MGC

Annual Report 2014

Fiscal year ended March 31, 2014

2011

2012

2013

2014

Steady Operational Focus to Enhance Our Corporate Presence and Importance in Society

MITSUBISHI GAS CHEMICAL COMPANY, INC.

Message from the Management

Toshikiyo Kurai
Representative Director, President

Kazuo Sakai
Representative Director, Chairman

In the consolidated fiscal year under review (fiscal 2013), the Japanese economy showed signs of slow recovery. Despite concerns over an economic downturn in overseas markets due to slower growth of emerging economies, Japan enjoyed improvements in the export environment due to the weaker yen and stable domestic demand.

The MGC Group achieved an increase in revenue compared with the previous fiscal year. Major contributions came from an overall increase in sales prices due to the weaker yen and the higher market price of methanol.

Group operating income was at the prior-year level. Positive contributions came from the improved profitability of export products thanks to the weaker yen, and from lower fixed costs for meta-xylene and purified isophthalic acid due to the structural reform conducted during the previous fiscal year. These effects were however offset by factors such as the negative impact of the deteriorating business environment of engineering plastics.

Despite a suspension of production by our methanol production company in Brunei, equity in earnings of affiliates increased from the previous year, particularly equity in the earnings of our methanol production company in Saudi Arabia, as a result of higher market prices for methanol and the weaker yen.

The Group achieved a significant improvement in net income in fiscal 2013. Despite the negative impact of the impairment of noncurrent assets recognized by the MGC polycarbonate subsidiary in China, extraordinary items improved due to lower expenses for the improvement of business structure. There was also an improvement in income taxes-deferred compared with the figure for the previous fiscal year, which was affected by a major reversal of deferred income taxes.

As a result, consolidated net sales increased by ¥66,690 million, or 14.3%, to ¥534,670 million, and operating income decreased by ¥5 million, or 0.0%, to ¥11,416 million. Equity in earnings of affiliates increased by ¥1,420 million, or 7.5%, to ¥20,466 million, and consolidated net income for the period improved by ¥22,764 million, to ¥14,971 million.

Year-end dividends of ¥6 per share was the same as the previous year. As the interim dividends were also ¥6 per share in the period, annual dividends were also the same as the previous year at ¥12 per share.

In core businesses, MGC has a wide range of products, from chemicals and raw materials such as methanol, hydrogen peroxide, and polycarbonates to high-performance products such as sheets and films, electronics chemicals, BT materials, and the AGELESS® oxygen absorber. This accounts for our tangible presence in all market segments. MGC will continue to strengthen and expand core businesses. In the segment of chemicals and raw materials, our low-cost production system will be enhanced by obtaining access to material sources, producing overseas, and improving processes. In high-performance products, a development platform that allows MGC to launch differentiated products while closely exchanging information with major global customers will be reinforced.

Meanwhile, the MGC polycarbonate subsidiary in China inevitably recognized an impairment of noncurrent assets. The Chinese company faced difficulty in remaining profitable and expected to take time to recover. As far as loss-making operations are concerned, MGC will reform its business structure at a fast pace in response to changes in the business environment.

Where the development of new businesses is concerned, MGC set up the "Next Generation Business Project" to reinforce its existing research and development. Integrating internal resources through a cross-organizational approach, this organization has been operating successfully. In the future, it will accelerate its work even further.

To achieve sustainable growth, we need to improve management quality further in all respects. To "improve total enterprise quality in support of sustainable growth," we will squarely face challenges such as fostering global human resources, improving the ability of the manufacturing floor, achieving production with low environmental impact, reducing costs, and improving group-wide business efficiency.

June 2014

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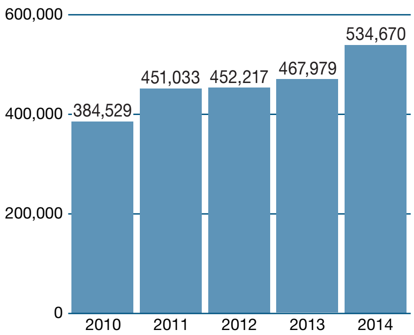
Financial Highlights

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

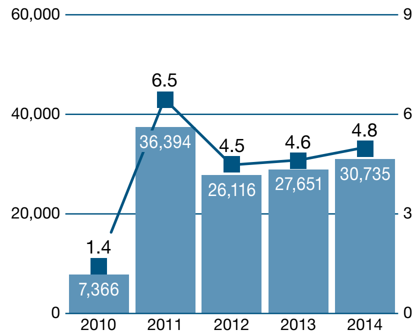
	Millions of yen					Thousands of U.S. dollars
	2014	2013	2012	2011	2010	**2014**
For the year:						
Net sales	**¥534,670**	¥467,979	¥452,217	¥451,033	¥384,529	**$5,195,006**
Natural Gas Chemicals	**185,276**	153,995	153,164	145,564	110,503	**1,800,194**
Aromatic Chemicals	**139,596**	128,222	125,301	111,182	94,475	**1,356,354**
Specialty Chemicals	**153,382**	131,611	121,047	134,016	118,311	**1,490,303**
Information & Advanced Materials	**55,601**	53,274	51,859	59,508	60,376	**540,235**
Other	**813**	875	844	763	864	**7,899**
Gross profit	**74,077**	67,967	66,486	80,070	57,790	**719,753**
Selling, general and administrative expenses	**62,660**	56,545	57,402	56,706	53,699	**608,822**
Operating income	**11,416**	11,421	9,083	23,364	4,091	**110,921**
EBITDA	**44,227**	35,417	55,229	54,970	39,225	**429,722**
Ordinary income	**30,735**	27,651	26,116	36,394	7,366	**298,630**
Net income	**14,971**	(7,793)	12,327	18,950	5,828	**145,462**
R&D costs	**16,122**	15,332	17,449	16,380	16,199	**156,646**
Capital expenditures	**25,409**	30,982	42,423	35,401	27,567	**246,881**
Depreciation and amortization	**23,528**	23,096	27,763	28,950	29,536	**228,605**
At year end:						
Total assets	**¥658,117**	¥613,908	¥595,250	¥577,046	¥539,431	**6,394,452**
Current assets	**287,921**	261,397	254,037	244,523	218,083	**2,797,522**
Current liabilities	**178,896**	195,438	193,464	182,528	160,298	**1,738,204**
Working capital	**109,024**	65,958	60,572	61,995	57,785	**1,059,308**
Total net assets	**324,138**	294,895	292,111	288,258	278,095	**3,149,417**
Interest-bearing debt	**204,489**	182,644	185,185	182,679	165,848	**1,986,873**
Per share of common stock (Yen/U.S. dollars):						
Net income (loss)—basic	**¥ 33.14**	¥ (17.25)	¥ 27.28	¥ 41.92	¥ 12.89	**$ 0.32**
Net income—diluted	**—**	—	27.01	41.00	12.61	**—**
Net assets	**691.88**	628.40	623.46	615.25	595.56	**6.72**
Cash dividends	**12.00**	12.00	12.00	8.00	8.00	**0.12**
Ratios:						
Gross profit margin (%)	**13.9**	14.5	14.7	17.8	15.0	
Operating income margin (%)	**2.1**	2.4	2.0	5.2	1.1	
Return on sales (%)	**2.8**	(1.7)	2.7	4.2	1.5	
Return on assets (ROA) (%)	**4.8**	4.6	4.5	6.5	1.4	
Return on equity (ROE) (%)	**5.0**	(2.8)	4.4	6.9	2.2	
Current ratio (times)	**1.61**	1.34	1.31	1.34	1.36	
Net assets ratio (%)	**47.5**	46.2	47.3	48.2	49.9	
Number of employees	**5,445**	5,323	5,216	4,979	4,920	

Notes: 1. U.S. dollar amounts are translated from yen, for convenience only, at the approximate rate of ¥102.92 = US$1 prevailing on March 31, 2014.
2. EBITDA = Net income before taxes + Interest expense + Depreciation and amortization
3. Ordinary income, a common indicator in Japan, corresponds to income before income taxes and minority interests, less any extraordinary profit or loss.
4. Cash dividends for each year represent the total of the interim dividend and the year-end dividend declared as applicable to the respective year.
5. Return on assets = Ordinary income/Average total assets
6. The calculation of return on equity uses net assets excluding minority interests.

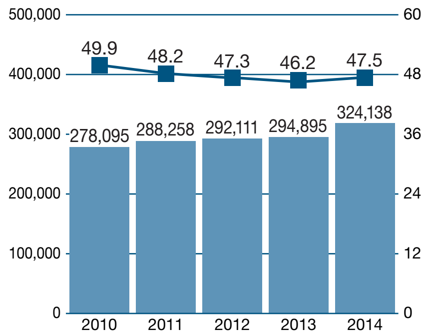
Net Sales
(Millions of yen)



Ordinary income and ROA
(Millions of yen, %)



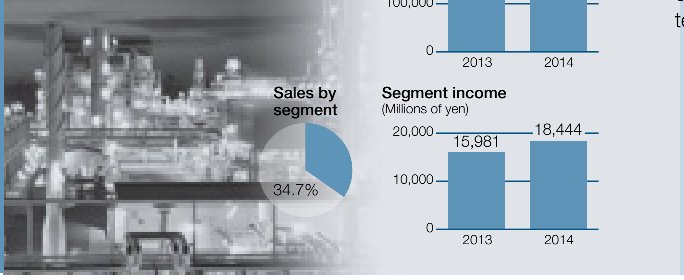
Net assets and Equity ratio
(Millions of yen, %)



MGC at a Glance

Mitsubishi Gas Chemical Company, Inc. (MGC) was established in 1951 through a merger between Japan Gas Chemical Co., Inc. and Mitsubishi Edogawa Chemical Co., Ltd. Today the MGC Group includes over 120 affiliates at home and abroad. Starting in 2000, MGC introduced an “internal company” system to broadly develop its businesses — spanning basic chemicals to functional materials and products — based on its four companies: Natural Gas Chemicals, Aromatic Chemicals, Specialty Chemicals, and Information & Advanced Materials. In addition to exploration of natural gas and petroleum and development of geothermal energy, MGC is also at the global forefront of the promotion of the next-generation clean energy, DME. MGC is active worldwide in a variety of sectors, including automobiles, electronics, life sciences, the environment and energy. Since its establishment, MGC has continually aimed to create its own technologies, and as a result, it

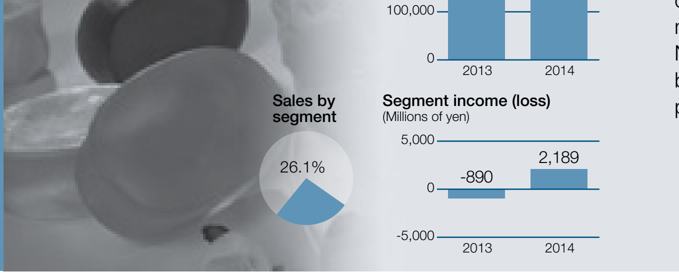
NATURAL GAS CHEMICALS



Outline

Starting from the raw material of natural gas, deploys the methanol chain and ammonia chain across a wide field ranging from basic chemicals to functional materials. Also promoting the use of biotechnology and the development of energy and resources.

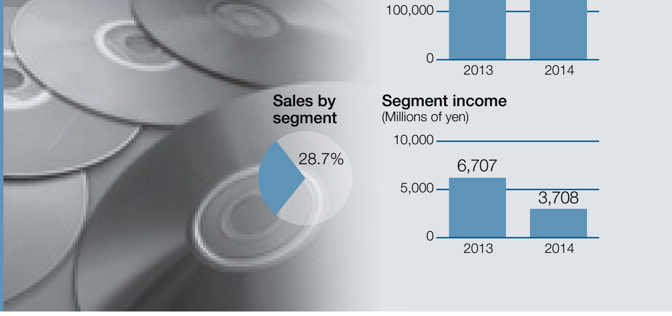
AROMATIC CHEMICALS



Outline

Develops unique aromatic products centered on the meta-xylene chain, including aromatic aldehydes, which are used as intermediates in pharmaceuticals, agrochemicals and fragrances, and monomers and additives for resins. One of our core products, Nylon-MXD6, is a derivative of meta-xylene that is used for PET bottles and food packaging because of its excellent gas barrier property.

SPECIALTY CHEMICALS



Outline

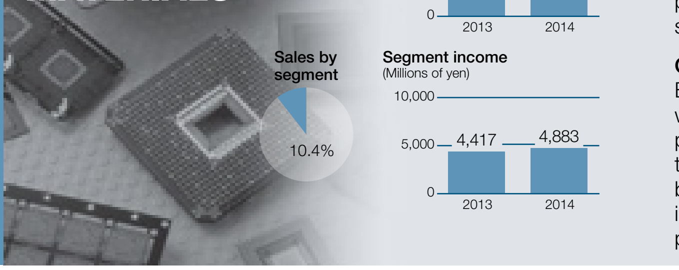
Inorganic Chemicals

Develops a range of products from industrial-use hydrogen peroxide, to chemicals for use in the electronics industry and environmental agents. Also involved in the development of functional thermosetting resin, and has a product lineup that ranges from monomers for high refractive index plastic lenses to photoresist monomers.

Engineering Plastics

Mainly involved in development of engineering plastics, including polycarbonate and polyacetal. Also develops special polycarbonate for specific optical applications as well as polycarbonate sheet & film with excellent surface coating technology.

INFORMATION AND ADVANCED MATERIALS



Outline

Electronic Materials

Mainly involved in laminate materials for printed circuit boards and entry sheets, used in mechanical drilling of printed circuit boards. Its core product BT laminate material led the move towards using plastic material for semiconductor packaging, and it still remains synonymous with semiconductor package boards.

Oxygen Absorbers

Expanding the business with a focus on oxygen absorber AGELESS® which was developed based on the idea to create an oxygen-free packaging environment that prevents food deterioration by oxidation. Currently it is not only used for preserving food freshness but also in other areas as a total solution for maintaining quality, including for pharmaceuticals, medical devices, electronic/metal parts and important cultural assets.

has developed over 90% of the products it handles.

A wide array of MGC technologies appear in a broad range of business sectors, with the MGC Group playing a variety of roles, including its activities as a global methanol supplier, a laminate maker for plastic packaging for semiconductors, a key Asian engineering plastic maker, a maker of chemicals for use in the global electronics industry, a developer and maker of the AGELESS® oxygen absorber that revolutionized the food distribution sector, and the world's first petrochemical maker to succeed in industrially producing highly-pure meta-xylene.

The "Gas Chemical" in MGC's name comes from its predecessor, Japan Gas Chemical Co., Inc., which aimed to be a chemicals company that used domestic natural gas rather than depend on imported raw materials.

Major products

Methanol, Formalin, Methanol synthesis catalyst, Ammonia, Amine, Polyol, Methyl methacrylate, Dimethyl ether (DME)

Subsidiaries: 12 companies

- Japan Finechem Co., Inc. • Japan Pionics Co., Ltd.
- A&C Co., Inc. • Kinoe Terminal Co., Inc.
- Marine Transport and Terminal Co., Ltd. • Kokuka Sangyo Co., Ltd.
- Polyols Asia Co., Ltd. • Iwai Kaiun Ltd. • KSK (Panama) Corp.
- Glorious & KSK (Panama) S.A. • Vigorous & KSK (Panama) S.A.
- Courageous & KSK (Panama) S.A.

Affiliates: 6 companies

- Japan Saudi Arabia Methanol Co., Inc.
- Metanol de Oriente, Metor S.A.
- Brunei Methanol Company Sdn. Bhd.
- Japan Acryace Corporation • Toho Earthtech, Inc.
- Te An Ling Tian (Nanjing) Fine Chemical Corporation

Major products

Meta-xylene, Meta-xylenediamine, Nylon-MXD6, Aromatic aldehydes, Purified isophthalic acid, Plasticizers

Subsidiaries: 5 companies

- A.G. International Chemical Co., Inc.
- MGC Advanced Polymers, Inc. • Fudow Co., Ltd.
- Fudow Techno Co., Ltd. • Taiyo Industry Co., Ltd.

