

MITSUBISHI GAS CHEMICAL COMPANY, INC.

*Annual Report 2004*

<http://www.mgc.co.jp>

## PROFILE

Mitsubishi Gas Chemical Company, Inc. (MGC) was established in 1971. 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.

## CONTENTS

Message from the Management.....	1
Review of Operations.....	4
Natural Gas Chemicals Company.....	4
Aromatic Chemicals Company.....	5
Specialty Chemicals Company.....	6
Information & Advanced Materials Company.....	7
Financial Review.....	8
Consolidated Balance Sheets.....	10
Consolidated Statements of Operations.....	12
Consolidated Statements of Stockholders' Equity.....	13
Consolidated Statements of Cash Flows.....	14
Notes to Consolidated Financial Statements.....	15
Independent Auditors' Report.....	23
Subsidiaries and Affiliates.....	24
Corporate Data.....	25

## MANAGEMENT PHILOSOPHY

**Our philosophy is to contribute to the development and peace of society through the creation of a diverse range of value based on chemistry.**



## FORWARD-LOOKING STATEMENTS

Statements in this annual report with respect to MGC's plans, strategies and beliefs, as well as other statements that are not historical facts, are forward-looking statements involving risks and uncertainties. Various factors could cause actual results to differ materially from such statements.

## MESSAGE FROM THE MANAGEMENT



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

### Operating Environment and Results

During fiscal 2003, the year ended March 31, 2004, the Japanese economy recovered substantially. Despite SARS, the war in Iraq, the adverse effects of the strong yen and other causes for concern, a slight pickup in exports to the U.S. and China, and expanded production of cellular phones and digital appliances led to improved corporate earnings and increases in stock prices, selling prices and capital investment.

Amid this operating environment, MGC introduced an executive officer system to increase management speed and efficiency. In addition, MGC established the medium-term management plan, KYOSO 2005, which started at the beginning of fiscal 2003 and aims to move the Group companies toward profitability. In addition to concentrating on structural reform of unprofitable products in accordance with basic policy, MGC worked to improve Group profitability through measures including expansion of sales volume, maintenance and improvement of profit margin, and reduction of fixed costs.

Prices in the commodity chemical market were high and the sales volume of products for semiconductors increased.

Consequently, consolidated net sales increased ¥28,592 million year-on-year to ¥340,711 million, and operating income increased ¥13,028 million to ¥14,935 million. Despite an extraordinary loss on costs for structural reform of the electronic materials business, MGC recorded net income of ¥10,622 million, an improvement of ¥11,096 million over the net loss recorded in the previous fiscal year.

### Medium-Term Management Strategies and Objectives

Aiming to move the company toward profitability through acceleration of business structural reform, MGC established a new medium-term management plan, KYOSO 2005, which began in fiscal 2003. The KYOSO 2005 plan aims to reinforce the individual strengths that have emerged from the differentiation strategy and fuse them together to create new value, in order to achieve a high-profit corporate organization.

#### **MGC has adopted the following three fundamental strategies:**

- 1) Creation of infrastructure for the realization of a high-profit corporate structure;
- 2) Acceleration of business structural reform; and
- 3) Establishment of highly efficient management and the principle of individual responsibility.

Creating infrastructure for the realization of a high-profit corporate structure will produce synergy through shared internal Group policies and strategies, and will enhance consolidated-basis management systems including evaluation systems for internal company consolidated results and the establishment of strategy promotion systems linked with affiliated companies.

MGC believes implementation of a differentiation strategy is the most important measure for accelerating business structural reform. Aiming to establish a business structure for further increasing earnings, MGC is cognizant of elements of differentiation with other companies in all stages including research and development, procurement of raw materials, production technology, technical services, and sales and delivery.

In order to establish highly efficient management and the principle of individual responsibility, MGC aggressively implemented MGC SHINKA 21, the previous medium-term management plan, and will promote further gains in the global market without becoming complacent with accomplishments to date.

MGC promotes measures in line with the basic policy of KYOSO 2005, and conducts management focused on improving asset efficiency and Group ROA.

### Basic Policy Concerning Dividends

MGC determines the amount of dividends to be paid to shareholders and retained earnings by considering factors including performance trends, the operating environment and future business developments. MGC uses retained earnings to reinforce and expand the operating foundation through measures such as strengthening core businesses, developing new products and technologies, and strengthening finances, thereby helping to secure long-term profits for shareholders.

## FINANCIAL HIGHLIGHTS

Mitsubishi Gas Chemical Company, Inc. and Consolidated Subsidiaries  
For the years ended March 31, 2004, 2003 and 2002

	Millions of yen			Percentage change	Thousands of U.S. dollars
	2004	2003	2002	2004/2003	2004
<b>For the year:</b>					
Net sales .....	¥340,711	¥312,119	¥275,710	9.2%	\$3,223,682
Operating income (loss).....	14,935	1,907	(6,786)	683.2	141,309
Net income (loss).....	10,622	(474)	(4,235)	—	100,501
Return on assets (ROA) (%).....	2.3	(0.1)	(0.9)	—	2.3
Return on equity (ROE) (%).....	6.2	(0.3)	(2.4)	—	6.2
Capital expenditures.....	13,724	22,626	27,396	(39.3)	129,852
<b>At year end:</b>					
Total assets.....	¥475,117	¥458,137	¥466,763	3.7%	\$4,495,383
Stockholders' equity .....	180,524	161,859	174,743	11.5	1,708,052
Interest-bearing debt.....	184,299	193,999	191,359	(5.0)	1,743,770
<b>Per share of common stock (Yen/U.S. dollars):</b>					
Net income (loss)—basic .....	¥ 22.91	¥ (1.05)	¥ (8.79)	—%	\$0.22
Net income—diluted .....	—	—	—	—	—
Stockholders' equity .....	390.23	349.93	367.69	11.5	3.69
Cash dividends.....	3.00	1.50	4.00	100.0	0.03

Notes: 1. U.S. dollar amounts are translated from yen, for convenience only, at the approximate rate of ¥105.69=US\$1 prevailing on March 31, 2004.

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

3. Diluted net income per share is not presented for 2002 although there was an issue of convertible bonds, because the company recorded a net loss for the year. Diluted net income per share for 2003 and 2004 is not presented because there were no residual securities such as bonds with stock options or warrants.

### Net Sales

(Millions of yen)

2004	340,711
2003	312,119
2002	275,710
2001	323,076
2000	289,531

### Net Income (Loss)

(Millions of yen)

2004	10,622
2003	(474)
2002	(4,235)
2001	7,285
2000	4,172

### Return on Assets (ROA)

(%)

2004	2.3
2003	(0.1)
2002	(0.9)
2001	1.5
2000	0.9

For fiscal 2003, MGC decided to pay a year-end dividend of ¥4 per share, taking into consideration all conditions, including performance and retained earnings. Because MGC did not pay an interim dividend, the annual dividend per share is ¥4, an increase of ¥1 over the previous fiscal year.

### Corporate Governance

MGC believes the creation of a sound, transparent management structure is an important task, and is working to improve transparency, ensure fairness and expedite decision making. Specifically, MGC has introduced an executive officer system. Under this system, the Board of Directors is responsible for decision making on important matters such as basic management policies, and for overseeing business execution. This clarification of functions and responsibilities will strengthen governance and enhance management execution. MGC aims to increase management transparency and fairness, and to achieve effective corporate governance through enhancement of the auditors' supervisory functions and proper disclosure of management information outside the company.

MGC is establishing an Internal Audit Division to enhance internal controls and improve the efficiency of management, and a Compliance Advisory Committee and Compliance Hot Line to enhance compliance and risk management. MGC revised the "Directives for Corporate Actions" to enhance compliance, and worked for thorough recognition of the guidelines among all employees in Group companies.

### Management Tasks


MGC has achieved results by strengthening its management structure and improving its business structure through KYOSO 2005. However, MGC must further bolster its corporate structure through measures including strengthening competitiveness and rationalization.

Acceleration of business structural reforms is an urgent task in maximizing Group corporate value amid increasing global competition and significant structural reforms in the market. In order to achieve this task, MGC took steady measures in line with basic policies to strengthen Group management and differentiation strategies, taken up in KYOSO 2005, and believes that steadily achieving the management objectives announced at the beginning of the year is the most crucial managerial task.

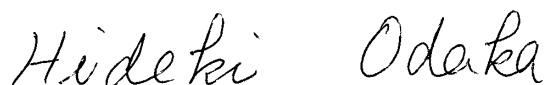
MGC aims to be a unique and superior chemical company, whose management philosophy is "to contribute to the development and peace of society through the creation of a diverse range of value based on chemistry."

We will work to maximize the Group's corporate value by creating new value always in step with the times, and by further strengthening the trust and satisfaction of customers, shareholders, the communities we serve and other stakeholders.

