



Mitsubishi Gas Chemical Company, Inc.
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ANNUAL REPORT | 1999

PROFILE

Mitsubishi Gas Chemical Company, Inc. (MGC) was established in 1971 through the merger of Japan Gas Chemical Co., Inc. and Mitsubishi Edogawa Chemical Co., Ltd. The Company currently operates eight plants and four research centers in Japan. In addition, 24 consolidated subsidiaries, with operations ranging from production to marketing, are members of the MGC Group of approximately 100 companies worldwide.

MGC works to distinguish itself in markets globally through the excellence of its products. More than 80 percent of the Company's products, from basic and fine chemicals to advanced materials, are manufactured using original MGC technologies. In addition to its main areas of production such as methanol and hydrogen peroxide, MGC supplies products in a wide range of fields, including xylene products, engineering plastics, electronics materials, oxygen absorbers and optoelectronics.

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FINANCIAL HIGHLIGHTS

MITSUBISHI GAS CHEMICAL COMPANY, INC. AND CONSOLIDATED SUBSIDIARIES
For the years ended March 31, 1999 and 1998

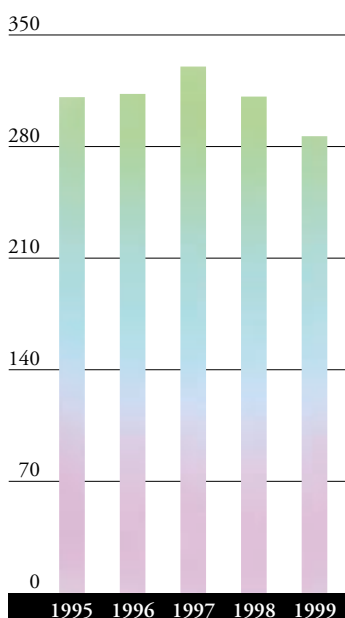
	Millions of yen		Thousands of dollars
	1999	1998	1999
Net sales	¥286,472	¥311,434	\$2,376,375
Operating income.....	7,622	17,595	63,227
Net income.....	6,754	6,346	56,027
Retained earnings	94,570	89,990	784,488
Total assets	475,835	479,466	3,947,200
Shareholders' equity.....	172,058	167,478	1,427,275

	Yen		Dollars
	1999	1998	1999
Per share of common stock:			
Net income—basic.....	¥13.55	¥12.73	\$0.11
Cash dividends	5.00	5.00	0.04

Note: U.S. dollar amounts are translated from yen, for convenience only, at the approximate rate of ¥120.55=US\$1 prevailing on March 31, 1999.

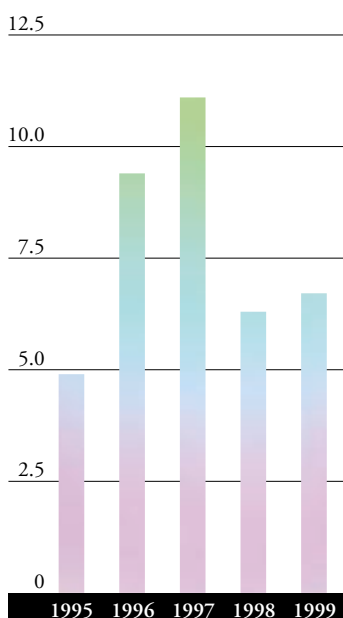
Net Sales

(¥ Billions)



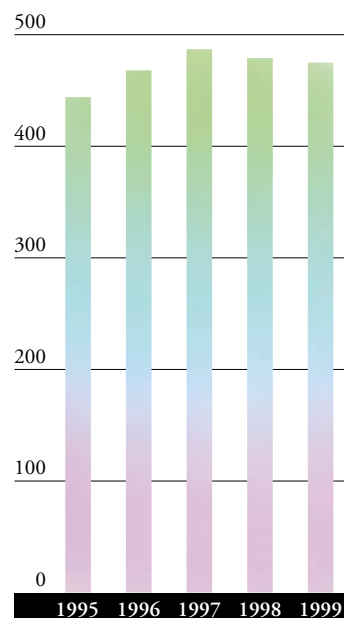
Net Income

(¥ Billions)



Total Assets

(¥ Billions)



MESSAGE FROM THE MANAGEMENT



Reiji Nishikawa, Chairman (left), and Akira Ohira, President

MGC continued to promote improved management efficiency and a stronger focus on business areas with high potential during fiscal 1998, the year ended March 31, 1999. The Company is working flexibly with Group companies toward its goal of raising profitability in an increasingly competitive global market.

Operating Environment and Results

The Japanese economy remained stagnant during fiscal 1998. Factors contributing to the severe environment included sluggish stock prices, concerns about the Japanese financial system, reduced consumer spending and housing investment as a result of the deteriorating employment situation, and further declines in capital investment in the private sector. The chemical industry underwent a difficult period, marked by decreased demand primarily due to the recession, sluggish international market conditions, and a decline in exports influenced by economic turmoil in Asian countries. On the other hand, the traditional Japanese economy and industrial structure are now facing new trends of borderless internationalization with movement toward an integrated global market.

Under these circumstances, MGC made group-wide efforts to raise profitability by promoting aggressive marketing activities for its mainstay products, effectively developing new businesses, and efficiently using management resources. Nevertheless, MGC's consolidated net sales fell 8.0 percent from the previous fiscal year to ¥286,471 million. Sluggish international market conditions for methanol, paraxylene, and xylene derivative pure terephthalic acid, a general decline of product prices for engineering plastics, and reduced demand for some of our product lines were the primary causes of the decreased sales. Newly implemented tax effect accounting partly contributed to improved net income, which increased by 6.4 percent to ¥6,754 million. As a result, net income per share increased to ¥13.55 from ¥12.73 for the previous fiscal year.

Investment for Growth

Launched in fiscal 1996, MGC's medium- to long-term plan prescribes a basic strategy consisting of the following five points:

- Strengthening our competitiveness in businesses where MGC can distinguish itself;
- Rationalizing low-profit or low-potential businesses;
- Developing new, high-potential businesses;
- Promoting global development; and
- Making our employment structure more efficient.

Although MGC took various measures to reach the numerical goals set by the plan, they have proven difficult to achieve. However, proactive investment to support future growth has resulted in an improved management structure. Because the current level of our investments is relatively high in comparison with earnings, we must emphasize selection and concentration in investment. This means drastically

reducing large-scale projects until we see signs of a return to profitability. At the same time, we will work to raise the Company's ratio of unique, high-profit businesses by maintaining a fixed level of investment to commercialize superior products developed with our original technologies. Efforts to raise profitability include further streamlining operations and radically reducing fixed expenses.

Strategic Activities and Business Orientation

During fiscal 1998, MGC strengthened its competitiveness by promoting globalization and strengthening businesses where it can differentiate itself.

In the field of natural gas derivatives, the Company increased its methanol production capacity at a joint venture in Saudi Arabia. Although plans to increase production of methylmethacrylate (MMA) using a new, proprietary processing method faced problems at the start-up stage, the difficulties have been resolved and a complete system has been put in place.

In the inorganic chemical products field, MGC worked to further improve international competitiveness and started construction of a new plant for hydrogen peroxide, of which the Company is the leading domestic producer. To meet the rising need for super-pure hydrogen peroxide to clean semiconductors, we established a new production facility in Singapore while increasing the production capacity of our joint venture in the United States.

In aromatic petrochemical products, MGC raised the xylene-separating capacity at its Mizushima Plant from 350,000 tons to 600,000 tons. We plan to increase production of products where sales growth is expected, particularly derivatives of paraxylene and metaxylene.

In engineering plastics, sales and earnings increased for polycarbonate, which has a wide range of applications including compact discs. In response, we are considering raising annual production capacity at production facilities in Japan and overseas.

Sales and earnings for electronics materials were both strong, with *BT Resin* in particular playing a major role. We continued to develop promising new next-generation products in areas other than printed circuit boards.

Competition in the field of oxygen absorbers is intensifying as the number of manufacturers increases, but *AGELESS* maintained the largest share of the domestic market. The division concentrated on developing products in new fields, such as new formats for *AGELESS*, that will help to further differentiate MGC from competitors.

MGC established the new info-advanced materials devel-

opment division to develop materials for the information and communications field, where growth is expected. For this purpose, we re-outfitted our Tokyo Plant, which formerly produced chemical products, as a specialized plant for functional materials that produces less waste and noise, and consumes less power.

Outlook

Each member of the MGC Group is working to become a development-oriented chemical company distinguished by excellence. To that end, we will raise profitability by strengthening cost competitiveness and developing high value-added products. More than 80 percent of MGC products are based on our original technologies. While taking advantage of our strengths to develop unique businesses with high potential, we are orienting the company toward R&D and new business development in the areas of information & communications, electronics, energy and the environment. Furthermore, we will continue to work for greater efficiency in staffing and rationalization of unprofitable businesses as we centralize our management resources.