Affiliates: 2 companies

- Mizushima Aroma Co., Ltd.
- CG Ester Corporation

Major products

Inorganic Chemicals

Hydrogen peroxide, Chemicals for use in the electronics industry, Persulfates, Organic titanates, Water treatment agents, Environmental agents, Monomers for high refractive index plastic lenses, Adamantane derivatives

Engineering Plastics

Polycarbonate Iupilon®, Polyacetal Iupital®, Polyamide MXD6 Reny®, Polycarbonate sheet Iupilon® sheet, Special polycarbonate Iupizeta®

Subsidiaries: 12 companies

- Mitsubishi Gas Chemical Engineering Plastics (Shanghai) Co., Ltd.
- Eiwa Chemical Ind. Co., Ltd. • Kyoudou Kasankasuiso Corporation
- P. T. Peroksida Indonesia Pratama
- Samyoung Pure Chemicals Co., Ltd.
- MGC Pure Chemicals America, Inc. • Thai Polyacetal Co., Ltd.
- Toyo Kagaku Co., Ltd. • MGC Filsheet Co., Ltd.
- MGC Pure Chemicals Singapore Pte. Ltd.
- MGC Pure Chemicals Taiwan, Inc.
- Suzhou MGC Suhua Peroxide Co., Ltd.

Affiliates: 4 companies

- Mitsubishi Engineering-Plastics Corporation
- Korea Engineering Plastics Co., Ltd.
- Otsuka-MGC Chemical Co., Inc. • Thai Polycarbonate Co., Ltd.

Major products

Electronic Materials

Laminate materials for printed circuit boards (epoxy-related materials, BT-related materials), entry sheets ("LE sheets") used for the mechanical drilling of printed circuit boards

Oxygen Absorbers

Oxygen absorber AGELESS®, PharmaKeep®, RP System®, anaerobic cultivation system AnaeroPack®, desiccant AGELESS DRY®

Subsidiaries: 4 companies

- MGC Electrotechno Co., Ltd.
- Yonezawa Dia Elecronics Co., Inc.
- Japan Circuit Industrial Co., Ltd.
- MGC Electrotechno (Thailand) Co., Ltd.

SUBSIDIARIES: 7 COMPANIES

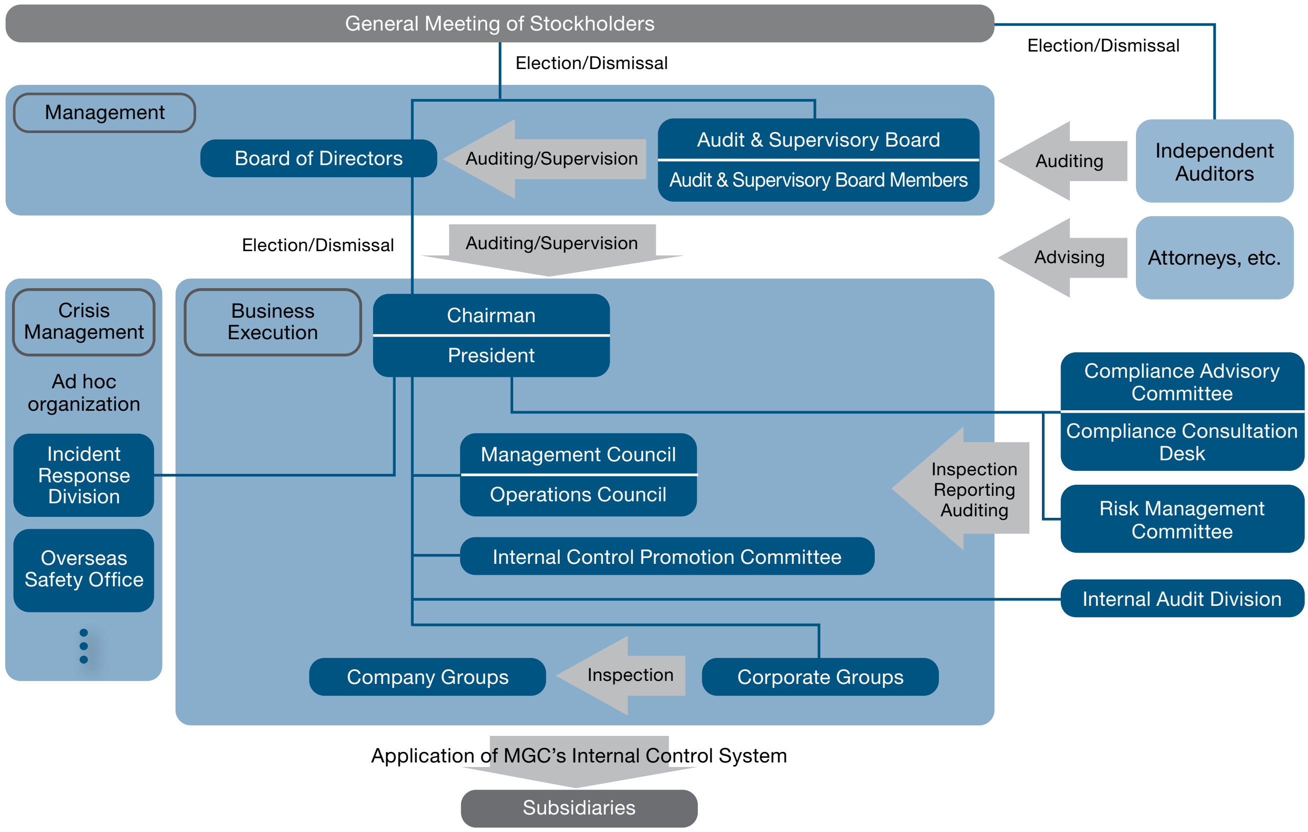
- Tokyo Shokai, Ltd.
- Ryoko Chemical Co., Ltd.
- Ryoyo Trading Co., Ltd.
- Mitsubishi Gas Chemical America, Inc.
- Mitsubishi Gas Chemical Singapore Pte. Ltd.
- Ryowa Enterprise Co., Ltd.
- MGC Finance Co., Ltd.

AFFILIATES: 2 COMPANIES

- Japan U-Pica Co., Ltd.
- JSP Corporation

Corporate Governance

Corporate Governance Framework



Corporate Governance Policy

At Mitsubishi Gas Chemical Company, Inc. (MGC), the establishment and maintenance of a sound and transparent management system is a key management issue, and a number of measures are being pursued with the aim of improving transparency, ensuring fairness, and accelerating decision-making.

MGC has adopted an executive officer system and positioned the Board of Directors as the organization responsible for deciding important management issues, including basic policies, and for overseeing business execution. This has strengthened governance and enhanced the operational framework by clarifying functions and responsibilities. MGC has also adopted an internal company system for its business divisions, which has clarified responsibility and improved management performance.

MGC aims to enhance the transparency and fairness of management through internal audits performed by the company's Board of Corporate Auditors and will develop effective corporate governance through appropriate disclosure of management information.

Corporate Governance System

MGC has adopted a corporate auditing system and, to carry out the functions of business execution, uses an executive officer system, which clearly separates the decision making of management and supervisory functions from business executions. The Board of Directors decides the basic policies of management, as well as important matters relating to items decreed by law and articles of incorporation. The Board of Directors oversees business execution, while executive officers carry out the functions of business execution.

For matters arising in the course of its business execution that may have a significant effect on the company, MGC makes its decisions on the basis of multifaceted deliberations. The Management Council deliberates on management policies and the Operations Council deliberates on specific plans for the implementation of these. MGC receives advice from attorneys and other experts when necessary in the course of its decision making and business execution. In MGC's articles of incorporation, the Board of Directors is stipulated to comprise 15 or fewer members and as of June 25, 2014 there are 11 members.

MGC's Audit & Supervisory Board is comprised of four members (three full-time) and of these, two are outside members. The outside members have no special interests in the company. Their tasks are to attend important meetings such as those held by the Board of Directors, to conduct audits of each division and surveys of subsidiaries, to strive to ascertain the process for important decision-making and the state of business execution, to ensure the rationality of the decisions and compliance with the law and corporate ethics, and in addition, to audit the execution of business. MGC has assigned full-time staff to aid all of its Audit & Supervisory Board Members in the execution of their duties.

Board of Directors, Audit & Supervisory Board Members and Executive Officers

Representative Director, Chairman
Kazuo Sakai

Representative Director, President
Toshikiyo Kurai

Representative Directors, Senior Managing Executive Officers
Takayuki Watanabe
Yukio Sakai

Directors, Managing Executive Officers
Katsuhiko Sugita
Yoshihiro Yamane
Kunio Kawa
Katsushige Hayashi
Masahiro Johno
Kenji Inamasa

Outside Director
Yoshimasa Nihei

Audit & Supervisory Board Members
Kunio Oya
Jin Hata

Outside Audit & Supervisory Board Members
Takashi Kimura
Yasuomi Matsuyama

Executive Officers
Takafumi Abe
Susumu Yoshida
Motoyoshi Onobori
Yasuhiro Sato
Tsuneaki Iwakiri
Masashi Fujii
Takuji Shitara
Chiharu Kubota
Masamichi Mizukami
Toshiya Takagi
Masato Inari
Yasushi Kosaka

Executive General Manager
Akira Ishiwada

Decision Policies and Method for Officer Compensation

Director Compensation

Policies for deciding compensation and other benefits for directors are decided by the Board of Directors. Directors' compensation comprises basic compensation and a reserved retirement benefit and is decided in accordance with each director's position and in consideration of MGC's operational status and other companies' standards, etc. The basic compensation is a fixed amount of compensation corresponding to each director's position in MGC limited to the amount stipulated by the General Meeting of Stockholders, and 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, separate from monthly compensation, paid upon retirement as part of the compensation for services performed by each director other than outside directors and is calculated in annual increments and reserved pursuant to a resolution by a General Meeting of Stockholders.

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

Auditor Compensation

Corporate auditors' compensation consists of a basic compensation amount only limited to the amount stipulated by the General Meeting of Stockholders and is determined in consultation with corporate auditors.

Compensation (For the Fiscal Year 2013)

Classification	Total amount of compensation (¥ million)	Total amount of compensation by type (¥ million)		Number of subject executives (persons)
		Basic compensation	Reserved retirement benefits	
Director (other than outside directors)	460	362	97	12
Audit & Supervisory Board Members (other than outside members)	51	51	—	3
Outside Officers	42	42	—	5
Total	554	456	97	20

Note: In the above reserved retirement benefits for directors, provision has been made for the current fiscal year with respect to reserved retirement benefits for 12 directors other than outside directors. At the 87th Ordinary General Meeting of Stockholders held on June 25, 2014, it was resolved to provide a total of ¥99 million in reserved retirement benefits for payment to 10 directors other than outside directors at the time of their retirement with respect to the performance of their duties from June 25, 2013 to June 25, 2014.

Management's Discussion and Analysis

1. Results of Operations

1) Net Sales & Operating Income

The MGC Group achieved an increase in revenue compared with the previous fiscal year. Major contributions came from an overall increase in sales prices due to the weaker yen and the higher market price of methanol.

Group operating income was at the prior-year level. Positive contributions came from the improved profitability of export products thanks to the weaker yen, and from lower fixed costs for meta-xylene and purified isophthalic acid due to the structural reform conducted during the previous fiscal year. These effects were however offset by factors such as the negative impact of the deteriorating business environment for engineering plastics.

As a result, consolidated net sales increased ¥66,690 million, or 14.3%, to ¥534,670 million, and operating income decreased ¥5 million, or 0.0%, to ¥11,416 million.

2) Non-Operating Revenue

Non-operating revenue increased by ¥3,271 million, or 13.6%, to ¥27,395 million. The main cause of the increase was higher gains on equity in the earnings of affiliates.

Non-operating expenses decreased by ¥4,697 million, or 18.2%, to ¥21,108 million. The decrease was primarily the result of lower appropriations for business restructuring charges.

As a result of the above, income before income taxes and minority interests increased by ¥7,964 million, or 81.8%, to ¥17,703 million and net income for the year was ¥14,971 million, an improvement of ¥22,764 million from the previous year.

3) Dividend

Year-end dividends of ¥6 per share were the same as the previous year. As the interim dividends were also ¥6 per share in the period, annual dividends were also the same as the previous year at ¥12 per share.

2. Segment Information

1) Natural Gas Chemicals

The methanol business achieved an increase in revenue but posted lower earnings. Although the weaker yen and an increase in market prices pushed up sales prices, higher purchasing costs undermined the profitability of the business.

Methanol and ammonia-based chemicals posted growth in both revenue and earnings. Despite increases in the prices of major materials including methanol, positive effects came from higher sales prices of exports due to the weaker yen and a reduction in repair costs for ammonia-related equipment.

Crude oil and other energy sources achieved at the prior-year level. This is because the reduction in the sales volume of crude oil was offset by increases in unit sales price.

Some of the subsidiaries in this segment also achieved growth in earnings. This was due to improved profitability resulting from the structural reform that has been conducted since fiscal 2012.

Consolidated net sales in the Natural Gas Chemicals segment for the year ended March 31, 2014 increased by ¥31,280 million, or 20.3%, to 185,276 million, and operating income increased by ¥920 million, or 51.6%, to ¥2,704 million. An equity in earnings of affiliates of ¥16,937 million, coming primarily from overseas methanol producing companies, was posted, resulting in segment income of ¥18,444 million, an increase of ¥2,463 million, or 15.4%.

2) Aromatic Chemicals

Specialty aromatic chemical products posted year-on-year growth in both revenue and earnings. Not only were exports of core products more profitable due to the weaker yen, but there was also an increase in the sales volume of aromatic aldehydes.

General-purpose aromatic chemicals such as purified isophthalic acid grew in both revenue and earnings. This was partly because fixed costs were reduced by the structural reform conducted during fiscal 2012. Another reason was that the weaker yen made exports more profitable.

Consolidated net sales in the Aromatic Chemicals Company segment increased by ¥11,374 million, or 8.9%, to ¥139,596 million, and operating income improved ¥2,197 million, or 289.9% to ¥2,955 million, and segment income improved ¥3,080 million, to ¥2,189 million.

3) Specialty Chemicals

Inorganic chemicals achieved earnings at the prior-year level. A decline in the profitability of domestic hydrogen peroxide operations was offset by the improved profitability of the Chinese subsidiary.

Electronic chemicals achieved growth in both revenue and earnings. This positive trend was primarily due to steadily growing sales volume of super-pure hydrogen peroxide and higher sales volumes of hybrid chemicals for LCD applications in overseas markets.

In the engineering plastics business, polycarbonates suffered a significant decline in earnings as they were affected by shrinking margins due to the excess supply and sluggish demand. The polyacetal business also posted lower earnings because of shrinking margins due to the reductions in sales volumes and an increase in the price of methanol as a raw material.

Polycarbonate sheets and films marked higher net sales and lower earnings. Despite a higher sales volume of films for use in flat panel displays, there was an increase in fixed costs due partly to new acquisitions of equipment.

Consolidated net sales in the Specialty Chemicals segment increased by ¥21,771 million, or 16.5%, to ¥153,382 million, and operating income declined by ¥3,156 million, or 45.3%, to ¥3,808 million, and segment income declined by ¥2,998 million, or 44.7%, to ¥3,708 million.

4) Information & Advanced materials

In electronic materials, BT materials for semiconductor packaging, which represent MGC's core segment for electronic materials, achieved an increase in revenue thanks to the weaker yen and higher sales volumes, notably for smartphone-related applications. However, earnings remained at the prior-year level due to the cost required for the launch of the second production site in Thailand.

Oxygen absorbers such as AGELESS® achieved higher revenue and prior-year-level earnings. Positive effects included stable sales in the domestic and overseas food markets as well as higher sales prices of exports due to the weaker yen and the growth of non-food applications. These contributions were offset by higher costs for purchasing from overseas production sites.

Consolidated net sales in the Information & Advanced Materials segment increased by ¥2,326 million, or 4.4%, to ¥55,601 million, and operating income increased by ¥147 million, or 3.5%, to ¥4,332 million and segment income increased by ¥465 million, or 10.5%, to ¥4,883 million.

5) Other

Consolidated net sales in the other business segment decreased by ¥61 million, or 7.1%, to ¥813 million. Operating income decreased by ¥76 million, or 23.5%, to ¥249 million, and segment income increased by ¥345 million, or 22.2%, to ¥1,901 million.

3. Financial Position

As of March 31, 2014, total consolidated assets were ¥658,117 million, ¥44,208 million higher than at the end of the previous fiscal year.

