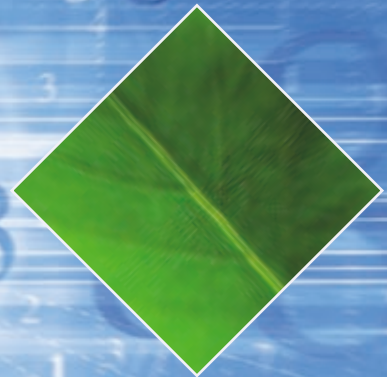
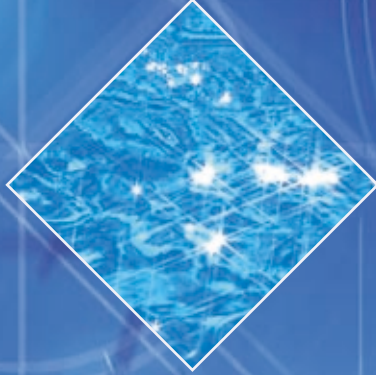


MITSUBISHI GAS CHEMICAL COMPANY, INC.



ANNUAL REPORT | 2002

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 nine plants and four research centers in Japan. In addition, 28 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.

Management Philosophy



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Financial Highlights

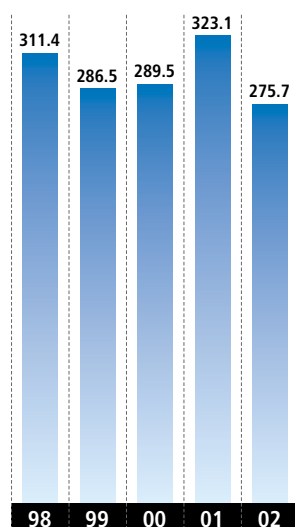
Mitsubishi Gas Chemical Company, Inc. and Consolidated Subsidiaries
For the years ended March 31, 2002, 2001 and 2000

	Millions of yen			Percentage change	Thousands of dollars
	2002	2001	2000	2002/2001	2002
For the year:					
Net sales.....	¥275,710	¥323,076	¥289,531	(14.7)%	\$2,069,118
Operating income (loss)	(6,786)	12,179	5,293	—	(50,927)
Net income (loss).....	(4,235)	7,285	4,172	—	(31,782)
Return on assets (ROA)(%).....	(0.91)	1.50	0.87	—	—
Return on equity (ROE)(%)	(2.42)	4.16	2.43	—	—
Capital expenditures.....	27,396	22,938	24,326	19.4	205,599
At year end:					
Total assets	¥466,763	¥486,970	¥481,030	(4.1)%	\$3,502,912
Stockholders' equity	174,743	175,280	172,718	(0.3)	1,311,392
Interest-bearing debt	191,359	188,620	195,409	1.5	1,436,090
		Yen		Percentage change	Dollars
	2002	2001	2000	2002/2001	2002
Per share of common stock:					
Net income—basic.....	¥ (8.79)	¥ 15.07	¥ 8.40	— %	\$(0.07)
Net income—diluted.....	—	15.02	8.39	—	—
Stockholders' equity	367.69	362.54	355.77	1.4	2.76
Cash dividends.....	4.00	4.00	5.00	—	0.03

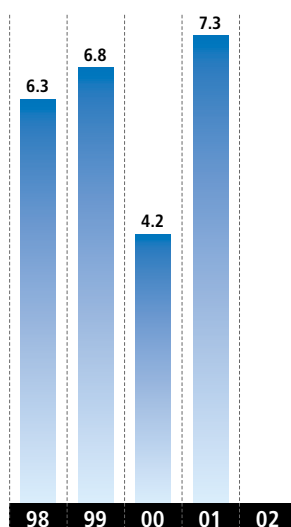
Notes: 1. U.S. dollar amounts are translated from yen, for convenience only, at the approximate rate of ¥133.25=US\$1 prevailing on March 29, 2002.

2. Cash dividends for each year represent the total of the interim dividend and the year-end dividend approved at the General Meeting of Shareholders.

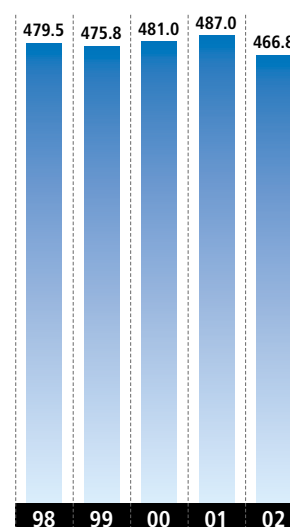
Net Sales
(¥ Billions)



Net Income (Loss)
(¥ Billions)



Total Assets
(¥ Billions)



Message from the Management

Operating Environment and Results

During fiscal 2001, ended March 31, 2002, the recovery of Japan's economy was delayed as corporate profitability was impacted by intensifying competition, and both capital expenditures and consumer spending declined in a deflationary environment. In the chemical industry, demand for information technology (IT) and related products decreased sharply. Weak market conditions and increased competition among exporters also contributed to the challenging market environment.

Given these conditions, Mitsubishi Gas Chemical Company, Inc. (MGC) implemented a strategy of selection and concentration in working to strengthen and expand businesses in which the Company has a competitive advantage while streamlining and exiting businesses that are less profitable. MGC also reduced fixed expenses and worked to improve profitability. The difficult operating environment, however, impacted performance. Consolidated net sales decreased ¥47,366 million to ¥275,710 million, and MGC recorded an operating loss of ¥6,786 million, compared to operating income of ¥12,179 million for the previous fiscal year. Consequently, the Company's net loss was ¥4,235 million, compared to net income of ¥7,285 million for the previous fiscal year. Cash dividends applicable to the fiscal year remained unchanged from the previous year at ¥4.00 per share.

Medium-Term Management Strategies and Objectives

At the start of fiscal 2000, MGC began implementing a new medium-term management plan, MGC SHINKA 21, to delineate the Company's business strategies and give the Company directions and guidelines for achievement in the twenty-first century. With the aim of making MGC a chemical

company distinguished by excellence, MGC SHINKA 21 has the following three fundamental policies:

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

Efficient use of assets is of primary importance. MGC is therefore using return on assets (ROA) as a key management indicator in evaluating its progress. Our goal is to raise ROA for the entire MGC Group by improving management.

MGC introduced a new internal company system in July 2000 to promote autonomous, self-reliant operations. This new system expands the decision-making authority of each internal company. Moving to strengthen corporate governance and MGC's compliance system to ensure gains in management efficiency and appropriate operating controls, MGC also created the Internal Auditing Department in June 2001.

Our operating environment is changing rapidly. While MGC's performance was below that of the previous fiscal year, the Company is making progress in achieving the objectives of its medium-term management plan for reducing fixed costs. Emergency measures implemented in September 2001 to cut costs in IT-related businesses such as electronic materials and information and advanced materials have been moving forward according to schedule and are showing results.

Our selection and concentration strategy is designed to strengthen and expand businesses in which MGC has a competitive advantage and

Akira Ohira, Chairman (left), and
Hideki Odaka, President



streamline or exit less profitable businesses as a means to create a stable earnings base. This strategy also includes streamlining administrative divisions to fortify the Company's operating structure.

Building Corporate Value and Stakeholder Satisfaction

The year ending March 2003 is the final year of MGC SHINKA 21, and the entire Company is working in close cooperation to achieve the plan's objectives. As we do so, we remain deeply aware of our responsibility for contributing to society and protecting the environment. This awareness is based on the concept of sustainable development, in which our corporate activities are in harmony with the environment and earn the trust of society. MGC's social and environmental activities are explained in detail in the Responsible Care Report the Company published in November 2001.

MGC's management philosophy is based on using chemistry to create and expand value that contributes to social harmony and development. Our goal is to be a unique and superior chemical company. In working to create new value that meets the needs of our times while increasing corporate value, we intend to earn the trust and satisfaction of customers, shareholders, the communities we serve and other stakeholders.

Akira Ohira
Chairman

Hideki Odaka
President

Natural Gas Chemicals Company

Main Products

Commodity chemicals: Methanol, formaldehyde, ammonia, urea

Organic chemicals: Amines, methyl methacrylate (MMA) and polyols

Other: Biochemicals, geothermal steam and technology sales



Message from Company President Hiromi Nakamura

As it has become difficult for MGC to continue manufacturing natural gas products independently in Japan, we are in the process of restructuring our operations by pursuing mergers and alliances while consolidating or withdrawing from non-performing businesses. This move will enable us to broaden our horizons by partnering with manufacturers and users as well as materials suppliers in Japan and throughout Asia.

The twenty-first century will be the century of natural gas. We are promoting the establishment of new businesses in the fields of dimethylether (DME) and fuel cells, which will make full use of our synthesis technology developed from many years of working with natural gas. We will comprehensively manage our business from resource development to diverse downstream derivative products with special characteristics.

Company Activities

The main feature of the Natural Gas Chemicals Company is the strong role played by natural gas. With commodity chemicals such as methanol, ammonia and formaldehyde, organic chemicals derived from these commodity chemicals and biochemical products developed from methanol, the company has established a range of strongly linked businesses. The company also produces polyacetal engineering plastic through a tie-up with the Specialty Chemicals Company.

