

## **Business Report for the 84th Fiscal Year**

(from April 1, 2010 to March 31, 2011)

**MITSUBISHI GAS CHEMICAL COMPANY, INC.**

Attached documents with regard to Notice of the 84th Ordinary General Meeting of Shareholders.  
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# **BUSINESS REPORT**

(from April 1, 2010 to March 31, 2011)

## **1. Commentary on Results**

### **(1) Overview of results for this period**

During fiscal 2010, the Japanese economy continued to show signs of recovery. In the second half of the year, however, recovery paused due to appreciation of the yen against the dollar. The major earthquake that struck off the coast of Eastern Japan on March 11, 2011 had a serious impact on the economy.

The MGC Group's overseas businesses in general, including exports, were affected by the strong yen, and demand for some products for semiconductors and LCDs declined in the second half of the year. However, higher sales volumes for most products and improvement in the market for chemicals pushed up both revenue and earnings.

The March 11 earthquake affected buildings and equipment at the MGC Kashima Plant and MGC electronic materials production subsidiary Electrotechno Co., Ltd. An extraordinary loss of ¥3.0 billion due to the natural disaster was, therefore, included in the financial statements. Operating results were not very seriously affected.

Against this business backdrop, the MGC Group implemented various measures in accordance with the basic policy stated in its medium-term management plan, "MGC Will 2011," while at the same time making efforts to increase sales volume and maintain margins at acceptable levels.

After the major earthquake and tsunami, the company made all-out efforts to restore the affected sites as quickly as possible.

In fiscal 2010, the MGC Group achieved ¥451.0 billion in consolidated net sales, an increase of ¥66.5 billion (17.3%) from the previous year. Consolidated operating income was ¥23.3 billion, an increase of ¥19.2 billion (471.2%). Consolidated ordinary income rose by as much as ¥29.0 billion (394.1%) to ¥36.3 billion. The net income of ¥18.9 billion, an increase of ¥13.1 billion (225.2%) from the previous year, includes extraordinary losses of ¥13.9 billion, which in turn include losses on the appraisal of investments in securities as well as losses due to the natural disaster and the application of the Accounting Standard for Asset Retirement Obligations.

On the non-consolidated basis, MGC posted ¥340.0 billion in net sales, an increase of ¥61.0 billion (21.9%) from the previous year. Operating income was ¥6.9 billion, an increase of ¥14.2 billion, and ordinary income grew by a substantial ¥14.0 billion to ¥14.3 billion. Non-consolidated net income grew by ¥0.1 billion (3.2%) from the previous year to ¥4.7 billion.

### **(2) Results by business segment**

#### **Natural Gas Chemicals Segment**

The methanol business enjoyed an increase in net sales thanks to growing sales volumes, as demand in the fuel market and other markets in China drove world demand to increase prices, and the new plants in Brunei and Venezuela started operation.

Methanol and ammonia derivatives marked improvements both in net sales and earnings because strong demand in Asian countries caused an upward trend in the markets for MMA and neopentylglycol.

Despite a reduction in fixed cost, the enzyme and coenzyme business suffered from low earnings, as sales of coenzyme Q10 remained sluggish.

Crude oil and other energy increased in earnings due to an increase in the sales price of crude oil.

In fiscal 2010, the Natural Gas Chemicals Company achieved consolidated net sales of ¥145.5 billion, an increase of ¥35.0 billion (31.7%) from the previous year and an operating income of ¥1.3 billion, a year-on-year increase of ¥7.2 billion. Due to improvement in the performance of overseas methanol producing companies, equity in earnings of affiliates of ¥11.7 billion was posted, resulting in a consolidated ordinary income of ¥11.5 billion, a year-on-year increase of ¥13.8 billion.

#### **Aromatic Chemicals Segment**

Specialty aromatic chemical products improved both in terms of net sales and earnings, due to the strong performance of meta-xylenediamine for epoxy resin curing agents, Nylon-MXD6 for gas barriers in PET bottles and engineering plastics, and aromatic aldehydes for resin additives in Europe and the USA.

Purified isophthalic acid enjoyed growing demand mainly in PET bottle applications in China and other Asian markets, resulting in higher prices in the fourth quarter. However, profitability did not fully recover due to the strong yen against the dollar.

In fiscal 2010, Aromatic Chemicals Company achieved consolidated net sales of ¥111.1 billion, an increase of ¥16.7 billion (17.7%), an operating income of ¥0.2 billion, an increase of ¥6.1 billion, and an ordinary loss of ¥0.7 billion, an improvement of ¥7.4 billion from the previous year.

#### **Specialty Chemicals Segment**

The inorganic chemicals business improved both in terms of revenue and earnings due to higher sales volumes for hydrogen peroxide as a discoloring agent for pulp/paper and as an industrial oxidizing agent.

The electronic chemicals business, including overseas subsidiaries, grew both in terms of revenue and earnings, as sales volumes of products for both semiconductors and LCD applications increased.

In engineering plastics, polycarbonates suffered a loss in earnings due to a decline in sales volume and increases in raw material prices. By contrast, sales of polyacetal were driven by strong demand in Asia, surpassing the prior-year levels.

Due to the major earthquake in March, the Kashima Plant, a key MGC production site, suspended operation. The negative contributions to business results will be included in the financial statements for fiscal 2011.

Polycarbonate sheets and films achieved higher revenue and earnings with increases in the sales volumes of sheets for exclusive sunglasses and cellular phones, although the average unit sales prices of films used in flat panel displays declined.

In fiscal 2010, the Specialty Chemicals Company posted consolidated net sales of ¥134.0 billion, an increase of ¥15.7 billion (13.3%) from the previous year and an operating income of ¥15.1 billion, a year-on-year increase of ¥3.6 billion (32.0%). Due to a ¥3.0 billion equity in earnings of affiliates, ordinary income reached ¥17.1 billion, an increase of ¥4.6 billion (37.3%).

#### Information & Advanced Materials Segment

BT materials for semiconductor packaging showed good performance in the beginning of the fiscal year due to strong demand for applications for mobile phones and digital consumer electronics. But they slowed down in the late second quarter due to stock adjustments by customers. For the full year, however, an increase in earnings was achieved thanks to cost reduction effects. On the other hand, the sales volume remained at the same level as the previous year, partly because Electrotechno suspended production temporarily following the major earthquake in March.

Despite being affected by the summer heat in the core market for domestic food, oxygen absorbers such as AGELESS® achieved year-on-year growth in earnings thanks to the spread of individual food packaging and successful sales of products for other applications.

In fiscal 2010, the Information & Advanced Materials Company achieved consolidated net sales of ¥59.5 billion, a decline of ¥ 0.8 billion (1.4%), an operating income of ¥7.7 billion, a year-on-year increase of ¥1.5 billion (25.6%), and an ordinary income of ¥7.5 billion, an increase of ¥1.9 billion (35.7%).

#### Other Business Segments

In the year ended March 31, 2011, the other business segment achieved consolidated net sales of ¥0.7 billion, a year-on-year decline of ¥0.1 billion (11.7%). Operating income fell by ¥0.1 billion (38.8%) to ¥0.2 billion, and ordinary income increased by ¥0.7 billion (44.8%) to ¥2.3 billion.

