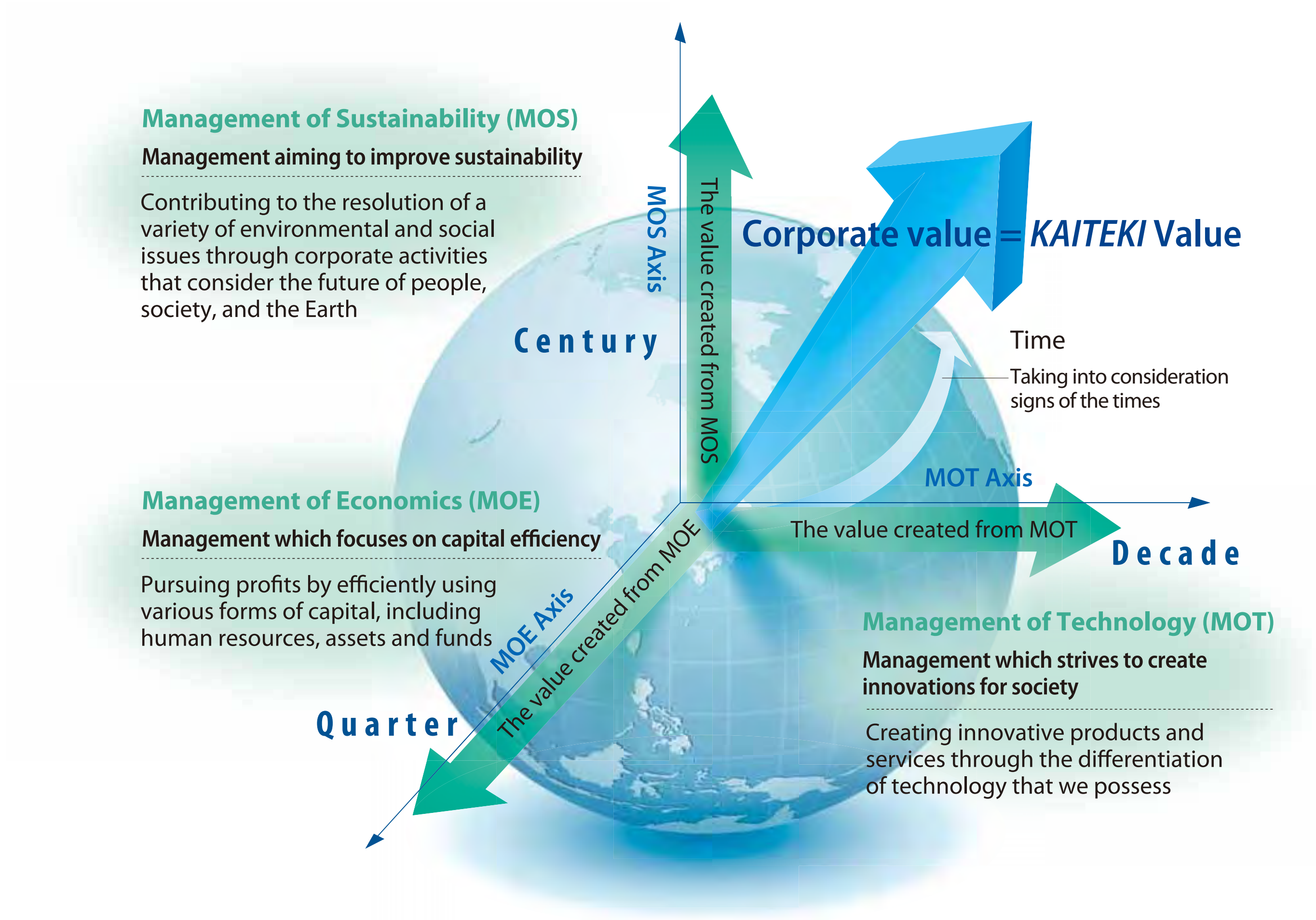
Through our corporate activities, we realize *KAITEKI* by proposing new value that contributes to resolving environmental and social issues in various fields including living, information and electronics, health and medical care, environment and energy. This is the corporate ideal that the MCHC Group seeks to realize.

❹ Harmonious relationships with stakeholders

The MCHC Group considers its stakeholders to include all the people who support our corporate activities: our customers, shareholders and investors, communities, employees and business partners, as well as society, and even the Earth, which is the foundation of our lives. Through dialogue and disclosure to our stakeholders, we jointly identify issues and set targets for the short, medium and long term, and gear our corporate activities to their fulfillment. As part of such activities, MCHC declared our commitment to the United Nations Global Compact in May 2006.

How to Create Value

Viewing corporate value as the sum total of value created through our three core management perspectives, we promote *KAITEKI* Management in order to raise corporate value.



Management of Sustainability (MOS)

Management aiming to improve sustainability

Contributing to the resolution of a variety of environmental and social issues through corporate activities that consider the future of people, society, and the Earth

Management of Economics (MOE)

Management which focuses on capital efficiency

Pursuing profits by efficiently using various forms of capital, including human resources, assets and funds

Management of Technology (MOT)

Management which strives to create innovations for society

Creating innovative products and services through the differentiation of technology that we possess

Management for realizing *KAITEKI*

KAITEKI Management is an original management method. It includes Management of Economics, which focuses on capital efficiency, Management of Technology, which strives to create innovations for society, and Management of Sustainability, which aims to improve sustainability. We seek to improve *KAITEKI* Value, which is generated by these three kinds of management while giving due consideration to factors of time and opportunity.

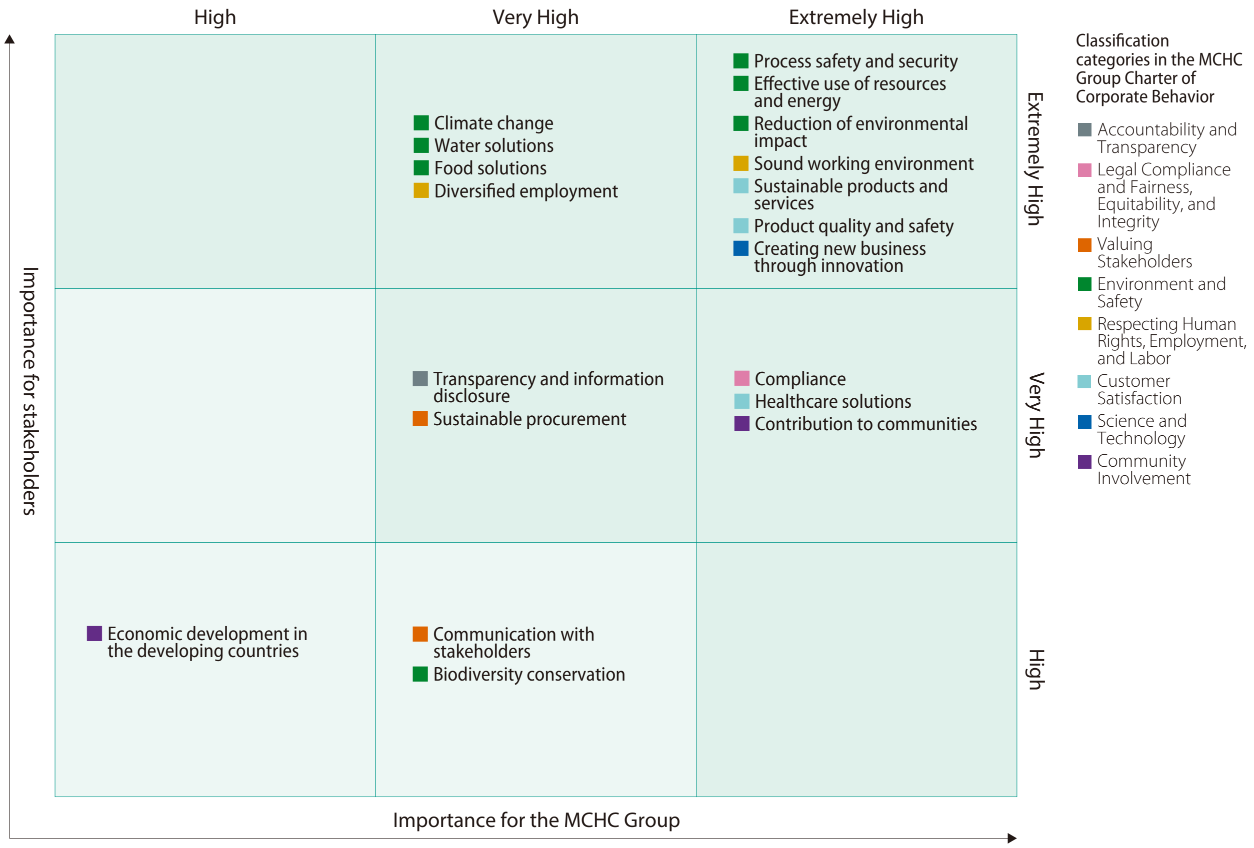
We firmly believe that the enhancement of this value leads to the realization of *KAITEKI*. In other words, the MCHC Group conducts its corporate activities with the strong determination to create a state in which we develop together with stakeholders and create a state of "sustainability."

Materiality Assessment

We conducted the materiality assessment that identifies important management issues (materiality) to further enhance *KAITEKI* Value in March 2014, referring to a process that conforms to international guidelines relating to sustainability.

While incorporating the view point of the shareholders, we identified 19 important management issues that we need to contribute to resolving. Then we prioritized issues based on our mid- to long-term management strategy, and considered the effects of our corporate activities on our stakeholders.

Materiality Matrix



	High	Very High	Extremely High
Extremely High		🟩 Climate change 🟩 Water solutions 🟩 Food solutions 🟨 Diversified employment	🟩 Process safety and security 🟩 Effective use of resources and energy 🟩 Reduction of environmental impact 🟨 Sound working environment ◻ Sustainable products and services ◻ Product quality and safety 🟦 Creating new business through innovation
Very High		⬛ Transparency and information disclosure 🟧 Sustainable procurement	🟥 Compliance ◻ Healthcare solutions 🟪 Contribution to communities
High	🟪 Economic development in the developing countries	🟧 Communication with stakeholders 🟩 Biodiversity conservation	

Classification categories in the MCHC Group Charter of Corporate Behavior

- ⬛ Accountability and Transparency
- 🟥 Legal Compliance and Fairness, Equitability, and Integrity
- 🟧 Valuing Stakeholders
- 🟩 Environment and Safety
- 🟨 Respecting Human Rights, Employment, and Labor
- ◻ Customer Satisfaction
- 🟦 Science and Technology
- 🟪 Community Involvement

Process of Materiality Assessment

Process **1**	Process **2**	Process **3**	Process **4**	Process **5**
Set issues that we have to research and investigate	Assess issues from the stakeholders' point of view	Identify and prioritize material management issues the MCHC Group needs to address	Create the materiality matrix	Company approval procedures
Establish 36 issues for improving sustainability in terms of international guidelines, regulations and other sources.	Assess the materiality of the issues based on published sustainability data, questionnaires, and interviews with experts.	MCHC management identifies 19 material management issues based on the management strategy and the MCHC Group Charter of Corporate Behavior and then prioritizes them.	Create the matrix along the two axes of importance (the magnitude of effect) for stakeholders and importance for the MCHC Group.	Discuss and approve the process of materiality assessment and the materiality matrix in the MCHC Management Committee.

Looking Ahead

The MCHC Group will formulate future business strategies and business plans, taking into account the identified issues and their degree of priority.

Further, we will routinely conduct materiality assessments so as to reflect in a timely and precise manner the stakeholders' requests and expectations, changes in the business environment and other factors.

Structure for Improving Value

Through the joint efforts of the 56,000 members of the MCHC Group, we contribute to resolving environmental and social issues by the provision of products and services.

Organizational Structure (As of March 31, 2014)

MCHC[*1]

Paid-in capital: ¥50 billion
Net sales (consolidated): ¥3,498.8 billion
No. of employees (consolidated): 56,031

- 100% The KAITEKI Institute
- 100% Mitsubishi Chemical Holdings America
- 100% Mitsubishi Chemical Holdings (Beijing)
- 100% Mitsubishi Chemical Holdings Europe
- 100% Mitsubishi Chemical Holdings Corporate Staff
- 100% MCHC R&D Synergy Center

🟤 Performance Products domain
🔵 Health Care domain
🟢 Industrial Materials domain

MCC (100% 🟤 🟢)
Paid-in capital
¥50 billion
Net sales (consolidated)
¥2,159.7 billion
Business lines
Performance products, industrial materials, and others

MTPC[*1] (56.3% 🔵)
Paid-in capital
¥50 billion
Net sales (consolidated)
¥412.7 billion
Business lines
Pharmaceuticals and others

MPI (100% 🟤)
Paid-in capital
¥21,503 million
Net sales (consolidated)
¥442.7 billion
Business lines
Plastic products and others

MRC (100% 🟤 🟢)
Paid-in capital
¥53,229 million
Net sales (consolidated)
¥606.2 million
Business lines
Chemical products, resins, fibers, carbon fiber and composite materials, membrane bioreactors, and others

LSII[*3] (100% 🔵)
Paid-in capital
¥3 billion
Business lines
Healthcare and medical ICT, support for pharmaceutical development and manufacturing, and advanced medication

Taiyo Nippon Sanso Corporation[*1] (26.9%[*2] 🟤)
Paid-in capital
¥37,344 million
Business lines
Industrial gases and related equipment and devices, and others

During 2014, MCHC plans to acquire a majority (including existing stake) of the voting rights in Taiyo Nippon Sanso through takeover bid, and convert the company into a consolidated subsidiary.

[*1] Listed company [*2] MCHC Group total stake (%) [*3] Launched on April 1, 2014

Toward the Realization of *KAITEKI*

- October 2005
  Establishment of MCHC, a holding company of MCC and Mitsubishi Pharma with a stock-for-stock exchange
- April 2006
  Launch of *Project 10/20*, a framework that simulates societies in 2025 to study the role of science
- May 2007
  Establishment of the decision criteria for corporate activities, based on discussions under *Project 10/20*
- October 2007
  Conversion of MPI into a wholly owned subsidiary, and launch of MTPC after Tanabe Seiyaku Co., Ltd. and Mitsubishi Pharma merged
- April 2008
  Relaunch of MPI as a new integrated manufacturer of functional products
- April 2009
  Establishment of The KAITEKI Institute
- March 2010
  Conversion of MRC into a consolidated subsidiary
- November 2010
  Establishment of Mitsubishi Chemical Holdings America
- January 2011
  Establishment of Mitsubishi Chemical Holdings (Beijing)
- April 2011
  Launch of *KAITEKI* Management
- November 2012
  Establishment of Mitsubishi Chemical Holdings Europe
- March 2013
  Acquisition of Qualicaps and its conversion into a consolidated subsidiary
- November 2013
  Establishment of the corporate brand "THE KAITEKI COMPANY"
- April 2014
  Launch of LSII to take over responsibility for health-care solution businesses
  Consolidation and integration of common platform technologies from the R&D operations of MCHC's operating companies and establishment of MCHC R&D Synergy Center with the aim of strengthening Group R&D functions

THE KAITEKI COMPANY

■ Expressing our belief in THE KAITEKI COMPANY

"THE KAITEKI COMPANY" defines the MCHC Group as a group in which each and every member thinks and acts toward the realization of *KAITEKI*. To ensure the *KAITEKI* concept is shared by people around the world, every one of us will undertake activities aimed at resolving environmental and social issues and improving the quality of life.
"THE KAITEKI COMPANY" embodies this idea and belief.

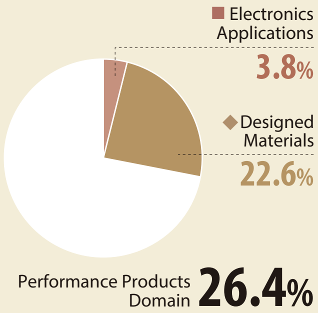
At a Glance

The Mitsubishi Chemical Holdings (MCHC) Group provides diverse solutions through its three business domains of Performance Products, Health Care, and Industrial Materials.

Performance Products Domain

The Performance Products domain comprises two segments, Electronics Applications and Designed Materials. These segments utilize differentiated technological clusters based on chemistry to provide products and technologies in a wide range of industries. Thus, the domain contributes to the realization of *KAITEKI* by providing diverse solutions ranging from materials to devices, based on the key concepts of greater added value and more advanced performance.

Percentage of Sales by Segment in Fiscal 2013



Major Products

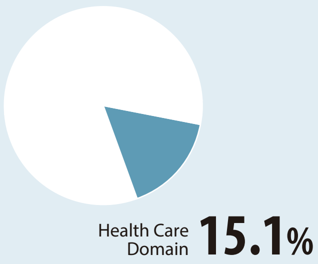
- ■ Recording media ■ Imaging supplies
- ■ Display materials
- ■ White LED lighting and materials
- ■ Organic photovoltaic modules and materials
- ◆ Polyester film ◆ Optical PVOH[*1] film
- ◆ Engineering plastic products
- ◆ High-performance films
- ◆ Carbon fiber and composite materials
- ◆ Water treatment systems and services
- ◆ Chemical fibers ◆ Inorganic chemicals
- ◆ Food ingredients ◆ Specialty chemicals
- ◆ Lithium-ion battery materials
- ◆ Agribusiness solutions

[*1] PVOH: polyvinyl alcohol

Health Care Domain

The Health Care segment covers a wide range of healthcare fields including pharmaceuticals, diagnostic reagents and instruments, clinical testing, self-health check services, and others. We will meet the needs of a society that is aging at an ever faster pace and we will go beyond disease treatment (sick care) to provide more integrated and wide-ranging solutions through the creation of value unique to an integrated chemical manufacturer.

Percentage of Sales by Segment in Fiscal 2013



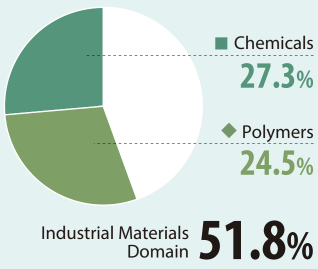
Major Products

- ■ Pharmaceuticals
- ■ Diagnostic reagents and instruments
- ■ Clinical and other testing
- ■ Support for new pharmaceutical development
- ■ Pharmaceutical formulation materials
- ■ Active pharmaceutical ingredients and intermediates
- ■ Self-health check services

Industrial Materials Domain

This domain is comprised of two segments: Chemicals, which handles a wide range of basic chemicals and carbon products, and Polymers, which provides synthetic resins that can meet advanced and special needs. The domain's strengths are its unique development and manufacturing technologies and marketing, and its comprehensive capabilities, which cover the entire product chain from raw materials to derivatives and processing products. Further, from a global perspective, it supports the building of bountiful societies.

Percentage of Sales by Segment in Fiscal 2013



Major Products

- ■ Basic petrochemicals
- ■ EO[*2], EG[*3] and ethanol
- ■ Terephthalic acid
- ■ Coke
- ■ High-performance graphite
- ■ Carbon black and rubber
- ◆ MMA[*4]/PMMA[*5]
- ◆ Performance polymers
- ◆ Polyolefins
- ◆ Phenol and PC[*6] chain
- ◆ Sustainable resources

[*2] EO: Ethylene oxide
[*3] EG: Ethylene glycol
[*4] MMA: Methyl methacrylate monomer
[*5] PMMA: Polymethyl methacrylate
[*6] PC: Polycarbonate

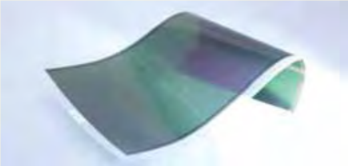
(Note) In addition to the above five business segments, there is the "Other" segment, which includes engineering, transportation, warehousing and other businesses.

Performance Products Domain

Business and Product Topics[*7]

■ Organic Photovoltaic Modules and Materials

We have developed thin, light, and sheet-shaped organic thin-film photovoltaic cells with a **conversion efficiency of 11.7%—a world-leading level**



◆ Carbon Fiber and Composite Materials

We have developed applications with **synergies created with two different types of carbon fiber:** polyacrylonitrile (PAN)-based and pitch-based carbon fibers

→ Related information p.27 and 42

◆ Agribusiness Solutions

We are utilizing our comprehensive capabilities to propose two types of **plant factory systems**: one using artificial light and one using sunlight

→ Related information p.39 and 49

Health Care Domain

Business and Product Topics[*7]

■ Pharmaceuticals

Gilenya[*8], a treatment for multiple sclerosis that has been approved in over 78 countries around the world and has earned **income from royalties of ¥32.2 billion**

→ Related information p.30 and 45

■ Pharmaceutical Formulation Materials

We have established a position as a **leading company** in the cellulose capsule field, a market that is growing more than 10% per annum

→ Related information p.31

■ Clinical and Other Testing

We contribute to a variety of international sports events as the **only doping control laboratory in Japan** that is officially accredited by the World Anti-Doping Agency

Industrial Materials Domain

Business and Product Topics[*7]

■ Coke

For more than 40 years, we have utilized **one of the largest coke ovens in the world** to provide a steady supply of coke to domestic and overseas steel manufacturing companies

◆ MMA/PMMA

Our overwhelming competitiveness has made us **the world No.1 supplier** of raw materials for resins

◆ Sustainable Resources

We are working to **realize sustainable chemical products** such as developing plant-derived and biodegradable plastics and we are also meeting the challenge of creating artificial photosynthesis technologies that utilize CO_2

→ Related information p.35 and 43

*7 We have listed the major businesses and products. *8 Sold under the name *Imusera* in Japan.

Value

Financial Summary

	FY 2005	FY 2006	FY 2007	FY 2008
	Millions of yen			
For the Year				
Net sales	¥2,408,945	¥2,622,820	¥2,929,810	¥2,909,030
Operating income	133,619	128,589	125,046	8,178
Income (loss) before income taxes and minority interests in consolidated subsidiaries	115,070	137,802	217,791	(44,002)
Net income (loss)	85,569	100,338	164,064	(67,178)
Total comprehensive income	–	–	–	–
Capital expenditures	97,864	130,855	170,051	139,011
Depreciation and amortization	88,165	83,270	102,172	119,230
R&D expenditures	89,594	91,177	112,064	127,802
Net cash provided by operating activities	179,723	63,343	156,173	76,149
Net cash used in investing activities	(74,365)	(133,434)	(177,985)	(189,233)
Net cash provided by (used in) financing activities	(97,181)	74,492	70,871	179,526
At Year-End				
Total assets	¥2,126,612	¥2,318,832	¥2,765,837	¥2,740,876
Property, plant and equipment	686,680	724,438	852,806	834,046
Short-term and long-term debt	636,669	739,673	822,520	1,033,239
Total net assets	656,060	758,752	1,095,927	940,114
Per Share	Yen			
Net income (loss)—Basic	¥69.51	¥73.25	¥119.51	(¥48.81)
Net assets	478.72	520.05	601.45	486.09
Cash dividends	14.00	14.00	16.00	12.00
Ratios				
Return on assets (ROA) (%)	5.6	6.1	8.5	(1.5)
Return on equity (ROE) (%)	15.5	14.6	21.3	(8.9)
Shareholders' equity ratio (%)	30.8	30.7	29.9	24.4
Other				
Number of employees	32,955	33,447	39,305	41,480

FY 2005–2007

***KAKUSHIN* Plan: Phase 2**

Building foundation for growth

- Established MCHC
- Active capital and R&D investment
- Merger of pharmaceutical business
- TOB of MPI
- Integrated performance materials business

FY 2008–2010

APTSIS 10

Recovery from economic contraction

* The data for fiscal 2005 is collated for the MCC consolidation in the first half of the year and for the MCHC consolidation in the second half of the year.

(Notes)
1. In this report, fiscal year refers to the period beginning April 1 and ending March 31. Fiscal 2013 refers to the year ended March 31, 2014.
2. U.S. dollar amounts are converted from yen at the rate of ¥130 = U.S.$1.00.
3. ROA is calculated as income before income taxes and minority interests in consolidated subsidiaries divided by average total assets.
4. ROE is calculated as net income divided by average shareholders' equity.
5. Shareholders' equity, when used in the calculation of ROE and shareholders' equity ratio, represents the sum of total shareholders' equity and total accumulated other comprehensive income.
6. When non-recurring depreciation on non-current assets is recorded, the amount is included in depreciation and amortization.

Millions of yen						Thousands of U.S. dollars
FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	Change (Year on year)	FY 2013
¥2,515,079	¥3,166,771	¥3,208,168	¥3,088,577	¥3,498,834	13.3%	$33,969,262
66,342	226,493	130,579	90,241	110,460	22.4%	1,072,427
43,311	169,552	127,474	82,900	116,594	40.6%	1,131,981
12,833	83,581	35,486	18,596	32,248	73.4%	313,087
37,513	86,742	64,199	94,900	134,016	41.2%	1,301,126
119,025	117,806	116,145	132,221	133,339	0.8%	1,294,553
129,574	148,697	145,695	129,549	131,571	1.5%	1,277,388
136,863	130,825	138,545	134,723	134,260	(0.3%)	1,303,495
116,073	288,853	217,954	206,504	177,027	(14.2%)	1,718,709
(327,006)	(101,064)	(63,404)	(169,758)	(159,789)	(5.8%)	(1,551,350)
94,437	(149,493)	(164,146)	(26,250)	(8,307)	(68.3%)	(80,650)
¥3,355,097	¥3,294,014	¥3,173,970	¥3,307,758	¥3,479,359	5.1%	$33,780,184
1,167,073	1,088,369	1,032,738	1,061,551	1,118,050	5.3%	10,854,854
1,454,126	1,304,589	1,164,128	1,198,799	1,258,186	4.9%	12,215,398
1,032,865	1,114,003	1,144,954	1,203,316	1,314,870	9.2%	12,765,728
Yen						U.S. dollars
¥9.32	¥58.72	¥24.06	¥12.61	¥21.89	73.5%	$0.21
490.99	514.30	522.77	553.54	611.95	10.5%	5.94
8.00	10.00	10.00	12.00	12.00	0.0%	0.12
1.4	5.1	3.9	2.6	3.4	30.7%	–
1.9	11.6	4.6	2.3	3.7	60.8%	–
20.0	23.0	24.2	24.6	25.8	4.8%	–
53,907	53,882	53,979	55,131	56,031	1.6%	–

- Aimed for structural reforms in petrochemicals business
- Prioritized investments and use of R&D expenditures
- Integrated MRC

FY 2011–2012

***APTSIS 15* Step1**

Strengthening capabilities for growth and taking leaps ahead

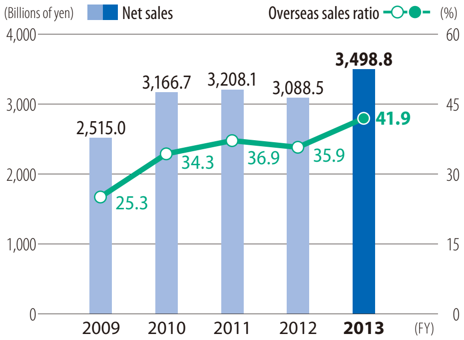
FY 2013–2015

***APTSIS 15* Step 2**

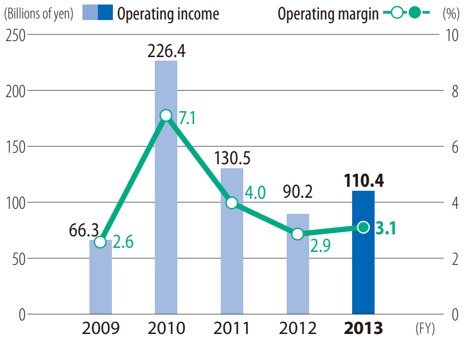
- Orchestrating the Group strengths: Realize synergy
- Strengthening footholds: Improve financial position
- Toward growth: Reform existing business models

Financial / Non-financial Highlights

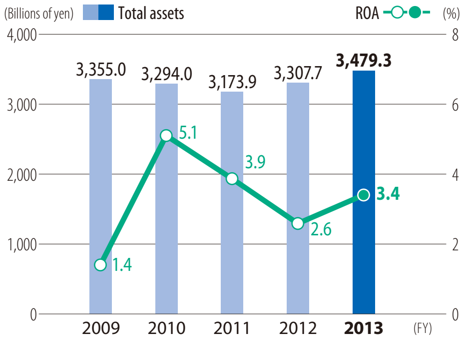
Net Sales and Overseas Sales Ratio



Operating Income and Operating Margin

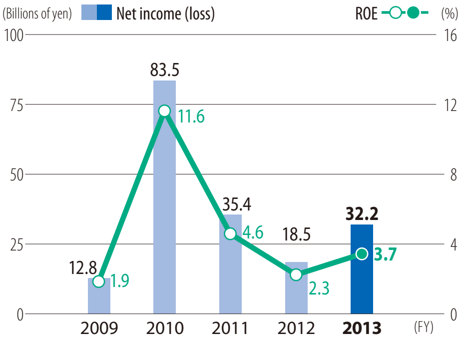


Total Assets and ROA*

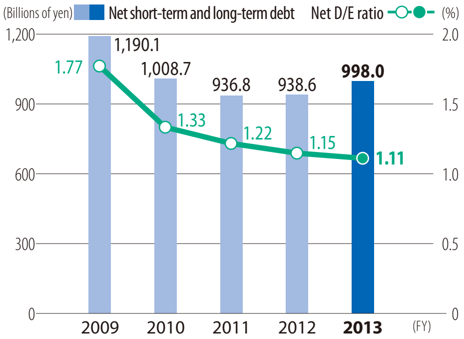


* ROA = Income before income taxes / total assets

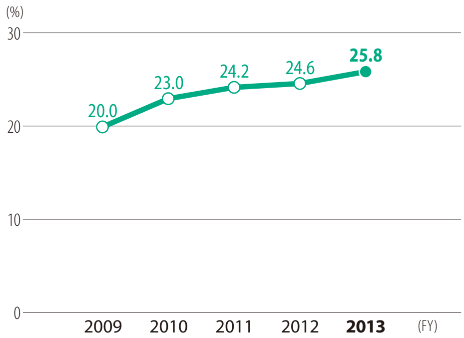
Net Income (Loss) and ROE



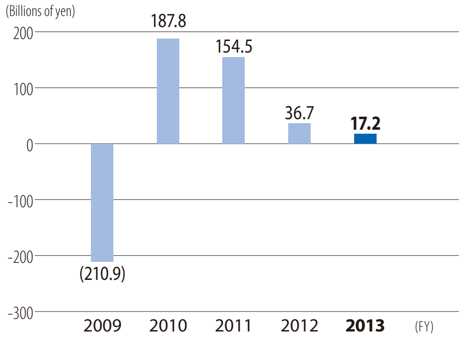
Net Short-term and Long-term Debt and Net D/E Ratio



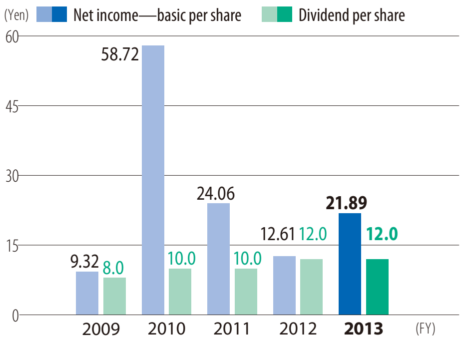
Shareholders' Equity Ratio



Free Cash Flows



Net Income—Basic Per Share and Dividend Per Share



Profit and Loss Situation in the Period under Review

Demand was largely on a recovery path against the backdrop of a moderate recovery in the economy, and with the change in the accounting period for some of the subsidiaries, net sales increased 13% from the previous period. Operating income increased 22% from the previous period due to the solid demand for flat panel display-related products, in particular touch panels, cost reductions, and the contribution of the weaker yen. The net income rose 73% from the previous period due to the report of an extraordinary gain in the pharmaceuticals business as well as from other factors.

Analysis of Financial Position

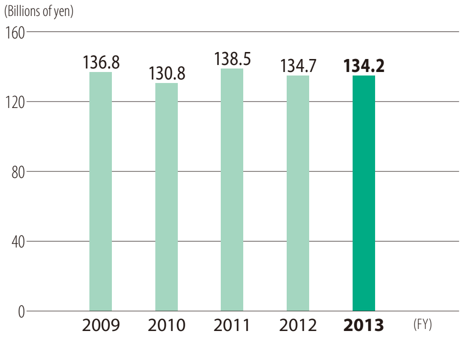
Total assets and liabilities at the end of the period under review increased compared to the end of the previous period due to the increase in the yen equivalent value of the assets and liabilities of the consolidated subsidiaries abroad resulting from the correction of the strong yen, and other factors. Both the shareholders' equity ratio and the net D/E ratio at the end of the period under review improved compared to the end of the previous period, increasing 1.2% and decreasing 0.04%, respectively.

Status of Free Cash Flows and Dividends

Net cash provided by operating activities came to ¥177.0 billion and due to our capital expenditures, our underwriting of the increased capitalization of Taiyo Nippon Sanso and other factors, net cash used in investing activities came to ¥159.7 billion. As a result, free cash flows recorded an income of ¥17.2 billion.

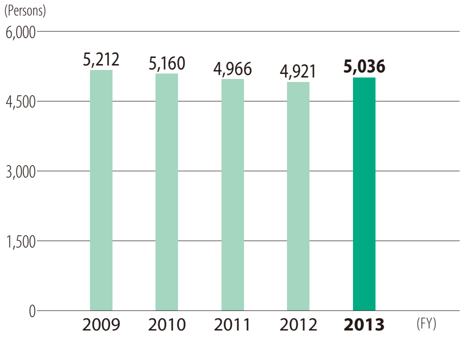
We paid out annual dividends of ¥12 per share after comprehensively taking into consideration stable dividends in the medium to long term, enhancement of the Group's overall internal reserves in preparation for business development going forward, and other factors.

R&D Expenditures*



* Including corporate R&D expenditures

Number of R&D Personnel*



* Including corporate R&D personnel

Status of R&D

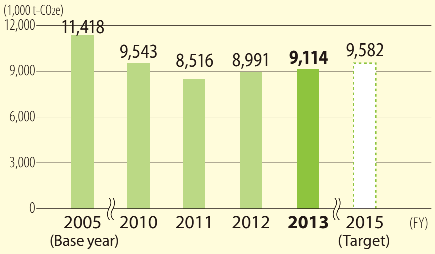
Over the past three years we have maintained R&D expenditures at the ¥130.0 billion to ¥140.0 billion yen scale. The number of R&D personnel increased because in fiscal 2013 Medicago Inc. (refer to page 31) became one of MTPC's group companies.

Highlights of the MOS Indexes

Please refer to p. 41 for the details and results of the MOS Indexes.

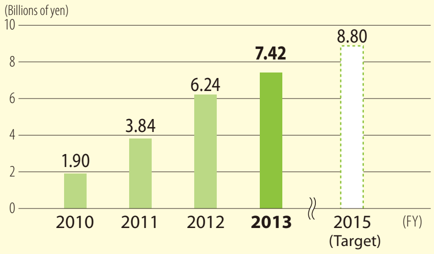
Sustainability [Green] Index

S-1-1 GHG Emissions*



* Figures for the domestic group companies

S-2-3 Energy-saving Impacts*



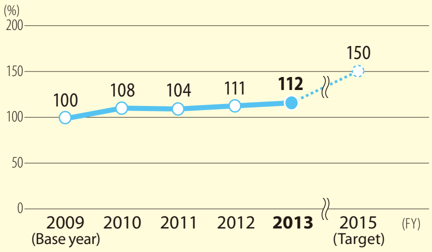
* Targeted are only projects with effects of ¥100 million or more

Trends for the Sustainability [Green] Index Overall

The results of some indexes are not performing well because the indexes are linked to the sales volume of products and materials. However, the effects of activities, which aim to promote energy-saving activities such as reductions in utilities, are gradually manifesting as good results.

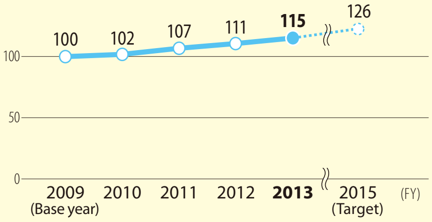
Health Index

H-1 Trends in Contribution to Medical Treatment*



* Contribution to medical treatment = The degree of difficulty to treat diseases multiplied by the number of administered patients

H-3-2 Trends in the Number of People Taking Diagnostic Tests

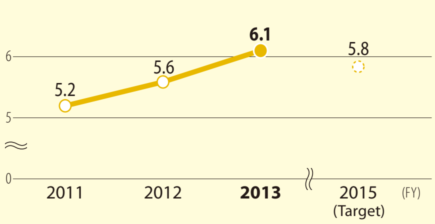


Trends for the Health Index Overall

We are working on post-marketing development and market launch of new pharmaceuticals and given that context, there are indexes that have been affected by the market expansion of generic pharmaceuticals, but the overall Health index is performing well.

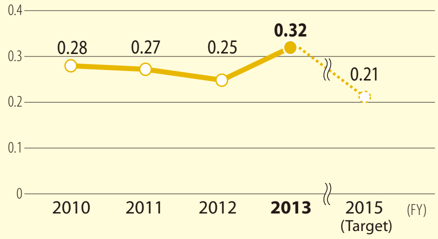
Comfort Index

C-2-2 Percentage of Female Employees to Employees at Assistant Manager Level and Above*



* Figures for the four operating companies (MCC, MTPC, MPI, and MRC) In fiscal 2013 we achieved the fiscal 2015 target early but we will continue to take a range of measures.

C-3 Lost-Time Injuries Frequency Rate (LTIFR)[*1, *2]



[*1] Figures for the domestic group companies

[*2] The LTIFR is the number of lost-time injuries per million hours worked, calculated using the following equation: (Number of lost-time injuries x 1,000,000 / (Total hours worked in accounting period)

Trends for the Comfort Index Overall

There are indexes that have been affected by the external environment, so the overall index is performing poorly. The lost-time injuries frequency rate is increasing due to accidents caused by human error, and we are taking countermeasures including improving the equipment and providing additional training to employees.

Transformation

Yoshimitsu Kobayashi
President and Chief Executive Officer

Message from the President

First, I would like to express my sincere gratitude to each of our stakeholders for their understanding and continued support.

Following fiscal 2013, we published the *KAITEKI* Report 2014, which summarizes the progress of our *KAITEKI* Management, including the results and the future outlook of the MCHC Group and other issues in one volume. We attempted to make the content even easier for all of our stakeholders to understand, for example, by referencing the International Integrated Reporting Framework. The Group is making every effort to achieve the goals of *KAITEKI* Management, and we hope the report helps you reach a deeper understanding.

Fiscal 2013 Results

Based on *APTSIS 15*, the Group's medium-term management plan covering fiscal 2011–2015, we took measures such as reorganizing and withdrawing from unprofitable businesses, strengthening and enhancing the foundation of businesses such as performance polymers, reducing costs, and reexamining capital expenditures, resulting in higher sales, operating income, and net income compared to the previous fiscal year.

In the year under review, the Japanese economy recovered moderately because of an improved export environment due to monetary and fiscal policies that effectively addressed the overvalued yen, as well as signs of improvement in domestic demand.

Looking at the business environment surrounding the MCHC Group, weakness was apparent in the move toward economic recovery in regions such as the People's Republic of China (PRC) and Europe for the Performance Products and Industrial Materials domains. However, overseas demand generally showed a slight trend toward recovery, and the domestic economy also recovered modestly. As a result of these and other factors, the business environment continued to improve. On the other hand, the Health Care domain faced severe conditions with the expansion of generic drug use as well as other factors in Japan, despite favorable sales figures of license-out products in overseas markets.

In the year under review, based on *APTSIS 15*, the MCHC Group continued with its business structural reform and shift ("transformation"). This included accelerating reorganization or withdrawal from unprofitable businesses, and enhancing and expanding the foundation of the performance polymers business. Moreover, we strengthened the Group's comprehensive capabilities by creating synergies among the operating companies, and took a variety of measures including thorough cost-cutting, revising capital expenditures, and scaling back assets with a view to improve group-wide profitability.

As a result of the above, our consolidated financial results for fiscal 2013 showed ¥3,498.8 billion in net sales, an increase of ¥410.2 billion (13.2%) from the previous fiscal year, partly because some of our overseas subsidiaries recorded net sales for 15 months due to a change in accounting periods.

Looking at profits, our operating income was ¥110.4 billion, an increase of ¥20.2 billion (22.4%) from the previous fiscal year, and ordinary income was ¥103.0 billion, an increase of ¥16.0 billion (18.4%), thanks to strong demand for display-related products, especially touch panels, our efforts to cut costs, and the yen's depreciation despite continued soft supply-and-demand balances in some petrochemical-related products. In addition, our net income was ¥32.2 billion, an increase of ¥13.6 billion (73.4%), due to extraordinary gains associated with the *Remicade* arbitration award in the pharmaceutical business.

Future Outlook and Issues the MCHC Group Must Address

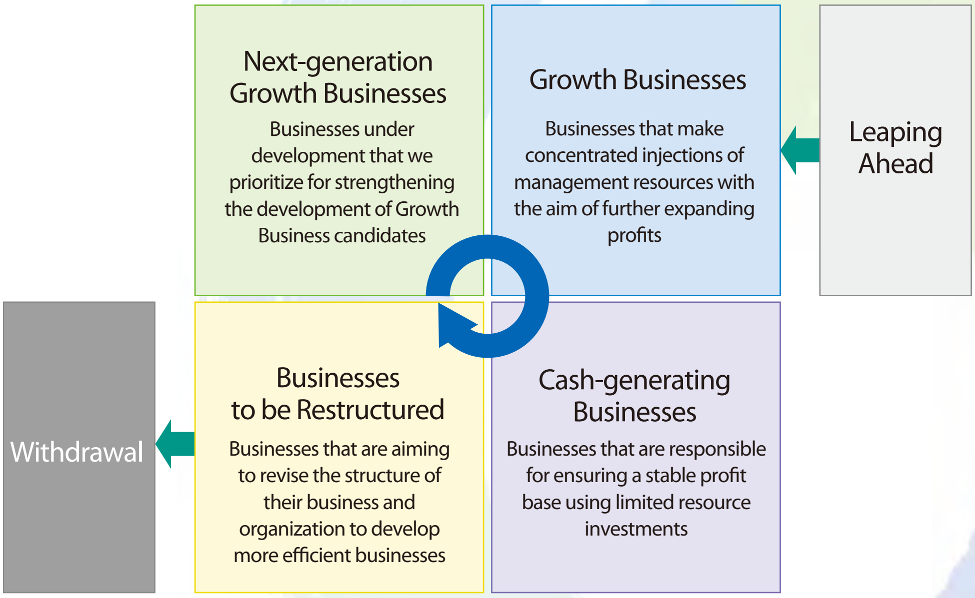
We intend to devote maximum efforts to achieving our goals by reliably and rapidly executing measures that include our business structural reform and shift ("transformation"), strengthening the Group's comprehensive capabilities by further creating synergies among our operating companies, and improving our financial position.

Turning to the Japanese economy, the impact of the decline in personal consumption following the increase in the consumption tax rate has been generally within assumptions, and we expect the economy to continue on the current gradual recovery path, backed by the effects of monetary and financial policies. The global economy, centered on the developed countries in Europe and the U.S., is expected to remain in a gradual recovery but there are concerns about a downturn in overseas economies triggered by the reduction of monetary easing in the U.S., the slowdown in economic growth in PRC and emerging markets, and geopolitical risks.

In this business environment, the MCHC Group will take steps toward its business structural reform and shift (transformation) based on *APTSIS 15* by strengthening the Group's comprehensive capabilities with enhanced synergies among our operating companies, and the improvement of our financial position.

In the Performance Products domain, we will accelerate the expansion and globalization

Transformation of MCHC Group Business Portfolio



Next-generation Growth Businesses
Businesses under development that we prioritize for strengthening the development of Growth Business candidates

Growth Businesses
Businesses that make concentrated injections of management resources with the aim of further expanding profits

Leaping Ahead

Businesses to be Restructured
Businesses that are aiming to revise the structure of their business and organization to develop more efficient businesses

Cash-generating Businesses
Businesses that are responsible for ensuring a stable profit base using limited resource investments

Withdrawal

We have pushed ahead with our portfolio transformation using a business management technique called the four-quadrant model that allows us to classify a broad range of businesses based on their life cycles and reallocate resources optimally. We are aiming to continuously create new value and make the Group grow sustainably by reallocating management resources obtained from the Cash-generating Businesses to the Growth Businesses and the Next-generation Growth Businesses without depending on a specific business life cycle.

of sectors that we have positioned as Stable Businesses, such as specialty chemicals, and we will work to swiftly expand earnings from carbon fiber and composite materials, water treatment systems and services, agribusiness solutions, and other Growth Driver Businesses.

In the Health Care domain, we will strengthen our drug discovery capabilities in the pharmaceutical business and move ahead with the building of the infrastructure to expand our overseas businesses. At the same time, under the leadership of the Life Science Institute, Inc., which we launched in April 2014, we will strengthen and expand the foundation of the healthcare solutions business.

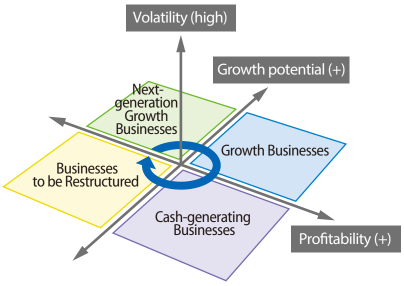
→ Related information p.20-23

In the Industrial Materials domain, we are reorganizing the ethylene center and further reforming our business structures for terephthalic acid, a raw material for synthetic fibers. In methyl methacrylate (MMA) and polymethyl methacrylate (PMMA), which are Stable Businesses, we will establish an optimal global supply structure, including measures to respond to the shale revolution, to maintain and further strengthen our advantage in the market. As part of this, in February 2014 we decided to build new MMA and PMMA plants jointly with Saudi Basic Industries Corporation (slated to start operation in the middle of 2017), and in the U.S. we began studies of a joint venture related to MMA with Mitsui & Co., Ltd. and The Dow Chemical Company in June 2014 (slated to start operation at the end of 2018).

