



Annual Report 2005

mitsubishi gas chemical company, inc.

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

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## 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.

## Profile

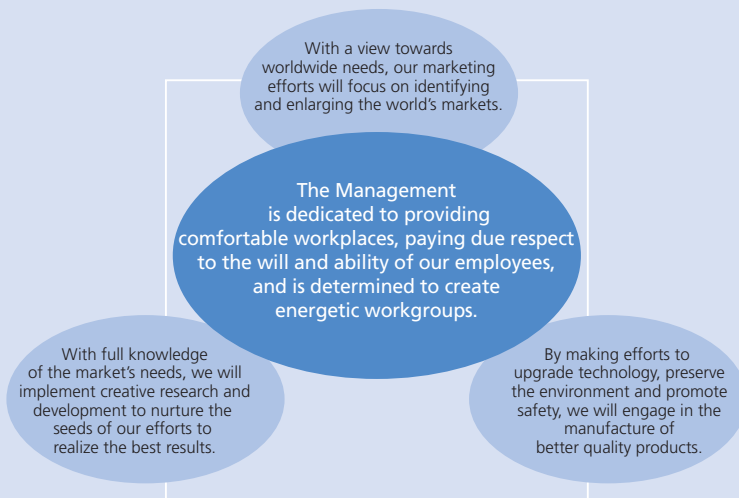
Mitsubishi Gas Chemical Company, Inc. (MGC) was established in 1971. The Company currently operates nine plants and three research centers in Japan. In addition, 28 consolidated subsidiaries, with operations ranging from production to marketing, are members of the MGC Group of approximately 100 companies worldwide. Under *Kyoso 2005*, a medium-term management plan for the period from April 2003 to March 2006, MGC is accelerating structural reorganization of its businesses to ensure that the Company builds on specific advantages arising from its strategy of differentiation, and maximizes synergies between these advantages to create value. An active investor in overseas operations for 30 years, MGC is building on this base to strengthen its international operations, particularly in the key China market.

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**MGC is fully committed to making contributions towards development in harmony with society through the use and application of its expertise in chemistry.**

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### Management Philosophy



**We are a transparent company,  
where all employees work towards a common goal.**

## Financial Highlights

Mitsubishi Gas Chemical Company, Inc. and Consolidated Subsidiaries  
For the years ended March 31, 2005, 2004 and 2003

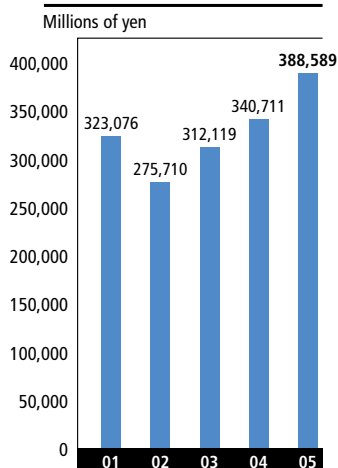
	Millions of yen			Percentage change	Thousands of U.S. dollars
	2005	2004	2003	2005/2004	2005
<b>For the year:</b>					
Net sales .....	¥ 388,589	¥ 340,711	¥ 312,119	14.1%	\$ 3,618,484
Operating income .....	30,869	14,935	1,907	106.7	287,448
Net income (loss).....	23,349	10,622	(474)	119.8	217,422
Return on assets (ROA) (%).....	4.8	2.3	(0.1)	2.5 points	
Return on equity (ROE) (%).....	12.2	6.2	(0.3)	6.0 points	
Capital expenditures.....	16,063	13,724	22,626	17.0	149,576
Depreciation and amortization .....	19,430	19,519	20,113	(0.5)	180,929
<b>At year end:</b>					
Total assets .....	¥ 494,577	¥ 475,117	¥ 458,137	4.1%	\$ 4,605,429
Stockholders' equity.....	203,307	180,524	161,859	12.6	1,893,165
Interest-bearing debt.....	167,059	184,299	193,999	(9.4)	1,555,629
<b>Per share of common stock (Yen/U.S. dollars):</b>					
Net income (loss)—basic.....	¥ 50.41	¥ 22.91	¥ (1.05)	120.0%	\$ 0.47
Net income—diluted.....	—	—	—	—	—
Stockholders' equity.....	439.60	390.23	349.93	12.7	4.09
Cash dividends.....	6.00	4.00	3.00	50.0	0.06

Notes: 1. U.S. dollar amounts are translated from yen, for convenience only, at the approximate rate of ¥107.39 = US\$1 prevailing on March 31, 2005.

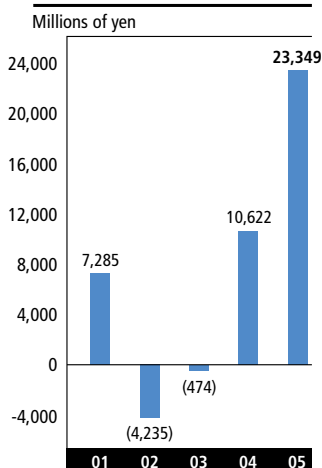
2. Cash dividends for each year represent the total of the interim dividend and the fiscal year-end dividend approved at the General Meeting of Stockholders held after the fiscal year end.

3. Diluted net income per share is not presented because there were no residual securities such as bonds with stock options or warrants.

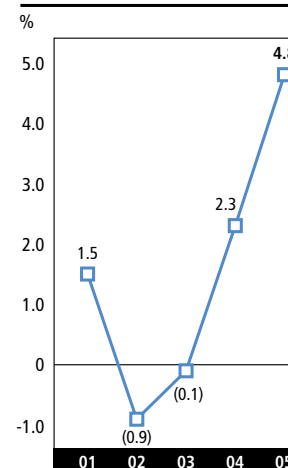
### Net Sales



### Net Income (Loss)



### Return on Assets (ROA)





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

***MGC achieved record sales and income in fiscal 2004, as it accelerated structural reorganization with the aim of being a “Unique and Excellent Chemical Manufacturer.”***

### Operating Environment and Results

During fiscal 2004, the year ended March 31, 2005, the Japanese economy was generally strong. Favorable sales in the electric/electronic and automotive industries, in addition to strong demand in Asia, particularly China, and the United States, offset a leveling off in the second half caused by factors including digital appliance inventory adjustments and slower growth in exports.

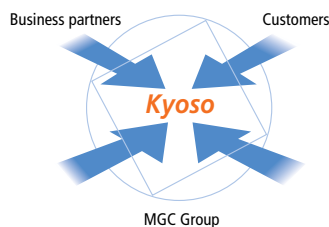
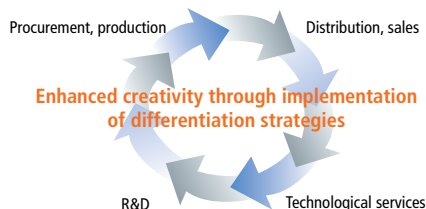
The environment in which MGC operates improved substantially due to strong demand in China and a recovering domestic economy, despite higher costs for raw materials and fuel.

Under these conditions, MGC continued to concentrate on structural reforms in line with its medium-term management plan, *Kyoso 2005* (Cooperative Value Creation 2005), and worked to improve Group profitability through measures including cost cutting, expansion of sales volume and improvement of selling prices.

As a result, consolidated net sales increased ¥47,878 million year-on-year to ¥388,589 million, operating income increased ¥15,934 million to ¥30,869 million, and net income totaled ¥23,349 million, an improvement of ¥12,727 million over the previous fiscal year. These figures represent record highs in their respective categories. For fiscal 2004, MGC decided to pay a year-end dividend of ¥3.50 per share, taking into consideration all conditions, including performance and retained earnings. The interim dividend was ¥2.50 per share. Therefore, the annual dividend per share is ¥6.00, an increase of ¥2.00 over 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 *Kyoso 2005*, a medium-term management plan that began in fiscal 2003. *Kyoso 2005* aims to reinforce the individual strengths that have emerged from MGC's differentiation strategies and fuse them to create new value, in order to achieve a high-profit corporate structure.

Individual strengths and creativity are needed to achieve *Kyoso 2005*

MGC has adopted the following three fundamental strategies:

- 1) Development of infrastructure for the realization of a high-profit corporate structure;
- 2) Acceleration of business structural reform; and
- 3) Establishment of high-efficiency management and the principle of self-responsibility.

Developing an infrastructure for the realization of a high-profit corporate structure will enhance the framework for promptly obtaining information for consolidated management, including establishment of systems for evaluating internal company consolidated results and promoting strategies linked with Group companies. This will further improve management on a consolidated basis. It will also generate synergy through common policies and strategies within the Group.

We believe that the most important measure for accelerating business structural reform is full implementation of differentiation strategies. As we work toward our objective of establishing a business structure for further increasing earnings, we remain aware of the factors that differentiate MGC from other chemical companies at every stage from R&D, procurement of raw materials, production technology, technical services, and sales and delivery.

For full implementation of “high-efficiency management and the principle of self-responsibility,” MGC aggressively implemented *MGC Shinka 21* (MGC Evolution 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 policies

of *Kyoso 2005*, and conducts management focused on improving asset efficiency and Group ROA.

### Management Tasks

In fiscal 2004, the second year of *Kyoso 2005*, MGC achieved profit that surpassed the plan’s targets due to the benefits of the structural reforms and an upturn in the economy. Not content with these successes, the MGC Group will further strengthen its business operations, expand businesses in which it has a competitive advantage – including methanol, metaxylene products, synthetic resins and electronic materials – and develop business globally, particularly in China.

Our basic philosophy states that “MGC is fully committed to making contributions towards development in harmony with society through the use and application of its expertise in chemistry.” Under this philosophy, 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, stockholders, the community and other stakeholders.

In closing, we would like to thank our stockholders for their support, and to request their continued support and cooperation.

July 2005

Akira Ohira  
Chairman

Hideki Odaka  
President

## Corporate Social Responsibility Activities

MGC is fully committed to making contributions towards development in harmony with society through the use and application of its expertise in chemistry. As it strives to carry out this corporate philosophy, the Company also works to maximize corporate value. Toward these ends, MGC is establishing a sound, highly transparent management structure and taking aggressive measures for safety and environmental preservation. In addition, MGC conducts activities to contribute to the community and society as a whole.