#### Results by Business Segment

Segment	FY2009 (April 2009 - March 2010)		FY2010 (April 2010 - March 2011)		Year-on-Year Increase/ Decrease (%)
	Amount (millions of yen)	Percentage Total (%)	Amount (millions of yen)	Percentage Total (%)	
Natural Gas Chemicals Segment	110,502	28.7	145,563	32.3	31.7
Aromatic Chemicals Segment	94,474	24.6	111,182	24.6	17.7
Specialty Chemicals Segment	118,311	30.8	134,016	29.7	13.3
Information & Advanced Materials Segment	60,376	15.7	59,507	13.2	(1.4)
Other Business Segments	864	0.2	763	0.2	(11.7)
Total	384,528	100.0	451,033	100.0	17.3

### (3) Capital Expenditures

Capital expenditures during the current fiscal year were focused on reinforcing the production capabilities for existing products and on maintaining/renovating equipment and facilities. Major expenditures incurred are as follows:

1) Major facilities completed during the current fiscal year

Mizushima Plant: meta-xylene production equipment  
(Aromatic Chemicals segment)

2) Construction initiated or continuing through the current fiscal year

LingYou Engineering-Plastics (Shanghai) Co., Ltd.: polycarbonate resin production equipment  
(Specialty Chemicals Segment)

### (4) Funding

The funds for equipment and facilities as well as for working capital for the current fiscal year were provided by MGC's own resources and borrowings from financial institutions.

### (5) Assets and Earnings Position

1) MGC Group (consolidated basis)

Classification	FY2007 April 2007 – March 2008	FY2008 April 2008 – March 2009	FY2009 April 2009 – March 2010	FY2010 April 2010 – March 2011
Sales (millions of yen)	519,329	447,647	384,528	451,033
Ordinary income (millions of yen)	61,759	6,975	7,365	36,394
Net income (millions of yen)	40,209	7,014	5,827	18,950
Net income per Share (¥)	87.01	15.30	12.89	41.92
Total assets (millions of yen)	601,386	530,592	539,431	577,045
Net assets (millions of yen)	312,021	272,083	278,094	288,257

2) MGC (Non-consolidated basis)

Classification	FY2007 April 2007 – March 2008	FY2008 April 2008 – March 2009	FY2009 April 2009 – March 2010	FY2010 April 2010 – March 2011
Sales (millions of yen)	372,865	310,017	278,955	340,007
Ordinary income (millions of yen)	36,856	12,695	307	14,351
Net income (millions of yen)	28,518	12,686	4,578	4,724
Net income per Share (¥)	61.71	27.68	10.13	10.45
Total assets (millions of yen)	373,713	360,896	375,704	396,888
Net assets (millions of yen)	185,982	173,701	174,966	181,327

## (6) Challenges to Be Resolved

In an age of growing uncertainty and intensifying global competition, the MGC Group recognizes that it can not expect robust growth from a management plan that only covers the few years ahead, so MGC took a long-term view and created a plan envisioning the kind of company that the Group aims to become by 2021, which will be the 50th anniversary of MGC Group's founding. The three-year medium-term management plan put into action in April 2009, "MGC Will 2011," was the first step towards that long-term vision, and the 84th fiscal year will be its second year. The Group vision and basic policies established by said the medium-term management plan are as follows.

### ● Group vision

MGC aims to realize CSR in all its activities while developing and growing sustainably on a global stage as a highly differentiated, widely recognized chemicals group operating from a strong platform of proprietary technology.

### ● Basic strategy

1. Strengthen and expand core business
2. Accelerate new product development and commercialization
3. Improve total enterprise quality in support of sustainable growth

In advancing its business strategy, the MGC Group's policy is to pursue further strength and expansion by concentrating management resources into MGC's competitive advantage, its product line. During the 84th fiscal year, new plants for producing methanol, one of MGC's core businesses, went into operation in Brunei and Venezuela. Construction of polycarbonate resin production facilities in Shanghai, China is also steadily progressing.

Tasks such as making use of the "technology platform" developed under the previous medium-term plan, aligning the multiple technologies in the Group with the actual needs of the market place, and creating synergies among the various businesses, including the Group companies and divisions, are the key issues to be addressed in the creation and cultivation of new products. However, in the 84th fiscal year, the "The Committee on Future R&D" was formed and began activities with its purpose being the creation and cultivation of next-generation business that will realize the company's vision for itself in 2021 through the concentration of Group R&D resources.

In the qualitative progress of management to achieve sustainable growth, the Group is pursuing the following as priority policies: achievement of zero accidents or disasters, active contribution to the reduction of environmental impact, recruitment and fostering of personnel, cost reductions, productivity improvements, fine-tuning of existing technologies, construction of a more robust financial foundation, the enhancement of "global group management," and other policies. As one link in that chain, in the 84th fiscal year, the Production Technology Division was established as a corporate division in order to strengthen the production technology of the entire Group.

Although the way forward is uncertain due to factors such as the influence of the Great East Japan Earthquake and fluctuations in the prices of raw materials, fuel, and the currency markets, in the 85th fiscal year and the last year of "MGC Will 2011," the MGC Group will continue to steadily pursue strong cost reductions, correction of sales prices, persistent reform and strengthening of the business structure.

**(7) Major Businesses (As of March 31, 2011)**

Major products and businesses by segment are as follows:

1) Natural Gas Chemicals Segment	Methanol Methanol/Ammonia Series Chemicals formalin, ammonia, amines, methyl methacrylate, methacrylic acid ester, dimethyl ether, polyols, etc. Enzymes and Coenzymes Co-enzyme Q10, catalase (hydrogen peroxide decomposing agent), etc. Energy Natural gas, crude oil, etc.
2) Aromatic Chemicals Segment	Commodity Aromatic Chemicals meta-xylene, para-xylene, ortho-xylene, purified terephthalic acid, phthalic anhydride, plasticizers, etc. Specialty Aromatic Chemicals MXDA, MX nylon, aromatic aldehydes, trimellitic anhydride, pyromellitic dianhydride, purified isophthalic acid, etc.
3) Specialty Chemicals Segment	Industrial Inorganic Chemicals hydrogen peroxide, persulfates, etc. Electronic Chemicals super-pure hydrogen peroxide, hybrid chemicals, chemical polishing fluids, etc. Plastic Lens Monomer Engineering Plastics polycarbonate resin, polyacetal resin, polyphenylene ether resin, polycarbonate sheets and films, etc.
4) Information & Advanced Materials Segment	Printed Circuit Board Materials, etc. epoxy resin-based copper-clad laminates, BT resin-based copper-clad laminates, LE sheet for drilling holes in printed circuit boards, etc. Printed Circuit Boards Ageless® Deoxygenating Agent, etc.
5) Other Segment	Insurance Agent, Real Estate, etc.