July 2004



Akira Ohira  
Chairman



Hideki Odaka  
President

# Natural Gas Chemicals Company



*The company's strength is its possession of an integrated flow of upstream to downstream products, from natural gas drilling and the methanol and ammonia produced from it to amine products derived from these commodity chemicals, polyols (polyalcohols), and methyl methacrylate (MMA). In addition, the company is aggressively expanding its biochemical business, which produces and sells enzymes and coenzymes.*

*A world-class presence in the methanol business, MGC is undertaking large scale expansion in regions of high cost-competitiveness, such as Saudi Arabia and Venezuela.*

*MGC will expand its core methanol business while moving to strengthen the profitability of derivative products. In addition, MGC is working to create new core businesses, including the development of new products in the lifescience sector and is proceeding with business plans for the production of dimethylether (DME), which has been garnering attention as a next-generation environmentally friendly form of energy. — Company President Shoji Uematsu*

## Main Measures and Activities in Fiscal 2003

In the overseas methanol business, MGC began studies on measures to strengthen methanol production capacity in Saudi Arabia and Venezuela. MGC also conducted feasibility studies for methanol businesses in China and Southeast Asia.

In Japan, the company worked to increase profitability by bolstering MMA monomer production capacity and improving productivity at its Niigata Plant, where production capacity of methylamine and dimethylformamide was also increased.

MGC succeeded in the production of natural gas at the Higashi Niigata gas field, which it has been developing since fiscal 2002.

## Outlook and Plan Beyond Fiscal 2004

MGC aims to steadily expand its overseas methanol business. Moreover, MGC will work to create a business for specialty amino acids for the pharmaceutical industry, stabilize profitability in the MMA-related products business, expand amine-derivatives and the lifescience business, and survey prospects for a dimethylether (DME) business.

The DME business feasibility study being conducted by a survey company in which MGC holds an equity stake is in its final stage. MGC will move aggressively to promote the spread of DME as a next-generation base energy.

### MAIN PRODUCTS

**Commodity chemicals:**  
Methanol, formaldehyde, ammonia

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

**Other:**  
Biochemicals, geothermal steam and technology sales

### CASE STUDY

## Strengthening and Expanding the Overseas Methanol Business

MGC established Saudi Methanol Company (AR-RAZI) through a tie-up with Saudi Arabian Basic Industries Corporation in 1980, and began methanol production overseas in 1983 (MGC's indirect equity interest through its holding company, 23.5 percent). In addition, MGC established Metanol De Oriente, Metor, S.A. in Venezuela in 1992, and began production there in 1994 (MGC equity interest, 23.75 percent).

Annual production at AR-RAZI is presently 3.3 million tons, and 0.8 million tons at Metanol De Oriente, Metor, S.A. Demand for methanol is expected to increase, so MGC is investigating plant improvements at both companies. In addition, MGC is working to strengthen and expand its methanol business worldwide. Feasibility studies are now under way for the development of new production facilities in China and Southeast Asia, as Asia will drive future growth.

# Aromatic Chemicals Company



*The company develops various chemicals based on four xylene isomers. In the commodity chemical products business, the company manufactures chemicals including paraxylene, purified terephthalic acid (PTA) and phthalic acid.*

*The company has long been recognized as a world-leading company for metaxylene products. Another company strength is specialty aromatic chemicals produced through its original oxidation technologies. MGC will continue to focus on these core businesses.*

*MGC will also strengthen cost competitiveness in commodity chemical products and improve profitability and stabilize business by forming alliances with other companies.*

*For Group companies, MGC will undertake operations in line with structural reform efforts, including creation of new businesses, establishment of new technologies and cost cutting.*

— **Company President Kazuo Sakai**

## Main Measures and Activities in Fiscal 2003

In November 2003, U.S.-based MGC Advanced Polymers, Inc. began construction on a plant for the local production of MX nylon, a core metaxylene product, in the suburbs of Richmond, Virginia.

Moreover, MGC purchased the outstanding shares of equity affiliate A.G. International Chemical Co., Inc. (AGIC) from the BP Group, and made it a subsidiary. AGIC manufactures and sells isophthalic acid, a metaxylene product, and was formerly a joint venture between the BP Group and MGC. Through this purchase, MGC has established a structure for independent isophthalic acid production and strengthened consolidated management.

## Outlook and Plan Beyond Fiscal 2004

MGC will continue to strengthen and expand its metaxylene business. By securing a production base for MX nylon in the United States, MGC will further strengthen the business worldwide. To support this effort, MGC plans to implement global strategies for intellectual property such as nanotechnology and copolymer technologies, and to develop products with a higher level of gas barriers and adhesiveness with other plastics. In response to the rise in demand in Asia for PET plastics, MGC plans to restart a previously suspended isophthalic acid production facility.

## MAIN PRODUCTS

### Specialty aromatic chemicals:

MX nylon, metaxylene diamine, aldehydes and polycarboxylic acid

### Commodity aromatic chemicals:

Paraxylene, purified terephthalic acid, phthalic anhydride, orthoxylene and plasticizers

## CASE STUDY

### Strengthening MX Nylon Production Capacity

MGC Advanced Polymers began construction of a MX nylon plant with production capacity of 10,000 tons/year, through an investment of approximately ¥2 billion. Production is scheduled to begin at the beginning of 2005. MX nylon is used in automobile parts and food wrappings, and demand is expected to grow, especially for applications in food wrapping materials, due to its high barrier properties.

MGC's Niigata Plant has a MX nylon production plant with production capacity of 14,500 tons/year. However, the company decided that local production is indispensable for accelerating the growth of sales in the United States, which is the world's largest market. The establishment of this production base in the United States will contribute to the further expansion of MGC's MX nylon business worldwide, through targeted growth in applications including PET bottles in the United States and Europe.

# Specialty Chemicals Company



The company is involved in two business areas: inorganic chemicals and engineering plastics. In inorganic chemicals, MGC holds the top market share in Japan in hydrogen peroxide, and is shifting toward development of new high-value-added specialty products such as high purity chemicals for semiconductors and lens monomers with high refractive indexes. Moreover, the company not only develops industrial chemicals, but also provides customers with total solutions which combine materials and equipment, in areas including water treatment agents, tooth bleaching agents and semiconductor cleansing agents.

In the engineering plastics business, MGC operates competitive plants in Japan and overseas for the production of engineering plastics, including polycarbonate, polyacetal and polyphenylene ether (PPE), and is expanding its global business. Moreover, MGC promotes the development of markets for high-value-added specialty products, including sheets, films and specialty plastics, and provides high-grade services through Mitsubishi Engineering – Plastics Corporation, which manages sales and market development. — **Company President Toshikazu Umemura**

## Main Measures and Activities in Fiscal 2003

In order to strengthen its wastewater treatment business, MGC reorganized its subsidiaries, and worked to create a consolidated system for sales and technological services.

Otsuka-MGC Chemical Company, Inc. a joint venture with Otsuka Chemical Co., Ltd., was launched to strengthen the hydrazine hydrate business.

MGC is expanding its engineering plastics business in China and Southeast Asia. In Nantong, China, construction started on the facilities at the POM joint venture company, which produces polyacetal. MGC also worked to expand the engineering plastics business in Thailand by enhancing polyacetal and polycarbonate production equipment. Operations at the PPE joint venture in Singapore also began.

## Outlook and Plan Beyond Fiscal 2004

The company focuses on cleaning agents such as super pure hydrogen peroxide and ammonia used in producing parts for digital home appliances, as well as resist remover, and chemicals for water treatment. In the engineering plastics business, MGC promotes expanded sales of engineering plastic compound products, polycarbonate (PC) sheets and films, specialty optical plastics and other functional materials by forming close relationships with customers.

In the lens monomer business, the company developed polarized sheets for use with its assortment of medium- to high-refractive index monomers. This provides MGC with a full line-up of attractive products in this field.

MGC will finalize its plan for further developing its engineering plastics business in China, a market which is expanding rapidly.

## MAIN PRODUCTS

### *Inorganic chemicals:*

Hydrogen peroxide, sodium hydrosulfide and persulfates

### *High-function products:*

Super-pure hydrogen peroxide, ELM Clean and lens monomer

### *Engineering plastics:*

Polycarbonate, polycarbonate sheet, polyacetal, modified polyphenylene ether and Reny®

## CASE STUDY

### Upgrading the Yokkaichi Plant as a Development Plant

The Yokkaichi Plant is located in Mie Prefecture, the "crystal valley," where the prefectural government is aiming to attract the flat panel display (FPD) industry. In addition to manufacturing ELM Clean cleaner for LCD displays at the Yokkaichi Plant, the company also produces materials such as FPD material PC sheets and film, super-pure hydrogen peroxide for semiconductor cleaners and lens monomers, which have been attracting attention as optical materials. The company will transform the Yokkaichi Plant into a development-oriented plant for production of highly functional products, making use of its location where liquid crystal and semiconductor industries are concentrated.

# Information & Advanced Materials Company



*The company provides unique high-value-added products in three areas: electronic materials, oxygen absorbers and info-advanced materials. In the electronic materials business, the company is working to develop and increase the competitiveness of its original BT laminate and other highly functional products.*

*With its top share in the oxygen absorbers market in Japan, the company is moving to strengthen competitiveness through development of new markets and applications.*

*In the info-advanced materials business, the company is promoting measures for future market expansion. — **Company President Toshio Kawasaki***

## Main Measures and Activities in Fiscal 2003

The company worked to strengthen profitability in the electronic materials business by consolidating its two former production bases, the Tokyo Plant and subsidiary Electrotechno Co., Ltd., at Electrotechno.