This is an age in which corporations must take a position to deal with environmental problems. In response, MGC obtained ISO 14001 certification for its Niigata, Tokyo, and Kashima plants during fiscal 1998. In addition, the Company will continue carrying out environmental activities under its Responsible Care guidelines. In overseas development, to maintain our competitiveness in Southeast Asia we are building an R&D-driven business structure, not only in the R&D sector of the MGC Group, but also in our marketing sector.

In achieving these goals, we ask for the continued support and cooperation of our shareholders, customers, and associates.

September 1999



Reiji Nishikawa
Chairman

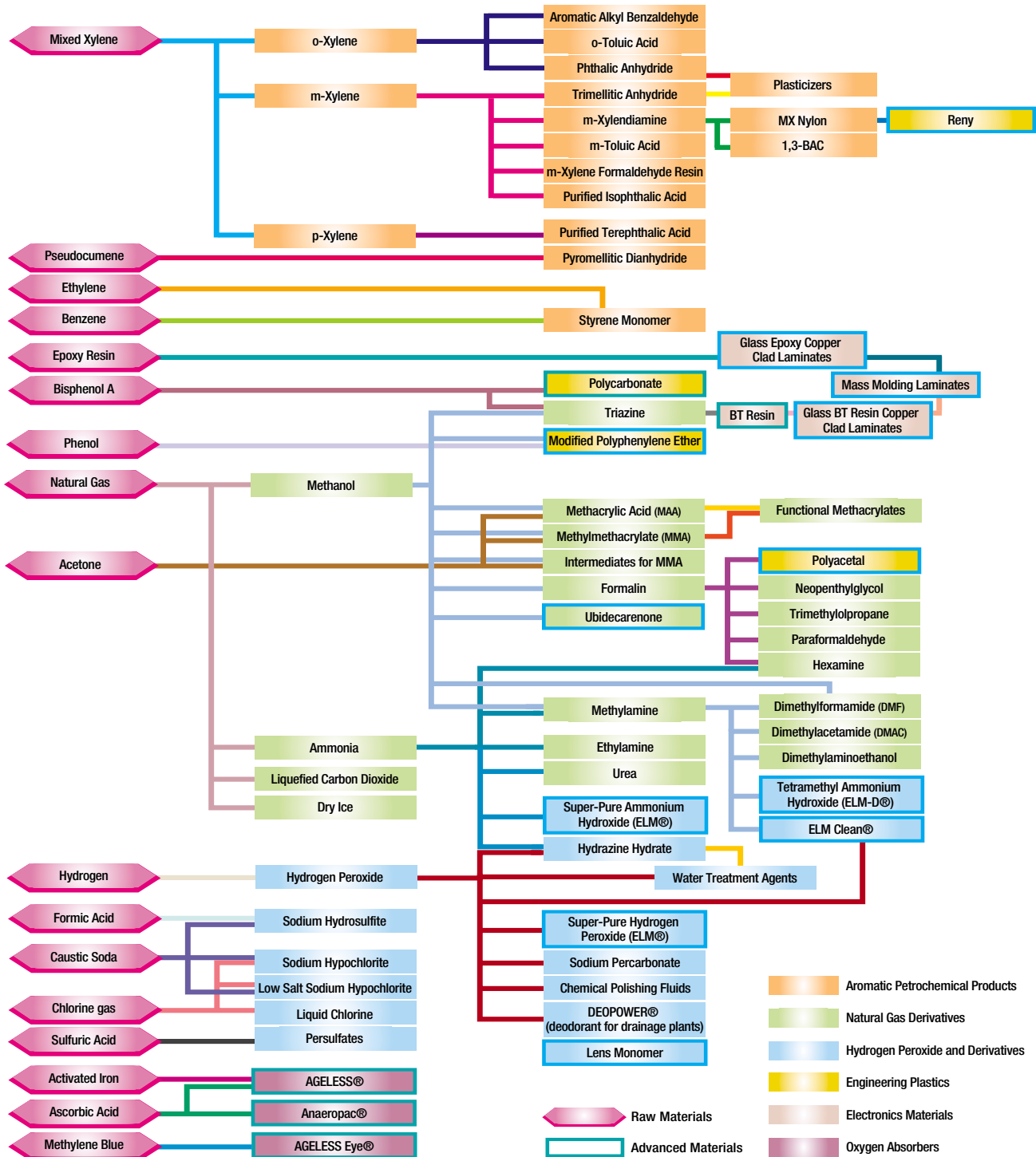


Akira Ohira
President

REVIEW OF OPERATIONS

MGC's medium- to long-term plan promoted improved management efficiency, investments to support future growth, and a stronger focus on high-potential business areas during fiscal 1998, the year ended March 31, 1999. The Company is flexibly working toward its goal of differentiating itself in a competitive global market.

Product Flow



Natural Gas Derivatives

Significantly worse conditions in overseas markets for methanol resulted in lower division sales in fiscal 1998. Factors included a supply-demand imbalance due to the economic crisis in Asia; reduction in demand worldwide influenced by the prohibition of MTBE, a major methanol derivative, in California in the United States; and increased global production capacity following completion of several large-scale plants. In response to lower product prices, MGC plans to promote further improvements in production efficiency at joint ventures in Saudi Arabia and Venezuela, and reduce distribution costs by employing new methanol transportation ships. Moreover, MGC is proactively engaged in the technical development of a reformed methanol fuel cell that is regarded as a very promising power source for next-generation fuel cell electric vehicles.

In the methylmethacrylate (MMA) project at the Niigata Plant, which employs a new ACH processing method, although plant operation was hindered by problems during the first half of the fiscal year, the facilities resumed full-scale operations in November 1998 upon the implementation of new solutions. The division will focus on expanding production and developing applications for high value-added derivatives such as high-grade MMA esters, polymers, and unique intermediate products using the new processing method.



Used in a wide range of applications, acrylic resin is one of the many products made from methylmethacrylate (MMA), a methanol derivative.

Hydrogen Peroxide and Derivatives

Sales of hydrogen peroxide fell, reflecting reduced sales volume due to a decline in exports and falling product prices. Although exports of hydrazine hydrate and hydrosulfite steadily increased, their domestic and total sales declined. Sales of various persulfates decreased in both volume and value, reflecting sluggish demand.

In response, MGC worked to strengthen its global strategy, especially by accelerating investment in hydrogen peroxide and its derivatives in pursuit of better performance. Domestically, construction of a hydrogen peroxide manufacturing facility with an annual production capacity of 50,000 tons started at the Kashima Plant. Overseas production capacity of super-pure hydrogen peroxide was increased by the completion of two production plants during the fiscal year. First, MGC Pure Chemicals America, Inc. tripled annual production to 15,000 tons at the end of 1998. Second, MGC Pure Chemicals Singapore, Inc. started manufacturing super-pure hydrogen peroxide from spring 1999, with annual production of 10,000 tons. MGC is also considering building a local plant in Taiwan.

Because hydrogen peroxide is a clean chemical product that does not produce harmful substances when dissolved, it is attracting great attention worldwide from an environmental viewpoint. We look forward to further expansion of its applications, which would allow MGC to achieve profitability on its investments in the near future.



Interest is high in *ELM* super-pure hydrogen peroxide as a clean chemical product with low impact on the environment.

Aromatic Petrochemical Products

Market conditions for paraxylene and its derivative pure terephthalic acid, as well as of phthalic anhydride and plasticizers, remained sluggish during fiscal 1998, and sales of xylene-related products declined as a whole. On the other hand, the division focused on steadily increasing production capacity in anticipation of future growth in demand and expansion of overall business. For example, annual production capacity of pure terephthalic acid was increased to 250,000 tons, while phthalic anhydride production capacity was increased to 110,000 tons using the scrap-and-build method. These moves were followed by a sharp increase in the capacity for xylene separation and isomerization from 350,000 tons to 600,000 tons per year. This upgraded production allows the division to further expand and strengthen derivatives businesses for products such as pure terephthalic acid derived from paraxylene; phthalic anhydride, plasticizers, orthotoluic acid, and naphthalene dicarboxylic acid dimethylester (NDCM) from orthoxylene; and pure isophthalic acid, trimellitic anhydride, xylene resin, methatoluic acid, m-xylene diamine (MXDA), and MX nylon from methaxylene.

Plant expansion to increase annual production capacity of pure isophthalic acid from 50,000 tons to 120,000 tons was completed in spring 1999. Strong demand for MX nylon for packaging material applications prompted the division to expand facilities at its Niigata Plant to raise production capacity.



Upgraded facilities at the Mizushima Plant support expanded production of xylene derivatives.