**(8) Principal Places of Business (As of March 31, 2011)**

## 1) MGC

Head Office: 5-2 Marunouchi 2-chome, Chiyoda-ku, Tokyo, Japan

	Name	Location
Branch Offices:	Osaka Branch	Osaka Prefecture
Research Institutes:	Tokyo Techno Park Niigata Research Laboratory Hiratsuka Research Laboratory	Tokyo Niigata Prefecture Kanagawa Prefecture
Plants:	Niigata Plant Mizushima Plant Yokkaichi Plant Yamakita Plant Kashima Plant	Niigata Prefecture Okayama Prefecture Mie Prefecture Kanagawa Prefecture Ibaraki Prefecture

## 2) Subsidiaries

Company Name	Head Office	Business and Production Site
Kinoe Terminal Co., Inc.	Tokyo	Hiroshima Prefecture, etc.
Tokyo Shokai Co., Ltd.	Tokyo	Osaka Prefecture, etc.
Japan Finechem Co., Inc.	Tokyo	Kagawa Prefecture, etc.
Ryoko Chemical Co., Ltd.	Tokyo	Osaka Prefecture, etc.
Electrotechno Co., Ltd.	Tokyo	Fukushima Prefecture
MGC Pure Chemicals America, Inc.	U.S.A.	---
A.G. International Chemical Co., Inc.	Tokyo	Okayama Prefecture
MGC Filsheet Co., Ltd.	Saitama Prefecture	Osaka Prefecture
Thai Polyacetal Co., Ltd.	Thailand	Thailand
Mitsubishi Gas Chemical America, Inc.	U.S.A.	---
Ryoyo Trading Co., Ltd.	Tokyo	Osaka Prefecture, etc.
Mitsubishi Gas Chemical Singapore Pte. Ltd.	Singapore	---
Samyoung Pure Chemicals Co., Ltd.	Korea	Korea
Fudow Co., Ltd	Kanagawa Prefecture	Shizuoka Prefecture, etc.
LingYou Engineering-Plastics (Shanghai) Co., Ltd.	China	---

**(9) Number of Employees (As of March 31, 2011)**

## 1) MGC Group (Consolidated)

Segment	Number of Employees	Change from End of FY2009
Natural Gas Chemicals Segment	1,203	(11)
Aromatic Chemicals Segment	919	(15)
Specialty Chemicals Segment	1,838	120
Information & Advanced Materials Segment	782	(78)
Other Segment	17	(3)
Corporate (Shared)	220	46
Total	4,979	59

Notes: 1. Only employees working within the Group are included in the headcount (excludes individuals on assignment from the Group to companies outside of the Group and includes individuals on assignment from outside of the group to companies within the Group).

2. The employees in the Corporate (Shared) segment are individuals who belong to administrative departments that cannot be classified into specific business segments.

## 2) MGC (Non-Consolidated)

Number of Employees	Change from End of FY2009	Average Age	Average Number of Years in Employment
2,331	49	40 years old and 7 months	18 years

Note: Only employees working within MGC are included in the headcount (excludes individuals on assignment from MGC to other companies and includes individuals on assignment from other companies to MGC).

**(10) Main Subsidiaries and Affiliates (As of March 31, 2011)**

Company	Issued Share Capital (millions of yen)	Ratio of Voting Rights (%)	Principal Business
Kinoe Terminal Co., Inc.	493	75.5	Storage services for methanol
Tokyo Shokai, Co., Ltd.	200	99.9 (3.2)	Sale of compound resins and electronics materials
Japan Finechem Co., Inc.	274	93.2 (9.7)	Manufacture and sale of organic synthetic chemicals, including polymeric initiators and raw materials for agrichemicals, and electronics parts
Ryoko Chemical Co., Ltd.	100	100.0 (2.5)	Sale of industrial chemicals
Electrotechno Co., Ltd.	500	100.0	Manufacture and sale of printed circuit board materials
MGC Pure Chemicals America Co., Inc.	(thousand US dollar) 5,000	90.0 (20.0)	Manufacture and sale of super pure hydrogen peroxide and other products
A.G. International Chemical Co., Inc.	50	100.0	Manufacture and sale of purified isophthalic acid

Company	Issued Share Capital (millions of yen)	Ratio of Voting Rights (%)	Principal Business
MGC Filmsheet Co., Ltd.	50	100.0 (45.4)	Manufacture and sale of polycarbonate sheets/films
Thai Polyacetal Co., Ltd.	(million baht) 840	70.0	Manufacture and sale of polyacetal resins
Mitsubishi Gas Chemical America, Inc.	(thousand US dollar) 1,084	100.0	Sale of chemicals and other products
Ryoyo Trading Co., Ltd.	90	68.1 (44.9)	Sale of chemicals and insurance agency business
Mitsubishi Gas Chemical Singapore Pte. Ltd.	(thousand US dollar) 1,161	100.0	Sale of chemicals and other products
Samyoung Pure Chemicals Co., Ltd.	(million won) 3,500	51.0	Manufacture and sale of super pure hydrogen peroxide
Fudow Co., Ltd	180	100.0	Manufacture and sale of compound resin molding materials and molded products
LingYou Engineering-Plastics (Shanghai) Co., Ltd.	(million yuan renminbi) 760	80.0	Manufacture and sale of polycarbonate resins
Mitsubishi Engineering Plastics Corporation	3,000	50.0	Sale and manufacture of engineering plastics
JSP Corporation	10,128	45.1 (0.8)	Manufacture and sale of foamed polystyrene and foamed polyolefin
Japan U-PiCA Co., Ltd.	1,100	45.7 (7.7)	Manufacture and sale of unsaturated polyester resins, coating resins, and methacrylic acid esters
Japan Saudi Arabia Methanol Co., Inc.	2,310	47.4	Import and sale of methanol, and investing in and financing foreign companies
Korea Engineering Plastics Co., Ltd.	(million won) 11,000	40.0	Manufacture and sale of engineering plastics, mainly polyacetal resins
Mizushima Aroma Co., Ltd.	2,000	50.0	Manufacture and sale of purified terephthalic acid
Brunei Methanol Company Sdn.Bhd.	(thousand US dollar) 189,400	50.0	Manufacture and sale of methanol

Note: The figures in parentheses represent the percentage of voting rights indirectly held by the Company's subsidiaries, included in totals.

#### (11) Major Creditors (As of March 31, 2011)

Creditor	Balance of Borrowings (millions of yen)
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	24,734
Mitsubishi UFJ Trust and Banking Corporation	17,474
Development Bank of Japan Inc.	15,442
The Norinchukin Bank	12,734
Japan Bank for International Cooperation	9,679
Mizuho Corporate Bank, Ltd.	8,554
Meiji Yasuda Life Insurance Company	8,360
Nippon Life Insurance Company	7,069
The Bank of Yokohama, Ltd.	4,500

## 2. Matters Related to Stock (As of March 31, 2011)

- (1) **Authorized** 984,856,000 Shares (No change from end of FY2009)
- (2) **Issued and Outstanding** 483,478,398 (No change from end of FY2009)
- (3) **Number of Shareholders** 31,067 (Decrease by 1,718 from end of FY2009)
- (4) **Principal Shareholders** (ten largest shareholders)

Name of shareholder	Investment to MGC	
	Number of Shares Held	Percentage to Total Shares Outstanding
	(1000 Shares)	(%)
The Master Trust Bank of Japan, Ltd. (Trust account)	31,442	7.0
Japan Trustee Services Bank, Ltd. (Trust account)	31,157	6.9
Nippon Life Insurance Company	21,452	4.7
Meiji Yasuda Life Insurance Company	16,795	3.7
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	13,611	3.0
Mitsubishi UFJ Trust and Banking Corporation	11,686	2.6
The Norinchukin Bank	10,053	2.2
Asahi Glass Co., Ltd.	9,671	2.1
State Street Bank Client Omnibus 0M04	8,799	1.9
Sompo Japan Insurance Inc.	8,564	1.9

- Note: 1. MGC holds 31,471 thousand shares of treasury stock, which is not included in the above list of principal shareholders.
2. Percentage to Total Shares Outstanding” does not include treasury stock.

