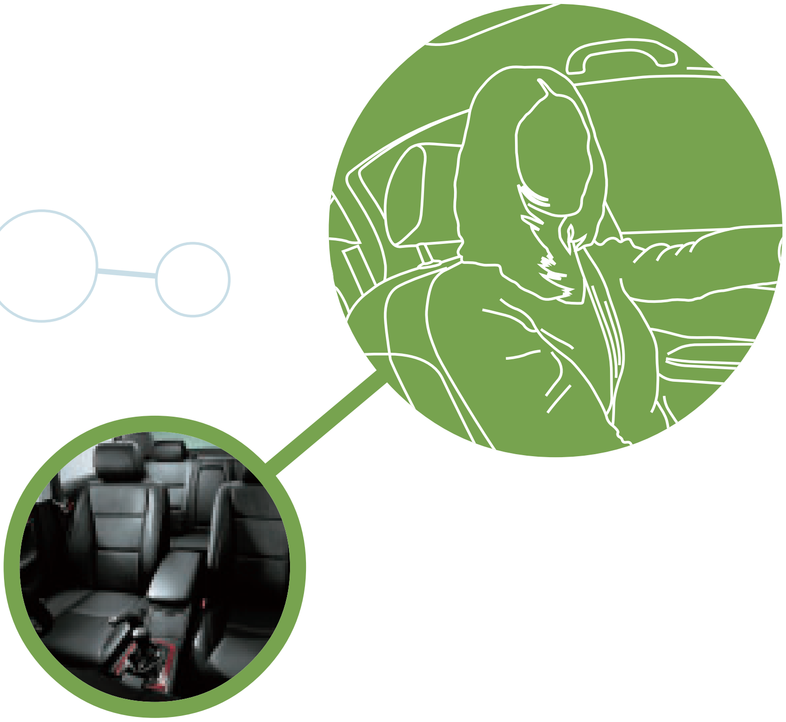
Mitsui Chemicals, Inc. ANNUAL REPORT 2006

Mitsui Chemicals

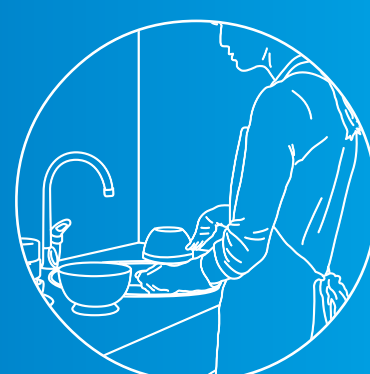
ANNUAL REPORT 2006

Year Ended March 31, 2006



Stronger Priorities for Reaching Goals

Contents



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

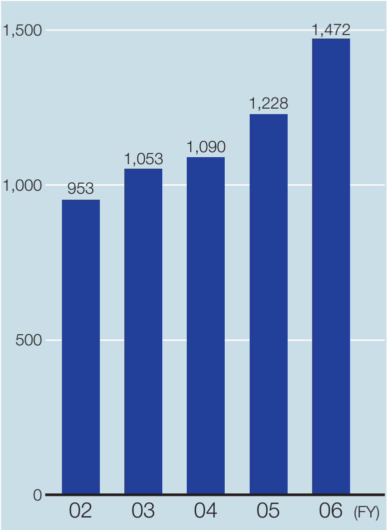
(For the years ended March 31)

	Millions of yen			% Change	Thousands of U.S. dollars
	FY2006	FY2005	FY2004	FY2006/FY2005	FY2006
For the year:					
Net sales	¥1,472,435	¥1,227,547	¥1,089,518	19.9	$12,534,562
Operating income	58,705	80,491	53,942	(27.1)	499,745
Net income	44,125	26,192	12,466	68.5	375,628
Capital expenditures	81,400	47,135	45,722	72.7	692,943
R&D expenses	37,146	34,881	32,894	6.5	316,217
At year-end:					
Total assets	¥1,328,890	¥1,205,185	¥1,188,466	10.3	$11,312,590
Total shareholders' equity	464,021	405,773	383,365	14.4	3,950,123
	Yen			% Change	U.S. dollars
Per share of common stock:					
Net income	¥ 56.20	¥ 33.26	¥ 15.78	69.0	$0.48
Shareholders' equity	592.42	517.63	488.33	14.4	5.04
Cash dividends	8.00	7.00	6.00	14.3	0.07
Performance indicators:					
Return on equity	10.15%	6.64%	3.31%		
Return (operating income) on assets	4.63%	6.73%	4.47%		

Notes: 1) U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥117.47=U.S.$1, the approximate Tokyo foreign exchange market rate as of March 31, 2006.
2) Changes are between the years ended March 31, 2006 and 2005.

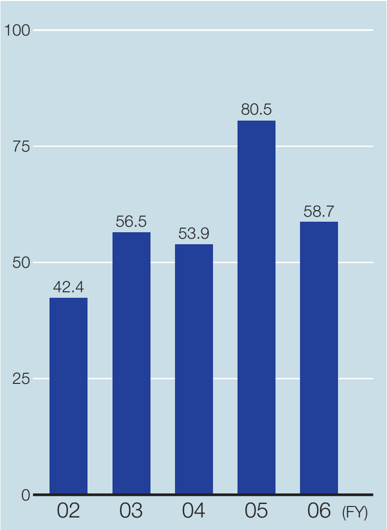
NET SALES

(Billions of Yen)



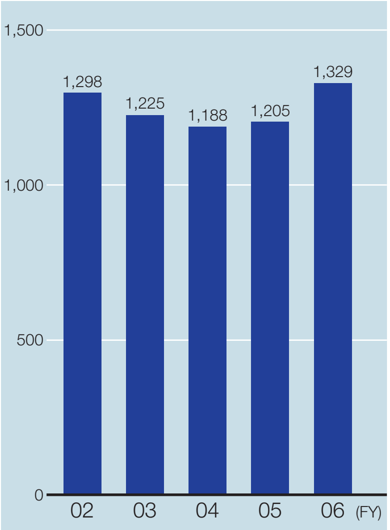
OPERATING INCOME

(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, FY06 indicates the fiscal year from April 1, 2005 to March 31, 2006.

To Our Shareholders, Customers and Partners

FISCAL 2006 BUSINESS ENVIRONMENT AND RESULTS

The Japanese economy continued to recover during fiscal 2006, the fiscal year ended March 31, 2006, underpinned by steady growth in capital investments and exports, as well as moderate growth in personal consumption.

Japan's chemical industry, however, continued to face an extremely severe business environment. While production and shipments were generally firm, with the exception of certain products, feedstock prices climbed steadily throughout the year. This trend was particularly evident in the second half of the year, when feedstock prices surged to even higher levels.

In this climate, the entire Mitsui Chemicals Group mobilized in a group-wide effort to improve profitability, a push that entailed a concerted focus on sales activities and thorough cost reductions, among other initiatives.

As a result, the Group reported net sales of ¥1,472.4 billion, up ¥244.9 billion year on year, operating income of ¥58.7 billion, a decrease of ¥21.8 billion, recurring income of ¥62.0 billion, down ¥17.7 billion, and net income of ¥44.1 billion, ¥17.9 billion higher than the previous year. We paid a dividend of ¥8 per share, up ¥1 from last year.

BUSINESS ENVIRONMENT IN FISCAL 2007

Japan's economy is expected to record healthy growth during the remainder of 2006, buoyed by demand from the domestic private sector. However, with the outlook for crude oil prices uncertain, movements in feedstock prices could squeeze profitability. At the same time, competition from global chemical companies, especially in Asian markets, is expected to heat up further. The challenging business environment the group faces is therefore likely to remain unchanged.

GROWTH THROUGH THE MEDIUM-TERM BUSINESS PLAN

The Mitsui Chemicals Group's 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." In fulfilling this mission, the Group is determined to contribute not only to its shareholders, but to society as a whole. For this reason, we are working toward our corporate target of becoming a "Strong & Excellent Mitsui Chemicals Group with a strong competitive position in the global market." In fiscal 2005, the group embarked on its current four-year Medium-term Business Plan, enacting a host of measures that embrace one of the plan's key phrases: "Shift from Commodities to Specialties."

PRIORITY ISSUES FOR FISCAL 2007

In fiscal 2007, the Mitsui Chemicals Group will dedicate itself fully to addressing the following priority issues:

(1) Accelerate further growth of Performance Materials
Concentrate management resources in priority businesses; utilize R&D expenses more strategically

(2) Strengthen profitability of Petrochemicals & Basic Chemicals
Respond effectively to rising feedstock prices; ensure stable supplies of main feedstock; establish a globally competitive business structure

(3) Actively promote corporate social responsibility (CSR)
Realize CSR befitting the Mitsui Chemicals Group; work to maintain stakeholders' deeper trust

(4) Strengthen the capabilities of production bases
Take further steps to ensure safe and reliable operations; aim for accident- and injury-free operations; ease the work burden of operations; enhance the quality assurance system

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

K. Fujiyoshi

Kenji Fujiyoshi
President

Medium-term Business Plan Progress

1. THE ROAD TO SUCCESS

Mitsui Chemicals is currently enacting a four-year Medium-term Business Plan running from fiscal 2005 (ended March 31, 2005) to fiscal 2008 (ending March 31, 2008). The plan seeks to enable Mitsui Chemicals to "Shift from Commodities to Specialties," (diagram 2) as it strives to realize its Corporate Target: a "Strong & Excellent Mitsui Chemicals Group with a strong competitive position in the global market" (diagram 1).

1. Corporate Vision

Corporate Mission

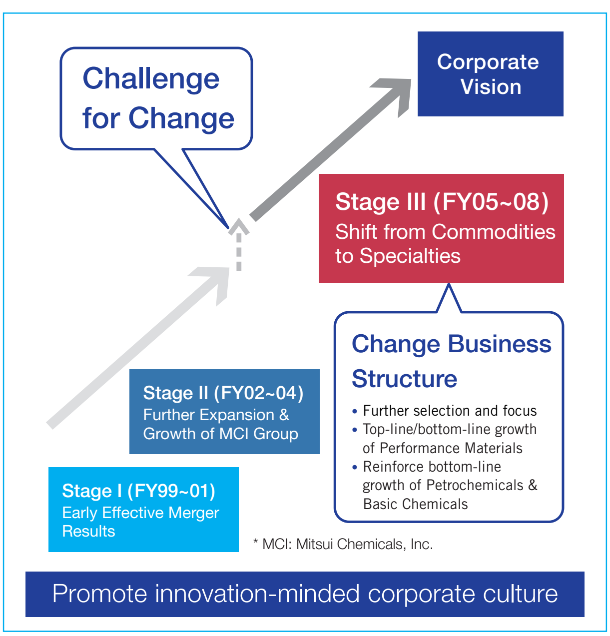
Contribute broadly to society by providing high-quality products and services to customers through innovations and the creation of materials, while keeping in harmony with the global environment.

- Promoting human well-being
- Contributing to shareholders
- Increasing customer satisfaction
- Contributing to local communities
- Promoting the happiness and fulfillment of employees

Corporate Target

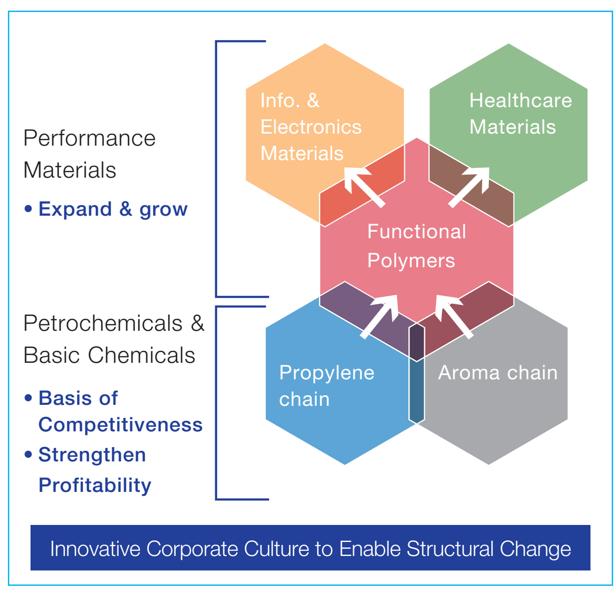
Strong & Excellent Mitsui Chemicals Group with a strong competitive position in the global market.

2. The Road to Success



Mitsui Chemicals strives to maintain safety, the environment and quality—a crucial prerequisite for the group's sustainable growth. The company has also worked to reinforce its consolidated management system, while pursuing greater selection and focus in its operations. At the same time, management resources across the group have been invested in five key drivers of growth (diagram 3). Specifically, in the Petrochemicals & Basic Chemicals Sector, Mitsui Chemicals' basic strategy is to strengthen propylene chain and aroma chain profitability to make these areas the basis of its competitiveness. This competitiveness will then serve as a springboard to expand and grow in three key drivers in the Performance Materials Sector: Functional Polymers, Information & Electronics Materials, and Healthcare Materials. This expansion and growth will help Mitsui Chemicals achieve its goal of a "Shift from Commodities to Specialties."

3. Five Key Drivers of Growth



When the plan was first drafted in 2004, the decision was made to revisit and revise it two years from enactment, which Mitsui Chemicals has done. As a result, while the plan's numerical targets remain unchanged (diagram 4), "Expand & Grow Functional Polymers and Related Products" has been added to the "Expand & Grow Performance Materials" component of the company's basic strategies.

4. Consolidated Management Target (Fiscal 2008)

<Profitability>

• Recurring Profit	**¥100 billion**
• Contribution of Performance Materials	**Over 50%**

<Efficiency>

• Return on Assets (ROA)	**7%**

<Financial Position>

Debt-to-Equity Ratio (D/E Ratio)	**1.0**

<Reference>

Net Sales	**¥1,300 billion**

5. Basic Strategies

1. Change business structure
   - Expand & grow Performance Materials
     Expand & grow Functional Polymers and Related Products
   - Strengthen profitability of Petrochemicals & Basic Chemicals
2. Reinforce consolidated management system
3. Secure safety, environment and quality

Accelerating Expansion in the Performance Materials Sector

2. PLAN PROGRESS

(1) Consolidated Overview of Fiscal 2006 (Ended March 2006)

In fiscal 2006, the second year of the plan, the group posted operating income of ¥58.7 billion, a decrease of ¥21.8 billion.

Looking at operating income by segment, year-on-year earnings declined in each component of the Petrochemicals and Basic Chemicals segment, reflecting the impact of a challenging operating environment due to skyrocketing feedstock prices. In performance materials, the Functional Chemicals & Engineered Materials and Functional Polymeric Materials segments both posted higher earnings and showed potential for further growth going forward (diagram 6).