In the oxygen absorbers business, the company began its first overseas production of AGELESS® in Thailand. MGC established AGELESS (THAILAND) Co., Ltd. in the suburbs of Bangkok, Thailand through a joint venture with Mitsubishi Corporation. The factory, which was completed in December 2002 and began operations in March 2003, boasts the most advanced equipment while making use of MGC's expertise and technologies. In addition, the company succeeded in developing Pharmakeep®, an oxygen absorber for use in the pharmaceutical and health care industries.

## Outlook and Plan Beyond Fiscal 2004

In the electronic materials business, the company will increase the production capacity of copper clad laminates at Electrotechno to meet future growth in demand. In addition, the company plans to begin mass production of newly developed highly functional epoxy materials in the second half of 2004, anticipating growth in applications of multilayer printed circuit boards used in info-advanced materials, communications devices and testing equipment for semiconductors.

In the oxygen absorbers business, the company aims for increased sales of AGELESS-OMAC®, a film food wrapping with oxygen absorbency, and Pharmakeep®, an oxygen absorber for use in the pharmaceuticals industry.

In the info-advanced materials business, the company will promote restructuring of the stagnant market and future market expansion.

## MAIN PRODUCTS

### Electronic materials:

BT laminate, epoxy laminate, shield boards and LE sheets

### Oxygen absorbers:

AGELESS®, Anaeropac®, RP System™

### Info-advanced materials:

Magnetic garnet single crystal, wavelength division multiplexing devices

## CASE STUDY

### Stable Supply and Expansion of Applications for Specialty Electronic Materials

In the electronic materials business, the company aimed for comprehensive rationalization by disposing of old production equipment and transferring production of copper clad laminates and prepreg to Electrotechno Co., Ltd. In response to the rapid rise in demand for BT products caused by the recovery in the market for digital-related products, which began in the second half of 2003, the company is strengthening production of copper clad laminates through the introduction of the most advanced equipment. This upgrade is scheduled to be completed in March 2005, and will increase production capacity of copper clad laminates at Electrotechno to 700,000m<sup>2</sup>/month, the highest level in Japan. The company will continue to stabilize the supply of highly functional electronic materials and expand applications.

# FINANCIAL REVIEW

## Six-Year Summary

Mitsubishi Gas Chemical Company, Inc. and Consolidated Subsidiaries  
For the years ended March 31, 2004, 2003, 2002, 2001, 2000 and 1999

	Millions of yen					
	2004	2003	2002	2001	2000	1999
<b>For the year:</b>						
Net sales .....	¥340,711	¥312,119	¥275,710	¥323,076	¥289,531	¥286,471
Chemical products .....	188,984	176,747	157,792	169,578	149,155	143,428
Advanced materials .....	127,991	110,201	99,809	135,522	122,032	124,825
Other products .....	23,736	25,171	18,109	17,976	18,343	18,217
Gross profit .....	55,711	45,159	36,169	55,171	48,347	50,936
Selling, general and administrative expenses .....	40,776	43,252	42,955	43,018	43,054	43,314
Operating income (loss) .....	14,935	1,907	(6,786)	12,179	5,293	7,622
Net income (loss) .....	10,622	(474)	(4,235)	7,285	4,172	6,754
R&D expenses .....	10,516	11,542	11,910	12,473	12,302	11,900
Capital expenditures .....	13,724	22,626	27,396	22,938	24,326	35,807
<b>At year end:</b>						
Total assets .....	¥475,117	¥458,137	¥466,763	¥486,970	¥481,030	¥475,834
Current assets .....	191,775	180,343	176,950	208,505	241,972	235,982
Current liabilities .....	199,885	193,765	175,349	191,014	181,508	162,010
Working capital .....	(8,110)	(13,422)	1,601	17,491	60,464	73,972
Stockholders' equity .....	180,524	161,859	174,743	175,280	172,718	172,057
Interest-bearing debt .....	184,299	193,999	191,359	188,620	195,409	190,834
<b>Per share of common stock (Yen):</b>						
Net income (loss)—basic .....	¥ 22.91	¥ (1.05)	¥ (8.79)	¥ 15.07	¥ 8.40	¥ 13.55
Net income—diluted .....	—	—	—	15.02	8.39	13.51
Stockholders' equity .....	390.23	349.93	367.69	362.54	355.77	345.07
Cash dividends .....	3.00	1.50	4.00	4.00	5.00	5.00
<b>Ratios:</b>						
Gross profit margin (%) .....	16.4	14.5	13.1	17.1	16.7	17.8
Operating income margin (%) .....	4.4	0.6	—	3.8	1.8	2.7
Return on sales (%) .....	3.1	—	—	2.3	1.4	2.4
Return on assets (ROA) (%) .....	2.3	(0.1)	(0.9)	1.5	0.9	1.4
Return on equity (ROE) (%) .....	6.2	(0.3)	(2.4)	4.2	2.4	3.9
Current ratio (times) .....	0.96	0.93	1.01	1.09	1.33	1.46
Stockholders' equity ratio (%) .....	38.0	35.3	37.4	36.0	35.9	36.2

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

### Sales and Income (Loss)

Consolidated net sales increased ¥28,592 million year-on-year to ¥340,711 million, and operating income increased ¥13,028 million to ¥14,935 million. Principal factors included high prices in the commodity chemical market and increased sales volume of products for semiconductor. Despite an extraordinary loss on fees for structural reform of the electronic materials business, MGC recorded net income of ¥10,622 million, an improvement of ¥11,096 million over the net loss recorded in the previous fiscal year.

### Performance by Business Segment Chemical Products Group

Net sales of methanol and ammonia-based products increased, due to high prices in the international methanol market as natural gas prices in North America increased and market conditions intensified worldwide. In addition, return on investment in equity affiliates Japan Saudi Arabia Methanol Co., Ltd. and Metanol de Oriente, Metor, S.A. increased substantially. Sales of formalin

increased on firm demand from Japanese adhesive manufacturers. Sales and earnings on ammonia increased, due to high prices in the international market and firm demand. Sales and earnings on amine derivatives decreased due to factors including a drop in the price of exports caused by an imbalance in supply and demand, despite increased sales volume of certain products through strengthened production capacity. An increase in sales prices of methacrylate products led to improved performance, as demand for methyl methacrylate (MMA) for use in clear plastics grew and supply was tight. In addition, sales of derivative ester products also increased overall. Sales were strong at equity affiliate Japan Acryace Corporation, which manufactures MMA derivatives. Polyols (polyalcohols) sales also increased, as sales prices rose due to suspended production of certain products by companies within the industry, and favorable exports to China. Sales of crude oil from natural gas drilling were strong, as the price of crude oil remained high.

In the xylene-based product sector, sales of metaxylene increased

substantially, with an increase in sales to A.G. International Chemical Co., Inc. (AGIC), a consolidated subsidiary, for isophthalic acid raw materials. During the year ended March 31, 2004, MGC purchased equity interests in AGIC from its joint-venture partners, and made AGIC a consolidated subsidiary. Sales and earnings on MX nylon increased on strong demand for food wrapping materials and plastic moldings. Despite strong demand for use in plastic additives and aromatics, sales of aromatic aldehydes decreased year-on-year, as certain customers adjusted their inventories. Sales of paraxylene increased due to factors including strong demand and an upturn in the market. However, income decreased as a result of the high cost of raw materials and as a result of purchases to cover reduced output caused by equipment upgrades at the joint-venture Mizushima Paraxylene Co., Ltd. Sales of purified terephthalic acid through Dia Terephthalic Acid Corporation were solid. Sales of phthalic anhydride were essentially even year-on-year, as an increase in product prices reflecting the rise in cost of raw materials and an improvement in overseas markets offset sluggish demand for products including plasticizers.

In the industrial chemical sector, MGC began shipments of hydrogen peroxide for new industrial applications and moved to correct the sales price, which had been low for a long period. Sales and earnings of hydrosulfite declined significantly due to contraction in domestic demand and the influence of inexpensive Chinese products. However, sales of persulfate were essentially even year-on-year due to an increase in demand for printed circuit boards. Sales of hydrazine hydrate were sluggish due to a decline in demand for major applications, but sales volume increased due to the transfer of inventory to a joint-venture company established with Otsuka Chemical Co., Ltd. during the year ended March 31, 2004.

As a result, sales in the Chemical Products Group increased ¥12,237 million year-on-year to ¥188,984 million, and operating income increased ¥1,460 million to ¥3,302 million.

### Advanced Materials Group

The high cost of raw materials and increased competition in the Asian market dealt a blow to sales of engineering plastics. However, demand in Japanese and overseas automobile and electric and electronics markets was solid. Performance of Thai Polyacetal Co., Ltd., a consolidated subsidiary that strengthened production capacity, surpassed performance in the previous fiscal year. Moreover, demand was strong for polycarbonate sheets and film manufactured by the consolidated subsidiary Fuji Kasei Co., Ltd. Earnings of Mitsubishi Engineering-Plastics Corp. and Korea Engineering Plastics Co., Ltd., affiliates accounted for using the equity method, were also solid.

Sales and earnings increased for JSP Corporation, an affiliate accounted for using the equity method, as sales of foamed polypropylene products were strong.

In the printed circuit board materials sector, continuing strong sales of digital cameras and cellular phones and recovery in the semiconductor market supported by expansion in the market for digital home appliances led to significant growth and sales of BT resin laminated boards for semiconductor packaging material. The performance of Electrotechno Co., Ltd., a consolidated subsidiary, and Japan Circuit Industrial Co., Ltd. improved significantly. Moreover, sales volume increased substantially for LE Sheet, a supplementary material for small diameter drilling for printed circuit boards recognized for its high level of performance and quality, as demand increased for greater precision in through holes. MGC has completed the transfer of production of printed circuit

boards from the Tokyo Plant to Electrotechno Co., Ltd.'s Shirakawa Plant.