Taking into account the above circumstances, we forecast the consolidated financial results for fiscal 2014 with net sales of ¥3,530.0 billion, an increase of ¥31.1 billion (0.8%) from the year under review, operating income of ¥136.0 billion, an increase of ¥25.5 billion (23.1%),

Four-quadrant Model in Business Portfolio Management

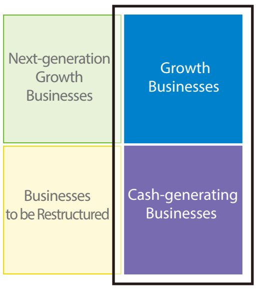
(Management based on product life cycles and business growth potential and profit potential)



Growth Model (Management based on profit structures)

Stable Businesses

Businesses that are relatively unaffected by changes in the market and are expected to provide stable income in the medium-to-long term

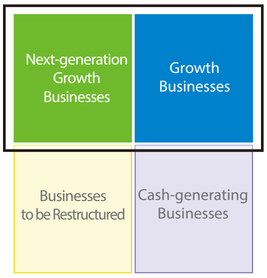


- 🔵 Polyester film
- 🔵 PVOH/EVOH
- 🔵 Engineering plastic products
- 🔵 Pharmaceuticals
- 🔵 MMA/PMMA
- 🔵 High-performance graphite
- 🔵 Performance polymers
- 🔵 Specialty chemicals
- 🔵 High-performance films
- 🟣 Food ingredients
- 🟣 Diagnostics and support for new pharmaceutical development
- 🟣 Coke

and others

Growth Driver Businesses

Businesses where the Group is targeting strategic sales growth

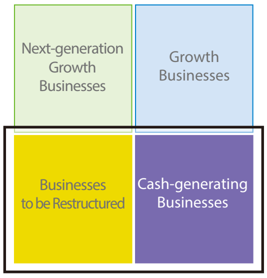


- 🟢 Organic photovoltaic modules and materials
- 🟢 Organic photo-semiconductors
- 🟢 Advanced performance products (*AQSOA* and others)
- 🟢 Agribusiness solutions
- 🟢 Sustainable resources
- 🟢 Healthcare Solutions
- 🔵 Carbon fiber and composite materials
- 🔵 White LED lighting and materials
- 🔵 Lithium-ion battery materials
- 🔵 Water treatment systems and services

and others

Volatile Businesses

Businesses in which significant volatility due to external factors is unavoidable



- 🟡 Performance molding products
- 🟡 Terephthalic acid
- 🟡 Phenol and polycarbonate chain
- 🟡 Polyolefins
- 🟡 Basic petrochemicals
- 🟣 Carbon black and rubber
- 🟣 Electronic and industrial films
- 🟣 Fibers

and others

and net income of ¥38.0 billion, an increase of ¥5.7 billion (17.8%). The conditions continue to be tough for achieving operating income of ¥280.0 billion, a target of the final fiscal year (fiscal 2015) for Step 2 of *APTSIS 15*, but we will maximize our efforts to achieve these targets. We will move decisively and rapidly to address the aforementioned issues, while continuing to shift our business structures.

On the other hand, as a part of our Leaping Ahead strategy, in October 2013 we further strengthened our capital and business alliance with Taiyo Nippon Sanso Corporation by increasing our equity participation. In June 2014, we decided to implement a takeover bid to transform the company into an MCHC consolidated subsidiary during 2014. Taiyo Nippon Sanso is the leading industrial gas manufacturer in Japan. We will increase the corporate value of both companies and proceed with our business structural transformation with the following measures. By incorporating the industrial gas business into the MCHC Group portfolio and concentrating the global management resources of the two companies, we will cooperatively utilize manufacturing and sales bases and supply chains, and operate in new locations overseas as a response to the shale revolution. We will also pursue synergies and new product development in the electronics and healthcare fields.

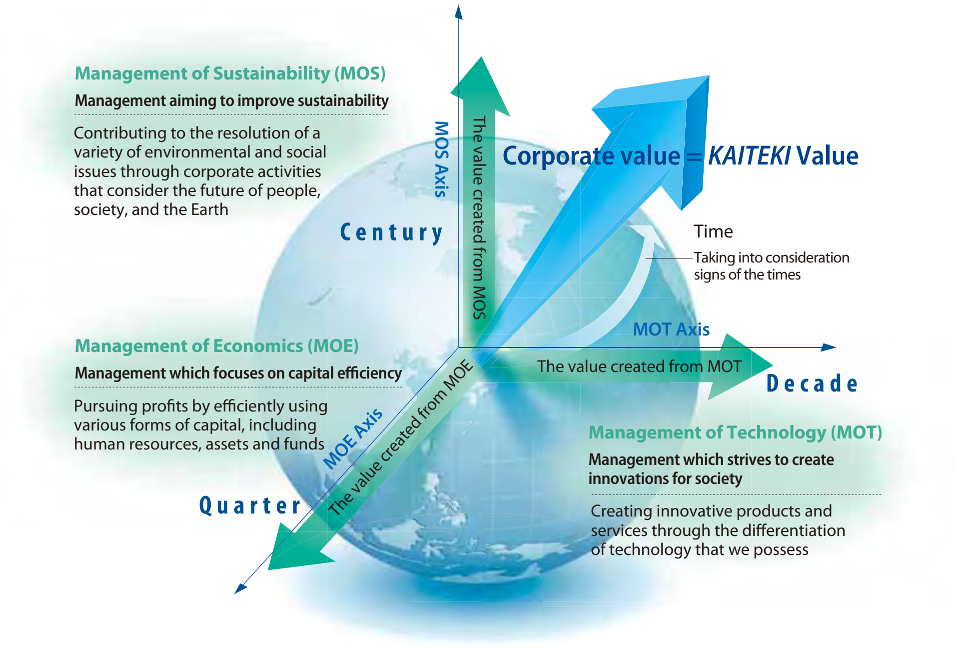
We have implemented a number of mergers and acquisitions. These efforts have not only expanded the Group's business scale and promoted synergies, but also diversified human resources by inviting new personnel in our Group to raise awareness and revitalize the organization. We think this is an essential part of our transformation.

KAITEKI Management

As “THE KAITEKI COMPANY,” the Company Uses Materiality Assessment to Identify Issues Essential to the Development of Our *KAITEKI* Management.

The MCHC Group has established “Sustainability [Green],” “Health,” and “Comfort” as the decision criteria for our corporate activities. We added Management of Sustainability (MOS), with the aim of improving sustainability, to the existing Management of Economics (MOE), which focuses on capital efficiency by utilizing conventional financial indexes, and Management of Technology (MOT), which strives to create innovations for society. We also applied the element of time into these three management aspects, to promote *KAITEKI* Management that increases group-wide corporate value. Of the above, we have established and adopted MOS Indexes, which in fiscal 2015 target the perfect score of 300 points, to quantitatively monitor our performance. Of these indexes, the Sustainability Index was weak due to the impact of the deteriorated business environment facing some of the Growth Driver Businesses, including the electronics-related business. On the other hand, the Health Index and the Comfort Index were strong, and we achieved a score of 208 points for the year under review (compared to 189 points for the previous fiscal year). In fiscal 2013 we also quantified MOT Indexes on a trial basis, to monitor our progress toward achievement of our business strategy, R&D strategy, and intellectual property strategy.

Furthermore, in November 2013 we established “THE KAITEKI COMPANY” as our corporate brand, striving to further increase the Group’s brand value. → Related information p.5



In addition, the MCHC Group recently implemented a materiality assessment while taking into account the perspective of our stakeholders. Through the assessment, we identified the issues that the Group believes are important, and prioritized material managerial issues that need to be addressed. We will utilize the assessment results to develop and formulate management policies. → Related information p.4

Thorough Safety and Compliance Measures and Enhancement of Corporate Governance

The MCHC Group has a keen sense of corporate social responsibility and not only ensures thorough safety management, but also diligently pursues more effective risk management and compliance. In addition to conventional measures to enhance our corporate governance structure, we strive to further improve governance from the perspectives of our stakeholders, including shareholders and investors.

Toward a Further Increase in Shareholder Value

Increasing Shareholder Returns in Line with Business Performance while Maintaining a Balance between Stable Medium- to Long-term Dividends and Internal Reserves as a Source to Fund Business Development.

MCHC's basic policy toward shareholder returns is to "Enhance shareholder value by improving corporate value," and we strive to increase shareholder returns in line with business performance while maintaining a balance between stable medium- to long-term dividends and internal reserves as a source to fund business development.

Based on this policy, we resolved to pay interim and year-end dividends for fiscal 2013 of ¥6 per share, totaling ¥12 per share for the year. In the current fiscal year, we also plan to pay ¥6 per share in both interim and year-end dividends, for a total annual dividend of ¥12 per share.

At the same time, we will enhance the content of management indexes and accounting standards to provide stakeholders with a more complete understanding of our management policies and business performance, presented in a way that meets their needs.

We have adopted return on assets (ROA) as one of the basic management indexes in *APTSIS 15*. We will also discuss an emphasis on return on equity (ROE) as a management index.

Furthermore, we decided to voluntarily adopt the International Financial Reporting Standards (IFRS) in time for the start of our next medium-term management plan (from the fiscal year ending March 31, 2017), with the aim of improving the international comparability of financial information in capital markets and unify accounting throughout the Group.

Aiming to Truly Be "THE KAITEKI COMPANY"

The entire Group will do its utmost to address the various management issues it faces and seek to increase its corporate value and shareholder value.

Furthermore, under the flag of our newly established corporate brand "THE KAITEKI COMPANY," we will take full advantage of the power of science to contribute to the solution of global social issues such as climate change, resources and energy, and food and water shortages, and also boldly challenge ourselves to create value that will improve the quality of people's lives.

Finally, I look forward to the continued support and guidance of all our stakeholders.

President and Chief Executive Officer

Special Feature

New horizons for healthcare solutions

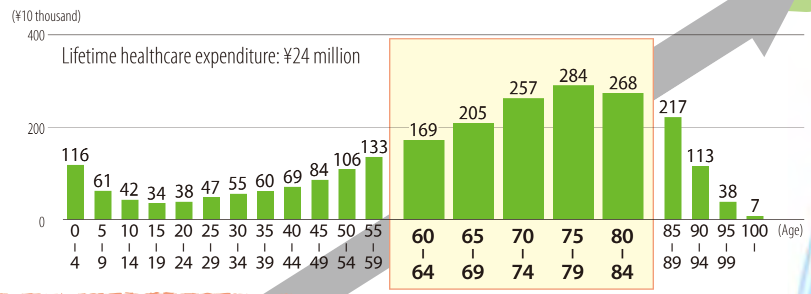
The growing consumer interest in health has spurred the spread of a wide range of products and services to promote healthy living. As a result, the healthcare-related market has significant growth potential. On the other hand, two of the biggest challenges facing our society today are the aging demographics and the increase in lifestyle-related diseases, as they drive up healthcare expenditure and social welfare costs. We need to find new solutions to these problems. MCHC has positioned healthcare as a growth driver. We have integrated all our Group healthcare-related businesses, with the exception of pharmaceuticals, into the newly established Life Sciences Institute, Inc. to strengthen our position in healthcare solutions.

Direction to solutions

Extend the period of "healthy life expectancy"* for the elderly

* The period of life where daily nursing care is not required and the individual can live independently. Defined by subtracting the period of time where nursing care is required from average life expectancy.

Age distribution of lifetime healthcare expenditure (FY2010 estimate)



Note: Estimated using a fixed population from the 2010 complete life table, based on public healthcare expenditure per person according to age categories in FY2010 estimate

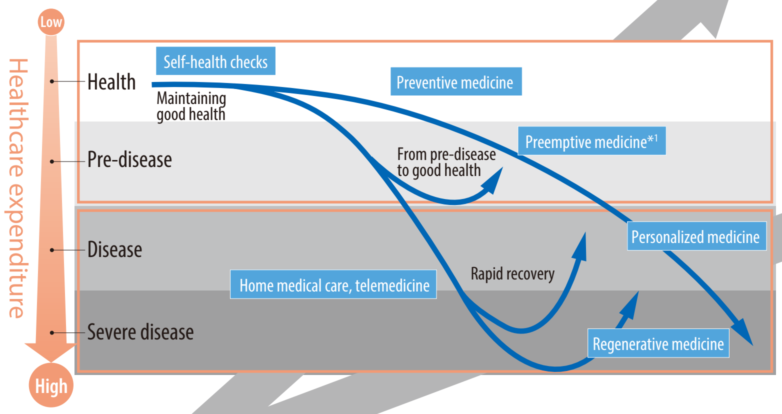
Ages accounting for approx. 50% of healthcare spending

In August 2013, the Japanese government established the Office of Healthcare Policy to develop growth strategies related to health and medicine.

Direction to solutions

Industrialize the "Health" and "Pre-disease" stages

Key healthcare areas to extend healthy life expectancies



Direction to solutions

Greater efficiency and technological innovation in treatment of the "Disease" and "Severe Disease" states

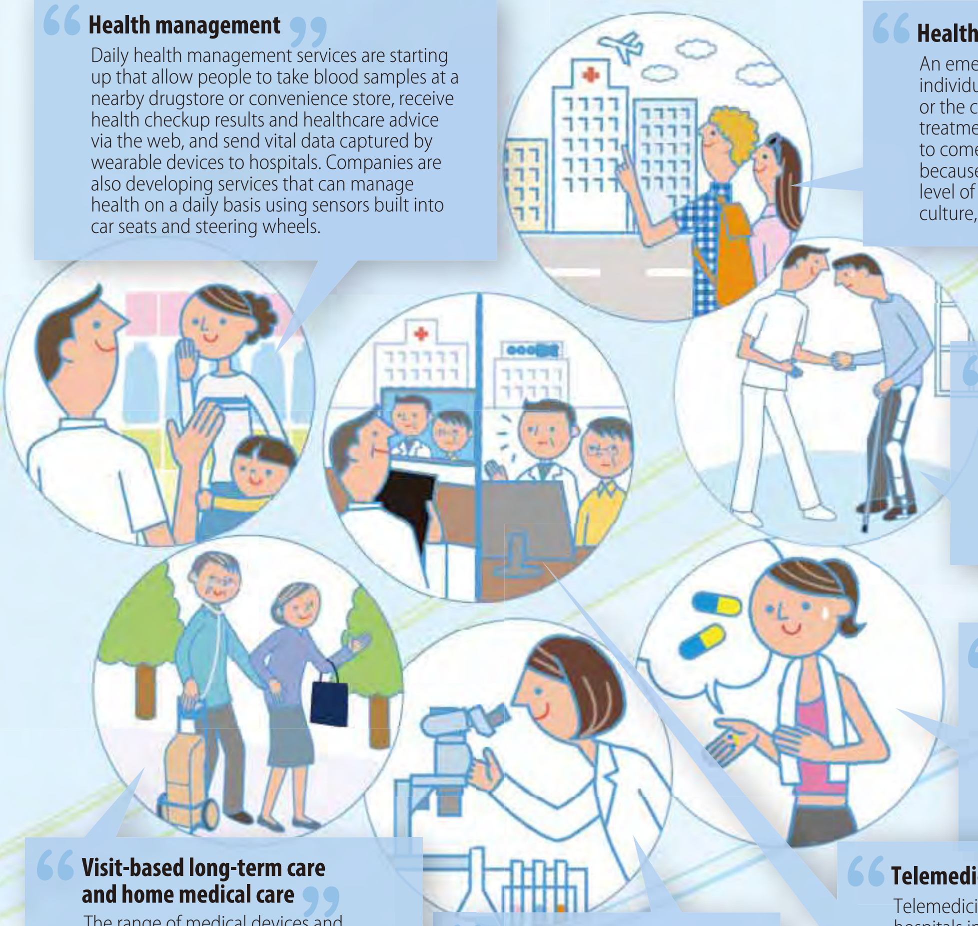
Rising healthcare expenditure

Healthcare spending tends to rise as a patient progresses from a "healthy" state to a "pre-disease" state, in which the individual is likely to progress on to a diseased state, and then, to an actual "disease" state. Furthermore, spending continues to increase as disease states become "severe".

[1] The new direction in healthcare as proposed by the Japan Science and Technology Agency (JST). Preemptive medicine involves diagnosing and predicting a disease with a certain degree of probability and performing a therapeutic intervention at the stage before disease onset when there are no clinical symptoms and even no abnormal findings from routine clinical tests.
Ref: *Strategic Initiative Promoting Preemptive Medicine in a Hyper-Aged Society* from JST's Center for Research and Development Strategy (CRDS)

Rise of healthcare-related markets

As well as conventional disease treatments (“sick care”), we are now seeing products and services that support health and recovery at the “Health” and “Pre-disease” stages.



Health management

Daily health management services are starting up that allow people to take blood samples at a nearby drugstore or convenience store, receive health checkup results and healthcare advice via the web, and send vital data captured by wearable devices to hospitals. Companies are also developing services that can manage health on a daily basis using sensors built into car seats and steering wheels.

Healthcare tourism

An emerging trend is healthcare tourism, where individuals dissatisfied with the level of healthcare or the cost in their own country travel abroad for treatment or surgery. More people are expected to come to Japan for healthcare tourism purposes because Japan is known worldwide to have a high level of technical medical expertise, a healthy food culture, and long-lived and hospitable people.

Long-term care and medical robots

The *da Vinci* robot, introduced in 2000 to assist during endoscopic surgery, has now been used in over 800,000 clinical procedures. For the first time, the *HAL* cyborg-type robot that improves the wearer’s mobility was approved in Europe in 2013 as a medical device.

Health foods and supplements

Food and pharmaceutical manufacturers and various other businesses are developing health foods and supplements to meet demand generated by the growing interest in healthy living.

Telemedicine

Telemedicine links local GPs with general hospitals in faraway locations via a network in order to provide the GPs with diagnoses from distant specialists and specialist advice on imaging.

Visit-based long-term care and home medical care

The range of medical devices and services for in-home use is expanding due to moves to promote home medical care.

Regenerative medicine

The only regenerative medicine products currently approved to date are for skin and cartilage treatments, but the industry is expected to develop further with the change in approval procedures in 2013. Companies are also establishing 3D printing technologies to produce artificial joints and bone.

Healthcare-related markets poised to grow worldwide

Industrialized nations are facing the challenges of rising healthcare expenditure coupled with longer life expectancies and aging demographics. The healthcare-related market encompasses a wide range of services for rehabilitation and long-term care; products such as health foods and devices to manage, maintain, and promote healthy living; as well as pharmaceuticals and medical devices. This market is growing because of the shortage of doctors, nurses, and long-term care workers in Japan and the growing interest in healthy living.

The Japanese Cabinet decided in 2013 to establish a body to function as a control center for R&D, in a bid to foster the health and medical fields as strategic industries and drive economic growth to allow the country to overcome the issues associated with extreme demographic aging.[*2]

In emerging countries, rapid population growth is driving up demand for healthcare services. The global healthcare-related market grew by an average of 8.7% per annum between 2001 and 2011, and is expected to continue growing in the future.

Capture growth opportunities generated by market expansion and strengthen our position as a healthcare solutions provider

To capture growth opportunities generated by healthcare market expansion, the MCHC Group will continue to focus on pharmaceutical development for conventional therapeutic uses (sick care), such as the development of innovative new pharmaceuticals and to satisfy unmet medical needs (see page 30). However, the Group is also restructuring its operations to better combine the Group’s diverse technologies and services for healthcare solutions businesses to provide a wider range of products and services.

[*2] In August 2013, the Cabinet Office decided to establish the Office of Healthcare Policy chaired by the Prime Minister. In January 2014, the Office of Healthcare Policy published a general strategy for R&D in healthcare fields.

New unit in healthcare

In April 2014, MCHC established LSII, which integrates all the healthcare-related businesses in the Group except pharmaceuticals, and the MCHC Healthcare Solutions Department. This new organization is part of a bid to strengthen our position in healthcare solutions and achieve sustained growth in expanding healthcare-related markets.

Four Group companies involved in diagnostics, clinical testing, pharmaceutical development support, active pharmaceutical ingredients and intermediates, pharmaceutical formulation materials such as capsules, pharmaceutical equipment, and self-health check services will continue to leverage their expertise to provide products and services as part of LSII. Furthermore, the integration of Group company management into LSII will enable the identification of synergies between the MCHC Group and LSII Group. We will also pursue alliances with non-Group companies to provide a wide-range and diverse portfolio of solutions, from sick care to healthcare, in the three fields of health and medical ICT, pharmaceutical development and manufacturing support, and advanced medication.

The goal is to build overseas business using solutions developed in Japan and to grow sales from ¥125 billion today to ¥500 billion in 2020.

Health and medical ICT

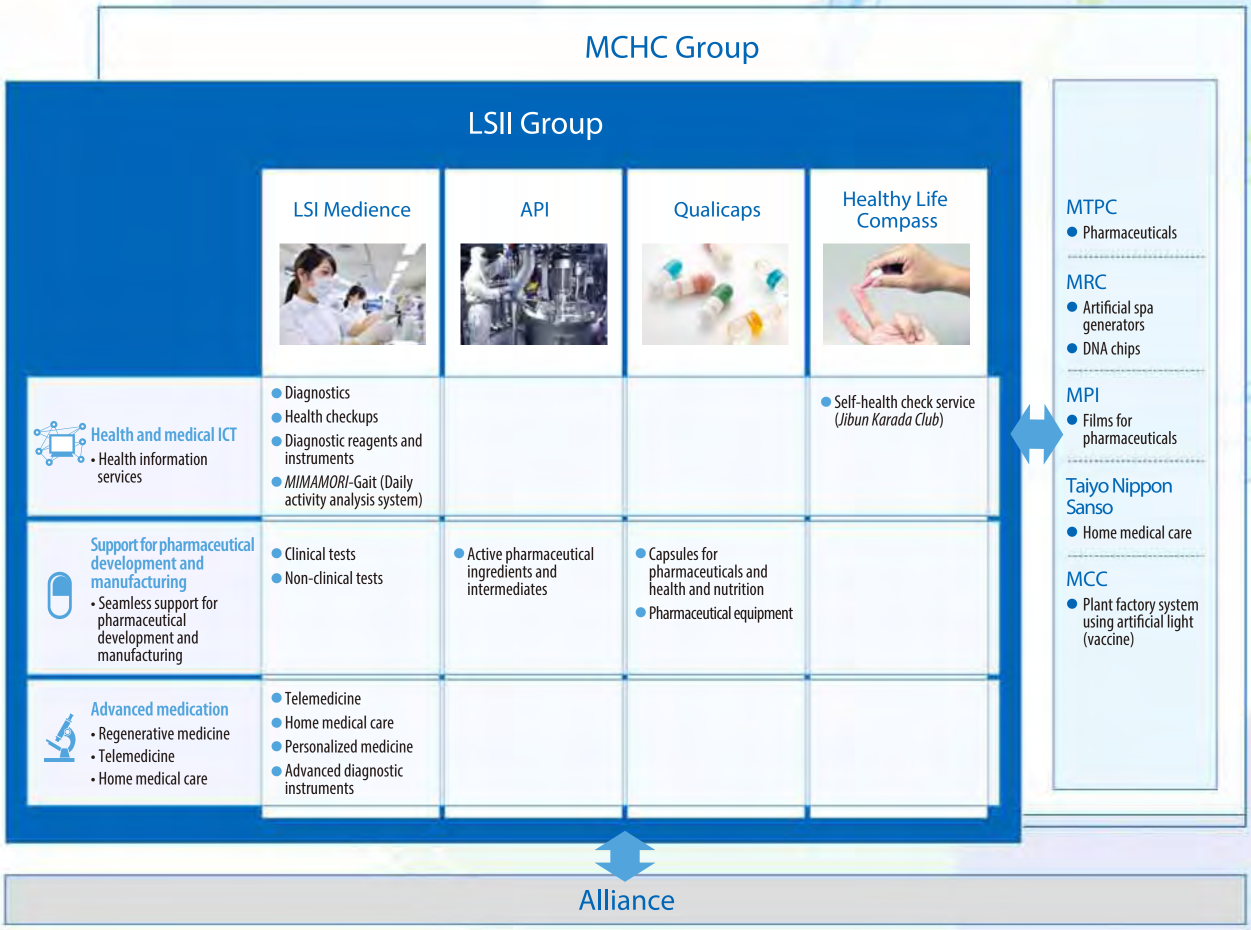
The rush to utilize Big Data using ICT may also generate major business opportunities. Integrating data from health checkups, diagnostics, and elsewhere may improve healthcare efficiency, reduce healthcare expenditure, and create new business opportunities related to health.

Support for pharmaceutical development and manufacturing

We will provide seamless services to support pharmaceutical development and manufacturing by integrating the pharmaceutical development and manufacturing businesses, which support clinical and non-clinical tests and supply active pharmaceutical ingredients and intermediates, and by linking functions and information. This will contribute to more efficient development and manufacturing processes of new pharmaceuticals.

Advanced medication

We will support advances in next-generation medication by providing solutions in a wide range of fields for materials, systems, and services, in order to promote the application of regenerative medicine and the development of advanced home medical care and telemedicine services.



MCHC Group

LSII Group

	LSI Medience	API	Qualicaps	Healthy Life Compass
Health and medical ICT • Health information services	● Diagnostics ● Health checkups ● Diagnostic reagents and instruments ● *MIMAMORI*-Gait (Daily activity analysis system)			● Self-health check service (*Jibun Karada Club*)
Support for pharmaceutical development and manufacturing • Seamless support for pharmaceutical development and manufacturing	● Clinical tests ● Non-clinical tests	● Active pharmaceutical ingredients and intermediates	● Capsules for pharmaceuticals and health and nutrition ● Pharmaceutical equipment	
Advanced medication • Regenerative medicine • Telemedicine • Home medical care	● Telemedicine ● Home medical care ● Personalized medicine ● Advanced diagnostic instruments			

MTPC
- Pharmaceuticals

MRC
- Artificial spa generators
- DNA chips

MPI
- Films for pharmaceuticals

Taiyo Nippon Sanso
- Home medical care

MCC
- Plant factory system using artificial light (vaccine)

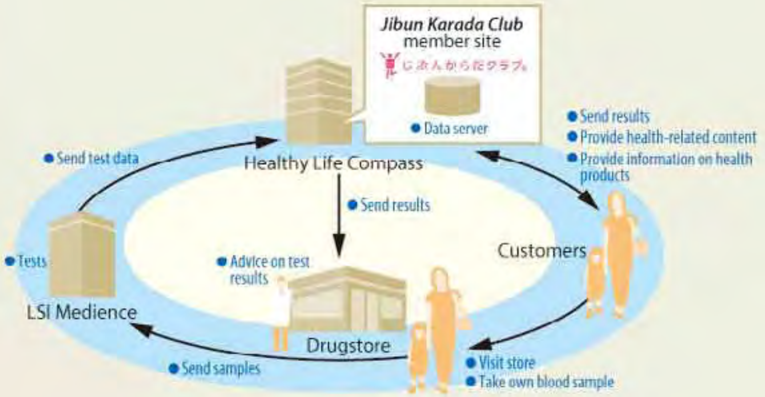
Alliance

Health management

Jibun Karada Club provides self-health check services

Providing opportunities for more people to get health checkups through local community drugstores

Lifestyle-related disease, such as cancer, cerebrovascular disease, and heart disease, needs to be addressed through dietary modification and other approaches at the pre-disease stage when an individual becomes aware of physical changes but before actual symptoms appear. A relatively high proportion of company workers get regular health checkups, but many housewives or self-employed workers only seek medical advice when they start to feel ill. MCHC established Healthy Life Compass in April 2013 with the goal of developing systems that anyone can use to check regularly for any physical changes. Through a partnership with Tsuruha Holdings Inc., which operates a nationwide chain of drugstores, Healthy Life Compass has started the *Jibun Karada Club* that provides in-store blood testing services to allow individuals to check on their health. Healthy Life Compass is expanding the number of stores where this service is provided, targeting 1 million users, and is developing services that are complementary to corporate health checkups. In partnership with food and health product manufacturers and fitness clubs, Healthy Life Compass is also working to develop the info-medicine portal that will feature rich content customized to individual customer interests and will provide solutions such as exercise therapy programs and menus of supplements and food suited to the individual's constitution and physical condition.



じぶんからだクラブ®

The *Jibun Karada Club* services work as follows. Customers visit a drugstore and take a blood sample by themselves with the help of the in-store pharmacists. LSI Medience then tests the sample and, after 7–10 days, customers can access the results of 13 different lifestyle-related disease tests either on the web or in the store. The test results are retained on a membership website designed by Ryoka Systems Inc. and operated by Healthy Life Compass, so customers can track changes over time.

OPINION

How to walk with good posture on your 80th birthday

Hiroko Akiyama
Professor, Institute of Gerontology,
The University of Tokyo

Japan has made astonishing progress with its "Longevity Revolution," which has increased the average lifespan by about 30 years in the second half of the 20th century alone and topping the world in life expectancy. According to 2014 global health statistics released by WHO in May, the average life expectancy is now 80 years for a Japanese male and 87 years for a Japanese female. Individuals who can live independently into their eighties are very fortunate. It is also a major benefit for society to be able to make the most of one's capabilities. We hope that Japan will become a long-lived society where people can enjoy these extra years of their lives. However, a study launched to track the aging patterns of elderly people showed that 80% were healthy enough to live alone until their mid-70s, but began to see a gradual decline in self-reliance. This loss of independence is due to physical frailty, as well as the increasing severity of lifestyle-related and other diseases. In many cases, the physical frailty involves locomotive syndrome, which is a locomotive apparatus disorder in which individuals lose their sense of balance and their ability to walk. It is therefore vital to identify those at the pre-disease stage of locomotive syndrome and to support them in taking steps to remain healthy. If such efforts are started at a younger age, they may achieve better results. In this way, we hope people can experience being fit and active on their 80th birthday.

The *KAITEKI* concept, developed by MCHC to help people live healthy and fulfilling lives and to resolve social issues, is aimed at building a long-lived society. MCHC is developing its healthcare business with the goal of supporting Japan as a *KAITEKI* society. The company aims to think outside the box and take on new challenges by collaborating with our various stakeholders.

Business Performance

Overview of Business Segments

While looking ahead to the needs of society and customers as well as changes to the business environment, we will promote businesses oriented toward "kotozukuri" (business framework making) that leads to realizing *KAITEKI*.

Performance Products Domain

> "We are leading the maximization of *KAITEKI* Value by providing diverse solutions utilizing the Group's wide range of products and technologies."

Hiroaki Ishizuka
President and
Chief Executive Officer, MCC

Takumi Ubagai
President and
Chief Executive Officer, MPI

Hitoshi Ochi
President and
Chief Executive Officer, MRC

Business Lines by Segment

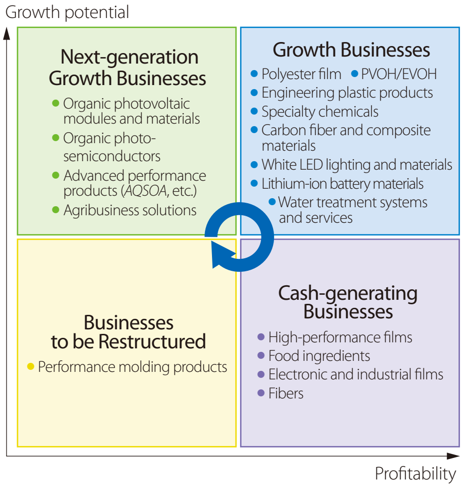
■ Electronics Applications

The Electronics Applications segment capitalizes on technology for designing and processing materials and creating materials for devices to provide high-value-added products in a wide array of areas, especially those of information and electronics-related technology and electronics.

◆ Designed Materials

Based on solid technologies accumulated over many years, including molecular design technology, functional design technology, polymer processing technology, etc. The Designed Materials segment is developing a variety of products including composite materials and inorganic chemicals, polymer processing products, films, etc.

Business Portfolios (by Business Unit)



Basic Strategies of the *APTSIS 15* Medium-term Management Plan (announced December 2010)

Growth Strategy
- Expand high-performance and high-value-added businesses
- Expand green businesses
- Accelerate global operations

Innovation Strategy
- Build and expand new businesses for the future

Cash-generating Businesses
- Increase profit stability

Business Environment (Market Trends) and Measures

As lifestyles become more abundant and values diversify, there is an ever greater demand for the enhancement of convenience in life, utilizing information and electronics and IT technology and higher performance and greater added value in the products that support that process. On the other hand, there is increasing awareness with respect to the sustainability of society, and the utilization of natural energy is also required from the perspectives of energy creation, energy storage, and energy saving. In the Performance Products domain, we have continued to focus our efforts on businesses that are expected to see growth in demand. For example, in March 2014 we became the first company in the world to achieve mass production of an OLED lighting module made with a wet coating process; moreover we developed organic thin-film photovoltaic cells, and are studying the possibility of commercializing them jointly with other companies. Furthermore, we are aiming to establish optimal production structures based on supply and demand. For example, we commenced production of polyester film for liquid crystal display backlight materials in China in July 2013. Going forward, we will anticipate social changes and respond to them sensitively and promptly while aiming to expand our businesses and maximize our profits.

■ Electronics Applications

Major Products
- Recording media
- Imaging supplies
- Display materials
- White LED lighting and materials (Photo ❶)
- Organic photovoltaic modules and materials


❶

◆ Designed Materials

Major Products
- Polyester film (Photo ❷)
- Optical PVOH[*1] film
- Engineering plastic products
- High-performance films
- Carbon fiber and composite materials
- Water treatment systems and services
- Chemical fibers (Photo ❸)
- Inorganic chemicals
- Food ingredients (Photo ❹)
- Specialty chemicals
- Lithium-ion battery materials
- Agribusiness solutions

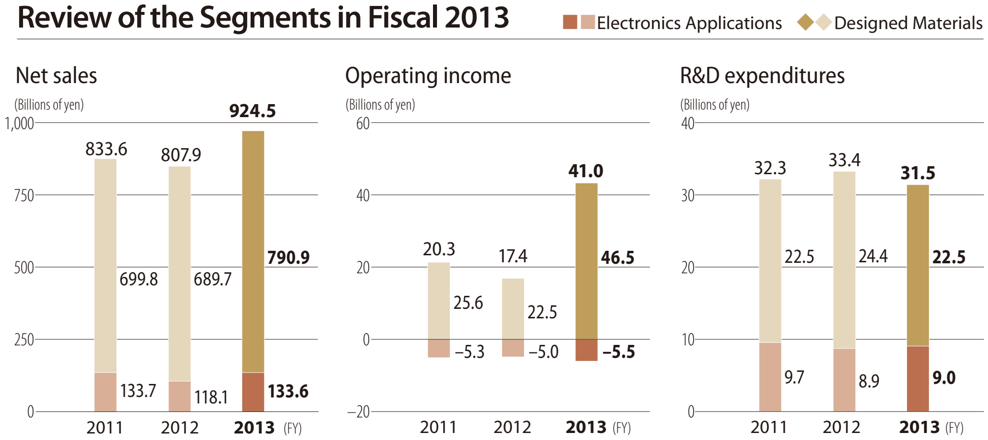
[*1] PVOH: polyvinyl alcohol


❷


❸


❹

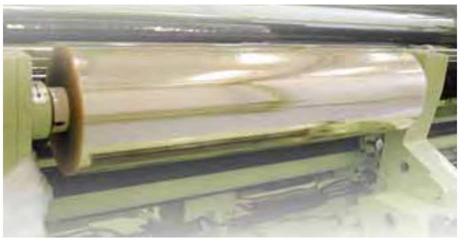
Review of the Segments in Fiscal 2013



■ Electronics Applications

In recording media, net sales increased due to changes in the accounting period of the overseas consolidated subsidiaries among other factors, although sales volumes decreased due partially to a shrinking DVD market and the sales prices of some products declined. Net sales of imaging supplies increased due to the impact of the depreciation of the yen and other factors, although the demand for OPC drums and toners stayed largely at the same level. As for information and electronics-related materials, although sales volumes of display materials and phosphors for LEDs increased, sales prices were in a declining trend. In addition, the precision cleaning and recycling of wafers for semiconductors, and other related services performed poorly, resulting in a decline in sales. As a result of the aforementioned factors, the net sales of the Electronics Applications segment increased ¥15.4 billion year on year, to ¥133.6 billion. However, the operating loss worsened ¥0.4 billion year on year, to ¥5.5 billion. Note that in March 2014, MCC commenced mass production and shipment of the OLED lighting module (white monochromatic type) through MC Pioneer OLED Lighting Corporation, a joint venture company between MCC and Pioneer Corporation. The new module permits significantly lower manufacturing costs than conventional modules with a film formation process for the light-emitting layer that uses a wet coating process.

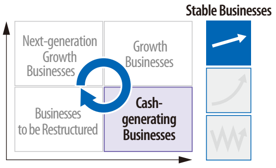
→ Related information p.38



◆ Designed Materials

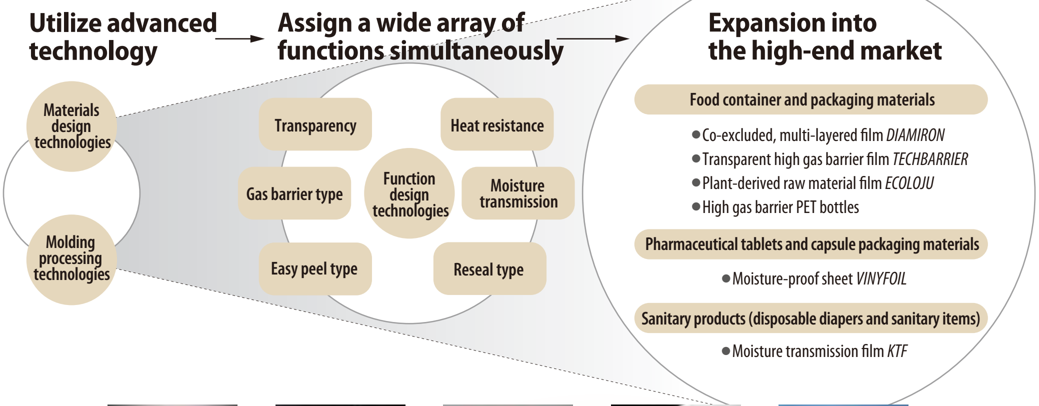
Sales of polymer processing products such as polyester film, optical PVOH film, and engineering plastic products increased substantially due to the fact that sales for flat panel display applications trended strongly in general and demand for touch panel applications was strong. This was also due to the impact of the depreciation of the yen and the change in the accounting period of some of the overseas consolidated subsidiaries. Looking at composite materials, sales of alumina fibers were strong, and the carbon fiber sales volume increased because demand was on a recovery path, and there was also the impact of the depreciation of the yen, so the value of sales of composite materials increased significantly. The value of sales of fine chemicals increased as demand was strong for coating materials for automobiles and water treatment systems and services. In fibers, our sales volume was good and in addition there was the impact of the depreciation of the yen, so the value of sales greatly increased. In inorganic chemicals, net sales increased due to a selling price adjustment and a recovering trend in demand. In food ingredients, business continued favorably. Regarding lithium-ion battery materials, although sales prices generally declined, the sales volume in the area of automobile applications was on an increasing trend, resulting in increased sales. As a result of these factors, net sales in this segment increased by ¥101.1 billion to ¥790.9 billion. Operating income increased by ¥23.9 billion to ¥46.5 billion. Note that in October 2013, MPI established Mitsubishi Plastics Converting Film Wuxi Co., Ltd. in China as a center for manufacturing and sales of converted optical polyester film products. Furthermore, regarding water treatment systems and services, in December 2013, MRC acquired the shares of Wellthy Corporation, which manufactures, sells, and maintains groundwater membrane filtration systems, and turned that company into a consolidated subsidiary.

Close Up 1 Case Study of Strengthening the Business Model: **High-performance films**



We develop and produce the films and sheets used in the vessels and packaging materials of a wide variety of products that are essential to our lifestyles, including food, medical care, sanitary products, and many more. Based on the foundation of the advanced materials design and polymer processing technologies that we have cultivated in Japan, we are strengthening our marketing and production structures in the ASEAN region in which the consumer market is rapidly expanding against a background of economic growth.

Basic Model



Utilize advanced technology → **Assign a wide array of functions simultaneously** → **Expansion into the high-end market**

Food container and packaging materials

- Co-excluded, multi-layered film *DIAMIRON*
- Transparent high gas barrier film *TECHBARRIER*
- Plant-derived raw material film *ECOLOJU*
- High gas barrier PET bottles

Pharmaceutical tablets and capsule packaging materials

- Moisture-proof sheet *VINYFOIL*

Sanitary products (disposable diapers and sanitary items)

- Moisture transmission film *KTF*


DIAMIRON


TECHBARRIER


High gas barrier PET bottles


VINYFOIL


KTF

Growth Strategy

Strengthening marketing and production structures in the ASEAN market where the middle-income group📖 is increasing

Marketing Structures

Meeting increasingly sophisticated and complex market demands

We are strengthening our marketing activities in the ASEAN market in the context westernized and Japanese-style clothing, food, and housing due to rising GDP and rising awareness of safety and security of foods and personal hygiene. We make timely proposals of products with the advanced and multiple functions, which are sought by the market.

↓

Competitive Advantage

- We make timely proposals of product grades meeting local needs, based on "Japanese quality" that satisfies high quality requirements

Production Structures

Strengthening domestic and overseas production structures for high-value-added products

In fiscal 2013 we decided to expand manufacturing lines for high gas barrier PET bottles (MPI: Hiratsuka Plant in Kanagawa Prefecture), *DIAMIRON* (MPI: Azai Plant in Shiga Prefecture), and *KTF* (PT. MC PET FILM INDONESIA). The new production line for *KTF* in Indonesia is to meet the rising local demand for disposable diapers.

↓

Competitive Advantage

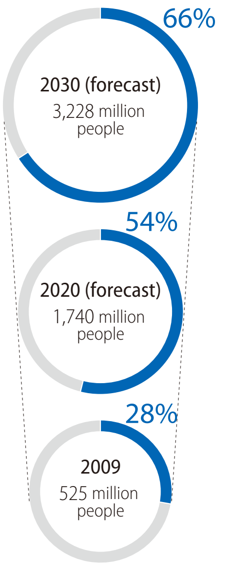
- We reduce infrastructure development and logistic costs by increasing production at the existing plants near the consuming region
- As soon as sales volume reaches a certain scale, we will switch to local production

📖 Middle-Income Group

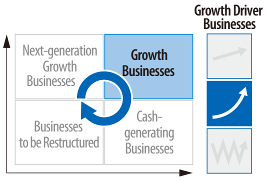
Households in which the average income is between 10 US dollars and 100 US dollars per capita per day on a purchasing power parity basis

Source: OECD Development Centre (2010) "The Emerging Middle Class in Developing Countries"

The middle-income group in the Asia-Pacific region (number of people) and percentage of the world total (%)



Close Up 2 Structural reform case study: **Carbon fiber and composite materials**



The carbon fiber and composite materials businesses are expecting expanded demand in industrial applications such as wind power turbines and fuel transportation vessels for shale gas. The MCHC Group is aiming to provide products with higher added value and to strengthen its value chain in the business for automobiles, for which particularly steady growth is expected.

Changes in the Business Environment

- Demand for pressure vessels, automobile applications and other industrial applications is rapidly expanding
- There is a trend, primarily in Europe, to adopt carbon fiber and composite materials as automobile parts

Key Points regarding Structural Reform

Strengthening the value chain beyond just industrial material sales, we will supply high-added-value products that utilize the molding processing technologies, which we cultivated through our development processes

We turned Challenge Co., Ltd., a company which develops and produces parts made from Carbon Fiber Reinforced Plastics (CFRP), into a 100% subsidiary (November 2012)

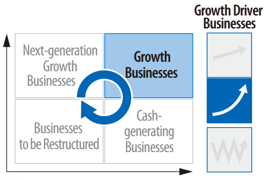
Capital participation in Action Composites International Ltd., a CFRP parts manufacturer in China (January 2014)

Performance

- BMW AG adopted PAN-based carbon fiber raw materials in the main structural materials of its passenger vehicles (Photo)
- Nissan Motor Co., Ltd. adopted large carbon fiber parts in the *GT-R*

→ Related information p.42

Close Up 3 Case study of *KAITEKI* Management: **Water treatment systems and services**



Globally expanding the water business utilizing cutting-edge technologies

The MCHC Group leads the industry in water treatments using **hollow fiber membranes**📖 and flocculants. We are providing solutions for needs and issues about water in the world, such as the acquisition of WELLTHY CORPORATION, which has a proven track record with groundwater membrane filtration systems.

→ Related information p.38 and 43

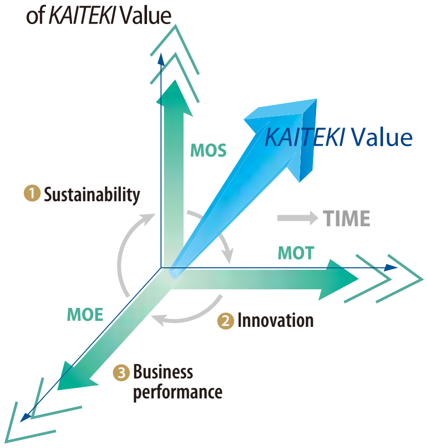
📖 Hollow Fiber Membranes

Hollow fibers have filtration functions. There are countless ultramicroscopic pores on the surface of the walls of straw-shaped fibers, which remove minute particles. They are adopted in large-scale water treatment systems such as wastewater treatment plants and purification plants.

From water filters to regular home delivery services —MITSUBISHI RAYON CLEANSUI CO., LTD.

In the context of growing awareness of the importance of secure and safe water, Mitsubishi Rayon Cleansui operates its core business of household water filters, its regular home delivery service of water, and conducts sales of drinking water for stockpiling.

Working toward the enhancement of *KAITEKI* Value



❶ Sustainability

In developed countries, water with high added value such as healthy water and high-quality water is in demand. On the other hand, in the developing countries there are regions which do not have sufficient safe water for daily life. Mitsubishi Rayon Cleansui is contributing to meeting these needs and resolving these social issues through its products and services.

❷ Innovation

In order to meet the diverse needs of our customers, we are primarily focusing on our water purifier business utilizing hollow fiber membrane technologies while also providing a regular home delivery water service. From 2013, we commenced general sales of drinking water that can be stored for five years (refer to the above photo).

❸ Business performance

From 2009, we started our *Cleansui* brand strategy in order to differentiate ourselves from other manufacturers. Furthermore, in order to increase our overseas sales ratio to 30% by fiscal 2015, we are strengthening our collaboration with the Verbatim Group, which is under the umbrella of MCC and has sales channels in regions throughout the world.

Health Care Domain

> “We are developing our business to go beyond sick care to work toward the realization of a society in which as many people as possible can live long and healthy lives.”

Masayuki Mitsuka
President and
Chief Executive Officer, MTPC

Kuniaki Kaga
President and
Chief Executive Officer, LSII

Business Lines by Segment

Health Care

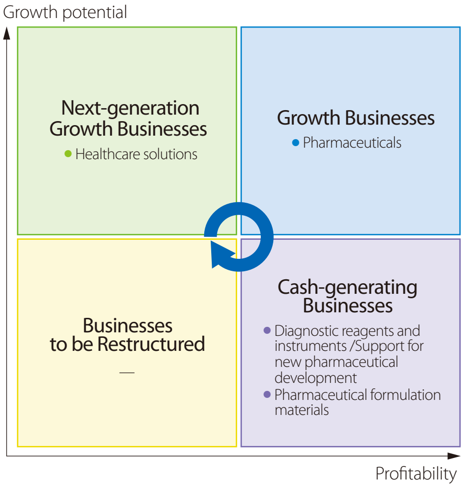
Capitalizing on the Group’s comprehensive capabilities and network, the Health Care domain develops businesses for pharmaceuticals, diagnostic reagents and instruments, clinical testing, support for new pharmaceutical development, active pharmaceutical ingredients and intermediates, pharmaceutical formulation materials such as capsules, pharmaceutical equipment, and self-health check services. Furthermore, we are taking on the challenge of combining the Group’s technology to create new businesses dedicated to personalized medicine.