### Strengthening Corporate Governance

MGC has adopted the auditor system, with a Board of Auditors consisting of four auditors. Among these auditors, three are corporate statutory auditors and two are outside auditors. In addition, MGC assigns a full-time staff to the auditors. The auditors attend meetings of the Board of Directors and other important meetings, perform audits of each division, and conduct surveys of subsidiaries. In addition, they work to stay abreast of the state of business execution, ensure the rationality of decision-making processes and compliance with the law and corporate ethics, and perform audits on the state of business execution.

MGC has also adopted an executive officer system that clarifies management decision-making, oversight and business execution functions.

The Board of Directors decides important issues including those related to basic policies, laws and regulations, while the executive officers oversee business execution.

Through these measures, MGC aims to enhance the transparency and fairness of management through audits performed by the Board of Auditors and oversight performed by the Board of Directors, and to streamline decision-making in business execution.

The Board of Auditors, Corporate Auditors and Internal Audit Division cooperate with each other in performing various auditing functions including issuing regular reports and conducting regular meetings. In addition, MGC receives advice as necessary concerning management decision-making and business execution from independent auditors, lawyers and other experts.

As for risk management in its business operations, MGC uncovers and evaluates various risks inherent in the aforementioned business execution and internal control system and takes appropriate measures to prevent, avoid, mitigate and transfer risk. In the event that a major risk materializes, MGC will form an ad hoc organization to deal with it in line with internal regulations.

### Ensuring Full Compliance

Thorough compliance is key to gaining the trust of society in corporate activities. MGC takes a proactive position in responding to social needs that goes beyond mere adherence to laws and internal regulations, and believes that compliance must be

understood more broadly to mean conducting fair, transparent and free business based on an awareness of a corporation's responsibility to society. In fiscal 2004, MGC established its Compliance Rules to put compliance-oriented management into practice. The Compliance Rules supplement the Directives for Corporate Actions, established in 1997, to ensure that the MGC compliance structure covers all Group companies. In addition, MGC created an explanatory pamphlet distributed to employees of MGC and Group companies to ensure understanding of the compliance system.

### Responsible Care

MGC contributed to the creation of the Japan Responsible Care Council (JRCC) in 1995. Affiliation with JRCC is based on the common goals of achieving "Sustainable development" and "Structuring a recycling-based society." At MGC, we call our participation in these efforts "Integrated Safety Management," whereby we try to preserve the environment and maintain safety in all our processes from the development of products to their disposal, through their manufacture, distribution, use and final consumption. We have been carrying out this management under the "Integrated Safety Management Rule" enacted in 1995. Last year we entirely revised this rule and clearly stipulated the contents of our Responsible Care activities needed to further implement Integrated Safety Management.

The highest level decision-making body in MGC's Responsible Care promotion system is the Environment and Safety Meeting, which is chaired by the President and composed of the heads of each internal company and workplace. In this meeting, the members discuss and approve fundamental policies, medium-term plans and annual activity plans. Each plant, research laboratory and head office makes annual activity plans and carries out concrete activities based on these policies. In addition, MGC discloses the contents of its Responsible Care activities widely to society through its Environmental Report and its web site.

(For further details on MGC's responsible care and environmental care activities, see <http://www.mgc.co.jp/environment/res/index.html> )

### Social Contribution Activities

Based on the environmental policies established at each plant, the Company conducts regular landscaping activities for the areas around each facility, disaster prevention training in collaboration with local communities, and observation tours for local citizens and students, as well as opening our health and welfare facilities to the public and participating in community events. MGC also made monetary donations and contributed relief materials to victims of the Niigata earthquake in fiscal 2004 through the Japanese Red Cross Society, and contributed relief funds to the governments of Indonesia and Thailand and the Japanese Red Cross Society for victims of the Sumatra earthquake and tsunami.

# Board of Directors, Corporate Auditors and Executive Officers

(As of June 29, 2005)



Representative Director, Chairman

Akira Ohira (seated left)

Representative Director, President

Hideki Odaka (seated right)

Representative Directors, Senior Managing Executive Officers

Hiromi Nakamura (standing left)

Administrative Management of General Affairs and Personnel Center, Compliance Advisory Committee

Yasuhiko Kijima (standing right)

Administrative Management of Corporate Planning Division, Corporate Communications Division

## Directors, Managing Executive Officers

### Takao Kawaki

Administrative Management of Research and Technology Development Division, Environment and Safety Division

### Shoji Uematsu

President of Natural Gas Chemicals Company

### Kazuo Sakai

Administrative Management of Finance and Accounting Center, Purchasing and Logistics Center

### Toshio Kawasaki

President of Information & Advanced Materials Company

### Toshikazu Umemura

President of Specialty Chemicals Company

### Yoshishige Yamazaki

President of Aromatic Chemicals Company, General Manager, Aromatic Chemicals Division II

## Corporate Auditors

### Yasunori Ogata

### Yukio Ikeda

## Outside Corporate Auditors

### Ichiei Noguchi

### Wataru Taguchi

## Executive Officers

### Kuniaki Kawakami

General Manager, General Affairs and Personnel Center

### Kunisuke Usuda

General Manager, Corporate Planning Division, Group Manager, Project Planning Department

### Norio Hakuta

General Manager, Research & Technology Development Division, MGC Chemical Analysis Center

### Yuh Miyauchi

General Manager, Planning & Development Division, Group Manager, Planning & Development Division, Specialty Chemicals Company

### Kazuhiro Miyasaka

General Manager, Electronics Materials Division, Information & Advanced Materials Company

### Yasuo Sugihara

Administrative Management of Maintenance Center, Deputy Administrative Management of Environment and Safety Division

### Kozo Tsukamoto

General Manager, Aromatic Chemicals Division I, General Manager, Planning & Development Division, Aromatic Chemicals Company

### Kunio Oya

General Manager, Administrative Division, Natural Gas Chemicals Company

### Kuniaki Ageishi

General Manager, Basic & Intermediate Chemicals Division, Natural Gas Chemicals Company

### Jin Hata

General Manager, Finance and Accounting Center

### Hajime Fujita

President of MITSUBISHI GAS CHEMICAL AMERICA, INC.

### Makoto Mizutani

General Manager, Kashima Plant, Specialty Chemicals Company

## Executive General Managers

### Akikazu Amagai

Tokyo Research Laboratory, Specialty Chemicals Company

### Hidefumi Omuta

Energy & Resources Division, Natural Gas Chemicals Company

## Businesses

## Major Products

## Share of Sales

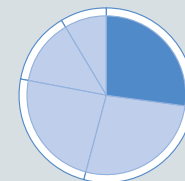
(Year ended March 31, 2005)

### Natural Gas Chemicals Company



The company's strongly linked businesses start with natural gas, and extend to commodity chemicals such as methanol, ammonia and formaldehyde, organic chemicals derived from these commodity chemicals and methanol-based biochemical products. In addition, the company conducts exploration of gas fields in Japan, and supplies geothermal heat and steam for thermal power production.

- **Commodity chemicals:**  
Methanol, formaldehyde, ammonia
- **Organic chemicals:**  
Amines, methyl methacrylate (MMA), polyols
- **Other:**  
Biochemicals, geothermal steam, technology sales



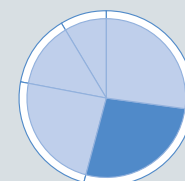
27.1%

### Aromatic Chemicals Company



The company develops various chemicals, mainly based on xylene isomers. Applications include products integral to people's everyday lives, such as textiles, paints, solvents, bottles for drinks, food packaging materials and automotive parts. As described above, the company produces a comprehensive range of materials and final products, from commodity chemicals to fine chemicals.

- **Specialty aromatic chemicals:**  
*MX nylon*, metaxylene diamine, aldehydes, polycarboxylic acid
- **Commodity aromatic chemicals:**  
Paraxylene (PX), purified terephthalic anhydride (PTA), orthoxylene (OX), plasticizers



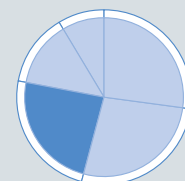
27.0%

### Specialty Chemicals Company



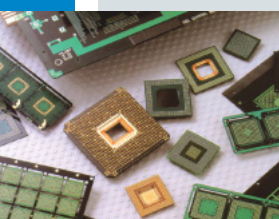
In the inorganic chemicals business, the company handles hydrogen peroxide, hydrogen peroxide derivatives, electronic chemicals for applications such as semiconductors, liquid crystals and printed wiring boards, and plastic lens monomers with a high refraction index. The engineering plastics business has adopted a global perspective, supplying a wide range of engineering plastics from polycarbonates to modified high heat-resistant plastics.

- **Inorganic chemicals:**  
Hydrogen peroxide, sodium hydrosulfide, persulfates
- **High-function products:**  
Super-pure hydrogen peroxide, *ELM clean*, lens monomer
- **Engineering plastics:**  
Polycarbonate, polycarbonate sheet, polyacetal, modified polyphenylene ether (PPE)



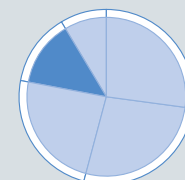
23.8%

### Information & Advanced Materials Company



In the electronic materials business, the company supplies a wide range of products based on high-performance epoxy resins and BT resins, an original MGC material, including printed wiring boards, shield boards and materials for semiconductor packaging. In the oxygen absorbers business, MGC is a leading producer of products for use in food products and various other applications including pharmaceutical and medical products.

- **Electronic materials:**  
BT laminate, epoxy laminate, shield boards, LE sheets
- **Oxygen absorbers:**  
*AGELESS®*, *Anaeropack®*, *RP System™*



13.4%

Note: The Share of Sales total does not equal 100% because the Other Businesses segment has been omitted.

## Review of Operations

## Natural Gas Chemicals Company



The Natural Gas Chemicals Company handles an integrated product chain that starts with natural gas, including its development and production, and extends to commodity chemicals such as methanol and ammonia, as well as formaldehyde, amines, polyols, methyl methacrylate (MMA) and other derivatives used in the life-science field. Our large-scale expansion in Saudi Arabia and Venezuela has given MGC world-class cost competitiveness in its core methanol business. While developing business in Asia to bolster and expand methanol operations in the future, we plan to strengthen our strategic focus on life-science products, an area where we are accelerating development and business expansion.