Sales of chemicals used in the electronics industry benefited from increased demand associated with a recovery in the semiconductor market, despite a drop in sales prices of certain products due to intensified competition.

Sales of AGELESS®, an oxygen absorber, increased slightly on firm exports to the United States and Southeast Asia, despite the effects of a poor rice harvest and an unusually mild winter in Japan. AGELESS (THAILAND) Co., Ltd., a nonconsolidated subsidiary, is now operating smoothly after beginning production in the year ended March 31, 2004.

Sales of magnetic garnet single crystal and wavelength division multiplexing devices were weak due to factors including a delayed recovery in demand. Sales of lens monomers increased as a result of efforts to secure new customers. In enzymes and coenzymes, sales and earnings on coenzyme Q<sub>10</sub> increased, as demand for use in health foods expanded.

As a result, net sales for the Advanced Materials Group increased ¥17,790 million year-on-year to ¥127,991 million, and operating income increased ¥10,747 million to ¥10,077 million.

### Other Products Group

Sales of technology increased due to acquisition of orders for new uses for hydrogen gas using the methanol method. Sales in the geothermal steam business remained satisfactory. Sales of equipment for refinery and exhaust gas treatment of the consolidated subsidiary Japan Pionics Co., Ltd. decreased year-on-year due to factors including a decline in exports resulting in part from SARS.

As a result of the above, net sales in the Other Products Group decreased ¥1,435 million year-on-year to ¥23,736 million, and operating income increased ¥981 million to ¥1,592 million.

### Liquidity and Financial Position

On a consolidated basis, cash and cash equivalents at the end of the year decreased ¥3,248 million to ¥30,419 million. Net cash provided by operating activities decreased ¥4,776 million from the end of the year to ¥19,733 million, despite significant improvement in operating income, due primarily to increased operating capital. Accounts receivable increased due to factors including increased sales and a reduction in liquidated loans.

Net cash used in investing activities decreased ¥8,320 million from the end of the previous year to ¥8,040 million. Factors included a reduction in capital expenditures related to the reduction in capital investment and an increase in proceeds from the sale of marketable securities.

Net cash used in financing activities increased ¥11,151 million to ¥14,305, due to factors including the settlement of long-term debt.

Current assets at March 31, 2004 totaled ¥191,775 million, compared to ¥180,343 million a year earlier. Current liabilities totaled ¥199,885 million, compared to ¥193,765 million a year earlier. As a result, working capital deficit totaled ¥8,110 million compared to working capital deficit ¥13,422 million a year earlier. The current ratio was 0.96 to 1, compared to 0.93 to 1 a year earlier.

Net property, plant and equipment decreased to ¥161,901 million from ¥171,420 million a year earlier. Total assets increased to ¥475,117 million from ¥458,137 million a year earlier. Total non-current liabilities decreased to ¥88,379 million from ¥95,933 million a year earlier, due to the redemption of bonds and reduction of long-term debt. Stockholders' equity increased to ¥180,524 million from ¥161,859 million a year earlier.

# Consolidated Balance Sheets

Mitsubishi Gas Chemical Company, Inc. and Consolidated Subsidiaries  
March 31, 2004 and 2003

ASSETS	Millions of yen		Thousands of U.S. dollars (note 2)
	2004	2003	2004
<b>Current assets:</b>			
Cash (notes 3 and 6).....	¥ 24,626	¥ 24,976	\$ 233,002
Trade notes and accounts receivable (note 15).....	97,029	83,109	918,053
Short-term investments (note 4).....	6,976	12,202	66,005
Inventories.....	49,359	49,125	467,017
Deferred income taxes (note 8).....	4,379	3,480	41,432
Other current assets.....	9,856	7,782	93,254
Less allowance for doubtful receivables.....	450	331	4,258
Total current assets.....	191,775	180,343	1,814,505
<b>Property, plant and equipment (note 6):</b>			
Buildings and structures.....	111,456	112,615	1,054,556
Machinery, equipment and vehicles.....	279,198	274,125	2,641,669
Land.....	24,693	25,490	233,636
Construction in progress.....	7,371	14,354	69,742
Other.....	28,107	28,790	265,938
	450,825	455,374	4,265,541
Less accumulated depreciation.....	288,924	283,954	2,733,693
Net property, plant and equipment.....	161,901	171,420	1,531,848
<b>Intangible assets, net:</b>			
Software.....	1,046	977	9,897
Other.....	2,544	754	24,070
Net intangible assets.....	3,590	1,731	33,967
<b>Investments and other assets:</b>			
Investments in securities (notes 4 and 5).....	105,627	85,350	999,404
Long-term loans receivable.....	3,560	2,486	33,684
Deferred income taxes (note 8).....	3,300	10,970	31,223
Other investments and other assets (note 5).....	6,081	6,759	57,536
Less allowance for doubtful receivables.....	717	922	6,784
Total investments and other assets.....	117,851	104,643	1,115,063
<b>Total assets.....</b>	<b>¥475,117</b>	<b>¥458,137</b>	<b>\$4,495,383</b>

See accompanying notes to consolidated financial statements.

**LIABILITIES AND STOCKHOLDERS' EQUITY**

 Thousands of  
U.S. dollars  
(note 2)

	Millions of yen		2004
	2004	2003	
<b>Current liabilities:</b>			
Trade notes and accounts payable .....	¥ 69,025	¥ 61,980	\$ 653,089
Short-term debt and current installments of long-term debt (note 6).....	108,537	111,168	1,026,938
Accrued expenses (note 15).....	9,796	9,185	92,686
Accrued income taxes (note 8).....	1,893	1,055	17,911
Accrued bonuses .....	3,494	3,575	33,059
Other current liabilities (note 8) .....	7,140	6,802	67,556
Total current liabilities.....	199,885	193,765	1,891,239
<b>Non-current liabilities:</b>			
Long-term debt (notes 6 and 15).....	75,762	82,831	716,832
Liabilities for retirement and severance benefits (note 7).....	11,605	12,465	109,802
Other non-current liabilities (note 8) .....	1,012	637	9,575
Total non-current liabilities .....	88,379	95,933	836,209
Total liabilities .....	288,264	289,698	2,727,448
<b>Minority interests</b> .....	6,329	6,580	59,883
<b>Stockholders' equity:</b>			
Common stock (note 9):			
Authorized 984,856,000 shares; issued and outstanding 483,478,398 shares in 2004 and 2003 .....	41,971	41,971	397,114
Additional paid-in capital (note 9) .....	35,539	35,518	336,257
Retained earnings (note 10).....	104,650	95,099	990,160
Surplus on revaluation of land.....	192	192	1,817
Net unrealized gain (loss) on other securities (note 4) .....	9,085	(3,094)	85,959
Foreign currency translation adjustments.....	(7,077)	(3,995)	(66,960)
Treasury stock.....	(3,836)	(3,832)	(36,295)
Total stockholders' equity .....	180,524	161,859	1,708,052
<b>Commitments and contingencies (note 16)</b>			
Total liabilities and stockholders' equity.....	¥475,117	¥458,137	\$4,495,383

# Consolidated Statements of Operations

Mitsubishi Gas Chemical Company, Inc. and Consolidated Subsidiaries  
For the years ended March 31, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars (note 2)
	2004	2003	2004
<b>Net sales</b> (note 15) .....	<b>¥340,711</b>	¥312,119	<b>\$3,223,682</b>
<b>Cost of sales</b> (note 12) .....	<b>285,000</b>	266,960	<b>2,696,565</b>
Gross profit .....	<b>55,711</b>	45,159	<b>527,117</b>
<b>Selling, general and administrative expenses</b> (notes 11 and 12) .....	<b>40,776</b>	43,252	<b>385,808</b>
Operating income .....	<b>14,935</b>	1,907	<b>141,309</b>
<b>Other income (deductions):</b>			
Interest income .....	<b>197</b>	203	<b>1,864</b>
Dividend income .....	<b>536</b>	1,010	<b>5,071</b>
Interest expenses (note 15) .....	<b>(2,573)</b>	(2,930)	<b>(24,345)</b>
Equity in earnings of affiliates .....	<b>9,157</b>	5,698	<b>86,640</b>
Exchange loss .....	<b>(1,021)</b>	(846)	<b>(9,660)</b>
Gain on sale of investments in securities (note 4) .....	<b>611</b>	304	<b>5,781</b>
Loss on devaluation of inventories .....	<b>(251)</b>	(517)	<b>(2,375)</b>
Loss on sale/disposal of property, plant and equipment .....	<b>(1,470)</b>	(293)	<b>(13,908)</b>
Loss on devaluation of investments in securities .....	<b>(141)</b>	(3,834)	<b>(1,334)</b>
Restructuring charges associated with electronic materials business .....	<b>(2,445)</b>	—	<b>(23,134)</b>
Other, net .....	<b>(2,515)</b>	(2,217)	<b>(23,796)</b>
	<b>85</b>	(3,422)	<b>804</b>
Income (loss) before income taxes and minority interests .....	<b>15,020</b>	(1,515)	<b>142,113</b>
<b>Income taxes</b> (note 8):			
Current .....	<b>2,482</b>	1,739	<b>23,484</b>
Deferred .....	<b>1,133</b>	(2,554)	<b>10,720</b>
	<b>3,615</b>	(815)	<b>34,204</b>
Income (loss) before minority interests .....	<b>11,405</b>	(700)	<b>107,909</b>
<b>Minority interests</b> .....	<b>783</b>	(226)	<b>7,408</b>
Net income (loss) .....	<b>¥ 10,622</b>	¥ (474)	<b>\$ 100,501</b>
<b>Per share of common stock:</b>			
Net income (loss) – basic (note 13) .....	<b>¥22.91</b>	¥(1.05)	<b>\$0.22</b>
Cash dividends applicable to the year (note 10) .....	<b>3.00</b>	1.50	<b>0.03</b>

