

● **MAKING HEADWAY**

Annual Report 2002 Year Ended March 31, 2002



Our Report Card

HOW WE'RE DOING IN OUR MEDIUM-TERM CORPORATE PLANS

Mitsui Chemicals, Inc. aims to be a diversified chemical company with a strong competitive position in the global market by developing businesses in two fields: the petrochemicals & basic chemicals sector and the performance materials sector.

Since it merged in 1997, Mitsui Chemicals has conducted its operations based on its Stage I Medium-Term Corporate Plans. These plans were completed in March 2001. Now the company has entered the first year of its Stage II Medium-Term Corporate Plans.

This annual report communicates the progress Mitsui Chemicals has made on its Medium-Term Corporate Plans and serves as the company's report card.

Corporate Mission of Mitsui Chemicals
A DIVERSIFIED CHEMICAL COMPANY WITH A STRONG COMPETITIVE POSITION IN THE GLOBAL MARKET

Stage I

Established Mitsui Chemicals
 (October, 1997)

>> Early Effective Merger Results

1997

1998

1999

2000

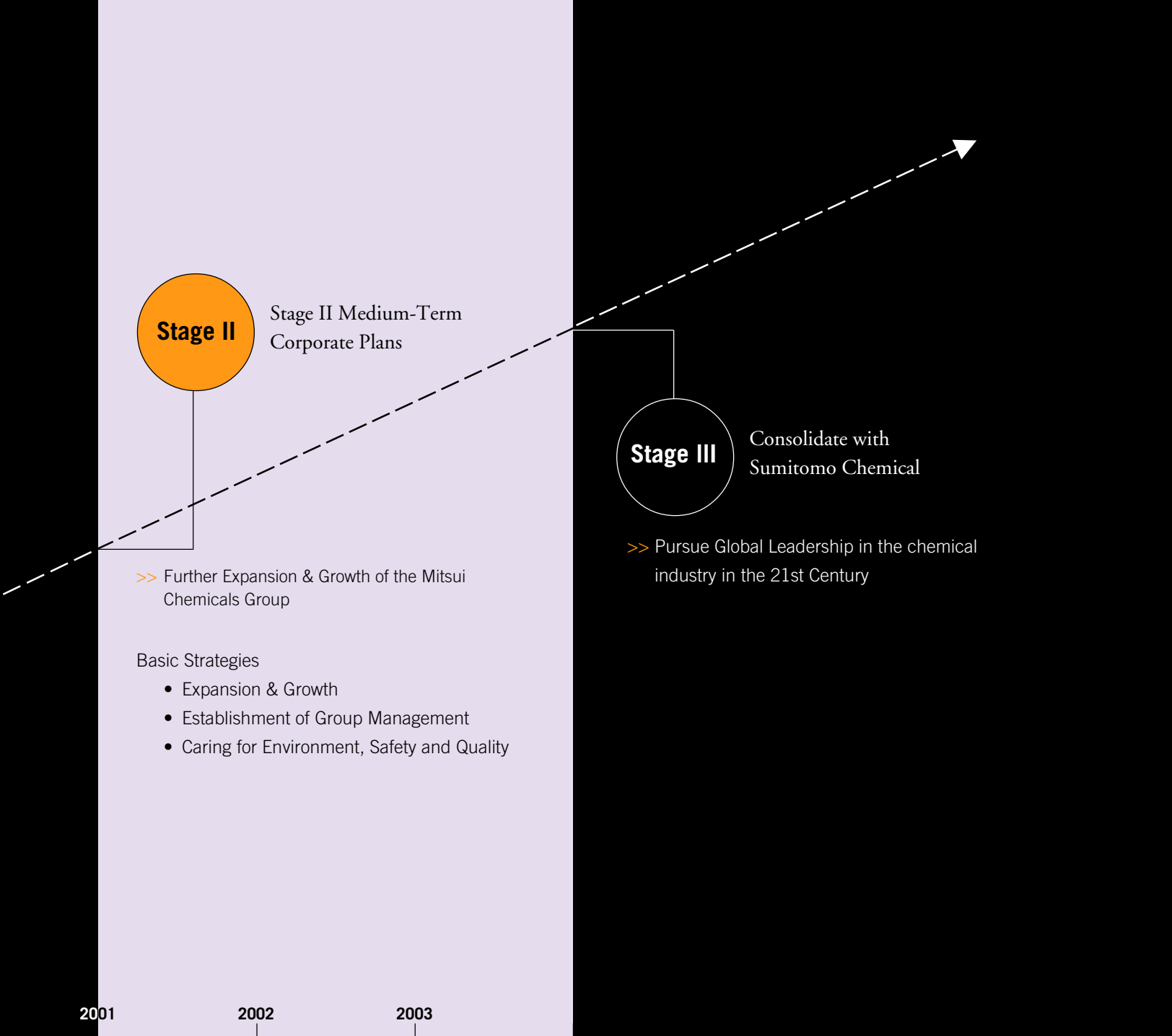
CONSOLIDATED FINANCIAL HIGHLIGHTS

(For the years ended March 31)

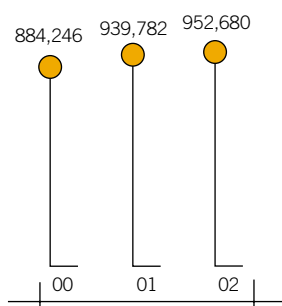
	2002	2001	2000	Change	2002
	(Millions of yen)			(%)	(Thousands of U.S. dollars)
Net sales	¥ 952,680	¥ 939,782	¥ 884,246	1.4	\$7,146,887
Operating income	42,382	54,512	55,739	(22.2)	317,944
Net income	7,651	17,068	16,042	(55.2)	57,397
Stockholders' equity	366,988	352,988	345,690	4.0	2,753,098
Total assets	1,297,863	1,314,513	1,237,179	(1.3)	9,736,407

Notes: 1) U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥133.3=U.S.\$1, the approximate Tokyo foreign exchange market rate as of March 31, 2002.

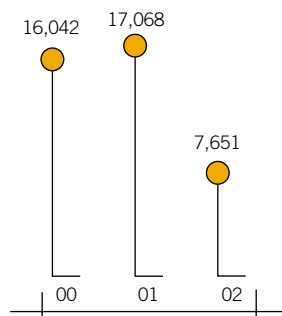
2) Changes are between the years ended March 31, 2002 and 2001.



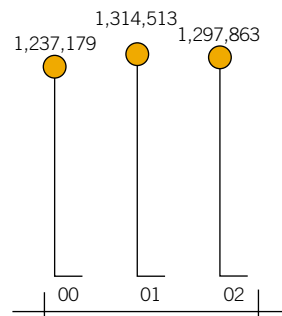
NET SALES (¥ Million)



NET INCOME (¥ Million)



TOTAL ASSETS (¥ Million)



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Left: Goro Watanabe *Chairman*
Right: Hiroyuki Nakanishi *President*

Making Headway best sums up how Mitsui Chemicals performed in Fiscal 2002, ended March 31, 2002. In this message, we would like to look back on the past year, at the results and the progress of our Medium-Term Corporate Plans, and where our focus presently lies.

TOP-LINE GROWS AMID CHALLENGING BUSINESS ENVIRONMENT

Difficult economic conditions persisted in Japan in Fiscal 2002 as public works spending, capital expenditures and housing investment all declined and the jobless rate remained high. Generally flat consumer spending did little to brighten the mood.

The chemical industry mirrored the economic downturn, with production and shipments falling, and raw materials prices remaining high.

To stay on top of these conditions, we concentrated on boosting sales and worked to pare costs to improve earnings across the Group.

As a result, consolidated net sales increased ¥12.9 billion year on year to ¥952.7 billion. But operating income declined ¥12.1 billion to ¥42.4 billion and net income was down ¥9.4 billion at ¥7.7 billion.

STEADY PROGRESS WITH MEDIUM-TERM CORPORATE PLANS

After our merger in 1997, we concentrated on quickly capturing synergies from the merger outlined in Stage I Medium-Term Corporate Plans. In Stage II, which was formulated in March 2001 and runs from Fiscal 2002 through Fiscal 2004, we are aiming for further expansion and growth, building on the merger effects, to realize our vision of becoming “a diversified chemical company with a strong competitive position in the global market, in other words, “a strong Mitsui Chemicals.” The following basic strategies are guiding our actions:

- Expansion & Growth
 - (1) Intensive expansion and growth
 - (2) Accelerate new product development in the performance materials sector
 - (3) Globalization

- Establishment of Group Management
 - (4) Establish a consolidated management system
 - (5) Strengthen the Mitsui Chemicals Group
 - (6) Strengthen the infrastructure for Group management
- Caring for Environment, Safety and Quality
 - (7) Promote “Responsible Care” activities and quality management

Overall, we feel that we are making steady progress so far in executing these basic strategies. In particular, we have strengthened core businesses and prospective core businesses just as our Expansion & Growth initiative dictates. In the petrochemicals & basic chemicals sector, the main themes are to capture demand in the dynamically growing Asian market and rebuild domestic businesses. Overseas, operations have started at a phenol plant and a second bisphenol A plant in Singapore. Construction is also proceeding steadily at a second purified terephthalic acid plant in Thailand and an acrylamide plant in South Korea that will use proprietary biotech process technology. In Japan, Sumitomo Mitsui Polyolefin Co., Ltd., which integrated the polyolefin operations of both Mitsui Chemicals and Sumitomo Chemical, started operations in April 2002. Furthermore, we dissolved Ukishima Petrochemicals Co., Ltd., our joint venture with Nippon Petrochemicals Co., Ltd., making possible the independent management of the naphtha cracker at our Ichihara Works. Together with production in Osaka, we now have in place an optimal framework for plant operations. Moreover, we have decided on a large-scale scrap-and-build plan of polypropylene plants.

In the performance materials sector, operations started in April 2001 at Mitsui Takeda Chemicals, Inc., a urethane joint venture with Takeda Chemical Industries, Ltd., and we have decided to ramp up production at a TDI plant in Kashima. Construction has begun at a TAFMER® plant in Singapore in the elastomers business. And in March 2002 we completed integration of R&D functions in

Sodegaura Center. This action was taken to speed up development of new products. At the same time, we established the Catalysis Science Laboratory, consolidating catalyst science research functions to give impetus to the creation of various materials.

REVISION OF TARGETS FOR STAGE II MEDIUM-TERM CORPORATE PLANS

Since formulating our Stage II Medium-Term Corporate Plans in March 2001, economic conditions have rapidly deteriorated and there appears to be no immediate way out of the economic malaise that has set in. Under these circumstances, we have revised targets in our initial plan after reviewing the viability of our Expansion & Growth drive amid the maelstrom of change.

Although we have revised our targets, there will be no change in our basic strategies.

TARGETS OF STAGE II MEDIUM-TERM CORPORATE PLANS	
	(Fiscal 2004)
Business scale	
Net sales	¥1,100 billion
Profitability	
Ordinary income	¥65 billion
(Return on net sales)	(6%)
Efficiency	
Ordinary income to total assets	5%
Effect	
Consolidated cash flows	¥170 billion
(Cumulative over 3 years)	

We have slightly revised downward our initial target of ¥1,150 billion for consolidated net sales due to lower volumes accompanying the economic slowdown. And our ordinary income target has been lowered from ¥92 billion initially, as we have been unable to escape the effects of a recent increase in naphtha prices. Our target for free cash

flows, which support future growth, is unchanged. This will require that we be more selective than ever in choosing investments with high returns.

MAJOR ISSUES IN FISCAL 2003

In October 2003, we plan to consolidate our entire business with Sumitomo Chemical with the aim of becoming “a global leader in the chemical industry in the 21st century.” In the run-up to this integration, it is imperative that we enhance our corporate vitality and put in place the systems to facilitate this consolidation.

With no expectations for a rapid upturn in the world economy, we expect to continue to face a difficult business environment in Fiscal 2003, marked by sluggish consumer spending and falling capital expenditures. Echoing this depressed climate, the chemical industry will likely see raw materials prices remain at high levels and stiffening competition fanned by the increasingly borderless nature of markets.

Faced with this outlook, we will tackle several major issues in fiscal 2003. One is steeling and expanding core businesses to drive intensive expansion and growth. We will adhere to our plan of expanding production overseas to capture growth in Asian markets in the petrochemicals & basic chemicals sector. And, to improve the structure of our domestic petrochemicals business, we will step up the development of our globally competitive propylene and its derivative businesses. To effect this improvement we are considering the conversion of Osaka Petrochemical Industries, Ltd.’s ethylene center into a propylene center. In the performance materials sector, we will push ahead with the strengthening and expansion of core businesses especially overseas by increasing production capacity. Concurrently, we will take full advantage of the previously mentioned integration of R&D functions and the establishment of the Catalysis Science Laboratory to speed up new product development.

A second theme for the year is improving the consolidated management of the Mitsui Chemicals Group. Group companies will be selectively reinforced and expanded in accordance with their respective missions. We will also undertake thoroughgoing reviews of business processes—here we will also make use of a SAP/R3 ERP package—and strengthen our financial structure by streamlining total assets.

Thirdly, reducing our impact on the environment is both our social responsibility and a major prerequisite for our existence. We will adhere to Responsible Care practices, promote environmental initiatives and ensure vigorous safety and quality management.

The start of operations at Sumitomo Mitsui Polyolefin in April 2002 kicked off the process toward the entire business consolidation with Sumitomo Chemical. We will continue to ready ourselves for this consolidation in fiscal 2004.

Management is united in its resolve to meeting the expectations of shareholders, investors and business partners. We look forward to your continuing support as we strive to achieve our goals.

July 2002



Goro Watanabe
Chairman



Hiroyuki Nakanishi
President



Q. WHAT IS THE RATIONALE BEHIND MITSUI CHEMICALS' AIM TO BECOME A DIVERSIFIED CHEMICAL COMPANY?

Companies are increasingly focusing on specific areas and businesses. Mitsui Chemicals, on the other hand, aims to be a diversified chemical company with a strong competitive position in the global market by developing businesses in two core fields: the petrochemicals & basic chemicals sector and the performance materials sector.

If we focus only on a specific area and business, the end of a business's lifecycle could signal the end of our whole company. Nowadays, the fast pace of change in society and economics has shortened the lifecycle of individual business. Understanding this, we need to create a range of new products based on strong technical capabilities to maintain our sustainable development. Furthermore, by developing a diverse range of business, we will be less vulnerable to economic fluctuations.

The source of Mitsui Chemicals competitiveness is a process called "combinatorial chemistry." Basically, this involves collaboration and combination between each area of chemical technology to deliver competitive production methods and research and development of new products. For example, in the development of performance materials there are synergistic effects derived from the individual technologies and processes cultivated in the petrochemical & basic chemicals sector. On the other hand, lifescience technologies such as the biotech acrylamide manufacturing process from the performance materials sector are used for producing basic chemicals. Each area of technology is a building block to further technical progress. This is an important part of the rationale behind our approach to be a diversified chemical company.

The term diversified chemical company does not imply that we are a chemical company involved in producing anything and everything. Our aim is to use our existing strengths to expand in a broad array of business fields. Expertise in polymer sciences and other technologies linked to catalysis science forms the basis for this growth. Accordingly, we plan to focus our management resources in core areas such as phenol, terephthalic acid and performance polymers like elastomers.



Q. WHY DID MITSUI CHEMICALS REVISE ITS TARGETS IN THE MEDIUM-TERM CORPORATE PLANS?

In the Stage II Medium-Term Corporate Plans formulated in March 2001, we outlined three basic strategies: Expansion & Growth, Establishment of Group Management, and Caring for the Environment, Safety and Quality. We established our goals by taking an Expansion & Growth perspective and did our best to achieve these goals. However, the current economic circumstances have changed dramatically for the worse, and we now face a prolonged economic downturn. Our Medium-Term Corporate Plans were revised accordingly.

Reflecting this environment, sales volume declined and trade conditions worsened along with a jump in the price of naphtha as a raw material. Consequently, the numerical targets are one or two years behind schedule. Based on the updated appraisal of our operating environment, we revised individual strategy by placing greater emphasis on the profitability and efficiency of our businesses. Although we did not alter the basic strategies of the Medium-Term Corporate Plans, we did revise our numerical targets for Fiscal 2004. The goals were lowered from consolidated net sales of ¥1,150 billion to ¥1,100 billion and ordinary income of ¥92 billion to ¥65 billion.

Free cash flow is essential to our future expansion. For this reason, we decided that the original target for a total of ¥170 billion over three years must be maintained. To achieve this, we will adopt a more efficient and selective approach to investments, and reducing these outlays from ¥260 billion over three years to ¥200 billion.

Apart from the aforementioned revisions our individual business strategies are progressing according to plan. And our future direction, the path to expansion and growth remain the same. In sum, our plan is designed to ensure that we can sustain growth by competing successfully in the 21st century.

	TARGETS OF MEDIUM-TERM CORPORATE PLANS	
	(Fiscal 2004)	
	(Revision)	(Original)
Business scale		
Net sales	¥1,100 billion	¥1,150 billion
Profitability		
Ordinary income	¥65 billion	¥92 billion
(Return on net sales)	(6%)	(8%)
Efficiency		
Ordinary income to total assets	5%	7%
Effect		
Consolidated cash flows	¥170 billion	¥170 billion
(Cumulative over 3 years)		

Q. WHAT IS THE OUTLOOK FOR PETROCHEMICALS AND HOW IS MITSUI CHEMICALS RESPONDING?

The petrochemical business in Japan has been developed by producing ethylene, propylene and aromatic products through the thermal cracking of naphtha and then producing derivatives. However, that business is influenced by a number of overseas trends. These include the advance into Asia of giant European and U.S. companies and the influx into Asian markets of Middle Eastern suppliers using low-cost, ethane-based ethylene plants. This has caused competition in the business of ethylene commodity derivatives to grow increasingly fierce. These trends have caused Japanese production to decline. Total ethylene production in Japan peaked at 7.7 million tons in 1999. However, total product in 2002 is only expected to be 7.0 million tons. With an annual production capacity for 7.8 million tons, the issue of excess capacity in Japan has become a major issue.

Mitsui Chemicals' ethylene center is highly competitive. In addition, we are growing stronger by coordinating ethylene production between our facilities in eastern and western Japan. For olefin derivatives, we are using our technical strengths to add value and reinforcing cost competitiveness. We recognize the challenges involved in competing successfully against very cheap overseas ethylene derivatives.

On the other hand, propylene and aromatic compounds, which are produced together with ethylene when cracking naphtha, are not gained from ethane. Therefore we believe we can successfully compete in the international marketplace by strengthening derivatives based on these products. Derivatives of propylene and aromatic compounds require more sophisticated technology than ethylene derivatives. We believe we must target these high value-added products.

Based on this belief, we are planning to restructure our petrochemical business in Japan to focus on propylene derivatives in areas where we excel, such as phenol and polypropylene. Currently, we are conducting a project to convert Osaka Petrochemical Industries, Ltd. from an ethylene center into a propylene center. Our goal is to raise total propylene production from 60% of ethylene output. Together with this, we are strengthening the development of propylene derivatives.

To make our commodity polypropylene more cost competitive, we will cease production at outdated facilities. We have decided to build a sophisticated, large-scale plant at our Osaka Works, which is cost competitive against imports. Operations are scheduled to begin in January 2004.

In addition to these efforts, Mitsui Chemicals plans to develop a diverse range of high value-added derivatives based on the company's expertise in catalysts.



Q. WHAT MEASURES HAS MITSUI CHEMICALS TAKEN TO DEVELOP NEW PRODUCTS IN THE FIELD OF PERFORMANCE MATERIALS?

We have established targets for sales and growth in our Stage II Medium-Term Corporate Plans. Along with overseas developments the development of new products in the field of performance materials will be crucial to our ability to meet these targets.

To speed up the development of new materials, we are making effective use of “ACCEL 21” our new product development program. Furthermore, we completed integration of R&D functions at our Sodegaura Center in March 2002. Through this integration we have created an environment for the easy exchange of ideas among researchers from different fields and expect a range of synergistic benefits that will make R&D activities more efficient and effective.

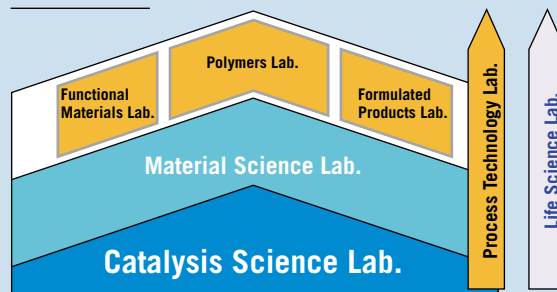
In April 2002, we established the Catalysis Science Laboratory. Catalysis science is a fundamental technology for the production of all chemicals and materials. The Material Science Laboratory combines this technology with process, organic synthesis and biotechnology expertise and passes it on to the Functional Materials Laboratory, Polymers Laboratory and Formulated Products Laboratory. With this organization, we now have a system leading directly to the market. We have a wide range of catalysts that are expected to be instrumental in developing the next generation of performance materials. These include solid catalysts such as those for decomposing dioxins and those that have high activity for producing PET resin; phenoxy-imine catalysts that are highly active and are expected to open up innovative new polymerization methods; molecular catalysts such as Phosphazene catalysts for ultra-high molecular weight urethane resin; and biological catalysts.