— Company President Shoji Uematsu



Acrylic plastics (methyl methacrylate)



Coenzyme Q<sub>10</sub>



Higashi Niigata gas field

### Fiscal 2004 Highlights

In the overseas methanol business, MGC launched two detailed feasibility studies for plants under consideration in Asia, each with a planned production capacity of 850,000 tonnes per year. The first, for a joint project proposal by MGC and ITOCHU Corporation, was developed in response to a call from the government of Brunei Darussalam for natural gas downstream product plans, and has entered the final stage of negotiations. The second is for a joint venture with a local partner in Chongqing, China. The company also conducted a detailed feasibility study for overseas production of methanol derivatives.

In Japan, the company increased its production capacity for methacrylic acid (MAA) derivatives, amine derivatives and polyol products, while MMA and polyol products regained profitability. Following exploration efforts begun in the previous fiscal year, the company succeeded in developing new extensions of two gas-producing formations in the Higashi Niigata gas field.

### Outlook and Plans for Fiscal 2005 and Beyond

Overseas, continuous efforts to carry out new facility expansion projects will strengthen and expand the methanol business. At the beginning of fiscal 2005, SAUDI METHANOL COMPANY (Ar-Razi), MGC's joint venture in Saudi Arabia, started construction of its fifth methanol plant, with a capacity of 1.7 million tonnes per year. In addition, plans are proceeding for the construction of a second plant at MGC's joint venture in Venezuela, which will have a capacity of 850,000 tonnes per year. The company also aims to expand methanol derivative production overseas, and will continue conducting feasibility studies regarding commercialization of the dimethyl ether business overseas.

In Japan, the company will accelerate expansion of its life-science product lineup, including coenzyme Q<sub>10</sub>, pyrroloquinoline quinone (PQQ) and specific amino acids. Moreover, structural reforms to strengthen the MMA and polyols businesses will also accelerate derivative development.

### Topics

#### Accelerating Development of the Overseas Methanol Business

In collaboration with ITOCHU Corporation, the company submitted a methanol project bid in response to a call from the government of Brunei Darussalam for natural gas downstream product plans. The proposed plan was selected as a finalist in September 2004, and negotiations toward the final investment decision are now under way. The company plans to make Brunei Darussalam a strategic center for its Asian business, based on the country's readily available supplies of natural gas. Another methanol plant project is under consideration in Chongqing, China. After receiving approval from the Chinese government in August 2004, the company and its local partner, Chongqing Chemical & Pharmaceutical Holdings (Group) Company, are conducting a detailed feasibility study.

# Aromatic Chemicals Company



The Aromatic Chemicals Company develops various chemicals based on metaxylene (MX), paraxylene (PX) and orthoxylene (OX). A long-time world leader in MX products, the company is also strong in the field of specialty aromatic chemicals produced through its proprietary technologies. The company is shifting its focus from commodity chemicals to its rapidly growing functional products business. We are also strengthening cost competitiveness in commodity chemicals through alliances with other companies, improving downstream profitability by expanding the range of core MX derivatives, and accelerating the commercialization of new products.

— Company President Yoshishige Yamazaki



Xylene separation facility at the Mizushima Plant

## Fiscal 2004 Highlights

MGC ADVANCED POLYMERS, INC., the company's production and sales joint venture in Richmond, Virginia, U.S.A., completed construction of a plant for *MX nylon*, and began test production. MGC is the world's largest producer of *MX nylon*, which has been widely applied to gas barrier packaging for foods and beverages.

Production of commodity chemicals continued as planned, which contributed to increased earnings together with an upturn in the market.



Various products made from *MX nylon*

## Outlook and Plans for Fiscal 2005 and Beyond

The company will continue to strengthen and expand its MX business in Japan by implementing plant de-bottlenecking to increase capacity. As the company works to expand *MX nylon* operations globally to meet growing demand, MGC ADVANCED POLYMERS, INC. plans to increase capacity utilization at its *MX nylon* plant. The company will also increase production capacity of metaxylene diamine (MXDA), a raw material used in *MX nylon* production.

In response to the shrinking domestic market for phthalic anhydride, the company shut down one of its production lines, reducing output by 30,000 tonnes per year. From fiscal 2006, production of phthalic anhydride will be limited to the amount used by the company itself.



PET multilayer bottles made from *MX nylon*

## Topics Increasing MXDA Production Capacity

The two MXDA production lines at the company's Niigata Plant have a total production capacity of 30,000 tonnes per year. The company plans to construct an additional MXDA plant with a production capacity of approximately 20,000 tonnes per year, to keep up with future growth in global demand for *MX nylon*. Current applications for MXDA include use as a raw material for nylon and various chemical intermediates, and as an epoxy curing agent that works at low temperatures.

# Specialty Chemicals Company



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

In inorganic chemicals, we are the Asian market leader for hydrogen peroxide and derivatives, and focus on comprehensive development of applications in markets ranging from commodity chemicals to niche products. Recently, the company has been stepping up its business shift to high-value-added specialty products, such as high-purity chemicals for semiconductor, liquid crystal display (LCD) and printed wiring board (PWB) manufacturing processes, high-refractive-index lens monomers and new photoresist monomers. We also develop new markets for industrial chemicals by offering total solutions that combine materials and devices for use in water treatment, tooth whitener, and semiconductor and LCD cleaners.

In the engineering plastics business, MGC is expanding its international operations for polycarbonate (PC) resins, polyacetal (POM) resins, and modified polyphenylene ether (PPE) and other products around the world.

— Company President Toshikazu Umemura

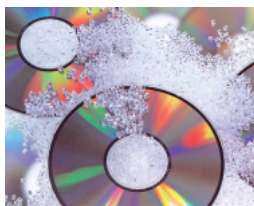


EL chemicals

## Fiscal 2004 Highlights

In the hydrogen peroxide business, a feasibility study on investment in China, which started in fiscal 2004 will be concluded during fiscal 2005. In response to a sharp increase in demand for the *ELM clean* series, including cleaners for LSI devices and LCDs, capacity expansion is under way at the Yokkaichi Plant. The company also continued to expand its engineering plastics business in Thailand. In China, the company completed construction of a POM plant at its joint venture in Nantong, and launched a feasibility study on investment in other engineering plastics.

Strong demand for PC sheets and films is driving continued plant expansion.



lupilon® (PC Resin)

## Outlook and Plans for Fiscal 2005 and Beyond

The company will continue developing international operations in its three core businesses: hydrogen peroxide, PC resins and POM resins, and will continue feasibility studies of hydrogen peroxide and PC resins businesses in China.

The company will also strengthen electronic chemicals for semiconductors, LCDs and PWBs, and PC sheets and film, the downstream sectors of core businesses which are already generating high profits, and develop them into next-generation core businesses.

In cutting-edge development of the digital LCD and semiconductor markets, both the inorganic chemicals and engineering plastics businesses share customers for products including LCD film, high-purity chemicals, adamantane derivatives for photoresist monomers, high-refractive-index lens monomers and special optical polycarbonates. The company will further strengthen its customer-centered business orientation to facilitate timely market introductions of products with the quality and functions that customers require.

## Topics Restructuring of Functions of Domestic Plants

Restructuring is under way at the company's plants in Japan: the core Kashima and Yokkaichi plants, and the smaller-scale Osaka and Yamakita plants. The Kashima Plant is being positioned as a highly cost-competitive, large-scale production base for hydrogen peroxide and PC resins. The Yokkaichi Plant, located in Mie Prefecture's "Crystal Valley," will be reorganized as a development facility that produces high-performance products such as high-refractive-index lens monomers and new photoresist monomers, as well as the *ELM clean* series of cleaners for LCDs. The Osaka Plant will specialize in PC sheet and film. The Yamakita Plant, which is the core production base for super-pure hydrogen peroxide in Japan and overseas, is strengthening its downstream operations as a producer of fine chemicals derived from hydrogen peroxide.



lupital® (POM Resin)

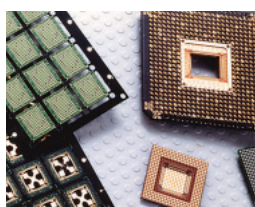
## Information & Advanced Materials Company



The Information & Advanced Materials Company provides unique, high-value-added products in two areas: electronic materials and oxygen absorbers. In the electronic materials business, the company is working to develop and improve the competitiveness of its original products: BT laminate, high-performance epoxy laminate and other highly functional products. MGC is a world leader in the oxygen absorber business. Since establishing itself as a trusted manufacturer in this business with the commercialization of AGELESS® oxygen absorber, MGC has continued to enhance its product development and competitiveness.

In addition, the company conducts R&D and commercialization of products, including anti-ferroelectric liquid crystal (AFLC), utilizing its elemental technology.

— Company President Toshio Kawasaki



Electronic materials (BT resin)

### Fiscal 2004 Highlights

The company promoted efficiency by concentrating electronic materials production at its consolidated subsidiary Electrotechno Co., Ltd., where it invested in expanding production capacity. Initiatives to strengthen Group management included the sale and transfer of the operations of Diatech Co., Ltd. and increased investment in plant renewal at Japan Circuit Industrial Co., Ltd. The company also expanded sales of *Pharmakeep*®, an oxygen absorber for pharmaceutical and diagnostic applications. In the stagnant market for materials used in optical isolators, the company merged its rare-earth iron garnet business with Sumitomo Metal Mining Co., Ltd.



AGELESS OMAC®

### Outlook and Plans for Fiscal 2005 and Beyond

Efforts will focus on developing materials to match innovations in semiconductor mounting technologies driven by increasing digitalization, and expanding sales of semiconductor substrate materials through development of processing technologies. The company also aims to expand sales of high-performance epoxy materials for high-layer-count PWBs for information and communications equipment. Development of new products and applications in the AGELESS® line will use elemental technologies for oxygen absorption and preservative functions. Moreover, strengthening production capacity of AGELESS (THAILAND) CO., LTD. and expanding sales in overseas markets will help to reduce costs.

### Topics Consolidating Production and Reorganizing Subsidiaries

In order to consolidate and strengthen its operating structure for the electronic materials business, the company has consolidated production centers, upgraded facilities and restructured affiliates. Production of electronic materials has been concentrated at subsidiary Electrotechno Co., Ltd., where production capacity was increased in fiscal 2004 from 500,000m<sup>2</sup> to 700,000m<sup>2</sup>, one of the highest levels in Japan. In addition, a facility upgrade at subsidiary Japan Circuit Industrial Co., Ltd. will deal with increasing product sophistication. Moreover, in accordance with its shift to high-value-added materials, the company sold Diatech Co., Ltd., which handles general-purpose materials. The company will specialize in BT resin-based materials for semiconductor substrates and high-performance epoxy resin.