Current assets increased by ¥26,524 million to ¥287,921 million, primarily due to increases in cash and deposits and in merchandise and finished goods.

Noncurrent assets increased by ¥17,684 million to ¥370,195 million, since a decline in property, plant, and equipment due to an impairment loss was more than offset by an increase in investment securities. The latter came from the assessment of the market value of equity holdings, the posting of equity in earnings of affiliates, and exchange effects.

Total liabilities increased by ¥14,965 million to ¥333,978 million. Current liabilities fell by ¥16,541 million due primarily to a reduction in short-term loans payable. Noncurrent liabilities increased by ¥31,507 million due to increases in long-term loans payable and bonds payable.

Net assets increased by ¥29,242 million to ¥324,138 million. This was primarily due to increases in income, foreign currency translation adjustment and valuation difference on available-for-sale securities.

As of March 31, 2014, the shareholders' equity ratio was 47.5% (March 31, 2013: 46.2%). Net assets per share at the end of the fiscal year were ¥691.88, compared with ¥628.40 one year earlier.

4. Cash Flow

As of March 31, 2014, total cash and cash equivalents were ¥37,310 million, ¥10,403 million higher than at the end of the previous fiscal year.

1) Operating activity cash flow

Net cash provided by operating activities fell by ¥3,986 million from the previous year to ¥27,182 million. This was due primarily to an increase in income before income taxes and minority interests as well as a reduction in trade notes and accounts payable.

2) Investing activity cash flow

Net cash outflow from investing activities was ¥29,883 million, ¥935 million less than the outflow for the previous year. This was primarily due to a decline in expenses caused by the acquisition of noncurrent assets.

3) Financing activity cash flow

Compared with the negative figure for the previous year, net cash flow from financial activities improved by ¥21,481 million to ¥7,124 million. This was primarily due to an income generated by issuing bonds.

5. Capital Expenditure

The MGC Group (including MGC and consolidated subsidiaries) capital expenditures for the consolidated fiscal year were ¥25,409 million.

By segment, capital expenditure of ¥4,523 million, ¥2,377 million, ¥11,237 million, ¥6,691 million, and ¥2 million were made in natural gas chemicals, aromatic chemicals, specialty chemicals, information and advanced materials, and other business segments, respectively.

6. Research and Development

In 2013, the second fiscal year of the MGC Group's medium-term management plan, MGC Will2014, we set out to realize the Group Vision of seeking to "achieve sustainable growth as an outstanding chemicals company that is characterized by its proprietary technologies and tangible presence." To achieve this vision, we actively engaged in research and development in close collaboration with group companies and in line with the plan's key policy of "accelerating new product development and commercialization."

MGC is aiming to achieve synergy by sharing and further developing the technologies it has acquired and developed over many years under its research and development system based on its research laboratories in Tokyo, Niigata, and Hiratsuka, the MGC Chemical Analysis Center, the Research and Development Division of corporate groups, the Next Generation Business Project Group, Planning and Development divisions of company groups, as well as the research divisions of individual plants. Furthermore, we aim to cultivate new products faster and more efficiently via research and development utilizing MGC's comprehensive strengths through joint-development with affiliates and outsourcing of research.

There are a total of 820 MGC Group research and development personnel, including those in affiliate research and development divisions, making up around 15% of the total workforce. Expenditures on research totaled ¥16,122 million.

Research and development costs by segment were as follows:

Natural Gas Chemicals Company:	¥4,080 million
Aromatic Chemicals Company:	¥2,228 million
Specialty Chemicals Company:	¥5,528 million
Information and Advanced Materials Company:	¥4,285 million

7. Risk Factor

The following are the main foreseeable risks that have the potential to affect the MGC Group's operating results, stock price and financial condition. Please note that the following does not represent an exhaustive list of risks. All forwardlooking statements in the text are based on the judgment of the MGC Group as of May 8, 2014.

1) Economic Conditions

The business revenues of the MGC Group are affected by economic conditions in the countries and regions where the Group's products are sold. In particular, market-sensitive commodities such as methanol, methanol derivatives and xylene products are generally prone to declines in sales volume and selling prices during times of economic downturn, which adversely affects the MGC Group's operating results and financial condition. In addition, rapid increases in raw material prices could also have an adverse effect on the MGC Group's operating results and financial condition.

2) Overseas Business

The MGC Group has established subsidiaries and conducts manufacturing and sales in Asia, North America, South America, the Middle East and other regions. The MGC Group makes large investments in plant and equipment at overseas subsidiaries. Although the Group takes various measures to mitigate risks, local business activities, including manufacturing, remittance of dividend and recovery of investment could become difficult due to local political instability, social or economic turmoil, or other reasons.

Other risks that could have an adverse effect on the MGC Group's operating results and financial condition include problems due to differences in legal systems, the possibility of restrictions by foreign governments on investments, and personnel or labor issues.

3) Business Characteristics

The MGC Group manufactures and sells various chemical products, and conducts its business in a competitive environment. The Group competes mainly on the basis of price in commodity products, and on the basis of categories including price, market trends, quality, function, delivery time and customer service in specialty products and high-value-added products. A rise in the level of competition in these areas could lead to lower selling prices or a decrease in sales volume.

In addition, because of their characteristics, businesses of the MGC Group have risks such as those described below.

For example, the MGC Group purchases raw materials such as mixed xylene, electric power and other items from outside suppliers. The Group takes measures such as purchasing from various suppliers to reduce the risk that procurement will become impossible. However, the inability of a major supplier to deliver necessary raw materials or other items could be detrimental to the Group's production activities.

Many of the MGC Group's manufacturing bases have multiple production facilities that share electricity, water supply, steam and other utilities. Consequently, if a shared utility at any base shuts down due to an accident or other trouble, the production activities of the entire base could be suspended.

The specialty chemical products manufactured and sold by the MGC Group include some products that are sold only to specific customers. The MGC Group reduces risks with measures such as entering into long-term supply contracts with these customers; however, sales could decline if customers discontinue their use of these products.

Electronic materials and other high-performance products, for which the electronics industry is the primary customer segment, typically have a short product life and are constantly exposed to competition in technological innovation. Therefore, sales could decline if existing products become obsolete or if new product development is delayed.

For products other than commodity and basic chemicals, including engineering plastics and specialty chemicals, selling prices could drop and sales volume could decline due to the emergence of cheaper competing products.

The MGC Group takes all possible measures to mitigate these risks, but they could have an adverse effect on the Group's operating results and financial condition.

4) Product Defects

Nearly all of the MGC Group's manufacturing bases conduct production activities in accordance with globally recognized quality management standards, and ship products that conform to specifications agreed upon with customers. However, the possibility exists that defective products could be manufactured or shipped. In the event that a product with a quality defect is shipped, the MGC Group may have to compensate the customer who used the defective product not only for direct damages but also for opportunity loss. In addition, MGC may lose the trust of society.

To deal with this type of risk, the MGC Group has obtained product liability insurance and other liability insurance. However, the full amount of the damages for which the MGC Group is ultimately liable may not be covered by this insurance, and therefore the MGC Group's operating results and financial condition could be adversely affected.

5) Exchange Rate Fluctuations

The Group's business results and financial situation have been affected by exchange rate fluctuations. With regards to the impact of exchange rate fluctuations on transactions in foreign currencies such as imports and exports, the MGC Group has, to a degree, hedged risk through forward exchange transactions. However, it is impossible to completely hedge the risk of medium- and long-term exchange rate changes. If the strong yen continues, there is the possibility of negative impact on the Group's business results and financial situation due to decreased sales, increased losses, and so on.

Financial balance data that is valued in local currencies for MGC Group overseas subsidiaries are translated into yen when creating the Group's consolidated balance sheet. Depending on the exchange rate at the time, the MGC Group's operating results and financial condition could be adversely affected.

6) Interest Rate Fluctuations

When procuring essential funds, the MGC Group considers their contents, financial situation, and financial environment, and determines factors such as the amounts to procure and the period and method of procurement. The Group combines fixed and variable interest rates when procuring funds in order to hedge against future interest rate changes. However, if interest rates rise, the amount of interest paid also rises, which may adversely affect the MGC Group's operating results and financial condition.

7) Marketable Security Market Price Fluctuations

The MGC Group's assets include market priced marketable securities. If the market prices of the Group's marketable securities were to fall sharply, it might adversely affect the Group's operating results and financial condition due to appraisal losses.

8) Legal Restrictions

The MGC Group handles hazardous chemical substances including poisonous and deleterious substances, hazardous materials and high-pressure gas as part of its business, and is subject to various legal restrictions, both in Japan and overseas, at each stage, including manufacturing, storage, distribution and sale. In addition, with rising environmental awareness worldwide, regulations on chemical substances are becoming increasingly stringent, which could disrupt the MGC Group's business activities.

Penalties, social sanctions, remediation costs and other consequences of the failure of the MGC Group to comply with legal regulations related to its business activities could have an adverse effect on the Group's operating results and financial condition.

9) Natural Disasters

The MGC Group has manufacturing bases not only in Japan but also in the rest of Asia, North America, South America, the Middle East and other regions. The production activities at these bases could be suspended or otherwise disrupted if equipment is damaged or trouble occurs due to the effects of natural disasters such as earthquakes, windstorms and floods. In some cases, material loss or opportunity loss caused by natural disasters may be excluded from casualty insurance, and thus could have an adverse effect on the MGC Group's operating results and financial condition.

10) Accidents and Disasters

The MGC Group routinely handles hazardous chemical substances including poisonous and deleterious substances, hazardous materials and high-pressure gas as part of its business. Although the MGC Group makes efforts to ensure maintenance and stable operation of production facilities with a world-class security and disaster prevention system, explosions, fires, toxic gas leaks or other accidents may occur as a result of equipment malfunction or human error. Such events could not only damage production facilities, but also, depending on circumstances, damage the area surrounding the production facility or harm customers. The MGC Group takes out fire insurance, profit insurance, oil pollution insurance, liability insurance and other insurance against these risks. However, the MGC Group's operating results and financial condition could be adversely affected if this insurance does not cover the full amount of the damages for which the MGC Group is ultimately liable.

11) Research and Development

The MGC Group conducts basic and applied research to develop new products and processes and improve existing products and processes. Research and development is complex and long-term, and results are uncertain. If the MGC Group does not continue to develop new products that are accepted in the market, or if the markets for products newly developed by the MGC Group do not grow as much as anticipated, the Group's future operating results and financial condition could be adversely affected.

12) Joint Ventures

The MGC Group procures virtually all of its methanol, the Group's largest-selling product when derivatives are included, from joint ventures in Saudi Arabia, Venezuela and Brunei. The Group also has numerous joint ventures that manufacture other products. Because the MGC Group does not control its joint venture partners, there is no guarantee that the joint venture partners will make decisions that are best for the MGC Group or the joint ventures. Moreover, the partners may not fulfill their obligations under the joint venture agreements. Such circumstances could have an adverse effect on the MGC Group's operating results and financial condition.

13) Intellectual Property

The MGC Group files and obtains patents in Japan and overseas to protect the research findings used in its businesses and licenses, and has entered into numerous patent licensing agreements and technology agreements. The MGC Group works to protect intellectual property through these patent rights and confidentiality agreements. However, failure of such protections could adversely effect the Group's operating results and financial condition.

14) Lawsuits

The MGC Group faces the risk of lawsuits and other legal risks in its domestic and overseas businesses. If a major lawsuit were to be filed against the Group in the future and if the verdict were unfavorable, it could have an adverse effect on the Group's operating results and financial condition.

Consolidated Balance Sheet

Mitsubishi Gas Chemical Company, Inc. and Consolidated Subsidiaries
March 31, 2014

Assets

	Millions of yen		Thousands of U.S. dollars (note 2)
	2014	2013	**2014**
Current assets:			
Cash (note 3)	**¥ 38,772**	¥ 28,888	**$ 376,720**
Trade notes and accounts receivable (note 20)	**129,239**	127,843	**1,255,723**
Short-term investments (note 4)	**2,130**	140	**20,696**
Inventories	**98,079**	88,041	**952,963**
Deferred income taxes (note 9)	**2,640**	3,057	**25,651**
Other current assets	**17,868**	14,218	**173,611**
Less allowance for doubtful receivables	**808**	792	**7,851**
Total current assets	**287,921**	261,397	**2,797,522**
Property, plant and equipment (note 6):			
Buildings and structures	**149,106**	139,148	**1,448,756**
Machinery, equipment and vehicles	**400,239**	385,861	**3,888,836**
Land	**27,000**	23,962	**262,340**
Leased assets	**26,593**	26,566	**258,385**
Construction in progress	**10,051**	21,838	**97,658**
Other	**34,113**	32,824	**331,452**
	647,106	630,203	**6,287,466**
Less accumulated depreciation	**455,794**	434,749	**4,428,624**
Net property, plant and equipment	**191,311**	195,453	**1,858,832**
Intangible assets, net:			
Goodwill	**2**	—	**19**
Leased assets	**0**	11	**0**
Software	**1,504**	1,874	**14,613**
Other	**1,662**	1,488	**16,148**
Net intangible assets	**3,169**	3,374	**30,791**
Investments and other assets:			
Investments in securities (notes 4, 5 and 6)	**167,296**	146,762	**1,625,496**
Long-term loans receivable	**1,389**	1,451	**13,496**
Deferred income taxes (note 9)	**2,334**	1,788	**22,678**
Other investments and other assets (note 5)	**4,776**	3,941	**46,405**
Less allowance for doubtful receivables	**81**	260	**787**
Total investments and other assets	**175,714**	153,683	**1,707,287**
Total assets	**¥658,117**	¥613,908	**$6,394,452**

See accompanying notes to consolidated financial statements.

Liabilities and Net Assets

	Millions of yen		Thousands of U.S. dollars (note 2)
	2014	2013	2014
Current liabilities:			
Trade notes and accounts payable	¥ 71,664	¥ 73,907	$ 696,308
Short-term debt and current installments of long-term debt (note 6)	77,527	86,331	753,274
Accrued expenses	12,223	13,486	118,762
Accrued income taxes (note 9)	1,570	1,358	15,255
Accrued bonuses	3,641	3,612	35,377
Other current liabilities (note 9)	12,269	16,743	119,209
Total current liabilities	178,896	195,438	1,738,204
Non-current liabilities:			
Long-term debt (note 6)	126,961	96,313	1,233,589
Liabilities for retirement and severance benefits (note 8)	—	7,549	—
Net defined benefit liability (note 8)	9,232	—	89,701
Provision for directors' retirement benefits (note 8)	380	429	3,692
Deferred income taxes (note 9)	12,020	10,042	116,790
Other non-current liabilities (note 7)	6,486	9,239	63,020
Total non-current liabilities	155,081	123,574	1,506,811
Total liabilities	333,978	319,013	3,245,025
Stockholders' equity:			
Common stock (note 10): Authorized 984,856,000 shares; issued 483,478,398 shares in 2014 and 2013	41,970	41,970	407,792
Additional paid-in capital (note 10)	35,595	35,595	345,851
Retained earnings (note 11)	240,111	231,882	2,332,987
Treasury stock, at cost; 31,800,380 shares in 2014 and 31,769,134 shares in 2013	(8,119)	(8,094)	(78,887)
Total stockholders' equity	309,557	301,353	3,007,744
Accumulated other comprehensive income (loss):			
Net unrealized gain on other securities (note 4)	11,384	8,607	110,610
Surplus on revaluation of land	206	206	2,002
Foreign currency translation adjustments	(7,305)	(26,311)	(70,977)
Remeasurements of defined benefit plans (note 8)	(1,337)	—	(12,991)
Total accumulated other comprehensive income (loss)	2,949	(17,497)	28,653
Minority interests	11,632	11,039	113,020
Total net assets	324,138	294,895	3,149,417
Commitments and contingencies (note 21)			
Total liabilities and net assets	¥658,117	¥613,908	$6,394,452

See accompanying notes to consolidated financial statements.