Net sales of new products were expected to be ¥60 billion in fiscal 2002, but only reached ¥42.4 billion due to the challenging economic environment and the slump in IT-related industries. This places us one year behind schedule on the targets we outlined in our Medium-Term Corporate Plans. However, ¥42.4 billion represents a year-on-year increase of 85%. By fiscal 2004, we plan to boost this to ¥101 billion.

SALES OF NEW PRODUCTS
(¥ Billion)



R&D SYSTEM





Q. PLEASE EXPLAIN MITSUI CHEMICALS' MANAGEMENT SYSTEM INCLUDING MEASURES FOR CORPORATE GOVERNANCE AND SPEEDING UP DECISION MAKING.

To ensure fair and accountable corporate governance, we have a highly effective auditing function. Our four corporate auditors include auditors from outside the company on the Board of Corporate Auditors. In addition, corporate auditors attend Management Committee meetings to offer their opinion. The Management Committee examines important management and business issues that require debate before they can be taken up by the Board of Directors. The Management Committee's regular members are the chairman, president, executive vice president, senior managing directors and managing directors. In addition, we established the Management Audit Division as part of our internal organization to perform auditing of accounting and business practices. We are introducing outside directors on the Board of Directors to provide supervision and advice from an independent standpoint.

We are speeding up our operations by pursuing the most efficient approaches to work and information, products and raw materials, and invested capital and total assets and thereby ensure that Mitsui Chemicals is a strong company. We call this efficient approach "reducing inventories." To speed up the decision-making process, the company's management policies and important business strategies are examined by the Strategy Committee before they are passed on to the Management Committee. From fiscal 2003, we will clarify the roles of the heads of business divisions, making them responsible for the profitability of their divisions. The aim here is strengthening our business divisions to complement our ongoing actions to reinforce consolidated management systems.

Q. PLEASE EXPLAIN HOW MITSUI CHEMICALS' MANAGEMENT POLICY TAKES INTO ACCOUNT THE INTERESTS OF SHAREHOLDERS.

We recognize the importance of open and accountable management and are working to provide information to everyone through extensive investor and public relations activities.

We place the highest priority on providing returns to shareholders and have maintained stable dividends for many years. In an effort to secure returns for shareholders into the future, we are working to increase retained earnings. We view retained earnings as an important resource for providing the funds required for investments in our businesses. In the future we will continue to enhance business performance and maintain a sound financial position to meet the expectations of shareholders.

Mitsui Chemicals has established its Medium-Term Corporate Plans, which end in Fiscal 2004. The main theme is "Further Expansion & Growth of the Mitsui Chemicals Group."



Expansion & Growth

● INTENSIVE EXPANSION & GROWTH

Place emphasis on high-performance products, high-growth markets and high-profit businesses to optimize the use of management resources.

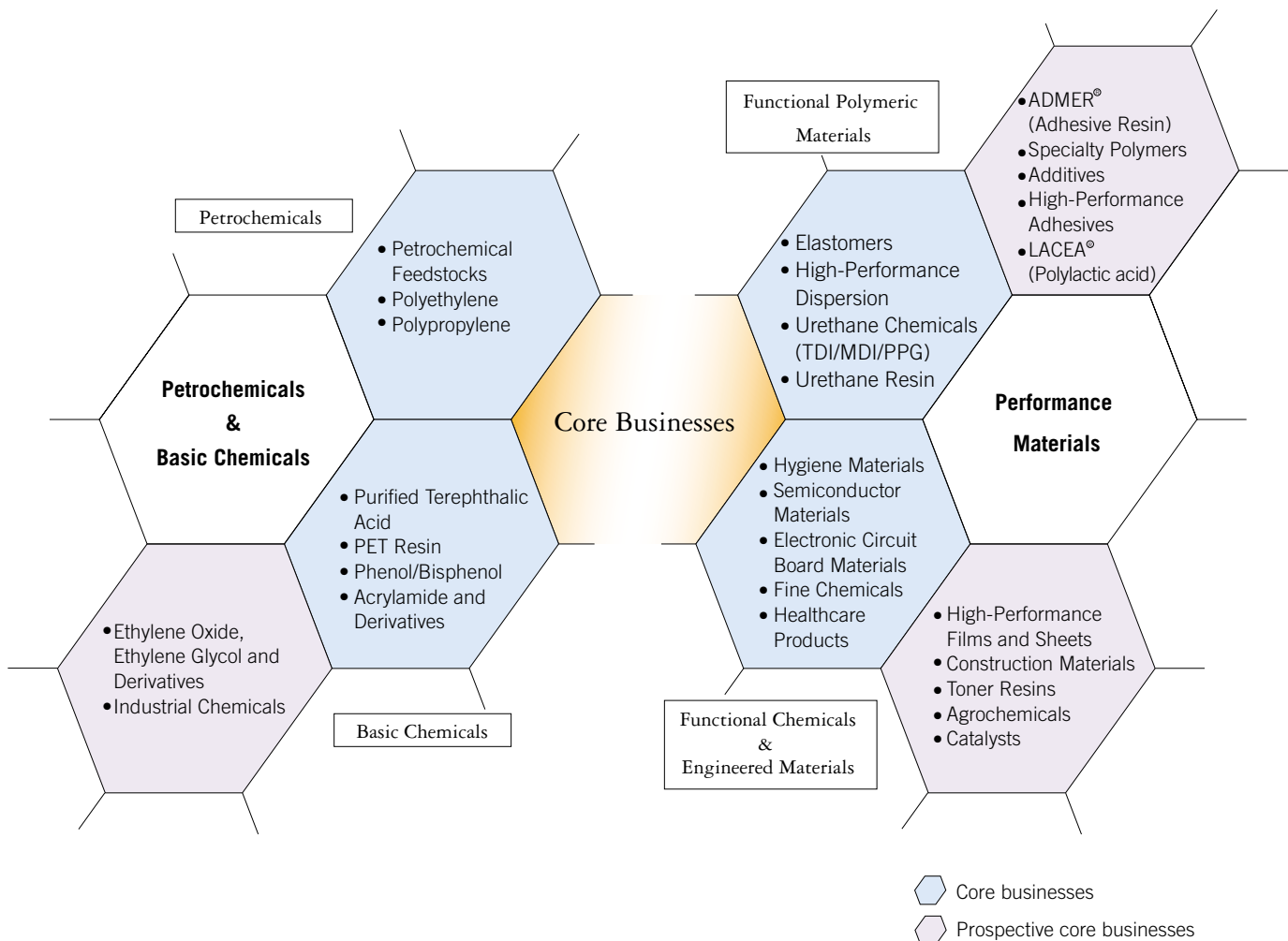
>> In the petrochemicals & basic chemicals sector: further bolster core businesses

In the performance materials sector: select core businesses and channel resources into them in order to strengthen and expand these businesses

>> Consider various alternatives including alliances

Assess business potential quickly and sell or withdraw from unsustainable businesses

>> Choose from among various alternatives, including consolidation of operations with other companies and acquisitions, to promote the reinforcement and expansion of core businesses and prospective core businesses



In Fiscal 2002, Mitsui Chemicals took various actions to strengthen and expand its businesses.

Petrochemicals & Basic Chemicals

Business	Location	Actions	FY2002	FY2003	FY2004
Petrochemical feedstocks	Ichihara Ichihara & Osaka	Independent management Optimal framework	●	●	●
Polyolefin (Business Consolidation) Polypropylene (PP) PP compound	Osaka North America	Operations begin Construction (capacity 300,000t/y) Acquisition (capacity 55,000t/y)		●	●
Phenol	Singapore Singapore	Capacity up +200,000t/y Capacity up +50,000t/y	●	●	●
Bisphenol	Singapore Singapore	Capacity up +70,000t/y Capacity up +70,000t/y	●	●	●
Terephthalic acid	Thailand	Capacity up +400,000t/y		●	●
PET resin	Iwakuni-Ohtake Hofu Indonesia	Capacity up +15,000t/y Capacity up +16,000t/y Capacity up +25,000t/y	●	●	●
Acrylamide	Korea	Capacity up +5,000t/y	●	●	●

Performance Materials

Elastomer	Singapore	Newly setup (capacity 100,000t/y)		●	●
Urethane chemicals (Business Consolidation) TDI	Kashima	Operations begin Capacity up +60,000t/y	●	●	●
Biodegradable plastics		Business collaboration Commercialization	●	●	●
Hygiene materials	Thailand	Newly setup (capacity 14,000t/y)		●	●
Semiconductor materials (Marketing Company) NF ₃	Taiwan Shimonoseki	Operations at marketing company begin Capacity up +200t/y	●	●	●
Electronic circuit board materials	Atsugi	Capacity up +3,000,000/m	●	●	●
Optical communication materials		Operations begin		●	●
Agrochemicals New insecticide		Sales begin		●	●

● Facilities complete ● Facilities begin operation ● Operations begin

ACCELERATE NEW PRODUCT DEVELOPMENT IN THE PERFORMANCE MATERIALS SECTOR

Speed up new product development to quickly expand businesses in the performance materials sector.

>> Make full use of program "ACCEL21" to speed up new product development

>> Use alliances and acquisitions to bolster ability to develop new products

New products

Information & Communications:	<ul style="list-style-type: none"> Optical filters for plasma display panels (PDPs) Dye for high-speed-recording CD-R Emulsions for thermal paper Advanced material substrate
Healthcare & amenity:	<ul style="list-style-type: none"> New type of nonwoven fabrics Preglon®, polypropylene sheet reinforced with long glass fibers Monomer for high-index plastic lens materials Urethane cushion system for automobiles Hydrocarbon foam system (for automobiles, stationery, distribution palettes) Adhesive resins for urethane packaging Sprinkler fire extinguisher system Halogen-free insecticide
Environment:	<ul style="list-style-type: none"> Biodegradable plastics TAFMER® (alpha-olefin copolymers) as flexible plastics New paper strengthening agent
Others:	<ul style="list-style-type: none"> ARLEN® (electronic/electric parts) APEL® (optical parts) New urethane materials



R&D activities in Sodegaura Center

GLOBALIZATION

Target markets in the U.S., Europe and Asia and develop core and prospective core businesses to establish a strong, globally competitive position.

Petrochemicals & basic chemicals

>> Concentrate on the growing Asian market

>> Reinforce production technologies and secure competitive feedstocks to bolster cost competitiveness

Performance materials

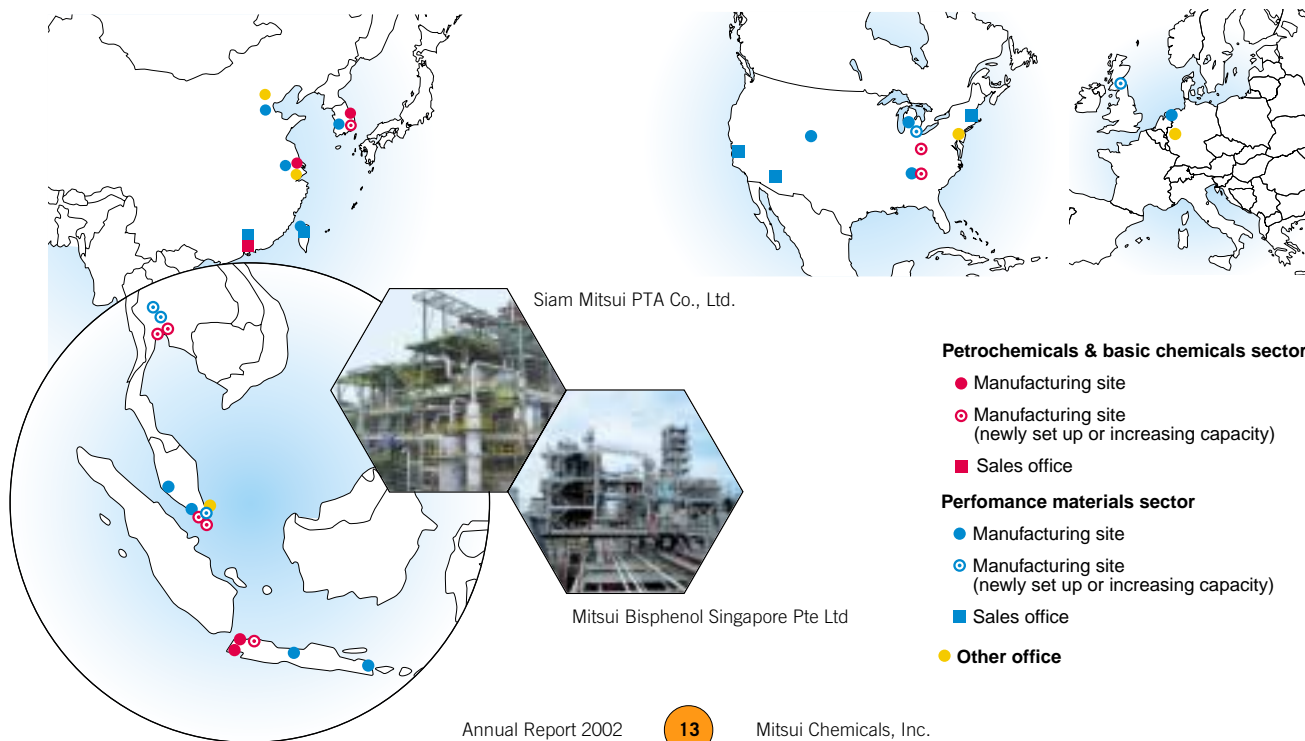
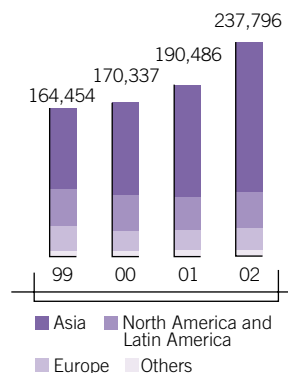
>> Establish solid market positions overseas for products where Mitsui Chemicals has a technological edge or products with high performance

Alliances with influential companies

>> Make use of alliances with leading companies to raise the speed and improve the effectiveness and efficiency of business development

In Fiscal 2002, overseas sales, the aggregate of exports and the sales of local production, were ¥237.8 billion, accounting for 25% of net sales. Mitsui Chemicals aims to raise overseas sales to ¥340 billion, representing 30% of net sales in Fiscal 2004, the final year of its Medium-Term Corporate Plans. In particular, we aim to sharply increase sales of local production to ¥165.2 billion in Fiscal 2004, having already achieved an increase of 43% in Fiscal 2002 to ¥91.7 billion. Although the operating income by local production in Fiscal 2001 was ¥4.5 billion, we aim to raise operating income to ¥13.9 billion in Fiscal 2004.

OVERSEAS SALES (¥ Million)



Establishment of Group Management

● ESTABLISHMENT OF A CONSOLIDATED MANAGEMENT SYSTEM

Construct a consolidated management system that facilitates the seamless management of the Mitsui Chemicals Group.

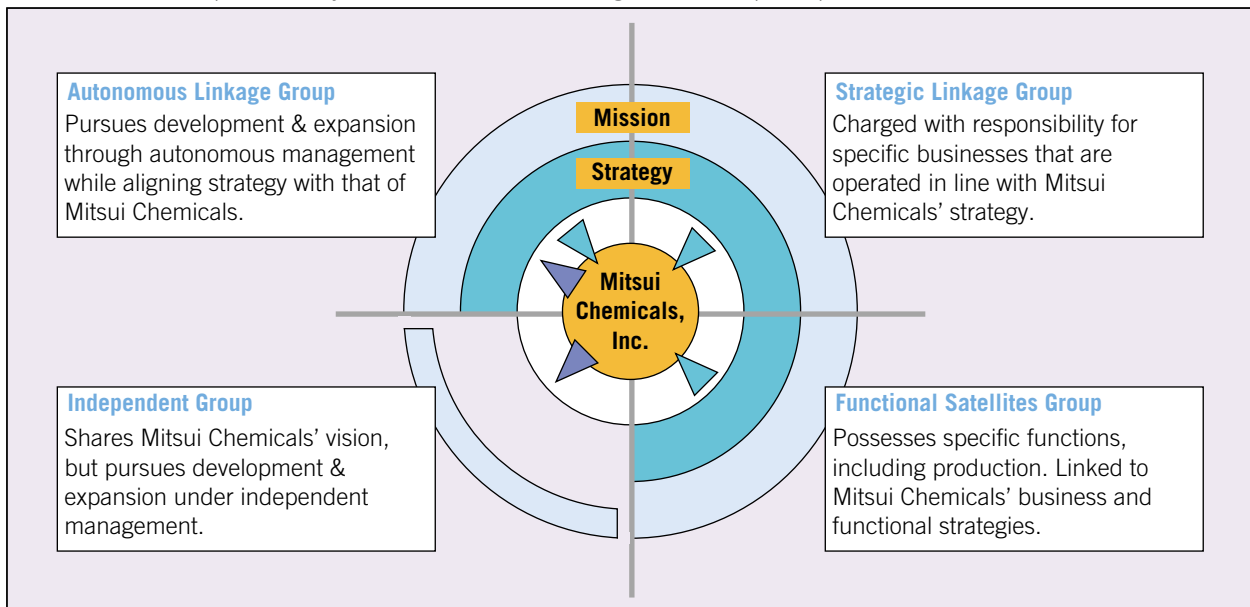
- >> Build a management system for operating results for each category of Group companies

● STRENGTHEN THE MITSUI CHEMICALS GROUP

Clarify the missions and domains of Group members and group, strengthen and expand their operations to firmly bolster the competitiveness of the Mitsui Chemicals Group and give impetus to growth.

- >> Grouping of subsidiaries and affiliates
 - Make Group companies that are synergistic with Mitsui Chemicals' basic strategy into subsidiaries
 - Realign or consolidate Group companies that lack consistency with basic strategy
- >> Strengthen and expand Group companies that are synergistic with Mitsui Chemicals' basic strategy

We build and implement a system for four different categories of Group companies.



● STRENGTHENING INFRASTRUCTURE FOR GROUP MANAGEMENT

Build a stronger foundation for the consolidated management to underpin incisive implementation of the company's basic strategy.

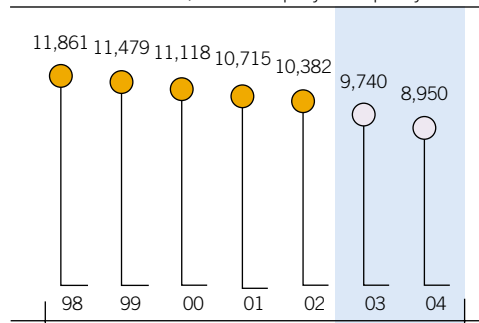
- >> Promote a corporate culture that always pursues innovation
- >> Proactively reinforce the operating base in whatever way necessary to execute the company's strategy

We will rigorously review all the business processes of the entire Group and push ahead with business reforms.

Mitsui Chemicals had 10,382 employees at the end of Fiscal 2002, including employees seconded to affiliates. To ensure efficient organizational management, we will reduce the workforce to 8,950 employees by the end of Fiscal 2004.

To strengthen the financial structure, we intend to reduce total assets by ¥140 billion by Fiscal 2004. Mitsui Chemicals has already succeeded during Fiscal 2002 in reducing assets by ¥61 billion.

HEAD COUNTS AT THE END OF FISCAL YEAR (Parent company + temporary transfer)



Caring for Environment, Safety and Quality


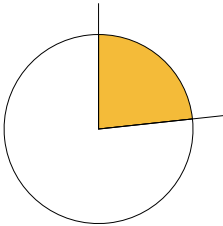
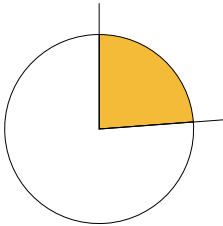

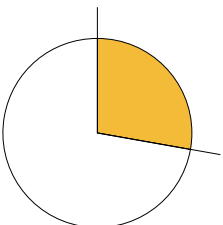
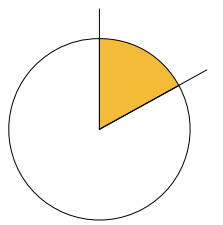

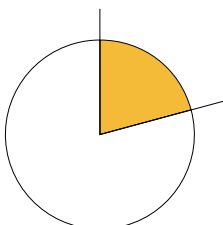
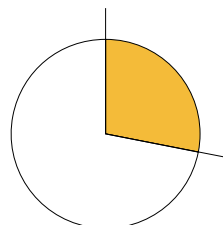

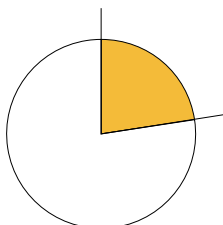
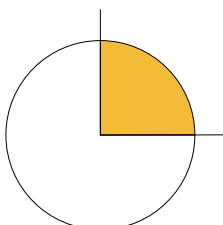
● PROMOTE "RESPONSIBLE CARE" AND QUALITY MANAGEMENT

- >> Actively address environmental issues and report results both inside and outside the company
- >> Eliminate accidents at works, and ensure safe and stable operations
- >> Upgrade product management and address quality issues to reduce customer complaints and prevent product liability lawsuits
- >> Seize business opportunities while participating in activities to reduce environmental impact

Recognizing that the overriding consideration for ensuring corporate health is to take particular care to reduce the company's impact on the environment and to assure safety and quality throughout the lifecycle of its products, Mitsui Chemicals undertakes business activities in the spirit of our policy of Responsible Care. Please refer to page 28 for further details. Mitsui Chemicals has also prepared its Responsible Care Report, which describes the policy and results achieved.