Health Care

Major Products

- Pharmaceuticals
  - *Remicade* (Photo ❶)
  - *Ceredist*
  - *Maintate*
  - *Talion*
  - *Kremezin*
  - Vaccines (Photo ❷)
- Diagnostic reagents and instruments (Photo ❸)
- Clinical and other testing
- Support for new pharmaceutical development
- Pharmaceutical formulation materials (Photo ❹)
- Active pharmaceutical ingredients and intermediates
- Self-health check services

Business Portfolios (by Business Unit)



Basic Strategies of the *APTSIS 15* Medium-term Management Plan (announced December 2010)

Growth Strategy
- Life cycle management and expanded sales of current major products
- Maximize revenue and profits from new products quickly and expand the list of products that have received approval overseas
- Strengthen pipeline to fulfill unmet medical needs

Innovation Strategy
- Realize healthcare solutions with the pharmaceuticals and diagnostics businesses at their core
- Orchestrate the strengths of the healthcare-related businesses in the MCHC Group

Cash-generating Businesses
- Ensure stable revenues and profits

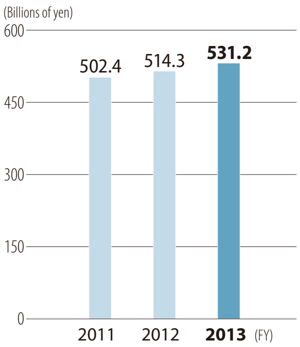
Business Environment (Market Trends) and Measures

Against a background of the global increase and aging of the population and economic growth in emerging markets, the global pharmaceuticals market is continuing to expand. In this context there is a need to work hard on preventing the onset of disease (preventive medicine) and discovering diseases in their early stages in order to prevent them from becoming severe (pre-emptive healthcare). Domestically, due to the development of measures to promote generic drug use, the business environment is becoming increasingly tough for the MCHC Group, which is strong in the area of development and sale of new pharmaceuticals.

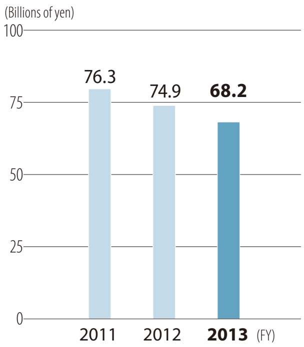
However, we will aim to expand revenue and profits by focusing our energies on the “post-marketing development” of new products and priority products and through royalties from products licensed out overseas, and we will aim to secure stable revenue and profits through diagnostic reagents and instruments, clinical and other testing, support for new pharmaceutical development, and the pharmaceutical formulation materials business. Moreover, in a wide range of fields from sick care to healthcare we will provide solutions for unmet medical needs and contribute to realizing *KAITEKI*.

Review of the Segments in Fiscal 2013

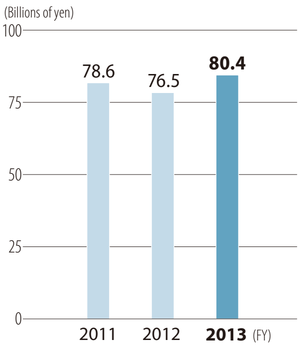
Net sales



Operating income

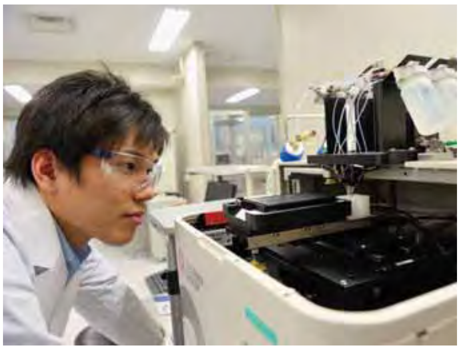


R&D expenditures

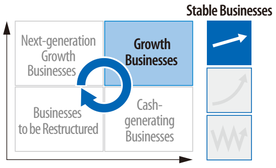


Health Care

Net sales of the pharmaceutical business decreased. The volume of sales of *Remicade*, a treatment for rheumatoid arthritis, Crohn's disease, and other conditions, and *Simponi*, a treatment for rheumatoid arthritis grew and in addition royalty revenues of a treatment for multiple sclerosis increased, but there was a decline in the sales volume of long-listed pharmaceuticals caused by the expanding effect of generic drugs plus the impact of dissolution of partnerships in some businesses. In diagnostic reagents and instruments and clinical testing, net sales increased due to greater sales in diagnostics, despite weak sales in the new pharmaceutical development support business. Net sales of pharmaceutical formulation materials in Qualicaps Co., Ltd., which became a consolidated subsidiary of MCHC as of March 2013, have been included since the second quarter of fiscal 2013. As a result, net sales in this segment increased by ¥16.9 billion to ¥531.2 billion, but operating income declined ¥6.6 billion to ¥68.2 billion, reflecting the increase in R&D expenditures and other factors. Note that in September 2013, MTPC, together with Philip Morris Investments B.V., a subsidiary of Philip Morris International Inc., jointly acquired Medicago Inc., a company with special strengths in R&D for new vaccines using Virus-Like Particle (VLP) technology in order to strengthen its pipeline in the vaccine area and build a global management foundation.



Close Up 1 Case Study of Strengthening the Business Model: **Pharmaceuticals**

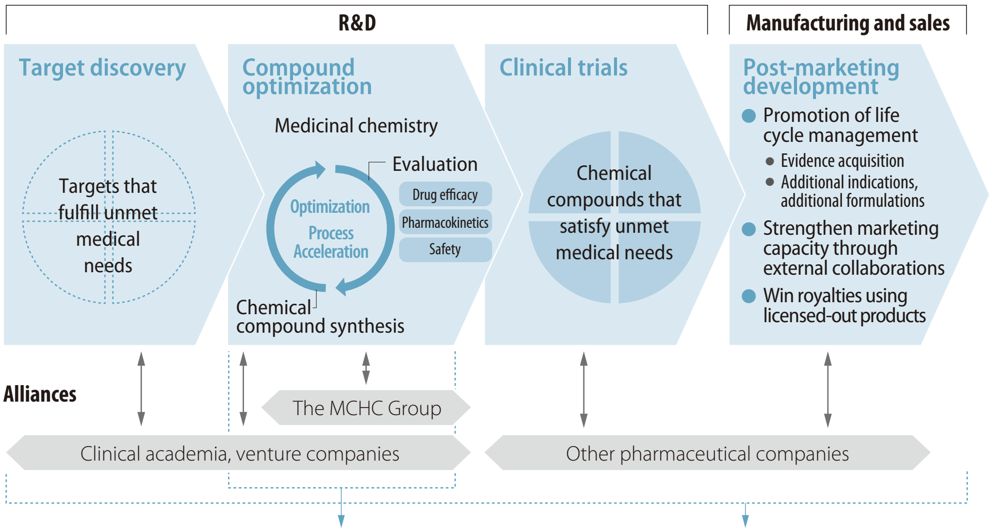


The difficulty of developing new pharmaceuticals is increasing. In this context, the MCHC Group has determined four targeting fields that can fulfill **unmet medical needs**📖 and is focusing its energies on R&D of differentiated pharmaceuticals, in order to maintain and enhance the profitability of its pharmaceuticals business. Furthermore, when engaging in R&D we utilize the compound optimization technology and brand strength we have built up over many years and actively form alliances with domestic and overseas research organizations and enterprises. We will keep aiming to speed up the process until commercialization.

📖 Unmet Medical Needs

These are medical treatment needs in treatment fields in which effective treatments have not yet been established and the development of pharmaceuticals has not progressed.

Basic Model



Competitive Advantage

- **R&D capacity focused on "compound optimization" in medicinal chemistry**
- **Brand strength based on over 300 years* of history aimed at the active promotion of alliances**

* Tanabeya, the earliest predecessor company of MTPC, was founded in 1678.

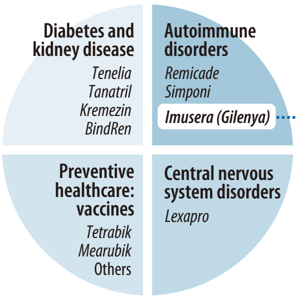
Growth Strategies

1. **Develop highly novel and useful groundbreaking pharmaceuticals in the four fields in which we can fully utilize our technological capabilities**

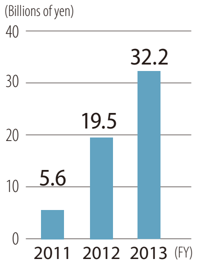
\+

2. **Further promote the alliances strategy with "target discovery" capability and "compound optimization" capability at its core**

Case Study



Income from Royalties

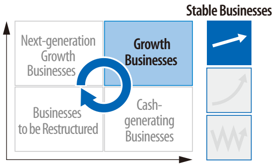


The world's first oral dosing multiple sclerosis treatment, a product of Japan that fulfills previously unmet medical needs

Imusera

The multiple sclerosis treatment *Imusera* (generic name: fingolimod hydrochloride) developed by MTPC is an oral medication that possesses a new mode of action. Overseas, the exclusive development rights and sales rights for the entire world except Japan have been granted to Novaltis International AG, the licensee. Beginning with the acquisition of approval in Russia in 2010, it has been approved under the name *Gilenya* in 78 countries around the world including the U.S., Australia, Canada, the EU, Switzerland, and Brazil and it has been prescribed to more than 80,000 patients to date. In fiscal 2013, this income from *Gilenya* royalties increased 64.8% compared to the previous fiscal year to ¥32.2 billion, becoming a major component of our revenue.

Close Up 2 Structural reform case study: **Pharmaceuticals**



In order to develop and globally provide new pharmaceuticals that fulfill unmet medical needs, we are strengthening our technological development capabilities in the vaccines field through the acquisition of new biologics technologies. Vaccines are a field in which global growth is anticipated, and one of the fields in which the MCHC Group is aiming to expand into the global market.

Changes in the Business Environment

- The market for vaccines is expanding globally
- Medicago's plant-based **VLP (Virus-Like Particle)** 📖 technology has the potential to be able to manufacture many types of vaccines efficiently, and we have reached the conclusion that it can further strengthen our pipeline

Key Points regarding Structural Reforms

Joint acquisition together with Philip Morris Investments of Canadian bio-pharmaceutical company Medicago (Equity participation: MTPC 60%, Philip Morris Investments 40%, purchase completed in September 2013)

Performance

- Acquisition of plant-based VLP manufacturing platform technology
- Expansion of our pipeline through new candidate vaccines (seasonal influenza vaccines, pandemic influenza vaccines, rotavirus vaccines, etc.)

Expansion Going Forward

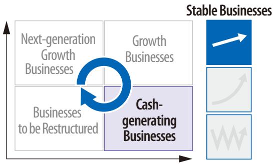
We will utilize the plant-based VLP technology of Medicago to carry out R&D into various kinds of vaccines and contribute to human health

Medicago Inc.

📖 VLPs (Virus-Like Particles)

VLPs are promising vaccine technologies that are expected to have high immunization effectiveness as vaccines because they possess a similar external structure to viruses. They are also outstandingly safe because they do not contain any genetic information so there is no propagation of viruses within the body.

Close Up 3 Case study of *KAITEKI* Management: **Pharmaceutical formulation materials**

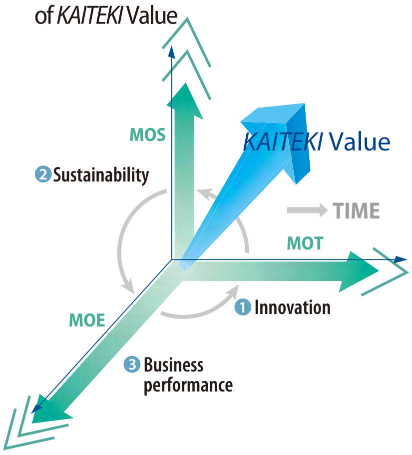


Promoting the capsule and pharmaceutical equipment manufacturing and sales business—Qualicaps Co., Ltd.

Qualicaps is engaged in manufacturing and sales of hard capsules for pharmaceuticals, and health and nutrition, as well as pharmaceutical equipment such as capsule filling machines, visual inspection machines, weight inspection machines, and tablet imprinting machines. Qualicaps has highly advanced technological capabilities. For example, Qualicaps succeeded in developing and commercializing the world's first HPMC capsules made of plant-derived raw materials.

* HPMC: Hydroxypropyl methylcellulose

Working toward the enhancement of *KAITEKI* Value



① Innovation

The *LIS-250* laser imprinting machine for tablets does not require ink and is capable of printing approximately 250,000 tablets per hour with high precision.

② Sustainability

The *LIS-250* technology, which prints the names of drugs and other information on tablets and capsules, is useful for preventing patients from accidental ingestion. Furthermore, we maintain the high quality of pharmaceutical equipment such as the *LIS-250*, which can be customized for each customer, and provide services including regular overhauls and software upgrades. Thus, we have won the trust of our customers.

③ Business performance

Qualicaps has the number two market share of pharmaceutical capsules in the world and the world's number one market share of pharmaceutical HPMC capsules. The global capsules market size is estimated at approximately ¥100.0 billion, and a high growth rate is expected in this market in the future, so we are aiming to further expand our market share through the high technological capabilities and synergies of our capsule and pharmaceutical equipment manufacturing businesses.

Industrial Materials Domain

> “It is our products and technologies that are supporting a variety of industries and societies. We are proceeding with the diversification of raw materials, including renewable resources and strengthening our business structures so that we can compete on the global market.”


Hiroaki Ishizuka
President and
Chief Executive Officer, MCC


Hitoshi Ochi
President and
Chief Executive Officer, MRC

Business Lines by Segment

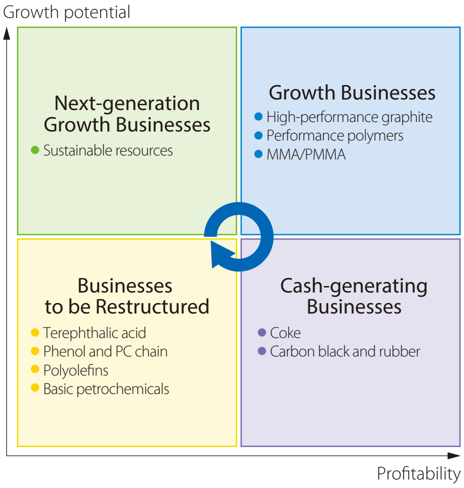
■ Chemicals

The Chemicals segment is expanding its business in the areas of basic petrochemicals including ethylene and propylene derived from naphtha, basic chemicals such as materials for synthetic fibers, and coke and other carbon products.

◆ Polymers

We are utilizing our unique marketing capabilities, product development capability, and manufacturing technologies to provide synthetic resins and other products that meet advanced and specialized needs.

Business Portfolios (by Business Unit)



Basic Strategies of the *APTSIS 15* Medium-term Management Plan (announced December 2010)

Growth Strategy
- Accelerate globalization and shift to high-performance products

Innovation Strategy
- Deliver new materials that contribute to the environment and the “sustainable carbon society”

Cash-generating Businesses
- Stabilize earnings and reinforce business structure

Businesses to be Restructured
- Complete restructuring in Japan

Business Environment (Market Trends) and Measures

Changes to the business structure in the chemicals segment have become pronounced. For example, ethylene supply capacity has grown globally due to the shale revolution and the rise of the coal chemistry industry in China. In addition, the sense of a surplus in supply capacity for terephthalic acid, a material for synthetic fibers, has grown due to the impact of excessive capital expenditures in China. In this context the MCHC Group has advanced structural reforms before other companies, stopping operations of one ethylene plant at MCC Kashima Plant in May 2014. Meanwhile, in the terephthalic acid business we improved the terms of transactions and reduced costs in India and Indonesia and worked to stabilize earnings and reinforce our business structure. Regarding the polymers segment which provides a range of synthetic resins, in the MMA business for which growth in demand can be expected going forward, we are optimizing the production structure to handle increasing demand. For example, we have decided to upgrade our production capacity in Shanghai, China and Saudi Arabia.

■ Chemicals

Main Products
- Basic petrochemicals
- EO[*1], EG[*2], and ethanol
- Terephthalic acid
- Coke
- High-performance graphite (Photo ①)
- Carbon black and rubber

[*1] EO: Ethylene Oxide
[*2] EG: Ethylene Glycol


①

◆ Polymers

Main Products
- MMA[*3]/PMMA[*4]
- Performance polymers
- Polyolefins (Photo ②)
- Phenol and PC [*5] chain (Photo ③)
- Sustainable resources

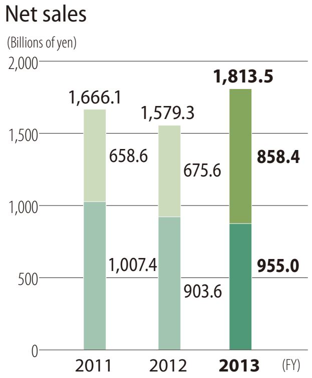
[*3] MMA: Methyl methacrylate monomer
[*4] PMMA: Polymethyl methacrylate
[*5] PC: Polycarbonate

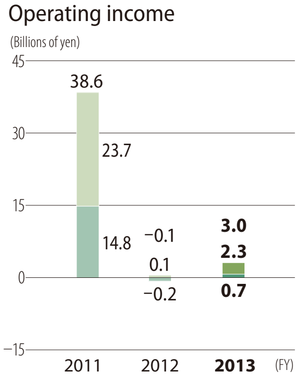

②

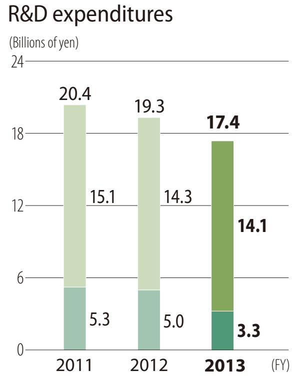

③

Review of the Segments in Fiscal 2013

🟩 Chemicals ◆ Polymers


Net sales


Operating income


R&D expenditures

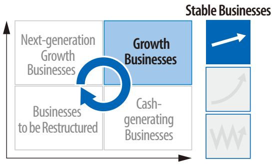
🟩 Chemicals

The production volume of ethylene, a basic raw material of petrochemicals and chemical derivatives, was 1.14 million tons, or 0.6% increased compared to the previous fiscal year. In basic petrochemicals and chemical derivatives such as EO, EG, and ethanol, sales increased dramatically, mainly due to selling price adjustments in response to increases in raw materials and fuel prices, and to trends toward gradual recovery in demand. In synthetic fiber materials, net sales for terephthalic acid increased due to greater sales volumes in India and depreciation of the yen, despite the sluggish market situation brought about in part by an imbalance between supply and demand resulting from an increase in supply capacity. In carbon products, net sales of blast furnace coke decreased due to lower sales prices responding to a decline in the coking coal price, despite continued favorable sales. As a result, the segment's net sales increased ¥51.4 billion to ¥955.0 billion. Although we continued to reduce fixed costs, in the previous fiscal year we had recorded as income a lump-sum amount based on license contracts for carbon products; furthermore, there was a worsening of the difference between raw material prices and product prices in petrochemical-related products, so operating income improved only slightly to ¥700 million (up ¥900 million year on year). Note that in February 2014, MCC and Asahi Kasei Chemicals Corporation reached an agreement regarding the ethylene center in the Mizushima area that the two companies are jointly operating to the effect that the center will be consolidated into the facility of MCC and continue to be jointly operated by the two companies.

◆ Polymers

In synthetic resins, net sales increased considerably due to trends toward gradual recovery in domestic demand of polyolefin, an overall selling price adjustment as a result of raw material and fuel price increases, depreciation of the yen, and changes in overseas MMA-related consolidated subsidiaries' accounting period, despite continued weak demand overseas for MMA monomers and others. As a result, net sales in this segment increased by ¥182.7 billion to ¥858.4 billion. Operating income increased by ¥2.1 billion to ¥2.3 billion due to a differential improvement between raw material costs and product prices, primarily in polyolefins, and continued strong demand for performance polymers, mainly for automobiles, despite an increase in fixed costs in accordance with the revamp of a facility for MMA monomers in North America. Note that in April 2013 MCC, together with JNC Corporation, decided to transfer and integrate the polypropylene compound business in the group of the two companies into Japan Polypropylene Corporation, a polypropylene joint venture between the two companies. Furthermore, in October 2013, MRC decided to upgrade the MMA manufacturing facility in one of its subsidiaries, Lucite International (China) Chemical Industry Co., Ltd.

Close Up 1 Case Study of Strengthening the Business Model: **Performance polymers**

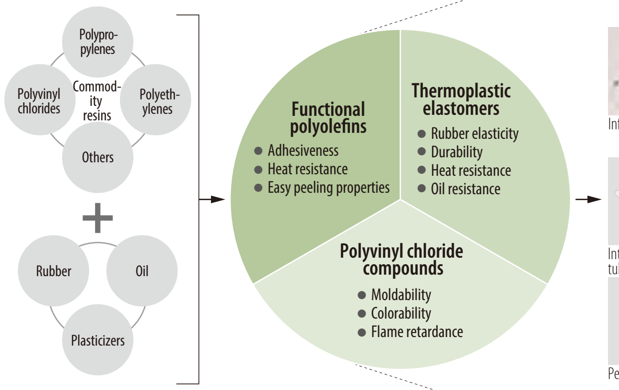


Performance polymer compounds are used widely in markets including automobiles, communications, housing, commodity goods, and medical care. The competitive advantage of the business is its ability to translate a variety of customer needs and deliver customized functions and properties with kneading and grafting technologies.

We will promote organic growth by improving our own technologies and conducting M&As to realize the two growth strategies of “Enhancement of portfolio with new technology and new products” and “Global expansion to capture a variety of customer needs.” We are also **expanding business overseas.** 📖

Basic Model

Deliver customized performance polymer compounds by kneading and grafting various materials to give customers the functionality and properties that meet their needs.




Barrier-type bottles

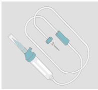

Airbag covers


Food containers

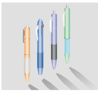

Infusion bags

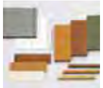

Weatherstrip glass packing


Cap liners


Intravenous drip tubes


Automobile interior skins


Pen grips


Window profiles


Communication cable coatings


Hot-water pipes

Competitive Advantage

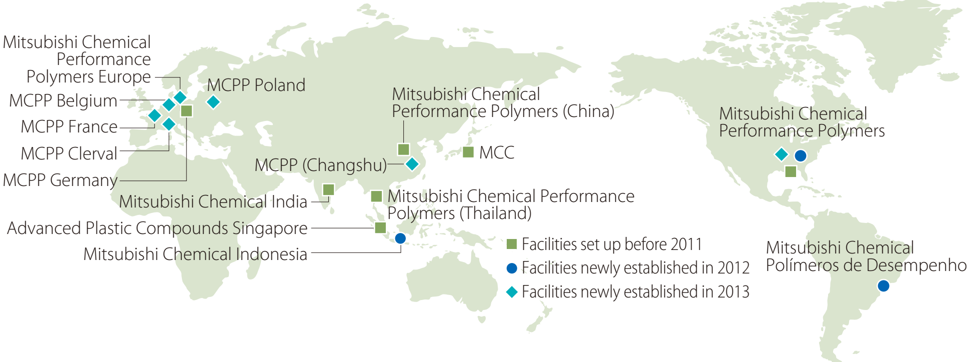
- **Ability to satisfy each customer by translating their needs to product design to deliver specific functionality and properties**
- **Compound design and advanced dispersion, kneading, and grafting technology**

Growth Strategies

Strengthen our “products” and “organization” to accelerate our global business expansion

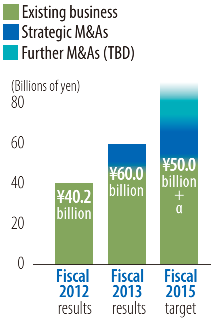
1 **“Enhance portfolio with global top products”**
- Develop new technologies
- M&As

2 **“Expand globally and capture diverse demand”**
- Build global business platform and capture diverse customer demand
- Strengthen global business management



📖 Expanding Business Overseas

Net sales



Fiscal 2012 results
¥40.2 billion

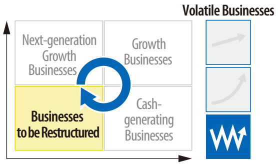
- Expand production lines in China, Thailand, and the U.S.
- Establish new business sites in Brazil and Indonesia

Fiscal 2013 results
¥60.0 billion

- Acquire Comtrex, LLC, a company with a strong sales record in the North American automobile industry.
- Acquire compounding business (CTS Business Unit) of the Tessenderlo Group, a market leader in Europe in automobiles, construction materials, and electric wire coating materials applications.

Fiscal 2015 target
¥50.0 billion + α

Close Up 2 Structural reform case study: **Basic petrochemicals**



The environment surrounding the petrochemical business in Japan is predicted to continue to be tough going forward, due to the contraction of domestic demand, expanding supply capacity in the Middle East and China, and expanding supply capacity in the U.S. against the background of the shale revolution. In this context, the MCHC Group acted quickly to secure profitability by strengthening efficiency and business competitiveness using an optimal production structure, and the plan is proceeding as we intended.

Changes in the Business Environment

The Environment Surrounding the Petrochemical Business

- Contraction of domestic demand, expanding supply capacity in the Middle East, China, and in the U.S. due to the shale gas revolution.

Key Points regarding the Domestic Structural Reforms

Optimize ethylene production efficiency in the Kashima plant by closing No.1 cracker and utilizing No.2 cracker at full operation

Shift to high-performance products and optimization of derivatives (EO, PP, PE, etc.)*

Promote cooperative relationships in each complex

Major Actions for Domestic Structural Reforms

<Naphtha cracker>

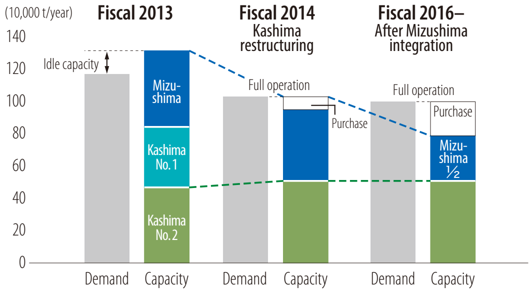
- **Cracker (Kashima)** Close No.1 and fully utilize No.2 capacity (July 2014)
- **Cracker (Mizushima)** Secure facility integration and full operation at Nishi Nippon Ethylene naphtha cracker (Scheduled April 2016)

<Derivatives>

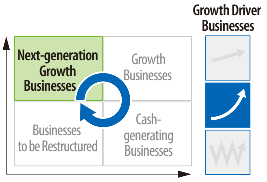
- **Kashima** Develop an EO center (2011)
  Shutdown of one line of PE (Scheduled March 2015)
- **Kawasaki** Shutdown of one line each of PP and PE (April 2014)

* EO: Ethylene oxide PE: Polyethylene PP: Polypropylene

We are progressing toward construction of the optimal ethylene production as planned.



Close Up 3 Case study of *KAITEKI* Management: **Sustainable resources**



Promoting the commercialization of plastic using plant-derived raw materials

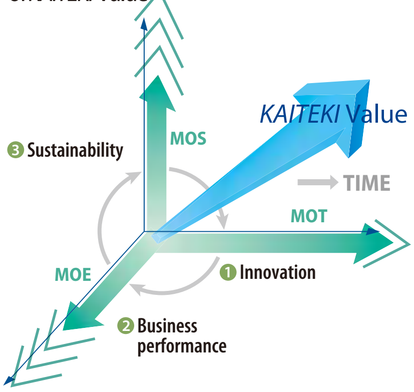
As part of its Sustainable resources business portfolio, MCHC Group is developing and manufacturing bio-plastics which utilize plant-based raw materials. MCHC has two bio-plastics; one is polybutylene succinate (PBS), a biodegradable plastic made from plant-derived succinic acid, and the other is *DURABIO*, an engineering plastic which uses isosorbide as its main raw material. Also, we have business departments that processing plastics such as polylactic acid, which is made from plant-derived materials.

Bioengineering plastic *DURABIO* - MCC

MCC developed and commercialized *DURABIO*, a new bio-plastic derived from plant-based isosorbide that possesses new properties and functions not found in conventional plastics.

→ Related information p.43

Working toward the enhancement of *KAITEKI* Value



① Innovation

By improving the polymerization process and additive agents, MCC became the first company in the world to commercialize an engineering plastic using plant-derived isosorbide. The product exhibits high-performance properties such as impact resistance, heat resistance, optical properties, weather resistance, and surface hardness.

② Business performance

DURABIO, which has a variety of features, is used in a wide range of domains including as a substitute in glass applications and in interior and exterior automobile parts. The market for plant-derived plastics is expected to expand five times its current level by 2016.

③ Sustainability

Our goal is to reduce the amount of heavy oil we use by 10,000 tons by fiscal 2015, through the expansion of our Sustainable resources business, including *DURABIO*. We will continue our work in maintaining stable production at the plants and in actively cultivating applications and markets.

Innovation

We seek to enhance *KAITEKI* value by not only promoting "manufacturing," but also "business framework making" with the power of science.

Approach to Innovation

The MCHC Group understands "innovation" to mean the creation of comprehensive solutions such as new value chains and the proposal of life models that did not exist previously. Moreover, we go beyond research and development of components and materials and aim for the creation of new innovations, which are focused on everything including the manufacturing process, the distribution channels, and the proposal of new uses and applications through the following three initiatives.

Strengthening our In-house Technologies

The MCHC Group sells more than 30,000 kinds of products, from materials to consumer products, and possesses distinctive technologies and know-how in each domain. The research and development departments and manufacturing departments are engaged in management to further enhance the value and competitiveness of our in-house technologies. Furthermore, the departments responsible for procurement, logistics, sales and other areas of the business are accumulating know-how related to their respective operations and at the same time are promoting operational innovations such as proposing the building of methods for new operations. Moreover, by building new cooperative relationships that cross the barriers among the Group companies, we are accelerating the creation of synergies with the technologies and know-how that the companies respectively possess.

Open Innovation

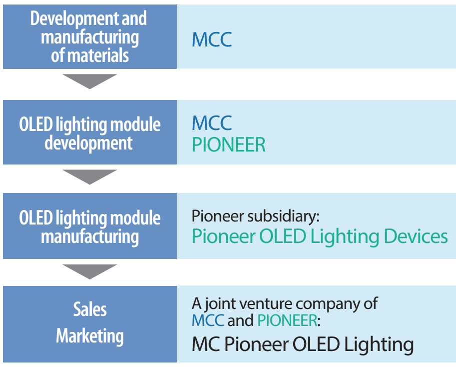
The research and development departments actively invest in and collaborate with the universities, public institutions, and venture companies that are working on research themes in line with the aims of the corporate activities of the MCHC Group, and are aiming to create new businesses through the synergies of the technologies and know-how that the MCHC Group and these outside organizations possess.

Open Shared Business (*OSB*)

In order to provide the appropriate outcomes of innovation at the appropriate time that the markets and society deem necessary, we believe that it is necessary to utilize our technologies and know-how for production and sales to the greatest extent possible and at the same time to actively implement collaboration with all of our partners that possess advanced technologies, efficient production structures, sales channels, and other advantages. Consequently, we utilize *OSB*, which is our company's original business framework for rapidly developing and commercializing products and services that cannot be easily imitated by others.

→ Related information p. 38

One example of *OSB*: Organic Light Emitting Diode (OLED) lighting



Development and manufacturing of materials
MCC

OLED lighting module development
MCC
PIONEER

OLED lighting module manufacturing
Pioneer subsidiary:
Pioneer OLED Lighting Devices

Sales
Marketing
A joint venture company of MCC and PIONEER:
MC Pioneer OLED Lighting

OSB

OSB (Open Shared Business) is the original framework of MCHC for working with organizations outside the Group. We promote collaboration in both R&D and business and build a distinctive value chain by using the *OSB* framework.
OSB: MCHC registered trademark No. 5585432

Creation and Enhancement of Core Technologies

The MCHC Group is engaged in the research and development (R&D) activities that are the key to creating innovation in order to further strengthen our core technologies that are superior to the technologies of other companies and to create new core technologies.

Research and Development

Using the foundation of the core technologies shown in the diagram, the MCHC Group has set themes in accordance with "Sustainability [Green]," "Health" and "Comfort," the decision criteria for our corporate activities, as the targets of our R&D. We are working on further strengthening our core technologies and creating new core technologies and at the same time we promote R&D by formulating R&D strategies that meet the needs of our business strategy and **intellectual property**📖 strategy, so that we can rapidly commercialize the results of our R&D.

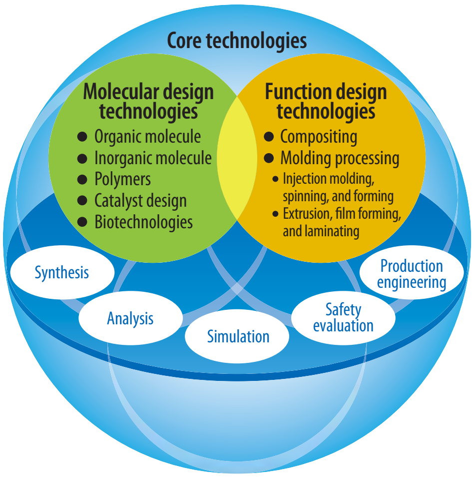
R&D Management

MCHC set up the R&D Strategy Office in April 2014. The office is taking measures to further strengthen the core technologies possessed by the MCHC Group and pursue synergies within the Group in R&D activities. Moreover, in order to accelerate the creation of innovation we have introduced the MOT (Management of Technology) Indexes to manage our progress quantitatively. The MOT Indexes comprise three indexes: the R&D Index, the intellectual property Index, and the market Index.

📖Intellectual Property

It is essential to strategically utilize intellectual capital, which is the result of R&D and so on in order to enhance our corporate value. For this reason the MCHC Group formulates and implements an intellectual property strategy for each business. When implementing a strategy, we also work to ensure legal protection and the active use of intellectual property. Moreover, we respect the validity of third-party intellectual property rights and take appropriate measures in cases where the Group's intellectual property rights are infringed by a third party.

The Core Technologies of the MCHC Group



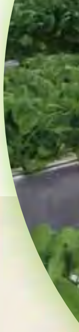
MOT Indexes

R&D Index	R-1	Quality of research site for the relevant project and theme (%)
	R-2	Research progress compared with what was planned in the fiscal year under review (%)
	R-3	Completion ratio of technologies that are converted to black box (%)
Intellectual property Index	I-1	Application ratio for the planned strategic patents (including overseas) (%)
	I-2	Acquisition ratio of planned intellectual property rights (including overseas) (%)
	I-3	Contribution to business commencements of cross-licensing (%)
Market Index	M-1	Technological progress compared with customer demand in the plan for the relevant fiscal year (%)
	M-2	Analysis of technological capabilities of competitors (patents, etc.) (%)
	M-3	Contribution of technologies at the time of business commencement (%)

IN FOCUS Introduced the MOT Indexes into a part of R&D themes and started the trials toward putting into full-scale operation

Fiscal 2013 was the trial period for using the MOT Indexes so we chose several R&D themes and considered methods of measuring the three indexes that were suitable for the themes. Introducing the MOT Indexes has enabled the R&D departments and the business departments to quantitatively monitor their performances using shared evaluation items.

As a result, differences between departments in perceptions of customer needs were understood, and we're leading to approaches to eliminate those differences. On other hand, we have realized that R&D themes are replaced over time so it is difficult to evaluate the progress of the MOT Indexes annually with a direct function correlation. We are considering the method we should use to publish the progress of the MOT Indexes. Solving these issues, the MCHC Group will increase the number of themes to which the MOT Indexes are applicable and aiming to establish management that leads to the efficient commercialization of our R&D activities.



MRC Yokohama Research Laboratories Acrylamide Development Group

Innovation Example 1

Bio-Catalysts for Acrylamide Production

We have succeeded in creating a high-performance bio-catalyst

MRC possesses its own proprietary technologies that produces acrylamide, a raw material of flocculants used in water treatment and oil recovery agents, using a bio-catalyst method, and has captured approximately 40% of the global market in acrylamide production by not only producing and selling the product, but also developing a licensing business. Compared with the conventional copper catalyst method, the bio-catalyst method can reduce energy consumption and CO_2 emissions because it is produced at normal temperature and pressure. In fiscal 2013, we succeeded in developing a catalyst that increases catalytic activity by approximately 50% compared with existing catalysts. Facing future market expansion, MRC will strive to expand the bio-catalyst business by rapidly launching high-performance catalysts onto the market and thereby contribute to improving the environmental issues of our bio-catalyst customers.

Accelerating the commercialization of OLED lighting, next-generation lighting

OLED lighting possesses many advantages that existing lighting does not. It can provide a light close to natural light through surface-emitting with no glare by making a glass plate just one millimeter thick shine. Therefore it can provide new lighting spaces that did not exist before. This business is run using the *OSB* (refer to p.36) framework promoted by the MCHC Group. MCC, which possesses OLED material technologies, collaborates with PIONEER CORPORATION, which possesses device design technologies. As a result, we completed in a short period of time the mass production of OLED lighting modules through wet processing methods that realize significant cost reductions, and commenced mass production in March 2014.

Regarding sales, in June 2013 MCC and PIONEER CORPORATION jointly established MC Pioneer OLED Lighting Corporation, a joint operating company for OLED lighting module sales, and it is working to penetrate the market through a wide range of marketing activities utilizing the respective specialized domains of the founding companies.

Innovation Example 2

Organic Light Emitting Diode (OLED) Lighting

Christmas tree at 66 Plaza in Roppongi Hills (2013)

VELVE: Organic light emitting diode (OLED) lighting

The vegetable cultivation experiment in Australia and the package design (trial version)

Innovation Example 3

Next-Generation Agri-Business

Promotion of a pesticide-free vegetable cultivation project in Australia

The KAITEKI Institute📖, with its wide range of connections in society, has detected advanced-level needs while gathering insights from around the world, and is exploring new directions for innovation. One of the ideas born from these approaches is the agri-business in Victoria, Australia where abnormal weather conditions are occurring. The KAITEKI Institute has studied problems that food and agriculture will face 20 years from now, and has planned a vegetable supply business jointly with the MPI group. This business will use water-saving solar green houses in the suburbs of cities as a form of sustainable agriculture that can handle issues such as climate change and the expansion of food production due to population growth and urbanization. Local experiments in Victoria demonstrated that high-quality vegetables of the same quality as those in Japan can be obtained without pesticides in the harsh environmental conditions of Australia. The project was highly evaluated by the state's Premier.

📖The KAITEKI Institute

To ensure that the MCHC Group can contribute to resolving global-scale environmental and social issues, the KAITEKI Institute proposes business concepts that will satisfy the needs of future society and plans for the commercialization of those concepts. These approaches are based on the results of analysis of information concerning the future. Furthermore, it assesses key technologies that support proposed businesses with researchers around the world.

Main Achievements in Technology Development

2013	February	Development of a new reinforcement method for pillars and beams using carbon fiber sheets	MPI
	May	Application for approval for domestic manufacturing and sales of *Canagliflozin*, an SGLT2 inhibitor for treating type 2 diabetes	MTPC
	May	Development of the *KIST* material with a core-sheath structure	MITSUBISHI RAYON TEXTILE
	May	Development of artificial marble *Bio-Surface*	Du Pont-MRC
	June	Development of an inorganic separation membrane enabling energy savings of over 50% in the distillation process	MCC
	July	Development of special portable levee *Daiya Rebi*	Mitsubishi Plastics Infratec
	September	Joint development of a next-generation thermal storage flooring system	Mitsubishi Plastics Infratec
	October	Establishment of coating type organic photovoltaic (OPV) production technologies	MCC
	December	Establishment of the technology to mass-produce carbon black from plant oil with high efficiency	MCC
2014	January	Development of high performance intermediate modulus carbon fiber *Pyrofil MR70*	MRC
	January	Development of composite structure wheels for automobiles	MRC
	February	Setting a new world standard for carrier mobility using organic thin film transistors	MCC
	February	Mt-4666 for Alzheimer's Disease Start of Global Phase 3 Clinical Trial Program, COGNITIV AD	MTPC

Main Awards Received

Fiscal year received	Receiving person/ organization	Name of award	Work for which the award was given	Award conferrer
Fiscal 2013	MCC	59th Okochi Memorial Production Award	Innovative coke-making process with low energy consumption for effective use of coal resources	Okochi Memorial Foundation
	MCC	45th Annual JCIA Technology Award (Grand Prize)	Development and industrialization of innovative catalysis process to manufacture ethylene glycol	Japan Chemical Industry Association
	MCC	The 18th CSJ Award for Young Chemists in Technical Development	Design and Development of Acrylic Block Copolymers for Hairstyling Use	The Chemical Society of Japan (CSJ)
	MTPC	Breakthrough Award, Division of Medicinal Chemistry, PSJ	Development of Teneligliptin, a treatment for type 2 diabetes	Division of Medicinal Chemistry, The Pharmaceutical Society of Japan
	MTPC	Minister of State for Science and Technology Policy Award	Development of Fingolimod, a treatment for multiple sclerosis	Minister of State for Science and Technology Policy
	MRC	45th Annual JCIA Technology Award (Special Technology Prize)	Development and industrialization of *Genopal*, high-precision fiber-type DNA chip	Japan Chemical Industry Association
	MRC	44th Senken Synthetic Fiber Awards Technical Category Award	*KIST* material with a triacetate and diacetate core-sheath structure	SENKEN SHIMBUN
Fiscal 2014	MCC	The 62nd CSJ Award for Technical Development	Development and Industrialization of High Contrast Dichroic Dyes and Liquid Crystal Composition for Cameras	The Chemical Society of Japan
	MTPC	The Pharmaceutical Society of Japan Award for Drug Research and Development '14	Development of Canagliflozin, a SGLT2 inhibitor indicated for treatment of type 2 diabetes	The Pharmaceutical Society of Japan

CTO message

Improve competitiveness by accelerating research and development

The business environment surrounding the chemical industry is increasingly difficult and international competition has entered an acute phase. Given these circumstances, it is essential to conduct research and technology development smarter, faster, and more aggressively. As CTO, I will be seeking to accelerate innovation and new business development by defining and sustaining common technology platforms that leverage the considerable resources and talent in R&D organizations across the entire MCHC Group. My office will also be initiating more "open innovation" activities, including partnerships with venture firms and universities. Here we will draw on our deep experience gained in previous alliances, such as that between MCC and the University of California, Santa Barbara, in effectively matching enterprise needs with specific expertise offered by global universities or venture-backed companies.

Solve global problems through innovation

As we look forward to 2020, 2050 and beyond, securing abundant supplies of clean energy, fresh water and food will become major concerns, on top of the daunting societal problems posed by climate change. The MCHC Group, with a talent pool of nearly 5000 R&D employees covering an astonishingly broad range of skills and knowledge, is uniquely positioned to tackle these challenges and seek novel solutions that will spawn new business opportunities. My office will be working to define the technologies necessary to pursue these opportunities and acquire or develop them by a combination of open and closed innovation strategies.

Glenn H. Fredrickson
CTO

Sustainability

We incorporate in our management our will of contributing to the improvement of sustainability through our corporate activities, and we have visualized our progress of the contribution.

Management that Considers the Future of People, Society, and the Earth - Management of Sustainability -

Based on MCHC's original management approach called Management of Sustainability (MOS) , our group is promoting its corporate activities in order to contribute to improving sustainability for people, society, and the Earth, such as by developing technologies, providing products and services, and improving manufacturing technologies.

Management of Sustainability (MOS) Indexes

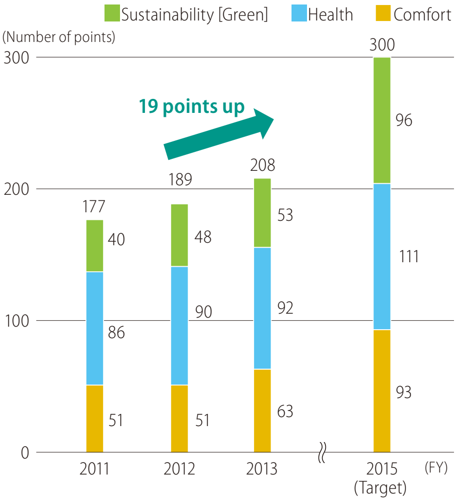
When we started *APTSIS 15*, we similarly introduced the MOS Indexes, which are new management indexes for visualizing the degree of contribution to improving "sustainability for people, society, and the Earth" in addition to the conventional financial management indexes such as operating income and return on total capital. When we established the MOS Indexes, we surveyed and analyzed a wide range of environmental and social issues that are likely to emerge from now and into the future. At the same time, we examined whether or not our businesses could contribute to resolving these issues. Then we selected initiatives that would make a significant contribution to solving these issues through the corporate activities and could be quantified. Finally, we systematized them as management indexes for improving sustainability.

As a result of these efforts, the MOS Indexes are based on the three frameworks of "Sustainability [Green]," "Health," and "Comfort," which are the decision criteria for the corporate activities of the MCHC Group, and comprise 22 indexes such as "contribution to the solution of issues related to global warming," "response to unmet medical needs," "reduction of environmental and safety accidents" and "improving relationships of trust with our stakeholders." MCHC positioned the MOS Indexes as tools for showing the results of MOS. Moreover, we will utilize the indexes as a communication tool to ensure that all of our stakeholders gain a deeper understanding of our corporate activities.

Progress of the MOS Indexes

MCHC has set targets for each of the 22 indexes and evaluates their progress annually. In order to confirm the results of MOS at a glance, we assigned weights to the indexes depending on the importance of each one. Therefore, we can assess progress of our activities based on the number of achievement points. Note that we set the achievement points so that if we achieve the targets for all of the indexes by fiscal 2015, the target fiscal year of *APTSIS 15*, then the total number of points will be 300. The result for fiscal 2013 was 208 points, 19 points higher than in the previous fiscal year, so we are steadily moving toward the target. MOS Indexes comprise our corporate activities that improve sustainability, so their results are affected by the business environment. However, in fiscal 2014 we will continue to steadily develop activities aimed at achieving the target for fiscal 2015.

Progress of the MOS indexes



In May 2006 MCHC expressed support for the United Nations Global Compact which stated 10 principles in the areas of human rights, labor, the environment, and anti-corruption, and the MCHC Group is promoting its corporate activities in accordance with the norms of the 10 principles.