### 3. Matters Related to Subscription Rights to Shares, etc. (As of March 31, 2011)

- (1) None of the subscription rights to shares, etc. held by corporate officers were issued in compensation for the performance of their duties.
- (2) No subscription rights to shares, etc issued to employees and others during FY2010 in compensation for the performance of their duties.
- (3) **Other Important Matters Related to Subscription Rights to Shares**

Convertible bonds

Euroyen-denominated convertible-bonds maturing 2011 (issued on September 21, 2006)

Outstanding Balance of Convertible Bonds	Type of Stock to be Issued on Conversion	Conversion Price	Amount Transferred to Common Stock
¥20,000 million	MGC Common Stock	¥1,959.3	¥980

#### 4. Matters Related to Corporate Officers (As of March 31, 2011)

##### (1) Directors and Corporate Auditors

Position	Responsibility in MGC and important positions concurrently held at other companies, etc.	Name
Representative Director	Chairman	Hideki Odaka
Representative Director	President	Kazuo Sakai
Representative Director	Senior Managing Executive Officer Assistant to the President and President of Natural Gas Chemicals Company Outside Director of Co-op Chemical Co., Ltd.	Yoshishige Yamazaki
Representative Director	Senior Managing Executive Officer Assistant to the President, Administrative Management of Compliance, Chairperson of Internal Control Promotion Committee, and Administrative Management of Internal Audit Division, Corporate Communications Division and Finance & Accounting Center	Jin Hata
Director	Managing Executive Officer Administrative Management of Production Technology Division and Environment & Safety Division	Kuniaki Ageishi
Director	Managing Executive Officer President of Information & Advanced Materials Company	Yuh Miyauchi
Director	Managing Executive Officer Administrative Management of Risk Management, Member of Internal Control Promotion Committee, and Administrative Management of Administrative & Personnel Center and Purchasing & Logistics Center	Kunio Oya
Director	Managing Executive Officer President of Specialty Chemicals Company and General Manager, Engineering Plastics Division	Toshikiyo Kurai
Director	Managing Executive Officer Chairperson of The Committee on Future R&D, Administrative Management of Research and Development Division, and General Manager, Tokyo Techno Park	Makoto Mizutani
Director	Managing Executive Officer Member of Compliance Advisory Committee and Internal Control Promotion Committee, and Administrative Management of Corporate Planning Division	Masami Orisaku

Position	Responsibility in MGC and important positions concurrently held at other companies, etc.	Name
Corporate Auditor (Standing)		Ichiei Noguchi
Corporate Auditor (Standing)		Shoji Uematsu
Corporate Auditor (Standing)		Kuniaki Kawakami
Corporate Auditor	Representative Director and Chairman of NLI Research Institute, Outside Director of Keihin Electric Express Railway Co., Ltd., President of Nissay Culture Foundation, and President of Tokyo Opera City Cultural Foundation	Wataru Taguchi
Corporate Auditor	Supelial Adviser of The Educational Foundation for Tokyo University of Science, Director of The Educational Foundation for Tokyo Polytechnic University, and Professor Emeritus of The University of Tokyo	Yoshimasa Nihei

Notes: 1. MGC has adopted the executive officer system.

2. Of the Directors, Messrs. Makoto Mizutani and Masami Orisaku, and of the Corporate Auditors, Mr. Kuniaki Kawakami newly assumed their offices as of June 25, 2010.

3. Of the Corporate Auditors, Messrs. Ichiei Noguchi, Wataru Taguchi and Yoshimasa Nihei are Outside Corporate Auditors as stipulated in Article 2 Item 16 of the Companies Act.

4. MGC has registered Corporate Auditors Mr. Ichiei Noguchi, Mr. Wataru Taguchi, and Mr. Yoshimasa Nihei as independent directors/auditors at Tokyo Stock Exchange, Inc.

5. There is no material business relation between MGC and the other companies, etc. in which Corporate Auditor, Mr. Wataru Taguchi, serves concurrently.

6. There is no material business relation between MGC and the other companies, etc. in which Corporate Auditor, Mr. Yoshimasa Nihei, serves concurrently.

7. Officers who have retired during the current fiscal year are as follows:

Representative Director      Kuniaki Kawakami (Retired upon expiry of the term of office on June 25, 2010)

Director      Kozo Tsukamoto (Retired upon expiry of the term of office on June 25, 2010)

Corporate Auditor(Standing)      Takao Kawaki (Retired upon resignation on June 25, 2010)

**(2) Total of Compensation and Other Amounts Related to Corporate Officers During the Fiscal Year**

Classification	Number	Amount of Compensation, etc. (millions of yen)
Directors	12	452
Corporate Auditors (Outside Corporate Auditors)	6 (3)	93 (41)
Total	18	545

- Notes: 1. From the close of the 83rd Ordinary General Meeting of Shareholders held on June 25, 2010, MGC has abolished the previous retirement benefit system for Directors and introduced a reserved retirement benefit system for benefits to be paid upon retirement. The amount of compensation and other benefits to Directors during the fiscal year under review includes a ¥24 million provision for directors' retirement benefits before their abolition and a ¥74 million provision for reserved retirement benefits.
2. Pursuant to a resolution of the 83rd Ordinary General Meeting of Shareholders held on June 25, 2010, two retiring Directors were paid ¥102 million in retirement benefits. Additionally, the same Ordinary General Meeting of Shareholders resolved a retirement benefit for Directors cutoff payment related to the abolition of the previous retirement benefit system for Directors. The scheduled payment amount for the eight Directors to whom it applies is ¥496 million.

### **(3) Policies and Methods for Deciding Compensation and Other Benefits of Corporate Officers**

#### 1) Directors' Compensation

Policies for deciding compensation and other benefits of Directors are decided by the Board of Directors.

Directors' compensation consists of a basic compensation and reserved retirement benefit and is decided in accordance with each Director's position and under consideration of MGC's operational status and other companies' standards etc.

The basic compensation is a fixed compensation corresponding to each Director's position in MGC, but it may be increased or decreased to reflect the company's performance or the performance of each Director.

The reserved retirement benefit is an aggregate amount to be paid out upon retirement corresponding to a Director's term of service, calculated in increments of one year, and reserved through a resolution by a General Meeting of Shareholders.

Separate from the above compensation, bonuses may be paid through a resolution by a General Meeting of Shareholders, the amount of which would appropriately correspond to MGC's performance and each Director's performance.

#### 2) Corporate Auditors' Compensation

Corporate Auditors' compensation consists only of a basic compensation and is decided in consultation with the Corporate Auditors.

### **(4) Matters Related to Outside Corporate Officers**

#### 1) Material Relations between MGC and Other Companies in which Officers Concurrently Serve

The material relations between MGC and other companies in which the outside corporate officers concurrently serve are as described in (1).

## 2) Major Activities of Outside Corporate Officers

Outside Corporate Auditor	Major Activities
Ichiei Noguchi	<p>Attending all of 12 Board of Directors meetings and other important meetings, Mr. Noguchi made comments as necessary from an external perspective, posed questions, and gave advice appropriately as a standing Corporate Auditor to ensure adequate conduct of business operations.</p> <p>Further, Mr. Noguchi attended all of 13 Board of Corporate Auditors meetings and stated his views and opinions concerning audit methods and other aspects of the performance of duties by Corporate Auditors, in addition to exchanging views on audit results and participating in such activities as discussions on important matters related to auditing.</p>
Wataru Taguchi	<p>Attending all of 12 Board of Directors meetings, Mr. Taguchi made comments as necessary from an external perspective to ensure appropriate decision-making by the Board of Directors, drawing on his long experience with financial institutions and in business management.</p> <p>Further, Mr. Taguchi attended all of 13 Board of Corporate Auditors meetings and stated his views and opinions concerning audit methods and other aspects of the performance of duties by Corporate Auditors, in addition to exchanging views on audit results and participating in such activities as discussions on important matters related to auditing.</p>
Yoshimasa Nihei	<p>Attending all of 12 Board of Directors meetings held after the assumption of office, Mr. Nihei made comments as necessary from an external perspective to ensure appropriate decision-making by the Board of Directors, drawing on his advanced expertise concerning chemistry, engineering, and other areas, as well as on his extensive experience holding prominent positions in various organizations, including universities and academic societies.</p> <p>Further, Mr. Nihei attended all of 13 Board of Corporate Auditors meetings held after the assumption of office and stated his views and opinions concerning audit methods and other aspects of the performance of duties by Corporate Auditors, in addition to exchanging views on audit results and participating in such activities as discussions on important matters related to auditing.</p>

## 3) General Intent of Limitation of Liability Agreement

MGC has entered into a Limitation of Liability Agreement with each Outside Corporate Auditor to limit his liability pursuant to Article 423 Paragraph 1 of the Companies Act to the amount stipulated in Article 427 Paragraph 1 of said Law.