Engineering Plastics

Polycarbonate sales increased solidly in such application fields as medicine and miscellaneous goods, and demand is generally strong despite a decline in use for food containers due to concerns about endocrine disruptors that arose during the fiscal year. As a result, both sales and income of the division increased. With the start of operations at joint venture Thai Polycarbonate Co., Ltd., production capacity of the MGC Group, including MGC's plants in Osaka and Kashima, the Kurosaki plant of Mitsubishi Chemical Corp. and Korea Engineering Plastics Co., Ltd., now totals more than 150,000 tons. MGC enhanced its presence in the engineering plastics business, particularly in Asian markets, and is considering raising production capacity in Japan and overseas to meet the strong demand.

The poor global balance of supply and demand for polyoxymethylene resulted in a decline in sales volume and considerable price reductions. Nevertheless, Korea Engineering Plastics Co., Ltd. increased sales in volume terms, contributing to improved earnings.

The division can produce four of the five major engineering plastics: polycarbonate, polyoxymethylene, modified PPE, and nylon. An affiliate, Mitsubishi Engineering-Plastics Corp. (MEP), sells these products in Japan and overseas. The division plans to implement vigorous cost cutting measures such as reducing the grades of all compound products and rationalizing compound production while maintaining its commitment to strengthening MGC's global presence.



IUPILON polycarbonate resin pellets have applications ranging from electronic and office equipment to automobiles.

Electronics Materials

The use of *BT Resin* laminates continued to increase in the semiconductor plastics package base material market. *BT Resin* was developed about 20 years ago with MGC's proprietary technology as an insulating material, and features excellent heat resistance and electrical insulation properties. It is ideal for higher-density printed circuit board material. The division also developed *LE Sheet*, a sheet for drilling made of a special water-soluble resin. The product makes use of MGC's expertise in printed wiring board materials and contributes to improved productivity among users.

To appropriately respond to major changes in the information, communications and electronics industries, the division is committed to developing next-generation products and peripherals. MGC is building a system that responds to diversified user needs by strengthening production of electronics materials at group companies such as DIA Electronics Co., Inc. for mass lamination boards; Electrotechno Co., Ltd. for BT boards; and Japan Circuit Industrial Co., Ltd. and its subsidiary Tai Hong Circuit Industrial Co., Ltd. for ball grid array (BGA) substrates.



MGC is increasing production of electronics materials such as copper clad laminate, which is used to produce printed wiring boards.

Oxygen Absorber *AGELESS*

Despite the overall recession in Japan, domestic sales of *AGELESS* increased solidly during fiscal 1998. In the core application of food preservation, a leading manufacturer adopted *AGELESS*, and new-format products such as card and label types contributed to increased sales. In addition, demand for new applications such as instant drip coffee, medical use, and pet food increased. In July 1998, the division developed a new sales channel for exports centering on Mitsubishi Gas Chemical America, Inc. Sales in Europe for packaging of high-grade ham continued to rise.

For the original formats of *AGELESS*, the division will differentiate itself from competitors by exceeding the demanding requirements for function, price, quality, and hygiene. For new formats of *AGELESS*, the division will develop new applications and superior features such as microwavable versions.

Market development efforts for *Anaeropack*, an anaerobic bacterial culturing system, resulted in sales considerably higher than the previous fiscal year in the U.S. and European markets. MGC receives many inquiries from Southeast Asian countries and Australia, and the division expects these markets to contribute to future growth.



New formats of MGC's popular oxygen absorber *AGELESS* have helped continue market expansion.

Info-advanced Materials/Biochemicals

In the area of info-advanced materials, sales increased in the high-potential field of optoelectronics. With the diffusion of optical communications, MGC's magnetic garnet single crystals, a core component, continued to post healthy growth in sales volume. In the field of optical wave-guide products, development of the EEX Series wavelength multi-media converter was completed and it went on the market in April 1999. Research and manufacturing facilities for anti-ferroelectric liquid crystal were constructed for the trial supply of mass-production prototypes to display manufacturers. MGC worked to cultivate new applications for *RP System*, a revolutionary preservation system for metals in fields such as metal materials and electronic parts, in addition to developing small *RP* agent and box-type containers.

In the biochemical field, MGC focused on promoting the coenzyme Q¹⁰, the industrial enzyme *ASC* (catalase) and the concrete admixture *Diaprone*, as well as in-depth development of *Biogreen*, a biodegradable micro-organic resin, and an external diagnostic drug. Q¹⁰ sells especially well in the United States as a nutritional supplement, and its market is expected to expand. MGC will promote *ASC* in existing markets and is working to find new applications and planning an overseas introduction. Marketing of *Diaprone*, a protein-based concrete mixture made with MGC's proprietary technology, focused on secondary processing manufacturers, in addition to general contractors. *Biogreen* is a biodegradable micro-organic raw material with excellent heat resistance, rigidity, and oxygen permeability as high as polyethylene terephthalate resin (PET), and a study on its extensive use as a reformer of other biodegradable resins is under way.

MGC developed an external thrombomodulin diagnostic kit that is used in testing for the various diseases that cause blood clots and other obstructions of the blood vessels. The Company also started marketing a reagent for an aldose reducing enzyme measurement kit, and developing a diagnostic drug for diabetic complications.

RESPONSIBLE CARE

To protect the health and safety of people and preserve the environment, MGC has established a basic environmental and safety policy under the name "Responsible Care," which the Company has implemented in its daily business activities. The fundamental elements of this policy are as follows:

- MGC's goals are to carry out operations with no accidents or disasters and to protect the environment.
- MGC works to conserve energy and resources.
- MGC promotes reduction of burdens on the environment and reuse and recycling of waste materials.
- MGC provides the information necessary for safe use and handling of its products.
- MGC carries out research and development and product quality assurance with safety and the environment in mind.
- MGC strives to maintain and earn the trust placed in it by society through strict observance of laws and international regulations, and through these responsible care activities.

About Responsible Care

Based on principles of self-determination and self-responsibility as a business that manufactures and handles chemical products, MGC pledges to carry out management policies to maintain safety and protect the environment through every stage from product development to distribution, application and disposal after final use. These independent management activities are implemented through policies to improve safety, health and the environment.



レスポンシブル・ケア

Responsible Care logo

FINANCIAL REVIEW

Sales and Income

MGC's consolidated net sales for fiscal 1998, the year ended March 31, 1999, totaled ¥286,472 million (US\$2,376 million), an 8.0 percent decrease compared to the previous fiscal year. The Company's continuing efforts to lower cost of sales resulted in a 4.7 percent reduction to ¥235,536 million (US\$1,954 million). However, this reduction did not keep pace with lower sales, and the cost of sales ratio rose 2.9 percentage points to 82.2 percent.

By business sector, sales of the Chemical Products Group decreased 12.5 percent to ¥143,429 million (US\$1,190 million). New facilities and lower demand resulted in an oversupply of methanol, leading to declining sales. Lower prices and reduced exports decreased sales of hydrogen peroxide. New facilities for pure terephthalic acid, a paraxylene derivative, contributed to expanded sales volume, although a drop in overseas demand reduced sales. The Advanced Materials Group posted a 1.2 percent decrease in sales to ¥124,825 million (US\$1,035 million). Lower prices and a drop in demand for some products reduced sales of engineering plastics. Solid growth in sales of *BT Resin* for applications in semiconductor packaging was offset by lower prices and the strong yen, resulting in only a slight increase in sales. Electronics materials performed well in overseas markets, and *AGELESS* exhibited continued sales growth. The Other Products Group recorded sales of ¥18,218 million (US\$151 million), down 14.2 percent, although sales of various technologies increased.