In 1983, MGC moved its production base for the methanol business to Saudi Arabia and commissioned the world's first large-scale methanol tanker ship. Raw materials, technology, manufacturing, logistics, sales and the development of derivative products are all part of the same operation. In 1994, MGC established a production base in Venezuela in order to facilitate sales in the U.S. market, and is currently proceeding with plans to construct a second production facility in Venezuela.

Recently, attention has focused on DME as an environmentally friendly form of energy, and MGC is currently proceeding with plans for DME operations in Western Australia. Along with its methanol business, MGC is forging ahead by developing new businesses based on natural gas.

At the same time, MGC is working to streamline production and improve the production capacity of urea and formaldehyde by closing urea production facilities and consolidating formaldehyde production facilities through alliances with other companies.

MGC is also considering licensing its technology for methyl methacrylate (MMA) to focus on esters and intermediates. Manufacturers in Japan and abroad have expressed interest in the Company's superior process that creates no ammonium sulfate by-product.

In new products, MGC has launched the Vitalica® series of enzymatic disinfectants used in food processing and is also focusing on new developments in biochemical products.

Aromatic Chemicals Company

Main Products

Special feature aromatic chemicals: MX nylon, metaxylene diamine, aldehydes and polycarboxylic acid

Common aromatic chemicals: Paraxylene, purified terephthalic acid, phthalic anhydride, orthoxylene and plasticizers



Message from Company President Rokuro Inoue

The Aromatic Chemicals Company has recently seen drastic changes in its management and business environment. We have outlined measures to respond to these developments, and in line with these measures, every employee in every division will work actively from a global perspective in order to improve business performance and contribute to a stronger profit base.

We will strengthen the cost competitiveness of commodity chemical products and promote alliances with other companies, as well as drastic structural improvements. In addition, we will further differentiate ourselves by expanding our range of existing specialty aromatic products and derivatives. We will also strengthen our business foundation through the development and commercialization of new products and businesses.

Company Activities

The Aromatic Chemicals Company develops products that are an integral part of people's everyday lives, such as textiles, paints, solvents, food packaging materials and automotive parts.

The product lineup consists of isomers of xylene and its derivatives, which include isophthalic acid, terephthalic acid, phthalic anhydride, plasticizers,

trimellitic acid, metaxylene diamine and MX nylon (Nylon-MXD6), as well as aromatic aldehydes developed through proprietary technologies.

The company is streamlining production of commodity chemical products such as paraxylene, purified terephthalic acid and phthalic anhydride through alliances with other companies. In addition, the company is making use of proprietary technologies to specialize in metaxylene products by developing various derivative products and establishing production bases for MX nylon overseas, where demand is high.

In this way, the Aromatic Chemicals Company is creating markets that anticipate trends in both market needs and new technologies in areas from commodity chemicals to fine chemicals.

Specialty Chemicals Company

Main Products

Inorganic chemicals: Hydrogen peroxide, sodium hydrosulfide, hydrazine hydrate and persulfates

High-function products: Super-pure hydrogen peroxide, ELM Clean and lens monomer

Engineering plastics: Polycarbonate, polycarbonate sheet, polyoxymethylene, modified polyphenylene oxide and Reny



Message from Company President Yasuhiko Kijima

In Asia, particularly China, production bases and markets for general-purpose products are expanding rapidly, while the market for specialty products has become remarkably generalized and mature due to intense competition and technological innovations. To respond to these changes, we are reviewing our business strategy for each product line, accurately assessing market information, and working to carry out timely technical development and investment activities while establishing a stable profit base.

Company Activities

The Specialty Chemicals Company is involved in two business areas: inorganic chemicals and engineering plastics.

The inorganic chemicals business is working to strengthen the competitiveness of basic chemicals such as hydrogen peroxide in order to facilitate a shift toward advanced products with high added value, such as high-purity chemicals for semiconductors and liquid crystals, lifestyle-related products such as lens materials, and environmentally friendly chemicals. The Electronic Chemical Center, which is responsible for conducting research on electronic chemicals, has worked to shorten development lead time by promot-

ing joint development and facilitating the sharing of technical know-how with customers. In 2000, the Specialty Chemicals Company increased production of hydrogen peroxide by 50,000 tons per year, and is steadily cultivating new demand.

The engineering plastics business has adopted a global perspective, supplying a wide range of engineering plastics from polycarbonates to modified high-heat-resistant plastics.

The Specialty Chemicals Company increased production capacity for polycarbonates at its Kashima Plant by 70,000 tons as of spring 2002, and is also expanding its production facility in Thailand, aiming to become the world's third-largest manufacturer of polycarbonates. Furthermore, the company produces polyphenylethers through a joint venture with Asahi Kasei Corporation in Singapore. For production of polyacetal, in addition to the expansion of its own production facility in Thailand, the company participates in joint ventures with Ticona GmbH and Polyplastics Co., Ltd. in China.

Information & Advanced Materials Company

Main Products

Electronic materials: BT laminate, epoxy laminate and mass molding laminate

Oxygen absorbers: AGELESS®, Anaeropac®, RP System™

Info-advanced materials: Magnetic garnet single crystal



Message from Company President Masanari Fujimori

In today's rapidly changing market environment, the Information & Advanced Materials Company is working to form closer relationships with its customers in order to better anticipate their needs. At the same time, we aspire to strengthen our operating base by rapidly developing and improving our distinctive, advanced, low-cost, high-quality products and shifting towards high-value-added operations.

We respond quickly to our customers' needs, offering the ideal products at the optimum volume on the appropriate schedule, in order to succeed in the face of intense global competition.

Company Activities

The Information & Advanced Materials Company consists of three businesses, which are all based at the Tokyo Plant: electronic materials, oxygen absorbers and info-advanced materials. These businesses include a range of unique products such as BT laminate, AGELESS®, magnetic garnet single crystal and wavelength division multiplexing (WDM) devices. The company has established strong links among the factories and affiliates involved in these three businesses, enabling it to offer sophisticated, high-value-added products that anticipate customers' needs.

In the electronic materials business, production is being shifted to Electrotechno Co., Ltd., which is more cost-competitive and provides high-quality materials. Yonezawa DIA Electronics Co., Ltd. develops sophisticated shield boards based on superior processing technology.

In the oxygen absorbers business, AGELESS® is marketed not only to the food industry but also to the pharmaceutical and health care industries, and the markets for RP System™, Savi-Knight™ and AGELESS-OMAC® oxygen absorbing film expanded.

In the info-advanced materials business, with the rapid expansion in broadband services, the company is working to develop and expand the market for low-cost, high-performance coarse wavelength division multiplexing (CWDM) devices for metro-area networks.

MGC ECO-Facility Inc., established inside the Tokyo Plant as part of efforts to make the plant a more sustainable "urban factory," developed Memory Green Crystal, which has contributed to the greening of rooftop space.

Financial Review

For fiscal 2001, ended March 31, 2002, consolidated net sales decreased 14.7 percent, or ¥47,366 million, to ¥275,710 million. MGC recorded an operating loss of ¥6,786 million, compared to operating income of ¥12,179 million for the previous fiscal year. Consequently, the Company's net loss was ¥4,235 million, compared to net income of ¥7,285 million for the previous fiscal year. Cash dividends per share applicable to the fiscal year remained unchanged year-on-year at ¥4.00 per share.

On a non-consolidated basis, net sales decreased 15.3 percent, or ¥34,977 million, to ¥193,840 million. Non-consolidated ordinary loss was ¥2,678 million, compared to ordinary income of ¥4,593 million for the previous fiscal year. Net loss totaled ¥3,363 million, compared to net income of ¥2,355 million for the previous fiscal year.

Performance by Business Segment

Chemical Products Group

Market demand for methanol and ammonia-based products decreased year-on-year, resulting in a substantial decrease in sales of these products. MGC restructured its formaldehyde derivatives business and worked to meet market needs, but sales decreased. Sales of amine derivatives decreased due to the impact of weakness in the methanol market, although sales of methyl methacrylate and related ester-based products increased. Sales volume of polyols (polyalcohols) decreased due to the effects of weaker demand and increased competition with imports, which resulted in lower sales. Sales of ammonia-based products were essentially unchanged year-on-year.

In the xylene-based product sector, sales of metaxylene were flat, while sales of derivative products including

metaxylene diamine and metaxylene nylon (MX nylon) increased. Both sales and sales volume of paraxylene increased, although sales of purified terephthalic acid, a paraxylene derivative, declined due to reduced demand. Sales of phthalic acid decreased due to lower demand for plasticizers, the primary market for this product.

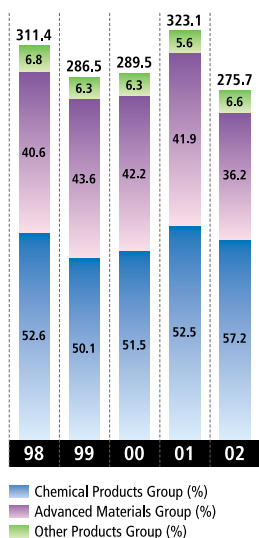
In the industrial chemical sector, sales volume for hydrogen peroxide used in the pulp and paper industry decreased, which caused sales to decline. Internal sales and exports of sodium hydrosulfite and persulfates decreased, resulting in lower sales. Sales of hydrazine hydrate were essentially unchanged year-on-year.