MOS Progress at a Glance

Fiscal 2013 results compared to fiscal 2015 targets

★★★Achieved good results ★★Progress was a little slow and more active engagement is necessary

★Progress was very slow and a review of activities is necessary

MOS Indexes by Type			PLAN		DO	CHECK	PLAN	DETAILS Page
			Fiscal 2015 targets		Fiscal 2013 results	Self-Assessment	Fiscal 2014 targets	
Targets that must be achieved				Achieve zero occurrences of serious accidents and compliance violations	Zero occurrences	★★★	Zero occurrences	
Sustainability [Green] Index	**S-1**	Contribute to reducing environmental impact through products and services	**S-1-1**	Reduce environmental impact by 30% from fiscal 2005 levels	33% reduction	★★★	29% reduction	→p.42
			S-1-2	Generate reduction of CO_2 emissions by 3.5 megatons through products	642,000 tons	★	1,224,000 tons	→p.42
	S-2	Take actions against the depletion of natural resources and implement energy-saving initiatives	**S-2-1**	Procure reusable materials equivalent to 10,000 tons of heavy oil in fiscal 2015	600 tons	★	1,250 tons	→p.43
			S-2-2	Reduce cumulative rare metal usage by 1,200 tons through improving processes and innovating products	570-ton reduction	★★★	843-ton reduction	
			S-2-3	Generate resources and power savings of ¥8.8 billion	¥7.42 billion	★★★	¥7.83 billion	
			S-2-4	Provide 900 million tons of reusable water through our products	380 million tons	★★	460 million tons	→p.43
	S-3	Contribute to solving social and environmental issues through supply chain management	**S-3-1**	Achieve 80% purchased items surveyed for toxic substances	77%	★★★	78%	
			S-3-2	Achieve 90% purchasing of raw materials and packaging according to CSR guidelines	77%	★★	90%	→p.44
Health Index	**H-1**	Contribute to medical treatment	**H-1**	Increase the index performance derived by the degree of difficulty to treat diseases multiplied by the number of administered patients by 50% (compared with fiscal 2009)	12% increase	★	21% increase	→p.45
	H-2	Contribute to improvements of QOL	**H-2**	Increase contribution to QOL improvements by 70% (compared with fiscal 2009)	66% increase	★★★	57% increase	→p.45
	H-3	Contribute to early detection and prevention of diseases	**H-3-1**	Increase the index of vaccine treatment by 17% (compared with fiscal 2009)	58% increase	★★★	20% increase	
			H-3-2	Increase the number of people taking diagnostic tests by 26% (compared with fiscal 2009)	15% increase	★★★	19% increase	
Comfort Index	**C-1**	Deliver products (development and manufacturing) for comfortable lifestyle	**C-1-1**	Increase sales of comfort-oriented products by ¥400 billion (compared with fiscal 2010)	¥154.0 billion	★	¥193.2 billion	
			C-1-2	Increase the new product ratio from 16% to 30%	22%	★★	23%	→p.46
	C-2	Improve stakeholder satisfaction	**C-2-1**	Improve third-party corporate assessments	Nikkei NICES[*1] Ranking: 72	★★★	Nikkei NICES[*1] Ranking: 63	
			C-2-2	Achieve targets for employee-related indexes[*2]	Target of 58.0% achieved	★★	Target of 73.1% achieved	→p.46
			C-2-3	Improve customer satisfaction to 80% or more	(78.2%)	–	78.8%	→p.48
	C-3	Earn recognition of corporate trust		Reduce safety accidents	47% reduction vs. base year[*3]	★★★	53% reduction vs. base year[*3]	→p.48
				Reduce environmental accidents	0 incidents	★★★	60% reduction vs. base year[*3]	
				Reduce claims to products	37% reduction vs. base year[*3]	★★★	51% reduction vs. base year[*3]	
				Reduce the lost-time injuries frequency rate	0.32	★★	0.16	
				Assess product safety according to GPS for 70% of products	Confirmed for 31%	★	Confirmed for 45%	

*1 The C-2-1 Index is rated by various corporate assessments. Nikkei NICES, which is conducted by a Japanese newspaper, is one of the targets of this assessment.

*2 For employee indicators, please see margin entry on p.46.

*3 The year with the most accidents or claims from fiscal 2008, 2009, and 2010 has been taken as the base year.

Sustainability [Green] Index

S-1 Contribute to reducing environmental impact through products and services

S-1-1 Reduce environmental impact by 30% from fiscal 2005 levels

Reducing the environmental impact of substances emitted from production processes by gathering the MCHC Group's technologies.

Fiscal 2013 results

33% reduction

(From fiscal 2005 levels)

We are continuing improvement activities to save energy at manufacturing sites.

Among substances that are recognized as environmentally hazardous, MCHC targets the following six substances: GHG (Greenhouse Gases), NOx (Nitrogen Oxides), SOx (Sulfur Oxide), soot and dust, VOC (Volatile Organic Compounds) and total nitrogen in drained water. MCHC quantifies to what extent these substances have impacts on the environment by using an index based on an environmental impact assessment methodology.

MPI

Installation of co-generation facilities

In July 2013, the Nagahama Plant of MPI began operating two co-generation facilities. These facilities generate power using environmentally friendly city gas as fuel. Using exhaust heat produced by this power generation contributes to reducing greenhouse gas (GHG) emissions. Moreover, we developed a system to utilize an independent electric power generator with a capacity of 2,000kW so the plants can continue to stably supply products even when power supply is restricted in an emergency.

Nagahama Plant's co-generation facility

S-1-2 Generate reduction of CO_2 emissions by 3.5 megatons through products

With energy-efficient products and materials that the MCHC Group provides, striving to reduce CO_2 emissions when they are used.

Fiscal 2013 results

642,000 tons reduction

We aim to achieve the target by expanding sales of energy-efficient products and materials.

CO_2 has been ascribed as the cause of global warming. The MCHC Group views the reduction of CO_2 emissions in manufacturing as a material issue. At the same time, by providing energy-efficient products and materials, the Group aims to reduce CO_2 emissions at the customer product use stage.

MRC

Carbon fiber reinforced plastic is used in outer panels of automobiles

Carbon fiber reinforced plastic developed for mass production by MRC has been adopted for use in the trunk lid of luxury sports cars. By maintaining greater rigidity than aluminum while having nearly half of aluminum's weight, it contributes to higher fuel efficiency (reduces CO_2 emissions) through lighter weight and driving stability when driving at high speeds. We will further reduce CO_2 emissions by increasing orders for automobiles and industrial-related applications.

Car trunk lid of *GT-R* produced by NISSAN MOTOR CO., LTD

S-2 Take actions against the depletion of natural resources and implement energy-saving initiatives

S-2-1 Procure reusable materials equivalent to 10,000 tons of heavy oil in fiscal 2015

Switching from fossil fuels that are at risk of depletion to renewable materials.

Fiscal 2013 results

600 tons

We are developing ways of product use with customers to increase the amount of plant-derived plastic used.

The MCHC Group has been promoting the switch from fossil fuels (oil, coal, natural gas, etc.) that are at immediate risk of depletion to renewable materials that use plant-based resources and other natural resources. Our target is to use renewable materials equivalent to 10,000 tons of heavy oil in fiscal 2015.

MCC

Bio-based engineering plastics adopted for automobile interiors

DURABIO, the bio-based engineering plastic developed by MCC, was adopted in the colored interior panels of compact cars. *DURABIO* exhibits high functionality and performance, especially in such areas as impact resistance, heat resistance, and weather resistance along with brightness of color and transparency. We will continue to accelerate the development of applications in various fields.

→ Related information p.35

Colored interior panels of *HUSTLER* produced by SUZUKI MOTOR CORPORATION

S-2-4 Provide 900 million tons of reusable water through our products

Contributing to resolving water issues in areas with growing concerns about water stress.

Fiscal 2013 results

380 million tons

To achieve our target, we are strengthening the wastewater treatment business focused on Asia.

Various water shortages caused by rapid world population growth and social progress, and water contamination caused by undeveloped industrial water treatment facilities have become serious social problems. The MCHC Group aims to provide 900 million tons of reusable water in fiscal 2015 by expanding sales of product families with water purification functionalities.

MRC

Expansion of the sales of hollow fiber membrane for wastewater treatment in South Korea

Since 2001, MRC has been expanding sales of hollow fiber membrane for wastewater treatment for local engineering companies in South Korea and has thus far delivered more than 100 systems. It has also participated in the first-stage construction of one of the largest sewage treatment facilities in South Korea (treatment volume of 91,500 cubic meters (m³) per day) that will begin operation at the end of 2014. After the planned second stage of construction, water treatment volume will total 122, 000 m³ per day.

New Construction of Water Purification Center in Dong-Tan, Hwa-Seong, South Korea (Architectural rendering)

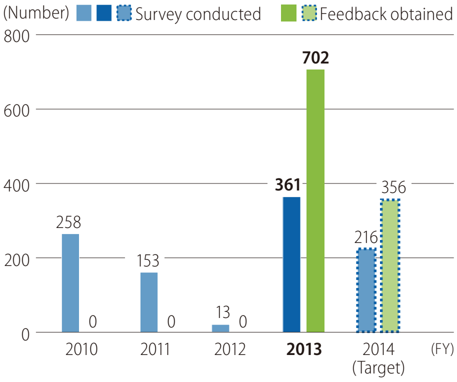
S-3 Contribute to solving social and environmental issues through supply chain management

S-3-2 Achieve 90% purchasing of raw materials and packaging according to CSR guidelines

Considering environmental and social issues throughout the entire supply chain.

Companies have to take responsibility for issues of human rights, labor, ethics, etc. not only internally but also in each stage of the supply chain. The MCHC Group has conducted questionnaire surveys since 2008 to confirm whether suppliers of raw materials and packaging materials consider these issues. Through survey feedback, we have promoted environmentally and socially conscious business activities in cooperation with suppliers.

Status of CSR-Based Procurement



The rate of CSR-Based procurement in fiscal 2013

77%

From fiscal 2014, we plan to visit suppliers to verify their CSR activities.

Won the highest environmental rating from the Development Bank of Japan Inc.

The Development Bank of Japan inc.'s Financing Employing Environmental Ratings System evaluates corporate environmental efforts with a highest possible score of 250 points in the three fields of "management in general," "business environment" and "performance." Based on the result, they offer favorable financing conditions. MCHC won a special award that is given to the highest-rated companies with scores of over 200 points.

Evaluation points

1 Formulated its own MOS Indexes to measure contributions to improve sustainability for people, society, and the Earth, and works to minimize the environmental impact of its business activities while voluntarily engaging in the formulation of industry guidelines.

2 Qualitatively assesses contributions to improving sustainability with MOS Indexes and builds systems that promote development and sales by managing them together with financial targets.

3 Incorporates the MOS Indexes as a key performance indicator (KPI), promotes disclosure combining financial and non-financial information through the issue of the *KAITEKI* Report published by MCHC.

Photo (from left)

Masanori Yanagi, Deputy President, Development Bank of Japan Inc.

Miho Hanafusa, Group Manager, Corporate Strategy Office, MCHC

Shotaro Yoshimura, Representative Director, Member of the Board, Deputy Chief Executive Officer, MCHC (at that time)

DBJ

DBJ 環境格付 2013

Inclusion status in SRI indices

MCHC is a constituent stock of the SRI (Socially Responsible Investment) Index below. (As of June 30, 2014)

MEMBER OF Dow Jones Sustainability Indices In Collaboration with RobecoSAM

Dow Jones Sustainability Asia Pacific Index (the United States: Dow Jones & Company Inc.)

FTSE4Good

FTSE4Good (United Kingdom: FTSE International Ltd.)

MS-SRI

Morningstar Socially Responsible Investment Index (MS-SRI) (Japan: Morningstar, Inc.)

Health Index

H-1 Contribute to medical treatment

H-1 Increase the index performance derived by the degree of difficulty to treat diseases multiplied by the number of administered patients by 50% (compared with fiscal 2009)

Contributing to medical treatment by providing pharmaceuticals in fields for which treatments remain challenging and spreading their use through providing reliable information.

Fiscal 2013 results

12% increase
(compared with fiscal 2009)

The degree of contribution improved by increasing the sales of a therapeutic agent for multiple sclerosis in foreign countries.

In order to provide the joy of good health to more people, the MCHC Group seeks to **contribute to the treatment of disease** 📖 by developing new drugs for disorders that are highly difficult to treat, especially disorders that leverage the Group's strengths, such as autoimmune disease, diabetes, and kidney disease. We will also spread and disseminate high-quality information that meets the needs of doctors and pharmacists.

MTPC

Imusera drug adherence program 📖 to treat multiple sclerosis

MTPC began marketing the pharmaceutical *Imusera* for patients with multiple sclerosis in November 2011. Since the disease requires long-term care, it is important to provide the patients with psychological support and also measures to prevent them from forgetting to take their medication. MTPC started the *Imusera Hills* adherence program in cooperation with outside medical staff. *Imusera Hills* contributes to the treatment by providing notifications about appropriate usage, safety information, and dosing time via mobile phone and their website.

Imusera Hills booklet
(in Japanese only)

📖 Contribution to the Treatment of Disease

MCHC defines this as follows:
The degree of contribution to medical treatment =
The degree of difficulty to treat diseases multiplied by the number of administered patients

📖 Adherence Program

Patients actively participate in treatment policy decisions and treatments are carried out and continued in line with those decisions.

H-2 Contribute to improvements of QOL

H-2 Increase contribution to QOL improvements by 70% (compared with fiscal 2009)

Promoting pharmaceutical development to improve Quality Of Life (QOL) of people suffering from illness.

Fiscal 2013 results

66% increase
(compared with fiscal 2009)

The degree of contribution improved steadily by increasing the number of countries that can sell *CANAGLU* (generic name: canagliflozin hydrate).

QOL generally refers not only to material abundance such as money and goods, but also to a way of thinking which perceives things in qualitative terms including spiritual wealth and satisfaction. The MCHC Group contributes to raising patients' QOL by offering more treatment options to those who suffer from disease and providing them with easy-to-take medicines.

MTPC

The new type-2 diabetes agent *CANAGLU* (canagliflozin hydrate) received the Pharmaceutical Society of Japan Award for Drug Research and Development 2014

SGLT2 inhibitor *CANAGLU* (generic name: canagliflozin hydrate), discovered by MTPC, received the Pharmaceutical Society of Japan Award for Drug Research and Development 2014. *CANAGLU* possesses a new mechanism of action that promotes the excretion of excess glucose into the urine. *CANAGLU* (canagliflozin hydrate) provides new options in the treatment of type 2 diabetes. MTPC will co-promote *CANAGLU* (canagliflozin hydrate) with Daiichi Sankyo with the aim of achieving the No. 1 presence in the field of type 2 diabetes.

Receiving the Pharmaceutical Society of Japan Award for Drug Research and Development

Comfort Index

C-1 Deliver products (development and manufacturing) for comfortable lifestyle

C-1-2 Increase the new product ratio from 16% to 30%

Supporting the creation of comfortable lifestyles by providing new products.

To provide people more comfortable lives, we need to continuously release products that feature new performance without being bound by our existing products. The MCHC Group seeks to increase the proportion of new products in its lineup.

New product ratio in fiscal 2013

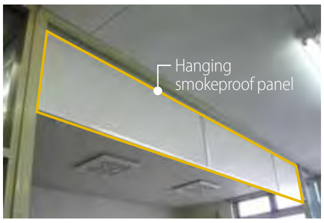
22%

We will achieve our target by developing new products that reflect customer needs and expanding sales of new products.

DiaPlus Film Inc.*

Released a hanging smokeproof panel 📖 to help build a safe and secure society

When the Great East Japan Earthquake occurred in 2011, there were many instances in which glass-sheet barriers dropped from the ceiling and caused injury to people and damaged property. As a result, DiaPlus Film Inc. developed and began sales of *RKP Hanging Smoke Barrier Panel*. This new product is one-eighth lighter than the glass equivalent and is immune to cracking or shattering, even if it drops from the ceiling or breaks during an earthquake, thus minimizing injuries.



Hanging smokeproof panel

*DiaPlus Film Inc. is a member of the MPI Group.

📖 Hanging smokeproof panel

A hanging smokeproof panel is a partition suspended 50cm or more from the ceiling to facilitate evacuation in the event of a fire by delaying the flow of smoke and high-heat toxic gases. Buildings of a certain size, such as supermarkets, hotels and hospitals, are required by Japanese law to install smoke barriers.

C-2 Improve stakeholder satisfaction

C-2-2 Achieve targets for employee-related indexes 📖

Striving to create decent work and working environments for individual employees.

The MCHC Group believes that it is important to provide employees with rewarding work so they can grow and live fulfilling lives as it leads not only to their individual happiness, but to increased corporate value.
Specifically, we have formulated employee-related indexes and will take measures to achieve these index targets.

■ Raise employee job and workplace satisfaction

We began conducting an employee survey for employees in Japan in fiscal 2011 and investigated changes in employees' satisfaction in terms of job motivation and workplace conditions. Based on the results of these surveys, we gained an understanding of employee issues and we reflected these findings in our policies and measures.

■ Create workplace diversity

We strive to create workplaces where all employees can respect diverse ideas and flourish, regardless of nationality, gender, etc. For example, we train women and local staff at overseas subsidiaries in order to promote them to leadership positions.

📖 Employee-Related Indexes

C-2-2 Index Items

- Employee satisfaction
- Percentage of female employees to employees at assistant manager level and above
- Percentage of female employees on employees recruited
- Percentage of overseas employees in positions of Director and above at major overseas subsidiaries
- Decrease in workers putting in long hours
- Increase in paid vacation utilization rate
- Employee self-development ratio
- Length of time employees spend on self-development
- Percentage of employees involved in volunteer activities

■ Create workplaces that support work-life balance

Emphasizing both the working and personal lives of each and every employee, we strive to work more efficiently while limiting work hours and believe in the importance of choosing how one wants to work to support work-life balance.

We therefore promote initiatives to reduce the proportion of workers putting in long hours and raise the paid vacation utilization rate.

Fiscal 2015 target

58.0%

Results

We will consider and implement policies and measures that reflect the monitoring of past performance.

■ Increase opportunities for self-development and contribution to society

We expect all employees to voluntarily improve their abilities, enthusiastically take on new challenges and create new value and innovation. We therefore support the development of employees skills through on-the-job training, instruction and personal development programs in the course of their daily work. We also support the social contributions of employees by providing them with information about volunteer activities over our corporate Intranet.

Huizhou MMA Co., Ltd.*

Boosting motivation at the point of production with a local flavor of TPM

Huizhou MMA Co., Ltd., which has produced and sold MMA monomers in China since 2006, has sought to develop human resources and raise productivity and therefore began Total Productive Maintenance (TPM) activities in fiscal 2010. As a result of conducting improvement activities involving all staff based on practices that reflect local culture and customs, Huizhou MMA has achieved increased MMA monomers production and drastically reduced processing loss. Moreover, employee motivation is also improving at the production site.

Huizhou employees

*Huizhou MMA Co., Ltd. is a group company of the MRC Group

MCC

Initiated program to support the early return of employees from maternity and childcare leave

In anticipation of the medium- and long-term careers of female employees, MCC wants female employees to exhibit their pre-leave performance as soon as possible after resuming work following maternity leave or childcare leave and continue to flourish even when facing major life events such as childbirth or the raising of children. With this intent, MCC started the Work Resumption Support Program in February 2013. Under the program, managers regularly check with employees about their work status and thoughts on their future career, their physical condition and that of their children, and support for rearing children. Then, together with the Company, they consider how to work to maximize their abilities. Moving forward, MCC will create an environment in which women who are expectant mothers or raising children can flourish at work in their own way.

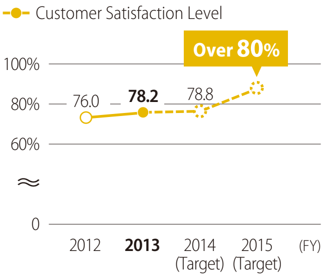
Program to support employees' early return

C-2-3 Improve customer satisfaction to 80% or more

Grasping customer needs through Customer Satisfaction Surveys and building a better relationship of trust with them.

The MCHC Group started the Customer Satisfaction Survey in fiscal 2012 and expanded the scope of the survey overseas in fiscal 2013. Considering the results and other factors, from fiscal 2014 we set a target for Customer Satisfaction Survey results in fiscal 2015 of 80% or more. Customer requests gained from the questionnaire answers will be resolved through direct communication with customers.

Customer Satisfaction Survey



Fiscal 2013 results

78.2%

Conducting improvement activities based on the analysis of Customer Satisfaction Survey results.

C-3 Earn recognition of corporate trust

Developing into a company that earns even greater trust from its stakeholders through our corporate activities.

The MCHC Group strives for safe operation at production sites to ensure that local residents can go about their lives with peace of mind.

In addition, through initiatives such as ongoing employment and activities to support governments, we aim to contribute to the sustainable development of local regions and society. We have established the following five targets to become a more trusted company and to have a more positive influence.

- **Reduce safety accidents**
- **Reduce environmental accidents**
- **Reduce claims to products**
- **Reduce the lost-time injuries frequency rate**
- **Assess product safety according to GPS* for 70% of products**

*GPS: Global Product Strategy

Environmental accidents in fiscal 2013

0 incidents

There were no environmental accidents in fiscal 2013 due to improved pipe inspections and waste water management.

MCC

Thanks to stronger coordination with business partners, large-scale periodic maintenance work at our chemical plants was completed with zero accidents

At MCC's Mizushima Plant, large-scale regular maintenance of continuously operating facilities including the ethylene plant, which is conducted once every four years, was carried out in fiscal 2013. With the aim of achieving zero accidents during maintenance work, we discussed the various themes, work procedures, rules, the 3S (Sort, Set in order, Shine), and information sharing with business partners during the nine months before the start of work, thereby establishing a task framework. As a result, we achieved zero accidents and injuries.

Safety meeting of regular maintenance work

Activities Not Related to the MOS Indexes

The MCHC Group also vigorously pursues activities to improve sustainability that cannot be quantified in terms of targets and results.

MCHC Group

Sharing a single table with children from developing countries

The MCHC Group has been participating in the **TABLE FOR TWO Program** since November 2012. In this program, when specified low-calorie meals at our head office are purchased, ¥20 of the cost of a meal is donated to buy one school meal for children in developing countries. To date, we have donated the equivalent of 13,825 school meals. This program contributes to the development of school education by providing children with lunches in developing countries. At the same time, it helps to reduce employee obesity and lifestyle-related diseases.

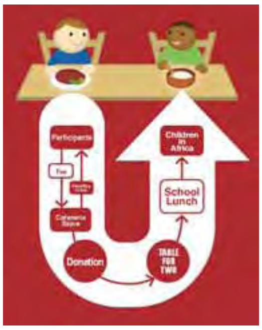


TABLE FOR TWO Program

Conducted by TABLE FOR TWO International, a specified non-profit corporation.

Mitsubishi Plastics Agri Dream Co., Ltd. (MPAD)*

Supporting the establishment of new agriculture in areas that suffered enormous tsunami damage by providing systems and technologies

In Pacific coastal areas of the Tohoku region of Japan, there is farmland that still cannot be cultivated due to salt damage caused by the tsunami generated during the Great East Japan Earthquake in March 2011. To facilitate highly profitable and stable agriculture, even under these harsh conditions, Michisaki, an agricultural production corporation in Miyagi Prefecture, installed a solar **plant factory** that uses a solution cultivation system from MPAD. In June 2013, the cultivation of highly profitable salad spinach began. Even after system installation, we are supporting agricultural reconstruction in terms of both systems and techniques, such as vegetable selection and sowing intervals.

*Mitsubishi Plastics Agri Dream Co., Ltd. is a group company of the MPI Group.


Michisaki's plant factory

Plant Factory

A cultivation system to systematically produce plants in a closed or semi-closed space. Elements that are important to crop viability including light, temperature and nutrient solutions can be centrally controlled, enabling operation focused on fixed time, fixed yield, fixed quality and fixed cost.

OPINION

I hope MCHC's corporate value will be further improved through *KAITEKI* Management

The Management of Sustainability section in the report for fiscal 2014 provides a concise overview of progress toward targets in a table, making it easier to understand. In addition, by indicating specific examples of measures taken in terms of Sustainability [Green], Health and Comfort, it has become easier to figure out the relationship between targets and results, and the significance of these measures. In the current report, I got the impression that the concept of integrating financial and non-financial information had become more embedded. I believe that this has led to a substantial improvement in disclosure, with a clear connectivity between targets and results, and the businesses concerned. Progress was also apparent on issues of the previous fiscal 2013 report, with the inclusion of environmental and social initiatives across the whole value chain and proactive engagement in compiling sector guidelines. I hope MCHC can continue to enrich the disclosed content with these kinds of initiatives. I suspect that MCHC, which is involved in a wide range of businesses, will need to make major commitments, stepping up initiatives each year to keep improving its corporate value through *KAITEKI* Management. I hope that it can continue to build on the achievements of past years, and continue to embed these initiatives throughout the Group companies.

On the other hand, in recognition of the importance of non-financial information in areas such as the environment, social issues and governance (ESG) to evaluate long-term corporate value, there has been a rapid global expansion in the practice of including ESG aspects into investment decisions, led primarily by public pension funds. In February 2014, a Japanese version of the Stewardship Code was introduced, and I hope that MCHC's future initiatives will show a deeper awareness of ESG investments and investor engagement.


Masaru Arai
Chair of Japan Sustainable Investment Forum

Governance

To meet the expectations and requests of stakeholders, MCHC is strengthening its corporate governance, which forms the basis for the realization of *KAITEKI*.

Corporate Governance

MCHC's top priorities in Group corporate governance are to ensure that decision making and implementation are efficient and timely, to clarify management responsibility, and to maintain strict compliance and solid risk management with the aim of further increasing corporate value.

Corporate Governance Overview (As of July 1, 2014)

Organization system	Holding company; company with corporate auditors
Number of Directors	8
Of which, number of External directors	1

Number of Statutory auditors	5
Of which, number of External statutory auditors	3
Designated independent officers	3
Term of office for directors	1 year
Executive officer system in place	Yes

Remuneration of Directors	**1. Monthly salary** **2. Stock options**	Based on position Determined by such factors as the Company's performance in the previous fiscal year, director's performance of duties and degree of contribution to the Company.
Accounting auditors	Ernst & Young ShinNihon LLC	

Initiatives Taken to Strengthen Corporate Governance

June 2006	Introduced Stock-based Compensation Stock option Plans	Absence of conflict of interest between management, executives and shareholders.
June 2013	Election and accession of external directors	Strengthened management oversight
June 2014	Election and accession of foreign directors	Improved diversity in directors

Management Governance Structure

Because MCHC consists of companies that run diverse businesses, the MCHC Group has introduced a holding company system. While the management functions of the highly specialized individual companies have been set up in the core business companies, Group management functions (formulation of strategies, optimal allocation of business resources, business management oversight, etc.) have been set up in MCHC, the holding company.

MCHC's basic management and administrative structures are the Board of Directors, the Management Committee, statutory auditors, and the Board of Corporate Auditors. We have adopted an executive officer system to separate management and execution, and we maintain rules governing the Board of Directors and other decision-making organs, as well as such areas as the authority of individual employee positions and departmental responsibilities to ensure decision making about management matters and subsequent implementation of policy is appropriate and efficient.

Management Bodies

The Board of Directors, in conformity with the regulations of the Board of Directors and other relevant rules and regulations, makes decisions on important Company and Group management matters and oversees the activities of directors. In principle, the Board meets once per month.

Approach to Board Membership

The Board of Directors is comprised of members from Group companies with different corporate cultures, styles and businesses, all familiar with the Group's wide range of businesses. Members are also chosen from outside of the Group who possess great insight into social and economic affairs, as well as science and technology, and other subjects. The Board of Directors makes management decisions from the members' diverse points of view. The Group's articles of incorporation limit the number of Board members to 10 and directors are appointed for a term of one year. This is done to create a corporate structure capable of swiftly responding to changes in the business environment and create greater transparency of the directors' responsibilities and their roles.

Executive Bodies

The Management Committee convenes approximately twice a month. The President, executive officers, statutory auditors, and the representatives of core operating companies' executives attend the meetings. Of the matters deliberated on by the Committee, important management matters are enforced by a resolution of the Board of Directors.

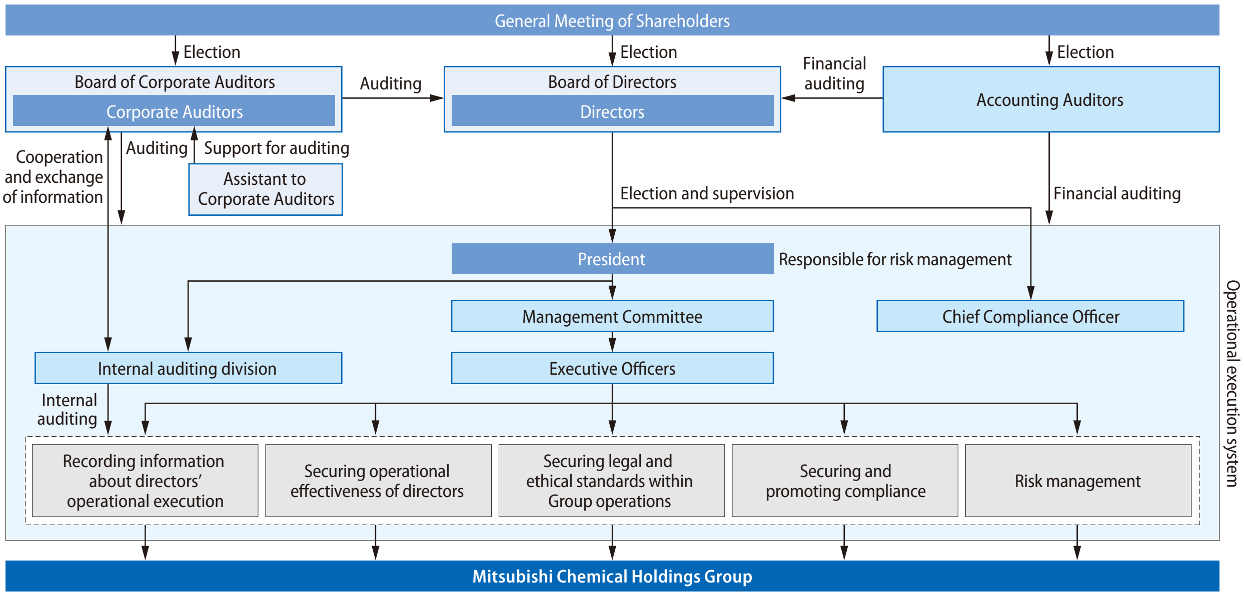
Auditors and Supervisory Bodies

As the auditors and supervisory bodies, MCHC has statutory auditors and the Board of Corporate Auditors. In principle, the Board of Corporate Auditors meets once a month. Statutory auditors conduct fair and effective audits through routine checks, such as on the state of compliance, and the exchange of information with the Internal Audit Office, which conducts internal audits, and accounting auditors.

External Directors and the Appointment of External Auditors

The Company appoints external directors and external auditors and places importance on living up to the independent standards established by the Financial Instruments Exchange in Japan. As of July 1, 2014, one external director and three external auditors had been reported to the Tokyo Stock Exchange as independent officers. Appointing external directors and auditors ensures a sound and transparent management system.

Corporate Governance System (As of April 1, 2014)



Reasons for Appointment of External Director

Takeo Kikkawa	He provides proper oversight based on his extensive experience as a university professor in business administration with great insight into the subject. Therefore he was appointed an external director and designated an independent officer. There exists no conflict of interest between Mr. Kikkawa and the Company.

Reasons for Appointment of External Auditors

Takashi Nishida	He conducts fair audits based on his extensive experience in the banking and securities industries. Therefore he has been appointed an external auditor and designated an independent officer. There exists no conflict of interest between Mr. Nishida and the Company.
Kazuhiro Watanabe	He conducts fair audits based on his experience as a public prosecutor and attorney and possesses specialist knowledge. Therefore he has been appointed an external auditor and designated an independent officer. There exists no conflict of interest between Mr. Watanabe and the Company.
Taigi Ito	He conducts fair audits based on his experience as a CPA and possesses specialist knowledge. Therefore he has been appointed an external auditor and designated an independent officer. There exists no conflict of interest between Mr. Ito and the Company.

Criteria for Appointment of External Directors and External Auditors

Criteria for External Directors	• In order to achieve quick decisionmaking and fair and impartial oversight at the Board of Directors, we appoint people who have great insight including extensive experience in corporate management or who possess an advanced level of knowledge about social and economic conditions, science and technology, and other subjects. • In view of the purpose of appointing an external director, we appoint people who can make decisions from a fair and neutral standpoint in light of their background and with no conflict of interests between them and shareholders.
Criteria for External Auditors	• In order to conduct fair and effective audits and maintain a sound management system, we appoint people who have great insight including an advance level of knowledge about finance, accounting, and compliance issues. • In view of the purpose of appointing an outside auditor, we appoint people who can audit from a fair and neutral standpoint in light of their background and with no conflict of interests between them and shareholders.

FY2013 Summary

Number of times meetings convened in fiscal 2013

Board of Directors	16 times
Board of Corporate Auditors	14 times
Director attendance at Board of Directors' meeting (External director attendance is shown in parentheses)*	96% (91%)
Auditor attendance at Board of Directors' meeting (External auditor attendance is shown in parentheses)	100% (100%)
Auditor attendance at Board of Corporate Auditors' meeting (External auditor attendance is shown in parentheses)	97% (95%)

*The Board of Directors' Meeting has convened 12 times since External Director Takeo Kikkawa assumed the position of director in June 2013.

■ Director Remuneration

Remuneration for directors 📖 comprises a monthly salary based on position as well as stock options which are determined by such factors as the Company's performance in the previous fiscal year and the director's performance of duties and degree of contribution within the Company. In addition to directors, retired officers and executive officers also receive stock options and share the advantages and risks of stock price volatility with the shareholders. **Remuneration for auditors** 📖 also comprises a monthly salary based on whether they are full-time or not.

Category	Number of people	Amount (Millions of yen)
Directors	10	216
Statutory auditors	5	114

*In addition to the aforementioned remuneration paid to directors and statutory auditors, directors and statutory auditors who concurrently serve as executive officers of MCHC subsidiaries received the following remuneration from those subsidiaries — Directors: ¥276 million; Auditors; ¥13 million.

■ Auditor Remuneration

To ensure the independence of accounting auditors, remuneration is maintained so that compensation from non-audit and attestation services does not excessively exceed that of audit and attestation services.

Category	Compensation from audit and attestation services (Millions of yen)	Compensation from non-audit and attestation services (Millions of yen)
MCHC	41	32
Consolidated subsidiaries	709	44

Promoting Dialogue with Shareholders and Investors

MCHC strives to ensure transparency in its corporate activities through the appropriate disclosure to shareholders, investors, and analysts. Further, in order to deepen their understanding of the MCHC Group's business, we create opportunities to interact with them.

■ Shareholders

To enable as many of our shareholders as possible to attend our shareholders' meetings, MCHC sends out notices to convene shareholders' meetings 22 days prior to the meeting and posts the same information on its website in Japanese and English. Beginning with the 1st Ordinary General Meeting of Shareholders held in June 2006, we have held these meetings on days other than those peak days when many other companies traditionally hold theirs. So that shareholders can fully exercise their voting rights, we have implemented an electronic voting system using the Internet and other means.

■ Institutional Investors and Analysts

At the time of announcement of our financial results, the Company holds online question and answer sessions for institutional investors and analysts. At Analysts Meetings, which are held twice a year, we explain our specific strategies for management plans and major businesses. In fiscal 2013, the Company's Investor Relations Officer held 62 individual interviews with overseas institutional investors during visits to the United Kingdom, the United States, and other countries.

■ Individual Investors

The Company has held briefing sessions for individual investors since fiscal 2008. In fiscal 2013, sessions were held in Chiba, Tokyo, Sendai, Sapporo, Fukuoka, Hiroshima, and Osaka, where we explained a current overview of our business, its future development, and other aspects to 661 participants. The Public Relations and Investor Relations Office responded to participants' questions and feedback.

Feedback from Knowledgeable Outside Individuals is Reflected in Management

The KAITEKI Institute, which conducts research and surveys on future social trends, as part of its business, twice a year, obtains from experts around the world who have a variety of insights their opinions and proposals about activities and trends. Based on this feedback, MCHC creates new business concepts that meet the needs of future society, such as solutions to global environmental and social issues, and promotes their commercialization through the MCHC Group.

📖 Remuneration for Directors

Monthly compensation is not to exceed ¥30 million and, under a separate framework, compensation from stock options is not to exceed ¥80 million annually.

📖 Remuneration for Auditors

Monthly compensation is not to exceed ¥11 million.

Message from the Outside Director

Outside director
Takeo Kikkawa

Profile

1951	Born in Wakayama Prefecture, expert in business administration. Specializes in the business history in Japan and energy industry theory.
1987	Associate professor, School of Business, Aoyama Gakuin University
1993	Associate professor, Institute of Social Science, The University of Tokyo
1996	Professor, Institute of Social Science, The University of Tokyo
2007	Professor, Graduate School of Commerce and Management, Hitotsubashi University (current)
June 2013 to present	Outside director of MCHC (current)

Q You have served as an outside director for about one year. What policy do you follow with regard to the role and activities that are expected of you?

A My job is to candidly provide my opinion on what I notice with a focus on what happens on the front line, while maintaining the perspective of a third-party observer.

The Board of Directors of MCHC has comprised members from Group companies with different backgrounds, in terms of corporate philosophy, culture and business. Management decisions are being made based on a variety of perspectives provided by board members with their wide range of expertise. Given such circumstances, my role is to candidly provide my opinion on the issues that draw my attention, based on my own specialist knowledge from a broad and historical perspective to the extent possible. I attended every meeting of the Board of Directors in fiscal 2013 except one, and stated my opinions on themes such as the growth prospects of China's market, the impact of the shale gas revolution on the chemical industry, and the application of the Industrial Competitiveness Enhancement Act to the industrial complex. I also went to Kitakyushu city and the U.S. to deepen my knowledge of the MCHC Group businesses and visited the plants of some Group companies there.

While maintaining my perspective as a third-party observer, I aim to contribute to the development of the Company by fulfilling my role as an outside director by better understanding what is happening at the front line of each Group company.

Q What kind of governance structure do you envision for a comprehensive chemical enterprise group that operates a wide range of businesses with tens of thousands of business types?

A I think it is important to strengthen the reviewing function for the medium- to long-term investment strategy, while having a cross-organizational management function for total optimization.

The chemical industry in Japan is characterized by its large number of mid-sized companies with strengths in specific fields. The MCHC Group is a comprehensive chemical enterprise group, differentiating itself from those companies. The issue is how we can leverage the strength of our comprehensive portfolio. We must seek not just partial optimization but total optimization at all times. The key to this is to deploy human and financial resources optimally across the departments of the Group. To achieve this, it is important to keep not only short-term gains in mind, but also to focus on building up long-term competitive strength. Ultimately, I believe that reviewing the medium- to long-term investment strategy will lead to a stronger governance function.

Q In what way do you think governance contributes to creating innovation?

A It is important to foster an organizational culture from a long-term perspective.

Innovation is not something that can be generated overnight. Therefore, I believe it is important to foster an organizational culture from a long-term perspective. In that sense, the appointment of Dr. Glenn H. Fredrickson as a director will help make a difference in the organizational culture. I have great expectations that this will be a significant step forward in terms of creating an optimized system for accelerating the innovation process.

Directors and Officers (As of June 25, 2014)

Front row, left to right
Yoshimitsu Kobayashi, Noboru Tsuda
Back row, left to right
Glenn H. Fredrickson, Takumi Ubagai, Masayuki Mitsuka, Hiroaki Ishizuka, Hitoshi Ochi, Takeo Kikkawa

Akira Nakata

Kazuchika Yamaguchi

Takashi Nishida

Kazuhiro Watanabe

Taigi Ito

Yoshimitsu Kobayashi

Representative Director, Member of the Board, President and Chief Executive Officer

Dec. 1974	Joined Mitsubishi Kasei Industries Corporation (now MCC)
Jun. 2003	Executive Officer of MCC
Apr. 2005	Managing Executive Officer of MCC
Jun. 2006	Member of the Board of MCHC
Feb. 2007	Member of the Board of MCC
Apr. 2007	Member of the Board, President and Chief Executive Officer of MCHC (current)
	Member of the Board, President and Chief Executive Officer of MCC (until Mar. 2012)
Apr. 2009	Member of the Board, President and Chief Executive Officer of The KAITEKI Institute, Inc. (TKI) (current)
Apr. 2012	Member of the Board, Chairman of MCC (current)

Noboru Tsuda

Representative Director, Member of the Board, Deputy Chief Executive Officer, Chief Compliance Officer

Apr. 1973	Joined Mitsubishi Kasei Industries Corporation (now MCC)
Jun. 2005	Executive Officer of MCC (until Mar. 2009)
Oct. 2005	Executive Officer of MCHC
Apr. 2009	Managing Executive Officer of MCHC
Apr. 2013	Senior Managing Executive Officer of MCHC
	Member of the Board of MRC (current)
Jun. 2013	Member of the Board of MCHC (current)
Apr. 2014	Member of the Board, Deputy Chief Executive Officer of MCHC (current)

Hiroaki Ishizuka

Member of the Board

Apr. 1972	Joined Mitsubishi Kasei Industries Corporation (now MCC)
Apr. 2007	Executive Officer of MCC
Apr. 2009	Managing Executive Officer of MCC
Jun. 2009	Member of the Board of MCC
Apr. 2011	Senior Managing Executive Officer of MCC
Apr. 2012	Member of the Board, President and Chief Executive Officer of MCC (current)
	Member of the Board of TKI (current)
Jun. 2012	Member of the Board of MCHC (current)

Masayuki Mitsuka

Member of the Board

Apr. 1982	Joined Mitsubishi Kasei Industries Corporation (now MCC)
Jun. 2008	Executive Officer of MTPC
Jun. 2009	Member of the Board of MTPC (current)
Apr. 2012	Managing Executive Officer of MTPC
Apr. 2014	Senior Managing Executive Officer of MTPC
Jun. 2014	Member of the Board, President and Chief Executive Officer of MTPC (current)
	Member of the Board of MCHC (current)
	Member of the Board of TKI (current)

Takumi Ubagai

Member of the Board

Apr. 1971	Joined MRC
Jun. 2001	Member of the Board, Executive Officer of MRC
Jun. 2004	Managing Director, Senior Executive Officer of MRC
Jun. 2007	Member of the Board, Senior Executive Officer of MRC (until Mar. 2012)
Apr. 2012	Member of the Board, President and Chief Executive Officer of MPI (current)
	Member of the Board of TKI (current)
Jun. 2012	Member of the Board of MCHC (current)

Hitoshi Ochi

Member of the Board

Apr. 1977	Joined Mitsubishi Kasei Industries Corporation (now MCC)
Jun. 2007	Executive Officer of MCHC
	Executive Officer of MCC (until Mar. 2010)
Apr. 2009	Member of the Board of MPI (until Mar. 2011)
Jun. 2009	Member of the Board of MCHC (until Jun. 2011)
Jun. 2010	Managing Executive Officer of MCHC (until Mar. 2011)
	Member of the Board of MRC (until Jun. 2011)
Apr. 2011	Member of the Board, Managing Executive Officer of MCC (until Mar. 2012)
Apr. 2012	Member of the Board, President and Chief Executive Officer of MRC (current)
	Member of the Board of TKI (current)
Jun. 2012	Member of the Board of MCHC (current)

Glenn H. Fredrickson

Member of the Board, Managing Executive Officer

Jan. 1990	Associate Professor, Departments of Chemical Engineering and Materials, University of California, Santa Barbara (UCSB)
Jul. 1991	Professor, Departments of Chemical Engineering and Materials, UCSB (current)
May 1998	Chair, Department of Chemical Engineering, UCSB (until Jul. 2001)
Mar. 2001	Director of Mitsubishi Chemical Center for Advanced Materials at the UCSB (current)
Apr. 2009	Executive Director of TKI (until Mar. 2014)
Apr. 2014	Managing Executive Officer of MCHC (current)
Jun. 2014	Member of the Board of MCHC (current)

Takeo Kikkawa

Outside Member of the Board

Apr. 1987	Associate Professor, School of Business, Aoyama Gakuin University
Oct. 1993	Associate Professor, Institute of Social Science, The University of Tokyo
Apr. 1996	Professor, Institute of Social Science, The University of Tokyo
Apr. 2007	Professor, Graduate School of Commerce and Management, Hitotsubashi University (current)
Jun. 2013	Outside Member of the Board of MCHC (current)

Akira Nakata

Corporate Auditor (full-time)

Apr. 1981	Joined MRC
Jun. 2008	Member of the Board, Executive Officer of MRC (until Mar. 2012)
Jan. 2011	Executive Officer of MCHC (until Mar. 2012)
Jun. 2012	Corporate Auditor of MCHC (current)
	Outside Corporate Auditor of MPI (current)

Kazuchika Yamaguchi

Corporate Auditor (full-time)

Apr. 1975	Joined Mitsubishi Kasei Industries Corporation (now MCC)
Jun. 2007	Executive Officer of MCHC (until Mar. 2010)
	Executive Officer of MCC (until Mar. 2010)
Jun. 2010	Corporate Auditor of MCHC (current)
	Corporate Auditor of MCC (current)
	Corporate Auditor of TKI (current)
Jun. 2012	Outside Corporate Auditor of MRC (current)

Takashi Nishida

Outside Corporate Auditor (full-time)

Apr. 1976	Joined Mitsubishi Bank, Ltd. (now The Bank of Tokyo-Mitsubishi UFJ, Ltd.)
Sep. 2002	Executive Officer of Mitsubishi Securities Co., Ltd. (now Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.)
Jun. 2003	Managing Executive Officer of Mitsubishi Securities
Jun. 2004	Executive Officer of Bank of Tokyo-Mitsubishi, Ltd. (now The Bank of Tokyo-Mitsubishi UFJ)
Jun. 2007	Outside Corporate Auditor of MCHC (current)
	Outside Corporate Auditor of MCC (current)
	Outside Corporate Auditor of Mitsubishi Pharma Corporation (now MTPC)
Oct. 2007	Outside Corporate Auditor of MTPC (current)

Kazuhiro Watanabe

Outside Corporate Auditor

Apr. 1974	Appointed as a Prosecutor
Jul. 1998	Assistant Vice-Minister of Justice, Ministry of Justice
Apr. 2001	Prosecutor of the Supreme Public Prosecutors Office
Jan. 2002	Chief Prosecutor of the Nara District Public Prosecutors Office
Sep. 2004	Chief Prosecutor of the Maebashi District Public Prosecutors Office
Sep. 2005	Chief Prosecutor of the Nagoya District Public Prosecutors Office
Jun. 2007	Chief Prosecutor of the Yokohama District Public Prosecutors Office
Jul. 2008	Superintending Prosecutor of the Sapporo High Public Prosecutors Office (Retired in Jul. 2009)
Sep. 2009	Registered as a lawyer
	Professor, the Law School of Tokai University (current)
Jun. 2010	Outside Corporate Auditor of MPI (current)
Jan. 2011	Counselor, Higashimachi LPC (current)
Jun. 2014	Outside Corporate Auditor of MCHC (current)

Taigi Ito

Outside Corporate Auditor

Jan. 1970	Joined Tsuji Audit Corporation
May 1973	Registered as a Certified Public Accountant
Feb. 1989	Representative Partner of MISUZU Audit Corporation
Jul. 2004	Deputy Chairman of the Japanese Institute of Certified Public Accountants (JICPA) (until Jun. 2007)
May 2006	Executive Board Member of MISUZU Audit Corporation
Jul. 2007	Retired from MISUZU Audit Corporation
Apr. 2009	Professor, the Graduate School of Accounting of Waseda University (until Mar. 2013)
Jan. 2012	Chairman of Disciplinary Committee of JICPA (current)
Jun. 2014	Outside Corporate Auditor of MCHC (current)
	Outside Corporate Auditor of MCC (current)

Risk Management

The MCHC Group defines risks as potential events that could, during the course of corporate activities, undermine public trust in or the corporate value of the MCHC Group. We identify, evaluate and analyze risks and prevent materialization of significant risks. We take measures to minimize the personal, economic and social damage arising in case of materialization.