## 5. Matters Related to Independent Auditor

### (1) Name of Independent Auditor

BDO Toyo & Co.

### (2) Amounts of Fee and Other Payments Made to Independent Auditor in FY2010

1) Fee for the audit performed as stipulated in Article 2 Paragraph 1 of the Certified Public Accountants Law	¥57 million
2) Aggregate amount of cash and other monetary payments made by MGC and MGC's subsidiaries	¥71 million

Notes: 1. The fee for audit pursuant to the Companies Act and that for audit pursuant to the Financial Instruments and Exchange Act are not differentiated in the Audit Agreement between MGC and Independent Auditor. As such, the amount in 1) includes the amount of the audit fee and other payments due pursuant to the Financial Instruments and Exchange Act.

2. Of MGC's important subsidiaries, the financial statements of foreign subsidiaries are audited (as stipulated in the Companies Act or Financial Instruments and Exchange Act, including equivalent foreign laws and ordinances) by certified public accountants or accounting firms (including those with equivalent foreign certifications) other than MGC's Independent Auditor.

### (3) Dismissal and Non-reappointment Policy on Independent Auditors

MGC will make the decision to dismiss or refrain from reappointing MGC's Independent Auditor in the event said Independent Auditor breaches or defaults on its obligations regarding the performance of duties, commits a misdemeanor, or is in a state of physical or psychological failure that interferes with or renders impossible the performance of duties, or under any other circumstances where such decision is deemed necessary.

## **6. Resolution on Establishing Systems to Ensure Appropriate Business Operations**

MGC resolved in the Board of Directors meeting as follows with respect to the "establishment of systems to ensure that the duties of Directors are executed in compliance with laws, regulations, and the Articles of Incorporation, and of other systems stipulated in the ordinances of the Ministry of Justice as being necessary to ensure that the business operations of stock companies are conducted appropriately" stipulated in Article 362, Paragraph 4, Item 6 of the Companies Act:

The status of establishment and operation of internal controls pursuant to the resolution is being reported to the Board of Directors on a regular basis.

MGC and the MGC Group will continue to establish and implement controls to the end of further reinforcing the internal controls of the Group.

### **(Basic Policy)**

In all matters relating to its internal control framework, MGC shall ensure that MGC and its Group companies construct, maintain and operate internal controls appropriately, while correctly and appropriately fulfilling the internal control reporting system requirements stipulated by the Financial Instruments and Exchange Law. In this way, MGC shall achieve its four objectives of effective and efficient operations, reliable financial reporting, compliance with MGC business-related and other laws and regulations, and preservation of its assets.

### **(1) Systems for Ensuring Duties of Directors and Employees Are Executed in Compliance with Laws, Regulations, and Articles of Incorporation**

- 1) MGC shall view "compliance" as broadly encompassing conformity with laws, regulations, Articles of Incorporation, and internal rules, as well as the conduct of fair, transparent, and free business based on an awareness of corporate responsibility to society, and shall establish the Directives for Corporate Actions, Compliance Rules, and MGC Code of Conduct.
- 2) Administrative Management of Compliance shall be appointed and a Compliance Advisory Committee chaired by said Officer shall be established as an organization directly under the President. The Compliance Advisory Committee shall examine and implement measures to enhance MGC's compliance systems, as well as provide instructions and oversight regarding compliance.
- 3) In order to detect internal compliance violations and take corrective measures promptly, Compliance Counseling shall be established as a means of receiving internal reports from officers, employees, their families, contractors, business partners, and the like.
- 4) In order to eliminate anti-social forces, in addition to clarifying its firm stance against such forces in the MGC Corporate Behavior Guidelines and the MGC Code of Conduct, MGC shall promote its policies in each relevant department.
- 5) An Internal Audit Division shall be established to conduct internal audits pursuant to the Internal Audit Rules in addition to auditing Corporate Auditors and Independent Auditors.
- 6) In order to ensure that MGC and its Group companies construct, maintain and operate internal controls appropriately, while correctly and appropriately fulfilling the internal control reporting system requirements stipulated by the Financial Instruments and Exchange Law, MGC shall establish an Internal Control Promotion Committee headed by the director responsible for the Internal Audit Division.
- 7) MGC shall create a pamphlet "MGC Compliance Handbook" and distribute to officers and employees to ensure their understanding of the compliance system, as well as cultivate awareness of compliance through education and training.

**(2) Systems for Ensuring Efficient Execution of Duties by Directors**

- 1) MGC shall separate the decision-making, oversight, and business execution functions of the management and implement the Executive Officer system for expeditious decision-making and business execution. At the same time, the company system shall be adopted in the operating divisions to achieve efficient business management by clarifying accountability for performance.
- 2) In order to make decisions on matters that have material effect on MGC based on multifaceted considerations, a Management Council shall be established to deliberate on management policies and an Operations Council shall be established to deliberate on specific execution plans, with Directors to attend meetings of both Boards as a rule.
- 3) Organization Regulations, Separation of Duties Rules, and Rules Defining Extent of Authority shall be established to clarify the duties and authorities of Directors to ensure efficient and appropriate execution of duties.
- 4) Performance shall be monitored based on numerical targets clarified through the Group's medium-term management plan, annual budget, and the like.

**(3) System for Archiving and Managing Information on Execution of Duties by Directors**

Information pertaining to the execution of duties by Directors shall be archived and managed as documents in accordance with the Document Control Procedures and other internal rules.

**(4) Rules and Other Systems for Managing Risk of Loss**

- 1) MGC shall establish Risk Management Rules in order to understand and appropriately manage business risks.
- 2) A Risk Management Committee chaired by the Administrative Management of Risk Management and shall be established as an organization directly under the President to identify the status of risk management and provide oversight and instructions on prioritizing risks and devising reduction measures.
- 3) Being a chemical manufacturer, MGC shall engage in responsible care (RC) activities as a voluntary undertaking to ensure environmental protection and safety through the life cycle of chemicals from production to disposal.

**(5) System for Ensuring Appropriate Execution of Business by MGC Group**

- 1) While valuing the autonomous management of subsidiaries and affiliates and clarifying the managerial accountability of their Board of Directors, MGC shall establish Rules on Subsidiaries and Affiliates and provide for regular reports on business conditions and prior consultations on important matters.
- 2) In addition to having MGC Corporate Auditors conduct investigation and the Internal Audit Division conduct internal audits and the like as necessary with respect to subsidiaries, appropriate execution of business by subsidiaries and affiliates shall be ensured through the assignment of Directors to the companies and exercise of voting rights.
- 3) MGC's compliance system and risk management system shall, as a rule, be applied to subsidiaries and affiliates. Further, MGC's Compliance Counseling is also available to the officers, employees, their families, contractors, business partners, and the like.

