Overview

In the fiscal period under review (the twelve-month period from April 1, 2017 to March 31, 2018, hereinafter "fiscal 2017"), the U.S. and European economies enjoyed constant recovery. However, the state of geopolitical risks and government policy trends in major countries remained and careful attention was paid to fluctuations in the global economy.

In Japan, the economy continued to gradually recover amid improvements in the employment and income.

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

Under these circumstances, the Mitsui Chemicals Group (hereafter "the Group") launched the 2025 Long-Term Business Plan for business expansion and growth in the three business domains of Mobility, Health Care, and Food & Packaging while creating and developing Next Generation Business operations and further enhancing competitiveness in the area of Basic Materials.

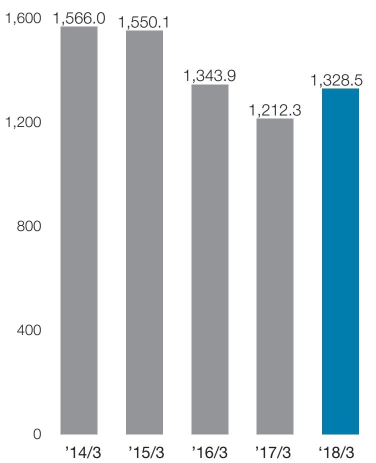
In Mobility, performance materials products—especially elastomers and polypropylene compounds—have kept up with expanding global demand for automotive components and IT products. In addition to ongoing demand propelled by the trend toward lighter and more advanced automobiles, the market is seeing the emergence of new needs related to electric and self-driving automobiles. To meet these wide-ranging needs, the Group added the new product development support company ARRK Corporation to its consolidated subsidiaries and tightened its focus on strengthening its ability to offer solutions.

In Healthcare, sales of ophthalmic lens materials, which boast the largest share of the global market, remained healthy. In addition, the Group launched sales of the next-generation eyewear TouchFocus™, which combines liquid crystal technology with the Group's lens technology to enable the wearer to easily switch between near- and far-sightedness at a touch. In nonwoven fabrics, the Group worked to expand production capacity in line with market growth to meet demand for premium disposable diapers, which are gaining popularity in Asia. In addition, the Group launched the nonwoven fabric AIRYFA™, which is both soft and strong while remaining gentle on skin. In dental materials, the Group recorded an impairment loss for intangible assets, including goodwill as a result of revised business plan due to decreasing sales in Germany and a delay in the launch of digital goods. In response to this, the Group has worked to strengthen its sales activities and its business regime of digital goods with the aim of sustainably growing its dental materials business.

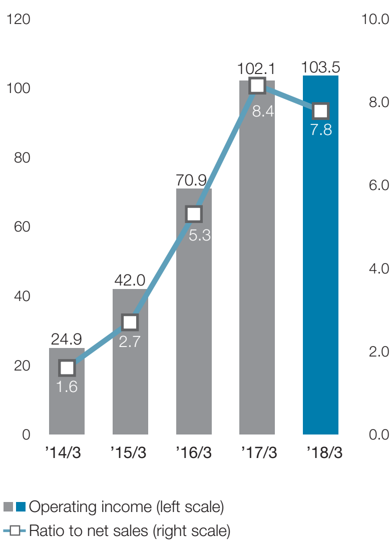
In Food & Packaging, the sales volume of performance films and sheets expanded as the Group captured robust demand. The Group established a new subsidiary in Taiwan, a major source of global demand, for manufacturing and marketing ICROS™ TAPE, which commands the largest share of the global market for protective tape used in semiconductor manufacturing processes. In agrochemicals, the Group decided to form an alliance with the major European companies BASF and Bayer in new product development, thereby accelerating the global expansion of the agrochemical business.

In Basic Materials, which is centered on petrochemicals and basic chemicals, the Group maintained high-capacity operations at its naphtha crackers and other plants due to strong domestic demand, in addition to continuous progress of business structure improvement. The Group also worked to ensure greater competitiveness by cutting costs and expanding lineup of differentiated products.

Net sales
(Billions of yen)



Operating income/Ratio to net sales
(Billions of yen, %)



Operating Results

Net Sales

Net Sales increased ¥116.2 billion, or 9.6%, compared with the previous fiscal year to ¥1,328.5 billion. This was mainly attributable to increase in sales prices due to the rise in the prices of naphtha and other raw materials and fuel as well as changes in foreign exchange rates.

Net sales overseas were ¥588.0 billion, up 1.8 percentage points from the previous fiscal year to 44.3% of total net sales.

Operating Income

Operating income was ¥103.5 billion, an increase of ¥1.4 billion or 1.3% year on year. This result was due to healthy sales despite an increase in fixed costs due to major scheduled maintenance.

Ordinary Income

Ordinary income was ¥110.2 billion, an increase of ¥13.0 billion or 13.4% year on year. This result was due to a rise in the share of profit of entities accounted for using the equity method as well as the expansion in operating income.

Extraordinary income and losses

Extraordinary income and losses worsened ¥4.6 billion year on year to a ¥16.0 billion net loss mainly due to an impairment loss for intangible assets, including goodwill, in the dental materials business, in spite of a gain on sales of non-current assets and a gain on forgiveness of debts from a non-controlling interest in a liquidated subsidiary.

As a result of the aforementioned factors, profit before income taxes amounted to ¥94.2 billion, an increase of ¥8.4 billion, or 9.8% year on year.

Profit Attributable to Owners of Parent

Profit attributable to owners of parent after accounting for income taxes and non-controlling interests was ¥71.6 billion, an increase of ¥6.8 billion, or 10.4% compared with the previous fiscal year. The Group conducted a 5-to-1 share consolidation on October 1, 2017 and net income per share for the period was ¥358.38.

Segment Information

Business Segment Results

The status of each segment during fiscal 2017 is as follows.

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

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

Mobility

Net sales increased ¥37.7 billion compared with the previous fiscal year to ¥331.0 billion and comprised 25% of total sales. Operating income increased ¥1.6 billion to ¥42.3 billion year on year. The increase in income was due to the effect of an increase in sales volume and favorable trading terms.

In elastomers, which are primarily used in automotive components and as resin modifiers, the Group was able to meet healthy demand.

In performance compounds, the Group was able to satisfy healthy demand especially in Asia, Europe and the Americas.

In performance polymers, which are primarily used in information communication technology (ICT)-related products, sales remained steady.

In the overseas polypropylene compound businesses, the Group was able to meet increasing demand due to the rising production volume in the automobile industry, particularly in Asia.

The Group absorbed the newly consolidated subsidiaries of the ARRK Group into the solution business as of January 2018.

	Millions of yen		
Mobility	2018/3	2017/3	Change (%)
Net sales	¥331,038	¥293,283	12.9
Operating income (loss)	42,296	40,716	3.9
Total assets	316,313	241,814	30.8
Depreciation and amortization	10,264	9,241	11.1
Capital expenditures	32,179	10,447	208.0

Health Care

Net sales increased ¥4.9 billion year on year to ¥139.1 billion and comprised 10% of total sales. Operating income increased ¥0.7 billion to ¥10.8 billion year on year, mainly due to steady sales despite a rise in raw material prices.

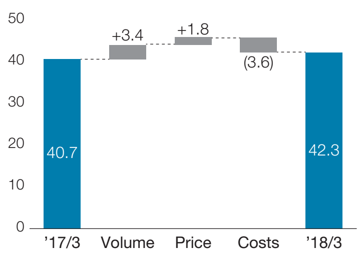
In vision care materials, sales of ophthalmic lens materials were healthy.

In nonwoven fabrics, sales of premium disposable diapers remained firm, but profits were impacted by an increase in raw material prices.

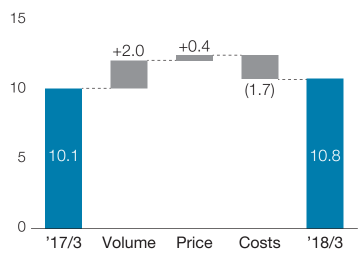
In dental materials, sales volume decreased mainly in Germany.

	Millions of yen		
Health Care	2018/3	2017/3	Change (%)
Net sales	¥139,120	¥134,198	3.7
Operating income (loss)	10,830	10,118	7.0
Total assets	200,684	206,186	(2.7)
Depreciation and amortization	9,501	10,197	(6.8)
Capital expenditures	16,018	8,745	83.2

Mobility
(Change in operating income)
(Billions of yen)



Health Care
(Change in operating income)
(Billions of yen)



Food & Packaging

Net sales increased ¥13.3 billion compared with the previous fiscal year to ¥195.8 billion and comprised 15% of total sales. On the other hand, operating income decreased ¥0.7 billion to ¥19.9 billion year on year, due to increases in raw material prices and fixed costs of R&D in spite of steady sales.

In coatings & engineering materials, although sales were healthy, profits were impacted by an increase in raw material prices.

In performance films and sheets, sales volume increased although profits had impacts from an increase in raw material prices.

In agrochemicals, sales remained steady mainly in overseas.

	Millions of yen		
Food & Packaging	2018/3	2017/3	Change (%)
Net sales	¥195,840	¥182,468	7.3
Operating income (loss)	19,924	20,606	(3.3)
Total assets	221,550	209,310	5.8
Depreciation and amortization	6,961	6,687	4.1
Capital expenditures	9,508	7,145	33.1

Basic Materials

Net sales increased ¥72.1 billion compared with the previous fiscal year to ¥637.7 billion and accounted for 48% of total sales. Operating income increased ¥0.4 billion year on year, to ¥38.9 billion. This was mainly attributable to the effect of firm domestic demand and business structure improvement.

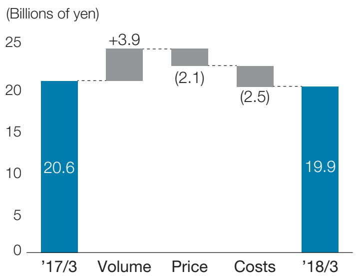
Naphtha cracker operating rates kept at high level as the previous fiscal year.

Performances of polyethylene and polypropylene were firm, backed by domestic demand.

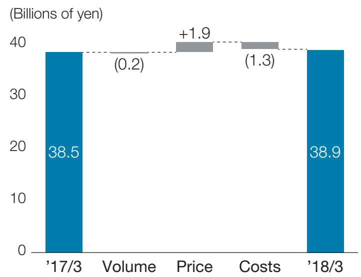
In phenols, the overseas market environment was at higher level than the previous fiscal year and the result of business structure improvement emerged.

	Millions of yen		
Basic Materials	2018/3	2017/3	Change (%)
Net sales	¥637,700	¥565,617	12.7
Operating income (loss)	38,903	38,504	1.0
Total assets	606,896	544,307	11.5
Depreciation and amortization	14,467	13,341	8.4
Capital expenditures	15,752	14,221	10.8

Food & Packaging
(Change in operating income)



Basic Materials
(Change in operating income)



Others

Net sales decreased ¥11.8 billion to ¥24.9 billion, comprised 2% of total sales. Operating loss was ¥0.9 billion, increase of ¥0.6 billion compared to the previous year.

Others	Millions of yen		
	2018/3	2017/3	Change (%)
Net sales	¥24,828	¥36,716	(32.4)
Operating income (loss)	(906)	(353)	—
Total assets	50,052	59,396	(15.7)
Depreciation and amortization	3,118	4,234	(26.4)
Capital expenditures	6,110	3,936	55.2

Net Sales

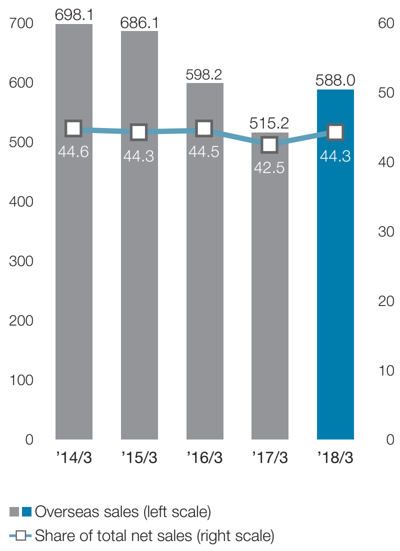
	Billions of yen				
			Increase (Decrease)		
	2018/3	2017/3	Total	Volume contribution	Price contribution
Mobility	¥ 331.0	¥ 293.3	¥ 37.7	¥22.8	¥14.9
Health Care	139.1	134.2	4.9	4.3	0.6
Food & Packaging	195.8	182.5	13.3	7.8	5.5
Basic Materials	637.7	565.6	72.1	13.4	58.7
Others	24.9	36.7	(11.8)	—	(11.8)
Total	¥1,328.5	¥1,212.3	¥116.2	¥48.3	¥67.9

Operating Income (Loss)

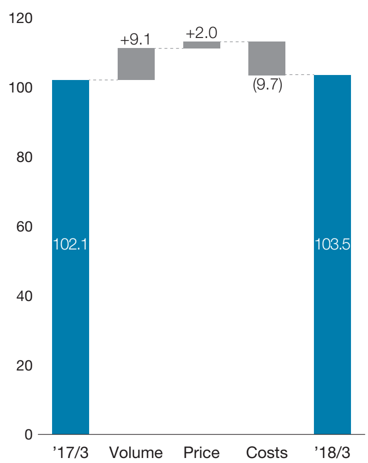
	Billions of yen					
			Increase (Decrease)			
	2018/3	2017/3	Total	Volume contribution	Price*	Fixed and other cost differential
Mobility	¥ 42.3	¥ 40.7	¥1.6	¥3.4	¥1.8	¥(3.6)
Health Care	10.8	10.1	0.7	2.0	0.4	(1.7)
Food & Packaging	19.9	20.6	(0.7)	3.9	(2.1)	(2.5)
Basic Materials	38.9	38.5	0.4	(0.2)	1.9	(1.3)
Others	(0.9)	(0.3)	(0.6)	—	—	(0.6)
Adjustments	(7.5)	(7.5)	0.0	—	—	0.0
Total	¥103.5	¥102.1	¥1.4	¥9.1	¥2.0	¥(9.7)

*Price = Price contribution + Variable cost differential

Overseas sales/
Share of total net sales
(Billions of yen, %)



Operating income
(Billions of yen)



Financial Position

Assets

Total assets at the end of fiscal year stood at ¥1,444.1 billion, an increase of ¥118.6 billion compared with the end of the previous fiscal year.