As a result of the above, total sales of the Chemical Products Group decreased 7.0 percent, or ¥11,786 million, year-on-year to ¥157,792 million. Operating loss totaled ¥2,536 million, compared to an operating loss of ¥1,279 million for the previous fiscal year.

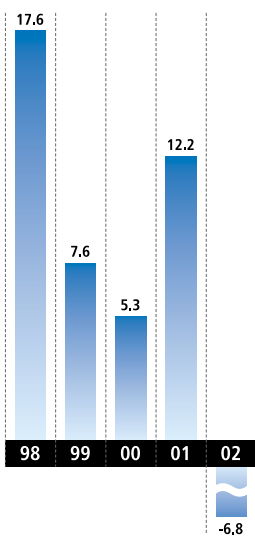
Advanced Materials Group

Overall sales of engineering plastics decreased. Sales to the automotive and construction industry were firm, but sales to the electronics industry decreased. Sales and sales volume of printed circuit board materials decreased substantially due to a sharp drop in demand from manufacturers of semiconductors and information technology-related equipment. Sales of chemicals used in the electronics industry decreased due to lower demand from manufacturers of semiconductors and liquid crystal displays. In the info-advanced materials sector, demand for optical communications-related products was down significantly, and sales of magnetic garnet single crystal decreased substantially. Sales and sales volume of lens

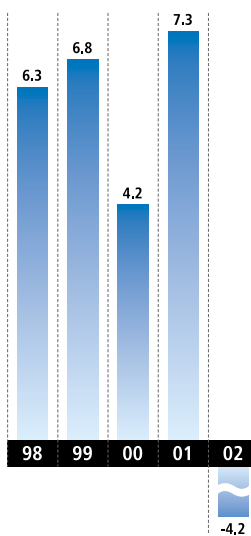
Net Sales
(¥ Billions)



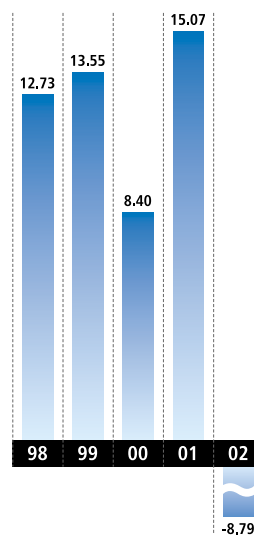
Operating Income (Loss)
(¥ Billions)



Net Income (Loss)
(¥ Billions)



Net Income (Loss) per Share
(¥)



monomer increased. Sales of AGELESS®, an oxygen absorber used to preserve the freshness of packaged food, were essentially unchanged year-on-year.

The above factors resulted in a decrease of 26.4 percent, or ¥35,713 million, in Advanced Materials Group Sales to ¥99,809 million. Operating loss totaled ¥5,271 million, compared to operating income of ¥10,856 million for the previous fiscal year.

Other Products Group

Sales of technology were supported by increased sales of equipment for producing various types of gases using the methanol method. Sales in the geothermal steam business were level. Sales of equipment for refinery and exhaust gas treatment decreased.

Consequently, Other Products Group sales increased 0.7 percent, or ¥133 million, to ¥18,109 million. Operating income decreased 78.0 percent, or ¥1,914 million, to ¥540 million.

Liquidity and Financial Position

On a consolidated basis, cash and cash equivalents at the end of the year decreased 10.9 percent, or ¥3,457 million, from a year earlier to ¥28,188 million. Net cash provided by operating activities decreased 11.8 percent, or ¥1,843 million, to ¥13,719 million. Reduction in working capital was the primary source of cash. The conversion of trade notes and accounts receivable and inventories to cash offset the loss before income taxes and minority interests and the reduction in cash flow due to the decrease in payables.

Net cash used in investing activities was ¥15,396 million, compared to ¥12,398 million for the previous fiscal year.

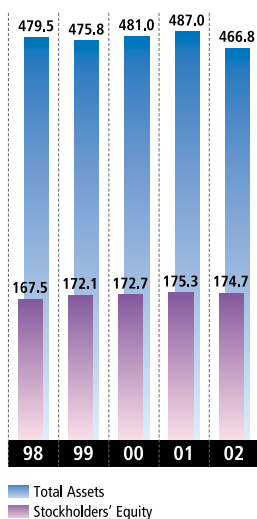
Capital expenditures directed toward production capacity for advanced materials increased, offset by proceeds from sales of property, plant and equipment related to the Chemical Products Group. MGC generated less cash from repayments of long-term loans receivable and proceeds from sale of investments in securities than in the previous fiscal year.

Net cash used in financing activities decreased to ¥2,596 million from ¥12,623 million for the previous fiscal year. MGC continued to use cash generated through investing activities to reduce interest-bearing liabilities, though at a reduced level compared to the previous year. MGC also generated less cash from proceeds from long-term debt. The upcoming redemption of unsecured yen bonds during the current fiscal year caused short-term debt to increase.

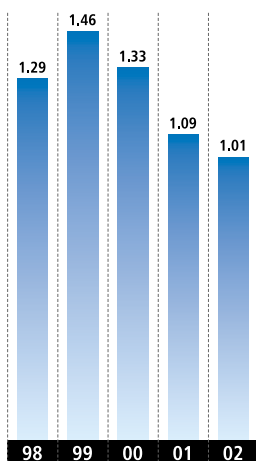
Current assets at March 31, 2002 totaled ¥176,950 million, compared to ¥208,505 million a year earlier. Current liabilities totaled ¥175,349 million, compared to ¥191,014 million a year earlier. As a result, working capital decreased to ¥1,601 million from ¥17,491 million a year earlier. The current ratio was 1.01 to 1, compared to 1.09 to 1 a year earlier.

Net property, plant and equipment increased to ¥175,420 million from ¥173,032 million a year earlier. Total assets decreased to ¥466,763 million from ¥486,970 million a year earlier, reflecting the decrease in current assets. Total non-current liabilities decreased to ¥110,080 million from ¥113,410 million a year earlier. Stockholders' equity decreased to ¥174,743 million from ¥175,280 million a year earlier.

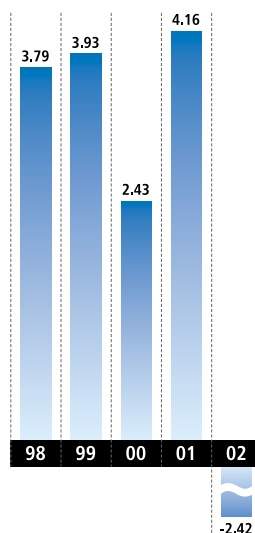
Total Assets and Stockholders' Equity
(¥ Billions)



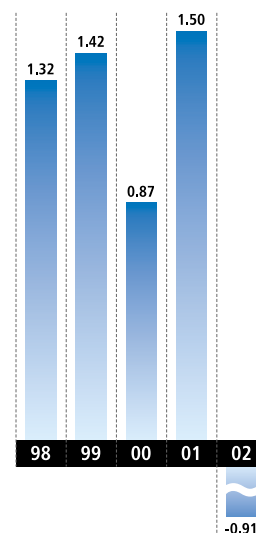
Current Ratio
(times)



Return on Stockholders' Equity
(%)



Return on Total Assets
(%)



Consolidated Balance Sheets

Mitsubishi Gas Chemical Company, Inc. and Consolidated Subsidiaries
March 31, 2002 and 2001

ASSETS	Millions of yen		Thousands of U.S. dollars (note 2)
	2002	2001	2002
Current assets:			
Cash (notes 3 and 6).....	¥ 20,865	¥ 27,169	\$ 156,585
Trade notes and accounts receivable (note 14).....	81,777	114,816	613,711
Short-term investments (note 4).....	5,849	4,996	43,895
Inventories.....	50,063	52,879	375,707
Deferred income taxes (note 8).....	5,977	2,502	44,856
Other current assets (note 14).....	13,144	6,743	98,642
Less allowance for doubtful receivables.....	725	600	5,441
Total current assets.....	176,950	208,505	1,327,955
Property, plant and equipment (note 6):			
Buildings and structures.....	108,902	105,982	817,276
Machinery, equipment and vehicles.....	276,599	284,576	2,075,790
Land.....	24,306	23,507	182,409
Construction in progress.....	15,064	12,863	113,051
Other.....	27,954	27,031	209,786
	452,825	453,959	3,398,312
Less accumulated depreciation.....	277,405	280,927	2,081,839
Net property, plant and equipment.....	175,420	173,032	1,316,473
Intangible assets, net:			
Software.....	949	1,028	7,122
Other.....	724	858	5,433
Net intangible assets.....	1,673	1,886	12,555
Investments and other assets:			
Investments in securities (notes 4, 5 and 6).....	100,834	91,046	756,728
Long-term loans receivable.....	2,933	2,518	22,011
Deferred income taxes (note 8).....	3,335	2,561	25,028
Other investments and other assets (note 5).....	6,683	8,297	50,154
Less allowance for doubtful receivables.....	1,065	875	7,992
Total investments and other assets.....	112,720	103,547	845,929
Total assets.....	¥466,763	¥486,970	\$3,502,912

See accompanying notes to consolidated financial statements.