**(6) Matters Related to Employees Assisting with Corporate Auditors' Duties**

Employees shall be assigned to assist Corporate Auditors with their duties pursuant to consultations with Corporate Auditors.

**(7) Matters Related to Independence from Directors of Employees Assisting with Corporate Auditors' Duties**

Employees assigned to assist with the duties of Corporate Auditors shall engage full time in said assignment and shall not be subject to orders and instructions from Directors. The prior consent of the Board of Corporate Auditors is required for their transfer, appraisal, and disciplinary punishment.

**(8) Matters Related to Reports from Directors and Employees to Corporate Auditors**

- 1) In the event Directors or employees find violations of laws and regulations or facts and the like that may cause significant damage to MGC, they must report said violations, facts, and the like to the Board of Corporate Auditors in accordance with laws, regulations, Compliance Rules, and other internal rules.
- 2) Directors and employees must report regularly, and promptly in the case of important matters, on the execution status of business operations, risk management, and implementation of compliance, as well as promptly conduct investigations and provide reports in the event Corporate Auditors request investigations and reports concerning the execution status of business operations.

**(9) Other Systems for Ensuring Effective Auditing of Corporate Auditors**

- 1) Representative Directors shall arrange for regular exchange of views with Corporate Auditors. Further, the Internal Audit Division and the Independent Auditor shall communicate and deliberate with Corporate Auditors to ensure the effectiveness of Corporate Auditors' operations.
- 2) Corporate Auditors may attend Board of Directors Meetings and other important meetings in order to understand the decision making status regarding important matters and the execution status of business operations, in addition to reviewing important documents and requesting explanations of Directors and employees on the execution of business operations.

## **7. Policy on Appropriation of Retained Earnings, etc.**

MGC considers returning earnings to shareholders to be one of the most important tasks in the management of the MGC Group. MGC's basic policy is to determine the optimum amounts for profit distribution to shareholders and for retention to increase MGC's future corporate value based on medium- and long-term perspectives, giving due consideration to such things as the status trend of business performance, capital expenditure plan, and maintenance and improvement of the financial position; to determine dividends from the combined perspective of linkage with performance and stability; and to acquire MGC's own shares with flexibility, observing the market environment, in order to increase capital efficiency.

The year-end dividend payout for FY2010 ended March 31 was kept at the same level as the previous year at ¥4 per share. Since the interim dividend payout was ¥4, the annual dividend per

share for FY2010 is kept at the same level as the previous year at ¥8 per share, resulting in a consolidated dividend payout ratio of 19.1%.

Both the interim and year-end dividend payouts for FY2011 are scheduled at ¥4 per share.

## Consolidated Balance Sheet

(As of March 31, 2011)

(millions of yen)

Account item	Amount	Account item	Amount
(Assets)		(Liabilities)	
Total current assets	244,522	Total current liabilities	182,527
Cash and deposits	47,964	Notes and accounts payable-trade	60,108
Notes and accounts receivable-trade	112,029	Short-term loans payable	69,845
Short-term investment securities	613	Current portion of corporate bonds	20,000
Merchandise and finished goods	36,334	Accrued expenses	11,819
Work in process	10,312	Lease obligations	1,099
Raw materials and supplies	21,570	Income taxes payable	1,869
Deferred tax assets	5,159	Deferred tax liabilities	189
Other	11,316	Provision for bonuses	3,726
Allowance for doubtful accounts	(778)	Provision for loss on disaster	2,185
Total noncurrent assets	332,523	Other	11,683
Property, plant and equipment	176,823	Total noncurrent liabilities	106,260
Buildings and structures, net	50,453	Long-term loans payable	75,850
Machinery, equipment and vehicles, net	66,884	Lease obligations	15,883
Land	22,831	Deferred tax liabilities	1,037
Lease assets, net	17,045	Provision for retirement benefits	5,402
Construction in progress	15,713	Provision for directors' retirement benefits	450
Other, net	3,895	Provision for environment measures	617
Total Intangible assets	4,231	Other provision	234
Goodwill	56	Asset retirement obligations	3,472
Lease assets	39	Other	3,311
Software	2,269	Total liabilities	288,787
Other	1,866	(Net assets)	
Total investments and other assets	151,468	Total shareholders' equity	306,238
Investments in securities	131,047	Capital stock	41,970
Long-term loans receivable	522	Capital surplus	35,591
Deferred tax assets	15,564	Retained earnings	236,597
Other	4,795	Treasury stock	(7,920)
Allowance for doubtful accounts	(462)	Total accumulated other comprehensive income	(28,142)
		Valuation difference on available-for-sale securities	4,197
		Revaluation reserve for land	192
		Foreign currency translation adjustments	(32,531)
		Minority interests	10,161
		Total net assets	288,257
Total assets	577,045	Total liabilities and net assets	577,045

## **Consolidated Statement of Income**

(From April 1, 2010 to March 31, 2011)

(millions of yen)

Account item	Amount	
Net sales		451,033
Cost of sales		370,963
Gross profit		80,070
Selling, general and administrative expenses		56,706
Operating income		23,363
Non-operating income		
Interest and dividend income	1,371	
Equity in earnings of affiliates	17,873	
Other	1,778	21,022
Non-operating expenses		
Interest expenses	2,078	
Other	5,913	7,992
Ordinary income		36,394
Extraordinary income		
Gain on sales of noncurrent assets	751	
Insurance income	730	1,482
Extraordinary loss		
Loss on appraisal of investments in securities	6,479	
Loss on disaster	3,003	
Loss on adjustment for changes of accounting standard for asset retirement obligations	1,777	
Provision for loss on liquidation of subsidiaries and affiliates	1,642	
Impairment loss	598	
Expenditure on environmental improvement measures	296	
Loss on sale of investment securities	137	13,935
Income before income taxes and minority interests		23,940
Income taxes-current	3,866	
Refund of income taxes	(183)	
Income taxes-deferred	(49)	3,633
Income before minority interests		20,306
Minority interests in income		1,356
Net income		18,950

## Consolidated Statement of Changes in Net Assets

(From April 1, 2010 to March 31, 2011)

(millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance as of March 31, 2010	41,970	35,590	222,394	(7,905)	292,048
Changes during consolidated fiscal year					
Dividends from surplus			(3,616)		(3,616)
Net income			18,950		18,950
Change of scope of consolidation			(134)		(134)
Change of scope of equity method			(996)		(996)
Purchase of treasury stock				(15)	(15)
Disposal of treasury stock		1		1	2
Net changes of items other than shareholders' equity					
Total changes of items during the period	-	1	14,203	(14)	14,190
Balance as of March 31, 2011	41,970	35,591	236,597	(7,920)	306,238

	Accumulated other comprehensive income					Minority interests	Total net assets
	Valuation and translation adjustments	Deferred gains or losses on hedges	Revaluation reserve for land	Foreign currency translation adjustments	Total accumulated other comprehensive income		
Balance as of March 31, 2010	(1,013)	(1)	192	(22,013)	(22,835)	8,881	278,094
Changes during consolidated fiscal year							
Dividends of surplus							(3,616)
Net income							18,950
Change of scope of consolidation							(134)
Change of scope of equity method							(996)
Purchase of treasury stock							(15)
Disposal of treasury stock							2
Net changes of items other than shareholders' equity	5,210	1	-	(10,518)	(5,306)	1,279	(4,027)
Total changes of items during the period	5,210	1	-	(10,518)	(5,306)	1,279	10,162
Balance as of March 31, 2011	(4,197)	-	192	(32,531)	(28,142)	10,161	288,257

In accordance with laws and regulations and Article 15 of the Articles of Incorporation, the Notes to Consolidated Financial Statements are posted on MGC's website ([http://www.mgc.co.jp/ir/g\\_meeting.html](http://www.mgc.co.jp/ir/g_meeting.html)) and are not included in this business report.