Selling, general and administrative expenses decreased 7.4 percent to ¥43,314 million (US\$359 million). Operating income therefore totaled

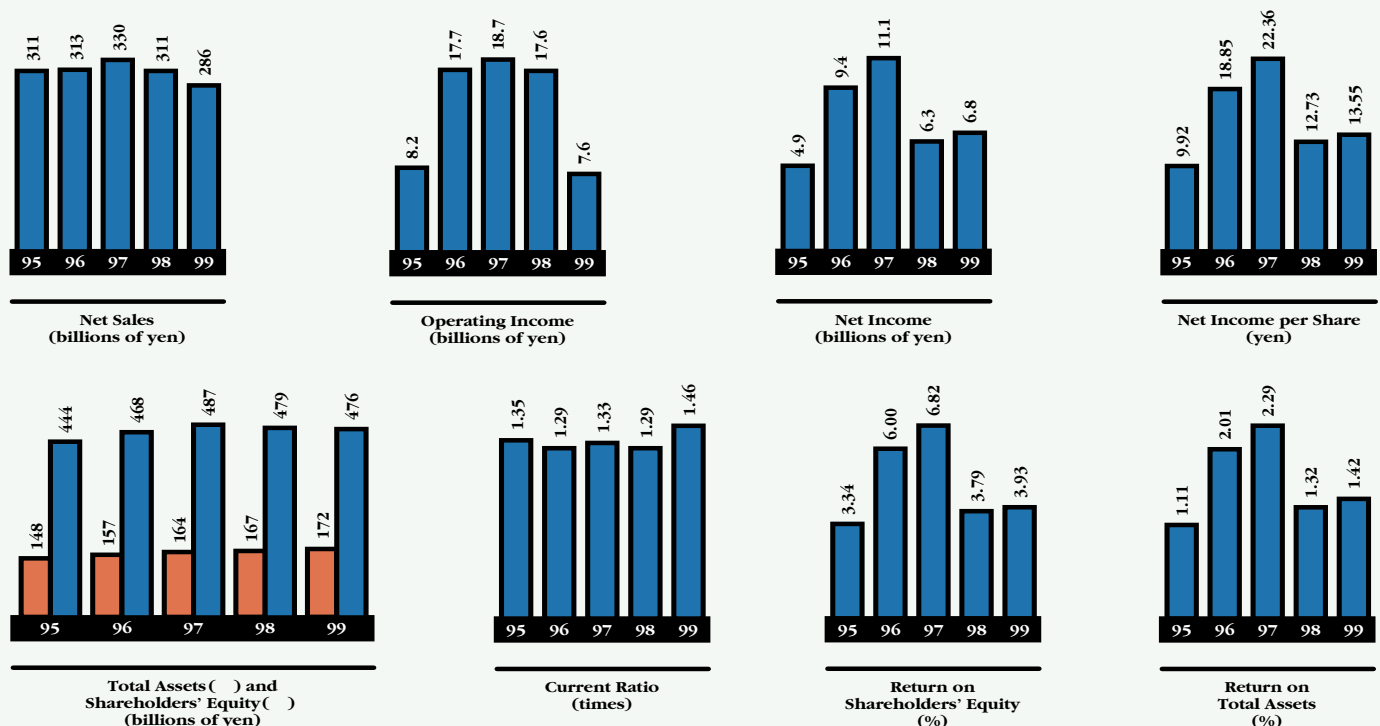
¥7,622 million (US\$63 million), compared with ¥17,595 million in fiscal 1998. Other income amounted to ¥2,148 million (US\$18 million), leaving income before income taxes and minority interests of ¥9,770 million (US\$81 million). A 60.3 percent decrease in provision for income taxes to ¥2,379 million (US\$20 million) resulted in net income of ¥6,754 million (US\$56 million), compared with ¥6,346 million (US\$53 million) in the previous fiscal year.

Liquidity and Financial Position

Current assets at March 31, 1999 totaled ¥235,982 million (US\$1,958 million), 8.5 percent lower than at the previous fiscal year end. Current liabilities decreased 18.8 percent to ¥162,011 million (US\$1,344 million). The greater decrease in current liabilities led to a 26.5 percent rise in working capital to ¥73,971 million (US\$614 million). The current ratio rose to 1.46 to 1, compared with 1.29 to 1 a year earlier.

Property, plant and equipment, at cost less accumulated depreciation amounted to ¥165,664 million (US\$1,374 million), up 10.1 percent from the end of the previous fiscal year. Investments and other assets increased 4.4 percent to ¥74,189 million (US\$615 million). Total assets were ¥475,835 million (US\$3,947 million), 0.8 percent lower than the level of a year earlier.

Total long-term liabilities increased 27.3 percent to ¥134,491 million (US\$1,116 million). Shareholders' equity rose 2.7 percent to ¥172,058 million (US\$1,427 million).



CONSOLIDATED BALANCE SHEETS

MITSUBISHI GAS CHEMICAL COMPANY, INC. AND CONSOLIDATED SUBSIDIARIES
AS OF MARCH 31, 1999 AND 1998

	Millions of yen		Thousands of dollars (Note 1)	
	1999	1998	1999	1998
ASSETS				
Current Assets:				
Cash and cash equivalents.....	¥ 36,188	¥ 32,987	\$ 300,191	\$ 273,637
Time deposits	622	716	5,160	5,939
Marketable securities	54,041	72,964	448,287	605,259
Notes and accounts receivable:				
Trade.....	72,472	78,499	601,178	651,174
Non-consolidated subsidiaries and affiliates	15,714	18,765	130,353	155,662
Allowance for doubtful receivables.....	(762)	(904)	(6,321)	(7,499)
Inventories.....	43,172	42,960	358,125	356,367
Prepaid expenses.....	789	722	6,545	5,989
Other current assets:				
Non-consolidated subsidiaries and affiliates	9,230	7,869	76,566	65,276
Other	4,516	3,357	37,461	27,848
Total current assets.....	235,982	257,935	1,957,545	2,139,652
Property, Plant and Equipment, at Cost:				
Land.....	23,217	22,103	192,592	183,351
Buildings and structures	98,383	92,991	816,118	771,389
Machinery and equipment.....	290,240	265,935	2,407,632	2,206,015
Construction in progress	12,474	19,554	103,476	162,207
	424,314	400,583	3,519,818	3,322,962
Less: Accumulated depreciation	(258,650)	(250,086)	(2,145,583)	(2,074,542)
Total property, plant and equipment.....	165,664	150,497	1,374,235	1,248,420
Investments and Other Assets:				
Investment securities	18,049	18,160	149,722	150,643
Investments in and advances to				
non-consolidated subsidiaries and affiliates	43,112	43,131	357,628	357,785
Allowance for doubtful receivables.....	(373)	(342)	(3,094)	(2,837)
Other	13,401	10,085	111,164	83,658
Total investments and other assets.....	74,189	71,034	615,420	589,249
Total Assets	¥ 475,835	¥ 479,466	\$3,947,200	\$3,977,321

The accompanying notes are an integral part of these balance sheets.

	Millions of yen		Thousands of dollars (Note 1)	
	1999	1998	1999	1998
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current Liabilities:				
Short-term borrowings	¥ 65,684	¥ 78,224	\$ 544,869	\$ 648,893
Current portion of long-term debt	8,092	25,801	67,126	214,027
Notes and accounts payable:				
Trade.....	41,331	47,705	342,854	395,728
Non-consolidated subsidiaries and affiliates	9,455	10,205	78,432	84,654
Other	14,733	11,739	122,215	97,379
Employees' savings deposits	4,795	5,037	39,776	41,783
Accrued expenses.....	16,448	15,300	136,441	126,918
Accrued income taxes	1,473	5,448	12,219	45,193
Total current liabilities	162,011	199,459	1,343,932	1,654,575
Long-term Liabilities:				
Long-term debt	117,058	88,118	971,033	730,966
Estimated termination and retirement allowances.....	16,504	16,461	136,906	136,549
Other	929	1,099	7,706	9,118
Total long-term liabilities	134,491	105,678	1,115,645	876,633
Minority Interests	7,275	6,851	60,348	56,831
Contingent Liabilities (Note 11)				
Shareholders' Equity:				
Common stock, par value ¥50 per share:				
Authorized – 1,000,000,000 shares				
Issued and outstanding – 498,622,398 shares in 1999				
and 498,622,398 shares in 1998.....	41,970	41,970	348,154	348,154
Additional paid-in capital	35,518	35,518	294,633	294,633
Less: Treasury stock, at cost.....	(0)	(0)	(0)	(0)
Retained earnings	94,570	89,990	784,488	746,495
Total shareholders' equity.....	172,058	167,478	1,427,275	1,389,282
Total Liabilities and Shareholders' Equity	¥475,835	¥479,466	\$3,947,200	\$3,977,321

CONSOLIDATED STATEMENTS OF INCOME

MITSUBISHI GAS CHEMICAL COMPANY, INC. AND CONSOLIDATED SUBSIDIARIES
FOR THE YEARS ENDED MARCH 31, 1999 AND 1998

	Millions of yen		Thousands of dollars (Note 1)	
	1999	1998	1999	1998
Net Sales:				
Non-consolidated subsidiaries and affiliates	¥ 59,595	¥ 63,153	\$ 494,359	\$ 523,874
Other customers	226,877	248,281	1,882,016	2,059,569
Total	286,472	311,434	2,376,375	2,583,443
Cost of Sales	235,536	247,054	1,953,845	2,049,391
Gross profit	50,936	64,380	422,530	534,052
Selling, General and Administrative Expenses	43,314	46,785	359,303	388,096
Operating income.....	7,622	17,595	63,227	145,956
Other Income (Expenses):				
Interest and dividend income	1,605	1,706	13,314	14,152
Interest expense	(3,772)	(3,473)	(31,290)	(28,810)
Gain on sales of securities	4,739	44	39,311	365
Other, net.....	(424)	(2,127)	(3,516)	(17,644)
Total	2,148	(3,850)	17,819	(31,937)
Income before income taxes and minority interests.....	9,770	13,745	81,046	114,019
Provision for Income Taxes	2,379	5,999	19,735	49,764
Income before minority interests	7,391	7,746	61,311	64,255
Minority Interests	637	1,400	5,284	11,613
Net Income	¥ 6,754	¥ 6,346	\$ 56,027	\$ 52,642