Liabilities

Total liabilities at the end of fiscal year increased ¥46.6 billion compared with the previous fiscal year-end to ¥857.5 billion. Interest-bearing debt amounted to ¥463.7 billion, an increase of ¥23.8 billion compared with the previous fiscal year-end. As a result, the interest-bearing debt ratio was 32.1%, a decrease of 1.1 point.

Net Assets

Net assets totaled ¥586.6 billion, an increase of ¥72.0 billion compared with the previous fiscal year-end. The ratio of shareholders' equity to total assets was 35.4%, 1.5 point increase from the previous fiscal year-end.

Accounting for the aforementioned factors, the net debt-equity ratio stood at 0.75 at the end of the fiscal year, 0.04 point decrease from the previous fiscal year-end.

Capital Resources and Liquidity

Cash Flows

Cash and cash equivalents (hereafter called "cash") decreased ¥4.1 billion to ¥78.8 billion as of the end of this fiscal year compared with the previous fiscal year-end.

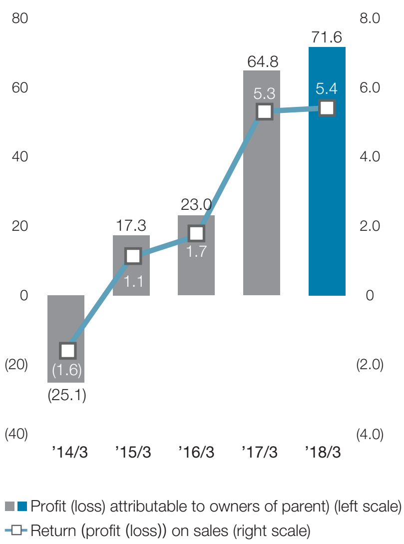
Cash Flows from Operating Activities

Net cash provided by operating activities decreased ¥17.7 billion to ¥82.7 billion due to worsening of working capital although profit before income taxes increased.

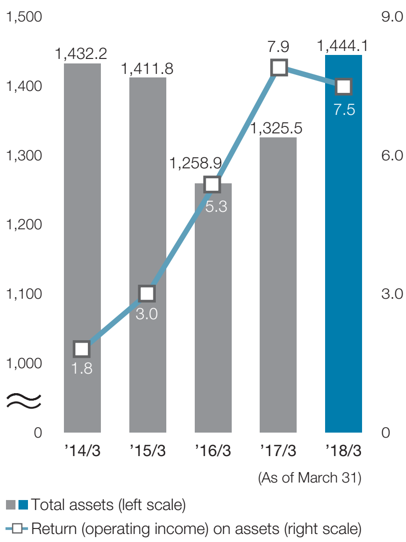
Cash Flows from Investing Activities

Net cash used in investing activities increased ¥27.7 billion compared with the previous fiscal year to ¥75.1 billion, mainly due to cash outflows from the tender offer for ARRK Corporation shares.

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



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



Cash Flows-Related Performance Indicators

	2018/3	2017/3	2016/3	2015/3	2014/3
Shareholders' equity ratio (%)	35.4	33.9	30.3	28.8	24.6
Shareholders' equity ratio on a market value basis (%)	46.2	41.5	29.8	27.4	17.7
Ratio of interest-bearing debt to cash flows	5.6	4.4	3.2	9.4	13.4
Interest coverage ratio (times)	14.8	17.3	20.7	7.7	5.6

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

Fund Procurement

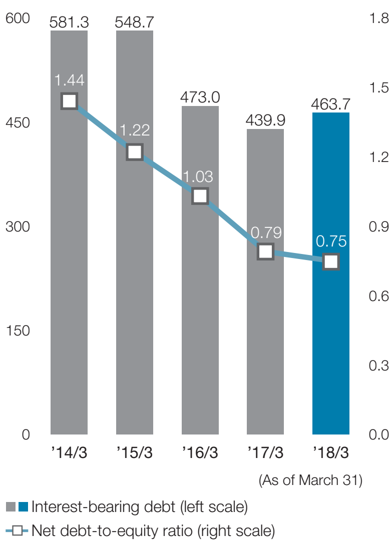
In connection with its fund procurement activities, the Group adopts the following basic policies.

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

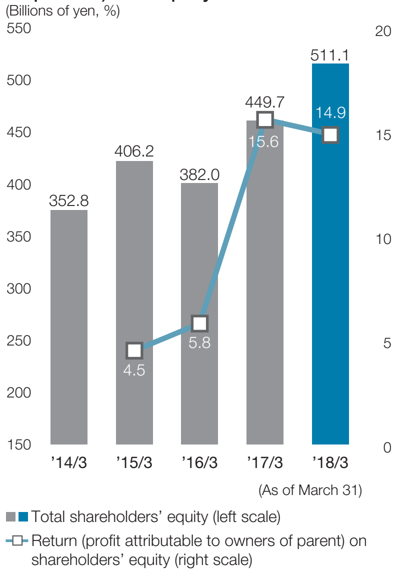
Financial Liquidity

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

Interest-bearing debt/
Net debt-to-equity ratio
(Billions of yen)



Total shareholders' equity/
Return (profit attributable to owners of parent) on equity
(Billions of yen, %)



Capital Expenditures (Summary)

The Company and its consolidated subsidiaries undertook capital expenditures totaling ¥81.3 billion in fiscal 2017. This amount includes expenditures on intangible fixed assets as well as long-term prepaid expenses.

Expenditures by business segment were as follows.

Mobility

Tokyo Stock Exchange-listed ARRK Corporation was acquired through a tender offer and subsequently consolidated along with its corporate group, resulting in an increase in consolidated fixed assets.

The total amount of capital expenditures in the Mobility segment was ¥32.2 billion.

Health Care

At both the Nagoya works and Sunrex Industry Co., Ltd., construction aimed at increasing the Group's nonwoven fabric production capacity continued.

The total amount of capital expenditures in the Health Care segment was ¥16.0 billion.

Food & Packaging

The total amount of capital expenditures in the Food & Packaging segment was ¥9.5 billion.

Basic Materials

The total amount of capital expenditures in the Basic Materials segment was ¥15.8 billion.

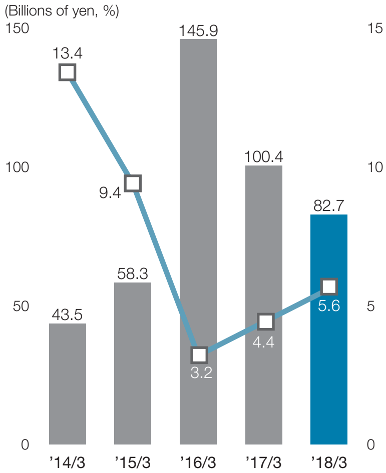
Others

The total amount of capital expenditures in the Others segment was ¥6.1 billion.

Corporate Expenses

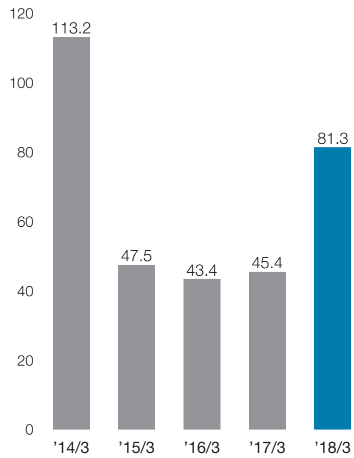
The total amount of capital expenditures recorded under corporate expenses was ¥1.7 billion and was related to the development of new businesses.

Operating cash flows/
Ratio of interest-bearing debt to cash flow
(Billions of yen, %)



Operating cash flows (left scale)
Ratio of interest-bearing debt to cash flow (right scale)

Capital expenditure
(Billions of yen)



Research and Development

Research and development at Mitsui Chemicals, Inc. and its consolidated subsidiaries is conducted by their research and development divisions. The research and development expenses in the fiscal year ended March 31, 2018 amounted to ¥33.4 billion. The Group's research and development organizations are as listed as below:

R&D Planning & Coordination Division
Mitsui Chemicals Singapore R&D Center Pte. Ltd.
Synthetic Chemicals Laboratory
Polymeric Materials Laboratory
Functional Materials Laboratory
New Products Development Laboratory
Process Technology Center
Mobility Development Center

Major research and development issues confronting corporate research, development for new businesses and each business sector, and their research and development expenses for fiscal 2017 are briefly stated as follows.

Corporate Research

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

Research and development expenses relating to corporate research amounted to ¥4.0 billion and were allocated among all reportable segments.

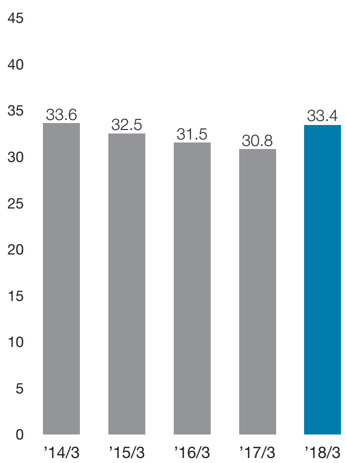
Development for New Businesses

The Company is playing a central role in research and development activities by project, all of which are aimed at new businesses creation in the Mobility domain and the Healthcare domain. In fiscal 2017, the Company worked on the development and assessment of metal and resin injection assembly technology, which lightens automobiles and improves mileage, components of lithium-ion batteries for a higher safety level, and technology development for solar power consultation.

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

Research and development expenses related to new businesses creation amounted to ¥3.1 billion. Those are presented in corporate expenses and other segments.

R&D expenses
(Billions of yen)



Mobility

The Company engages in the development of elastomers, performance compounds, and performance polymer resins in the Mobility domain. In fiscal 2017, the Company placed considerable weight on development activities encompassing new polyolefin elastomers for automobiles and packaging, engineering plastic compounds for use as heat-resistant materials for automobiles, and polyolefins for ICT.

Research and development expenses related to this segment were ¥7.6 billion.

Health Care

The Company engages in development in the Healthcare domain in such areas as vision-care, oral-care materials, and highly functional non-woven fabrics for both hygiene material use and medical use. Heraeus Kulzer GmbH and Sun Medical Co., Ltd. engage in the product development of dental materials. In fiscal 2017, efforts were mainly directed toward materials for glass lenses and dental materials.

Research and development expenses related to this segment were ¥4.2 billion for the fiscal year.

Food & Packaging

Mitsui Chemicals Tohcello Inc. takes the lead in developing food packaging materials and fabricated products, including Food & Packaging in the fields of IT and energy. Mitsui Chemicals Agro, Inc. engages in agrochemical research and development. In fiscal 2017, priority was placed on food packaging materials, integrated circuit and semiconductor materials, solar cell components, highly functional agrochemicals, and pesticides for disinfection.

Research and development expenses related to this segment were ¥10.1 billion.

Basic Materials

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

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

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

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

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

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

Please note that the risks discussed below were those deemed relevant as of March 31, 2018.

(1) External operating environment

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

(2) Overseas activities (Country risk)

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

(3) Changes in laws and tightening of regulations

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

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

(4) Causes of changes in segment operating performance

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

i. Mobility

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

ii. Health Care

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

iii. Food & Packaging

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

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

iv. Basic Materials

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

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

(5) Financial risks

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

(6) Impairment of fixed assets

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

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

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

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

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

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

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

Supplementary Information
A fire at the Osaka Works
On June 21, 2018, a fire broke out at the Company's Osaka Works as repair work was under way at the utility plant, which had been shut down for regular maintenance. At this time, an investigation led by the relevant authorities is being conducted, and once the cause has been determined and preventive measures have been drafted and put in place, work will begin on restoring the damaged plant.

The effects of the fire could adversely impact the Group's operating performance and financial position. In addition, the fire has impeded the supply of products to customers, which could potentially undermine the social standing of the Group.