LIABILITIES AND STOCKHOLDERS' EQUITY

	Millions of yen		Thousands of U.S. dollars (note 2)
	2002	2001	2002
Current liabilities:			
Trade notes and accounts payable	¥ 53,887	¥ 71,007	\$ 404,405
Short-term debt and current installments of long-term debt (note 6).....	93,733	87,721	703,437
Accrued expenses	9,352	10,816	70,184
Accrued income taxes (note 8).....	817	4,318	6,132
Accrued bonuses	3,757	4,201	28,195
Other current liabilities (note 8)	13,803	12,951	103,587
Total current liabilities.....	175,349	191,014	1,315,940
Non-current liabilities:			
Long-term debt (note 6).....	97,626	100,899	732,653
Liabilities for retirement and severance benefits (note 7).....	10,675	11,106	80,112
Other non-current liabilities (note 8)	1,779	1,405	13,351
Total non-current liabilities.....	110,080	113,410	826,116
Total liabilities	285,429	304,424	2,142,056
Minority interests	6,591	7,266	49,464
Stockholders' equity:			
Common stock (note 11):			
Authorized 984,856,000 shares; issued and outstanding 483,478,398 shares in 2002 and 2001	41,970	41,970	314,972
Additional paid-in capital (note 11)	35,518	35,518	266,552
Surplus on revaluation of property, plant and equipment by a subsidiary	2,945	2,824	22,101
Retained earnings (note 12).....	93,474	99,605	701,493
Net unrealized gain on other securities (note 4).....	3,699	—	27,760
Foreign currency translation adjustments.....	(1,258)	(4,636)	(9,441)
Treasury stock.....	(1,605)	(1)	(12,045)
Total stockholders' equity	174,743	175,280	1,311,392
Commitments and contingencies (note 15)			
Total liabilities and stockholders' equity.....	¥466,763	¥486,970	\$3,502,912

Consolidated Statements of Operations

Mitsubishi Gas Chemical Company, Inc. and Consolidated Subsidiaries
For the years ended March 31, 2002 and 2001

	Millions of yen		Thousands of U.S. dollars (note 2)
	2002	2001	2002
Net sales (note 14)	¥275,710	¥323,076	\$2,069,118
Cost of sales (note 10)	239,541	267,879	1,797,681
Gross profit	36,169	55,197	271,437
Selling, general and administrative expenses (notes 7, 9 and 10)	42,955	43,018	322,364
Operating income (loss)	(6,786)	12,179	(50,927)
Other income (deductions):			
Interest income	274	442	2,056
Dividend income	686	784	5,148
Interest expenses	(3,199)	(3,755)	(24,008)
Equity in earnings of affiliates	6,604	4,629	49,561
Exchange gain	356	992	2,672
Gain on sale of investments in securities (notes 4 and 14)	16	1,543	120
Loss on devaluation of inventories	(1,100)	—	(8,255)
Loss on sale/disposal of property, plant and equipment	(1,437)	(1,815)	(10,784)
Loss on devaluation of investments in securities	(3,537)	(459)	(26,544)
Gain on contribution of assets to pension trust (note 7)	—	9,394	—
Amortization of transition obligation resulting from accounting change for retirement and severance benefits (note 7)	—	(11,557)	—
Other, net	(2,245)	(3,121)	(16,848)
	(3,582)	(2,923)	(26,882)
Income (loss) before income taxes and minority interests	(10,368)	9,256	(77,809)
Income taxes (note 8):			
Current	1,313	4,974	9,854
Deferred	(6,587)	(3,076)	(49,434)
	(5,274)	1,898	(39,580)
Income (loss) before minority interests	(5,094)	7,358	(38,229)
Minority interests	(859)	73	(6,447)
Net income (loss)	¥ (4,235)	¥ 7,285	\$ (31,782)
Per share of common stock:			
Net income (loss):			
Basic	¥(8.79)	¥15.07	\$(0.07)
Diluted	—	15.02	—
Cash dividends applicable to the year (note 12)	4.00	4.00	0.03

See accompanying notes to consolidated financial statements.

Consolidated Statements of Stockholders' Equity

Mitsubishi Gas Chemical Company, Inc. and Consolidated Subsidiaries
For the years ended March 31, 2002 and 2001

	Millions of yen		Thousands of U.S. dollars (note 2)
	2002	2001	2002
Common stock (note 11):			
Balance at beginning of year	¥ 41,970	¥ 41,970	\$ 314,972
Balance at end of year	41,970	41,970	314,972
Additional paid-in capital (note 11):			
Balance at beginning of year	35,518	35,518	266,552
Balance at end of year	35,518	35,518	266,552
Surplus on revaluation of property, plant and equipment by a subsidiary at end of year	2,945	2,824	22,101
Retained earnings (note 12):			
Balance at beginning of year	99,605	95,230	747,504
Increase resulting from surplus on revaluation of property, plant and equipment by a subsidiary	64	6	480
Decrease resulting from exclusion of a consolidated subsidiary	—	(422)	—
Cash dividends	(1,934)	(1,939)	(14,514)
Bonuses to directors and corporate auditors	(26)	(15)	(195)
Retirement of treasury stock	—	(540)	—
Net income (loss)	(4,235)	7,285	(31,782)
Balance at end of year	93,474	99,605	701,493
Net unrealized gain on other securities at end of year (note 4)	3,699	—	27,760
Foreign currency translation adjustments at end of year	(1,258)	(4,636)	(9,441)
Treasury stock at end of year	(1,605)	(1)	(12,045)
Total stockholders' equity at end of year	¥174,743	¥175,280	\$1,311,392

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Mitsubishi Gas Chemical Company, Inc. and Consolidated Subsidiaries
For the years ended March 31, 2002 and 2001

	Millions of yen		Thousands of U.S. dollars (note 2)
	2002	2001	2002
Cash flows from operating activities:			
Income (loss) before income taxes and minority interests.....	¥(10,368)	¥ 9,256	\$ (77,809)
Adjustments to reconcile income (loss) before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization.....	18,974	20,093	142,394
Loss on sale/disposal of property, plant and equipment	1,039	1,815	7,797
Equity in earnings of affiliates	(6,604)	(4,629)	(49,561)
Increase (decrease) in liabilities for retirement and severance benefits.....	(828)	795	(6,214)
Interest and dividend income.....	(960)	(1,226)	(7,204)
Interest expenses	3,199	3,755	24,008
Gain on sale of short-term investments and investments in securities	(462)	(1,543)	(3,467)
Loss on devaluation of investments in securities	3,537	459	26,544
Gain on contribution of assets to pension trust	—	(9,394)	—
Amortization of transition obligation resulting from accounting change for retirement and severance benefits.....	—	11,557	—
(Increase) decrease in trade notes and accounts receivable	34,997	(23,636)	262,642
(Increase) decrease in inventories	3,335	(5,933)	25,028
Increase (decrease) in trade notes and accounts payable	(16,849)	11,334	(126,447)
Bonuses to directors and corporate auditors	(43)	(15)	(323)
Other, net	(7,974)	7,129	(59,842)
Sub total.....	20,993	19,817	157,546
Interest and dividend received.....	964	1,224	7,235
Interest paid.....	(3,294)	(3,831)	(24,721)
Income taxes paid.....	(4,944)	(1,648)	(37,103)
Net cash provided by operating activities	13,719	15,562	102,957
Cash flows from investing activities:			
Purchase of short-term investments	(599)	(39)	(4,495)
Proceeds from sale of short-term investments.....	37	4,369	278
Capital expenditures	(27,396)	(22,938)	(205,599)
Proceeds from sale of property, plant and equipment	10,174	60	76,353
Purchase of investments in securities.....	(2,923)	(2,309)	(21,936)
Proceeds from sale of investments in securities.....	1,931	2,479	14,491
Increase (decrease) in long-term loans receivable	(563)	6,835	(4,225)
Other, net.....	3,943	(855)	29,591
Net cash used in investing activities.....	(15,396)	(12,398)	(115,542)
Cash flows from financing activities:			
Increase in short-term debt	4,551	1,308	34,154
Proceeds from long-term debt.....	18,275	22,325	137,148
Payments on long-term debt.....	(21,701)	(29,832)	(162,859)
Purchase of treasury stock	(1,605)	(540)	(12,045)
Dividends paid to stockholders	(1,934)	(1,939)	(14,514)
Dividends paid to minority stockholders of subsidiaries.....	(182)	(144)	(1,366)
Other, net.....	—	(3,801)	—
Net cash used in financing activities.....	(2,596)	(12,623)	(19,482)
Effect of exchange rate changes on cash and cash equivalents.....	816	(806)	6,123
Net decrease in cash and cash equivalents.....	(3,457)	(10,265)	(25,944)
Cash and cash equivalents at beginning of year	31,645	42,008	237,486
Cash and cash equivalents of newly consolidated subsidiaries	—	252	—
Cash and cash equivalents of subsidiaries excluded from consolidation ..	—	(350)	—
Cash and cash equivalents at end of year (note 3).....	¥28,188	¥31,645	\$211,542

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Mitsubishi Gas Chemical Company, Inc. and Consolidated Subsidiaries

Note 1. SUMMARY OF 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 and prepare their financial statements in conformity with 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 prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles and practices generally accepted in Japan, which may differ in some material respects from accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

In preparing the accompanying consolidated financial statements, certain reclassifications have been made in the financial statements issued domestically in Japan in order to present them in a form which is more familiar to readers outside Japan. In addition, the notes to the consolidated financial statements include information which is not required under accounting principles generally accepted in Japan but is presented herein as additional information.