Pharmakeep®

## Six-Year Summary

Mitsubishi Gas Chemical Company, Inc. and Consolidated Subsidiaries  
For the years ended March 31, 2005, 2004, 2003, 2002, 2001 and 2000

	Millions of yen					
	2005	2004	2003	2002	2001	2000
<b>For the year:</b>						
Net sales.....	¥388,589	¥340,711	¥312,119	¥275,710	¥323,076	¥289,531
Chemical products.....	223,952	188,984	176,747	157,792	169,578	149,155
Advanced materials .....	138,976	127,991	110,201	99,809	135,522	122,032
Other products .....	25,661	23,736	25,171	18,109	17,976	18,343
Gross profit .....	75,363	55,711	45,159	36,169	55,171	48,347
Selling, general and administrative expenses .....	44,494	40,776	43,252	42,955	43,018	43,054
Operating income (loss) .....	30,869	14,935	1,907	(6,786)	12,179	5,293
Net income (loss) .....	23,349	10,622	(474)	(4,235)	7,285	4,172
R&D expenses.....	10,726	10,516	11,542	11,910	12,473	12,302
Capital expenditures.....	16,063	13,724	22,626	27,396	22,938	24,326
Depreciation and amortization.....	19,430	19,519	20,113	18,974	20,093	19,987
<b>At year end:</b>						
Total assets.....	¥494,577	¥475,117	¥458,137	¥466,763	¥486,970	¥481,030
Current assets.....	208,365	191,775	180,343	176,950	208,505	241,972
Current liabilities.....	197,045	199,885	193,765	175,349	191,014	181,508
Working capital.....	11,320	(8,110)	(13,422)	1,601	17,491	60,464
Stockholders' equity .....	203,307	180,524	161,859	174,743	175,280	172,718
Interest-bearing debt.....	167,059	184,299	193,999	191,359	188,620	195,409
<b>Per share of common stock (Yen):</b>						
Net income (loss)—basic.....	¥ 50.41	¥ 22.91	¥ (1.05)	¥ (8.79)	¥ 15.07	¥ 8.40
Net income—diluted .....	—	—	—	—	15.02	8.39
Stockholders' equity .....	439.60	390.23	349.93	367.69	362.54	355.77
Cash dividends .....	6.00	4.00	3.00	3.00	4.00	5.00
<b>Ratios:</b>						
Gross profit margin (%).....	19.4	16.4	14.5	13.1	17.1	16.7
Operating income margin (%) .....	7.9	4.4	0.6	—	3.8	1.8
Return on sales (%) .....	6.0	3.1	—	—	2.3	1.4
Return on assets (ROA) (%).....	4.8	2.3	(0.1)	(0.9)	1.5	0.9
Return on equity (ROE) (%).....	12.2	6.2	(0.3)	(2.4)	4.2	2.4
Current ratio (times) .....	1.06	0.96	0.93	1.01	1.09	1.33
Stockholders' equity ratio (%).....	41.1	38.0	35.3	37.4	36.0	35.9
Number of employees.....	4,426	4,537	4,729	4,667	5,072	5,185

Notes: 1. Cash dividends for each year represent the total of the interim dividend and the fiscal year-end dividend approved at the General Meeting of Stockholders held after the fiscal year end.

2. 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, 2004 and 2005 is not presented because there were no residual securities such as bonds with stock options or warrants.

### Sales and Income

During the year ended March 31, 2005, sales price levels were high for methanol, paraxylene and other general purpose chemicals, and sales of engineering plastics and materials for printed wiring boards to the electric, electronic, automotive and other industries were strong. As a result, consolidated net sales for the year increased ¥47,878 million compared with the previous fiscal year to ¥388,589 million. Efforts to cut costs under the *Kyoso 2005* medium-term management plan supported a ¥15,934 million year-on-year increase in operating income to ¥30,869 million. Net income increased ¥12,727 million year-on-year to ¥23,349 million, a record high, despite the extraordinary loss booked in connection with reorganization of laboratories and structural reform of the Information & Advanced Materials business, particularly in the electronic materials business.

### Performance by Business Segment

#### Chemical Products Group

In the methanol and ammonia-based products sector, methanol sales increased due to improved market conditions reflecting a sharp rise in natural gas prices in North America and a tightening of the supply and demand balance worldwide. In addition, return on investment in equity affiliates Japan Saudi Arabia Methanol Co., Ltd. and METANOL DE ORIENTE, METOR, S.A. in Venezuela also increased. Captive use, sales and sales volume of formalin each expanded. Market prices for ammonia remained at a high level amid rising crude oil and natural gas prices. Sales of amine derivatives increased due to an overall increase in demand and improved market conditions overseas. An increase in sales prices of methacrylate products supported growth in sales and earnings, as demand remained firm for both methyl methacrylate (MMA) and derivative ester products. Sales of MMA derivatives at equity affiliate Japan Acryace Corporation were near the level of the previous fiscal year, due to strong shipments for use in digital home appliances in the first half. Polyols (polyalcohols) sales and earnings increased on the strength of higher market prices supported by solid demand for neopentyl glycol and trimethylolpropane in China and other overseas markets. High crude oil prices supported strong sales of crude oil from natural gas drilling despite a decline in sales volume.

In the xylene-based product sector, sales increased substantially as a result of rising product prices, which reflected a sharp increase in the price of raw xylene. Sales of *MX nylon* increased as strong overseas sales for food packaging and other applications offset weak demand in certain sectors in Japan. MGC ADVANCED POLYMERS, INC., an *MX nylon* manufacturing

subsidiary in the United States that was added to the scope of consolidation at the end of the fiscal year under review, completed construction of manufacturing facilities and began production. A.G. International Chemical Co., Inc. (AGIC) restarted suspended production lines to meet brisk demand for isophthalic acid, which AGIC manufactures and sells. Overall, sales of aromatic aldehydes remained strong. Paraxylene sales and earnings increased substantially, backed by continued firm demand and prices, in addition to higher prices for benzene, a paraxylene by-product. Sales of purified terephthalic acid increased due to solid improvement in the market. Sales of phthalic anhydride increased as overseas demand remained firm and the Company passed on higher raw material prices to product prices, while international market conditions also improved. However, earnings did not fully reflect the increase in sales.

In the industrial chemicals sector, sales of hydrogen peroxide increased substantially as a result of new industrial applications and increased demand as a chlorine bleach substitute in paper and pulp manufacturing. Sales also increased because internal use of hydrogen peroxide for production of hydrazine hydrate, which was previously handled by MGC, was shifted to sales to a new joint venture company. Sales of hydrosulfate increased due to firm domestic and overseas demand and the effect of price corrections. Sales of persulfate decreased due to strong competition from overseas products.

As a result of these factors, sales in the Chemical Products Group increased ¥34,968 million year-on-year to ¥223,952 million, and operating income increased ¥7,958 million to ¥11,260 million.

#### Advanced Materials Group

Despite an increase in raw material prices, engineering plastics sales and earnings increased due to favorable conditions in major customer industries such as the electrical and electronics industry and the automobile industry, and expansion of demand in China. THAI POLYACETAL CO., LTD. in Thailand continued to operate at full capacity, and sales and income increased due in part to the effect of expanded production capacity. Consolidated subsidiary Fuji Kasei Co., Ltd. and equity affiliates Mitsubishi Engineering-Plastics Corp. and Korea Engineering Plastics Co., Ltd. also continued to perform well.

In the printed wiring board materials sector, demand softened during the second half of the fiscal year, but demand for use in digital equipment was solid and progress was made in correcting market prices along with the rising cost of raw materials. Sales and earnings increased as a result. Electrotechno Co., Ltd. completed construction to expand production facilities at the end of the fiscal year.

Sales of LE sheets, a supplementary material for small diameter drilling for printed wiring boards, also increased.

Sales and earnings of chemicals used in the electronics industry increased, including sales from overseas production bases SAMYOUNG PURE CHEMICALS CO., LTD. in Korea and MGC PURE CHEMICALS AMERICA, INC. in the United States. Although signs of slowing demand for certain products appeared during the second half, MGC acquired new customers outside the liquid crystal display industry.

Exports of AGELESS®, an oxygen absorber, increased. However, overall sales were essentially even, as sales to the core domestic food products industry were weak due to the impact of climatic instability and calamities.

Sales of lens monomers to existing users decreased, although the Company was successful in delivering products to new users. In the enzymes and coenzymes category, sales and earnings increased as a result of heightened demand for Coenzyme Q<sub>10</sub> and an increase in market prices.

In April 2005, the magnetic garnet single crystal business was transferred to unconsolidated subsidiary GRANOPT Ltd., a joint venture with Sumitomo Metal Mining Co., Ltd., as MGC moved to make this a revenue-generating business amid a continued challenging business environment.

As a result of the above, net sales for the Advanced Materials Group increased ¥10,985 million year-on-year to ¥138,976 million, and operating income increased ¥7,704 million to ¥17,781 million.

#### Other Products Group

Technology sales and earnings decreased from the previous fiscal year. Sales in the geothermal steam business also decreased slightly due to natural diminishing of geothermal steam production and the effect of repair work carried out during the first half. Consolidated subsidiary Japan Pionics Co., Ltd. performed well as sales of gas refining and treatment equipment to semiconductor manufacturers increased, particularly in the first half.

As a result, of the above, net sales in the Other Products Group increased ¥1,925 million year-on-year to ¥25,661 million, and operating income increased ¥262 million to ¥1,854 million.

### Liquidity and Financial Position

On a consolidated basis, cash and cash equivalents at the end of the year decreased ¥1,722 million from a year earlier to ¥28,697 million.

Net cash provided by operating activities increased ¥9,386 million compared with the previous fiscal year to ¥29,119 million, primarily because of a substantial increase in income before

income taxes and minority interests resulting from firm consolidated results.

Net cash used in investing activities increased ¥7,590 million to ¥15,630 million. The main factors were an increase in capital expenditures and an increase in long-term loans receivable.

Net cash used in financing activities increased ¥2,231 million to ¥16,536 million. MGC made further progress in repaying interest-bearing debt and increased dividends paid to stockholders.