	Yen		Dollars (Note 1)	
	1999	1998	1999	1998
Amounts per Share of Common Stock:				
Net income:				
Basic	¥ 13.55	¥ 12.73	\$ 0.112	\$ 0.106
Diluted.....	13.51	12.69	0.112	0.105
Cash dividends	5.00	5.00	0.041	0.041

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

MITSUBISHI GAS CHEMICAL COMPANY, INC. AND CONSOLIDATED SUBSIDIARIES
FOR THE YEARS ENDED MARCH 31, 1999 AND 1998

	Number of shares (thousands)		Millions of yen		Thousands of dollars (Note 1)	
	1999	1998	1999	1998	1999	1998
Common Stock:						
Beginning balance	498,622	498,622	¥41,970	¥41,970	\$348,154	\$348,154
Ending balance	498,622	498,622	¥41,970	¥41,970	\$348,154	\$348,154
Additional Paid-in Capital:						
Beginning balance			¥35,518	¥35,518	\$294,633	\$294,633
Ending balance			¥35,518	¥35,518	\$294,633	\$294,633
Retained Earnings:						
Beginning balance			¥89,990	¥86,033	\$746,495	\$713,669
Add:						
Net income			6,754	6,346	56,027	52,642
Increase due to change in scope of affiliates accounted for under the equity method			439	202	3,640	1,676
Deduct:						
Cash dividends paid			(2,493)	(2,493)	(20,679)	(20,679)
Directors' bonuses			(120)	(98)	(995)	(813)
Ending balance			¥94,570	¥89,990	\$784,488	\$746,495

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

MITSUBISHI GAS CHEMICAL COMPANY, INC. AND CONSOLIDATED SUBSIDIARIES
FOR THE YEARS ENDED MARCH 31, 1999 AND 1998

	Millions of yen		Thousands of dollars (Note 1)	
	1999	1998	1999	1998
Cash Flows from Operating Activities:				
Income before income taxes.....	¥ 9,133	¥ 12,345	\$ 75,762	\$ 102,406
Adjustments to reconcile income before income taxes to net cash provided by operating activities:				
Depreciation and amortization	18,426	17,041	152,849	141,360
Gain on sale of property, plant and equipment.....	(2,146)	(691)	(17,802)	(5,732)
Allowance for doubtful receivables.....	(110)	(488)	(912)	(4,048)
Estimated termination and retirement allowances.....	39	—	324	—
Interest income and dividend	(1,605)	(1,706)	(13,314)	(14,152)
Interest expense	3,772	3,473	31,290	28,810
Decrease (increase) in receivables.....	8,684	(2,618)	72,037	(21,717)
Increase in inventories	(296)	(5,576)	(2,455)	(46,255)
Increase in other current assets	(1,407)	(291)	(11,672)	(2,414)
(Decrease) increase in payables	(6,085)	4,700	(50,470)	38,988
(Decrease) increase in other current liabilities.....	(213)	493	(1,767)	4,090
(Gains) losses on marketable and investment securities.....	(4,742)	1,804	(39,337)	14,965
Loss on valuation of marketable and investment securities....	1,306	1,355	10,834	11,248
Loss from disposal of fixed assets	814	—	6,752	—
Other, net	(581)	(1,878)	(4,836)	(15,587)
	24,989	27,963	207,283	231,962
Proceeds from interest and dividend income	1,605	1,706	13,314	14,152
Interest expense	(3,772)	(3,473)	(31,290)	(28,810)
Payments of income taxes	(4,961)	(4,537)	(41,150)	(37,635)
Other	(120)	(98)	(995)	(814)
Net cash provided by operating activities	17,741	21,561	147,162	178,855
Cash Flows from Investing Activities:				
Decrease in time deposits	94	340	780	2,821
Proceeds from sale of marketable and investment securities.....	20,688	1,056	171,613	8,760
Proceeds from sale of property, plant and equipment.....	7,272	1,923	60,324	15,952
Purchase of property, plant and equipment.....	(35,807)	(29,907)	(297,030)	(248,088)
Increase in investments and other assets	(3,090)	(1,187)	(25,631)	(9,847)
Net cash used in investing activities	(10,843)	(27,775)	(89,944)	(230,402)
Cash Flows from Financing Activities:				
Proceeds from long-term borrowing.....	27,628	8,905	229,191	73,862
Repayments of long-term borrowing.....	(12,361)	(12,860)	(102,538)	(106,677)
Proceeds from straight bond.....	10,000	20,000	82,953	165,909
Repayments of convertible bond	(13,951)	—	(115,728)	—
(Decrease) increase in short-term borrowings.....	(12,420)	7,079	(103,028)	58,724
Cash dividends paid	(2,493)	(2,493)	(20,684)	(20,678)
Net cash (used in) provided by financing activities.....	(3,597)	20,631	(29,834)	171,140
Effect of Exchange Rate Changes on				
Cash and Cash Equivalents	(100)	(150)	(830)	(1,244)
Net Increase in Cash and Cash Equivalents	3,201	14,267	26,554	118,349
Cash and Cash Equivalents at Beginning of Year	32,987	19,740	273,637	163,749
Decrease in Cash and Cash Equivalents due to the Change in Scope of Consolidated Subsidiaries, Net.....	—	(1,020)	—	(8,461)
Cash and Cash Equivalents at End of Year.....	¥ 36,188	¥ 32,987	\$ 300,191	\$ 273,637

The accompanying notes are an integral part of these statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

mitsubishi gas chemical company, inc. and consolidated subsidiaries

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presenting Consolidated Financial Statements

Mitsubishi Gas Chemical Company, Inc. (the “Company”) and its consolidated domestic subsidiaries maintain their accounts and records in accordance with the provisions set forth in the Japanese Commercial Code and the Securities and Exchange Law and in conformity with accounting principles and practices generally accepted in Japan, which are different from the accounting and disclosure requirements of International Accounting Standards. The accounts of overseas consolidated subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles and practices prevailing in the respective countries of domicile.

The accompanying consolidated financial statements are a translation of the audited consolidated financial statements of the Company which were prepared in accordance with accounting principles and practices generally accepted in Japan from the accounts and records maintained by the Company and its consolidated subsidiaries and were filed with the Ministry of Finance (“MOF”) as required by the Securities and Exchange Law.

In preparing the accompanying consolidated financial statements, certain reclassifications have been made in the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. The consolidated statements of cash flows have been prepared for the purpose of inclusion in the consolidated financial statements, although such statements are not customarily prepared in Japan and are not required to be filed with the MOF.

The translation of the Japanese yen amounts into U.S. dollars are included solely for the convenience of the reader, using the prevailing exchange rate at March 31, 1999, which was ¥120.55 to U.S.\$1.00. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

(b) Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its 24 significant subsidiaries as follows:

A&C Co., Ltd.
Electrotechno Co., Ltd.
Marine Transport and Terminal Co., Ltd.
Kinoh Terminal Company, Inc.
Kyoritsu Kogyo Co., Ltd.
Kashima Polymer Co., Ltd.
Dia Denshi Corporation
DIA Electronics Co., Inc.
Diatec Co., Ltd.

Tokyo Shokai Co., Ltd.
Toyo Kagaku Co., Ltd.
Japan Circuit Industrial Co., Ltd.
Japan Pionics Co., Ltd.
Japan Hydrazine Co., Inc.
Fuji Kasei Co., Ltd.
Ryoko Chemical Co., Ltd.
Ryowa Enterprise Co., Inc.
mitsubishi gas chemical (Singapore) Pte. Ltd.
Eiwa Chemical Industrial Co., Inc.
Japan Chemical Transport Co., Ltd.
Japan Chemical Transport Panama Inc.
Samyoung Pure Chemicals Co., Ltd.
MGC Pure Chemicals America, Inc.
Ryowakosan Company, Inc.

Significant intercompany balances, transactions and profits have been eliminated in consolidation.

Investments in twelve 20% to 50% owned affiliates are accounted for under the equity method.

Investments in the other 37 affiliates and 25 non-consolidated subsidiaries are stated at cost, since the aggregate effect is immaterial. Earnings from these companies are recorded in the Company’s books to the extent that cash dividends are received.

(c) Foreign Currency Translation

Current receivables and payables denominated in foreign currencies have been translated into Japanese yen at the exchange rates in effect as of the relevant balance sheet dates or at the applicable exchange rates under forward exchange contracts.

