



**M**ITSUBISHI **G**AS  
**C**HEMICAL  
COMPANY, INC.

**ANNUAL REPORT | 2000**

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, 25 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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**C O N T E N T S**

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FINANCIAL HIGHLIGHTS.....	1	CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY ....	13
A MESSAGE FROM THE MANAGEMENT .....	2	CONSOLIDATED STATEMENT OF CASH FLOWS.....	14
FEATURE .....	4	NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.....	15
PRODUCT FLOW .....	7	REPORT OF	
FINANCIAL REVIEW .....	8	INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS.....	27
CONSOLIDATED BALANCE SHEETS.....	10	SUBSIDIARIES AND AFFILIATES.....	28
CONSOLIDATED STATEMENTS OF INCOME.....	12	CORPORATE DATA .....	29

# FINANCIAL HIGHLIGHTS

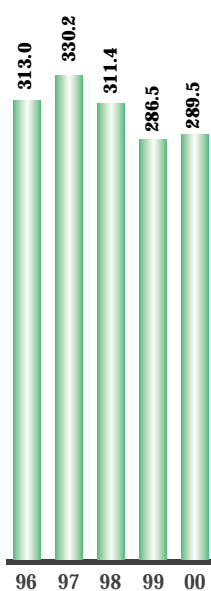
mitsubishi gas chemical company, inc. and consolidated subsidiaries  
For the years ended March 31, 2000 and 1999

	Millions of yen		Thousands of dollars
	2000	1999	2000
Net sales .....	<b>¥289,531</b>	¥286,471	<b>\$2,727,565</b>
Operating income.....	<b>5,293</b>	7,622	<b>49,863</b>
Net income.....	<b>4,172</b>	6,754	<b>39,303</b>
Retained earnings .....	<b>95,230</b>	94,569	<b>897,127</b>
Total assets .....	<b>481,030</b>	475,834	<b>4,531,606</b>
Shareholders' equity.....	<b>172,718</b>	172,057	<b>1,627,113</b>

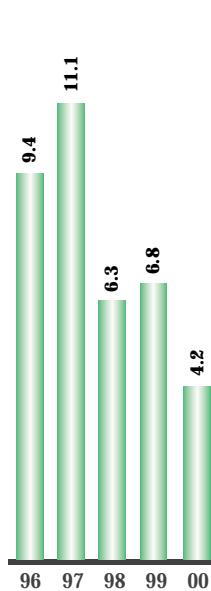
	Yen		Dollars
	2000	1999	2000
Per share of common stock:			
Net income—basic.....	<b>¥8.40</b>	¥13.55	<b>\$0.08</b>
Cash dividends .....	<b>5.00</b>	5.00	<b>0.05</b>

Note: U.S. dollar amounts are translated from yen, for convenience only, at the approximate rate of ¥106.15=US\$1 prevailing on March 31, 2000.

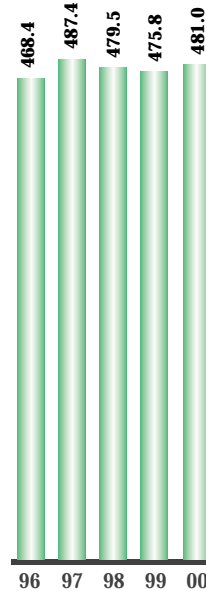
**Net Sales**  
(¥ Billions)



**Net Income**  
(¥ Billions)



**Total Assets**  
(¥ Billions)





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

### Operating Environment and Results

During fiscal 1999, ended March 31, 2000, signs of a recovery were evident in some sectors of the Japanese economy as a result of various economic stimulus packages, the recovery of the Asian economies and other factors. Nevertheless, consumer spending remained at a low level, owing largely to the worsening employment and income environment, and an overall economic recovery continued to look unlikely.

Conditions in the chemical industry continued to be challenging, marked by changes in the business environment due to factors such as the appreciation of the yen and higher crude oil prices.

Under these circumstances, MGC strove to raise profitability by strengthening and expanding core businesses, effectively developing new businesses and using overall management resources more efficiently. As a result, consolidated net sales increased 1.1 percent from the previous fiscal year to ¥289,531 million. However, due to higher cost of sales, net income decreased 38.2 percent year-on-year to ¥4,172 million.

### Management Issues

In fiscal 1999, MGC developed a new medium-term management plan, MGC SHINKA 21, to be implemented from fiscal 2000. The plan prescribes the basic business strategies and guidelines for development in the twenty-first century.

In addition, we worked to clarify the position of each MGC Group member in terms of our business strategy. At the same time, we moved to strengthen Group management by creating corporate subgroups that maximize the value of the MGC Group as a whole.

Under MGC SHINKA 21, the next three years will serve as a period of management innovation in preparation for a great leap forward. We have set ourselves two management objectives:

- (1) Establishing a stable earnings structure through drastic restructuring, including strategic reductions.
- (2) Building a new management system in line with global standards that will ensure MGC's continued existence.

Furthermore, the plan outlines three basic policies to help achieve these objectives:

- 1) Selection and concentration of businesses and management resources;
- 2) Construction of a sound financial structure through improved asset efficiency; and
- 3) Construction and effective implementation of a new management system.

Implementation of MGC SHINKA 21 is aimed at realizing our goal of becoming a chemical company distinguished by its excellence.

First, we will further strengthen and expand our most competitive businesses through selection and concentration in investing our management resources and strategic distribution of cash flow. In addition, we will establish a stable earnings base both by strengthening competitiveness on our own through consolidating and restructuring production bases, including those of the MGC Group, and by considering strategic alliances and cooperative arrangements with other companies. For business areas that are not expected to establish a stable earnings base in the future, efforts to improve asset efficiency will include cutbacks, sale or withdrawal.

Second, to construct a sound financial structure, we will restrict capital investments to appropriate levels through the selection and concentration process mentioned above. At the same time, we will reduce interest-bearing liabilities to strengthen our financial structure through the effective deployment or capitalization of low-efficiency assets.

Third, to construct a new management system, in July 2000 we introduced an "internal company" system to establish autonomous, self-reliant operations. To support the internal company system, a new management accounting system was implemented in April 2000 and return on assets (ROA) was introduced as an indicator of financial health for greater asset efficiency at the company and business division levels.

In addition, to improve global competitiveness, we will pare down organizational overhead, centering on administrative divisions, and thoroughly streamline operations. Linking these activities to the medium-term management plan in the future will help MGC achieve substantial reductions in fixed expenses.

Reliable implementation of the above management reforms is central to MGC SHINKA 21. As quantitative indicators for measuring our progress toward attaining the objectives of the plan we have set the following three targets on a companywide basis:

- Consolidated ROA: 3 percent for the fiscal year ending March 31, 2003
- Reduction of interest-bearing liabilities: ¥30 billion (total for the three-year period) on a nonconsolidated basis
- Reduction of fixed expenses: ¥5.0 billion (compared with fiscal 1999) on a nonconsolidated basis

Through various measures in accordance with the management policies listed above, MGC will meet its management objectives and numerical targets, with the intention of maximizing corporate value and truly becoming a chemical company distinguished by its excellence. In doing so, we look forward to continued encouragement and support from our shareholders.

Finally, we are pleased to report that the Y2K problem has had no material effect on our business activities thanks to the comprehensive countermeasures the Company has implemented.

August 2000



Reiji Nishikawa  
Chairman



Akira Ohira  
President

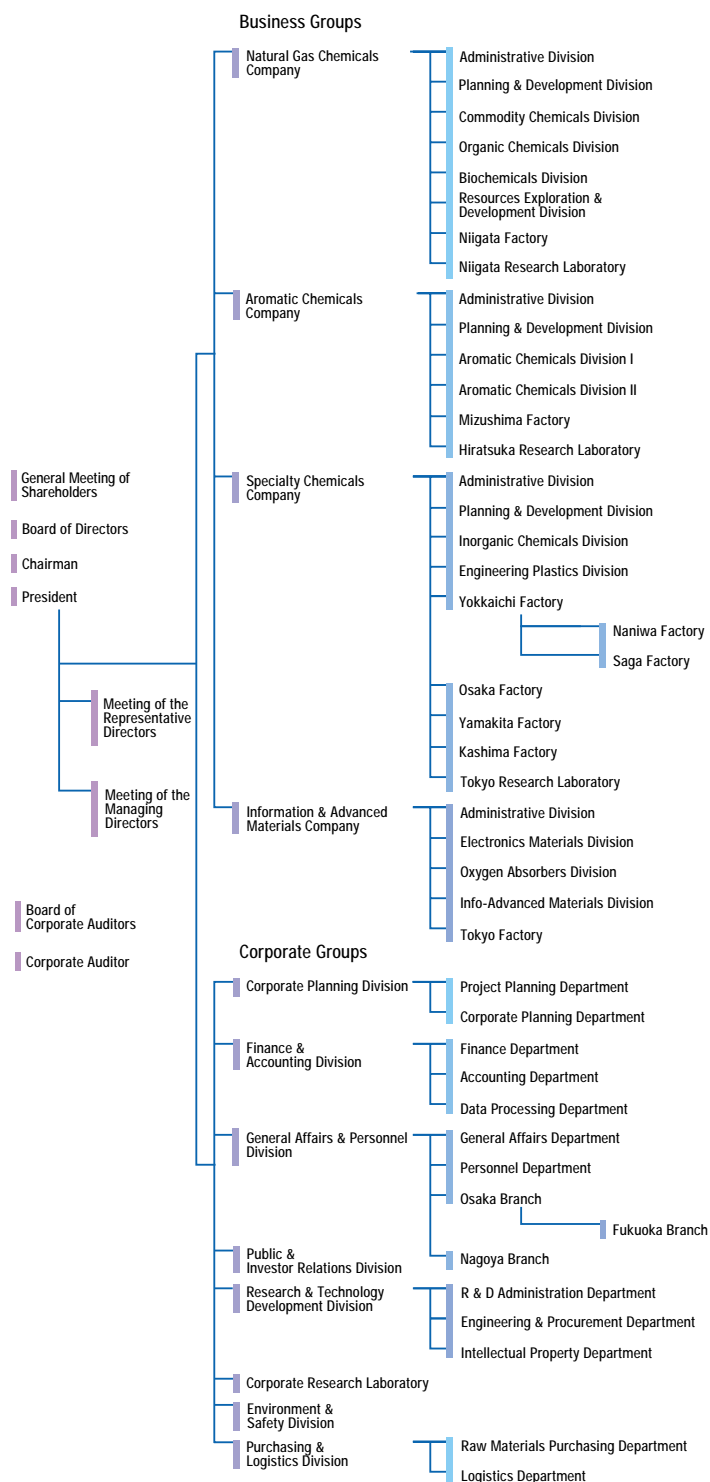
## Constructing a New Management System: Introduction of an Internal Company System

In July 2000, MGC implemented an internal company system that reorganizes the previous seven business divisions and three development divisions into four companies that can respond speedily to management reforms. The four companies following the reorganization are:

- a natural gas chemicals company encompassing commodity chemicals, organic chemicals, biochemicals and energy resources such as geothermal generation;
- an aromatic chemicals company;
- a specialty chemicals company that includes inorganic chemicals and engineering plastics;
- and
- an information and advanced materials company comprising electronics materials, *AGELESS* oxygen absorber and info-advanced materials.