Current assets at March 31, 2005 were ¥208,365 million, compared to ¥191,775 million a year earlier, due primarily to an increase in trade notes and accounts receivable in tandem with the increase in net sales. Net property, plant and equipment decreased to ¥153,743 million from ¥161,901 million a year earlier. The change reflects disposal of assets in connection with reorganization of research institutes and restructuring of the information and advanced materials business. As a result, total assets increased to ¥494,577 million from ¥475,117 million a year earlier.

Current liabilities totaled ¥197,045 million, compared to ¥199,886 million a year earlier. Working capital improved to ¥11,320 million, compared to a working capital deficit of ¥8,111 million a year earlier. The current ratio was 1.06 to 1, compared to 0.96 to 1 at the end of the previous fiscal year. Total non-current liabilities were ¥87,006 million, compared to ¥88,379 million a year earlier. Interest-bearing debt, which consists of short-term debt and current installments of long-term debt plus long-term debt, decreased to ¥167,059 million from ¥184,299 million a year earlier as a result of the redemption of bonds. Stockholders' equity increased to ¥203,307 million from ¥180,523 million a year earlier, primarily because of higher retained earnings due to the increase in net income.

### Outlook for Fiscal 2005

Despite the emergence of signs of an economic recovery including continuing global expansion and improved corporate performance in Japan, factors of concern include the further cooling of the U.S. and Chinese economies, further increases in fuel prices, and exchange rate and interest rate fluctuations. Under these conditions, the MGC Group aims to achieve a high-profit corporate structure by continuing to implement measures in line with the three basic policies of the medium-term management plan *Kyoso 2005*.

As a result, MGC forecasts net sales of ¥405,000 million and net income of ¥25,000 million. Projections of results have assumed an average exchange rate of ¥105 = U.S.\$1 for fiscal 2005.

## Consolidated Balance Sheets

Mitsubishi Gas Chemical Company, Inc. and Consolidated Subsidiaries  
March 31, 2005 and 2004

ASSETS	Millions of yen		Thousands of U.S. dollars (note 2)
	2005	2004	2005
<b>Current assets:</b>			
Cash (notes 3 and 6).....	¥ 24,574	¥ 24,626	\$ 228,829
Trade notes and accounts receivable (note 15).....	112,192	97,029	1,044,716
Short-term investments (note 4).....	5,046	6,976	46,988
Inventories.....	51,179	49,359	476,571
Deferred income taxes (note 8).....	5,142	4,379	47,882
Other current assets.....	10,752	9,856	100,121
Less allowance for doubtful receivables.....	520	450	4,842
Total current assets.....	208,365	191,775	1,940,265
<b>Property, plant and equipment (note 6):</b>			
Buildings and structures.....	104,173	111,456	970,044
Machinery, equipment and vehicles.....	276,672	279,198	2,576,329
Land.....	22,825	24,693	212,543
Construction in progress.....	13,666	7,371	127,256
Other.....	27,531	28,107	256,364
	444,867	450,825	4,142,536
Less accumulated depreciation.....	291,124	288,924	2,710,904
Net property, plant and equipment.....	153,743	161,901	1,431,632
<b>Intangible assets, net:</b>			
Software.....	1,531	1,046	14,257
Other.....	2,137	2,544	19,899
Net intangible assets.....	3,668	3,590	34,156
<b>Investments and other assets:</b>			
Investments in securities (notes 4 and 5).....	117,777	105,627	1,096,722
Long-term loans receivable.....	3,239	3,560	30,161
Deferred income taxes (note 8).....	2,622	3,300	24,416
Other investments and other assets (note 5).....	5,776	6,081	53,785
Less allowance for doubtful receivables.....	613	717	5,708
Total investments and other assets.....	128,801	117,851	1,199,376
<b>Total assets.....</b>	<b>¥494,577</b>	<b>¥475,117</b>	<b>\$4,605,429</b>

See accompanying notes to consolidated financial statements.

**LIABILITIES AND STOCKHOLDERS' EQUITY**

	Millions of yen		Thousands of U.S. dollars (note 2)
	2005	2004	2005
<b>Current liabilities:</b>			
Trade notes and accounts payable.....	¥ 75,763	¥ 69,025	\$ 705,494
Short-term debt and current installments of long-term debt (note 6).....	93,273	108,537	868,545
Accrued expenses (note 15) .....	11,932	9,796	111,109
Accrued income taxes (note 8) .....	3,258	1,893	30,338
Accrued bonuses.....	3,643	3,494	33,923
Other current liabilities (note 8) .....	9,176	7,141	85,446
Total current liabilities .....	197,045	199,886	1,834,855
<b>Non-current liabilities:</b>			
Long-term debt (notes 6 and 15).....	73,786	75,762	687,084
Liabilities for retirement and severance benefits (note 7).....	10,429	11,605	97,113
Other non-current liabilities (note 8).....	2,791	1,012	25,990
Total non-current liabilities .....	87,006	88,379	810,187
Total liabilities .....	284,051	288,265	2,645,042
Minority interests .....	7,219	6,329	67,222
<b>Stockholders' equity:</b>			
Common stock (note 9):			
Authorized 984,856,000 shares; issued and outstanding 483,478,398 shares in 2005 and 2004 .....	41,970	41,970	390,819
Additional paid-in capital (note 9) .....	35,539	35,539	330,934
Retained earnings (note 10) .....	124,928	104,650	1,163,311
Surplus on revaluation of land.....	192	192	1,788
Net unrealized gain on other securities (note 4).....	11,766	9,085	109,563
Foreign currency translation adjustments.....	(7,178)	(7,077)	(66,841)
Treasury stock .....	(3,910)	(3,836)	(36,409)
Total stockholders' equity.....	203,307	180,523	1,893,165
<b>Commitments and contingencies (note 16)</b>			
Total liabilities and stockholders' equity.....	¥494,577	¥475,117	\$4,605,429

## Consolidated Statements of Income

Mitsubishi Gas Chemical Company, Inc. and Consolidated Subsidiaries  
For the years ended March 31, 2005 and 2004

	Millions of yen		Thousands of U.S. dollars (note 2)
	2005	2004	2005
<b>Net sales</b> (note 15) .....	¥388,589	¥340,711	\$3,618,484
<b>Cost of sales</b> (note 12) .....	313,226	285,000	2,916,715
Gross profit.....	75,363	55,711	701,769
<b>Selling, general and administrative expenses</b> (notes 11 and 12).....	44,494	40,776	414,321
Operating income .....	30,869	14,935	287,448
<b>Other income (deductions):</b>			
Interest income .....	193	197	1,797
Dividend income .....	615	536	5,727
Interest expenses (note 15).....	(2,358)	(2,573)	(21,957)
Equity in earnings of affiliates.....	11,835	9,157	110,206
Exchange loss.....	—	(1,021)	—
Gain on sale of investments in securities (note 4).....	492	611	4,581
Loss on devaluation of inventories.....	—	(251)	—
Loss on sale/disposal of property, plant and equipment .....	(3,022)	(1,470)	(28,141)
Loss on devaluation of investments in securities .....	(154)	(141)	(1,434)
Restructuring charges.....	(5,528)	(2,445)	(51,476)
Other, net.....	(3,598)	(2,515)	(33,504)
	(1,525)	85	(14,201)
Income before income taxes and minority interests .....	29,344	15,020	273,247
<b>Income taxes</b> (note 8):			
Current.....	5,465	2,482	50,889
Deferred .....	(532)	1,133	(4,954)
	4,933	3,615	45,935
Income before minority interests .....	24,411	11,405	227,312
<b>Minority interests</b> .....	1,062	783	9,890
Net income .....	¥ 23,349	¥ 10,622	\$ 217,422

	Yen		U.S. dollars (note 2)
	2005	2004	2005
<b>Per share of common stock</b> (note 1 (o)):			
Net income – basic .....	¥50.41	¥22.91	\$0.47
Cash dividends applicable to the year .....	6.50	3.00	0.06

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, 2005 and 2004

	Millions of yen		Thousands of U.S. dollars (note 2)
	2005	2004	2005
<b>Common stock (note 9):</b>			
Balance at beginning of year .....	¥ 41,970	¥ 41,970	\$ 390,819
Balance at end of year.....	41,970	41,970	390,819
<b>Additional paid-in capital (note 9):</b>			
Balance at beginning of year .....	35,539	35,518	330,934
Increase arising from stock issued under exchange offering.....	—	21	—
Balance at end of year.....	35,539	35,539	330,934
<b>Retained earnings (note 10):</b>			
Balance at beginning of year .....	104,650	95,099	974,486
Increase resulting from an affiliate newly accounted for by the equity method .....	—	335	—
Decrease resulting from newly consolidated subsidiaries.....	(48)	—	(447)
Decrease resulting from exclusion of a consolidated subsidiary.....	—	(2)	—
Cash dividends.....	(3,007)	(1,387)	(28,001)
Bonuses to directors and corporate auditors.....	(16)	(17)	(149)
Net income .....	23,349	10,622	217,422
Balance at end of year.....	124,928	104,650	1,163,311
<b>Surplus on revaluation of land at end of year .....</b>	<b>192</b>	<b>192</b>	<b>1,788</b>
<b>Net unrealized gain on other securities at end of year (note 4).....</b>	<b>11,766</b>	<b>9,085</b>	<b>109,563</b>
<b>Foreign currency translation adjustments at end of year .....</b>	<b>(7,178)</b>	<b>(7,077)</b>	<b>(66,841)</b>
<b>Treasury stock at end of year.....</b>	<b>(3,910)</b>	<b>(3,836)</b>	<b>(36,409)</b>
<b>Total stockholders' equity at end of year.....</b>	<b>¥203,307</b>	<b>¥180,523</b>	<b>\$1,893,165</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, 2005 and 2004