6. Operating Income (by Business Segment)

(Billions of yen)

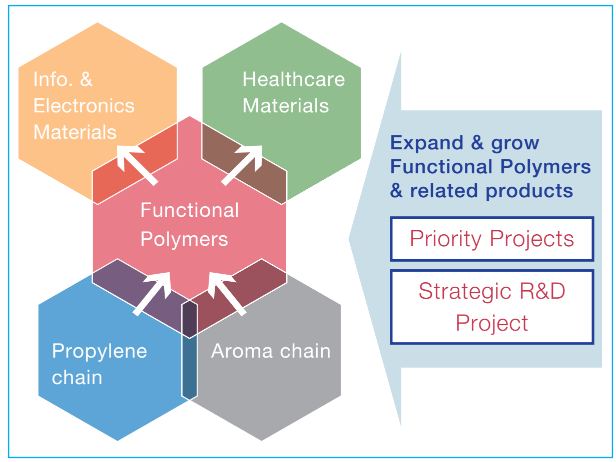
Segment	FY2005	FY2006	Increase (Decrease)
Functional Chemicals & Engineered Materials	9.1	10.8	1.7
Functional Polymeric Materials	8.5	10.1	1.6
Basic Chemicals	36.0	21.8	(14.2)
Petrochemicals	25.4	15.9	(9.5)
Others	1.3	0.6	(0.7)
Eliminations or corporate	0.2	(0.5)	(0.7)
Total	80.5	58.7	(21.8)

(2) Accelerating Expansion and Growth in the Performance Materials Sector

Mitsui Chemicals will accelerate expansion and growth in performance materials by prioritizing the investment of management resources in functional polymers and high-performance materials that take advantage of such polymers (diagram 7).

To this end, the company has decided to initiate two new projects. The "Priority Projects" and the "Strategic R&D Project" will serve as concrete measures to further strengthen functional polymers, where Mitsui Chemicals has advantages, and to expand its lineup of functional polymer products.

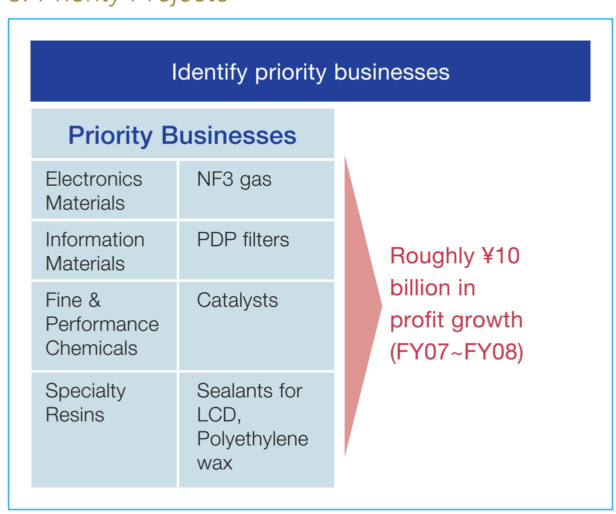
7. Accelerate Expansion and Growth in Performance Materials



① Priority Projects

In four priority businesses—Electronics Materials, Information Materials, Fine & Performance Chemicals and Specialty Resins—where stronger operations and faster startup of new businesses are deemed most critical, this project will concentrate at least 70% of the management resources of each business in one or two

8. Priority Projects



existing and new products. The goal is to accelerate business expansion. This project should help generate roughly ¥10 billion in profit over the next two years (diagram 8).

② Strategic R&D Project

One key theme when the plan was formulated in 2004 was strategic R&D expenses. In this area, Mitsui Chemicals has decided to invest approximately ¥10 billion over the next two years in projects promoting the development of new functional olefin polymers, highly functional elastomers, and highly functional films (diagram 9).

9. Strategic R&D Project

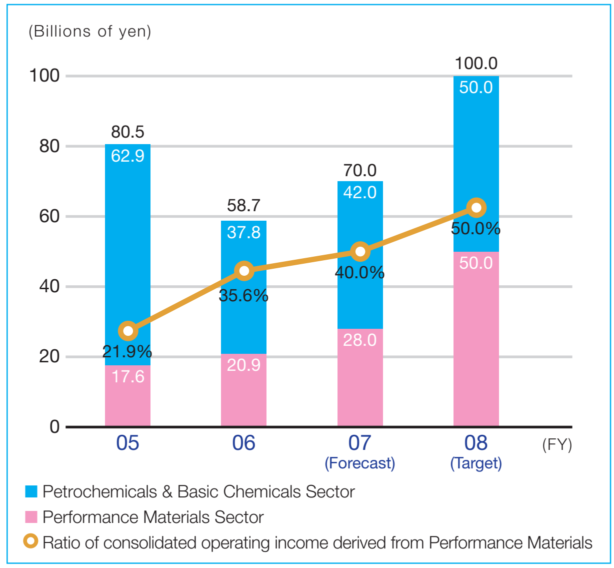
1. Accelerating development project of new functional olefin polymer
2. Development of highly functional elastomers
3. Development of highly functional film

Investment of roughly ¥10 billion (FY07~FY08)

Since these products are still under development, determining their precise level of success may take time. But Mitsui Chemicals will expedite their development in a push to have these products quickly contribute to profitability by the scheduled end of the Medium-term Business Plan in the March 2008 fiscal year.

Together with other measures, Mitsui Chemicals will accelerate the expansion trend already under way in the Performance Materials Sector in fiscal 2006, as it strives to achieve the targets of its Medium-term Business Plan (diagram 10).

10. Changes in Operating Income



3. DIVIDEND POLICY

Mitsui Chemicals' highest priority is to raise corporate value through business growth and expansion. At the same time, the company views the return of profits to shareholders as another important management issue. In distributing profits, the basic policy is to continue paying a stable dividend, returning profits to shareholders in line with consolidated business performance from a medium- to long-term perspective. In this way, the company takes a comprehensive approach to the return of profits and the securement of necessary internal reserves.

Internal reserves, meanwhile, are allocated for priority investment in high-performance products, high-growth markets, and highly profitable businesses, all in order to boost business performance.

Dividend Amounts

1998~fiscal 2004:	¥6/yr
Fiscal 2005:	¥7/yr
Fiscal 2006:	¥8/yr

Corporate Social Responsibility (CSR) Initiatives

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.

At Mitsui Chemicals, CSR is underpinned by four main pillars: corporate governance, compliance, responsible care (RC) initiatives, and social contribution.

MITSUI CHEMICALS GROUP ACTION GUIDELINES

Every officer and employee of the Mitsui Chemicals Group will act in accordance with the following action guidelines to enhance the sustainable development of society and company by making contributions to each of our stakeholders.

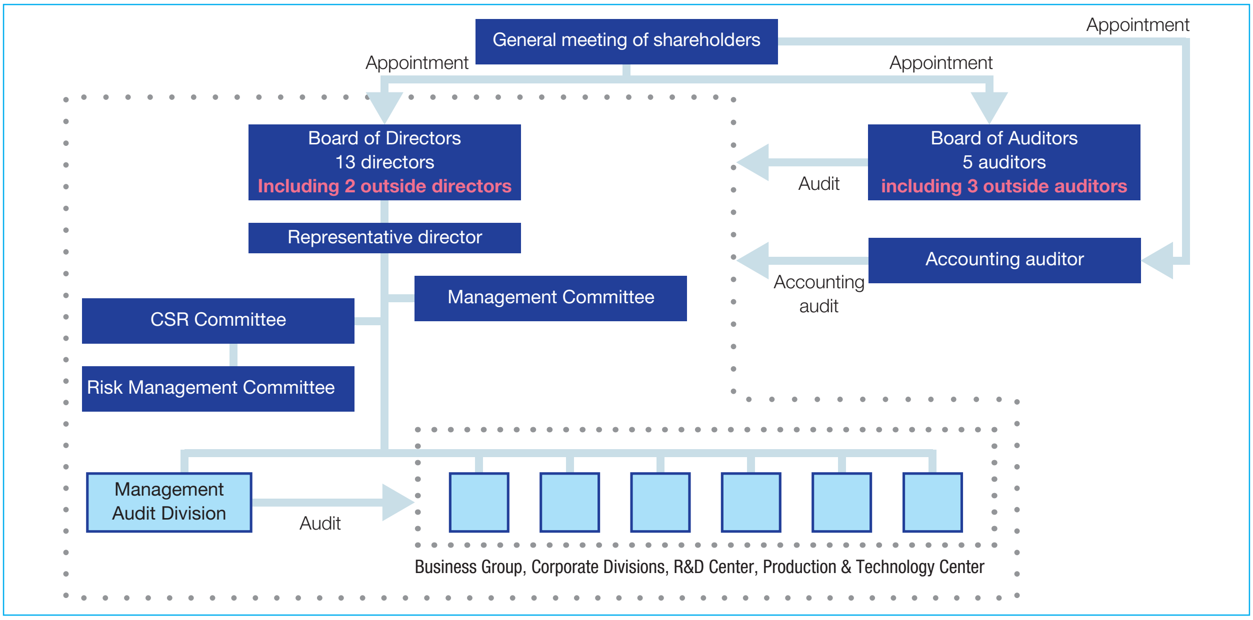
We will:
(1) always act in good faith.
(2) have a high regard for people and society.
(3) aim for the “Dream-Inspiring Innovations.”

Corporate Governance

Mitsui Chemicals’ basic policy in striving to fulfill its responsibilities as a good corporate citizen is the constant drive to improve management transparency. A variety of committees, established in line with company regulations, provide a framework for the broad discussion and debate of important decision-making matters. Mitsui Chemicals has also upgraded internal control functions through the establishment of a Management Audit Division and Risk Management Committee, as well as a renewed emphasis on the role of corporate auditors.

In June 2006, the company complemented these steps with the election of two new outside members to the Board of Directors, an initiative aimed at promoting more robust corporate governance.

Corporate Governance Diagram



Compliance

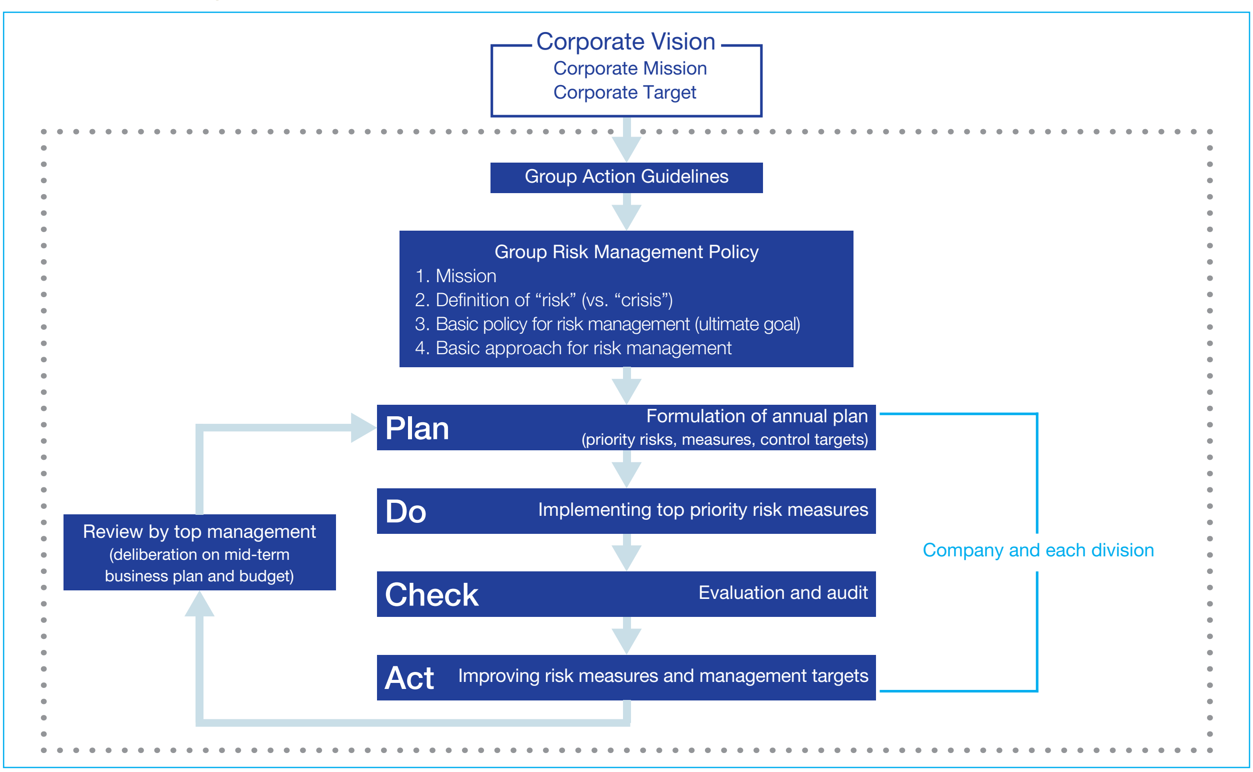
Mitsui Chemicals has adopted a "Group Risk Management System," responsible for managing all risks that could conceivably threaten the management activities of the Mitsui Chemicals Group. Compliance education, moreover, is conducted for members of the corporate management team, all line managers, newly appointed administrators and new employees.

Responsible Care Initiatives

The business activities of the Mitsui Chemicals Group are guided by the Group's corporate mission: "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."

In achieving this mission, and in keeping with the tenets of the Mitsui Chemicals Group Action Guidelines, the Group recognizes that compliance with laws and regulations, preservation of the environment and safety assurance are the foundations upon which good management is built. Accordingly, the group enacts the following basic policies regarding the environment, safety (security and accident prevention, chemical product safety, occupational safety), occupational health, and quality.

Group Risk Management System



Basic Policy Regarding the Environment, Safety, Occupational Health, and Quality

1. Environment

(1) Contribute to environmental preservation by developing new products and technologies.

(2) Assess and reduce the environmental burden of products through their entire life cycle, from product research and development to final disposal.

2. Occupational Health and Safety

(1) Give priority to securing safety, and aim for accident and injury-free operations.

(2) Promote the formation of an appropriate work environment and support a proactive health program for employees.

(3) Implement safety measures and procedures in handling chemical substances to prevent injury or harm to people connected with our activities, i.e., employees and others involved in production and distribution.

3. Quality

Supply high-quality products and services that earn the trust and satisfaction of customers so that customers feel confident when using products for their intended applications.

4. Promoting Self-management

Strive for continuous improvement in measures related to the environment, occupational health, safety, and quality, beginning with compliance with all applicable laws and regulations based on voluntary adherence to the principles of RC.

Social Contribution

Mitsui Chemicals instituted the Mitsui Chemicals Group Social Activities Policy to delineate the types of social contribution activities befitting the company's role in society.

Mitsui Chemicals Group Social Activities Policy

The Mitsui Chemicals Group will consistently strive to:

1. Contribute broadly to society by leveraging and spurring the development of chemical technology
2. Coexist with local communities through active communication with the public
3. Conduct activities useful to nurturing the next generation responsible for ensuring the future
4. Conduct activities for protecting the global environment
5. Proactively act to promote international exchange and cooperation
6. Create a corporate environment in which each employee can actively take part in social activities

Specifically, Mitsui Chemicals participates in community activities that take place near its works in Japan, supports volunteer activities, and has provided donations to aid survivors of the earthquake and tsunami that struck Indonesia (Sumatra) in December 2004, and an earthquake that again struck Indonesia (Java) in May 2006.

As for social contribution activities best suited to its role in society, Mitsui Chemicals contributes to the sustainable development of chemistry and the chemical industry by establishing the “Mitsui Chemicals Catalysis Science Award,” and by organizing the Mitsui Chemicals International Symposium on Catalysis Science. In April 2006, the company co-hosted the Singapore International Symposium with the Government of Singapore.

As these examples illustrate, the Mitsui Chemicals Group aligns its activities in the same direction to further enhance long-cultivated social initiatives. With the interests of all stakeholders in mind, the group, as a corporation, is determined to make an even greater social contribution going forward.