Consolidated Statement of Operations

Mitsubishi Gas Chemical Company, Inc. and Consolidated Subsidiaries
For the year ended March 31, 2014

	Millions of yen		Thousands of U.S. dollars (note 2)
	2014	2013	**2014**
Net sales (note 20)	**¥534,670**	¥467,979	**$5,195,006**
Cost of sales (note 13)	**460,592**	400,011	**4,475,243**
Gross profit	**74,077**	67,967	**719,753**
Selling, general and administrative expenses (notes 12 and 13)	**62,660**	56,545	**608,822**
Operating income	**11,416**	11,421	**110,921**
Other income (deductions):			
Interest income	**200**	173	**1,943**
Dividend income	**1,735**	1,344	**16,858**
Interest expenses	**(2,995)**	(2,581)	**(29,100)**
Equity in earnings of affiliates	**20,466**	19,045	**198,853**
Gain on sale of investments in securities (note 4)	**266**	—	**2,585**
Gain on liquidation of subsidiaries and affiliates	**183**	—	**1,778**
Personnel expenses for seconded employees	**(1,466)**	(1,443)	**(14,244)**
Loss on sale/disposal of property, plant and equipment	**(388)**	(839)	**(3,770)**
Impairment loss (note 14)	**(11,648)**	(54)	**(113,175)**
Loss on devaluation of investments in securities (note 4)	**—**	(1,049)	**—**
Business structure improvement expenses (note 15)	**(1,526)**	(15,439)	**(14,827)**
Loss on fire accident (note 16)	**(119)**	—	**(1,156)**
Other, net	**1,580**	(838)	**15,352**
	6,286	(1,682)	**61,077**
Income before income taxes and minority interests	**17,703**	9,739	**172,007**
Income taxes (note 9):			
Current	**2,830**	3,002	**27,497**
Deferred	**121**	14,074	**1,176**
	2,951	17,076	**28,673**
Income (loss) before minority interests	**14,751**	(7,336)	**143,325**
Minority interests	**(219)**	456	**(2,128)**
Net income (loss)	**¥ 14,971**	¥ (7,793)	**$ 145,462**

See accompanying notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

Mitsubishi Gas Chemical Company, Inc. and Consolidated Subsidiaries
For the year ended March 31, 2014

	Millions of yen		Thousands of U.S. dollars (note 2)
	2014	2013	**2014**
Income (loss) before minority interests	**¥14,751**	¥ (7,336)	**$143,325**
Other comprehensive income arising during the year (note 17):			
Net unrealized gain on other securities	**2,720**	5,088	**26,428**
Deferred gain on hedges	**—**	197	**—**
Foreign currency translation adjustments	**5,504**	3,380	**53,478**
Shares of other comprehensive income of affiliates accounted for by the equity method	**14,565**	7,483	**141,518**
Total other comprehensive income arising during the year	**22,790**	16,149	**221,434**
Comprehensive income	**¥37,541**	¥ 8,812	**$364,759**
Comprehensive income attributable to:			
Owners of the parent	**¥36,754**	¥ 7,526	**$357,112**
Minority interests	**786**	1,286	**7,637**

See accompanying notes to consolidated financial statements.

Consolidated Statement of Changes in Net Assets

Mitsubishi Gas Chemical Company, Inc. and Consolidated Subsidiaries
For the year ended March 31, 2014

	Millions of yen												
	Stockholders' equity					Accumulated other comprehensive income (loss)							
	Common stock (note 10)	Additional paid-in capital (note 10)	Retained earnings (note 11)	Treasury stock	Total	Net unrealized gain on other securities (note 4)	Deferred gain (loss) on hedges	Surplus on revaluation of land	Foreign currency translation adjust-ments	Remea-surements of defined benefit plans	Total	Minority interests	Total net assets
Balance as of March 31, 2012	¥41,970	¥35,593	¥245,083	¥(8,039)	¥314,607	¥3,468	¥(177)	¥206	¥(36,417)	¥ —	¥(32,920)	¥10,424	¥292,111
Changes arising during year:													
Cash dividends			(5,421)		(5,421)								(5,421)
Net loss			(7,793)		(7,793)								(7,793)
Change in the scope of consolidation			13		13								13
Purchase of treasury stock				(56)	(56)								(56)
Disposition of treasury stock		1		1	3								3
Net changes other than stockholders' equity						5,138	177	—	10,106	—	15,422	615	16,038
Total changes during the year	—	1	(13,200)	(54)	(13,254)	5,138	177	—	10,106	—	15,422	615	2,784
Balance as of March 31, 2013	¥41,970	¥35,595	¥231,882	¥(8,094)	¥301,353	¥8,607	¥ —	¥206	¥(26,311)	¥ —	¥(17,497)	¥11,039	¥294,895
Changes arising during year:													
Cash dividends			(5,420)		(5,420)								(5,420)
Net income			14,971		14,971								14,971
Decrease due to change in the fiscal period of consolidated subsidiaries			(1,322)		(1,322)								(1,322)
Purchase of treasury stock				(24)	(24)								(24)
Disposition of treasury stock		0		0	0								0
Net changes other than stockholders' equity						2,777	—	—	19,006	(1,337)	20,446	592	21,039
Total changes during the year	—	0	8,228	(24)	8,203	2,777	—	—	19,006	(1,337)	20,446	592	29,242
Balance as of March 31, 2014	¥41,970	¥35,595	¥240,111	¥(8,119)	¥309,557	¥11,384	¥ —	¥206	¥ (7,305)	¥(1,337)	¥ 2,949	¥11,632	¥324,138

	Thousands of U.S. dollars (note 2)												
	Stockholders' equity					Accumulated other comprehensive income (loss)							
	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Total	Net unrealized gain on other securities	Deferred gain (loss) on hedges	Surplus on revaluation of land	Foreign currency translation adjust-ments	Remea-surements of defined benefit plans	Total	Minority interests	Total net assets
Balance as of March 31, 2013	$407,792	$345,851	$2,253,031	$(78,644)	$2,928,031	$83,628	$ —	$2,002	$(255,645)	$ —	$(170,006)	$107,258	$2,865,284
Changes arising during year:													
Cash dividends			(52,662)		(52,662)								(52,662)
Net income			145,462		145,462								145,462
Decrease due to change in the fiscal period of consolidated subsidiaries			(12,845)		(12,845)								(12,845)
Purchase of treasury stock				(233)	(233)								(233)
Disposition of treasury stock		0		0	0								0
Net changes other than stockholders' equity						26,982	—	—	184,668	(12,991)	198,659	5,752	204,421
Total changes during the year	—	0	79,946	(233)	79,703	26,982	—	—	184,668	(12,991)	198,659	5,752	284,124
Balance as of March 31, 2014	$407,792	$345,851	$2,332,987	$(78,887)	$3,007,744	$110,610	$ —	$2,002	$(70,977)	$(12,991)	$ 28,653	$113,020	$3,149,417

See accompanying notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Mitsubishi Gas Chemical Company, Inc. and Consolidated Subsidiaries
For the year ended March 31, 2014

	Millions of yen		Thousands of U.S. dollars (note 2)
	2014	2013	**2014**
Cash flows from operating activities:			
Income before income taxes and minority interests	**¥17,703**	¥ 9,739	**$172,007**
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization	**23,359**	23,023	**226,963**
Loss on sale/disposal of property, plant and equipment	**287**	672	**2,789**
Restructuring charges	**1,526**	15,439	**14,827**
Impairment loss	**11,648**	54	**113,175**
Gain on liquidation of subsidiaries and affiliates	**(185)**	—	**(1,798)**
Loss on fire accident	**119**	—	**1,156**
Equity in earnings of affiliates	**(20,466)**	(19,045)	**(198,853)**
Increase (decrease) in allowance for doubtful receivables	**460**	(833)	**4,469**
Increase in liabilities for retirement and severance benefits	**—**	439	**—**
Increase in net defined benefit liability	**346**	—	**3,362**
Decrease in provision for directors' retirement benefits	**(49)**	(33)	**(476)**
Interest and dividend income	**(1,936)**	(1,518)	**(18,811)**
Interest expenses	**2,995**	2,581	**29,100**
Gain on sale of short-term investments and investments in securities	**(221)**	(7)	**(2,147)**
Loss on devaluation of short-term investments and investments in securities	**23**	1,056	**223**
(Increase) decrease in trade notes and accounts receivable	**2,092**	(2,012)	**20,326**
Increase in inventories	**(6,833)**	(11,322)	**(66,391)**
Increase (decrease) in trade notes and accounts payable	**(10,521)**	1,739	**(102,225)**
Other, net	**(8,036)**	(2,283)	**(78,080)**
Sub total	**12,312**	17,687	**119,627**
Interest and dividend received	**1,926**	1,440	**18,714**
Dividend received from affiliates accounted for by the equity method	**18,798**	17,945	**182,647**
Interest paid	**(3,112)**	(2,498)	**(30,237)**
Income taxes paid	**(3,024)**	(4,313)	**(29,382)**
Other, net	**281**	907	**2,730**
Net cash provided by operating activities	**27,182**	31,169	**264,108**
Cash flows from investing activities:			
Purchase of short-term investments	**—**	(10)	**—**
Proceeds from sale of short-term investments	**22**	124	**214**
Capital expenditures	**(29,403)**	(30,105)	**(285,688)**
Proceeds from sale of property, plant and equipment	**997**	448	**9,687**
Purchase of investments in securities and subsidiaries	**(400)**	(870)	**(3,887)**
Proceeds from sale of investments in securities and subsidiaries	**649**	3	**6,306**
Increase in long-term loans receivable	**(302)**	(457)	**(2,934)**
Other, net	**(1,445)**	49	**(14,040)**
Net cash used in investing activities	**(29,883)**	(30,818)	**(290,352)**
Cash flows from financing activities:			
Increase (decrease) in short-term debt	**1,514**	(7,935)	**14,710**
Proceeds from long-term debt	**27,835**	24,601	**270,453**
Payments on long-term debt	**(24,537)**	(23,181)	**(238,408)**
Proceeds from issuance of bonds	**9,952**	—	**96,696**
Purchase of treasury stock	**(35)**	(56)	**(340)**
Dividends paid to stockholders	**(5,420)**	(5,421)	**(52,662)**
Dividends paid to minority stockholders of subsidiaries	**(474)**	(635)	**(4,606)**
Other, net	**(1,710)**	(1,727)	**(16,615)**
Net cash provided by (used in) financing activities	**7,124**	(14,356)	**69,219**
Effect of exchange rate changes on cash and cash equivalents	**5,548**	3,605	**53,906**
Increase (decrease) in cash and cash equivalents	**9,972**	(10,399)	**96,891**
Cash and cash equivalents at beginning of year	**26,907**	35,701	**261,436**
Increase in cash and cash equivalents resulting from change in the scope of consolidation	**—**	1,605	**—**
Increase in cash and cash equivalents resulting from change in the fiscal period of consolidated subsidiaries	**430**	—	**4,178**
Cash and cash equivalents at end of year (note 3)	**¥37,310**	¥26,907	**$362,515**

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Mitsubishi Gas Chemical Company, Inc. and Consolidated Subsidiaries
For the year ended March 31, 2014

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.

"Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" (ASBJ Practical Issues Task Force (PITF) No. 18, May 17, 2006) and "Practical Solution on Unification of Accounting Policies Applied to Associates Accounted for by the Equity Method" (ASBJ Practical Issues Task Force (PITF) No. 24, March 10, 2008) require that for the preparation of consolidated financial statements, the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should be unified, in principle, and financial statements prepared by foreign subsidiaries in accordance with IFRSs or the generally accepted accounting principles in the United States (U.S. GAAP) tentatively may be used for the consolidation process, however, the items listed in the PITF should be adjusted in the consolidation process so that net income is accounted for in accordance with Japan GAAP unless they are not material. The Company made necessary modification to the consolidated financial statements according to the PITF.

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations, and in conformity with accounting principles and practices generally accepted in Japan, which may differ in certain 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 40 subsidiaries. The Company and its consolidated subsidiaries are collectively referred to as "MGC."

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

Nihon Bio Corporation was excluded from the scope of consolidation due to the completion of its liquidation during the year ended March 31, 2014.

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 difference between the cost and the underlying net assets at the date of investments in subsidiaries or affiliates is allocated to identifiable assets and liabilities based on fair market value at the date of investments.

The unallocated portion of the difference, which is recognized as goodwill, is being amortized over 5 years. Negative goodwill which occurred before March 31, 2010 is being amortized over 5 years.

The fiscal year-ends of 13 consolidated subsidiaries (17 in 2013) are December 31. For consolidation purposes, the Company uses their financial statements as of December 31 with necessary consolidation adjustments made to reflect any significant transactions which occurred between January 1 and March 31. MGC ADVANCED POLYMERS, INC. changed its balance sheet date from December 31 to March 31. In addition, from this fiscal year ended March 31, 2014, Mitsubishi Gas Chemical Engineering-Plastics (Shanghai) Co., Ltd., Samyoung Pure Chemicals Co., Ltd. and Suzhou MGC Suhua Peroxide Co., Ltd. which close their books on December 31, are consolidated by using their provisional financial statements as of the consolidated balance sheet date that are prepared solely for consolidation purposes. Net income and losses of these consolidated subsidiaries between January 1 to March 31, 2013, accordingly, were added to or deducted from retained earnings directly. Consequently, retained earnings decreased by ¥1,322 million ($12,845 thousand). The relevant increase in cash and cash equivalents is presented as "Increase in cash and cash equivalents resulting from change in the fiscal period of consolidated subsidiaries" in the consolidated statement of cash flows.

(c) Cash and Cash Equivalents

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

(d) Short-term Investments and Investments in Securities

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

(e) Inventories

Inventories held for sale in the ordinary course of business are measured at the lower of cost or net selling value, which is defined as the selling price less additional estimated manufacturing costs and estimated direct selling expenses, determined principally by the average method.

(f) Property, Plant and Equipment

Property, plant and equipment are carried substantially at cost. Depreciation of the Company and its consolidated subsidiaries 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	8-15 years

(g) Intangible Assets

Intangible assets are carried at cost less accumulated 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) Impairment of Long-lived Assets

The standard for the impairment of long-lived assets requires that fixed assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

Recognized impairment losses, except for those to be deducted directly from acquisition costs of corresponding fixed assets, are included in accumulated depreciation on the consolidated balance sheet.

(i) 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.

(j) Retirement Benefits

In calculating retirement benefit obligation, the straight-line basis is used for the method of attributing expected retirement benefits to the periods up to the end of the current fiscal year.

Past service costs are amortized by the straight-line method over a certain period within the average remaining years of service of the eligible employees (ten years) when such past service costs occur.

Actuarial gains and losses are amortized by the declining-balance method over a certain period within the average remaining years of service of the eligible employees (ten years) from the year following the year in which the gains or losses occur.

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 (See note 8).

(k) Leases

All finance lease transactions are capitalized. Leased assets related to finance lease transactions without title transfer are depreciated on a straight-line method, with the lease periods as their useful lives and no residual value. Finance leases which commenced prior to April 1, 2008 and have been accounted for as operating leases, continue to be accounted for as operating leases with disclosure of certain “as if capitalized” information.

(l) 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 of overseas subsidiaries are translated into yen at the rate of exchange as of the balance sheet date, and revenues and expenses of them are translated into yen using the average rate in the year, and a comprehensive adjustment resulting from translation is presented as “Foreign currency translation adjustments” and “Minority interests” in a component of net assets.

(m) 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.

(n) Accrual for Environmental Measures

An accrual for environmental measures is provided at an estimated amount of disposal and transport costs of polychlorinated biphenyl waste based on the handling cost publicized by Japan Environment Safety Corporation. The Act of Special Measures for Proper Handling of Polychlorinated Biphenyl Waste requires proper handling of polychlorinated biphenyl waste.

(o) Asset Retirement Obligations

The Company recognized an asset retirement obligation which is statutory or similar obligation with regard to the removal of assets as a liability. An asset retirement obligation is recognized as a liability at the time that the asset is incurred by its acquisition, construction, development or ordinary use. When an asset retirement obligation is recognized as a liability, the asset retirement cost corresponding to it is included in the cost of the relevant asset by the same amount.

(p) Accrued Business Structure Improvement Expenses

The Company provided a reasonably estimated amount of structural reform costs for unprofitable business.

(q) 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, 2014.