Plants and research laboratories have been assigned to the relevant companies, and business operations will link all steps from R&D to production and sales on a basis of self-reliance. Each company will carry out autonomous management and investment based on profit and loss management and cash flows, with nonconsolidated net sales for each company totaling approximately ¥50 billion. Companies will work to strengthen their respective earnings structures by cost cutting and organizational reforms.

ORGANIZATION CHART



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## Selection and Concentration: Strengthening Core Businesses

Under the principle of “Selection and Concentration,” MGC is working to strengthen its core businesses that have competitive advantages, while cultivating potentially high-growth businesses and strategically phasing out unprofitable businesses. Accordingly, the Company is focusing its efforts on core products with

top or second-ranked shares in the domestic market: methanol, metaxylene and its derivatives, hydrogen peroxide, polycarbonate, *AGELESS* oxygen absorber and BT resin laminates. The following is a look at MGC’s efforts in some of these product fields.

### *Methylmethacrylate (MMA) Products* Reinforcing Operations for Stable Profits

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Supported by a 40-year history in the MMA business, in 1997 MGC started operations of a new production facility using the Company’s proprietary technology, the first of its kind in the world. This original, improved ACH processing method offers superior environmental protection because it does not produce waste acid as a by-product. Furthermore, since the primary raw materials are methanol and acetone, it provides

considerable leeway in the location of production facilities. Future plans for making MMA a stable earnings base include reducing production costs through technological improvements, developing the high-value-added intermediates business and expanding in-company use by strengthening derivative product groups. The natural gas chemicals company has taken over the MMA business.

### *Xylene Commodity Derivatives* Comprehensive Cost Cutting for Stable Profits

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MGC expanded its xylene separation facilities in 1998 to meet increasing demand for paraxylene and improve international competitiveness by raising production efficiency. Because paraxylene products are vulnerable to substantial fluctuations in earnings, the Company has been implementing measures to reduce market risk and raise profit. Specific measures include: 1) maintaining high production efficiency by offering consignment production of paraxylene; 2) achieving stable, efficient use of paraxylene by supplying it for outsourced production

of highly pure terephthalic acid; 3) reducing fixed manufacturing expenses; and 4) pursuing alliances with other companies to strengthen the business and insulate it from unfavorable market conditions. One such alliance is a joint venture established in January 2000 with Chisso Corporation to integrate the phthalic acid plasticizers business. This alliance will unify both companies’ production and sales activities and help to rationalize distribution. The aromatic chemicals company has taken over the xylene commodity derivatives business.

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## *Hydrogen Peroxide*

### **Building from the Top Position in the Domestic Market**

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MGC is the leader in Japan in hydrogen peroxide, one of the Company's core businesses. The Company's annual production capacity of 122,000 tons accounts for about half of total domestic production. Kyodo Hydrogen Peroxide Co., Ltd., a joint venture established in June 2000 with Japan Peroxide Co., Ltd., the country's third-largest manufacturer, will further strengthen this business base. MGC's new hydrogen peroxide manufacturing facility in the Kashima Plant will be transferred to this new venture for joint management with the Company. With an annual production capacity of 50,000 tons, the

new facilities will adopt the new AQ method for reduced production costs, raise the utilization rate for lower fixed expenses and cut logistics costs. In addition, MGC is working to meet new demand from the pulp and paper industry for hydrogen peroxide as a clean bleaching agent with low environmental impact and developing derivative products in the field of environmental agents, such as sewage treatments and super-pure hydrogen peroxide for electronics materials. The specialty chemicals company has taken over the hydrogen peroxide business.

## *Polycarbonate*

### **Restructuring Production for Higher Added Value**

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MGC's engineering plastics are marketed by Mitsubishi Engineering-Plastics Corp. (MEP), a joint venture with Mitsubishi Chemical Corp. To meet growing demand for polycarbonate as a material for CD and DVD manufacturing, MGC has constructed world-class production facilities, concentrated its production bases and improved cost competitiveness. In doing so, the Company suspended operations at its polycarbonate polymerization facility in the Osaka Plant and is investing ¥15 billion in expanding the Kashima Plant, where

operations are scheduled to begin in 2002. This expansion will raise production capacity by 70,000 tons to 100,000 tons per year, making MEP the top domestic supplier, with a share of one-third of the Japanese market. The Osaka Plant is shifting to specialization in high-value-added products, such as polycarbonate sheet processing. The specialty chemicals company has taken over the engineering plastics business.

## *Magnetic Garnets and Media Converters*

### **Nurturing Info-Advanced Materials**

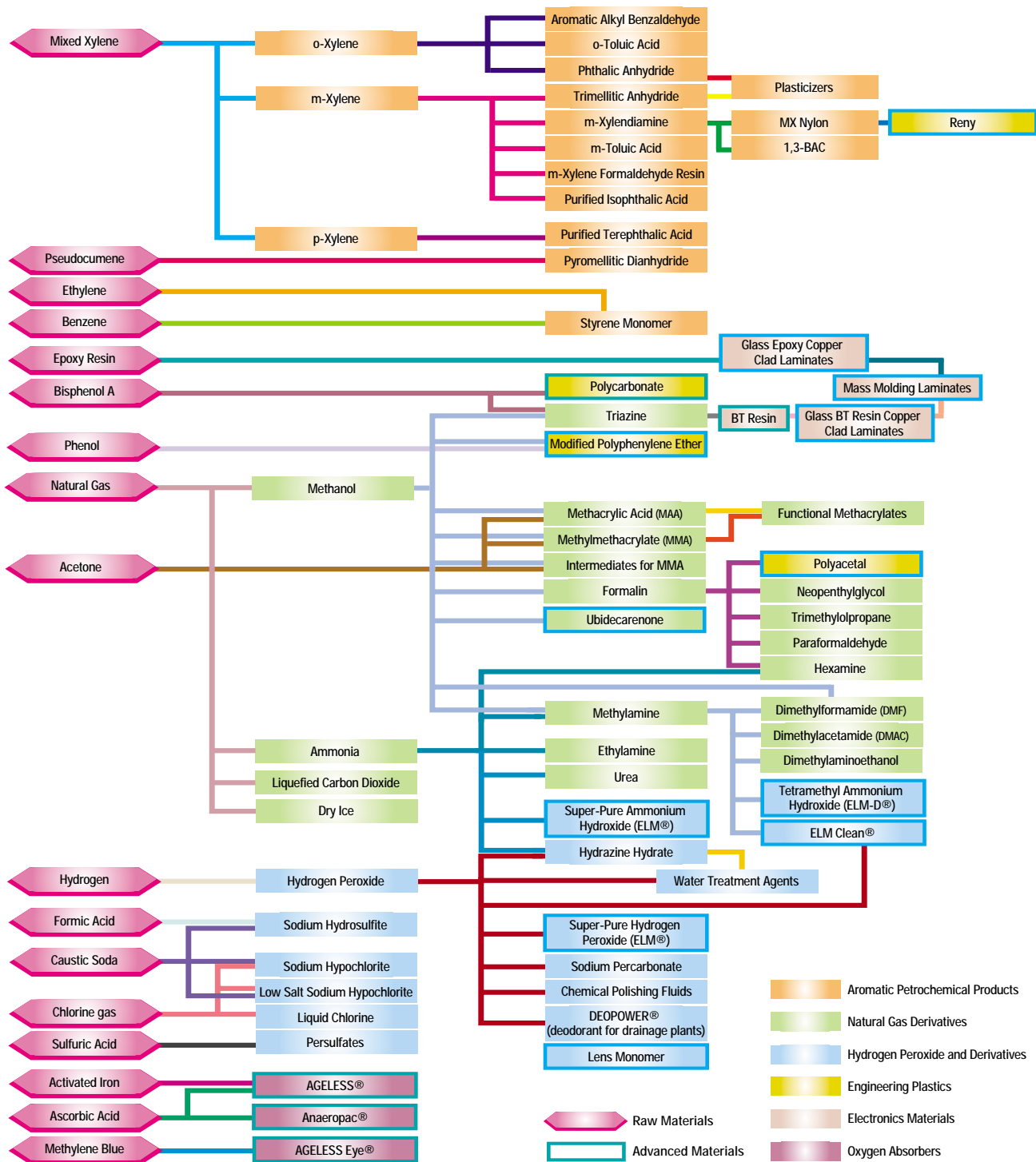
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MGC entered the info-advanced materials business in 1998 with four products in the field of advanced, functional materials for information and optical communications. Since then, the Company has continued to develop promising new products.