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, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars (note 2)
	2004	2003	2004
<b>Common stock (note 9):</b>			
Balance at beginning of year .....	¥ 41,971	¥ 41,971	\$ 397,114
Balance at end of year .....	41,971	41,971	397,114
<b>Additional paid-in capital (note 9):</b>			
Balance at beginning of year .....	35,518	35,518	336,058
Increase arising from stock issued under exchange offering .....	21	—	199
Balance at end of year .....	35,539	35,518	336,257
<b>Retained earnings (note 10):</b>			
Balance at beginning of year .....	95,099	96,234	899,792
Increase resulting from an affiliate newly accounted for by the equity method .....	335	258	3,170
Decrease resulting from newly consolidated subsidiaries .....	(2)	(197)	(19)
Cash dividends .....	(1,387)	(713)	(13,123)
Bonuses to directors and corporate auditors .....	(17)	(9)	(161)
Net income (loss) .....	10,622	(474)	100,501
Balance at end of year .....	104,650	95,099	990,160
<b>Surplus on revaluation of land at end of year .....</b>	<b>192</b>	<b>192</b>	<b>1,817</b>
<b>Net unrealized gain (loss) on other securities at end of year (note 4) ....</b>	<b>9,085</b>	<b>(3,094)</b>	<b>85,959</b>
<b>Foreign currency translation adjustments at end of year .....</b>	<b>(7,077)</b>	<b>(3,995)</b>	<b>(66,960)</b>
<b>Treasury stock at end of year .....</b>	<b>(3,836)</b>	<b>(3,832)</b>	<b>(36,295)</b>
<b>Total stockholders' equity at end of year .....</b>	<b>¥180,524</b>	<b>¥161,859</b>	<b>\$1,708,052</b>

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, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars (note 2)
	2004	2003	2004
<b>Cash flows from operating activities:</b>			
Income (loss) before income taxes and minority interests.....	¥ 15,020	¥ (1,515)	\$ 142,113
Adjustments to reconcile income (loss) before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization.....	19,519	20,113	184,682
Loss on sale/disposal of property, plant and equipment .....	1,151	293	10,890
Restructuring charges associated with electronic materials business....	2,445	—	23,134
Equity in earnings of affiliates .....	(9,157)	(5,698)	(86,640)
Allowance for doubtful receivables.....	(85)	(582)	(804)
Increase (decrease) in liabilities for retirement and severance benefits.....	(963)	420	(9,112)
Interest and dividend income.....	(733)	(1,213)	(6,935)
Interest expenses.....	2,573	2,930	24,345
Gain on sale of short-term investments and investments in securities...	(610)	(304)	(5,772)
Loss on devaluation of investments in securities .....	141	3,834	1,334
(Increase) decrease in trade notes and accounts receivable .....	(14,540)	2,599	(137,572)
(Increase) decrease in inventories .....	(865)	1,954	(8,184)
Increase in trade notes and accounts payable .....	6,979	3,673	66,033
Bonuses to directors and corporate auditors.....	(23)	(18)	(218)
Other, net .....	2,326	1,241	22,008
Sub total.....	23,178	27,727	219,302
Interest and dividend received.....	734	1,196	6,945
Interest paid.....	(2,657)	(2,953)	(25,140)
Income taxes paid.....	(1,522)	(1,461)	(14,401)
Net cash provided by operating activities .....	19,733	24,509	186,706
<b>Cash flows from investing activities:</b>			
Purchase of short-term investments .....	(593)	(217)	(5,611)
Proceeds from sale of short-term investments .....	2,756	140	26,076
Capital expenditures.....	(13,724)	(22,626)	(129,852)
Proceeds from sale of property, plant and equipment.....	3,329	3,532	31,498
Purchase of investments in securities .....	(3,042)	(1,943)	(28,782)
Proceeds from sale of investments in securities.....	1,957	1,025	18,516
Payment for acquisitions of newly consolidated subsidiaries, net of cash acquired.....	(2,455)	—	(23,228)
Decrease in long-term loans receivable .....	(1,757)	(46)	(16,624)
Other, net .....	5,489	3,775	51,935
Net cash used in investing activities.....	(8,040)	(16,360)	(76,072)
<b>Cash flows from financing activities:</b>			
Increase in short-term debt .....	2,896	9,127	27,401
Proceeds from long-term debt.....	17,486	15,605	165,446
Payments on long-term debt .....	(32,733)	(24,486)	(309,708)
Purchase of treasury stock.....	(454)	(2,227)	(4,296)
Dividends paid to stockholders.....	(1,387)	(713)	(13,123)
Dividends paid to minority stockholders of subsidiaries.....	(100)	(220)	(946)
Other, net .....	(13)	(240)	(123)
Net cash used in financing activities.....	(14,305)	(3,154)	(135,349)
<b>Effect of exchange rate changes on cash and cash equivalents .....</b>	<b>(746)</b>	<b>(1,145)</b>	<b>(7,058)</b>
<b>Net increase (decrease) in cash and cash equivalents.....</b>	<b>(3,358)</b>	<b>3,850</b>	<b>(31,773)</b>
<b>Cash and cash equivalents at beginning of year .....</b>	<b>33,667</b>	<b>28,188</b>	<b>318,545</b>
<b>Cash and cash equivalents of newly consolidated subsidiaries.....</b>	<b>130</b>	<b>1,629</b>	<b>1,230</b>
<b>Cash and cash equivalents of subsidiaries excluded from consolidation ..</b>	<b>(20)</b>	<b>—</b>	<b>(189)</b>
<b>Cash and cash equivalents at end of year (note 3).....</b>	<b>¥ 30,419</b>	<b>¥ 33,667</b>	<b>\$ 287,813</b>

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 2004 and 2003).

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 investment 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 statements of operations.

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.

### (e) Inventories

Inventories are stated principally at cost. Cost is principally determined by the average method, other than real estate for sale, which is determined 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 the estimated useful lives (5 years). Intangible assets other than software are deferred and amortized by the straight-line method at 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 Company and certain subsidiaries have unfunded defined benefit pension plans for directors, corporate auditors and executive officers. The provision for the plans has been made in the accompanying consolidated financial statements for the vested benefits to which directors, corporate auditors and executive officers are entitled if they were to retire or sever immediately at the balance sheet dates.

**(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 10)

**(n) Data per Common Share**

Basic net income (loss) per share is computed on the basis of the weighted average number of shares of common stock outstanding during the respective years. (See note 13)

Cash dividends per share are computed based on dividends actually paid during the year.

**(o) Reclassifications**

Certain reclassifications of the accompanying consolidated financial statements as of and for the year ended March 31, 2003 have been made to conform to the 2004 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, 2004 have been translated into United States dollars at the rate of ¥105.69=U.S.\$1, the approximate exchange rate on the Tokyo Foreign Exchange Market on March 31, 2004. 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, 2004 and 2003 is follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Cash.....	¥24,626	¥24,976	\$233,002
Time deposits with maturities of over three months.....	(550)	(666)	(5,204)
Short-term investments.....	6,343	9,357	60,015
Cash and cash equivalents.....	¥30,419	¥33,667	\$287,813

**Note 4. SHORT-TERM INVESTMENTS AND INVESTMENTS IN SECURITIES**

Balance sheet amount, fair value and gross unrealized gain and loss of held-to-maturity securities with fair value as of March 31, 2004 and 2003 are summarized as follows:

	Millions of yen			
	Balance sheet amount	Gross unrealized gain	Gross unrealized loss	Fair value
<b>March 31, 2004</b>				
Government bond securities...	¥51	¥2	¥—	¥53
	¥51	¥2	¥—	¥53

<b>March 31, 2003</b>				
Government bond securities...	¥ 36	¥ 3	¥—	¥ 39
Corporate bond securities.....	2,176	31	—	2,207
	¥2,212	¥34	¥—	¥2,246

	Thousands of U.S. dollars			
	Balance sheet amount	Gross unrealized gain	Gross unrealized loss	Fair value
<b>March 31, 2004</b>				
Government bond securities...	\$483	\$19	\$—	\$502
	\$483	\$19	\$—	\$502

Acquisition cost, balance sheet amount and gross unrealized gain and loss of other securities with fair value as of March 31, 2004 and 2003 are summarized as follows:

	Millions of yen			
	Acquisition cost	Gross unrealized gain	Gross unrealized loss	Balance sheet amount
<b>March 31, 2004</b>				
Equity securities .....	¥28,041	¥15,211	¥(177)	¥43,075
Corporate bond securities....	5	1	—	6
Other securities .....	45	0	(1)	44
	¥28,091	¥15,212	¥(178)	¥43,125

<b>March 31, 2003</b>				
Equity securities .....	¥29,201	¥3,847	¥(6,951)	¥26,097
Corporate bond securities....	24	5	—	29
Other securities .....	57	—	(5)	52
	¥29,282	¥3,852	¥(6,956)	¥26,178

	Thousands of U.S. dollars			
	Acquisition cost	Gross unrealized gain	Gross unrealized loss	Balance sheet amount
<b>March 31, 2004</b>				
Equity securities .....	\$265,314	\$143,921	\$(1,675)	\$407,560
Corporate bond securities.....	47	9	—	56
Other securities.....	426	0	(9)	417
	\$265,787	\$143,930	\$(1,684)	\$408,033

It is not practicable to estimate the fair value of securities as of March 31, 2004 and 2003 described below because of lack of market price and difficulty in estimating fair value.