Responsible Care Report

	SHARE OF NET SALES	SHARE OF OPERATING INCOME
Petrochemicals 	 23.3%	 23.7%
Basic Chemicals 	 27.8%	 17.1%
Functional Polymeric Materials 	 20.8%	 28.2%
Functional Chemicals & Engineered Materials 	 22.6%	 24.9%
Others	5.5%	6.1%

BUSINESS SECTIONS	MAJOR PRODUCTS	MARKET POSITION		
<ul style="list-style-type: none"> Petrochemical feedstocks Polyethylene Polypropylene 	<hr/> Ethylene <hr/> Polyethylene <hr/> Polypropylene <hr/>	JAPAN	ASIA	
<ul style="list-style-type: none"> Fiber intermediates PET resin Phenols Industrial chemicals 	<hr/> Purified terephthalic acid <hr/> PET resin <hr/> Phenol <hr/> Bisphenol A <hr/> Acrylamide <hr/>	JAPAN	ASIA	
<ul style="list-style-type: none"> Elastomers Specialty resins Performance polymers Urethane chemicals 	<hr/> Alpha-olefin copolymer <hr/> Acrylic emulsion (for paper coating) <hr/> TDI <hr/> MDI <hr/>	JAPAN	ASIA	WORLD
<ul style="list-style-type: none"> Functional fabricated products Electronics & information materials Agrochemicals Fine & performance chemicals 	<hr/> Spunbonded nonwoven fabrics (for hygiene applications) <hr/> Silicon wafer protective tape <hr/> Pellicles <hr/> NF ₃ gas <hr/> Reflector for LCD backlight <hr/> Optical filter for Plasma Display Panel <hr/> Functional dyes (phthalocyanine dye for CD-R) <hr/> Chemicals for plastic lenses with high refractive Index <hr/>	JAPAN	ASIA	WORLD
<ul style="list-style-type: none"> Engineering, warehousing and freight transportation and others 				

Petrochemicals

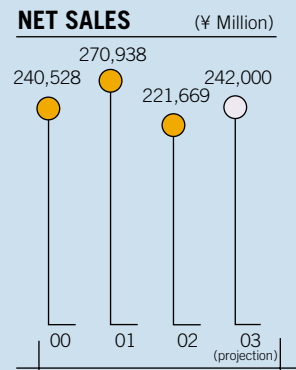
Segment sales declined 18% to ¥21,669 million and operating income decreased 42% to ¥10,053 million.

Efforts are being made in the segment to strengthen and expand operations by securing competitive petrochemical feedstocks and bolstering the international competitiveness of the polyolefin business.

Segment highlights were as follows:



Mineo Kimura
Managing Director
 (Group Executive,
 Petrochemicals Group)



OPERATIONS BEGIN AT SUMITOMO MITSUI POLYOLEFIN CO., LTD.

In April 2002, operations began at Sumitomo Mitsui Polyolefin Co., Ltd., which merged the polyolefin businesses of Mitsui Chemicals and Sumitomo Chemical Company, Ltd. This integration was completed ahead of the across-the-board consolidation of all the businesses of the two parties in October 2003 because it is expected that significant synergies can be captured by rationalizing the polyolefin business. It was also imperative that the business be restructured quickly with the operating environment growing increasingly difficult year by year.

Beforehand, in October 2001, Mitsui Chemicals acquired Ube Industries, Ltd.'s share in Grand Polymer Co., Ltd., a joint venture polypropylene business between the two companies. The polypropylene business was subsequently integrated with Sumitomo Mitsui Polyolefin along with polyethylene operations.

Outline of Sumitomo Mitsui Polyolefin Co., Ltd.

Capital: ¥7 billion

(Mitsui Chemicals: Sumitomo Chemical = 50:50)

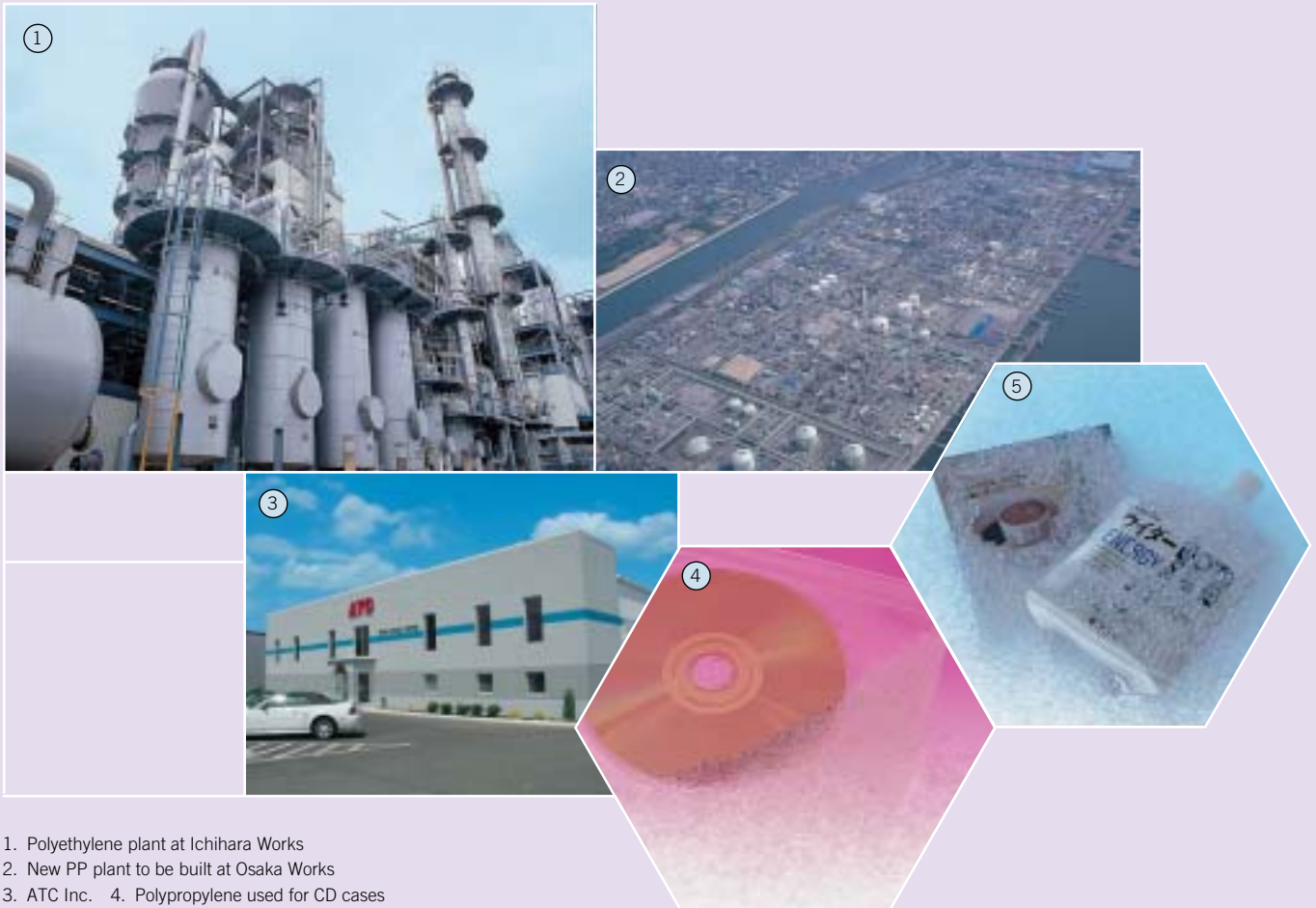
Business lines: Manufacture, sales and research for polyethylene and polypropylene

The new company will reap the benefits of integration, which includes the promotion of measures to restructure domestic operations. At the same time, domestic marketing efforts will emphasize earnings, and overseas, the focus will be on differentiating the company's business.

LARGE-SCALE POLYPROPYLENE (PP) PLANT FOR OSAKA

Mitsui Chemicals announced plans to build a large, cutting-edge general-purpose PP plant that will make it more competitive in terms of cost, enabling it to combat an expected influx of imports in 2004 when Japanese customs duties are lowered. The company will also cease production at plants hampering its efforts to stay cost competitive.

Currently, Mitsui Chemicals has an annual PP production capacity of 670,000 tons achieved through Ube Polypro Co., Ltd., in which it holds an 81% interest, and the company's Ichihara Works, Osaka Works and plants in Sakai city. Plans, however, call for the partial cessation of production at the Osaka Works (108,000 tons per year) and the suspension of production of plants in Sakai city (120,000 tons per year). The new plant will be constructed within Osaka Works, and is expected to come on stream in September 2003. The plant will have annual production capacity of 300,000 tons, giving the company a total capacity of 742,000 tons. The older plants will be phased out by the end of 2003 after the new plant is completed. In addition to its low cost of construction (approximately ¥12 billion, including preparatory expenses), the new plant will use the company's Hypol II process, achieving both a reduction in manufacturing costs and environmental impact.



1. Polyethylene plant at Ichihara Works
2. New PP plant to be built at Osaka Works
3. ATC Inc.
4. Polypropylene used for CD cases
5. Polyethylene used for packaging

UNITED STATES POLYPROPYLENE COMPOUND MANUFACTURER PURCHASED

On May 1, 2002, Mitsui Chemicals acquired Ube Industries, Ltd.'s 60% share in ATC Inc., which manufactures and markets polypropylene compound in the U.S. More specifically, the shares were purchased by Mitsui Chemicals' U.S. subsidiary Mitsui Chemicals America, Inc. (MCA) Mitsui Chemicals already manufactures and markets polypropylene compounds in the U.S. through Color & Composite Technologies, Inc. (CCT), in which MCA has 65% interest. By controlling both ATC and CCT, Mitsui Chemicals is enhancing its

cost competitiveness and production development capabilities. ATC and CCT have a 120,000 ton combined annual production capacity of polypropylene compound, largest capacities in North America. The share acquisition forms part of Mitsui Chemicals' strategy to bolster and expand its supply framework focusing on four pivotal regions: Japan, Asia, U.S. and Europe. Mitsui Chemicals is now better positioned to serve the needs of major customers such as automobile manufacturers who are accelerating their global expansion based on uniform quality and just-in-time supply worldwide.

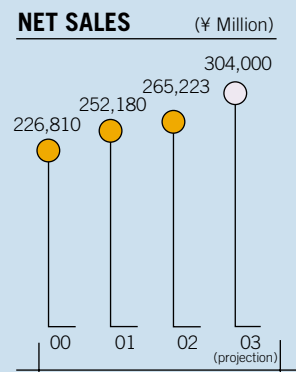
Basic Chemicals

Segment sales increased 5% to ¥265,223 million, and operating income rose 61% to ¥7,237 million. Mitsui Chemicals aims to increase business and earnings in this segment by tapping into growing demand in Asia.

Segment highlights were as follows.



Yozo Kinoshita
Executive Vice President
(Group Executive, Basic
Chemicals Group)



PHENOL BUSINESS STRENGTHENED IN SINGAPORE

Mitsui Chemicals has established a commanding position in the phenol and bisphenol A (BPA) businesses in Japan and elsewhere in Asia. It is number one in Asia as a whole in both markets with shares of 40% and 30%, respectively. With demand for phenol and BPA growing steeply, Mitsui Chemicals has been actively beefing up its business foundation, particularly in Singapore.

Strengthening and Expanding the Phenol Business

Operations began at the company's first overseas phenol production base, Mitsui Phenol Singapore Pte. Ltd., in August 2001. Boasting an annual production capacity of 200,000 tons of phenol and 120,000 tons of acetone, Mitsui Phenol Singapore augments Mitsui Chemicals' BPA plant, already operating on Jurong Island, Singapore, creating a comprehensive production system. Mitsui Chemicals now has one of the world's most competitive phenol complexes. Annual production capacity will be ramped up by 50,000 tons by November 2002 to take advantage of increasing demand for phenol.

Bolstering BPA Production Capacity

Mitsui Chemicals is working to expand BPA operations at its wholly owned subsidiary Mitsui Bisphenol Singapore Pte. Ltd., to respond to surging demand for polycarbonate resin, particularly in Asia. BPA, a major phenol derivative, is a key raw material for polycarbonate resin. A third plant, slated for October this year, will add another 70,000 tons of production

capacity alongside two plants with the same annual capacity. The first of those plants began operations in 1999, while the second came on stream in February 2002, following its completion in October 2001.

RAMPING UP PET RESIN CAPACITY

Taking advantage of market growth is also a theme in PET bottle-grade resin. With the Asian market expected to grow at an annual rate of 14% to 15% from approximately 800,000 tons in 2000, Mitsui Chemicals is ramping up PET bottle-grade resin production. Overseas, P.T. Petnesia Resindo, Mitsui Chemicals' Indonesian affiliate, increased production capacity by 50% to 75,000 tons. The new capacity came on stream in December 2001. In Japan at Hofu Works of Kanebo Gohsen, Ltd., which produces on consignment for Mitsui Chemicals, capacity was increased by 16,000 tons to 40,000 tons per annum in February 2002. In addition, Iwakuni-Ohtake Works increased its annual capacity by 15,000 tons to 148,000 tons. Together, these actions boosted annual production capacity of PET bottle-grade resin by 56,000 tons to 263,000 tons, further strengthening the company's commanding position in Asia.

Furthermore, in spring 2002, Mitsui Chemicals decided to establish a joint venture company for the production and sale of PET bottle-grade resin in Thailand.



1. Phenol complex in Singapore
2. New acrylamide plant at Yongsan Mitsui Chemicals
3. Petnesia Resindo
4. Mitsui PET and its application

PLANT FOR BIOTECHNOLOGICAL PRODUCTION OF ACRYLAMIDE COMPLETED

Mitsui Chemicals has been working to expand its production base in South Korea to meet rapidly expanding Asian demand for acrylamide, which is used in paper strengthening agents, flocculants and oil recovery agents. Yongsan Mitsui Chemicals, Inc., a joint venture with the Yongsan Group, completed a new 5,000-ton plant that employs Mitsui Chemicals' biotech process technology in February 2002. The plant will come on stream in autumn 2002, producing acrylamide that has won high marks from customers. With the additional production from this new plant, Mitsui Chemicals' annual acrylamide production capacity will rise to 55,000 tons, strengthening the

company's position as one of Asia's largest suppliers. Mitsui Chemicals currently has plants in Japan and Indonesia producing 38,000 tons and 5,000 tons of this chemical, respectively. Plans also call for the acrylamide business of Yongsan Chemicals, Inc., another joint venture with the Yongsan Group, to be transferred to Yongsan Mitsui Chemicals in 2003 to further reinforce Korean operations.

The proprietary biotech manufacturing process employed by Yongsan Mitsui Chemicals' new plant uses a highly efficient genetically engineered biological catalyst to dramatically simplify the manufacturing process, cutting costs. It also significantly reduces wastewater and pollutants.

Functional Polymeric Materials

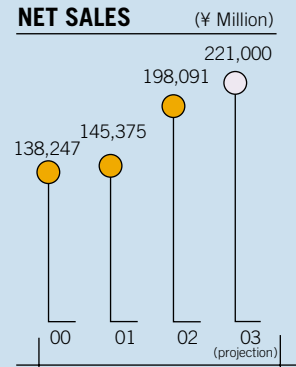
Segment sales climbed 36% to ¥198,091 million, while operating income declined 3% to ¥11,941 million.

In this segment, Mitsui Chemicals is seeking to expand business and earnings in elastomers and performance polymers in Asia, the U.S., and Europe; expand the specialty resins business in Asia through the launch of new products; and take advantage of surging Asian growth in the urethane business.

Segment highlights were as follows.



Masafumi Kataita
Managing Director
 (Group Executive,
 Functional Polymeric
 Materials Group)



TDI PRODUCTION TO BE STRENGTHENED

In April 2001, Mitsui Chemicals and Takeda Chemical Industries, Ltd. established Mitsui Takeda Chemicals, Inc., into which the two partners merged their respective urethane chemicals, urethane derivatives and composite materials businesses. Mitsui Chemicals has a 51% equity interest in Mitsui Takeda Chemicals, which announced plans to expand its toluene diisocyanate (TDI) plant in Kashima to increase production capacity from 57,000 tons to 117,000 tons to respond to an expected 6% annual growth in demand in Asia for urethane. Work is slated for completion in June 2003 and the new capacity should come on line the following month. Together with existing capacity at Omuta Works, Mitsui Takeda Chemicals will be capable of producing 237,000 tons of TDI annually, strengthening its position as a leading producer in Asia.

This new, state-of-the-art facility in Kashima will wed the technologies of both Mitsui Chemicals and Takeda Chemical to create a highly efficient production process. In addition, Mitsui Takeda Chemicals will further strengthen its foundation by expanding business in the area of methylene diphenyl diisocyanate (MDI) and polyols.

COLLABORATION WITH CARGILL DOW LLC ON PLA BUSINESS DEVELOPMENT AND COMMERCIALIZATION OF LACEA®

In September 2001, Mitsui Chemicals and Cargill Dow LLC of the U.S. announced a collaboration for business development of the polylactic acid (PLA), a naturally based resin

made from plant sugars. Mitsui Chemicals and Cargill Dow, the global leader in commercialization of PLA, signed a collaboration agreement to accelerate market development of PLA in Japan and the rest of the world. Under the terms of the agreement, there can be an exchange of intellectual property and technical information relating to PLA application development. Through this arrangement, customers for both parties are in a position to proceed with business development without concerns of potential intellectual property restrictions from Cargill Dow or Mitsui Chemicals portfolios. Mitsui Chemicals has the rights to sell PLA resin to all customers in Japan. Applying material technologies, Mitsui Chemicals uses PLA resin from Cargill Dow for marketing under the LACEA® name.

Mitsui Chemicals has developed PLA market as a company-wide Strategic Business Development Unit. The start of operations in January 2002 at a world-class 140,000-ton PLA production facility owned by Cargill Dow has facilitated large-scale market development of LACEA®. Mitsui Chemicals decided to commercialize LACEA® from April 2002 as a result.

CONSTRUCTION OF SINGAPORE TAFMER, PLANT

In September 2001, Mitsui Elastomers Singapore Pte Ltd., a Mitsui Chemicals' subsidiary in Singapore, started construction of a high-performance elastomer (TAFMER®) plant. TAFMER® is used as a resin-modifier for polyethylene, polypropylene and other thermoplastics to strengthen their resistance against impact and tearing. Mitsui Chemicals is the



1. Ground-breaking ceremony at Mitsui Elastomers Singapore
2. Kashima Works of Mitsui Takeda Chemicals
3. Signing ceremony between Mitsui Chemicals and Cargill Dow
4. TAFMER® is used as a resin-modifier for polypropylene
5. Applications for urethane
6. LACEA® (polylactic acid)

first manufacturer of this elastomer and has been leading the elastomers business by creating new markets for this TAFMER® through enthusiastic research and development. Demand for TAFMER® is expected to grow, especially in the Asian market with the region's ongoing economic and industrial growth.

The new plant, using advanced metallocene technology, will be one of the largest of its kind in the world, with an annual production capacity of 100,000 tons. The plant, slated

for completion in December 2002, will begin operation in April 2003. Together with Ichihara Works in Japan, Mitsui Chemicals will have production capacity of 170,000 tons of TAFMER®. This additional capacity further strengthens the company's position as the world's leading manufacturer of the high-performance elastomer.

Functional Chemicals & Engineered Materials

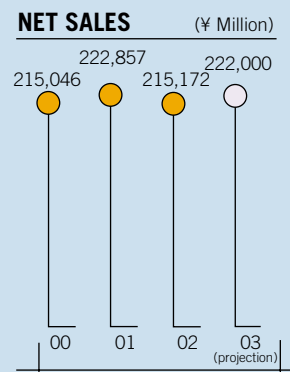
Segment sales declined 3% to ¥215,172 million and operating income fell 38% to ¥10,559 million.

Mitsui Chemicals is promoting a range of measures to boost earnings. The company is shifting up a gear in the area of functional fabricated products by employing processing technologies that differentiate its business; strengthening development of products that use the company's key technologies in the electronics and information materials business; and speeding up development and market introduction of new products in the agricultural chemicals and fine chemicals fields.

Segment highlights were as follows.



Kazuyoshi Isogaya
Managing Director
 (Group Executive,
 Functional Chemicals &
 Engineered Materials Group)



CONSTRUCTION STARTS ON NONWOVEN FABRICS PLANT IN THAILAND

The growing popularity of disposable diapers in Asia, centered on Thailand and China, has fueled strong demand for PP spunbonded nonwoven fabrics. More growth is expected in the future. To meet this demand, Mitsui Chemicals established Mitsui Hygiene Materials (Thailand) Co., Ltd. for the manufacture and sales of hygienic materials in Thailand. This wholly owned subsidiary is constructing a plant in Thailand with an annual production capacity of 14,000 tons. The plant should be completed in September 2002 and start production the following December.

Another wholly owned subsidiary, Sunrex Industry Co., Ltd., located in Yokkaichi, Japan, already has a 34,000-ton annual production capacity of polypropylene spunbonded nonwoven fabrics. Once the Thai plant comes on stream, Mitsui Chemicals' annual capacity will be 48,000 tons, boosting its leading position in this field in Asia.

NEW INSECTICIDE GOES ON SALE

Mitsui Chemicals has developed a new systemic, broad spectrum insecticide based on the new active ingredient, dinotefuran. Marketed under the brand name Starkle/Albarin, the products went on sale in May 2002 after acquiring agrochemical registration.