Magnetic garnet single crystals are a core component of optical isolators for optical communications that enable high-speed, large-capacity transmissions. As the only mass-producer of magnetic garnet single crystals in the world, MGC continues to maintain the top share by

reinforcing its production facilities and promoting technological development. Media converters are another successful MGC product. Their performance has gained acceptance among leading users worldwide, and the Company has begun taking orders for applications such as next-generation subway and access network markets, SAN solutions and upgrading the traffic volume of existing fibers. Net sales of info-advanced materials are expected to reach ¥10 billion by fiscal 2002.

# PRODUCT FLOW



## Sales and Income

MGC's consolidated net sales for fiscal 1999, the year ended March 31, 2000, increased 1.1 percent from the previous fiscal year to ¥289,531 million, although operating income declined 30.6 percent to ¥5,293 million. Net income totaled ¥4,172 million, down 38.2 percent from the previous fiscal year.

On a nonconsolidated basis, MGC's net sales for fiscal 1999, ended March 31, 2000, increased ¥2.08 billion to ¥209.5 billion, ordinary income declined ¥0.1 billion to ¥3.84 billion and net income increased ¥1.24 billion to ¥2.45 billion.

### Chemical Products Group

Among methanol and ammonia-based products, sales volume of formalin, a methanol derivative, increased, and international markets for methanol exhibited a trend toward recovery. However, the appreciation of the yen restrained sales growth to a slight amount. Sales of amine products remained flat, whereas both sales volume and sales value of methylmethacrylate (MMA) and MMA ester products increased.

Among xylene products, although sales of m-xylene fell, sales of derivatives m-xylene diamine and MX nylon rose. New production facilities and market recovery spurred a rise in sales of paraxylene, whereas sales of pure terephthalic acid, a paraxylene derivative, increased only slightly. Sales of phthalic anhydride

expanded, but sales of plasticizers declined.

Sales volume of hydrogen peroxide rose, but total sales fell due to declining product prices. Sales of agrochemical-related products also decreased.

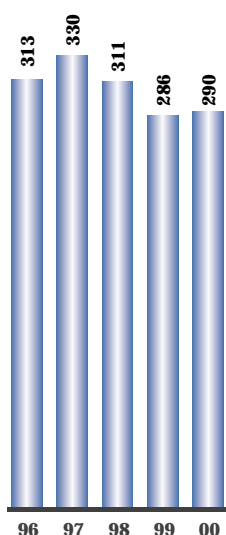
As a result, total sales of the Chemical Products Group rose ¥5.7 billion to ¥149.1 billion. Operating loss was ¥2.44 billion, compared with an operating loss of ¥4.09 billion in the previous fiscal year.

### Advanced Materials Group

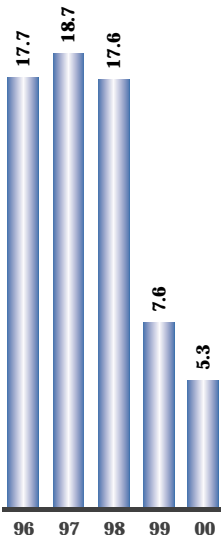
Sales of engineering plastics increased in terms of both volume and value, reflecting steady growth at overseas subsidiaries. Higher sales volume of printed circuit board materials for applications in semiconductor packaging and telecommunications equipment was offset by lower prices, resulting in lower sales. Use of chemicals by the electronics industry for LCDs increased, but lower prices for applications in semiconductors resulted in a decline in sales. Sales were flat for the oxygen absorber *AGE-LESS*, which is a food preservative. In the field of info-advanced materials, sales of magnetic garnet single crystals grew solidly.

Total sales of the Advanced Materials Group decreased ¥2.7 billion to ¥122.0 billion. Operating income declined ¥3.81 billion to ¥5.66 billion.

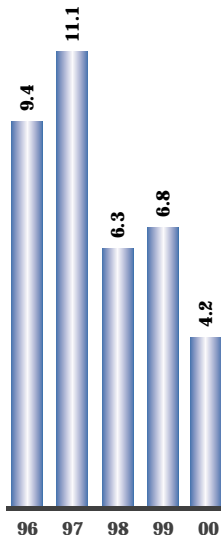
**Net Sales**  
(¥ Billions)



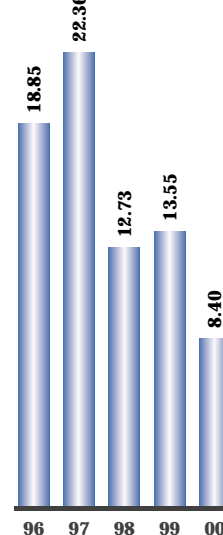
**Operating Income**  
(¥ Billions)



**Net Income**  
(¥ Billions)



**Net Income per Share**  
(¥)



### Other Products Group

Despite sales of technology for various gas production methods employing methanol, overall technology sales declined compared to the high levels of the previous fiscal year. Sales of equipment for refinery and exhaust gas treatment improved in tandem with the recovery of the worldwide semiconductor industry. Sales in the geothermal steam business remained flat. Other businesses in this sector performed steadily.

As a result, total sales for the Other Products Group amounted to ¥18.3 billion, up ¥0.1 billion from the previous fiscal year, and operating income totaled ¥1.9 billion.

### Liquidity and Financial Position

Current assets at March 31, 2000 totaled ¥241,972 million, 2.5 percent higher than at the previous fiscal year end. Current liabilities increased 12.0 percent to ¥181,508 million. The greater increase in current liabilities led to an 18.3 percent decrease in working capital to ¥60,464 million. The current ratio fell to 1.33 to 1, compared with 1.46 to 1 a year earlier.

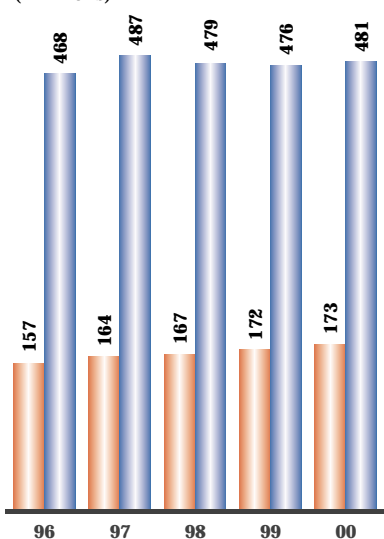
Property, plant and equipment, at cost less accumulated depreciation amounted to ¥171,134 million, up 3.3 percent from the end of the previous fiscal year. Total assets were ¥481,030 million, 1.1 percent higher than the level of a year earlier.

Total long-term liabilities decreased 10.7 percent to ¥120,072 million. Shareholders' equity rose 0.4 percent to ¥172, 718 million.

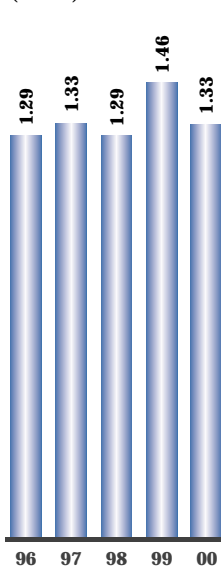
### Cash Flows

Net cash provided by operating activities amounted to ¥16,697 million, whereas net cash used in investing activities totaled ¥17,824 million. Net cash used in financing activities was ¥7,467 million, partly due to the purchase and retirement of treasury stocks. As a consequence, cash and cash equivalents at March 31, 2000 totaled ¥42,007 million, including the effect of the inclusion and elimination of several subsidiaries from consolidation.

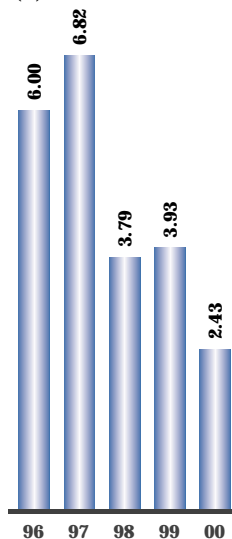
**Total Assets (■) and Shareholders' Equity (■)**  
(¥ Billions)



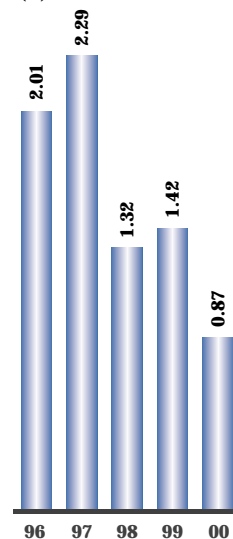
**Current Ratio**  
(Times)



**Return on Shareholders' Equity**  
(%)



**Return on Total Assets**  
(%)



# CONSOLIDATED BALANCE SHEETS

MITSUBISHI GAS CHEMICAL COMPANY, INC. AND CONSOLIDATED SUBSIDIARIES  
AS OF MARCH 31, 2000 AND 1999

	Millions of yen		Thousands of dollars (Note 1)
	2000	1999	2000
<b>ASSETS</b>			
<b>Current Assets:</b>			
Cash and time deposits .....	¥ 27,060	¥ 36,809	\$ 254,922
Notes and accounts receivable .....	92,452	88,186	870,956
Marketable securities (Note 9) .....	62,158	54,040	585,568
Inventories .....	46,933	43,172	442,138
Deferred tax assets .....	1,330	—	12,529
Other current assets .....	12,807	14,535	120,650
Allowance for doubtful receivables .....	(770)	(762)	(7,254)
Total current assets .....	241,972	235,982	2,279,529
<b>Fixed Assets:</b>			
<b>Tangible Fixed Assets:</b>			
Buildings and structures .....	48,805	48,936	459,774
Machinery, equipment and carriers .....	76,425	75,550	719,972
Land .....	23,183	23,217	218,398
Construction in progress .....	17,107	12,473	161,159
Other tangible fixed assets .....	5,612	5,485	52,869
Total tangible fixed assets .....	171,134	165,663	1,612,190
<b>Intangible Fixed Assets:</b>			
Consolidation adjustments .....	16	47	151
Software .....	1,084	—	10,212
Other intangible fixed assets .....	665	491	6,265
Total intangible fixed assets .....	1,766	538	16,637
<b>Investment and Other Assets (Note 5(b)):</b>			
Investment securities .....	50,635	59,679	477,014
Long-term loans .....	2,276	2,016	21,441
Deferred tax assets .....	76	—	716
Other .....	7,562	8,466	71,239
Allowance for doubtful receivables .....	(430)	(373)	(4,051)
Total investment and other assets .....	60,120	69,788	566,368
Total fixed assets .....	233,021	235,990	2,195,205
<b>Foreign Exchange Translation Adjustments</b> .....	<b>6,036</b>	<b>3,862</b>	<b>56,863</b>
<b>Total Assets</b> .....	<b>¥481,030</b>	<b>¥475,834</b>	<b>\$4,531,606</b>