(b) Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its subsidiaries (28 subsidiaries for 2002 and 27 subsidiaries for 2001, respectively).

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

Investments in affiliates are accounted for by the equity method.

The Accounting Standards for Consolidation 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 or 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/or its consolidated subsidiaries have the ability to exercise significant influence is accounted for by the equity method.

The excess of cost over the underlying net assets at the dates of investments in subsidiaries is being amortized over 5 years.

(c) Cash and Cash Equivalents

For the purpose of the statements of cash flows, the Company considers all highly liquid investments with insignificant risk of changes in value which have maturities of generally three months or less when purchased to be cash equivalents.

(d) Short-term Investments and Investments in Securities

Under the Accounting Standards for Financial Instruments, securities are classified into four categories – “trading securities”, “held-to-maturity securities”, “investments in affiliates” and “other securities”. Securities classified as “trading securities” are stated at fair value and unrealized gains or losses are recorded in the consolidated statement of income. Securities

classified as “held-to-maturity securities” are stated at amortized cost. Securities classified as “other securities” are stated at fair value and unrealized gains or losses, net of related taxes, are excluded from earnings and recorded in a separate component of stockholders’ equity. Realized gains or losses on the other securities are determined by the moving average method. Holding securities of the Company are classified as held-to-maturity securities and other securities.

For the year ended March 31, 2001, other securities were stated at cost in accordance with the stipulated effective date in the accounting standards.

(e) Inventories

Inventories are stated principally at cost. Cost is principally determined by the average method other than real estate for sale by the specific identification method.

(f) Property, Plant and Equipment

Property, plant and equipment are carried substantially at cost. Depreciation is provided principally by the straight-line method based on estimated useful lives.

The estimated useful lives are as follows:

Buildings and structures	7-50 years
Machinery, equipment and vehicles	7-15 years

(g) Intangible Assets

The expenses for internal use computer software are deferred and amortized by the straight-line method over estimated useful lives (5 years). Intangible assets other than software are deferred and amortized by the straight-line method at the rates based on the estimated useful lives of the respective assets.

(h) Allowance for Doubtful Receivables

An allowance for doubtful receivables is provided at an amount of uncollectible receivables based on historical loss ratios and an amount that takes into consideration the possibility of specific liabilities.

(i) Retirement and Severance Benefits

The Company and its consolidated subsidiaries have retirement benefit plans covering substantially all employees.

Under the Accounting Standards for Retirement and Severance Benefits, provisions have been made in the accompanying consolidated financial statements based on the present value of the projected future retirement and severance benefits attributable to employee services rendered by the end of the year, less amounts funded under noncontributory pension plans.

The differences arising from the change at the time the standards were introduced (¥11,557 million) were amortized in the year ended March 31, 2001. In addition, the Company recorded the gain of ¥9,394 million on contribution of the assets to the trust for the year ended March 31, 2001.

The Company and its six subsidiaries have unfunded defined benefit pension plans for directors and corporate auditors. The provision for the plans has been made in the accompanying consolidated financial statements for the vested benefits to

which directors and corporate auditors are entitled if they were to retire or sever immediately at the balance sheet dates.

Prior to April 1, 2000, the Company had recognized expenses for the retirement benefits of directors and corporate auditors at the time of payment. Effective in the year ended March 31, 2001, the Company provided for the amount of the vested benefits to which directors and corporate auditors are entitled if they were to retire or sever immediately at the balance sheet dates. This change was made in order to achieve more appropriate allocation of the expense and reflect the Company's position to the financial statements more accurately, in accordance with trends in accounting standards and reflected a review of the Company's regulations. The effect of this change was to increase the expenses for the current year by ¥175 million, and the cumulative effect of this change of ¥649 million was reported as other deductions for the year ended March 31, 2001. As a result, income before income taxes and minority interests declined by ¥824 million.

(j) Leases

Finance leases, except for those where the legal title of the underlying property is transferred from the lessor to the lessee at the end of the lease term, are accounted for similarly to operating leases.

(k) Foreign Currency Translation

Under the Accounting Standards for Foreign Currency Transactions, foreign currency transactions are translated into yen on the basis of the rates in effect at the transaction dates, receivables and payables denominated in foreign currencies are translated into yen at the rate of exchange as of the balance sheet dates, and gains or losses resulting from the translation of foreign currencies are credited or charged to income. Assets and liabilities, and revenues and expenses of overseas subsidiaries are translated into yen at the rate of exchange as of the balance sheet date, and a comprehensive adjustment resulting from translation is presented as "Foreign currency translation adjustments" in a component of stockholders' equity and "Minority interests".

(l) Income Taxes

Income taxes in Japan applicable to the Company and its domestic consolidated subsidiaries consist of corporate tax, inhabitant tax and business tax.

The Accounting Standards for Income Taxes require 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 of events that have been included in the financial statements or tax returns. 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, and 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.

(m) Appropriation of Retained Earnings

Under the Commercial Code of Japan, the appropriation of retained earnings with respect to a given financial period is made by resolution of the stockholders at a general meeting to be held subsequent to the close of such financial period. The accounts for that period do not, therefore, reflect such appropriation. (See note 12)

(n) Data per Common Share

Basic net income per share is computed on the basis of the weighted average number of shares of common stock outstanding during the respective years. On a diluted basis, both net income and shares outstanding are adjusted to assume the conversion of convertible bonds.

Cash dividends per share present the cash dividends declared as applicable to the respective years together with the interim cash dividends paid.

(o) Reclassifications

Certain reclassifications of the accompanying consolidated financial statements as of and for the year ended March 31, 2001 have been made to conform to the 2002 presentation.

Note 2. FINANCIAL STATEMENT TRANSLATION

The consolidated financial statements are expressed in Japanese yen. However, solely for the convenience of the reader, the consolidated financial statements as of and for the year ended March 31, 2002 have been translated into United States dollars at the rate of ¥133.25=U.S.\$1, the approximate exchange rate on the Tokyo Foreign Exchange Market on March 29, 2002. This translation should not be construed as a representation that the amounts shown could be converted into U.S. dollars at such rate.

Note 3. CASH AND CASH EQUIVALENTS

A reconciliation of the cash and cash equivalents of consolidated balance sheets and that of consolidated statements of cash flows at March 31, 2002 and 2001 is follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Cash.....	¥20,865	¥27,169	\$156,585
Short-term investments.....	5,240	4,948	39,325
Securities purchased under resale agreements	2,500	—	18,762
Time deposits with maturities of over three months.....	(417)	(472)	(3,130)
Cash and cash equivalents	¥28,188	¥31,645	\$211,542

Note 4. SHORT-TERM INVESTMENTS AND INVESTMENTS IN SECURITIES

Balance sheet amount, fair value and net unrealized gain of held-to-maturity securities with fair value as of March 31, 2002 and 2001 are summarized as follows:

	Millions of yen		
	Balance sheet amount	Fair value	Unrealized gain
March 31, 2002			
Government bond securities	¥ 50	¥ 54	¥ 4
Corporate bond securities	2,177	2,329	152
Other debt securities.....	—	—	—
	¥2,227	¥2,383	¥156

March 31, 2001			
Government bond securities	¥ 51	¥ 55	¥ 4
Corporate bond securities	2,176	2,444	268
Other debt securities.....	48	48	—
	¥2,275	¥2,547	¥272

	Thousands of U.S. dollars		
	Balance sheet amount	Fair value	Unrealized gain
March 31, 2002			
Government bond securities	\$ 375	\$ 405	\$ 30
Corporate bond securities	16,338	17,479	1,141
Other debt securities.....	—	—	—
	\$16,713	\$17,884	\$1,171

Acquisition cost, balance sheet amount and net unrealized gain (loss) of other securities with fair value as of March 31, 2002 are summarized as follows:

	Millions of yen		
	Acquisition cost	Balance sheet amount	Unrealized gain (loss)
Equity securities	¥32,558	¥38,933	¥6,375
Debt securities.....	24	31	7
Other securities.....	24	23	(1)
	¥32,606	¥38,987	¥6,381

	Thousands of U.S. dollars		
	Acquisition cost	Balance sheet amount	Unrealized gain (loss)
Equity securities.....	\$244,338	\$292,180	\$47,842
Debt securities	180	233	53
Other securities.....	180	172	(8)
	\$244,698	\$292,585	\$47,887

As described in note 1(d), for the year ended March 31, 2001, other securities were stated at cost. The certain disclosures required under the Additional Rule No. 3 of the Ordinance No. 9 of the Ministry of Finance, 2000 as to other securities with fair value as of March 31, 2001 were as follows:

	Millions of yen
Carrying amount	¥36,455
Fair value	48,330
Unrealized gain	6,858
Deferred tax liabilities	4,991
Minority interests.....	26

It is not practicable to estimate the fair value of securities as of March 31, 2002 and 2001 described below because of lack of market price and difficulty in estimating fair value.