Starkle/Albarin is effective against a broad spectrum of insect pests and can be used on a wide range of crops from rice and vegetables to fruit trees. It causes almost no

phytotoxicity to crops, has systemic activity and is applicable across a range of cultivation methods. An innovative compound, dinotefuran contains no halogens, such as chlorine and bromine, or benzene rings. As a result, this insecticide is extremely safe and has minimal impact on people and ecosystems.

In August 2001, a plant with an annual capacity of 200 tons was completed at Omuta Works to produce the active ingredient for Starkle/Albarin. Mitsui Chemicals is considering doubling output, depending on sales.

The company is targeting sales of ¥2 billion in the year ending March 31, 2004. In addition, Mitsui Chemicals is promoting wider application and increased sales, as well as planning to acquire agrochemical registration in Southeast Asia, U.S.A. and European countries with the view to lifting sales to ¥10 billion in the year ending March 31, 2008.

JOINT VENTURE TO PRODUCE LASER DIODE CHIPS FOR WDM*1

In April 2002, Mitsui Chemicals established MC-FITEL INC. in a joint venture with The Furukawa Electric Co., Ltd. Mitsui Chemicals has a 35% interest in the new joint venture company, which will manufacture and market 980-nanometer laser diode chips for optical amplifiers used to boost optical signals in WDM systems.

Optical amplifiers are necessary to restore faded signals back to original levels during transmission. This 980-nanometer laser diode is a key component in such devices. High-output power has been highly sought after to handle



1. Nonwoven fabrics
2. Mitsui Hygiene Materials (Thailand) Co., Ltd. (Artist impression of completed factory)
3. 980-nanometer laser diode chips used for optical amplifiers
4. New halogen-free insecticide
5. Taiwan Mitsui Chemicals, Inc. runs its Taiwanese marketing activities from this building

the larger volume WDM signals, resulting from increasing Internet traffic.

The joint venture has combined Mitsui Chemicals' patented DCH*² technology, which is effective in raising output, and Furukawa Electric's optical output stabilizing technology and developed a high output laser diode successfully.

Using this new subsidiary as a bridgehead, Mitsui Chemicals will speed up the development of materials for fiber-optic transmissions with its proprietary material technology.

*1. WDM: Wavelength division multiplex – Technology to bring together optical signals with different wavelengths for transmission through optic fiber

*2. DCH: Decoupled confinement heterostructure - A laser structure composed of layers designed to confine the light and electrons in different regions. The laser diodes can be designed to lower the optical density and suppress temperature rise during operation by using materials with high thermal conductivity. As a result, the diodes can be used at a high-output power without any degradation due to heating up.

TAIWAN MITSUI CHEMICALS, INC. ESTABLISHED

Taiwan Mitsui Chemicals, Inc., a wholly owned subsidiary established in Taiwan to strengthen development for electronics and information materials for Asia, began business activities in July 2001.

Mitsui Chemicals has been strengthening and expanding its electronics and information materials business and is aggressively developing in overseas regions where it expects strong growth, such as the U.S., Europe and Asia. Over the last few years the Taiwanese semiconductor market has been growing and further vigorous growth is expected in the future. Mitsui Chemicals has thus identified Taiwan as an important market and, together with sales promotion for the electronics and information materials business in the country, will strengthen business development throughout Asia.

The new subsidiary is responsible for the marketing of these materials and will focus activities on materials for semiconductors and electronic circuits. In the future, it plans to expand into other electronics and information materials and new functional materials.

Mitsui Chemicals has formulated an R&D strategy to raise organizational creativity and spur speedier, more efficient R&D.

R&D STRATEGY

Mission of R&D

- >> In the petrochemicals & basic chemicals sector, the mission is to secure technology that provides the company with a competitive advantage over rivals and contributes to business expansion in the growing Asian markets.
- >> In the performance materials sector, the mission is to develop original, competitive technologies and promote the growth of new products and new businesses.

Fiscal 2004 Targets

- >> In the petrochemicals & basic chemicals sector, ensure key technologies in core businesses are up to the highest level in the world
- >> In the performance materials sector, accelerate development of new products

R&D Strategy

(1) Core Technologies

- >> In the petrochemicals & basic chemicals sector, develop world-class technologies in core business areas
- >> In the performance materials sector, produce superior products through the development of original state-of-the-art technologies

(2) Next Generation Technologies

- >> Secure key technologies for the next generation of products in the field of "green" chemistry, process innovation and product innovation.

(3) New Product Development

- >> Accelerate development of products in the key areas of information & communications, and healthcare & amenity.

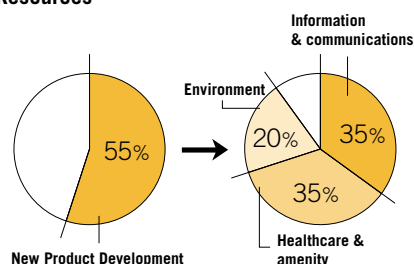
(4) Management

- >> Secure human resources in core R&D fields and plan activities linked to industrial sciences.
- >> Strengthen comprehensive technical competitiveness of the Mitsui Chemicals Group.

R&D Resources

- >> Focus 55% of its R&D resources on new product developments.
- >> Channel 90% of this amount into three main fields: Information & communications, 35%; healthcare & amenity, 35%; and the environment, 20%.

R&D Resources



INTEGRATION OF SODEGAURA CENTER

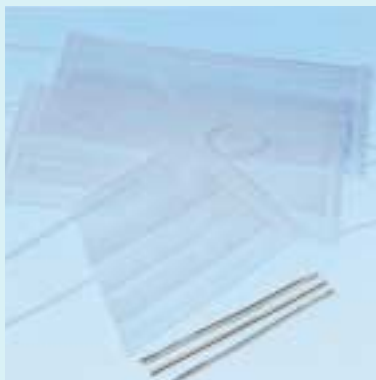
In March 2002, 10 of the company's existing research and development sites scattered throughout Japan were integrated into one facility, the Sodegaura Center in Chiba Prefecture. This center covers an area of approximately 300,000 square meters and comprises Material Science Laboratory, the Functional Materials Laboratory and five other research laboratories. One of the world's largest R&D complexes operated by a chemical company, the center employs 1,000 researchers including researchers from affiliates. Also in Chiba the company has Polymer Laboratory in the city of Ichihara and Life Science Laboratory in the city of Mobara. Mitsui Chemicals now has three closely linked R&D facilities, the "Mitsui Research Triangle" that can conduct an integrated search for knowledge from a single base of cooperative creation and shared experiences.





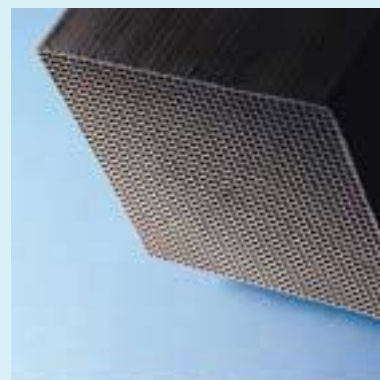
Lithium Niobate (LiNbO₃) Crystals for Fiber-Optic Communications

Mitsui Chemicals conducts research and development in the field of crystal technology for precision control and has successfully produced a large size (six inch) of lithium niobate single crystal. This technology makes a significant contribution to production of circuits for optical waveguide devices, which are essential for the next generation of optical communications equipment.



Plastic Wire that Retains Shape (Technolote™)

As a result of a wealth of in-house resources in material and process technology, Mitsui Chemicals has successfully developed a flexible plastic wire that can be used just like a metallic wire and retains any desired shape. Potential applications include apparel such as masks and clothing for people whose skin is sensitive to metal and twisting tapes for food packaging.



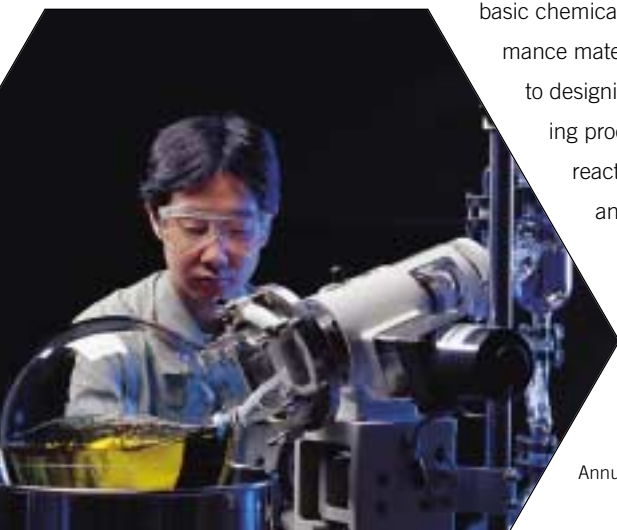
Catalysis System for Decomposing Dioxin

Mitsui Chemicals has developed a highly active catalysis system that breaks down dioxins from incinerator emissions. This catalyst can break down dioxins at temperatures lower than 200°C, reducing dioxin levels to 0.01 nanograms per cubic meter, 10 times lower than Japanese standards. In addition, this catalyst can be used for more than 2 years and also has the capability to remove harmful nitrogen oxides.

ESTABLISHING THE CATALYSIS SCIENCE LABORATORY

In the early 1950s, Mitsui Chemicals acquired catalysts developed by Karl Zeigler and successfully produced the world's first large-scale commercial process for polyethylene. Recently, the company successfully produced polyethylene using a metallocene catalyst. With this kind of catalyst and polymer science in mind, the company established Catalysis Science Laboratory in April 2002 at Sodegaura Center. The laboratory takes an integrated approach to research across

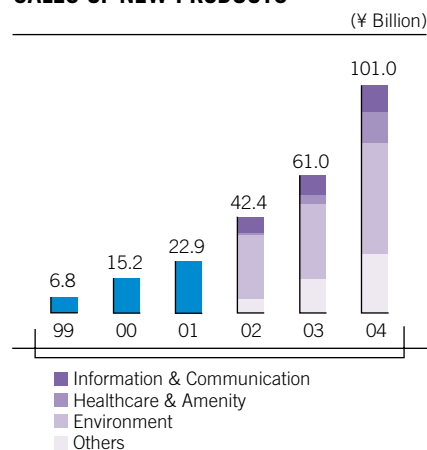
fields from petrochemicals & basic chemicals to performance materials, as well as to designing manufacturing processes, catalysis reaction processes and catalyst development for the next generation.



NEW PRODUCT DEVELOPMENT

In fiscal 2002, sales of new products increased steadily, rising 85% year on year to ¥42 billion despite a downturn in IT-related products. Mitsui Chemicals is focusing on the three main product fields: information & communications, healthcare & amenity and environment. There are optical filters for plasma display panels (PDPs), nonwoven hygiene fabrics and biodegradable plastics, one in each of the main product fields. By Fiscal 2004, the company plans to raise new product sales to more than ¥100 billion.

SALES OF NEW PRODUCTS



Upholding the spirit of Responsible Care (RC), Mitsui Chemicals is active in a number of areas. It is committed to protecting the environment and health of people in society, preventing accidents at its facilities, maintaining the health and safety of its employees, and keeping the environment safe and healthy for customers and consumers. This commitment is unyielding throughout the entire lifecycle of the chemical substances the company produces.

RC MANAGEMENT SYSTEM

Part of Mitsui Chemicals' corporate philosophy is to act in "harmony with the global environment." True to this creed, the company strives to reduce risk based on up-to-date information gathered from throughout the organization. Mitsui Chemicals has established a unified RC management system that complies with international standards, such as ISO 14001, OHSAS 18001 and ISO 9000s, in respect of environmental preservation, disaster prevention, occupational health & safety and quality management.

As a part of these efforts, Osaka, Iwakuni-Ohtake and Omuta Works as well as the Mobarra Center emulated the feat of Ichihara Works by obtaining ISO 14001 certification in spring 2002. Subsidiary Shimonoseki Mitsui Chemicals, Inc. was similarly certified.

The company has set levels of RC that it aims to achieve and has rigorously adopted a Plan, Do, Check and Act (PDCA) cycle as a driving force behind these systems.

1. Actively addressing environmental issues
2. Achieving zero accidents, injuries and product liability occurrence
3. Winning the trust and satisfaction of customers and society

Underpinning the drive to achieve these targets is the RC Committee. Headed by the company's president, the RC Committee evaluates the accomplishments of the previous fiscal year and drafts RC plans for the year ahead. The RC Committee consists of two subcommittees—the Environmental, Health & Safety Committee, and the Quality Management Committee—each headed by a director. The director heading the committee or his representative carries out audits of works, laboratories and other facilities at least once a year.

The company's risk assessment of chemical substances evaluates the potential hazards they pose to people and the environment throughout their entire lifecycle. The results of these assessments are used by the Technology Evaluation Committee when evaluating new product launches, and when upgrading and enhancing production facilities for existing products.

BALANCING ENVIRONMENTAL PRESERVATION AND ECONOMICS

Mitsui Chemicals' responsible care strategy is updated every year. One of the main issues is formulating a policy to minimize negative effects on the environment during product manufacturing. In order to ensure this policy is followed during product development and the manufacturing process development, the company has been trialing eco-efficiency analysis. Eco-efficiency is a numerical value, derived by dividing the value of products and services by environmental load.

The company has introduced an environmental accounting system designed to promote the best use of resources and efficient environmental activities. This system quantitatively measures environmental costs and benefits.

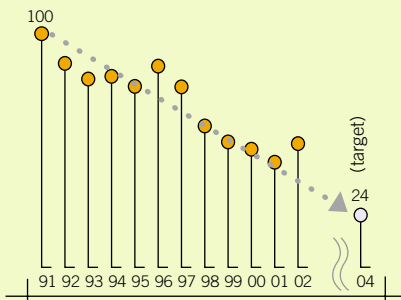
ADDRESSING ENVIRONMENTAL ISSUES

Mitsui Chemicals promotes environmental preservation on two fronts: the reduction of environmental load in the course



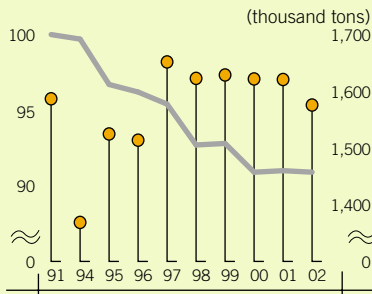
Final Disposals at Landfills

(FY 1991=100)



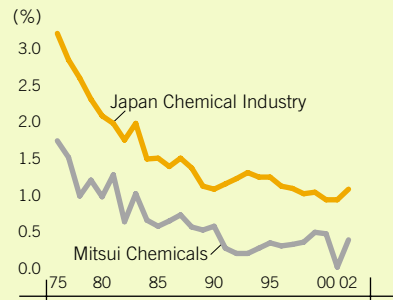
The Specific Consumption of Energy and CO₂ Emissions

(FY 1991=100)



— The Specific Consumption of Energy
 ● CO₂ Emissions (right scale)

Employee Accident Frequency Rate



Note: Frequency Rate=Number of disabling injuries X 1,000,000/(Total working hours)
Disabling injuries=injuries causing employees to leave their workplace for at least one day.

of its business activities and appropriate management of chemical substances. Specific actions include managing substances subject to control under the PRTR (Pollutant Release and Transfer Register) Act, reducing emissions of hazardous air pollutants, CO₂, reducing wastes and promoting recycling.

ACCIDENT- AND INJURY-FREE OPERATION

Mitsui Chemicals is dedicated to winning the trust and respect of society through its voluntary efforts to prevent accidents and occupational hazards. As a first step, the company is working to build a system under which accidents do not occur.

PRODUCT SAFETY PROMOTIONS

Chemical product safety is one of the keys to ensuring that RC targets are achieved and maintained in all areas. Mitsui Chemicals is thus focusing on a framework to promote product safety. This includes cooperating with activities by industry, organization, government and other bodies. For example, the company is participating in international efforts to compile information on high production volume (HPV) chemicals.

Mitsui Chemicals maintains Material Safety Data Sheets (MSDS), allowing the company to provide customers with advice and information on safe handling and use.

OCCUPATIONAL HEALTH AND SAFETY

Placing the highest priority on ensuring safety, Mitsui Chemicals aims to offer a suitable working environment for employees and secure employee's health through voluntary practices.

Plans call for Nagoya Works to obtain OHSAS 18001 certification during the current fiscal year and for all works to do likewise in Fiscal 2003.

COMMUNICATING WITH THE COMMUNITY AND EMPLOYEES

Mitsui Chemicals is striving to build a strong relationship with the community and employees through open communication. The company conducts education programs for each and every employee to develop human resources. And also, labor unions participate in RC planning. In addition, based on its stance of contributing to society, Mitsui Chemicals is working to make information publicly available through a range of channels such as tours of company facilities and the publishing of a regional public relations magazine.



Goro Watanabe
Chairman



Hiroyuki Nakanishi
President



Yozo Kinoshita
Executive Vice President

Chairman

Goro Watanabe

President

Hiroyuki Nakanishi

Executive Vice President

Yozo Kinoshita

*Group Executive, Basic Chemicals Group
(Assistant to the President)*

Senior Managing Directors

Nobuyuki Sugahara

(Human Resources Division, Legal & Administrative Division, Labor Relations Division)

Ryutarō Koyasu

(Affiliates Coordinations Division, Finance & Accounting Division, Management Audit Division, Corporate Communications Division (Investor relations))

Koichi Tominaga

(Corporate Planning Division, Management Accounting Division, Sumitomo-Mitsui Alliance Promotion Division)

Managing Directors

Katsumasa Kokeyuchi

General Manager, Iwakuni-Ohtake Works, Production & Technology Center

Yoshihiko Kataoka

(Purchasing Division, Logistics Division, Information Management Division, Work Process Innovation Division)

Kazuyoshi Isogaya

Group Executive, Functional Chemicals & Engineered Materials Group

Shoichi Asao

Group Executive, Production & Technology Center

Shinji Tanikawa

General Manager, Labor Relations Division

Masafumi Kataita

Group Executive, Functional Polymeric Materials Group

Ritsuo Yamamoto

(Corporate Communications Division (Public relations), Legal & Administrative Division)

Kenji Fujiyoshi

General Manager, S Project Center

Akihiro Yamaguchi

*Group Executive, R&D Center
General Manager, R&D Administration Division, R&D Center
(Intellectual Property Division)*

Mineo Kimura

*Group Executive, Petrochemicals Group
(Licensing Division)*

Board Directors

Katsunosuke Maeda

[Chairman of the Board, Toray Industries, Inc.]

Yoshiyuki Sakaki

President, Sumitomo Mitsui Polyolefin Co., Ltd.

Koji Yoshida

Executive Vice President, Mitsui Takeda Chemicals, Inc.