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

	Millions of yen		Thousands of dollars (Note 1)
	2000	1999	2000
<b>LIABILITIES, MINORITY INTERESTS AND SHAREHOLDERS' EQUITY</b>			
<b>Current Liabilities:</b>			
Notes and accounts payable .....	¥ 57,465	¥ 50,336	\$ 541,357
Short-term borrowings (Note 13(b)) .....	92,902	73,776	875,195
Accrued expenses .....	9,630	10,952	90,721
Income taxes payable .....	900	1,473	8,479
Accrued bonuses .....	4,230	4,419	39,849
Other current liabilities .....	16,378	21,053	154,291
Total current liabilities .....	181,508	162,010	1,709,920
<b>Long-term Liabilities:</b>			
Bonds (Note 13(a)) .....	51,397	51,428	484,192
Long-term borrowings (Note 13(b)) .....	51,108	65,630	481,470
Reserve for retirement benefits .....	16,577	16,503	156,166
Reserve for special repair .....	44	53	415
Other long-term liabilities .....	944	875	8,893
Total long-term liabilities .....	120,072	134,491	1,131,154
Total liabilities .....	301,580	296,502	2,841,074
<b>Minority Interests .....</b>	<b>6,730</b>	<b>7,274</b>	<b>63,401</b>
<b>Shareholders' Equity:</b>			
Common stock .....	41,970	41,970	395,384
Additional paid-in capital .....	35,518	35,518	334,602
Retained earnings .....	95,230	94,569	897,127
	172,719	172,058	1,627,122
Treasury stock .....	(0)	(0)	(0)
Total shareholders' equity .....	172,718	172,057	1,627,113
<b>Total Liabilities, Minority Interests and Shareholders' Equity..</b>	<b>¥481,030</b>	<b>¥475,834</b>	<b>\$4,531,606</b>

# CONSOLIDATED STATEMENTS OF INCOME

MITSUBISHI GAS CHEMICAL COMPANY, INC. AND CONSOLIDATED SUBSIDIARIES  
FOR THE YEARS ENDED MARCH 31, 2000 AND 1999

	Millions of yen		Thousands of dollars (Note 1)
	2000	1999	2000
<b>Net Sales</b> .....	<b>¥289,531</b>	¥286,471	<b>\$2,727,565</b>
<b>Cost of Sales</b> .....	<b>241,184</b>	235,535	<b>2,272,106</b>
Gross profit .....	<b>48,347</b>	50,936	<b>455,459</b>
<b>Selling, General and Administrative Expenses</b> (Notes 6(a) and (b)):	<b>43,054</b>	43,314	<b>405,596</b>
Freight .....	—	10,045	—
Stevedorage and warehouse fee .....	—	2,057	—
Salaries and allowances .....	—	8,703	—
Bonus and bonus provisions .....	—	3,373	—
Retirement provisions .....	—	2,126	—
Legal welfare and welfare .....	—	2,650	—
Transportation .....	—	1,168	—
Depreciation .....	—	2,477	—
Consolidation adjustment .....	—	7	—
Other .....	—	10,704	—
<b>Operating Income</b> .....	<b>5,293</b>	7,622	<b>49,863</b>
<b>Non-operating Income:</b>			
Interest income .....	<b>491</b>	531	<b>4,626</b>
Dividend income .....	<b>1,011</b>	1,073	<b>9,524</b>
Profits on securities sold .....	<b>4,888</b>	4,739	<b>46,048</b>
Investment income on equity method .....	<b>1,322</b>	3,096	<b>12,454</b>
Other .....	<b>2,495</b>	2,145	<b>23,504</b>
<b>Non-operating Expenses:</b>			
Interest expenses .....	<b>4,055</b>	3,771	<b>38,201</b>
Devaluation of securities .....	—	946	—
Loss on disposal of fixed assets .....	—	1,012	—
Foreign exchange loss .....	<b>1,089</b>	—	<b>10,259</b>
Other .....	<b>3,024</b>	3,031	<b>28,488</b>
<b>Ordinary Income</b> .....	<b>7,332</b>	10,444	<b>69,072</b>
<b>Extraordinary Gain:</b>			
Gain on sale of fixed assets (Note 6(c)) .....	—	2,465	—
Gain on disposal of investment securities .....	—	415	—
Reversal of provision for doubtful receivables .....	—	179	—
<b>Extraordinary Loss:</b>			
Depreciation of exploration cost .....	<b>776</b>	721	<b>7,310</b>
Devaluation of investment securities .....	<b>459</b>	—	<b>4,324</b>
Loss on disposal of fixed assets (Note 6(d)) .....	<b>356</b>	319	<b>3,354</b>
Loss on restructuring operations (Note 6(e)) .....	—	1,678	—
Loss on restructuring affiliates (Note 6(f)) .....	—	602	—
Loss on disposal of marketable securities .....	—	413	—
<b>Income before Income Taxes and Minority Interests</b> .....	<b>5,740</b>	9,770	<b>54,074</b>
<b>Income Taxes:</b>			
Current .....	<b>2,012</b>	2,332	<b>18,954</b>
Deferred .....	(696)	46	<b>(6,557)</b>
<b>Minority Interest</b> .....	<b>251</b>	636	<b>2,365</b>
<b>Net Income</b> .....	<b>¥ 4,172</b>	¥ 6,754	<b>\$ 39,303</b>

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, 2000 AND 1999

	Number of shares (thousands)		Millions of yen		Thousands of dollars (Note 1)
	2000	1999	2000	1999	2000
<b>Common Stock:</b>					
Beginning balance .....	<b>498,622</b>	498,622	<b>¥41,970</b>	¥41,970	<b>\$395,384</b>
Ending balance .....	<b>485,478</b>	498,622	<b>¥41,970</b>	¥41,970	<b>\$395,384</b>
<b>Additional Paid-in Capital:</b>					
Beginning balance .....			<b>¥35,518</b>	¥35,518	<b>\$334,602</b>
Ending balance .....			<b>¥35,518</b>	¥35,518	<b>\$334,602</b>
<b>Retained Earnings:</b>					
Beginning balance .....			<b>¥94,569</b>	¥89,989	<b>\$890,900</b>
Accumulated tax effect at beginning of year .....			<b>986</b>	—	<b>9,289</b>
Add:					
Net income .....			<b>4,172</b>	6,754	<b>39,303</b>
Increase due to subsidiaries newly consolidated (Note 7(a)) .....			<b>879</b>	—	<b>8,281</b>
Increase due to affiliate newly accounted for by the equity method (Note 7(a)) .....			—	438	—
Deduct:					
Decrease due to affiliate newly accounted for by the equity method (Note 7(b)) .....			<b>(60)</b>	—	<b>(565)</b>
Cash dividends paid .....			<b>(2,493)</b>	(2,493)	<b>(23,486)</b>
Directors' bonuses .....			<b>(87)</b>	(120)	<b>(820)</b>
Retirement of treasury stock .....			<b>(2,736)</b>	—	<b>(25,775)</b>
Ending balance .....			<b>¥95,230</b>	¥94,569	<b>\$897,127</b>

