



Mitsui Chemicals

# ANNUAL REPORT 2005

Year Ended March 31, 2005



## Accelerating Qualitative Expansion

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## 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.

# Consolidated Financial Highlights

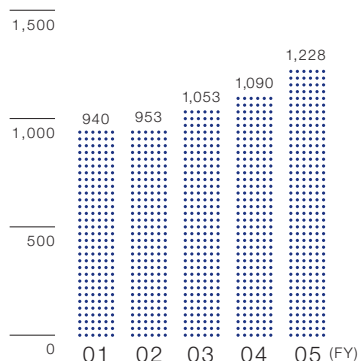
(For the years ended March 31)

	Millions of yen			% Change	Thousands of U.S. dollars
	FY2005	FY2004	FY2003	FY2005/FY2004	FY2005
<b>For the year:</b>					
Net sales	<b>¥1,227,547</b>	¥1,089,518	¥1,053,182	12.7	<b>\$11,430,738</b>
Operating income	<b>80,491</b>	53,942	56,458	49.2	<b>749,520</b>
Net income	<b>26,192</b>	12,466	20,320	110.1	<b>243,896</b>
Capital expenditures	<b>47,135</b>	45,722	68,753	3.1	<b>438,914</b>
R&D expenses	<b>34,881</b>	32,894	37,114	6.0	<b>324,807</b>
<b>At year-end:</b>					
Total assets	<b>¥1,205,185</b>	¥1,188,466	¥1,225,194	1.4	<b>\$11,222,507</b>
Total stockholders' equity	<b>405,773</b>	383,365	370,738	5.8	<b>3,778,499</b>
<b>Per share of common stock:</b>					
Net income	<b>¥ 33.26</b>	¥ 15.78	¥ 25.72	110.8	<b>\$0.31</b>
Stockholders' equity	<b>517.63</b>	488.33	471.88	6.0	<b>4.82</b>
Cash dividends	<b>7.00</b>	6.00	6.00	16.7	<b>0.07</b>
<b>Performance indicators:</b>					
Return on equity	<b>6.64%</b>	3.31%	5.51%		
Return (operating income) on assets	<b>6.73%</b>	4.47%	4.48%		

Notes: 1) U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥107.39=U.S.\$1, the approximate Tokyo foreign exchange market rate as of March 31, 2005.  
2) Changes are between the years ended March 31, 2005 and 2004.

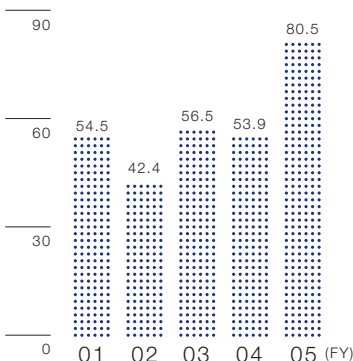
## NET SALES

(Billions of Yen)



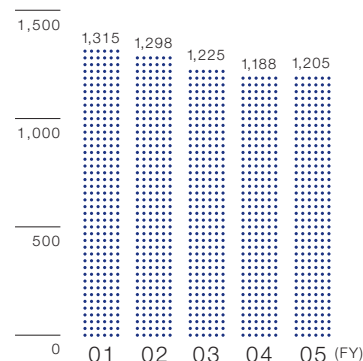
## OPERATING INCOME

(Billions of Yen)



## TOTAL ASSETS

(Billions of Yen)



### <Remarks>

In this report, FY (XX) indicates the fiscal year starting from April 1 of (XX-1) and ending at March 31 of (XX).  
For example, FY 05 indicates the fiscal year from April 1, 2004 to March 31, 2005.

# To Our Shareholders, Customers, and Partners



**KENJI FUJIYOSHI**  
President

## **FISCAL 2005 RESULTS AND THE BUSINESS ENVIRONMENT**

The Japanese economy generally recovered during Fiscal 2005, the fiscal year ended March 31, 2005, on the back of increased capital investments and exports. However, the recovery began to decelerate during the second half of the year due to a slow-down in personal consumption and exports.

Japan's chemical industry continued to face a severe business environment, even though production and shipment levels grew strongly. This was due to soaring raw material and fuel prices throughout the year and the highest prices for naphtha since the mid-1980s in the second half.

In this climate, the entire Mitsui Chemicals Group mounted group-wide efforts to improve sales and profits, including concerted marketing activities and thorough cost reductions.

As a result, the Group reported net sales of ¥1,227.5 billion, up ¥138.0 billion year on year, operating income of ¥80.5 billion, an increase of ¥26.6 billion, ordinary income of ¥79.7 billion, up ¥32.0 billion, and net income of ¥26.2 billion, ¥13.7 billion higher than a year earlier.

## **FISCAL 2006 OUTLOOK**

Looking at Fiscal 2006, the worldwide recovery centered on the U.S., China, and Southeast Asia is boosting exports and capital investments, indicating that the gradual recovery in the Japanese economy should continue. However, the future remains

uncertain given negative factors such as soaring oil prices. The Group's operating environment is expected to remain very challenging, given the real concern of weaker profitability due to the continued rise in raw material and fuel prices. Competition with chemical companies worldwide is also intensifying, particularly in Asian markets.

#### **ACHIEVING THE GOALS OF THE MEDIUM-TERM BUSINESS PLAN**

Working toward its Corporate Target of becoming a "Strong & Excellent Mitsui Chemicals Group with a strong competitive position in the global market," Mitsui Chemicals has formulated a four-year Medium-Term Business Plan started in Fiscal 2005. The plan embraces the two key phrases: "Challenge for Change" and "Shift from Commodities to Specialties." Entering the second year of the plan in Fiscal 2006, we will reassess our business portfolio to prioritize the expansion and growth of the Performance Materials Sector. In addition, the company will continue to promote an innovative corporate culture and optimize the entire Mitsui Chemicals Group. Based on this approach, in Fiscal 2006, we will focus on qualitative expansion. Specifically, the company will strengthen the capabilities of production bases and comprehensively reassess its operational framework to prevent accidents, work-related injuries, and violation of laws and regulations. This will be done by getting back to the very basics in manufacturing.

#### **OUR APPROACH TO CSR**

Mitsui Chemicals Group is taking steps to promote corporate social responsibility (CSR), including the establishment of a CSR Committee. We have reinforced the Group's existing initiatives in environmental protection, safety, and quality, as well as community activities, and measures to ensure strict compliance with laws and regulations. Through these efforts, Mitsui Chemicals aims to win greater trust from stakeholders and endeavor to fulfill its Corporate Mission: Contribute broadly to society by providing high-quality products and services to customers through innovations and the creation of new materials, while keeping in harmony with the global environment.

In closing, I would like to take this opportunity to ask our shareholders, customers, and partners for continued support and cooperation.



**KENJI FUJIYOSHI**

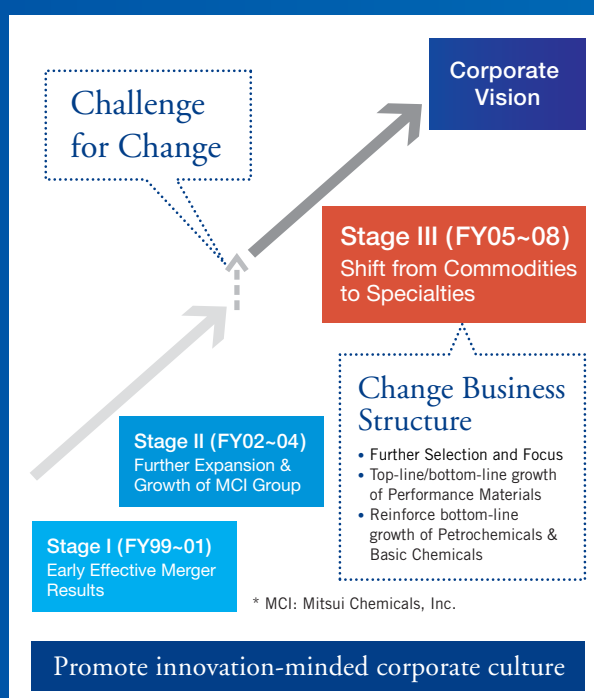
President

# Medium-Term Business Plan (MT-Plan) and Accelerating Expansion in the Performance Materials Sector

Fig. 01 CORPORATE VISION



Fig. 02 ROAD TO SUCCESS



## 1. MITSUI CHEMICALS' ROAD TO SUCCESS

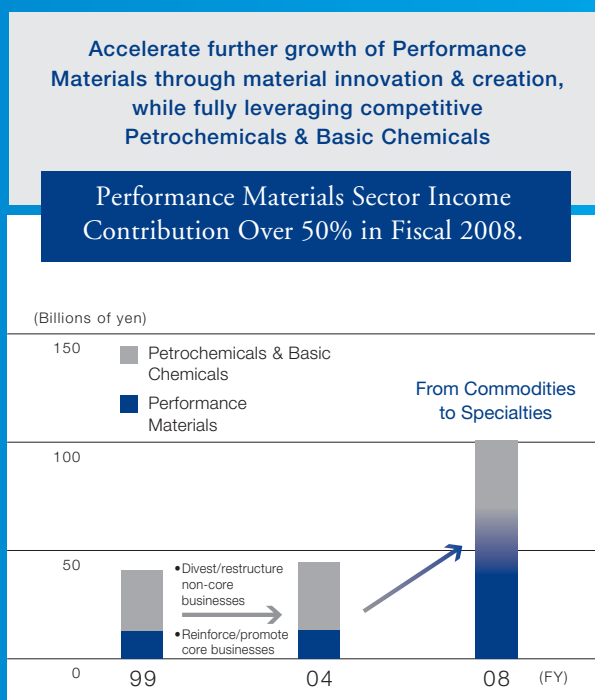
In 2004, Mitsui Chemicals devised and implemented a four-year Medium-Term Business Plan (MT-Plan) covering the period Fiscal 2005 to Fiscal 2008. The MT-Plan aims to attain the goal set out in our Corporate Vision for realizing our Corporate Target as a "Strong & Excellent Mitsui Chemicals Group with a strong competitive position in the global market." (Fig. 01) In order to achieve this, we laid down the direction for future growth under the key concept, "Shift from Commodities to Specialties." (Fig. 02)

The consolidated management goal for the year ending in March 2008 is ¥100 billion in ordinary income, 50% or more of which will be contributed by Performance Materials. In addition, return on assets (ROA) has been chosen as a target covering efficiency in corporate management and pegged at 7%, while Debt-to-Equity Ratio (D/E Ratio) has been adopted as one of the indicators which shows the sound financial health supporting growth. We are targeting a ratio of 1.0 for this parameter. (Fig. 03 and Fig. 04)

**Fig. 03 CONSOLIDATED MANAGEMENT TARGETS (FISCAL 2008)**

<b>&lt;Profitability&gt;</b>	
• Ordinary Income	<b>¥100 billion</b>
• Contribution of Performance Materials	<b>Over 50%</b>
<b>&lt;Efficiency&gt;</b>	
• Return on Assets (ROA)	<b>7%</b>
<b>&lt;Financial Position&gt;</b>	
Debt-to-Equity Ratio (D/E Ratio)	<b>1.0</b>
<b>&lt;Reference&gt;</b>	
Net Sales	<b>¥1,300 billion</b>

**Fig. 04 TARGETING GROWTH IN ORDINARY INCOME**

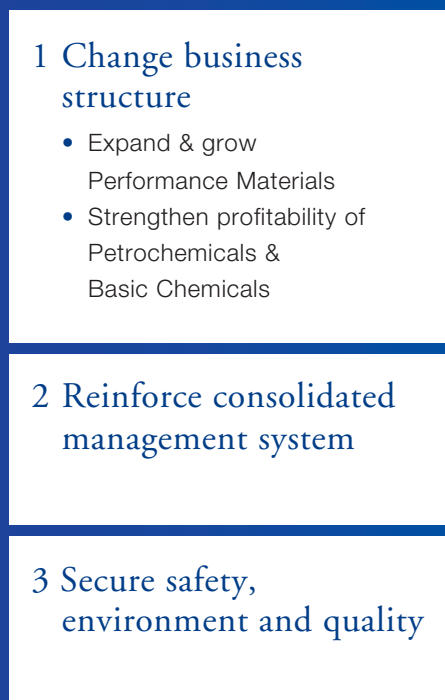


To attain the MT-Plan consolidated management targets (Fiscal 2008), Mitsui Chemicals established three basic strategies. (Fig. 05)

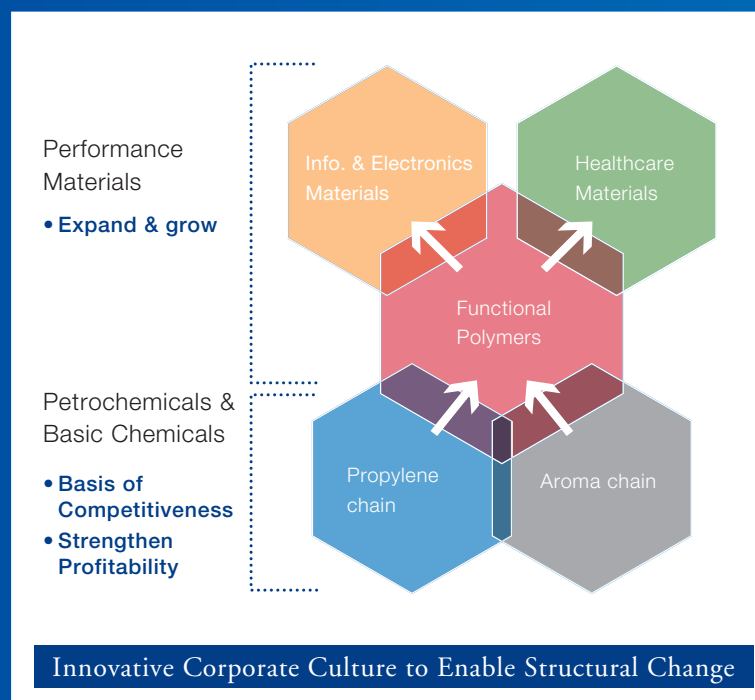
We have selected and focused on five “Key Drivers” (Fig. 06) and concentrated management resources in these areas, securing safety, environment and quality, and reinforcing the consolidated management system of the entire Group. Specifically, Petrochemicals & Basic Chemicals will strive to

strengthen profitability and competitiveness based on propylene and aroma chains. These will be leveraged to boost the expansion and growth of Performance Materials, comprising Functional Polymers, Information and Electronic Materials, and Healthcare Materials. Ultimately, our basic strategy of changing business structure will be realized through these steps.

**Fig. 05 BASIC STRATEGIES**



**Fig. 06 MT-PLAN FIVE KEY DRIVERS**





## 2. MT-PLAN PROGRESS

### (1) Summary of Fiscal 2005 Consolidated Results

The consolidated results for Fiscal 2005, the first year of the Medium-Term Business Plan, were net sales of ¥1,227.5 billion, operating income of ¥80.5 billion, ordinary income of ¥79.7 billion, and net income of ¥26.2 billion. (Fig. 07)

Compared to business segment performance in Fiscal 2004, Petrochemicals & Basic Chemicals

played a central role in boosting company earnings and competitiveness, despite an extremely challenging business environment created by soaring raw material and fuel prices. This was made possible by tackling issues at hand in a quick and accurate manner. Meanwhile, the Performance Materials Sector got off to a late start, particularly Functional Chemicals & Engineered Materials. (Fig. 08, Fig. 09 and Fig. 10)

**Fig. 07 SUMMARY OF CONSOLIDATED FINANCIAL HIGHLIGHTS** (Billions of Yen)

Items	FY2005	FY2004	Increase (decrease)	%
Net Sales	<b>1,227.5</b>	1,089.5	138.0	13%
Operating Income	<b>80.5</b>	53.9	26.6	49%
Ordinary Income	<b>79.7</b>	47.7	32.0	67%
Net Income	<b>26.2</b>	12.5	13.7	110%

**Fig. 08 OPERATING INCOME (BY BUSINESS SEGMENT)** (Billions of Yen)

	Segment	FY2005	FY2004	Increase (decrease)
Performance Materials Sector	Functional Chemicals & Engineered Materials	<b>9.1</b>	12.7	(3.6)
	Functional Polymeric Materials	<b>8.5</b>	5.0	3.5
Petrochemicals & Basic Chemicals Sector	Basic Chemicals	<b>36.0</b>	21.1	14.9
	Petrochemicals	<b>25.4</b>	13.2	12.2
	Others	<b>1.3</b>	1.8	(0.5)
	Eliminations	<b>0.2</b>	0.1	0.1
	Total	<b>80.5</b>	53.9	26.6

**(2) Accelerating Expansion in the Performance Materials Sector**

In order to speed up expansion and growth in Performance Materials, Mitsui Chemicals will concentrate management resources in the field of functional polymers and high-performance products derived from them. (Fig. 10)

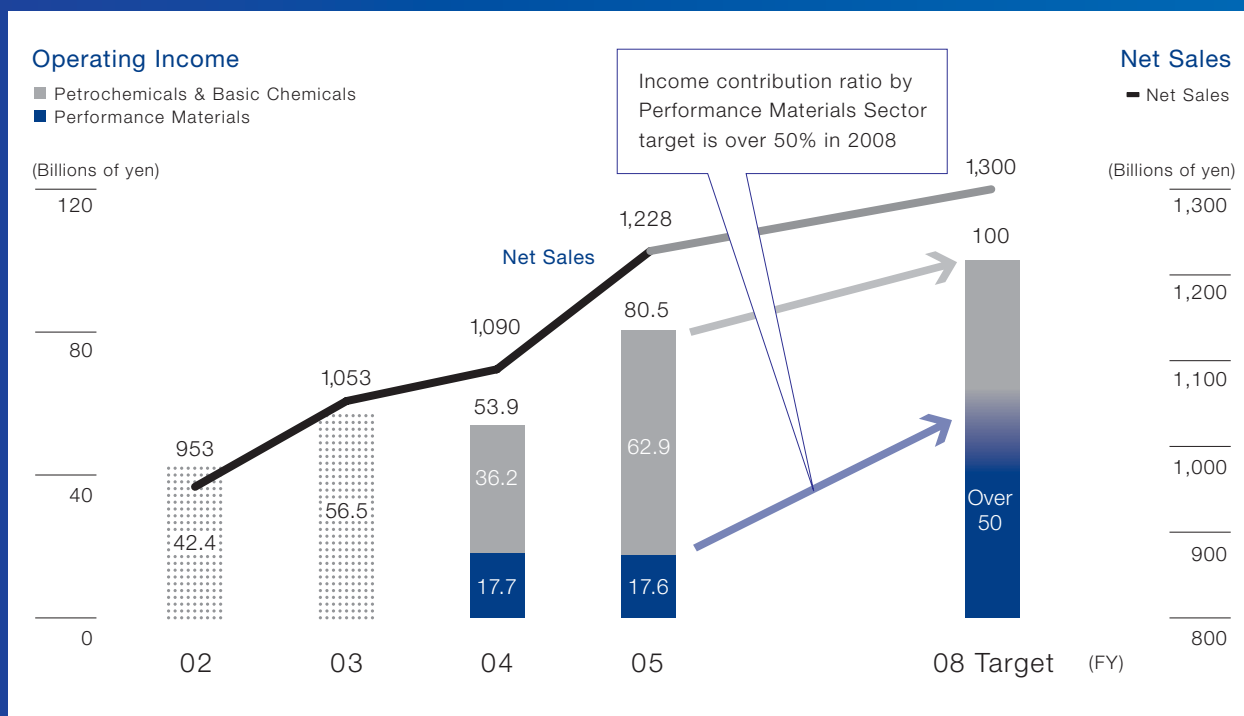
We have accumulated experience in polymer science based on organic synthesis technology and catalysis science. This has allowed us to offer proprietary functional polymers and their high-performance products.

For example, the Functional Polymeric Materials Business Group specializes in the following:

- Functional olefin polymers** including elastomers and performance polyolefins
- Tailor-made polymer systems** including urethane resins
- Unique polymers** such as LACEA™ made from plants

The foregoing products play a key role in their respective markets and are steadily growing as profit pillars.

**Fig. 09 OPERATING INCOME AND NET SALES**

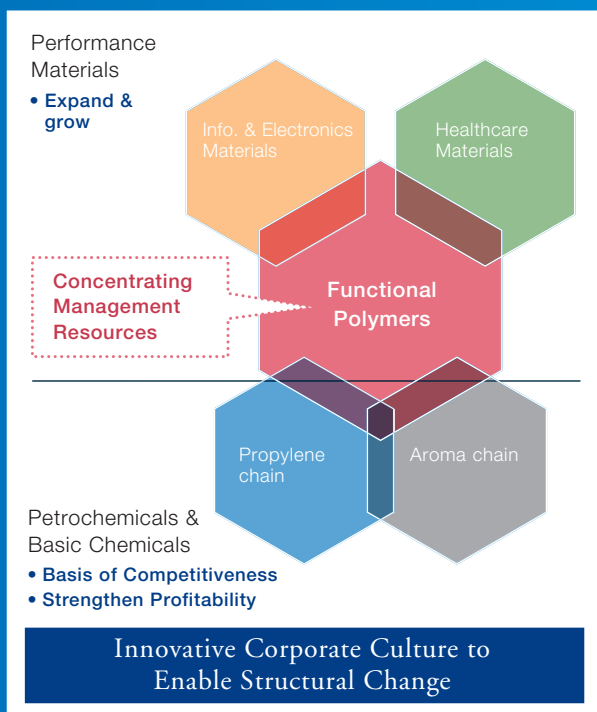


Moreover, Mitsui Chemicals supplies customers with a variety of products incorporating high-value added polymeric functions. Examples include monomers for optical plastic lenses, nonwoven fabrics for hygienic materials, photo-sensitized polymers, and polyimide-based adhesives. (Fig. 11)

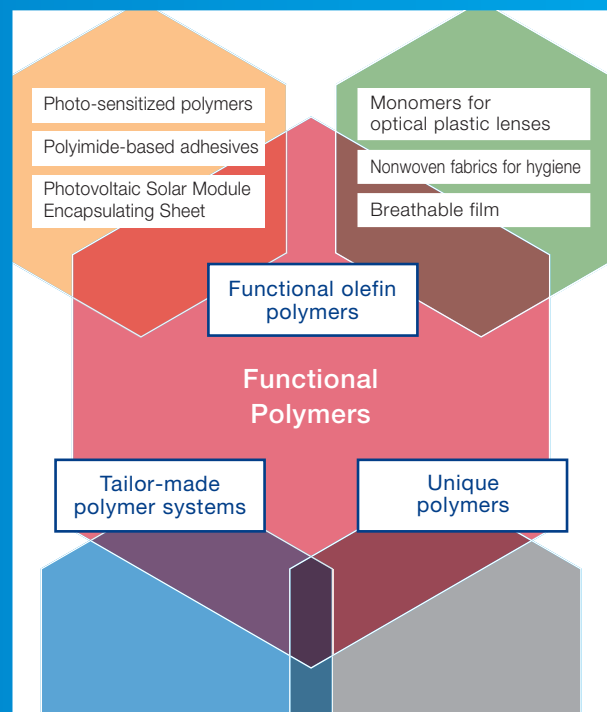
Mitsui Chemicals will intensively concentrate management resources in functional polymers and

the related family of high-performance products, areas in which the company can demonstrate full knowledge of market needs and maximize its strengths. By doing so, Mitsui Chemicals will strengthen its competitiveness in the Performance Materials Sector, and ultimately deploy its functional polymer products as a central driving force for future business expansion.