Mitsui Chemicals Catalysis Science Award ceremony

Plenary lecture by Nobel laureate Professor K. Barry Sharpless at the Second Mitsui Chemicals International Symposium on Catalysis Science (MICS 2005)

Singapore International Symposium 2006

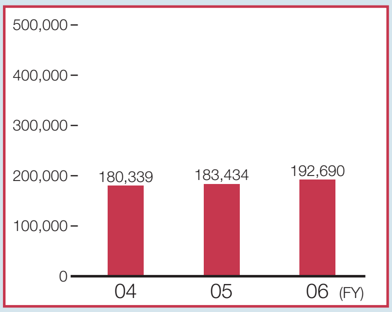
Mitsui Chemicals President Kenji Fujiyoshi addressed the audience at the Singapore International Symposium 2006

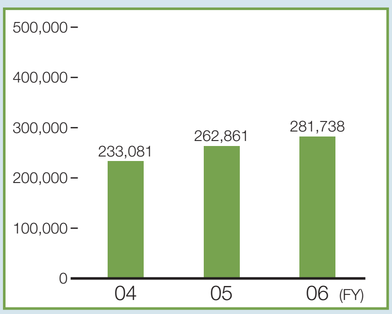
At a Glance

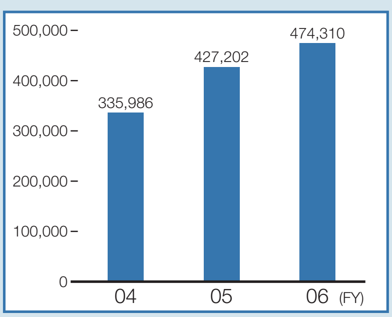
	CORE BUSINESS	MAIN PRODUCTS
Functional Chemicals & Engineered Materials 	• Functional Fabricated Products • Electronics Materials • Information Materials • Agrochemicals • Fine & Performance Chemicals	• Spunbonded nonwoven fabrics (for industrial and hygiene applications) • Silicon wafer back-grinding tape • NF3 gas • PDP optical filters • Binding resins for toner • Materials for optical lenses • Catalysts • Insecticides • Fungicides
Functional Polymeric Materials 	• Elastomers • Performance Polymers • Specialty Resins • Urethane Chemicals	• EPDM • Alpha-olefin copolymers • Methylpentene copolymers • Cycloolefin copolymers • Acrylamide • Polyethylene wax • TDI • MDI • Polyurethane
Basic Chemicals 	• Fiber Intermediates • PET Resin • Phenols • Industrial Chemicals	• Purified terephthalic acid • PET resins • Phenols • Bisphenol A • Ethylene glycol
Petrochemicals 	• Petrochemical Feedstocks • Polyolefin • Licensing	• Ethylene • Propylene • Polyethylene • Polypropylene • Licenses
Others	• Engineering, warehousing, freight transportation and others	

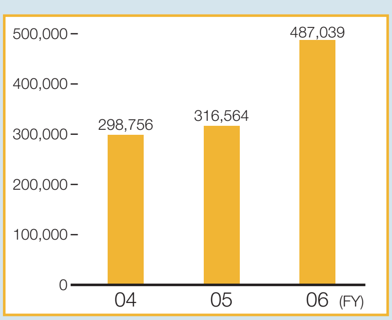
NET SALES

(Millions of yen)



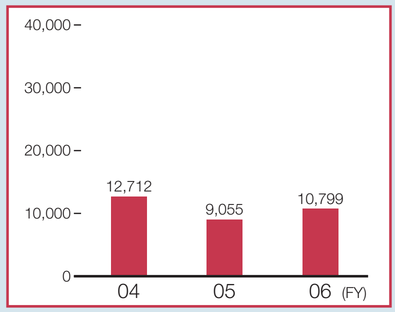


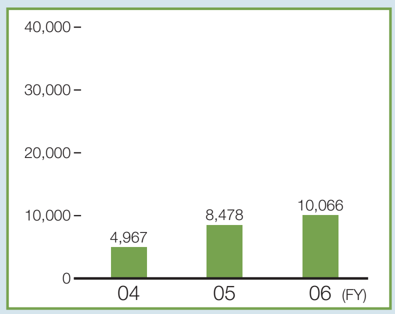


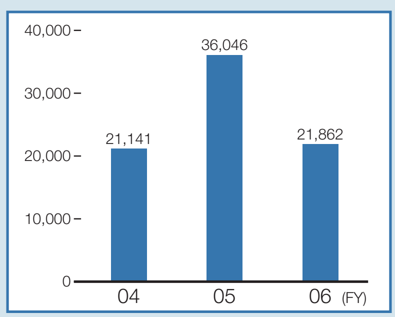


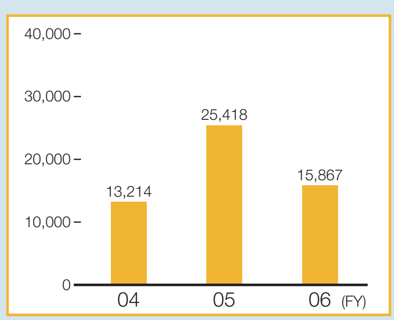
OPERATING INCOME

(Millions of yen)



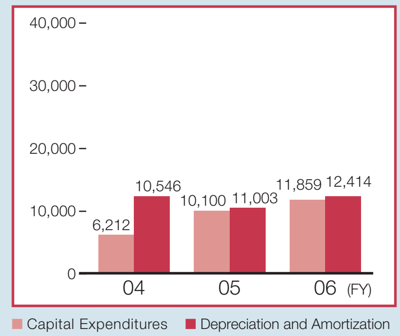


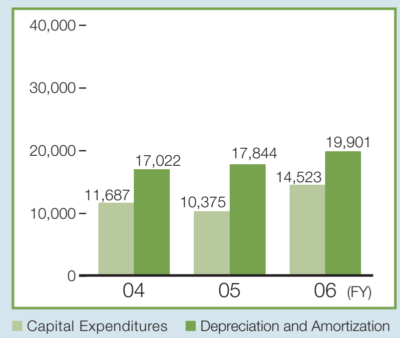


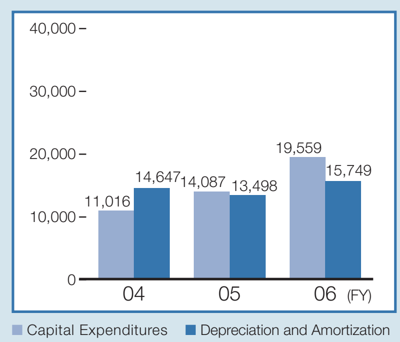


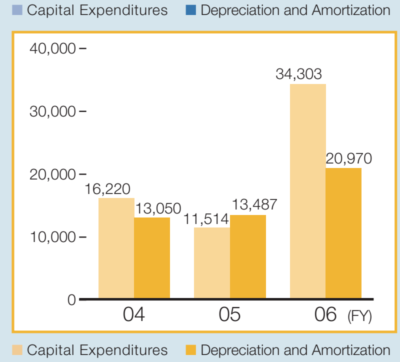
CAPITAL EXPENDITURES/ DEPRECIATION AND AMORTIZATION

(Millions of yen)









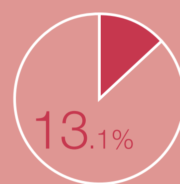
Review of Operations

Functional Chemicals & Engineered Materials Business Group

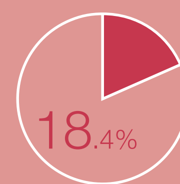
KOICHI TOMINAGA

Business Group President
Functional Chemicals & Engineered Materials
Business Group

SHARE OF NET SALES



SHARE OF OPERATING INCOME



THE YEAR IN REVIEW

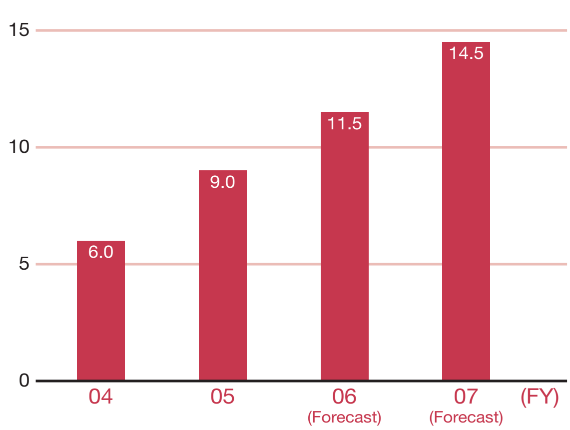
Market expansion during the year led to brisk sales of information and electronics materials, including display and semiconductor materials, despite the impact of falling prices.

Meanwhile, sales of high refractive-index optical plastic lens materials and nonwoven fabrics grew steadily, sales of breathable films and insecticides stalled.

Meanwhile, sales of chemical products, including polymerization inhibitors and raw materials for tire and wood adhesives, grew atop higher sales prices in response to surging prices for raw materials.

World demand for PDP

(Millions of Units)



As a result, net sales in this segment were ¥192.7 billion, up ¥9.3 billion from the previous fiscal year. Operating income climbed ¥1.7 billion to ¥10.8 billion.

MAIN PRODUCTS

Spunbonded nonwoven fabrics for industrial and hygiene applications, Pipes and fittings for gas and cold/hot-water supply, Photovoltaic solar module encapsulating sheets,
NF3 gas, Polyimide flexible laminate, Packages for image sensors, Wafer back-grinding tape, Pellicles for protection of photomasks,
PDP optical filters, Binding resins for toner, Materials for optical lenses, Catalysts, Insecticides, Fungicides, etc.

ORGANIZATIONAL DIAGRAM

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.
- Highly Functional Films Development Div.

DIRECTION OF BUSINESS STRATEGY

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 earnings growth.

Specifically, the segment aims to:

- Grow earnings from existing core businesses by expanding businesses for highly competitive products and upgrading lineups centered on these 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

HIGHLIGHTS

Information & 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 steps to strengthen production capacity in this field. One example was NF3, a cleaning gas used in semiconductor and LCD manufacturing processes. Production volume was raised from 600 tons to 900 tons with the completion of plant construction in October 2005, which enabled this product to contribute to earnings growth for the year. The steady progress being made in raising production capacity for other products is also expected to contribute to earnings growth in fiscal 2007. This includes added capacity for the production of film-type PDP optical filters (start of operation in April 2006; from 0.84 million to 1.8 million sheets per year) and photovoltaic solar module encapsulating sheets (expected start of operation in October 2006; from 5,200 to 9,200 tons per year).

Additionally, several affiliates were made wholly owned subsidiaries in April 2006 in a bid to strengthen earnings power—U.S.-based Image Polymers Company and U.K.-based Image Polymers Europe, responsible for the manufacture and sale of binding resin for toner, and Yamamoto Chemicals, Inc., responsible for the manufacture and sale of functional dyes.

In new products, Mitsui Chemicals developed a new organic dye with superior recording characteristics for HD DVD-R, in addition to the joint development of high-performance electroluminescent (EL) materials in collaboration with Idemitsu Kosan Co., Ltd. The segment's policy going forward is to aggressively expand the markets for these products to realize earnings contributions from them in fiscal 2007.

Healthcare Materials

Mitsui Chemicals is working to boost earnings in its three existing core businesses in this field—hygiene materials like nonwoven fabrics, vision care materials, and agrochemicals.

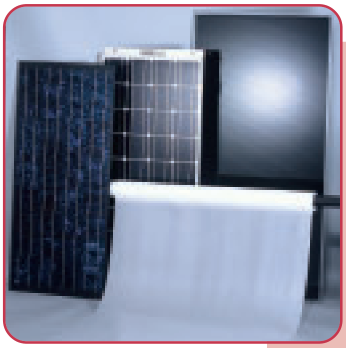
The guiding policy in hygiene materials is to capture growing demand in Asia. To this end, Mitsui Chemicals is continuing to boost production capacity. Efforts thus far include the completion of a new facility for breathable films in Thailand in May 2006 with an annual production capacity of 6,000 tons. New capacity is also being added that will lift annual production of nonwoven fabrics for hygiene purposes in Thailand from 14,000 tons to 30,000 tons upon completion in January 2008. Meanwhile, in order to strengthen the agrochemicals business, three subsidiaries, Mitsui Toatsu Agricultural Chemicals, Inc., Sanchu Chemicals, Inc. and Santou Chemicals Inc. merged to form Mitsui Chemicals Crop Life, Inc. in July 2005.

New products include the launch in April 2005 of optical plastic lens materials with a high refractive index of 1.70. In agrochemicals, sales of a new insecticide, Dinotefuran, were expanded because of its efficacy against rice bugs in Japan, and for its efficacy against whiteflies resistant to most insecticides in Japan, the U.S. and Korea. An insecticide, Etofenprox, TREBON™, was launched in the U.S. rice market following Section 18 emergency use permission by the U.S. Environmental Protection Agency in April 2006. The development of MTF-753, a new fungicide, is progressing. The application for registration is scheduled to be submitted to the Ministry of Agriculture, Forestry and Fisheries of Japan in the autumn of 2006.

Mitsui Chemicals has developed new high-performance photocatalysts, which react even to weak light such as fluorescent lighting and can decompose harmful substances and odors. These photocatalysts are expected to be used in materials for interior spaces with limited lighting.

Nonwoven fabrics for diapers

Optical filters for plasma display panels



SOLAR EVA™
Photovoltaic solar module encapsulating sheets

Optical plastic lenses

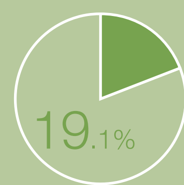
Review of Operations

Functional Polymeric Materials Business Group

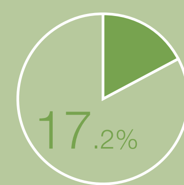
NOBUTAKA KUWABARA

Business Group President
Functional Polymeric Materials Business Group

SHARE OF NET SALES



SHARE OF OPERATING INCOME



THE YEAR IN REVIEW

Elastomer sales, including ethylene-propylene-diene terpolymers (EPDM) and alpha-olefinic copolymers, increased during the year, reflecting demand growth in Japan, particularly for automotive products, and steady growth in Asia and other new markets. Sales were also up for performance polyolefins and engineering plastics, reflecting an increase in sales of products for IT-related applications in particular.

In paper strengthening agents and plastics for coating resins, sales grew atop firm demand for data-recording grades of paper and products for mobile phones. The same was true for additive materials, including polyolefin wax and aliphatic petroleum resins, where sales grew as the company raised product prices to cope with rising raw material and fuel prices.

Urethane raw materials and resins posted higher sales. Sales in the former rose atop a recovery in tolylene diisocyanate (TDI) export prices during the last six months of the fiscal year, while brisk growth of the latter reflected growing demand for coating materials and adhesives in Japan and overseas.

As a result of the above, the segment posted net sales of ¥281.7 billion, a year-on-year increase of ¥18.9 billion, and operating income of ¥10.1 billion, up ¥1.6 billion, for the fiscal year ended March 2006.

TDI Prices

MAIN PRODUCTS

EPDM, Alpha-olefin copolymers,
Methylpentene copolymers, Cycloolefin copolymers,
Acrylamide, Polyethylene wax,
Urethane chemicals (TDI/MDI), Polyurethane, etc.

ORGANIZATIONAL DIAGRAM

Functional Polymeric Materials Business Group

- Planning & Coordination Div.
- Elastomers Div.
- Performance Polymers Div.
- Specialty Resins Div.
- Mitsui Chemicals Polyurethans, Inc.

Polymer Business Development Div.

DIRECTION OF BUSINESS STRATEGY

The Functional Polymeric Materials Business Group will play a pivotal role in helping Mitsui Chemicals achieve the goals of its Medium-term Business Plan (MT-Plan). In doing so, the business group will concentrate resources to launch fully differentiated products in the fields of automotive materials, information and electronic materials, food packaging materials and other growth fields.