	Millions of yen	Thousands of U.S. dollars
	March 31, 2002	
Held-to-maturity securities:		
Certificates of deposit.....	¥3,000	\$22,514
Commercial paper.....	1,800	13,508
Other securities:		
Unlisted equity securities.....	2,973	22,312
Investment trusts etc.....	1,048	7,865
	¥8,821	\$66,199

	Millions of yen
	March 31, 2001
Investments in affiliates:	
Unlisted equity securities.....	¥ 5,443
Other securities:	
Unlisted equity securities.....	2,953
Corporate bond securities.....	1,230
Investment trusts etc.....	4,948
	¥14,574

Projected future redemption of other securities with maturities and held-to-maturity securities at March 31, 2002 are summarized as follows:

	Millions of yen			
	Due within one year	Due after one year through five years	Due after five years through ten years	Due after ten years
Debt securities:				
Corporate bond securities.....	¥ 1	¥2,206	¥ —	¥ —
Other debt securities.....	2	26	32	3
Other securities:				
Certificates of deposit	3,000	—	—	—
Commercial paper	1,800	—	—	—
Other.....	48	—	—	—
	¥4,851	¥2,232	¥ 32	¥ 3

	Thousands of U.S. dollars			
	Due within one year	Due after one year through five years	Due after five years through ten years	Due after ten years
Debt securities:				
Corporate bond securities	\$ 8	\$16,555	\$ —	\$—
Other debt securities.....	15	195	240	23
Other securities:				
Certificates of deposit	22,514	—	—	—
Commercial paper	13,508	—	—	—
Other.....	360	—	—	—
	\$36,405	\$16,750	\$240	\$23

For the years ended March 31, 2002 and 2001, proceeds from sale of other securities are ¥1,817 million (\$13,636 thousand) and ¥19,167 million, the gross realized gains are ¥462 million (\$3,467 thousand) and ¥1,229 million, and the gross realized losses are ¥446 million (\$3,347 thousand) and ¥16 million, respectively.

Note 5. INVESTMENTS IN AFFILIATES

The aggregate carrying amount of investments in affiliates as of March 31, 2002 and 2001 is ¥56,841 million (\$426,574 thousand) and ¥48,679 million, respectively.

Note 6. SHORT-TERM AND LONG-TERM DEBT

Short-term debt is represented by bank loans which are due within one year.

Long-term debt as of March 31, 2002 and 2001 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Loans, principally from banks, maturing in installments through 2032; bearing weighted average interest of 1.6% and 1.9% at March 31, 2002 and 2001, respectively, partially secured by mortgage of property, plant and equipment, securities and cash	¥ 81,224	¥ 72,230	\$609,560
2.4% unsecured yen convertible debentures, due 2002	—	1,428	—
2.45% unsecured yen bonds, due 2001	—	10,000	—
2.95% unsecured yen bonds, due 2003	10,000	10,000	75,046
2.225% unsecured yen bonds, due 2003	5,000	5,000	37,524
2.225% unsecured yen bonds, due 2003	5,000	5,000	37,524
2.675% unsecured yen bonds, due 2005	5,000	5,000	37,524
2.675% unsecured yen bonds, due 2005	5,000	5,000	37,524
2.57% unsecured yen bonds, due 2006	5,000	5,000	37,524
2.57% unsecured yen bonds, due 2006	5,000	5,000	37,524
1.0% unsecured yen bonds issued by a subsidiary, due 2003	1,000	1,000	7,504
	122,224	124,658	917,254
Less current installments	23,598	22,728	177,096
	98,626	101,930	740,158
Elimination on consolidation	(1,000)	(1,031)	(7,505)
	¥ 97,626	¥100,899	\$732,653

The aggregate annual maturities of long-term debt after March 31, 2002 are as follows:

	Millions of yen	Thousands of U.S. dollars
Year ending March 31:		
2004	¥29,667	\$222,642
2005	22,296	167,325
2006	11,954	89,711
2007	18,219	136,728

Property, plant and equipment and cash with a book value at March 31, 2002 of ¥22,929 million (\$172,075 thousand) are mortgaged to secure certain debts.

As is customary in Japan, both short-term and long-term bank loans are under general agreements which provide that security and guarantees for the present and future indebtedness will be given upon request of the banks, and that the banks shall have the right, as the obligations become due or in the event of default, to offset cash deposits against obligation due the banks.

Note 7. RETIREMENT AND SEVERANCE BENEFITS

The Company and its domestic subsidiaries have defined benefit retirement and pension plans, which consist of unfunded lump-sum payment plans and tax qualified noncontributory pension plans.

The funded status of the pension plans at March 31, 2002 and 2001 is outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Projected benefit obligation	¥(41,282)	¥(41,983)	\$(309,809)
Plan assets at fair value	13,489	13,433	101,231
Assets contributed to the trust	14,532	16,158	109,058
Funded status	(13,261)	(12,392)	(99,520)
Unrecognized actuarial loss	5,040	3,356	37,824
Unrecognized prior service cost	(544)	(605)	(4,082)
Amount recognized in the consolidated balance sheets	(8,765)	(9,641)	(65,778)
Prepaid retirement and severance benefits	971	435	7,287
Accrued retirement and severance benefits	¥ (9,736)	¥(10,076)	\$ (73,065)

Net periodic pension cost for the years ended March 31, 2002 and 2001 consists of the following components:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Service cost	¥1,953	¥ 1,809	\$14,657
Interest cost	1,342	1,351	10,071
Expected return on plan assets	(317)	(325)	(2,379)
Amortization of transition obligation existing at April 1, 2000	—	11,557	—
Amortization of actuarial loss	1,222	776	9,171
Amortization of prior service cost	(61)	(5)	(458)
Net periodic pension cost	¥4,139	¥15,163	\$31,062

- Notes: 1. The amount of "Amortization of transition obligation existing at April 1, 2000" for the year ended March 31, 2001 included the equivalent to the market value of the assets contributed to the pension trust of ¥10,578 million.
2. In addition to the above costs, additional benefits amounting to ¥183 million (\$1,373 thousand) are charged to income for the year ended March 31, 2002.

Significant assumptions of pension plans used to determine these amounts in fiscal 2002 and 2001 are as follows:

	2002	2001
Periodic allocation method for projected benefit	Straight-line	Straight-line
Discount rate	3.0-3.5%	3.0-3.5%
Expected rate of return on plan assets	2.5-4.0%	2.5-4.0%
Period for amortization of unrecognized prior service cost	10 years	10 years
Period for amortization of unrecognized actuarial loss	10 years	10 years
Period for amortization of transition obligation existing at April 1, 2000	—	1 year

Directors and corporate auditors are not covered by the plans described above. For such persons, the Company and its six subsidiaries have unfunded defined benefit pension plans. Under the plans, directors and corporate auditors are entitled to lump-sum payments based on the current rate of pay and length of service when they leave the Company. The Company provides for the amount of the vested benefits to which directors and corporate auditors are entitled if they were to retire or sever immediately at the balance sheet dates. As of March 31, 2002 and 2001, the liabilities for retirement and severance benefits related to the plans were ¥939 million (\$7,047 thousand) and ¥1,030 million, respectively.

Note 8. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese corporate, inhabitant and business taxes based on income which, in the aggregate, result in a statutory tax rate of approximately 40.9% in 2002 and 2001.

A reconciliation of the statutory tax rate and the effective tax rate as a percentage of income before income taxes and minority interests for the year ended March 31, 2001 was as follows:

	2001
Statutory tax rate.....	40.9%
Equity in earnings of affiliates.....	(20.1)
Tax credit for exploration cost.....	(2.7)
Dividend income not credited for tax purposes.....	(0.3)
Entertainment expenses not deductible for tax purposes.....	2.3
Other.....	0.4
Effective tax rate.....	20.5%

The reconciliation for the year ended March 31, 2002 is not subject to disclosure as loss before income taxes is recorded.

Significant components of deferred tax assets and liabilities at March 31, 2002 and 2001 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Deferred tax assets:			
Liabilities for retirement and severance benefits.....	¥ 8,902	¥ 7,703	\$ 66,807
Tax loss carryforward.....	5,311	108	39,857
Intercompany profits.....	1,631	1,585	12,240
Devaluation loss on investments in securities.....	1,449	8	10,874
Accrued bonuses.....	1,038	891	7,790
Depreciation.....	711	693	5,336
Other.....	3,219	1,950	24,158
	22,261	12,938	167,062
Valuation allowance.....	(2,074)	—	(15,565)
	20,187	12,938	151,497
Deferred tax liabilities:			
Gain by contributing the assets to the trust.....	(3,948)	(3,948)	(29,629)
Tax purpose reserves etc. regulated by Japanese tax law...	(3,408)	(3,612)	(25,576)
Net unrealized gain on other securities.....	(2,691)	—	(20,195)
Other.....	(1,675)	(946)	(12,570)
	(11,722)	(8,506)	(87,970)
Net deferred tax assets.....	¥ 8,465	¥ 4,432	\$ 63,527

Net deferred tax assets and liabilities as of March 31, 2002 and 2001 are reflected in the accompanying consolidated balance sheets under the following captions:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Current assets – Deferred			
income taxes.....	¥5,977	¥2,502	\$44,856
Investments and other assets			
– Deferred income taxes.....	3,335	2,561	25,028
Current liabilities			
– Other current liabilities.....	(58)	(98)	(436)
Non-current liabilities			
– Other non-current liabilities.....	(789)	(533)	(5,921)
Net deferred tax assets.....	¥8,465	¥4,432	\$63,527

Note 9. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Significant components of selling, general and administrative expenses are as follows:

	Millions of yen		Thousands of
	2002	2001	U.S. dollars
Freight	¥8,728	¥9,378	\$65,501
Stevedoring and warehouse fee	2,324	2,253	17,441
Salaries	9,167	9,168	68,795
Employees' bonuses.....	3,114	3,297	23,370
Pension cost.....	1,717	1,340	12,886
Welfare	2,490	2,459	18,687
Transportation	1,249	1,271	9,373
Depreciation.....	2,191	2,286	16,443

Note 10. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income for the years ended March 31, 2002 and 2001 are ¥11,910 million (\$89,381 thousand) and ¥12,473 million, respectively.