The financial statements of foreign subsidiaries and affiliates are translated into Japanese yen by using the current rate method.

(d) Cash and Cash Equivalents

For purposes of the balance sheets and the statements of cash flows, the Company considers highly liquid investments with original maturity of three months or less to be cash equivalents.

(e) Inventories

Finished goods, work in process, raw materials and supplies are mainly stated at cost determined by the average method.

(f) Marketable Securities and Investment Securities

Marketable securities consist of marketable equity securities and interest-bearing bonds due within a year after the balance sheet dates. Marketable equity securities and interest-bearing bonds are stated at the lower of moving average cost or market, as determined on an individual securities basis.

Investment securities consist of marketable and non-marketable equity securities and interest-bearing bonds not due within a year. These are all stated at moving average cost except for the marketable equity securities, which are stated at the lower of moving average cost or market, as determined on an individual securities basis.

Commencing with the year ended March 31, 1999, the Company records recoveries of write-downs of securities in accordance with a revision in the Corporation Tax Law. There was no effect on net income resulting from adopting this accounting policy.

(g) Depreciation

Depreciation of plant and equipment is computed by the following methods over the estimated useful lives as prescribed by Japanese income tax laws:

Machinery and equipment: Straight-line method; over 2 to 15 years.

Buildings and structures: Straight-line method and declining balance method; over 2 to 60 years.

Depreciation expenses for the years ended March 31, 1999 and 1998 amounted to ¥18,049 million (\$149,721 thousand) and ¥16,438 million (\$136,359 thousand), respectively.

Maintenance and repairs, including minor renewals and improvements, are charged to income as incurred.

Effective April 1, 1998, in accordance with revisions of the Corporation Tax Law, the Company shortened the estimated useful lives of buildings, excluding building fixtures. The aggregate effect of these changes to increase depreciation expense by ¥142 million (\$1,178 thousand) and accordingly decrease operating income and increase income before income taxes by ¥131 million (\$1,087 thousand). A certain part of segment information presented in Note 12 is also affected by this change.

(h) Termination and Retirement Allowance and Pension Plans

The Company and its consolidated subsidiaries have principally unfunded lump-sum retirement allowance plans for employees. Such allowances are determined generally on the basis of length of service and current basic salary at the time of termination or retirement. Certain consolidated subsidiaries have a funded pension plan instead of a lump-sum retirement allowance plan.

Estimated termination and retirement allowances are mainly stated at 40% of the amount payable if all eligible employees voluntarily terminated their employment as of each balance sheet date.

In addition, the Company and certain consolidated subsidiaries have a funded non-contributory pension plan for the qualified employees of the Company whose service is terminated at retirement age.

Retirement benefits to directors and corporate statutory auditors are charged to income at the time when the relevant resolution of the shareholders is obtained except for two subsidiaries.

(i) Research and Development Expenses

Research and exploration expenses are charged to income as incurred and amounted to ¥11,900 million (\$98,714 thousand) and ¥12,800 million (\$106,180 thousand) for the years ended March 31, 1999 and 1998 respectively.

(j) Income Taxes

Provision for income taxes is calculated on taxable income and charged to income on an accrual basis. Deferred income taxes pertaining to timing differences between financial and tax reporting are not provided except for a foreign consolidated subsidiary.

(k) Stock and Bond Issue Costs

Costs incurred in connection with the issue of stock or bonds are charged to income as incurred.

2. CHANGE IN ACCOUNTING POLICY

(a) Amortization of Goodwill

In accordance with the new disclosure requirements effective from the year ended March 31, 1999, amortization of goodwill is included in selling, general and administrative expenses.

(b) Stockholders' Equity

In accordance with the new disclosure requirements effective from the year ended March 31, 1999, legal reserve is included in retained earnings for 1999. Previously, it was presented as a separate component of the stockholders' equity. The accompanying consolidated financial statements for the year ended March 31, 1998 has been reclassified to conform to the 1999 presentation.

(c) Minority Interests

In accordance with the new disclosure requirements effective from the year ended March 31, 1999, minority interests is presented as a separate component. Previously, it was included in "Long-Term Liabilities." The accompanying consolidated financial statements for the year ended March 31, 1998 has been reclassified to conform to the 1999 presentation.

(d) Enterprise Tax

In accordance with the new disclosure requirements effective from the year ended March 31, 1999, enterprise tax is now included in income taxes. Previously, it was included in "Selling, General and Administrative Expenses."

(e) Equity in Earnings of Affiliated Companies

In accordance with the new disclosure requirements effective from the year ended March 31, 1999, equity in earnings of affiliated companies is included in other income. Prior year amounts, which were presented between income taxes and net income, have been reclassified to conform to the 1999 presentation.

3. MARKETABLE SECURITIES AND INVESTMENT SECURITIES

Marketable securities and investment securities as of March 31, 1999 and 1998, consist of the following:

	Millions of yen		Thousands of dollars	
	1999	1998	1999	1998
Marketable securities				
Marketable equity securities.....	¥37,883	¥35,064	\$314,251	\$290,867
Interest-bearing bonds and other	16,158	37,900	134,036	314,392
Total.....	¥54,041	¥72,964	\$448,287	\$605,259
Investment securities				
Marketable equity securities.....	¥ 6,532	¥ 7,606	\$ 54,185	\$ 63,094
Interest-bearing bonds and other	11,517	10,554	95,537	87,549
Total.....	¥18,049	¥18,160	\$149,722	\$150,643

Marketable equity securities are stated at the lower of moving average cost or market, as determined on an individual security basis.

The aggregate costs and market values of marketable equity securities are summarized as follows:

	Average costs as of March 31 Millions of yen		Average costs as of March 31 Thousands of dollars	
	1999	1998	1999	1998
Current	¥37,883	¥35,064	\$314,251	\$290,867
Non-current	6,532	7,606	54,185	63,094
Total.....	¥44,415	¥42,670	\$368,436	\$353,961
	Average market values as of March 31 Millions of yen		Average market values as of March 31 Thousands of dollars	
	1999	1998	1999	1998
Current	¥69,129	¥72,575	\$573,446	\$602,032
Non-current	8,337	10,110	69,158	83,866
Total.....	¥77,466	¥82,685	\$642,604	\$685,898

4. INVENTORIES

Inventories as of March 31, 1999 and 1998 consisted of the following:

	Millions of yen		Thousands of dollars	
	1999	1998	1999	1998
Finished goods.....	¥20,724	¥22,707	\$171,912	\$188,362
Work in process.....	8,422	8,523	69,863	70,700
Raw materials and supplies	14,026	11,730	116,350	97,305
Total inventories.....	¥43,172	¥42,960	\$358,125	\$356,367

5. SHORT-TERM BORROWINGS

Short-term borrowings represent principally notes payable to banks due generally in 3 months, bank overdrafts and current portion of long-term debt. Weighted average interest rates on short-term borrow-

ings excluding current portion of long-term debt were 0.6% to 5.7% and 0.8% to 5.7% as of March 31, 1999 and 1998, respectively.

These notes have been renewed regularly from time to time as required.

6. LONG-TERM DEBT

Long-term debt as of March 31, 1999 and 1998 is summarized below:

	Millions of yen		Thousands of dollars	
	1999	1998	1999	1998
2.4% convertible sinking fund bonds, due March 29, 2002	¥ 1,428	¥ 1,428	\$ 11,846	\$ 11,846
1.9% convertible bonds, due August 14, 1998	—	13,951	—	115,728
1.116% to 4.9% mortgage or secured loans from banks, insurance companies and other financial institutions, due on various dates through 2010	54,872	47,990	455,180	398,092
1.6% to 7.30% loans from government sponsored agencies and banks, due on various dates through 2032	18,850	10,550	156,367	87,516
2.45% bonds, due September 5, 2001	10,000	10,000	82,953	82,953
2.95% bonds, due September 5, 2003	10,000	10,000	82,953	82,953
2.225% bonds, due March 13, 2003	10,000	10,000	82,953	82,953
2.675% bonds, due March 16, 2005	10,000	10,000	82,953	82,953
2.57% bonds, due August 20, 2006	5,000	—	41,477	—
2.57% bonds, due August 25, 2006	5,000	—	41,477	—
	125,150	113,919	1,038,159	944,994
Less: Current portion included in current liabilities	(8,092)	(25,801)	(67,126)	(214,027)
Total	¥ 117,058	¥ 88,118	\$ 971,033	\$ 730,967

As is customary in Japan, substantially all of the bank borrowings are subject to general agreements with each bank which provide, *inter alia*, that the banks may, under certain circumstances, request additional collateral or guaranty for the loans and treat any collateral or guaranty furnished as well as cash deposited as collateral for all present and future debt. The Company has never been requested to submit such additional collateral or guaranty.