**Independent Auditors' Audit Report on Consolidated Financial Statements (Certified Copy)**

**INDEPENDENT AUDITORS' REPORT**

May 11, 2011

To: The Board of Directors  
Mitsubishi Gas Chemical Company, Inc.

BDO Toyo & Co.

Koichiro Yoshida, CPA  
Designated Partner,  
Engagement Partner

Chisato Kitayama, CPA  
Designated Partner,  
Engagement Partner

Akio Enokura, CPA  
Designated Partner,  
Engagement Partner

We have audited the consolidated financial statements of namely, the consolidated balance sheet, the consolidated statement of income, the consolidated statement of changes in net assets and the notes to consolidated financial statements of Mitsubishi Gas Chemical Co., Inc. (the "Company") from April 1, 2010 to March 31, 2011, in accordance with paragraph 4, Article 444 of the Companies Act. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements based on our audit.

We conducted our audit in accordance with the auditing standards generally accepted in Japan. Those standards require that we obtain reasonable assurance about whether the consolidated 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 and the related supporting schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides 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 the Company and consolidated subsidiaries and the results of its operations for the period covered thereby in conformity with accounting principles generally accepted in Japan.

**Additional Information**

As stated in Changes to Significant Accounting Policies, "Accounting Standard for Asset Retirement Obligations" has been adopted since the consolidated fiscal year under review.

Our firm or the engagement partners have no interest in the Company which should be disclosed pursuant to the provisions of the Certified Public Accountants Law.

## Non-consolidated Balance Sheet

(As of March 31, 2011)

(millions of yen)

Account item	Amount	Account item	Amount
(Assets)		(Liabilities)	
Total current assets	186,614	Total current liabilities	147,290
Cash and deposits	26,884	Notes payable-trade	2,618
Notes receivable-trade	787	Accounts payable-trade	41,350
Accounts receivable-trade	96,374	Short-term loans payable	62,600
Merchandise and finished goods	23,120	Current portion of corporate bonds with subscription rights to shares	20,000
Work in process	5,600	Lease obligations	17
Raw materials and supplies	12,860	Accrued payable-other	7,105
Prepaid expenses	860	Income taxes payable	94
Deferred tax assets	4,108	Accrued expenses	10,140
Short-term loans receivable	11,021	Deposits received	307
Accounts receivable-other	4,919	Provision for bonuses	2,506
Other	637	Provision for loss on disaster	93
Allowance for doubtful accounts	(560)	Other	454
Total noncurrent assets	210,274	Total noncurrent liabilities	68,270
Total property, plant and equipment	90,112	Long-term loans payable	58,226
Buildings, net	20,566	Lease obligations	65
Structures, net	10,588	Provision for retirement benefits	1,394
Machinery and equipment, net	34,177	Provision for directors' retirement benefits	149
Vehicles, net	79	Provision for environmental measures	617
Tools and appliances, net	2,763	Asset retirement obligations	3,275
Land	15,873	Other	4,542
Lease assets, net	83		
Construction in progress	5,980	Total liabilities	215,561
Total intangible assets	2,468	(Net assets)	
Goodwill	136	Total shareholders' equity	177,257
Patent right	480	Capital stock	41,970
Software	1,661	Total capital surpluses	35,721
Other	189	Legal capital surplus	35,668
Total investments and other assets	117,693	Other capital surplus	52
Investments in securities	38,378	Total earned surpluses	107,485
Stocks and investments in capital of subsidiaries and affiliates	63,486	Legal retained earnings	6,999
Long-term loans receivable	102	Other retained earnings	100,486
Long-term prepaid expenses	987	Reserve for mine prospecting	1,849
Deferred tax assets	13,006	Reserve for advanced depreciation of noncurrent assets	2,817
Other	1,769	General reserve	76,500
Allowance for doubtful accounts	(39)	Retained earnings brought forward	19,319
		Treasury stock	(7,920)
		Total valuation and translation adjustments	4,070
		Valuation difference on available-for- sale securities	4,070
		Total net assets	181,327
Total assets	396,888	Total liabilities and net assets	396,888

## Non-consolidated Statement of Income

(From April 1, 2010 to March 31, 2011)

(millions of yen)

Account item	Amount	
Net sales		340,007
Cost of finished goods sold		297,190
Gross profit		42,816
Selling, general and administrative expenses		35,829
Operating loss		6,987
Non-operating income		
Interest and dividend income	11,832	
Other	1,808	13,641
Non-operating expenses		
Interest expenses	1,295	
Other	4,981	6,276
Ordinary income		14,351
Extraordinary income		
Insurance income	730	
Gain on liquidation of subsidiaries and affiliates	337	1,067
Extraordinary loss		
Loss on appraisal of investments in securities	6,356	
Loss on appraisal of stocks of subsidiaries and affiliates	2,075	
Loss on adjustment for changes of accounting standard for asset retirement obligations	1,589	
Impairment loss	598	
Loss on sale of stocks of subsidiaries and affiliates	462	
Loss on disaster	301	
Expenditure on environmental improvement measures	296	11,679
Income before income taxes		3,739
Income taxes-current	352	
Refund of income taxes	(183)	
Income taxes-deferred	(1,153)	(984)
Net income		4,724

## Non Consolidated Statement of Changes in Net Assets

(April 1, 2010 to March 31, 2011)

(millions of yen)

	Shareholders' Equity					
	Capital stock	Capital surplus			Retained Earnings	
		Legal capital surplus	Other capital surplus	Total capital surplus	Legal retained earnings	Other retained earnings (Note)
Balance as of March 31, 2010	41,970	35,668	51	35,720	6,999	99,378
Changes during fiscal year						
Dividends from surplus						(3,616)
Net income						4,724
Purchase of treasury stock						
Disposal of treasury stock			1	1		
Net changes of items other than shareholders' equity						
Total changes of items during the period	-	-	1	1	-	1,108
Balance as of March 31, 2011	41,970	35,668	52	35,721	6,999	100,486

	Shareholders' equity			Valuation and translation adjustments	Total Net Assets
	Retained earnings	Treasury stock	Total Shareholders' equity	Unrealized gain (loss) on other securities	
	Total retained earnings				
Balance as of March 31, 2010	106,377	(7,905)	176,162	(1,195)	174,966
Changes during fiscal year					
Dividends from surplus	(3,616)		(3,616)		(3,616)
Net income	4,724		4,724		4,724
Purchase of treasury stock		(15)	(15)		(15)
Disposal of treasury stock		1	2		2
Net changes of items other than shareholders' equity				5,265	5,265
Total changes of items during the period	1,108	(14)	1,094	5,265	6,360
Balance as of March 31, 2011	107,485	(7,920)	177,257	4,070	181,327