Satoshi Numata

General Manager, Fine & Performance Chemicals Division, Functional Chemicals & Engineered Materials Group

Yoshiyuki Shinohara

General Manager, Planning & Coordination Division, Petrochemicals Group

Yasuhiro Takeda

General Manager, Ichihara Works, Production & Technology Center

Toshikazu Tanaka

General Manager, Phenols Division, Basic Chemicals Group

Yoshihito Ezoe

General Manager, Corporate Planning Division

Manabu Fujise

General Manager, Elastomers Division, Functional Polymeric Materials Group

Toshimi Hachimori

General Manager, Omuta Works, Production & Technology Center

Kenji Suzuki

General Manager, Functional Fabricated Products Division, Functional Chemicals & Engineered Materials Group

Isamu Takeuchi

General Manager, Osaka Works, Production & Technology Center

Keiichi Sano

General Manager, Fiber Intermediates Division, Basic Chemicals Group

Corporate Auditors

Tsutomu Takase

Kazuhiro Asano

Keno Yamamoto

Keiu Nishida

(As of June 27, 2002)

Financial Section

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Selected Consolidated Financial and Operating Data

MITSUI CHEMICALS, INC. AND CONSOLIDATED SUBSIDIARIES

Years ended March 31

(Millions of yen except per share amounts)	Reported Basis		
	2002	2001	2000
Net sales	¥ 952,680	¥ 939,782	¥ 884,246
Cost of sales	730,059	720,524	659,327
SG&A	180,239	164,746	169,180
Operating income	42,382	54,512	55,739
Other income (expenses)	(32,142)	(26,118)	(29,603)
Income before income taxes, minority interests and equity in earnings of non-consolidated subsidiaries and affiliates	—	—	—
Income before income taxes and minority interests	10,240	28,394	26,136
Income taxes	1,830	10,523	8,182
Income before minority interests and equity in earnings of non-consolidated subsidiaries and affiliates	—	—	—
Income before minority interests	8,410	17,871	17,954
Equity in earnings of non-consolidated subsidiaries and affiliates	—	—	—
Net income (loss)	7,651	17,068	16,042
Total current assets	486,642	563,245	544,837
Property, plant and equipment, net	583,949	552,759	530,827
Total investments and other non-current assets	227,272	198,509	161,515
Total assets	1,297,863	1,314,513	1,237,179
Total current liabilities	525,532	532,586	528,643
Total long-term liabilities	365,708	388,159	346,242
Stockholders' equity-net	366,988	352,988	345,690
Depreciation and amortization	56,609	51,755	52,634
Capital expenditures	117,564	61,524	54,435
R&D expenses	39,012	36,543	38,141
Return on sales	0.80%	1.82%	1.81%
Return on equity	2.13%	4.89%	4.75%
Return (operating income) on assets	3.24%	4.27%	4.56%
Net income per share (basic)	¥ 9.70	¥ 21.63	¥ 20.57
Net income per share (diluted)	—	¥ 21.44	¥ 20.41
Cash dividends per share	¥ 6.00	¥ 6.00	¥ 6.00

		Restated Basis						
1999	1998	1998	1997	1996	1995	1994	1993	1992
¥ 855,942	¥ 681,234	¥ 927,688	¥ 899,896	¥ 909,843	¥ 856,747	¥ 787,224	¥ 838,043	¥ 890,547
632,036	532,414	721,409	690,208	686,466	647,131	603,646	637,352	679,726
165,680	110,497	157,010	163,501	165,134	164,813	162,276	164,074	163,968
58,226	38,323	49,269	46,187	58,243	44,801	21,302	36,617	46,853
(36,099)	(14,334)	(20,063)	(17,103)	(27,189)	(24,868)	(16,052)	(15,082)	(11,169)
–	–	–	29,084	31,054	19,933	5,250	21,535	35,683
22,127	23,989	29,206	–	–	–	–	–	–
12,674	11,290	14,963	14,879	19,431	14,628	5,032	12,397	18,726
–	–	–	14,205	11,623	5,305	218	9,138	16,957
9,453	12,699	14,243	–	–	–	–	–	–
–	–	–	779	1,940	555	(920)	82	203
7,739	11,702	13,010	14,185	12,766	4,883	(1,281)	8,894	16,578
548,668	616,871	616,871	598,660	598,250	568,255	539,133	594,323	631,889
513,268	530,860	530,860	479,906	489,766	501,889	507,014	501,200	451,681
146,232	150,505	150,505	179,256	180,051	179,316	175,237	168,317	175,114
1,208,168	1,298,236	1,298,236	1,257,822	1,268,067	1,249,461	1,221,384	1,263,840	1,258,684
482,912	612,583	612,583	616,726	551,185	500,432	467,575	523,151	540,656
378,274	349,972	349,972	312,223	392,491	431,731	440,794	423,716	402,139
329,685	318,532	318,532	319,565	315,272	307,724	306,994	311,804	311,061
51,081	38,422	52,802	52,695	52,586	54,028	48,390	43,604	223,233
52,058	46,428	60,060	45,117	46,670	37,396	57,513	75,708	95,253
39,295	28,036	40,451	37,275	41,172	43,330	44,390	46,109	46,402
0.90%	1.72%	1.40%	1.58%	1.40%	0.57%	(0.16%)	1.06%	1.86%
2.39%	4.81%	4.08%	4.47%	4.10%	1.59%	(0.41%)	2.86%	5.41%
4.65%	4.27%	3.86%	3.66%	4.63%	3.63%	1.71%	2.90%	3.70%
¥ 9.97	¥ 21.53	–	–	–	–	–	–	–
–	¥ 20.98	–	–	–	–	–	–	–
¥ 6.00	¥ 6.00	–	–	–	–	–	–	–

OPERATING RESULTS

Net sales increased ¥12,898 million (US\$97 million), or 1.4%, over the previous year to ¥952,680 million (US\$7,147 million) on strong sales in Asia due to increasing demand. These strong sales outweighed lower production and shipments in Japan due to the sluggish economy.

Cost of sales rose ¥9,535 million (US\$72 million), or 1.3%, to ¥730,059 million (US\$5,477 million) due to sharply higher raw materials prices. Amid difficult operating conditions, Mitsui Chemicals focused its energies on sales activities, while working to cut costs—all efforts designed to lift Group earnings. These actions yielded a ¥3,363 million (US\$25 million), or 1.5%, increase in gross profit to ¥222,621 million (US\$1,670 million).

However, selling, general and administrative expenses climbed ¥15,493 million (US\$116 million), or 9.4%, to ¥180,239 million (US\$1,352 million). Research and development expenses accounted for ¥39,012 million (US\$293 million) of this amount. The ratio of R&D expenses to total net sales was 4.1%.

Consequently, operating income fell ¥12,130 million (US\$91 million), or 22.3%, to ¥42,382 million (US\$318 million). The operating income margin was 4.4%, representing a 1.4 percentage point deterioration from the 5.8% recorded a year earlier.

>> Segment Information

BUSINESS SEGMENTS

During the year, 3 subsidiaries were consolidated, bringing the number of consolidated subsidiaries to 79. The number of non-consolidated subsidiaries and affiliates accounted for by the equity method was 97, 11 fewer than the previous fiscal year due to the dissolution of Ukishima Petrochemicals Co., Ltd. and other developments.

In the fiscal year under review, Mitsui Chemicals changed its organizational structure in pursuit of expansion and growth synergies. To more clearly reveal the performance of each business, the company changed its business segments. Effective from Fiscal 2002, Mitsui Chemicals' business segments are Petrochemicals, Basic Chemicals, Functional Polymeric Materials, Functional Chemicals & Engineered Materials and Others. Previously, segments were classified as Basic Chemicals, Polymers, Functional & Fine Chemicals, Engineered Materials and Others. At the same time, the company reviewed the assignment of Group companies to business segments.

Petrochemicals: Petrochemical feedstocks, polyethylene and polypropylene.

Basic Chemicals: Fiber intermediates, PET resin, phenols, industrial chemicals, and chemical fertilizers.

Functional Polymeric Materials: Elastomers, performance polymers, specialty resins and urethane chemicals.

Functional Chemicals & Engineered Materials: Functional fabricated products, electronics and information materials, agrochemicals, fine & performance chemicals and dyestuffs.

Others: Mainly plant construction and maintenance, warehousing and logistics.

Petrochemicals

	(Millions of yen)		
	2002	2001	Change (%)
Total sales	¥221,669	¥270,938	(18.2%)
Operating income	10,053	17,310	(41.9%)
Total assets	310,507	330,242	(6.0%)
Depreciation and amortization	13,105	14,038	(6.6%)
Capital expenditures	16,405	7,899	107.7%

Ethylene and propylene production facilities operated at full capacity throughout the year, supported by strong demand for derivatives, leading to production volume largely on a par with the previous fiscal year. However, external sales decreased because of the low price of products. Polyethylene sales volumes increased both in Japan and overseas, particularly linear low-density polyethylene, but sales were held to about the same level as a year earlier. Polypropylene sales declined 4% year on year due to falling domestic automobile production and competition from imported products. This was despite a sharp increase in demand for use in bottle caps sparked by rising demand for PET bottles.

As a result, overall Petrochemicals net sales decreased ¥49,269 million (US\$370 million) to ¥221,669 million (US\$1,663 million), accounting for 23.3% of total net sales. Operating income declined ¥7,257 million (US\$54 million) to ¥10,053 million (US\$75 million).

Basic Chemicals

(Millions of yen)			
	2002	2001	Change (%)
Total sales	¥265,223	¥252,180	5.2%
Operating income	7,237	4,496	61.0%
Total assets	364,315	362,713	0.4%
Depreciation and amortization	13,470	13,710	(1.8%)
Capital expenditures	28,554	23,916	19.4%

In purified terephthalic acid (PTA), sales climbed 54% year on year due to two main factors: higher sales volumes to meet rising demand; and the consolidation of Group member Siam Mitsui PTA Co., Ltd. In polyethylene terephthalate (PET) resin, sales edged up 2% despite competition from more imports. This result was attributable to sharply higher demand for large and small PET bottles, which was fueled, as it was last year, by a heat

wave during the summer in Japan. In phenol, sales dipped 11% year on year, as sales prices fell in line with lower raw materials prices, negating growth in sales volume due to increasing demand and new operation of Mitsui Phenol Singapore Pte. Ltd. Bisphenol A (BPA) sales, meanwhile, rose 7%, buoyed by efforts to expand sales volumes to counter the slowdown in the world economy. Demand in Japan and Asia for ethylene oxide, ethanolamine and acrylamide remained healthy, resulting in a 3% increase in sales.

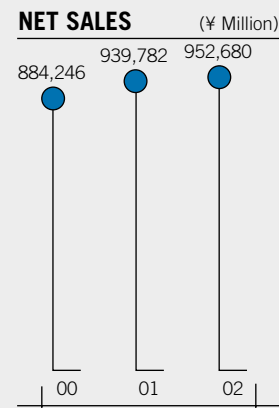
As a result, segment net sales increased ¥13,043 million (US\$98 million) to ¥265,223 million (US\$1,990 million), accounting for 27.8% of total net sales. Operating income rose ¥2,741 million (US\$21 million) to ¥7,237 million (US\$54 million).

Functional Polymeric Materials

(Millions of yen)			
	2002	2001	Change (%)
Total sales	¥198,091	¥145,375	36.3%
Operating income	11,941	12,335	(3.2%)
Total assets	294,784	275,887	6.8%
Depreciation and amortization	15,681	9,740	61.0%
Capital expenditures	55,410	10,144	446.2%

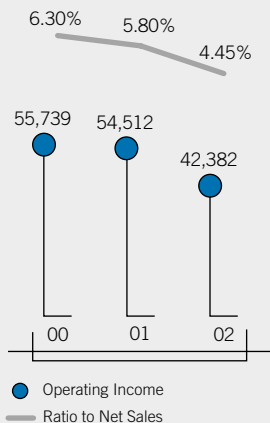
Elastomers, including ethylene-propylene diene terpolymers and alpha-olefin copolymers, returned a favorable performance. Although demand tracked domestic automobile production downward, efforts to create new applications and encourage companies to switch to elastomers were successful, mainly in the automotive parts, building materials and packaging materials fields. Consequently, elastomer sales increased 2% year on year.

In specialty resins, sales drifted down 3%, affected by waning IT-related demand. Paper-making materials and coating materials saw sales fall 15% from the previous fiscal year due to soft



OPERATING INCOME RATIO TO NET SALES

(¥ Million)



demand for use in board paper, paints and other general-purpose materials, which outweighed growing demand for use in communication paper. Additive materials such as wax and petroleum resins encountered generally soft market conditions. Sales fell 8% as a result. Sales of polyurethane raw materials such as TDI and MDI climbed 22%, reflecting mainly the establishment of Mitsui Takeda Chemicals, Inc. with Takeda Chemical Industries, Ltd. However, sales were adversely affected by a dramatic drop in TDI export prices.

Overall, segment sales rose ¥52,716 million (US\$395 million) to ¥198,091 million (US\$1,486 million), accounting for 20.8% of total net sales. Operating income, however, declined ¥394 million (US\$3 million) to ¥11,941 million (US\$90 million).

Functional Chemicals & Engineered Materials

(Millions of yen)			
	2002	2001	Change (%)
Total sales	¥215,172	¥222,857	(3.4%)
Operating income	10,559	17,056	(38.1%)
Total assets	277,246	287,934	(3.7%)
Depreciation and amortization	13,231	13,075	1.2%
Capital expenditures	15,922	17,199	(7.4%)

Sales of hygiene materials declined 1%, despite higher volumes resulting from an aggressive sales drive. This result reflected falling sales prices. Packaging film sales also decreased 1% due to falling volumes accompanying lower demand mainly for use in food product packaging. Construction materials sales dropped 12% as the operating environment worsened—public-works projects declined and there was falling construction demand in the private sector. Semiconductor materials and electronic circuit materials recorded a 2% fall in sales due to the adverse effects of the worldwide slowdown in the semiconductor market. One positive development was strong demand for

display materials for large-sized panels. Fine chemicals such as ingredients for electronics & information materials and resin materials saw sales decrease 8% owing to the downturn in IT demand and stiff competition from cheap imports. Healthcare products, including monomers for optical plastic lenses and pharmaceutical intermediates, recorded a 5% rise in sales thanks to expanding demand in Europe and the U.S. for high-index plastic lenses. In agrochemicals such as insecticides, sales decreased 4% due to fewer insect outbreaks.

As a result, segment sales declined ¥7,685 million (US\$58 million) to ¥215,172 million (US\$1,614 million), accounting for 23% of total net sales. Operating income decreased ¥6,497 million (US\$49 million) to ¥10,559 million (US\$79 million).

Others

(Millions of yen)			
	2002	2001	Change (%)
Total sales	¥52,525	¥48,432	8.5%
Operating income	2,601	2,981	(12.7%)
Total assets	96,184	101,429	(5.2%)
Depreciation and amortization	1,685	1,601	5.2%
Capital expenditures	1,273	2,366	(46.2%)

Plant construction and maintenance operations recorded a 23% increase in sales on rising orders.

Warehousing and logistics services saw sales decline 9% as the volume of goods handled fell and competition intensified.

As a result, segment sales increased ¥4,093 million (US\$31 million) to ¥52,525 million (US\$394 million), accounting for 5.5% of total net sales. Operating income decreased ¥380 million (US\$3 million) to ¥2,601 million (US\$20 million).

>> Geographic Distribution

Domestic

During the year, the company took steps to improve profits such as through cost cutting, but its efforts were negated by protracted economic sluggishness, waning IT demand and a sharp rise in raw materials prices. As a result, domestic sales were ¥860,976 million (US\$6,459 million), accounting for 90% of total net sales. Operating income was ¥37,185 million (US\$279 million).

Outside Japan

Sales outside Japan were ¥91,704 million (US\$688 million), helped by the start of operations at Mitsui Phenol Singapore Pte. Ltd. and sales growth in the Asian region. Sales outside Japan accounted for 10% of total net sales. Operating income was ¥5,435 million (US\$41 million).

>> Overseas Sales

Overseas net sales increased 24.8% to ¥237,796 million (US\$1,784 million), representing 25.0% of total net sales.

By region, Asia accounted for ¥166,501 million (US\$1,249 million), or 17.5%, of total net sales. This represented a dramatic year-on-year increase in sales of ¥42,050 million (US\$315 million), or 33.8%, due to higher demand. Sales in North and Latin America totaled ¥41,049 million (US\$308 million), largely on a par with the previous year, and accounted for 4.3% of total net sales. Europe sales were also flat at ¥23,709 million (US\$178 million), representing 2.5% of total net sales. Likewise, sales in other regions remained about the same at ¥6,537 million (US\$49 million), accounting for 0.7% of total net sales.

>> Other Income (Expenses)

Interest and dividend income climbed ¥753 million, or 50.4%, to ¥2,248 million (US\$17 million).

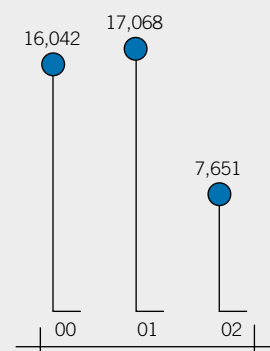
Interest expense decreased ¥959 million (US\$7 million) to ¥10,813 million (US\$81 million) as a result of the repayment of interest-bearing liabilities. Net financial expenses were thus ¥8,565 million (US\$64 million), down ¥1,712 million (US\$13 million) from the previous fiscal year.

Equity in earnings of non-consolidated subsidiaries and affiliates totaled ¥4,184 million (US\$31 million), a decrease of ¥1,674 million (US\$13 million) from the ¥5,858 million (US\$44 million) recorded in Fiscal 2001. This primarily reflected the change of balance date at GE Plastics Japan Ltd. that shortened its financial year by three months.

The company booked a loss on sale and disposal of property, plant and equipment of ¥6,420 million (US\$48 million), representing realignment of the idle plants at Mobara Center and other actions. The net retirement benefits obligation at transition is ¥53,848 million (US\$404 million). In the main, this is to be amortized over five years. However, a subsidiary, Tohcello Co., Ltd. amortized their obligation as a one-time charge in the previous fiscal year. As a result, the company's obligation in the fiscal year under review decreased by ¥1,634 million (US\$13 million) to ¥10,534 million (US\$79 million). The company took a charge of ¥2,784 million (US\$21 million) for restructuring of subsidiaries and affiliates, as in previous years. A gain on the sale of marketable securities of ¥3,013 million (US\$23 million) was recorded, but this was outweighed by a loss on the write-down of investment securities of ¥10,306 million (US\$77 million).

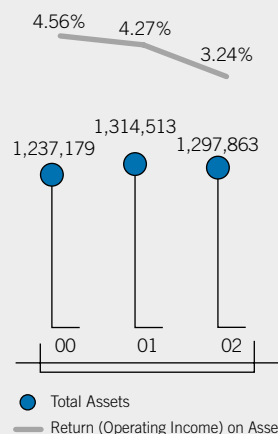
As a result of the foregoing, other income (expenses) was an expense of ¥32,142 million (US\$241 million), ¥6,024 million (US\$45 million) more than a year earlier.

NET INCOME (¥ Million)



**TOTAL ASSETS
RETURN (OPERATING
INCOME) ON ASSETS**

(¥ Million)



>> Net Income

Income taxes were ¥1,830 million (US\$14 million), ¥8,693 million (US\$65 million) lower than in Fiscal 2001.

Income before minority interests decreased ¥9,461 million (US\$71 million) to ¥8,410 million (US\$63 million).

As a result of the foregoing, net income dropped ¥9,417 million (US\$71 million), or 55.2%, to ¥7,651 million (US\$57 million). Net income per share thus decreased ¥11.93 (US\$0.09) to ¥9.70 (US\$0.07).

FINANCIAL POSITION

Current assets at March 31, 2002 were ¥486,642 million (US\$3,651 million), down ¥76,603 million (US\$575 million), or 13.6%, from a year ago. One of the reasons for this decrease was a ¥49,391 million (US\$371 million) decline in cash and cash equivalents to ¥26,751 million (US\$201 million). Furthermore, receivables decreased ¥38,212 million (US\$287 million) to ¥271,205 million (US\$2,035 million) as the company enforced shorter payment terms as part of asset consolidation initiatives. Offsetting these decreases to some extent was an ¥8,755 million (US\$66 million) increase in inventories to ¥174,461 million (US\$1,309 million).

Property, plant and equipment, net increased ¥31,190 million (US\$234 million), or 5.6%, to ¥583,949 million (US\$4,381 million), resulting from the purchase of a urethane chemicals business by consolidated subsidiary Mitsui Takeda Chemicals, Inc.

Investments and other non-current assets increased ¥28,763 million (US\$216 million), or 14.5%, to ¥227,272 million (US\$1,705 million). Investment securities rose ¥4,041 million (US\$30 million), or 2.8%, to ¥146,398 million (US\$1,098 million) as a result of applying fair value accounting to investments. Deferred tax assets-non-current

rose ¥11,563 million (US\$87 million), or 48.1%, to ¥35,584 million (US\$267 million).

As a result, total assets at March 31, 2002 stood at ¥1,297,863 million (US\$9,736 million), down ¥16,650 million (US\$125 million), or 1.3%, from a year ago. The effect of initiatives to reduce total assets, a key management theme to improve total asset turnover, achieved a reduction of ¥61 billion (U.S.\$458 million). This amount exceeded that of consolidating Mitsui Takeda Chemicals, Inc. Despite this effort to reduce total assets, the worsening business environment and poor earnings saw return (operating income) on assets drop 1.03 percentage points to 3.24%.

On the other side of the balance sheet, liabilities decreased ¥29,505 million (US\$221 million), or 3.2%, to ¥891,240 million (US\$6,686 million)

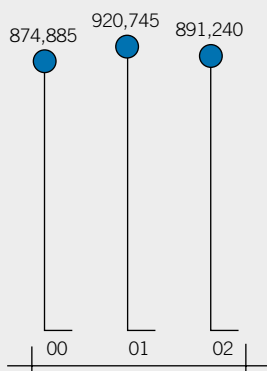
Total current liabilities decreased ¥7,054 million (US\$53 million), or 1.3%, to ¥525,532 million (US\$3,942 million). Payables decreased ¥26,178 million (US\$196 million), or 15.3%, to ¥144,377 million (US\$1,083 million). Short-term bank loans increased ¥9,429 million (US\$71 million), or 5.1%, to ¥195,397 million (US\$1,466 million). The current portion of long-term debt, meanwhile, increased ¥47,545 million (US\$357 million), or 80.6%, to ¥106,528 million (US\$799 million). The outstanding balance of commercial paper decreased ¥44,500 million (US\$334 million), or 59.3%, to ¥30,500 million (US\$229 million).

Total long-term liabilities decreased ¥22,451 million (US\$168 million), or 5.8%, to ¥365,708 million (US\$2,743 million). Long-term debt due after one year decreased ¥32,268 million (US\$242 million), or 9.7%, to ¥299,311 million (US\$2,245 million).

Interest-bearing liabilities decreased ¥19,794 million (US\$148 million), or 3.0%, to ¥631,736 million (US\$4,739 million).

TOTAL LIABILITIES

(¥ Million)



Minority interests decreased ¥1,145 million (US\$9 million) to ¥39,635 million (US\$297 million).

Stockholders' equity increased ¥14,000 million (US\$105 million) to ¥366,988 million (US\$2,753 million). Net unrealized holding gains on securities of ¥6,854 million (US\$51 million) were recorded due to the adoption of fair value accounting effective from the fiscal year under review. The increase also reflects a ¥5,016 million (US\$38 million) increase in foreign currency translation adjustments. Equity per share rose ¥17.90 to ¥465.21 (US\$3.49). Return on equity worsened 2.76 percentage points to 2.13%.