**Fig. 10 ACCELERATING EXPANSION IN PERFORMANCE MATERIALS**



**Fig. 11 FUNCTIONAL POLYMERS AND HIGH-PERFORMANCE PRODUCTS**



# Our Approach to Corporate Social Responsibility (CSR)

CSR is a concept that encourages companies to look beyond the pursuit of profit and economic value and expand the scope of social contribution so that they and society can achieve sustainable development together. To this end, companies work to fulfill their responsibilities in the three areas of the economy, the environment, and society by taking into account the interests of all stakeholders.

Our Corporate Mission is to “contribute broadly to society by providing high-quality products and services to customers through innovations and the creation of materials, while keeping in harmony with the global environment.” (Fig. 1)

The underlying ideas and principles of our Corporate Mission are essentially the same as CSR. This means that Mitsui Chemicals Group is not embarking on something entirely new in promoting CSR. Rather, bringing on board all our employees, we will use the conceptual framework of CSR to reassess our ongoing efforts in responsible care (RC) initiatives, risk management and compliance, social contribution, and other corporate activities aimed at realizing our Corporate Mission. (Fig. 2)

Specific measures will be taken to further enhance activities as follows:

## -RC initiatives

RC encompasses activities to prevent environmental pollution in all phases of manufacturing, from product development to waste disposal. RC aims to protect the health and the living environment of the general public, ensure the safety of facilities and employees, protect employees' health, and guarantee product safety.

## -Risk management and Compliance

Placing top priority on strictly complying with laws and regulations, risk management is executed on the basis of a “plan, do, check, and act” (PDCA) cycle.

**Fig. 01 CORPORATE VISION**



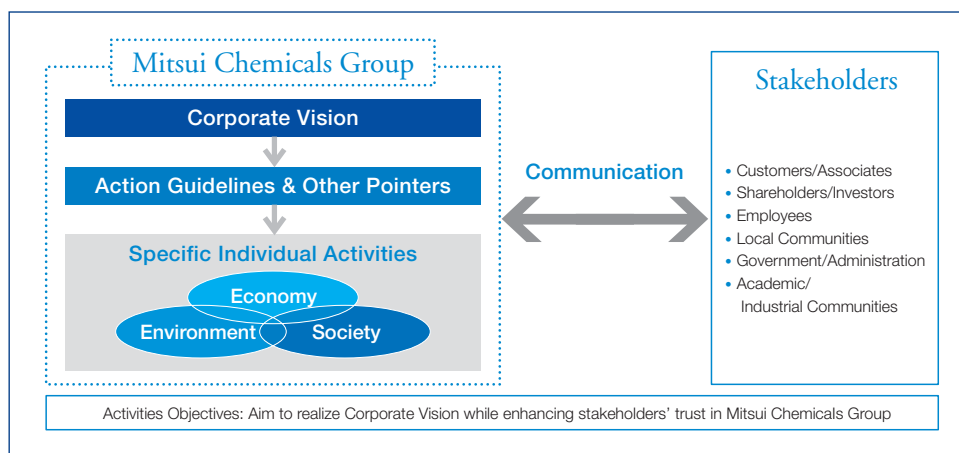
## -Social contribution

Steps will be taken to further enhance activities that contribute to local communities where our sites are located, as well as academic programs such as the 2nd Mitsui Chemicals International Symposium on Catalysis Science (MICS2005) and Mitsui Chemicals Catalysis Science Award.



The prize-giving ceremony for “Mitsui Chemicals Catalysis Science Award” at MICS2005

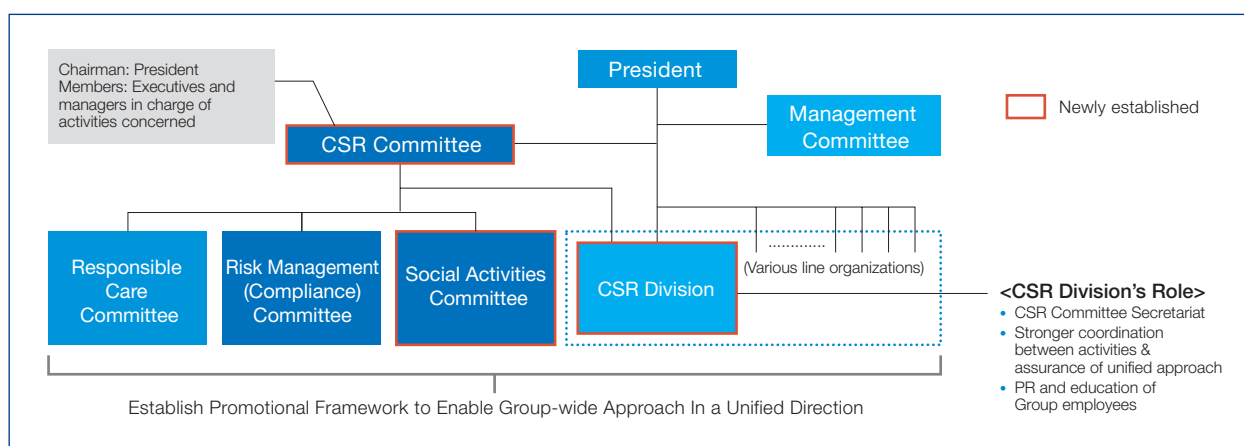
**Fig. 02** MITSUI CHEMICALS GROUP'S ACTIVITIES RELATING TO CSR



To realize these goals, we established a CSR Committee in June 2005 to oversee the Responsible Care Committee, the Risk Management Committee, and the Social Activities Committee. A CSR Division was also set up to strengthen collaboration among various CSR activities, create a more integrated approach, and raise understanding and awareness among Group employees. (Fig. 3)

As evident from the above, Mitsui Chemicals will strive to create a more integrated approach group-wide to further its ongoing efforts in CSR. In doing so, we will heed the voices of all stakeholders and make a greater contribution to society.

**Fig. 03** FRAMEWORK FOR PROMOTING CSR



# At a Glance

Core Business



## Functional Chemicals & Engineered Materials

- Functional Fabricated Products
- Electronics Materials
- Information Materials
- Agrochemicals
- Fine & Performance Chemicals



## Functional Polymeric Materials

- Elastomers
- Performance Polymers
- Specialty Resins
- Urethane Chemicals



## Basic Chemicals

- Fiber Intermediates
- PET Resin
- Phenols
- Industrial Chemicals



## Petrochemicals

- Petrochemical Feedstocks
- Polyethylene
- Polypropylene
- Licensing

## Others

- Engineering, warehousing,  
freight transportation and others

Main Products

Net Sales  
(Millions of yen)

Operating Income  
(Millions of yen)

Capital Expenditures/  
Depreciation and Amortization  
(Millions of yen)

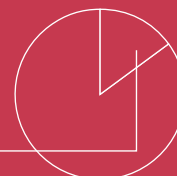


# Review of Operations

## Functional Chemicals & Engineered Materials Business Group

SHARE OF NET SALES

14.9%



### SUMMARY

The MT-Plan, launched in Fiscal 2005, calls for the expansion and growth of Performance Materials, which includes Functional Chemicals & Engineered Materials. For the fiscal year ended March 2005, Functional Chemicals & Engineered Materials posted operating income of ¥9.1 billion, down ¥3.7 billion year on year. Mitsui Chemicals will accelerate expansion and growth in Functional Chemicals & Engineered Materials by implementing long-term measures based on “selection and focus.”

### RESULTS FOR FISCAL 2005

For the fiscal year ended March 31, 2005, the Functional Chemicals and Engineered Materials Business Group posted favorable sales in vision care business, centered on high refractive-index optical plastic lens materials, agrochemicals business such as insecticides, and hygiene materials business centered on nonwoven fabrics for diapers. Sales of the display materials business also recorded an increase, despite the effects of falling prices for plasma display panels. However, sales of the semiconductor materials business declined due to production cutbacks in semiconductor and liquid crystal display (LCD) markets. Fine chemicals continued to face a difficult operating environment, compounded by lower sales volume due to withdrawal from unprofitable businesses and decisions by customers to exit certain fields.

As a result of the above, the Functional Chemicals & Engineered Materials segment posted net sales of ¥183.4 billion, up ¥3.1 billion year on year, and operating income of ¥9.1 billion, down ¥3.7 billion.



### KOICHI TOMINAGA

Business Group President  
Functional Chemicals & Engineered  
Materials Business Group

### FUNCTIONAL CHEMICALS & ENGINEERED MATERIALS BUSINESS GROUP

- Planning & Coordination Div.
- Functional Fabricated Products Div.
- Electronics Materials Div.
- Information Materials Div.
- Agrochemicals Div.
- Fine & Performance Chemicals Div.



NEOFLEX™ all polyimide flexible laminates



Optical filters for plasma display panels

### MEASURES TO ATTAIN MT-PLAN TARGETS

Information & Electronics Materials and Healthcare Materials are the two main areas in the Functional Chemicals & Engineered Materials Business Group. The segment is concentrating management resources in these areas to achieve further business expansion and sales growth. Specifically, the segment aims to:

- Expand existing core businesses through enhanced sales promotion of highly competitive products and expansion of products.
- Develop new products based on the concepts of “materials innovation” and “technology creation” to form next-generation core businesses.
- Develop businesses ahead of customer needs by sharing development roadmaps with leading customers at the cutting-edge of their respective product markets.
- Enhance global development.

### Information and Electronics Materials

Mitsui Chemicals possesses exceptional core technologies—namely, technologies for polymer science, optical performance design, lamination and adhesion design, specialty gas synthesis, and clean rooms. The company is working to bolster profitability primarily in globally competitive businesses that are supported by these technologies.

The segment is taking major steps to strengthen production capacity in this field with the construction of a number of new manufacturing facilities (completion dates and output increases in parentheses): NF3, a cleaning gas used in semiconductor manufacturing processes (May 2005; from 600 to 900 tons); CCD packages (February 2004, capacity increased by 40%); and NEOFLEX™, an all-polyimide flexible laminate (August 2004; from 600 thousand m<sup>2</sup> to 1,500 thousand m<sup>2</sup>). The segment also began production of PDP optical filters in Europe in July 2004 and plans to complete a new facility for solar cell encapsulation sheets in March 2006, expanding output from 5,200 to 9,200 tons.

New products include polyimide flexible laminate, which was launched in August and boasts world-leading heat resistance and flexibility, Super Silver Reflector, a high-luminescent reflector for LCD backlights on sale since April 2004, and FILFINE™, a film-type PDP optical filter introduced in April 2005. Based on its technological capabilities rooted in chemistry, the Group is devoting energies to developing next-generation core products in the areas of imaging materials, such as thermal CTP plates for wet offset presses that do not require developing, optical circuit materials, and energy-related materials.



 Nonwoven fabrics for diapers



 Optical plastic lenses

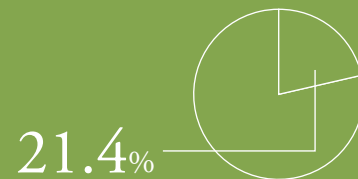
### Healthcare Materials

Mitsui Chemicals is working to boost revenues in its three existing core businesses in this field—hygiene materials like nonwoven fabrics, vision care materials, and agrochemicals. Measures to boost production include a new facility for high refractive-index optical plastic lens materials completed in November 2004, and the scheduled start of production of hygiene breathable films in Thailand in January 2006. This will increase output of this product by 6 thousand tons annually. The segment is also considering plans to increase the production of nonwoven fabrics for hygiene purposes in Thailand from 14 thousand to 34 thousand tons by 2007.

New Healthcare Materials products include optical plastic lenses with a refractive index of 1.70, launched in April 2005. In agrochemicals, five new products, including the insecticide Starkle™ (dinotefuran) for aerial spraying, were launched in 2004 in Japan. Dinotefuran was registered in 2005 in the U.S., paving the way for its launch in the U.S. market. MTF-753, a new fungicide, is also under development and we anticipate submission for registration in 2006 in Japan. In addition to amino acid derivatives, diagnostic pharmaceuticals, and medical intermediates such as deoxynucleosides, raw materials for antisense drugs, the company is devoting efforts to develop next-generation products in the area of personal care business, such as raw materials for cosmetics and dental materials.

## Functional Polymeric Materials Business Group

SHARE OF NET SALES



### SUMMARY

In the fiscal year ended March 31, 2005, the Functional Polymeric Materials Business Group posted ¥8.5 billion in operating income, up ¥3.5 billion year on year. Despite this favorable result, overall, the Performance Materials Sector, including Functional Chemicals & Engineered Materials, lagged behind in expansion and growth. To overcome this setback, Mitsui Chemicals concentrated its management resources in functional polymers and their high-performance products, which exploit the company's technology in polymer science, based on its expertise in organic synthesis technologies and catalysis science. These fields will be central to the expansion and growth of Performance Materials in line with the MT-Plan.

### RESULTS FOR FISCAL 2005

Supported by a strong demand for products related to automobiles, packaging, and IT, elastomers including ethylene-propylene-diene terpolymers (EPT) and alpha-olefinic copolymers, specialty resins such as methylpentene copolymers (TPX™), and additive materials including polyolefin wax and aliphatic petroleum resins, all performed well. In paper strengthening agents and plastics for coating resins, demand was strong for data-recording grades of paper, but sales of coating materials declined due to lower sales volumes of products for mobile phones. Meanwhile, sales revenue of urethane raw materials and resins such as tolylene diisocyanate (TDI) and diphenylmethane diisocyanate (MDI) increased on the back of higher prices and increased sales volume.

As a result of the above, for the fiscal year ended March 2005, the segment posted net sales of ¥262.9 billion, up ¥29.8 billion year on year, and operating income of ¥8.5 billion, up ¥3.5 billion.

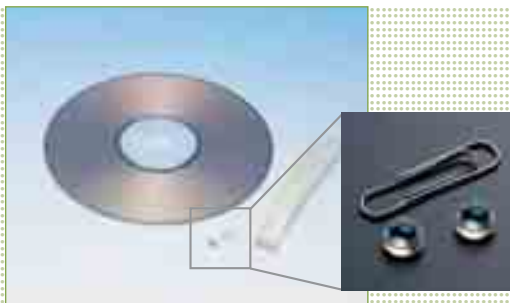


**NOBUTAKA KUWABARA**  
Business Group President  
Functional Polymeric Materials  
Business Group

### FUNCTIONAL POLYMERIC MATERIALS BUSINESS GROUP

- Planning & Coordination Div.
- Elastomers Div.
- Performance Polymers Div.
- Specialty Resins Div.  
(Mitsui Takeda Chemicals, Inc.)
- Polymer Business Development Div.

A car interior utilizing elastomers



APEL™ used for pick-up lens of DVD recorders

### MEASURES TO ATTAIN MT-PLAN TARGETS

The Functional Polymeric Materials Business Group specializes in the following:

- Functional olefin polymers, especially elastomers and performance polyolefin
- Tailor-made polymer systems such as urethane resins
- Unique polymers such as aromatic polyamides and thermoplastic polyimides

All these products have established an important position in their respective markets and function as the mainstay of the company's profitability.

Mitsui Chemicals has fully grasped market needs in these fields. Based on this understanding, we will concentrate management resources in functional polymers and their high-performance products, which represent the company's greatest strengths. By implementing concerted measures to enhance their competitiveness, we are aiming to compensate for our late start in Performance Materials, with the ultimate goal of positioning them as the driving force for future business expansion.

The following describes the new products we have introduced and specific steps taken to enhance the segment's competitiveness.

#### Functional Olefin Polymers

As part of efforts to boost production, in July 2005, Mitsui Chemicals increased annual production capacity of TPX™ from 7 thousand to 13 thousand tons. TPX™ is a high-performance polyolefin characterized by

superior heat-resistance and releasability. Demand has recently been growing dramatically due to market expansion in release films for flexible printed circuit boards and products related to information electronic devices such as light-emitting diodes (LED). The company increased production capacity in order to respond to this increase in demand.

In addition, the company is constructing a facility, to be completed in November 2005, to boost output of cycloolefin copolymer APEL™ from 2,800 to 3,400 tons. This expansion is in response to a sharp increase in demand for products related to information electronic devices such as optical pick-ups for DVD recorders, the main application of cycloolefin copolymers. The company is looking into further expansion, with plans on the table to build a large-scale facility scheduled to come onstream in 2008.

Demand for the ethylene-propylene-diene terpolymer called Mitsui EPT, is also expanding on a global scale, mainly for automotive applications. To accommodate this demand, the segment is considering the construction of a new plant with an annual production capacity of 75 thousand tons slated for Fiscal 2007.

In new products, a plant with a production capacity of 9 thousand tons was opened for metallocene-catalyzed performance PE wax EXCEREX™, with sales beginning in October 2004. EXCEREX™ is suitable for a wide range of applications such as processability improver/modifier for resin, filler dispersant, oil hardener,

Automotive cushions using urethane



Products made from bio-based polymer LACEA™

precision-casting mold material, printing and typing material, and construction material. EXCEREX™ meets diverse customer needs, which have been difficult to fulfill with conventional polyethylene wax.

In elastomers, in April 2005, Mitsui Chemicals launched TAFMER™ XM series, a propylene-based functional elastomer made with metallocene catalysts and featuring excellent homogeneity for use as a high-performance resin modifier. Moreover, in November 2005, the company plans to introduce NOTIO™, an alpha-olefin-based elastomer, which has its crystalline structure controlled on a nano level by leveraging the characteristics of metallocene catalysts. NOTIO™ has achieved a better performance balance in respect to transparency, heat-resistance (70°C higher at the softening point), flexibility and rubber elasticity, which has been difficult to achieve with conventional elastomers. In addition to modifier applications, NOTIO™ is used as the main material in a widening range of applications such as protection films in the electronic and optical parts field, as well as for a whole variety of sealing materials.

#### Tailor-made Polymer Systems

The production facility for LC-STRUCTBOND™, used as a sealant for liquid crystal displays (LCDs), was completed in January 2005 in preparation for the launch of new UV curbing-type products.

#### Unique Polymers

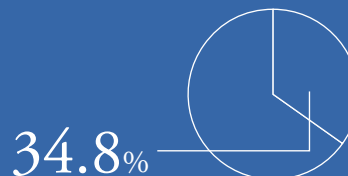
Mitsui Chemicals is the only company in the world that manufactures thermoplastic polyimides, a super engineering plastic boasting superior resistance to heat and abrasion, cleanliness, and processability. These features are exploited in automotive parts, aircraft engine parts, and process materials for semiconductor manufacturing. In April 2005, the company launched AURUM™CNT Grade, an innovative product developed using carbon nanotubes. This product emits very low levels of dust and offers superior antistatic properties. It also has potential in a wide range of new applications, such as hard disk drive components, hard disk manufacturing tools, and other electronic components.

#### Polymer Business Development Division

In June 2004, LACEA™ (polylactic acid resin) a bio-based plastic, was approved as a resin for food packaging materials by the Japan Hygienic Olefin and Styrene Plastics Association, heralding the way for further market expansion. Polylactic acid resins are an eco-friendly material made from recyclable raw materials derived from plants. These resins help conserve fossil fuel resources and reduce carbon dioxide emissions. LACEA™ promises to play an important role in providing basic materials for a sustainable economic society.

## Basic Chemicals Business Group

SHARE OF NET SALES



### SUMMARY

In the fiscal year ended March 31, 2005, the Basic Chemicals Business Group faced an extremely challenging operating environment created by soaring raw material and fuel prices. Nevertheless, Mitsui Chemicals responded quickly, implementing a series of countermeasures. As a result, the segment posted operating income of ¥36.0 billion, up ¥14.9 billion year on year. This illustrates that the segment has fulfilled its central role in boosting the company's profitability and succeeded in playing an important role as the basis of competitiveness to meet the targets set out in the MT-Plan. Going forward, the segment will continue to boost its competitiveness in areas such as raw materials procurement and supply chain optimization, and expand its operations in Asia, particularly in China.

### RESULTS FOR FISCAL 2005

Owing to enormous demand from Asia, particularly China, and higher product prices reflecting rapidly rising raw material prices, the year-on-year increase in sales of purified terephthalic acid (PTA), phenol, bisphenol A (BPA), ethylene oxide (EO), ethylene glycol (EG) and their derivatives ranged from 7% to 49%. Sales of polyethylene terephthalate (PET) resin also grew, due to higher demand for PET bottles triggered by the hot summer in Japan and other factors.

As a result of the above, combined with efforts to reform the corporate structure based on "selection and focus", the segment posted net sales of ¥427.2 billion, up ¥91.2 billion, and operating income of ¥36.0 billion, an increase of ¥14.9 billion.



### TOSHIYUKI TANAKA

Business Group President  
Basic Chemicals Business Group

### BASIC CHEMICALS BUSINESS GROUP

- Planning & Coordination Div.
- Fiber Intermediates Div.
- PET Resin Div.
- Phenols Div.
- Industrial Chemicals Div.