*The accompanying notes are an integral part of these statements.*

# CONSOLIDATED STATEMENT OF CASH FLOWS

MITSUBISHI GAS CHEMICAL COMPANY, INC. AND CONSOLIDATED SUBSIDIARIES  
FOR THE YEAR ENDED MARCH 31, 2000

	Millions of yen	Thousands of dollars (Note 1)
	<b>2000</b>	<b>2000</b>
<b>Cash Flows from Operating Activities:</b>		
Income before income taxes .....	¥ 5,740	\$ 54,074
Depreciation and amortization .....	19,987	188,290
Loss on sale of property, plant and equipment .....	817	7,697
Amortization of consolidation adjustment .....	(4)	(38)
Investment income on equity method .....	(1,322)	(12,454)
Allowance for doubtful receivables .....	(107)	(1,008)
Provision for retirement benefits .....	65	612
Interest income and dividend .....	(1,503)	(14,159)
Interest expense .....	4,055	38,201
Gain on sale of marketable securities .....	(4,888)	(46,048)
Loss on valuation of marketable and investment securities .....	878	8,271
Decrease in receivables .....	1,406	13,245
Increase in inventories .....	(3,506)	(33,029)
Increase in payables .....	860	8,102
Increase in consumption taxes payable .....	990	9,326
Payment of directors and auditors' bonus .....	(87)	(820)
Other, net .....	(3,324)	(31,314)
	20,056	188,940
Proceeds of interest and dividend .....	1,589	14,969
Payment of expense .....	(4,139)	(38,992)
Payments of income taxes .....	(809)	(7,621)
Net cash provided by operating activities .....	16,697	157,296
<b>Cash Flows from Investing Activities:</b>		
Payment for purchase of marketable securities .....	(7,331)	(69,063)
Proceeds from sale of marketable securities .....	8,621	81,215
Purchase of property, plant and equipment .....	(24,325)	(229,157)
Proceeds from sale of property, plant and equipment .....	1,603	15,101
Payment for purchase of investment securities .....	(1,884)	(17,748)
Proceeds from sale of investment securities .....	5,106	48,102
Other, net .....	385	3,627
Net cash used in investing activities .....	(17,824)	(167,913)
<b>Cash Flows from Financing Activities:</b>		
Increase in short-term borrowings .....	110	1,036
Proceeds from long-term borrowings .....	16,690	157,230
Repayment of long-term borrowings .....	(18,879)	(177,852)
Purchase of treasury stock for retirement .....	(2,736)	(25,775)
Dividends paid by parent company .....	(2,493)	(23,486)
Cash dividends paid to minority interests .....	(161)	(1,517)
Net cash used in financing activities .....	(7,467)	(70,344)
<b>Effect of Exchanges Rate Changes on Cash and Cash Equivalents .....</b>		
	49	462
<b>Net Decrease in Cash and Cash Equivalents .....</b>	<b>(8,544)</b>	<b>(80,490)</b>
<b>Cash and Cash Equivalents at Beginning of Year .....</b>	<b>50,188</b>	<b>472,803</b>
<b>Increase in Cash and Cash Equivalents due to the Addition of Consolidated Subsidiaries, Net .....</b>	<b>663</b>	<b>6,246</b>
<b>Decrease in Cash and Cash Equivalents due to the Exclusion of Consolidated Subsidiaries, Net .....</b>	<b>(300)</b>	<b>(2,826)</b>
<b>Cash and Cash Equivalents at End of Year .....</b>	<b>¥42,007</b>	<b>\$395,732</b>

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 domestic subsidiaries maintain their books of account in conformity with the financial accounting standards of Japan, and its foreign subsidiaries in conformity with those of the countries of their domicile.

The accompanying consolidated financial statements have been compiled from the consolidated financial statements filed with the Kanto Local Finance Bureau of the Ministry of Finance as required by the Securities and Exchange Law of Japan and include certain reclassifications and additional financial information for the convenience of readers outside Japan. For the year ended March 31, 1999 and prior years, the presentation of consolidated statements of cash flows was not required for domestic purposes in Japan, but presented herein for the convenience of the readers. Effective from the year ended March 31, 2000 the Company is required to present consolidated statements of cash flows as an integral part of the consolidated financial statements in accordance with the revised disclosure requirements under the Securities and Exchange Law of Japan.

The translation of the Japanese yen amounts into U.S. dollars are included solely for the convenience of the readers, using the prevailing exchange rate at March 31, 2000, which was ¥106.15 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

Effective April 1, 1999, the Company adopted the new Accounting Standards for Consolidation Policy and Procedures issued by the Business Accounting Deliberation Council.

The new standards require the control or influence concept for the consolidation scope of subsidiaries and affiliates. Under the control or influence concept, a company in which the parent company and its consolidated subsidiaries, directly or indirectly, are able to exercise control over operations is fully consolidated, and another company over which the parent company and its consolidated subsidiaries have the ability to exercise significant influence is accounted for by the equity method.

The investments in unconsolidated affiliates are accounted for by the equity method, except certain affiliates that would have no material effect on the accompanying consolidated financial statements.

For the year ended March 31, 1999 and prior years, the consolidated financial statements include the accounts of the Company and its significant majority-owned subsidiary which is directly controlled. The investments in unconsolidated subsidiaries and affiliates in which the Company's ownership is 20% to 50% were accounted for by the equity method, except certain subsidiaries and affiliates that would have had no material effect on the accompanying consolidated financial statements.

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

The accompanying consolidated financial statements include the accounts of the Company and its 25 significant subsidiaries as follows:

Kinoe Terminal Company, Inc.  
DIA Electronics Co., Inc.  
Tokyo Shokai Co., Ltd.  
Japan Circuit Industrial Co., Ltd.  
Japan Pionics Co., Ltd.  
Japan Hydrazine Co., Inc.  
Ryoko Chemical Co., Ltd.  
Ryowa Enterprise Co., Inc.  
MITSUBISHI GAS CHEMICAL (Singapore) Pte. Ltd.  
Electrotechno Co., Ltd.  
Marine Transport and Terminal Co., Ltd.  
Kashima Polymer Co., Ltd.  
A&C Co., Ltd.  
Toyo Kagaku Co., Ltd.  
Fuji Kasei Co., Ltd.  
Diatec Co., Ltd.  
Eiwa Chemical Industrial Co., Inc.  
Samyoung Pure Chemicals Co., Ltd.  
MGC Pure Chemicals America, Inc.  
Japan Chemical Transport Co., Ltd.  
Japan Chemical Transport Panama Inc.  
Ryowakosan Company, Inc.  
Thai Polyacetal Co., Ltd.  
MITSUBISHI GAS CHEMICAL AMERICA, Inc.  
Ryoyo Shoji Co., Ltd.

### i. Scope of Consolidation

The following three companies were included in consolidation, effective from the year ended March 31, 2000.

Ryoyo Shoji Co., Ltd. was regarded as a subsidiary which was substantially controlled by the Company judging from the control rule specified by the revised disclosure ordinance issued by the MOF.

Ryoyo Shoji, Thai Polyacetal Co., Ltd. and MITSUBISHI GAS CHEMICAL AMERICA, Inc. were consolidated in conformity with "Audit Treatment on Materiality Rule regarding Scope of Consolidation and Equity Method Application" (Report No. 52, July 21, 1993 of the Audit Committee of the Japanese Institute of CPAs (JICPA)).

Effective from the year ended March 31, 2000, Kyoritsu Kogyo Co., Ltd. and Dia Denshi Corporation were excluded from consolidation due to their liquidation.

MGC Pure Chemicals Singapore Pte. Ltd. and other subsidiaries were not consolidated with the Company, as their assets, net sales, net income and retained earnings in the aggregate were not significant in the related consolidated figures.

### ii. Application of Equity Method

Investments in the following twelve affiliates were accounted for by the equity method.

Japan Saudi Arabia Methanol Co., Inc.  
Mizushima Aroma Co., Ltd.  
AG International Chemical Co., Ltd.  
Japan Upica Co., Ltd.  
Toyo Earthtech Co., Ltd.

METANOL DE ORIENTE, METOR, S.A.

Mitsubishi Engineering-Plastics Corp.

Korea Engineering Plastics Co., Ltd.

JSP Co., Ltd.

P.T. Peroksidia Indonesia Pratama

Kokka Sangyo Co., Ltd.

MRM Toluic Co., Ltd.

MRM Toluic Co., Ltd. was included in affiliates in conformity with the Audit Treatment.

Thai Polyacetal Co., Ltd. was excluded from affiliates but consolidated as described above.

At applying equity method to Japan Saudi Arabia Methanol Co., Inc. its investment in Saudi Methanol Company, incorporated in Saudi Arabia, an affiliate, is accounted for by the equity method. At applying equity method to JSP Co., Ltd., its investments in Nihon Zampack Co., Ltd., KP Corporation and JSP America, Inc., subsidiaries, were accounted for by the equity method.

Investments in MGC Pure Chemicals Singapore Pte. Ltd. and other unconsolidated subsidiaries, and Fudo Co., Ltd. and other affiliates were not accounted for by the equity method, as equity of the Company in their net income and retained earnings in the aggregate were not significant in the related consolidated figures.

### iii. Fiscal Years of Consolidated Subsidiaries

Except for the following five subsidiaries, consolidated subsidiaries have the same fiscal years as that of the Company. The five subsidiaries close their accounts on December 31 and significant transactions between January and March 31 were reflected in the consolidated financial statements.

MITSUBISHI GAS CHEMICAL (Singapore) Pte. Ltd.

Samyoung Pure Chemicals Co., Ltd.

MGC Pure Chemicals America, Inc.

MITSUBISHI GAS CHEMICAL AMERICA, Inc.

Thai Polyacetal Co., Ltd.

### iv. Valuation of Assets and Liabilities of Consolidated Subsidiaries

At offsetting investment with equity, all assets and liabilities of the consolidated subsidiaries are valued at market.

### v. Amortization of Consolidation Adjustment Account

Consolidation adjustment account, which is the difference between acquisition cost and the underlying net equity, is amortized over five years from the date of acquisition.

### (c) Accounting Methods

#### i. 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.

#### ii. Inventories

Finished goods, work in process, raw materials and supplies are mainly stated at cost determined by the average method. Real estate for sale is stated at specific identified cost.

#### iii. Depreciation

Depreciation of tangible fixed assets is computed principally under the Japanese Income Tax Law. The Company and thirteen consolidated subsidiaries use the straight-line method and four consolidated subsidiaries use both the straight-line method and the declining-balance method. The other eight consolidated subsidiaries use the declining-balance method.

#### iv. Deferred Charges

Development cost is charged to income when paid.

#### v. Allowance for Doubtful Receivables

Allowance for doubtful receivables is provided for at the amount sufficient to cover possible losses on collection. It consists of the maximum amount allowed by the Japanese Income Tax Law (applying statutory rate under the transition measures of the 1998 Tax Reform) and the estimated uncollectible amount.

#### vi. Accrued Bonuses

Accrued bonuses is computed principally based on the latest actual payments.

#### vii. Retirement Benefits and Pension Plans

The Company and nine consolidated subsidiaries provide for 40% of the amount which would be required to be paid if all employees voluntarily terminated their employment on the balance sheet date. One subsidiary provides for 50% of that amount and five subsidiaries provide for the full amount.

In addition, the Company and eight consolidated subsidiaries have funded non-contributory pension plans as a part of the above lump-sum allowance plans.

Four consolidated subsidiaries, having the private payment rules for directors and statutory auditors, provide for the amount which would be required if they retired on the balance sheet date. Such allowance is included in "Reserve for retirement benefits."