The Functional Polymeric Materials Business Group specializes in the following:

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

Together, these products are taking the lead in spurring growth in profitability. Going forward, the segment will work tirelessly to hone its skills in catalytic, processing and molding technologies to maintain and enhance its competitive power in the drive to attain continuous growth.

HIGHLIGHTS

Functional Olefin Polymers

In steps to augment production capacity, Mitsui Chemicals has decided to build a new EPDM (ethylene-propylene-diene monomer) plant with an annual production capacity of 75,000 tons to be completed in October 2007. This move was taken to meet growing global demand for use in automobiles, its chief application sector. The company also established an elastomers compound company with Polymer-Chemie GmbH to strengthen its supply infrastructure in Europe.

In regards to TPX™, a high-performance olefin polymer with superior heat resistance and releasability, Mitsui Chemicals responded to the growing market for flexible printed circuit board release films and other products in the information electronics sector by boosting annual capacity from 7,500 tons to 13,000 tons in October 2005. Output for APEL™, an amorphous cycloolefin copolymer with outstanding optical features, was expanded from 2,800 to 3,400 tons. This enhancement reflected the growing market for information electronic-related products such as optical pick-up lenses for DVD recorders, the main application for cycloolefin copolymers.

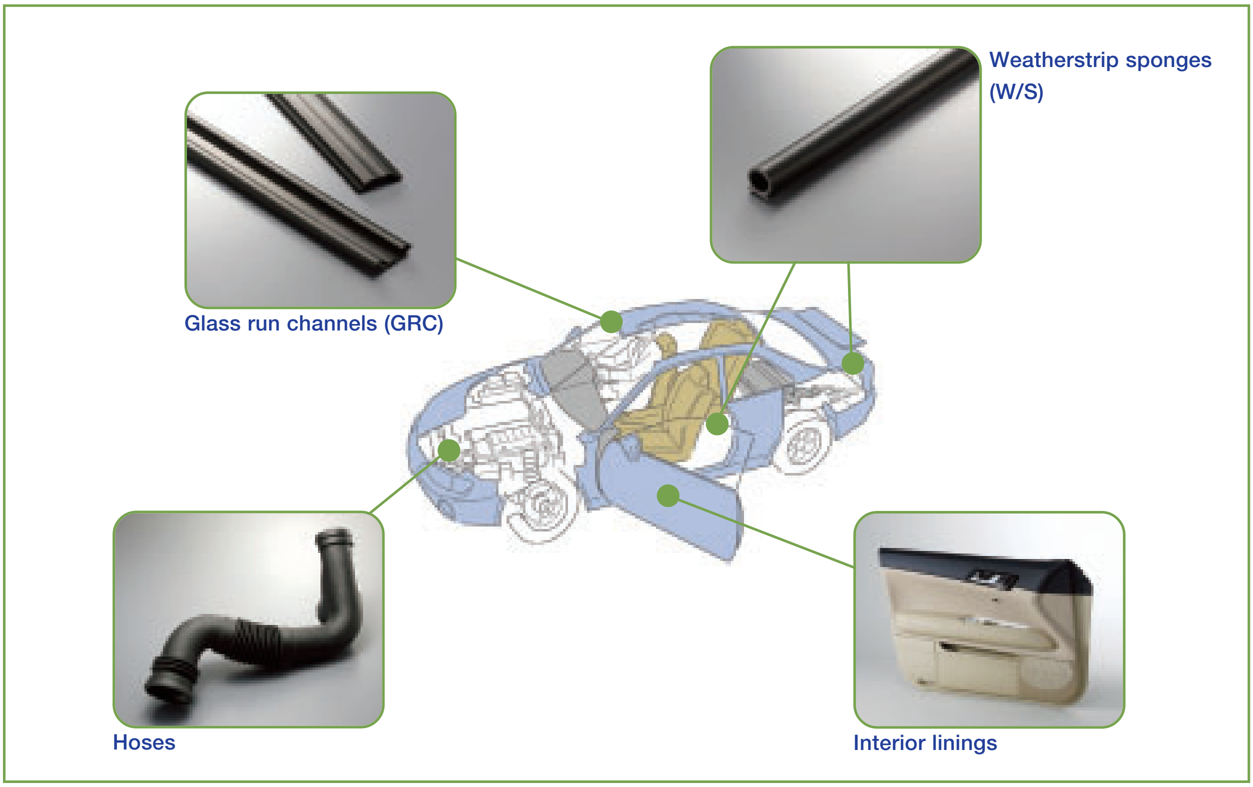
In regards to new products, in April 2005, Mitsui Chemicals launched the TAFMER™ XM Series, a propylene-based functional elastomer made with metallocene catalysts. This elastomer features excellent homogeneity, making it ideal for use as a high-performance resin modifier.

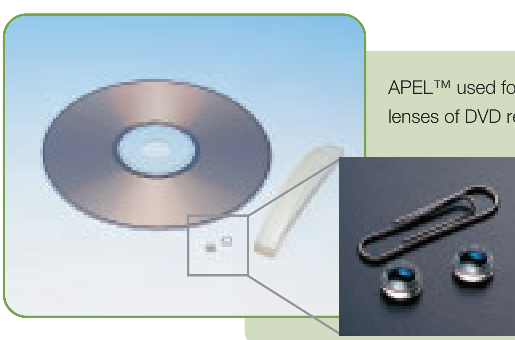
NOTIO™, an alpha-olefin-based elastomer which has its crystalline structure controlled on a nano level by leveraging the characteristics of metallocene catalysts, went on sale in November 2005. NOTIO™ has achieved better performance balance with respect to transparency, heat resistance. (70°C higher at the softening point), flexibility and rubber elasticity, a feat which has been difficult to achieve with conventional elastomers. In addition to modifier applications, NOTIO™ is used as the main material in electronic devices and for a widening range of other applications.

In 2006, Mitsui Chemicals plans to market the new Mitsui EPT L Series, an EPDM created from the company’s unique polyolefin polymerization and manufacturing technology that remains in a liquid state under room temperature. The fluid nature of this product makes it suitable for precision casting, a feature that will likely see it used as a sealing material for electronic and electrical products. Another potential application for this product is as a raw material for sealing materials and adhesives in the civil engineering field.

Meanwhile, polyethylene wax EXCEREX™, the world’s first molding enhancing agent developed through metallocene catalyst technology, has earned a strong reputation in the industry thanks to attributes that are increasing the productivity of customers and contributing directly to reductions in total costs. These attributes include accelerating molding process speeds, lowering resin temperatures during processing, and reducing switch-over times.

EPDM Automotive Applications





APEL™ used for pick-up lenses of DVD recorders

TPX™ for flexible printed circuit board release film

Tailor-made Polymer Systems

In order to capture rapidly growing urethane resin demand in China, Mitsui Chemicals decided to install equipment for the manufacturing of urethane coatings and adhesives for packaging at its joint venture Tianjin Cosmo Polyurethane Co., Ltd. in July 2006. This company was made a consolidated subsidiary at the end of March 2006 in line with plans to further expand the business.

At Cosmo Scientex (M) Sdn. Bhd. in Malaysia, Mitsui Chemicals has decided to boost annual production capacity for urethane adhesives from 8,700 tons to 11,400 tons during the first half of fiscal 2007. This decision was in response to rising demand in the ASEAN region for high-grade packaging materials for retort foods and other products.

In regards to polymer flocculants used to treat wastewater in the sewage and civil engineering sectors, Mitsui Chemicals has agreed to integrate this business with that of TOAGOSEI Co., Ltd. in October 2006 to form a new company, MT Aqua Polymer, Inc. in order to prepare for more fierce domestic competition in this market, as well as the ongoing entry of global players.

Mitsui Chemicals boasts the world's top share of thermal-curing type LC-STRUCTBOND™, used as a sealant for liquid crystal panels. In January 2005, the company installed production equipment for, and launched, a UV-curing variety of this sealant. Development is currently under way that will enable Mitsui Chemicals to advance into the field of products for use in organic EL (electroluminescent) and field emission displays.

Unique Polymers

Modified Polyamide 6T (ARLEN™) is an engineering plastic with superior heat resistance and low water absorption. Demand for this product is booming, particularly as a lead-free solder for use in the surface mounting of electronic components. However, existing capacity (4,600 tons/year at the Iwakuni-Ohtake Works) remains inadequate to meet demand. This situation has prompted Mitsui Chemicals to examine the possibility of ramping up annual capacity to 5,500 tons in 2007, and 10,000 tons in 2009.

Polymer Business Development Division

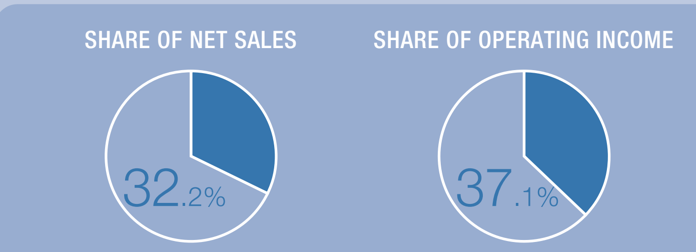
Mitsui Chemicals is procuring polylactic acid (PLA) resin, a bio-based plastic, through a business collaboration with NatureWorks LLC, a firm capable of producing 140,000 tons of this plastic each year. Sold in Japan under the brand name LACEA™, Mitsui Chemicals is working to develop markets for this product, focusing on packaging and containers. PLA is made from annually renewable resources such as plants, and contributes to conservation of fossil fuel resources and the curbing of the increase in greenhouse gases, specifically carbon dioxide emissions. This product concept is garnering a favorable impression from customers, with sales volume showing strong growth among major retailers. Based on the "Bio-based content" concept, Mitsui Chemicals has been attempting to expand durable goods applications of PLA, including electric appliances, from a medium-to-long term standpoint.

Products made from bio-based polymer LACEA™

Review of Operations

Basic Chemicals Business Group

TOSHIKAZU TANAKA
Business Group President
Basic Chemicals Business Group



THE YEAR IN REVIEW

Supported by growing demand in Asia, centered on China, as well as product price increases reflecting surging prices for feedstock, sales of purified terephthalic acid (PTA), phenol, bisphenol A, ethylene glycol, and ethylene oxide and its derivatives rose between 4% and 23% compared to the previous year. Sales of polyethylene terephthalate (PET) resin, however, were down 4%, as lackluster growth in domestic demand and an increase in imported products overshadowed benefits from product price increases in response to escalating prices for feedstock.

Net sales in this segment were up ¥47.1 billion to ¥474.3 billion. Operating income, however, was ¥21.9 billion, a year-on-year decline of ¥14.2 billion, as price hikes proved unable to completely cover higher feedstock prices in every product category.

MAIN PRODUCTS

Purified terephthalic acid, PET resins, Phenols, Bisphenol A, Ethylene glycol, etc.

ORGANIZATIONAL DIAGRAM

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

DIRECTION OF BUSINESS STRATEGY

As part of the Petrochemicals & Basic Chemicals Sector, the basis of Mitsui Chemicals' competitiveness, the Basic Chemicals Business Group is striving to further enhance its earnings power by winning new demand in the growing Asian market centered on aroma chain products (e.g., PTA, PET resins, phenols and BPA). Capturing this demand will enable the segment to maintain and expand consistent, long-term growth. Currently, the Basic Chemicals Business Group is in the process of augmenting capacity at the optimal production bases for achieving this end. The segment is also bolstering its capacity to source the aromatic raw materials that will underpin these efforts.

HIGHLIGHTS

PTA

Demand in Asia for PTA totaled a record 23 million tons in 2005. 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, launching operations at its third PTA plant in Thailand, with an annual production capacity of 500 thousand tons, in November 2005. With this plant, the group's annual production capacity for PTA has risen to 2,600 thousand tons (750 thousand tons in Japan, 1,400 thousand tons in Thailand, and 450 thousand tons in Indonesia), strengthening Mitsui Chemicals' presence as one of Asia's largest PTA suppliers.

With its sights set on building a production base in the growing Chinese market, Mitsui Chemicals has also submitted an application to the Chinese government for investment approval to design and build a 600 thousand-ton capacity plant in Zhangjiagang in Jiangsu Province.

PET Resin

Demand in Asia for PET resin is anticipated to grow at an annual rate of about 10% going forward. In order to readily take advantage of this growing demand, Mitsui Chemicals commenced operations at a facility in Thailand with a capacity of 100 thousand tons in April 2004. With this 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). Moreover, Mitsui Chemicals is currently examining the feasibility of further ramping up production capacity in Thailand.

Phenol and BPA

Led by China, annual growth in Asian demand for phenol and BPA is projected to continue climbing at around 5% and 7% for phenol and BPA, respectively. To ensure it can take advantage of this growing demand, Mitsui Chemicals has made timely reinforcements to its Singapore facility. Annual production capacity in 2005 for phenol was 750

Polyester fibers with PTA as the raw material

Third PTA plant in Thailand started in November 2005

PET resin for bottles

Compact discs with phenol and BPA as raw materials thousand tons (250 thousand tons in Singapore and 500 thousand tons in Japan), and 440 thousand tons for BPA (230 thousand tons in Singapore and 210 thousand tons in Japan). As the largest supplier in Asia, this will ensure that the Group maintains its top market shares of 25% and 40% for phenol and BPA, respectively.

In May 2006, Mitsui Chemicals increased phenol production in Japan by 30 thousand tons, to 530 thousand tons per year, and is planning to raise capacity in Singapore by 50 thousand tons, to 300 thousand tons per year, sometime in fiscal 2007. A next-generation phenol plant with a capacity of 300 thousand tons is also under consideration.

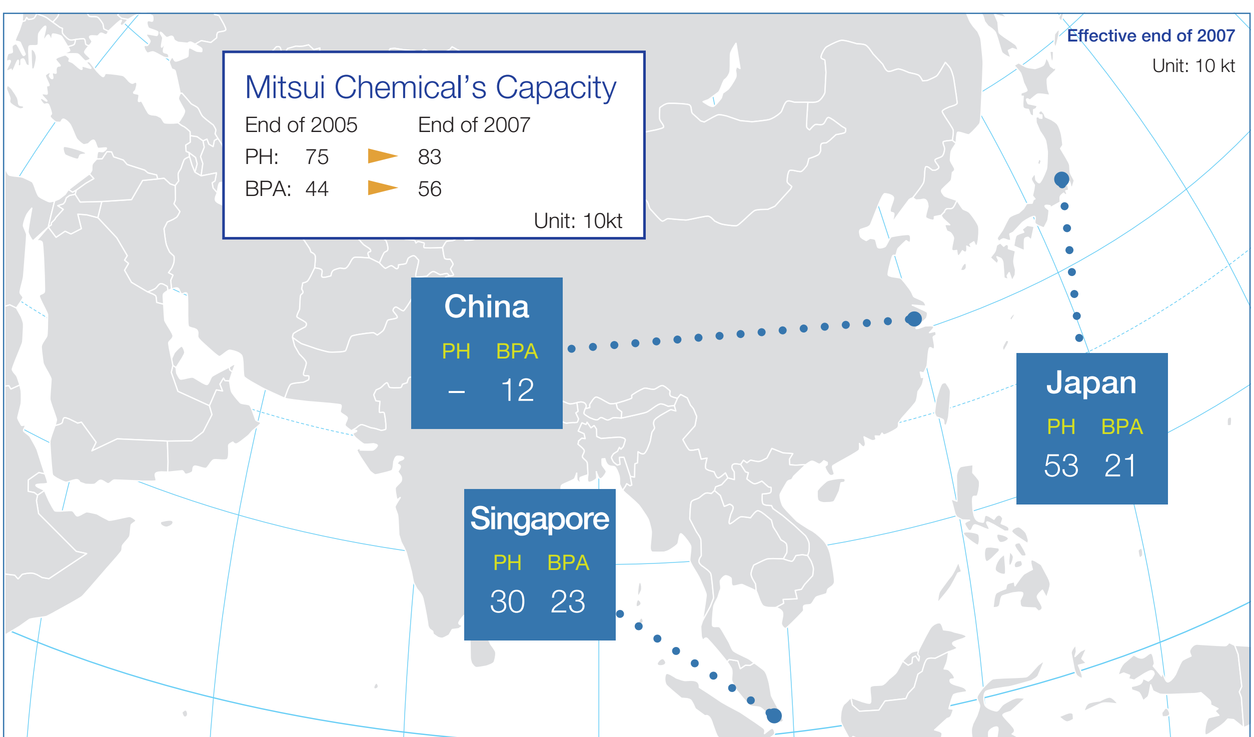
Where BPA is concerned, Mitsui Chemicals established Shanghai Sinopec Mitsui Chemicals Co., Ltd., a joint venture with Sinopec Corp., in Shanghai, China, in April 2006. The BPA facility, once completed, will have an annual production capacity of 120 thousand tons, and is scheduled to come onstream in 2007.