Polyester fibers with PTA  
as the raw material



PET resin for bottles



### MEASURES TO ATTAIN MT-PLAN TARGETS

As part of the Petrochemicals & Basic Chemicals Sector, the basis of Mitsui Chemicals' competitiveness, the Basic Chemicals Business Group is striving to win new demand in the growing Asian market centered on aroma chain products (e.g. PTA, PET resins, phenols and BPA) targeted to increase earnings. Aiming to secure and grow sales over the long term in this way, the segment is either planning or implementing measures to boost output at suitable manufacturing locations. Enhancing its ability to source aromatic raw materials underpins these efforts.

The following are the specific initiatives being taken.

#### PTA

Demand in Asia for PTA totaled approximately 22,000 thousand tons in 2004. Annual growth going forward is anticipated to remain strong, led by China. Mitsui Chemicals is working to enhance its overseas production sites to steadily corner this growing demand, constructing the third PTA plant in Thailand. Boasting an annual production capacity of 500 thousand tons and scheduled to come onstream in October 2005, this plant will increase the Group's annual production capacity for PTA to 2,600 thousand tons (750 thousand tons in Japan, 1,400 thousand tons in Thailand, and 450 thousand tons in Indonesia). This move will strengthen Mitsui Chemicals' presence as one of Asia's largest suppliers. With its sights set on the growing Chinese market, Mitsui Chemicals has also submitted an application to the Chinese government for

investment approval to build a 600 thousand-ton capacity plant in Zhangjiagang in Jiangsu Province.

#### PET Resin

Demand in Asia for PET resin was 2,440 thousand tons in 2004, and is anticipated to grow at an annual rate of nearly 10% going forward. In order to readily take advantage of this growing demand, Mitsui Chemicals began operations at a 100 thousand-ton facility in Thailand in April 2004. Currently, the plant is operating at full capacity. With this new site, the company's annual output for PET resin totals 330 thousand tons (150 thousand tons in Japan, 100 thousand tons in Thailand, and 80 thousand tons in Indonesia), and is accelerating revenue growth on the back of synergies with the PTA business, which is a raw material for PET resin.

#### Phenol and BPA

Led by China, there has been sustained and rapid growth in Asian demand for phenol and BPA. The annual growth rate is projected to be over 9% and 11% for phenol and BPA, respectively. Mitsui Chemicals has made timely reinforcements to its Singapore facility to make sure it takes advantage of this growing demand. Annual production capacity in 2005 for phenol was 750 thousand tons (500 thousand tons in Japan and 250 thousand tons in Singapore), and 440 thousand tons for BPA (210 thousand tons in Japan and 230 thousand tons in Singapore). As the largest supplier in Asia,

Compact discs with phenol and BPA as raw materials



Cumene plant in Osaka Works



this will ensure that the Group maintains its top market shares of 21% and 39% for phenol and BPA, respectively. To further reinforce this position, the Group is currently conducting a feasibility study after concluding a letter of intent for an alliance with Sinopec Corp. This alliance will see the construction of a new BPA facility in China. The facility will have an annual capacity of 120 thousand tons and is scheduled to come onstream in 2007. Mitsui Chemicals also aims to increase phenol production in Japan by between 30 thousand and 50 thousand tons, and in Singapore by between 50 thousand and 100 thousand tons, by 2006. A next-generation phenol plant with a capacity of 300 thousand tons is also under consideration.

#### ENHANCING EFFORTS TO SECURE AROMATIC RAW MATERIALS

In October 2004, Mitsui Chemicals boosted output of cumene, a raw material for phenol, from 100 thousand to 280 thousand tons at its Osaka Plant. All cumene supplied by Mitsui Chemicals is now produced entirely in-house. In addition, the company is aiming to secure competitive aromatic materials such as benzene, xylene, and toluene by teaming up with partners among petroleum refining companies. Specifically, on September 30, 2004, Mitsui Chemicals forged an agreement with Idemitsu Kosan Co., Ltd. and Sumitomo Chemical Co., Ltd. to restart operations at Idemitsu Kosan's 250 thousand-ton Light Naphtha Reformer plant by mid-2006. Under the agreement, Mitsui Chemicals will receive 125 thousand tons of benzene annually.



## Petrochemicals Business Group

SHARE OF NET SALES



### SUMMARY

In the fiscal year ended March 31, 2005, the Petrochemicals Business Group faced an extremely challenging operating environment created by soaring raw material and fuel prices. Nevertheless, Mitsui Chemicals responded quickly, implementing a series of countermeasures. As a result, the segment posted operating income of ¥25.4 billion, up ¥12.2 billion year on year. This illustrates that the segment has fulfilled its central role in boosting the company's profitability and succeeded in playing an important role as the basis of competitiveness to meet the targets set out in the MT-Plan. Going forward, the segment will continue to boost its competitiveness in areas such as materials procurement and supply chain optimization, ensure the smooth operations of Prime Polymer Co., Ltd., generate synergies, and expand its operations in four major global markets for polypropylene (PP) compounds for automobile materials, particularly in China.

### RESULTS FOR FISCAL 2005

Owing to enormous demand increase in Asia, particularly China, and higher product prices reflecting rapidly rising raw material prices, the petrochemical segment posted year-on-year increases in production volume, sales volume, and revenues. Production of ethylene grew 4% year on year because no scheduled maintenance turnaround was carried out (a thorough maintenance turnaround is performed at Ichihara Works every other year), while production of propylene grew 16%, due to the start of operations at a new plant at Osaka Works. Higher sales volume and prices helped to increase sales revenue of polyethylene and polypropylene (PP), rising 17% and 14%, respectively.

As a result of the above, for the fiscal year ended March 31, 2005, the segment posted net sales of ¥316.6 billion, up ¥17.8 billion, and operating income of ¥25.4 billion, up ¥12.2 billion.



#### KEIICHI SANO

Business Group President  
Petrochemicals Business Group

#### PETROCHEMICALS BUSINESS GROUP

- Planning & Coordination Div.
- Petrochemical Feedstocks Div.
- Styrenics Div.
- Licensing Div.
- (Prime Polymer Co., Ltd.)



Olefin conversion unit  
in Osaka Works

### MEASURES TO ATTAIN MT-PLAN TARGETS

As part of the Petrochemicals & Basic Chemicals Sector, the basis of Mitsui Chemicals' competitiveness, the Petrochemicals Business Group has taken various initiatives to realize even greater profitability. Specifically, the segment is promoting measures to transform Osaka Works into a propylene center, implementing structural reforms in the polyolefin business to differentiate its PP operations, and diversifying cracker feedstock.

#### Propylene Center Completed at Osaka Works

The production of ethane-based ethylene and its derivatives is expected to continually grow, particularly in the Middle East. However, because it is difficult to ensure the cost competitiveness of these naphtha-based products, the Mitsui Chemicals Group made the decision to focus on propylene-based derivatives.

Through a scrap and build strategy, the Group has decommissioned old PP plants and consolidated production at Osaka Works by constructing a new cost competitive facility with an annual production capacity of 300 thousand tons. The facility came onstream in April 2004. Mitsui Chemicals also established an olefin conversion unit (OCU) at Osaka Works to increase production of propylene, the raw material for PP. The OCU has increased propylene production by 140 thousand tons, from 280 thousand tons to 420 thousand tons annually by improving the ratio of propylene formed during naphtha cracking. With this, the Group succeeded in

transforming the ethylene center into a propylene center. Mitsui Chemicals is also currently implementing plans to build an OCU at Ichihara Works.


#### Structural Reforms in the Polyolefin Business to Differentiate PP Operations

##### (1) Joint Venture Prime Polymer Established With Idemitsu Petrochemical Co., Ltd.


To boost profitability of polyolefin, including PP compounds for automotive materials, a new company was established in April 2005 that integrates the polyolefin businesses of Mitsui Chemicals and Idemitsu Petrochemical. The following is the profile of the new company.

- a. Paid-in capital (% share): ¥20 billion (Mitsui: 65%; Idemitsu: 35%)
- b. Total assets: ¥150 billion
- c. Number of employees: 900
- d. Net sales (target for Fiscal 2006): ¥290 billion
- e. Production capacity: PP: 1,360 thousand tons/year; PE: 714 thousand tons/year

The new company will strategically integrate all aspects of production, sales, and research in the polyolefin businesses operated by the two companies across the globe. Along with business expansion, the company aims to create synergies worth more than ¥10 billion annually by Fiscal 2009.

 A signing ceremony for the merger of Mitsui Chemicals' and Idemitsu Group's polyolefin business



 Mitsui Advanced Composites (Zhongshan) Co., Ltd.

### (2) Accelerating Expansion of PP Compounds for Automotive Materials in Asia

As a means of differentiating its PP operations to strengthen competitiveness, Mitsui Chemicals is accelerating the global development of its PP compounds for automotive materials, which must deliver high levels of quality. Specifically, the company will strengthen its global supply system focused on four key markets. This system comprises the company's presence in Japan (Mitsui Chemicals, Inc.), North America (Advanced Composites, Inc.), Europe (Mitsui Chemicals Europe GmbH) and Asia (Grand Siam Composites Co., Ltd. in Thailand). Mitsui Chemicals is giving particular focus to the Asian region, where rapid growth is projected. Accordingly, the company increased the annual production in Thailand by 8 thousand tons on two occasions—in August 2004 and June 2005. In addition, the company established a new production site (Mitsui Advanced Composites (Zhongshan) Co., Ltd.) in April 2004 in southern China (Zhongshan, Guangdong Province). This new company, with an annual capacity of 15 thousand tons, began operations in July 2005.

(3) Initiatives for Diversification of Cracker Feedstock Supply and demand for naphtha are expected to be tight for the time being, given increased demand for petrochemical derivatives, led by China. The continually high price of naphtha is having a substantial impact on the

company's financial performance, particularly since Mitsui Chemicals purchases approximately 5,600 thousand kiloliters of naphtha annually as a raw material. In order to minimize this impact, Mitsui Chemicals is working to diversify the types of oil it procures, the regions where procurement takes place, and the types of contracts it has with suppliers. In particular, the company is looking into using gas oil and kerosene, which was given tax-exempt status under reforms to the tax system in Japan in 2004. Moreover, since November 2004, the company has begun joint shipping of imported naphtha with Idemitsu Kosan Co., Ltd. under a comprehensive business agreement. Through collaboration with Idemitsu Kosan, the company is also considering diversification of other cracker feedstock.

# Research & Development at Mitsui Chemicals

## MISSION AND GOALS OF R&D

Mitsui Chemicals' R&D strives to fulfill the mission of "becoming the driving force to boost Mitsui Chemicals Group's growth by obtaining and maintaining superior levels of R&D competitive in each business segment." Therefore, the company sets the following goals in the Performance Materials and Petrochemicals & Basic Chemicals Sectors.

## IMPROVING EFFICIENCY AND SPEED OF R&D ACTIVITIES BY REINFORCING CROSS-ORGANIZATIONAL FUNCTIONS

To realize the goals set out above, the company restructured the R&D organization, which consists of Business Group Research Labs and Corporate Research Labs. In particular, the following measures are being taken to

reinforce cross-organizational functions, thereby increasing the speed and efficiency of R&D activities.

### 1. Framework for Implementing R&D

#### (1) Establishment of a Strategic Research Unit

In order to maximize the efficiency and speed of R&D activities in the development of new products and technologies, a Strategic Research Unit (SRU) was established as part of Mitsui Chemicals' R&D organization. Currently, the unit is undertaking six projects, including high-activity and high-selectivity molecular catalysts, new materials using nanotechnology, new processing technologies, and new technologies such as micro-reactors.

**Fig. 01** MISSION AND GOALS OF R&D

### Mission

Become the driving force to boost Mitsui Chemicals Group's growth by obtaining and maintaining superior levels of R&D competitive in each business segment.

### Goal

#### Performance Materials Sector:

Contribute to boosting revenues by speeding up the creation of next-generation products and expanding and fostering the growth of the company's core business products.

#### Petrochemicals & Basic Chemicals Sector:

Contribute to boosting revenues by strengthening the production technology of core businesses.

### (2) Cross-organizational Meetings on R&D

Previously, meetings to comprehensively discuss the objectives and methods of R&D activities were conducted independently by each laboratory. Under the new organization, these meetings are organized by product type to take a more cross-organizational approach to R&D activities.

### (3) Technology Platform (TP)

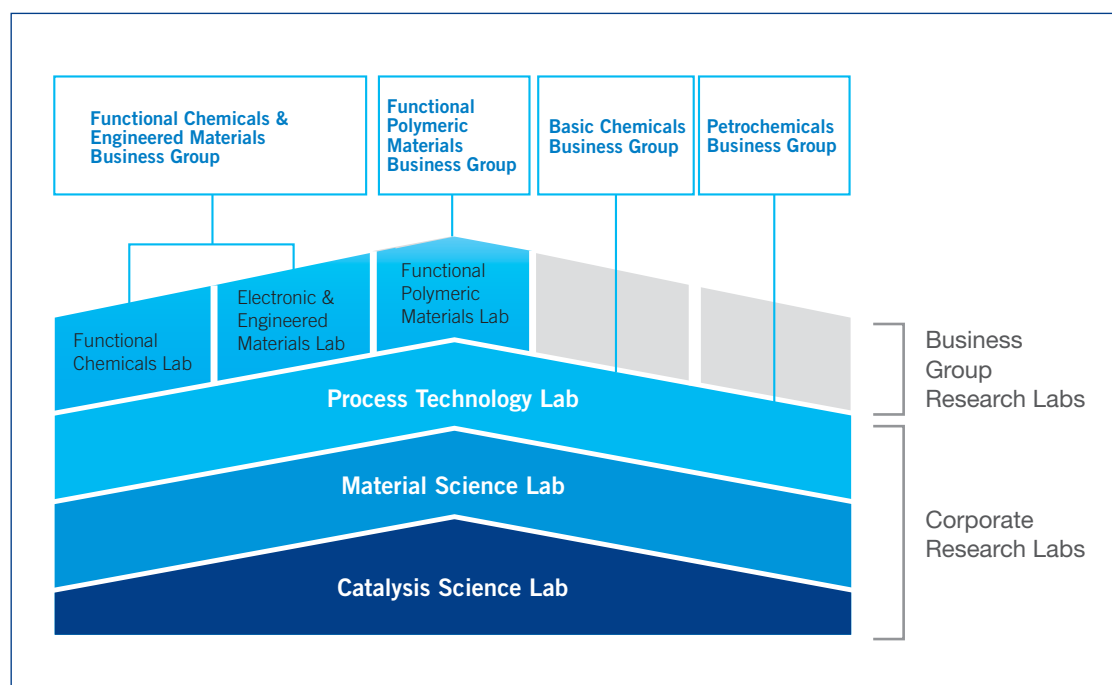
To develop technologies with a competitive advantage, 13 technology platforms (TP) have been established specializing in the four fields of “design and manufacture,” “process technologies,” “processing,” and “application.” From 2004, Mitsui Chemicals added the fields of “adhesion” and “mass transfer

control” to provide technologies tailored to each function and product.

### 2. Constructing a Global Science Network

As part of efforts to promote cooperation between industry and academia, Mitsui Chemicals has established Mitsui Chemicals Technology Forums in four fields: comprising catalysis science, polymer science, nano-materials, and information and electronics materials. Through these events, the company invites professors engaged in cutting-edge research in Japan and abroad as advisors who are asked to improve and objectively evaluate the competence of Mitsui Chemicals’ proprietary technologies. The forums are also aimed at accelerating the development of next-generation

**Fig. 02 R&D ORGANIZATION AT MITSUI CHEMICALS**



technologies by promoting industry-academia partnerships. Currently, Mitsui Chemicals works with 17 advisors in the above four fields.

Mitsui Chemicals has also been in partnership with Professor Jean-Marie Lehn of Université Louis Pasteur in France and Professor Jun Okuda of RWTH Aachen University in Germany. Sending of researchers is one element of these partnerships.

In Asia, Mitsui Chemicals has started a collaborative research project with A\*Star, the Agency for Science, Technology and Research in Singapore.

### 3. Sharing Knowledge at Sodegaura Center, a Forum for Collaboration and Creation

With the cooperation of Professor Jean-Marie Lehn, in November 2004, Mitsui Chemicals held the first Mitsui

Chemicals Symposium overseas on advanced materials at Institut de Science et d'Ingénierie Supramoléculaires (ISIS) of Université Louis Pasteur (ULP) in France.

In addition, in March 2005, the company invited Professor K. Barry Sharpless, the 2001 Nobel Prize Winner in Chemistry from the Scripps Research Institute in the United States, to be a plenary lecturer at the 2nd Mitsui Chemicals International Symposium on Catalysis Science (MICS2005).

Finally, Mitsui Chemicals has established the "Mitsui Chemicals Catalysis Science Award" to recognize researchers who have made distinguished achievements in catalysis science. The winners of the 1st Mitsui Chemicals Catalysis Science Award were Professor Eric N. Jacobsen of Harvard University in the United States and Professor Shu Kobayashi of The University of Tokyo.



Mitsui Chemicals symposium on advanced materials was held at ISIS-ULP

The 2nd Mitsui Chemicals International Symposium on Catalysis Science (MICS2005)



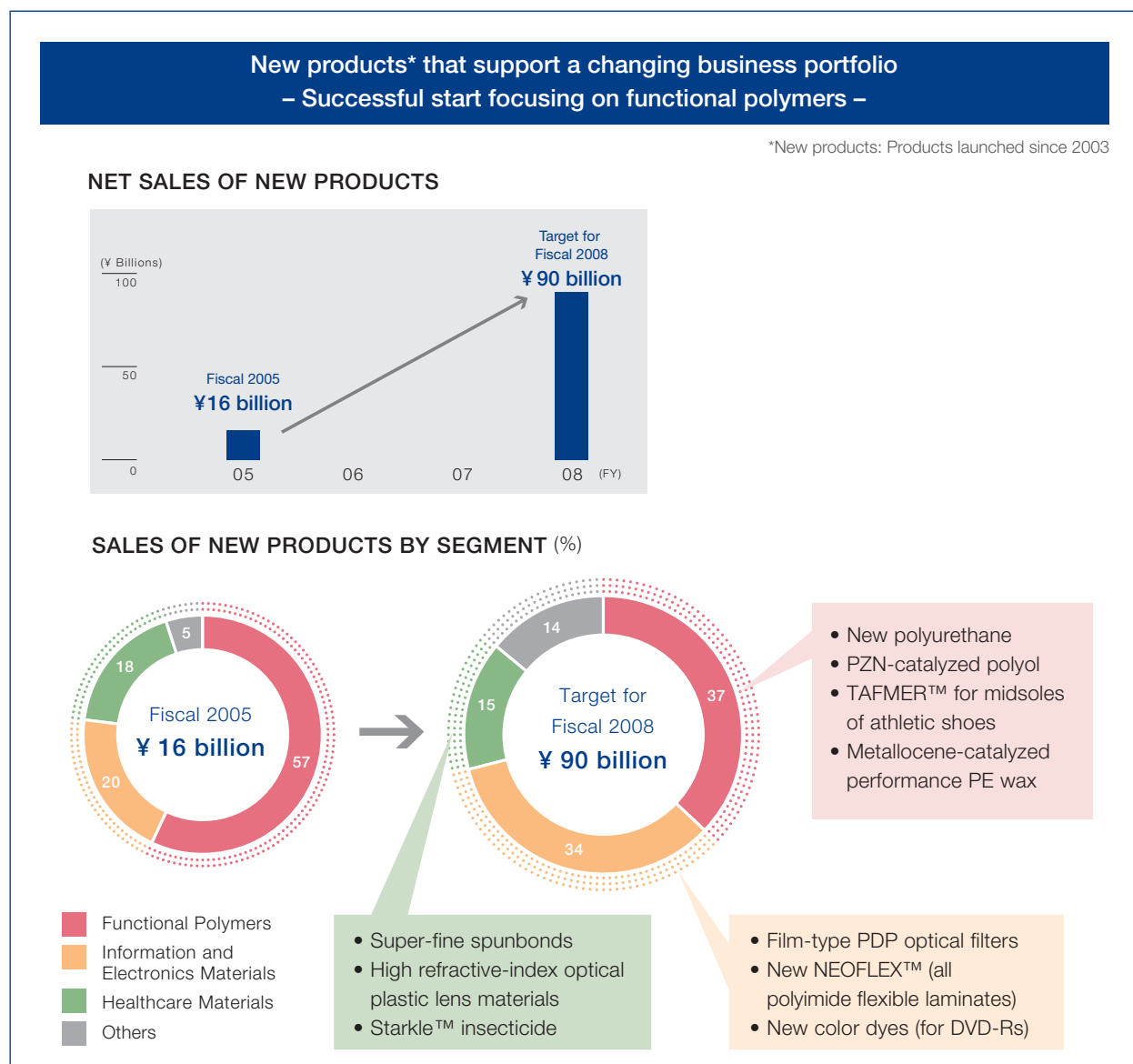
Professor K. B. Sharpless (Scripps Research Institute, U. S.) gives a plenary lecture

## DEVELOPING AND EXPANDING NEW PRODUCTS

Mitsui Chemicals strives to develop and expand new products in the fields of Functional Polymers, Information and Electronics Materials, and Healthcare Materials, all of which are part of the Performance Materials Sector.

In Fiscal 2005, the first year of the MT-Plan, net sales of new products (launched since 2003) amounted to ¥16 billion. This marked a good start for the company's ongoing efforts to fulfill the plan target of ¥90 billion in net sales generated by new products by Fiscal 2008, with Functional Polymers playing a central role.