#### viii. Reserve for Special Repair

Storage tank facilities of one consolidated subsidiary are subject to periodical overhaul. An accrual for the repair expenses is provided for a current portion of the estimated total expense for next work.

#### ix. Leases

Finance leases, except for the leases for which ownership of the leased assets is transferred to the lessee, are accounted for as operating leases.

#### x. Consumption Taxes

Consumption taxes (indirect taxes) received or paid are excluded from income or expenses, respectively.

### (d) Statements of Retained Earnings

Deductions of retained earnings in the consolidated statement of shareholders' equity reflect the appropriation resolved by the shareholders' meeting during each fiscal year. Timing differences between financial and tax reporting are not provided except for a foreign consolidated subsidiary.

### (e) Statement of Cash Flows

Effective from the year ended March 31, 2000, the Company and consolidated subsidiaries are required to present the statement of cash flows in conformity with a revision of the Securities and Exchange Law.

Cash and cash equivalents on the statements comprise cash on hand, demand deposits in banks and highly liquid, short-term investments with low risk in value fluctuations for which the maturity expires within three months after acquisition. The balance of cash and cash equivalents as of March 31, 2000 is reconciled with the balance sheet as follows:

	Millions of yen	Thousands of dollars (Note1)
Balance sheet:		
Cash and time deposits .....	¥27,060	\$254,922
Less time deposits with maturity over three months.....	(366)	(3,448)
Cash equivalents among marketable securities, including commercial paper .....	15,314	144,268
Cash and cash equivalents.....	¥42,007	\$395,732

## 2. Change in Accounting Policy

The depreciation method for buildings, structures, carriers, tools and furniture held by the Mizushima Plant, Osaka Plant, Naniwa Plant and Yamakita Plant was changed from the declining-balance method to the straight-line method, effective from the year ended March 31, 2000.

This change of method for buildings was made to apply the same method to every building regardless of its acquisition year, in accordance with a revision of the Japanese Income Tax Law.

This change of method for tangible fixed assets other than build-

ings was made to simplify accounting procedure by unifying the accounting method, due to the fact that the book value of such tangible assets was equivalent to less than 5% of the aggregate tangible depreciable assets.

The effect of the change was to decrease the amount of depreciation by ¥510 million and increase either ordinary income or income before income taxes and minority interests by ¥456 million for the year ended March 31, 2000. The effect on segment information is described in Segment Information by Industry Segment.

## 3. Changes in Presentation of the Consolidated Statements of Income

### (a) Selling, General and Administrative Expenses

Details of selling, general and administrative expenses, formerly presented on the statements of income, are not shown on the statements, effective from the year ended March 31, 2000.

The significant components of the expenses for the year ended March 31, 2000 are presented in Note 6, "Income Statement Items."

### (b) Devaluation Loss of Marketable Securities and Loss on Disposal of Fixed Assets

Devaluation loss of marketable securities and loss on disposal of fixed assets, formerly presented separately, are included in "other" of

non-operating expenses for the year ended March 31, 2000, as each of the amounts was less than 10% of total non-operating expenses.

Devaluation loss of marketable securities and loss on disposal of fixed assets amounted to ¥418 million and ¥552 million, respectively, for the year ended March 31, 2000.

### (c) Foreign Exchange Loss

Foreign exchange loss, formerly included in "other" of non-operating expenses, was stated separately for the year ended March 31, 2000, as its amount exceeded 10% of total non-operating expenses.

Foreign exchange loss for the year ended March 31, 1999 was ¥695 million.

## 4. Additional Information

### (a) Income Taxes

Effective April 1, 1999, the Company and its domestic consolidated subsidiaries adopted the new Accounting Standards for Income Taxes issued by the Business Accounting Deliberation Council.

The standard requires that deferred income taxes be accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the expected future tax consequences attributable to differences between the financial statement carrying amount of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Under this method, deferred tax assets and liabilities are measured using enacted tax rates

expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Under this standard, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

For the year ended March 31, 1999 and prior years, deferred tax assets and liabilities were not recognized for the future tax consequences attributable to differences between the financial statement carrying amount of existing assets and liabilities and their respective tax bases.

In conformity with a revision of the consolidation disclosure ordinance issued by MOF, interperiod tax allocation accounting was fully applied, effective from the year ended March 31, 2000.

The effect of this change from the partially applied interperiod tax allocation accounting was to increase deferred tax assets by ¥1,550 million (current ¥1,309 million and fixed ¥240 million) as of March, 2000 and to increase net income and retained earnings for the year then ended by ¥715 million and ¥1,702 million, respectively.

## 5. Balance Sheet Items

### (a) Discounted Notes

Discounted promissory notes as of March 31, 2000 and 1999 were ¥1,401 million and ¥1,775 million, respectively.

### (b) Software for Company Use

Software acquired and included in 'other' of investments and other assets by March 31, 1999 has been accounted for by the prior method in conformity with the transitional measures of "Guideline of Accounting for Research and Development Cost" (Report No. 12, March 31, 1999 of the Accounting Standards Committee of JICPA). However, such software is presented not as "other" of investments and other assets but as "software" of intangible fixed assets at the year ended March 31, 2000 and is depreciated by the straight-line method over an intra-company useful life of five years.

### (b) Investments in Unconsolidated Subsidiaries and Affiliates

Investments in unconsolidated subsidiaries and affiliates included in investments and other assets as of March 31, 2000 and 1999 were as follows:

	Millions of yen		Thousands of dollars (Note 1)
	2000	1999	2000
Equity stock (investment securities) .....	<b>¥41,487</b>	¥41,630	<b>\$447,358</b>
Investment money (other) .....	<b>744</b>	744	<b>7,008</b>

### (c) Pledged Assets for Liabilities

Pledged assets for liabilities as of March 31, 2000 were as follows:

	Millions of yen		Thousands of dollars (Note 1)	
	Total	Factory Foundation*	Total	Factory Foundation*
Pledged assets:				
Land .....	<b>¥ 4,112</b>	<b>¥ 2,562</b>	<b>\$ 38,738</b>	<b>\$ 24,136</b>
Buildings and structures .....	<b>5,468</b>	<b>4,733</b>	<b>51,512</b>	<b>44,588</b>
Machinery, equipment and carriers .....	<b>5,885</b>	<b>5,885</b>	<b>55,440</b>	<b>55,440</b>
Other tangibles .....	<b>313</b>	<b>313</b>	<b>2,949</b>	<b>2,949</b>
Investment securities .....	<b>2,610</b>	—	<b>24,588</b>	—
Cash and time deposits .....	<b>65</b>	—	<b>612</b>	—
Accounts receivable .....	<b>12</b>	—	<b>113</b>	—
Total .....	<b>¥18,467</b>	<b>¥13,494</b>	<b>\$173,970</b>	<b>\$127,122</b>
For:				
Short-term borrowings .....	<b>¥ 223</b>	<b>¥ 1</b>	<b>\$ 2,101</b>	<b>\$ 9</b>
Current portion of long-term borrowings .....	<b>1,726</b>	<b>1,082</b>	<b>16,260</b>	<b>10,193</b>
Long-term borrowings .....	<b>4,315</b>	<b>2,956</b>	<b>40,650</b>	<b>27,847</b>
Other current liabilities .....	<b>344</b>	—	<b>3,241</b>	—
Total .....	<b>¥ 6,610</b>	<b>¥ 4,040</b>	<b>\$ 62,270</b>	<b>\$ 38,059</b>

\* The amounts in "Factory Foundation" are included in total amounts.

In addition to the above, investment securities of ¥50 million were pledged for land leasing as of March 31, 2000.

#### (d) Contingent Liabilities

The Company and consolidated subsidiaries guaranteed loans as of March 31, 2000 and 1999, as follows:

	Millions of yen		Thousands of dollars (Note 1)
	2000	1999	2000
Debtor:			
Thai Polyacetal Co., Ltd. ....	<b>¥2,592</b>	¥ 3,503	<b>\$24,418</b>
Thai Polycarbonate Co., Ltd. ....	—	2,531	—
MGC Pure Chemicals Singapore Pte. Ltd. ....	<b>1,018</b>	1,059	<b>9,590</b>
Eiwa Chemical Industrial Co., Inc. ....	<b>336</b>	752	<b>3,165</b>
Korea Engineering Plastics Co., Ltd. ....	<b>264</b>	—	<b>2,487</b>
Employees.....	<b>3,287</b>	3,634	<b>30,966</b>
Seven other companies.....	<b>587</b>	714	<b>5,530</b>
Total.....	<b>¥8,086</b>	¥12,193	<b>\$76,175</b>

\*1 The above loans included loans in foreign currencies amounting to NT\$94,674 thousand and US\$35,672 thousand as of March 31, 2000, and NT\$206,242 thousand and US\$56,664 thousand as of March 31, 1999.

\*2 The above loans as of March 31, 2000 included joint surety of ¥978 million in the aggregate including the Company's portion of ¥535 million.

As of March 31, 1999 the Company stood for joint surety with other companies for three companies including Thai Polycarbonate Co., Ltd. of ¥1,507 million in the aggregate, of which the Company's substantial portion was ¥953 million.

#### 6. Income Statement Items

##### (a) Selling General and Administrative Expenses

The significant components of selling, general and administrative expenses for the year ended March 31, 2000 are as follows:

	Millions of yen	Thousands of dollars (Note 1)
Freight.....	¥9,683	\$ 91,220
Stevedorage and warehouse fee .....	2,188	20,612
Salaries and allowances .....	9,122	85,935
Bonus and bonus provisions .....	3,264*	30,749
Retirement provisions.....	1,885	17,758
Legal welfare and welfare .....	2,611	24,597
Transportation.....	1,179	11,107
Depreciation.....	2,346	22,101
Other.....	¥10,772	\$101,479

\* Bonus and bonus provisions include bonus provisions amounting to ¥1,454 million. The amount of provisions for the year ended March 31, 1999 was ¥1,567 million.