(r) Changes in Accounting Policies

Effective March 31, 2014, the Company has adopted the "Accounting Standard for Retirement Benefits" (ASBJ Statement No. 26, May 17, 2012) (the "Accounting Standard") and the "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25, May 17, 2012) (the "Guidance"), except for the provisions specified in the main clause of Section 35 of the Accounting Standard and the main clause of Section 67 of the Guidance. In accordance with the Accounting Standard and the Guidance, the excess of retirement benefit obligation over plan assets is recorded as net defined benefit liability and unrecognized actuarial gains and losses and unrecognized past service costs are recognized in net defined benefit liability.

In accordance with the tentative treatment prescribed in Section 37 of the Accounting Standard, the effects of the changes in accounting policies are added to or deducted from remeasurements of the defined benefit plans under accumulated other comprehensive income at the current fiscal year-end.

As of March 31, 2014, net defined benefit liability of ¥ 9,232 million ($89,701 thousand) was consequently recognized. Also, accumulated other comprehensive income and minority interests decreased by ¥1,337 million ($12,991 thousand) and ¥13 million ($126 thousand), respectively.

Net assets per share decreased by ¥2.93 ($0.03) as of March 31, 2014.

(s) Accounting Pronouncements Not Yet Adopted

- "Accounting Standard for Retirement Benefits" (ASBJ Statement No. 26, May 17, 2012)
- "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25, May 17, 2012)

The revision mainly focused on the accounting treatment for unrecognized actuarial gains and losses and past service costs, methods for calculating retirement benefit obligations and current service costs, and the enhancement of disclosure.

The revised method for calculating retirement benefit obligations and current service costs will be applied from the fiscal year beginning on April 1, 2014. Because the revised Accounting Standards and the Guidance specified tentative treatments, the revision will not be applied retrospectively to the consolidated financial statements in prior periods.

The Company is in the process of measuring the effects of applying the revised accounting standards.

2. Financial Statement Translation

The translations of the yen amounts into U.S. dollars are included solely for the convenience of the reader, using the prevailing exchange rate as of March 31, 2014, which was ¥102.92 to U.S. $1. This translation should not be construed as a representation that the amounts shown could be converted into U.S. dollars at such rate.

3. Cash and Cash Equivalents

Reconciliation between "Cash" in the consolidated balance sheet and "Cash and cash equivalents" in the consolidated statement of cash flows as of March 31, 2014 and 2013 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Cash	**¥ 38,772**	¥ 28,888	**$376,720**
Time deposits with maturities of over three months	**(3,592)**	(2,111)	**(34,901)**
Short-term investments	**2,130**	130	**20,696**
Cash and cash equivalents	**¥ 37,310**	¥ 26,907	**$362,515**

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, 2014 and 2013 are summarized as follows:

	Millions of yen			
	Balance sheet amount	Gross unrealized gain	Gross unrealized loss	Fair value
March 31, 2014				
Government bond securities	¥ 5	¥ 0	¥ —	¥ 5
Certificates of deposit	2,130	—	—	2,130
	¥ 2,135	¥ 0	¥ —	¥ 2,135
March 31, 2013				
Government bond securities	¥ 6	¥ 0	¥ —	¥ 6
Certificates of deposit	130	—	—	130
Other	9	0	—	9
	¥ 146	¥ 0	¥ —	¥ 146

	Thousands of U.S. dollars			
	Balance sheet amount	Gross unrealized gain	Gross unrealized loss	Fair value
March 31, 2014				
Government bond securities	$ 49	$ 0	$ —	$ 49
Certificates of deposit	20,696	—	—	20,696
	$ 20,744	$ 0	$ —	$ 20,744

Balance sheet amount, acquisition cost, and gross unrealized gain and loss of other securities with fair value as of March 31, 2014 and 2013 are summarized as follows:

	Millions of yen			
	Balance sheet amount	Gross unrealized gain	Gross unrealized loss	Acquisition cost
March 31, 2014				
Equity securities	¥ 46,226	¥ 18,627	¥ (1,275)	¥ 28,874
Other securities	10	0	—	10
	¥ 46,236	¥ 18,627	¥ (1,275)	¥ 28,884
March 31, 2013				
Equity securities	¥ 41,672	¥ 13,788	¥ (871)	¥ 28,755
Other securities	32	0	—	32
	¥ 41,705	¥ 13,788	¥ (871)	¥ 28,788

	Thousands of U.S. dollars			
	Balance sheet amount	Gross unrealized gain	Gross unrealized loss	Acquisition cost
March 31, 2014				
Equity securities	$449,145	$180,985	$ (12,388)	$280,548
Other securities	97	0	—	97
	$449,242	$180,985	$ (12,388)	$280,645

Securities classified as other securities for which fair value is not available are unlisted equity securities amounting to ¥3,739 million ($36,329 thousand) and ¥3,674 million as of March 31, 2014 and 2013, respectively.

For the years ended March 31, 2014 and 2013, proceeds from the sale of other securities are ¥61 million ($593 thousand) and ¥10 million, respectively. Gross realized gains are ¥36 million ($350 thousand) and ¥7 million for the years ended March 31, 2014 and 2013, respectively.

The Company recognized impairment losses on securities of ¥23 million ($223 thousand) and ¥1,056 million for the years ended March 31, 2014 and 2013, respectively. The Company recognizes impairment losses on securities with market value when the market value declines by more than 50 percent. When the market value declines by more than 30 percent but less than 50 percent, the Company recognizes necessary impairment losses as a result of considering the possibility of recovery. The Company recognizes impairment losses on securities without market value when the value declines significantly due to an issuer's financial condition.

5. Investments in Affiliates

The aggregate carrying amounts of investments in affiliates as of March 31, 2014 and 2013 are ¥117,390 million ($1,140,595 thousand) and ¥101,453 million, respectively.

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 is 0.6% and 0.5% as of March 31, 2014 and 2013, respectively.

Long-term debt as of March 31, 2014 and 2013 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Loans, principally from banks, maturing in installments through 2028 with weighted average interest of 1.3% as of March 31, 2014, partially secured by mortgage of property, plant and equipment and securities	¥ 94,940	¥ —	$ 922,464
Loans, principally from banks, maturing in installments through 2028 with weighted average interest of 1.3% as of March 31, 2013, partially secured by mortgage of property, plant and equipment and securities	—	86,076	—
Lease liabilities maturing in installments through 2027 with weighted average interest of 3.3% as of March 31, 2014	20,148	—	195,764
Lease liabilities maturing in installments through 2027 with weighted average interest of 3.3% as of March 31, 2013	—	21,833	—
Unsecured bonds, due 2016 with interest of 0.670%	15,000	15,000	145,744
Unsecured bonds, due 2021 with interest of 0.572%	10,000	—	97,163
	140,089	122,910	1,361,145
Less current installments:			
Loans	11,459	24,893	111,339
Lease liabilities	1,668	1,703	16,207
	¥ 126,961	¥ 96,313	$1,233,589

The aggregate annual maturities of loans after March 31, 2015, are as follows:

	Millions of yen	Thousands of U.S. dollars
Year ending March 31,		
2016	¥ 29,074	$ 282,491
2017	22,833	221,852
2018	7,269	70,628
2019	13,675	132,870

The aggregate annual maturities of lease liabilities after March 31, 2015, are as follows:

	Millions of yen	Thousands of U.S. dollars
Year ending March 31,		
2016	¥ 1,643	$ 15,964
2017	1,632	15,857
2018	2,048	19,899
2019	1,714	16,654

The aggregate annual maturities of bonds after March 31, 2015, are as follows:

	Millions of yen	Thousands of U.S. dollars
Year ending March 31,		
2016	¥ —	$ —
2017	15,000	145,744
2018	—	—
2019	—	—

Property, plant and equipment and securities with a book value as of March 31, 2014 of ¥18,221 million ($177,040 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.

7. Asset Retirement Obligations

(a) Asset retirement obligations recognized on the consolidated balance sheet

The Company is obliged to restore its natural gas mining facilities except for mentioned below (b) according to law and land lease contracts. The asset retirement obligations are based on estimated future cash flows for the restorations. The obligations are calculated by using the estimated mine lives of 12 to 76 years and discounted rate of 1.579% to 2.385%.

Asbestos are used in part of fixed assets held by the Company and certain consolidated subsidiaries. The Company is obliged to conduct a special treatment when asbestos are removed. The asset retirement obligations are based on estimated future cash flows for the treatment. The obligations are calculated by using the estimated useful lives of the fixed assets mainly of 8 years and discounted rate of 1.035%.

The Company and certain consolidated subsidiaries are obliged to restore their head offices and plant premises according to leasehold contracts. The asset retirement obligations are based on estimated future cash flows for the restorations. The obligations are calculated by using the estimated lease terms of 31 to 50 years and discounted rate mainly of 2.295%.

The following table provides a total asset retirement obligation for the years ended March 31, 2014 and 2013:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Balance at beginning of year	**¥ 4,207**	¥ 3,512	**$ 40,876**
Liabilities incurred due to the acquisition	**5**	—	**49**
Accretion expenses	**67**	66	**651**
Liabilities settled	**(29)**	—	**(282)**
Other	**(400)**	629	**(3,887)**
Balance at end of year	**¥ 3,849**	¥ 4,207	**$ 37,398**

(b) Asset retirement obligations not recognized on the consolidated balance sheet

The Company is obliged to restore its natural gas mining facilities according to law and land lease contracts, and the Company plan to use part of the facilities as storage facilities after mining continuingly. The Company and certain subsidiaries are obliged to restore their piers and pipelines according to law and lease contracts, and the piers and pipelines can be used for a substantial long-term with appropriate repair. Asset retirement obligations relating to these assets are not recognized because it is extremely difficult to estimate the time of fulfilling the obligations reasonably.

8. Retirement Benefits

The Company and its domestic consolidated subsidiaries have defined retirement benefit plans such as lump-sum retirement benefit plans and defined benefit corporate pension plans, besides defined contribution pension plans.

In addition, the Company has also set up retirement benefit trusts.

Year ended March 31, 2014

Defined benefit plans

(a) Reconciliation between retirement benefit obligations at beginning of year and end of year (excluding plans applying the simplified method):

	Millions of yen	Thousands of U.S. dollars
	2014	**2014**
Retirement benefit obligation at beginning of year	**¥ 34,463**	**$ 334,852**
Current service costs	**1,518**	**14,749**
Interest costs	**463**	**4,499**
Actuarial gains and losses arising during year	**111**	**1,079**
Retirement benefits paid	**(2,245)**	**(21,813)**
Retirement benefit obligation at end of year	**¥ 34,311**	**$ 333,375**

(b) Reconciliation between plan assets at beginning of year and end of year (excluding plans applying the simplified method):

	Millions of yen 2014	Thousands of U.S. dollars 2014
Plan assets at beginning of year	¥ 24,720	$ 240,187
Expected return on plan assets	289	2,808
Actuarial gains and losses arising during year	1,783	17,324
Contribution from employer	1,116	10,843
Retirement benefits paid	(1,501)	(14,584)
Plan assets at end of year	¥ 26,409	$ 256,597

(c) Reconciliation between net defined benefit liabilities of plans applying the simplified method at beginning of year and end of year:

	Millions of yen 2014	Thousands of U.S. dollars 2014
Net defined benefit liability at beginning of year	¥ 1,500	$ 14,574
Retirement benefit expenses	249	2,419
Retirement benefits paid	(304)	(2,954)
Contribution to plans	(114)	(1,108)
Net defined benefit liability at end of year	¥ 1,330	$ 12,923

(d) Reconciliation between retirement benefit obligations and plan assets at end of year and net defined benefit liability on the consolidated balance sheet:

	Millions of yen 2014	Thousands of U.S. dollars 2014
Funded retirement benefit obligation	¥ 34,002	$ 330,373
Plan assets	(27,784)	(269,957)
	¥ 6,218	$ 60,416
Unfunded retirement benefit obligation	3,014	29,285
Net balance of liability and asset recorded on the consolidated balance sheet	¥ 9,232	$ 89,701
Net defined benefit liability	¥ 9,232	$ 89,701
Net balance of liability and asset recorded on the consolidated balance sheet	¥ 9,232	$ 89,701

(e) Retirement benefit expenses and components thereof:

	Millions of yen 2014	Thousands of U.S. dollars 2014
Current service costs	¥ 1,518	$ 14,749
Interest costs	463	4,499
Expected return on plan assets	(289)	(2,808)
Amortization of actuarial gains and losses	710	6,899
Amortization of past service costs	101	981
Retirement benefit expenses applying the simplified method	249	2,419
Retirement benefit expenses under defined benefit plans	¥ 2,753	$ 26,749

(f) Remeasurements of defined benefit plans

Components of items recorded in remeasurements of defined benefit plans, before tax, are as follows:

	Millions of yen 2014	Thousands of U.S. dollars 2014
Unrecognized past service costs	¥ 398	$ 3,867
Unrecognized actuarial gains and losses	1,146	11,135
Total	¥ 1,545	$ 15,012

(g) Plan assets

(i) Components of plan assets

Percentages to total plan assets by major category are as follows:

	2014
Debt securities	22%
Equity securities	57
Cash	12
Other	9
Total	100%

(Note) Total plan assets include retirement benefit trust of 45% that are set up for corporate pension plans.

(ii) Determination of expected long-term rate of return on plan assets

The expected long-term rate of return on plan assets is determined considering current and expected allocation of plan assets and current and expected long-term rate of return derived from various components of plan assets.

(h) Actuarial assumptions

	2014
Discount rate	Mainly 1.4%
Expected long-term rate of return on plan assets	Mainly 2.5%

Defined contribution plans

The required contribution of MGC to the defined contribution plans amounted to ¥144 million ($1,399 thousand).

Year ended March 31, 2013

The funded status of the pension plans as of March 31, 2013 is outlined as follows:

	Millions of yen 2013
Projected benefit obligation	¥ (37,248)
Plan assets at fair value	14,309
Assets contributed to the trust	11,863
Funded status	(11,075)
Unrecognized actuarial loss	3,070
Unrecognized prior service cost	455
Net amount recognized in the consolidated balance sheet	(7,549)
Accrued retirement and severance benefits	¥ (7,549)

Net periodic pension cost for the year ended March 31, 2013 consists of the following components:

	Millions of yen 2013
Service cost	¥ 1,578
Interest cost	643
Expected return on plan assets	(280)
Amortization of actuarial loss	893
Amortization of prior service cost	101
Net periodic pension cost	2,935
Contribution to the defined contribution pension plan	334
	¥ 3,270

Significant assumptions of pension plans used to determine these amounts in fiscal 2013 are as follows:

Periodic allocation method for projected benefit	Straight-line
Discount rate	Mainly 1.4%
Expected rate of return on plan assets	Mainly 2.5%
Period for amortization of unrecognized prior service cost / benefit	Mainly 10 years
Period for amortization of unrecognized actuarial loss / gain	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 had 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 companies. MGC 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, 2014 and 2013, the liabilities for retirement and severance benefits related to the plans were ¥380 million ($3,692 thousand) and ¥429 million, respectively.

9. 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 38.0% in 2014 and 2013.