Risk Management System

Under this basic approach to risk management, MCHC has compiled the MCHC Group Risk Management Basic Rule, and has in place a risk management framework covering the whole Group. In line with the basic policy and procedures for risk management at the MCHC Group, major matters relating to risk management are discussed by the Management Committee. Decisions are made by the President of MCHC, who is responsible for all Group risk management.

From time to time, reports on risk status are submitted to the Board of Directors, and decisions are made by the Board of Directors regarding particularly significant issues.

The Internal Control Office serves as the risk management secretariat. The Executive Officer in charge of the Internal Control Office assists the President, and deals with all kinds of risk management across the board. We take measures to ensure that employees of the MCHC Group follow risk management rules and work to prevent risk materialization at all times in the operations for which they are themselves responsible. In the event of a major incident, they are encouraged to promptly submit reports to the department in charge of risk management through their superior.

Risk Management Process

At the MCHC group, risks are identified, analyzed and evaluated from the **three perspectives**📖 at right, and we take measures for each kind of risk.

Major Risks Facing the MCHC Group

Through the risk management process, MCHC has isolated the following categories of risk as warranting priority measures. After identification of such risks, we take measures to avoid their incidence or to minimize the resulting damage if the risks materialize.

(1) Compliance violations
(2) Accidents in our facilities and injuries in the workplace
(3) Information security breaches
(4) Country risk
(5) Natural disasters
(6) Fund procurement risk (due to financial crises, etc.)

📖 Three Perspectives

Risks to be identified by individual departments
Identification of risks is undertaken each year at every company of the Group. It includes consideration of frequency and degree of impact from the personal, economic and public reputational perspectives. Risks revealed in this process are graded according to significance, and appropriate measures are taken by the management of the department responsible.

Risks of current concern in social situation
We pre-assume certain risks, such as political and social risks in each country and global warming, while keeping an eye on rapidly changing social trends. We take a range of measures to prepare ourselves for materialization of such risks within the MCHC Group.

Risks pre-assumed by top management
With regard to the execution of business and duties under their management, the top management at MCHC indicates the appropriate measures to be taken in their departments to deal with any risk that could have a major impact on Group operations, taking the two categories above into account.

IN FOCUS Measures to enhance protection of information assets from various threats

In addition to measures taken related to system security, the Group compiled the MCHC Group Information Security Policy in April 2013, aimed at making all employees of the Group aware of the importance of protection of information assets and related responsibilities. The goal is to prevent loss of public trust or other adverse effects from stoppage of business due to failure of core systems or leakage of confidential information. Looking ahead, we plan to strengthen upholding and management of information security at our bases in Japan and overseas, chiefly through the Information Security Committee established at the same time as the above Policy.

MCHC systems manager Ryoka Systems Inc. has been accredited as compliant with ISMS Ver2.0, an information security management standard used in Japan, and BS 7799-2:2002, an international standard, in both cases in August 2004. (It completed the transition from BS 7799-2:2002 to ISO 27001 accreditation in September 2006.)

Compliance

The MCHC Group recognizes the word "Compliance" as a broader definition covering corporate ethics and general social norms, not staying at basic legal adherence. We regard compliance as the most important managerial issue to remain a company that earns the trust of the public, and we take measures to ensure full compliance awareness.

Compliance Promotion Structure

The Chief Compliance Officer (CCO) of the Group is appointed by the Board of Directors of MCHC. The Internal Control Office supports the CCO, acting as a secretariat dealing with compliance matters on a Groupwide basis. To support Group activities, the secretariat compiles joint education tools, has established hotline systems and arranges training courses for overseas Group companies. Major individual operating companies have set up Compliance Promotion Committees and internal control promotion departments at each company to serve as secretariats. They operate hotline systems and arrange training courses and seminars, business audits and compliance perception surveys based on the Group basic compliance regulations. The company that caused compliance violations should report to and consult with its internal control promotion departments and Internal Control Office of MCHC and take corrective actions and measures to prevent recurrence.

Measures and Outcomes in Fiscal 2013

To strengthen compliance at overseas Group companies, MCHC has distributed and introduced a package of internal control promotion tools at Group companies in the Asian region, where a wide range of business customs and legal systems are found intermingled. The package comprises samples of control measures and internal regulations adapted to local conditions. This enabled managements of local units overseas to put in place their own compliance systems, customized by them to local conditions.

On April 1, 2014, we compiled the Mitsubishi Chemical Holdings Group Global Anti-Bribery Policy and the Mitsubishi Chemical Holdings Group Global Antitrust Policy. We will take measures to ensure not only legal adherence, but also to prevent bribery and violations of antimonopoly law, from a global perspective.

In April 2010 and September 2013, MTPC and its subsidiary Bipha Corporation were subject to administrative sanctions for violation of the Pharmaceutical Affairs Law of Japan in connection with recombinant human serum albumin products. In response, MTPC established an "external committee for restoration of public trust," and the Group overall redoubled its efforts to restore public trust and prevent recurrence of such incidents, while arranging inspections and recommendations under the committee. In March 2014, a final report was received from the committee. It was judged that appropriate corrective and preventive measures had been taken with regard to the above violations. MTPC as well as MCHC Group as a whole will take stock and draw the lessons of these events, and take further efforts to strengthen and improve compliance.

Hotline System

The Group operates hotline systems with the internal control promotion departments of MCHC and major operating companies, and external lawyers as contact points. In fiscal 2013, 116 cases* were reported via the hotline system. We responded through our investigation teams headed by the internal control promotion department managers and took prompt corrective measures under the direction of the CCO when issues were identified.

*Excludes consultations at desks set up individually at subsidiary companies of major operating companies.

Financial Section

Consolidated Financial Summary

Mitsubishi Chemical Holdings Corporation and Consolidated Subsidiaries
Years ended March 31

	Millions of yen						Thousands of U.S. dollars
	2014	2013	2012	2011	2010	2009	**2014**
For the Year:							
Net sales	**¥ 3,498,834**	¥3,088,577	¥3,208,168	¥3,166,771	¥2,515,079	¥2,909,030	**$33,969,262**
Operating income	**110,460**	90,241	130,579	226,493	66,342	8,178	**1,072,427**
Income (loss) before income taxes and minority interests in consolidated subsidiaries	**116,594**	82,900	127,474	169,552	43,311	(44,002)	**1,131,981**
Net income (loss)	**32,248**	18,596	35,486	83,581	12,833	(67,178)	**313,087**
Total comprehensive income	**134,016**	94,900	64,199	86,742	37,513	—	**1,301,126**
Capital expenditures	**133,339**	132,221	116,145	117,806	119,025	139,011	**1,294,553**
Depreciation and amortization	**131,571**	129,549	145,695	148,697	129,574	119,230	**1,277,388**
R&D expenditures	**134,260**	134,723	138,545	130,825	136,863	127,802	**1,303,495**
Net cash provided by operating activities	**177,027**	206,504	217,954	288,853	116,073	76,149	**1,718,709**
Net cash used in investing activities	**(159,789)**	(169,758)	(63,404)	(101,064)	(327,006)	(189,233)	**(1,551,350)**
Net cash provided by (used in) financing activities	**(8,307)**	(26,250)	(164,146)	(149,493)	94,437	179,526	**(80,650)**
At Year-End:							
Total assets	**3,479,359**	3,307,758	3,173,970	3,294,014	3,355,097	2,740,876	**33,780,184**
Property, plant and equipment	**1,118,050**	1,061,551	1,032,738	1,088,369	1,167,073	834,046	**10,854,854**
Short-term and long-term debt	**1,258,186**	1,198,799	1,164,128	1,304,589	1,454,126	1,033,239	**12,215,398**
Total net assets	**1,314,870**	1,203,316	1,144,954	1,114,003	1,032,865	940,114	**12,765,728**
	Yen						U.S. dollars
Per Share:							
Net income (loss)—Basic	**¥ 21.89**	¥ 12.51	¥ 24.06	¥ 58.72	¥ 9.32	¥ (48.81)	**$0.21**
Net assets	**611.95**	553.54	522.77	514.30	490.99	486.09	**5.94**
Cash dividends	**12.00**	12.00	10.00	10.00	8.00	12.00	**0.12**
Ratios:							
Return on assets (ROA) (%)	**3.4**	2.6	3.9	5.1	1.4	(1.5)	—
Return on equity (ROE) (%)	**3.7**	2.3	4.6	11.6	1.9	(8.9)	—
Shareholders' equity ratio (%)	**25.8**	24.6	24.2	23.0	20.0	24.4	—

Notes:
1. U.S. dollar amounts are converted from yen, for convenience only, at the rate of ¥103 = U.S.$1.00, the approximate exchange rate prevailing on March 31, 2014.
2. Financial results of Mitsubishi Rayon Co., Ltd. are included only from the fiscal year ended March 31, 2011.
3. ROA is calculated as income before income taxes and minority interests in consolidated subsidiaries divided by average total assets.
4. ROE is calculated as net income divided by average shareholders' equity.
5. Shareholders' equity, when used in the calculation of ROE and shareholders' equity ratio, represents the sum of total shareholders' equity and total accumulated other comprehensive income.

Segment Information

Mitsubishi Chemical Holdings Corporation and Consolidated Subsidiaries
Years ended/as of March 31

The Overview of Reporting Segments is detailed in Note 18 (Segment Information).

	Net Sales*			Segment Earnings		
	Millions of yen		Thousands of U.S. dollars	Millions of yen		Thousands of U.S. dollars
REPORTING SEGMENT	**2014**	2013	**2014**	**2014**	2013	**2014**
Electronics Applications	**¥ 133,675**	¥ 118,194	**$ 1,297,816**	**¥ (5,519)**	¥ (5,071)	**$ (53,583)**
Designed Materials	**790,901**	689,739	**7,678,650**	**46,506**	22,521	**451,515**
Health Care	**531,285**	514,379	**5,158,107**	**68,270**	74,941	**662,816**
Chemicals	**955,088**	903,637	**9,272,699**	**710**	(230)	**6,893**
Polymers	**858,435**	675,676	**8,334,320**	**2,307**	111	**22,398**
Others	**229,450**	186,952	**2,227,670**	**5,675**	6,491	**55,097**
Subtotal	**3,498,834**	3,088,577	**33,969,262**	**117,949**	98,763	**1,145,136**
Corporate costs	**—**	—	**—**	**(7,489)**	(8,522)	**(72,709)**
Total	**¥3,498,834**	¥3,088,577	**$ 33,969,262**	**¥110,460**	¥90,241	**$1,072,427**

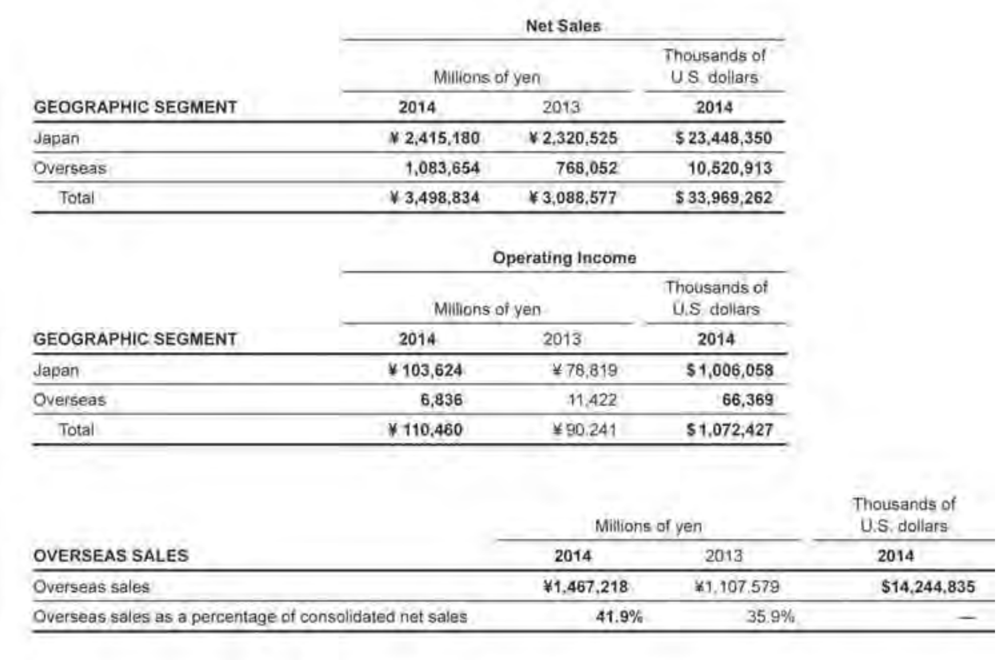
* Inter-segment sales and transfers are not included.

	Segment Assets			Depreciation and Amortization		
	Millions of yen		Thousands of U.S. dollars	Millions of yen		Thousands of U.S. dollars
REPORTING SEGMENT	**2014**	2013	**2014**	**2014**	2013	**2014**
Electronics Applications	**¥ 116,108**	¥ 117,618	**$ 1,127,262**	**¥ 5,677**	¥ 6,345	**$ 55,117**
Designed Materials	**814,381**	746,981	**7,906,612**	**38,534**	44,702	**374,117**
Health Care	**1,028,641**	971,618	**9,986,806**	**15,969**	14,288	**155,039**
Chemicals	**670,909**	669,043	**6,513,680**	**28,005**	27,930	**271,893**
Polymers	**799,640**	715,731	**7,763,495**	**38,390**	30,661	**372,718**
Others	**663,686**	516,196	**6,443,553**	**3,161**	3,419	**30,689**
Subtotal	**4,093,365**	3,737,187	**39,741,408**	**129,736**	127,345	**1,259,573**
Corporate assets and eliminations	**(614,006)**	(429,429)	**(5,961,223)**	**1,835**	2,204	**17,816**
Total	**¥ 3,479,359**	¥ 3,307,758	**$33,780,184**	**¥131,571**	¥ 129,549	**$1,277,388**

	Increase in Tangible and Intangible Fixed Assets*			R&D Expenditures		
	Millions of yen		Thousands of U.S. dollars	Millions of yen		Thousands of U.S. dollars
REPORTING SEGMENT	**2014**	2013	**2014**	**2014**	2013	**2014**
Electronics Applications	**¥ 6,678**	¥ 6,011	**$ 64,835**	**¥ 9,085**	¥ 8,977	**$ 88,204**
Designed Materials	**51,183**	56,302	**496,922**	**22,456**	24,473	**218,019**
Health Care	**20,307**	15,532	**197,155**	**80,440**	76,516	**780,971**
Chemicals	**25,517**	20,458	**247,738**	**3,350**	5,038	**32,524**
Polymers	**25,493**	24,185	**247,505**	**14,127**	14,307	**137,155**
Others	**3,226**	3,891	**31,320**	**596**	611	**5,786**
Subtotal	**132,404**	126,379	**1,285,476**	**130,054**	129,922	**1,262,660**
Corporate R&D and other	**935**	5,842	**9,078**	**4,206**	4,801	**40,835**
Total	**¥133,339**	¥132,221	**$1,294,553**	**¥ 134,260**	¥134,723	**$1,303,495**

* "Increase in Tangible and Intangible Fixed Assets" is equivalent to "Capital Expenditures."

	Employees	
	Number	
REPORTING SEGMENT	**2014**	2013
Electronics Applications	**2,853**	3,118
Designed Materials	**16,278**	15,281
Health Care	**13,672**	13,563
Chemicals	**4,786**	5,039
Polymers	**7,973**	7,478
Others	**9,581**	9,771
Subtotal	**55,143**	54,250
Corporate R&D and other	**888**	881
Total	**56,031**	55,131



	Net Sales		
	Millions of yen		Thousands of U.S. dollars
GEOGRAPHIC SEGMENT	**2014**	2013	**2014**
Japan	**¥ 2,415,180**	**¥ 2,320,525**	**$ 23,448,350**
Overseas	**1,083,654**	**768,052**	**10,520,913**
Total	**¥ 3,498,834**	**¥ 3,088,577**	**$ 33,969,262**

	Operating Income		
	Millions of yen		Thousands of U.S. dollars
GEOGRAPHIC SEGMENT	**2014**	2013	**2014**
Japan	**¥ 103,624**	¥ 78,819	**$ 1,006,058**
Overseas	**6,836**	11,422	**66,369**
Total	**¥ 110,460**	¥ 90,241	**$ 1,072,427**

	Millions of yen		Thousands of U.S. dollars
OVERSEAS SALES	**2014**	2013	**2014**
Overseas sales	**¥1,467,218**	¥1,107,579	**$14,244,835**
Overseas sales as a percentage of consolidated net sales	**41.9%**	35.9%	—

Management's Discussion and Analysis

The Consolidated Accounting Period under Review

Performance Overview

In fiscal 2013, ended March 31, 2014, the Japanese economy benefited from domestic demand trending toward a gradual recovery, bolstered by a more favorable export environment that reflected monetary and fiscal policies that drove the yen down.

In the Mitsubishi Chemical Holdings Group, the business climate improved for the Performance Products domain (Electronics Applications Segment and Designed Materials Segment) and the Industrial Materials domain (Chemicals Segment and Polymers Segment). This reflected somewhat better overseas demand and gradually recovering domestic demand in spite of weak economic recoveries in China and Europe. Conditions worsened for the Health Care domain (Health Care Segment) because of domestic factors that included expansion of the domestic generic drug market, overshadowing favorable sales of products licensed out overseas.

During the year under review, the Group accelerated efforts to consolidate or liquidate unprofitable businesses in keeping with *APTSIS 15*, a five-year medium-term management plan ending in fiscal 2015. At the same time, the Group reinforced and expanded the functional resins business and lifted its stake in Taiyo Nippon Sanso Corporation as part of efforts to reform and transform its business structure.

Management endeavored to build synergies between business units to strengthen comprehensive Group capabilities while deploying groupwide initiatives to slash costs, review capital expenditure, and reduce assets. Net sales thereby increased ¥410.2 billion, to ¥3,498.8 billion. Operating income advanced ¥20.2 billion, to ¥110.4 billion, and net income was up ¥13.6 billion, to ¥32.2 billion.

Results of Operations

Net Sales and Operating Income

Net sales increased ¥410.2 billion, to ¥3,498.8 billion, one factor being accounting period changes at certain consolidated subsidiaries.

Operating income increased ¥20.2 billion, to ¥110.4 billion. This reflected strong demand for touch panels and other display-related offerings, cost reductions, and the yen's depreciation, which offset the impact of the demand-supply balance remaining unstable for some petrochemical products.

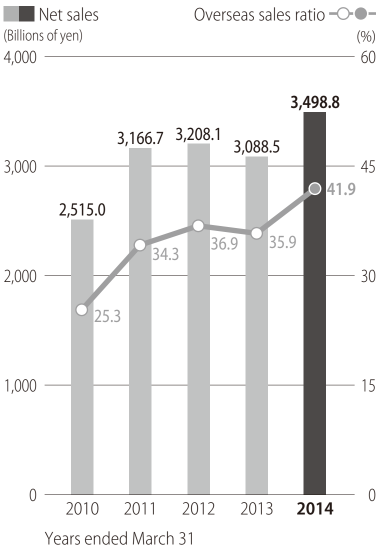
See the Review of Operations for sales and operating income by segment.

The operating margin was 3.1%, up from 2.9% a year earlier.

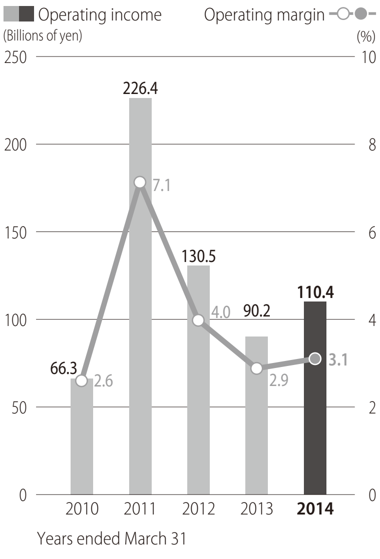
Other Income and Expenses

Interest income was ¥2.6 billion, while dividend income was ¥7.2 billion. Combined, these income sources were ¥1.0 billion lower than in the previous fiscal year, a decline in dividend income being the main factor. Interest expense was ¥16.3 billion, up ¥1.3 billion. Net financial expenses were thus ¥6.4 billion, up ¥2.4 billion from a year earlier.

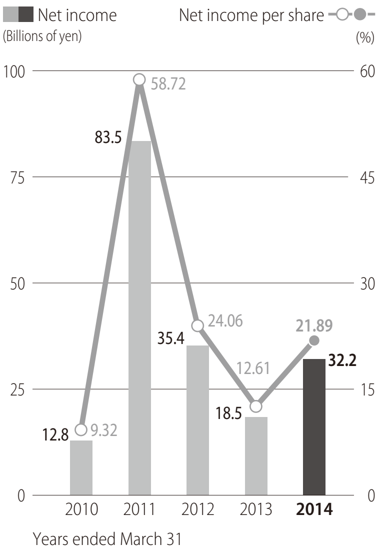
Net Sales and Overseas Sales Ratio



Operating Income and Operating Margin



Net Income and Net Income per Share



The company posted a ¥0.3 billion loss on equity in earnings of affiliates, a decrease from ¥3.2 billion of equity in earnings of affiliates in the previous term.

Foreign exchange gains, net were ¥11.2 billion, up ¥3.0 billion year on year. Additional components of other income included a ¥13.0 billion gain on sales of investment securities, net and a ¥11.0 billion profit on arbitration award for *Remicade* in the pharmaceuticals business. Other expenses included ¥3.4 billion in special retirement expenses and a ¥3.1 billion impairment loss.

As a result of these factors, income before income taxes and minority interests in consolidated subsidiaries was ¥116.5 billion, up ¥33.6 billion.

Income Taxes, Minority Interests in Income, and Net Income

For the year under review, tax expenses totaled ¥56.3 billion, comprising ¥43.2 billion in current income taxes, ¥2.6 billion in prior periods income taxes, and ¥10.5 billion in deferred income taxes. The effective tax rate after applying tax-effect accounting was 48.3%, or 10.3 percentage points higher than the statutory tax rate. This largely reflected losses at a company that does not apply tax-effect accounting. Details are as presented in Note 14 (Income Taxes).

Minority interests in consolidated subsidiaries were ¥28.0 billion, up ¥3.8 billion.

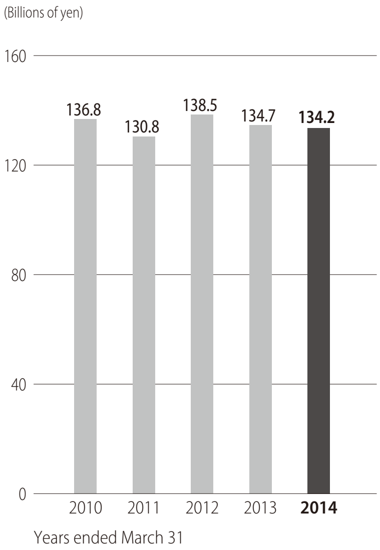
Net income was thus ¥32.2 billion, up ¥13.6 billion from a year earlier.

R&D Expenditures

Group companies maintain independent R&D programs and collaborate with each other by sharing technology and market information, and conducting joint research. They are also working closely with businesses outside the Group to refine and develop technologies.

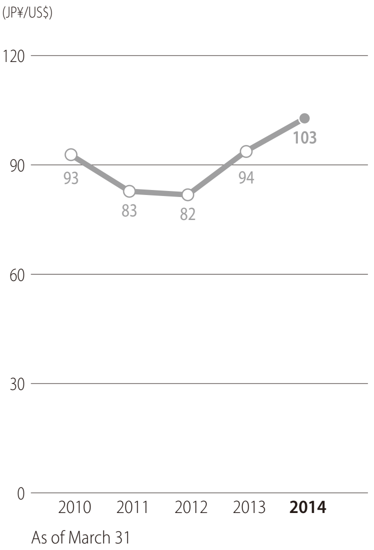
In fiscal 2013, consolidated R&D expenditures decreased ¥0.5 billion, or 0.3%, to ¥134.2 billion. There were 5,036 R&D employees at the close of the term.

R&D Expenditures

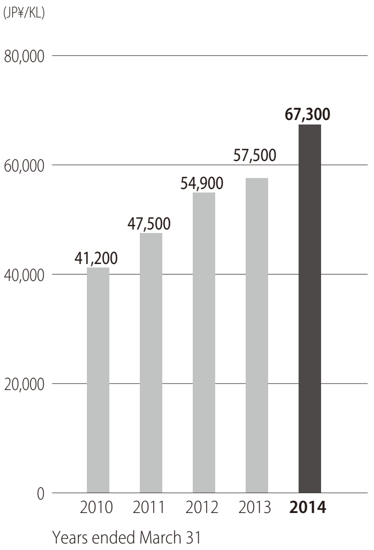


Reference

Foreign Exchange (Exchange rate at each fiscal year-end)



Domestic Naphtha Average Price of Each Fiscal Year*



* MCHC calculated values

Liquidity and Sources of Funds

Financial Policies

The basic policy of *APTSIS 15*, MCHC's medium-term management plan, is to foster growth, innovation, and leap ahead by orchestrating the Group's strengths. MCHC established operating income, return on assets, the net debt-to-equity ratio, and the overseas sales ratio as basic benchmarks for this initiative. Key goals are to strengthen the Group by enhancing the Group's comprehensive strengths and financial position through restructuring.

MCHC funds working capital and capital expenditures largely by drawing on internal reserves, loans, and bonds. Furthermore, the Group deployed a cash management system to employ Group funds efficiently and cut financial expenses. Going forward, the Group will pursue Groupwide improvements in capital efficiency by consolidating Group fund procurement and management functions.

Financial Position

Assets

As of March 31, 2014, total assets stood at ¥3,479.3 billion, up ¥171.6 billion. This rise was due primarily to an increase in the assets of overseas consolidated subsidiaries, which were higher when converted to yen due to a yen appreciation adjustment.

Cash and deposits were ¥137.6 billion, up ¥21.6 billion, as these were also higher because of a yen appreciation adjustment when the overseas consolidated subsidiary assets were converted to yen.

Deferred tax assets (current and fixed assets combined) were ¥108.5 billion, down ¥15.5 billion. This decrease reflected the application of tax-effect accounting for unrealized gains on other securities in line with an increase in the market value of securities holdings, as well as a change in the corporate tax rate from tax system reforms.

Details are as presented in Note 14 (Income Taxes).

Liabilities

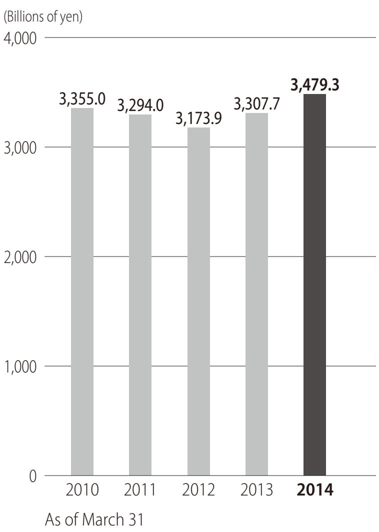
At year-end, total liabilities were ¥2,164.4 billion, up ¥60.0 billion from the close of the previous term. This reflects a rise in liabilities denominated in foreign currencies at overseas consolidated subsidiaries when converted to yen owing to a yen appreciation adjustment. Interest-bearing debt (excluding notes discounted) was ¥1,258.1 billion, up ¥59.3 billion.

Net Assets

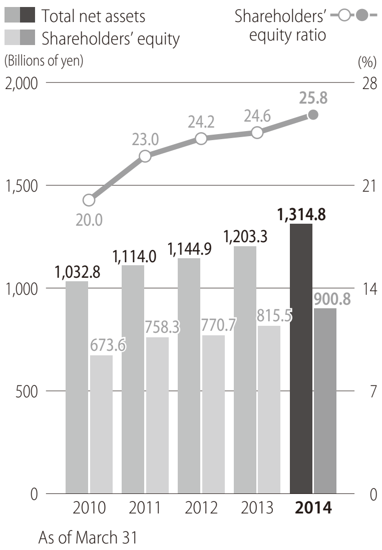
Net assets were ¥1,314.8 billion, up ¥111.5 billion. This rise was due primarily to a foreign currency translation adjustment of ¥25.5 billion, up ¥57.1 billion from a year earlier, as the yen was weaker at year-end than at the close of fiscal 2012.

The shareholders' equity ratio accordingly increased 1.2 percentage points, to 25.8%.

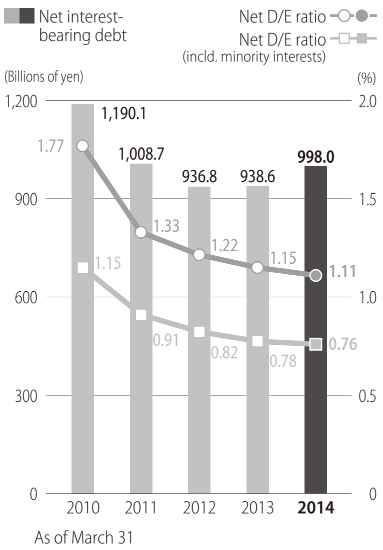
Total Assets



Total Net Assets, Shareholders' Equity, and Shareholders' Equity Ratio



Net Interest-Bearing Debt, Net D/E Ratio, and Net D/E Ratio (incld. minority interests)



Cash Flows

Cash Flows from Operating Activities

Net cash providing by operating activities was ¥177.0 billion, down ¥29.4 billion, reflecting an increase in operating capital stemming from higher raw materials costs, securing inventories for regular maintenance, which overshadowed the impacts of ¥116.5 billion in income before income taxes and minority interests in consolidated subsidiaries and depreciation.

Cash Flows from Investing Activities

Net cash used in investing activities was ¥159.7 billion, down ¥9.9 billion. This decline was due largely to inflows from sales of marketable and investment securities, compared with outflows from capital expenditures, an increase of stake in Taiyo Nippon Sanso Corporation, and acquisitions to make Medicago, Inc., a consolidated subsidiary, and the acquisition of additional shares to make Aquamit B.V. a wholly owned subsidiary.

Cash Flows from Financing Activities

Net cash used in financing activities totaled ¥8.3 billion, down ¥17.9 billion. This was due primarily to dividend payments, which outweighed inflows from the issuance of commercial papers and short-term loans.

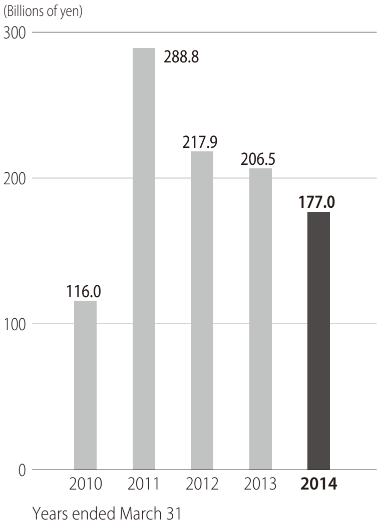
As a result of these factors, free cash flow, comprising cash flows from operating and investing activities, was ¥17.2 billion, down ¥19.5 billion. Cash and cash equivalents stood at ¥179.5 billion, up ¥26.4 billion, from a year earlier, due to effect of exchange rate changes on cash and cash equivalents of ¥17.5 billion, in addition to the above-mentioned factors.

Capital Expenditures

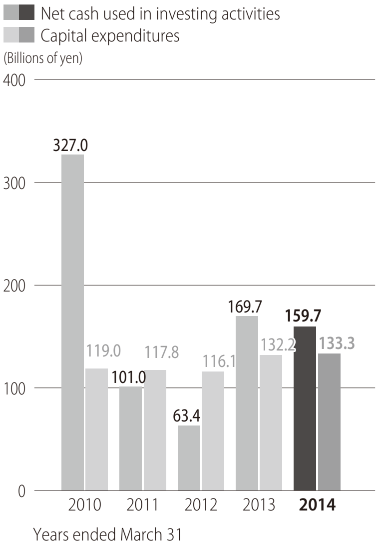
Capital expenditures for the fiscal year ended March 31, 2014, were ¥133.3 billion, an increase of ¥1.1 billion compared with the previous fiscal year. The majority of these expenditures were applied to construction of new or expanded facilities, renewal of existing facilities, and rationalization investments in other existing facilities.

The major new or expanded facilities include a production facility for polyester film at Mitsubishi Polyester Film Suzhou Co., Ltd (China), an expansion of production facility for ethylene-vinyl alcohol copolymer at Noltex L.L.C. (U.S.A.) and a production facility for methacrylic acid at Lucite International Inc. (U.S.A).

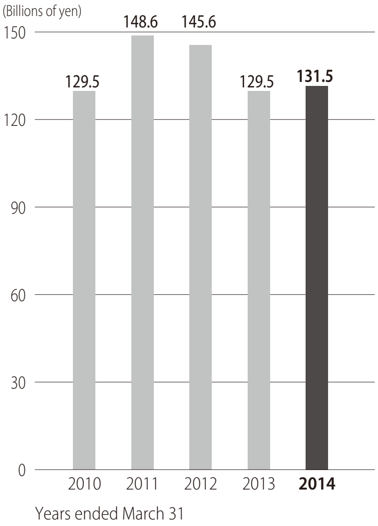
Net Cash Provided by Operating Activities



Net Cash Used in Investing Activities, Capital Expenditures



Depreciation and Amortization



Business Risks

The MCHC Group faces the following key risks, which could adversely affect its operating results and financial position. This section contains forward-looking statements based on information deemed relevant at March 31, 2014. The business risks presented are not all-encompassing. In recognition of exposure to risks such as those detailed below, the Group conducts risk assessments once a year. Based on these assessments, risk management systems are established and revised in consideration of the risks faced by specific businesses. In this manner, the Group is working to prevent the risks from occurring and minimize the impacts of such risks be realized.

Changes Affecting Operating Results

Many of the Group's products can be impacted by demand and product markets domestically and abroad; pricing and procurement volumes for crude oil, naphtha, utilities, and other raw materials and supplies; foreign exchange rates; and relevant laws and regulations. The principal assumed risks for each business domain are as follows.

(a) Performance Products Domain

These products must satisfy high-quality and performance requirements, and the Group must develop and supply them at the appropriate times to meet market needs. Group business results ("results") may be adversely affected if market needs change far more than the Group envisages, or if the Group is unable to ensure the timely supply of products that meet market needs, including issues with the availability of raw materials. If supply is interrupted for raw materials that can only be procured from certain areas or specific suppliers, then this could adversely affect results.

The Group outsources production of most information and electronics-related materials to other Asian manufacturers, so disasters or other issues with those facilities could disrupt the supply structure, adversely affecting results. Specifically, film and sheet products rely greatly on demand for liquid crystal display (LCD) panels, so drastic fluctuations in demand for LCD panels could adversely affect results.

(b) Health Care Domain

The results of the pharmaceuticals business are subject to the Group being unable to reach revenue and earnings targets by adequately expanding sales volumes of existing treatments or rationalizing operations in response to lower prices from periodic revisions in National Health Insurance prices of pharmaceuticals. Results are also subject to government policies in each country to constrain medical expenditures.

In general, lead times for drug research and development are far longer than in other industries, whereas the percentage of drugs receiving approval is not high. It is therefore difficult to produce accurate forecasts for the certainty or timing of commercialization. Results are thus subject to drugs not being commercialized as planned. Even where drugs are commercialized, results are subject to sales volumes being lower because of intensified competition with rival offerings, volumes declining on reports of new side effects when usage of these drugs becomes broad-based, or when approval is withdrawn.

Results are subject to supply disruptions on some raw materials for which the Group relies on external sources and can be influenced by an inability to secure adequate supplies of pharmaceuticals.

In clinical testing and diagnostic reagents and instruments, results can be affected by periodic revisions in medical treatment fees and drug price revisions. Results in these businesses are subject to the Group being unable to reach revenue and earnings targets by adequately expanding sales volumes of existing treatments or rationalizing operations in response to lower fees or prices. In the pharmaceutical intermediates and active pharmaceutical ingredients business and the capsules for pharmaceutical products, results are subject to lower sales volumes of customers' pharmaceuticals following revisions in National Health Insurance prices or patent expiries on customer products.

(c) Industrial Materials Domain

In this area, MCHC consumes large volumes of naphtha and other raw materials, and uses considerable amounts of electricity and steam in production processes. For those reasons, drastic fluctuations in the costs of naphtha, fuels, and other resources owing to changes in crude oil prices; the demand and supply balance for raw fuels or naphtha; or the impact of foreign exchange rates could adversely affect results if MCHC is not fully able to adjust its product prices, or if there are delays in such adjustments. MCHC relies on suppliers from certain areas for its raw fuels, and an inability to secure required fuels at the right times could adversely affect results. A worldwide recession or increased production capacity among rivals could adversely affect results if it becomes impossible to maintain the product demand and supply balance or MCHC is unable to generate revenues and earnings or reach goals that are commensurate with its capital expenditures.

MCHC relies heavily on certain business partners for some products in the Industrial Materials domain. For example, the coke business depends greatly on specific steelmakers, so if the steel output of those companies declines, such as because of dramatic fluctuations in the demand and supply of raw steel, the performances of such business partners could adversely affect MCHC's results.

(d) Others

The Group includes companies offering engineering and logistics services. Those companies secure some external orders. Significant fluctuations in demand within and outside the Group, or in market conditions worldwide, could adversely affect results.

(e) Overall Operations

The Group aims to grow, innovate, and leap ahead by orchestrating its strengths. It is therefore reinforcing its structure and implementing growth strategies (including to deliver high performance and added value), while cultivating innovative businesses. Changes in the economic or business climates (including social demands relating to climate change measures and other aspects of the environment) that are far greater than projected could adversely affect results.

The Group's broad overseas activities include exporting products and manufacturing around the world. Risks in countries or regions relating to Group businesses, notably of conflicts, civil wars, riots, demonstrations, deteriorating security, and other international geopolitical problems, unforeseeable issues with regulations, taxation, working conditions, customs, and other country risks, large-scale natural disasters, difficulties hiring and retaining employees, inadequate supplies from utilities or other infrastructural shortfalls, changes in the economic and financial climates, or other risks impacting specific countries or regions could adversely affect results.

Interest-Bearing Debt	The Group aims to balance its growth and innovation strategies with efforts to enhance its financial position. MCHC's results could be adversely affected in a situation where interest payments on interest-bearing debt rises, such as because interest-bearing debt increases, interest rates rise, or MCHC's credit rating declines owing to fluctuating Group performances. Results could also be adversely affected if it becomes essential to procure funds to upgrade facilities and the Group must obtain financing at unfavorable terms.
Risks Associated with Acquisitions, Mergers, or Restructuring	Results could be adversely affected if mergers, acquisitions, or joint ventures created in Japan or abroad to expand scale or overhaul MCHC's business portfolio fail to deliver anticipated synergies or other benefits, or if the Group's financial burden thereby increases or, if after mergers or acquisitions, the Group encounters new debt or other issues that it did not initially envisage. Other factors that could adversely affect results include reorganizations as part of business selection and concentration initiatives, through which MCHC withdraws from unprofitable businesses or liquidates affiliates.
Deferred Tax Assets	The Group records deferred tax assets for deductible temporary differences on tax loss carryforwards. Deferred tax assets are calculated based on various predictions and assumptions about future taxable income. If results differ from such predictions and assumptions, or if tax rates change in line with changes to the tax system, MCHC would need to recalculate deferred tax assets, which could adversely affect results.
Impairment of Securities	The Group holds marketable securities, mainly as a minority shareholder in customer companies or financial institutions to maintain long-term relationships with them. Major declines in the market values of such securities could adversely affect results.
Impairment of Fixed Assets	The Group applies accounting standards related to fixed asset impairment. The Group could incur impairment losses owing to dramatically deteriorating performances or major declines in property values, which could adversely affect results.

Pension and Severance Plans

The Group calculates retirement benefit obligations and expenses for current and former employees based on actuarial assumptions, investment returns on plan assets, and other factors. A decline in the value of pension assets, fluctuations in the interest rate climate, and changes in retirement benefit obligations and expenses owing to changes in the retirement plan and pension systems could adversely affect results.

Impact of Inventory Valuations

The Group states inventory assets principally at cost based on the moving average method. Declines in the costs of naphtha or raw materials during the fiscal period could detract from earnings by affecting relatively expensive inventories at the start of a term, thereby increasing the cost of sales. Earnings would conversely rise if fuel costs rose during the fiscal period. Changes in fuel costs could therefore affect results. The Group applies the Accounting Standard for Measurement of Inventories (ASBJ Statement No. 9), so any book value write-down based on lower profitability could adversely affect results.

Changes in Foreign Exchange Rates

The Group endeavors to minimize the short-term impact of fluctuations in foreign currency transactions, primarily for exports and imports, notably by using forward foreign exchange contracts. Changes in exchange rates in the short, medium, and long terms may affect results.

The Group engages in production and sales in Asia, Europe, North America, and other locations overseas. It translates sales, expenses, assets, and other items denominated in foreign currencies in such regions into yen in its consolidated financial statements. Even if the foreign currency valuations of such items remain unchanged, the yen equivalents could change after conversion from other currencies, so foreign exchange rate fluctuations could affect the Group's results and financial position.

Laws and Regulations

The Group's operations are subject to related laws and regulations in Japan and abroad. Such laws and regulations may govern security and safety, the environment and chemical substances, pharmaceutical safety policies, and other areas relating to Group operations.

The Group maintains voluntary rules that are stricter than legal provisions while pursuing thorough compliance to satisfy laws and regulations in engaging in business activities. Dramatic changes in laws and regulations or strengthened legislation could further restrict the Group's activities or increase its costs. Furthermore, should the Group violate laws or regulations, it could be ordered to halt operations at plants, and trust from society could be lost. All these factors have the possibility of influencing results.

Product Liability

The Group manufactures and sells products that conform with ISO 9001, the international standard for quality management systems. The Group endeavors to prevent product liability problems from arising when launching products or improving quality by previously evaluating such liability risks. The Group cannot guarantee, however, that all of its products will be free of defects. It therefore has product liability insurance to cover possible accidents. Regardless, product defects that could cause major product liability exposure with damages exceeding the range of such insurance could adversely affect results.

Accidents and Disasters

The Group regularly inspects its plants and otherwise endeavors to prevent accidents at facilities. It cannot, however, completely prevent or mitigate accidents at such facilities, nor natural disasters such as earthquakes. Accidents that damage property, cause human suffering or loss of life, or create environmental pollution could adversely impact production activities and reduce social trust in the Group, thereby adversely affecting results. Natural disasters that damage property, cause human suffering or loss of life, or significantly damage or functionally degrade the social infrastructure and chronically affect the Group's activities could affect results.

Information Management

The Group strictly manages corporate and personal information in its possession. Problems resulting from leaks of such information could decrease competitiveness or reduce social trust in the Group, which may adversely affect results.

Research and Development

The Group deems research and development as pivotal to supporting sustainable corporate growth, and has long undertaken solid R&D. It intends to deploy resources in a planned and sustainably stable manner from long-term perspectives. Results could be adversely affected, however, if the fruits of R&D are far less than anticipated.

Intellectual Property

The Group takes ample precautions to avoid violating the intellectual property of third parties. Nonetheless, injunctions or damages claims by third parties on the basis of patent or other infringements could adversely affect results.

Litigation

The Group maintains various businesses, as mentioned in Changes Affecting Operating Results. In engaging in business, or in reorganizing or restructuring operations, the Group could face litigation from business partners or other third parties relating to intellectual property or the Group's products. It is impossible to predict or assess the results of such lawsuits, which could adversely affect results.

Litigation proceedings to which the Group is currently subject are as follows:

a. Mitsubishi Tanabe Pharma Corporation and Benesis Corporation were codefendants with the Japanese government in damages lawsuits over blood products tainted with hepatitis C virus. In September 2008, the defendants concluded a basic agreement with nationwide plaintiff groups and their attorneys to resolve this case in response to the Act on Special Measures concerning the Payment of Benefits to Relieve the Victims of Hepatitis C Infected through Specified Fibrinogen Concentrates and Specified Coagulation Factor XI Concentrates. The plaintiffs began dropping litigation against both companies, and in April 2009 the two companies decided to pay costs to the hepatitis C sufferers according to the payment apportionment standards of the above act.

b. Consolidated subsidiary Verbatim Corporation (US) was sued for trademark infringement in Brazil. In May 2007, the court in Manaus, in the Brazilian state of Amazonas, ruled in favor of the plaintiff and ordered Verbatim to pay 377 million Brazilian real, or ¥17,161 million ($166,612 thousand). Verbatim, believing that no trademark infringement took place, and dissatisfied with the fact that reasons for recognizing the plaintiff's monetary claim were not disclosed, immediately filed an appeal with Brazil's Supreme Court. In February 2008, the Supreme Court ruled in favor of Verbatim and returned the case to the Manaus court for retrial.

   In the following proceedings, the court ruled against Verbatim. However, dissatisfied with the ruling, Verbatim made a special appeal to Brazil's Supreme Court, requesting that the case be tried in that court. In June 2011, the Supreme Court dismissed the charges of trademark infringement filed against Verbatim, and overruled the lower court's order for Verbatim to pay the abovementioned damages. However, in April 2012 the plaintiff requested that the Supreme Court clarify its ruling, and the Company cannot deny the possibility that the plaintiff will oppose this ruling in the future.