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

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

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

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

Consolidated Balance Sheets

MITSUI CHEMICALS, INC. AND CONSOLIDATED SUBSIDIARIES
March 31, 2018 and 2017

		Millions of yen		Thousands of U.S. dollars (Note 4)
		2018/3	2017/3	2018/3
ASSETS	Current assets			
	Cash and deposits (Notes 13 and 15)	¥ 80,209	¥ 84,120	$ 754,979
	Notes and accounts receivable-trade (Note 15)	306,899	271,706	2,888,733
	Inventories (Note 5)	274,342	247,544	2,582,285
	Deferred tax assets (Note 18)	18,226	16,192	171,555
	Accounts receivable—other	60,356	52,279	568,110
	Other	10,193	7,628	95,944
	Allowance for doubtful accounts	(673)	(531)	(6,335)
	Total current assets	749,552	678,938	7,055,271
	Non-current assets			
	Property, plant and equipment			
	Buildings and structures	343,555	335,957	3,233,763
	Accumulated depreciation	(236,725)	(232,255)	(2,228,210)
	Buildings and structures, net	106,830	103,702	1,005,553
	Machinery, equipment and vehicles	997,563	988,248	9,389,712
	Accumulated depreciation	(865,884)	(861,563)	(8,150,264)
	Machinery, equipment and vehicles, net	131,679	126,685	1,239,448
	Land	159,018	155,441	1,496,781
	Construction in progress	20,462	11,465	192,602
	Other	76,136	72,481	716,642
	Accumulated depreciation	(61,217)	(60,345)	(576,214)
	Other, net	14,919	12,136	140,428
	Total property, plant and equipment	432,908	409,429	4,074,812
	Intangible assets			
	Goodwill	5,684	7,407	53,502
	Other	25,792	27,781	242,771
	Total intangible assets	31,476	35,188	296,273
	Investments and other assets			
	Investment securities (Notes 15 and 16)	159,428	141,873	1,500,640
	Net defined benefit asset (Note 6)	41,549	31,103	391,086
	Deferred tax assets (Note 18)	5,242	6,755	49,341
	Other	26,369	24,610	248,202
	Allowance for doubtful accounts	(2,420)	(2,371)	(22,779)
	Total investments and other assets	230,168	201,970	2,166,490
	Total non-current assets	694,552	646,587	6,537,575
	Total assets	¥1,444,104	¥1,325,525	$13,592,846

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

		Millions of yen		Thousands of U.S. dollars (Note 4)
		2018/3	2017/3	2018/3
LIABILITIES AND NET ASSETS	Current liabilities			
	Notes and accounts payable-trade (Note 15)	¥ 162,179	¥ 145,658	$ 1,526,534
	Short-term loans payable (Notes 7 and 15)	94,348	90,276	888,065
	Current portion of long-term loans payable (Note 7)	24,834	18,582	233,754
	Commercial papers (Notes 7 and 15)	20,000	—	188,253
	Current portion of bonds payable (Notes 7 and 15)	15,426	24,142	145,200
	Accounts payable—other	69,299	69,531	652,287
	Income taxes payable (Note 18)	7,956	5,735	74,887
	Provision for directors' bonuses	158	140	1,487
	Provision for repairs	13,585	12,173	127,871
	Other (Notes 7 and 18)	35,413	26,546	333,330
	Total current liabilities	443,198	392,783	4,171,668
	Non-current liabilities			
	Bonds payable (Note 7)	31,864	35,574	299,925
	Long-term loans payable (Notes 7 and 15)	274,099	268,654	2,579,998
	Deferred tax liabilities (Note 18)	26,560	24,169	250,000
	Provision for directors' retirement benefits	250	251	2,353
	Provision for repairs	2,880	3,878	27,108
	Provision for environmental measures	675	732	6,354
	Net defined benefit liability (Note 6)	55,220	55,200	519,767
	Asset retirement obligations	4,330	4,196	40,757
	Other (Notes 7 and 18)	18,424	25,453	173,418
	Total non-current liabilities	414,302	418,107	3,899,680
	Total liabilities	857,500	810,890	8,071,348
	Net assets			
	Shareholders' equity (Note 11)			
	Capital stock	125,125	125,053	1,177,758
	Capital surplus	89,327	90,491	840,804
	Retained earnings	290,538	236,961	2,734,733
	Treasury stock	(19,842)	(14,708)	(186,766)
	Total shareholders' equity	485,148	437,797	4,566,529
	Accumulated other comprehensive income (Note 12)			
	Valuation difference on available-for-sale securities	26,558	20,337	249,981
	Deferred gains or losses on hedges	(16)	(25)	(151)
	Foreign currency translation adjustment	5,037	4,211	47,412
	Remeasurements of defined benefit plans	(5,603)	(12,628)	(52,739)
	Total accumulated other comprehensive income (loss)	25,976	11,895	244,503
	Non-controlling interests	75,480	64,943	710,466
	Total net assets	586,604	514,635	5,521,498
	Total liabilities and net assets	¥1,444,104	¥1,325,525	$13,592,846

Consolidated Statements of Operations

MITSUI CHEMICALS, INC. AND CONSOLIDATED SUBSIDIARIES
For the years ended March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2018/3	2017/3	2018/3
Net sales	¥1,328,526	¥1,212,282	$12,504,951
Cost of sales (Notes 6 and 9)	1,019,160	919,268	9,592,997
Gross profit	309,366	293,014	2,911,954
Selling, general and administrative expenses (Notes 6 and 9)	205,875	190,865	1,937,829
Operating income	103,491	102,149	974,125
Non-operating income and expenses			
Non-operating income			
Interest income	1,471	941	13,846
Dividends income	3,317	2,679	31,222
Share of profit of entities accounted for using equity method	7,063	208	66,482
Rent income	744	718	7,003
Insurance income	2,318	151	21,819
Other	2,408	1,985	22,665
Total non-operating income	17,321	6,682	163,037
Non-operating expenses			
Interest expenses	5,478	5,749	51,563
Loss on suspension of operations	588	557	5,535
Foreign exchange losses	1,201	1,257	11,305
Provision of allowance for doubtful accounts	—	1,370	—
Other	3,340	2,702	31,438
Total non-operating expenses	10,607	11,635	99,841
Ordinary income	110,205	97,196	1,037,321
Extraordinary income and losses			
Extraordinary income			
Gain on sales of non-current assets	2,778	253	26,148
Gain on sales of investment securities	767	2,381	7,220
Gain on transfer of business	591	—	5,563
Gain on forgiveness of debts	2,010	—	18,919
Gain on revision of retirement benefit plan	326	—	3,069
Total extraordinary income	6,472	2,634	60,919
Extraordinary losses			
Loss on disposal of non-current assets	2,389	7,375	22,487
Loss on sales of non-current assets	9	10	85
Impairment loss (Note 10)	15,012	4,111	141,303
Loss on valuation of investment securities	5,059	196	47,619
Contract termination fees	—	2,366	—
Total extraordinary losses	22,469	14,058	211,494
Profit (loss) before income taxes	94,208	85,772	886,746
Income taxes—current	18,819	15,704	177,137
Income taxes—deferred	(3,629)	(3,789)	(34,159)
Total income taxes	15,190	11,915	142,978
Profit (loss)	79,018	73,857	743,768
Profit (loss) attributable to non-controlling interests	7,433	9,018	69,964
Profit (loss) attributable to owners of parent	¥ 71,585	¥ 64,839	$ 673,804

Amounts per share of common stock:

	Yen		U.S. dollars (Note 4)
Earnings per share	¥358.38	¥324.05	$3.373
Cash dividends per share	54.00	14.00	0.508

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

Consolidated Statements of Comprehensive Income

MITSUI CHEMICALS, INC. AND CONSOLIDATED SUBSIDIARIES
For the years ended March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2018/3	2017/3	2018/3
Profit (loss)	¥79,018	¥73,857	$743,769
Other comprehensive income (loss) (Note 12)			
Valuation difference on available-for-sale securities	6,405	5,647	60,288
Deferred gains or losses on hedges	(5)	0	(47)
Foreign currency translation adjustments	(2,311)	(3,870)	(21,753)
Remeasurements of defined benefit plans	6,975	11,380	65,653
Share of other comprehensive income (loss) of entities accounted for using equity method	3,049	(1,614)	28,699
Total other comprehensive income (loss)	14,113	11,543	132,840
Comprehensive income (loss)	¥93,131	¥85,400	$876,609
Comprehensive income (loss) attributable to:			
Owners of parent	¥85,667	¥77,184	$806,354
Non-controlling interests	7,464	8,216	70,255

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

Consolidated Statements of Changes in Net Assets

MITSUI CHEMICALS, INC. AND CONSOLIDATED SUBSIDIARIES
For the years ended March 31, 2018 and 2017

	Millions of yen									
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Valuation difference on available-for-sale securities	Deferred gain (loss) on hedges	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Non-controlling interests	Total net assets
Balance at April 1, 2016	¥125,053	¥90,847	¥181,128	¥(14,607)	¥14,650	¥(48)	¥8,930	¥(23,982)	¥61,266	¥443,237
Issuance of new shares	—	—	—	—	—	—	—	—	—	—
Dividends of surplus	—	—	(9,005)	—	—	—	—	—	—	(9,005)
Profit attributable to owners of parent	—	—	64,839	—	—	—	—	—	—	64,839
Purchase of treasury stock	—	—	—	(103)	—	—	—	—	—	(103)
Disposal of treasury stock	—	—	(1)	2	—	—	—	—	—	1
Change in ownership interest of parent related to transactions with non-controlling interests	—	(356)	—	—	—	—	—	—	—	(356)
Net changes of items other than shareholders' equity	—	—	—	—	5,687	23	(4,719)	11,354	3,677	16,022
Balance at April 1, 2017	¥125,053	¥90,491	¥236,961	¥(14,708)	¥20,337	¥(25)	¥4,211	¥(12,628)	¥64,943	¥514,635
Issuance of new shares	72	72	—	—	—	—	—	—	—	¥144
Dividends of surplus	—	—	(18,007)	—	—	—	—	—	—	(18,007)
Profit attributable to owners of parent	—	—	71,585	—	—	—	—	—	—	71,585
Purchase of treasury shares	—	—	—	(5,141)	—	—	—	—	—	(5,141)
Disposal of treasury stock	—	(0)	—	7	—	—	—	—	—	7
Change in ownership interest of parent related to transactions with non-controlling interests	—	(1,236)	—	—	—	—	—	—	—	(1,236)
Net changes of items other than shareholders' equity	—	—	—	—	6,221	9	826	7,025	10,537	24,618
Balance at March 31, 2018	¥125,125	¥89,327	¥290,538	¥(19,842)	¥26,558	¥(16)	¥5,037	¥(5,603)	¥75,480	¥586,604

	Thousands of U.S. dollars (Note 4)									
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Valuation difference on available-for-sale securities	Deferred gain (loss) on hedges	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Non-controlling interests	Total net assets
Balance at April 1, 2017	$1,177,080	$851,760	$2,230,431	$(138,441)	$191,425	$(235)	$39,637	$(118,863)	$611,285	$4,844,079
Issuance of new shares	678	678	—	—	—	—	—	—	—	1,356
Dividends of surplus	—	—	(169,504)	—	—	—	—	—	—	(169,504)
Profit attributable to owners of parent	—	—	673,806	—	—	—	—	—	—	673,806
Purchase of treasury shares	—	—	—	(48,391)	—	—	—	—	—	(48,391)
Disposal of treasury stock	—	—	—	66	—	—	—	—	—	66
Change in ownership interest of parent related to transactions with non-controlling interests	—	(11,634)	—	—	—	—	—	—	—	(11,634)
Net changes of items other than shareholders' equity	—	—	—	—	58,556	84	7,775	66,124	99,181	231,720
Balance at March 31, 2018	$1,177,758	$840,804	$2,734,733	$(186,766)	$249,981	$(151)	$47,412	$(52,739)	$710,466	$5,521,498

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

Consolidated Statements of Cash Flows

MITSUI CHEMICALS, INC. AND CONSOLIDATED SUBSIDIARIES
For the years ended March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2018/3	2017/3	2018/3
Cash flows from operating activities			
Profit (loss) before income taxes	¥94,208	¥85,772	$886,747
Depreciation	44,835	42,809	422,016
Amortization of goodwill	819	1,248	7,709
Impairment loss	15,012	4,111	141,303
Increase (decrease) in net defined benefit liability	323	(2,314)	3,040
Decrease (increase) in net defined benefit asset	(4,393)	(3,989)	(41,350)
Increase (decrease) in allowance for doubtful accounts	(7)	1,353	(66)
Increase (decrease) in provision for repairs	414	3,671	3,897
Increase (decrease) in provision for environmental measures	(57)	(54)	(537)
Interest and dividend income	(4,788)	(3,620)	(45,068)
Insurance income	(2,318)	(151)	(21,819)
Interest expenses	5,478	5,749	51,563
Share of (profit) loss of entities accounted for using equity method	(7,063)	(208)	(66,482)
Loss (gain) on sales of investment securities	(814)	(2,379)	(7,662)
Loss (gain) on valuation of investment securities	5,059	196	47,619
Loss on disposal of non-current assets	1,067	709	10,043
Loss (gain) on sales of non-current assets	(2,769)	(243)	(26,064)
Decrease (increase) in notes and accounts receivable—trade	(23,381)	(27,375)	(220,077)
Decrease (increase) in inventories	(26,419)	(8,014)	(248,673)
Increase (decrease) in notes and accounts payable—trade	13,786	27,580	129,763
Other, net	(15,314)	(11,485)	(144,144)
Subtotal	93,678	113,366	881,758
Interest and dividends income received	9,011	7,699	84,817
Interest expenses paid	(5,583)	(5,818)	(52,552)
Proceeds from insurance income	2,752	151	25,903
Income taxes paid	(17,198)	(14,958)	(161,879)
Net cash provided by (used in) operating activities	82,660	100,440	778,047
Cash flows from investing activities			
Purchase of property, plant and equipment	(49,587)	(39,530)	(466,745)
Proceeds from sales of property, plant and equipment	337	1,082	3,172
Purchase of intangible assets	(3,085)	(1,968)	(29,038)
Proceeds from sales on intangible assets	2,502	9	23,551
Purchase of long-term prepaid expenses	(1,346)	(1,431)	(12,669)
Purchase of investment securities	(3,986)	(10,390)	(37,519)
Proceeds from sales and redemption of investment securities (Note 16)	1,521	4,179	14,317
Proceeds from transfer of business	1,486	0	13,987
Purchase of shares of subsidiaries resulting in change in scope of consolidation (Note 13)	(16,350)	0	(153,897)
Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation	—	30	—
Payments of long-term loans receivable	(5,208)	(3)	(49,021)
Other, net	(1,325)	627	(12,472)
Net cash provided by (used in) investing activities	(75,041)	(47,395)	(706,335)
Cash flows from financing activities			
Net increase (decrease) in short-term loans payable	4,072	4,154	38,328
Increase (decrease) in commercial papers	20,000	—	188,253
Proceeds from long-term loans payable	29,711	10,000	279,659
Repayment of long-term loans payable	(19,476)	(27,818)	(183,321)
Proceeds from issuance of bonds	10,000	—	94,127
Redemption of bonds	(24,284)	(20,142)	(228,577)
Proceeds from stock issuance to non-controlling shareholders	—	8	—
Proceeds from sales of treasury stock	7	1	66
Purchase of treasury stock	(5,141)	(103)	(48,390)
Cash dividends paid	(18,007)	(9,005)	(169,494)
Dividends paid to non-controlling interests	(6,397)	(4,006)	(60,213)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(552)	(548)	(5,196)
Other, net	(138)	(116)	(1,299)
Net cash provided by (used in) financing activities	(10,205)	(47,575)	(96,056)
Effect of exchange rate change on cash and cash equivalents	(1,170)	(737)	(11,010)
Net increase (decrease) in cash and cash equivalents	(3,756)	4,733	(35,354)
Cash and cash equivalents at beginning of period	82,884	78,151	780,158
Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation	(300)	—	(2,824)
Cash and cash equivalents at end of period (Note 13)	¥78,828	¥82,884	$741,980