The 2.4% unsecured convertible sinking fund bonds are subject to certain covenants such as restrictions on dividends, as defined in the agreements. Sinking fund payments with respect to these bonds will be required for the periods from fiscal year 1996 until fiscal year 2001, as provided on the applicable agreements.

As of March 31, 1999, the aggregate annual maturities of long-term debt subsequent to March 31, 2000 were as follows:

Year ending March 31	Millions of yen	Thousands of dollars
2001	¥ 23,666	\$196,317
2002	24,614	204,181
2003	18,470	153,214
2004	20,713	171,821
2005 and thereafter	29,595	245,500
Total	¥117,058	\$971,033

7. EMPLOYEES' SAVINGS DEPOSITS

Employees' savings deposits, which bear interest at 1.3% and 1.9% per annum as of March 31, 1999 and 1998, respectively, are secured by time deposits and certain marketable securities and investments in

securities aggregating approximately 100% of the balances at the respective balance sheet dates.

8. INCOME TAXES

The Company and its consolidated subsidiaries are subject to several taxes based on income. The aggregate normal tax rates for 1999 and 1998 were approximately 47% and 51%, respectively, after giving effect to the enterprise tax, which is deductible for income tax purposes when paid.

The effective tax rates in the accompanying consolidated statements of income differ from the aggregate normal tax rates primarily

because of the effects of (a) permanently nondeductible expenses, net of nontaxable income; (b) temporary differences in recognition of certain revenues and expenses for tax and financial statement purposes, as referred to above; and (c) certain tax credits.

Under Japanese tax laws, operating income incurred from exploration for natural gas in Japan is not subject to the corporate enterprise tax.

9. SHAREHOLDERS' EQUITY

The Japanese Commercial Code provides that an amount equivalent to at least 10% of cash dividends paid and other cash outlays with respect to each fiscal period, and exactly 10% of interim cash dividends paid, be appropriated to a legal reserve until such reserve equals 25% of the stated capital. The Code also provides that additional paid-in capital and legal reserve are not available for dividends, but may be used to reduce a capital deficit by resolution of the shareholders or may be capitalized by resolution of the Board of Directors.

Year-end dividends or interim dividends may be approved by the shareholders after the end of each fiscal year or declared by the Board of Directors after the end of each first six-month period. In accordance with the Commercial Code, the year-end dividends and the related appropriations of retained earnings are not reflected in the Commercial Code, the year-end dividends and the related appropriations of retained earnings are not reflected in the financial statements at the end of the relevant fiscal year, but are recorded at the time they are approved.

However, dividends per share shown in the accompanying consolidated statements of income are included in the fiscal year to which they are applicable.

On June 29, 1999, the shareholders of the Company approved the declaration of a year-end cash dividend totaling ¥1,246 million (\$10,336 thousand), which was paid in that month to the shareholders of record as of March 31, 1999 covering the year then ended.

The Japanese Commercial Code provides that at least one-half of the proceeds from shares issued at prices in excess of par value be included in common stock. In conformity therewith, the Company has divided the paid-in amount of the stock issued by the conversion of bonds into common stock equally between common stock and additional paid-in capital.

10. PER-SHARE DATA

Dividends per share shown in the consolidated statements of income have been presented on the accrual basis and include, in each fiscal period, dividends approved after each balance sheet date, but applicable to the fiscal period then ended.

The computations of net income per common share are based on the weighted average number of common shares outstanding. The

2.4% convertible bonds and 1.9% convertible bonds were considered as common stock equivalents. In computing net income per share, net income is adjusted, net of income taxes, by interest expense when the inclusions are dilutive.

11. CONTINGENT LIABILITIES

As of March 31, 1999, the Company and its consolidated subsidiaries were contingently liable for the following:

	Millions of yen	Thousands of dollars
Trade notes receivable discounted with banks	¥ 1,775	\$ 14,724
Guarantees given for borrowings of certain non-consolidated subsidiaries, affiliates and other companies	12,193	101,145

12. SEGMENT INFORMATION

(a) Information by Industry Segment

The Company and its consolidated subsidiaries operate principally in three segments: chemical products, advanced materials and others, which are divided based on type of business, type of products and markets.

The main products of each segment are as follows:

Chemical products:

Methanol, ammonia, urea, xylene and xylene derivatives, hydrogen peroxide, polyhydric alcohol, hydrazine hydrate and other industrial chemicals.

Advanced materials:

Engineering plastics, printed circuit board materials, printed circuit boards, forming polystyrene, foaming polypropylene, electronic materials, oxygen absorbing agent (*AGELESS*).

Others:

Gasification equipment and purification equipment for high-purity gases, disposable heating pads (*Hokaron*).

As mentioned in Note 1, in accordance with the revisions of the Corporation Tax Law, the Company shortened the estimated useful lives of buildings for fiscal 1998. As a result of this change, operating income for the year ended March 31, 1999, for Chemical Products, Advanced Materials and Others decreased by ¥72 million (\$597 thousand), ¥50 million (\$414 thousand) and ¥8 million (\$66 thousand) respectively.

As mentioned in Note 2, in accordance with the new disclosure requirements effective from the year ended March 31, 1999, enterprise tax and amortization of goodwill are newly classified to certain areas. As for enterprise tax, the effect of this change is to increase operating income for Chemical Products, Advanced Materials and Others by ¥9 million (\$74 thousand), ¥438 million (\$3,633 thousand) and ¥11 million (\$91 thousand) respectively. Also, as for amortization of goodwill, the effect of this change is to increase operating income for Chemical Products by ¥6 million (\$49 thousand) and to decrease operating income for Advanced Materials by ¥13 million (\$107 thousand) respectively.

A summary of net sales, costs and expenses, and operating income by segment of business activities for the years ended March 31, 1999 and 1998 is as follows:

1999 (Millions of yen)	Chemical Products	Advanced Materials	Others	Elimination and Corporate	Consolidated Total
Net sales					
Sales to outside customers	¥143,429	¥124,825	¥18,218	¥ —	¥286,472
Intersegment sales and transfers	3,932	120	1,762	(5,814)	—
Total	147,361	124,945	19,980	(5,814)	286,472
Costs and expenses	151,463	115,464	18,066	(6,143)	278,850
Operating income	¥ (4,102)	¥ 9,481	¥ 1,914	¥ 329	¥ 7,622
Assets & Amortization, Expenditures					
Assets.....	¥206,372	¥164,429	¥38,889	¥66,145	¥475,835
Depreciation.....	9,967	7,103	979	—	18,049
Capital expenditures.....	22,700	11,626	413	—	34,739

1999 (Thousands of dollars)	Chemical Products	Advanced Materials	Others	Elimination and Corporate	Consolidated Total
Net sales					
Sales to outside customers	\$1,189,791	\$1,035,464	\$151,120	\$ —	\$2,376,375
Intersegment sales and transfers	32,615	992	14,623	(48,230)	—
Total	1,222,406	1,036,456	165,743	(48,230)	2,376,375
Costs and expenses	1,256,430	957,811	149,863	(50,956)	2,313,148
Operating income	\$ (34,024)	\$ 78,645	\$ 15,880	\$ (2,726)	\$ 63,227
Assets & Amortization, Expenditures					
Assets.....	\$1,711,924	\$1,363,993	\$322,598	\$548,685	\$3,947,200
Depreciation.....	82,678	58,918	8,125	—	149,721
Capital expenditures.....	188,301	96,439	3,435	—	288,175

1998 (Millions of yen)	Chemical Products	Advanced Materials	Others	Elimination and Corporate	Consolidated Total
Net sales					
Sales to outside customers	¥163,848	¥126,348	¥21,238	¥ —	¥311,434
Intersegment sales and transfers	3,280	71	1,581	(4,932)	—
Total	167,128	126,419	22,819	(4,932)	311,434
Costs and expenses	165,254	113,153	20,660	(5,228)	293,839
Operating income	¥ 1,874	¥ 13,266	¥ 2,159	¥ 296	¥ 17,595
Assets & Amortization, Expenditures					
Assets.....	¥198,014	¥151,630	¥44,716	¥85,106	¥479,466
Depreciation.....	9,052	6,340	1,046	—	16,438
Capital expenditures.....	20,421	9,214	641	—	30,276

1998 (Thousands of dollars)	Chemical Products	Advanced Materials	Others	Elimination and Corporate	Consolidated Total
Net sales					
Sales to outside customers	\$1,359,171	\$1,048,098	\$176,174	\$ —	\$2,583,443
Intersegment sales and transfers	27,209	586	13,115	(40,910)	—
Total	1,386,380	1,048,684	189,289	(40,910)	2,583,443
Costs and expenses	1,370,835	938,637	171,376	(43,361)	2,437,487
Operating income	\$ 15,545	\$ 110,047	\$ 17,913	\$ 2,451	\$ 145,956
Assets & Amortization, Expenditures					
Assets.....	\$1,642,585	\$1,257,821	\$370,929	\$705,986	\$3,977,321
Depreciation.....	75,087	52,589	8,683	—	136,359
Capital expenditures.....	169,398	76,433	5,321	—	251,152

(b) Information by Geographic Area

In the years ended March 31, 1999 and 1998, total net sales and identifiable assets of the Company's overseas consolidated subsidiaries accounted for less than 10% of consolidated net sales and assets. Therefore, this information is not stated on a regional basis.