Consolidated Balance Sheets

Mitsubishi Chemical Holdings Corporation and Consolidated Subsidiaries
As of March 31

		Millions of yen		Thousands of U.S. dollars (Note 2)
		2014	2013	**2014**
Assets	**Current assets:**			
	Cash and deposits (Notes 8,10)	**¥ 137,664**	¥ 115,980	**$ 1,336,544**
	Trade receivables (Note 8)	**615,737**	588,208	**5,978,029**
	Securities (Notes 8,9)	**112,570**	84,993	**1,092,913**
	Inventories:			
	Finished goods	**323,344**	290,810	**3,139,262**
	Work in process	**80,051**	74,405	**777,194**
	Raw materials and supplies	**186,577**	179,816	**1,811,427**
	Land held for sale	**1,135**	1,934	**11,019**
	Deferred income taxes—current (Note 14)	**31,014**	32,227	**301,107**
	Prepaid expenses and other current assets	**77,461**	90,281	**752,049**
	Allowance for doubtful accounts	**(2,144)**	(1,996)	**(20,816)**
	Total current assets	**1,563,409**	1,456,658	**15,178,728**
	Property, plant and equipment:			
	Land	**244,441**	247,214	**2,373,214**
	Buildings	**935,275**	914,379	**9,080,340**
	Machinery and equipment	**2,530,928**	2,408,558	**24,572,117**
	Construction in progress	**76,005**	68,457	**737,913**
		3,786,649	3,638,608	**36,763,583**
	Accumulated depreciation	**(2,668,599)**	(2,577,057)	**(25,908,728)**
	Property, plant and equipment, net	**1,118,050**	1,061,551	**10,854,854**
	Investments and other assets:			
	Investment securities (Notes 8,9)	**333,599**	355,742	**3,238,825**
	Long-term loans receivable	**1,331**	2,353	**12,922**
	Deferred income taxes—noncurrent (Note 14)	**77,543**	91,898	**752,845**
	Net defined benefit assets (Note 12)	**31,240**	—	**303,301**
	Goodwill	**180,092**	179,937	**1,748,466**
	Other	**175,800**	161,471	**1,706,796**
	Allowance for doubtful accounts	**(1,705)**	(1,852)	**(16,553)**
	Total investments and other assets	**797,900**	789,549	**7,746,602**
	Total assets	**¥ 3,479,359**	¥ 3,307,758	**$ 33,780,184**

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

		Millions of yen		Thousands of U.S. dollars (Note 2)
		2014	2013	**2014**
Liabilities and Net Assets	**Current liabilities:**			
	Short-term debt (Notes 8,17)	**¥ 392,838**	¥ 315,551	**$ 3,813,961**
	Current portion of long-term debt (Notes 8,17)	**172,619**	230,026	**1,675,913**
	Trade payables (Note 8)	**413,405**	416,980	**4,013,641**
	Accrued expenses (Note 1)	**80,732**	73,052	**783,806**
	Accrued income taxes	**21,660**	24,083	**210,291**
	Other current liabilities (Notes 1,14)	**178,111**	194,084	**1,729,233**
	Total current liabilities	**1,259,365**	1,253,776	**12,226,845**
	Long-term liabilities:			
	Long-term debt (Notes 8,17)	**692,729**	653,222	**6,725,524**
	Accrued retirement benefits (Note 12)	**—**	126,713	**—**
	Net defined benefit liabilities (Note 12)	**121,706**	—	**1,181,612**
	Other noncurrent liabilities (Notes 1,14)	**90,689**	70,731	**880,476**
	Total long-term liabilities	**905,124**	850,666	**8,787,612**
	Net assets:			
	Shareholders' equity:			
	Common stock:			
	Authorized—6,000,000 thousand shares:			
	Issued and outstanding—1,506,288 thousand shares at March 31, 2014 and 2013	**50,000**	50,000	**485,437**
	Additional paid-in capital	**317,737**	317,693	**3,084,825**
	Retained earnings	**493,611**	479,083	**4,792,340**
	Less, treasury stock at cost—34,268 thousand shares at March 31, 2014 and 33,053 thousand shares at March 31, 2013	**(11,756)**	(11,280)	**(114,136)**
	Total shareholders' equity	**849,592**	835,496	**8,248,466**
	Accumulated other comprehensive income:			
	Net unrealized holding Gain (loss) on other securities	**20,748**	13,959	**201,437**
	Gain (loss) on deferred hedges	**209**	1,018	**2,029**
	Land revaluation surplus	**1,581**	1,581	**15,350**
	Foreign currency translation adjustments	**25,556**	(31,639)	**248,117**
	Remeasurements of defined benefit plans (Note 12)	**3,117**	(4,912)	**30,262**
	Total accumulated other comprehensive income	**51,211**	(19,993)	**497,194**
	Warrants (Notes 6,13)	**496**	565	**4,816**
	Minority interests in consolidated subsidiaries	**413,571**	387,248	**4,015,252**
	Total net assets	**1,314,870**	1,203,316	**12,765,728**
	Total liabilities and net assets	**¥3,479,359**	¥3,307,758	**$33,780,184**

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

Consolidated Statements of Income

Mitsubishi Chemical Holdings Corporation and Consolidated Subsidiaries
Years ended March 31

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2014	2013	**2014**
Net sales	**¥3,498,834**	¥3,088,577	**$33,969,262**
Cost of sales	**2,791,433**	2,440,160	**27,101,291**
Gross profit	**707,401**	648,417	**6,867,971**
Selling, general and administrative expenses (Note 4)	**596,941**	558,176	**5,795,544**
Operating income	**110,460**	90,241	**1,072,427**
Other income (expenses):			
Interest and dividend income	**9,893**	10,953	**96,049**
Equity in earnings of affiliates	**—**	3,246	**—**
Foreign exchange gains, net	**11,236**	8,194	**109,087**
Interest expense	**(16,390)**	(15,035)	**(159,126)**
Equity in loss of affiliates	**(382)**	—	**(3,709)**
Gain on sales of investment securities, net	**12,982**	8,107	**126,039**
Profit on arbitration award	**11,011**	—	**106,903**
Gain (loss) on sales and retirement of noncurrent assets, net	**(1,987)**	179	**(19,291)**
Special retirement expenses	**(3,421)**	(477)	**(33,214)**
Adjustment for prospective salaries for employees on secondment	**(4,984)**	(7,504)	**(48,388)**
Impairment loss	**(3,133)**	(7,298)	**(30,417)**
Environmental expenses	**—**	(2,782)	**—**
Contribution for loss on removal of fixed assets	**(3,080)**	—	**(29,903)**
Provision for prospective loss on removal of fixed assets	**(887)**	(281)	**(8,612)**
Other, net	**(4,724)**	(4,643)	**(45,864)**
Income before income taxes and minority interests in consolidated subsidiaries	**116,594**	82,900	**1,131,981**
Income taxes (Note 14):			
Current	**43,204**	43,527	**419,456**
Prior periods	**2,612**	—	**25,359**
Deferred	**10,519**	(3,395)	**102,126**
	56,335	40,132	**546,942**
Income before minority interests	**60,259**	42,768	**585,039**
Minority interests in consolidated subsidiaries	**(28,011)**	(24,172)	**(271,951)**
Net income	**¥32,248**	¥ 18,596	**$ 313,087**

	Yen		U.S. dollars
Per share (Note 16):	**2014**	2013	**2014**
Net income—Basic	**¥21.89**	¥12.61	**$0.21**
—Diluted	**21.45**	12.11	**0.21**
Cash dividends	**12.00**	12.00	**0.12**

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

Consolidated Statements of Comprehensive Income

Mitsubishi Chemical Holdings Corporation and Consolidated Subsidiaries
Years ended March 31

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2014	2013	**2014**
Income before minority interests	**¥ 60,259**	¥42,768	**$ 585,039**
Other comprehensive income (loss):			
Net unrealized holding gain (loss) on other securities	**7,537**	12,704	**73,175**
Gain (loss) on deferred hedges	**(1,212)**	1,832	**(11,767)**
Foreign currency translation adjustments	**58,817**	32,582	**571,039**
Remeasurements of defined benefit plans	**1,430**	(30)	**13,883**
Other comprehensive income (loss) for affiliates accounted for using equity method	**7,185**	5,044	**69,757**
Other comprehensive income (loss), net (Note 5)	**73,757**	52,132	**716,087**
Total comprehensive income	**¥134,016**	¥94,900	**$1,301,126**
Total comprehensive income attributable to:			
Shareholders of the parent	**¥ 96,844**	¥59,476	**$ 940,233**
Minority interests	**37,172**	35,424	**360,893**

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

Consolidated Statements of Changes in Net Assets

Mitsubishi Chemical Holdings Corporation and Consolidated Subsidiaries
Years ended March 31

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2014	2013	**2014**
Number of outstanding shares of common stock (thousands)			
Balance at beginning of year	**1,506,288**	1,506,288	**—**
Balance at end of year	**1,506,288**	1,506,288	**—**
Shareholders' equity:			
Common stock			
Balance at beginning of year	**¥ 50,000**	¥ 50,000	**$ 485,437**
Balance at end of year	**¥ 50,000**	¥ 50,000	**$ 485,437**
Additional paid-in capital			
Balance at beginning of year	**¥317,693**	¥317,628	**$ 3,084,398**
Disposal of treasury stock	**44**	65	**427**
Balance at end of year	**¥317,737**	¥317,693	**$ 3,084,825**
Retained earnings			
Balance at beginning of year	**¥479,083**	¥474,771	**$ 4,651,291**
Cash dividends	**(17,700)**	(16,237)	**(171,845)**
Net income	**32,248**	18,596	**313,087**
Change in scope of consolidation	**—**	(23)	**—**
Change in scope of equity method	**(20)**	1,976	**(194)**
Balance at end of year	**¥493,611**	¥479,083	**$ 4,792,340**
Treasury stock at cost			
Balance at beginning of year	**¥ (11,280)**	¥ (10,797)	**$ (109,515)**
Purchase of treasury stock	**(538)**	(531)	**(5,223)**
Disposal of treasury stock	**62**	48	**602**
Balance at end of year	**¥ (11,756)**	¥ (11,280)	**$ (114,136)**
Total shareholders' equity			
Balance at beginning of year	**¥835,496**	¥831,602	**$ 8,111,612**
Cash dividends	**(17,700)**	(16,237)	**(171,845)**
Net income	**32,248**	18,596	**313,087**
Purchase of treasury stock	**(538)**	(531)	**(5,223)**
Disposal of treasury stock	**106**	113	**1,029**
Change in scope of consolidation	**—**	(23)	**—**
Change in scope of equity method	**(20)**	1,976	**(194)**
Balance at end of year	**¥849,592**	¥835,496	**$ 8,248,466**

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

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2014	2013	2014
Accumulated other comprehensive income:			
Net unrealized holding gain on other securities			
Balance at beginning of year	**¥ 13,959**	¥ 4,574	**$ 135,524**
Net change in items other than those in shareholders' equity	**6,789**	9,385	**65,913**
Balance at end of year	**¥ 20,748**	¥ 13,959	**$ 201,437**
Gain (loss) on deferred hedges			
Balance at beginning of year	**¥ 1,018**	¥ (139)	**$ 9,883**
Net change in items other than those in shareholders' equity	**(809)**	1,157	**(7,854)**
Balance at end of year	**¥ 209**	¥ 1,018	**$ 2,029**
Land revaluation surplus			
Balance at beginning of year	**¥ 1,581**	¥ 1,581	**$ 15,350**
Net change in items other than those in shareholders' equity	**—**	—	**—**
Balance at end of year	**¥ 1,581**	¥ 1,581	**$ 15,350**
Foreign currency translation adjustments			
Balance at beginning of year	**¥ (31,639)**	¥ (62,007)	**$ (307,175)**
Net change in items other than those in shareholders' equity	**57,195**	30,368	**555,291**
Balance at end of year	**¥ 25,556**	¥ (31,639)	**$ 248,117**
Remeasurements of defined benefit plans			
Balance at beginning of year	**¥ (4,912)**	¥ (4,882)	**$ (47,689)**
Net change in items other than those in shareholders' equity	**8,029**	(30)	**77,951**
Balance at end of year	**¥ 3,117**	¥ (4,912)	**$ 30,262**
Total accumulated other comprehensive income			
Balance at beginning of year	**¥ (19,993)**	¥ (60,873)	**$ (194,107)**
Net change in items other than those in shareholders' equity	**71,204**	40,880	**691,301**
Balance at end of year	**¥ 51,211**	¥ (19,993)	**$ 497,194**
Warrants			
Balance at beginning of year	**¥ 565**	¥ 662	**$ 5,485**
Net change in items other than those in shareholders' equity	**(68)**	(97)	**(660)**
Balance at end of year	**¥ 496**	¥ 565	**$ 4,816**
Minority interests in consolidated subsidiaries			
Balance at beginning of year	**¥ 387,248**	¥ 373,563	**$ 3,759,689**
Net change in items other than those in shareholders' equity	**26,323**	13,685	**255,563**
Balance at end of year	**¥ 413,571**	¥ 387,248	**$ 4,015,252**
Total net assets			
Balance at beginning of year	**¥ 1,203,316**	¥ 1,144,954	**$ 11,682,680**
Cash dividends	**(17,700)**	(16,237)	**(171,845)**
Net income	**32,248**	18,596	**313,087**
Purchase of treasury stock	**(538)**	(531)	**(5,223)**
Disposal of treasury stock	**106**	113	**1,029**
Change in scope of consolidation	**—**	(23)	**—**
Change in scope of equity method	**(20)**	1,976	**(194)**
Net change in items other than those in shareholders' equity	**97,458**	54,468	**946,194**
Balance at end of year	**¥ 1,314,870**	¥ 1,203,316	**$ 12,765,728**

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

Consolidated Statements of Cash Flows

Mitsubishi Chemical Holdings Corporation and Consolidated Subsidiaries
Years ended March 31

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2014	2013	**2014**
Cash flows from operating activities:			
Income before income taxes and minority interests in consolidated subsidiaries	**¥116,594**	¥ 82,900	**$ 1,131,981**
Adjustments for			
Depreciation and amortization	**131,571**	129,549	**1,277,388**
Amortization of goodwill	**14,708**	11,833	**142,796**
Interest expense	**16,390**	15,035	**159,126**
Interest and dividend income	**(9,893)**	(10,953)	**(96,049)**
Equity in earnings (loss) of affiliates, net	**382**	(3,246)	**3,709**
Foreign exchange gains, net	**(3,501)**	(886)	**(33,990)**
Impairment loss	**3,133**	7,298	**30,417**
Contribution for prospective loss on removal of fixed assets	**3,080**	—	**29,903**
Gain (loss) on sales and retirement of noncurrent assets, net	**1,987**	(179)	**19,291**
Provision for prospective loss on removal of fixed assets	**887**	281	**8,612**
Environmental expenses	**—**	2,782	**—**
Gain on sales of investment securities, net	**(12,982)**	(8,107)	**(126,039)**
Decrease in trade receivables	**4,762**	29,913	**46,233**
Increase in inventories	**(18,335)**	(24,170)	**(178,010)**
Decrease in trade payables	**(38,377)**	(16,488)	**(372,592)**
Increase (decrease) in provision for retirement benefits	**(126,713)**	17,107	**(1,230,223)**
Increase in net defined benefit liabilities	**132,669**	—	**1,288,049**
Other, net	**10,100**	10,922	**98,058**
Subtotal	**226,462**	243,591	**2,198,660**
Interest and dividend income received	**12,697**	14,908	**123,272**
Interest expenses paid	**(16,258)**	(15,036)	**(157,845)**
Income taxes paid	**(45,874)**	(36,959)	**(445,379)**
Net cash provided by operating activities	**177,027**	206,504	**1,718,709**
Cash flows from investing activities:			
Payment for time deposits	**(11,874)**	(2,241)	**(115,282)**
Proceeds from repayment of time deposits	**10,808**	1,416	**104,932**
Purchase of short-term investment securities	**(38,000)**	(64,250)	**(368,932)**
Proceeds from sales and redemption of securities	**60,371**	54,955	**586,126**
Purchase of property, plant and equipment	**(132,182)**	(131,915)	**(1,283,320)**
Proceeds from sales of property, plant and equipment	**7,073**	16,292	**68,670**
Purchase of intangible assets	**(2,910)**	(3,360)	**(28,252)**
Purchase of investment securities	**(67,421)**	(18,623)	**(654,573)**
Proceeds from sales and redemption of investment securities	**40,182**	27,636	**390,117**
Purchase of investments in subsidiaries resulting in change in scope of consolidation	**(25,564)**	(42,641)	**(248,194)**
Proceeds from sales of investments in subsidiaries resulting in change in scope of consolidation	**—**	32	**—**
Increase (decrease) in loans receivable, net	**112**	(12,893)	**1,087**
Purchase of long-term prepaid expenses	**(3,648)**	(2,913)	**(35,417)**
Other, net	**3,264**	8,747	**31,689**
Net cash used in investing activities	**(159,789)**	(169,758)	**1,551,350**

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

Cash flows from financing activities:			
Increase in short-term debt, net	**56,149**	15,368	**545,136**
Proceeds from issuance of long-term debt	**201,123**	106,321	**1,952,650**
Repayment of long-term debt	**(235,035)**	(113,989)	**(2,281,893)**
Proceeds from stock issuance to minority shareholders	**5,437**	1,742	**52,786**
Cash dividends paid	**(17,700)**	(16,237)	**(171,845)**
Cash dividends paid to minority shareholders	**(16,508)**	(18,404)	**(160,272)**
Purchase of treasury stock	**(120)**	(56)	**(1,165)**
Proceeds from sales of treasury stock	**5**	10	**49**
Other, net	**(1,658)**	(1,005)	**(16,097)**
Net cash used in financing activities	**(8,307)**	(26,250)	**(80,650)**
Effect of exchange rate changes on cash and cash equivalents	**17,505**	8,805	**169,951**
Net increase (decrease) in cash and cash equivalents	**26,436**	19,301	**256,660**
Cash and cash equivalents at beginning of the year	**153,120**	133,055	**1,486,602**
Increase in cash and cash equivalents resulting from change in scope of consolidation	**—**	764	**—**
Cash and cash equivalents at end of period (Note 10)	**¥ 179,556**	¥153,120	**$ 1,743,262**

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

Note 1

Significant Accounting Policies

(a) Basis of Presentation

The accompanying consolidated financial statements are compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Law of Japan and are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects from the application and disclosure requirements of International Financial Reporting Standards. In presenting the accompanying consolidated financial statements, certain items have been reclassified for the convenience of readers outside Japan. As permitted, amounts of less than one million yen have been omitted. As a result, the totals shown in the accompanying consolidated financial statements (both in yen and in U.S. dollars) do not necessarily agree with the sum of the individual amounts. Certain amounts from the prior year have been reclassified to conform to the current year's presentation.

(b) Principles of Consolidation and Accounting for Investments in Unconsolidated Subsidiaries and Affiliates

The accompanying consolidated financial statements include the accounts of MCHC and all significant subsidiaries over which substantial control is exerted either through majority ownership of voting stock and/or by other means. Investments in certain unconsolidated subsidiaries and significant affiliates are accounted for by the equity method. Other investments in unconsolidated subsidiaries and affiliates are stated at cost or less. Where there has been a permanent decline in the value of such investments, MCHC has written them down to reflect the impairment.

All significant intercompany balances and transactions have been eliminated in consolidation. On acquisition, the assets and liabilities of the consolidated subsidiaries are valued at fair value.

Goodwill on acquisition of underlying net equity in consolidated subsidiaries and the excess of cost over fair value in affiliates accounted for by the equity method is amortized on a straight-line basis over a period of less than 20 years depending on the source.

(c) Securities

Investment securities are classified as either held-to-maturity debt securities or other securities. Held-to-maturity debt securities are either amortized or accumulated to face value. Other securities with quoted market prices are carried at market value. The difference between the acquisition cost and the carrying value of other securities, including unrealized gain and loss, net of the applicable income taxes, is recognized as a component of net assets and is reflected as "Net unrealized holding gain or loss on other securities." The cost of other securities sold is computed by the moving average method. Other securities without quoted market prices are stated at cost based on the moving average method.

Held-to-maturity debt securities due within one year are presented as "Current assets" in the accompanying consolidated balance sheets. All other securities are presented as "Investments and other assets" in the accompanying consolidated balance sheets.

(d) Derivative Transactions

Derivative transactions are measured at fair value.

(e) Inventories

Finished goods, work in process, raw materials, and other inventory assets are stated principally at cost based on the average cost. Supplies (excluding packaging materials and deteriorated assets) are stated primarily at cost based on the moving average method.

Balance sheet amounts are calculated by writing down their book values in accordance with decreases in profitability.

(f) Property, Plant and Equipment

Property, plant and equipment is stated at cost. Depreciation of property, plant and equipment is principally calculated using the straight-line method.

Principal estimated useful lives of the assets are as follows:

Buildings:	10–50 years
Machinery and equipment:	4–17 years

(Changes in Accounting Policies that are Difficult to Distinguish from Changes in Accounting Estimates)

(1) Change in depreciation method for significant depreciable assets

MCHC, Mitsubishi Tanabe Pharma Corporation and its consolidated subsidiaries in the health care segment, the Company's consolidated subsidiaries in Japan in the chemicals and polymers segments (except Mitsubishi Rayon Co., Ltd., and its consolidated subsidiaries), and the Company's overseas consolidated subsidiaries have been using the straight-line method for depreciation of property, plant and equipment. On the other hand, other consolidated subsidiaries in Japan principally had used the declining-balance method for the depreciation previously. However, these companies have changed to the straight-line method from the year under review. In December 2010, the MCHC Group announced *APTSIS 15*, a medium-term management plan. Under the five-year initiative, which began in fiscal 2011, the Group has reformed the business structure to shift to high-performance, high-value-added fields while continuing to invest extensively overseas. As a result, the Group has transformed its business structure so overseas operations have become more important in recent years, with domestic businesses maturing and contributing to long-term earnings stability. Management reviewed *APTSIS 15* in March 2013, announcing the deployment of *APTSIS 15* Step 2, a three-year second-stage initiative beginning in fiscal 2013. Based on *APTSIS 15* Step 2, the Group will address changes in the industrial structure and in the business climate owing to declining demand and excess supply and will continue to expand overseas. In Japan, the Group focuses on businesses with stable, long-term earnings potential and on maintaining or upgrading domestic infrastructure, leveling out production. After evaluating depreciation methods in light of the deployment of *APTSIS 15* Step 2, management concluded that switching to the straight-line method would be a rational cost allocation approach from the standpoints of optimizing earnings and unifying Group accounting policies in view of projections for stable operating rates and profits at domestic facilities in the years ahead. In comparison with the previous method, this change had the effect of increasing consolidated operating income by ¥12,467 million ($121,039 thousand) and income before income taxes and minority interests in consolidated subsidiaries by ¥12,670 million ($123,010 thousand).

(g) Allowance for Doubtful Accounts

Allowance for doubtful accounts is provided for at an amount estimated with reference to individual accounts deemed uncollectible plus an amount calculated by a historical rate based on the actual uncollectible amounts in prior years.

(h) Accrued Bonuses to Employees

To provide for payments of bonuses to its employees, bonuses and related social insurance premium are accrued and recorded at the amount expected to be paid. The corresponding balances of ¥35,501 million ($344,670 thousand) and ¥35,210 million are included in "Accrued expenses" in the accompanying consolidated balance sheets as of March 31, 2014 and 2013, respectively.

(i) Reserves for Possible Losses in Connection with Litigation

Reserves for possible losses in connection with litigation are set aside for payments to settle lawsuits and in preparation for payments that may arise in the future.

1. Reserve for Health Management Allowances for HIV Compensation

Balances of ¥1,576 million ($15,301 thousand) and ¥1,627 million are included in "Other noncurrent liabilities" in the accompanying consolidated balance sheets as of March 31, 2014 and 2013, respectively.

To provide for future payments of health management allowances and settlement payments (including attorney fees) in connection with a lawsuit for damages filed by plaintiffs infected with HIV, the consolidated subsidiary, Mitsubishi Tanabe Pharma Corporation (MTPC) has set aside an estimated amount for such future payments.

2. Reserve for HCV Litigation

Balances of ¥2,634 million ($25,573 thousand) and ¥3,593 million are included in "Other noncurrent liabilities" in the accompanying consolidated balance sheets as of March 31, 2014 and 2013, respectively.

To provide for losses that may arise in the future from a settlement of lawsuits filed by plaintiffs infected with HCV (hepatitis C virus), MTPC has set aside an estimated amount for payments related to such settlement based on estimates of the number of people receiving relief and the amount of relief payments required under a law which stipulates that relief be provided to people who contacted hepatitis C from specific fibrinogen products or specific coagulation factor IX products.

3. Reserve for Health Management Allowances for Sub-acute Myelo-Optical Neuropathy (SMON) Compensation

Balances of ¥2,976 million ($28,893 thousand) and ¥3,172 million are included in "Other noncurrent liabilities" in the accompanying consolidated balance sheets as of March 31, 2014 and 2013, respectively.

MTPC pays health management allowances and nursing expenses for plaintiffs covered under the compromise settlement reached in the SMON litigation.

MTPC has made a provision in the accompanying consolidated financial statements for the estimated future medical treatment payments to be made over the remaining lives of the parties entitled to such payments under the compromise settlement.

(j) Reserve for Periodic Repairs

Several consolidated subsidiaries provide for costs of periodic repairs of production facilities in plants and oil tanks. The corresponding balances of ¥9,279 million ($90,087 thousand) and ¥9,357 million are included in "Other current liabilities" and "Other noncurrent liabilities" in the accompanying consolidated balance sheets as of March 31, 2014 and 2013, respectively.

(k) Directors' Retirement Benefits

Accrued lump-sum retirement benefits for directors, executive officers and corporate auditors are determined based on internal regulations. The corresponding balances of ¥1,316 million ($12,777 thousand) and ¥1,273 million are included in "Other noncurrent liabilities" in the accompanying consolidated balance sheets as of March 31, 2014 and 2013, respectively.

(l) Reserve for Costs Associated with Liquidation of Subsidiaries and Affiliates

Several consolidated subsidiaries provide for estimated costs derived from liquidation of its subsidiaries and affiliates. The corresponding balances of ¥1,511 million ($14,670 thousand) and ¥1,409 million are included in "Other noncurrent liabilities" in the accompanying consolidated balance sheets as of March 31, 2014 and 2013, respectively.

(m) Reserve for Prospective Loss on Removal of Fixed Assets

Several consolidated subsidiaries provide for prospective loss on removal of fixed assets. The corresponding balances of ¥4,900 million ($47,573 thousand) and ¥7,426 million are included in "Other current liabilities" and "Other noncurrent liabilities" in the accompanying consolidated balance sheets as of March 31, 2014 and 2013, respectively.

(n) Provision for Losses on Disaster

Balance of ¥990 million is included in "Other current liabilities" in the accompanying consolidated balance sheets as of March 31, 2013, as a provision to cover the estimated costs deemed necessary in restoring fixed and other assets damaged in the Great East Japan Earthquake of March 11, 2011. No such provision is included in "Other current liabilities" in the accompanying consolidated balance sheets as of March 31, 2014.

(o) Provision for Environmental Measures

Provision is made to cover estimated future losses from environmental measures work. Balances of ¥2,339 million ($22,709 thousand) and ¥2,341 million are included in "Other noncurrent liabilities" in the accompanying consolidated balance sheets as of March 31, 2014, and 2013, respectively.

(p) Method for Employee Retirement Benefits Accounting

1. Period attribution method for expected post-retirement benefit obligation

The group uses straight-line method as the period attribution method through the end of the fiscal year under review to calculate the expected post-retirement benefit obligation.

2. Amortization method for actuarial gain or loss, service cost and differences from accounting policy transitions

The Group amortizes actuarial gains or losses beginning in the year following that in which they are incurred by using the straight-line method over a certain period (in principle, five years) that is shorter than the remaining average service period from the date incurred. The Group amortizes prior service cost by using the straight-line method over a certain period (in principle, five years) that is shorter than the remaining average service period from the date incurred. Differences from accounting policy transitions are charged over an average of 15 years, in principle.

(Change in Accounting Policy)

(1)Adoption of retirement benefit accounting standards, etc.

From the end of fiscal 2013, the Company applied the "Accounting Standard for Retirement Benefits" (ASBJ Statement No. 26, May 17, 2012) and the "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25, May 17, 2012). (However, paragraph 35 of "Retirement Benefits Standard" and paragraph 67 of "Retirement Benefits Guidance" are excluded from the application). These accounting standards require entities to apply a revised method for recording the retirement benefit obligations, after deducting pension plan assets, as net defined benefit liability. In addition, unrecognized actuarial gains and losses, unrecognized prior service costs, and unrecognized differences from accounting policy transitions are recorded as net defined benefit liability. Concerning the application of the Accounting Standard for Retirement Benefits, based on the provisional treatment set out in paragraph 37 of the standard, the effects of such changes in the current fiscal year have been recorded in remeasurements of defined benefit plans through accumulated other comprehensive income.

As a result, as of March 31, 2014, the Company recorded net defined benefit asset of ¥31,240 million ($303,301 thousand) and net defined benefit liability of ¥121,706 million ($1,181,611 thousand), increased accumulated other comprehensive income by ¥6,608 million ($64,155 thousand).

The impacts on per-share information are presented in the relevant sections.

(q) Foreign Currency Translation

Current and noncurrent monetary assets and liabilities denominated in foreign currencies of MCHC and its domestic consolidated subsidiaries are translated into yen at the exchange rates in effect at the balance sheet date. Gains and losses arising from foreign exchange differences are credited or charged to income in the year in which they are made or incurred.

(r) Foreign Currency Financial Statements

The balance sheet accounts of foreign consolidated subsidiaries and affiliates are translated into yen at the exchange rates in effect at the balance sheet date, except for the components of net assets excluding minority interests, which are translated at their historical exchange rates. Revenue and expense accounts of foreign consolidated subsidiaries and affiliates are translated into yen at the average exchange rates in effect during the year.

Translation adjustments resulting from the process of translating the financial statements of foreign consolidated subsidiaries and affiliates into yen are accumulated and presented under "Minority interests in consolidated subsidiaries" and "Foreign currency translation adjustments" as a component of net assets.

(s) Principal Hedge Accounting Methods

1. Hedge accounting method

The Group defers recognition of gains or losses related to fair or appraised value hedges. For receivables and payables denominated in foreign currencies, such as those with foreign exchange contracts, deferral hedging is used where satisfying deferral hedging criteria, while specific matching is used for interest rate swaps meeting specific matching criteria.

2. Hedging instruments and targets

The Group uses foreign exchange contracts and currency swaps to reduce exposure to foreign exchange risks arising from transactions denominated in foreign currencies, notably imports and exports, financing, and funds management. The Group similarly uses interest rate swaps to lower exposure to interest rate fluctuations in financing and funds management transactions. The Group also uses commodity futures contracts to hedge against the risks of fluctuations in the purchase costs of raw materials.

3. Hedging policy

The Group maintains a policy of limiting the use of derivative transactions to actual demand and does not engage in such transactions for speculative purposes. The Group minimizes credit risk stemming from breaches of contract of counterparties by restricting its use of derivative transactions to financial institutions with high credit ratings.

4. Method of assessing hedge effectiveness

The Group has confirmed that the hedging instruments and targets used in executing derivative transactions nearly match crucial requirements, and it can offset the effects of market fluctuations on and after implementing hedges.

The Group decides on whether to engage in planned transactions after assessing whether or not such transactions are extremely feasible.

(t) Amortization of Goodwill

Goodwill is amortized on a straight-line basis over less than 20 years, depending on the source. Goodwill related to the launch of consolidated subsidiary Mitsubishi Tanabe Pharma Corporation is being amortized over 15 years. Goodwill from making Mitsubishi Plastics, Inc., a wholly owned subsidiary is being amortized over 10 years. Goodwill from making Mitsubishi Rayon Co., Ltd. and Qualicaps Co., Ltd. into wholly owned consolidated subsidiaries is being amortized over 20 years.

(u) Cash Equivalents

All highly liquid investments, generally with a maturity of three months or less when purchased, which are readily convertible into known amounts of cash and are so near maturity that they represent only an insignificant risk of any change in value attributable to changes in interest rates, are considered cash equivalents.

(v) Research and Development

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

(w) Distribution of Retained Earnings

Cash dividends are recorded in the fiscal year in which they are approved at the relevant shareholders' meeting or, in the case of interim dividends, the respective years in which they are declared by the Board of Directors.

(x) Income Taxes

Deferred income taxes are recognized by the asset and liability method under which deferred tax assets and liabilities are determined based on the differences between financial reporting and the tax bases of the assets and liabilities, and are measured using the enacted tax rates and laws which will be in effect when the differences are expected to reverse.

A valuation allowance is provided against the deferred tax assets where it is considered more likely than not that they will not be realized.

Additional Information

Several Consolidated Subsidiaries' Year-ends Switched to March 31

During the fiscal year under review, Lucite International (U.S.) and 89 other companies switched their fiscal year-ends from December 31 to March 31. The Company thus prepared consolidated financial statements based on the financial statements for those companies for the 12 months ended December 31, 2013, and three months through March 31, 2014.

Similarly, with a change in year-end of Echizen Polymer Co., Ltd., from February 28 to March 31 during the fiscal year under review, the Company prepared consolidated financial statements based on the financial statements for Echizen Polymer for the 12 months ended February 28, and one month through March 31, 2014.

The year-ends of Huizhou MMA Co., Ltd. (China) and 21 other companies are December 31, and the year-end of Wellthy Corporation is May 31, but from this fiscal year the Company started prepared financial statements presenting provisional settlements for those companies as of March 31.

"Accounting Standard for Retirement Benefits" (ASBJ Statement No. 26, May 17, 2012) and "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25, May 17, 2012)

(1) Outline

Under the revised accounting standard, actuarial gains and losses and prior service costs, etc., after adjusting for tax effects, are recognized in the net assets section of the consolidated balance sheet and the deficit or surplus is recognized as a liability or asset. Also, in regard to the method of attributing the expected retirement benefit to periods, in addition to the straight-line basis, the benefit formula basis may now be applied. In addition, the method of determining the discount rate has also been revised.

(2) Date of application

The Company plans to revise its method for calculating retirement benefit obligations and service cost from the beginning of fiscal 2014.

(3) Effects of adoption of the accounting standards, etc.

The effect of the adoption of the accounting standard is currently being evaluated.

Accounting Standard for Business Combinations

- Revised Accounting Standard for Business Combinations (ASBJ Statement No. 21, September 13, 2013)
- Revised Accounting Standard for Consolidated Financial Statements (ASBJ Statement No. 22, September 13, 2013)
- Revised Accounting Standard for Business Divestitures (ASBJ Statement No. 7, September 13, 2013
- Revised Accounting Standard for Earnings Per Share (ASBJ Statement No. 2, September 13, 2013)
- Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures (ASBJ Guidance No. 10, September 13, 2013)
- Revised Guidance on Accounting Standard for Earnings Per Share (ASBJ Guidance No.4, September 13, 2013)

(1) Outline

The principle accounting standard revisions were 1) accounting for changes in parent holdings in a subsidiary where retaining control in purchasing additional shares in that subsidiary, 2) accounting for acquisition costs, 3) net income disclosure and switching from minority interests to non-controlling interests, and 4) provisional accounting.

(2) Date of application

The changes should be applicable from the start of the fiscal year ending March 31, 2016. Provisional accounting should apply to corporate combinations subsequent to the start of the fiscal year ending March 31, 2016.

(3) Effects of adoption of the accounting standards, etc.

The financial impact was not determined when producing the consolidated financial statements.

Note 2

U.S. Dollar Amounts

MCHC and its domestic consolidated subsidiaries maintain their accounting records in Japanese yen. The U.S. dollar amounts are included solely for convenience and have been translated, as a matter of arithmetical computation only, at the rate of ¥103 to U.S.$1.00, the approximate exchange rate prevailing on the Tokyo foreign exchange market at March 31, 2014. This translation should not be construed as a representation that yen amounts actually represent, or have been, or could be, converted into U.S. dollars at this, or any other rate.

Note 3

Contingent Liabilities

MCHC and its consolidated subsidiaries were guarantors for the following borrowings principally incurred by unconsolidated subsidiaries, affiliates and others:

	Gross including third parties' liabilities		Net MCHC's and consolidated subsidiaries' own liabilities	
	Millions of yen	Thousands of U.S. dollars	Millions of yen	Thousands of U.S. dollars
Guarantees	**¥4,015**	**$38,981**	**¥2,930**	**$28,447**
Stand-by guarantees	**142**	**1,379**	**142**	**1,379**

Trademark Infringement Lawsuit

The consolidated subsidiary Verbatim Corporation (US) was sued for trademark infringement in Brazil. In May 2007, a court in Manaus, in the Brazilian state of Amazonas, ruled in favor of the plaintiff and ordered Verbatim Corporation to pay 377 million Brazilian real, or ¥17,161 million ($166,612 thousand). Verbatim Corporation, believing that no trademark infringement took place, and dissatisfied with the fact that reasons for recognizing the plaintiff's monetary claim were not disclosed, immediately filed an appeal with Brazil's Supreme Court. In February 2008, the Supreme Court ruled in favor of Verbatim Corporation and returned the case to the Manaus court for retrial.

In the following proceedings, the court ruled against Verbatim. However, dissatisfied with the ruling, Verbatim made a special appeal to Brazil's Supreme Court, requesting that the case be tried in that court. In June 2011, the Supreme Court dismissed the charges of trademark infringement filed against Verbatim, and overruled the lower court's order for Verbatim to pay the abovementioned damages. However, in April 2012 the plaintiff requested that the Supreme Court clarify its ruling, and the Company cannot deny the possibility that the plaintiff will oppose this ruling in the future.

Note 4

Selling, General and Administrative Expenses

For the years ended March 31, 2014 and 2013, the following items were recorded in the consolidated statements of income:

	Millions of yen		Thousands of U.S. dollars
	March 31, 2014	March 31, 2013	**March 31, 2014**
Transportation costs	**¥ 89,676**	¥ 79,652	**$ 870,641**
Labor costs	**135,977**	124,108	**1,320,165**
Research and development	**134,260**	134,723	**1,303,495**

Notes: 1. Labor costs include a provision for bonuses of ¥14,316 million ($138,990 thousand) and ¥12,182 million for the years ended March 31, 2014 and 2013, respectively.

2. "Research and development" includes expenditures on personnel, and depreciation and amortization of research facilities.

Note 5

Supplementary Information for Consolidated Statements of Comprehensive Income

	Millions of yen		Thousands of U.S. dollars
	March 31, 2014	March 31, 2013	**March 31, 2014**
Net unrealized holding gain (loss) on other securities:			
Amount arising during the period	**¥ 12,503**	¥ 29,353	**$ 121,388**
Reclassification adjustment	**(5,152)**	(6,006)	**(50,019)**
Before tax effect	**7,351**	23,347	**71,369**
Tax effect	**186**	(10,643)	**1,806**
Net unrealized holding gain (loss) on other securities	**¥ 7,537**	¥ 12,704	**$ 73,175**
Gain (loss) on deferred hedges:			
Amount arising during the period	**¥ 1,518**	¥ 1,818	**$ 14,738**
Reclassification adjustment	**(3,440)**	1,059	**(33,398)**
Amount of acquisition cost adjustment	**(114)**	57	**(1,107)**
Before tax effect	**(2,036)**	2,934	**(19,767)**
Tax effect	**824**	(1,102)	**8,000**
Gain (loss) on deferred hedges	**¥ (1,212)**	¥ 1,832	**$ (11,767)**
Foreign currency translation adjustments:			
Amount arising during the period	**¥ 58,774**	¥ 32,500	**$ 570,621**
Reclassification adjustment	**43**	82	**417**
Before tax effect	**58,817**	32,582	**571,039**
Tax effect	**—**	—	**—**
Foreign currency translation adjustments	**¥ 58,817**	¥ 32,582	**$ 571,039**
Remeasurements of defined benefit plans:			
Amount arising during the period	**¥ 2,025**	¥ (49)	**$ 19,660**
Reclassification adjustment	**—**	—	**—**
Before tax effect	**2,025**	(49)	**19,660**
Tax effect	**(595)**	19	**(5,777)**
Remeasurements of defined benefit plans	**¥ 1,430**	¥ (30)	**$ 13,883**
Other comprehensive income (loss) for affiliates accounted for using equity method:			
Amount arising during the period	**¥ 7,451**	¥ 4,726	**$ 72,340**
Reclassification adjustment	**(266)**	318	**(2,583)**
Other comprehensive income (loss) for affiliates accounted for using equity method:	**7,185**	5,044	**69,757**
Other comprehensive income (loss), net	**¥ 73,757**	¥ 52,132	**$ 716,087**

Note 6

Supplementary Information for Consolidated Statements of Changes in Net Assets

(a) Type and Number of Outstanding Shares

	Year ended March 31, 2014			
	Number of shares (Thousands)			
	Balance at beginning of year	Increase in shares during the year	Decrease in shares during the year	Balance at end of year
Type of shares				
Issued stock:				
Common stock	**1,506,288**	**—**	**—**	**1,506,288**
Total	**1,506,288**	**—**	**—**	**1,506,288**
Treasury stock:				
Common stock[1, 2]	**33,053**	**1,426**	**211**	**34,268**
Total	**33,053**	**1,426**	**211**	**34,268**

1. A 1,426 thousand increase in the number of shares of common stock held in treasury was as follows:

Purchases of fractional shares of less than one unit	252	thousand
Changes in equity	1,173	thousand

2. A 211 thousand decrease in the number of shares of common stock held in treasury was as follows:

Sales of fractional shares of less than one unit	12	thousand
Withdrawal related to the exercise of stock options	101	thousand
Disbursements through share exchange	97	thousand

(b) Warrants

			Number of outstanding shares (Thousands)				
	Description	Type of outstanding shares	Balance at beginning of year	Increase (Decrease)	Balance at end of year	Millions of yen	Thousands of U.S. dollars
MCHC	Warrants as stock options			—		**¥496**	**$4,816**
Consolidated subsidiaries	—			—		—	—
Total				—		**¥496**	**$4,816**

(c) Dividends

(1) Dividends paid to shareholders

Date of approval	Resolution approved by	Type of shares	Amount (Millions of yen)	Amount (Thousands of U.S. dollars)	Amount per share (Yen)	Amount per share (U.S. dollars)	Entitlement date	Effective date
June 25, 2013	Annual general meeting of shareholders	Common stock	¥8,850	$85,922	¥6	$0.06	March 31, 2013	June 26, 2013
October 31, 2013	Board of Directors	Common stock	¥8,849	$85,913	¥6	$0.06	September 30, 2013	December 3, 2013

(2) Dividends whose entitlement date was in the year ended March 31, 2014, and whose effective date will be in the subsequent fiscal year

Date of approval	Resolution approved by	Type of shares	Amount (Millions of yen)	Amount (Thousands of U.S. dollars)	Paid from	Amount per share (Yen)	Amount per share (U.S. dollars)	Entitlement date	Effective date
June 25, 2014	Annual general meeting of shareholders	Common stock	¥8,849	$85,913	Retained earnings	¥6	$0.06	March 31, 2014	June 26, 2014

Note: The Japanese Corporate Law provides that an amount equal to 10% of the amount to be distributed as distributions of capital surplus (other than the capital reserve) and retained earnings (other than the legal reserve) be transferred to the capital reserve and the legal reserve, respectively, until the sum of the capital reserve and the legal reserve equals 25% of the common stock account. Such distributions can be made at any time by resolution of the shareholders, or by the Board of Directors if certain conditions are met, but neither the capital reserve nor the legal reserve is available for distributions.

Note 7

Lease Transactions

At March 31, 2014 and 2013, as lessee, noncancellable operating lease obligations were accounted for as follows:

Future minimum lease payments for the remaining lease periods

	Millions of yen		Thousands of U.S. dollars
	March 31, 2014	March 31, 2013	**March 31, 2014**
Due within one year	**¥ 9,188**	¥ 9,186	**$ 89,204**
Due after one year	**19,077**	22,765	**185,214**
	¥28,265	¥31,951	**$ 274,417**

At March 31, 2014 and 2013, as lessor, finance leases other than those deemed to transfer the ownership of the leased assets to the lessees were accounted for as operating leases, and the details were as follows:

Acquisition costs, accumulated depreciation, accumulated impairment loss and balance at year-end

	Millions of yen		Thousands of U.S. dollars
	March 31, 2014	March 31, 2013	**March 31, 2014**
Buildings			
Acquisition costs	**¥920**	¥920	**$8,930**
Accumulated depreciation	**404**	379	**3,922**
Accumulated impairment loss	**—**	—	**—**
Balance at year-end	**¥516**	¥541	**$5,010**

	Millions of yen		Thousands of U.S. dollars
	March 31, 2014	March 31, 2013	**March 31, 2014**
Machinery, equipment and vehicles			
Acquisition costs	**¥ —**	¥ 362	**$ —**
Accumulated depreciation	**—**	281	**—**
Accumulated impairment loss	**—**	—	**—**
Balance at year-end	**¥ —**	¥ 81	**$ —**

Future minimum sublease income for the remaining lease periods

	Millions of yen		Thousands of U.S. dollars
	March 31, 2014	March 31, 2013	**March 31, 2014**
Due within one year	**¥ 66**	¥ 88	**$ 641**
Due after one year	**281**	405	**2,728**
	¥ 347	¥ 493	**$ 3,369**

Sublease income, amortization expense, depreciation expense and impairment loss

	Millions of yen		Thousands of U.S. dollars
	March 31, 2014	March 31, 2013	**March 31, 2014**
Sublease income	**¥66**	¥96	**$ 641**
Amortization expense amount	**—**	—	**—**
Depreciation expense amount	**24**	55	**233**
Impairment loss on leased assets	**¥—**	¥—	**$ —**

Note: Depreciation expense is calculated using the straight-line method with the lease period as the useful life with a nil residual value.

At March 31, 2014 and 2013, noncancellable operating lease receivables were accounted for as follows:

Future minimum sublease income for the remaining lease periods

	Millions of yen		Thousands of U.S. dollars
	March 31, 2014	March 31, 2013	**March 31, 2014**
Due within one year	**¥ 153**	¥ 83	**$1,485**
Due after one year	**425**	356	**4,126**
	¥ 578	¥439	**$5,612**

Note 8

Financial Instruments

Overview

(1) Policy for Financial Instruments

MCHC's policy is to manage highly stable financial assets, centered on investments in short-term deposits, and raise funds largely by obtaining bank loans, issuing commercial papers and corporate bonds. MCHC deployed a cash management system to facilitate intragroup lending and borrowing and use funds more efficiently and reduce financial costs, engaging in intragroup lending and borrowing. Other policies are to ensure that derivatives transactions purely accommodate actual demand and to refrain from speculative trading.