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 years ended March 31, 2014 and 2013 is as follows:

	2014	2013
Statutory tax rate	**38.0%**	38.0%
Equity in earnings of affiliates	**(43.9)**	(74.3)
Dividend income eliminated in consolidation	**44.4**	79.2
Valuation allowance	**28.4**	205.3
Income not credited for tax purposes	**(46.6)**	(81.1)
Foreign taxes	**2.5**	3.5
Adjustments of deferred tax assets due to change in statutory tax rate	**1.8**	—
Other	**(7.9)**	4.7
Effective tax rate	**16.7%**	175.3%

Significant components of deferred tax assets and liabilities as of March 31, 2014 and 2013 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Deferred tax assets:			
Tax loss carryforward	**¥ 21,040**	¥ 19,701	**$ 204,431**
Liabilities for retirement and severance benefits	**—**	7,505	**—**
Net defined benefit liability	**7,660**	—	**74,427**
Devaluation loss on investments in securities	**5,841**	1,287	**56,753**
Accrued bonuses	**1,249**	1,337	**12,136**
Intercompany profits	**538**	551	**5,227**
Depreciation	**1,082**	1,208	**10,513**
Impairment loss	**5,121**	4,737	**49,757**
Asset retirement obligations	**1,320**	1,566	**12,825**
Other	**6,102**	7,180	**59,289**
	49,957	45,076	**485,396**
Valuation allowance	**(43,682)**	(38,652)	**(424,427)**
	6,275	6,423	**60,970**
Deferred tax liabilities:			
Net unrealized gain on other securities	**(6,272)**	(4,433)	**(60,941)**
Gain by contributing the assets to the trust	**(1,794)**	(1,794)	**(17,431)**
Tax purpose reserves etc. regulated by Japanese tax law	**(1,904)**	(2,762)	**(18,500)**
Asset retirement cost	**(390)**	(410)	**(3,789)**
Other	**(3,155)**	(2,445)	**(30,655)**
	(13,517)	(11,845)	**(131,335)**
Net deferred tax liabilities	**¥ (7,241)**	¥ (5,422)	**$ (70,356)**

Net deferred tax assets and liabilities as of March 31, 2014 and 2013 are reflected in the accompanying consolidated balance sheet under the following captions:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Current assets - Deferred income taxes	**¥ 2,640**	¥ 3,057	**$ 25,651**
Investments and other assets - Deferred income taxes	**2,334**	1,788	**22,678**
Current liabilities - Other current liabilities	**(196)**	(226)	**(1,904)**
Non-current liabilities - Deferred income taxes	**(12,020)**	(10,042)	**(116,790)**

The "Act on Partial Revision of the Income Tax Act" (Act No. 10 of 2014) was promulgated on March 31, 2014 and the special reconstruction surtax will no longer be imposed from fiscal years beginning on or after April 1, 2014. Accordingly, the statutory tax rate used to calculate deferred tax assets and liabilities is changed from 38.0% to 35.6% for temporary differences which are expected to reverse in the fiscal year beginning on April 1, 2014.

As a result of this change, deferred tax liabilities, net of deferred tax assets, increased by ¥311 million ($3,022 thousand) and income taxes-deferred increased by the same amount as of and for the year ended March 31, 2014.

10. Common Stock

Under the Companies Act, 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.

11. Retained Earnings and Dividends

The Companies Act provides that an amount equal to 10% of distributions from retained earnings paid by the Company and its Japanese subsidiaries be appropriated as a legal reserve. No further appropriations are required when the total amount of the additional paid-in capital and the legal reserve equals 25% of their respective stated capital. The Companies Act also provides that additional paid-in capital and legal reserve are available for appropriations by the resolution of the stockholders. Balances of the legal reserve are included in retained earnings in the accompanying consolidated balance sheet.

Cash dividends charged to retained earnings for the years ended March 31, 2014 and 2013 represent dividends paid out during those years. The amount available for dividends is based on the amount recorded in the Company's non-consolidated books of account in accordance with the Companies Act.

(a) Dividends paid during the year ended March 31, 2013

The following was approved by the Board of Directors held on May 24, 2012.

(i) Total dividends	¥2,710 million
(ii) Cash dividends per common share	¥6
(iii) Record date	March 31, 2012
(iv) Effective date	June 7, 2012

The following was approved by the Board of Directors held on November 2, 2012.

(i) Total dividends	¥2,710 million
(ii) Cash dividends per common share	¥6
(iii) Record date	September 30, 2012
(iv) Effective date	December 5, 2012

(b) Dividends paid during the year ended March 31, 2014

The following was approved by the Board of Directors held on May 24, 2013.

(i) Total dividends	¥2,710 million ($26,331 thousand)
(ii) Cash dividends per common share	¥6 ($0.06)
(iii) Record date	March 31, 2013
(iv) Effective date	June 6, 2013

The following was approved by the Board of Directors held on November 1, 2013.

(i) Total dividends	¥2,710 million ($26,331 thousand)
(ii) Cash dividends per common share	¥6 ($0.06)
(iii) Record date	September 30, 2013
(iv) Effective date	December 5, 2013

(c) Dividends to be paid after the balance sheet date but the record date for the payment belongs to the year ended March 31, 2014

The following was approved by the Board of Directors held on May 26, 2014.

(i) Total dividends	¥2,710 million ($26,331 thousand)
(ii) Dividend source	Retained earnings
(iii) Cash dividends per common share	¥6 ($0.06)
(iv) Record date	March 31, 2014
(v) Effective date	June 6, 2014

12. Selling, General and Administrative Expenses

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

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Freight	**¥ 13,247**	¥ 11,900	**$128,712**
Stevedoring and warehouse fee	**3,581**	3,103	**34,794**
Salaries	**10,247**	10,103	**99,563**
Employees' bonuses	**3,441**	3,290	**33,434**
Pension cost	**1,439**	1,533	**13,982**
Welfare	**3,279**	2,981	**31,860**
Transportation	**1,921**	1,800	**18,665**
Depreciation	**4,223**	3,645	**41,032**

13. Research and Development Costs

Research and development costs charged to income for the years ended March 31, 2014 and 2013 are ¥16,122 million ($156,646 thousand) and ¥15,332 million, respectively.

14. Long-Lived Assets

As of March 31, 2014, MGC reviewed its long-lived assets for impairment and, as a result, recognized an impairment loss in the amount of ¥11,648 million ($113,175 thousand) for the significant asset group which is as follows:

Location	Usage	Classification	Millions of yen	Thousands of U.S. dollars
Shanghai City, People's Republic of China	Synthetic resin manufacturing facilities	Machinery and equipment, etc.	¥ 11,636	$113,059

The long-lived assets that are used for business are grouped according to the classification which is used for monitoring the profit and loss continuously under the management accounting system, and the idle assets are grouped individually by each item.

Synthetic resin manufacturing facilities, owned by Mitsubishi Gas Chemical Engineering Plastics (Shanghai) Co., Ltd., a consolidated subsidiary of the Company, are written down to a recoverable amount because of their profitability decline due to worsening business environment, etc.

The recoverable amount is measured at its value in use. The future cash flow is used for calculation of the value in use and is discounted by 12.5% for the year ended March 31, 2014.

Impairment loss on this asset group consisted of the following:

	Millions of yen 2014	Thousands of U.S. dollars 2014
Buildings and structures	¥ 2,590	$ 25,165
Machinery, equipment and vehicles	8,731	84,833
Other	314	3,051
Total	¥ 11,636	$ 113,059

Impairment loss on other than the above facilities under long-lived assets was immaterial as of March 31, 2014. The relevant disclosure is, therefore, omitted.

As of March 31, 2013, MGC reviewed its long-lived assets for impairment. Details are not disclosed due to its immateriality.

15. Business Structure Improvement Expenses

Year ended March 31, 2014

The Group provided an estimated amount of structural reform costs in the amount of ¥1,526 million ($14,827 thousand) as of March 31, 2014 for unprofitable business in aromatic chemicals business segment and natural gas chemicals business segment, and plant relocation and downsizing of the consolidated subsidiaries.

Components of business structure improvement expenses for the year ended March 31, 2014 are as follows:

	Millions of yen	Thousands of U.S. dollars
Impairment loss	¥ 1,139	$ 11,067
Accrual of business structure improvement expenses	188	1,827
Loss on disposal of fixed assets	149	1,448
Other	49	476

Details of significant impairment loss included in business structure improvement expenses for the year ended March 31, 2014 are as follows:

Location	Usage	Classification	Millions of yen	Thousands of U.S. dollars
Kurashiki City, Okayama Prefecture	Aromatic chemicals manufacturing facilities	Machinery and equipment, etc.	¥ 805	$ 7,822
—	Ships	Vehicles, etc.	334	3,245

The long-lived assets that are used for business are grouped according to the classification which is used for monitoring the profit and loss continuously under the management accounting system, and the idle assets are grouped individually by each item.

Aromatic chemicals manufacturing facilities are written down to a recoverable amount because the Company's management decided to stop the production, and ships are written down to a recoverable amount because of their profitability decline.

The recoverable amount is measured at its value in use. The future cash flow is used for calculation of the value in use of ships and is discounted by 3.0%.

The future cash flow used for calculation of the value in use of aromatic chemicals manufacturing facilities is zero.

Year ended March 31, 2013

The Group provided an estimated amount of structural reform costs for unprofitable business in aromatic chemicals business segment and natural gas chemicals business segment.

Components of business structure improvement expenses for the year ended March 31, 2013 are as follows:

	Millions of yen
Impairment loss	¥ 12,469
Accrual of business structure improvement expenses	1,651
Inventories disposal costs	782
Immediate amortization of goodwill	363
Other	171

Details of significant impairment loss included in business structure improvement expenses for the year ended March 31, 2013 are as follows:

Location	Usage	Classification	Millions of yen
Kurashiki City, Okayama Prefecture	Aromatic chemicals manufacturing facilities	Machinery and equipment, etc.	¥ 4,967
Matsuyama City, Ehime Prefecture	Aromatic chemicals manufacturing facilities	Machinery and equipment, etc.	4,521
—	Ships	Vehicles, etc.	2,669

The long-lived assets that are used for business are grouped according to the classification which is used for monitoring the profit and loss continuously under the management accounting system, and the idle assets are grouped individually by each item.

Aromatic chemicals manufacturing facilities are written down to a recoverable amount because the Company's management decided to reduce the production capability, and ships are written down to a recoverable amount because of their profitability decline.

The recoverable amount is measured at its value in use. The future cash flow is used for calculation of the value in use of ships and is discounted by 2.7%.

16. Loss on Fire Accident

Loss on fire accident recognized for the year ended March 31, 2014 was due to the fire accident of manufacturing facilities.

There was no loss on fire accident for the year ended March 31, 2013.

17. Other Comprehensive Income

The reclassification adjustment and the related income tax effects allocated to each component of other comprehensive income for the years ended March 31, 2014 and 2013 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Net unrealized gain on other securities:			
Arising during the year	**¥ 4,471**	¥ 6,431	**$ 43,442**
Reclassification adjustment	**(35)**	1,042	**(340)**
Before tax amount	**4,435**	7,473	**43,092**
Tax benefit (expense)	**(1,715)**	(2,385)	**(16,663)**
Net-of-tax amount	**2,720**	5,088	**26,428**
Deferred gain on hedges:			
Arising during the year	**—**	(5)	**—**
Reclassification adjustment	**—**	203	**—**
Before tax amount	**—**	197	**—**
Tax benefit (expense)	**—**	—	**—**
Net-of-tax amount	**—**	197	**—**
Foreign currency translation adjustments:			
Arising during the year	**5,504**	3,380	**53,478**
Share of other comprehensive income of affiliates accounted for by equity method:			
Arising during the year	**14,565**	7,476	**141,518**
Reclassification adjustment	**—**	7	**—**
Net-of-tax amount	**14,565**	7,483	**141,518**
Total other comprehensive income	**¥ 22,790**	¥ 16,149	**$221,434**

18. Per Share Information

(a) Net income (loss) per share

Basic net income (loss) per share, and reconciliation of the numbers and the amounts used in the basic net income (loss) per share computations for the years ended March 31, 2014 and 2013 are as follows:

	Yen		U.S. dollars
	2014	2013	**2014**
Basic net income (loss) per share	**¥ 33.14**	¥ (17.25)	**$ 0.32**

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Net income (loss)	**¥ 14,971**	¥ (7,793)	**$145,462**
Net income (loss) not applicable to common stockholders	**—**	—	**—**
Net income (loss) applicable to common stockholders	**¥ 14,971**	¥ (7,793)	**$145,462**

	Number of shares	
	2014	2013
Weighted average number of shares outstanding on which basic net income (loss) per share is calculated	**451,694,282**	451,727,688

The diluted net income per share for the years ended March 31, 2014 and 2013 are not presented because net loss per share was recorded for the year ended March 31, 2013 and there are no dilutive potential shares as of March 31, 2014 and 2013.

(b) Net assets per share

Net assets per share as of March 31, 2014 and 2013 are as follows:

	Yen		U.S. dollars
	2014	2013	**2014**
Net assets per share	**¥ 691.88**	¥ 628.40	**$ 6.72**

19. Leases

(a) Finance lease

A summary of assumed amounts of acquisition cost which includes interest portion, accumulated depreciation, impairment loss and net book value as of March 31, 2014 and 2013 are as follows, which would have been reflected in the consolidated balance sheet if finance lease accounting had been applied to the finance leases currently accounted for as operating leases:

	Millions of yen		
	Machinery, equipment and vehicles	Other tangible assets	Total
March 31, 2014			
Acquisition cost	**¥ 1,028**	**¥ 48**	**¥ 1,076**
Accumulated depreciation	**753**	**43**	**797**
Net book value	**¥ 274**	**¥ 4**	**¥ 278**
March 31, 2013			
Acquisition cost	¥ 2,555	¥ 53	¥ 2,609
Accumulated depreciation	1,482	43	1,526
Accumulated impairment loss	69	—	69
Net book value	¥ 1,002	¥ 10	¥ 1,013

	Thousands of U.S. dollars		
	Machinery, equipment and vehicles	Other tangible assets	Total
March 31, 2014			
Acquisition cost	**$ 9,988**	**$ 466**	**$ 10,455**
Accumulated depreciation	**7,316**	**418**	**7,744**
Net book value	**$ 2,662**	**$ 39**	**$ 2,701**

Future minimum payments which include interest portion required under finance leases as of March 31, 2014 and 2013 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Within one year	¥ 90	¥ 176	$ 874
Over one year	188	938	1,827
	¥ 278	¥ 1,115	$ 2,701
Impairment loss on leased assets	¥ —	¥ 69	$ —

Lease payments for the years ended March 31, 2014 and 2013 amounted to ¥96 million ($933 thousand) and ¥354 million, respectively.

(b) Operating lease

Future minimum lease payments required under non-cancellable operating leases as of March 31, 2014 and 2013 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Within one year	¥ 1,063	¥ 879	$ 10,328
Over one year	3,209	3,254	31,180
	¥ 4,272	¥ 4,133	$ 41,508

20. Balances and Transactions with Related Party

The Company has a 50% equity ownership in Mitsubishi Engineering-Plastics Corporation as of March 31, 2014 and 2013.

Balances with the company as of March 31, 2014 and 2013 and related transactions for the years then ended are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Balances:			
Trade accounts receivable	¥ 7,025	¥ 9,613	$ 68,257
Transactions:			
Sales	29,607	28,027	287,670

The Company has a 50% equity ownership in Mizushima Aroma Co., Ltd. as of March 31, 2014 and 2013.

Balances with the company as of March 31, 2014 and 2013 and related transactions for the years then ended are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Balances:			
Trade accounts receivable	¥ 7,274	¥ 9,458	$ 70,676
Transactions:			
Sales	27,708	23,925	269,219

The Company has a 50% equity ownership in BRUNEI METHANOL COMPANY SDN. BHD. as of March 31, 2014 and 2013.

As of March 31, 2014 and 2013, the Company has guaranteed ¥12,020 million ($116,790 thousand) and ¥12,365 million of the company's loans to financial institutions, respectively.

The condensed financial information of all of 14 affiliates accounted for by equity method, including the significant affiliates, Japan Saudi Arabia Methanol Company, Ltd., METANOL DE ORIENTE, METOR S.A. and JSP CORPORATION are as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Total current assets	¥191,678	¥185,696	$1,862,398
Total non-current assets	283,011	252,929	2,749,815
Total current liabilities	142,275	139,930	1,382,384
Total non-current liabilities	84,325	69,995	819,326
Total net assets	248,089	228,701	2,410,503
Sales	401,348	349,089	3,899,611
Income before income taxes	64,690	51,959	628,546
Net income	49,657	44,938	482,482

21. Commitments and Contingencies

As of March 31, 2014 and 2013, MGC was contingently liable with respect to recourse obligations related to trade accounts receivable transferred in the amounts of ¥43 million ($418 thousand) and ¥785 million, respectively.

The Company guarantees certain obligations of its associated companies and employees, etc. As of March 31, 2014 and 2013, guarantees for affiliates and employees, etc. loans amounted to ¥3,310 million ($32,161 thousand) and ¥4,332 million, respectively, and guarantees for lease obligations of associated companies amounted to none and ¥1,577 million, respectively.

22. Financial Instruments

Conditions of financial instruments

(a) Management policy

MGC raises necessary funds through bank borrowings and issue of bonds in accordance with a funds management plan. Surplus funds are invested in highly safe financial instruments. MGC raises funds through bank borrowings for short-term operating fund. MGC uses derivatives to avoid risks mentioned below and does not enter into derivatives for speculative purposes.