**(b) Research and Development Costs**

Research and development costs included in selling, general and administrative expenses for the year ended March 31, 2000 was ¥12,302 million.

**(c) Gain on Sales of Fixed Assets**

Gain on sales of fixed assets for the year ended March 31, 1999 was incurred from sales of land.

**(d) Loss on Disposal of Fixed Assets**

Loss on disposal of fixed assets for the year ended March 31, 1999

was mainly incurred from disposal of manufacturing facilities.

**(e) Loss on Restructuring Operations**

Loss on restructuring operations for the year ended March 31, 1999 was caused by liquidation of subsidiaries.

**(f) Loss on Restructuring Affiliates**

Loss on restructuring affiliates for the year ended March 31, 1999 was composed of:

	Millions of yen	Thousands of dollars (Note 1)
Settlement of investments in affiliates.....	¥375	\$3,533
Forgiveness of loans.....	227	2,138
Total.....	¥602	\$5,671

**7. Retained Earnings Statement Items****(a) Increase in Retained Earnings**

Increase due to subsidiaries newly consolidated for the year ended March 31, 2000 was caused from consolidating Ryoyo Shoji Co., Ltd. and MITSUBISHI GAS CHEMICAL AMERICA, Inc.

Increase due to affiliates newly accounted for by the equity method for the year ended March 31, 1999 was caused from P.T.

PEROKSIDA Indonesia Pratama and Kokka Sangyo Co., Ltd., which were added to affiliates.

**(b) Decrease in Retained Earnings**

Decrease due to affiliate newly accounted for by the equity method for the year ended March 31, 2000 was caused from MRM Toluic Co., Ltd., which was added to affiliates.

**8. Lease Transactions (as Lessee)**

Finance leases, except for the leases for which ownership of the leased assets is transferred to the lessee, are summarized as follows:

**(a) Pro forma Capitalization**

	Millions of yen		
	Acquisition cost	Accumulated depreciation	Book value
As of March 31, 2000:			
Machinery, equipment and carriers .....	¥2,195	¥1,054	¥1,140
Other tangibles.....	2,178	1,031	1,147
Total .....	¥4,373	¥2,085	¥2,288
As of March 31, 1999:			
Machinery, equipment and carriers .....	¥3,124	¥1,632	¥1,492
Other tangibles.....	2,030	854	1,176
Total .....	¥5,155	¥2,486	¥2,668
	Thousands of dollars (Note 1)		
	Acquisition cost	Accumulated depreciation	Book value
As of March 31, 2000:			
Machinery, equipment and carriers .....	\$20,678	\$ 9,929	\$10,740
Other tangibles.....	20,518	9,713	10,805
Total .....	\$41,196	\$19,642	\$21,554

The above acquisition cost equivalents were computed by the interest-inclusion method, as minimum future lease payments were not significant compared with the year-end balance of tangible fixed assets.

### (b) Minimum Future Lease Payments

Minimum future lease payments as of March 31, 2000 and 1999 were as follows:

	Millions of yen		Thousands of dollars (Note 1)
	2000	1999	2000
Due within one year .....	¥ 804	¥ 924	\$ 7,574
Due over one year .....	1,483	1,744	13,971
Total.....	¥2,288	¥2,668	\$21,554

The above minimum future lease payments were computed by the interest-inclusion method, as the payments were not significant compared with the year-end balance of tangible fixed assets.

### (c) Lease Payments and Depreciation

Lease payments and depreciation equivalent for the years ended March 31, 2000 and 1999 were as follows:

	Millions of yen		Thousands of dollars (Note 1)
	2000	1999	2000
Lease payments .....	¥877	¥935	\$8,262
Depreciation equivalent .....	877	935	8,262

Depreciation equivalent is computed by the straight-line method on the assumption that lease term equals useful life and there exists no residual value.

## 9. Market Value Information on Securities

Market value and unrealized gain (loss) on quoted marketable and investment securities as of March 31, 2000 were as follows:

	Millions of yen		
	Book value	Market value	Unrealized gain (loss)
Marketable securities:			
Equity stocks .....	¥41,098	¥68,459	¥27,360
Bonds .....	84	81	(2)
Other .....	233	180	(53)
Subtotal.....	41,416	68,721	27,304
Investment securities:			
Equity stocks .....	19,705	17,612	(2,093)
Bonds .....	50	54	3
Other .....	—	—	—
Subtotal.....	19,756	17,666	(2,090)
Total .....	¥61,173	¥86,387	¥25,214

	Thousands of dollars (Note 1)		
	Book value	Market value	Unrealized gain (loss)
<b>Marketable securities:</b>			
Equity stocks .....	\$387,169	\$644,927	\$257,748
Bonds .....	791	763	(18)
Other .....	2,195	1,696	(499)
Subtotal .....	390,165	647,395	257,221
<b>Investment securities:</b>			
Equity stocks .....	185,634	165,916	(19,717)
Bonds .....	471	509	28
Other .....	—	—	—
Subtotal .....	186,114	166,425	(19,689)
<b>Total .....</b>	<b>\$576,288</b>	<b>\$813,820</b>	<b>\$237,532</b>

\*1 Market value is calculated as follows:

(1) Listed securities: Principally closing price on the Tokyo Stock Exchange

(2) Over-the-counter securities: Closing price quoted by the Securities Dealers Association of Japan

(3) Unlisted investment trust beneficiary certificates: Standard price

(4) Unlisted bonds: Valuation computed based on yield and remaining maturity period of the OTC standard bonds, published by the Securities Dealers Association of Japan

\*2 Book values of main securities excluded from the above information as of March 31, 2000 were as follows:

	Millions of yen	Thousands of dollars (Note 1)
<b>Current assets:</b>		
Commercial paper .....	¥11,988	\$112,935
Unlisted foreign securities .....	5,230	49,270
Securities under repurchase agreement .....	2,999	28,253
Other .....	523	4,927
<b>Fixed assets:</b>		
Unlisted equity stocks(except for OTC stocks) .....	28,544	268,903
Unlisted foreign securities .....	2,176	20,499
Other .....	158	1,488

## 10. Derivative Transactions

### (a) Conditions of Derivative Transactions

Derivative transactions into which the Company enters are foreign exchange contracts and interest swaps, which are not made for speculation.

Foreign exchange contracts are made to avoid risk on future exchange fluctuations within the balance of receivables and payables of the Company. Interest swaps are made to reduce interest cost on certain balances of borrowings of the Company.

Since the counterparts of the derivative transactions are all credible financial institutions, the Company recognizes no material risks on breach of contracts.

The financial department of the Company executes and controls derivative transactions in conformity with the Derivative Control Rule of the Company under the supervision of a director in charge and the results of performance are reported periodically to the accounting department.

Contract amounts in Information on Market Value of Derivatives present nominal contract amounts or notional principals and their amounts do not represent straightforward the extent of market risk or credit risk of the derivatives.

## (b) Information on Market Value of Derivatives

Information on market value of derivatives of currency and of interest as of March 31, 2000 are as follows:

	Millions of yen			
	Contract amount		Market value	Unrealized gain (loss)
	Total	Due over 1 year		
Currency transactions:				
Foreign exchange contracts outside market				
U.S. dollars selling .....	¥ —	¥—	¥ —	¥—
U.S. dollars buying .....	1,703	—	1,712	8
Total .....	¥1,703	¥—	¥1,712	¥ 8

\*1 Market value at year-end is computed using prices on the futures market.

\*2 Receivables and payables in foreign currencies, of which yen amounts at settlement were fixed and stated at the corresponding yen amounts on the balance sheet due to future contracts, are excluded from the above information.

	Millions of yen			
	Contract amount		Market value	Unrealized gain (loss)
	Total	Due over 1 year		
Interest transactions:				
Interest swaps outside market				
Fixed rate received for variable rate .....	¥ 4,000	¥ —	¥ 45	¥ 45
Variable rate received for fixed rate .....	30,231	17,991	(191)	(191)
Total .....	¥34,231	¥17,991	¥(146)	¥(146)

\* Market value is computed based on prices given by financial institutions with which the Company has business relations.

## 11. 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, electronic materials, oxygen absorbing agent (AGELESS).

#### *Others:*

Gasification equipment and purification equipment for high-

purity gases, disposable heating pads (*Hokaron*).

Total amounts of assets included in 'elimination and corporate' as of March 31, 2000 and 1999 were ¥83,863 million and ¥86,892 million, respectively which were mainly composed of surplus funds including cash and securities and long-term investments including investment securities and other of the Company, and assets used by the administration departments.

As described in Note 2, Change in Accounting Policy, depreciation method of buildings, structures, carriers, tools and furniture held by the four plants was changed from the declining-balance method to the straight-line method, effective from the year ended March 31, 2000.

The effect of this change was to increase operating income for the year ended March 31, 2000 of chemical products segment and of advanced materials segment by ¥349 million and ¥106 million, respectively.