**Fig. 03 PLANS TO EXPAND NEW PRODUCTS**





# Board of Directors

(As of June 28, 2005)

<b>Chairman</b>	<b>Hiroyuki Nakanishi</b>	
<b>President</b>	<b>Kenji Fujiyoshi</b>	
<b>Executive Vice Presidents</b>	<b>Koichi Tominaga</b>	[Assistant to the President: Functional Chemicals & Engineered Materials Business Group, Functional Polymeric Materials Business Group, Polymer Business Development Division, New Automotive Materials Development Division and Branch Offices] Business Group President, Functional Chemicals & Engineered Materials Business Group
	<b>Toshikazu Tanaka</b>	[Assistant to the President: Basic Chemicals Business Group, Petrochemicals Business Group and Planning Division - Greater China] Business Group President, Basic Chemicals Business Group
<b>Senior Managing Directors</b>	<b>Shinji Tanikawa</b>	[Corporate Administration Division, Legal Division, Executive Offices, Corporate Communications Division (Public Relations), Human Resources & Employee Relations Division and CSR Division]
	<b>Akihiro Yamaguchi</b>	[R&D Center and Intellectual Property Division] Center Executive, R&D Center
	<b>Yoshiyuki Shinohara</b>	[Production & Technology Center, Purchasing Division, Logistics Division and Information Technology Planning Division] Center Executive, Production & Technology Center
<b>Managing Directors</b>	<b>Nobutaka Kuwabara</b>	Business Group President, Functional Polymeric Materials Business Group
	<b>Keichi Sano</b>	Business Group President, Petrochemicals Business Group
	<b>Hirokazu Kajiu</b>	[Corporate Planning Division, Affiliates Management Planning & Coordination Division, Mitsui Chemicals America, Inc., Mitsui Chemicals Europe GmbH, and Mitsui Chemicals Singapore, Ltd.]
	<b>Koichi Sano</b>	[Management Accounting Division, Finance & Accounting Division, Management Audit Division and Corporate Communications Division (IR)]



**Left:**  
**Hiroyuki Nakanishi**  
Chairman

**Right:**  
**Kenji Fujiyoshi**  
President



# 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)	2005	2004	2003
Net sales	¥1,227,547	¥1,089,518	¥1,053,182
Cost of sales	968,230	861,965	823,523
SG&A	178,826	173,611	173,201
Operating income	80,491	53,942	56,458
Other income (expenses)	(25,839)	(31,708)	(17,496)
Income before income taxes, minority interests and equity in earnings of non-consolidated subsidiaries and affiliates	—	—	—
Income before income taxes and minority interests	54,652	22,234	38,962
Income taxes	23,053	7,923	13,465
Income before minority interests and equity in earnings of non-consolidated subsidiaries and affiliates	—	—	—
Income before minority interests	31,599	14,311	25,497
Equity in earnings of non-consolidated subsidiaries and affiliates	—	—	—
Net income	26,192	12,466	20,320
Total current assets	497,287	440,517	445,239
Property, plant and equipment, net	520,886	548,799	580,830
Total investments and other non-current assets	187,012	199,150	199,125
Total assets	1,205,185	1,188,466	1,225,194
Total current liabilities	440,566	440,869	451,613
Total long-term liabilities	313,389	325,342	359,638
Total stockholders' equity	405,773	383,365	370,738
Depreciation and amortization	56,770	56,101	56,850
Capital expenditures	47,135	45,722	68,753
R&D expenses	34,881	32,894	37,114
Return on sales	2.13%	1.14%	1.93%
Return on equity	6.64%	3.31%	5.51%
Return (operating income) on assets	6.73%	4.47%	4.48%
Net income per share (basic)	¥ 33.26	¥ 15.78	¥ 25.72
Net income per share (diluted)	—	—	¥ 25.47
Cash dividends per share	¥ 7.00	¥ 6.00	¥ 6.00

## Reported Basis

## Restated Basis

Reported Basis					Restated Basis			
2002	2001	2000	1999	1998	1998	1997	1996	1995
¥ 952,680	¥ 939,782	¥ 884,246	¥ 855,942	¥ 681,234	¥ 927,688	¥ 899,896	¥ 909,843	¥ 856,747
730,059	720,524	659,327	632,036	532,414	721,409	690,208	686,466	647,131
180,239	164,746	169,180	165,680	110,497	157,010	163,501	165,134	164,813
42,382	54,512	55,739	58,226	38,323	49,269	46,187	58,243	44,801
(32,142)	(26,118)	(29,603)	(36,099)	(14,334)	(20,063)	(17,103)	(27,189)	(24,868)
-	-	-	-	-	-	29,084	31,054	19,933
10,240	28,394	26,136	22,127	23,989	29,206	-	-	-
1,830	10,523	8,182	12,674	11,290	14,963	14,879	19,431	14,628
-	-	-	-	-	-	14,205	11,623	5,305
8,410	17,871	17,954	9,453	12,699	14,243	-	-	-
-	-	-	-	-	-	779	1,940	555
7,651	17,068	16,042	7,739	11,702	13,010	14,185	12,766	4,883
486,642	563,245	544,837	548,668	616,871	616,871	598,660	598,250	568,255
583,949	552,759	530,827	513,268	530,860	530,860	479,906	489,766	501,889
227,272	198,509	161,515	146,232	150,505	150,505	179,256	180,051	179,316
1,297,863	1,314,513	1,237,179	1,208,168	1,298,236	1,298,236	1,257,822	1,268,067	1,249,461
525,532	532,586	528,643	482,912	612,583	612,583	616,726	551,185	500,432
365,708	388,159	346,242	378,274	349,972	349,972	312,223	392,491	431,731
366,988	352,988	345,690	329,685	318,532	318,532	319,565	315,272	307,724
56,609	51,755	52,634	51,081	38,422	52,802	52,695	52,586	54,028
117,564	61,524	54,435	52,058	46,428	60,060	45,117	46,670	37,396
39,012	36,543	38,141	39,295	28,036	40,451	37,275	41,172	43,330
0.80%	1.82%	1.81%	0.90%	1.72%	1.40%	1.58%	1.40%	0.57%
2.13%	4.89%	4.75%	2.39%	4.81%	4.08%	4.47%	4.10%	1.59%
3.24%	4.27%	4.56%	4.65%	4.27%	3.86%	3.66%	4.63%	3.63%
¥ 9.70	¥ 21.63	¥ 20.57	¥ 9.97	¥ 21.53	-	-	-	-
-	¥ 21.44	¥ 20.41	-	¥ 20.98	-	-	-	-
¥ 6.00	¥ 6.00	¥ 6.00	¥ 6.00	¥ 6.00	-	-	-	-

# Management's Discussion and Analysis

## OVERVIEW

In this fiscal year (2005), the year ended March 31, 2005, the Japanese chemical industry reported strong production and shipment volumes. However, chemical companies continued to face difficulties as feedstock prices continued to rise throughout the year, with the price of naphtha in the second half surpassing records set in the mid-1980s. In this environment, Mitsui Chemicals Group concentrated on sales activities, an exhaustive cost reduction program, and other initiatives to improve earnings. The outcomes of these measures are discussed below.

The number of consolidated subsidiaries decreased by two from the previous fiscal year to 72, due to the establishment of Mitsui Advanced Composites (Zhongshan) Co., Ltd. and the mergers of Sun Technochemicals Co., Ltd. by the other consolidated subsidiary, and other factors. The number of non-consolidated subsidiaries and affiliates accounted for by the equity method decreased by 12 to 71 because of the sale of stock held in Mitsui Chemicals Air Water, Inc. and other actions.

## OPERATING RESULTS

### NET SALES

Net sales increased ¥138,029 million (US\$1,285 million) compared to the previous fiscal year, to ¥1,227,547 million (US\$11,431

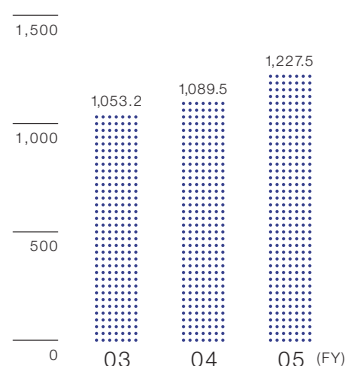
million). Growth in sales volume raised sales by approximately ¥28.3 billion (US\$0.26 billion) and higher prices raised sales by approximately ¥109.7 billion (US\$1.02 billion). These increases were primarily due to our efforts to reflect the rising prices of naphtha and other feedstock in the form of higher product prices, as well as increased sales volume, led by the functional polymeric materials and basic chemicals segments along with expanding demand, particularly in China.

### OPERATING INCOME

Operating income increased ¥26,549 million (US\$247 million) to ¥80,491 million (US\$750 million). Volume increases raised operating income by approximately ¥14.5 billion (US\$0.14 billion) and higher prices contributed approximately ¥109.7 billion (US\$1.02 billion). These increases were due to our efforts to raise sales prices to offset the sharp increase in the cost of sales due to escalating prices of feedstock, including naphtha. However, higher operating costs, primarily for feedstock, reduced income by approximately ¥97.6 billion (US\$0.91 billion).

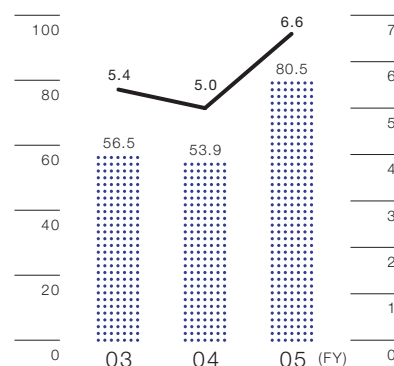
### NET SALES

(Billions of yen)



### OPERATING INCOME/RATIO TO NET SALES

(Billions of yen, %)



■ Operating income  
— Ratio to net sales

## SEGMENT INFORMATION

### Business Segment (Note)

Changes of net sales and operating income by segment were as follows.

#### Net Sales

	(Billions of yen)				
	2005	2004	Change		
			Total	Volume contribution	Price contribution
Functional chemicals and engineered materials	183.4	180.3	3.1	7.2	(4.1)
Functional polymeric materials	262.8	233.1	29.7	19.8	9.9
Basic chemicals	427.2	336.0	91.2	13.0	78.2
Petrochemicals	316.6	298.8	17.8	(7.9)	25.7
Others	37.5	41.3	(3.8)	(3.8)	–
Eliminations	–	–	–	–	–
Total	1,227.5	1,089.5	138.0	28.3	109.7

#### Operating Income

	(Billions of yen)					
	2005	2004	Change			
			Total	Volume contribution	Price contribution	Expense differential, etc.
Functional chemicals and engineered materials	9.1	12.7	(3.6)	0.3	(4.1)	0.2
Functional polymeric materials	8.5	5.0	3.5	5.6	9.9	(12.0)
Basic chemicals	36.0	21.1	14.9	4.2	78.2	(67.5)
Petrochemicals	25.4	13.2	12.2	4.8	25.7	(18.3)
Others	1.3	1.8	(0.5)	(0.4)	–	(0.1)
Eliminations or corporate	0.2	0.1	0.1	–	–	0.1
Total	80.5	53.9	26.6	14.5	109.7	(97.6)

Note: In 2005, the Mitsui Chemicals Group changed business segment classification and allocation methods partially. The segment information is based on the new classification and allocation methods for the year ended March 31, 2004

Details of operational results by business segment were as follows.

### Functional Chemicals and Engineered Materials

	(Millions of yen)		
	2005	2004	Change (%)
Total sales	¥183,434	¥180,339	17.2
Operating income	9,055	12,712	(28.8)
Total assets	207,464	207,059	0.2
Depreciation and amortization	11,003	10,546	4.3
Capital expenditures	10,100	6,212	62.6

In hygiene materials, sales increased 8% as strong demand in East and Southeast Asia, particularly Thailand and China, offset the impact of falling demand in Japan.

In construction materials, sales fell 8% because of declining demand from architectural and civil engineering construction, including public works projects.

In semiconductor materials, sales declined 9%, as strong sales of process materials realized through aggressive sales activities did not compensate for the overall sluggishness in the semiconductor market caused by declining prices in the semiconductor and LCD sectors.

In display materials, sales were up 11%. Growth was driven by the rapid expansion of the plasma display panel market, despite price erosion in plasma display panels.

In fine chemicals such as optical performance materials and their raw materials, sales were down 18%, as operating conditions remained challenging. Sales volumes declined due to the withdrawal from unprofitable product categories and closure of business operations by customers using these materials.

Sales of healthcare products, including monomers for optical lenses and pharmaceutical intermediates, increased 4%, due to strong sales of materials for high-index plastic lenses.

In insecticides and other agrochemicals, sales increased 13% because of brisk sales of new insecticides.

As a result, segment sales rose ¥3,095 million (US\$29 million) to ¥183,434 million (US\$1,708 million), accounting for 15% of total sales. Growth in sales volume raised sales by approximately ¥7.2 billion (US\$0.07 billion) but lower prices decreased sales by approximately ¥4.1 billion (US\$0.04 billion).

Operating income fell ¥3,657 million (US\$34 million) to ¥9,055 million (US\$84 million). Increased volume raised operating income by approximately ¥0.3 billion (US\$2.8 million), price declines had a negative effect of approximately ¥4.1 billion (US\$0.04 billion), and expense differentials raised operating income by approximately ¥0.2 billion (US\$1.9 million).

### Functional Polymeric Materials

	(Millions of yen)		
	2005	2004	Change (%)
Total sales	<b>¥262,861</b>	¥233,081	12.8
Operating income	<b>8,478</b>	4,967	70.7
Total assets	<b>264,847</b>	261,406	1.3
Depreciation and amortization	<b>17,844</b>	17,022	4.8
Capital expenditures	<b>10,375</b>	11,687	(11.2)

Sales of elastomers, including ethylene-propylene diene terpolymers and alpha-olefin copolymers, increased 3%. The growth was mainly the result of the development of new applications, cultivation of new overseas markets, and strong demand from the automotive components and packaging materials sectors.

In specialty resins, sales were up 4% on strong demand for polymethylpentene and other specialty resins, particularly for use in IT-related applications.

In functional resins, including polyamide 6T resins, sales increased 12%, reflecting strong demand for use in automotive applications.

In papermaking materials and coating materials, sales decreased 1%. Although demand was strong for data-recording grades of paper, there was a downturn in coating materials as the volume of sales for mobile phone-related applications were lower.

In wax, petroleum resins, and other additive materials, sales increased 4%. Sales to domestic customers posted favorable growth. Sales of new metallocene-catalyzed waxes also contributed to the sales growth.

In acrylamide, sales increased 8% due to growing demand for use in paper strengthening treatments and coagulants in Japan and growth in exports to Asia.

In urethane raw materials, such as TDI and MDI, sales increased 9%. In TDI, export prices recovered from levels reached around the end of the first half of the fiscal year. Its volume climbed following the start-up of a new production plant at the Kashima Works of Mitsui Takeda Chemicals, Inc. Meanwhile, higher prices pushed up MDI and PPG sales.

In urethane resins, sales rose 7%, due to strong sales of coating materials.

As a result, total segment sales increased ¥29,780 million (US\$277 million) to ¥262,861 million (US\$2,448 million), representing 21% of total sales. Growth in sales volume raised sales by approximately ¥19.8 billion (US\$0.18 billion) and higher prices raised sales by approximately ¥9.9 billion (US\$0.09 billion).

Operating income was up ¥3,511 million (US\$33 million) to ¥8,478 million (US\$79 million). This was the net result of an increase of approximately ¥5.6 billion (US\$0.05 billion) from volume increases, approximately ¥9.9 billion (US\$0.09 billion) from price rises, and a decrease of approximately ¥12.0 billion (US\$0.11 billion) from expense differentials.

### Basic Chemicals

	(Millions of yen)		
	2005	2004	Change (%)
Total sales	<b>¥427,202</b>	¥335,986	27.1
Operating income	<b>36,046</b>	21,141	70.5
Total assets	<b>293,077</b>	289,008	1.4
Depreciation and amortization	<b>13,498</b>	14,647	(7.8)
Capital expenditures	<b>14,087</b>	11,016	27.9

Sales of purified terephthalic acid (PTA) increased 49%. This growth was due to expanded sales from increased production capacity at a Thai manufacturing subsidiary Siam Mitsui PTA Co., Ltd. to meet growing demand in China and other Asian markets. Another factor was higher prices for PTA products, reflecting higher raw material costs.

In polyethylene terephthalate (PET) resins, sales increased 10%. This reflected higher sales volume because of the growing demand in Japan for PET bottles due to the hot summer season in 2004, although there was a delay in reflecting the rising cost of raw materials in sales prices.

In phenol and bisphenol A, sales were up 37% and 35%, respectively, on sustained demand growth in Asia, led by China, along with higher prices resulting from higher cost of feedstock.

In ethylene glycol, ethylene oxide and their derivatives, sales rose 7% because of higher prices reflecting higher feedstock costs.

In addition to the benefits of higher demand and pricing, operating income also got a boost from extensive structural reforms that called for greater selection and focus in conducting businesses.

As a result, segment sales increased ¥91,216 million (US\$849 million) to ¥427,202 million (US\$3,978 million), accounting for 35% of total sales. Growth in sales volume raised sales by approximately ¥13.0 billion (US\$0.12 billion) and sales pricing increased sales by approximately ¥78.2 billion (US\$0.73 billion).

Operating income increased ¥14,905 million (US\$139 million) to ¥36,046 million (US\$336 million), with sales volumes contributing approximately ¥4.2 billion (US\$0.04 billion) and higher prices approximately ¥78.2 billion (US\$0.73 billion). Higher expenses lowered operating income by approximately ¥67.5 billion (US\$0.63 billion).

### Petrochemicals

(Millions of yen)			
	2005	2004	Change (%)
Total sales	<b>¥316,564</b>	¥298,756	6.0
Operating income	<b>25,418</b>	13,214	92.4
Total assets	<b>281,573</b>	297,549	(5.4)
Depreciation and amortization	<b>13,487</b>	13,050	3.3
Capital expenditures	<b>11,514</b>	16,220	(29.0)

Production volumes of ethylene increased 7% from the previous fiscal year. Demand was strong in Japan and overseas, the output increased as the year under review was not a scheduled maintenance year for Ichihara Works.

Production of propylene rose 16% as a new plant came onstream at Osaka Works.

Polyethylene sales increased 17% as strong sales volume coincided with higher prices for polyethylene products, mainly in Japan and Asia.

Polypropylene sales increased 14% as prices climbed and sales volume was boosted by the start-up of operations of a new plant at Osaka Works and other factors.

On the other hand, sales volume for styrene monomer plunged sharply because we sold our styrene monomer operations in the second half of the previous fiscal year.

As a result, segment sales increased ¥17,808 million (US\$166 million) to ¥316,564 million (US\$2,948 million), which was 26% of total sales. Lower sales volume reduced sales by approximately ¥7.9 billion (US\$0.07 billion), but higher prices increased sales by approximately ¥25.7 billion (US\$0.24 billion).

Operating income increased ¥12,204 million (US\$114 million) to ¥25,418 million (US\$237 million). Volume had a positive effect of approximately ¥4.8 billion (US\$0.04 billion), prices a positive effect of approximately ¥25.7 billion (US\$0.24 billion), and expenses a negative effect of approximately ¥18.3 billion (US\$0.17 billion).

### Others

(Millions of yen)			
	2005	2004	Change (%)
Total sales	<b>¥37,486</b>	¥41,356	(9.4)
Operating income	<b>1,281</b>	1,844	(30.5)
Total assets	<b>68,271</b>	65,267	4.6
Depreciation and amortization	<b>1,208</b>	1,147	5.3
Capital expenditures	<b>1,059</b>	587	80.4

In plant construction and maintenance operations, sluggish construction orders in the second half resulted in a 3% decline in sales to external customers.

In warehousing and logistics services, both the volume of goods handled and sales to external customers were largely unchanged from the previous fiscal year.

As a result, segment sales, including other sales, declined ¥3,870 million (US\$36 million) to ¥37,486 million (US\$349 million), accounting for 3% of total sales. This was largely the result of a ¥3.8 billion (US\$0.04 billion) drop in sales volume.

Operating income decreased ¥563 million (US\$5 million) to ¥1,281 million (US\$12 million). Lower volume decreased operating income approximately ¥0.4 billion (US\$3.7 million) and expenses had a negative effect of approximately ¥0.1 billion (US\$0.9 million).

## Geographic Distribution

### Japan

Sales and operating income were higher compared to the previous year due to price increases on the back of a sharp rise in feedstock prices, including naphtha, and a significant growth in sales volume, particularly in basic chemicals, resulting from growing demand in Asia.

As a result, sales in Japan increased ¥97,027 million (US\$904 million) to ¥1,025,748 million (US\$9,552 million), which comprised 83% of total sales, and operating income rose ¥23,847 million (US\$222 million) to ¥62,133 million (US\$579 million).

### Asia

Segment sales and operating income increased due largely to two factors. One was increased sales volume under production capacity expansion at Siam Mitsui PTA Co., Ltd., a Thailand-based subsidiary

responsible for production and sales of PTA. The other was reflecting the extra cost of feedstock in the form of higher prices. This was done by Siam Mitsui PTA Co., Ltd. and Singapore-based subsidiaries, which engaged in the manufacture and sales of phenol and bisphenol A respectively. Mitsui Elastomers Singapore Pte. Ltd., a Singapore-based elastomer resin manufacturing and marketing subsidiary, also contributed to sales growth as it started full-scale operations.

As a result, segment sales increased ¥34,743 million (US\$324 million) to ¥130,259 million (US\$1,213 million), which comprised 11% of total sales. Operating income increased ¥3,927 million (US\$37 million) to ¥15,417 million (US\$144 million).

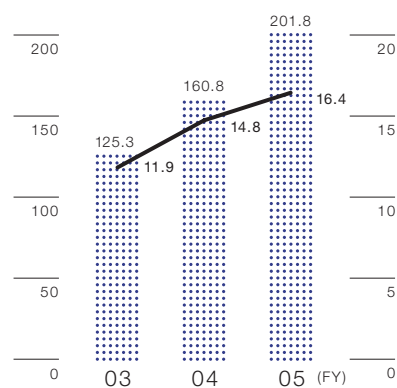
### Others

Segment sales increased due to such factors as increased sales volume of plastics for automotive applications, and plasma display panel optical filters at a U.S.-based sales subsidiary Mitsui Chemicals America, Inc. and a German-based sales subsidiary Mitsui Chemicals Europe GmbH. However, operating income was lower because of the higher cost of raw materials and purchased products and a decline in product prices.

As a result, segment sales increased ¥6,259 million (US\$58 million) to ¥71,540 million (US\$666 million), which comprised 6% of total sales. Operating income decreased ¥911 million (US\$8 million) to ¥3,255 million (US\$30 million).