CASH FLOWS

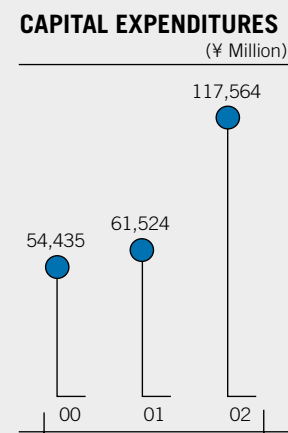
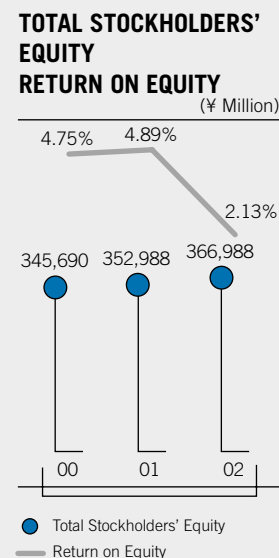
Cash flows from operating activities increased ¥41,777 million (US\$313 million) to ¥101,133 million (US\$759 million). This reflects ¥56,609 million (US\$425 million) in depreciation and amortization, and a decline in working capital as the ¥52,364 million (US\$393 million) decrease in trade receivables exceeded a ¥32,811 million (US\$246 million) decrease in trade payables.

Investing activities used net cash of ¥120,067 million (US\$901 million), ¥71,164 million (US\$534 million) more than a year earlier. This reflected ¥80,642 million (US\$605 million) in cash used for the acquisition of property, plant, equipment and others, as well as the purchase of a business by consolidated subsidiary Mitsui Takeda Chemicals, Inc.

Financing activities used net cash of ¥31,514 million (US\$236 million), a change of ¥61,672 million (US\$463 million) from the previous year when these activities provided net cash. This was the result primarily of repayments of interest-bearing liabilities.

As a result, cash and cash equivalents as of the end of March 2002 were ¥26,751 million (US\$201 million), a decrease of ¥49,391 million (US\$371

million). The decrease is attributable to the company's efforts to improve its financial position by actively reducing interest-bearing debt and through other actions.



Consolidated Balance Sheets

MITSUMI CHEMICALS, INC. AND CONSOLIDATED SUBSIDIARIES

March 31, 2002 and 2001

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 3)
	2002	2001	2002
Current assets:			
Cash and cash equivalents (Note 4)	¥ 26,751	¥ 76,142	\$ 200,683
Short-term investments	209	1,537	1,568
Receivables:			
Trade notes and accounts (Note 15)	257,768	296,931	1,933,743
Other	13,437	12,486	100,803
Inventories (Note 5)	174,461	165,706	1,308,785
Deferred tax assets – current (Note 9)	10,706	7,713	80,315
Other current assets	4,148	3,592	31,118
Allowance for doubtful accounts	(838)	(862)	(6,287)
Total current assets	486,642	563,245	3,650,728
Property, plant and equipment (Note 7):			
Land	198,447	194,327	1,488,725
Buildings and structures	268,465	265,674	2,013,991
Machinery and equipment	861,344	858,597	6,461,696
Construction in progress	38,255	33,205	286,984
	1,366,511	1,351,803	10,251,396
Accumulated depreciation	(782,562)	(799,044)	(5,870,683)
Property, plant and equipment, net	583,949	552,759	4,380,713
Investments and other non-current assets:			
Investment securities (Notes 6 and 7)			
Non-consolidated subsidiaries and affiliates	68,622	65,660	514,793
Other	77,776	76,697	583,466
Long-term receivables	7,072	13,499	53,053
Deferred tax assets – non-current (Note 9)	35,584	24,021	266,947
Other non-current assets	43,736	20,421	328,102
Allowance for doubtful accounts	(5,518)	(1,789)	(41,395)
Total investments and other non-current assets	227,272	198,509	1,704,966
Total assets	¥1,297,863	¥1,314,513	\$ 9,736,407

The accompanying notes are an integral part of these consolidated financial statements.

LIABILITIES AND STOCKHOLDERS' EQUITY	Millions of yen		Thousands of U.S. dollars (Note 3)
	2002	2001	2002
Current liabilities:			
Short-term bank loans (Note 7)	¥ 195,397	¥ 185,968	\$1,465,844
Current portion of long-term debt (Note 7)	106,528	58,983	799,160
Commercial paper (Note 7)	30,500	75,000	228,807
Payables:			
Trade notes and accounts (Note 15)	97,853	125,733	734,081
Other	46,524	44,822	349,017
Employees' savings deposits	3,187	3,557	23,909
Accrued expenses	27,060	27,601	203,001
Reserve for periodic repairs	1,276	2,833	9,572
Accrued income taxes (Note 9)	15,011	7,364	112,611
Other current liabilities	2,196	725	16,474
Total current liabilities	525,532	532,586	3,942,476
Long-term liabilities:			
Long-term debt due after one year (Note 7)	299,311	331,579	2,245,394
Accrued retirement benefits (Note 8)	54,195	47,647	406,564
Reserve for periodic repairs	2,491	1,268	18,687
Other non-current liabilities	9,711	7,665	72,851
Total long-term liabilities	365,708	388,159	2,743,496
Minority interests	39,635	40,780	297,337
Contingent liabilities (Note 11)			
Stockholders' equity:			
Common stock (Note 10):			
Authorized – 3,000,000,000 shares			
Issued – 789,156,353 shares in 2002 and 2001	103,226	103,226	774,389
Additional paid-in capital	66,901	66,901	501,883
Retained earnings (Notes 7,10 and 17)	189,375	187,120	1,420,667
Net unrealized holding gain on securities	6,854	–	51,418
Foreign currency translation adjustments	763	(4,253)	5,724
Treasury stock, at cost: 288,845 shares in 2002 and 16,283 shares in 2001	(131)	(6)	(983)
Total stockholders' equity	366,988	352,988	2,753,098
Total liabilities, minority interests and stockholders' equity	¥1,297,863	¥1,314,513	\$9,736,407

Consolidated Statements of Income

MITSUMI CHEMICALS, INC. AND CONSOLIDATED SUBSIDIARIES

For the years ended March 31, 2002 and 2001

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2002	2001	2002
Net sales	¥952,680	¥939,782	\$7,146,887
Cost of sales (Notes 8 and 13)	730,059	720,524	5,476,812
Gross profit	222,621	219,258	1,670,075
Selling, general and administrative expenses (Notes 8 and 13)	180,239	164,746	1,352,131
Operating income	42,382	54,512	317,944
Other income (expenses):			
Interest expense	(10,813)	(11,772)	(81,118)
Interest and dividend income	2,248	1,495	16,864
Equity in earnings of non-consolidated subsidiaries and affiliates	4,184	5,858	31,388
Loss on sales and disposal of property, plant and equipment	(6,420)	(7,994)	(48,162)
Loss on restructuring of subsidiaries and affiliates	(2,784)	(1,269)	(20,885)
Net retirement benefits obligation at transition (Note 8)	(10,534)	(12,168)	(79,025)
Loss on write-downs of investment securities	(10,306)	–	(77,314)
Other, net	2,283	(268)	17,127
	(32,142)	(26,118)	(241,125)
Income before income taxes and minority interests	10,240	28,394	76,819
Income taxes (Note 9):			
Current	20,183	10,502	151,410
Deferred	(18,353)	21	(137,682)
	1,830	10,523	13,728
Income before minority interests	8,410	17,871	63,091
Minority interests in earnings of consolidated subsidiaries	(759)	(803)	(5,694)
Net income	¥ 7,651	¥ 17,068	\$ 57,397

Amounts per share of common stock:	Yen		U.S. dollars (Note 3)
Net income			
Basic	¥9.70	¥21.63	\$0.073
Diluted	–	21.44	–
Cash dividends applicable to the year	6.00	6.00	0.045

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Stockholders' Equity

MITSUI CHEMICALS, INC. AND CONSOLIDATED SUBSIDIARIES

For the years ended March 31, 2002 and 2001

	Number of shares of common stock (Thousands)	Millions of yen					
		Common stock	Additional paid-in capital	Retained earnings	Net unrealized holding gain on securities	Foreign currency translation adjustments	Treasury stock, at cost
Balance at March 31, 2000	789,156	¥103,226	¥66,901	¥175,574	¥ -	¥ -	¥ (11)
Net income	-	-	-	17,068	-	-	-
Decrease resulting from increase in non-consolidated subsidiaries and affiliates accounted for by the equity method	-	-	-	(682)	-	-	-
Decrease resulting from decrease in non-consolidated subsidiaries and affiliates accounted for by the equity method	-	-	-	(3)	-	-	-
Bonuses to directors and corporate auditors	-	-	-	(103)	-	-	-
Cash dividends paid	-	-	-	(4,734)	-	-	-
Foreign currency translation adjustments	-	-	-	-	-	(4,253)	-
Net decrease in treasury stock	-	-	-	-	-	-	5
Balance at March 31, 2001	789,156	¥103,226	¥66,901	¥187,120	¥ -	¥(4,253)	¥ (6)
Net income	-	-	-	7,651	-	-	-
Decrease resulting from decrease in a consolidated subsidiary	-	-	-	(112)	-	-	-
Decrease resulting from decrease in non-consolidated subsidiaries and affiliates accounted for by the equity method	-	-	-	(444)	-	-	-
Bonuses to directors and corporate auditors	-	-	-	(106)	-	-	-
Cash dividends paid	-	-	-	(4,734)	-	-	-
Net unrealized holding gain on securities	-	-	-	-	6,854	-	-
Foreign currency translation adjustments	-	-	-	-	-	5,016	-
Net increase in treasury stock	-	-	-	-	-	-	(125)
Balance at March 31, 2002	789,156	¥103,226	¥66,901	¥189,375	¥6,854	¥ 763	¥(131)

	Thousands of U.S. dollars (Note 3)						
	Common stock	Additional paid-in capital	Retained earnings	Net unrealized holding gain on securities	Foreign currency translation adjustments	Treasury stock, at cost	
Balance at March 31, 2001	\$774,389	\$501,883	\$1,403,751	\$ -	\$(31,905)	\$ (45)	
Net income	-	-	57,397	-	-	-	
Decrease resulting from decrease in a consolidated subsidiary	-	-	(841)	-	-	-	
Decrease resulting from decrease in non-consolidated subsidiaries and affiliates accounted for by the equity method	-	-	(3,331)	-	-	-	
Bonuses to directors and corporate auditors	-	-	(795)	-	-	-	
Cash dividends paid	-	-	(35,514)	-	-	-	
Net unrealized holding gain on securities	-	-	-	51,418	-	-	
Foreign currency translation adjustments	-	-	-	-	37,629	-	
Net increase in treasury stock	-	-	-	-	-	(938)	
Balance at March 31, 2002	\$774,389	\$501,883	\$1,420,667	\$51,418	\$ 5,724	\$(983)	

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Cash Flows

MITSUI CHEMICALS, INC. AND CONSOLIDATED SUBSIDIARIES

For the years ended March 31, 2002 and 2001

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2002	2001	2002
Cash flows from operating activities			
Income before income taxes and minority interests	¥ 10,240	¥ 28,394	\$ 76,819
Depreciation and amortization	56,609	51,755	424,674
Provision for allowance for doubtful accounts	3,291	654	24,689
Reserve for periodic repairs	(334)	3,138	(2,506)
Interest and dividend income	(2,248)	(1,495)	(16,864)
Interest expense	10,813	11,772	81,118
Equity in earnings of non-consolidated subsidiaries and affiliates	(4,184)	(5,858)	(31,388)
Loss on write-downs of investment securities	10,306	–	77,314
Gain on sales of property, plant and equipment	(1,358)	(3,940)	(10,188)
Loss on sales and disposal of property, plant and equipment	5,485	3,970	41,148
Net retirement benefits obligation at transition	10,534	12,168	79,025
Decrease (increase) in trade receivables	52,364	(8,092)	392,828
Decrease (increase) in inventories	558	(11,083)	4,186
(Decrease) increase in trade payables	(32,811)	10,061	(246,144)
Other, net	(876)	(7,347)	(6,571)
Subtotal	118,389	84,097	888,140
Interest and dividends received	6,350	6,138	47,637
Interest paid	(10,994)	(13,024)	(82,476)
Income taxes paid	(12,612)	(17,855)	(94,614)
Net cash provided by operating activities	101,133	59,356	758,687
Cash flows from investing activities			
Acquisition of property, plant, equipment and others	(80,642)	(57,696)	(604,966)
Proceeds from sales of property, plant, equipment and others	13,265	8,242	99,512
Purchases of investment securities	(1,190)	(3,766)	(8,927)
Proceeds from sales of investment securities	5,272	3,924	39,550
Net decrease (increase) in loans receivable	6,835	(1,102)	51,275
Proceeds from purchases of consolidated subsidiaries	–	2,785	–
Proceeds from sale of a consolidated subsidiary	581	–	4,359
Purchase of minority interests in a subsidiary	(6,500)	–	(48,762)
Purchase of business	(59,071)	–	(443,143)
Other, net	1,383	(1,290)	10,374
Net cash used in investing activities	(120,067)	(48,903)	(900,728)
Cash flows from financing activities			
Net (decrease) increase in short-term loans	(33,811)	22,828	(253,646)
Proceeds from long-term debt	74,007	78,580	555,191
Repayments of long-term debt	(65,612)	(85,249)	(492,213)
Issuance of common stock to minority stockholders	71	19,650	533
Proceeds from sales of treasury stock	153	535	1,148
Purchases of treasury stock	(279)	(540)	(2,093)
Cash dividends paid	(4,734)	(4,734)	(35,514)
Other, net	(1,309)	(912)	(9,820)
Net cash (used in) provided by financing activities	(31,514)	30,158	(236,414)
Effect of exchange rate changes on cash and cash equivalents	1,141	589	8,560
Net (decrease) increase in cash and cash equivalents	(49,307)	41,200	(369,895)
Cash and cash equivalents at beginning of the year	76,142	30,033	571,208
Increase in cash and cash equivalents due to merger	–	162	–
(Decrease) increase in cash resulting from changes in the number of consolidated subsidiaries	(84)	4,747	(630)
Cash and cash equivalents at end of the year (Note 4)	¥ 26,751	¥ 76,142	\$ 200,683

The accompanying notes are an integral part of these consolidated financial statements.

1. BASIS OF PREPARATION

The accompanying consolidated financial statements of Mitsui Chemicals, Inc. (the "Company") and its consolidated subsidiaries have been prepared in accordance with accounting principles and practices generally accepted in Japan and have been compiled from those prepared by the Company as required under the Securities and Exchange Law of 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 to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan.

2. SIGNIFICANT ACCOUNTING POLICIES

a. Consolidation

The accompanying consolidated financial statements include the accounts of the Company and significant companies over which the Company exerts control through majority voting rights or the existence of certain conditions evidencing substantial control by the Company.

Investments in non-consolidated subsidiaries and affiliates, in which the Company has the ability to exercise significant influence over their operating and financial policies, are accounted for by the equity method.

Non-consolidated subsidiaries and affiliates in the process of liquidation are stated at cost or less.

In the elimination of investments in subsidiaries, the portion of the assets and liabilities of a subsidiary attributable to the subsidiary's shares acquired by the Company is recorded based on the fair value as of the respective dates when such shares were acquired.

The amounts of such assets and liabilities attributable to minority stockholders of the subsidiaries are recorded based on the financial statements of the subsidiary.

The excess of the cost of investments in consolidated subsidiaries over the net assets acquired is deferred as a consolidation difference and is amortized within twenty years.

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

b. Foreign currency translation

Receivables and payables denominated in foreign currencies are translated into Japanese yen at the year-end rates. The Company and its domestic consolidated subsidiaries have reported foreign currency translation adjustments as a component of stockholders' equity and minority interests.

c. Inventories

The Company: Inventories are stated primarily at cost by the last-in, first-out method.

Consolidated subsidiaries: Inventories are stated primarily at cost by the gross average method.

d. Securities

The Company and its consolidated subsidiaries classify holding each securities as (a) securities held for trading purposes (hereafter, "trading securities"), (b) debt securities intended to be held to maturity (hereafter, "held-to-maturity debt securities"), (c) equity securities issued by subsidiaries and affiliated companies, and (d) all other securities that are not classified in any of the above categories (hereafter, "available-for-sale securities").

The Company and its consolidated subsidiaries hold no trading securities. Held-to-maturity debt securities are stated at amortized cost.

Prior to April 1, 2001, available-for-sale securities of the Company and its consolidated subsidiaries were stated at moving average cost.

Effective April 1, 2001, the Company and its consolidated subsidiaries adopted a new Japanese accounting standard for financial instruments ("Opinion Concerning Establishment of Accounting Standard for Financial Instruments" issued by the Business Accounting Deliberation Council on January 22, 1999) concerning the valuation of available-for-sale securities with known fair market value. Upon applying this standard, available-for-sale securities with known fair market value are stated at fair market value. Unrealized gain and loss on these securities are reported, net of the applicable income taxes, as a separate component of stockholders' equity. Realized gain and loss on sales of such securities are computed by the moving-average method.

Other securities are stated at moving-average method.

As a result of adopting this standard, investment securities, other non-current liabilities, minority interests and net unrealized holding gain on securities increased by ¥13,373 million (\$100,323 thousand), ¥1,537 million (\$11,530 thousand), ¥1,032 million (\$7,742 thousand) and ¥6,854 million (\$51,418 thousand), respectively, and deferred tax assets – non-current decreased by ¥3,950 million (\$29,632 thousand) for the year ended March 31, 2002.

e. Property, plant and equipment

Property, plant and equipment is stated at cost. Depreciation is calculated principally by the straight-line method over the estimated useful lives of the respective assets.

Maintenance, repairs and minor renewals are currently charged to income; major renewals and improvements are capitalized.

f. Software cost

The Company and its consolidated subsidiaries amortize software cost for internal use by the straight-line method over its estimated useful life (five years).

g. Research and development expenses

Expenses relating to research and development activities are charged to income as incurred.

h. Leases

The Company and its consolidated subsidiaries lease certain equipment under noncancelable lease agreements referred to as finance leases. Finance leases other than those which transfer the ownership of the leased property to the lessee are accounted for in the same manner as operating leases.

i. Derivatives and hedge accounting

The Company and its consolidated subsidiaries state derivative financial instruments at fair value and recognize any changes in the fair value as gains or losses unless the derivative financial instruments are used for hedging purposes.

If derivative financial instruments are used as hedges and meet certain hedging criteria, the Company and its consolidated subsidiaries defer recognition of gains or losses resulting from changes in the fair value of the derivative financial instruments until the related losses or gains on the hedged items are recognized.

However, in cases where forward foreign exchange contracts are used as hedges and meet certain hedging criteria, existing foreign currency receivables or payables are translated at their contract rates.

In addition, if interest rate swap contracts are used as hedges and meet certain hedging criteria, the net amount to be paid or received under the interest rate swap contracts are added to or deducted from the interest on the assets or liabilities for which the swap contract was executed.

j. Allowance for doubtful accounts

The allowance for doubtful accounts is provided for in amounts sufficient to cover possible losses on collection. It consists of the estimated uncollectible amounts with respect to identified doubtful accounts and an amount calculated by a formula based on actual collection losses incurred in the past with respect to the remaining receivables.

k. Employees' retirement benefits

The Company: The Company's employees are covered by a contributory funded pension plan and an employees' retirement benefit plan.

Consolidated subsidiaries: Employees of the consolidated subsidiaries are covered by an employees' retirement benefit plan, a tax-qualified non-contributory pension plan or the Company's contributory funded pension plan.

Under these benefit plans, all eligible employees are entitled to certain benefits based on the level of wages and salary at the time of retirement or termination, length of service and certain other factors.

The liabilities and expenses for severance and retirement benefits are determined based on the amounts calculated actuarially under certain assumptions.

The Company and its consolidated subsidiaries have provided an allowance for employees' severance and retirement benefits at March 31, 2002 and 2001 based on the estimated amounts of the projected benefit obligation less the fair value of the plan assets at those dates.

The excess of the projected benefit obligation over the total fair value of the pension plan assets as of April 1, 2000 and the liabilities for employees' severance and retirement benefits recorded as of April 1, 2000 (the "net transition obligation") amounted to ¥53,848 million (\$403,961 thousand), of which ¥398 million (\$2,986 thousand) was recognized as an expense as a result of the contribution of investment securities worth ¥398 million (\$2,986 thousand) to the employees' retirement benefit trust in 2000. The remaining net transition obligation amounting to ¥ 53,450 million (\$400,975 thousand) is being recognized in expenses in equal amounts primarily over 5 years commencing the year ended March 31, 2001. Prior service cost is recognized in expenses as incurred or by the straight-line method within the average estimated remaining service years of the eligible employees. Actuarial gain or loss is recognized by the straight-line method within the average estimated remaining service years of the eligible employees commencing the following year.

l. Reserve for periodic repairs

The Company and several consolidated subsidiaries provide a reserve for the costs of periodic repairs of production facilities at the plants.

m. Amounts per share of common stock

The computation of net income per share is based on the weighted average number of shares of common stock outstanding during each year.

Cash dividends per share represent the actual amount applicable to each respective year.

n. Consolidated statements of cash flows

In preparing the consolidated statements of cash flows, cash on hand, readily-available deposits and short-term highly liquid investments with maturities not in excess of three months at the time of purchase are considered cash and cash equivalents.

3. U.S. DOLLAR AMOUNTS

The translation of yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan, using the exchange rate of ¥133.3=US\$1.00, the approximate rate of exchange at March 31, 2002. The translation should not be construed as a representation that yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this rate or any other rate.