Note: Itemization of Other Retained Earnings

	Reserve for research and development	Reserve for retirement allowance	Reserve for foreign operation	Reserve for capital investment	Reserve for mine prospecting
Balance as of March 31, 2010	1,500	500	7,500	1,700	1,226
Changes during fiscal year					
Dividends of surplus					
Provision of general reserve					
Net income					
Reversal of reserve for research and development	(1,500)				
Reversal of reserve for retirement allowance		(500)			
Reversal of reserve for foreign operation			(7,500)		
Reversal of Reserve for capital investment				(1,700)	
Reversal of reserve for advanced depreciation of noncurrent assets					
Provision of reserve for mine prospecting					622
Total changes of items during the period	(1,500)	(500)	(7,500)	(1,700)	622
Balance as of March 31, 2011	-	-	-	-	1,849

	Reserve for advanced depreciation of noncurrent assets	General reserve	Retained earnings brought forward	Total
Balance as of March 31, 2010	2,981	65,300	18,669	99,378
Changes during fiscal year				
Dividends of surplus			(3,616)	(3,616)
Provision of general reserve		11,200		11,200
Net income			4,724	4,724
Reversal of reserve for research and development				(1,500)
Reversal of reserve for retirement allowance				(500)
Reversal of reserve for foreign operation				(7,500)
Reversal of Reserve for capital investment				(1,700)
Reversal of reserve for advanced depreciation of noncurrent assets	(164)		164	-
Provision of reserve for mine prospecting			(622)	-
Total changes of items during the period	(164)	11,200	649	1,108
Balance as of March 31, 2011	2,817	76,500	19,319	100,486

In accordance with laws and regulations and Article 15 of the Articles of Incorporation, the Notes to Non-consolidated Financial Statements are posted on MGC's website ([http://www.mgc.co.jp/ir/g\\_meeting.html](http://www.mgc.co.jp/ir/g_meeting.html)) and are not included in this business report.

**Independent Auditors' Audit Report (Certified Copy)**

**INDEPENDENT AUDITORS' REPORT**

May 11, 2011

To: The Board of Directors  
Mitsubishi Gas Chemical Company, Inc.

BDO Toyo & Co.

Koichiro Yoshida, CPA  
Designated Partner,  
Engagement Partner

Chisato Kitayama, CPA  
Designated Partner,  
Engagement Partner

Akio Enokura, CPA  
Designated Partner,  
Engagement Partner

We have audited the financial statements of namely, the balance sheet, the statement of income, the statement of changes in net assets, the notes to financial statements and the supporting schedules of Mitsubishi Gas Chemical Co., Inc. (the "Company") for the 84th business year from April 1, 2010 to March 31, 2011, in accordance with item 1, paragraph 2, Article 436 of the Companies Act. These financial statements and the related supporting schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and the related supporting schedules based on our audit.

We conducted our audit in accordance with the auditing standards generally accepted in Japan. Those standards require that we obtain reasonable assurance about whether the financial statements and the related supporting schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and the related supporting schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements and the related supporting schedules. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements and the related supporting schedules referred to above present fairly, in all material respects, the financial position of the Company and the results of its operations for the period covered thereby in conformity with accounting principles generally accepted in Japan.

**Additional Information**

As stated in Changes to Significant Accounting Policies, "Accounting Standard for Asset Retirement Obligations" has been adopted since the business year under review.

Our firm or the engagement partners have no interest in the Company which should be disclosed pursuant to the provisions of the Certified Public Accountants Law.

## Board of Corporate Auditors' Audit Report (Certified Copy)

### AUDIT REPORT

We, the Board of Corporate Auditors, deliberated and prepared this audit report as follows on the execution of duties by MGC Directors during the 84th business term from April 1, 2010 to March 31, 2011, based on the audit report prepared by each Corporate Auditor:

#### 1. Method and Description of Audit by Corporate Auditors and Board of Auditors

We determined the audit policy, audit duty assignments and the like, received reports from each Corporate Auditor on individual audit status and results, received reports from the Directors and Independent Auditor on the status of the execution of their duties, and requested explanation as necessary.

Each Corporate Auditor made efforts to collect information and enhance the auditing environment by communicating with the Directors, Internal Audit Division, other employees, and others in accordance with the Corporate Auditors' Audit Standards, audit policy, audit duties, and the like as determined by the Board of Corporate Auditors, attended the Board of Directors' Meetings and other important meetings, received reports from Directors, employees and others on the status of execution of their duties, requested explanation as necessary, examined important decision-rendering documents and other documents, and investigated the state of activities and assets at the head office and principal business offices. We also periodically received reports from and asked explanations as necessary for Directors and employees etc., and expressed our opinions regarding the establishment and the state of operations of the system for ensuring that duties of Directors are executed in compliance with laws and regulations of Japan and the Articles of Incorporation of the Company as is described in the Business Report as well as of other systems prescribed in Article 100, paragraph (1) and paragraph (3) of the Ordinance for Enforcement of the Companies Act as systems necessary to ensure the properness of operations of a stock company (internal control system).

In terms of internal controls over financing reporting, reports on the assessment and audit status of said internal controls were received from the directors and other officers, and from the independent auditors, BDO Toyo & Co., and explanations were requested as necessary.

Efforts were made to communicate and exchange information with the directors and corporate auditors of subsidiaries, requested business reports therefrom as necessary, and visited major subsidiaries to investigate the state of activities and assets. The business report and its supplementary schedules for this business term were examined based on the foregoing method.

Further, we monitored and verified that the Independent Auditor maintained its independence and performed its auditing duties adequately, as well as received reports from the Independent Auditor on the performance status of its duties and requested explanations as necessary. We received a notice from the Independent Auditors to the effect that "structures for ensuring that duties are appropriately performed" (matters stipulated in the items under Article 131 of the Regulations on Corporate Accounting) were being improved pursuant to Quality Management Standards for Auditing (October 28, 2005; Business Accounting Council) and requested explanations as necessary. The non-consolidated financial statements (non-consolidated balance sheet, non-consolidated statement of income, non-consolidated statement on changes in net assets and notes to non-consolidated financial statements), their supplementary schedules, and consolidated financial statements (consolidated balance sheet, consolidated statement of income, consolidated statement on changes in net assets and notes to the consolidated financial statements) for this business term were examined based on the foregoing method.

#### 2. Results of Audit

##### (1) Audit Result of Business Report, etc.

- 1) The business report and its supporting schedules are recognized as correctly present the state of MGC in accordance with the laws, regulations and the Articles of Incorporation.
- 2) No dishonest acts or material violations of laws, regulations or the Articles of Incorporation were recognized in connection with the performance by Directors of their duties.

- 3) We acknowledge that the Board of Directors' resolutions with respect to the internal control systems are appropriate. We also acknowledge that in terms of the development and maintenance of said systems continuous improvements are being made. We did not find any matter to be mentioned with respect to internal controls over financial reporting.
- (2) Audit Result of Non-Consolidated Financial Statements and Their Supplementary Schedule  
We are of the opinion that the method and results of the audit performed by the Independent Auditor, BDO Toyo & Co., are appropriate.
- (3) Audit Result of Consolidated Financial Statements  
We are of the opinion that the method and results of the audit performed by the Independent Auditor, BDO Toyo & Co., are appropriate.

May 23, 2011

Mitsubishi Gas Chemical Company, Inc. Board of Auditors

Standing Corporate Auditor  
(Outside Corporate Auditor)  
Ichiei Noguchi

Standing Corporate Auditor  
Shoji Uematsu

Standing Corporate Auditor  
Kuniaki Kawakami

Outside Corporate Auditor  
Wataru Taguchi

Outside Corporate Auditor  
Yoshimasa Nihei

- END -