## SALES AT OVERSEAS BASES SHARE OF TOTAL SALES

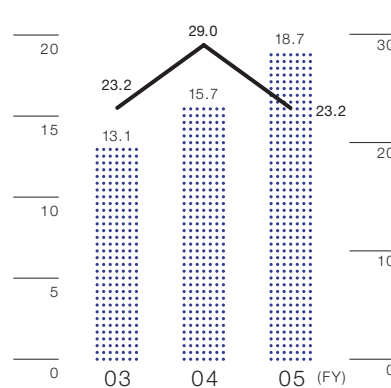
(Billions of yen, %)



∴ Sales at overseas bases  
— Share of total sales

## OPERATING INCOME AT OVERSEAS BASES SHARE OF TOTAL OPERATING INCOME

(Billions of yen, %)



∴ Operating income at overseas bases  
— Share of total operating income



### Overseas Sales

Overseas sales increased ¥90,019 million (US\$838 million) to ¥434,596 million (US\$4,047 million), rising 3.8 percentage points to 35.4% of total sales.

By region, Asia accounted for ¥335,090 million (US\$3,120 million), or 27.3%, of total sales, the Americas for ¥53,573 million (US\$499 million), or 4.4%, Europe for ¥38,069 million (US\$355 million), or 3.1%, and other regions for ¥7,864 million (US\$73 million), or 0.6%.

The ¥77,170 million (US\$719 million) increase in sales in Asia made a large contribution to the growth in total overseas sales.

### OTHER INCOME (EXPENSES)

Other income (expenses) was a net expense of ¥25,839 million (US\$241 million), a ¥5,869 million (US\$55 million) improvement compared to the previous fiscal year. The major components of other income (expenses) were as follows.

Interest expense decreased ¥1,062 million (US\$10 million) to ¥6,353 million (US\$59 million), mainly because of a reduction in interest-bearing liabilities.

Equity in earnings of non-consolidated subsidiaries and affiliates improved ¥3,972 million (US\$37 million) to ¥6,887 million (US\$64 million), due mainly to significant earnings growth at Toyo Engineering Corporation.

The loss on sales and disposal of property, plant and equipment declined ¥3,929 million (US\$37 million) from the previous fiscal year to ¥6,833 million (US\$64 million).

Other income (expenses) includes ¥11,788 million (US\$110 million) in immediate recognition of reduction in prior service cost due to the revision of system for severance and retirement benefits; a loss on impairment of fixed assets of ¥17,689 million (US\$165 million) due to an early adoption of a new accounting standard for impairment of fixed assets to strengthen Mitsui Chemicals Group's finances as soon as possible; and a ¥5,525 million (US\$51 million) loss on restructuring of subsidiaries and affiliates mainly related to the commencement of rehabilitation procedures under Japan's Civil Rehabilitation Law for a golf course business subsidiary, Kuko Enterprise Co., Ltd.

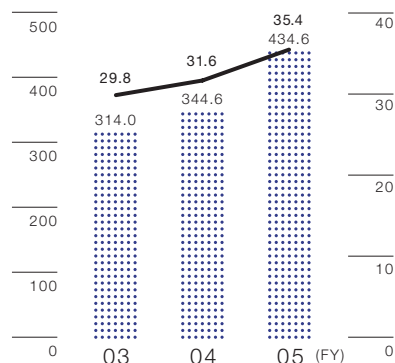
Mainly due to these factors, income before income taxes and minority interests increased ¥32,418 million (US\$302 million) to ¥54,652 million (US\$509 million).

### NET INCOME

After deduction of income taxes and minority interests, net income was ¥26,192 million (US\$244 million), ¥13,726 million (US\$128 million), or 110.1%, higher than in the previous fiscal year.

### OVERSEAS SALES SHARE OF TOTAL SALES

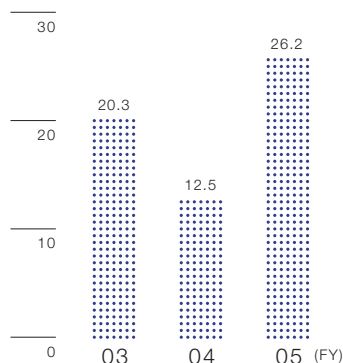
(Billions of yen, %)



∴ Overseas sales  
— Share of total sales

### NET INCOME

(Billions of yen)



Net income per share (basic) increased ¥17.48 (US\$0.16) to ¥33.26 (US\$0.31). As there was an increase in net income of 110.1% from ¥12,466 million (US\$116 million) to ¥26,192 million (US\$244 million) on a sales gain of 12.7% from ¥1,089,518 million (US\$ 10,145 million) to ¥1,227,547 million (US\$11,431 million), the return on sales increased from 1.14% to 2.13%.

## FINANCIAL POSITION

### OVERVIEW

While operating income saw robust growth, total assets increased only ¥16,719 million (US\$156 million) from ¥1,188,466 million (US\$11,067 million) to ¥1,205,185 million (US\$11,223 million), due to continuing efforts to streamline the balance sheet. The return on assets (operating income) increased from 4.47% to 6.73%.

The debt-equity ratio was 1.04 as of March 31, 2005. This figure has been steadily improving since the year ended March 31, 2001, the result of successful efforts to reduce interest-bearing liabilities.

### ASSETS

Total assets were ¥1,205,185 million (US\$11,223 million) as of March 31, 2005, ¥16,719 million (US\$156 million) higher than the end of the previous fiscal year. Of the total, current assets represented ¥497,287 million (US\$4,631 million), an increase of ¥56,770 million (US\$529 million). The principal items contributing to the increase in

current assets were an increase in accounts receivable reflecting rising sales, and an increase in inventories due mainly to higher feed-stock prices. On the other hand, non-current assets declined ¥40,051 million (US\$373 million) to ¥707,898 million (US\$6,592 million), the result of the early adoption of a new accounting standard for impairment of fixed assets and the ongoing, strict evaluation of the quality of investments and loans.

### LIABILITIES

Liabilities decreased ¥12,256 million (US\$114 million) to ¥753,955 million (US\$7,021 million), mainly reflecting lower interest-bearing liabilities, which fell by ¥60,284 million (US\$561 million) to ¥422,342 million (US\$3,933 million). As a result, the interest-bearing liabilities ratio was 35.0%.

### MINORITY INTERESTS

Minority interests increased ¥6,567 million (US\$61 million) to ¥45,457 million (US\$423 million).

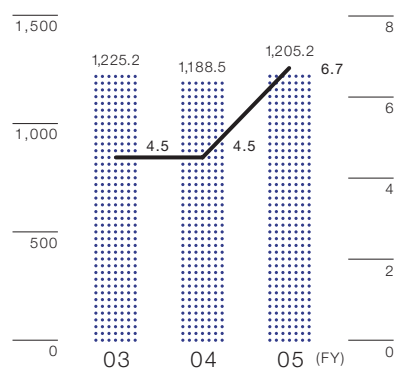
### STOCKHOLDERS' EQUITY

Total stockholders' equity increased ¥22,408 million (US\$209 million) to ¥405,773 million (US\$3,778 million).

Retained earnings increased ¥21,388 million (US\$199 million) to ¥231,497 million (US\$2,156 million), mainly the result of an increase

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

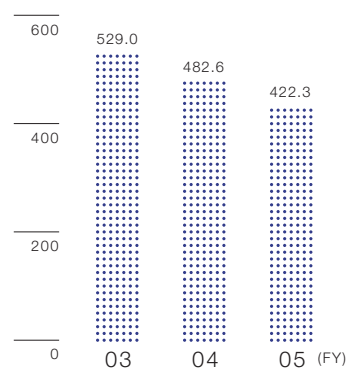
(Billions of yen, %)



∴ Total assets  
— Return (operating income) on assets

### INTEREST-BEARING LIABILITIES

(Billions of yen)



in net income to ¥26,192 million (US\$244 million) and dividend payments of ¥4,716 million (US\$44 million).

Net unrealized holding gain on securities increased ¥2,603 million (US\$24 million) to ¥16,572 million (US\$154 million) due to higher prices for listed securities.

Foreign currency translation adjustments increased ¥926 million (US\$9 million) to ¥9,349 million (US\$87 million), due to the effects of a stronger yen.

Treasury stock increased ¥658 million (US\$6 million) to ¥3,086 million (US\$29 million).

These last two items had the effect of lowering stockholders' equity.

Due to the factors discussed above, the equity ratio increased from 32.3% to 33.7%.

The debt-to-equity ratio as of March 31, 2005 was 1.04, a 0.22 percentage point improvement from the end of the previous fiscal year.

## CAPITAL RESOURCES AND LIQUIDITY

### CASH FLOWS

There was a net increase of ¥63 million (US\$1 million) in cash and cash equivalents to ¥28,068 million (US\$261 million) as of March 31, 2005.

### Cash Flows From Operating Activities

Net cash provided by operating activities was ¥96,503 million (US\$899 million), ¥14,340 million (US\$134 million) more than in the previous fiscal year. The increase was primarily attributable to a significant increase in income before income taxes, despite an increase in working capital due to escalating feedstock prices.

The above factors were responsible for a decline in the debt repayment multiple from 5.9 years to 4.4 years, and an increase in the interest coverage ratio from 10.8 to 14.7.

### Cash Flows From Investing Activities

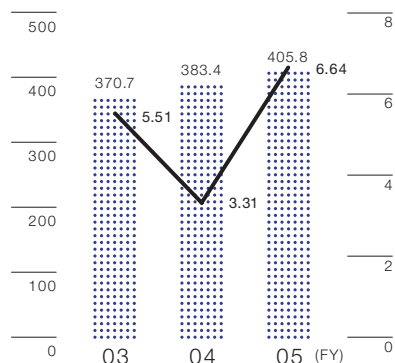
Net cash used in investing activities was ¥33,085 million (US\$308 million), ¥7,278 million (US\$68 million) more than in the previous fiscal year. The increase was mainly due to a decline in proceeds from the sales of assets.

### Cash Flows From Financing Activities

Net cash used in financing activities was ¥63,213 million (US\$589 million), ¥8,885 million (US\$83 million) higher than in the previous fiscal year. This mainly reflected the use of free cash flows (sum of operating and investing cash flows) of ¥63,418 million (US\$591 million) to reduce interest-bearing liabilities.

### TOTAL STOCKHOLDERS' EQUITY RETURN ON EQUITY

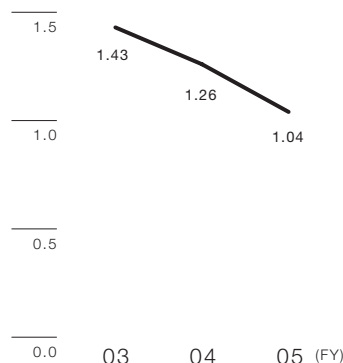
(Billions of yen, %)



∴ Total stockholders' equity  
— Return on equity

### DEBT-TO-EQUITY RATIO

(times)



### Cash Flow-Related Performance Indicators

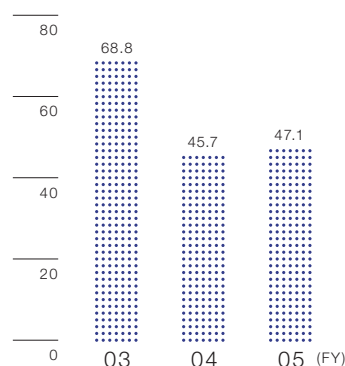
	2005	2004	2003	2002
Equity ratio (%)	<b>33.7</b>	32.3	30.3	28.3
Market cap equity ratio (%)	<b>39.0</b>	42.3	29.8	34.9
Debt repayment multiple (years)	<b>4.4</b>	5.9	3.7	6.2
Interest coverage ratio (times)	<b>14.7</b>	10.8	15.7	9.2

Notes: 1. The equity ratio is stockholders' equity divided by total assets.  
 2. The market cap equity ratio is market capitalization divided by total assets.  
 3. The debt repayment multiple is interest-bearing liabilities divided by operating cash flows.  
 4. The interest coverage ratio is operating cash flows divided by interest expense.

- \* All figures are based on consolidated financial figures.
- \* Market capitalization is calculated by multiplying the year-end share price by the number of shares issued and outstanding at year-end (excluding treasury stock).
- \* Operating cash flow figures are from the consolidated statements of cash flows; interest-bearing liabilities is the sum of all liabilities that bear interest as shown on the consolidated balance sheets, and interest expense is the figure shown on the consolidated statements of cash flows.

### CAPITAL EXPENDITURES

(Billions of yen)



### FUND PROCUREMENT

The basic policy on fund procurement activities is as follows:

- 1) Maintain a high credit rating so that low-cost funds can be procured, mainly through bonds, loans, and commercial paper, whenever necessary.
- 2) A certain level of indirect financing will be used to preserve the stability of fund procurement activities.
- 3) Securitization and other schemes will be used to liquidate assets to diversify means of fund procurement.

### FINANCIAL LIQUIDITY

Regarding financial liquidity, a sufficient level of internal liquidity will be preserved along with backup sources of liquidity, such as commitment lines and overdraft facilities.

### CAPITAL EXPENDITURES (SUMMARY)

Capital expenditures amounted to ¥47,135 million (US\$439 million). Capital expenditures included investments in intangible fixed assets as well as long-term prepaid expenses. Expenditures by business segment were as follows.

#### Functional Chemicals and Engineered Materials

Capital expenditures were ¥10,100 million (US\$94 million), including the expansion of nitrogen trifluoride capacity at Mitsui Chemicals, Inc.

#### Functional Polymeric Materials

Capital expenditures were ¥10,375 million (US\$97 million), including the expansion of polyethylene wax production facilities at Mitsui Chemicals, Inc.

#### Basic Chemicals

Capital expenditures were ¥14,087 million (US\$131 million), including the expansion of PTA production facilities at Siam Mitsui PTA Co., Ltd. and the addition of cumene production facilities at Mitsui Chemicals, Inc.

#### Petrochemicals

Capital expenditures were ¥11,514 million (US\$107 million), including the construction of a new propylene production facility at Mitsui Chemicals, Inc.

### *Others*

Capital expenditures were ¥1,059 million (US\$10 million).

## **RESEARCH AND DEVELOPMENT**

Research and development is conducted by four Mitsui Chemicals business groups, the R&D centers of the corporate research and development division, and the research divisions of consolidated subsidiaries. In the fiscal year under review, research and development expenditures at Mitsui Chemicals, Inc. and its consolidated subsidiaries were ¥34,881 million (US\$325 million), with 1,100 researchers employed in research and development divisions. Major themes, accomplishments, and expenses at the corporate and business division were as follows.

### *Corporate Research and Development*

These R&D activities are primarily conducted by Mitsui Chemicals, Inc. and largely focus on fostering and strengthening basic technologies for the development of next-generation polyolefin catalysts and phosphazene catalysts, and new polyolefin resins, and activities to develop next-generation performance materials.

Mitsui Chemicals, Inc. is also actively working to strengthen collaboration between the industry and academia, holding a symposium on advanced materials in France in November 2004 and the second Mitsui Chemicals International Symposium on Catalysis Science in March 2005. The latter was organized around the theme of cutting-edge "green" catalysts.

Corporate R&D expenditures were ¥5,753 million (US\$54 million).

### *Functional Chemicals and Engineered Materials*

R&D activities in this segment are conducted mainly by Mitsui Chemicals, Inc. and target fabricated functional polymer products, electronic materials, information materials, agrochemical products, and fine chemical products. During this fiscal year, major products developed and commercialized included polyamide substrates for electronic components, nonwoven sheets for medical applications, and a range of new Starkle brand insecticides, including granule, liquid, and powder types.

Segment R&D expenditures totaled ¥11,582 million (US\$108 million).

### *Functional Polymeric Materials*

R&D activities in this segment center on elastomers, functional polymeric materials, industrial resins, and urethane resins, which are conducted primarily by Mitsui Chemicals, Inc. and Mitsui Takeda Chemicals, Inc. During this fiscal year, research and development focused on new elastomers, functional waxes, and other products. Efforts were also made to develop and launch products, including TAFMER™ XR, a resin modifier for polypropylene films made using metallocene catalysts, NOTIO™, a new elastomer with a nano-order controlled crystalline structure, and AURUM™/carbon nanotube alloy, an antistatic material for semiconductor manufacturing process jigs.

Segment R&D expenditures totaled ¥9,974 million (US\$93 million).

### *Basic Chemicals*

R&D activities in this segment are conducted mainly by Mitsui Chemicals, Inc. and focus on strengthening core businesses such as PTA, bisphenol A, and PET resins.

Segment R&D expenditures totaled ¥1,315 million (US\$12 million).

### *Petrochemicals*

R&D activities in this segment are conducted mainly by Mitsui Chemicals, Inc. and focus on the development of new products for strengthening competitiveness in polyolefin resins and the creation of new markets.

Segment R&D expenditures were ¥5,277 million (US\$49 million).

### *Others*

R&D activities in this segment are conducted mainly by Mitsui Chemicals, Inc. and focus on the development of polylactic acid resins derived from plants and next-generation functional resins.

Segment R&D expenditures totaled ¥980 million (US\$9 million).

# Consolidated Balance Sheets

MITSUI CHEMICALS, INC. AND CONSOLIDATED SUBSIDIARIES  
March 31, 2005 and 2004

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 3)
	2005	2004	2005
<b>Current assets:</b>			
Cash and cash equivalents (Note 4) . . . . .	¥ 28,068	¥ 28,005	\$ 261,365
Short-term investments . . . . .	150	137	1,397
Receivables:			
Trade notes and accounts . . . . .	225,416	211,296	2,099,041
Other . . . . .	37,741	31,152	351,439
Inventories (Note 5) . . . . .	184,367	153,232	1,716,798
Deferred tax assets – current (Note 10) . . . . .	17,178	12,155	159,959
Other current assets . . . . .	4,827	5,579	44,948
Allowance for doubtful accounts . . . . .	(460)	(1,039)	(4,283)
<b>Total current assets . . . . .</b>	<b>497,287</b>	<b>440,517</b>	<b>4,630,664</b>
<b>Property, plant and equipment (Notes 7 and 9):</b>			
Land . . . . .	172,138	189,958	1,602,924
Buildings and structures . . . . .	272,052	268,641	2,533,309
Machinery and equipment . . . . .	899,509	885,101	8,376,096
Construction in progress . . . . .	19,186	19,291	178,657
	<b>1,362,885</b>	<b>1,362,991</b>	<b>12,690,986</b>
Accumulated depreciation . . . . .	(841,999)	(814,192)	(7,840,572)
<b>Property, plant and equipment, net . . . . .</b>	<b>520,886</b>	<b>548,799</b>	<b>4,850,414</b>
<b>Investments and other non-current assets:</b>			
Investment securities (Notes 6 and 7)			
Non-consolidated subsidiaries and affiliates . . . . .	57,274	58,424	533,327
Other . . . . .	65,610	61,796	610,951
Long-term receivables . . . . .	7,382	2,154	68,740
Deferred tax assets – non-current (Note 10) . . . . .	28,957	33,476	269,644
Other non-current assets . . . . .	31,335	46,705	291,787
Allowance for doubtful accounts . . . . .	(3,546)	(3,405)	(33,020)
<b>Total investments and other non-current assets . . . . .</b>	<b>187,012</b>	<b>199,150</b>	<b>1,741,429</b>
<b>Total assets . . . . .</b>	<b>¥1,205,185</b>	<b>¥1,188,466</b>	<b>\$11,222,507</b>

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)
	2005	2004	2005
<b>Current liabilities:</b>			
Short-term bank loans (Note 7) . . . . .	¥ 123,347	¥ 126,060	\$ 1,148,589
Current portion of long-term debt (Note 7) . . . . .	34,569	77,298	321,901
Commercial paper (Note 7) . . . . .	21,000	27,700	195,549
Payables:			
Trade notes and accounts . . . . .	152,108	134,131	1,416,408
Other . . . . .	51,598	37,938	480,473
Employees' savings deposits . . . . .	686	2,546	6,388
Accrued expenses . . . . .	24,386	25,461	227,079
Reserve for periodic repairs . . . . .	7,536	2,498	70,174
Accrued income taxes (Note 10) . . . . .	22,178	5,922	206,518
Other current liabilities . . . . .	3,158	1,315	29,407
<b>Total current liabilities . . . . .</b>	<b>440,566</b>	<b>440,869</b>	<b>4,102,486</b>
<b>Long-term liabilities:</b>			
Long-term debt due after one year (Note 7) . . . . .	243,426	251,568	2,266,747
Accrued employees' retirement benefits (Note 8) . . . . .	59,299	64,217	552,184
Accrued directors' and corporate auditors' retirement benefits . . . . .	2,178	–	20,281
Reserve for periodic repairs . . . . .	1,067	2,017	9,936
Other non-current liabilities . . . . .	7,419	7,540	69,085
<b>Total long-term liabilities . . . . .</b>	<b>313,389</b>	<b>325,342</b>	<b>2,918,233</b>
<b>Minority interests . . . . .</b>	<b>45,457</b>	<b>38,890</b>	<b>423,289</b>
<b>Contingent liabilities (Note 12)</b>			
<b>Stockholders' equity:</b>			
Common stock (Note 11):			
Authorized – 3,000,000,000 shares			
Issued – 789,156,353 shares in 2005 and 2004 . . . . .	103,226	103,226	961,225
Additional paid-in capital . . . . .	66,913	66,912	623,084
Retained earnings (Notes 11 and 17) . . . . .	231,497	210,109	2,155,666
Net unrealized holding gain on securities . . . . .	16,572	13,969	154,316
Foreign currency translation adjustments . . . . .	(9,349)	(8,423)	(87,056)
Treasury stock, at cost:			
5,444,879 shares in 2005 and 4,269,533 shares in 2004 . . . . .	(3,086)	(2,428)	(28,736)
<b>Total stockholders' equity . . . . .</b>	<b>405,773</b>	<b>383,365</b>	<b>3,778,499</b>
<b>Total liabilities, minority interests and stockholders' equity . . . . .</b>	<b>¥1,205,185</b>	<b>¥1,188,466</b>	<b>\$11,222,507</b>

# Consolidated Statements of Income

MITSUI CHEMICALS, INC. AND CONSOLIDATED SUBSIDIARIES  
For the years ended March 31, 2005 and 2004