(b) Financial instruments and risks

Trade notes and accounts receivable are exposed to customer's credit risk. Maturities of trade notes and accounts payable are mostly within one year. Part of trade receivables and payables is denominated in foreign currency and is exposed to fluctuation risk of foreign exchange rates. MGC uses foreign exchange contracts to hedge the net position.

Short-term investments and investments in securities are mainly held-to-maturity bonds and equity securities held for business relations and are exposed to market fluctuation risk.

Borrowings, bonds and lease obligations for finance leases are mainly for financing of funds for capital expenditure and operating. Part of the liabilities is with variable interest rate and thus is exposed to interest rate fluctuation risk. MGC uses interest rate swaps to hedge the risk.

MGC uses foreign exchange contracts to hedge future fluctuation of foreign exchange rates of receivables and payables denominated in foreign currency, interest rate swaps and currency swaps to hedge future fluctuation of interest rates and foreign exchange rates of borrowings.

Hedge accounting is applied for certain derivative transactions. MGC has entered into 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. MGC employs derivative transactions within actual demand and does not hold or issue derivative financial instruments for speculative purposes.

(c) Financial instruments risk management

(i) Credit risk

To mitigate and quickly capture the collectability issues, sales administration division regularly monitors major customers' credit status, and performs due date controls and balance controls for each customer in accordance with trade receivables and credit control rules. Held-to-maturity securities are debt securities readily convertible into cash which are invested in accordance with investment of surplus funds rules.

Maximum risk as of March 31, 2014 and 2013 is represented by the carrying amount of financial assets exposed to credit risk.

(ii) Market risk

The finance departments have executed the transactions with market risk with the director's approval in accordance with the finance rules and the derivatives control rules.

To mitigate the foreign currency fluctuation risk recognized by currency and month, MGC enters into a forward exchange contract for hedging the cash flow fluctuation risk associated with operating receivables and payables and surplus funds denominated in foreign currencies. To mitigate the foreign currency and interest rate fluctuation risk, MGC enters into an interest rate swap and a currency swap for hedging the cash flow fluctuation risk associated with borrowings.

MGC regularly monitors a price and an issuer's financial condition, and continuously considers whether MGC holds the short-term investments or the investments in securities except for held-to-maturity bond.

(iii) Liquidity risk

To mitigate the liquidity risk, a finance department prepares and updates a funds management plan as necessary, and maintains an appropriate level of liquidity.

(d) Supplemental explanation regarding fair value of financial instruments

Fair value of financial instruments are measured based on the quoted market price, if available, or reasonably assessed value if a quoted market price is not available. Fair value of financial instruments for which a quoted market price is not available is calculated based on certain assumptions, and the fair value might differ if different assumptions are used. In addition, the contract amount of the derivative transactions described below in **Fair value of financial instruments** does not represent the market risk of the derivative transactions.

Fair value of financial instruments

Balance sheet amount, fair value, and differences as of March 31, 2014 and 2013 are as follows.

Financial instruments, of which it is extremely difficult to measure the fair value, are not included in the table below. (Please see "<2> Financial instruments of which the fair value is extremely difficult to measure.")

	Millions of yen			Thousands of U.S. dollars		
March 31, 2014	Balance sheet amount	Fair value	Differences	Balance sheet amount	Fair value	Differences
Assets:						
(1) Cash	**¥ 38,772**	**¥ 38,772**	**¥ —**	**$ 376,720**	**$ 376,720**	**$ —**
(2) Trade notes and accounts receivable	**129,239**	**129,239**	**—**	**1,255,723**	**1,255,723**	**—**
(3) Short-term investments and investments in securities	**74,506**	**81,843**	**7,336**	**723,921**	**795,210**	**71,279**
Total assets	**¥ 242,518**	**¥ 249,855**	**¥ 7,336**	**$2,356,374**	**$2,427,662**	**$ 71,279**
Liabilities:						
(1) Trade notes and accounts payable	¥ 71,664	¥ 71,664	¥ —	$ 696,308	$ 696,308	$ —
(2) Short-term borrowings	75,859	75,859	—	737,068	737,068	—
(3) Accrued expenses	12,223	12,223	—	118,762	118,762	—
(4) Lease obligations (current)	1,668	1,668	—	16,207	16,207	—
(5) Bonds	25,000	24,868	(131)	242,907	241,625	(1,273)
(6) Long-term borrowings	83,481	84,340	859	811,125	819,471	8,346
(7) Lease obligations (non-current)	18,480	18,575	95	179,557	180,480	923
Total liabilities	¥ 288,376	¥ 289,200	¥ 823	$2,801,943	$2,809,949	$ 7,997
Derivative transactions:						
Hedge accounting not applied	¥ 734	¥ 734	¥ —	$ 7,132	$ 7,132	$ —
Hedge accounting applied	—	(60)	(60)	—	(583)	(583)
Total derivative transactions	¥ 734	¥ 673	¥ (60)	$ 7,132	$ 6,539	$ (583)

March 31, 2013	Millions of yen Balance sheet amount	Fair value	Differences
Assets:			
(1) Cash	¥ 28,888	¥ 28,888	¥ —
(2) Trade notes and accounts receivable	127,843	127,843	—
(3) Short-term investments and investments in securities	66,499	61,724	(4,775)
Total assets	¥ 223,231	¥ 218,456	¥ (4,775)
Liabilities:			
(1) Trade notes and accounts payable	¥ 73,907	¥ 73,907	¥ —
(2) Short-term borrowings	84,627	84,627	—
(3) Accrued expenses	13,486	13,486	—
(4) Lease obligations (current)	1,703	1,703	—
(5) Bonds	15,000	15,165	165
(6) Long-term borrowings	61,183	62,079	896
(7) Lease obligations (non-current)	20,130	20,443	313
Total liabilities	¥ 270,038	¥ 271,413	¥ 1,375
Derivative transactions:			
Hedge accounting not applied	¥ (583)	¥ (583)	¥ —
Hedge accounting applied	(141)	(329)	(188)
Total derivative transactions	¥ (724)	¥ (913)	¥ (188)

* Derivative receivables and payables are on net basis. Items that are net payables are shown in parenthesis.

<1> Fair value measurement of financial instruments

Assets:

- Cash and Trade notes and accounts receivable
  The carrying amount approximates fair value because of the short maturity of these instruments.
- Short-term investments and investments in securities
  The fair value of equity securities is calculated by quoted market price and the fair value of bond securities is estimated based on quotes from counterparties. Please see note 4 Short-term Investments and Investments in Securities for information by category.

Liabilities:

- Trade notes and accounts payable, Short-term borrowings, Accrued expenses and Lease obligations (current)
  The carrying amount approximates fair value because of the short maturity of these instruments.
- Bonds
  The fair value of bonds issued by the Company is calculated by market price.
- Long-term borrowings and Lease obligations (non-current)
  Fair value of long-term borrowings and lease obligations (non-current) is based on the present value of future cash flows discounted using the current borrowing rate for similar debt or lease of a comparable maturity.

Derivative Transactions:

Please see note 23 Derivative Financial Instruments.

<2> Financial instruments of which the fair value is extremely difficult to measure

	Millions of yen 2014	2013	Thousands of U.S. dollars 2014
Unlisted equity securities	¥ 94,919	¥ 80,403	$ 922,260

* It is extremely difficult to measure the fair value, and thus above are not included in “Assets (3) Short-term investments and Investments in securities.”

<3> Projected future redemption of monetary claim and securities with maturities as of March 31, 2014

	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
(1) Cash	¥ 38,772	¥ —	¥ —	¥ —
(2) Trade notes and accounts receivable	129,239	—	—	—
(3) Short-term investments and investments in securities:				
Held-to-maturity securities:				
Government bonds	—	5	0	—
Certificates of deposit	2,130	—	—	—
Total	¥ 170,141	¥ 5	¥ 0	¥ —

	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
(1) Cash	$ 376,720	$ —	$ —	$ —
(2) Trade notes and accounts receivable	1,255,723	—	—	—
(3) Short-term investments and investments in securities:				
Held-to-maturity securities:				
Government bonds	—	49	0	—
Certificates of deposit	20,696	—	—	—
Total	$ 1,653,138	$ 49	$ 0	$ —

<4> The annual maturities of the bonds, long-term borrowings and lease obligations as of March 31, 2014

	Millions of yen					
	Due within one year	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
Bonds	¥ —	¥ —	¥ 15,000	¥ —	¥ —	¥ 10,000
Long-term borrowings	11,459	29,074	22,833	7,269	13,675	10,628
Lease obligations	1,668	1,643	1,632	2,048	1,714	11,440

	Thousands of U.S. dollars					
	Due within one year	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
Bonds	$ —	$ —	$ 145,744	$ —	$ —	$ 97,163
Long-term borrowings	111,339	282,491	221,852	70,628	132,870	103,265
Lease obligations	16,207	15,964	15,857	19,899	16,654	111,154

23. Derivative Financial Instruments

The contract or notional amounts and fair value of derivative financial instruments held as of March 31, 2014 and 2013 are summarized as follows:

Derivative financial instruments to which hedge accounting is not applied are summarized as follows:

(a) Forward exchange contracts

	Millions of yen		
	Contract or notional amounts	Fair value	Valuation gain (loss)
March 31, 2014			
Forward exchange contracts:			
To sell foreign currency:			
U.S. dollar	¥ 21,910	¥ (38)	¥ (38)
Euro	1,348	(12)	(12)
New Taiwan dollar	882	(37)	(37)
	¥ 24,141	¥ (88)	¥ (88)
March 31, 2013			
Forward exchange contracts:			
To sell foreign currency:			
U.S. dollar	¥ 18,016	¥ (4)	¥ (4)
Euro	724	(0)	(0)
Chinese Yuan	2,119	(348)	(348)
New Taiwan dollar	587	(52)	(52)
	¥ 21,447	¥ (405)	¥ (405)

	Thousands of U.S. dollars		
	Contract or notional amounts	Fair value	Valuation gain (loss)
March 31, 2014			
Forward exchange contracts:			
To sell foreign currency:			
U.S. dollar	$212,884	$ (369)	$ (369)
Euro	13,098	(117)	(117)
New Taiwan dollar	8,570	(360)	(360)
	$234,561	$ (855)	$ (855)

* The fair value of forward exchange contracts is estimated based on quotes from counterparties.

(b) Interest rate swap agreements

	Millions of yen		
	Contract or notional amounts	Fair value	Valuation gain (loss)
March 31, 2014			
Interest rate swap agreements:			
Receive/floating and pay/fixed	¥ 7,533	¥ (190)	¥ (190)
March 31, 2013			
Interest rate swap agreements:			
Receive/floating and pay/fixed	¥ 4,259	¥ (249)	¥ (249)

	Thousands of U.S. dollars		
	Contract or notional amounts	Fair value	Valuation gain (loss)
March 31, 2014			
Interest rate swap agreements:			
Receive/floating and pay/fixed	$ 73,193	$ (1,846)	$ (1,846)

* The fair value of interest rate swap agreements is estimated based on quotes from counterparties.

(c) Interest rate/currency swap agreements

	Millions of yen		
	Contract or notional amounts	Fair value	Valuation gain (loss)
March 31, 2014			
Interest rate/currency swap agreements:			
Receive/floating and pay/fixed	**¥ 3,696**	**¥ 1,013**	**¥ 1,013**

	Thousands of U.S. dollars		
	Contract or notional amounts	Fair value	Valuation gain (loss)
March 31, 2014			
Interest rate/currency swap agreements:			
Receive/floating and pay/fixed	**$ 35,911**	**$ 9,843**	**$ 9,843**

* The fair value of interest rate/currency swap agreements is estimated based on quotes from counterparties.

There were no interest rate/currency swap agreements for the year ended March 31, 2013.

Derivative financial instruments to which hedge accounting is applied are summarized as follows:

(a) Forward exchange contracts

	Millions of yen		
	Hedged items	Contract or notional amounts	Fair value
March 31, 2014			
Forward exchange contracts:			
To sell foreign currency:	**Accounts receivables**		
U.S. dollar		**¥ 417**	**¥ (2)**
To buy foreign currency:	**Accounts payables**		
U.S. dollar		**329**	**(5)**
		¥ 746	**¥ (7)**
March 31, 2013			
Forward exchange contracts:			
To sell foreign currency:	Accounts receivables		
U.S. dollar		¥ 578	¥ 0
Euro		280	(2)
To buy foreign currency:	Accounts payables		
U.S. dollar		649	(139)
		¥ 1,507	¥ (141)

	Thousands of U.S. dollars		
	Hedged items	Contract or notional amounts	Fair value
March 31, 2014			
Forward exchange contracts:			
To sell foreign currency:	**Accounts receivables**		
U.S. dollar		**$ 4,052**	**$ (19)**
To buy foreign currency:	**Accounts payables**		
U.S. dollar		**3,197**	**(49)**
		$ 7,248	**$ (68)**

* The fair value of forward exchange contracts is estimated based on quotes from counterparties.

(b) Interest rate swap agreements

	Millions of yen		
	Hedged items	Contract or notional amounts	Fair value
March 31, 2014			
Interest rate swap agreements:			
Receive/floating and pay/fixed	**Long-term borrowings**	**¥ 13,715**	**¥ (53)**
March 31, 2013			
Interest rate swap agreements:			
Receive/floating and pay/fixed	**Long-term borrowings**	**¥ 21,865**	**¥ (188)**

	Thousands of U.S. dollars		
	Hedged items	Contract or notional amounts	Fair value
March 31, 2014			
Interest rate swap agreements:			
Receive/floating and pay/fixed	**Long-term borrowings**	**$133,259**	**$ (515)**

* The fair value of interest rate swap agreements is estimated based on quotes from counterparties.

24. Investment and Rental Property

The Company and certain consolidated subsidiaries own land and buildings for rent in Tokyo and other areas (hereafter “rental property”).

The amounts recognized in the consolidated balance sheet and fair values related to the rental property for the years ended March 31, 2014 and 2013 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Consolidated balance sheet amount:			
Balance at beginning of the year	**¥ 4,029**	¥ 3,655	**$ 39,147**
Increase/(decrease)	**(790)**	373	**(7,676)**
Balance at end of the year	**¥ 3,238**	¥ 4,029	**$ 31,461**
Fair value	**¥ 7,239**	¥ 8,354	**$ 70,336**

Notes:
1. Consolidated balance sheet amount is its cost minus accumulated depreciation and accumulated impairment loss.
2. Decrease for the year ended March 31, 2014 is mainly due to maturity of contract period for rent of the Company's land of ¥(473) million ($(4,596) thousand) and increase for the year ended March 31, 2013 was mainly due to new rent of the Company's land of ¥468 million.
3. Fair value is based on roadside value, etc.

Income from the rental property is ¥366 million ($3,556 thousand) and ¥332 million for the years ended March 31, 2014 and 2013, respectively.

25. Segment Information

The "Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (ASBJ Statement No. 17, March 27, 2009) and the "Guidance on Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (ASBJ Guidance No. 20, March 21, 2008) adopt the management approach. Disclosures about segments of an enterprise and related information should provide proper information on the nature of various business activities in which it engages and the economic environments in which it operates.

The Company introduced company-based organization for clarifying management's responsibility in operation and for managing efficiently. Each company develops a business strategy for their products and services and conducts business.

The reported segments of the Company are the business units for which the Company is able to obtain respective financial information separately in order for the Board of Directors to conduct periodic investigation to determine distribution of management resources and evaluate their business results. "Natural gas chemicals business," "Aromatic chemicals business," "Specialty chemicals business" and "Information and advanced materials business" are the Company's reported segments.

Natural gas chemicals business mainly produces and sells methanol, ammonia, amines, methacrylates, polyols, enzymes and crude oil.

Aromatic chemicals business mainly produces and sells xylene isomers and xylene derivatives.

Specialty chemicals business mainly produces and sells hydrogen peroxide and other industrial inorganic chemicals, electronic chemicals and engineering plastics.

Information and advanced materials business mainly produces and sells printed circuit board materials, printed circuit boards and oxygen absorber (AGELESS®).

Segment sales, income, assets, liabilities and others are calculated by accounting methods similar to those employed to prepare the accompanying consolidated financial statements. Segment income are calculated based on "Keijo-soneki" disclosed in the consolidated statement of operations under accounting principles generally accepted in Japan (See note 26). Intersegment revenue and transfer are based on arm's-length transactions.