Note 11. COMMON STOCK

Under the Commercial Code of Japan, at least 50% of the issue price of new shares is required to be designated as stated common stock. The actual portion to be designated as stated common stock is determined by resolution of the Board of Directors. Proceeds in excess of the amount designated as stated common stock are credited to additional paid-in capital.

Note 12. RETAINED EARNINGS AND DIVIDENDS

The Commercial Code of Japan provided that an amount equal to at least 10% of appropriations paid in cash be appropriated as a legal reserve until such reserve equals 25% of common stock. The Commercial Code of Japan, amended effective on October 1, 2001, provides that an amount equal to at least 10% of appropriations paid in cash be appropriated as a legal reserve until an aggregated amount of additional paid-in capital and the legal reserve equals 25% of common stock.

This legal reserve and additional paid-in capital may be used to reduce a deficit by approval at the meeting of stockholders or may be transferred to stated common stock by resolution of the Board of Directors. On condition that the total amount of legal reserve and additional paid-in capital remains equal to or exceeds 25% of stated common stock, they are available for distributions by approval at the meeting of stockholders.

Balances of the legal reserve are included in retained earnings in the accompanying consolidated balance sheets.

The amount available for dividends is based on the amount recorded in the Company's non-consolidated books of account in accordance with the Commercial Code of Japan.

In accordance with the Commercial Code of Japan, proposed appropriations of retained earnings have not been reflected in the financial statements at the end of each fiscal year. The proposed appropriation of retained earnings at March 31, 2002 was cash dividends of ¥713 million (\$5,351 thousand).

Note 13. LEASES

A summary of assumed amounts of acquisition cost which includes interest portion, accumulated depreciation and net book value at March 31, 2002 and 2001 are as follows:

	Millions of yen		
	Machinery, equipment and vehicles	Other tangible assets	Total
March 31, 2002			
Acquisition cost	¥2,445	¥2,335	¥4,780
Accumulated depreciation	1,292	1,724	3,016
Net book value.....	¥1,153	¥ 611	¥1,764

March 31, 2001			
Acquisition cost	¥2,036	¥2,334	¥4,370
Accumulated depreciation	970	1,440	2,410
Net book value.....	¥1,066	¥ 894	¥1,960

	Thousands of U.S. dollars		
	Machinery, equipment and vehicles	Other tangible assets	Total
March 31, 2002			
Acquisition cost	\$18,349	\$17,523	\$35,872
Accumulated depreciation	9,696	12,938	22,634
Net book value.....	\$ 8,653	\$ 4,585	\$13,238

Future minimum payments which include interest portion required under finance leases at March 31, 2002 and 2001, are as follows:

	Millions of yen		Thousands of
	2002	2001	U.S. dollars
Within one year	¥ 874	¥ 839	\$ 6,559
Over one year.....	890	1,121	6,679
	¥1,764	¥1,960	\$13,238

Lease payments for the years ended March 31, 2002 and 2001 amounted to ¥928 million (\$6,964 thousand) and ¥838 million, respectively.

Note 14. BALANCES AND TRANSACTIONS WITH RELATED PARTY

The Company has a 50% equity ownership in Mitsubishi Engineering-Plastics Corp. at March 31, 2002 and 2001, and a 50% equity ownership in Mizushima Paraxylene Co., Ltd. at March 31, 2002.

Balances with Mitsubishi Engineering-Plastics Corp. at March 31, 2002 and 2001, and related transactions for the years then ended are summarized as follows:

	Millions of yen		Thousands of
	2002	2001	U.S. dollars
Balances:			
Trade accounts receivable	¥ 4,885	¥11,646	\$ 36,660
Transactions:			
Sales	26,664	28,090	200,105
Sale of investments in securities			
– Proceeds	—	573	—
– Realized gain	—	318	—

Transactions with Mizushima Paraxylene Co., Ltd. for the year ended March 31, 2002 are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
Sale of equipment		
– Proceeds	¥7,384	\$55,415
Loans guaranteed	4,969	37,291

Note 15. COMMITMENTS AND CONTINGENCIES

It is common practice in Japan for companies, in the ordinary course of business, to receive promissory notes in settlement of trade accounts receivable and to subsequently discount such notes at banks or to transfer them by endorsement to suppliers in the settlement of accounts payable. At March 31, 2002 and 2001, the company was contingently liable with respect to trade notes receivable discounted in the amounts of ¥1,318 million (\$9,891 thousand) and ¥1,635 million, respectively. Notes discounted are accounted for as sales and removed from the balance sheets.

Contingent liabilities at March 31, 2002 for loans guaranteed amounted to ¥14,959 million (\$112,263 thousand).

The Company received a notice of determination from the Tokyo Metropolitan Government relating to the Company's involvement in soil contamination. The Company challenged the ruling by submitting the matter to the Tokyo District Court. At present, the action is continuing.

Note 16. DERIVATIVE FINANCIAL INSTRUMENTS

The Company does not hold or issue derivative financial instruments for the purpose of trading. Derivative financial instruments held by the Company comprise forward exchange contracts and interest rate swap agreements. The forward exchange contracts are used to hedge the risk of changes in foreign currency exchange rates associated with assets and liabilities denominated in foreign currencies. The interest rate swap agreements are used to reduce the interest payments.

The gains and losses on forward exchange contracts are deferred and recognized in income when the foreign exchange losses and gains on the hedged items are recognized. The difference in amounts to be paid or received on interest rate swap agreements is recognized over the life of the agreement as an adjustment to interest expense.

The counterparties to these derivative transactions are financial institutions with high credit ratings and consequently, the Company does not anticipate credit-related losses from non-performance by the counterparties to transactions involving derivative financial instruments.

The contract or notional amounts disclosed below do not represent straightforwardly the extent of market risk or credit risk of the derivatives.

The contract or notional amounts and fair value of derivative financial instruments held as of March 31, 2002 and 2001 are summarized as follows:

	Millions of yen		
	Contract or notional amounts	Fair value	Valuation gain (loss)

March 31, 2002

Forward exchange contracts:

To buy foreign currency ¥ 164 ¥ 164 ¥ 0

Interest rate swap agreements:

Variable rate received for fixed rate 49,385 (592) (592)

March 31, 2001

Forward exchange contracts:

To sell foreign currency ¥ 13 ¥ 14 ¥ (1)

To buy foreign currency 1,157 1,365 208

Interest rate swap agreements:

Variable rate received for fixed rate 72,467 (649) (649)

	Thousands of U.S. dollars		
	Contract or notional amounts	Fair value	Valuation gain (loss)

March 31, 2002

Forward exchange contracts:

To buy foreign currency \$ 1,231 \$1,231 \$ 0

Interest rate swap agreements:

Variable rate received for fixed rate 370,619 (4,443) (4,443)

The fair value of forward exchange contracts is computed using prices on the futures market and the fair values of interest rate swap agreements are estimated based on quotes from counterparties.

As of March 31, 2002 and 2001, receivables and payables denominated in foreign currencies, of which yen amounts at settlement are fixed and stated at the corresponding yen amounts on the consolidated balance sheets due to forward exchange contracts are not subject to disclosure.

Note 17. SEGMENT INFORMATION

(a) Industry segments

The Company and its 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.