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2005	2004	2005
Net sales . . . . .	<b>¥1,227,547</b>	¥1,089,518	<b>\$11,430,738</b>
Cost of sales (Notes 8 and 14) . . . . .	<b>968,230</b>	861,965	<b>9,016,016</b>
Gross profit . . . . .	<b>259,317</b>	227,553	<b>2,414,722</b>
Selling, general and administrative expenses (Notes 8 and 14) . . . . .	<b>178,826</b>	173,611	<b>1,665,202</b>
Operating income . . . . .	<b>80,491</b>	53,942	<b>749,520</b>
Other income (expenses):			
Interest expense . . . . .	<b>(6,353)</b>	(7,415)	<b>(59,158)</b>
Interest and dividend income . . . . .	<b>1,405</b>	1,425	<b>13,083</b>
Equity in earnings of non-consolidated subsidiaries and affiliates . . . . .	<b>6,887</b>	2,915	<b>64,131</b>
Gain on sales of investment securities (Note 6) . . . . .	<b>4,916</b>	5,339	<b>45,777</b>
Loss on sales and disposal of property, plant and equipment . . . . .	<b>(6,833)</b>	(10,762)	<b>(63,628)</b>
Loss on restructuring of subsidiaries and affiliates . . . . .	<b>(5,525)</b>	(6,862)	<b>(51,448)</b>
Net retirement benefits obligation at transition (Note 8) . . . . .	<b>(6,119)</b>	(6,118)	<b>(56,979)</b>
Loss on impairment of fixed assets . . . . .	<b>(17,689)</b>	–	<b>(164,717)</b>
Immediate recognition of reduction in prior service cost due to the revision of system for severance and retirement benefits . . . . .	<b>11,788</b>	–	<b>109,768</b>
Other, net . . . . .	<b>(8,316)</b>	(10,230)	<b>(77,438)</b>
	<b>(25,839)</b>	(31,708)	<b>(240,609)</b>
Income before income taxes and minority interests . . . . .	<b>54,652</b>	22,234	<b>508,911</b>
Income taxes (Note 10):			
Current . . . . .	<b>25,344</b>	11,100	<b>236,000</b>
Deferred . . . . .	<b>(2,291)</b>	(3,177)	<b>(21,334)</b>
	<b>23,053</b>	7,923	<b>214,666</b>
Income before minority interests . . . . .	<b>31,599</b>	14,311	<b>294,245</b>
Minority interests in earnings of consolidated subsidiaries . . . . .	<b>(5,407)</b>	(1,845)	<b>(50,349)</b>
Net income . . . . .	<b>¥ 26,192</b>	¥ 12,466	<b>\$ 243,896</b>
Amounts per share of common stock:			
Net income . . . . .	<b>¥33.26</b>	¥15.78	<b>\$0.310</b>
Cash dividends applicable to the year . . . . .	<b>7.00</b>	6.00	<b>0.065</b>

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



# Consolidated Statements of Stockholders' Equity

MITSUMI CHEMICALS, INC. AND CONSOLIDATED SUBSIDIARIES  
For the years ended March 31, 2005 and 2004

	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, 2003	789,156	¥103,226	¥66,901	¥202,540	¥ 3,147	¥(2,991)	¥(2,085)
Gain on sales of treasury stock	-	-	11	-	-	-	-
Net income	-	-	-	12,466	-	-	-
Decrease resulting from increase in a consolidated subsidiary	-	-	-	(18)	-	-	-
Decrease resulting from decrease in non-consolidated subsidiaries and affiliates accounted for by the equity method	-	-	-	(73)	-	-	-
Bonuses to directors and corporate auditors	-	-	-	(87)	-	-	-
Cash dividends paid	-	-	-	(4,719)	-	-	-
Net unrealized holding gain on securities	-	-	-	-	10,822	-	-
Foreign currency translation adjustments	-	-	-	-	-	(5,432)	-
Net increase in treasury stock	-	-	-	-	-	-	(343)
Balance at March 31, 2004	789,156	¥103,226	¥66,912	¥210,109	¥13,969	¥(8,423)	¥(2,428)
Gain on sales of treasury stock	-	-	1	-	-	-	-
Net income	-	-	-	26,192	-	-	-
Decrease resulting from decrease in a consolidated subsidiary	-	-	-	(1)	-	-	-
Decrease resulting from decrease in non-consolidated subsidiaries and affiliates accounted for by the equity method	-	-	-	(17)	-	-	-
Bonuses to directors and corporate auditors	-	-	-	(70)	-	-	-
Cash dividends paid	-	-	-	(4,716)	-	-	-
Net unrealized holding gain on securities	-	-	-	-	2,603	-	-
Foreign currency translation adjustments	-	-	-	-	-	(926)	-
Net increase in treasury stock	-	-	-	-	-	-	(658)
<b>Balance at March 31, 2005</b>	<b>789,156</b>	<b>¥103,226</b>	<b>¥66,913</b>	<b>¥231,497</b>	<b>¥16,572</b>	<b>¥(9,349)</b>	<b>¥(3,086)</b>

	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, 2004	\$961,225	\$623,075	\$1,956,504	\$130,077	\$(78,434)	\$(22,609)
Gain on sales of treasury stock	-	9	-	-	-	-
Net income	-	-	243,896	-	-	-
Decrease resulting from decrease in a consolidated subsidiary	-	-	(9)	-	-	-
Decrease resulting from decrease in non-consolidated subsidiaries and affiliates accounted for by the equity method	-	-	(158)	-	-	-
Bonuses to directors and corporate auditors	-	-	(652)	-	-	-
Cash dividends paid	-	-	(43,915)	-	-	-
Net unrealized holding gain on securities	-	-	-	24,239	-	-
Foreign currency translation adjustments	-	-	-	-	(8,622)	-
Net increase in treasury stock	-	-	-	-	-	(6,127)
<b>Balance at March 31, 2005</b>	<b>\$961,225</b>	<b>\$623,084</b>	<b>\$2,155,666</b>	<b>\$154,316</b>	<b>\$(87,056)</b>	<b>\$(28,736)</b>

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, 2005 and 2004

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2005	2004	2005
<b>Cash flows from operating activities</b>			
Income before income taxes and minority interests . . . . .	¥ 54,652	¥ 22,234	\$ 508,911
Depreciation and amortization . . . . .	56,770	56,101	528,634
Loss on impairment of fixed assets . . . . .	17,689	-	164,717
Provision for allowance for doubtful accounts . . . . .	(441)	(97)	(4,107)
Reserve for periodic repairs . . . . .	4,088	(368)	38,067
Accrued directors' and corporate auditors' retirement benefits . . . . .	1,798	-	16,743
Interest and dividend income . . . . .	(1,405)	(1,425)	(13,083)
Interest expense . . . . .	6,353	7,415	59,158
Equity in earnings of non-consolidated subsidiaries and affiliates . . . . .	(6,887)	(2,915)	(64,131)
Gain on sales of investment securities . . . . .	(4,916)	(5,339)	(45,777)
Loss on sales of investment securities . . . . .	501	85	4,665
Loss on write-downs of investment securities . . . . .	3,106	260	28,923
Gain on sales of property, plant and equipment . . . . .	(714)	(982)	(6,649)
Loss on sales and disposal of property, plant and equipment . . . . .	5,179	6,249	48,226
Immediate recognition of reduction in prior service cost due to the revision of system for severance and retirement benefits . . . . .	(11,788)	-	(109,768)
Net retirement benefits obligation at transition . . . . .	6,119	6,118	56,979
(Increase) decrease in trade receivables . . . . .	(14,923)	210	(138,961)
(Increase) decrease in inventories . . . . .	(31,994)	4,901	(297,923)
Increase in trade payables . . . . .	19,264	8,030	179,384
Other, net . . . . .	4,482	(2,970)	41,737
Subtotal . . . . .	106,933	97,507	995,745
Interest and dividends received . . . . .	5,217	4,203	48,580
Interest paid . . . . .	(6,559)	(7,602)	(61,076)
Income taxes paid . . . . .	(9,088)	(11,945)	(84,626)
Net cash provided by operating activities . . . . .	96,503	82,163	898,623
<b>Cash flows from investing activities</b>			
Acquisition of property, plant, equipment and others . . . . .	(41,228)	(49,743)	(383,909)
Proceeds from sales of property, plant, equipment and others . . . . .	2,729	1,752	25,412
Purchases of investment securities . . . . .	(1,940)	(1,920)	(18,065)
Proceeds from sales of investment securities . . . . .	8,972	19,947	83,546
Purchases of business . . . . .	-	(1,511)	-
Proceeds from sale of a business . . . . .	-	6,100	-
Other, net . . . . .	(1,618)	(432)	(15,067)
Net cash used in investing activities . . . . .	(33,085)	(25,807)	(308,083)
<b>Cash flows from financing activities</b>			
Net decrease in short-term loans . . . . .	(8,384)	(319)	(78,071)
Proceeds from long-term debt . . . . .	28,296	41,706	263,488
Repayments of long-term debt . . . . .	(78,649)	(83,109)	(732,368)
Issuance of common stock to minority stockholders . . . . .	2,156	-	20,076
Proceeds from sales of treasury stock . . . . .	58	100	540
Purchases of treasury stock . . . . .	(715)	(443)	(6,658)
Cash dividends paid . . . . .	(4,716)	(4,719)	(43,915)
Other, net . . . . .	(1,259)	(7,544)	(11,722)
Net cash used in financing activities . . . . .	(63,213)	(54,328)	(588,630)
Effect of exchange rate changes on cash and cash equivalents . . . . .	(140)	(662)	(1,304)
Net increase in cash and cash equivalents . . . . .	65	1,366	606
Cash and cash equivalents at beginning of the year . . . . .	28,005	26,616	260,778
(Decrease) increase in cash resulting from changes in numbers of consolidated subsidiaries . . . . .	(2)	23	(19)
Cash and cash equivalents at end of the year (Note 4) . . . . .	¥ 28,068	¥ 28,005	\$ 261,365

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

# Notes to Consolidated Financial Statements

MITSUI CHEMICALS, INC. AND CONSOLIDATED SUBSIDIARIES  
For the years ended March 31, 2005 and 2004

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## 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 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 are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards.

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.

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## 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 its 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 over a period of twenty years or less.

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*

Inventories are stated primarily at the lower of market or cost determined by the last-in, first-out method.

Through the year ended March 31, 2004, the Company stated inventories at cost determined by the last-in, first-out method. Effective the year ended March 31, 2005, inventories have been stated at the lower of market or cost determined by the last-in, first-out method. Through the year ended March 31, 2004, consolidated subsidiaries stated inventories primarily at cost determined by the gross average method. Effective the year ended March 31, 2005, consolidated subsidiaries have stated inventories primarily at the lower of market or cost determined by the last-in, first-out method.

These changes provide the framework for ensuring a healthier financial position in an economic environment characterized by extreme volatility in prices of finished goods and raw materials. This accounting policy was adopted simultaneously with the implementation of a new IT system.

As a result of this change, operating income and income before income taxes and minority interests decreased by ¥1,775 million (\$16,529 thousand) compared to the amounts that would have been reported if the previous methods had been applied consistently.

### *d. Securities*

Held-to-maturity debt securities are stated at amortized cost.

Available-for-sale securities with known fair market value are stated at fair market value.

Unrealized gain or loss on these securities is reported, net of the applicable income taxes, as a separate component of shareholders' equity. Realized gain or loss on sales of such securities is computed by the moving-average method.

Other securities are stated at cost by the moving-average method.

### *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 leases referred to as finance leases. Finance leases other than those which transfer the ownership of the leased property to the lessees 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 fair value as gains or losses unless the derivatives are being utilized for hedging purposes.

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

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

In addition, if interest-rate swap contracts meet certain hedging criteria, the net amount to be paid or received under these swap contracts is added to or deducted from the interest on the assets or liabilities for which the swap contracts were executed.

#### ***j. Allowance for doubtful accounts***

The allowance for doubtful accounts is provided at amounts sufficient to cover probable 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***

Employees of the Company and its consolidated subsidiaries are covered by an employees' retirement benefit plan and a non-contributory defined benefit pension plan.

Under these plans, all eligible employees are entitled to certain benefits based on their abilities, occupational roles, work performances, 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, 2005 and 2004 based on the estimated amounts of the projected benefit obligation less the fair value of the pension 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 (\$501,425 thousand), of which ¥398 million (\$3,706 thousand) was recognized as an expense as a result of the contribution of investment securities worth ¥398 million (\$3,706 thousand) to the employees' retirement benefit trust in 2000. The remaining net transition obligation amounting to ¥53,450 million (\$497,719 thousand) is being recognized in expenses in equal amounts primarily over 5 years commencing the year ended March 31, 2001.

The unrecognized net retirement benefit obligation at transition related to the substitutional portion of the National Welfare Pension Fund Plan was recognized as an expense effective the date permission for the release from future obligation for payments for the substitutional portion was received from the Ministry of Health, Labor and Welfare.

Prior service cost is recognized as incurred or is amortized 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 year following the year in which the gain or loss was recognized.

#### ***l. Directors' and corporate auditors' retirement benefits***

The Company and its consolidated subsidiaries accrue liabilities for the aggregate amount payable for directors' and corporate auditors' retirement benefits, pursuant to the internal regulations.

Through the year ended March 31, 2004, the Company and its consolidated subsidiaries charged retirement benefits for directors and corporate auditors to income when paid. Effective the year ended March 31, 2005, liabilities are recognized for directors' and corporate auditors' retirement benefits.

In recent years, the accounting policy of accruing liabilities for directors' and corporate auditors' retirement benefits has gained wider acceptance. Defining common accounting practices for Mitsui Chemicals Group and distributing retirement benefit expenses over the period when directors and corporate auditors remain in office will ensure more appropriate allocation of income/loss between periods and enhance the financial position of Mitsui Chemicals Group.

As a result of this change, operating income decreased by ¥315 million (\$2,933 thousand) and income before income taxes and minority interests decreased by ¥1,686 million (\$15,700 thousand) compared to the amounts that would have been reported if the previous accounting policy had been applied consistently.

#### ***m. 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.

Through the year ended March 31, 2004, the Company and several consolidated subsidiaries provided a reserve for the cost of periodic repairs carried out every few years. Effective the year ended March 31, 2005, the Company and several consolidated subsidiaries established an additional reserve for the cost of annual repairs.

Effective the current fiscal year, overall quarterly disclosure of financial information has been mandated and more precise disclosure of information is required. Providing a reserve for the cost of annual repairs proportional to the estimated operating time up to the next scheduled annual repairs will ensure more appropriate appointment of income/loss between periods and enhance the financial standard of Mitsui Chemicals Group.

As a result of this change, operating income decreased by ¥174 million (\$1,620 thousand) and income before income taxes and minority interests decreased by ¥2,027 million (\$18,875 thousand) compared to the amounts that would have been reported if the previous accounting policy had been applied consistently.

**n. 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.

**o. 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 from the date of purchase are considered cash and cash equivalents.

**p. Impairment of fixed assets**

Effective the year ended March 31, 2005, the Company and its consolidated domestic subsidiaries have adopted early a new accounting standard for impairment of fixed assets, "Opinion Concerning Establishment of Accounting Standard for Impairment of Fixed Assets" (Business Accounting Council, August 9, 2002) and "Implementation Guidance on Accounting for Impairment of Fixed Assets" (Accounting Standard Implementation Guidance No. 6, ASBJ, October 31, 2003), which are mandatory from the year beginning on April 1, 2005.

As a result of adopting this standard, income before taxes and minority interests decreased by ¥17,689 million (\$164,717 thousand) compared to the amount that would have been reported if the previous standards had been applied consistently. The accumulated impairment loss of ¥17,689 million (\$164,717 thousand) has been deducted from the respective assets, in accordance with the revised Regulations of Consolidated Financial Statements.

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**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 ¥107.39=US\$1.00, the approximate rate of exchange in effect on March 31, 2005. The convenience 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 the above or any other rate.

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**4. CASH AND CASH EQUIVALENTS**

Cash and cash equivalents at March 31, 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Cash . . . . .	¥28,068	¥27,986	\$261,365
Cash equivalents . . . . .	—	19	—
	¥28,068	¥28,005	\$261,365

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**5. INVENTORIES**

Inventories at March 31, 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Finished goods . . . . .	¥128,795	¥ 99,859	\$1,199,320
Work in process . . . . .	5,423	6,899	50,498
Raw materials and supplies . . . . .	50,149	46,474	466,980
	¥184,367	¥153,232	\$1,716,798

## 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, 2005 and 2004:

(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
	2005	2004	2005
Book value . . . . .	¥1	¥11	\$9
Fair value . . . . .	1	11	9
Difference . . . . .	0	0	0

(b) Available-for-sale securities

Securities with book value exceeding their acquisition cost

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Equity securities:			
Acquisition cost . . . . .	¥16,706	¥16,553	\$155,564
Book value . . . . .	44,012	39,826	409,833
Difference . . . . .	27,306	23,273	254,269

Other securities

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Equity securities:			
Acquisition cost . . . . .	¥1,534	¥2,253	\$14,284
Book value . . . . .	1,366	1,605	12,720
Difference . . . . .	(168)	(648)	(1,564)

B. The following tables summarize the book value of securities with no known fair value as of March 31, 2005 and 2004:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
(a) Held-to-maturity debt securities:			
Local government bonds . . . . .	¥ 61	¥ 57	\$ 568
(b) Available-for-sale securities:			
Unlisted equity securities . . . . .	¥19,847	¥19,922	\$184,812

C. Available-for-sale securities with maturities and held-to-maturity debt securities as of March 31, 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Local government bonds:			
Due within one year . . . . .	¥17	¥17	\$158
Due over one year but within five years . . . . .	26	26	242
Due over five years but within ten years . . . . .	19	19	177
Due over ten years . . . . .	-	-	-
Total . . . . .	¥62	¥62	\$577

D. Information related to available-for-sale securities for the year ended March 31, 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Sales-total . . . . .	<b>¥1,119</b>	¥12,823	<b>\$10,420</b>
Related gain-total . . . . .	<b>804</b>	4,171	<b>7,487</b>
Related loss-total . . . . .	<b>57</b>	85	<b>531</b>

## 7. SHORT-TERM DEBT AND LONG TERM DEBT

At March 31, 2005 and 2004, short-term debts were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
0.30%-6.30% bank loans . . . . .	<b>¥123,347</b>	¥126,060	<b>\$1,148,589</b>
Commercial paper . . . . .	<b>¥ 21,000</b>	¥ 27,700	<b>\$ 195,549</b>

At March 31, 2005 and 2004, long-term debts were as follows:

2.25% bonds due in 2004 . . . . .	¥ -	¥ 10,000	\$ -
2.95% bonds due in 2004 . . . . .	-	10,000	-
2.4% bonds due in 2004 . . . . .	-	10,000	-
2.7% bonds due in 2005 . . . . .	-	10,000	-
2.95% bonds due in 2008 . . . . .	<b>10,000</b>	10,000	<b>93,119</b>
2.7% bonds due in 2008 . . . . .	<b>10,000</b>	10,000	<b>93,119</b>
2.475% bonds due in 2005 . . . . .	-	10,000	-
2.07% bonds due in 2010 . . . . .	<b>10,000</b>	10,000	<b>93,119</b>
1.35% bonds due in 2005 . . . . .	<b>10,000</b>	10,000	<b>93,119</b>
1.94% bonds due in 2011 . . . . .	<b>10,000</b>	10,000	<b>93,119</b>
1.84% bonds due in 2011 . . . . .	<b>10,000</b>	10,000	<b>93,119</b>
1.62% bonds due in 2011 . . . . .	<b>10,000</b>	10,000	<b>93,119</b>
0.67% bonds due in 2006 . . . . .	<b>10,000</b>	10,000	<b>93,119</b>
0.79% bonds due in 2007 . . . . .	<b>10,000</b>	10,000	<b>93,119</b>
1.04% bonds due in 2009 . . . . .	<b>10,000</b>	10,000	<b>93,119</b>
1.36% bonds due in 2012 . . . . .	<b>10,000</b>	10,000	<b>93,119</b>
0.56% bonds due in 2007 . . . . .	<b>10,000</b>	10,000	<b>93,119</b>
0.50% bonds due in 2006 . . . . .	<b>10,000</b>	10,000	<b>93,119</b>
0.78% bonds due in 2013 . . . . .	<b>10,000</b>	10,000	<b>93,119</b>
0.88% bonds due in 2005 . . . . .	<b>1,000</b>	1,000	<b>9,312</b>
1.26% bonds due in 2009 . . . . .	<b>2,000</b>	3,000	<b>18,624</b>
1.60% bonds due in 2004 . . . . .	-	100	-
0.57% bonds due in 2007 . . . . .	<b>100</b>	100	<b>931</b>
0.46% bonds due in 2005 . . . . .	<b>120</b>	120	<b>1,117</b>
0.40% bonds due in 2006 . . . . .	<b>34</b>	68	<b>317</b>
Loans, principally from banks and insurance companies:			
Secured, at rates of 0.80% to 6.10% maturing through 2009 . . . . .	<b>23,984</b>	26,901	<b>223,336</b>
Unsecured, at rates of 0.40% to 5.95% maturing through 2014 . . . . .	<b>110,757</b>	107,577	<b>1,031,345</b>
	<b>277,995</b>	328,866	<b>2,588,648</b>
Less current portion . . . . .	<b>34,569</b>	77,298	<b>321,901</b>
	<b>¥243,426</b>	¥251,568	<b>\$2,266,747</b>

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

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2006 .....	¥ 34,569	\$ 321,901
2007 .....	43,881	408,613
2008 .....	39,387	366,766
2009 .....	31,383	292,234
2010 and thereafter .....	128,775	1,199,134
	<b>¥277,995</b>	<b>\$2,588,648</b>

At March 31, 2005, the assets pledged as collateral for long-term debt were as follows:

	Millions of yen	Thousands of U.S. dollars
Investment securities .....	¥ 10	\$ 93
Property, plant and equipment, net of accumulated depreciation .....	123,196	1,147,183

## 8. ACCRUED EMPLOYEES' RETIREMENT BENEFITS

The liability for severance and retirement benefits included in the consolidated balance sheets as of March 31, 2005 and 2004 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Projected benefit obligation .....	¥206,065	¥216,754	\$1,918,847
Unrecognized prior service cost .....	24	28	224
Unrecognized actuarial loss .....	(54,866)	(62,762)	(510,904)
Less fair value of pension plan assets .....	(92,261)	(83,959)	(859,121)
Less unrecognized net retirement benefits obligation at transition .....	—	(6,119)	—
Prepaid pension and severance cost .....	337	275	3,138
Liability for severance and retirement benefits .....	¥ 59,299	¥ 64,217	\$ 552,184

Included in the consolidated statements of income for the years ended March 31, 2005 and 2004 are severance and retirement benefit expenses comprised of the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Service cost-benefits earned during the year .....	¥ 5,637	¥ 5,589	\$ 52,491
Interest cost on projected benefit obligation .....	4,968	5,122	46,261
Expected return on plan assets .....	(2,026)	(1,628)	(18,866)
Amortization of net retirement benefits obligation at transition .....	6,119	6,118	56,979
Amortization of actuarial loss .....	5,851	6,281	54,484
Amortization of prior service cost .....	(11,792)	(4)	(109,805)
Severance and retirement benefit expenses .....	¥ 8,757	¥21,478	\$ 81,544

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

	2005	2004
Discount rate .....	2.50%	2.50%
Rate of expected return on the pension plan assets .....	2.50%	2.50%

The estimated amount of all retirement benefits to be paid at future retirement dates is allocated equally to each service year over the estimated total service years. Prior service cost is recognized as incurred or is amortized 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 year following the year in which the gain or loss was recognized.