	Millions of yen		Thousands of U.S. dollars (note 2)
	2005	2004	2005
<b>Cash flows from operating activities:</b>			
Income before income taxes and minority interests .....	¥ 29,344	¥ 15,020	\$ 273,247
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization .....	19,430	19,519	180,929
Loss on sale/disposal of property, plant and equipment .....	2,404	1,151	22,386
Restructuring charges .....	5,528	2,445	51,476
Equity in earnings of affiliates .....	(11,835)	(9,157)	(110,206)
Allowance for doubtful receivables .....	(35)	(85)	(326)
Decrease in liabilities for retirement and severance benefits .....	(1,179)	(963)	(10,979)
Interest and dividend income .....	(808)	(733)	(7,524)
Interest expenses .....	2,358	2,573	21,957
Gain on sale of short-term investments and investments in securities .....	(497)	(610)	(4,628)
Loss on devaluation of short-term investments and investments in securities .....	154	141	1,434
Increase in trade notes and accounts receivable .....	(15,128)	(14,540)	(140,870)
Increase in inventories .....	(4,446)	(865)	(41,400)
Increase in trade notes and accounts payable .....	6,367	6,979	59,289
Bonuses to directors and corporate auditors .....	(20)	(23)	(186)
Other, net .....	3,014	2,326	28,066
Sub total .....	34,651	23,178	322,665
Interest and dividend received .....	821	734	7,645
Interest paid .....	(2,379)	(2,657)	(22,153)
Income taxes paid .....	(3,974)	(1,522)	(37,005)
Net cash provided by operating activities .....	29,119	19,733	271,152
<b>Cash flows from investing activities:</b>			
Purchase of short-term investments .....	(202)	(593)	(1,881)
Proceeds from sale of short-term investments .....	88	2,756	819
Capital expenditures .....	(16,063)	(13,724)	(149,576)
Proceeds from sale of property, plant and equipment .....	1,090	3,329	10,150
Purchase of investments in securities .....	(2,427)	(3,042)	(22,600)
Proceeds from sale and capital reduction of investments in securities .....	2,654	1,957	24,714
Payment for acquisitions of newly consolidated subsidiaries, net of cash acquired .....	—	(2,455)	—
Increase in long-term loans receivable .....	(6,192)	(1,757)	(57,659)
Other, net .....	5,422	5,489	50,489
Net cash used in investing activities .....	(15,630)	(8,040)	(145,544)
<b>Cash flows from financing activities:</b>			
Increase in short-term debt .....	6,827	2,896	63,572
Proceeds from long-term debt .....	8,601	17,486	80,091
Payments on long-term debt .....	(28,539)	(32,733)	(265,751)
Purchase of treasury stock .....	(75)	(454)	(698)
Dividends paid to stockholders .....	(3,007)	(1,387)	(28,001)
Dividends paid to minority stockholders of subsidiaries .....	(336)	(100)	(3,129)
Other, net .....	(7)	(13)	(65)
Net cash used in financing activities .....	(16,536)	(14,305)	(153,981)
Effect of exchange rate changes on cash and cash equivalents .....	(70)	(746)	(652)
Net decrease in cash and cash equivalents .....	(3,117)	(3,358)	(29,025)
Cash and cash equivalents at beginning of year .....	30,419	33,667	283,257
Cash and cash equivalents of newly consolidated subsidiaries .....	1,395	130	12,990
Cash and cash equivalents of subsidiaries excluded from consolidation .....	—	(20)	—
Cash and cash equivalents at end of year (note 3) .....	¥ 28,697	¥ 30,419	\$ 267,222

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 2005 and 2004).

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 a 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 to 7 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” with fair value 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. Debt classified as “other securities” for which fair value is not available are stated at the amortized cost. Equity securities classified as “other securities” for which fair value is not available are stated at the moving-average cost. Realized gains and losses on the other securities are computed using the moving-average cost. 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.

### (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 the 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

Intangible assets are carried at cost less amortization. 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 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) Accrued Estimated Cost of Abandonment of Wells**

The Company had recognized the costs of the abandonment of wells at the time of payment. Effective in the year ended March 31, 2005, the Company provided the accrued estimated cost of abandonment of wells at offshore oil fields to cover the costs to be incurred upon the abandonment of wells at an estimated amount which is allocated over a scheduled period based on the Company's plan for the abandonment of each respective well. As a result of scheduling the Company's plan for the abandonment of each respective well at offshore oil fields, the estimated amount of costs of the abandonment of wells have become material. The change was made in order to achieve more appropriate allocation of expenses and reflect the Company's position to the financial statements more accurately. The effect of this change was to increase the expense for the current year by ¥27million (\$251 thousand), and the cumulative effect of this change of ¥358 million (\$3,334 thousand) was reported as other deductions for the year ended March 31, 2005. As a result, income before income taxes and minority interests declined by ¥385 million (\$3,585 thousand).

**(n) 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)

**(o) Data per Common Share**

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

Cash dividends per share are computed based on dividends actually paid during the year. (See note 10)

**(p) Reclassifications**

Certain reclassifications have been made to the prior years' consolidated financial statements to conform to the presentation used for the year ended March 31, 2005.

**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, 2005 have been translated into United States dollars at the rate of ¥107.39=U.S.\$1, the approximate exchange rate on the Tokyo Foreign Exchange Market on March 31, 2005. 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**

Reconciliation between "Cash" in the consolidated balance sheets and "Cash and cash equivalents" in the consolidated statements of cash flows at March 31, 2005 and 2004 is follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Cash.....	¥24,574	¥24,626	\$228,829
Time deposits with maturities of over three months.....	(110)	(550)	(1,024)
Short-term investments.....	4,233	6,343	39,417
Cash and cash equivalents.....	¥28,697	¥30,419	\$267,222

**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, 2005 and 2004 are summarized as follows:

	Millions of yen			
	Balance sheet amount	Gross unrealized gain	Gross unrealized loss	Fair value
<b>March 31, 2005</b>				
Government bond securities	¥51	¥2	¥—	¥53
	¥51	¥2	¥—	¥53
<b>March 31, 2004</b>				
Government bond securities	¥51	¥2	¥—	¥53
	¥51	¥2	¥—	¥53

	Thousands of U.S. dollars			
	Balance sheet amount	Gross unrealized gain	Gross unrealized loss	Fair value
<b>March 31, 2005</b>				
Government bond securities	\$475	\$19	\$—	\$494
	\$475	\$19	\$—	\$494

Acquisition cost, balance sheet amount and gross unrealized gain and loss of other securities with fair value as of March 31, 2005 and 2004 are summarized as follows:

	Millions of yen			
	Acquisition cost	Gross unrealized gain	Gross unrealized loss	Balance sheet amount
<b>March 31, 2005</b>				
Equity securities .....	¥26,968	¥19,706	¥(93)	¥46,581
Other securities .....	43	0	(1)	42
	¥27,011	¥19,706	¥(94)	¥46,623

March 31, 2004				
	Acquisition cost	Gross unrealized gain	Gross unrealized loss	Balance sheet amount
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

	Thousands of U.S. dollars			
	Acquisition cost	Gross unrealized gain	Gross unrealized loss	Balance sheet amount
<b>March 31, 2005</b>				
Equity securities .....	\$251,122	\$183,500	\$(866)	\$433,756
Other securities .....	400	0	(9)	391
	\$251,522	\$183,500	\$(875)	\$434,147

It is not practicable to estimate the fair value of securities as of March 31, 2005 and 2004 described below because of lack of market price and difficulty in estimating fair value.

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
<b>Held-to-maturity securities:</b>			
Certificates of deposit .....	¥4,752	¥6,539	\$44,250
<b>Other securities:</b>			
Unlisted equity securities .....	3,613	3,427	33,644
	¥8,365	¥9,966	\$77,894

Projected future redemption of other securities with maturities and held-to-maturity securities at March 31, 2005 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>				
Government bond securities ..	¥ 9	¥48	¥2	¥1
<b>Other:</b>				
Certificates of deposit .....	4,752	—	—	—
	¥4,761	¥48	¥2	¥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>				
Government bond securities ...	\$ 84	\$447	\$19	\$9
<b>Other:</b>				
Certificates of deposit .....	44,250	—	—	—
	\$44,334	\$447	\$19	\$9

For the years ended March 31, 2005 and 2004, proceeds from the sale of other securities are ¥1,528 million (\$14,229 thousand) and ¥1,997 million, gross realized gains are ¥497 million (\$4,628 thousand) and ¥615 million, gross realized losses are nil and ¥2 million, respectively.

#### Note 5. Investments in Affiliates

The aggregate carrying amounts of investments in affiliates as of March 31, 2005 and 2004 are ¥67,668 million (\$630,115 thousand) and ¥59,198 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, 2005 and 2004 is 0.7% and 0.6%, respectively.

Long-term debt as of March 31, 2005 and 2004 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Loans, principally from banks, maturing in installments through 2032; bearing weighted average interest of 1.4% at March 31, 2005 and 2004, partially secured by mortgage of property, plant and equipment and cash .....	¥81,584	¥ 81,800	\$759,699
2.675% unsecured yen bonds, due 2005 ..	—	5,000	—
2.675% unsecured yen bonds, due 2005 ..	—	5,000	—
2.57% unsecured yen bonds, due 2006 ..	5,000	5,000	46,559
2.57% unsecured yen bonds, due 2006 ..	5,000	5,000	46,559
1.38% unsecured yen bonds issued by a subsidiary, due 2006 .....	1,000	1,000	9,312
	92,584	102,800	862,129
Less current installments .....	18,720	25,744	174,318
	73,864	77,056	687,811
Elimination on consolidation .....	(78)	(1,294)	(727)
	¥73,786	¥ 75,762	\$687,084

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:		
2007 .....	¥33,603	\$312,906
2008 .....	14,934	139,063
2009 .....	11,675	108,716
2010 .....	11,430	106,434

Property, plant and equipment and cash with a book value at March 31, 2005 of ¥35,397 million (\$329,612 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, 2005 and 2004 is outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Projected benefit obligation .....	¥(44,563)	¥(45,243)	\$(414,964)
Plan assets at fair value .....	15,517	14,576	144,492
Assets contributed to the trust .....	20,172	19,815	187,839
Funded status .....	(8,874)	(10,852)	(82,633)
Unrecognized actuarial loss .....	1,379	1,753	12,841
Unrecognized prior service cost .....	(361)	(422)	(3,362)
Unrecognized plan assets .....	(293)	—	(2,728)
Amount recognized in the consolidated balance sheets .....	(8,149)	(9,521)	(75,882)
Prepaid retirement and severance benefits .....	1,350	1,104	12,571
Accrued retirement and severance benefits .....	¥ (9,499)	¥(10,625)	\$ (88,453)

Net periodic pension cost for the years ended March 31, 2005 and 2004 consists of the following components:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Service cost .....	¥1,834	¥2,040	\$17,078
Interest cost .....	1,042	1,048	9,703
Expected return on plan assets .....	(312)	(269)	(2,905)
Amortization of actuarial loss .....	280	392	2,607
Amortization of prior service cost .....	(61)	(61)	(568)
Net periodic pension cost .....	¥2,783	¥3,150	\$25,915

Significant assumptions of pension plans used to determine these amounts in fiscal 2005 and 2004 are as follows:

	2005	2004
Periodic allocation method for projected benefit .....	Straight-line	Straight-line
Discount rate .....	Mainly 2.5%	Mainly 2.5%
Expected rate of return on plan assets .....	Mainly 2.5%	Mainly 2.5%
Period for amortization of unrecognized prior service cost .....	10 years	10 years
Period for amortization of unrecognized actuarial loss .....	Mainly 10 years	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, 2005 and 2004, the liabilities for retirement and severance benefits related to the plans were ¥930 million (\$8,660 thousand) and ¥980 million, respectively.