(c) Overseas Net Sales

	Millions of yen	Thousands of dollars	% of consolidated net sales
Overseas net sales in 1999	¥72,052	\$597,694	25.2%
Overseas net sales in 1998	74,900	621,319	24.0

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Shareholders and the Board of Directors of Mitsubishi Gas Chemical Company, Inc.

We have audited the consolidated balance sheets of Mitsubishi Gas Chemical Company, Inc. and consolidated subsidiaries as of March 31, 1999 and 1998 and the related consolidated statements of income, shareholders' equity and cash flows for the years then ended. Our audits were made in accordance with auditing standards generally accepted in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the financial position of Mitsubishi Gas Chemical Company, Inc. and consolidated subsidiaries as of March 31, 1999 and 1998 and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan (see Note 1) applied on a consistent basis.

Also, in our opinion, the translated amounts in the accompanying consolidated financial statements translated into U.S. dollars have been computed on the basis set forth in Note 1 to the consolidated financial statements.

Tokyo, Japan
June 29, 1999

Toyo & Co.

Toyo & Co.

Statement on Accounting Principles and Auditing Standards

This statement is to remind users that accounting principles and auditing standards and their application in practice may vary among nations and therefore could affect, possibly materially, the reported financial position and results of operations of Mitsubishi Gas Chemical Company, Inc. and consolidated subsidiaries. The accompanying financial statements are prepared based on accounting principles generally accepted in Japan, and the auditing standards and their application in practice are those generally accepted in Japan. Accordingly, the accompanying financial statements and the auditors' report presented above are for users familiar with Japanese accounting principles, auditing standards and their application in practice.

SUBSIDIARIES AND AFFILIATES

Consolidated Subsidiaries

Name	Issued share capital (millions)	The Company's share ownership	Principal business
KINOE TERMINAL CO., INC.	¥ 1,000	74.5%	Warehouse service for methanol
KYORITSU KOGYO CO., LTD.	120	62.5	Sale of printed circuit boards
DIA ELECTRONICS CO., INC.	490	100.0	Manufacture of printed circuit boards
DIA DENSHI CORPORATION	370	66.2	Manufacture of printed circuit boards
TOKYO SHOKAI CO., LTD.	300	96.7	Sale of compound resins and other products
JAPAN CIRCUIT INDUSTRIAL CO., LTD	898	53.6	Manufacture of printed circuit boards
JAPAN PIONICS CO., LTD.	200	75.0	Manufacture of gas generators, gas purifiers and disposable body warmers
JAPAN HYDRAZINE CO., INC.	227	62.2	Manufacture of hydrazine and its derivatives and resistors
RYOKO CHEMICAL CO., LTD.	100	97.5	Sale of industrial chemicals
RYOWA ENTERPRISE CO., INC.	100	100.0	Management of real estate and others
MITSUBISHI GAS CHEMICAL SINGAPORE PTE. LTD.	S\$2	100.0	Sale of methanol and industrial chemicals in Southeast Asia
ELECTROTECHNO CO., LTD.	¥ 1,500	100.0	Manufacture of epoxy resin-glass fabric copper-clad laminate and multilayer prepreg
MARINE TRANSPORT AND TERMINAL CO., LTD	400	60.0	Storage and transport of methanol, other chemical products and petroleum products
KASHIMA POLYMER CO., LTD.	300	85.0	Processing of polycarbonate materials
A&C Co., LTD.	300	100.0	Manufacture of choline chloride, silica choline and trimethylamine hydrochloride
TOYO KAGAKU CO., LTD.	96	75.0	Compound resin injection molding and sales
FUJI KASEI CO., LTD.	50	45.0	Manufacture and sale of compound resin molding materials
DIATEC Co., LTD.	75	70.0	Manufacture and sale of printed circuit boards
EIWA CHEMICAL INDUSTRIAL CO., INC.	420	52.2	Manufacture and sale of plastic resins and related products and foaming agents for rubber
SAMYOUNG PURE CHEMICALS CO., LTD.	₩3,500	51.0	Manufacture and sale of super-pure hydrogen peroxide
MGC PURE CHEMICALS AMERICA, INC.	US\$5	70.0	Manufacture and sale of super-pure hydrogen peroxide
JAPAN CHEMICAL TRANSPORT CO., LTD.	¥400	60.0	Transport of chemical products
JAPAN CHEMICAL TRANSPORT PANAMA INC.	US\$0.001	0.0	Transport of chemical products
RYOWAKOSAN COMPANY, INC.	¥100	100.0	Real estate management

Overseas Subsidiaries, Affiliates and Others

AMERICAS

MITSUBISHI GAS CHEMICAL AMERICA, INC.
Metanol De Oriente, Metor, S.A.
Japan Chemical Transport Panama, Inc.
MGC Pure Chemicals America, Inc.
MRM Toluic Co., Inc.

EUROPE

MITSUBISHI GAS CHEMICAL Europe GmbH
MGC Finance (Netherlands) B.V.

ASIA AND MIDDLE EAST

MITSUBISHI GAS CHEMICAL SINGAPORE Pte. Ltd.
Samyoung Pure Chemicals Co., Ltd.
Korea Engineering Plastics Co., Ltd.
P.T. Peroksida Indonesia Pratama
Saudi Methanol Company
Aekyung Petrochemical Co., Ltd.
Tai Hong Circuit Industrial Co., Ltd.
Thai Polyacetal Co., Ltd.
Thai Polycarbonate Co., Ltd.
Jinan Hualing Pharmaceutical Co., Ltd.
MGC Pure Chemicals Singapore Pte. Ltd.

CORPORATE DATA

Directors and Corporate Statutory Auditors

Chairman

Reiji Nishikawa*

President

Akira Ohira*

Senior Managing Directors

Yutaka Tsuchiya*

Hideaki Ono*

Managing Directors

Yasuo Imai

Shizuo Togo

Yukio Ikeda

Yasunori Ogata

Yasuhisa Kato

Hideki Odaka

Directors

Sadao Masaki

Hiroshi Watanabe

Katsuaki Sato

Morio Gaku

Hiromi Nakamura

Takao Kawaki

Masaya Fujimori

Yuji Takamizawa

Rokuro Inoue

Toru Tanaka

Kiichi Goto

Yasuhiko Kijima

Corporate Statutory Auditors

Mitsuo Ichihara

Sadao Otsuka

Hidetsugu Ito

Takashi Fukaya

*Representative Director

(As of June 29, 1999)

Offices and Plants

HEAD OFFICE

Mitsubishi Building

5-2, Marunouchi 2-chome

Chiyoda-ku, Tokyo 100-8324, Japan

BRANCH OFFICES

Osaka, Nagoya, Fukuoka

RESEARCH INSTITUTES

Corporate Research Laboratory

Tokyo Research Laboratory

Niigata Research Laboratory

Hiratsuka Research Laboratory

PLANTS

Tokyo, Niigata, Mizushima,

Yokkaichi, Osaka, Naniwa,

Yamakita, Kashima, Saga*

*Part of Yokkaichi Plant

Number of Employees

3,510

Number of Shareholders

46,678

Principal Shareholders

Name	Number of Shares Held	Percentage of Total Shares Outstanding
Nippon Life Insurance Company	34,546	6.9%
Meiji Life Insurance Company	23,979	4.8
The Bank of Tokyo-Mitsubishi, Ltd.	23,389	4.7
The Mitsubishi Trust & Banking Corp.	22,395	4.5
The Industrial Bank of Japan, Ltd.	15,183	3.0
The Norinchukin Bank	14,053	2.8
The Bank of Yokohama, Ltd.	13,711	2.7
The Sumitomo Trust & Banking Co., Ltd. (Trust Account)	11,387	2.3
The Daiwa Bank, Ltd. Pension Fund	11,379	2.3
Asahi Glass Co., Ltd.	9,671	1.9

(As of March 31, 1999)

Annual Meeting of Shareholders

The annual meeting of shareholders is normally held in June in Tokyo, Japan.

Auditor

Toyo & Co.

(As of June 29, 1999)



MITSUBISHI GAS CHEMICAL COMPANY, INC.

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