## 9. LOSS ON IMPAIRMENT OF FIXED ASSETS

Loss on impairment of fixed assets for the year ended March 31, 2005 consisted of the following.

Location	Major use	Asset category	Millions of yen	Thousands of U.S. dollars	Remarks
Tahara City, . . . . . Aichi Prefecture, others	Factory	Land	¥ 8,969	\$83,518	Idle property
Izumi City, . . . . . Osaka Prefecture	Company house for employees	Land	7,001	65,192	Idle property
Others, 3 items . . . . .	Production facilities, etc.	Machinery and equipment, buildings and structures, others	600	5,587	Business assets in use
10 items . . . . .	Company house for employees, etc.	Land, buildings and structures, machinery and equipment, others	1,119	10,420	Idle property
Total . . . . .			¥17,689	\$164,717	

The Company and its consolidated domestic subsidiaries have categorized assets used for business activities based on business divisions or units based on business divisions. Of these assets, those assets that are to be disposed of due to withdrawal from a business or for another reason are assessed on an individual basis. In addition, assets that are idle or not being used for production activities are assessed on an individual basis.

Regarding assets used for business activities, the book value for assets to be disposed of due to withdrawal from a business or for another reason is, in cases where the recoverable amount is below book value, reduced to the recoverable amount. The resulting impairment loss amounting to ¥600 million (\$5,587 thousand) was recorded as other expenses. This impairment loss comprised ¥497 million (\$4,628 thousand) for machinery and equipment, ¥97 million (\$922 thousand) for buildings and structures, and ¥4 million (\$37 thousand) for other assets. Values in use of these assets are used as their recoverable amount for the measurement of the impairment loss. However, since there were no future cash flows, the values in use of these assets were zero.

The book value of assets that are idle or not being used for production activities is, in cases where there are no specific plans for future use and where the recoverable amount is below its book value due to a decline in the market price of land or another reason, reduced to the recoverable amount. The resulting impairment loss amounting to ¥17,089 million (\$159,130 thousand) was recorded as other expenses. This impairment loss comprised ¥16,958 million (\$157,910 thousand) for land, ¥83 million (\$773 thousand) for buildings and structures, ¥37 million (\$345 thousand) for machinery and equipment, and ¥11 million (\$102 thousand) for other assets. Net sales prices of these assets are used as their recoverable amounts for the measurement of the impairment loss. For assets with material importance, the value provided by a real estate appraiser is used as the fair value. For assets that are to be sold, the estimated sales price is used. For all other assets, the valuation used for property taxation is primarily used.

## 10. INCOME TAXES

The Company and its domestic consolidated subsidiaries are subject to a number of income taxes in Japan which, in the aggregate, resulted in statutory tax rates of approximately 40.6% and 41.9% for the years ended March 31, 2005 and 2004, respectively. The overseas consolidated subsidiaries are subject to the income taxes of their countries of domicile.

The following table summarizes the significant differences between the statutory tax rates and effective tax rates for consolidated financial statement purposes for the years ended March 31, 2005 and 2004.

	2005	2004
Statutory tax rates . . . . .	40.6%	41.9%
Non-deductible expenses . . . . .	1.3	3.2
Equity in earnings of non-consolidated subsidiaries and affiliates . . . . .	(5.1)	(5.5)
Loss carryforwards of consolidated subsidiaries . . . . .	–	9.8
Increase in valuation allowance . . . . .	13.9	–
Elimination of unrecognized gain on sales of consolidated subsidiaries and affiliates . . . . .	1.3	–
Tax credit . . . . .	(5.6)	(7.6)
Differences of statutory tax rate in overseas consolidated subsidiaries . . . . .	(4.8)	(4.6)
Other . . . . .	0.6	(1.6)
Effective tax rates . . . . .	42.2%	35.6%

The significant components of the Company's and its consolidated subsidiaries' deferred tax assets and liabilities as of March 31, 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
<b>Deferred tax assets:</b>			
Allowance for doubtful accounts . . . . .	¥ 1,941	¥ 2,986	\$ 18,074
Employees' retirement benefits . . . . .	23,534	25,239	219,145
Accrued bonuses . . . . .	4,824	4,773	44,920
Depreciation . . . . .	5,422	5,342	50,489
Accrued enterprise tax . . . . .	2,223	815	20,700
Loss carryforwards of consolidated subsidiaries . . . . .	8,205	6,089	76,404
Reserve for periodic repairs . . . . .	3,466	1,788	32,275
Elimination of unrecognized gain on sale of a business . . . . .	1,383	2,767	12,878
Loss on write-down of inventories . . . . .	1,651	1,307	15,374
Loss on write-down of investment securities . . . . .	4,536	4,105	42,239
Loss on impairment of fixed assets . . . . .	7,160	–	66,673
Other . . . . .	11,368	8,761	105,857
Subtotal . . . . .	75,713	63,972	705,028
Valuation allowance . . . . .	(10,675)	(3,374)	(99,404)
Total deferred tax assets . . . . .	65,038	60,598	605,624
<b>Deferred tax liabilities:</b>			
Net unrealized holding gain on securities . . . . .	(10,951)	(9,033)	(101,974)
Deferred gain on real properties . . . . .	(3,726)	(3,791)	(34,696)
Reserve for special depreciation . . . . .	(148)	(236)	(1,378)
Retained earnings of overseas consolidated subsidiaries, etc. . . . .	(4,233)	(1,979)	(39,417)
Other . . . . .	(2,796)	(2,840)	(26,036)
Total deferred tax liabilities . . . . .	(21,854)	(17,879)	(203,501)
Net deferred tax assets . . . . .	¥ 43,184	¥ 42,719	\$ 402,123

## 11. 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.

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 earnings reserve until the total amount of legal earnings reserve and additional paid-in capital equals 25% of common stock. The legal earnings reserve and additional paid-in capital may be used to eliminate or reduce a deficit by resolution of the shareholders' meeting or may be transferred to common stock by resolution of the Board of Directors. The Code also stipulates that, to the extent that the sum of additional paid-in capital and the legal earnings reserve exceeds 25% of the common stock account, the amount of any such excess is available for appropriation by resolution of the stockholders. Legal earnings 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.

Appropriations are not accrued in the financial statements for the period to which they relate, but are recorded in the subsequent accounting period when the stockholders' approval has been obtained. Retained earnings at March 31, 2005 include amounts representing the year-end cash dividends and bonuses to directors and corporate auditors approved at the stockholders' meeting held on June 28, 2005 as discussed in Note 17.

## 12. CONTINGENT LIABILITIES

Contingent liabilities at March 31, 2005 were as follows:

	Millions of yen	Thousands of U.S. dollars
As guarantor of indebtedness, principally of non-consolidated subsidiaries and affiliates . . . . .	¥21,382	\$ 199,106
As issuer of commitments for guarantees . . . . .	66	615

### 13. LEASES

Lease payments under finance leases, which are accounted for in the same manner as operating leases for the year ended March 31, 2005 were ¥2,613 million (\$24,332 thousand). Future lease payments under such finance leases as of March 31, 2005, inclusive of interest, were ¥6,407 million (\$59,661 thousand), including ¥2,189 million (\$20,384 thousand) due within one year.

Future lease payments under operating leases as of March 31, 2005 were ¥30 million (\$279 thousand), including ¥18 million (\$168 thousand) due after one year.

### 14. RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses for the years ended March 31, 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Research and development expenses . . . . .	<b>¥34,881</b>	¥32,894	<b>\$324,807</b>

### 15. DERIVATIVES

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

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

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

The following summarizes the derivatives used by the Companies as hedging instruments and the items hedged:

Hedging instruments:	Hedged items:
Forward foreign exchange contracts	Foreign currency trade receivables and trade payables, planned transactions denominated in foreign currency
Interest-rate swap contracts	Interest on loans payable

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

Market value information on the derivatives positions open as of March 31, 2005 and 2004 has not been disclosed as deferred hedge accounting has been applied.

### 16. SEGMENT INFORMATION

Business segment information of the Company and its consolidated subsidiaries for the years ended March 31, 2005 and 2004 is summarized as follows:

Year ended March 31, 2005	Millions of yen						Consolidated
	Functional Chemicals & Engineered Materials	Functional Polymeric Materials	Basic Chemicals	Petrochemicals	Others	Eliminations	
<b>I. Sales and operating income:</b>							
Customers . . . . .	<b>¥183,434</b>	<b>¥262,861</b>	<b>¥427,202</b>	<b>¥316,564</b>	<b>¥ 37,486</b>	<b>¥ -</b>	<b>¥1,227,547</b>
Inter-segment . . . . .	<b>4,957</b>	<b>13,883</b>	<b>44,051</b>	<b>86,301</b>	<b>118,307</b>	<b>(267,499)</b>	<b>-</b>
Total sales . . . . .	<b>188,391</b>	<b>276,744</b>	<b>471,253</b>	<b>402,865</b>	<b>155,793</b>	<b>(267,499)</b>	<b>1,227,547</b>
Operating expenses . . . . .	<b>179,336</b>	<b>268,266</b>	<b>435,207</b>	<b>377,447</b>	<b>154,512</b>	<b>(267,712)</b>	<b>1,147,056</b>
Operating income . . . . .	<b>¥ 9,055</b>	<b>¥ 8,478</b>	<b>¥ 36,046</b>	<b>¥ 25,418</b>	<b>¥ 1,281</b>	<b>¥ 213</b>	<b>¥ 80,491</b>
<b>II. Assets, depreciation, loss on impairment of fixed assets and capital expenditures:</b>							
Total assets . . . . .	<b>¥207,464</b>	<b>¥264,847</b>	<b>¥293,077</b>	<b>¥281,573</b>	<b>¥ 68,271</b>	<b>¥ 89,953</b>	<b>¥1,205,185</b>
Depreciation and amortization . . . . .	<b>11,003</b>	<b>17,844</b>	<b>13,498</b>	<b>13,487</b>	<b>1,208</b>	<b>(270)</b>	<b>56,770</b>
Loss on impairment of fixed assets . . . . .	<b>129</b>	<b>22</b>	<b>582</b>	<b>57</b>	<b>-</b>	<b>16,899</b>	<b>17,689</b>
Capital expenditures . . . . .	<b>10,100</b>	<b>10,375</b>	<b>14,087</b>	<b>11,514</b>	<b>1,059</b>	<b>-</b>	<b>47,135</b>

Thousands of U.S. dollars

Year ended March 31, 2005	Functional Chemicals & Engineered Materials	Functional Polymeric Materials	Basic Chemicals	Petrochemicals	Others	Eliminations	Consolidated
I. Sales and operating income:							
Customers . . . . .	\$1,708,110	\$2,447,723	\$3,978,043	\$2,947,798	\$ 349,064	\$ -	\$11,430,738
Inter-segment . . . . .	46,159	129,277	410,196	803,622	1,101,658	(2,490,912)	-
Total sales . . . . .	1,754,269	2,577,000	4,388,239	3,751,420	1,450,722	(2,490,912)	11,430,738
Operating expenses . . . . .	1,669,951	2,498,054	4,052,584	3,514,731	1,438,793	(2,492,895)	10,681,218
Operating income . . . . .	\$ 84,318	\$ 78,946	\$ 335,655	\$ 236,689	\$ 11,929	\$ 1,983	\$ 749,520
II. Assets, depreciation, loss on impairment of fixed assets and capital expenditures:							
Total assets . . . . .	\$1,931,874	\$2,466,217	\$2,729,090	\$2,621,967	\$ 635,730	\$ 837,629	\$11,222,507
Depreciation and amortization . .	102,458	166,161	125,691	125,589	11,249	(2,514)	528,634
Loss on impairment of fixed assets . . . . .	1,201	205	5,419	531	-	157,361	164,717
Capital expenditures . . . . .	94,050	96,610	131,176	107,217	9,861	-	438,914

Millions of yen

Year ended March 31, 2004	Functional Chemicals & Engineered Materials	Functional Polymeric Materials	Basic Chemicals	Petrochemicals	Others	Eliminations	Consolidated
I. Sales and operating income:							
Customers . . . . .	¥218,266	¥224,802	¥324,092	¥260,363	¥ 61,995	¥ -	¥1,089,518
Inter-segment . . . . .	14,463	18,600	53,632	60,605	125,436	(272,736)	-
Total sales . . . . .	232,729	243,402	377,724	320,968	187,431	(272,736)	1,089,518
Operating expenses . . . . .	215,858	236,193	358,795	313,842	183,688	(272,800)	1,035,576
Operating income . . . . .	¥ 16,871	¥ 7,209	¥ 18,929	¥ 7,126	¥ 3,743	¥ 64	¥ 53,942
II. Assets, depreciation and capital expenditures:							
Total assets . . . . .	¥261,359	¥282,809	¥325,067	¥283,920	¥ 77,412	¥ (42,101)	¥1,188,466
Depreciation and amortization . .	12,316	17,515	14,903	10,873	951	(457)	56,101
Capital expenditures . . . . .	7,578	11,751	11,069	14,786	538	-	45,722

Effective the year ended March 31, 2005, the Company and its consolidated subsidiaries changed business segment classification partially and the Company changed allocation methods for certain operating expenses and assets. The business segment information based on the new classification and allocation methods for the year ended March 31, 2004 was summarized as follows:

Millions of yen

Year ended March 31, 2004	Functional Chemicals & Engineered Materials	Functional Polymeric Materials	Basic Chemicals	Petrochemicals	Others	Eliminations	Consolidated
I. Sales and operating income:							
Customers . . . . .	¥180,339	¥233,081	¥335,986	¥298,756	¥41,356	¥ -	¥1,089,518
Inter-segment . . . . .	2,918	12,564	34,273	66,626	125,842	(242,223)	-
Total sales . . . . .	183,257	245,645	370,259	365,382	167,198	(242,223)	1,089,518
Operating expenses . . . . .	170,545	240,678	349,118	352,168	165,354	(242,287)	1,035,576
Operating income . . . . .	¥ 12,712	¥ 4,967	¥ 21,141	¥ 13,214	¥ 1,844	¥ 64	¥ 53,942
II. Assets, depreciation and capital expenditures:							
Total assets . . . . .	¥207,059	¥261,406	¥289,008	¥297,549	¥65,267	¥ 68,177	¥1,188,466
Depreciation and amortization . .	10,546	17,022	14,647	13,050	1,147	(311)	56,101
Capital expenditures . . . . .	6,212	11,687	11,016	16,220	587	-	45,722

Effective the year ended March 31, 2005, the Company and its consolidated subsidiaries changed their accounting policy for inventories. This change had the effect of reducing operating income by ¥1,336 million (\$12,441 thousand) in Functional Chemicals & Engineered Materials, by ¥186 million (\$1,732 thousand) in Functional Polymeric Materials, by ¥83 million (\$773 thousand) in Basic Chemicals, by ¥137 million (\$1,276 thousand) in Petrochemicals and by ¥33 million (\$307 thousand) in the Others business segment.

Effective the year ended March 31, 2005, the Company and its consolidated subsidiaries changed their accounting policy for directors' and corporate auditors' retirement benefits. This change had a negligible impact on the operating income of each business segment.

Effective the year ended March 31, 2005, the Company and several consolidated subsidiaries changed their accounting policy for their reserve for periodic repairs. This change had a negligible impact on the operating income of each business segment.

Effective the year ended March 31, 2005, the Company and its consolidated domestic subsidiaries adopted early a new accounting standard for impairment of fixed assets. The effect of adopting this standard on the operating income of each business segment is detailed above.

Geographic segment information of the Company and its consolidated subsidiaries for the years ended March 31, 2005 and 2004 is summarized as follows:

Year ended March 31, 2005	Millions of yen				
	Japan	Asia	Others	Eliminations	Consolidated
<b>I. Sales and operating income:</b>					
Customers . . . . .	¥1,025,748	¥130,259	¥71,540	¥ –	¥1,227,547
Inter-segment . . . . .	41,756	31,939	2,849	(76,544)	–
Total sales . . . . .	1,067,504	162,198	74,389	(76,544)	1,227,547
Operating expenses . . . . .	1,005,371	146,781	71,134	(76,230)	1,147,056
Operating income . . . . .	¥ 62,133	¥ 15,417	¥ 3,255	¥ (314)	¥ 80,491
<b>II. Assets . . . . .</b>	<b>¥1,084,381</b>	<b>¥129,276</b>	<b>¥39,858</b>	<b>¥(48,330)</b>	<b>¥1,205,185</b>

Year ended March 31, 2005	Thousands of U.S. dollars				
	Japan	Asia	Others	Eliminations	Consolidated
<b>I. Sales and operating income:</b>					
Customers . . . . .	\$ 9,551,615	\$1,212,953	\$666,170	\$ –	\$11,430,738
Inter-segment . . . . .	388,826	297,411	26,530	(712,767)	–
Total sales . . . . .	9,940,441	1,510,364	692,700	(712,767)	11,430,738
Operating expenses . . . . .	9,361,868	1,366,803	662,390	(709,843)	10,681,218
Operating income . . . . .	\$ 578,573	\$ 143,561	\$ 30,310	\$ (2,924)	\$ 749,520
<b>II. Assets . . . . .</b>	<b>\$10,097,598</b>	<b>\$1,203,799</b>	<b>\$371,152</b>	<b>\$(450,042)</b>	<b>\$11,222,507</b>

Year ended March 31, 2004	Millions of yen				
	Japan	Asia	Others	Eliminations	Consolidated
<b>I. Sales and operating income:</b>					
Customers . . . . .	¥ 928,721	¥ 95,516	¥65,281	¥ –	¥1,089,518
Inter-segment . . . . .	32,441	19,471	2,606	(54,518)	–
Total sales . . . . .	961,162	114,987	67,887	(54,518)	1,089,518
Operating expenses . . . . .	922,876	103,497	63,721	(54,518)	1,035,576
Operating income . . . . .	¥ 38,286	¥ 11,490	¥ 4,166	¥ –	¥ 53,942
<b>II. Assets . . . . .</b>	<b>¥1,088,003</b>	<b>¥111,064</b>	<b>¥36,181</b>	<b>¥(46,782)</b>	<b>¥1,188,466</b>

Effective the year ended March 31, 2005, the Company and its consolidated subsidiaries changed their accounting policy for inventories. This change had the effect of reducing operating income by ¥1,775 million (\$16,529 thousand) in Domestic (in Japan).

Effective the year ended March 31, 2005, the Company and its consolidated subsidiaries changed their accounting policy for directors' and corporate auditors' retirement benefits. This change had a negligible impact on the operating income of each geographic segment.

Effective the year ended March 31, 2005, the Company and several consolidated subsidiaries changed their accounting policy for their reserve for periodic repairs. This change had a negligible impact on the operating income of each geographic segment.

Effective the year ended March 31, 2005, the Company and its consolidated domestic subsidiaries adopted early a new accounting standard for impairment of fixed assets. As a result of adopting this standard, the assets in Domestic (in Japan) decreased by ¥17,689 million (\$164,717 thousand).

Overseas sales of the Company and its consolidated subsidiaries for the years ended March 31, 2005 and 2004 are summarized by geographic area as follows:

Year ended March 31, 2005	Millions of yen				Overseas sales
	Asia	North America and Latin America	Europe	Others	
Overseas sales . . . . .	¥335,090	¥53,573	¥38,069	¥7,864	¥ 434,596
Consolidated net sales . . . . .					1,227,547
Ratio of overseas sales to consolidated net sales . . . . .	27.3%	4.4%	3.1%	0.6%	35.4%

Year ended March 31, 2005	Thousands of U.S. dollars				Overseas sales
	Asia	North America and Latin America	Europe	Others	
Overseas sales . . . . .	\$3,120,309	\$498,864	\$354,493	\$73,228	\$4,046,894

Year ended March 31, 2004	Millions of yen				Overseas sales
	Asia	North America and Latin America	Europe	Others	
Overseas sales . . . . .	¥257,920	¥51,090	¥30,833	¥4,734	¥ 344,577
Consolidated net sales . . . . .					1,089,518
Ratio of overseas sales to consolidated net sales . . . . .	23.7%	4.7%	2.8%	0.4%	31.6%

## 17. SUBSEQUENT EVENTS

A. The following appropriations of retained earnings at March 31, 2005 were duly approved at the meeting of the Company's stockholders held on June 28, 2005 as follows:

	Millions of yen	Thousands of U.S. dollars
Cash dividends of ¥4 (\$0.04) per share . . . . .	¥3,140	\$29,239
Bonuses to directors and corporate auditors . . . . .	67	624

### B. Polyolefin Business Integration

Pursuant to the joint venture agreement as well as the corporate spin-off plan on establishing a joint venture company in the polyolefin business signed by the Company and Idemitsu Kosan Co., Ltd. dated December 10, 2004, a joint venture company, Prime Polymer Co., Ltd., was established by spin off of the two companies' polyolefin businesses with capital of ¥20 billion (US\$186 million), 65% of which was contributed by the Company, on April 1, 2005, and the new company commenced operations on that day.

#### (1) Objective

The basic mission of the new company forming a part of the comprehensive agreement between the Company and Idemitsu Kosan is to pursue the maximization of shareholder value by strategically consolidating the two parent companies' worldwide polyolefin businesses in all aspects of production, sales and R&D through an expanded business scale and the highest synergy effects.