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
<b>Held-to-maturity securities:</b>			
Certificates of deposit .....	¥6,539	¥ 6,790	\$61,870
Commercial paper .....	—	2,800	—
<b>Other securities:</b>			
Unlisted equity securities.....	3,427	3,468	32,425
	¥9,966	¥13,058	\$94,295

Projected future redemption of other securities with maturities and held-to-maturity securities at March 31, 2004 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
<b>Debt securities:</b>				
Corporate bond securities ....	¥ 16	¥55	¥ 3	¥ 1
Other debt securities .....	5	—	—	—
<b>Other:</b>				
Certificates of deposit .....	6,539	—	—	—
Other.....	48	23	—	—
	¥6,608	¥78	¥ 3	¥ 1

	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
<b>Debt securities:</b>				
Corporate bond securities ....	\$ 151	\$520	\$28	\$ 9
Other debt securities.....	47	—	—	—
<b>Other:</b>				
Certificates of deposit .....	61,870	—	—	—
Other.....	454	218	—	—
	\$62,522	\$738	\$28	\$ 9

For the years ended March 31, 2004 and 2003, proceeds from the sale of other securities are ¥1,997 million (\$18,895 thousand) and ¥810 million, gross realized gains are ¥615 million (\$5,819 thousand) and ¥304 million, respectively. Gross realized losses were ¥2 million (\$19 thousand) for the year ended March 31, 2004.

#### Note 5. INVESTMENTS IN AFFILIATES

The aggregate carrying amounts of investments in affiliates as of March 31, 2004 and 2003 are ¥59,198 million (\$560,110 thousand) and ¥55,932 million, respectively.

#### Note 6. SHORT-TERM AND LONG-TERM DEBT

Short-term debt is represented by bank loans which are due within one year. The weighted average interest rate of short-term debt at March 31, 2004 and 2003 is 0.6%.

Long-term debt as of March 31, 2004 and 2003 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Loans, principally from banks, maturing in installments through 2032; bearing weighted average interest of 1.4% and 1.6% at March 31, 2004 and 2003, respectively, partially secured by mortgage of property, plant and equipment and cash .....	¥ 81,800	¥ 84,444	\$773,961
2.95% unsecured yen bonds, due 2003 ...	—	10,000	—
2.675% unsecured yen bonds, due 2005..	5,000	5,000	47,308
2.675% unsecured yen bonds, due 2005..	5,000	5,000	47,308
2.57% unsecured yen bonds, due 2006 ...	5,000	5,000	47,308
2.57% unsecured yen bonds, due 2006 ...	5,000	5,000	47,308
1.38% unsecured yen bonds issued by a subsidiary, due 2006...	1,000	1,000	9,462
	102,800	115,444	972,655
Less current installments .....	25,744	31,613	243,580
	77,056	83,831	729,075
Elimination on consolidation.....	(1,294)	(1,000)	(12,243)
	¥ 75,762	¥ 82,831	\$716,832

The aggregate annual maturities of long-term debt after March 31, 2005 are as follows:

	Millions of yen	Thousands of U.S. dollars
Year ending March 31:		
2006.....	¥17,813	\$168,540
2007.....	31,922	302,034
2008.....	3,302	31,242
2009.....	11,257	106,510

Property, plant and equipment and cash with a book value at March 31, 2004 of ¥34,399 million (\$325,471 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 present and future indebtedness will be given upon request of the bank, and that the bank shall have the right, as the obligations become due or in the event of default, to offset cash deposits against obligations 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, 2004 and 2003 is outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Projected benefit obligation .....	¥(45,243)	¥(45,012)	\$(428,072)
Plan assets at fair value .....	14,576	12,460	137,913
Assets contributed to the trust.....	19,815	11,208	187,482
Funded status.....	(10,852)	(21,344)	(102,677)
Unrecognized actuarial loss.....	1,753	11,010	16,586
Unrecognized prior service cost ...	(422)	(484)	(3,993)
Amount recognized in the consolidated balance sheets .....	(9,521)	(10,818)	(90,084)
Prepaid retirement and severance benefits .....	1,104	632	10,446
Accrued retirement and severance benefits .....	¥(10,625)	¥(11,450)	\$(100,530)

Net periodic pension cost for the years ended March 31, 2004 and 2003 consists of the following components:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Service cost.....	¥2,040	¥1,925	\$19,301
Interest cost .....	1,048	1,357	9,916
Expected return on plan assets.....	(269)	(318)	(2,545)
Amortization of actuarial loss.....	392	2,727	3,709
Amortization of prior service cost ...	(61)	(61)	(577)
Net periodic pension cost .....	¥3,150	¥5,630	\$29,804

Notes: In addition to the above costs, additional benefits amounting to ¥41 million were charged to income for the year ended March 31, 2003.

Significant assumptions of pension plans used to determine these amounts in fiscal 2004 and 2003 are as follows:

	2004	2003
Periodic allocation method for projected benefit	<b>Straight-line</b>	Straight-line
Discount rate	<b>Mainly 2.5%</b>	Mainly 2.5%
Expected rate of return on plan assets	<b>Mainly 2.5%</b>	Mainly 2.5%
Period for amortization of unrecognized prior service cost	<b>10 years</b>	10 years
Period for amortization of unrecognized actuarial loss	<b>Mainly 10 years</b>	Mainly 10 years

Directors, corporate auditors and executive officers are not covered by the plans described above. For such persons, the Company and certain subsidiaries have unfunded defined benefit pension plans. Under the plans, directors, corporate auditors and executive officers 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, corporate auditors and executive officers are entitled if they were to retire or sever immediately at the balance sheet dates. As of March 31, 2004 and 2003, the liabilities for retirement and severance benefits related to the plans were ¥980 million (\$9,272 thousand) and ¥1,015 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 42.0% in 2004 and 2003.

Amendments to Japanese tax regulations were enacted on March 31, 2003. As a result of these amendments, the normal income tax rate is to be reduced from approximately 42.0% to 40.7% effective from the Company's fiscal year beginning April 1, 2004. As a result of the change in the tax rate, net deferred income tax assets as of March 31, 2003 which were expected to be eliminated after April 1, 2004 were decreased by ¥453 million, and ¥452 million was charged to income, and net unrealized loss on other securities was decreased by ¥1 million.

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, 2004 is follows:

Statutory tax rate.....	42.0%
Equity in earnings of affiliates .....	(25.6)
Difference in statutory tax rates of subsidiaries .....	(3.2)
Expenses not deductible for tax purposes.....	2.4
Income not credited for tax purposes .....	(1.0)
Other.....	9.5
Effective tax rate.....	24.1%

The reconciliation for the year ended March 31, 2003 was not subject to disclosure as loss before income taxes is recorded.

Significant components of deferred tax assets and liabilities at March 31, 2004 and 2003 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
<b>Deferred tax assets:</b>			
Liabilities for retirement and severance benefits .....	¥ 9,607	¥10,568	\$ 90,898
Tax loss carryforward.....	5,356	6,262	50,676
Devaluation loss on investments in securities.....	1,988	2,994	18,810
Net unrealized loss on other securities.....	—	1,320	—
Accrued bonuses .....	1,414	1,272	13,379
Intercompany profits .....	991	1,021	9,376
Depreciation.....	739	607	6,992
Other .....	4,535	3,377	42,909
	<b>24,630</b>	<b>27,421</b>	<b>233,040</b>
Valuation allowance.....	(3,673)	(3,990)	(34,753)
	<b>20,957</b>	<b>23,431</b>	<b>198,287</b>
<b>Deferred tax liabilities:</b>			
Net unrealized gain on other securities.....	(6,184)	—	(58,511)
Gain by contributing the assets to the trust .....	(3,806)	(3,820)	(36,011)
Tax purpose reserves etc. regulated by Japanese tax law .	(3,038)	(3,103)	(28,744)
Other .....	(695)	(2,152)	(6,576)
	<b>(13,723)</b>	<b>(9,075)</b>	<b>(129,842)</b>
<b>Net deferred tax assets .....</b>	<b>¥ 7,234</b>	<b>¥14,356</b>	<b>\$ 68,445</b>

Net deferred tax assets and liabilities as of March 31, 2004 and 2003 are reflected in the accompanying consolidated balance sheets under the following captions:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Current assets — Deferred income taxes .....	¥4,379	¥ 3,480	\$41,432
Investments and other assets			
– Deferred income taxes .....	3,300	10,970	31,223
Current liabilities			
– Other current liabilities .....	(86)	(39)	(813)
Non-current liabilities			
– Other non-current liabilities .....	(359)	(55)	(3,397)
<b>Net deferred tax assets .....</b>	<b>¥7,234</b>	<b>¥14,356</b>	<b>\$68,445</b>

#### Note 9. 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 10. RETAINED EARNINGS AND DIVIDENDS

The Commercial Code of Japan 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 equal 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 distribution 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, 2004 was cash dividends of ¥1,850 million (\$17,504 thousand).