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

1. Basis of preparation

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

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

2. Significant accounting policies

a. Consolidation

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

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

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

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

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

As of March 31, 2018, the Group comprised 115 consolidated subsidiaries, 21 more than in the previous fiscal year. This reflected the inclusion of 25 new companies, including ARRK Corporation and its 20 subsidiaries, and the exclusion of four former subsidiaries, of which Chiba Phenol Co., Ltd was excluded due to liquidation.

The equity method is applied to 39 non-consolidated subsidiaries and affiliates, two more than in the previous fiscal year.

b. Foreign currency translation

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

c. Inventories

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

d. Securities

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

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

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

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

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

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

f. Intangible assets (except for leased assets)

Amortization of intangible assets of the Company and its consolidated subsidiaries is calculated by the straight-line method. The cost of software intended for internal use is amortized using the straight-line method over its estimated useful life (5 years).

g. Research and development expenses

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

h. Leases

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

Depreciation of leased assets is computed by the straight-line method over the respective lease terms.

i. Derivatives and hedge accounting

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

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

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

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

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

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

j. Allowance for doubtful accounts

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

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

k. Retirement benefit plans

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

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

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

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

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

l. Accrued directors' bonuses

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

m. Accrued directors' and corporate auditors' retirement benefits

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

n. Provision for repairs

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

o. Provision for environmental measures

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

p. Amounts per share of common stock

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

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

q. Amortization of goodwill

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

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

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

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

3. Accounting changes

a. Accounting standards issued but not yet adopted
- Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 30, 2018)
- Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No. 30, March 30, 2018)

(1) Overview

The International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) worked together to develop a comprehensive accounting standard for revenue recognition. In May 2014, they announced the line item “Revenue from Contracts with Customers,” which the IASB has named IFRS 15 and the FASB has named Topic 606. IFRS 15 is to be adopted from fiscal years beginning on or after January 1, 2018, and Topic 606 is to be adopted from fiscal years beginning on or after December 15, 2017. In light of this, the Accounting Standards Board of Japan (ASBJ) has developed a comprehensive accounting standard for revenue recognition and announced it along with guidance on implementation.

Following the ASBJ’s development of an accounting standard for revenue recognition, the Company’s basic policy has been to first adopt the basic principles of IFRS 15 with an eye toward compatibility when comparing financial statements, which is one advantage of attempting to be consistent with IFRS 15. From there, the Company then decides on accounting standards. In addition, if there are items that require attention be paid to practices in Japan to date, the Company will add substitute treatment as long as compatibility for comparisons is not hindered.

(2) Planned adoption date

The implementation date is still under consideration at present.

(3) Impact of the adoption of the accounting standard

The impact on consolidated financial statements of the adoption of the accounting standard and implementation guidance for revenue recognition is still being evaluated at present.

b. Changes in presentation
Consolidated statements of operations

In the current fiscal year, “Rent income,” which was included in “Other” of “Non-operating income,” exceeded 10% of total non-operating income. Therefore, it is presented as a separate line item from the fiscal year ended March 31, 2018. In compliance with this change in presentation, prior years consolidated statements of operations have been restated.

Consequently, in the consolidated statements of operations for the fiscal year ended March 31, 2017, ¥2,136 million previously classified as “Other” has been reclassified to “Insurance income” of ¥151 million and “Other” of ¥1,985 million.

Consolidated statements of cash flows

1) In the current fiscal year, “Insurance income,” “Loss (gain) on valuation of investment securities” and “Proceeds from insurance income” which were included in “Other” of “Net cash provided by (used in) operating activities” have become significant enough to present as separate line items from the fiscal year ended March 31, 2018. On the other hand, “Increase (decrease) in provision for business structure improvement” has become too insignificant to present as a separate line item. Therefore, it is included in “Other” from the fiscal year ended March 31, 2018. In compliance with these changes in presentation, prior consolidated statements of cash flows have been restated.

Consequently, in the consolidated statements of cash flows for the fiscal year ended March 31, 2017, ¥(8,425) million previously classified as “Other” of “Net cash provided by (used in) operating activities” has been reclassified to “Insurance income” of ¥(151) million, “Loss (gain) on valuation of investment securities” of ¥196 million and “Proceeds from insurance income” of ¥151 million. In addition, ¥(2,864) million previously classified as “Increase (decrease) in provision for business structure improvement” has been reclassified to “Other”.

2) In the current fiscal year, "Proceeds from sales of intangible assets" and "Payments of long-term loans receivable" which was included in "Other" of "Net cash provided by (used in) investing activities" have become significant enough to present as separate line items from the fiscal year ended March 31, 2018. In compliance with this change in presentation, prior consolidated statements of cash flows have been restated.

Consequently, in the consolidated statements of cash flows for the fiscal year ended March 31, 2017, ¥633 million previously classified as "Other" of "Net cash provided by (used in) investing activities" has been reclassified to "Proceeds from sales of intangible assets" of ¥9 million, "Payments of long-term loans receivable" of ¥(3) million and "Other" of ¥627 million.

4. U.S. dollar amounts

The translation of yen amounts into U.S. dollar amounts is included solely for the convenience of readers, using ¥106.24=US$1.00, the approximate rate of exchange in effect on March 31, 2018. The translation should not be construed as a representation that yen amounts have been, or could in the future be, converted into U.S. dollars at the above or any other rate.

5. Inventories

Inventories at March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018/3	2017/3	2018/3
Finished goods	¥183,195	¥165,838	$1,724,350
Work in process	6,421	5,974	60,439
Raw materials and supplies	84,726	75,732	797,496
Total	¥274,342	¥247,544	$2,582,285

6. Retirement benefit plans

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

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

Under these plans, all eligible employees are entitled to certain benefits based on their abilities, occupational roles, work performances, length of service and certain other factors.

The liabilities and expenses for severance and retirement benefits are determined based on the amounts calculated actuarially under certain assumptions.

The changes in the retirement benefit obligation during the years ended March 31, 2018 and 2017 were as follows:
Movements in defined benefit obligation

	Millions of yen		Thousands of U.S. dollars
	2018/3	2017/3	2018/3
Defined benefit obligation as of April 1	¥188,204	¥200,542	$1,771,498
Service cost	5,398	5,228	50,809
Interest cost	417	229	3,925
Actuarial gains/losses	(885)	(1,961)	(8,330)
Past service cost	(155)	44	(1,459)
Benefits paid	(11,170)	(14,995)	(105,139)
Decrease due to transfer to defined contribution plan	(2,373)	—	(22,336)
Others	1,403	(883)	13,206
Defined benefit obligation as of March 31	¥180,839	¥188,204	$1,702,174

Movements in plan assets

	Millions of yen		Thousands of U.S. dollars
	2018/3	2017/3	2018/3
Plan assets as of April 1	¥164,107	¥158,454	$1,544,682
Expected return on plan assets	3,314	3,572	31,194
Actuarial gains/losses	4,211	6,748	39,637
Employer contributions	5,078	4,669	47,797
Benefits paid	(7,564)	(8,788)	(71,197)
Decrease due to transfer to defined contribution plan	(2,376)	—	(22,364)
Others	398	(548)	3,745
Plan asset as of March 31	¥167,168	¥164,107	$1,573,494

Funded status of the pension plans

	Millions of yen		Thousands of U.S. dollars
	2018/3	2017/3	2018/3
Funded retirement benefit obligation	¥136,451	¥ 143,859	$1,284,366
Plan assets at fair value	(167,168)	(164,107)	(1,573,494)
	(30,717)	(20,248)	(289,128)
Unfunded retirement benefit obligation	44,388	44,345	417,808
Net liability for retirement benefits in the balance sheet	13,671	24,097	128,680
Net defined benefit liability	55,220	55,200	519,767
Net defined benefit asset	(41,549)	(31,103)	(391,087)
Net liability for retirement benefits in the balance sheet	¥ 13,671	¥ 24,097	$ 128,680

Retirement benefit expenses

	Millions of yen		Thousands of U.S. dollars
	2018/3	2017/3	2018/3
Service cost	¥5,398	¥5,228	$50,810
Interest cost	417	229	3,925
Expected return on plan assets	(3,314)	(3,572)	(31,194)
Amortization of actuarial gains/losses	2,092	2,530	19,691
Amortization of past service cost	5	41	47
Premium severance pay	580	528	5,459
Total	¥5,178	¥4,984	$48,738

Regarding the year ended March 31, 2018, extraordinary income of ¥326 million was recorded due to the transition from the defined benefit plan to the defined contribution plan.

Remeasurements of defined benefit plans before tax effect included in other comprehensive income

	Millions of yen		Thousands of U.S. dollars
	2018/3	2017/3	2018/3
Past service cost	¥ 5	¥ 3	$ 47
Actuarial gains/losses	(6,926)	(11,426)	(65,192)
Total	¥(6,921)	¥(11,423)	$(65,145)

Remeasurements of defined benefit plans before tax effect included in accumulated other comprehensive income

	Millions of yen		Thousands of U.S. dollars
	2018/3	2017/3	2018/3
Unrecognized past service cost	¥ (58)	¥ (63)	$ (546)
Unrecognized actuarial gains/losses	6,681	13,606	62,886
Total	¥6,623	¥13,543	$62,340

Plan assets by category (%)

	2018/3	2017/3
Bonds	35%	34%
Stocks	46%	51%
Cash on hand and in banks	2%	1%
Other	17%	14%
Total	100%	100%

A retirement benefit trust set up for the corporate pension plan accounted for 21% of total plan assets at March 31, 2018 and 2017.

Discount rate and rate of expected return on the pension plan assets

	2018/3	2017/3
Discount rate	Principally 0.1%	Principally 0.1%
Rate of expected return on the pension plan assets	Principally 2.2%	Principally 2.5%
Rate of estimated future salary increases	Principally 1.0-5.0%	Principally 1.0-5.0%

Expenses for defined contribution plans

	Millions of yen		Thousands of U.S. dollars
	2018/3	2017/3	2018/3
Total	¥525	¥475	$4,942

7. Loans and bonds

1. Loans payable breakdown

	Millions of yen		Thousands of U.S. dollars
	2018/3	2017/3	2018/3
Short-term loans payable (0.60%)	¥ 94,348	¥ 90,276	$ 888,065
Current portion of long-term loans payable (2.03%)	24,834	18,582	233,754
Current portion of lease obligations	213	116	2,005
Long-term loans payable due in 2019—2028 (1.00%)	274,099	268,654	2,579,998
Long-term lease obligations due in 2019—2031	2,874	2,524	27,052
Commercial papers (0.00%)	20,000	—	188,253
Total	¥416,368	¥380,152	$3,919,127

The aforementioned interest rate is an average, shown as the weighted average interest rate on the outstanding balance as of March 31, 2018.

