Message from the President

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

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

Fiscal 2013 Results

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

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

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

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

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

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

Future Outlook and Issues the MCHC Group Must Address

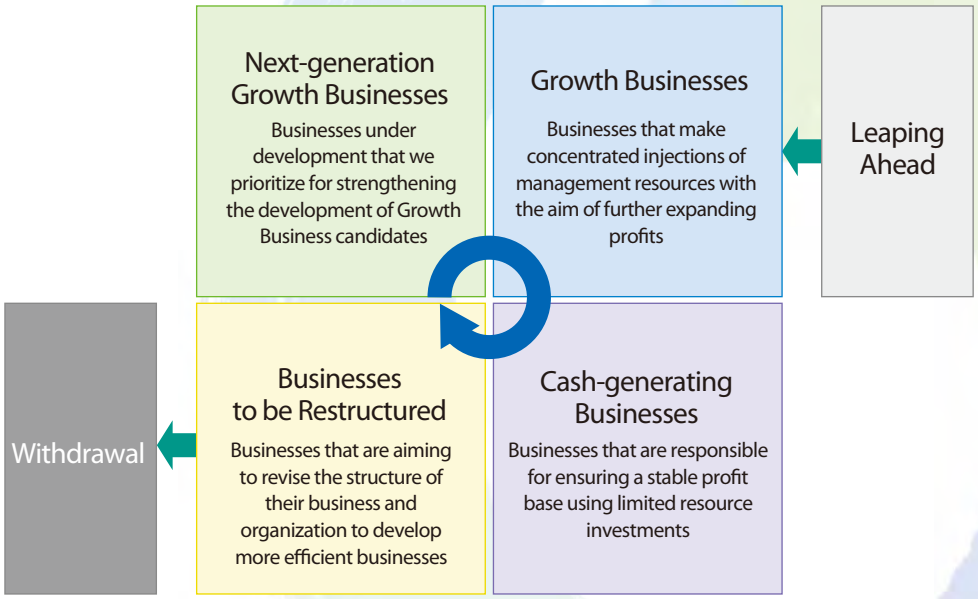
We intend to devote maximum efforts to achieving our goals by reliably and rapidly executing measures that include our business structural reform and shift ("transformation"), strengthening the Group's comprehensive capabilities by further creating synergies among our operating companies, and improving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

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

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

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

Transformation of MCHC Group Business Portfolio



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

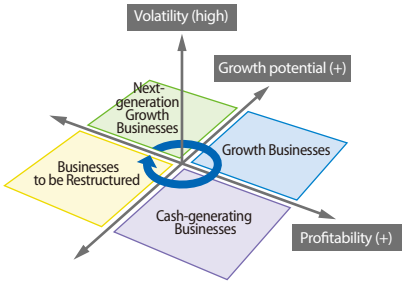
of sectors that we have positioned as Stable Businesses, such as specialty chemicals, and we will work to swiftly expand earnings from carbon fiber and composite materials, water treatment systems and services, agribusiness solutions, and other Growth Driver Businesses.

In the Health Care domain, we will strengthen our drug discovery capabilities in the pharmaceutical business and move ahead with the building of the infrastructure to expand our overseas businesses. At the same time, under the leadership of the Life Science Institute, Inc., which we launched in April 2014, we will strengthen and expand the foundation of the healthcare solutions business. → Related information p.20-23

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

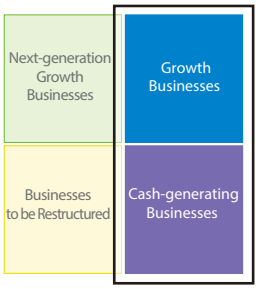
Taking into account the above circumstances, we forecast the consolidated financial results for fiscal 2014 with net sales of ¥3,530.0 billion, an increase of ¥31.1 billion (0.8%) from the year under review, operating income of ¥136.0 billion, an increase of ¥25.5 billion (23.1%),

Four-quadrant Model in Business Portfolio Management (Management based on product life cycles and business growth potential and profit potential)



Growth Model (Management based on profit structures)

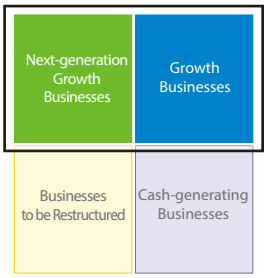
Stable Businesses
Businesses that are relatively unaffected by changes in the market and are expected to provide stable income in the medium-to-long term



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

and others

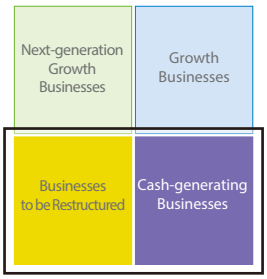
Growth Driver Businesses
Businesses where the Group is targeting strategic sales growth



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

and others

Volatile Businesses
Businesses in which significant volatility due to external factors is unavoidable



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

and others

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

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

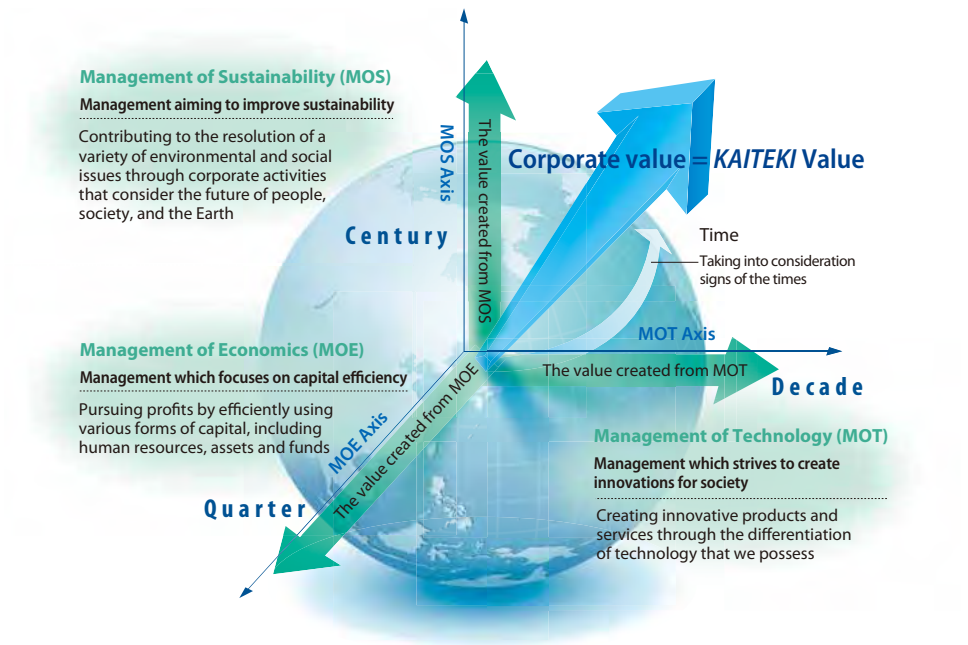
We have implemented a number of mergers and acquisitions. These efforts have not only expanded the Group's business scale and promoted synergies, but also diversified human resources by inviting new personnel in our Group to raise awareness and revitalize the organization. We think this is an essential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

KAITEKI Management

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

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

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



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

Thorough Safety and Compliance Measures and Enhancement of Corporate Governance

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

Toward a Further Increase in Shareholder Value

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

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

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

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

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

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

Aiming to Truly Be "THE KAITEKI COMPANY"

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

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

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

President and Chief Executive Officer