A summary of net sales, costs and expenses, and operating income by segment of business activities for the years ended March 31, 2000 and 1999 is as follows:

2000 (Millions of yen)	Chemical Products	Advanced Materials	Others	Total	Elimination and Corporate	Consolidated Total
<b>Net sales</b>						
Sales to outside customers .....	¥149,155	¥122,032	¥18,343	¥289,531	¥ —	¥289,531
Intersegment sales and transfers.....	4,206	1,212	2,060	7,479	(7,479)	—
Total .....	153,362	123,244	20,404	297,010	(7,479)	289,531
Costs and expenses .....	155,810	117,575	18,499	291,885	(7,646)	284,238
Operating income (loss) .....	¥ (2,448)	¥ 5,668	¥ 1,904	¥ 5,125	¥ 167	¥ 5,293
<b>Assets &amp; Amortization, Expenditures</b>						
Assets .....	¥206,562	¥170,798	¥35,779	¥413,140	¥67,890	¥481,030
Depreciation .....	11,314	7,690	982	19,987	—	19,987
Capital expenditures.....	13,966	9,344	847	24,158	—	24,158

2000 (Thousands of dollars)(Note 1)	Chemical Products	Advanced Materials	Others	Total	Elimination and Corporate	Consolidated Total
<b>Net sales</b>						
Sales to outside customers .....	\$1,405,134	\$1,149,618	\$172,803	\$2,727,565	\$ —	\$2,727,565
Intersegment sales and transfers.....	39,623	11,418	19,407	70,457	(70,457)	—
Total .....	1,444,767	1,161,036	192,219	2,798,021	(70,457)	2,727,565
Costs and expenses .....	1,467,829	1,107,631	174,272	2,749,741	(72,030)	2,677,701
Operating income (loss) .....	\$ (23,062)	\$ 53,396	\$ 17,937	\$ 48,281	\$ 1,573	\$ 49,863
<b>Assets &amp; Amortization, Expenditures</b>						
Assets .....	\$1,945,944	\$1,609,025	\$337,061	\$3,892,040	\$639,567	\$4,531,606
Depreciation .....	106,585	72,445	9,251	188,290	—	188,290
Capital expenditures.....	131,569	88,026	7,979	227,584	—	227,584

1999 (Millions of yen)	Chemical Products	Advanced Materials	Others	Total	Elimination and Corporate	Consolidated Total
<b>Net sales</b>						
Sales to outside customers .....	¥143,428	¥124,825	¥18,217	¥286,471	¥ —	¥286,471
Intersegment sales and transfers.....	3,931	119	1,762	5,813	(5,813)	—
Total .....	147,360	124,944	19,980	292,285	(5,813)	286,471
Costs and expenses .....	151,462	115,464	18,065	284,992	(6,143)	278,849
Operating income (loss) .....	¥ (4,102)	¥ 9,480	¥ 1,914	¥ 7,292	¥ 329	¥ 7,622
<b>Assets &amp; Amortization, Expenditures</b>						
Assets .....	¥206,372	¥164,429	¥38,889	¥409,690	¥66,143	¥475,834
Depreciation .....	9,966	7,102	979	18,048	—	18,048
Capital expenditures.....	22,699	11,625	414	34,739	—	34,739

### (b) Information by Geographic Area

In the years ended March 31, 2000 and 1999, 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			
	Asia	North & South America	Other	Total
Year ended March 31, 2000:				
Overseas net sales.....	¥52,892	¥ 9,986	¥6,114	¥ 68,993
Consolidated net sales.....	—	—	—	289,531
Weight of overseas net sales .....	18.3%	3.4%	2.1%	23.8%
Year ended March 31, 1999:				
Overseas net sales.....	¥52,222	¥12,509	¥7,321	¥ 72,052
Consolidated net sales.....	—	—	—	286,471
Weight of overseas net sales .....	18.2%	4.4%	2.6%	25.2%

\*1 Division of country or region is decided by geographical nearness.

\*2 Major countries or regions in the respective divisions:

(a) Asia

Thailand, Malaysia, India, Indonesia, Korea, China and Taiwan

(b) North and South America

U.S.A., Mexico and Brazil

(c) Other

Australia, New Zealand, Germany, Netherlands, Italy, Great Britain and South Africa

\*3 Overseas net sales are export sales of the Company and consolidated domestic subsidiaries and sales (other than exports to Japan) of overseas subsidiaries.

## 12. Per-share Data

	Yen		Dollars (Note 1)
	2000	1999	2000
Equity per share .....	¥355.77	¥345.07	\$3.35
Net income per share .....	8.40	13.55	0.08
Fully diluted net income per share .....	8.39	13.51	0.08

## 13. Long-term Debt

### (a) Bonds

Bonds, unsecured and issued by the company as of March 31, 2000 and 1999 are summarized below:

Description	Issue				Millions of yen		Thousands of dollars (Note 1)
	No.	Issued	Rate (%)	Due	2000	1999	2000
Convertible bonds*1	9th	10/15/86	2.400	3/29/02	¥ 1,428	¥ 1,428	\$ 13,453
Bonds	12th	9/ 5/96	2.450	9/ 5/01	10,000	10,000	94,206
Bonds	13rd	9/ 5/96	2.950	9/ 5/03	10,000	10,000	94,206
Bonds	14th	3/13/98	2.225	3/13/03	5,000	5,000	47,103
Bonds	15th	3/13/98	2.225	3/13/03	5,000	5,000	47,103
Bonds	16th	3/16/98	2.675	3/16/05	5,000	5,000	47,103
Bonds	17th	3/16/98	2.675	3/16/05	5,000	5,000	47,103
Bonds	18th	8/20/98	2.570	8/18/06	5,000	5,000	47,103
Bonds	19th	8/25/98	2.570	8/25/06	5,000	5,000	47,103
Subtotal					51,428	51,428	484,484
Elimination on consolidation					(31)	—	(292)
					¥51,397	¥51,428	\$484,192

\*1 Details of convertible bonds are as follows:

Description: The 9th unsecured convertible bonds  
 Conversion period: From 12/1/86 to 3/28/02  
 Conversion price: ¥496\*  
 Stock to be issued: Registered common stock with par value  
 Increase of capital stock at issue: ¥241 per share

\*Conversion price was adjusted to ¥481.6, effective from conversion after April 1, 1987, due to free share distribution on May 20, 1987 to the shareholders of the record as of March 31, 1987.

\*2 The aggregate annual maturities of bonds within five years after March 31, 2000 are as follows:

Year ending March 31,	Millions of yen	Thousands of dollars (Note 1)
2001 .....	¥ —	\$ —
2002 .....	11,397	107,367
2003 .....	10,000	94,206
2004 .....	10,000	94,206
2005 .....	10,000	94,206

### (b) Short-term and Long-term Borrowings

Short-term and long-term borrowings as of March 31, 2000 and 1999 are summarized below:

Description	Average rate (%)	Due	Millions of yen		Thousands of dollars
			2000	1999	(Note 1)
Short-term borrowings .....	0.8		¥ 64,034	¥ 71,604	\$603,241
Current portion of long-term borrowings .....	2.4		29,450	8,169	277,438
Long-term borrowings less current portion .....	2.0	2001 to 2032	51,108	65,707	481,470
Subtotal .....			144,593	145,480	1,362,157
Elimination on consolidation .....			(581)	(6,074)	(5,473)
Total .....			¥144,011	¥139,406	\$1,356,675

\* The aggregate annual maturities of long-term borrowings, excluding current portion, within five years after March 31, 2000 are as follows:

Year ending March 31	Millions of yen	Thousands of dollars
2002 .....	¥10,915	\$102,826
2003 .....	10,290	96,938
2004 .....	11,777	110,947
2005 .....	5,889	55,478

## 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, 2000 and 1999 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, 2000 and 1999 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 except for the change, with which we concur, in the method of depreciation, made in the year ended March 31, 2000 as described in Note 2 to the consolidated financial statements.

Also, in our opinion, the 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, 2000

*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.	200	99.9	Sale of compound resins and other products
JAPAN CIRCUIT INDUSTRIAL CO., LTD	898	70.3	Manufacture of printed circuit boards
JAPAN PIONICS CO., LTD.	200	100.0	Manufacture of gas generators, gas purifiers and disposable body warmers
JAPAN HYDRAZINE CO., INC.	274	72.0	Manufacture of hydrazine and its derivatives and resistors
RYOKO CHEMICAL CO., LTD.	100	100.0	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	100.0	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	90.0	Manufacture and sale of super-pure hydrogen peroxide
JAPAN CHEMICAL TRANSPORT CO., LTD.	¥400	60.0	Transport of chemical products
RYOWAKOSAN COMPANY, INC.	100	100.0	Real estate management
RYOYO SHOJI Co., LTD.	90	19.0	Sale of industrial chemicals and insurance agency businesses

### Overseas Subsidiaries, Affiliates and Others

#### AMERICAS

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

#### EUROPE

MITSUBISHI GAS CHEMICAL Europe GmbH

#### 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.  
MGC Pure Chemicals Taiwan, INC.

## Directors and Statutory Auditors

### Chairman

Reiji Nishikawa\*

### President

Akira Ohira\*

### Senior Managing Directors

Yasuo Imai

Shizuo Togo

### Managing Directors

Yukio Ikeda

Yasunori Ogata

Yasuhisa Kato

Hideki Odaka

Sadao Masaki

Hiromi Nakamura

### Directors

Hiroshi Watanabe

Takao Kawaki

Masaya Fujimori

Yuji Takamizawa

Rokuro Inoue

Toru Tanaka

Kiichi Goto

Yasuhiko Kijima

Tomihiro Ogino

Toshio Komatsu

### Corporate Statutory Auditors

Sadao Otsuka

Tadaaki Hiroyama

Hidetsugu Ito

Wataru Taguchi

\*Representative Director  
(As of June 29, 2000)

## 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

## Annual Meeting of Shareholders

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

## Auditor

Toyo & Co.

(As of June 29, 2000)

## Number of Employees

2,976

## Number of Shareholders

41,298

## Principal Shareholders

Name	Number of Shares Held	Percentage of Total Shares Outstanding
Nippon Life Insurance Company	34,546	7.12%
The Mitsubishi Trust & Banking Corp.	24,804	5.11
Meiji Life Insurance Company	24,202	4.99
The Bank of Tokyo-Mitsubishi, Ltd.	23,389	4.82
The Industrial Bank of Japan, Ltd.	15,183	3.13
The Bank of Yokohama, Ltd.	13,711	2.82
The Norinchukin Bank	12,053	2.48
The Sumitomo Trust & Banking Co., Ltd. (Trust Account)	9,701	2.00
Asahi Glass Co., Ltd.	9,671	1.99
The Tokyo Marine & Fire Insurance Co., Ltd.	9,387	1.93

(As of March 31, 2000)



**MITSUBISHI GAS CHEMICAL COMPANY, INC.**

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