#### Note 11. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

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

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Freight .....	¥8,669	¥8,942	\$82,023
Stevedoring and warehouse fee ....	2,146	2,297	20,305
Salaries.....	8,738	9,697	82,676
Employees' bonuses.....	2,918	3,102	27,609
Pension cost.....	1,612	2,640	15,252
Welfare .....	2,654	2,761	25,111
Transportation .....	1,300	1,299	12,300
Depreciation.....	2,001	2,158	18,933

#### Note 12. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income for the years ended March 31, 2004 and 2003 are ¥10,516 million (\$99,499 thousand) and ¥11,542 million, respectively.

### Note 13. NET INCOME (LOSS) PER SHARE INFORMATION

Reconciliation of the numbers and the amounts used in the basic net income (loss) per share computations for the years ended March 31, 2004 and 2003 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Net income (loss).....	¥10,622	¥(474)	\$100,501
Net income (loss) not applicable to common stockholders:			
Directors' and corporate auditors' bonuses .....	(18)	(18)	(170)
Net income (loss) applicable to common stockholders .....	¥10,604	¥(492)	\$100,331

	Number of shares	
	2004	2003
Weighted average number of shares on which basic net income (loss) per share is calculated .....	462,788,325	469,793,553

### Note 14. LEASES

A summary of assumed amounts of acquisition cost which includes interest portion, accumulated depreciation and net book value at March 31, 2004 and 2003 are as follows:

	Millions of yen		
	Machinery, equipment and vehicles	Other tangible assets	Total
<b>March 31, 2004</b>			
Acquisition cost .....	¥2,581	¥831	¥3,412
Accumulated depreciation .....	1,127	509	1,636
Net book value .....	¥1,454	¥322	¥1,776

<b>March 31, 2003</b>			
Acquisition cost .....	¥3,325	¥2,045	¥5,370
Accumulated depreciation .....	1,385	1,689	3,074
Net book value .....	¥1,940	¥ 356	¥2,296

	Thousands of U.S. dollars		
	Machinery, equipment and vehicles	Other tangible assets	Total
<b>March 31, 2004</b>			
Acquisition cost .....	\$24,420	\$7,863	\$32,283
Accumulated depreciation .....	10,663	4,816	15,479
Net book value .....	\$13,757	\$3,047	\$16,804

Future minimum payments which include interest portion required under finance leases at March 31, 2004 and 2003, are as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Within one year .....	¥ 670	¥ 735	\$ 6,339
Over one year .....	1,106	1,561	10,465
	¥1,776	¥2,296	\$16,804

Lease payments for the years ended March 31, 2004 and 2003 amounted to ¥714 million (\$6,756 thousand) and ¥764 million, respectively.

### Note 15. BALANCES AND TRANSACTIONS WITH RELATED PARTY

A corporate auditor of the Company is concurrently serving as a representative director of Nippon Life Insurance Company, and the balances with the company at March 31, 2004 and 2003, and related transactions for the years then ended are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
<b>Balances:</b>			
Long-term debt .....	¥2,800	¥2,800	\$26,493
Accrued expenses .....	8	8	76
<b>Transactions:</b>			
Borrowing .....	¥ —	¥1,000	\$ —
Interest expenses .....	42	36	397

The Company has a 50% equity ownership in Mitsubishi Engineering-Plastics Corp. at March 31, 2004 and 2003.

Balances with Mitsubishi Engineering-Plastics Corp. at March 31, 2004 and 2003, and related transactions for the years then ended are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
<b>Balances:</b>			
Trade accounts receivable .....	¥ 8,914	¥ 5,345	\$ 84,341
<b>Transactions:</b>			
Sales .....	39,886	34,630	377,387

## Note 16. 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, 2004 and 2003, the company was contingently liable with respect to trade notes receivable discounted in the amounts of ¥3,413 million (\$32,293 thousand) and ¥3,625 million, respectively. Notes discounted are accounted for as sales and removed from the balance sheets.

Contingent liabilities at March 31, 2004 for loans guaranteed amounted to ¥10,846 million (\$102,621 thousand).

## Note 17. 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, interest rate and currency swap agreements and interest rate swap agreements. The Company has entered into forward exchange contracts to hedge the risk of changes in foreign currency exchange rates associated with assets and liabilities denominated in foreign currencies. And the Company has entered into interest rate and currency swap agreements to manage interest rate exposures and changes in foreign currency exchange rates on certain foreign currency borrowings, and interest rate swap agreements to manage interest rate exposures on certain borrowings.

If interest rate swap agreements are used as hedges and meet certain hedging criteria, the difference in amounts to be paid or received on the interest rate swap agreements is recognized over the life of the agreements 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, 2004 and 2003 are summarized as follows:

	Millions of yen		
	Contract or notional amounts	Fair value	Valuation gain (loss)
<b>March 31, 2004</b>			
Forward exchange contracts:			
To buy foreign currency:			
U.S. dollar .....	¥ 1,722	¥1,651	¥ 71
Korean won.....	55	56	(1)
To sell foreign currency:			
U.S. dollar .....	2,615	2,605	(10)
Interest rate and currency swap agreements:			
U.S. dollar received for Thai baht..	3,382	(160)	(160)
Interest rate swap agreements:			
Variable rate received for fixed rate .....	21,573	(276)	(276)
<b>March 31, 2003</b>			
Forward exchange contracts:			
To buy foreign currency:			
U.S. dollar .....	¥ 643	¥ 639	¥ 4
Euro.....	86	87	(1)
To sell foreign currency:			
U.S. dollar .....	148	150	2
Interest rate swap agreements:			
Variable rate received for fixed rate .....	24,202	(478)	(478)
	Thousands of U.S. dollars		
	Contract or notional amounts	Fair value	Valuation gain (loss)
<b>March 31, 2004</b>			
Forward exchange contracts:			
To buy foreign currency:			
U.S. dollar .....	\$ 16,293	\$15,621	\$ 672
Korean won .....	520	530	(10)
To sell foreign currency:			
U.S. dollar .....	24,742	24,648	(94)
Interest rate and currency swap agreements:			
U.S. dollar received for Thai baht .....	31,999	(1,514)	(1,514)
Interest rate swap agreements:			
Variable rate received for fixed rate .....	204,116	(2,611)	(2,611)

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

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 18. 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, 2004 and 2003 is summarized as follows:

	Millions of yen					
	2004					
	Chemical products	Advanced materials	Other	Total	Elimination / corporate	Consolidated
Sales to outside customers.....	¥188,984	¥127,991	¥23,736	¥340,711	¥ —	¥340,711
Inter-segment sales.....	6,150	178	3,078	9,406	(9,406)	—
	195,134	128,169	26,814	350,117	(9,406)	340,711
Operating expenses.....	191,832	118,092	25,222	335,146	(9,370)	325,776
Operating income.....	¥ 3,302	¥ 10,077	¥ 1,592	¥ 14,971	¥ (36)	¥ 14,935
Assets .....	¥212,666	¥178,571	¥28,273	¥419,510	¥55,607	¥475,117
Depreciation.....	8,965	9,504	1,049	19,518	—	19,518
Capital expenditures .....	5,074	6,461	970	12,505	—	12,505

	Millions of yen					
	2003					
	Chemical products	Advanced materials	Other	Total	Elimination / corporate	Consolidated
Sales to outside customers.....	¥176,747	¥110,201	¥25,171	¥312,119	¥ —	¥312,119
Inter-segment sales.....	4,619	1,485	1,940	8,044	(8,044)	—
	181,366	111,686	27,111	320,163	(8,044)	312,119
Operating expenses.....	179,524	112,356	26,500	318,380	(8,168)	310,212
Operating income.....	¥ 1,842	¥ (670)	¥ 611	¥ 1,783	¥ 124	¥ 1,907
Assets .....	¥199,863	¥176,344	¥33,785	¥409,992	¥48,145	¥458,137
Depreciation.....	9,122	9,852	1,139	20,113	—	20,113
Capital expenditures .....	6,491	8,533	772	15,796	—	15,796

	Thousands of U.S. dollars					
	2004					
	Chemical products	Advanced materials	Other	Total	Elimination / corporate	Consolidated
Sales to outside customers.....	\$1,788,097	\$1,211,004	\$224,581	\$3,223,682	\$ —	\$3,223,682
Inter-segment sales .....	58,189	1,684	29,123	88,996	(88,996)	—
	1,846,286	1,212,688	253,704	3,312,678	(88,996)	3,223,682
Operating expenses .....	1,815,044	1,117,343	238,641	3,171,028	(88,655)	3,082,373
Operating income .....	\$ 31,242	\$ 95,345	\$ 15,063	\$ 141,650	\$ (341)	\$ 141,309
Assets .....	\$2,012,168	\$1,689,573	\$267,509	\$3,969,250	\$526,133	\$4,495,383
Depreciation .....	84,824	89,923	9,925	184,672	—	184,672
Capital expenditures .....	48,008	61,132	9,178	118,318	—	118,318

The main products of each segment are as follows:

*Chemical products:* Methanol, ammonia, amines, methacrylates, polyhedric alcohol, xylene and xylene derivatives, hydrogen peroxide, hydrazine hydrate, urea and other industrial chemicals.