The average interest rate for lease obligations is omitted because lease obligations are recorded on the balance sheet in an amount that includes the equivalent in interest, which is included in the total lease amount:

Maturities of loans payable due within 5 years:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2020	¥57,519	$541,406
2021	41,978	395,124
2022	42,718	402,090
2023	41,088	386,747

Maturities of lease obligations due within 5 years:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2020	¥204	$1,920
2021	209	1,967
2022	513	4,829
2023	168	1,581

2. Bonds payable breakdown

	Millions of yen		Thousands of U.S. dollars
	2018/3	2017/3	2018/3
1.93% bonds due in 2017	¥ —	¥10,000	$ —
1.246% bonds due in 2020	10,000	10,000	94,127
1.354% bonds due in 2021	10,000	10,000	94,127
0.651% bonds due in 2017	—	14,000	—
0.682% bonds due in 2018	15,000	15,000	141,190
0.260% bonds due in 2024	5,000	—	47,063
0.370% bonds due in 2027	5,000	—	47,063
0.49% bonds due in 2021	574	716	5,403
0.070% bonds due in 2024	430	—	4,047
0.310% bonds due in 2024	428	—	4,029
0.070% bonds due in 2024	430	—	4,047
0.310% bonds due in 2024	428	—	4,029
	¥47,290	¥59,716	$445,125

Maturities of bonds payable due within 5 years:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2019	¥15,426	$145,200
2020	426	4,010
2021	10,426	98,136
2022	10,432	98,193
2023	284	2,673

8. Contingent liabilities

Contingent liabilities at March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018/3	2017/3	2018/3
As endorser of trade notes discounted	¥ 180	¥ 164	$ 1,694
As guarantor of indebtedness, principally of non-consolidated subsidiaries and affiliates	72,852	69,084	685,730

9. Research and development expenses

Research and development expenses for the years ended March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018/3	2017/3	2018/3
Research and development expenses	¥33,377	¥30,777	$314,166

10. Impairment loss

The Company and its consolidated subsidiaries have categorized their business assets in use based on business divisions or quasi-units. Assets that are to be disposed of due to business withdrawal or other reasons are assessed on an individual basis. Idle properties, which are not in use, are also assessed on an individual basis.

The Company conducted an impartment test for business assets in use in the dental materials business in light of the fact that business results deviated from the plan due to changes in the operating environment. As a result, the book value was reduced to the recoverable amount. The amount that was written down is accounted for as an extraordinary loss and listed as an impairment loss (¥14,350 million).

Year ended March 31, 2018

Location		Major use	Asset category	Millions of yen	Thousands of U.S. dollars	Remarks *
Dental materials business (Europe, etc.)		Others	Goodwill, others	¥14,350	$135,072	Business assets in use
Others	6 items	Production, etc.	Machinery and vehicles, others	¥549	$5,168	Business assets in use
	5 items	Production, etc.	Buildings and structures	¥96	$904	Idle properties
	1 item	Welfare facilities	Buildings and structures	¥17	$160	Idle properties
Total				¥15,012	$141,303	

Business assets in use comprised ¥6,503 million for goodwill, ¥6,211 million for customer-related intangible assets, and ¥1,636 million for trademarks. Furthermore, the recoverable amount has been estimated using the value in use based on future cash flows with a discount rate of 5%. In addition, the goodwill impairment loss of ¥6,503 million includes ¥474 million in amortization of goodwill based on rules in Paragraph 32 of the Practical Guidelines for Capital Consolidation Procedures in Consolidated Financial Statements (Accounting System Committee Report No. 7, February 16, 2018).

For measurements of impairment loss on business assets in use outside of the dental materials business, the book values of businesses where the recoverable amount was lower than said value due to a markedly worse operating environment were reduced to the recoverable amount. The amount that was written down is an extraordinary loss and recorded as an impairment loss (¥549 million). The impairment loss comprises ¥237 million for machinery and vehicles, ¥136 million for goodwill, and ¥176 million for others. Furthermore, the value in use was used as the recoverable amount in measuring impairment loss, and the value in use was evaluated as being zero.

As for idle properties, because there are no specific use plans in the future, the book values of properties for which the recoverable amount was lower than said value were reduced to the recoverable amount. The amount that was written down is an extraordinary loss and recorded as an impairment loss (¥113 million). The impairment loss comprises ¥97 million for buildings and structures and ¥16 million for others. Furthermore, the value in use was used as the recoverable amount in measuring impairment loss, and the value in use was evaluated as being zero.

Year ended March 31, 2017

Location		Major use	Asset category	Millions of yen	Thousands of U.S. dollars	Remarks *
Shimonoseki Mitsui Chemicals, Inc. (Yamaguchi Prefecture)		Production and sales	Land, machinery, equipment and vehicles, buildings and structures, others	¥2,761	$25,988	Business assets in use
Others	6 items	Production, etc.	Buildings and structures, machinery, equipment and vehicles, intangible assets-others, others	¥ 836	$ 7,869	Business assets in use
	1 item	Factory land	Land	¥ 340	$ 3,200	Idle properties
	2 items	Welfare facilities	Buildings and structures	¥ 174	$ 1,638	Idle properties
Total				¥4,111	$38,695	

* Business assets in use comprised ¥1,319 million for land, ¥1,086 million for buildings and structures, ¥818 million for machinery, equipment and vehicles, ¥209 million for intangible assets—others, and ¥165 million for other assets. These amounts were showed in impairment loss as ¥3,597 million, respectively.

Idle properties comprised ¥340 million for land, ¥174 million for building and structures. These amounts were showed in impairment loss as ¥514 million, respectively.

11. Shareholders' equity

(1) Shares issued and outstanding / Treasury stock

(Thousands of shares)

	Number of shares at April 1, 2018	Increase	Decrease	Number of shares at March 31, 2018
Shares issued				
Common stocks	1,022,020	253	817,818	204,455
Total	1,022,020	253	817,818	204,455
Treasury stock				
Common stocks	21,684	1,510	17,427	5,767
Total	21,684	1,510	17,427	5,767

Notes:
1. The increase of 253 thousands of shares in common stock issued and outstanding was due to an issuance of transfer-restricted shares.
2. The decrease of 817,818 thousands of shares in common stock issued and outstanding was due to a 5-to-1 share consolidation conducted on October 1, 2017.
3. The increase of 1,510 thousands of shares in treasury stock was due to an increase of 115 thousands of shares through purchases of odd lots, an increase of 1,384 thousands of shares through treasury stock acquisitions by resolution of the Board of Directors, and an increase of 11 thousands of shares through purchases of fractional shares following the share consolidation.
4. The decrease of 17,427 thousands of shares in treasury stock was due to a decrease of 5 thousands of shares through sales of odd lots and a decrease of 17,422 thousands of shares through a 5-to-1 share consolidation of common stock conducted on October 1, 2017.

(2) Dividends

Under the Companies Act of Japan (the "Act"), the amount paid for new shares is required to be accounted for as common stock, although a company may account for the amount not exceeding one-half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

The Act provides that an amount equal to 10% of distribution from surplus shall be appropriated and set aside as legal earnings reserve or additional paid-in capital, until the total amount of legal earnings reserve and additional paid-in capital equals 25% of common stock. Legal earnings reserve and additional paid-in capital may be used to eliminate or reduce a deficit or may be transferred to common stock by resolution of the shareholders' meeting. The Act also stipulates that the amount of any such excess is available for appropriations by resolution of the shareholders. Legal earnings reserve is included in retained earnings in the accompanying consolidated financial statements.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with the Act.

Appropriations are not accrued in the financial statements for the period to which they relate, but are recorded in the subsequent accounting period when the shareholders' approval has been obtained. Retained earnings at March 31, 2018 include amounts representing the year-end cash dividends approved at the shareholders' meeting held on June 26, 2018.

	Millions of yen	Thousands of U.S. dollars
Cash dividends of ¥45 (US$0.42) per share	¥8,941	$84,159

12. Consolidated statements of comprehensive income

Reclassification adjustments and tax effects for components of other comprehensive income (loss) for the years ended March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018/3	2017/3	2018/3
Valuation difference on available-for-sale securities:			
Amount arising during the year	¥ 9,320	¥ 9,734	$ 87,726
Reclassification adjustment to profit or loss	(215)	(1,926)	(2,024)
Amount before income tax effect	9,105	7,808	85,702
Income tax effect	(2,700)	(2,161)	(25,414)
Total	6,405	5,647	60,288
Deferred gains (losses) on hedges:			
Amount arising during the year	(8)	0	(75)
Adjustments of acquisition cost for assets	—	—	—
Amount before income tax effect	(8)	0	(75)
Income tax effect	3	—	28
Total	(5)	0	(47)
Foreign currency translation adjustments:			
Amount arising during the year	(3,079)	(3,774)	(28,982)
Reclassification adjustment to profit or loss	768	(96)	7,229
Total	(2,311)	(3,870)	(21,753)
Remeasurements of defined benefit plans:			
Amount arising during the year	4,795	8,909	45,134
Reclassification adjustment to profit or loss	2,126	2,514	20,011
Amount before income tax effect	6,921	11,423	65,145
Income tax effect	54	(43)	508
Total	6,975	11,380	65,653
Share of other comprehensive income of associates accounted for using equity method:			
Amount arising during the year	3,177	(1,637)	29,904
Reclassification adjustment to profit or loss	(128)	23	(1,205)
Total	3,049	(1,614)	28,699
Total other comprehensive income (loss)	¥14,113	¥11,543	$132,840

13. Supplementary cash flow information

(1) Cash and cash equivalents at March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018/3	2017/3	2018/3
Cash and deposits	¥80,209	¥84,120	$754,979
Long-term time deposits recorded under "Other" of investments and other assets	1,609	—	15,145
Deposit due over 3 months	(2,990)	(1,236)	(28,144)
Total	¥78,828	¥82,884	$741,980

(2) Main breakdown of assets and liabilities of companies newly becoming consolidated subsidiaries upon acquisition of shares.

Previous fiscal year (from April 1, 2016 to March 31, 2017)
Not applicable.

Current fiscal year (April 1, 2017 through March 31, 2018)
Breakdown of assets and liabilities at the time of consolidation due to newly consolidating ARRK Corporation through the acquisition of shares and the acquisition price.

The relationship between the amount and expenditure for acquisition (net) is as follows:

Year ended March 31, 2018	Millions of yen
Current assets	¥31,089
Non-current assets	19,591
Goodwill	5,241
Current liabilities	(10,455)
Non-current liabilities	(6,898)
Non-controlling interests	(8,435)
Business transfer price	¥30,133
Cash and cash equivalents	(13,783)
Purchase of shares of subsidiaries resulting	¥16,350

14. Leases

Obligations under noncancelable operating leases at March 31, 2018 and 2017, were as follows:
Future minimum lease payments:

	Millions of yen		Thousands of U.S. dollars
	2018/3	2017/3	2018/3
Due within one year	¥ 828	¥174	$ 7,794
Due after one year	2,760	97	25,979
Total	¥3,588	¥271	$33,773

15. Financial instruments

(1) Status of financial instruments

1. Management policy

In light of plans for capital investment, the Group raises the funds it requires primarily through bank loans and bonds issuance. The Group invests temporary surplus funds in financial assets that have high levels of safety and liquidity. Further, the Group raises short-term working capital through bank loans and commercial paper issuance. The Group also utilizes derivative financial instruments to hedge various risks as described in detail below and does not enter into derivatives for trading or speculative purposes.

2. Details of financial instruments and associated risk

The trade notes and accounts receivable are exposed to credit risk of customers. In addition, foreign-currency operating receivables used to carry out overseas business operations are exposed to foreign currency exchange risk. However, foreign exchange forward contracts are used to hedge against such risk for a certain portion of this amount, excluding the amount that falls within the scope of the balance of trade notes and accounts payable denominated in the same foreign currencies as said foreign exchange forward contracts.

Short-term investment securities and investment securities, other securities, primarily the shares of companies with which the Group has operational relationships, are exposed to stock market fluctuation risk.

Almost all trade notes and accounts payable have payment due dates within three months. Funds denominated in foreign currencies are exposed to foreign currency exchange fluctuation risk. Foreign exchange forward contracts are used to hedge against such risks for a certain portion of said funds, excluding the amount that falls within the scope of the balance of trade notes and accounts receivable denominated in the same foreign currencies as said funds.

Loans payable and corporate bonds are primarily for fund raising related to capital investment, with a maximum maturity of ten years after the balance sheet date. Certain loans payable are exposed to foreign currency exchange risk and interest rate fluctuation risk, and derivative transactions such as foreign currency swaps and interest rate swaps are used to hedge these risks.

Derivative transactions such as foreign exchange forward contracts and foreign currency swaps are used in order to hedge foreign currency exchange risk associated with operating receivables and payables as well as loans payable denominated in foreign currencies and interest rate swaps are used for the purpose of hedging interest rate risk associated with bank loans.

In addition, hedging instruments and hedged items, hedging policy, and effectiveness of hedge transactions are described in "2. Significant accounting policies, i. Derivatives and hedge accounting."

3. Risk management

1) Credit risk management (risks of default of debtors)

To minimize the credit risk relating to operating receivables and long-term loans receivable, the Group performs due date controls and outstanding balance controls for each customer in accordance with internal customer credit management rules, and regularly screens customers' credit status.

Management of the Company believes that there is no significant risk of default by the counterparties to derivative transactions, as the Company and its consolidated subsidiaries only conduct transactions with high credit-rated financial institutions.

2) Market risk management (risks of exchange and interest rate fluctuations)

The Company and its consolidated subsidiaries utilize foreign exchange forward contracts and foreign currency swaps to hedge foreign currency exchange risk associated with operating receivables and payables as well as bank loans denominated in foreign currencies. Further, the Company and its consolidated subsidiaries also utilize interest rate swaps for the purpose of hedging interest rate fluctuation risk associated with loans payable.

The fair value of short-term investment securities and investment securities together with financial conditions of investees (trading partners) are periodically monitored. The possession of other securities other than held-to-maturity debt securities are reviewed continuously, taking market conditions and trade relations with the issuers into consideration.

Derivative transactions are authorized by the responsible director. Transactions are executed and managed by the financial section. The results of each transaction are reported by the financial section semi-annually at the Management Meeting. Derivative transactions entered into by consolidated subsidiaries are executed and managed in accordance with the management and other criteria for derivative transactions for each company.