With these upgrades and additions, Mitsui Chemicals is reinforcing an operating structure for phenol and BPA with key bases that now includes China alongside Japan and Singapore. The policy going forward will be to further enhance the earnings structure of these businesses by retaining the top shares for phenol and BPA in Asia.

ENHANCING EFFORTS TO SECURE AROMATIC RAW MATERIALS

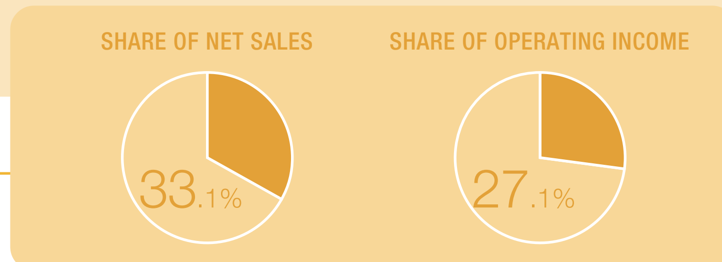
In 2004, Mitsui Chemicals boosted output of cumene, a raw material for phenol, from 100 thousand to 280 thousand tons at its Osaka Works. In addition, the company, in a bid to secure competitive aromatic materials such as benzene, xylene, and toluene, has sought to team up with partners among petroleum refining companies. Accordingly, Mitsui Chemicals, together with Idemitsu Kosan Co., Ltd. and Sumitomo Chemical Co., Ltd., plan 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, thereby enhancing efforts to secure aromatic raw materials.

Mitsui Chemicals Phenol Chain – No. 1 in Asia



Review of Operations

Petrochemicals Business Group



KEIICHI SANO
Business Group President
Petrochemicals Business Group

THE YEAR IN REVIEW

The fiscal year under review was a scheduled maintenance year for the Ichihara Works and Osaka Works. Accordingly, production volumes for ethylene and propylene were down by 4% and 2%, respectively, on the year.

Elsewhere, sales of polyethylene (PE) and polypropylene (PP) rose by 57% and 72%, respectively, over the previous year. This result reflected an increase of transaction volume accompanying the establishment of Prime Polymer Co., Ltd., a joint venture with Idemitsu Kosan Co., Ltd. as well as higher product prices. The earnings environment, however, remained severe, with successive upward product price revisions unable to fully offset the effects of surging prices for feedstock.

As a result of these factors, net sales in this segment were ¥487.0 billion, up ¥170.4 billion from the previous year. Operating income declined ¥9.5 billion to ¥15.9 billion.

MAIN PRODUCTS

Petrochemical Feedstocks, Polyethylene, Polypropylene, Licensing, etc.

ORGANIZATIONAL DIAGRAM

Petrochemicals Business Group
- Planning & Coordination Div.
- Petrochemical Feedstocks Div.
- Styrenics Div.
- Licensing Div.
- Prime Polymer Co., Ltd.

DIRECTION OF BUSINESS STRATEGY

As part of the Petrochemicals & Basic Chemicals Sector, the basis of Mitsui Chemicals' competitiveness, the Petrochemicals Business Group has taken various initiatives to further increase profitability. Where feedstock is concerned, in the Ichihara Works and the Osaka Works, which have ethylene plants, the company is exploring the possibility of "regional refinery and petrochemical integration" with petroleum refining companies near both works. Mitsui Chemicals is also diversifying cracker feedstock to enable it to flexibly utilize competitive feedstock other than naphtha, such as liquefied petroleum gas (LPG) and heavy natural gas liquid (NGL).

In the field of olefins, the segment is shifting away from ethylene derivatives to propylene-based products, ahead of an anticipated surge in competition against ethane gas-based derivatives. This move has been reinforced with the transformation of the Osaka Works into a propylene center with the introduction of an olefin conversion unit in 2004. This change was followed by the decision at the Ichihara Works to jointly develop a propylene production system which utilizes underutilized C4-fraction by-products in conjunction with Idemitsu Kosan Co., Ltd. and Sumitomo Chemical Co., Ltd.

In the field of derivatives, the segment integrated its polyolefin business with that of Idemitsu Kosan to establish Prime Polymer Co., Ltd. in April 2005. The policy guiding the segment aims to create synergies worth ¥10 billion over the next four years and to bolster differentiation areas such as PP automotive materials, etc.

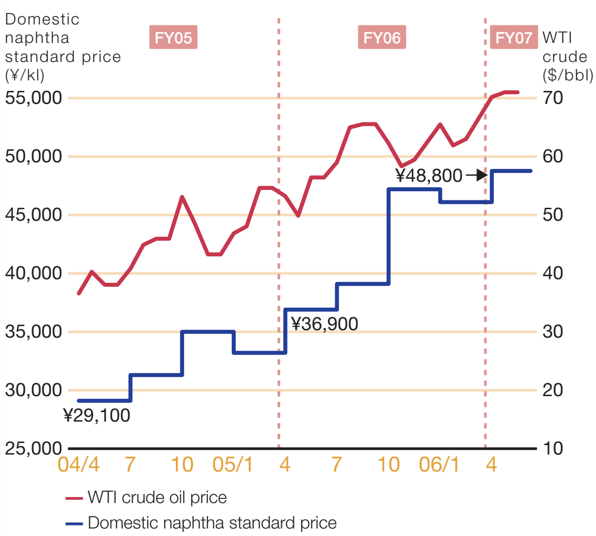
HIGHLIGHTS

Initiatives for Diversification of Cracker Feedstock

As naphtha prices continue to soar, supply and demand is expected to remain tight due to booming demand for petrochemical derivatives, particularly from China. The escalating price of naphtha is having a substantial impact on the company's financial performance, particularly since Mitsui Chemicals purchases approximately 6 million kiloliters of naphtha annually for use as feedstock. Diversifying the types of cracker feedstock it procures is helping the company to minimize this impact.

In concrete terms, Mitsui Chemicals is taking a flexible approach to utilizing LPG, heavy NGL and other non-naphtha feedstock, based on their price competitiveness versus naphtha at the time of use, at its Ichihara Works. At the Osaka Works, meanwhile, the company is examining the possibility of building a cracker furnace compatible with heavier feedstock. And at both the Ichihara Works and the Osaka Works, home to the company's ethylene plants, Mitsui Chemicals is considering "regional refinery and petrochemical integration" with Idemitsu Kosan and other nearby petroleum-refining companies.

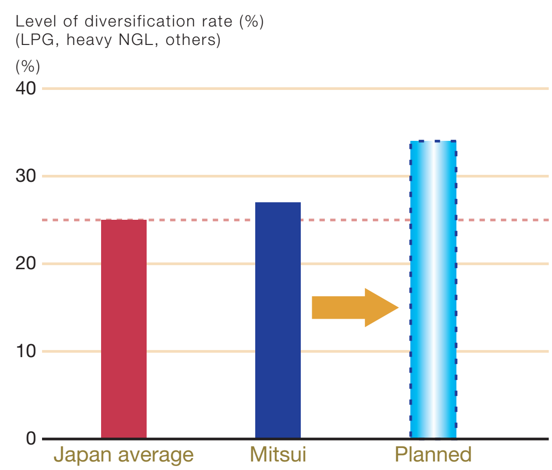
Crude oil/naphtha prices



Effect of fluctuations in naphtha price:
Approx. ¥6 billion/yr increase in cost for every ¥1,000/kl increase in naphtha price

Diversification of cracker feedstock

<Non-naphtha feedstock cracker capacity>



Currently planning construction of cracker compatible with heavier feedstock

Shifting to a Propylene Center

Production of ethylene and its derivatives produced from ethane gas feedstock is projected to rise in the Middle East and other locations in the coming years. From a cost-competitiveness standpoint, it will be difficult for us to compete against these products with ethylene and derivatives produced using naphtha. It was this recognition that prompted Mitsui Chemicals to turn attention instead to propylene-based derivatives.

Concrete measures taken in this respect include the decommissioning and replacement in 2004 of three older PP plants with a single, cost-competitive plant with an annual production capacity of 300 thousand tons. Mitsui Chemicals also established an olefin conversion unit (OCU) at the Osaka Works to increase production of propylene, the raw material for PP. With this, the company made significant strides in transforming the Osaka Works into a propylene center.

At the Ichihara Works, Mitsui Chemicals has decided to install a highly efficient propylene production system under development in collaboration with Idemitsu Kosan and Sumitomo Chemical, as part of its Research Association of Refinery Integration for Group-Operation (RING). The system is scheduled to commence operating sometime in mid-2009.

Structural Reforms in the Polyolefin Business: Concentrate on the Premium PP Market

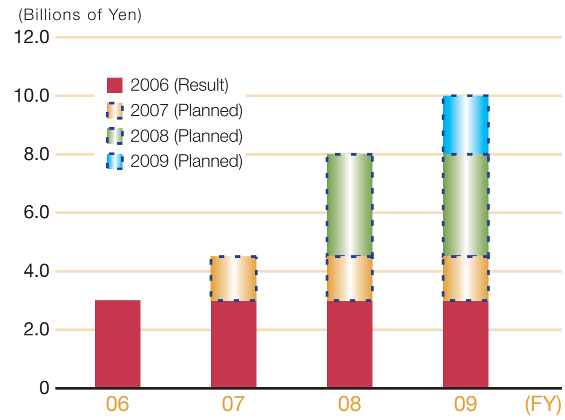
(1) Realizing Synergies at Prime Polymer

To boost the profitability of polyolefin operations, Mitsui Chemicals and Idemitsu Kosan integrated their respective polyolefin businesses to establish a new company in April 2005. Despite sharply higher feedstock prices, approximately ¥3 billion in synergies emerged during the year under review, the new company's first in operation. As these results suggest, the joint venture is off to a smooth start toward achieving the goal of ¥10

Olefin conversion unit in Osaka Works

PP Plant in Osaka Works

Steady realization of synergies



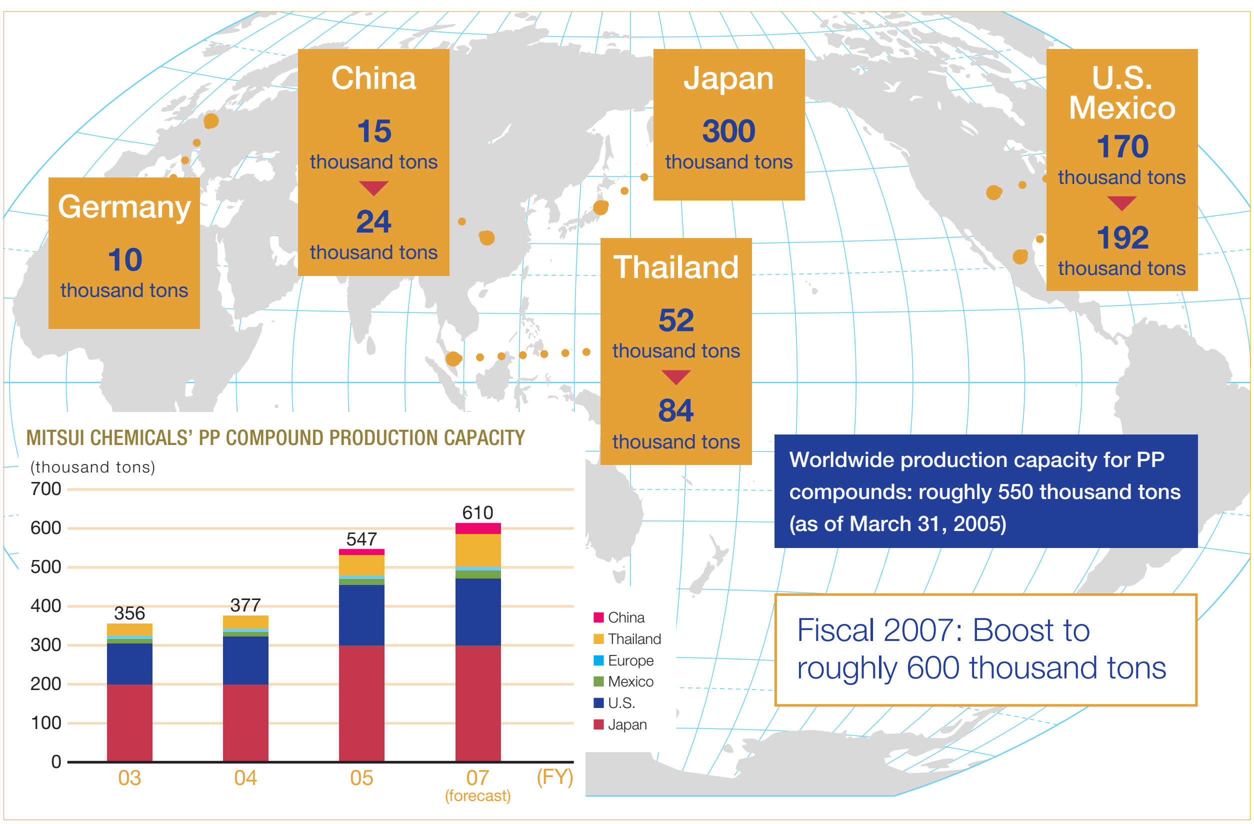
billion in synergies for the fiscal year ending March 31, 2009.

(2) Accelerating Global Expansion of PP Compounds for Automotive Materials

Mitsui Chemicals is shifting to more premium products as a means of strengthening the competitiveness of its PP operations. Specific measures to date have seen the company accelerate the global development of its PP compounds for automotive materials, which must deliver high levels of quality, by reinforcing its global supply system focused on the four key markets of Japan, the United States, Europe and Asia.

As an example, Mitsui Chemicals plans to boost in the U.S., Mexico, Thailand and China by 63 thousand tons during 2007. With worldwide annual production of PP compounds for automotive materials at roughly 600 thousand tons, this level of increase in output is expected to further bolster Mitsui Chemicals' world-class supply capabilities.