*Advanced materials:* Engineering plastics, printed circuit board materials, printed circuit boards, electronic materials, oxygen absorbing agent (AGELESS), enzyme and coenzyme.

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

Corporate assets of ¥65,594 million (\$620,626 thousand) and ¥59,083 million as of March 31, 2004 and 2003 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, 2004 and 2003.

### (c) Overseas sales

Information for overseas sales for the years ended March 31, 2004 and 2003 is summarized as follows:

	Millions of yen		Thousands of
	2004	2003	U.S. dollars
Overseas sales			2004
Asia .....	¥ 56,458	¥ 51,718	\$ 534,185
North and South America...	16,184	16,146	153,127
Other.....	7,832	7,504	74,103
	¥ 80,474	¥ 75,368	\$ 761,415
Consolidated sales.....	¥340,711	¥312,119	\$3,223,682
Percentage of overseas sales to consolidated sales.....	23.6%	24.1%	23.6%

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, The Netherlands, Italy, Great Britain and South Africa

### Note 19. SUPPLEMENTAL CASH FLOW INFORMATION

Assets and liabilities of newly consolidated subsidiaries in fiscal 2004 by acquisition at the inception of consolidation, and net expenditure for acquisition are as follows:

	Millions of yen	Thousands of
		U.S. dollars
Current assets .....	¥2,499	\$23,645
Non-current assets .....	5,152	48,746
Total assets.....	¥7,651	\$72,391
Current liabilities.....	¥4,700	\$44,470
Non-current liabilities.....	1,413	13,369
Total liabilities .....	¥6,113	\$57,839

## Independent Auditors' Report

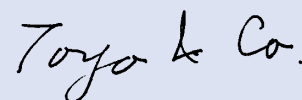
### To the Stockholders and Board of Directors of Mitsubishi Gas Chemical Company, Inc.

We have audited the accompanying consolidated balance sheets of Mitsubishi Gas Chemical Company, Inc. and consolidated subsidiaries as of March 31, 2004 and 2003, 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.

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, 2004 and 2003, 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.

The accompanying consolidated financial statements as of and for the year ended March 31, 2004 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 29, 2004

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, 2004)

## Consolidated Subsidiaries

Name	Issued share capital (millions)	The Company's share ownership	Principal business
<b>NATURAL GAS CHEMICALS COMPANY</b>			
Kinoe Terminal Co., Inc.	¥500	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	84.7	Manufacture of hydrazine derivatives and other chemicals
Marine Transport and Terminal Co., Ltd.	400	100.0	Storage and transport of methanol, other chemical products and petroleum products
A&C CO., INC.	50	100.0	Manufacture of organic and inorganic chemicals including choline chloride and ammonia solution
KOKUKA SANGYO CO., LTD.	250	80.0	Transport of chemical products
<b>AROMATIC CHEMICALS COMPANY</b>			
FUDOW CO., LTD.	¥1,058	100.0	Manufacture of molding resin
FUDOW TECHNO CO., LTD.	22	100.0	Manufacture of phenol resin molding compounds
A.G. International Chemical Co., Inc.	850	91.6	Manufacture of purified isophthalic acid
<b>SPECIALTY CHEMICALS COMPANY</b>			
TOYO KAGAKU CO., LTD.	¥96	75.0	Compound resin injection molding and sales
Fuji Kasei Co., Ltd.	50	83.9	Manufacture of films and polarized sheets of polycarbonate
EIWA CHEMICAL INDUSTRY CO., LTD.	420	87.6	Manufacture of foaming agents for rubber
Samyoung Pure Chemicals Co., Ltd.	₩3,500	51.0	Manufacture of chemicals for semiconductors
MGC Pure Chemicals America, Inc.	US\$5	90.0	Manufacture of chemicals for semiconductors
P. T. PEROKSIDA INDONESIA PRATAMA	Rp21,308	60.0	Manufacture of hydrogen peroxide
KYODOU KASANKASUISO CORPORATION	¥480	75.0	Manufacture of hydrogen peroxide
Thai Polyacetal Co., Ltd.	Bt800	73.6	Manufacture of polyacetal
<b>INFORMATION &amp; ADVANCED MATERIALS COMPANY</b>			
Japan Circuit Industrial Co., Ltd.	¥898	70.5	Manufacture of printed circuit boards
ELECTROTECHNO CO., LTD.	1,615	100.0	Manufacture of copper-clad laminate and multilayer prepreg
DIATEC CO., LTD.	75	90.0	Manufacture of printed circuit boards
PHOTOCRYSTAL INC.	1,000	100.0	Manufacture of magnetic garnet single crystal
YONEZAWA DIA ELECTRONICS CO., INC.	300	100.0	Manufacture of shield boards
<b>CORPORATE</b>			
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 and resins
Ryowa Enterprise Co., Ltd.	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
Ryoyo Trading Co., Ltd.	90	73.8	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.

### 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.  
MGC Pure Chemicals Singapore Pte. Ltd.  
MGC Pure Chemicals Taiwan, Inc.  
POLYXYLENOL SINGAPORE Pte. Ltd.  
AGELESS (THAILAND) Co., Ltd.  
MGC Advanced Polymers, Inc.

## CORPORATE DATA

### Board of Directors, Executive Officers and Statutory Auditors

**Representative Director, Chairman**  
Akira Ohira

**Representative Director, President**  
Hideki Odaka

**Representative Directors, Senior  
Managing Executive Officers**  
Hiromi Nakamura  
Yasuhiko Kijima

**Directors, Managing Executive Officers**  
Takao Kawaki  
Shoji Uematsu  
Kazuo Sakai  
Toshio Kawasaki  
Toshikazu Umemura  
Yoshishige Yamazaki

**Executive Officers**  
Kuniaki Kawakami  
Kunisuke Usuda  
Akikazu Amagai  
Norio Hakuta  
Masahiro Harada  
Yuh Miyauchi

Kazuhiro Miyasaka  
Yasuo Sugihara  
Kozo Tsukamoto  
Kunio Oya  
Kuniaki Ageishi  
Jin Hata

**Corporate Statutory Auditors**  
Yasunori Ogata  
Yukio Ikeda  
Ichiei Noguchi  
Wataru Taguchi

(As of June 29, 2004)

### Established

April 20, 1951

### Paid-in Capital

¥41,971 million

### Offices and Plants

**Head Office**  
Mitsubishi Building  
5-2, Marunouchi 2-chome  
Chiyoda-ku, Tokyo 100-8324, Japan

### Branch Offices

Osaka, Nagoya

### 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.

### Transfer Agent and Registrar

The Mitsubishi Trust & Banking Corp.

### Number of Employees

2,363

### Outstanding Shares

483,478,398

### Number of Shareholders

45,066

### Listings

Tokyo, Osaka and Nagoya

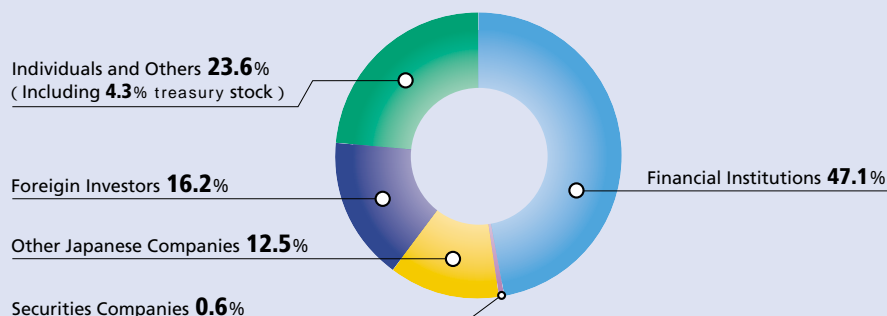
### Ticker Code

4182

### Principal Shareholders

Name	Number of Shares Held (thousands)	Percentage of Total Shares Outstanding
Nippon Life Insurance Company	30,645	6.3%
The Master Trust Bank of Japan (Trust Account)	28,090	5.8
Japan Trustee Services Bank, Ltd. (Trust Account)	22,688	4.6
Meiji Yasuda Life Insurance Company	16,795	3.4
The Bank of Tokyo-Mitsubishi, Ltd.	16,403	3.3
Morgan Stanley & Co. International Limited	11,877	2.4
The Mitsubishi Trust & Banking Corp.	11,686	2.4
The Norinchukin Bank	10,053	2.0
Mizuho Corporate Bank, Ltd.	9,803	2.0
Asahi Glass Co., Ltd.	9,671	2.0

### Composition of Shareholders



(As of March 31, 2004)



**MITSUBISHI GAS CHEMICAL COMPANY, INC.**

Mitsubishi Building, 5-2, Marunouchi 2-chome, Chiyoda-ku, Tokyo 100-8324, Japan

Tel. +81-3-3283-5000 Fax. +81-3-3287-0833

<http://www.mgc.co.jp>