#### Note 8. Income Taxes

The Company and its domestic subsidiaries are subject to Japanese corporate, inhabitant and business taxes based on income which, in the aggregate, result in a statutory tax rate of approximately 40.5% in 2005 and 42.0% in 2004.

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 40.5% effective from the Company's fiscal year beginning April 1, 2004.

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, 2005 and 2004 is follows:

	2005	2004
Statutory tax rate .....	40.5%	42.0%
Equity in earnings of affiliates .....	(16.3)	(25.6)
Difference in statutory tax rates of subsidiaries .....	(3.0)	(3.2)
Expenses not deductible for tax purposes .....	1.3	2.4
Income not credited for tax purposes .....	(2.6)	(1.0)
Other .....	(3.1)	9.5
Effective tax rate .....	16.8%	24.1%

Significant components of deferred tax assets and liabilities at March 31, 2005 and 2004 are as follows:

	Millions of yen		Thousands of
	2005	2004	U.S. dollars
Deferred tax assets:			2005
Liabilities for retirement and severance benefits .....	¥ 9,665	¥ 9,607	\$ 89,999
Tax loss carryforward .....	3,384	5,356	31,511
Devaluation loss on investments in securities .....	1,977	1,988	18,410
Accrued bonuses .....	1,476	1,414	13,744
Intercompany profits .....	1,009	991	9,396
Depreciation .....	771	739	7,179
Other .....	5,327	4,535	49,604
	23,609	24,630	219,843
Valuation allowance .....	(2,339)	(3,673)	(21,780)
	21,270	20,957	198,063
Deferred tax liabilities:			
Net unrealized gain on other securities .....	(8,109)	(6,184)	(75,510)
Gain by contributing the assets to the trust .....	(3,806)	(3,806)	(35,441)
Tax purpose reserves etc. regulated by Japanese tax law .....	(2,841)	(3,038)	(26,455)
Other .....	(564)	(695)	(5,251)
	(15,320)	(13,723)	(142,657)
Net deferred tax assets .....	¥ 5,950	¥ 7,234	\$ 55,406

Net deferred tax assets and liabilities as of March 31, 2005 and 2004 are reflected in the accompanying consolidated balance sheets under the following captions:

	Millions of yen		Thousands of
	2005	2004	U.S. dollars
Current assets — Deferred income taxes .....	¥ 5,142	¥ 4,379	\$ 47,882
Investments and other assets			
– Deferred income taxes .....	2,622	3,300	24,416
Current liabilities			
– Other current liabilities .....	(77)	(86)	(717)
Non-current liabilities			
– Other non-current liabilities .....	(1,737)	(359)	(16,175)
Net deferred tax assets .....	¥ 5,950	¥ 7,234	\$ 55,406

### Note 9. Common Stock

Under the Commercial Code of Japan, the entire amount of the issue price of shares is required to be designated as stated common stock account although a company in Japan may, by resolution of its Board of Directors, account for an amount not exceeding 50% of the issue price of new shares as additional paid-in capital. On October 1, 2001, the Commercial Code of Japan was amended to eliminate the provision of common stock par value resulting in all common stock being recorded with no par value.

### 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 such reserve and additional paid-in capital equal 25% of common stock. Either additional paid-in capital or the legal reserve may be available for dividends by resolution of the stockholders to the extent that the amount of total additional paid-in capital and legal reserve exceeds 25% of stated common stock. 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, 2005 of cash dividends of ¥3.5 (\$0.03) per common share aggregating ¥1,618 million (\$15,067 thousand) was approved at the Company's general meeting of stockholders held on June 29, 2005.

### Note 11. Selling, General and Administrative Expenses

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

	Millions of yen		Thousands of
	2005	2004	U.S. dollars
Freight .....	¥9,989	¥8,669	\$93,016
Stevedoring and warehouse fee .....	2,001	2,146	18,633
Salaries .....	9,161	8,738	85,306
Employees' bonuses .....	3,072	2,918	28,606
Pension cost .....	1,373	1,612	12,785
Welfare .....	2,642	2,654	24,602
Transportation .....	1,405	1,300	13,083
Depreciation .....	1,933	2,001	18,000

### Note 12. Research and Development Costs

Research and development costs charged to income for the years ended March 31, 2005 and 2004 are ¥10,726 million (\$99,879 thousand) and ¥10,516 million, respectively.

**Note 13. Net Income per Share Information**

Reconciliation of the numbers and the amounts used in the basic net income per share computations for the years ended March 31, 2005 and 2004 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Net income .....	¥23,349	¥10,622	\$217,422
Net income not applicable to common stockholders:			
Directors' and corporate auditors' bonuses .....	(32)	(18)	(298)
Net income applicable to common stockholders .....	¥23,317	¥10,604	\$217,124

	Number of shares	
	2005	2004
Weighted average number of shares on which basic net income per share is calculated.....	462,495,163	462,788,325

**Note 14. Leases**

A summary of assumed amounts of acquisition cost which includes interest portion, accumulated depreciation and net book value at March 31, 2005 and 2004 are as follows:

	Millions of yen		
	Machinery, equipment and vehicles	Other tangible assets	Total
<b>March 31, 2005</b>			
Acquisition cost .....	¥2,825	¥665	¥3,490
Accumulated depreciation .....	1,263	277	1,540
Net book value .....	¥1,562	¥388	¥1,950

<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

	Thousands of U.S. dollars		
	Machinery, equipment and vehicles	Other tangible assets	Total
<b>March 31, 2005</b>			
Acquisition cost .....	\$26,306	\$6,192	\$32,498
Accumulated depreciation .....	11,761	2,579	14,340
Net book value .....	\$14,545	\$3,613	\$18,158

Future minimum payments which include interest portion required under finance leases at March 31, 2005 and 2004 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Within one year .....	¥ 740	¥ 670	\$ 6,891
Over one year .....	1,210	1,106	11,267
	¥1,950	¥1,776	\$18,158

Lease payments for the years ended March 31, 2005 and 2004 amounted to ¥724 million (\$6,742 thousand) and ¥714 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, 2005 and 2004, and related transactions for the years then ended are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
<b>Balances:</b>			
Long-term debt .....	¥2,800	¥2,800	\$26,073
Accrued expenses .....	8	8	74
<b>Transactions:</b>			
Interest expenses .....	42	42	391

The Company has a 50% equity ownership in Mitsubishi Engineering-Plastics Corp. at March 31, 2005 and 2004.

Balances with the company at March 31, 2005 and 2004, and related transactions for the years then ended are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
<b>Balances:</b>			
Trade accounts receivable .....	¥13,879	¥ 8,914	\$129,239
<b>Transactions:</b>			
Sales .....	44,884	39,886	417,953

**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, 2005 and 2004, the Company was contingently liable with respect to trade notes receivable discounted in the amounts of ¥3,039 million (\$28,299 thousand) and ¥3,413 million, respectively. Notes discounted are accounted for as sales and removed from the balance sheets.

Contingent liabilities at March 31, 2005 for loans guaranteed amounted to ¥8,933 million (\$83,183 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.

Derivative transactions have been executed and controlled in accordance with the Company's derivative regulations. The finance department has executed the derivative transactions with the director's approval and the transaction records have been reported to the accounting department regularly. At consolidated subsidiaries, the finance departments have executed the derivative transactions with the director's approval.

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, 2005 and 2004 are summarized as follows:

	Millions of yen		
	Contract or notional amounts	Fair value	Valuation gain (loss)
<b>March 31, 2005</b>			
Forward exchange contracts:			
To buy foreign currency:			
U.S. dollar.....	¥ 1,000	¥1,001	¥ 1
To sell foreign currency:			
Euro .....	364	373	(9)
Interest rate and currency swap agreements:			
U.S. dollar received for Thai baht.....	2,913	(140)	(140)
Interest rate swap agreements:			
Fixed rate received for variable rate.....	225	(1)	(1)
Variable rate received for fixed rate .....	12,801	(139)	(139)
<b>March 31, 2004</b>			
Forward exchange contracts:			
To buy foreign currency:			
U.S. dollar.....	¥ 2,615	¥2,605	¥ (10)
To sell foreign currency:			
U.S. dollar.....	1,722	1,651	71
Korean won.....	55	56	(1)
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)
	Thousands of U.S. dollars		
	Contract or notional amounts	Fair value	Valuation gain (loss)
<b>March 31, 2005</b>			
Forward exchange contracts:			
To buy foreign currency:			
U.S. dollar .....	\$ 9,312	\$ 9,321	\$ 9
To sell foreign currency:			
Euro .....	3,389	3,473	(84)
Interest rate and currency swap agreements:			
U.S. dollar received for Thai baht.....	27,125	(1,304)	(1,304)
Interest rate swap agreements:			
Fixed rate received for variable rate .....	2,095	(9)	(9)
Variable rate received for fixed rate .....	119,201	(1,294)	(1,294)

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, 2005 and 2004 is summarized as follows:

	Millions of yen					
	2005					
	Chemical products	Advanced materials	Other	Total	Elimination / corporate	Consolidated
Sales to outside customers.....	¥223,952	¥138,976	¥25,661	¥388,589	¥ —	¥388,589
Inter-segment sales.....	6,730	192	3,128	10,050	(10,050)	—
	230,682	139,168	28,789	398,639	(10,050)	388,589
Operating expenses.....	219,422	121,387	26,935	367,744	(10,024)	357,720
Operating income.....	¥ 11,260	¥ 17,781	¥ 1,854	¥ 30,895	¥ (26)	¥ 30,869
Assets.....	¥224,999	¥181,411	¥29,279	¥435,689	¥ 58,888	¥494,577
Depreciation.....	9,283	9,164	983	19,430	—	19,430
Capital expenditures.....	6,268	11,409	914	18,591	—	18,591

	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

	Thousands of U.S. dollars					
	2005					
	Chemical products	Advanced materials	Other	Total	Elimination / corporate	Consolidated
Sales to outside customers.....	\$2,085,408	\$1,294,124	\$238,952	\$3,618,484	\$ —	\$3,618,484
Inter-segment sales.....	62,669	1,788	29,127	93,584	(93,584)	—
	2,148,077	1,295,912	268,079	3,712,068	(93,584)	3,618,484
Operating expenses.....	2,043,225	1,130,338	250,815	3,424,378	(93,342)	3,331,036
Operating income.....	\$ 104,852	\$ 165,574	\$ 17,264	\$ 287,690	\$ (242)	\$ 287,448
Assets.....	\$2,095,158	\$1,689,272	\$272,642	\$4,057,072	\$548,357	\$4,605,429
Depreciation.....	86,442	85,334	9,154	180,929	—	180,929
Capital expenditures.....	58,367	106,239	8,511	173,117	—	173,117

The main products of each segment are as follows:

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

Advanced materials: Engineering plastics, printed wiring board materials, printed wiring 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 ¥69,001 million (\$642,527 thousand) and ¥65,594 million as of March 31, 2005 and 2004 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, 2005 and 2004.