(2) Financial Instruments and Risks

Trade receivables are exposed to customer credit risk. As MCHC operates globally, foreign currency denominated trade receivables are subject to foreign exchange fluctuations. MCHC hedges the resulting risks, net of trade payables in those currencies, with forward foreign exchange contracts. Marketable and investment securities are subject to market risk. Those securities mainly comprise held-to-maturity debt securities and shares in other companies with which the Group does business or has capital affiliations.

Most trade payables are due within one year. While partly exposed to foreign exchange risks from imports of raw materials and other items, MCHC hedges with forward foreign exchange contracts as it does with trade receivables.

Borrowings, corporate bonds, and bonds with subscription rights to shares are to secure the funding needed for operations and capital investments. Some of these instruments are subject to interest rate fluctuation risks, which MCHC hedges using interest rate swaps.

MCHC engages in various types of derivatives transaction. They include forward foreign exchange contracts and currency swaps to hedge foreign exchange fluctuation risks associated with foreign currency denominated trade receivables and payables, borrowings and loans. MCHC also uses interest rate swaps to hedge fluctuations in interest rates on borrowings and loans, as well as commodity futures contracts to hedge the risks of price fluctuations from raw materials purchases.

(3) Financial Instrument Risk Management Structure

a. Credit Risk Management (including risks of customers breaching contracts)

In keeping with its credit management rules, MCHC regularly monitors the statuses of key customers with outstanding trade and long-term receivables and oversees dates and balances while endeavoring to swiftly identify and ameliorate collection concerns that could stem from deteriorating financial positions or other factors.

The credit risks of held-to-maturity debt securities are insignificant, as MCHC's portfolio includes only instruments with high credit ratings.

MCHC minimizes credit risks relating to counterparty breaches of contract with derivatives by transacting solely with highly creditworthy financial institutions.

The maximum credit risk amount at March 31, 2014, is the balance sheet value of financial assets exposed to such risks.

b. Market Risk Management (foreign exchange and interest rate risks)

Where necessary, MCHC uses forward exchange contracts and currency swaps to hedge foreign currency denominated operating receivables, debt and loans. It uses interest rate swaps to minimize the risks of interest payment fluctuations for debt and corporate bonds.

MCHC regularly assesses the prices of marketable and investment securities and the financial positions of issuers (business partners). It factors in relationships with business partners in constantly reviewing the necessity of instruments other than held-to-maturity debt securities.

In keeping with internal rules on transaction rights and limitations, reports on the contract balances and market prices of derivative transactions are submitted regularly to the director in charge of such matters.

c. Funding-Related Liquidity Risk Management (risk of inability to settle by payment dates)

MCHC is exposed to liquidity risk for customer credit and debt, managing them by producing and managing funding plans.

(4) Supplementary Explanation of the Estimated Fair Value of Financial Instruments

The fair value of financial instruments is based on their quoted market price, if available. When there is no quoted market price available, fair value is reasonably estimated. Since various assumptions and factors are reflected in estimating the fair value, different assumptions and factors could result in different fair value.

Estimated Fair Value of Financial Instruments

The carrying value of financial instruments in the consolidated balance sheets as of March 31, 2014 and 2013, and estimated fair value are shown in the following table. The table below excludes instruments whose fair value is extremely difficult to determine.

	Millions of yen		
March 31, 2014	Carrying value	Fair value	Difference
Cash and deposits	**¥ 137,664**	**¥ 137,664**	**¥ —**
Trade receivables	**615,737**	**615,737**	**—**
Marketable and investment securities:			
Held-to-maturity debt securities	**12,034**	**12,055**	**21**
Shares of affiliates	**83,580**	**99,016**	**15,436**
Other marketable securities	**256,917**	**256,917**	**—**
Total assets	**¥1,105,932**	**¥1,121,389**	**¥15,457**
Trade payables	**¥ 413,405**	**¥ 413,405**	**¥ —**
Short-term loans	**357,838**	**357,838**	**—**
Current portion of long-term loans	**117,579**	**117,579**	**—**
Commercial papers	**35,000**	**35,000**	**—**
Bonds due in one year or less	**55,040**	**55,040**	**—**
Corporate bonds	**225,050**	**230,803**	**5,753**
Long-term loans	**467,679**	**475,831**	**8,152**
Total liabilities	**¥1,671,591**	**¥1,685,496**	**¥13,905**
Derivatives transactions:			
Hedge accounting not applied	**¥ 19**	**¥ 19**	**¥ —**
Hedge accounting applied	**618**	**618**	**—**
Total derivatives transactions	**¥ 637**	**¥ 637**	**¥ —**

Note: Net receivables and payables from derivatives transactions are presented, with net payables in totals shown in parentheses.

	Millions of yen		
March 31, 2013	Carrying value	Fair value	Difference
Cash and deposits	¥ 115,980	¥ 115,980	¥ —
Trade receivables	588,208	588,208	—
Marketable and investment securities:			
Held-to-maturity debt securities	16,417	15,993	(424)
Shares of affiliates	42,185	42,322	137
Other marketable securities	278,624	278,624	—
Total assets	¥1,041,414	¥ 1,041,127	¥ (287)
Trade payables	¥ 416,980	¥ 416,980	¥ —
Short-term loans	315,551	315,551	—
Current portion of long-term loans	150,026	150,026	—
Bonds due in one year or less	10,000	10,000	—
Current portion of bonds with subscription rights to shares	70,000	70,000	—
Corporate bonds	200,000	206,667	6,667
Long-term loans	453,222	463,795	10,573
Total liabilities	¥ 1,615,779	¥ 1,633,019	¥17,240
Derivatives transactions:			
Hedge accounting not applied	¥ 9	¥ 9	¥ —
Hedge accounting applied	2,732	2,732	—
Total derivatives transactions	¥ 2,741	¥ 2,741	¥ —

Note: Net receivables and payables from derivatives transactions are presented, with net payables in totals shown in parentheses

	Thousands of U.S. dollars		
March 31, 2014	Carrying value	Fair value	Difference
Cash and deposits	$ 1,336,544	$ 1,336,544	$ —
Trade receivables	5,978,029	5,978,029	—
Marketable and investment securities:			
Held-to-maturity debt securities	116,835	117,039	204
Shares of affiliates	811,456	961,320	149,864
Other marketable securities	2,494,340	2,494,340	—
Total assets	$ 10,737,204	$10,887,272	$ 150,068
Trade payables	$ 4,013,641	$ 4,013,641	$ —
Short-term loans	3,474,155	3,474,155	—
Current portion of long-term loans	1,141,544	1,141,544	—
Commercial papers	339,806	339,806	—
Bonds due in one year or less	534,369	534,369	—
Corporate bonds	2,184,951	2,240,806	55,854
Long-term loans	4,540,573	4,619,718	79,146
Total liabilities	$ 16,229,039	$16,364,039	$ 135,000
Derivatives transactions:			
Hedge accounting not applied	$ 184	$ 184	$ —
Hedge accounting applied	6,000	6,000	—
Total derivatives transactions	$ 6,184	$ 6,184	$ —

Note: Net receivables and payables from derivatives transactions are presented, with net payables in totals shown in parentheses.

1. Method to Determine the Estimated Fair Values of Financial Instruments and Other Matters Related to Securities and Derivatives Transactions

Assets

Cash and deposits

Book value is used, as it approximates market value because of the short maturities of these instruments.

Trade receivables

Book value is used, as it approximates market value because of the short maturities of these instruments.

Marketable and investment securities

The fair value of stocks is based on quoted market prices, while the fair value of debt securities is based on quoted market prices or the prices provided by the financial institutions with which MCHC conducts transactions. Book value is used for negotiable certificates of deposit and commercial papers, as it approximates market value because of the short settlements of these instruments. For information on securities classified by holding purpose, please refer to Note 9, Securities.

Liabilities

Trade payables, short-term loans, current portion of long-term loans, commercial papers, and bonds due in one year or less.

Book value is used, as it approximates market value because of the short maturities of these instruments.

Corporate bonds

The market price of corporate bonds is based on the quoted market price.

Long-term loans

Market value is based on the present value of principle and interest, discounted using current assumed rates for similar new loans.

Long-term loans is subject to special procedures for interest rate swaps (see Note 11, Derivative Financial Instruments and Hedge Accounting) and the total principal and interest for these swaps are discounted using rationally estimated interest rates for similar new loans.

Derivative Transactions

Please refer to Note 11, Derivative Financial Instruments and Hedge Accounting.

2. Financial Instruments for which it is Extremely Difficult or Impossible to Determine the Fair Value

	Millions of yen		Thousands of U.S. dollars
	March 31, 2014	March 31, 2013	**March 31, 2014**
Unlisted shares	**¥91,152**	¥99,367	**$884,971**
Investment securities	**2,486**	2,278	**24,136**

These instruments are omitted from marketable and investment securities because they have no market price and it is extremely difficult or impossible to estimate forward cash flows or assess their fair value.

3. Projected Redemptions of Monetary Claims and Marketable Securities Due after March 31, 2014

	Millions of yen			
March 31, 2014	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and deposits	**¥ 137,664**	**¥ —**	**¥—**	**¥ —**
Trade receivables	**615,737**	**—**	**—**	**—**
Marketable and investment securities				
Held-to-maturity debt securities				
(1) Government bonds	**—**	**2,512**	**—**	**—**
(2) Others	**—**	**3,500**	**—**	**6,000**
Other securities with maturities				
(1) Government bonds	**50,300**	**6,400**	**—**	**—**
(2) Others	**56,000**	**—**	**—**	**—**
Total	**¥ 859,701**	**¥ 12,412**	**¥—**	**¥6,000**

	Millions of yen			
March 31, 2013	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and deposits	¥115,980	¥ —	¥ —	¥ —
Trade receivables	588,208	—	—	—
Marketable and investment securities				
Held-to-maturity debt securities				
(1) Government bonds	—	2,295	—	—
(2) Others	595	3,500	—	10,000
Other securities with maturities				
(1) Government bonds	14,000	48,000	700	—
(2) Others	70,850	—	—	—
Total	¥789,633	¥53,795	¥700	¥10,000

	Thousands of U.S. dollars			
March 31, 2014	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and deposits	**$1,336,544**	**$ —**	**$—**	**$ —**
Trade receivables	**5,978,029**	**—**	**—**	**—**
Marketable and investment securities				
Held-to-maturity debt securities				
(1) Government bonds	**—**	**24,388**	**—**	**—**
(2) Others	**—**	**33,981**	**—**	**58,252**
Other securities with maturities				
(1) Government bonds	**488,350**	**62,136**	**—**	**—**
(2) Others	**543,689**	**—**	**—**	**—**
Total	**$8,346,612**	**$120,505**	**$—**	**$58,252**

4. Scheduled Repayments of Corporate Bonds, Long-Term Loans and Other Interest-Bearing Debt after March 31, 2014

	Millions of yen					
March 31, 2014	Due in one year or less	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
Short-term loans	**¥357,838**	**¥ —**	**¥ —**	**¥ —**	**¥ —**	**¥ —**
Current portion of long-term loans	**117,579**	—	—	—	—	—
Commercial papers	**35,000**	—	—	—	—	—
Bonds due in one year or less	**55,040**	—	—	—	—	—
Corporate bonds	—	**20,040**	**30,010**	**30,000**	**50,000**	**95,000**
Long-term loans	—	**138,828**	**87,625**	**93,495**	**68,980**	**78,751**
Total	**¥565,457**	**¥ 158,868**	**¥ 117,635**	**¥ 123,495**	**¥118,980**	**¥ 173,751**

	Millions of yen					
March 31, 2013	Due in one year or less	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
Short-term loans	¥315,551	¥ —	¥ —	¥ —	¥ —	¥ —
Current portion of long-term loans	150,026	—	—	—	—	—
Bonds due in one year or less	10,000	—	—	—	—	—
Current portion of bonds with subscription rights to shares	70,000	—	—	—	—	—
Corporate bonds	—	55,000	20,000	30,000	30,000	65,000
Long-term loans	—	110,924	133,595	64,589	91,949	52,165
Total	¥545,577	¥ 165,924	¥ 153,595	¥ 94,589	¥ 121,949	¥ 117,165

	Thousands of U.S. dollars					
March 31, 2014	Due in one year or less	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
Short-term loans	**$3,474,155**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**
Current portion of long-term loans	**1,141,544**	—	—	—	—	—
Commercial papers	**339,806**	—	—	—	—	—
Bonds due in one year or less	**534,369**	—	—	—	—	—
Corporate bonds	—	**194,563**	**291,359**	**291,262**	**485,437**	**922,330**
Long-term loans	—	**1,347,845**	**850,728**	**907,718**	**669,709**	**764,573**
Total	**$5,489,874**	**$ 1,542,408**	**$ 1,142,087**	**$ 1,198,981**	**$ 1,155,146**	**$1,686,903**

Note 9

Securities

Held-to-maturity debt securities are measured at amortized cost in the accompanying balance sheets.

However, certain held-to-maturity debt securities have fair value. The carrying value, gross unrealized gains, gross unrealized losses and estimated fair value of held-to-maturity debt securities at March 31, 2014 and 2013, are summarized as follows:

	Millions of yen			
March 31, 2014	Carrying value	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Held-to-maturity debt securities:				
Government bonds	**¥ 2,532**	**¥284**	**¥ —**	**¥ 2,816**
Corporate bonds	**—**	**—**	**—**	**—**
Other debt securities	**9,502**	**32**	**(295)**	**9,239**
	¥ 12,034	**¥316**	**¥ (295)**	**¥ 12,055**

	Millions of yen			
March 31, 2013	Carrying value	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Held-to-maturity debt securities:				
Government bonds	¥ 2,318	¥386	¥ —	¥ 2,704
Corporate bonds	—	—	—	—
Other debt securities	14,099	112	(922)	13,289
	¥16,417	¥498	¥(922)	¥15,993

	Thousands of U.S. dollars			
March 31, 2014	Carrying value	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Held-to-maturity debt securities:				
Government bonds	**$ 24,583**	**$ 2,757**	**$ —**	**$ 27,340**
Corporate bonds	**—**	**—**	**—**	**—**
Other debt securities	**92,252**	**311**	**(2,864)**	**89,699**
	$ 116,835	**$ 3,068**	**$(2,864)**	**$ 117,039**

Other marketable securities with quoted market prices are measured at fair value. Differences between fair value and acquisition costs are recorded as a component of net assets. The differences at March 31, 2014 and 2013, are summarized as follows:

	Millions of yen				
				(Breakdown)	
March 31, 2014	Acquisition costs	Fair value	Net differences	Gross gains	Gross losses
Other marketable securities:					
Equity securities	**¥ 135,131**	**¥ 200,008**	**¥ 64,877**	**¥ 65,599**	**¥ (722)**
Government bonds	**43,371**	**43,473**	**102**	**102**	**—**
Corporate bonds	**13,400**	**13,436**	**36**	**44**	**(8)**
Other debt securities	**—**	**—**	**—**	**—**	**—**
	¥ 191,902	**¥ 256,917**	**¥ 65,015**	**¥ 65,745**	**¥ (730)**

	Millions of yen				
				(Breakdown)	
March 31, 2013	Acquisition costs	Fair value	Net differences	Gross gains	Gross losses
Other marketable securities:					
Equity securities	¥ 90,610	¥144,624	¥54,014	¥65,786	¥(11,772)
Government bonds	52,383	52,733	350	350	—
Corporate bonds	10,400	10,424	24	25	(1)
Other debt securities	70,843	70,843	—	—	—
	¥ 224,236	¥278,624	¥54,388	¥66,161	¥(11,773)

	Thousands of U.S. dollars				
				(Breakdown)	
March 31, 2014	Acquisition costs	Fair value	Net differences	Gross gains	Gross losses
Other marketable securities:					
Equity securities	**$ 1,311,951**	**$ 1,941,825**	**$ 629,874**	**$ 636,883**	**$ (7,010)**
Government bonds	**421,078**	**422,068**	**990**	**990**	**—**
Corporate bonds	**130,097**	**130,447**	**350**	**427**	**(78)**
Other debt securities	**—**	**—**	**—**	**—**	**—**
	$ 1,863,126	**$ 2,494,340**	**$ 631,214**	**$ 638,301**	**$ (7,087)**

Sales of other securities for the fiscal year ended March 31, 2014 are shown below:

	Millions of yen		
	Sales	Gains	Losses
Year ended March 31, 2014	**¥24,794**	**¥1,428**	**¥(24)**

	Thousands of U.S. dollars		
	Sales	Gains	Losses
Year ended March 31, 2014	**$240,718**	**$13,864**	**$(233)**

Investment securities of unconsolidated subsidiaries and affiliates at March 31, 2014 are shown below:

	Millions of yen	Thousands of U.S. dollars
March 31, 2014	**¥159,975**	**$1,553,155**

Note 10

Supplementary Cash Flow Information

Cash and cash equivalents as of March 31, 2014 and 2013, are reconciled to the accounts reported in the consolidated balance sheets as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31, 2014	March 31, 2013	**March 31, 2014**
Cash and deposits	**¥137,664**	¥115,980	**$1,336,544**
Time deposits with maturities of more than three months	**(6,208)**	(4,453)	**(60,272)**
Cash equivalents included in securities[1]	**48,100**	41,593	**466,990**
Cash and cash equivalents	**¥179,556**	¥153,120	**$1,743,262**

1. This represents short-term, highly liquid investments readily convertible into cash held by overseas subsidiaries.

Assets and liabilities of acquired company which became consolidated subsidiary via stock acquisition

The composition of the assets and liabilities of Medicago Inc. upon consolidation in line with the acquisition of stock and the relationship between the acquisition price for Medicago shares and the net expenditure on the acquisition are as follows:

	Millions of yen	Thousands of U.S. dollars
Current assets	**¥ 2,001**	**$ 19,427**
Noncurrent assets	**32,892**	**319,340**
Goodwill	**7,029**	**68,243**
Current liabilities	**(714)**	**(6,932)**
Noncurrent liabilities	**(11,092)**	**(107,689)**
Minority interest	**(9,234)**	**(89,650)**
Total amount of stock acquisition cost	**20,882**	**202,738**
Consolidated book value before additional acquisition	**(783)**	**(7,602)**
Gain related to step acquisition	**(930)**	**(9,029)**
Cash and cash equivalents	**(1,272)**	**(12,350)**
Less: Purchase of investments in subsidiaries resulting in change in scope of consolidation	**¥ 17,897**	**$ 173,757**

Derivative Financial Instruments and Hedge Accounting

Derivative Transactions

1. Derivative Transactions (Hedge accounting not applied)

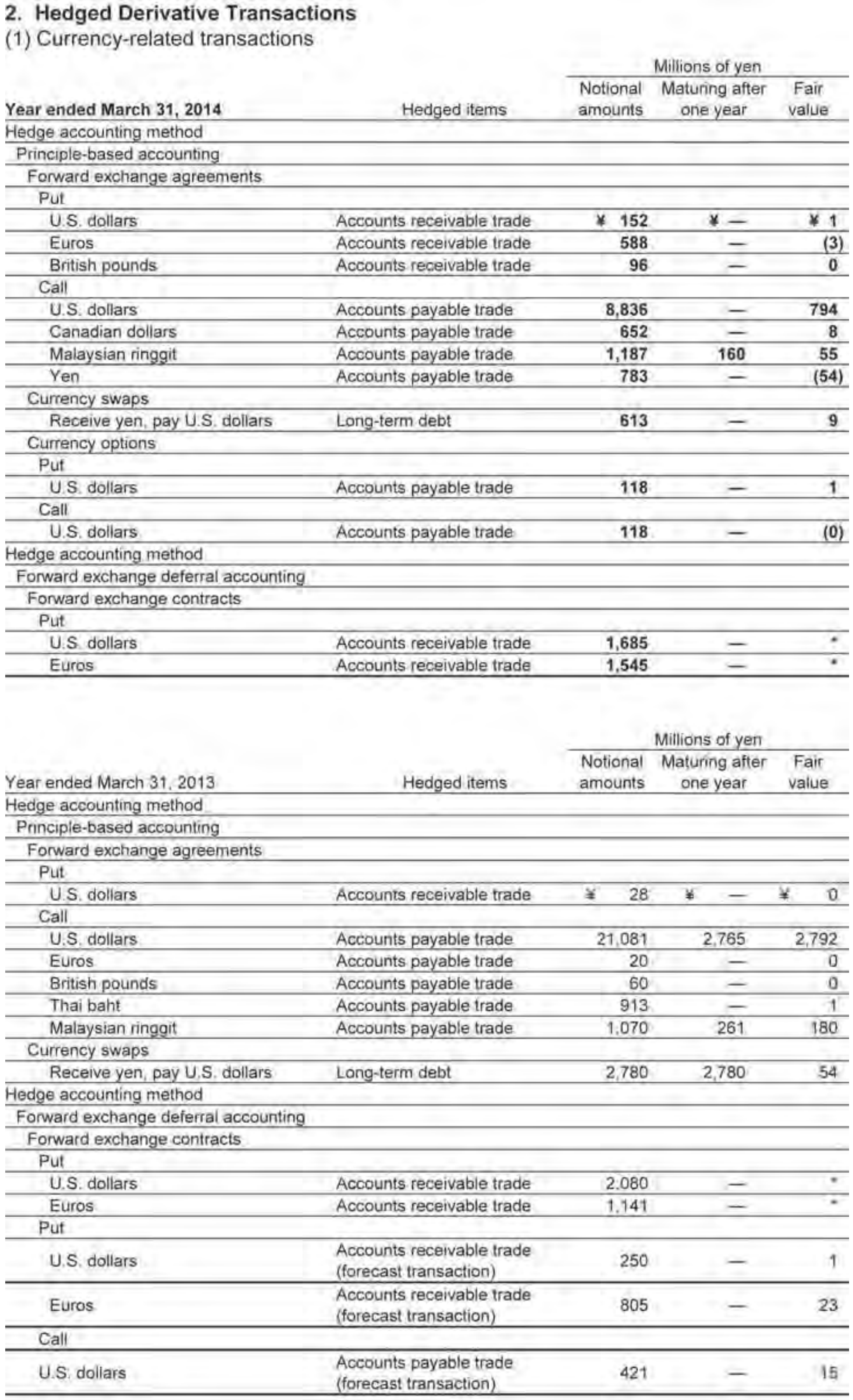
(1) Currency-related transactions

	Millions of yen			
Year ended March 31, 2014	Notional value	Maturing after one year	Fair value	Appraised gains/losses
Off-market transactions				
Forward exchange agreements				
Put				
U.S. dollars	¥ 244	¥ —	¥ (1)	¥ (1)
Euros	24,265	—	(86)	(86)
Currency swaps				
Receive U.S. dollars, pay Euros	5,533	4,058	134	134
Receive U.S. dollars, pay Thai baht	2,524	1,262	(28)	(28)

	Millions of yen			
Year ended March 31, 2013	Notional value	Maturing after one year	Fair value	Appraised gains/losses
Off-market transactions				
Forward exchange agreements				
Put				
U.S. dollars	¥ 79	¥ —	¥ 1	¥ 1
Euros	132	—	(5)	(5)
British pounds	42	—	0	0
Won	211	—	0	0
Call				
U.S. dollars	3	—	0	0
Euros	2	—	0	0
Thai baht	128	—	0	0
Currency swaps				
Receive U.S. dollars, pay Euros	5,454	4,545	183	183
Receive U.S. dollars, pay Thai baht	3,125	2,083	(170)	(170)

	Thousands of U.S. dollars			
Year ended March 31, 2014	Notional value	Maturing after one year	Fair value	Appraised gains/losses
Off-market transactions				
Forward exchange agreements				
Put				
U.S. dollars	$ 2,369	$ —	$ (10)	$ (10)
Euros	235,583	—	(835)	(835)
Currency swaps				
Receive U.S. dollars, pay Euros	53,718	39,398	1,301	1,301
Receive U.S. dollars, pay Thai baht	24,505	12,252	(272)	(272)

Note: Fair value calculations are based on quoted prices from financial and other institutions with which MCHC conducts transactions.



2. Hedged Derivative Transactions

(1) Currency-related transactions

Year ended March 31, 2014	Hedged items	Notional amounts	Maturing after one year	Fair value
		Millions of yen		
Hedge accounting method				
Principle-based accounting				
Forward exchange agreements				
Put				
U.S. dollars	Accounts receivable trade	**¥ 152**	**¥ —**	**¥ 1**
Euros	Accounts receivable trade	**588**	**—**	**(3)**
British pounds	Accounts receivable trade	**96**	**—**	**0**
Call				
U.S. dollars	Accounts payable trade	**8,836**	**—**	**794**
Canadian dollars	Accounts payable trade	**652**	**—**	**8**
Malaysian ringgit	Accounts payable trade	**1,187**	**160**	**55**
Yen	Accounts payable trade	**783**	**—**	**(54)**
Currency swaps				
Receive yen, pay U.S. dollars	Long-term debt	**613**	**—**	**9**
Currency options				
Put				
U.S. dollars	Accounts payable trade	**118**	**—**	**1**
Call				
U.S. dollars	Accounts payable trade	**118**	**—**	**(0)**
Hedge accounting method				
Forward exchange deferral accounting				
Forward exchange contracts				
Put				
U.S. dollars	Accounts receivable trade	**1,685**	**—**	*****
Euros	Accounts receivable trade	**1,545**	**—**	*****

Year ended March 31, 2013	Hedged items	Notional amounts	Maturing after one year	Fair value
		Millions of yen		
Hedge accounting method				
Principle-based accounting				
Forward exchange agreements				
Put				
U.S. dollars	Accounts receivable trade	¥ 28	¥ —	¥ 0
Call				
U.S. dollars	Accounts payable trade	21,081	2,765	2,792
Euros	Accounts payable trade	20	—	0
British pounds	Accounts payable trade	60	—	0
Thai baht	Accounts payable trade	913	—	1
Malaysian ringgit	Accounts payable trade	1,070	261	180
Currency swaps				
Receive yen, pay U.S. dollars	Long-term debt	2,780	2,780	54
Hedge accounting method				
Forward exchange deferral accounting				
Forward exchange contracts				
Put				
U.S. dollars	Accounts receivable trade	2,080	—	*
Euros	Accounts receivable trade	1,141	—	*
Put				
U.S. dollars	Accounts receivable trade (forecast transaction)	250	—	1
Euros	Accounts receivable trade (forecast transaction)	805	—	23
Call				
U.S. dollars	Accounts payable trade (forecast transaction)	421	—	15

		Thousands of U.S. dollars		
Year ended March 31, 2014	Hedged items	Notional amounts	Maturing after one year	Fair value
Hedge accounting method				
Principle-based accounting				
Forward exchange agreements				
Put				
U.S. dollars	Accounts receivable trade	**$ 1,476**	**$ —**	**$ 10**
Euros	Accounts receivable trade	**5,709**	**—**	**(29)**
British pounds	Accounts receivable trade	**932**	**—**	**0**
Call				
U.S. dollars	Accounts payable trade	**85,786**	**—**	**7,709**
Canadian dollars	Accounts payable trade	**6,330**	**—**	**78**
Malaysian ringgit	Accounts payable trade	**11,524**	**1,553**	**534**
Yen	Accounts payable trade	**7,602**	**—**	**(524)**
Currency swaps				
Receive yen, pay U.S. dollars	Long-term debt	**5,951**	**—**	**87**
Currency options				
Put				
U.S. dollars	Accounts payable trade	**1,146**	**—**	**10**
Call				
U.S. dollars	Accounts payable trade	**1,146**	**—**	**(0)**
Forward exchange deferral accounting				
Forward exchange contracts				
Put				
U.S. dollars	Accounts receivable trade	**16,359**	**—**	*
Euros	Accounts receivable trade	**15,000**	**—**	*

Notes: 1. Fair value calculations are based on quoted prices from financial and other institutions with which MCHC conducts transactions.

2. MCHC accounts for forward exchange deferrals by together accounting for hedged long-term debt* and trade receivables* and payables*, and thus presents fair values that include the fair values of those instruments.

(2) Interest-related transactions

		Millions of yen		
Year ended March 31, 2014	Hedged items	Notional amounts	Maturing after one year	Fair value
Hedge accounting method				
Principle-based accounting				
Interest rate swaps				
Pay fixed rate, receive floating rate	Long-term debt	**¥ 8,558**	**¥ 6,054**	**¥(187)**
Special accounting procedures for interest rate swaps				
Interest rate swaps				
Pay fixed rate, receive floating rate	Long-term debt	**175,531**	**146,797**	*
Combined accounting procedures for interest rate and currency swaps (special and deferral accounting procedures)				
Interest rate and currency swaps				
Pay fixed rate, receive floating rate Receive U.S. dollars, pay Yen	Long-term debt	**5,700**	**5,700**	*
Pay floating rate, receive floating rate Receive U.S. dollars, pay Yen	Long-term debt	**8,300**	**8,300**	*

		Millions of yen		
Year ended March 31, 2013	Hedged items	Notional amounts	Maturing after one year	Fair value
Hedge accounting method				
Principle-based accounting				
Interest rate swaps				
Pay fixed rate, receive floating rate	Long-term debt	¥ 10,287	¥ 5,992	¥(344)
Special accounting procedures for interest rate swaps				
Interest rate swaps				
Pay fixed rate, receive floating rate	Long-term debt	219,582	159,238	*

Year ended March 31, 2014	Hedged items	Thousands of U.S. dollars Notional amounts	 Maturing after one year	 Fair value
Hedge accounting method				
Principle-based accounting				
Interest rate swaps				
Pay fixed rate, receive floating rate	Long-term debt	**$ 83,087**	**$ 58,777**	**$(1,806)**
Special accounting procedures for interest rate swaps				
Interest rate swaps				
Pay fixed rate, receive floating rate	Long-term debt	**1,704,184**	**1,425,214**	*
Combined accounting procedures for interest rate and currency swaps (special and deferral accounting procedures)				
Interest rate and currency swaps				
Pay fixed rate, receive floating rate Receive U.S. dollars, pay Yen	Long-term debt	**55,340**	**55,340**	*
Pay floating rate, receive floating rate Receive U.S. dollars, pay Yen	Long-term debt	**80,583**	**80,583**	*

Notes: 1. Fair value calculations are based on quoted prices from financial and other institutions with which MCHC conducts transactions.

2. With special accounting procedures for interest rate swaps and combined (special and deferral) accounting procedures for interest rate and currency swaps, MCHC accounts for hedged long-term debt* and trade receivables* and payables*, and thus presents fair values that include the fair values of the relevant long-term debt.

(3) Commodity-related Transactions

Year ended March 31, 2014	Hedged items	Millions of yen Notional amounts	 Maturing after one year	 Fair value
Hedge accounting method				
Principle-based accounting				
Forward transactions for aluminum ingots				
Put	Aluminum ingot trading	**¥176**	**¥—**	**¥(6)**

Year ended March 31, 2013	Hedged items	Millions of yen Notional amounts	 Maturing after one year	 Fair value
Hedge accounting method				
Principle-based accounting				
Forward transactions for aluminum ingots				
Put	Aluminum ingot trading	¥189	¥—	¥ 10

Year ended March 31, 2014	Hedged items	Thousands of U.S. dollars Notional amounts	 Maturing after one year	 Fair value
Hedge accounting method				
Principle-based accounting				
Forward transactions for aluminum ingots				
Put	Aluminum ingot trading	**$1,709**	**$—**	**$(58)**

Note: Fair value calculations are based on quoted prices from financial and other institutions with which MCHC conducts transactions.

Note 12

Pension and Severance Plans

Information on pension and severance plans for the years ended March 31, 2014, and 2013 are shown below:

Year ended March 31, 2014

1. Overview

Consolidated subsidiaries adopt or combine cash balanced pension plans, corporate pension plans, and welfare pension plans as defined benefits plans, and/or lump-sum retirement benefits and defined contribution plans.

Consolidated subsidiaries may pay premium benefits to employees on retirement. Some domestic consolidated subsidiaries have established retirement benefits trusts.

2. Defined Benefit Plans

(1) Reconciliation of retirement benefit obligations at beginning and end of year

	Millions of yen	Thousands of U.S. dollars
Retirement benefit obligations at beginning of year	**¥561,031**	**$5,446,903**
Service cost	**15,901**	**154,379**
Interest expense	**13,098**	**127,165**
Actuarial gain or loss	**6,410**	**62,233**
Retirement benefit payments	**(36,891)**	**(358,165)**
Prior service cost	**(2,482)**	**(24,097)**
Other	**18,323**	**177,893**
Retirement benefit obligations at end of year	**¥575,390**	**$5,586,311**

Notes: 1 Some domestic consolidated subsidiaries use the simplified method to calculate retirement benefit obligations.

2 Other includes translation differences for foreign subsidiaries.

(2) Reconciliation of plan assets at beginning and end of year

	Millions of yen	Thousands of U.S. dollars
Plan assets at beginning of year	**¥448,115**	**$4,350,631**
Expected return on assets	**12,364**	**120,039**
Actuarial gains and losses	**25,001**	**242,728**
Contributions from employer	**14,500**	**140,777**
Retirement benefit payments	**(29,079)**	**(282,320)**
Other	**14,023**	**136,146**
Plan assets at end of year	**¥484,924**	**$4,708,000**

Note: Other includes translation differences for foreign subsidiaries.

(3) Reconciliation of retirement benefit obligations and plan assets at year-end and net defined benefit liabilities and assets in consolidated balance sheets

	Millions of yen	Thousands of U.S. dollars
Retirement benefit obligations of funded plans	**¥519,350**	**$5,042,233**
Plan assets	**(484,924)**	**(4,708,000)**
	34,426	**334,233**
Retirement benefit obligations of unfunded plans	**56,040**	**544,078**
Net liabilities and assets in consolidated balance sheets	**¥ 90,466**	**$ 878,311**

	Millions of yen	Thousands of U.S. dollars
Net defined benefit liabilities	**¥121,706**	**$1,181,612**
Net defined benefit assets	**(31,240)**	**(303,301)**
Net liabilities and assets in consolidated balance sheets	**¥ 90,466**	**$ 878,311**

Note: Includes plans applying the simplified method.

(4) Retirement benefit costs and charges by category

	Millions of yen	Thousands of U.S. dollars
Service cost*	**¥15,663**	**$152,068**
Interest expense	**13,098**	**127,165**
Expected return on plan assets	**(12,364)**	**(120,039)**
Amortization of actuarial gains and losses	**9,554**	**92,757**
Amortization of prior service cost	**2,490**	**24,175**
Amortization of transition amount under post-employment benefit accounting	**817**	**7,932**
Retirement benefit costs of defined benefit plans	**¥29,258**	**$284,058**

Notes: 1. Employee contributions to defined benefits plans are deducted.
2. The retirement benefit expenses of consolidated subsidiaries using the simplified method are stated in service cost.
3. In addition to the above retirement benefit costs, the Company recorded ¥3,426 million ($33,262 thousand) in the year under review for special retirement expenses.

(5) Remeasurements of defined benefit plans

Components (before tax effect) in remeasurements of defined benefit plans are as follows.

	Millions of yen	Thousands of U.S. dollars
Unrecognized actuarial gains and losses	**¥ 9,564**	**$ 92,854**
Unrecognized prior service cost	**(2,707)**	**(26,282)**
Unrecognized transition amount under post-employment benefit accounting	**(770)**	**(7,476)**
Total	**¥ 6,087**	**$ 59,097**

(6) Plan asset matters

① Main components of plan assets

Ratios for main components of plan assets are as follows.

Bonds	47%
Stocks	34%
Life insurance company general accounts	12%
Other	7%
Total	100%

Note: Retirement benefit trusts for corporate pension plans account for 10% of the plan assets total.

② Methodology for setting expected long-term rates of return

The long-term expected rates of return for plan assets are determined by considering current and projected plan asset allocations and current and anticipated long-term rates of return from diverse plan assets.

(7) Actuarial assumption matters

The principal actuarial assumptions (represented by weighted averages) at the end of fiscal year ended March, 2014 were as follows.

Discount rate	Principally 2.0% or 1.8%
Expected long-term rate of return on plan assets	Principally 2.0% or 2.5%

3. Defined Contribution Plans

The required contributions of the Company and consolidated subsidiaries to defined contribution plans totaled ¥4,985 million ($48,398 thousand).

Year ended March 31, 2013

At March 31, 2013, a breakdown of the amounts recognized in the accompanying consolidated balance sheets was as follows:

	Millions of yen
	March 31, 2013
Projected benefit obligation at end of year	¥(561,031)
Fair value of plan assets at end of year	448,115
Funded status	(112,916)
Unrecognized transition amount under post-employment benefit accounting	1,587
Unrecognized actuarial loss	16,261
Unrecognized prior service cost	7,736
Net amount recognized	(87,332)
Prepaid pension expense	39,381
Accrued retirement benefits	(126,713)

The components of net pension and severance cost for the years ended March 31, 2013, was as follows:

	Millions of yen
	March 31, 2013
Service cost	¥15,372
Interest cost	12,165
Expected return on plan assets	(10,899)
Amortization of transition amount under post-employment benefit accounting	796
Recognized actuarial loss (gain)	18,699
Amortization of prior service cost	3,126
Defined contribution plan cost	4,673
Net periodic pension cost	¥43,932

Notes: 1. Actuarial loss (gain) is recognized using the straight-line method over a period of mainly five years from the fiscal year following the year in which the loss (gain) arises.

2. Prior service cost is amortized using the straight-line method over a period of mainly five years from the relevant fiscal year.

3. Transition amount under post-employment benefits accounting is amortized using the straight-line method over a period of mainly 15 years from the year ended March 31, 2001.

4. Additional benefits for employees' early retirement amounting to ¥575 million was recorded in addition to the amount of net periodic pension cost for the year ended March 31, 2013.

5. Main assumptions used for the year ended March 31, 2013, were discount rates of 2.0% or 1.8% and an expected return on plan assets of 2.5% or 2.0%.

Note 13

Stock-Based Compensation Plan

There were no stock option expenses in the year ended March 31, 2014. Stock option expenses of ¥7 million are included in general and administrative expenses for the year ended March 31, 2013.

Information on stock-based compensation plans at March 31, 2014, is shown below:

	2012 plan	2012 plan
Grantees	3 directors of MCHC	1 executive officer of MCHC
Type of stock	Common stock	Common stock
Date of grant	September 12, 2012	September 12, 2012
Number of shares granted	21,500	4,500
Exercisable period	from September 13, 2012 to September 12, 2032	from September 13, 2012 to September 12, 2032

	2011 plan	2011 plan
Grantees	2 directors of MCHC	1 executive officer of MCHC
		1 retiring director of MCHC
Type of stock	Common stock	Common stock
Date of grant	September 14, 2011	September 14, 2011
Number of shares granted	48,000	27,000
Exercisable period	from September 15, 2011 to September 14, 2031	from September 15, 2011 to September 14, 2031

	2010 plan	2010 plan	2010 plan
Grantees	3 directors of MCHC	1 executive officer of MCHC	4 directors of a subsidiary
		1 retiring director of MCHC	12 executive officers of a subsidiary
			4 retiring executive officers of a subsidiary
Type of stock	Common stock	Common stock	Common stock
Date of grant	September 14, 2010	September 14, 2010	September 15, 2010
Number of shares granted	44,700	20,500	144,450
Exercisable period	from September 15, 2010 to September 14, 2030	from September 15, 2010 to September 14, 2030	from September 16, 2010 to September 15, 2030

There were no stock-based compensation plans granted during the fiscal year ended March 31, 2010.

	2008 plan	2008 plan	2008 plan
Grantees	3 directors of MCHC	1 retiring director of MCHC	1 director of a subsidiary
			1 retiring director of a subsidiary
			20 executive officers of a subsidiary
			4 retiring executive officers of a subsidiary
Type of stock	Common stock	Common stock	Common stock
Date of grant	September 10, 2008	September 10, 2008	September 12, 2008
Number of shares granted	32,650	12,800	227,700
Exercisable period	from September 11, 2008 to September 10, 2028	from September 11, 2008 to September 10, 2028	from September 13, 2008 to September 12, 2028

	2007 plan	2007 plan	2007 plan
Grantees	2 directors of MCHC	1 executive officer of MCHC	1 director of a subsidiary
		2 retiring directors of MCHC	1 retiring director of a subsidiary
			20 executive officers of a subsidiary
			5 retiring executive officers of a subsidiary
Type of stock	Common stock	Common stock	Common stock
Date of grant	December 12, 2007	December 12, 2007	December 14, 2007
Number of shares granted	39,700	49,450	311,100
Exercisable period	from December 13, 2007 to December 12, 2027	from December 13, 2007 to December 12, 2027	from December 15, 2007 to December 14, 2027

	2006 plan	2006 plan	2006 plan	2005 plan
Grantees	3 directors of MCHC	1 executive officer of MCHC	2 directors of a subsidiary	7 directors of a subsidiary
		1 retiring director of MCHC	1 retiring director of a subsidiary	19 executive officers of a subsidiary
			19 executive officers of a subsidiary	3 retiring executive officers of a subsidiary
			4 retiring executive officers of a subsidiary	
Type of stock	Common stock	Common stock	Common stock	Common stock
Date of grant	December 13, 2006	December 13, 2006	December 15, 2006	July 1, 2005
Number of shares granted	70,400	28,200	331,000	466,050
Exercisable period	from December 14, 2006 to December 13, 2026	from June 28, 2007 to June 27, 2027	from December 16, 2006 to December 15, 2026	from June 28, 2006 to June 27, 2026

Number, movement and price of stock options were as follows:

1. Number of stock options

Number of shares

	2005 plan	2006 plan	2007 plan	2008 plan	2010 plan	2011 plan	2012 plan
Before vesting							
Outstanding as of March 31, 2013	73,750	106,000	143,500	171,350	195,500	75,000	26,000
Granted	—	—	—	—	—	—	—
Expired	—	—	—	—	—	—	—
Vested	15,550	22,000	25,900	23,150	18,850	—	—
Outstanding as of March 31, 2014	58,200	84,000	117,600	148,200	176,650	75,000	26,000
After vesting							
Outstanding as of March 31, 2013	36,250	25,850	61,950	42,650	3,900	—	—
Vested	15,550	22,000	25,900	23,150	18,850	—	—
Rights exercised	41,450	27,150	28,200	5,000	—	—	—
Expired	—	—	—	—	—	—	—
Outstanding as of March 31, 2014	10,350	20,700	59,650	60,800	22,750	—	—

Note: Number of stock options are listed after conversion to share numbers

2. Price information

Yen

	2005 plan	2006 plan	2007 plan	2008 plan	2010 plan	2011 plan	2012 plan
Exercise price	1	1	1	1	1	1	1
Average share price on exercising options	467	471	473	413	—	—	—
Fair valuation on grant date	—	682	887	514	396	486	281

U.S. dollars

	2005 plan	2006 plan	2007 plan	2008 plan	2010 plan	2011 plan	2012 plan
Exercise price	0.01	0.01	0.01	0.01	0.01	0.01	0.01
Average share price on exercising options	4.53	4.57	4.59	4.01	—	—	—
Fair valuation on grant date	—	6.62	8.61	4.99	3.84	4.72	2.73

Since it is fundamentally difficult to reasonably estimate the number of options that will expire in the future, the Company uses a method that only reflects actual expiration numbers.

Note 14

Income Taxes

At March 31, 2014 and 2013, significant components of deferred tax assets and liabilities were as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31, 2014	March 31, 2013	**March 31, 2014**
Deferred tax assets:			
Tax loss carryforwards	**¥ 149,091**	¥ 150,392	**$ 1,447,485**
Employees' retirement benefits	**—**	41,203	**—**
Net defined benefit liabilities	**38,485**	—	**373,641**
Accrued bonuses to employees	**11,994**	12,900	**116,447**
Write-downs of investment securities	**6,977**	9,030	**67,738**
Loss on liquidation of subsidiaries and affiliates	**6,637**	6,292	**64,437**
Impairment loss on fixed assets	**6,247**	7,628	**60,650**
Unrealized profit on sale of fixed assets	**5,560**	4,252	**53,981**
Depreciation	**5,138**	5,653	**49,883**
Other	**55,589**	58,860	**539,699**
Gross deferred tax assets	**¥ 285,718**	¥ 296,210	**$ 2,773,961**
Valuation allowance	**(105,555)**	(101,490)	**(1,024,806)**
Total deferred tax assets	**¥ 180,163**	¥ 194,720	**$ 1,749,155**
Deferred tax liabilities:			
Valuation gain on investment securities	**¥ (32,994)**	¥ (21,414)	**$ (320,330)**
Accelerated tax depreciation	**(28,262)**	(26,489)	**(274,388)**
Valuation of assets	**(27,715)**	(34,411)	**(269,078)**
Tax deductible reserve	**(4,285)**	(4,406)	**(41,602)**
Other	**(12,727)**	(4,077)	**(123,563)**
Total deferred tax liabilities	**¥ (105,983)**	¥ (90,797)	**$ (1,028,961)**
Net deferred tax assets	**¥ 74,180**	¥ 103,923	**$ 720,194**

At March 31, 2014 and 2013, deferred tax assets and liabilities included in the consolidated balance sheets are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31, 2014	March 31, 2013	**March 31, 2014**
Deferred income taxes—current	**¥ 31,014**	¥32,227	**$ 301,107**
Deferred income taxes—noncurrent	**77,543**	91,898	**752,845**
Other current liabilities	**(374)**	(820)	**(3,631)**
Other noncurrent liabilities	**(34,003)**	(19,382)	**(330,126)**

A reconciliation of the statutory tax rates to the effective tax rates for the years ended March 31, 2014 and 2013, was as follows:

	March 31, 2014	March 31, 2013
Statutory tax rate	**38.0%**	38.0%
Increase (decrease) in taxes resulting from:		
Increase in valuation allowance for cumulative losses of consolidated subsidiaries	**10.7**	9.6
Amortization of goodwill	**4.9**	5.2
Unrecognized tax effect on unrealized gain and losses	**2.2**	2.1
Income tax (prior years)	**2.2**	—
Permanent differences	**1.6**	1.7
Decrease in deferred tax assets at year-end owing to tax system changes	**1.3**	—
Equity in earnings of unconsolidated subsidiaries and affiliates	**0.2**	(1.4)
Tax credits for research and development costs	**(5.6)**	(4.9)
Difference of statutory tax rate in overseas subsidiaries	**(2.9)**	(4.5)
Valuation allowance	**(1.1)**	(0.3)
Other	**(3.2)**	2.9
Effective tax rate	**48.3%**	48.4%

(Impact of Change in Corporate Tax Rate)
Partial Amendment of the Income Tax Act (Act No. 10 of 2014), the Partial Revision of the Local Tax Act (Act No. 4 of 2014), and the Local Corporation Tax Act (Act No. 11 of 2014) were promulgated on March 31, 2014 and corporate tax rates changed from the fiscal year

starting on April 1, 2014. The resulting deferred tax assets and liabilities in the year under review were calculated using statutory tax rates according to those after rate revisions for fiscal years in which it would be expected that temporary differences would be resolved.

As a result of these factors, compared with under the previous method, deferred tax assets (net of deferred tax liabilities) were ¥1,518 million ($14,738 thousand) lower at the end of the year under review, while deferred income taxes were ¥1,540 million ($14,951 thousand) higher.