PP Compounds for Automotive Materials Worldwide



Research & Development

1. R&D MISSION AND GOALS

For a chemicals company, technological capabilities are the key to competitiveness, just as new products are the drivers behind growth. The mission of R&D at Mitsui Chemicals is to "become the driving force to boost the Mitsui Chemicals Group's growth by obtaining and maintaining superior levels of R&D competitive in each business segment." To this end, the company has set the following goals and strives to develop new technologies and products more efficiently in the Performance Materials and Petrochemicals & Basic Chemicals sectors.

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

To realize the goals set out above, the company's R&D organization is broadly divided into Business Group Research Labs and Corporate Research Labs. The Business Group Research Labs conduct research on the development of products that sustain, strengthen, and expand the company's core businesses in the Performance Materials Sector.

R&D Mission and Goals

Mission

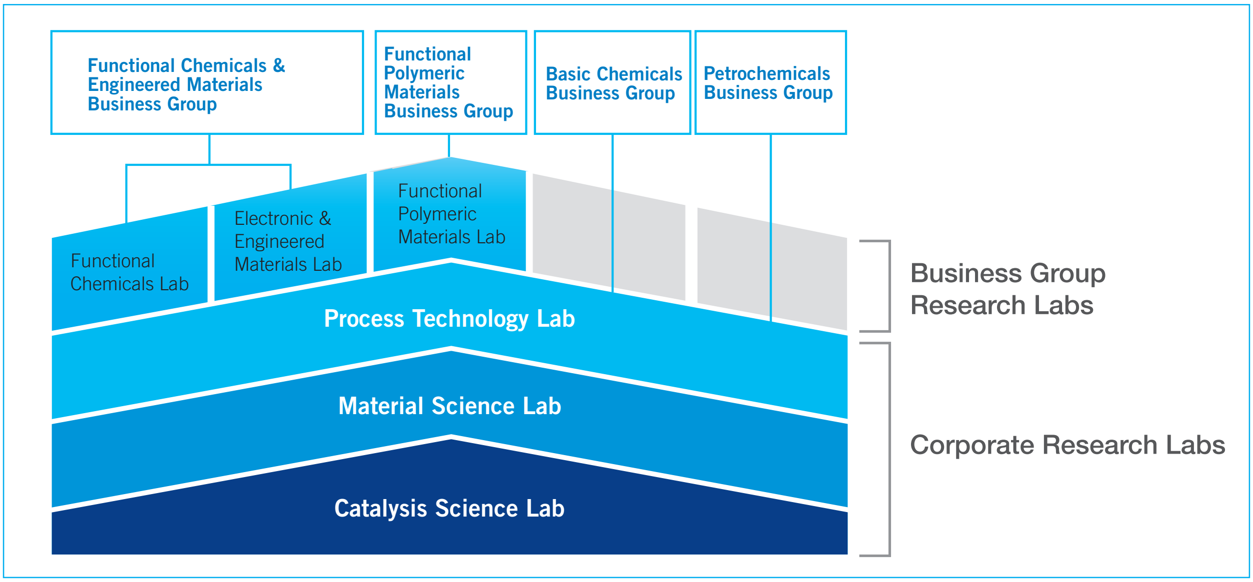
Become the driving force to boost Mitsui Chemicals Group's growth by obtaining and maintaining superior levels of R&D competitive in each business segment.

Goals

Performance Materials Sector:
Contribute to boosting profitability 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 profitability by strengthening the production technology of core businesses.

R&D Organization at Mitsui Chemicals



The Corporate Research Labs engage in development initiatives that involve company-wide R&D activities, such as basic technology development, new material development, and process development.

By linking Business Group and Corporate Research Labs through cross-organizational projects, Mitsui Chemicals is honing the creativity and strategic value of its R&D organization.

3. INTEGRATION OF KNOWLEDGE THROUGH CONSTRUCTION OF A GLOBAL SCIENCE NETWORK

– Linking Researchers Throughout the World

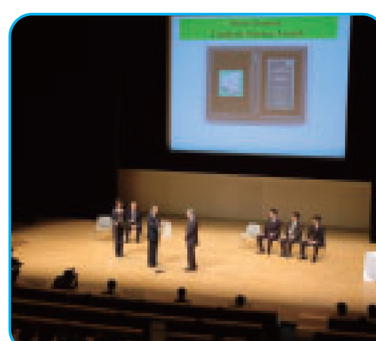
In such industries as automobiles, information and electronics, and healthcare, Mitsui Chemicals conducts comprehensive joint research from the early stages with important customers.

Moreover, as part of efforts to promote cooperation between industry and academia, the company has established Mitsui Chemicals Technology Forums. 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 technologies. Currently, Mitsui Chemicals works with 38 advisors in the fields of catalysis science, polymer science, nano-materials and so on.

Mitsui Chemicals also actively disseminates a variety of science-related information. In addition to the presentations of research results at academic conferences in Japan and abroad, the company hosts international symposia on catalysis science and advanced materials, and has established the "Mitsui Chemicals Catalysis Science Award" with the aim of contributing to the sustainable development of chemistry and the chemicals industry.

Thus, Mitsui Chemicals Global Science Network extends beyond national borders and strengthens communication between people of industry and academia. The company accelerates the integration of knowledge and aims to create a "Strong & Excellent Mitsui Chemicals Group."

Singapore International Symposium 2006



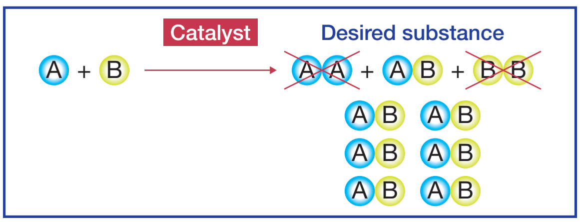
Mitsui Chemicals Catalysis Science Award Ceremony

MITSUI CHEMICALS AND CATALYSIS SCIENCE

Catalysts enable the highly efficient creation of substances with desired qualities by controlling chemical reactions at the atomic level.

What Are Catalysts?

Catalysts enable the highly efficient creation of desired substances by controlling chemical reactions at the 0.1 nm (atomic) level



Mitsui Chemicals has for many years conducted research and development of catalysts and process technologies for the products created by them. Along the way, the company has developed catalysts whose impact has been felt worldwide. Prominent examples include the titanium catalyst for olefin polymerization developed in 1968, the acrylonitrile hydration catalyst for the manufacture of acrylamide, a raw material for polymer flocculants, developed in 1972, and the metallocene catalyst developed in 1995.

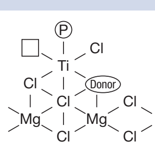
Leveraging world-class technological innovation to create high-performance catalysts, Mitsui Chemicals conducts the development of functional polymers, the driving force behind expansion in the Performance Materials Sector, and has already produced a number of high-performance, and value-added products as shown by the examples below. Moreover, the sale of olefin polymerization catalysts and the licensing of polyolefin process technologies that utilize the company's proprietary catalysts have made a large contribution to earnings. In this way, Mitsui Chemicals' expertise in catalysis science is expected to play a major role in boosting the company's earnings power in the years ahead.

Mitsui Chemicals' Catalysts That Have Impacted the World

$MgCl_2$-supported Ti catalyst

1968

Olefin polymerization catalyst
PE, PP



High-activity
High-stereoregularity

FY 1985
The Chemical Society of Japan Award for Technical Development

Raney copper catalyst

1972

Acrylonitrile hydration catalyst
Acrylamide

$CH_2{=}CHCN + H_2O \longrightarrow CH_2{=}CHCONH_2$

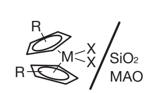
High-selectivity
Less waste

FY 1973
The Chemical Society of Japan Award for Technical Development

SiO_2-supported metallocene catalyst

1995

Olefin polymerization catalyst
Linear low-density polyethylene



High-activity
Homogeneous polymer

FY 2002
The Chemical Society of Japan Award for Technical Development

Group Intellectual Property Strategy

1. MISSION AND GOAL

The fundamental objective of the Mitsui Chemicals Group's Intellectual Property Strategy is to ensure that group companies can freely develop businesses and that sustainable business advantage is preserved, all from an intellectual property standpoint. For this task, Mitsui Chemicals fulfills and pursues the following mission and goal:

<Mission>
To build up and strengthen portfolios of intellectual property rights that serve as key advantages in the Mitsui Chemicals Group's competitive strategies and to utilize the portfolios for contributing to enhanced business competitiveness and faster incubation of new business, all in close cooperation among business, R&D and Intellectual Property divisions

<Goal>
To maximize intellectual property value by building and utilizing intellectual property rights portfolios in each business and product category

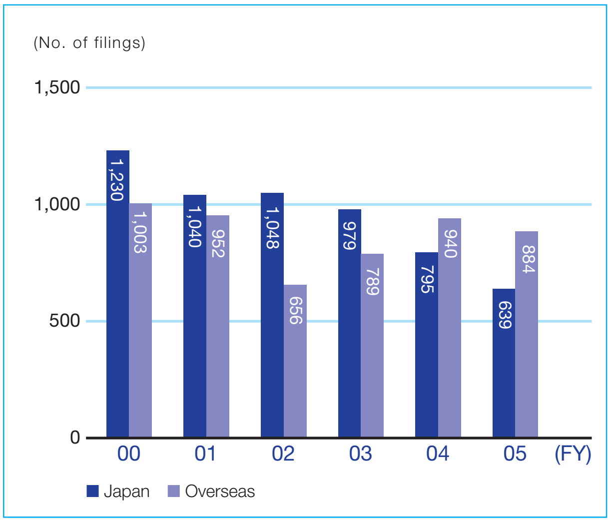
2. MEASURES TO PROMOTE VALUABLE INVENTIONS

While focusing resources on carefully selected businesses and product development initiatives, Mitsui Chemicals strives to acquire and maintain high-quality patents by implementing Patent Portfolio Management in accordance with the Intellectual Property Strategy, which is closely linked to its Business Strategy and R&D Strategy.

Following the amendment of Article 35 of Japan's Patent Law, Mitsui Chemicals revised its regulations pertaining to employees' inventions in April 2005. This step was part of efforts to build up and strengthen a portfolio of intellectual property rights that will serve as key advantages in the group's competitive strategies. The system now in place is one in which the inventor and relevant business division and intellectual property divisions jointly discuss and evaluate the patent value of the invention and subsequent business value. This meeting takes place within one year following the transfer of the right to obtain a patent from the inventor to Mitsui Chemicals. The outcome of this evaluation determines the amount that inventors are compensated for their invention.

This process clarifies criteria to measure how patent value and business value of an invention are evaluated, which succeeds in further improving the quality of patent applications. At the same time, by evaluating invention value relatively shortly after invention and paying compensation commensurate with value, this system gives researchers an incentive to generate even more outstanding inventions.

Patent and Utility Model Applications (non-consolidated)



Board of Directors (As of June 27, 2006)

Chairman	Hiroyuki Nakanishi	
President	Kenji Fujiyoshi	
Executive Vice Presidents	Koichi Tominaga	[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
	Toshikazu Tanaka	[Assistant to the President: Basic Chemicals Business Group, Petrochemicals Business Group and Planning Division—Greater China] Business Group President, Basic Chemicals Business Group
Senior Managing Directors	Shinji Tanikawa	[Corporate Administration Division, Legal Division, Executive Offices, Corporate Communications Division (Public Relations), Human Resources & Employee Relations Division and CSR Division]
	Akihiro Yamaguchi	[R&D Center and Intellectual Property Division] Center Executive, R&D Center
	Yoshiyuki Shinohara	[Production & Technology Center, Purchasing Division, SCM-Division, Logistics Division and Information Technology Planning Division] Center Executive, Production & Technology Center
Managing Directors	Nobutaka Kuwabara	Business Group President, Functional Polymeric Materials Business Group
	Keiichi Sano	Business Group President, Petrochemicals Business Group
	Hirokazu Kajiura	[Corporate Planning Division, Affiliates Management Planning & Coordination Division, Mitsui Chemicals America, Inc., Mitsui Chemicals Europe GmbH, Mitsui Chemicals Singapore, Ltd. and Mitsui Chemicals (Shanghai) Co., Ltd.]
	Koichi Sano	[Management Accounting Division, Finance & Accounting Division, Management Audit Division and Corporate Communications Division (IR)]
Board Directors	Yukio Machida	
	Akemi Ori	

Executive Vice President
Koichi Tominaga

Executive Vice President
Toshikazu Tanaka

Chairman
Hiroyuki Nakanishi

President
Kenji Fujiyoshi

Financial Section

Contents

Selected Consolidated Financial and Operating Data

MITSUI CHEMICALS, INC. AND CONSOLIDATED SUBSIDIARIES
Years ended March 31

(Millions of yen except per share amounts)	2006	2005	2004
Net sales	¥1,472,435	¥1,227,547	¥1,089,518
Cost of sales	1,217,564	968,230	861,965
SG&A	196,166	178,826	173,611
Operating income	58,705	80,491	53,942
Other income (expenses)	14,220	(25,839)	(31,708)
Income before income taxes, minority interests and equity in earnings of non-consolidated subsidiaries and affiliates	–	–	–
Income before income taxes and minority interests	72,925	54,652	22,234
Income taxes	27,681	23,053	7,923
Income before minority interests and equity in earnings of non-consolidated subsidiaries and affiliates	–	–	–
Income before minority interests	45,244	31,599	14,311
Equity in earnings of non-consolidated subsidiaries and affiliates	–	–	–
Net income	44,125	26,192	12,466
Total current assets	608,995	497,287	440,517
Property, plant and equipment, net	532,324	520,886	548,799
Total investments and other non-current assets	187,571	187,012	199,150
Total assets	1,328,890	1,205,185	1,188,466
Total current liabilities	475,074	440,566	440,869
Total long-term liabilities	314,692	313,389	325,342
Total shareholders' equity	464,021	405,773	383,365
Depreciation and amortization	70,099	56,770	56,101
Capital expenditures	81,400	47,135	45,722
R&D expenses	37,146	34,881	32,894
Return on sales	3.00%	2.13%	1.14%
Return on equity	10.15%	6.64%	3.31%
Return (operating income) on assets	4.63%	6.73%	4.47%
Net income per share (basic)	¥ 56.20	¥ 33.26	¥ 15.78
Net income per share (diluted)	–	–	–
Cash dividends per share	¥ 8.00	¥ 7.00	¥ 6.00

Reported Basis						Restated Basis		
2003	2002	2001	2000	1999	1998	1998	1997	1996
¥1,053,182	¥ 952,680	¥ 939,782	¥ 884,246	¥ 855,942	¥ 681,234	¥ 927,688	¥ 899,896	¥ 909,843
823,523	730,059	720,524	659,327	632,036	532,414	721,409	690,208	686,466
173,201	180,239	164,746	169,180	165,680	110,497	157,010	163,501	165,134
56,458	42,382	54,512	55,739	58,226	38,323	49,269	46,187	58,243
(17,496)	(32,142)	(26,118)	(29,603)	(36,099)	(14,334)	(20,063)	(17,103)	(27,189)
–	–	–	–	–	–	–	29,084	31,054
38,962	10,240	28,394	26,136	22,127	23,989	29,206	–	–
13,465	1,830	10,523	8,182	12,674	11,290	14,963	14,879	19,431
–	–	–	–	–	–	–	14,205	11,623
25,497	8,410	17,871	17,954	9,453	12,699	14,243	–	–
–	–	–	–	–	–	–	779	1,940
20,320	7,651	17,068	16,042	7,739	11,702	13,010	14,185	12,766
445,239	486,642	563,245	544,837	548,668	616,871	616,871	598,660	598,250
580,830	583,949	552,759	530,827	513,268	530,860	530,860	479,906	489,766
199,125	227,272	198,509	161,515	146,232	150,505	150,505	179,256	180,051
1,225,194	1,297,863	1,314,513	1,237,179	1,208,168	1,298,236	1,298,236	1,257,822	1,268,067
451,613	525,532	532,586	528,643	482,912	612,583	612,583	616,726	551,185
359,638	365,708	388,159	346,242	378,274	349,972	349,972	312,223	392,491
370,738	366,988	352,988	345,690	329,685	318,532	318,532	319,565	315,272
56,850	56,609	51,755	52,634	51,081	38,422	52,802	52,695	52,586
68,753	117,564	61,524	54,435	52,058	46,428	60,060	45,117	46,670
37,114	39,012	36,543	38,141	39,295	28,036	40,451	37,275	41,172
1.93%	0.80%	1.82%	1.81%	0.90%	1.72%	1.40%	1.58%	1.40%
5.51%	2.13%	4.89%	4.75%	2.39%	4.81%	4.08%	4.47%	4.10%
4.48%	3.24%	4.27%	4.56%	4.65%	4.27%	3.86%	3.66%	4.63%
¥ 25.72	¥ 9.70	¥ 21.63	¥ 20.57	¥ 9.97	¥ 21.53	–	–	–
¥ 25.47	–	¥ 21.44	¥ 20.41	–	¥ 20.98	–	–	–
¥ 6.00	¥ 6.00	¥ 6.00	¥ 6.00	¥ 6.00	¥ 6.00	–	–	–

Management's Discussion and Analysis

OVERVIEW

In this fiscal year (2006), the year ended March 31, 2006, the Japanese chemical industry continued to face exceedingly difficult operating conditions. Although production and shipments were solid, barring certain products, raw material prices surged throughout the year, particularly in the second half of the year when prices, which had already been high, climbed further.