The reported segment information for the Company and its consolidated subsidiaries for the years ended March 31, 2014 and 2013 is summarized as follows:

	Millions of yen						
	2014						
	Natural gas chemicals	Aromatic chemicals	Specialty chemicals	Information and advanced materials	Other	Adjustments	Consolidated
Sales:							
Sales to third parties	¥ 185,276	¥ 139,596	¥ 153,382	¥ 55,601	¥ 813	¥ —	¥ 534,670
Inter-segment sales	9,568	2,040	1,176	0	95	(12,882)	—
	¥ 194,845	¥ 141,636	¥ 154,559	¥ 55,602	¥ 908	¥ (12,882)	¥ 534,670
Segment income (loss)	¥ 18,444	¥ 2,189	¥ 3,708	¥ 4,883	¥ 1,901	¥ (391)	¥ 30,735
Segment assets	¥ 217,997	¥ 101,943	¥ 195,038	¥ 64,448	¥ 55,832	¥ 22,857	¥ 658,117
Others:							
Depreciation and amortization	¥ 6,334	¥ 4,127	¥ 9,550	¥ 3,123	¥ 10	¥ 381	¥ 23,528
Amortization of goodwill	—	—	24	1	—	(26)	—
Amortization of negative goodwill	(13)	(11)	(169)	—	—	26	(168)
Interest income	79	20	156	46	22	(124)	200
Interest expenses	1,236	811	1,496	132	4	(685)	2,995
Equity in earnings of affiliates	16,937	0	1,396	—	2,132	—	20,466
Investments in affiliates accounted for by the equity method	66,272	1,514	11,657	—	28,974	(239)	108,179
Capital expenditures	4,523	2,377	11,237	6,691	2	577	25,409

	Natural gas chemicals	Aromatic chemicals	Specialty chemical	Information and advanced materials	Other	Adjustments	Consolidated
	Thousands of U.S. dollars						
	2014						
Sales:							
Sales to third parties	$1,800,194	$1,356,354	$1,490,303	$ 540,235	$ 7,899	$ —	$5,195,006
Inter-segment sales	92,965	19,821	11,426	0	923	(125,165)	—
	$1,893,169	$1,376,176	$1,501,739	$ 540,245	$ 8,822	$ (125,165)	$5,195,006
Segment income (loss)	$ 179,207	$ 21,269	$ 36,028	$ 47,445	$ 18,471	$ (3,799)	$ 298,630
Segment assets	$2,118,121	$ 990,507	$1,895,045	$ 626,195	$ 542,480	$ 222,085	$6,394,452
Others:							
Depreciation and amortization	$ 61,543	$ 40,099	$ 92,791	$ 30,344	$ 97	$ 3,702	$ 228,605
Amortization of goodwill	—	—	233	10	—	(253)	—
Amortization of negative goodwill	(126)	(107)	(1,642)	—	—	253	(1,632)
Interest income	768	194	1,516	447	214	(1,205)	1,943
Interest expenses	12,009	7,880	14,536	1,283	39	(6,656)	29,100
Equity in earnings of affiliates	164,565	0	13,564	—	20,715	—	198,853
Investments in affiliates accounted for by the equity method	643,918	14,710	113,263	—	281,520	(2,322)	1,051,098
Capital expenditures	43,947	23,096	109,182	65,012	19	5,606	246,881

	Natural gas chemicals	Aromatic chemicals	Specialty chemicals	Information and advanced materials	Other	Adjustments	Consolidated
	Millions of yen						
	2013						
Sales:							
Sales to third parties	¥ 153,995	¥ 128,222	¥ 131,611	¥ 53,274	¥ 875	¥ —	¥ 467,979
Inter-segment sales	7,807	1,958	966	4	69	(10,806)	—
	¥ 161,803	¥ 130,180	¥ 132,577	¥ 53,279	¥ 944	¥ (10,806)	¥ 467,979
Segment income (loss)	¥ 15,981	¥ (890)	¥ 6,707	¥ 4,417	¥ 1,555	¥ (119)	¥ 27,651
Segment assets	¥ 194,371	¥ 109,362	¥ 187,509	¥ 61,150	¥ 44,882	¥ 16,632	¥ 613,908
Others:							
Depreciation and amortization	¥ 6,295	¥ 5,860	¥ 7,790	¥ 2,799	¥ 10	¥ 339	¥ 23,096
Amortization of goodwill	44	94	0	1	—	(141)	—
Amortization of negative goodwill	(14)	(22)	(177)	—	—	141	(73)
Interest income	80	27	126	23	4	(90)	173
Interest expenses	1,374	947	819	121	4	(685)	2,581
Equity in earnings of affiliates	15,217	27	2,097	—	1,703	—	19,045
Investments in affiliates accounted for by the equity method	54,675	1,539	11,030	—	25,096	(241)	92,100
Capital expenditures	6,372	5,777	15,076	3,385	0	370	30,982

Notes:

1. Other includes listed affiliates and real estate business which are not included in reported segments.
2. Adjustments in the above table are made for the followings:
   (1) Adjustments in segment income are as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Elimination of intersegment transactions	**¥ (135)**	¥ (117)	**$ (1,312)**
Unallocated company-wide expenses	**(255)**	(2)	**(2,478)**
	¥ (391)	¥ (119)	**$ (3,799)**

* Company-wide expenses are administrative expenses, financial income and expenses and other income and expenses which are not allocated to reported segments.

(2) Adjustments in segment assets

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Elimination of intersegment balances	**¥ (48,779)**	¥ (45,074)	**$(473,951)**
Unallocated company-wide assets	**71,636**	61,706	**696,036**
	¥ 22,857	¥ 16,632	**$222,085**

* Company-wide assets are cash, investments in securities, and deferred taxes assets which are not allocated to reported segments.

(3) "Adjustments in depreciation and amortization" of ¥381 million ($3,702 thousand) and ¥339 million are depreciation and amortization of company-wide assets which are not allocated to reported segments for the years ended March 31, 2014 and 2013, respectively.

(4) "Adjustments in amortization of goodwill" of ¥(26) million ($(253) thousand) and ¥(141) million and "Adjustments in amortization of negative goodwill" of ¥26 million ($253 thousand) and ¥141 million are the amount of their offset for the years ended March 31, 2014 and 2013, respectively.
(5) "Adjustments in interest income" of ¥(124) million ($(1,205) thousand) and ¥(90) million are mainly elimination of intersegment transactions for the years ended March 31, 2014 and 2013, respectively.
(6) "Adjustments in interest expenses" of ¥(685) million ($(6,656) thousand) and ¥(685) million are mainly elimination of intersegment transactions for the years ended March 31, 2014 and 2013, respectively.
(7) "Adjustments in investments in affiliates accounted for by the equity method" of ¥(239) million ($(2,322) thousand) and ¥(241) million are mainly elimination of intersegment transactions for the years ended March 31, 2014 and 2013, respectively.
(8) "Adjustments in capital expenditures" of ¥577 million ($5,606 thousand) and ¥370 million are related to company-wide assets which are not allocated to reported segments for the years ended March 31, 2014 and 2013, respectively.

3. Segment income is adjusted with "Keijo-soneki" disclosed in the consolidated statement of operations under accounting principles generally accepted in Japan (See note 26).

Related information

1. Information by products and services
Disclosures are omitted because the classification of products and services are same as the classification of the reported segments.
2. Geographical information
(1) Sales

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Japan	**¥ 278,351**	¥ 265,007	**$2,704,538**
Asia	**186,448**	149,943	**1,811,582**
Other	**69,869**	53,028	**678,867**
Total	**¥ 534,670**	¥ 467,979	**$5,195,006**

* Geographical sales are classified by customer's location.

(2) Property, plant and equipment

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Japan	**¥ 148,832**	¥ 151,977	**$1,446,094**
Asia	**36,296**	38,927	**352,662**
Other	**6,183**	4,548	**60,076**
Total	**¥ 191,311**	¥ 195,453	**$1,858,832**

3. Information by major customers
Disclosures are omitted because no particular customer whose sales are over 10% of sales in the consolidated statement of operations exists.

Information of impairment loss on fixed assets by reported segments

	Millions of yen						
	2014						
	Natural gas chemicals	Aromatic chemicals	Specialty chemicals	Information and advanced materials	Other	Adjustments	Consolidated
Impairment loss	**¥ 334**	**¥ 817**	**¥ 11,636**	**¥ —**	**¥ —**	**¥ —**	**¥ 12,788**

	Millions of yen						
	2013						
	Natural gas chemicals	Aromatic chemicals	Specialty chemicals	Information and advanced materials	Other	Adjustments	Consolidated
Impairment loss	¥ 3,032	¥ 9,489	¥ 0	¥ —	¥ —	¥ —	¥ 12,523

	Thousands of U.S. dollars						
	2014						
	Natural gas chemicals	Aromatic chemicals	Specialty chemicals	Information and advanced materials	Other	Adjustments	Consolidated
Impairment loss	**$ 3,245**	**$ 7,938**	**$ 113,059**	**$ —**	**$ —**	**$ —**	**$ 124,252**

Information of balance of goodwill and negative goodwill by reported segments

	Millions of yen						
	2014						
	Natural gas chemicals	Aromatic chemicals	Specialty chemicals	Information and advanced materials	Other	Adjustments	Consolidated
Goodwill	¥ —	¥ —	¥ 2	¥ —	¥ —	¥ —	¥ 2

	Millions of yen						
	2013						
	Natural gas chemicals	Aromatic chemicals	Specialty chemicals	Information and advanced materials	Other	Adjustments	Consolidated
Goodwill	¥ —	¥ —	¥ 30	¥ 1	¥ —	¥ (32)	¥ —
Negative goodwill	(3)	(11)	(169)	—	—	32	(152)

	Thousands of U.S. dollars						
	2014						
	Natural gas chemicals	Aromatic chemicals	Specialty chemicals	Information and advanced materials	Other	Adjustments	Consolidated
Goodwill	$ —	$ —	$ 19	$ —	$ —	$ —	$ 19

There is no balance of negative goodwill as of March 31, 2014.

Information of negative goodwill incurred by reported segments

Due to purchase of treasury stock by a consolidated subsidiary of the Company, negative goodwill of ¥11 million ($107 thousand), ¥0 million ($0 thousand) and ¥3 million ($29 thousand) is incurred in Natural gas chemicals, Aromatic chemicals, and Other, respectively, for the year ended March 31, 2014.

No negative goodwill was incurred for the year ended March 31, 2013.

26. The Statement of Operations Disclosure under Accounting Principles Generally Accepted in Japan

Under accounting principles generally accepted in Japan, an ordinary income or loss, “Keijo-soneki” should be disclosed in the statement of operations. The ordinary income or loss is an income or loss figure with certain adjustments made to income or loss before income taxes and minority interests.

Followings are the summary information of the statement of operations under accounting principles generally accepted in Japan.

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Sales	**¥ 534,670**	¥ 467,979	**$5,195,006**
Gross profit	**74,077**	67,967	**719,753**
Operating income	**11,416**	11,421	**110,921**
Ordinary income	**30,735**	27,651	**298,630**
Income before income taxes and minority interests	**17,703**	9,739	**172,007**
Net income (loss)	**14,971**	(7,793)	**145,462**

Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of Mitsubishi Gas Chemical Company, Inc. and its consolidated subsidiaries, which comprise the consolidated balance sheet as of March 31, 2014, and the consolidated statement of operations, comprehensive income, changes in net assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Mitsubishi Gas Chemical Company, Inc. and its consolidated subsidiaries as of March 31, 2014, and their consolidated financial performance and cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

Our audits also comprehended the translation of Japanese yen amounts into United States dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 2 to the consolidated financial statements. Such United States dollar amounts are presented solely for the convenience of readers outside Japan.

BDO Toyo & Co.

BDO Toyo & Co.
Tokyo, Japan
June 25, 2014

Corporate Data / Investor Information

As of March 31, 2014

Mitsubishi Gas Chemical Company, Inc.

Establishment
April 21, 1951

Paid-in Capital
¥41.97 billion

Outstanding Shares
483,478,398

Number of Stockholders
24,997

Listing (Ticker Code)
Tokyo (4182)

Stock Transaction Units
1,000 - shares

Annual General Meeting of Stockholders
The annual general meeting of stockholders is normally held in June in Tokyo, Japan.

Independent Auditor
BDO Toyo & Co.

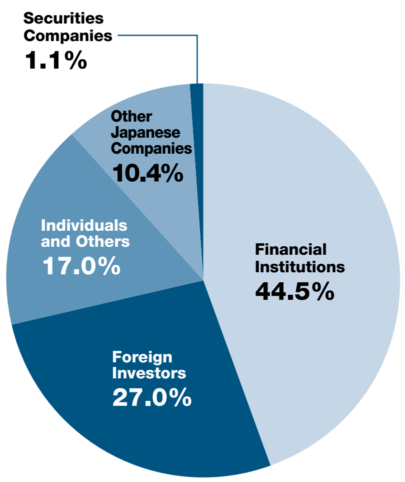
Transfer Agent and Registrar
Mitsubishi UFJ Trust and Banking Corp.

Major Stockholders

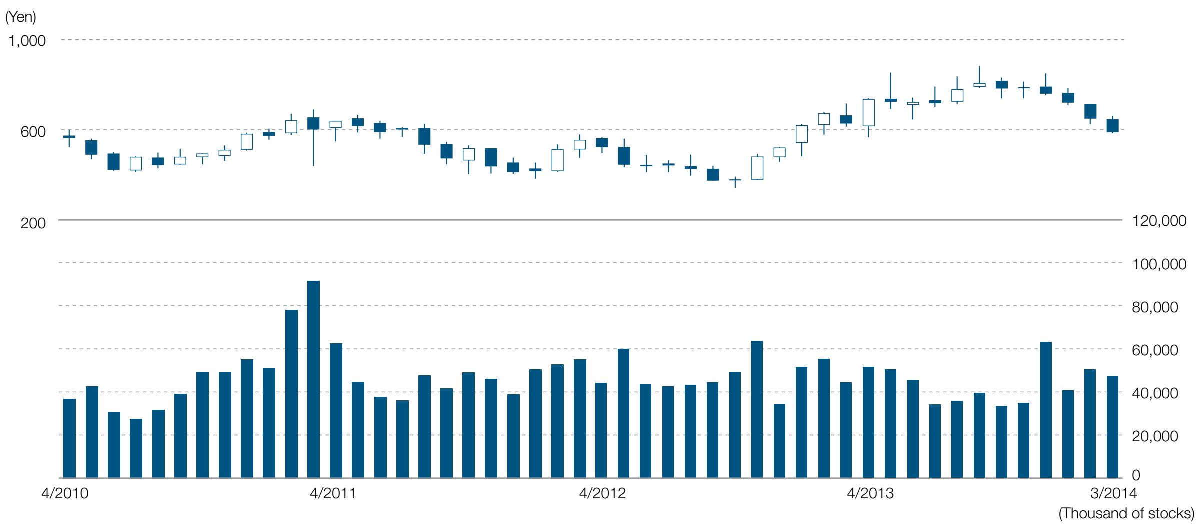
Name	Number of shares held (Thousands)	Shareholding ratio (%)
The Master Trust Bank of Japan, Ltd. (Trust Account)	25,034	5.5
Japan Trustee Services Bank, Ltd. (Trust Account)	22,468	5.0
Nippon Life Insurance Company	19,521	4.3
Meiji Yasuda Life Insurance Company	16,795	3.7
National Mutual Insurance Federation of Agricultural Cooperatives	14,069	3.1
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	13,611	3.0
NORTHERN TRUST CO. (AVFC) RE 15PCT TREATY ACCOUNT	11,179	2.5
CMBL S.A. RE MUTUAL FUNDS	10,207	2.3
Mitsubishi UFJ Trust and Banking Corporation	10,128	2.2
The Norinchukin Bank	10,053	2.2

Notes: 1. MGC holds 31,800 thousand shares of treasury stock, which is not included in the above list of major stockholders.
2. Percentage to Total Shares Outstanding does not include treasury stock.

Composition of Stockholders



Monthly Stock Price Range and Trading Volume



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