3) Liquidity risk management (non-performance risk on payment due date)

The Company's finance department formulates and updates cash flow plans in a timely manner based on each department's estimated cash flow and manages liquidity risks through such measures as maintaining an accessible supply of cash. The cash flows of consolidated subsidiaries are managed in the same manner as those of the Company.

4. Supplemental explanation regarding fair value of financial instruments

Fair value of financial instruments is measured based on the quoted market price, if available, or reasonably assessed value if a quoted market price is not available. Fair value of financial instruments for which a quoted market price is not available is calculated based on certain assumptions, and the estimated fair value might differ if different assumptions are used. In addition, the contract amount of the derivative transactions described below in "17. Derivatives" does not represent the market risk of the derivative transactions.

(2) Fair value of financial instruments

The carrying value on the consolidated balance sheet, fair value, and differences as of March 31, 2018 and 2017 are as follows. In addition, financial instruments, for which is extremely difficult to measure the fair value, are not included (Please see Note 2).

	Millions of yen		
Year ended March 31, 2018	Carrying value	Fair value	Differences
Assets			
(1) Cash and deposits	¥ 80,209	¥ 80,209	¥ —
(2) Trade notes and accounts receivable	306,899	306,899	—
(3) Short-term investment securities and investment securities, other securities	57,628	57,628	—
Total	444,736	444,736	—
Liabilities			
(1) Trade notes and accounts payable	162,179	162,179	—
(2) Short-term bank loans	94,348	94,348	—
(3) Commercial papers	20,000	20,000	—
(4) Corporate bonds (*1)	47,290	47,893	603
(5) Long-term loans payable (*1)	298,933	306,860	7,927
Total	622,750	631,280	8,530
Derivative transactions (*2)	¥ (25)	¥ (25)	¥ —

*1 These amounts include the current portion of long-term loans payable and corporate bonds respectively.
*2 Derivative assets and (liabilities) are on net basis.

Year ended March 31, 2018	Thousands of U.S. dollars Carrying value	Fair value	Differences
Assets			
(1) Cash and deposits	$ 754,979	$ 754,979	$ —
(2) Trade notes and accounts receivable	2,888,733	2,888,733	—
(3) Short-term investment securities and investment securities, other securities	542,433	542,433	—
Total	4,186,145	4,186,145	—
Liabilities			
(1) Trade notes and accounts payable	1,526,534	1,526,534	—
(2) Short-term bank loans	888,065	888,065	—
(3) Commercial papers	188,253	188,253	—
(4) Corporate bonds (*1)	445,125	450,800	5,675
(5) Long-term loans payable (*1)	2,813,752	2,888,366	74,614
Total	5,861,729	5,942,018	80,290
Derivative transactions (*2)	$ (235)	$ (235)	$ —

*1 These amounts include the current portion of long-term loans payable and corporate bonds respectively.
*2 Derivative assets and (liabilities) are on net basis.

Year ended March 31, 2017	Millions of yen Carrying value	Fair value	Differences
Assets			
(1) Cash and deposits	¥ 84,120	¥ 84,120	¥ —
(2) Trade notes and accounts receivable	271,706	271,706	—
(3) Short-term investment securities and investment securities, other securities	47,327	47,327	—
Total	403,153	403,153	—
Liabilities			
(1) Trade notes and accounts payable	145,658	145,658	—
(2) Short-term bank loans	90,276	90,276	—
(3) Commercial papers	—	—	—
(4) Corporate bonds (*1)	59,716	60,810	1,094
(5) Long-term loans payable (*1)	287,236	297,378	10,142
Total	582,886	594,122	11,236
Derivative transactions (*2)	¥ (1)	¥ (1)	¥ —

*1 These amounts include the current portion of bonds payable and long-term loans payable, respectively.
*2 Derivative assets and (liabilities) are on net basis.

Note 1. Fair value measurement of financial instruments and items relating to short-term investment securities and derivative transactions.

Assets
1) Cash and deposits, and 2) Trade notes and accounts receivable
The relevant book values are used, as the carrying amount approximates fair value due to the short maturity of these instruments.
3) Short-term investment securities and investment securities
The fair value of equity securities equals quoted market price, if available. The fair value of debt securities equals quoted market price or provided price by financial institutions. Moreover, investment securities for different holding purposes are described in “16. Securities”.

Liabilities
1) Trade notes and accounts payable, 2) Short-term bank loans, and 3) Commercial papers
The relevant book values are used, as the carrying amount approximates fair value due to the short maturity of these instruments.
4) Corporate bonds
The fair value of corporate bonds equals the quoted market price, if available. If the market prices bonds are not available, fair value is calculated based on the present value of the total amount of principal and interest, discounted by the rate.
5) Long-term loans payable
The fair value of long-term loans payable is calculated by applying a discount rate to the total of principal and interest. The discount rate is based on the assumed interest rate if a similar new loan was entered into. A portion of floating rate long-term loans payable that is subject to special treatment in the form of interest rate swaps (described in “18. Derivatives”) is calculated by discounting the total amount of principal and interest —which is handled together with said interest-rate swaps—against assumed interest to be paid when new loans of the same type are undertaken.

Derivative transactions
Contract amount, fair value, unrealized gain or loss, and others are described in “18. Derivatives”.

Note 2. Financial instruments of which the fair value is extremely difficult to measure.

Year ended March 31, 2018	Millions of yen	Thousands of U.S. dollars
Unlisted equity securities	¥13,065	$122,976
Unlisted preferred securities	8,000	75,301

Year ended March 31, 2017	Millions of yen
Unlisted equity securities	¥17,880
Unlisted preferred securities	5,537

The above are not included in "(3) Short-term investment securities and investment securities", because there is no market value and the future cash flows cannot be estimated, as well as the fair value is extremely difficult to measure.

Note 3. The redemption schedule for monetary claims and held-to-maturity debt securities with maturities subsequent to the consolidated balance sheet date.

	Millions of yen			
Year ended March 31, 2018	Due within one year	Due over one year but within five years	Due over five years but within ten years	Due over ten years
Cash and deposits	¥ 80,209	¥—	¥—	¥—
Trade notes and accounts receivable	306,899	—	—	—
Total	¥387,108	¥—	¥—	¥—

	Thousands of U.S. dollars			
Year ended March 31, 2018	Due within one year	Due over one year but within five years	Due over five years but within ten years	Due over ten years
Cash and deposits	$ 754,979	$—	$—	$—
Trade notes and accounts receivable	2,888,733	—	—	—
Total	$3,643,712	$—	$—	$—

	Millions of yen			
Year ended March 31, 2017	Due within one year	Due over one year but within five years	Due over five years but within ten years	Due over ten years
Cash and deposits	¥ 84,120	¥ —	¥ —	¥ —
Trade notes and accounts receivable	271,706	—	—	—
Total	¥355,826	¥ —	¥ —	¥ —

Note 4. The redemption schedule for corporate bonds and long-term bank loans subsequent to the consolidated balance sheet date.

	Millions of yen					
Year ended March 31, 2018	Due within one year	Due over one year but within two years	Due over two years but within three years	Due over three years but within four years	Due over four years but within five years	Due over five years
Short-term bank loans	¥ 94,348	¥ —	¥ —	¥ —	¥ —	¥ —
Commercial papers	20,000	—	—	—	—	—
Corporate bonds	15,426	426	10,426	10,432	284	10,296
Long-term loans payable	24,834	57,519	41,978	42,718	41,088	90,796
Total	¥154,608	¥57,945	¥52,404	¥53,150	¥41,372	¥101,092

	(Thousands of U.S. dollars)					
Year ended March 31, 2018	Due within one year	Due over one year but within two years	Due over two years but within three years	Due over three years but within four years	Due over four years but within five years	Due over five years
Short-term bank loans	$ 888,065	$ —	$ —	$ —	$ —	$ —
Commercial papers	188,253	—	—	—	—	—
Corporate bonds	145,200	4,010	98,136	98,193	2,673	96,913
Long-term loans payable	233,754	541,406	395,124	402,090	386,747	854,631
Total	$1,455,272	$545,416	$493,260	$500,283	$389,420	$951,544

Year ended March 31, 2017	Millions of yen Due within one year	Due over one year but within two years	Due over two years but within three years	Due over three years but within four years	Due over four years but within five years	Due over five years
Short-term bank loans	¥ 90,276	¥ —	¥ —	¥ —	¥ —	¥ —
Commercial paper	—	—	—	—	—	—
Corporate bonds	24,142	15,142	142	10,142	10,148	—
Long-term loans payable	18,582	25,094	57,013	41,519	38,135	106,893
Total	¥133,000	¥40,236	¥57,155	¥51,661	¥48,283	¥106,893

16. Securities

Information on securities held by the Company and its subsidiaries at March 31, 2018 and 2017 was as follows:

(1) Other securities

	Millions of yen			Thousands of U.S. dollars		
Year ended March 31, 2018	Carrying value	Acquisition cost	Differences	Carrying value	Acquisition cost	Differences
Securities whose carrying value exceeds their acquisition value :						
(1) Equity securities	¥56,978	¥19,787	¥37,191	$536,314	$186,248	$350,066
(2) Others	5	5	0	47	47	0
Securities whose carrying value does not exceed their acquisition value :						
(1) Equity securities	644	829	(185)	6,062	7,803	(1,741)
(2) Others	1	1	(0)	9	9	(0)
Total	¥57,628	¥20,622	¥37,006	$542,432	$194,107	$348,325

Note: Unlisted equity securities with carrying value of ¥13,065 million and unlisted bonds with carrying value of ¥8,000 million as of March 31, 2018 have no market value and their future cash flows cannot be estimated. Those securities' fair value is extremely difficult to measure and not included in the table above.

	Millions of yen		
Year ended March 31, 2017	Carrying value	Acquisition cost	Differences
Securities whose carrying value exceeds their acquisition value :			
(1) Equity securities	¥ 46,463	¥ 19,917	¥ 26,546
(2) Others	5	5	0
Securities whose carrying value does not exceed their acquisition value :			
(1) Equity securities	858	1,031	(173)
(2) Others	1	1	(0)
Total	¥47,327	¥20,954	¥26,373

Note: Unlisted equity securities with carrying value of ¥17,880 million and unlisted bonds with carrying value of ¥5,537 million as of March 31, 2017 have no market value and their future cash flows cannot be estimated. Those securities' fair value is extremely difficult to measure and not included in the table above.

(2) Other securities sold during the fiscal years ended March 31, 2018 and 2017

	Millions of yen			Thousands of U.S. dollars		
Year ended March 31, 2018	Sales price	Gain on sales	Loss on sales	Sales price	Gain on sales	Loss on sales
Equity securities	¥1,461	¥815	¥ (1)	$13,752	$7,671	$ (9)
Others	—	—	—	—	—	—
Total	¥1,461	¥815	¥ (1)	$13,752	$7,671	$ (9)

	Millions of yen		
Year ended March 31, 2017	Sales price	Gain on sales	Loss on sales
Equity securities	¥4,088	¥2,354	¥ (2)
Others	—	—	—
Total	¥4,088	¥2,354	¥ (2)

(3) Impairment of investment securities

For the fiscal years ended March 31, 2018 and 2017, the Group recognized impairment losses on investment securities of ¥5,059 million (¥5,059 million on other marketable securities with no market values) and ¥196 million (¥196 million on other marketable securities with market values) respectively.

Regarding loss disposal, typically, when the fair value at the fiscal year end falls 50% or greater compared with the acquisition cost, the loss shall be disposed, in principle. When said fair value falls between 30% and 50% of the acquisition cost, if the rate of decrease remains at 30% or above for a two-year period prior to the end of the fiscal year-end, or if a significant downturn in performance occurs over an approximately three-year period, it shall be determined that there is no possibility of recovery and loss recognized.

17. Derivatives

The Company and certain of its subsidiaries had the following derivatives contracts outstanding at March 31, 2018 and 2017.

(1) Derivative transactions to which the Company did not apply hedge accounting

Currency related

	Millions of yen				Thousands of U.S. dollars			
Year ended March 31, 2018	Contract amount	(Contract amount over one year)	Fair value	Unrealized gain (loss)	Contract amount	(Contract amount over one year)	Fair value	Unrealized gain (loss)
Off-market transactions:								
Forward foreign exchange contracts for								
Buying U.S. dollar	¥ 797	¥—	¥(20)	¥(20)	$ 7,502	$—	$(188)	$(188)
Currency swap transaction for								
Receiving CNY and paying U.S. dollar	419	—	(3)	(3)	3,944	—	(28)	(28)
Total	¥1,216	¥—	¥(23)	¥(23)	$11,446	$—	$(216)	$(216)

Note: Fair value is based on information provided by financial institutions at the end of the fiscal year.

	Millions of yen			
Year ended March 31, 2017	Contract amount	(Contract amount over one year)	Fair value	Unrealized gain (loss)
Off-market transactions:				
Forward foreign exchange contracts for				
(1) Buying U.S. dollar	¥1,097	¥—	¥(1)	¥(1)
Total	¥1,097	¥—	¥(1)	¥(1)

Note: Fair value is based on information provided by financial institutions at the end of the fiscal year.