Under such conditions, the Mitsui Chemicals Group concentrated its efforts on sales activities and worked to reduce costs across the board, as the entire Group strove to improve profit.

The results of these efforts are provided in the analysis that follows below.

The Group includes 68 subsidiaries within the scope of consolidation, four less than the previous fiscal year, as a result of adding Prime Polymer Co., Ltd. and two other companies due to establishment and other reasons, and excluding Mitsui Kagaku Platech Co., Ltd. and six other companies due to merger and other reasons. The equity method is applied to 63 non-consolidated subsidiaries and affiliated companies, eight less than the previous fiscal year.

OPERATING RESULTS

NET SALES

Net sales increased ¥244,888 million (US$2,085 million), or 19.9%, compared to the previous fiscal year, to ¥1,472,435 million (US$12,535 million). Adjusting product prices in line with higher prices for naphtha and other feedstock accounted for roughly ¥105.0 billion (US$0.89 billion) of the increase, while growth in sales volume associated with establishing Prime Polymer in April 2005, a joint venture with Idemitsu Kosan Co., Ltd., was, among other factors, responsible for approximately ¥139.9 billion (US$1.19 billion).

OPERATING INCOME

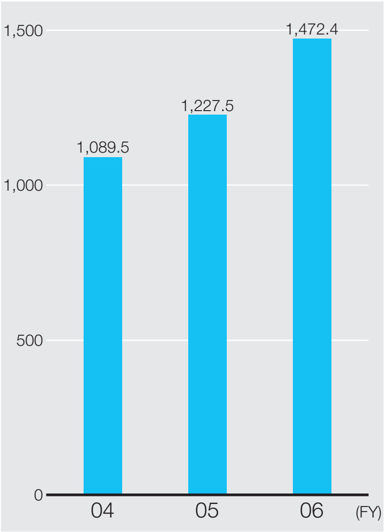
Operating income decreased ¥21,786 million (US$185 million), or 27.1%, to ¥58,705 million (US$500 million). While efforts were made to adjust product prices, the cost of sales increased substantially due to escalating prices for naphtha and other feedstock.

Compared to the previous fiscal year, sales volume increased operating income by some ¥31.6 billion (US$0.27 billion), and sales prices by approximately ¥105.0 billion (US$0.89 billion). Proportional costs, primarily raw material costs, reduced operating income by around ¥122.4 billion (US$1.04 billion), and the fixed cost differential and other costs by approximately ¥36.0 billion (US$0.31 billion). Starting in the year under review, Mitsui Chemicals, Inc. and some consolidated subsidiaries have changed their method of depreciating property, plant and equipment, increasing fixed costs and lowering operating income.

Segment information follows below.

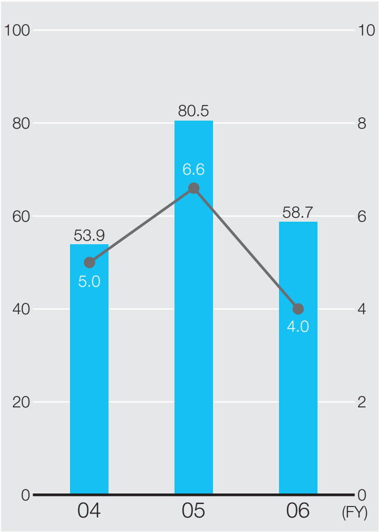
NET SALES

(Billions of yen)



OPERATING INCOME/RATIO TO NET SALES

(Billions of yen, %)



■ Operating income
● Ratio to net sales

SEGMENT INFORMATION

Business Segments

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

Net Sales

(Billions of yen)

			Change		
	2006	2005	Total	Volume contribution	Price contribution
Functional chemicals and engineered materials	192.7	183.4	9.3	10.6	(1.3)
Functional polymeric materials	281.7	262.8	18.9	(3.0)	21.9
Basic chemicals	474.3	427.2	47.1	7.0	40.1
Petrochemicals	487.0	316.6	170.4	126.5	43.9
Others	36.7	37.5	(0.8)	(1.2)	0.4
Eliminations	–	–	–	–	–
Total	1,472.4	1,227.5	244.9	139.9	105.0

Operating Income

(Billions of yen)

			Change					Ref:
	2006	2005	Total	Volume contribution	Price contribution	Proportional cost differential	Fixed cost differential, other costs	Impact of change in depreciation method
Functional chemicals and engineered materials	10.8	9.1	1.7	3.4	(1.3)	2.4	(2.8)	(1.7)
Functional polymeric materials	10.1	8.5	1.6	(0.7)	21.9	(16.0)	(3.6)	(1.0)
Basic chemicals	21.8	36.0	(14.2)	1.8	40.1	(51.3)	(4.8)	(2.4)
Petrochemicals	15.9	25.4	(9.5)	28.0	43.9	(57.2)	(24.2)	(2.9)
Others	0.6	1.3	(0.7)	(0.9)	0.4	(0.3)	0.1	(0.0)
Eliminations or corporate	(0.5)	0.2	(0.7)	–	–	–	(0.7)	–
Total	58.7	80.5	(21.8)	31.6	105.0	(122.4)	(36.0)	(8.0)

Functional Chemicals and Engineered Materials

(Millions of yen)

	2006	2005	Change (%)
Total sales	¥192,690	¥183,434	5.0
Operating income	10,799	9,055	19.3
Total assets	205,572	207,464	(0.9)
Depreciation and amortization	12,414	11,003	12.8
Capital expenditures	11,859	10,100	17.4

Sales of hygiene materials decreased by 5% compared to the previous fiscal year. Although nonwoven fabrics sold well due to greater demand in East and Southeast Asia, particularly in China and Thailand, breathable film struggled as sales declined overseas.

Sales of construction materials remained on a par with the previous fiscal year, maintained by demand centering on materials for civil engineering projects.

Sales of semiconductor materials increased 13% over the previous fiscal year. While sales in this segment were impacted by falling prices in the semiconductor and LCD markets, aggressive promotion of semiconductor gas sales nonetheless produced solid results.

Sales of display materials grew 45% over the previous fiscal year, as market growth ushered in strong performance that more than offset the impact of lower prices for plasma display panels.

Sales of healthcare products, which include monomers for optical lenses and pharmaceutical intermediates, rose 1% year on year owing to steady sales of materials for high-index plastic lenses.

Sales of fine chemicals, which include polymerization retarders and adhesive raw materials for tires and wood products, climbed 22% over the previous fiscal year as product prices were raised to reflect higher raw material prices.

Sales of agrochemicals fell 2% from the previous fiscal year due to slumping sales of insecticides and other products.

As a result of the above developments, sales from this segment increased ¥9,256 million (US$79 million) compared to the previous fiscal year, to ¥192,690 million (US$1,640 million). Higher sales volume accounted for an increase of approximately ¥10.6 billion (US$0.09 billion), while sales prices caused a decline of about ¥1.3 billion (US$0.01 billion). Sales from this segment accounted for 13% of total net sales.

Operating income increased ¥1,744 million (US$15 million), to ¥10,799 million (US$92 million). An increase in operating income of approximately ¥3.4 billion (US$0.03 billion) was attributable to sales volume, a decrease of approximately ¥1.3 billion (US$0.01 billion) to sales prices, an increase of around ¥2.4 billion (US$0.02 billion) to the difference in proportional costs, and a decrease of about ¥2.8 billion (US$0.02 billion) to the fixed cost differential and other costs.

Functional Polymeric Materials

(Millions of yen)

	2006	2005	Change (%)
Total sales	¥281,738	¥262,861	7.2
Operating income	10,066	8,478	18.7
Total assets	280,058	264,847	5.7
Depreciation and amortization	19,901	17,844	11.5
Capital expenditures	14,523	10,375	40.0

Sales of elastomers, which include ethylene-propylene rubber and alpha-olefin copolymers, increased 18% over the previous fiscal year due to domestic demand growth, centering on auto parts, successfully acquiring new customers, primarily in Asia, and developing markets for pliable resin applications.

Sales of specialty polyolefins climbed 12% over the previous fiscal year thanks to higher demand, particularly for IT-related applications.

Sales of engineering plastics edged up 1% over the previous fiscal year. While sales volume slumped, particularly for electronic component applications, this was offset by higher sales in China of new items.

Sales of papermaking materials and coating resins increased 1% compared to the previous fiscal year. While sales volume was lower for products used in construction materials and general materials, sales were steady for products used in data recording paper and cellular phone applications.

Sales of wax, petroleum resins and other additive materials rose 9% over the previous fiscal year as product prices were raised to reflect surging prices for raw materials.

Sales of acrylamide for flocculant applications increased 5% year on year atop stable prices and volumes.

Urethane raw materials climbed 13% over the previous fiscal year as export prices for TDI recovered in the second half of the term, and price levels were maintained for MDI and PPG.

Urethane resins rose 11% compared to the previous fiscal year as coating materials, building materials, cast molding and adhesives turned in strong performances on the back of higher demand in Japan and overseas.

As a result, total segment sales increased ¥18,877 million (US$161 million), to ¥281,738 million (US$2,398 million). Lower sales volume reduced sales by some ¥3.0 billion (US$0.03 billion), while higher sales prices positively contributed approximately ¥21.9 billion (US$0.19 billion). Sales from this segment accounted for 19% of net sales overall.

Operating income rose ¥1,588 million (US$14 million) year on year, to ¥10,066 million (US$86 million). Sales volume negatively affected operating income by approximately ¥0.7 billion (US$0.01 billion), sales prices contributed around ¥21.9 billion (US$0.19 billion), the proportional cost differential lowered income by approximately ¥16.0 billion (US$0.14 billion), and the fixed cost differential and other costs reduced it by some ¥3.6 billion (US$0.03 billion).

Basic Chemicals

(Millions of yen)

	2006	2005	Change (%)
Total sales	¥474,310	¥427,202	11.0
Operating income	21,862	36,046	(39.3)
Total assets	314,425	293,077	7.3
Depreciation and amortization	15,749	13,498	16.7
Capital expenditures	19,559	14,087	38.8

Sales of purified terephthalic acid (PTA) increased 23% over the previous fiscal year. Adjustment of product prices to reflect rising raw material costs, sales expansion to accommodate robust demand growth in China and other parts of Asia, and augmented production capacity at Siam Mitsui PTA Co., Ltd. in Thailand led to sales growth.

Sales of polyethylene terephthalate (PET) resins dropped 4% from the previous fiscal year. While sales prices were raised to reflect higher raw material costs, imported products increased amid subdued growth in demand for PET bottles in Japan.

Sales of phenol increased 4% and sales of bisphenol A jumped 19% compared to the previous fiscal year, as product prices were raised after incorporating the higher price of raw materials.

Ethylene glycol, ethylene oxide and their derivatives experienced an increase in sales of 8% compared to the previous fiscal year, on the back of firm demand.

However, these increases in sales were not enough to offset higher costs overall caused by rising prices for raw materials used in various products.

As a result, sales from this segment increased ¥47,108 million (US$401 million) compared to the previous fiscal year, to ¥474,310 million (US$4,038 million), accounting for 32% of total consolidated sales. Higher sales volume increased sales by approximately ¥7.0 billion (US$0.06 billion), and higher sales prices positively contributed around ¥40.1 billion (US$0.34 billion).

Operating income decreased ¥14,184 million (US$121 million) year on year, to ¥21,862 million (US$186 million). Sales volume contributed approximately ¥1.8 billion (US$0.02 billion) and sales prices roughly ¥40.1 billion (US$0.34 billion), but the proportional cost differential reduced operating income by some ¥51.3 billion (US$0.44 billion), and the fixed cost differential and other costs by about ¥4.8 billion (US$0.04 billion).

Petrochemicals

(Millions of yen)

	2006	2005	Change (%)
Total sales	¥487,039	¥316,564	53.9
Operating income	15,867	25,418	(37.6)
Total assets	395,383	281,573	40.4
Depreciation and amortization	20,970	13,487	55.5
Capital expenditures	34,303	11,514	197.9

Production volumes of ethylene and propylene decreased 4% and 2%, respectively, compared to the previous fiscal year. While demand grew in Japan and overseas thanks to solid economic conditions, regular repairs were conducted at ethylene plants at Ichihara Works and Osaka Works.

With regard to polyethylene and polypropylene, product prices were adjusted in line with rising raw material prices. These increases, however, were not enough to offset increased costs as raw material prices surged further upward, resulting in extremely adverse conditions. At the same time, there was an increase equivalent to the amount handled by Idemitsu Kosan due to the establishment of Prime Polymer, which caused sales of polyethylene and polypropylene to rise 57% and 72%, respectively, compared to the previous fiscal year.

As a result, total sales for this segment climbed ¥170,475 million (US$1,451 million) over the previous fiscal year, to ¥487,039 million (US$4,146 million), which represents 33% of consolidated net sales. Lower sales volume had a negative effect of some ¥126.5 billion (US$1.08 billion), but higher sales prices contributed approximately ¥43.9 billion (US$0.37 billion).

Operating income fell ¥9,551 million (US$81 million) year on year, to ¥15,867 million (US$135 million). Sales volume positively contributed around ¥28.0 billion (US$0.24 billion) and sales prices approximately ¥43.9 billion (US$0.37 billion), but the difference in proportional costs reduced income by some ¥57.2 billion (US$0.49 billion), and the fixed cost differential and other costs by approximately ¥24.2 billion (US$0.21 billion).