#### (2) Profile of combined business

Manufacturing, marketing and R&D of polypropylene and polyethylene (LDPE, LLDPE and HDPE)

#### (3) Projected increase in sales from the assumption of Idemitsu Kosan's polyolefin business

Approximately: ¥115 billion (US\$1,071 million, in the year ended March 31, 2006)

#### (4) Assets and liabilities assumed by the Group

	Millions of yen	Thousands of U.S. dollars
Current assets . . . . .	¥29,524	\$274,923
Fixed assets . . . . .	17,060	158,860
Total assets . . . . .	¥46,584	\$433,783
Current liabilities . . . . .	¥14,162	\$131,875
Long-term liabilities . . . . .	927	8,632
Total liabilities . . . . .	¥15,089	\$140,507

# Report of Independent Auditors

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 as of March 31, 2005 and 2004, and the related consolidated statements of income, stockholders' equity, and cash flows for the years then ended, all expressed in yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion independently on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Mitsui Chemicals, Inc. and consolidated subsidiaries as of March 31, 2005 and 2004, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

Without qualifying our opinion, we draw attention to the following.

1. As discussed in note 2 (c) to the consolidated financial statements, effective for the year ended March 31, 2005, the company and consolidated subsidiaries changed its accounting method for inventories.
2. As discussed in note 2 (l) to the consolidated financial statements, effective for the year ended March 31, 2005, the company and consolidated subsidiaries changed its accounting method for directors' and corporate auditors' retirement benefits.
3. As discussed in note 2 (m) to the consolidated financial statements, effective for the year ended March 31, 2005, the company and several consolidated subsidiaries changed its accounting method for reserve for periodic repairs.
4. As discussed in note 2 (p) to the consolidated financial statements, effective for the year ended March 31, 2005, the company and consolidated subsidiaries have adopted the new accounting standard for impairment of fixed assets.
5. As discussed in note 16 to the consolidated financial statements, effective for the year ended March 31, 2005, the company and consolidated subsidiaries changed business segment classification and allocation methods.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2005 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 to the consolidated financial statements.

Tokyo, Japan  
June 28, 2005

KPMG AZSA & Co.  
Ernst & Young Shin Nihon

# Subsidiaries and Major Affiliates

(As of March 31, 2005)

\* Consolidated subsidiary

Companies	Major Products or Lines of Business	Paid-in Capital (In millions)	Equity Interest (%)
<b>Functional Chemicals &amp; Engineered Materials Business Group</b>			
* Kyuushyuu Fine Chemicals, Inc.	Agricultural chemicals and industrial chemicals	¥ 50	100
* Sanchu Chemicals, Inc.	Agricultural chemicals and industrial chemicals	¥ 10	100
* Santou Chemicals, Inc.	Agricultural chemicals and industrial chemicals	¥ 30	100
* Sun Medical Co., Ltd.	Dental materials	¥ 100	70
* Sunrex Industry Co., Ltd.	Spunbonded nonwoven fabrics and plastic film	¥ 240	100
* Chukyou Kousan Co., Ltd.	Direct contracting and miscellaneous	¥ 20	100
* Toyo Beauty Supply Corporation	Cosmetics	¥ 40	60
* Nippon Corrosion Resistant Material Co., Ltd.	Corrosion resistant materials	¥ 30	80
* Hi-Sheet Industries, Ltd.	Plastic products	¥ 100	100
* Printec Corp.	Printed wiring boards and electronic appliances	¥ 250	100
* Miike Dyes Works, Ltd.	Dyestuffs, pigments and intermediates	¥ 1,300	100
* Mitsui Chemicals Industrial Products, Ltd.	Civil engineering and construction materials	¥ 400	95.2
* Mitsui Kagaku Fine Chemicals, Inc.	Fine and speciality chemicals	¥ 400	63
* Mitsui Kagaku Platech Co., Ltd.	Agricultural materials, food packaging materials and industrial materials	¥ 490	100
* Mitsui Toatsu Agricultural Chemicals, Inc.	Agricultural chemicals and industrial chemicals	¥ 310	100
* ESCO Company Limited Partnership	Color former and catalyst	US\$ 21	51
* Mitsui Hygiene Materials (Thailand) Co., Ltd.	Spunbonded nonwoven fabrics	Baht 566	100
* Mitsui Petrochemicals (Netherlands) B.V.	Binder split yarn	¥ 54	100
* Taiwan Mitsui Chemicals, Inc.	Sales of electronics and information materials	NT\$ 14	99.9
MCI Great Britain Limited	Investment to Image Polymers Europe UK Partnership	Pound 2.26	100
Honshu Chemical Industry, Ltd.	Raw materials for synthetic resins, synthetic fibers, dyes, pharmaceuticals, agricultural chemicals, rubber and other chemicals	¥ 1,500	26.9
Yamamoto Chemicals, Inc.	Dyes, pigments and industrial chemicals	¥ 2,134	31.7
Image Polymers Company	Toner resin	US\$ 12.9	50
Image Polymers Europe UK Partnership	Toner resin	Pound 11.5	50
Mc Albarne Pte Limited	Marketing of aluminum alkyl	S\$ 0.12	50
Polyimide Laminate Systems, LLC	Polyimide flexible laminate	US\$ 0.1	50
<b>Functional Polymeric Materials Business Group</b>			
* Molding and Compounding Industries, Ltd.	Synthetic resin compounds and wood preservatives	¥ 300	100
* Saxin Corporation	Engineering plastic moldings	¥ 128	71.4
* Sun Alloys Co., Ltd.	Compounded polymers	¥ 50	100
* Sanseikaihatsu Co., Ltd.	Direct contracting and miscellaneous	¥ 490	100
* Sansei Container Manufacturing Company Ltd.	Metal container	¥ 90	100
* Sunbake Co., Ltd.	Wood adhesives	¥ 700	60
* Japan Composite Co., Ltd.	Unsaturated polyester resins and molding materials for FRP	¥ 1,005	65
* Chiba Polyol Corporation	Polypropylene glycol	¥ 100	90
* Tohoku Uloid Co., Ltd.	Formalin, wood adhesives and fertilizers	¥ 80	100
* Bohsoh Fine Co., Ltd.	Compounded polymers	¥ 20	100
* Hokuto Industry, Ltd.	Synthetic resin molding compounds and molded parts	¥ 40	74.875
* Hokkaido Mitsui Chemicals, Inc.	Wood adhesives, paper resins and foliar activator	¥ 2,000	100
* Mitsui Chemicals Aquapolymer, Inc.	Organic flocculant	¥ 460	100
* Mitsui Takeda Chemicals, Inc.	Urethane raw materials, urethane derivatives and organic acids	¥ 20,008	51
* U-PLEX Co., Ltd.	Civil engineering and construction materials mainly of urethane resins	¥ 100	60
* Anderson Development Company	Specialty chemicals	US\$ 19.2	100
* Cosmo Scientex (M) Sdn. Bhd.	Urethane prepolymers for flexible packaging applications and providing technical services and assistance to customers	RM 10	70
* Mitsui Elastomers Singapore Pte. Ltd.	Elastomers	US\$ 35	100
* P.T. Arjuna Utama Kimia	Adhesives and formalin	US\$ 2.6	58.9
* P.T. Cosmo Polyurethane Indonesia	Urethane premixture	US\$ 1.1	81
* P.T. Mitsui Eterindo Chemicals	Acrylamide	US\$ 3	70
* MTK Chemicals Pte. Ltd.	Coating resins	S\$ 3.6	65
* Thai Mitsui Specialty Chemicals Co., Ltd.	Specialty chemicals	Baht 318	51.9
* Yongsan Mitsui Chemicals, Inc.	Acrylamide	Won 3,850	50
Gem Pc Ltd.	Engineering plastics	¥ 3,600	42
Nippon A&L Inc.	SBR latex and ABS resin	¥ 5,996	33



\* Consolidated subsidiary

Companies	Major Products or Lines of Business	Paid-in Capital (In millions)	Equity Interest (%)
GE Plastics Japan Ltd.	Bisphenol-A and engineering plastics	¥ 9,800	41
Du Pont-Mitsui Fluorochemicals Co., Ltd.	Fluorocarbon resin and gas, and other chemicals	¥ 2,880	50
Kumho Mitsui Chemicals, Inc.	MDI	Won 50,000	50
Malayan Adhesives & Chemicals Sdn. Bhd.	Adhesives and formalin	M\$ 14	32
Tianjin Cosmo Polyurethane Co., Ltd.	Urethane premixture	Yuan 29.5	45
Crosslene Chemical Ind., Ltd.	Urethane resins	NT\$ 200	50
<b>Basic Chemicals Business Group</b>			
* San-eito Co., Ltd.	Direct contracting and miscellaneous	¥ 10	50
* Shimonoeki Mitsui Chemicals, Inc.	Phosphoric acid and fertilizers	¥ 4,000	100
* Chiba Phenol Company, Limited	Phenol and acetone	¥ 300	55
* Toyo Phosphoric Acid, Inc.	Phosphoric acid	¥ 1,500	83.3
* Mitsui Toatsu Inorganic Chemicals, Inc.	Inorganic chemicals	¥ 100	50
* Mitsui Bisphenol Singapore Pte. Ltd.	Bisphenol-A	US\$ 66.0	100
* Mitsui Phenol Singapore Pte. Ltd.	Phenol and acetone	US\$ 54	90
* Siam Mitsui PTA Co., Ltd.	PTA	Baht 2,800	49
* Smh Co., Ltd.	Investment to Siam Mitsui PTA Co., Ltd.	Baht 60	51
P.T. Amoco Mitsui PTA Indonesia	PTA	US\$ 160	45
P.T. Indonesia Pet Bottle	Pet bottle	US\$ 5	25
P.T. Petnesia Resindo	Polyethylene terephthalate resin for bottles	US\$ 28.6	41.6
Thai Pet Resin Co., Ltd.	Polyethylene terephthalate resin for bottles	Baht 900	40
<b>Petrochemicals Business Group</b>			
* Ube Polypropylene Co., Ltd.	Polypropylene	¥ 475	100
* Osaka Petrochemical Industries, Ltd.	Ethylene, propylene and other basic petrochemical products	¥ 5,000	100
* Cosumoso Co., Ltd.	Direct contracting and miscellaneous	¥ 45	100
* Tohcello Co., Ltd.	Plastic film	¥ 2,370	62.9
* Evolve Japan Co., Ltd.	Polyethelene	¥ 400	75
* Himawari Co., Ltd.	Direct contracting and miscellaneous	¥ 85	100
* Advanced Composites, Inc.	Polypropylene compound	US\$ 10	62.8
* Advanced Composites Mexicana S.A.DE C.V.	Compounded polymers	US\$ 2.6	100
* Mitsui Advanced Composites (Zhongshan) Co., Ltd.	Polypropylene and polypropylene compound	US\$ 6	100
Keiyo Ethylene Co., Ltd.	Ethylene, propylene and other basic petrochemical products	¥ 6,000	22.5
Japan Polystyrene Inc.	Polystyrene	¥ 2,000	50
Du Pont-Mitsui Polychemicals Co., Ltd.	Ethylene vinyl acetate copolymer and other plastics	¥ 6,480	50
Eternal Plastics Co., Ltd.	Polystyrene	Baht 240	44
Grand Siam Composites Co., Ltd.	Polypropylene and polypropylene compound	Baht 60	48
Mitsui Hi-Polymer (Asia) Ltd.	Sales of high-density polyethylene	US\$ 11.5	50
<b>Others</b>			
* MCI Logistics (west), Inc.	General trucking and warehousing	¥ 400	100
* MCI Logistics (east), Inc.	General trucking and warehousing	¥ 400	100
* Mc Human Resource, Inc.	Placement, temporary work and payroll services	¥ 40	100
* San-Business Services, Ltd.	Travel and general damage insurance agency	¥ 50	100
* Mitsui Chemicals Engineering Co., Ltd.	Engineering, plant construction and machine maintenance	¥ 400	100
* Mitsui Chemicals Logistics, Inc.	Logistics freight transport and packaging	¥ 600	100
* Mitsui Chemical Analysis & Consulting Service, Inc.	Performing analysis, physical property measurements, and safety tests on chemicals	¥ 130	100
* Mitsui Toatsu Fertilizers, Inc.	Compound fertilizers, synthetic soil and liquid fertilizers	¥ 500	100
* Mitsui Chemicals America, Inc.	Manufacture of ADMER and marketing of Mitsui Chemicals products	US\$ 5.1	100
* Mitsui Chemicals Asia, Ltd.	Marketing of Mitsui Chemicals products	US\$ 1.7	100
* Mitsui Chemicals Europe GmbH.	Manufacture of polypropylene compound, ADMER and marketing of Mitsui Chemicals products	Euro 1.2	100
* Mitsui Chemicals (Shanghai) Co., Ltd.	Marketing of Mitsui Chemicals products	US\$ 0.3	100
Toyo Engineering Corporation	Engineering and plant construction	¥ 13,018.00	24.7

# Corporate Data

(As of March 31, 2005)

## Date Incorporated

July 25, 1947  
(Inaugurated October 1, 1997)

## Paid-in Capital

¥103,226 million

## Number of Employees

12,228 (Consolidated)  
4,937 (Non-consolidated)

## Shares of Common Stock Issued and Outstanding

789,156,353

## Number of Stockholders

102,317

## Stock Listings

Tokyo

## Transfer Agent

The Chuo Mitsui Trust & Banking Co., Ltd.

## Offices

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Shiodome City Center, 1-5-2, Higashi-Shimbashi,  
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Singapore

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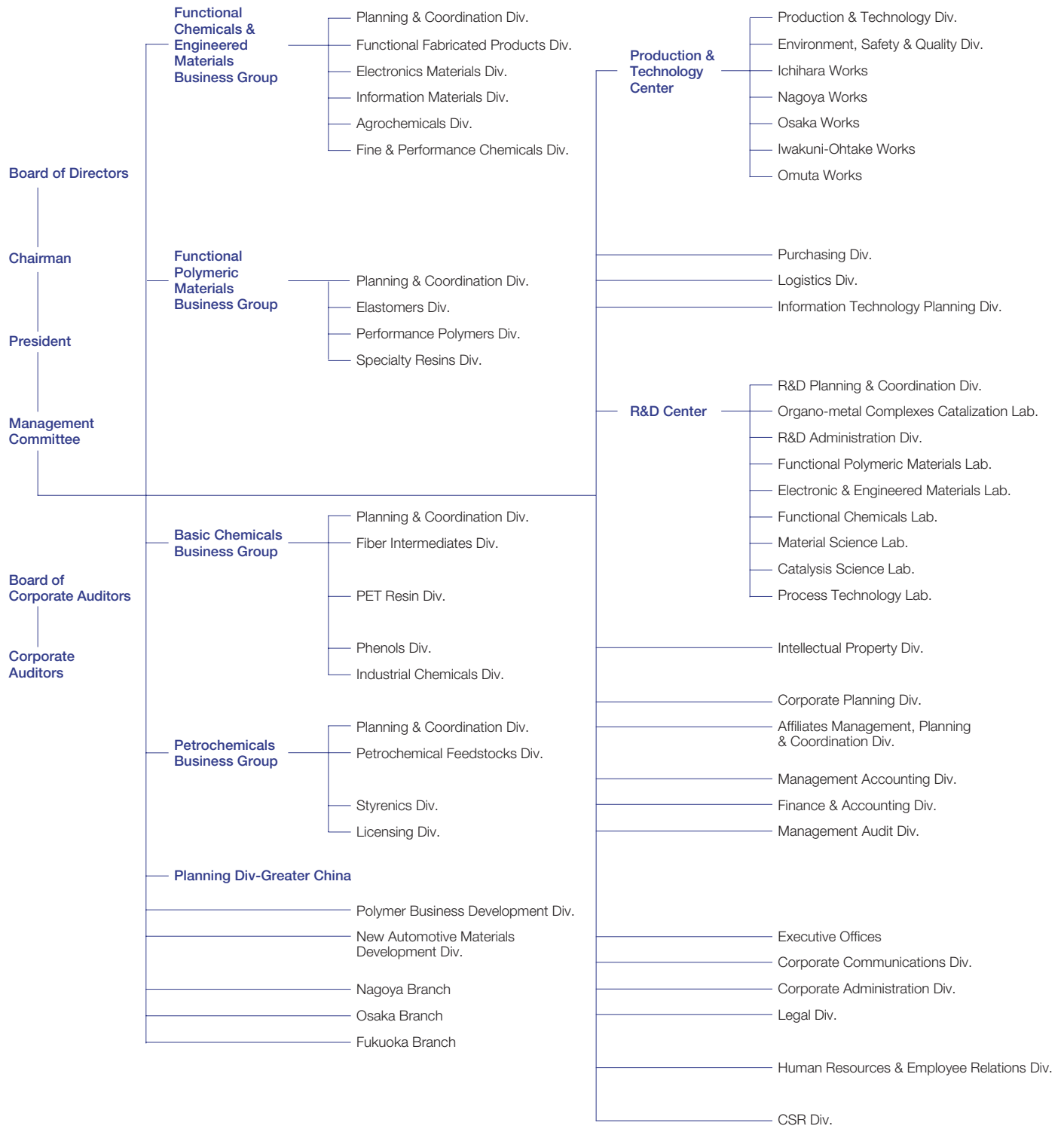
China

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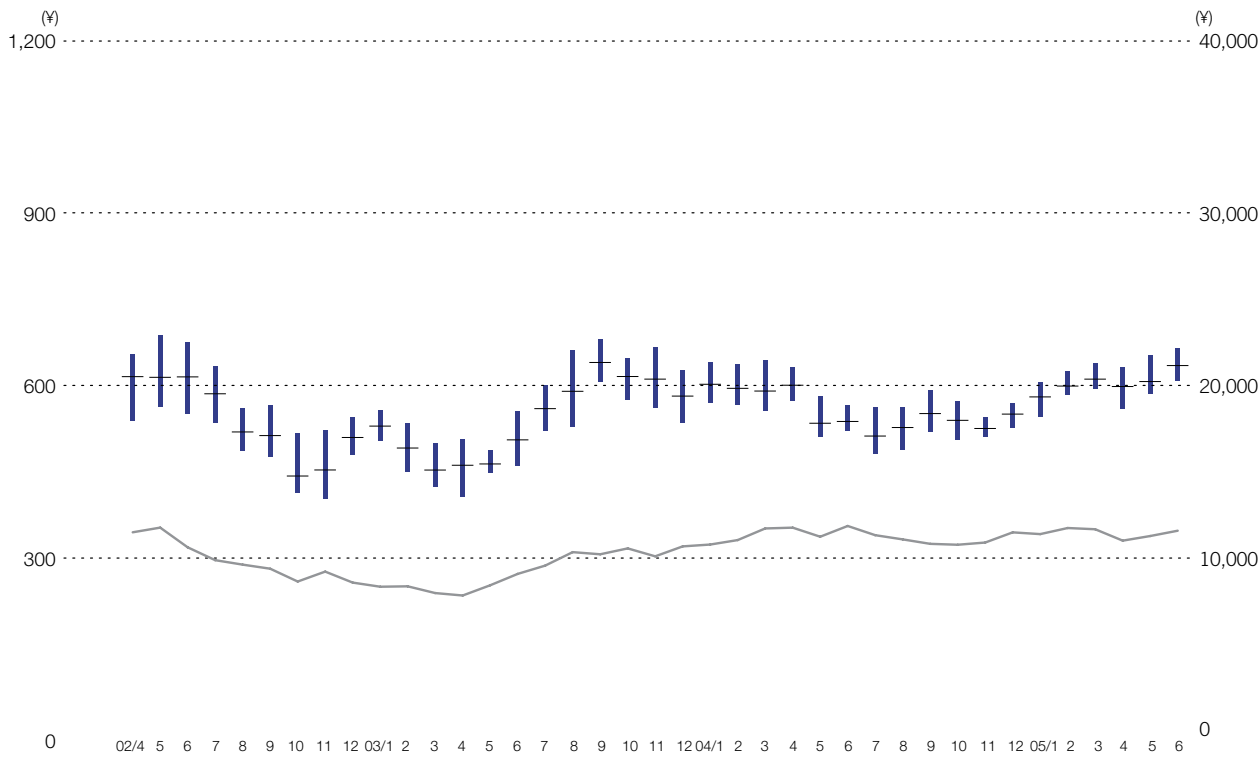
## Organization Chart

(As of June 28, 2005)



## Common Stock Price Range

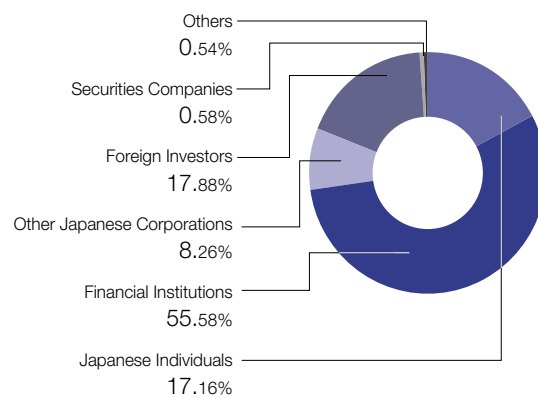
■ Stock Price Range  
— Nikkei 225 (right scale)



## Major Stockholders

	Number of shares held (Thousands)	Percentage of shares held (%)
Japan Trustee Services Bank, Ltd. (Trust account)	95,586	12.11
The Master Trust Bank of Japan, Ltd. (Trust account)	78,224	9.91
Mitsui Asset Trust and Banking Company, Ltd. (Trust account for Toray Industries Inc.)	37,425	4.74
Sumitomo Mitsui Banking Corporation	21,873	2.76
Shinsei Bank, Limited	21,376	2.70
Mitsui Mutual Life Insurance, Co. (Standing Proxy: Japan Trustee Services Bank, Ltd.)	18,030	2.28
Mitsui & Co., Ltd.	17,217	2.18
The Chuo Mitsui Trust and Banking Company, Limited	16,100	2.04
Mitsui Sumitomo Insurance Company, Limited	15,652	1.98
The Norinchukin Bank	12,732	1.61
Total	334,179	42.34

## Composition of Stockholders





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Responsible Care



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