Segment information by industry for the years ended March 31, 2002 and 2001 is summarized as follows:

	Millions of yen					
	2002					
	Chemical products	Advanced materials	Other	Total	Elimination / corporate	Consolidated
Sales to outside customers.....	¥157,792	¥ 99,809	¥18,109	¥275,710	¥ —	¥275,710
Inter-segment sales.....	3,388	1,990	1,354	6,732	(6,732)	—
	161,180	101,799	19,463	282,442	(6,732)	275,710
Operating expenses.....	163,716	107,070	18,923	289,709	(7,213)	282,496
Operating income.....	¥ (2,536)	¥ (5,271)	¥ 540	¥ (7,267)	¥ 481	¥ (6,786)
Assets	¥192,207	¥183,697	¥35,590	¥411,494	¥55,269	¥466,763
Depreciation.....	8,935	8,817	1,222	18,974	—	18,974
Capital expenditures	6,391	22,223	1,393	30,007	—	30,007

	Millions of yen					
	2001					
	Chemical products	Advanced materials	Other	Total	Elimination / corporate	Consolidated
Sales to outside customers.....	¥169,578	¥135,522	¥17,976	¥323,076	¥ —	¥323,076
Inter-segment sales.....	3,975	2,338	1,160	7,473	(7,473)	—
	173,553	137,860	19,136	330,549	(7,473)	323,076
Operating expenses.....	174,832	127,004	16,682	318,518	(7,621)	310,897
Operating income.....	¥ (1,279)	¥ 10,856	¥ 2,454	¥ 12,031	¥ 148	¥ 12,179
Assets	¥223,154	¥185,257	¥33,844	¥442,255	¥44,715	¥486,970
Depreciation.....	11,193	7,902	998	20,093	—	20,093
Capital expenditures	9,174	13,116	981	23,271	—	23,271

	Thousands of U.S. dollars					
	2002					
	Chemical products	Advanced materials	Other	Total	Elimination / corporate	Consolidated
Sales to outside customers.....	\$1,184,180	\$ 749,036	\$135,902	\$2,069,118	\$ —	\$2,069,118
Inter-segment sales.....	25,426	14,934	10,162	50,522	(50,522)	—
	1,209,606	763,970	146,064	2,119,640	(50,522)	2,069,118
Operating expenses.....	1,228,638	803,527	142,011	2,174,176	(54,131)	2,120,045
Operating income.....	\$ (19,032)	\$ (39,557)	\$ 4,053	\$ (54,536)	\$ 3,609	\$ (50,927)
Assets	\$1,442,454	\$1,378,589	\$267,092	\$3,088,135	\$414,777	\$3,502,912
Depreciation.....	67,054	66,169	9,171	142,394	—	142,394
Capital expenditures	47,962	166,777	10,454	225,193	—	225,193

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®).

Other: Gasification equipment and purification equipment for high-purity gases, disposable heating pads.

Corporate assets of ¥63,132 million (\$473,786 thousand) and ¥57,413 million as of March 31, 2002 and 2001 in the Elimination / corporate line consist primarily of surplus funds (cash and deposits, and securities), long-term investments (investment securities etc.) and assets relating to the administrative operations.

(b) Geographic segments

Both domestic sales and assets located in Japan are over 90% of all segments for the years ended March 31, 2002 and 2001.

(c) Overseas sales

Information for overseas sales for the years ended March 31, 2002 and 2001 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Overseas sales			
Asia	¥ 52,848	¥ 71,383	\$ 396,608
North and South America	16,910	19,609	126,904
Other	6,086	6,143	45,674
	<u>¥ 75,844</u>	<u>¥ 97,135</u>	<u>\$ 569,186</u>
Consolidated sales	<u>¥275,710</u>	<u>¥323,076</u>	<u>\$2,069,118</u>
Percentage of overseas sales to consolidated sales	27.5%	30.1%	27.5%

The major countries or regions in the respective divisions are as follows:

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

North and South America: U.S.A., Mexico and Brazil

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

Independent Auditors' Report

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

We have audited the accompanying consolidated balance sheets of Mitsubishi Gas Chemical Company, Inc. and consolidated subsidiaries as of March 31, 2002 and 2001, and related consolidated statements of operations, stockholders' equity and cash flows for the years then ended, all expressed in Japanese yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan and, accordingly, our audits included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As more fully described in Note 1(i) to the consolidated financial statements, effective in the year ended March 31, 2001, the Company has changed its method of accounting for retirement benefits of directors and corporate auditors. Prior to April 1, 2000, retirement benefits of directors and corporate auditors had been charged to income when paid, however, the Company provides the amount of the vested benefits to which directors and corporate auditors are entitled if they were to retire or sever immediately at the balance sheet dates.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Mitsubishi Gas Chemical Company, Inc. and consolidated subsidiaries as of March 31, 2002 and 2001, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan on a consistent basis, except for the change, with which we concur, as discussed in the preceding paragraph.

The accompanying consolidated financial statements as of and for the year ended March 31, 2002 have been translated into United States dollars solely for the convenience of the reader. We have recomputed the translation and, in our opinion, the consolidated financial statements expressed in yen have been translated into United States dollars on the basis described in Note 2 to the consolidated financial statements.



Toyo & Co.

Tokyo, Japan
June 27, 2002

See Note 1(a) to the consolidated financial statements which explains the basis of preparing the consolidated financial statements of Mitsubishi Gas Chemical Company, Inc. and consolidated subsidiaries under Japanese accounting principles and practices.

Subsidiaries and Affiliates

(As of March 31, 2002)

Consolidated Subsidiaries

Name	Issued share capital (millions)	The Company's share ownership	Principal business
NATURAL GAS CHEMICALS COMPANY			
Kinoe Terminal Co., Inc.	¥1,000	74.5%	Warehouse service for methanol
Japan Pionics Co., Ltd.	200	100.0	Manufacture of gas generators, gas purifiers and disposable body warmers
Japan Hydrazine Co., Inc.	274	77.2	Manufacture of hydrazine and its derivatives and resistors
Marine Transport and Terminal Co., Ltd	400	100.0	Storage and transport of methanol, other chemical products and petroleum products
A&C Co., Ltd.	50	100.0	Manufacture of choline chloride, silica choline and trimethylamine hydrochloride
Japan Chemical Transport Co., Ltd.	400	100.0	Transport of chemical products
Japan Chemical Transport Panama, Inc.	US\$0.001	100.0	Transport of chemical products
Kokuka Sangyo Co., Ltd.	¥250	80.0	Transport of chemical products
SPECIALTY CHEMICALS COMPANY			
Toyo Kagaku Co., Ltd.	96	75.0	Compound resin injection molding and sales
Fuji Kasei Co., Ltd.	50	83.9	Manufacture and sale of compound resin molding materials
Eiwa Chemical Industrial Co., Inc.	420	55.6	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
P. T. Peroksida Indonesia Pratama	Rp21,308	60.0	Manufacture and sale of hydrogen peroxide
Kyodo Kasankasuiso Corporation	¥480	75.0	Manufacture and sale of hydrogen peroxide
Thai Polyacetal Co., Ltd.	Bt800	73.6	Manufacture and sale of polyoxymethylene
INFORMATION & ADVANCED MATERIALS COMPANY			
DIA Electronics Co., Inc.	¥490	100.0	Manufacture of printed circuit boards
Japan Circuit Industrial Co., Ltd	898	70.3	Manufacture of printed circuit boards
Electrotechno Co., Ltd.	1,500	100.0	Manufacture of epoxy resin-glass fabric copper-clad laminate and multilayer prepreg
Diatec Co., Ltd.	75	90.0	Manufacture and sale of printed circuit boards
Photocrystal Inc.	300	100.0	Manufacture and sale of magnetic garnet single crystal
CORPORATE			
Tokyo Shokai Co., Ltd.	200	99.9	Sale of compound resins and other products
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
Ryowa Kosan Co., Ltd.	¥100	100.0	Real estate management
Ryoyo Shoji Co., Ltd.	90	67.0	Sale of industrial chemicals and insurance agency businesses
MITSUBISHI GAS CHEMICAL AMERICA, INC.	US\$1	100.0	Sale of MGC products

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.
Japan Chemical Transport Panama, 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
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.
POLYXYLENOL SINGAPORE Pte. Ltd.
Aekyung Petrochemical Co., Ltd.

Corporate Data

Directors and Statutory Auditors

Chairman

Akira Ohira*

President

Hideki Odaka*

Senior Managing Directors

Shizuo Togo*

Yukio Ikeda*

Managing Directors

Hiromi Nakamura

Hiroshi Watanabe

Rokuro Inoue

Kiichi Goto

Yasuhiko Kijima

Takao Kawaki

Directors

Masanari Fujimori

Shoji Uematsu

Kazuo Sakai

Toshio Kawasaki

Toshikazu Umemura

Kuniaki Kawakami

Kunisuke Usuda

Yoshishige Yamazaki

Corporate Statutory Auditors

Tadaaki Hiroyama

Hidetsugu Ito

Yasunori Ogata

Wataru Taguchi

*Representative Director

(As of June 27, 2002)

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, Yamakita,

Kashima, Naniwa*, 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 27, 2002)

Number of Employees

3,300

Outstanding Shares

483,478,398

Number of Shareholders

49,410

Ticker Code

4182

Principal Shareholders

Name	Number of Shares Held	Percentage of Total Shares Outstanding
Nippon Life Insurance Company	31,139	6.4%
The Mitsubishi Trust & Banking Corp.	23,177	4.7
The Bank of Tokyo-Mitsubishi, Ltd.	22,521	4.6
Japan Trustee Services Bank, Ltd. (Trust Account)	20,493	4.2
Meiji Life Insurance Company	20,009	4.1
The Industrial Bank of Japan, Ltd.	15,183	3.1
UFJ Trust Bank Limited (Trust Account A)	14,610	3.0
The Bank of Yokohama, Ltd.	12,340	2.5
The Mitsubishi Trust & Banking Corp. (Trust Account)	12,286	2.5
The Norinchukin Bank	10,053	2.0

(As of March 31, 2002)



MITSUBISHI GAS CHEMICAL COMPANY, INC.

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