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents at March 31, 2002 and 2001 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Cash	¥26,031	¥71,721	\$195,282
Cash equivalents	720	4,421	5,401
	¥26,751	¥76,142	\$200,683

5. INVENTORIES

Inventories at March 31, 2002 and 2001 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Finished goods	¥126,936	¥121,592	\$ 952,258
Work in process	5,388	4,213	40,420
Raw materials and supplies	42,137	39,901	316,107
	¥174,461	¥165,706	\$1,308,785

6. SECURITIES

A. The following tables summarize the acquisition cost, book value and fair value of securities with known fair value as of March 31, 2002:

(a) Held-to-maturity debt securities

Securities with known fair value equal to or lower than their book value

	Millions of yen	Thousands of U.S. dollars
Book value	¥10	\$75
Fair value	10	75
Difference	0	0

(b) Available-for-sale securities

Securities with book value exceeding their acquisition cost

	Millions of yen	Thousands of U.S. dollars
Equity securities:		
Acquisition cost	¥23,718	\$177,929
Book value	40,952	307,217
Difference	17,234	129,288

Other securities

	Millions of yen	Thousands of U.S. dollars
Equity securities:		
Acquisition cost	¥20,124	\$150,968
Book value	16,911	126,864
Difference	(3,213)	(24,104)

B. The following tables summarize the book value of securities with no known fair value as of March 31, 2002:

	Millions of yen	Thousands of U.S. dollars
Held-to-maturity debt securities:		
Local government bonds	¥ 73	\$ 548
Available-for-sale securities:		
Unlisted equity securities	¥19,443	\$145,859
Beneficiary certificates of bond investment trust	720	5,401
Total	¥20,163	\$151,260

C. Available-for-sale securities with maturities and held-to-maturity debt securities as of March 31, 2002 were as follows:

	Millions of yen	Thousands of U.S. dollars
Local government bonds:		
Due within one year	¥ 8	\$ 60
Due over one year but within five years	37	278
Due over five years but within ten years	32	240
Due over ten years	6	45
Total	¥83	\$623

D. Information related to available-for-sale securities for the year ended March 31, 2002 were as follows:

	Millions of yen	Thousands of U.S. dollars
Sales - total	¥5,210	\$39,085
Related gain - total	3,013	22,603
Related loss - total	54	405

7. SHORT-TERM DEBT AND LONG TERM DEBT

At March 31, 2002 and 2001, short-term debt was summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
0.41% – 8.28% bank loans	¥195,397	¥185,968	\$1,465,844
Commercial paper	¥ 30,500	¥ 75,000	\$ 228,807

At March 31, 2002 and 2001, long-term debt was summarized as follows:

1.875% bonds due 2002	¥ 10,000	¥ 10,000	\$ 75,019
2.1% bonds due 2003	10,000	10,000	75,019
2.25% bonds due 2004	10,000	10,000	75,019
2.5% bonds due 2002	10,000	10,000	75,019
2.95% bonds due 2004	10,000	10,000	75,019
2.1% bonds due 2002	10,000	10,000	75,019
1.975% bonds due 2002	10,000	10,000	75,019
2.4% bonds due 2004	10,000	10,000	75,019
2.25% bonds due 2003	10,000	10,000	75,019
2.7% bonds due 2005	10,000	10,000	75,019
2.0% bonds due 2002	–	10,000	–
2.95% bonds due 2008	10,000	10,000	75,019
2.7% bonds due 2008	10,000	10,000	75,019
1.875% bonds due 2003	10,000	10,000	75,019
1.425% bonds due 2001	–	10,000	–
1.85% bonds due 2003	10,000	10,000	75,019
1.775% bonds due 2003	10,000	10,000	75,019
2.475% bonds due 2005	10,000	10,000	75,019
2.07% bonds due 2010	10,000	10,000	75,019
1.35% bonds due 2005	10,000	10,000	75,019
1.94% bonds due 2011	10,000	10,000	75,019
1.84% bonds due 2011	10,000	10,000	75,019
1.62% bonds due 2011	10,000	–	75,019
0.67% bonds due 2006	10,000	–	75,019
2.75% bonds due 2004	3,000	3,000	22,506
1.65% bonds due 2003	3,000	3,000	22,506
1.60% bonds due 2004	100	–	750
2.60% bonds due 2008	500	500	3,751
2.79% notes due 2001	–	1,074	–
2.00% notes due 2002	746	670	5,596
Floating rate notes due 2001	–	1,056	–
Floating rate notes due 2001	–	1,589	–
Floating rate notes due 2002	1,006	902	7,547
1.8% convertible debentures due 2003	17,611	17,611	132,116
1.8% convertible debentures due 2004	9,858	9,858	73,953
Loans, principally from banks and insurance companies:			
Secured, at rates from 0.77% to 8.00% maturing through 2013	65,308	66,459	489,932
Unsecured, at rates from 0.4% to 7.17% maturing through 2011	84,710	64,843	635,479
	405,839	390,562	3,044,554
Less current portion	106,528	58,983	799,160
	¥299,311	¥331,579	\$2,245,394

Convertible debentures, unless previously redeemed, are convertible into shares of common stock of the Company at the following conversion prices:

	Conversion price per share		Convertible at any time up to and including
1.8% convertible debentures due 2003	¥1,371.20	(\$10.29)	March 28, 2003
1.8% convertible debentures due 2004	1,617.00	(\$12.13)	March 30, 2004

The indenture covering the 1.8% convertible debentures due 2003 provides for a restriction on cash dividends which places a limitation on the payment of cash dividends based on the earnings of the Company determined in accordance with Japanese accounting practices.

The aggregate annual maturities of long-term debt subsequent to March 31, 2002 were as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2003	¥106,528	\$ 799,160
2004	80,713	605,499
2005	75,996	570,112
2006	29,541	221,613
2007 and thereafter	113,061	848,170
	¥405,839	\$3,044,554

At March 31, 2002, assets pledged as collateral for long-term debt were as follows:

	Millions of yen	Thousands of U.S. dollars
Investment securities	¥ 2,628	\$ 19,715
Property, plant and equipment, net of accumulated depreciation	236,106	1,771,238

8. ACCRUED RETIREMENT BENEFITS

The liability for severance and retirement benefits included in the liabilities section of the consolidated balance sheets as of March 31, 2002 and 2001 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Projected benefit obligation	¥ 297,186	¥ 253,640	\$ 2,229,452
Unrecognized prior service cost	35	39	263
Unrecognized actuarial loss	(76,387)	(26,629)	(573,046)
Less fair value of pension plan assets	(135,493)	(137,723)	(1,016,452)
Less unrecognized net retirement benefits obligation at transition	(31,146)	(41,680)	(233,653)
Liability for severance and retirement benefits	¥ 54,195	¥ 47,647	\$ 406,564

Included in the consolidated statement of income for the years ended March 31, 2002 and 2001 are severance and retirement benefit expenses comprised of the following:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Service cost - benefits earned during the year	¥ 8,210	¥ 8,632	\$ 61,590
Interest cost on projected benefit obligation	8,558	8,119	64,201
Expected return on plan assets	(4,713)	(5,689)	(35,356)
Amortization of net retirement benefits obligation at transition	10,534	12,168	79,025
Amortization of actuarial differences	2,054	–	15,409
Amortization of prior service cost	(2,912)	–	(21,846)
Severance and retirement benefit expenses	¥21,731	¥23,230	\$163,023

The discount rates and rates of expected return on pension plan assets assumed by the Company and its consolidated subsidiaries were as follows:

	2002	2001
Discount rate	2.5%	3.5%
Rate of expected return on pension plan assets	3.5%	principally 4.0%

The estimated amount of all retirement benefits to be paid at future retirement dates is allocated equally to each service year using the estimated total service years. Prior service cost is recognized in expenses as incurred or by the straight-line method over 10 years. Actuarial gain/loss is recognized by the straight-line method over 10 to 13 years commencing the following year.

9. INCOME TAXES

The Company and its domestic consolidated subsidiaries are subject to a number of income taxes in Japan which, in the aggregate, indicate a statutory rate of approximately 41.9% for the years ended March 31, 2002 and 2001. The foreign consolidated subsidiaries are subject to the income taxes of their countries of domicile.

The following table summarizes the significant differences between the statutory tax rate and effective tax rates for consolidated financial statement purposes for the years ended March 31, 2002 and 2001.

	2002	2001
Statutory tax rate	41.9%	41.9%
Non-taxable dividend income	(2.1)	(0.5)
Non-deductible expenses	7.6	2.7
Equity in earnings of non-consolidated subsidiaries and affiliates	(17.1)	(8.6)
Loss carryforwards of consolidated subsidiaries	(10.4)	–
Elimination of unrecognized gain on sales of consolidated subsidiaries and affiliates	2.4	–
Tax credit	(4.5)	–
Other	0.1	1.6
Effective tax rates	17.9%	37.1%

The significant components of the Company's and its consolidated subsidiaries' deferred tax assets and liabilities as of March 31, 2002 and 2001 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Deferred tax assets			
Allowance for doubtful accounts	¥ 2,285	¥ 573	\$ 17,142
Employees' retirement benefits	20,786	17,337	155,934
Accrued bonuses	3,260	2,097	24,456
Depreciation	5,460	6,638	40,960
Enterprise tax	1,459	835	10,945
Loss carryforwards of consolidated subsidiaries	3,553	2,170	26,654
Reserve for periodic repairs	1,532	1,718	11,493
Elimination of unrealized gain on sale of business	5,534	–	41,515
Loss on write-downs of investment securities	4,838	–	36,294
Other	7,390	8,161	55,440
Subtotal	56,097	39,529	420,833
Valuation allowance	(1,334)	(1,778)	(10,008)
Total deferred tax assets	54,763	37,751	410,825
Deferred tax liabilities:			
Net unrealized holding gain on securities	(5,487)	–	(41,163)
Deferred gain on real properties	(4,725)	(5,263)	(35,446)
Reserve for special depreciation	(476)	(883)	(3,571)
Other	(1,507)	(1,340)	(11,305)
Total deferred tax liabilities	(12,195)	(7,486)	(91,485)
Net deferred tax assets	¥ 42,568	¥30,265	\$319,340

10. STOCKHOLDERS' EQUITY

Under the Commercial Code of Japan (the "Code"), the entire amount of the issue price of shares is required to be accounted for as common stock, although a company may, by resolution of its Board of Directors, account for an amount not exceeding one-half of the issue price of the new shares as additional paid-in capital.

Effective October 1, 2001, the Code provides that an amount equal to at least 10% of cash dividends and other cash appropriations shall be appropriated and set aside as a legal reserve until the total amount of legal reserve and additional paid-in capital equals 25% of common stock. The legal reserve and additional paid-in capital may be used to eliminate or reduce a deficit by resolution of the stockholders' meeting or may be capitalized by resolution of the Board of Directors. On condition that the total amount of legal reserve and additional paid-in capital are equal to or exceed 25% of common stock, they are available for distributions and certain other purposes by the resolution of stockholders' meeting. Legal reserve is included in retained earnings in the accompanying consolidated financial statements.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with the Code.

11. CONTINGENT LIABILITIES

Contingent liabilities at March 31, 2002 were as follows:

	Millions of yen	Thousands of U.S. dollars
As endorser of trade notes discounted	¥ 191	\$ 1,433
As guarantor of indebtedness, principally of non-consolidated subsidiaries and affiliates	24,821	186,204
As issuer of letters of awareness and commitments for guarantees	1,237	9,280

12. LEASES

Lease payments under finance leases, which are accounted for in the same manner as operating leases for the year ended March 31, 2002 were ¥3,757 million (\$28,185 thousand). Future lease payments under such finance leases as of March 31, 2002, inclusive of interest, were ¥10,306 million (\$77,314 thousand), including ¥3,166 million (\$23,751 thousand) due within one year.

Future lease payments under operating leases as of March 31, 2002 were ¥17 million (\$128 thousand), including ¥12 million (\$90 thousand) due after one year.

13. RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses for the years ended March 31, 2002 and 2001 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Research and development expenses	¥39,012	¥36,543	\$292,663

14. DERIVATIVES

The Company and certain of its consolidated subsidiaries utilize derivatives transactions only for the purpose of hedging the currency risk associated with foreign currency denominated transactions or the interest rate risk associated with loans payable.

As the counterparties to the above derivatives transactions are major financial institutions, management of the Company believes that there is no significant risk of default by the counterparties.

All derivatives transactions the Company and certain of its consolidated subsidiaries enter into are approved by directors of the financial section. The conditions and results of such transactions are reported semiannually to the Board of Directors.

The following summarizes hedging derivative financial instruments used by the Companies and items hedged:

Hedging instruments:

Forward foreign exchange contracts and currency swap contracts
Interest rate swap contracts

Hedged items:

Foreign currency trade receivables and trade payables
Interest on bonds and loans payable

The Companies assess the effectiveness of the hedges semiannually by comparing the cumulative changes in cash flows from or the changes in the fair value of the hedged items with the corresponding changes in the value of the derivatives positions.

Market value information on the derivatives positions open as of March 31, 2002 and 2001 has not been disclosed as hedge accounting has been applied.

15. EFFECT OF BANK HOLIDAY ON SETTLEMENT

As financial institutions in Japan were closed on March 31, 2002, ¥3,298 million (\$24,741 thousand) of trade notes receivable and ¥999 million (\$7,494 thousand) of trade notes payable maturing on March 31, 2002 were settled on the following business day, April 1, 2002, and have been accounted for accordingly.

16. SEGMENT INFORMATION

Business segment information of the Company and its consolidated subsidiaries for the years ended March 31, 2002, and 2001 were summarized as follows:

Year ended March 31, 2002	Millions of yen						Consolidated
	Petrochemicals	Basic Chemicals	Functional Polymeric Materials	Functional Chemicals & Engineered Materials	Others	Eliminations	
I. Sales and operating income:							
Customers	¥221,669	¥265,223	¥198,091	¥215,172	¥ 52,525	¥ -	¥ 952,680
Inter-segment	101,058	11,564	13,729	11,969	115,588	(253,908)	-
Total sales	322,727	276,787	211,820	227,141	168,113	(253,908)	952,680
Operating expenses	312,674	269,550	199,879	216,582	165,512	(253,899)	910,298
Operating income	¥ 10,053	¥ 7,237	¥ 11,941	¥ 10,559	¥ 2,601	¥ (9)	¥ 42,382
II. Assets, depreciation and capital expenditures:							
Total assets	¥310,507	¥364,315	¥294,784	¥277,246	¥ 96,184	¥ (45,173)	¥1,297,863
Depreciation and amortization	13,105	13,470	15,681	13,231	1,685	(563)	56,609
Capital expenditures	16,405	28,554	55,410	15,922	1,273	-	117,564

Year ended March 31, 2002	Thousands of U.S. dollars						Consolidated
	Petrochemicals	Basic Chemicals	Functional Polymeric Materials	Functional Chemicals & Engineered Materials	Others	Eliminations	
I. Sales and operating income:							
Customers	\$1,662,933	\$1,989,670	\$1,486,054	\$1,614,194	\$ 394,036	\$ -	\$7,146,887
Inter-segment	758,125	86,752	102,993	89,790	867,127	(1,904,787)	-
Total sales	2,421,058	2,076,422	1,589,047	1,703,984	1,261,163	(1,904,787)	7,146,887
Operating expenses	2,345,641	2,022,131	1,499,467	1,624,771	1,241,650	(1,904,717)	6,828,943
Operating income	\$ 75,417	\$ 54,291	\$ 89,580	\$ 79,213	\$ 19,513	\$ (70)	\$ 317,944
II. Assets, depreciation and capital expenditures:							
Total assets	\$2,329,385	\$2,733,046	\$2,211,433	\$2,079,865	\$ 721,560	\$ (338,882)	\$9,736,407
Depreciation and amortization	98,312	101,050	117,637	99,257	12,641	(4,223)	424,674
Capital expenditures	123,068	214,209	415,679	119,445	9,549	-	881,950

Year ended March 31, 2001	Millions of yen						Consolidated
	Basic Chemicals	Polymers	Functional & Fine Chemicals	Engineered Materials	Others	Eliminations	
I. Sales and operating income:							
Customers	¥333,809	¥220,068	¥186,085	¥151,388	¥ 48,432	¥ –	¥ 939,782
Inter-segment	119,142	30,413	3,580	9,134	109,027	(271,296)	–
Total sales	452,951	250,481	189,665	160,522	157,459	(271,296)	939,782
Operating expenses	432,211	242,524	176,551	151,191	154,727	(271,934)	885,270
Operating income	¥ 20,740	¥ 7,957	¥ 13,114	¥ 9,331	¥ 2,732	¥ 638	¥ 54,512
II. Assets, depreciation and capital expenditures:							
Total assets	¥445,567	¥287,369	¥340,276	¥191,194	¥108,428	¥ (58,321)	¥1,314,513
Depreciation and amortization	14,817	14,705	12,392	8,622	1,715	(496)	51,755
Capital expenditures	25,300	7,785	12,659	13,240	2,540	–	61,524

In 2002, the Company and consolidated subsidiaries changed their business segment classification. The business segment information based on the new classification for the year ended March 31, 2001 was summarized as follows:

Year ended March 31, 2001	Millions of yen						Consolidated
	Petrochemicals	Basic Chemicals	Functional Polymeric Materials	Functional Chemicals & Engineered Materials	Others	Eliminations	
I. Sales and operating income:							
Customers	¥270,938	¥252,180	¥145,375	¥222,857	¥ 48,432	¥ –	¥ 939,782
Inter-segment	92,459	11,245	11,780	11,098	109,198	(235,780)	–
Total sales	363,397	263,425	157,155	233,955	157,630	(235,780)	939,782
Operating expenses	346,087	258,929	144,820	216,899	154,649	(236,114)	885,270
Operating income	¥ 17,310	¥ 4,496	¥ 12,335	¥ 17,056	¥ 2,981	¥ 334	¥ 54,512
II. Assets, depreciation and capital expenditures:							
Total assets	¥330,242	¥362,713	¥275,887	¥287,934	¥101,429	¥ (43,692)	¥1,314,513
Depreciation and amortization	14,038	13,710	9,740	13,075	1,601	(409)	51,755
Capital expenditures	7,899	23,916	10,144	17,199	2,366	–	61,524

As a result of adopting a new Japanese accounting standard for financial instruments concerning the valuation of available-for-sale securities with known fair market value, assets at March 31, 2002 in the Petrochemicals, Basic Chemicals, Functional Polymeric Materials, Functional Chemicals & Engineered Materials, and Others increased by ¥1,503 million (\$11,275 thousand), ¥1,538 million (\$11,538 thousand), ¥1,057(\$7,929 thousand), ¥1,419 million (\$10,645 thousand), ¥3,906 million (\$29,302 thousand).

The operations of the Company and its consolidated subsidiaries for the years ended March 31, 2002 and 2001 by geographic area were as follows:

Year ended March 31, 2002	Millions of yen			
	Domestic (in Japan)	Outside Japan	Eliminations	Consolidated
I. Sales and operating income:				
Customers	¥ 860,976	¥ 91,704	¥ –	¥ 952,680
Inter-segment	27,034	3,782	(30,816)	–
Total sales	888,010	95,486	(30,816)	952,680
Operating expenses	850,825	90,051	(30,578)	910,298
Operating income	¥ 37,185	¥ 5,435	¥ (238)	¥ 42,382
II. Assets	¥1,212,506	¥129,456	¥(44,099)	¥1,297,863

Year ended March 31, 2002	Thousands of U.S. dollars			
	Domestic (in Japan)	Outside Japan	Eliminations	Consolidated
I. Sales and operating income:				
Customers	\$6,458,935	\$687,952	\$ –	\$7,146,887
Inter-segment	202,806	28,372	(231,178)	–
Total sales	6,661,741	716,324	(231,178)	7,146,887
Operating expenses	6,382,783	675,551	(229,391)	6,828,943
Operating income	\$ 278,958	\$ 40,773	\$ (1,787)	\$ 317,944
II. Assets	\$9,096,069	\$971,163	\$(330,825)	\$9,736,407

Year ended March 31, 2001	Millions of yen			
	Domestic (in Japan)	Outside Japan	Eliminations	Consolidated
I. Sales and operating income:				
Customers	¥ 875,632	¥ 64,150	¥ –	¥ 939,782
Inter-segment	25,585	3,734	(29,319)	–
Total sales	901,217	67,884	(29,319)	939,782
Operating expenses	850,311	64,311	(29,352)	885,270
Operating income	¥ 50,906	¥ 3,573	¥ 33	¥ 54,512
II. Assets	¥1,256,475	¥100,660	¥(42,622)	¥1,314,513

As a result of adopting a new Japanese accounting standard for financial instruments concerning the valuation of available-for-sale securities with known fair market value, assets at March 31, 2002 in the Domestic (in Japan) increased by ¥9,423 million (\$70,690 thousand).