Note 15

Business Combinations, Etc.

1. Acquisition of Medicago Inc.

(Business Combination through Acquisition)

At a meeting on July 12, 2013, the Board of Directors of consolidated subsidiary Mitsubishi Tanabe Pharma Corporation resolved to jointly acquire all of the shares of Medicago Inc. with Philip Morris Investments B.V. (headquartered in Bergen op Zoom, the Netherlands), a subsidiary of Philip Morris International Inc. (headquartered in New York, the United States). The acquisition procedures were completed on September 18, 2013. Medicago will operate as a joint venture with Philip Morris Investments (with Mitsubishi Tanabe Pharma holding a 60% stake).

(1) Overview of Business Combination

1. Name and business of acquired company

Name	Medicago Inc.
Business	Research and development in Virus-Like Particles (VLP) vaccines using a transient expression system in plants

2. Main reason for business combination

After evaluating Medicago's VLP technology through joint research with that company, the management of Mitsubishi Tanabe Pharma concluded that this technology would have excellent potential for efficiently manufacturing a wide range of vaccines and that an acquisition of Medicago would enable Mitsubishi Tanabe Pharma to reinforce its pipeline.

3. Date of business combination

September 18, 2013

4. Legal form of business combination

Acquisition of shares for cash

5. Percentages of voting rights acquired

Percentage of voting rights held immediately before business combination: 5.8%
Percentage of voting rights added on business combination date: 54.2%
Percentage of voting rights held upon acquisition: 60.0%

(2) Period of the acquired company's financial results included in the consolidated statements of income

October 1, 2013, to December 31, 2013.

(3)Acquisition cost of the company and its breakdown

	Millions of yen	Thousands of U.S. dollars
	March 31, 2014	**March 31, 2014**
Consideration for acquisition	**¥20,200**	**$196,117**
Expenses directly related to acquisition	**682**	**6,621**
Acquisition cost	**¥20,882**	**$202,738**

Shares held (5.8% stake) before acquiring control are posted at market value as of the control acquisition date.

(4) Difference between acquisition cost of acquired company and the total of costs for individual transactions leading to obtaining control

¥930 million ($9,029 thousand)

(5) Amount of goodwill recognized, reason for recognition, method of amortization, and period of amortization

1. Amount of goodwill recognized

¥7,029 million ($68,243 thousand)

2. Reason for recognition

Goodwill was recognized due to the difference between the Company's interest in the acquired company and the acquisition cost.

3. Method of amortization and period of amortization
   Straight-line method over 15 years.

(6) Amount of assets acquired and liabilities assumed on the date of business combination and its breakdown

	Millions of yen March 31, 2014	Thousands of U.S. dollars March 31, 2014
Current assets	¥ 2,001	$ 19,427
Noncurrent assets	32,892	319,340
Total assets	¥34,893	$338,767
Current liabilities	¥ 714	$ 6,932
Noncurrent liabilities	11,092	107,689
Total liabilities	¥11,806	$114,621

Note: Assets and liabilities do not include the amount of goodwill recognized shown in (5) 1. Above.

(7) Purchase price allocation

In addition to goodwill, the acquisition cost allocation entailed the allocation of ¥29,797 ($289,291 thousand) in in-process research and development expenses to intangible fixed assets, which the Company plans to amortize based on the usable period.

(8) Estimated impact on Consolidated Statements of Income for the year ended March 31, 2014, and method of calculating such impact assuming that business combination were completed on the first day of year under review

There was little impact on Consolidated Statements of Income for year under review and has therefore omitted that amount. The estimated amount of such impact has not been audited.

2. Acquisition of Additional Shares in Aquamit B.V.

(Transactions under common control)
Mitsubishi Plastics, Inc., made Aquamit B.V. (headquartered in the Netherlands) a wholly owned subsidiary.

(1) Overview of Transaction

1. Names and businesses of parties to business combination
   Name Aquamit B.V.
   Business Holding shares in Quadrant AG (headquartered in Switzerland)
2. Date of business combination
   May 21, 2013
3. Legal form of business combination
   Acquisition of shares for cash
4. Name after business combination
   Unchanged
5. Other matters related to overview of transaction
   Consolidated subsidiary Mitsubishi Plastics, Inc., acquired 50% of the issued and outstanding shares of Aquamit, a holding company of consolidated subsidiary Quadrant, from a group of founders of Quadrant. Aquamit became a wholly owned subsidiary of Mitsubishi Plastics as of May 21, 2013. The goal of this transaction was to expand Quadrant's business and create more synergies with the MCHC Group.

(2) Accounting treatment

The transaction was classified as a transaction with minority interests, under common control based on the Accounting Standard for Business Combinations (ASBJ Statement No. 21, December 26, 2008) and the Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures (ASBJ Guidance No.10, December 26, 2008).

(3) Matters relating to additional acquisition of shares in subsidiary

1. Acquisition cost and its breakdown

	Millions of yen	Thousands of U.S. dollars
	March 31, 2014	**March 31, 2014**
Consideration for acquisition	**¥16,399**	**$159,214**
Expenses directly related to acquisition	**88**	**854**
Acquisition cost	**¥16,487**	**$160,068**

2. Amount of goodwill recognized, reason for recognition, method of amortization, and period of amortization
   a. Amount of goodwill recognized
   ¥12,055 million ($117,039 thousand)
   b. Reason for recognition
   Goodwill was recognized due to the difference between the cost of the acquisition of additional shares in the subsidiary and the decrease in minority interest owing to the additional acquisition.
   c. Method of amortization and period of amortization
   Straight-line method over 20 years.

3. Details of revisions and costs for significant modifications to initial allocations for acquisition cost

The acquisition of shares in Qualicaps Co., Ltd., in the previous fiscal year took place just before the close of that year. MCHC consequently recognized some of the assets and liabilities of Qualicaps as provisional amounts based on Paragraph 69 of ASBJ Guidance No. 10, Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures.

Allocation procedures for acquisition cost were completed in the year under review. The resulting goodwill revision from the end of the previous fiscal year was as follows.

Revised account	Amount of goodwill revision	
	Millions of yen	Thousands of U.S. dollars
	March 31, 2014	**March 31, 2014**
Goodwill (before revision)	**¥ 44,660**	**$ 433,592**
Intangible assets	**(19,062)**	**(185,068)**
Deferred tax liabilities	**6,744**	**65,476**
Total revision	**¥(12,318)**	**$(119,592)**
Goodwill (after revision)	**¥ 32,342**	**$ 314,000**

Note 16

Per Share Information

	Yen	U.S. dollars
	March 31, 2014	**March 31, 2014**
Net assets	**¥ 611.95**	**$ 5.94**
Net income —Basic	**21.89**	**0.21**
—Diluted	**21.45**	**0.21**

1. The basis for calculating net income per share and diluted net income per share was as follows:

	Millions of yen	Thousands of U.S. dollars
Net income per share	**March 31, 2014**	**March 31, 2014**
Net income	**¥ 32,248**	**$313,087**
Net income applicable to common shares	**32,248**	**$313,087**
Average number of common shares during period (thousands of shares)	**1,472,574**	—
Increase in number of common shares: (thousands of shares)	**30,642**	—
Bonds with subscription rights to shares	**29,736**	—
Warrants	**906**	—

2. The basis for calculating net assets per share was as follows:

	Millions of yen	Thousands of U.S. dollars
Net assets per share	**March 31, 2014**	**March 31, 2014**
Total net assets	**¥1,314,870**	**$12,765,728**
Amounts deducted from total net assets:	**414,067**	**4,020,068**
Warrants	**496**	**4,816**
Minority interests in consolidated subsidiaries	**413,571**	**4,015,252**
Net assets applicable to common shares	**900,803**	**8,745,660**
Number of common shares at the end of the fiscal year used in calculation of net assets per share (thousands of shares)	**1,472,019**	—

Note: As described in Changes in Accounting Policy, the Company applied accounting standards that include the Accounting Standard for Retirement Benefits and adhered to transitional treatment provisions of paragraph 37 of the Accounting Standard for Retirement Benefits.

As a result, net assets per share increased ¥4.48 ($0.04) in the year under review.

Note 17

Short-Term Debt and Long-Term Debt

At March 31, 2014 and 2013, short-term debt of MCHC and its consolidated subsidiaries consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	March 31, 2014	March 31, 2013	**March 31, 2014**
Short-term loans principally from banks and other financial institutions at average interest rate of: 0.995% at March 31, 2014, and 0.816% at March 31, 2013	**¥357,838**	¥315,551	**$3,474,155**
Commercial papers	**35,000**	—	**339,806**
	¥392,838	¥315,551	**$3,813,961**

At March 31, 2014 and 2013, long-term debt of MCHC and its consolidated subsidiaries consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	March 31, 2014	March 31, 2013	**March 31, 2014**
Debt issued by MCHC:			
Bonds with subscription rights to shares due 2013	**¥ —**	¥ 70,000	**$ —**
0.499% notes due 2016	**20,000**	20,000	**194,175**
1.204% notes due 2021	**10,000**	10,000	**97,087**
0.366% notes due 2017	**15,000**	15,000	**145,631**
0.556% notes due 2019	**10,000**	10,000	**97,087**
0.439% notes due 2017	**15,000**	15,000	**145,631**
0.665% notes due 2019	**10,000**	10,000	**97,087**
0.615% notes due 2018	**20,000**	—	**194,175**
0.985% notes due 2020	**10,000**	—	**97,087**
1.226% notes due 2023	**10,000**	—	**97,087**
0.319% notes due 2018	**10,000**	—	**97,087**
0.604% notes due 2020	**15,000**	—	**145,631**
0.918% notes due 2023	**15,000**	—	**145,631**
Debt issued by MCC:			
1.16% notes due 2013	**¥ —**	¥ 10,000	**$ —**
1.90% notes due 2014	**10,000**	10,000	**97,087**
2.02% notes due 2014	**10,000**	10,000	**97,087**
2.01% notes due 2016	**20,000**	20,000	**194,175**
2.05% notes due 2016	**10,000**	10,000	**97,087**
2.03% notes due 2018	**20,000**	20,000	**194,175**
2.02% notes due 2019	**10,000**	10,000	**97,087**
1.20% notes due 2014	**15,000**	15,000	**145,631**
Debt issued by consolidated subsidiaries other than MCC, due 2019 or before at interest rates ranging from 1.07% to 1.94% at March 31, 2014, and 2013, respectively.	**25,090**	25,000	**243,592**
Loans, principally from banks and insurance companies due 2013 to 2024:			
Collateralized	**10,058**	12,471	**97,650**
Non-collateralized	**575,200**	590,777	**5,584,466**
	¥ 865,348	¥ 883,248	**$ 8,401,437**
Less current portion	**(172,619)**	(230,026)	**(1,675,913)**
	¥ 692,729	¥ 653,222	**$ 6,725,524**

Note: The average interest rates of loans were as follows:
March 31, 2014
Current portion 1.231%
Less current portion 1.403%

Secured assets as of March 31, 2014 and 2013, are shown below:

	Millions of yen		Thousands of U.S. dollars
	March 31, 2014	March 31, 2013	**March 31, 2014**
Buildings	**¥ 8,711**	¥ 9,145	**$ 84,573**
Land	**9,987**	12,337	**96,961**
Machinery and equipment	**75,438**	76,435	**732,408**
Total	**¥ 94,136**	¥97,917	**$ 913,942**

Secured liabilities as of March 31, 2014 and 2013, are shown below:

	Millions of yen		Thousands of U.S. dollars
	March 31, 2014	March 31, 2013	**March 31, 2014**
Short-term debt	**¥ 8,228**	¥ 8,812	**$ 79,883**
Long-term debt	**6,002**	8,112	**58,272**
Trade payables	**682**	284	**6,621**
Total	**¥14,912**	¥17,208	**$ 144,777**

The aggregate annual maturities of long-term debt are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
	March 31, 2014	**March 31, 2014**
2016	**¥158,868**	**$ 1,542,408**
2017	**117,635**	**1,142,087**
2018	**123,495**	**1,198,981**
2019	**118,980**	**1,155,146**
2020 and thereafter	**173,751**	**1,686,903**
	¥692,729	**$ 6,725,524**

Note 18

Segment Information 1. Overview of Reporting Segments

The Company's reporting segments comprise financial information that can be segregated, and the Board of Directors regularly assess this information in deciding how to allocate resources and evaluate results.

MCHC is a holding company for four key businesses, namely Mitsubishi Chemical Corporation, Mitsubishi Tanabe Pharma Corporation, Mitsubishi Plastics, Inc., and Mitsubishi Rayon Co., Ltd. MCHC coordinates Group operations, categorizing each company's businesses by product and managing its portfolio based on those categories. Accordingly, MCHC's segments comprise product-specific business categories. The five principal reporting segments are Electronics Applications, Designed Materials, Health Care, Chemicals, and Polymers.

The main products in each reporting segment are as follows.

Reporting Segment	Main Products
Electronics Applications	Recording media, electronics products, and information equipment
Designed Materials	Food ingredients, battery materials, fine chemicals, polymer processing products, inorganic chemicals, and chemical fibers
Health Care	Pharmaceuticals, diagnostic, clinical testing products, and pharmaceutical formulation materials
Chemicals	Basic petrochemical products, chemical products, synthetic fiber materials, and carbon products
Polymers	Synthetic resins

2. Basis for Calculating Sales, Earnings or Losses, Assets, Liabilities, and Other Amounts by Reporting Segment

The Company accounts for its reported business segments as described in Note 1. Inter-segment sales and transfers are based mainly on prevailing market prices.

3. Information on Sales, Earnings or Losses, Assets, Liabilities and Other Financials by Reporting Segment

	Net Sales*			Inter-segment Sales and Transfers		
	Millions of yen		Thousands of U.S. dollars	Millions of yen		Thousands of U.S. dollars
REPORTING SEGMENT	**March 31, 2014**	March 31, 2013	**March 31, 2014**	**March 31, 2014**	March 31, 2013	**March 31, 2014**
Electronics Applications	**¥ 133,675**	¥ 118,194	**$ 1,297,816**	**¥ 4,232**	¥ 4,584	**$ 41,087**
Designed Materials	**790,901**	689,739	**7,678,650**	**24,886**	22,586	**241,612**
Health Care	**531,285**	514,379	**5,158,107**	**2,538**	1,990	**24,641**
Chemicals	**955,088**	903,637	**9,272,699**	**179,486**	158,419	**1,742,583**
Polymers	**858,435**	675,676	**8,334,320**	**77,432**	63,110	**751,767**
Others	**229,450**	186,952	**2,227,670**	**124,573**	120,555	**1,209,447**
Subtotal	**3,498,834**	3,088,577	**33,969,262**	**413,147**	371,244	**4,011,136**
Adjustments	**—**	—	**—**	**(413,147)**	(371,244)	**(4,011,136)**
Total	**¥3,498,834**	¥3,088,577	**$33,969,262**	**¥ —**	¥ —	**$ —**

* Inter-segment sales and transfers are not included.

	Segment Earnings			Segment Assets		
	Millions of yen		Thousands of U.S. dollars	Millions of yen		Thousands of U.S. dollars
REPORTING SEGMENT	**March 31, 2014**	March 31, 2013	**March 31, 2014**	**March 31, 2014**	March 31, 2013	**March 31, 2014**
Electronics Applications	**¥ (5,519)**	¥ (5,071)	**$ (53,583)**	**¥ 116,108**	¥ 117,618	**$ 1,127,262**
Designed Materials	**46,506**	22,521	**451,515**	**814,381**	746,981	**7,906,612**
Health Care	**68,270**	74,941	**662,816**	**1,028,641**	971,618	**9,986,806**
Chemicals	**710**	(230)	**6,893**	**670,909**	669,043	**6,513,680**
Polymers	**2,307**	111	**22,398**	**799,640**	715,731	**7,763,495**
Others	**5,675**	6,491	**55,097**	**663,686**	516,196	**6,443,553**
Subtotal	**117,949**	98,763	**1,145,136**	**4,093,365**	3,737,187	**39,741,408**
Adjustments	**(7,489)**	(8,522)	**(72,709)**	**(614,006)**	(429,429)	**(5,961,223)**
Total	**¥110,460**	¥90,241	**$1,072,427**	**¥3,479,359**	¥3,307,758	**$33,780,184**

	Depreciation and Amortization			Amortization of Goodwill		
	Millions of yen		Thousands of U.S. dollars	Millions of yen		Thousands of U.S. dollars
REPORTING SEGMENT	**March 31, 2014**	March 31, 2013	**March 31, 2014**	**March 31, 2014**	March 31, 2013	**March 31, 2014**
Electronics Applications	**¥ 5,677**	¥ 6,345	**$ 55,117**	**¥ 223**	¥ 244	**$ 2,165**
Designed Materials	**38,534**	44,702	**374,117**	**4,030**	3,253	**39,126**
Health Care	**15,969**	14,288	**155,039**	**7,794**	5,939	**75,670**
Chemicals	**28,005**	27,930	**271,893**	**18**	7	**175**
Polymers	**38,390**	30,661	**372,718**	**2,562**	2,381	**24,874**
Others	**3,161**	3,419	**30,689**	**81**	9	**786**
Subtotal	**129,736**	127,345	**1,259,573**	**14,708**	11,833	**142,796**
Adjustments	**1,835**	2,204	**17,816**	**—**	—	**—**
Total	**¥131,571**	¥129,549	**$1,277,388**	**¥14,708**	¥11,833	**$142,796**

	Investment in Equity Method Affiliates			Increase in Tangible and Intangible Fixed Assets*		
	Millions of yen		Thousands of U.S. dollars	Millions of yen		Thousands of U.S. dollars
REPORTING SEGMENT	**March 31, 2014**	March 31, 2013	**March 31, 2014**	**March 31, 2014**	March 31, 2013	**March 31, 2014**
Electronics Applications	**¥ 126**	¥ —	**$ 1,223**	**¥ 6,678**	¥ 6,011	**$ 64,835**
Designed Materials	**11,009**	8,581	**106,883**	**51,183**	56,302	**496,922**
Health Care	**244**	211	**2,369**	**20,307**	15,532	**197,155**
Chemicals	**30,060**	30,245	**291,845**	**25,517**	20,458	**247,738**
Polymers	**35,243**	33,819	**342,165**	**25,493**	24,185	**247,505**
Others	**82,009**	40,457	**796,204**	**3,226**	3,891	**31,320**
Subtotal	**158,691**	113,313	**1,540,689**	**132,404**	126,379	**1,285,476**
Adjustments	**—**	—	**—**	**935**	5,842	**9,078**
Total	**¥158,691**	¥113,313	**$1,540,689**	**¥133,339**	¥132,221	**$1,294,553**

* "Increase in Tangible and Intangible Fixed Assets" is equivalent to "Capital Expenditures."

Notes:

1. The Others category is a business segment excluded from reporting segments and mainly encompasses engineering, transportation, and warehousing operations.
2. Adjustments are as follows:
   (1) The ¥7,489 million ($72,709 thousand) adjustment for segment earnings or losses includes ¥7,011 million ($68,068 thousand) in corporate costs not allocated to each reporting segment and ¥478 million ($4,641 thousand) in inter-segment eliminations. Corporate costs include expenditures on basic testing, research, and other activities not allocated to reporting segments.
   (2) The segment asset adjustment of ¥614,006 million ($5,961,223 thousand) includes corporate assets of ¥127,258 million ($1,235,515 thousand) not allocated to reporting segments and inter-segment eliminations of ¥741,264 million ($7,196,738 thousand).
   (3) Adjustments to depreciation and amortization of ¥1,835 million ($17,816 thousand) are corporate costs that are not allocated to reporting segments.
   (4) Adjustments to increase in tangible and intangible fixed assets of ¥935 million ($9,078 thousand) are corporate assets that are not allocated to reporting segments.
3. Total segment earnings and adjustments match operating income in the consolidated financial statements.
4. As described in (1) Change in depreciation method for significant depreciable assets of Changes in Accounting Policies that are Difficult to Distinguish from Changes in Accounting Estimates, the Company changed to the straight-line method for consolidated domestic subsidiaries that had used the declining-balance method for depreciation. As a result of this change, segment earnings in the year under review increased ¥747 million ($7,252 thousand) for Electronics Applications, ¥7,603 million ($73,816 thousand) for Designed Materials, ¥1,031 million ($10,010 thousand) for Health Care, ¥1,472 million ($14,291 thousand) for Chemicals, ¥1,313 million ($12,748 thousand) for Polymers, and ¥301 million ($2,922 thousand) for other segments.

4. Related Information

Geographic Information

(1) Sales

	Millions of yen			
	Japan	PRC	Other	Total
Year ended March 31, 2014	**¥2,031,616**	**¥354,280**	**¥1,112,938**	**¥3,498,834**

	Millions of yen			
	Japan	PRC	Other	Total
Year ended March 31, 2013	¥1,980,998	¥301,649	¥805,930	¥3,088,577

	Thousands of U.S. dollars			
	Japan	PRC	Other	Total
Year ended March 31, 2014	**$19,724,427**	**$3,439,612**	**$10,805,223**	**$33,969,262**

Note: Sales are based on the locations of customers and categorized according to country or region.

(2) Tangible Fixed Assets

	Millions of yen		
	Japan	Other	Total
March 31, 2014	**¥741,057**	**¥376,993**	**¥1,118,050**

	Millions of yen		
	Japan	Other	Total
March 31, 2013	¥746,542	¥315,009	¥1,061,551

	Thousands of U.S. dollars		
	Japan	Other	Total
March 31, 2014	**$7,194,728**	**$3,660,126**	**$10,854,854**

5. Information on Impairment Loss by Reporting Segment

	Impairment Loss		
	Millions of yen		Thousands of U.S. dollars
REPORTING SEGMENT	**March 31, 2014**	March 31, 2013	**March 31, 2014**
Electronics Applications	**¥ 155**	¥ 26	**$ 1,505**
Designed Materials	**1,138**	1,413	**11,049**
Health Care	**1,355**	1,094	**13,155**
Chemicals	**217**	543	**2,107**
Polymers	**268**	4,203	**2,602**
Others	—	19	—
Corporate and Eliminations	—	—	—
Total	**¥3,133**	¥7,298	**$30,417**

6. Information on Amortization of Goodwill and Unamortized Balance by Reporting Segment

	Balance at year-end		
	Millions of yen		Thousands of U.S. dollars
REPORTING SEGMENT	**March 31, 2014**	March 31, 2013	**March 31, 2014**
Electronics Applications	**¥ 12**	¥ 272	**$ 117**
Designed Materials	**47,332**	34,915	**459,534**
Health Care	**90,011**	102,799	**873,893**
Chemicals	**16**	34	**155**
Polymers	**42,749**	41,954	**415,039**
Others[1]	**(28)**	(37)	**(272)**
Corporate and Eliminations	**—**	—	**—**
Total	**¥180,092**	¥179,937	**$1,748,466**

Note 19

Related Party Information

1. Transactions with Related Parties

(1) Transactions between related parties and company submitting consolidated financial statements

1. Nonconsolidated subsidiaries and affiliates, etc., of company submitting consolidated financial statements
Year ended March 31, 2013
Not applicable

Year ended March 31, 2014

Category	Name of company or person	Location	Paid-in capital or capitalization (millions of yen)	Details of business or occupation	Percentage of voting rights owned	Relationship with related party	Transaction details	Transaction amount (millions of yen)	Account name	Balance at year-end (millions of yen)
Affiliate	Taiyo Nippon Sanso Corporation	Shinagawa-ku, Tokyo	37,344 ($362,563 thousand)	Production and sales of industrial gases	Directly: 13 Indirectly: 14	Interlocking directorate	Underwriting of capitalization increase (see note)	30,980 ($300,777 thousand)	—	—

Note: MCHC underwrote TNSC's issuance of new shares and disposition of treasury shares under a third-party allotment for ¥687 ($6.67) per share.

(2) Transactions between related parties and consolidated subsidiaries of the company submitting consolidated financial statements
Not applicable

2. Notes Regarding Parent Company and Significant Affiliates

Not applicable

Note 20

Significant Subsequent Event

Execution of master agreement in connection with tender offer for shares of Taiyo Nippon Sanso Corporation

MCHC and its equity-method affiliate, Taiyo Nippon Sanso Corporation (TNSC) executed a master agreement to enhance their capital and business alliances and improve their corporate values based on resolutions of their respective boards of directors' meetings held on May 13, 2014. MCHC will take steps to acquire a majority of voting rights in TNSC through a tender offer (hereinafter, "Tender Offer") for common shares of that company.

The board of directors of TNSC resolved that it intends to approve of the Tender Offer.

1. Purposes of Tender Offer

The Tender Offer aims to enhance the capital and business alliances and corporate value of MCHC and TNSC through MCHC acquiring a majority of voting rights of TNSC and reorganizing that company as a consolidated subsidiary.

Both companies will thoroughly explore ways to use each other's distribution channels. Specifically, they will look into collaborations and transactions in all business segments. Prospects could include expanding sales of medical gases and related equipment from TNSC's medical business through MCHC's distribution channel and using TNSC's distribution channels for MCHC's artificial spa generators and CFRP pressure vessels.

TNSC has stably piped gases over many years through on-site plants, mainly to large customers in Japan, and intends to expand its overseas operations by applying that expertise at overseas manufacturing bases that MCHC plans to set up. TNSC will secure a stable long-term base load from piping gases while absorbing demand for liquefied and cylinder gases and gas-related equipment in neighboring markets, thereby expanding sales through synergies with existing products and businesses.

2. Outline of Taiyo Nippon Sanso Corporation

As of March 31, 2014

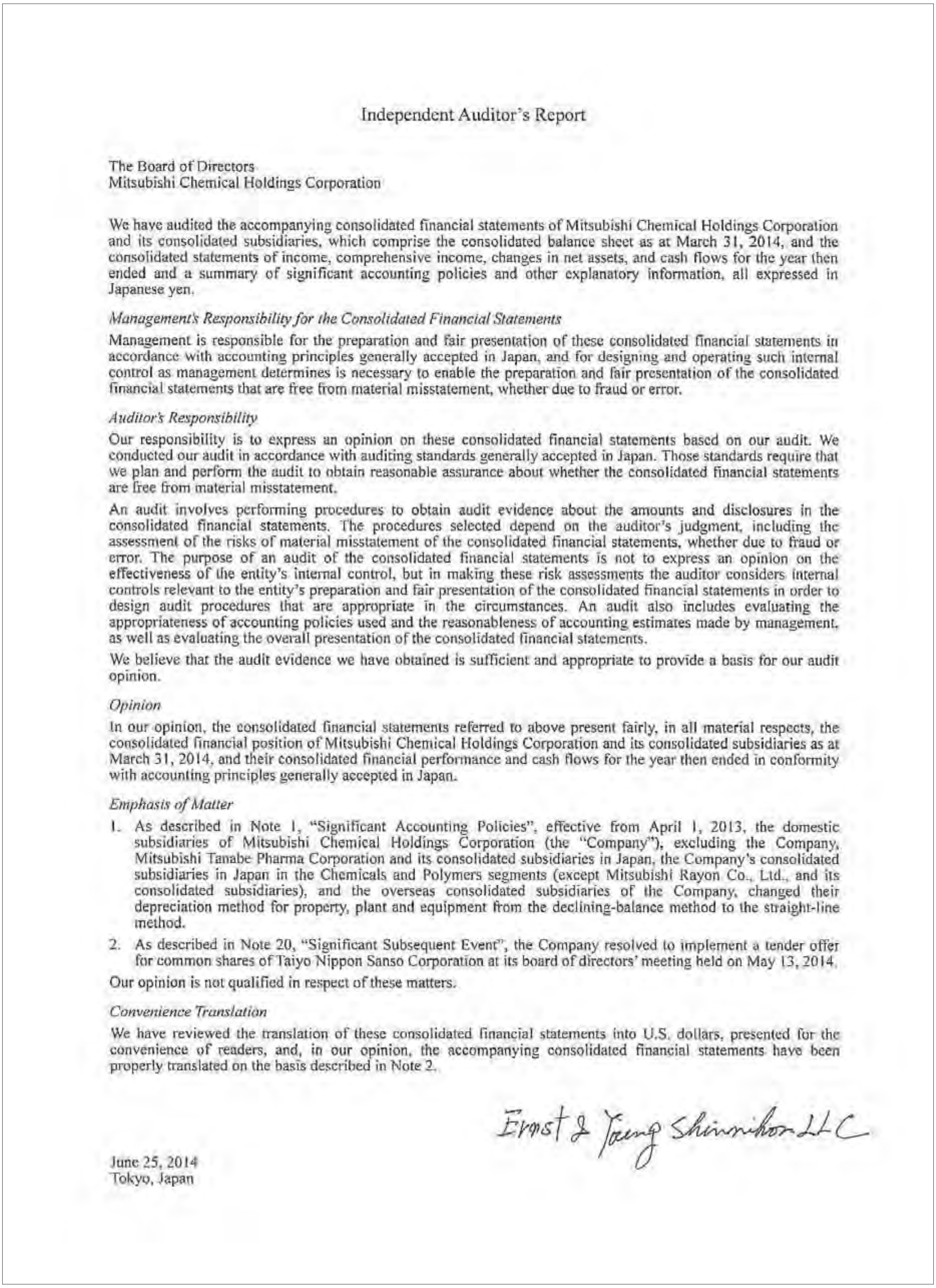
(1) Name	Taiyo Nippon Sanso Corporation
(2) Location	1-3-26, Koyama, Shinagawa-ku, Tokyo
(3) Paid-in capital	¥37,344 million ($362,563 thousand)
(4) Number of issued and outstanding shares	433,092,837
(5) Consolidated net assets	¥298,475 million ($2,897,816 thousand)
(6) Consolidated total assets	¥731,677 million ($7,103,660 thousand)
(7) Consolidated net sales	¥522,746 million ($5,075,204 thousand) (for the year ended March 31, 2014)
(8) Consolidated net income	¥20,194 million ($196,058 thousand) (for the year ended March 31, 2014)
(9) Details of Business	Production and sales of industrial gases and related equipment/devices
(10) Title and name of representative	Shinji Tanabe, President and Representative Director
(11) Number of employees	12,955 (consolidated) 1,366 (non-consolidated)

3. Outline of Tender Offer

(1) Number of shares to be purchased through Tender Offer	Maximum of 104,079,476 and minimum of 99,748,549
(2) Commencement of Tender Offer	Planned for early November 2014
(3) Planned Tender Offer price	1,030 yen ($10) per TNSC share

Since MCHC intends to maintain TNSC's listing after completing the Tender Offer, MCHC has set 104,079,476 shares (with the TNSC shares that MCHC and Mitsubishi Chemical currently hold, the stake after the Tender Offer would be 51%) as the maximum number of shares it would purchase through the Tender Offer, while the minimum would be 99,748,549 shares. While MCHC plans to double the number of TNSC directors it appoints to two after completing the Tender Offer, it will respect the autonomy of TNSC's management.

MCHC and TNSC have agreed that MCHC will maintain its ownership ratio in TNSC after completing the Tender Offer. MCHC does not plan to acquire additional TNSC shares after the Tender Offer, and intends to maintain long-term ownership of all the TNSC shares that the MCHC Group (including through Mitsubishi Chemical) holds currently, as well as all of the TNSC shares that it may acquire through the Tender Offer.



Independent Auditor's Report

The Board of Directors
Mitsubishi Chemical Holdings Corporation

We have audited the accompanying consolidated financial statements of Mitsubishi Chemical Holdings Corporation and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2014, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, 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 Mitsubishi Chemical Holdings Corporation and its consolidated subsidiaries as at March 31, 2014, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Emphasis of Matter

1. As described in Note 1, "Significant Accounting Policies", effective from April 1, 2013, the domestic subsidiaries of Mitsubishi Chemical Holdings Corporation (the "Company"), excluding the Company, Mitsubishi Tanabe Pharma Corporation and its consolidated subsidiaries in Japan, the Company's consolidated subsidiaries in Japan in the Chemicals and Polymers segments (except Mitsubishi Rayon Co., Ltd., and its consolidated subsidiaries), and the overseas consolidated subsidiaries of the Company, changed their depreciation method for property, plant and equipment from the declining-balance method to the straight-line method.
2. As described in Note 20, "Significant Subsequent Event", the Company resolved to implement a tender offer for common shares of Taiyo Nippon Sanso Corporation at its board of directors' meeting held on May 13, 2014.

Our opinion is not qualified in respect of these matters.

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 2.

Ernst & Young ShinNihon LLC

June 25, 2014
Tokyo, Japan

Major Subsidiaries and Affiliates

As of March 31, 2014

Company Name	Major Products or Lines of Business	Capital	Equity Participation (%)
Major Subsidiaries			
Direct Investees			
Mitsubishi Chemical Corporation	Manufacture and marketing of chemical products	¥50.0 billion	100.0
Mitsubishi Tanabe Pharma Corporation	Manufacture and marketing of pharmaceuticals	¥50.0 billion	56.3
Mitsubishi Plastics, Inc.	Manufacture and marketing of polymer processing products	¥21.5 billion	100.0
Mitsubishi Rayon Co., Ltd.	Manufacture and marketing of chemical products	¥53.2 billion	100.0
The KAITEKI Institute, Inc.	Research and investigation into future societal trends	¥10 million	100.0
Indirect Investees			
Performance Products Domain			
Electronics Applications Segment			
Verbatim Americas, LLC	Marketing of recording media and computer peripheral equipment	U.S.$87 million	100.0
Verbatim Limited (U.K.)	Marketing of recording media and computer peripheral equipment	€3 million	100.0
Designed Materials Segment			
The Nippon Synthetic Chemical Industry Co., Ltd.	Manufacture and marketing of polymer processing products	¥17.9 billion	50.3
Nippon Kasei Chemical Co., Ltd.	Manufacture and marketing of inorganic chemical products	¥6.5 billion	64.9
J-Film Corporation	Manufacture and marketing of plastic films	¥1.2 billion	87.7
Quadrant AG	Processing and marketing of engineering plastic products	CHF27 million	100.0
Mitsubishi Polyester Film, Inc. (U.S.A.)	Manufacture and marketing of polyester film	U.S.$29 million	100.0
Mitsubishi Polyester Film GmbH (Germany)	Manufacture and marketing of polyester film	€160,000	100.0
Health Care Domain			
Health Care Segment			
API Corporation	Manufacture and marketing of active pharmaceutical ingredients and intermediates	¥4.0 billion	100.0
Mitsubishi Chemical Medience Corporation	Clinical testing and medical support services; marketing of in vitro diagnostic agents	¥3.0 billion	100.0
Qualicaps Co., Ltd.	Manufacture and marketing of capsules for pharmaceuticals and health food, and pharmaceutical processing equipment	¥2.8 billion	100.0
Industrial Materials Domain			
Chemicals Segment			
Kansai Coke and Chemicals Co., Ltd.	Manufacture and marketing of coke	¥6.0 billion	51.0
MCC PTA India Corp. Private Limited	Manufacture and marketing of terephthalic acid	Rs7,392 million	65.9
Ningbo Mitsubishi Chemical Co., Ltd.	Manufacture and marketing of terephthalic acid	RMB1,005 million	90.0
P.T. Mitsubishi Chemical Indonesia	Manufacture and marketing of terephthalic acid	U.S.$146 million	100.0
MCC PTA Asia Pacific Private Company Ltd.	Marketing of terephthalic acid	U.S.$20 million	100.0
Polymers Segment			
Japan Polypropylene Corporation	Manufacture and marketing of polypropylene	¥11.7 billion	65.0
Japan Polyethylene Corporation	Manufacture and marketing of polyethylene	¥7.5 billion	58.0
Lucite International Inc.	Manufacture and marketing of MMA monomers, acrylic resin boards and coating materials	U.S.$363 million	100.0
Lucite International UK Limited	Manufacture and marketing of MMA monomers, acrylic resin boards and coating materials	£20 million	100.0
Others			
Mitsubishi Chemical Logistics Corporation	Logistics and warehouse services	¥1.5 billion	100.0
Mitsubishi Chemical Engineering Corporation	Engineering and construction services	¥1.4 billion	100.0
Major Affiliates			
Performance Products Domain			
Designed Materials Segment			
Kodama Chemical Industry Co., Ltd.	Manufacturing and marketing of plastic products	¥3.0 billion	20.6
Industrial Materials Domain			
Chemicals Segment			
Kawasaki Kasei Chemicals Ltd.	Manufacture and marketing of chemical derivatives	¥6.2 billion	36.3
Kashima-Kita Electric Power Corporation	Generation and supply of electric power	¥6.0 billion	41.2
Others			
Taiyo Nippon Sanso Corporation	Manufacture and marketing of industrial gas	¥37.3 billion	26.9 (14.0)
Nitto Kako Co., Ltd.	Manufacture and marketing of rubber and plastic products	¥1.9 billion	36.9

Notes:
1. MCC operates businesses in the Performance Products and Industrial Materials domains and Others.
2. MTPC operates businesses in the Health Care domain.
3. MPI operates businesses in the Performance Products domain.
4. MRC operates businesses in the Performance Products and Industrial Materials domains and Others.
5. The KAITEKI Institute, Inc. conducts basic research activities which cannot be classified in any specific domain.
6. Capital reported for each of Verbatim Americas, Mitsubishi Polyester Film (U.S.A.), and Lucite International represents paid-in capital.
7. On April 1, 2014, Mitsubishi Chemical Medience, which was previously a subsidiary of MCC, became a subsidiary of LSII and changed its company name to LSI Medience Corporation.
8. With the exception of Taiyo Nippon Sanso, all the Company's investments in affiliates are indirect. The percentage in brackets (%) indicates how much of the Company's stake in Taiyo Nippon Sanso is held by MCHC's subsidiaries.

Global Network As of March 31, 2014

Number of Subsidiaries and Affiliates (Japan): 188

Number of Subsidiaries and Affiliates (Outside Japan): 262

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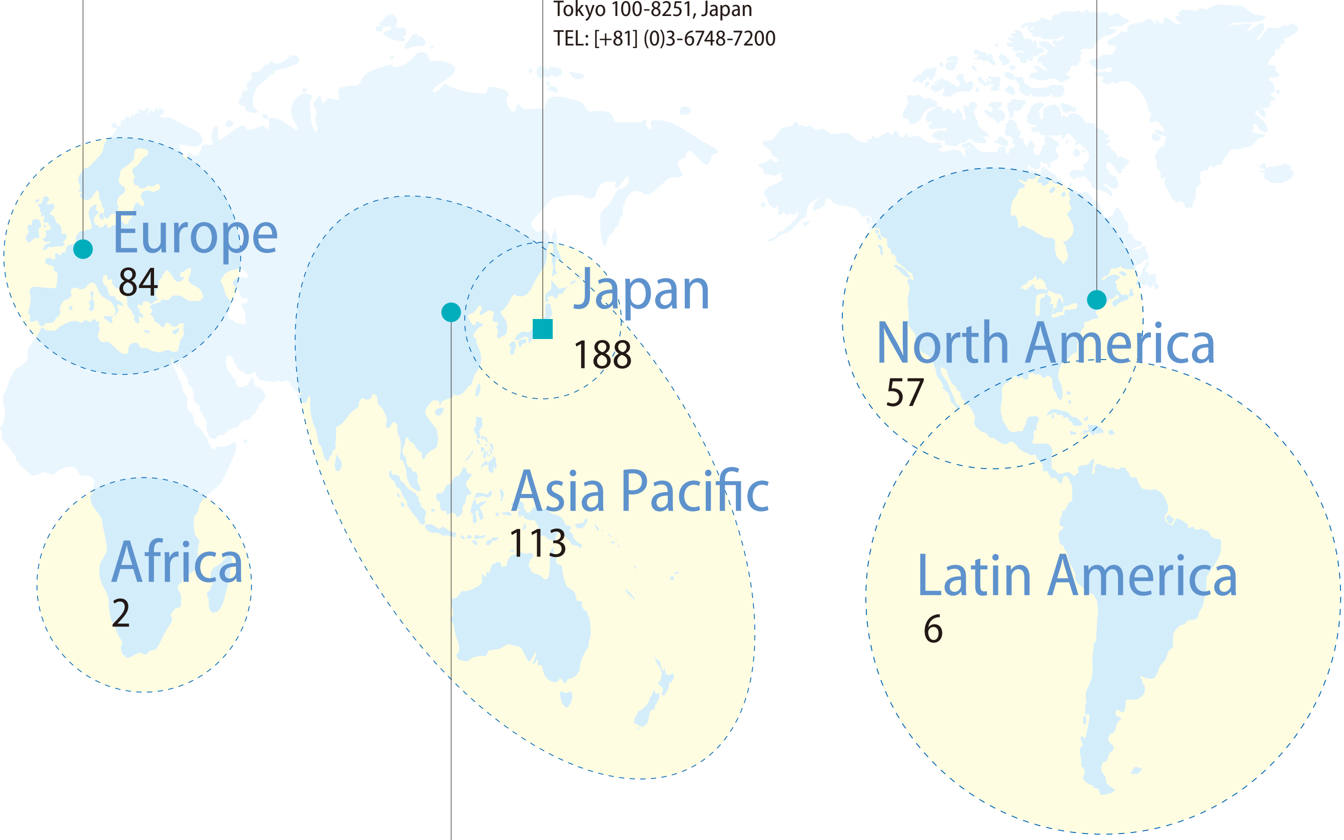
Mitsubishi Chemical Holdings Corporation
1-1 Marunouchi 1-chome, Chiyoda-ku,
Tokyo 100-8251, Japan
TEL: [+81] (0)3-6748-7200



Mitsubishi Chemical Holdings (Beijing) Co., Ltd.
Room 710, Beijing Fortune Building, Dong San Huan Bei Lu 5,
Chao Yang District, Beijing, 100004, China
TEL: [+86] (0) 10-6590-8621

Corporate Data / Stock Information As of March 31, 2014

Mitsubishi Chemical Holdings Corporation

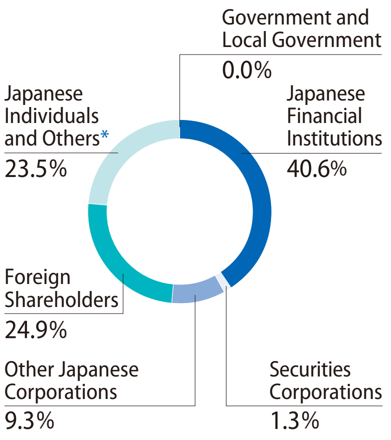
Address of the Head Office	1-1 Marunochi 1-chome, Chiyoda-ku, Tokyo 100-8251
Establishment	October 3, 2005
Paid-in Capital	¥50,000 million
Authorized Shares	6,000,000,000
Outstanding Shares	1,506,288,107
Number of Shareholders	179,098
General Meeting of Shareholders	Annually in June
Stock Listing	Tokyo Stock Exchange
Transfer Agent	Mitsubishi UFJ Trust and Banking Corporation 4-5 Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-8212

Major Shareholders

Name	Number of Shares (Thousands)	Percentage (%)
The Master Trust Bank of Japan, Ltd. (Trust account)	71,279	4.8
Meiji Yasuda Life Insurance Company	64,388	4.3
Japan Trustee Services Bank, Ltd. (Trust account)	63,096	4.2
Nippon Life Insurance Company	45,969	3.1
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	41,105	2.7
Takeda Pharmaceutical Company Limited	38,344	2.5
Tokio Marine & Nichido Fire Insurance Co., Ltd.	29,911	2.0
Taiyo Life Insurance Company	24,708	1.6
Japan Trustee Services Bank, Ltd. (Trust account 4)	23,325	1.5
Mizuho Bank, Ltd.	17,695	1.1

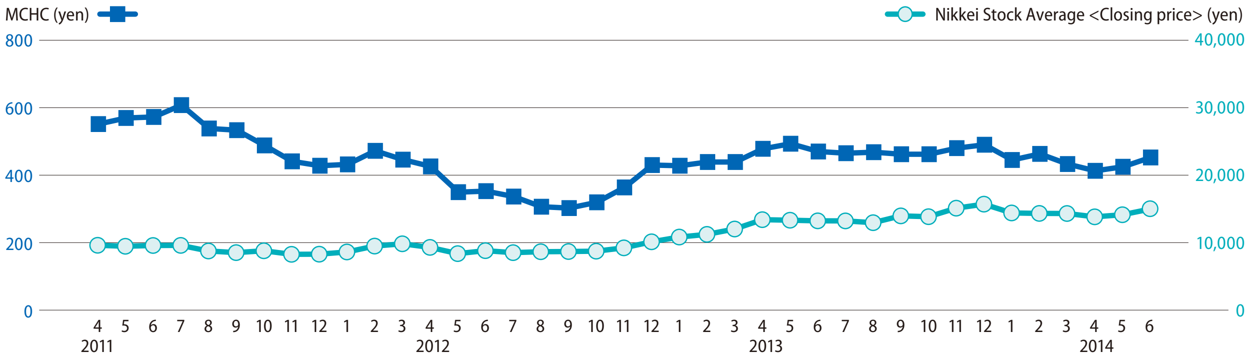
* In addition to the above, the Company holds 31,382,000 shares as treasury stock but we deducted the treasury stock when calculating the above percentages.

Distribution by Type of Shareholder



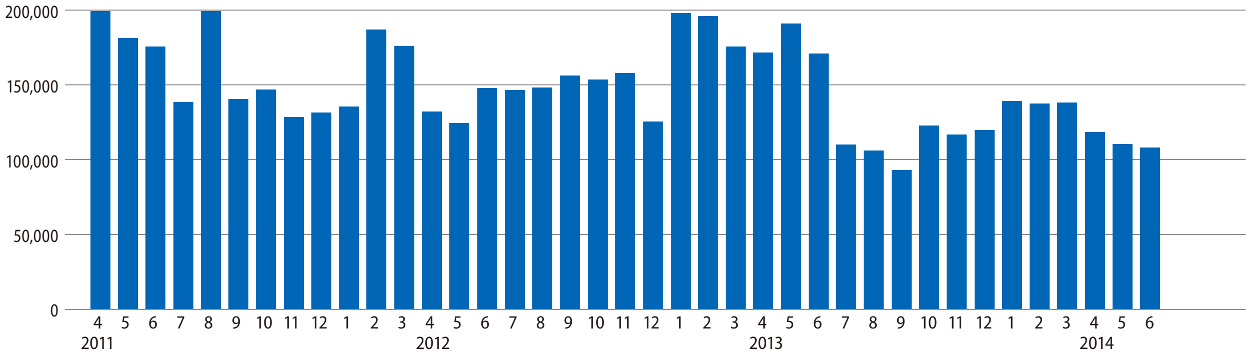
* Shares held by the Company as treasury stock (2.0%) are included in "Individuals and Others."

Share Price



Stock Trading Volume

(Thousands of Shares)



Mitsubishi Chemical Holdings Corporation

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