(2) Derivative transactions to which the Company applied hedge accounting

1. Currency related

Year ended March 31, 2018	Millions of yen Contract amount	(Contract amount over one year)	Fair value	Thousands of U.S. dollars Contract amount	(Contract amount over one year)	Fair value
Principle-based accounting method:						
Forward foreign exchange contracts for						
(1) Selling U.S. dollar (hedged item—loans receivable)	¥ 170	¥—	¥(1)	$ 1,600	$—	$ (9)
(2) Selling Swedish Krona (hedged item—loans receivable)	381	—	(4)	3,586	—	(38)
(3) Buying U.S. dollar (hedged item—trade accounts payable)	778	—	—	7,323	—	—
(4) Buying Yen (hedged item—loans payable)	181	—	3	1,704	—	28
Alternative method (*):						
Forward foreign exchange contracts for						
(1) Selling U.S. dollar (hedged item—trade accounts receivable)	¥53	¥—	(Note 2)	$ 499	$—	(Note 2)
(2) Buying U.S. dollar (hedged item—trade accounts payable)	136	—	(Note 2)	1,280	—	(Note 2)
Total	¥1,699	¥—	¥(2)	$15,992	$—	$(19)

* Foreign monetary obligations denominated in foreign currencies for which foreign exchange forward contracts are used to hedge the foreign currency fluctuation are translated at the contracted rate, if the forward contracts qualify for hedge accounting.

Notes:
1. Fair value is based on information provided by financial institutions at the end of the fiscal year.
2. For certain trade accounts payable, other accounts payable and loans payable denominated in foreign currencies for which foreign exchange forward contracts are used to hedge the foreign currency fluctuations, fair value of derivative financial instrument is included in the hedged trade accounts receivable or trade accounts payable.

Year ended March 31, 2017	Millions of yen Contract amount	(Contract amount over one year)	Fair value
Principle-based accounting method:			
Forward foreign exchange contracts for			
(1) Selling U.S. dollar (hedged item—loans receivable)	¥ 191	¥—	¥0
(2) Buying U.S. dollar (hedged item—trade accounts payable)	28	—	(0)
Alternative method (*):			
Forward foreign exchange contracts for			
(1) Selling U.S. dollar (hedged item—trade accounts receivable)	¥842	¥—	(Note 2)
(2) Buying U.S. dollar (hedged item—trade accounts payable)	107	—	(Note 2)
Total	¥1,168	¥—	¥0

* Foreign monetary obligations denominated in foreign currencies for which foreign exchange forward contracts are used to hedge the foreign currency fluctuation are translated at the contracted rate, if the forward contracts qualify for hedge accounting.

Notes:
1. Fair value is based on information provided by financial institutions at the end of the fiscal year.
2. For certain trade accounts payable, other accounts payable and loans payable denominated in foreign currencies for which foreign exchange forward contracts are used to hedge the foreign currency fluctuations, fair value of derivative financial instrument is included in the hedged trade accounts receivable or trade accounts payable.

2. Interest related

Year ended March 31, 2018	Millions of yen Contract amount	Millions of yen (Contract amount over one year)	Millions of yen Fair value	Thousands of U.S. dollars Contract amount	Thousands of U.S. dollars (Contract amount over one year)	Thousands of U.S. dollars Fair value
Alternative method:						
Interest swap contracts (hedged item—long-term bank loans)						
Receiving floating rate and paying fixed rate	¥100,969	¥ 96,429	(Note)	$ 950,386	$ 907,652	(Note)
Currency swap contracts (hedged item—long-term bank loans)						
Receiving floating rate and paying fixed rate	24,915	24,915	(Note)	234,516	234,516	(Note)
Total	¥125,884	¥121,344	¥—	$1,184,902	$1,142,168	$—

Note: For certain long-term bank loans for which interest swap contracts are used to hedge the interest rate fluctuations, fair value of derivative financial instrument is included in trade accounts payable, other accounts payable and loans payable as hedged.

Year ended March 31, 2017	Millions of yen Contract amount	Millions of yen (Contract amount over one year)	Millions of yen Fair value
Alternative method:			
Interest swap contracts (hedged item—long-term bank loans)			
Receiving floating rate and paying fixed rate	¥106,089	¥100,969	(Note)
Currency swap contracts (hedged item—long-term bank loans)			
Receiving floating rate and paying fixed rate	20,655	20,655	(Note)
Total	¥126,744	¥121,624	¥—

Note: For certain long-term bank loans for which interest swap contracts are used to hedge the interest rate fluctuations, fair value of derivative financial instrument is included in trade accounts payable, other accounts payable and loans payable as hedged.

18. Income taxes

(1) The Company and its consolidated domestic subsidiaries are subject to a number of income taxes in Japan which, in the aggregate, resulted in statutory tax rates of approximately 30.9% for the years ended March 31, 2018 and 2017,respectively.

(2) The significant components of the Company and its consolidated subsidiaries' deferred tax assets and liabilities as of March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018/3	2017/3	2018/3
Deferred tax assets:			
Net defined benefit liabilities	¥ 23,698	¥ 27,427	$ 223,061
Accrued bonuses	4,199	3,839	39,524
Depreciation	3,932	5,250	37,011
Accrued enterprise tax	798	976	7,510
Tax loss carryforwards	45,206	36,183	425,508
Provision for repairs	5,298	5,489	49,868
Unrealized gains on fixed assets	2,505	2,618	23,579
Loss on valuation of inventories	3,257	2,868	30,657
Loss on valuation of investment securities	5,928	4,187	55,798
Impairment loss	7,518	8,055	70,764
Other	15,779	17,044	148,521
Subtotal	118,118	113,936	1,111,801
Valuation allowance	(81,060)	(79,697)	(762,989)
Total deferred tax assets	37,058	34,239	348,812
Deferred tax liabilities:			
Net defined benefit assets	¥ (12,870)	¥ (11,534)	$ (121,141)
Gain on contribution of securities to retirement benefit trust	(3,147)	(3,147)	(29,622)
Net unrealized holding gain on securities	(10,187)	(7,414)	(95,887)
Deferred gain on real properties	(284)	(212)	(2,673)
Retained earnings of overseas consolidated subsidiaries, etc.	(5,592)	(3,965)	(52,636)
Adjustment of book value based on fair value	(5,771)	(6,795)	(54,320)
Other	(2,391)	(2,572)	(22,506)
Total deferred tax liabilities	(40,242)	(35,639)	(378,785)
Net deferred tax assets (liabilities)	¥ (3,184)	¥ (1,400)	$ (29,973)

(3) The following table summarizes the significant differences between the statutory tax rate and effective tax rates for consolidated financial statement purposes for the years ended March 31, 2018 and 2017:

	2018/3	2017/3
Statutory tax rate	30.9%	30.9%
Non-deductible expenses	0.7	1.2
Permanently non-deductible items including dividend income	(0.8)	(0.7)
Changes in valuation allowance	(16.7)	(13.7)
Differences of statutory tax rate in overseas consolidated subsidiaries	(1.7)	(1.2)
Goodwill amortization	2.4	0.4
Share of loss (profit) of entities accounted for using equity method	(2.7)	(0.1)
Other	4.0	(3.0)
Effective tax rate	16.1%	13.9%

19. Segment information

(1) Overview of reportable segments

The reportable segments of the Group comprise those entities for which obtaining separate financial reports is possible and those are subject to regular review by the Board of Directors, which decides upon the distribution of management resources to said segments.

The Group positions segments distinguished by their products and services within its headquarters. Each segment proposes comprehensive domestic and overseas strategies in addition to pursuing business expansion in its respective product and service area.

The four reportable segments (distinguished by products and services) that therefore comprise the Group's operations are: Mobility, Health Care, Food & Packaging and Basic Materials.

Segment		Major Products
Reportable Segments	Mobility	Elastomers, performance compounds, functional polymers and, polypropylene compounds and comprehensive services regarding to the development of automotive and industrial products (Solution business)
	Health Care	Vision care materials, nonwoven fabrics, dental materials and, personal care materials
	Food & Packaging	Coating & engineering materials, performance films and sheets and, agrochemical products
	Basic Materials	Ethylene, propylene, polyethylene, polypropylene, catalysts, phenols, PTA, PET, polyurethane materials and, industrial chemical products
Others	Others	Other related businesses, etc.

(2) Methods to determine net sales, income or loss, assets, and other items by reportable business segment

The accounting methods by reportable business segment herein are almost the same as those described under "significant accounting policies". Income by reportable business segment is stated on an operating income basis.

Intersegment net sales and transfers are based on the values of transactions undertaken between third parties.

(3) Information concerning net sales, income or loss, assets, and other items for each reportable segment

	Millions of yen						
	Reportable Segments						
Year ended March 31, 2018	Mobility	Health Care	Food & Packaging	Basic Materials	Total	Others (Note 1)	Sum total
I. Net sales:							
Customers	¥331,038	¥139,120	¥195,840	¥637,700	¥1,303,698	¥ 24,828	¥1,328,526
Inter-segment	10,954	2,376	1,238	66,690	81,258	54,210	135,468
Total	¥341,992	¥141,496	¥197,078	¥704,390	¥1,384,956	¥79,038	¥1,463,994
II. Segment income (loss)	¥ 42,296	¥ 10,830	¥ 19,924	¥ 38,903	¥ 111,953	¥ (906)	¥ 111,047
III. Segment assets	¥313,613	¥200,684	¥221,550	¥606,896	¥1,342,743	¥50,052	¥1,392,795
IV. Other items:							
Depreciation and amortization (Note 2)	¥ 10,264	¥ 9,501	¥ 6,961	¥ 14,467	¥ 41,193	¥ 3,118	¥ 44,311
Amortization of goodwill	131	586	—	—	717	102	819
Investment in equity method affiliates	17,220	4,920	2,878	54,977	79,995	2,660	82,655
Capital expenditures (Note 2)	32,179	16,018	9,508	15,752	73,457	6,110	79,567

Year ended March 31, 2018	Thousands of U.S. dollars						
	Reportable Segments						
	Mobility	Health Care	Food & Packaging	Basic Materials	Total	Others (Note 1)	Sum total
I. Net sales:							
Customers	$3,115,945	$1,309,488	$1,843,373	$6,002,447	$12,271,253	$233,698	$12,504,951
Inter-segment	103,106	22,364	11,653	627,730	764,853	510,259	1,275,112
Total	$3,219,051	$1,331,852	$1,855,025	$6,630,177	$13,036,105	$743,958	$13,780,063
II. Segment income (loss)	$ 398,117	$ 101,939	$ 187,538	$ 366,180	$ 1,053,774	$ (8,528)	$ 1,045,246
III. Segment assets	$2,951,930	$1,888,968	$2,085,373	$5,712,500	$12,638,771	$471,123	$13,109,894
IV. Other items:							
Depreciation and amortization (Note 2)	$ 96,611	$ 89,430	$ 65,521	$ 136,173	$ 387,735	$ 29,350	$ 417,085
Amortization of goodwill	1,233	5,516	—	—	6,749	960	7,709
Investment in equity method affiliates	162,086	46,310	27,090	517,479	752,965	25,038	778,003
Capital expenditures (Note 2)	302,890	150,772	89,495	148,268	691,425	57,511	748,936

Year ended March 31, 2017	Millions of yen						
	Reportable Segments						
	Mobility	Health Care	Food & Packaging	Basic Materials	Total	Others (Note 1)	Sum total
I. Net sales:							
Customers	¥293,283	¥134,198	¥182,468	¥565,617	¥1,175,566	¥36,716	¥1,212,282
Inter-segment	10,217	2,166	5,132	57,379	74,894	50,747	125,641
Total	¥303,500	¥136,364	¥187,600	¥622,996	¥1,250,460	¥87,463	¥1,337,923
II. Segment income (loss)	¥ 40,716	¥ 10,118	¥ 20,606	¥ 38,504	¥ 109,944	¥ (353)	¥ 109,591
III. Segment assets	¥241,814	¥206,186	¥209,310	¥544,307	¥1,201,617	¥59,396	¥1,261,013
IV. Other items:							
Depreciation and amortization (Note 2)	¥ 9,241	¥ 9,049	¥ 6,687	¥ 13,341	¥ 38,318	¥ 4,134	¥ 42,452
Amortization of goodwill	—	1,148	—	—	1,148	100	1,248
Investment in equity method affiliates	16,666	4,628	2,322	46,381	69,997	2,760	72,757
Capital expenditures (Note 2)	10,447	8,745	7,145	14,221	40,558	3,936	44,494

Notes:
1. “Others” encompasses operations not included in reportable segments.
2. Depreciation and amortization and capital expenditures include amortization costs and expenditures under long-term prepaid expenses.

(4) Reconciliation of differences between total amounts of reportable segments and amounts in the consolidated financial statements (adjustments)

	Millions of yen		Thousands of U.S. dollars
Net sales:	2018/3	2017/3	2018/3
Total reportable segment sales	¥1,384,956	¥1,250,460	$13,036,107
Net sales classified under “Others”	79,038	87,463	743,956
Elimination of intersegment transactions	(135,468)	(125,641)	(1,275,112)
Net sales recorded in Consolidated Statements of Operations	¥1,328,526	¥1,212,282	$12,504,951

	Millions of yen		Thousands of U.S. dollars
Income:	2018/3	2017/3	2018/3
Total reportable segment income	¥111,953	¥109,944	$1,053,774
Income (loss) classified under “Others”	(906)	(353)	(8,528)
Elimination of intersegment transactions	26	(596)	245
Corporate expenses (Note)	(7,582)	(6,846)	(71,366)
Operating income recorded in Consolidated Statements of Operations	¥103,491	¥102,149	$ 974,125

Note: Corporate expenses mainly comprise general and administrative expenses not usually attributed to segments.