Overseas sales of the Company and its consolidated subsidiaries for the years ended March 31, 2002 and 2001 were summarized by geographic area as follows:

Year ended March 31, 2002	Millions of yen				Overseas sales
	Asia	North America and Latin America	Europe	Others	
Overseas sales	¥166,501	¥41,049	¥23,709	¥6,537	¥237,796
Consolidated net sales					¥952,680
Ratio of overseas sales to consolidated net sales	17.5%	4.3%	2.5%	0.7%	25.0%

Year ended March 31, 2002	Thousands of U.S. dollars				Overseas sales
	Asia	North America and Latin America	Europe	Others	
Overseas sales	\$1,249,070	\$307,944	\$177,862	\$49,040	\$1,783,916

Year ended March 31, 2001	Millions of yen				Overseas sales
	Asia	North America and Latin America	Europe	Others	
Overseas sales	¥124,451	¥37,781	¥21,788	¥6,466	¥190,486
Consolidated net sales					¥939,782
Ratio of overseas sales to consolidated net sales	13.2%	4.0%	2.3%	0.7%	20.2%

17. SUBSEQUENT EVENTS

A. Appropriations of retained earnings at March 31, 2002 were duly approved at the stockholders' meeting held on June 27, 2002 as follows:

	Millions of yen	Thousands of U.S. dollars
Cash dividends ¥3 (\$0.02) per share	¥2,367	\$17,757
Bonuses to directors and corporate auditors	¥ 62	\$ 465

B. Liquidation of the government's entrusted portion of the benefits provided by social welfare pension funds

With the promulgation of the defined benefit enterprise pension plan law in June 2001, the Company obtains authorization for an exemption from its obligation to provide a reserve for the contributory funded pension plan from the Minister of Health, Labor and Welfare as of April 18, 2002.

Adopting Measure No.47-2 (interim measure) of the revised Accounting Committee Report No.13, "Concerning Amendment to the Practical Guidelines for Accounting for Retirement Benefits," the Company recognized the relinquishment of the entrusted portion of the retirement benefit obligation of the welfare pension funds effective April 18, 2002, and any differences between the obligation relinquished and the related pension fund assets were charged to income as of that date.

With the adoption of this interim measure, the Company will recognize, in fiscal year 2003, estimated gain on this exemption from its obligation to provide a reserve for the contributory funded pension plan less (a) an expense of unrecognized actuarial loss and (b) the unrecognized net retirement benefit obligation at transition.

As a result, operating income is anticipated to increase by ¥2,032 million (\$15,244 thousand) and income before income taxes and minority interests by ¥9,524 million (\$71,448 thousand) for the 2003 fiscal year compared with the corresponding amounts which would have been reported under the method of accounting for pension in 2002 fiscal year.

To the Stockholders and the Board of Directors of Mitsui Chemicals, Inc.

We have audited the accompanying consolidated balance sheets of Mitsui Chemicals, Inc. and consolidated subsidiaries at March 31, 2002 and 2001, and the related consolidated statements of income, stockholders' equity, and cash flows for the years then ended, all expressed in yen. Our audits were made in accordance with auditing standards, procedures and practices generally accepted and applied in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated financial statements, expressed in yen, present fairly the consolidated financial position of Mitsui Chemicals, Inc. and consolidated subsidiaries at March 31, 2002 and 2001, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles and practices generally accepted in Japan consistently applied during the period, except for the New Accounting Standards adopted as noted in the following paragraph.

As described in Note 2, effective April 1, 2001, Mitsui Chemicals, Inc. and consolidated subsidiaries adopted a new Japanese accounting standard for financial instruments concerning the valuation of available-for-sale securities with known fair market value.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2002 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts, and, in our opinion, such translation has been made on the basis described in Note 3.

Tokyo Japan
June 27, 2002

*Shin Nihon & Co.
Aschi & Co*

See Note 1 which explains the basis of preparation of the consolidated financial statements of Mitsui Chemicals, Inc. under Japanese accounting principles and practices.

* Consolidated subsidiary

Companies	Major Products or Lines of Business	Paid-in Capital (In millions)	Equity Interest (%)	Phone	Facsimile
Petrochemicals					
Du Pont-Mitsui Polychemicals Co., Ltd.	Ethylene vinyl acetate copolymer and other plastics	¥ 6,480	50	81-3-3580-5531	81-3-3592-1540
* Evolve Japan Co., Ltd.	Metallocene catalyst-based LLDPE	¥ 400	75	81-3-5543-5674	81-3-5543-5994
Japan Polystyrene Inc.	Polystyrene	¥ 2,000	50	81-3-5640-1551	81-3-5640-1573
Keiyo Ethylene Co., Ltd.	Ethylene, propylene and other basic petrochemical products	¥ 6,000	22.5	81-3-3552-9373	81-3-3552-9443
Nishioki Utility Co.	Utility	¥ 100	50	81-3-5419-6160	81-3-5419-6245
* Osaka Petrochemical Industries, Ltd.	Ethylene, propylene and other basic petrochemical products	¥ 5,000	100	81-3-3592-4304	81-3-3592-4230
* Ube Polypro Co., Ltd.	Polypropylene	¥ 475	81.3	81-3-5543-5738	81-3-5543-5998
Eternal Plastics Co., Ltd.	Polystyrene	Baht 300	33.3	66-2-679-5600	66-2-679-5491
Grand Siam Composite Co., Ltd.	Polypropylene compound	Baht 60	48	66-2-586-2517	66-2-586-2522
Mitsui Hi-Polymer (Asia) Ltd.	Sales of high-density polyethylene	US\$ 12	50	85-22-528-1777	85-22-520-0780
* Color & Composite Technologies, Inc.	Polypropylene compound	US\$ 10	64.8	1-937-492-9187	1-937-498-4837
Basic Chemicals					
* Chiba Phenol Co., Ltd.	Phenol	¥ 300	55	81-3-3592-4329	81-3-3592-4281
Kyodo Carbon Dioxide Co., Ltd.	Liquid hyperpure carbon dioxide gas and dry ice	¥ 100	30	81-143-55-3074	81-143-55-3796
Kyodo Monomer Inc.	Methylmethacrylate	¥ 400	50	81-3-3592-4340	81-3-3592-4236
Kyushu Industrial Gas Inc.	Industrial gases	¥ 100	42	81-944-52-2603	81-944-57-7010
Mitsui Chemicals Air Water, Inc.	Carbon dioxide gas	¥ 480	50	81-3-3431-9131	81-3-3433-0402
Nippon Epoxy Polymers Co., Ltd.	Basic liquid epoxy resins	¥ 200	50	81-3-3592-4328	81-3-3592-4281
Nippon Fine Gas, Inc.	Industrial gases	¥ 100	50	81-722-68-3321	81-722-68-1132
Senboku Oxygen Co., Ltd.	Oxygen, nitrogen and argon	¥ 200	40	81-72-268-3291	81-72-268-3291
* Shimonoseki Mitsui Chemicals, Inc.	Phosphoric acid and fertilizers	¥ 4,000	100	81-832-66-1122	81-832-67-8188
P.T. Amoco Mitsui PTA Indonesia	PTA	US\$ 160	45	62-21-252-6854	62-21-252-6856
* P.T. Mitsui Eterindo Chemicals	Acrylamide	US\$ 3	70	62-21-572-3201	62-21-572-4338
P.T. Petnesia Resindo	Polyethylene terephthalate resin for bottles	US\$ 29	41.6	62-21-551-6251	62-21-552-0645
* Mitsui Bisphenol Singapore Pte Ltd	Bisphenol A	US\$ 66	100	65-535-1678	65-535-7232
* Mitsui Phenol Singapore Pte. Ltd.	Phenol	US\$ 54	90	65-534-0537	65-534-4509
* Siam Mitsui PTA Co., Ltd.	PTA	Baht 2,800	50	66-2-586-5282	66-2-586-5285
Yongsan Chemicals, Inc.	Maleic anhydride and acrylamide	Won 6,000	36.7	82-2-3274-9100	82-2-718-7330
* Yongsan Mitsui Chemicals, Inc.	Acrylamide	Won 2,500	50	82-2-3274-9191	82-2-3274-9190
Functional Polymeric Materials					
GEM PC Ltd.	Polycarbonate	¥ 3,600	42	81-3-5695-4505	81-3-5695-4860
GEM Polymers, Ltd.	Polyphenylene ether, 2,6-xylenol and orthocresol	¥ 840	49	81-3-3667-9694	81-3-3667-5858
GE Plastics Japan Ltd.	Bisphenol A and engineering plastics	¥ 9,800	41	81-3-5695-4888	81-3-5695-4860
* Hokkaido Mitsui Chemicals, Inc.	Wood adhesives, paper resins, foliar activator	¥ 2,000	100	81-125-54-3131	81-125-52-6818
Mitsui Cytec, Ltd.	Organic flocculant and methylated amino resins for paint	¥ 620	50	81-3-3231-6071	81-3-3231-6080
* Mitsui Takeda Chemicals, Inc.	Urethane raw materials & derivatives, composite materials	¥ 20,008	51	81-3-3592-4506	81-3-3592-5068
Nippon A&L Inc.	SBR latex and ABS resin	¥ 5,996	33	81-6-6220-3633	81-6-6220-3699
* Saxin Corporation	Engineering plastic moldings	¥ 128	71.4	81-775-46-3121	81-775-46-3636
* Sunbake Co., Ltd.	Wood adhesives	¥ 700	60	81-3-3592-4168	81-3-3592-4264
* Sun Technochemicals Co., Ltd.	Sales of industrial organic chemical products	¥ 100	100	81-3-3241-1380	81-3-3241-1759
Toyo Fiber Glass, Co.	Glass fiber	¥ 300	40	81-125-52-2849	81-125-54-3935
Malayan Adhesives & Chemicals Sdn. Bhd.	Adhesives	M\$ 14	32	60-3-559-1801	60-3-550-2168
* P.T. Arjuna Utama Kimia	Adhesives and formalin	US\$ 3	58.9	62-31-841-1413	62-31-843-2672
* P.T. Cosmo Polyurethane Indonesia	Urethane premixture	US\$ 1	41.3	62-21-572-3101	62-21-572-3108

* Consolidated subsidiary

Companies	Major Products or Lines of Business		Paid-in Capital (In millions)	Equity Interest (%)	Phone	Facsimile
* Mitsui Elastomers Singapore Pte. Ltd.	Elastomers	US\$	21.5	100	65-532-4030	65-533-6423
* MTK Chemicals Pte. Ltd.	Coating resins	S\$	4	65	65-265-7955	65-265-6898
* Thai Mitsui Specialty Chemicals Co., Ltd.	Specialty chemicals	Baht	318	47.9	66-2-634-1970	66-2-237-9792
Kumho Mitsui Chemicals, Inc.	MDI	Won	50,000	25.5	82-2-399-7400	82-2-720-6295
Cosmo Polyurethane (HK) Co., Ltd.	Sales of TDI	HK\$	2	17	85-22-736-3083	85-22-375-1265
Tianjin Cosmo Polyurethane Co., Ltd.	Urethane premixture	Yuan	30	23	86-22-2437-5389	86-22-2437-5387
Croslene Chemical Industries Ltd.	Urethane resins	NT\$	200	25.5	886-2-2555-6661	886-2-2558-5135
* Anderson Development Company	Specialty chemicals	US\$	18	100	1-517-263-2121	1-517-263-1000
Functional Chemicals & Materials						
* JI Chemicals, Inc.	Iodine derivatives	¥	100	70	81-3-3592-4466	81-3-3592-4253
* Hi-Sheet Industries, Ltd.	Plastic products	¥	100	100	81-3-3274-0300	81-3-3274-0311
Honshu Chemical Industry Co., Ltd.	Raw materials for synthetic resins, synthetic fibers, dyes, pharmaceuticals, agricultural chemicals, rubber and other chemicals	¥	1,500	26.9	81-3-3272-1481	81-3-3272-1480
Nippon Alkyl Phenol Co., Ltd.	2,6 DTBP, 2,4 DTBP and other alkylphenols	¥	450	50	81-3-3591-4125	81-3-3591-4126
Nippon Aluminum Alkyls, Ltd.	Triethyl aluminum and derivatives	¥	400	50	81-3-3504-0811	81-3-3504-0876
* Mitsui Chemicals Industrial Products, Ltd.	Civil engineering and construction materials	¥	400	95.2	81-3-3837-0281	81-3-3837-1945
* Mitsui Kagaku Fine Chemicals Inc.	Sales of fine chemical products	¥	100	76.9	81-3-5695-0567	81-3-5695-0296
* Mitsui Kagaku Platech Co., Ltd.	Molded plastic products	¥	1,250	100	81-3-3259-1405	81-3-3259-1468
* Printec Corp.	Printed wiring boards, electronic appliances	¥	250	100	81-46-224-5731	81-46-224-5708
* Sun Medical Co., Ltd.	Dental materials and medical devices	¥	100	70	81-77-582-9981	81-77-582-9984
* Sunrex Industry Co., Ltd.	Spunbonded nonwoven fabrics and plastic film	¥	240	100	81-593-36-2200	81-593-36-2208
Taisho MTC Ltd.	Taurine	¥	400	40	81-3-3592-4466	81-3-3592-4253
* Tohcello Co., Ltd.	Plastic film	¥	2,370	62.9	81-3-3272-3461	81-3-3272-4805
Yamamoto Chemicals, Inc.	Color former, catalyst	¥	2,134	34.3	81-729-49-4561	81-729-49-5479
* Mitsui Hygiene Materials (Thailand) Co., Ltd.	Spunbonded nonwoven fabrics	Baht	183	100	66-3-895-5092	66-3-895-5099
* Taiwan Mitsui Chemicals, Inc.	Marketing of electronics and information materials	NT\$	14	100	886-2-2521-6012	886-2-2521-6014
* ESCO Company Limited Partnership	Color former, catalyst	US\$	21	51	1-231-726-3106	1-231-727-6452
Image Polymers Company	Toner resin	US\$	17	50	1-978-658-0691	1-978-658-7882
* Mitsui Advanced Media, Inc.	CD-Rs	US\$	10	100	1-719-262-2460	1-719-592-0057
Polymide Laminate Systems LLC	Sales of substrate material for HDD suspension	US\$	0.1	50	1-480-917-5202	1-480-917-5256
* Mitsui Petrochemicals (Netherlands) B.V.	Binder split yarn	EUR	0.5	100	31-5154-23881	31-5154-19698
Image Polymers Europe UK Partnership	Toner resin	Pound	13	50	44-1324-494887	44-1324-494615
Others						
* Mitsui Chemical Analysis & Consulting Service, Inc.	Physical property measurements, analysis and safety tests on chemicals	¥	130	100	81-438-64-2400	81-438-64-2402
* Mitsui Chemicals Engineering Co., Ltd.	Engineering, plant construction and machine maintenance	¥	400	100	81-3-3538-1701	81-3-3538-1712
* MTB Co., Ltd.	Freight transport, warehousing	¥	600	100	81-3-3845-6521	81-3-3845-6716
* Sansei Kaihatu Co., Ltd.	General damage insurance agency	¥	490	100	81-944-52-8411	81-944-52-7253
* Mitsui Chemicals Asia, Ltd.	Marketing of Mitsui Chemicals' products	S\$	24	100	65-534-2611	65-535-5161
* Mitsui Chemicals (Shanghai) Co., Ltd.	Marketing of Mitsui Chemicals' products	US\$	0.3	100	86-21-6841-3716	86-21-6841-4100
* Mitsui Chemicals America, Inc.	Manufacture of ADMER® and marketing of Mitsui Chemicals' products	US\$	51	100	1-914-253-0777	1-914-253-0790
* Mitsui Chemicals Europe GmbH.	Manufacture of ADMER® and marketing of Mitsui Chemicals' products	EUR	1.2	100	49-211-173320	49-211-323486

(As of March 31, 2002)

Date Incorporated

July 25, 1947
(Inaugurated October 1, 1997)

Paid-in Capital

¥103,226 million

Number of Employees

13,212

Shares of Common Stock Issued and Outstanding

789,156,353

Number of Stockholders

120,842

Stock Listings

Tokyo, Osaka

Transfer Agent

The Chuo Mitsui Trust & Banking Co., Ltd.

(As of March 31, 2002)

Offices

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<http://www.mitsui-chem.co.jp/>

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Phone: 1-914-253-0777

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Facsimile: 49-211-323486

Singapore

MITSUI CHEMICALS ASIA, LTD.

65 Chulia Street, No. 38-01/04, OCBC Centre
Singapore 049513, Singapore

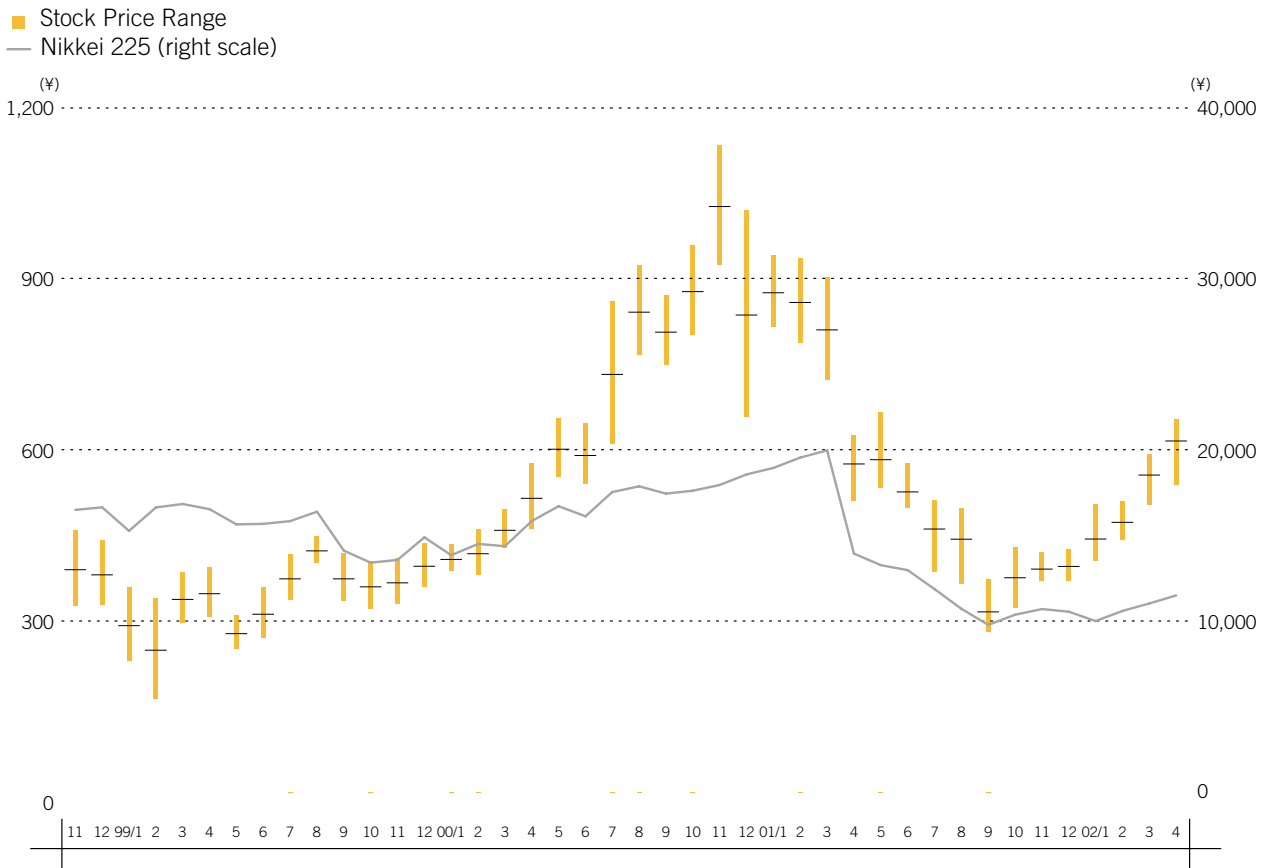
Phone: 65-534-2611

Facsimile: 65-535-5161

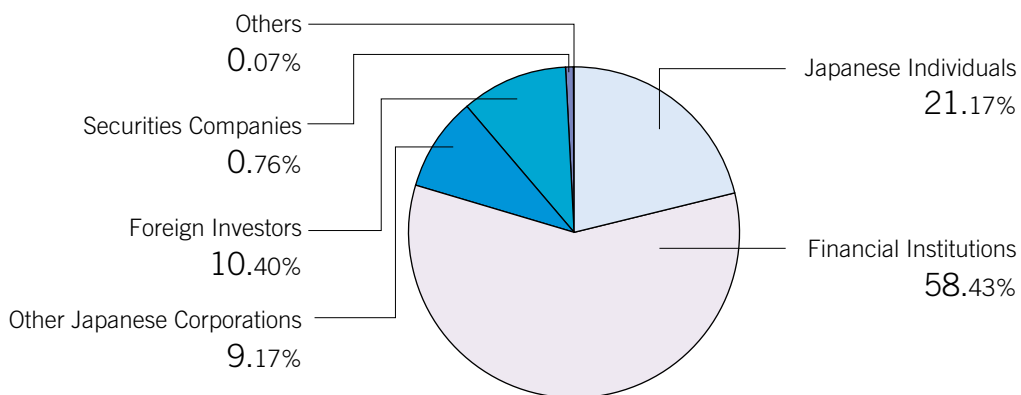
FORWARD-LOOKING STATEMENTS

This annual report contains forward-looking statements about the future plans, strategies, beliefs and performance of the Mitsui Chemicals Group as a whole and its individual consolidated companies. These forward-looking statements are not historical facts. They are expectations, estimates, forecasts and projections based on information currently available to the Mitsui Chemicals Group and are subject to a number of risks, uncertainties and assumptions, which, without limitation, include economic trends, fluctuations in foreign currency exchange rates, fluctuations in the price of raw materials, competition in markets where the Company is active, personal consumption, market demand, the tax system and other legislation. As such, actual results may differ materially from those projected and the Mitsui Chemicals Group cannot guarantee that these forward-looking statements are accurate or will be achieved.

Common Stock Price Range



Composition of Stockholders



Mitsui Chemicals, Inc.

<http://www.mitsui-chem.co.jp/>



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