**(c) Overseas sales**

Information for overseas sales for the years ended March 31, 2005 and 2004 is summarized as follows:

	Millions of yen		Thousands of
	2005	2004	U.S. dollars
Overseas sales			
Asia .....	¥ 76,936	¥ 56,458	\$ 716,417
North and South America .....	18,886	16,184	175,864
Other.....	9,723	7,832	90,539
	¥105,545	¥ 80,474	\$ 982,820
Consolidated sales .....	¥388,589	¥340,711	\$3,618,484
Percentage of overseas sales to consolidated sales .....	27.2%	23.6%	27.2%

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
Current assets .....	¥2,499
Non-current assets .....	5,152
Total assets.....	¥7,651
Current liabilities .....	¥4,700
Non-current liabilities .....	1,413
Total liabilities.....	¥6,113

**Independent Auditors' Report****To the 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, 2005 and 2004, and related consolidated statements of income, 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. 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, 2005 and 2004, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

As more fully described in Note 1 (m) to the consolidated financial statements, effective in the year ended March 31, 2005, the Company has changed its method of accounting for the costs of abandonment of wells at offshore oil fields. Prior to April 1, 2004, the Company had recognized the costs of abandonment of wells at the time of payment, however, the Company provides the accrued estimated cost of abandonment of wells at offshore oil fields.

The accompanying consolidated financial statements as of and for the year ended March 31, 2005 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.*  
Toyo & Co.

Tokyo, Japan  
June 29, 2005

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, 2005)

### Consolidated Subsidiaries: 28 companies

Name	Issued share capital (millions)	The Company's share ownership	Principal business
<b>NATURAL GAS CHEMICALS COMPANY</b>			
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
Kinoe Terminal Co., Inc.	500	74.5	Storage service for methanol
Japan Pionics Co., Ltd.	200	100.0	Manufacture of gas generators, gas purifiers and disposable body warmers
A&C Co., Inc.	50	100.0	Manufacture of organic and inorganic chemicals including choline chloride and ammonia solution
Kokuka Sangyo Co., Ltd.	250	93.8	Transport of chemical products
<b>AROMATIC CHEMICALS COMPANY</b>			
Fudow Co., Ltd.	¥1,058	100.0	Manufacture and sale 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 and sale of purified isophthalic acid
MGC ADVANCED POLYMERS, INC.	US\$6	80.0	Manufacture and sale of Mx nylon
<b>SPECIALTY CHEMICALS COMPANY</b>			
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
Eiwa Chemical Industry Co., Ltd.	¥420	88.6	Manufacture of foaming agents for rubber and plastic
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
THAI POLYACETAL CO., LTD.	Bt800	73.6	Manufacture of polyacetal
Kyoudou Kasankasuiso Corporation	¥480	75.0	Manufacture of hydrogen peroxide
P. T. PEROKSIDA INDONESIA PRATAMA	Rp21,308	60.0	Manufacture of hydrogen peroxide
<b>INFORMATION &amp; ADVANCED MATERIALS COMPANY</b>			
Electrotechno Co., Ltd.	¥ 500	100.0	Manufacture of copper-clad laminate and multilayer prepreg
Japan Circuit Industrial Co., Ltd.	1,497	92.2	Manufacture of printed wiring boards
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
Ryoyo Trading Co., Ltd.	90	73.8	Sale of industrial chemicals and insurance agency businesses
MITSUBISHI GAS CHEMICAL SINGAPORE PTE. LTD.	S\$2	100.0	Sale of methanol and industrial chemicals in Southeast Asia
MITSUBISHI GAS CHEMICAL AMERICA, INC.	US\$1	100.0	Sale of MGC products
Ryowa Enterprise Co., Ltd.	¥100	100.0	Management of real estate and others
MGC Finance Co., Ltd.	30	100.0	Group finance

### 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.  
 MGC ADVANCED POLYMERS, 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.  
 PTM ENGINEERING PLASTICS (NANTONG) CO., LTD.

# Corporate Data

(As of March 31, 2005)

## Mitsubishi Gas Chemical Company, Inc.

### Established

April 20, 1951

### Paid-in Capital

¥41,970 million

### Offices and Plants

#### Head Office

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

#### Branch Offices

Osaka, Nagoya, Shanghai

#### Research Institutes

Corporate Research Laboratory\*  
Tokyo Research Laboratory  
Niigata Research Laboratory  
Hiratsuka Research Laboratory

\*The Corporate Research Laboratory was closed on April 1, 2005.

#### Plants

Tokyo, Niigata, Mizushima, Yokkaichi,  
Osaka, Yamakita, Kashima, Naniwa\*,  
Saga\*

\*Part of Yokkaichi Plant

### Annual Meeting of Stockholders

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

### Auditor

Toyo & Co.

### Transfer Agent and Registrar

The Mitsubishi Trust & Banking Corp.

### Number of Employees

2,277 (non-consolidated)  
4,426 (consolidated)

### Outstanding Shares

483,478,398

### Number of Stockholders

42,125

### Listings

Tokyo, Osaka and Nagoya

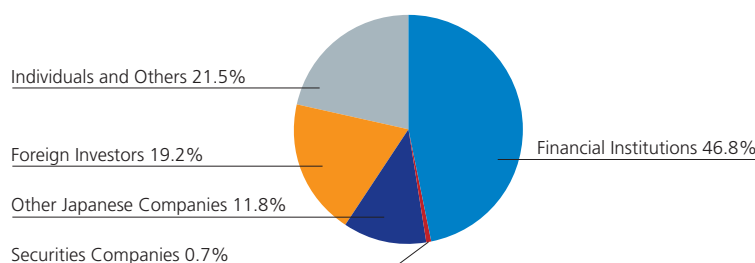
### Ticker Code

4182

## Principal Stockholders

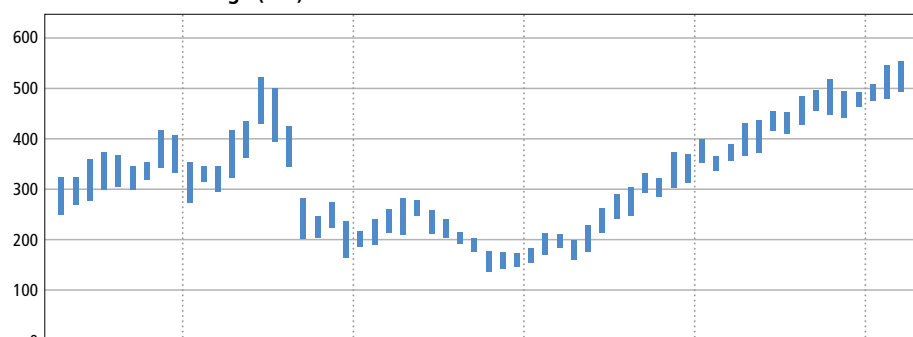
Name	Number of Shares Held (thousands)	Percentage of Total Shares Outstanding
The Master Trust Bank of Japan (Trust Account)	30,650	6.3%
Nippon Life Insurance Company	29,542	6.1
Japan Trustee Services Bank, Ltd. (Trust Account)	24,750	5.1
Meiji Yasuda Life Insurance Company	16,795	3.5
The Bank of Tokyo-Mitsubishi, Ltd.	16,403	3.4
The Mitsubishi Trust & Banking Corp.	11,686	2.4
Tokio Marine & Nichido Fire Insurance Co., Ltd.	10,623	2.2
The Norinchukin Bank	10,053	2.1
Asahi Glass Co., Ltd.	9,671	2.0
Sompo Japan Insurance Inc.	8,564	1.8

## Composition of Stockholders

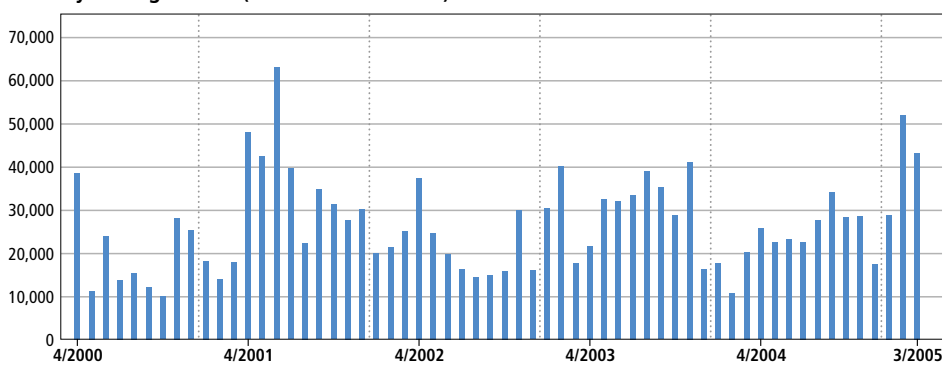


## Monthly Stock Price Range and Trading Volume

### Common Stock Price Range (Yen)



### Monthly Trading Volume (Thousands of Shares)





**MITSUBISHI GAS CHEMICAL COMPANY, INC.**

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