Assets:	Millions of yen 2018/3	2017/3	Thousands of U.S. dollars 2018/3
Total reportable segment assets	¥1,345,443	¥1,201,617	$12,664,185
Assets classified under "Others"	50,052	59,396	471,122
Elimination of intersegment transactions	(130,898)	(116,819)	(1,232,097)
Corporate assets (Note)	179,507	181,331	1,689,636
Assets recorded in Consolidated Balance Sheets	¥1,444,104	¥1,325,525	$13,592,846

Note: Corporate assets are mainly attributed to the Company's surplus management funds (cash and savings), long-term investment funds (investment securities), deferred tax assets and administrative departments.

Depreciation and amortization:	Millions of yen 2018/3	2017/3	Thousands of U.S. dollars 2018/3
Total reportable segment amounts	¥41,193	¥38,318	$387,735
Amounts classified under "Others"	3,118	4,134	29,349
Adjustment amounts (Note)	524	357	4,932
Amounts from Consolidated Financial Statements	¥44,835	¥42,809	$422,016

Note: Adjustment amounts are Depreciation and amortization expenses related to new businesses development.

Amortization of goodwill:	Millions of yen 2018/3	2017/3	Thousands of U.S. dollars 2018/3
Total reportable segment amounts	¥717	¥1,148	$6,749
Amounts classified under "Others"	102	100	960
Adjustment amounts	—	—	—
Amounts from Consolidated Financial Statements	¥819	¥1,248	$7,709

Amount of investment in equity method affiliates:	Millions of yen 2018/3	2017/3	Thousands of U.S. dollars 2018/3
Total reportable segment amounts	¥79,995	¥69,997	$752,965
Amounts classified under "Others"	2,660	2,760	25,038
Adjustment amounts	—	—	—
Amounts from Consolidated Financial Statements	¥82,655	¥72,757	$778,003

Capital expenditures:	Millions of yen 2018/3	2017/3	Thousands of U.S. dollars 2018/3
Total reportable segment amounts	¥73,457	¥40,558	$691,425
Amounts classified under "Others"	6,110	3,936	57,511
Adjustment amounts (Note)	1,681	889	15,823
Amounts from Consolidated Financial Statements	¥81,248	¥45,383	$764,759

Note: Adjustment amounts are capital expenditures related to new businesses development.

Related Information

(Information by Region)

Net sales:	Millions of yen 2018/3	Millions of yen 2017/3	Thousands of U.S. dollars 2018/3
Japan	¥740,562	¥ 697,065	$6,970,651
China	144,699	121,188	1,362,001
Asia	189,448	167,617	1,783,208
America	162,219	153,434	1,526,911
Europe	82,960	66,082	780,873
Other regions	8,638	6,896	81,306
Total	¥1,328,526	¥1,212,282	$12,504,950

Notes:
1. Net sales are classified by country and region based on customer location.
2. Major countries and regions located in areas outside of Japan and China are as follows:
   (1) Asia: Taiwan, South Korea, Thailand, Malaysia, Singapore, India
   (2) America: The United States, Mexico
   (3) Europe: Germany, France
   (4) Other regions: Oceania, Africa

Property, plant and equipment:	Millions of yen 2018/3	Millions of yen 2017/3	Thousands of U.S. dollars 2018/3
Japan	¥345,017	¥321,672	$3,247,524
Singapore	35,920	42,279	338,102
Asia	27,129	23,022	255,356
Other regions	24,842	22,456	233,830
Total	¥432,908	¥409,429	$4,074,812

Note: Major countries and regions located in areas outside of Japan and Singapore are as follows:
(1) Asia: China, Taiwan, South Korea, Thailand, Malaysia, India
(2) Other regions: North America, Europe

(Information by main customers)

Net sales:	Millions of yen 2018/3	Millions of yen 2017/3	Thousands of U.S. dollars 2018/3
Mitsui & Co., LTD.	¥236,002	¥208,382	$2,221,404

Note: Related segments are as follows:
Mobility, Health Care, Food & Packaging, Basic Materials, Others

Information Concerning Impairment Loss of Fixed Assets by Reportable Segment

Impairment loss:	Millions of yen 2018/3	Millions of yen 2017/3	Thousands of U.S. dollars 2018/3
Mobility	¥ 395	¥ 51	$ 3,718
Health Care	14,350	85	135,072
Food & Packaging	7	405	66
Basic Materials	—	461	—
Others	150	2,769	1,412
Corporate Expenses	110	340	1,035
Total	¥15,012	¥4,111	$141,303

Information Concerning the Amount of Amortization and Unamortized Balance of Goodwill by Reportable Segment

	Millions of yen		Thousands of U.S. dollars
Amount of amortization:	2018/3	2017/3	2018/3
Mobility	¥131	¥ —	$1,233
Health Care	586	1,148	5,516
Food & Packaging	—	—	—
Basic Materials	—	—	—
Others	102	100	960
Corporate Expenses	—	—	—
Total	¥819	¥1,248	$7,709

	Millions of yen		Thousands of U.S. dollars
Unamortized balance:	2018/3	2017/3	2018/3
Mobility	¥5,110	¥ —	$48,099
Health Care	519	7,105	4,885
Food & Packaging	—	—	—
Basic Materials	—	—	—
Others	55	302	518
Corporate Expenses	—	—	—
Total	¥5,684	¥7,407	$53,502

20. Information on related party transactions

(1) Related party transactions

Main transactions of the Company with its affiliated companies for the year ended March 31, 2018 were as follows:

Name of company	Chiba Chemicals Manufacturing LLP
Type of related party	Affiliated company
Location	Chiyoda-ku, Tokyo
Common stock	¥200 million (US$1,883 thousand)
Business	Manufacturing petrochemical materials and supplying to partners
Holding ratio of voting rights	Direct 50%
Relationship	Supply and purchases of raw materials
Transaction amount (Notes 1, 2)	¥917 million (US$8,631 thousand)
Balance at end of year (Note 2)	Other accounts receivable: ¥14,481 million (US$136,305 thousand)
	Accounts payable: ¥12,780 million (US$120,294 thousand)

Notes:
1. The trade terms of the above transactions were shown on a net basis in the Consolidated Statements of Operations.
2. The trade terms of the above transactions were determined based on consideration of the market prices and others.

Name of company	Shanghai Sinopec Mitsui Chemicals Co.,Ltd.
Type of related party	Affiliated company
Location	Shanghai, China
Common stock	¥16,369 million (US$154,076 thousand)
Business	Manufacturing and sales of phenol, acetone and bisphenol A In China
Holding ratio of voting rights	Direct 50%
Relationship	Loan guarantee, interlocking directors
Transaction amount (Note 3)	¥18,501 million (US$174,143 thousand)

Note: 3. The Company conducts loan guarantees for the related party without guarantee fees.

Name of company	Shanghai Sinopec Mitsui Elastomers, Co., Ltd.
Type of related party	Affiliated company
Location	Shanghai, China
Common stock	¥11,013 million (US$103,662 thousand)
Business	Manufacturing and sales of ethylene, propylene and diene monomer rubber in China
Holding ratio of voting rights	Direct 50%
Relationship	Loan guarantee, interlocking directors
Transaction amount (Note 4)	¥17,528 million (US$164,985 thousand)

Note: 4. The Company conducts loan guarantees for the related party without guarantee fees.

(2) Summary of financial information for significant affiliated companies

The Company's significant affiliates are Du Pont-Mitsui Fluorochemicals Company, Ltd. and Shanghai Sinopec Mitsui Chemicals Co., Ltd. for the year ended March 31, 2018.

Du Pont-Mitsui Fluorochemicals Company, Ltd.

	Millions of yen		Thousands of U.S. dollars
	2018/3	2017/3	2018/3
Balance Sheet			
Total current assets	¥22,350	¥17,359	$210,373
Total non-current assets	13,585	13,563	127,871
Total current liabilities	9,470	11,299	89,138
Total non-current liabilities	330	253	3,106
Total net assets	26,135	19,370	246,000
Statement of Operations			
Net sales	30,544	28,172	287,500
Profit (loss) before income taxes	9,443	7,820	88,884
Profit (loss)	6,603	5,293	62,152

Shanghai Sinopec Mitsui Chemicals, Co., Ltd.

	Millions of yen		Thousands of U.S. dollars
	2018/3	2017/3	2018/3
Balance Sheet			
Total current assets	¥ 8,157	¥ 9,460	$ 76,779
Total non-current assets	27,721	29,649	260,928
Total current liabilities	39,737	39,358	374,029
Total non-current liabilities	9,605	7,453	90,409
Total net assets	(13,464)	(7,702)	(126,732)
Statement of Operations			
Net sales	40,923	26,687	385,194
Profit (loss) before income taxes	(5,289)	(6,478)	(49,784)
Profit (loss)	(5,308)	(7,573)	(49,962)

21. Business combination

Tender Offer for ARRK Corporation Shares through Subsidiary

On November 29, 2017, the wholly-owned Mitsui Chemicals (the Company) subsidiary MC Investment 01 Corporation agreed to make a tender offer (the "Tender Offer") for ordinary and preferred shares issued by Tokyo Stock Exchange-listed ARRK Corporation ("ARRK"). In accordance with this agreement, the Tender Offer was carried out from November 30, 2017 and completed on January 17, 2018, resulting in ARRK becoming a consolidated subsidiary of the Company on January 24, 2018.

(1) Outline of the Acquisition

① Name of acquired company and nature of business

Name of acquired company: ARRK Corporation

Nature of business: Manufacture and marketing of industrial design models; product development, planning, design and engineering; design and manufacture of various types of metallic molds; production and marketing of small-lot molded products and other comprehensive services regarding to the development of new products.

② Purpose

The purchase of shares was intended to help both the Company and ARRK further expand their business foundations by mutually putting each other's technologies to use to achieve continued growth in the global market. The Company aims to use the strengths of ARRK to broaden the range of business domains for its own products and services, strengthen its ability to offer solutions in the Mobility domain, and bring more products to commercialization. Meanwhile, ARRK will be able to apply the materials expertise of the Company, utilizing its diverse lineup of products and materials technologies in carrying out design, prototyping and analytical activities aimed at enhancing the value of its comprehensive development assistance services.

1) Date of business combination
January 24, 2018

2) Legal type of business combination
All-cash tender offer

3) Name of resulting entity
ARRK Corporation

4) Share of voting rights acquired
74.69%

5) Main rationale for selecting the acquiring entity
The acquisition company (MC Investment 01 Corporation), a subsidiary of the Company, has acquired all shares of ARRK Corporation for cash.

(2) Period of Performance of the Acquired Company Included in the Consolidated Financial Statements

From January 1, 2018 to March 31, 2018

(3) Breakdown of acquisition cost and consideration paid

Consideration paid (cash): ¥30,133 million (U.S.$28,363 thousand)

(4) Details and amounts of main acquisition-related costs

Advisory fees etc.: ¥498 million (U.S.$4,688 thousand)

(5) Amount and reason for goodwill arising from the acquisition, amortization method and period

1) Amount of goodwill incurred: ¥5,241 million (U.S.$49,332 thousand)

2) Reason: Since the acquisition cost exceeded the net amount of acquired assets and liabilities, the excess amount was recognized as goodwill.

3) Amortization method and period: Equally amortized over 10 years

(6) Amounts and breakdown of assets acquired and liabilities assumed on date of business combination

	Millions of yen	Thousands of U.S. dollars
Current assets:	¥31,089	$292,630
Non-current assets:	19,591	184,403
Total assets:	50,680	477,033
Current liabilities:	10,455	98,409
Non-current liabilities:	6,898	64,928
Total liabilities:	17,353	163,338

(7) Amount allocated to intangible assets other than goodwill, its breakdown by principal type, and amortization period (useful life) by principal type

	Millions of yen	Thousands of U.S. dollars	Useful Life
Customer-related assets:	¥4,544	$42,771	17 years
Outstanding orders:	424	3,991	5 years

(8) Estimated amount and method of calculating the impact on the consolidated statement of income for the current fiscal year assuming that the business combination had been completed at the beginning of the current fiscal year

	Millions of yen	Thousands of U.S. dollars
Net sales:	¥32,216	$303,238
Operating income:	362	3,407
Ordinary income:	325	3,059

The above effect represents the approximate differences between the estimated amounts of revenues and profit/loss and the amounts computed under the assumption of completion of business combination at the beginning of the consolidated fiscal year and those on the consolidated statements of income of the acquired company.

Please be advised that the above stated notes have not been certified by an auditor.

22. Subsequent events

A fire at the Osaka Works

On June 21, 2018, a fire broke out at the Company's Osaka Works as repair work was under way at the utility plant, which had been shut down for regular maintenance. At this time, an investigation led by the relevant authorities is being conducted, and once the cause has been determined and preventive measures have been drafted and put in place, work will begin on restoring the damaged plant.

Moreover, because of uncertainties pertaining to the current situation and future developments, the impact on business, including that of sales and costs related to restoration, is difficult to reasonably estimate.

Building a better working world

Independent Auditor's Report

The Board of Directors
Mitsui Chemicals, Inc.

We have audited the accompanying consolidated financial statements of Mitsui Chemicals, Inc. and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2018, and the consolidated statements of operations, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Mitsui Chemicals, Inc. and its consolidated subsidiaries as at March 31, 2018, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 4.

Ernst & Young ShinNihon LLC

June 26, 2018
Tokyo, Japan