Others

(Millions of yen)

	2006	2005	Change (%)
Total sales	¥36,658	¥37,486	(2.2)
Operating income	586	1,281	(54.3)
Total assets	60,026	68,271	(12.1)
Depreciation and amortization	1,238	1,208	2.5
Capital expenditures	1,107	1,059	4.5

Outside sales associated with plant construction and maintenance operations declined 3% from the previous fiscal year due to revamping of the outside sales system in order to focus resources on business development within the Group.

Warehousing and logistics services saw outside sales rise 18% over the previous fiscal year thanks to ample volumes of cargo handled.

As a result, sales from this segment, including other businesses, decreased ¥828 million (US$7 million) year on year, to ¥36,658 million (US$312 million), accounting for 3% of total consolidated net sales. Lower sales volume reduced sales by ¥1.2 billion (US$0.01 billion) while higher sales prices increased sales by approximately ¥0.4 billion (US$3.4 million).

Operating income fell ¥695 million (US$6 million) compared to the previous fiscal year, to ¥586 million (US$5 million). Sales volume negatively impacted operating income by approximately ¥0.9 billion (US$0.01 billion), while sales prices contributed around ¥0.4 billion (US$3.4 million). The difference in proportional costs reduced income by some ¥0.3 billion (US$2.5 million), but the fixed cost differential and other costs had a net positive impact of around ¥0.1 billion (US$0.9 million).

Geographic Distribution

Japan

Sales rose compared to the previous term due to product price adjustments and to increased sales volume from the establishment of Prime Polymer in April 2005, a joint venture with Idemitsu Kosan. However, the cost of sales also increased considerably due to surging prices of naphtha and other feedstock.

As a result, sales in Japan increased ¥207,210 million (US$1,764 million) over the previous fiscal year, to ¥1,232,958 million (US$10,496 million), accounting for 84% of total net sales. Operating income fell ¥19,850 million (US$169 million), to ¥42,283 million (US$360 million).

Asia

Reflecting the higher cost of feedstock, product prices were adjusted at Siam Mitsui PTA Co., Ltd., a subsidiary involved in the manufacture and sale of PTA in Thailand, and at subsidiaries in Singapore responsible for manufacturing and selling phenol and bisphenol A. In addition, PTA manufacturing facilities were augmented at Siam Mitsui PTA and sales increased after ramping up to full production at Mitsui Elastomers Singapore Pte. Ltd., a subsidiary involved in the manufacture and sale of elastomer resin products.

As a result of these developments, sales from this segment increased ¥27,357 million (US$233 million) compared to the previous fiscal year, to ¥157,616 million (US$1,342 million), which represents 11% of total net sales. Operating income increased ¥160 million (US$1 million), to ¥15,577 million (US$133 million).

Others

Increased sales volume and higher sales prices contributed to higher sales at a manufacturing and sales subsidiary in the U.S. involved in resin compounds for automobile applications, though raw material costs also rose. In addition, sales volume increased at a manufacturing and sales subsidiary for semiconductor gases and other products, but sales prices fell.

As a result, segment sales increased ¥10,321 million (US$88 million) over the previous fiscal year, to ¥81,861 million (US$697 million), comprising 5% of total net sales. Operating income fell by ¥2,472 million (US$21 million), to ¥783 million (US$7 million).

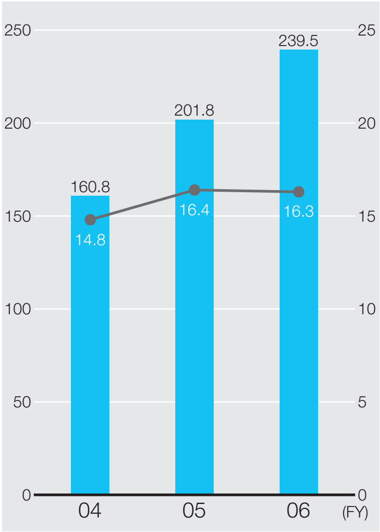
Overseas Sales

Overseas sales for the term grew ¥88,666 million (US$755 million) compared to the previous fiscal year, to ¥523,262 million (US$4,454 million).

Overseas sales as a proportion of net sales increased by 0.1 of a percentage point over the previous fiscal year, to 35.5%. By region, sales in Asia totaled ¥414,202 million (US$3,526 million) and accounted for 28.1% of total net sales. Sales in North and South America amounted to ¥68,191 million (US$580 million), which represents 4.6% of total sales. Sales in Europe totaled ¥33,007 million (US$281 million), 2.3% of total sales, and sales in other regions were ¥7,862 million (US$67 million), 0.5% of total sales.

SALES AT OVERSEAS BASES SHARE OF TOTAL SALES

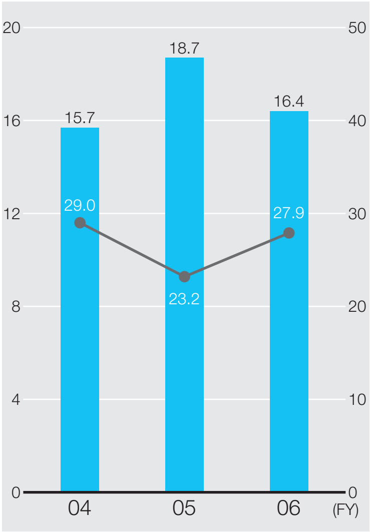
(Billions of yen, %)



■ 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

Compared to the previous fiscal year, sales in Asia made a particularly large contribution to the increase in overseas sales, rising ¥79,112 million (US$673 million) year on year.

OTHER INCOME (EXPENSES)

Other income (expenses) improved ¥40,059 million (US$341 million) over the previous fiscal year, to income of ¥14,220 million (US$121 million).

The major components of other income (expenses) were as follows:

Interest expense was ¥6,035 million (US$51 million), owing to efforts to control interest-bearing liabilities and other factors.

Equity in earnings of non-consolidated subsidiaries and affiliates was ¥8,101 million (US$69 million).

The loss on sales and disposal of property, plant and equipment was ¥7,851 million (US$67 million).

There was also a ¥10,280 million (US$88 million) gain on securities contributed to employees' retirement benefit trust and a ¥9,366 million (US$80 million) gain on change in interests in consolidated subsidiaries due to the establishment of Prime Polymer and other reasons.

As a result of the above, income before income taxes and minority interests increased ¥18,273 million (US$156 million) over the previous fiscal year, to ¥72,925 million (US$621 million).

NET INCOME

Net income after deduction of income taxes and minority interests increased ¥17,933 million (US$153 million), or 68.5%, compared to the previous fiscal year, to ¥44,125 million (US$376 million).

Net income per share rose ¥22.94 (US$0.20), or 69.0%, to ¥56.20 (US$0.48). The return on sales increased from 2.13% in the previous fiscal year to 3.00% in the year under review.

FINANCIAL POSITION

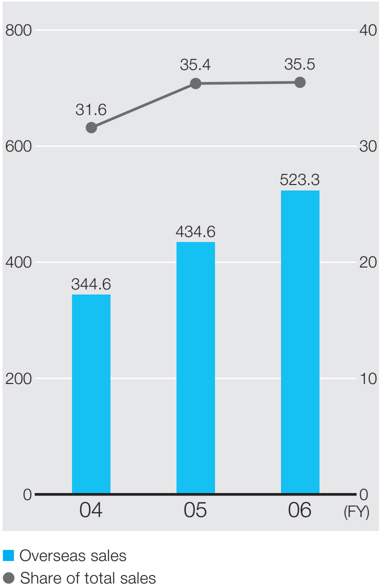
OVERVIEW

While operating income decreased, total assets increased, causing the return on assets (operating income) to drop from 6.73% to 4.63%.

In addition, as a result of working to reduce interest-bearing liabilities, the debt-equity ratio at the end of the term stood at 0.91. This represents early achievement of the Group's goal for fiscal 2008, the year ending March 31, 2008, of 1.0, as set forth in the Medium-term Business Plan.

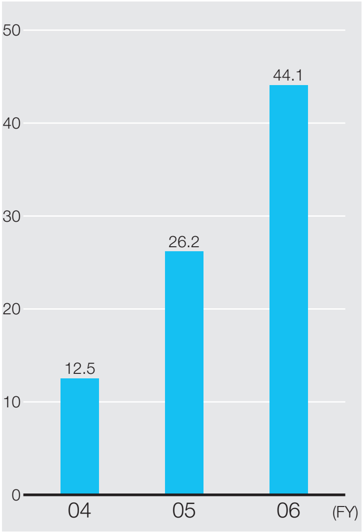
OVERSEAS SALES
SHARE OF TOTAL SALES

(Billions of yen, %)



NET INCOME

(Billions of yen)



ASSETS

Total assets as of March 31, 2006 increased by ¥123,705 million (US$1,053 million), to ¥1,328,890 million (US$11,313 million) year on year. Ongoing efforts were made to reduce total assets, but an increase in accounts receivable due to higher net sales, increased inventories due to spikes in feedstock prices, and assets inherited from Idemitsu Kosan in conjunction with the establishment of Prime Polymer drove total assets higher.

LIABILITIES

Liabilities increased by ¥35,811 million (US$305 million) compared to the end of the previous fiscal year, to ¥789,766 million (US$6,723 million), which included an increase in interest-bearing liabilities of ¥1,596 million (US$14 million), to ¥423,938 million (US$3,609 million). Amid an increase in total assets, the Group continued its efforts to control interest-bearing liabilities, successfully improving the interest-bearing liabilities ratio by 3.1 percentage points compared to March 31, 2005, to 31.9%.

MINORITY INTERESTS

Minority interests increased ¥29,646 million (US$252 million) year on year, to ¥75,103 million (US$639 million).

SHAREHOLDERS' EQUITY

Total shareholders' equity as of March 31, 2006 increased ¥58,248 million (US$496 million) over the previous fiscal year-end, to ¥464,021 million (US$3,950 million).

Retained earnings increased ¥37,694 million (US$321 million) from the previous fiscal year-end, to ¥269,191 million (US$2,292 million), the result of net income of ¥44,125 million (US$376 million) and dividend payments of ¥6,278 million (US$53 million), among other factors.

Net unrealized holding gain on securities increased ¥12,444 million (US$106 million), to ¥29,016 million (US$247 million), due to higher prices of listed securities.

Foreign currency translation adjustments decreased ¥8,585 million (US$73 million) to ¥764 million (US$7 million), due to the impact of a weak yen.

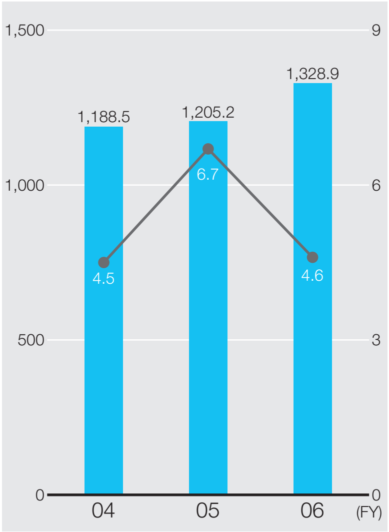
Treasury stock rose ¥507 million (US$4 million) year on year, to ¥3,593 million (US$31 million).

The decline in foreign currency translation adjustments had the effect of raising shareholders' equity, while the increase in treasury stock had the effect of lowering it.

As a result of these developments, the equity ratio as of March 31, 2006 improved by 1.2 percentage points to 34.9%.

TOTAL ASSETS
RETURN (OPERATING INCOME) ON ASSETS

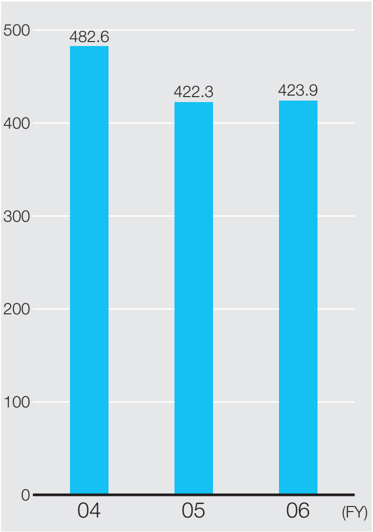
(Billions of yen, %)



■ Total assets
● Return (operating income) on assets

INTEREST-BEARING LIABILITIES

(Billions of yen)



CAPITAL RESOURCES AND LIQUIDITY

CASH FLOWS

Cash and cash equivalents (hereinafter "cash") as of March 31, 2006 stood at ¥31,221 million (US$266 million), an increase of ¥3,153 million (US$27 million) compared to the previous fiscal year-end.

Cash Flows From Operating Activities

Net cash provided by operating activities was ¥79,709 million (US$679 million), a ¥16,794 million (US$143 million) decrease compared to the previous fiscal year. Although income before income taxes and minority interests increased, this change was largely due to an increase in working capital due to higher accounts receivable and inventories.

The above factors were responsible for an increase in the debt repayment multiple, from 4.4 years to 5.3 years, and a decrease in the interest coverage ratio, from 14.7 times to 13.4 times.

Cash Flows From Investing Activities

Net cash used in investing activities totaled ¥58,247 million (US$496 million), ¥25,162 million (US$214 million) more than the previous fiscal year. The increase was largely due to higher outlays for the acquisition of property, plant and equipment.

Cash Flows From Financing Activities

Net cash used in financing activities amounted to ¥19,590 million (US$167 million), ¥43,623 million (US$371 million) less than the previous fiscal year. This was primarily the result of declining to use cash flow to reduce interest-bearing liabilities, owing to a year-on-year decline in available free cash flow (sum of operating and investing cash flows).

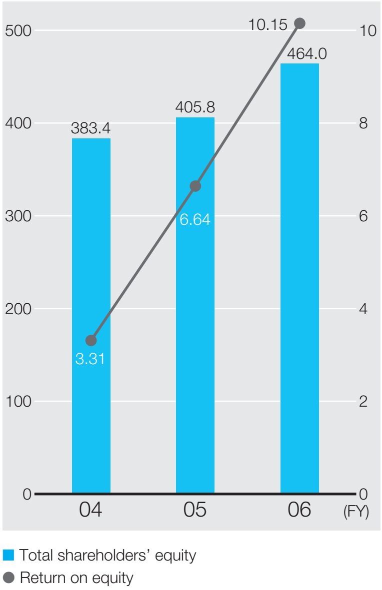
Cash Flow-related Performance Indicators

	2006	2005	2004	2003	2002
Equity ratio (%)	34.9	33.7	32.3	30.3	28.3
Market cap equity ratio (%)	51.0	39.0	42.3	29.8	34.9
Debt repayment multiple (years)	5.3	4.4	5.9	3.7	6.2
Interest coverage ratio (times)	13.4	14.7	10.8	15.7	9.2

Notes: 1. The equity ratio is shareholders' 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.

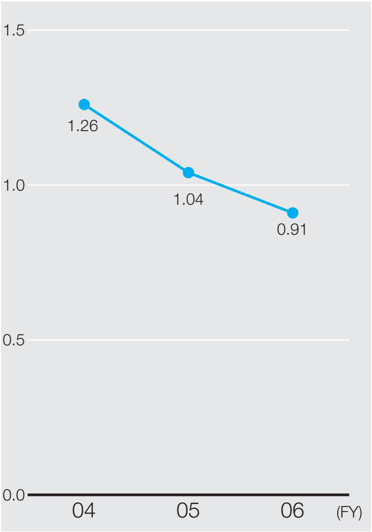
TOTAL SHAREHOLDERS' EQUITY
RETURN ON EQUITY

(Billions of yen, %)



DEBT-TO-EQUITY RATIO

(times)



* 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 are 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.

FUND PROCUREMENT

The basic policy on fund procurement activities is as follows:

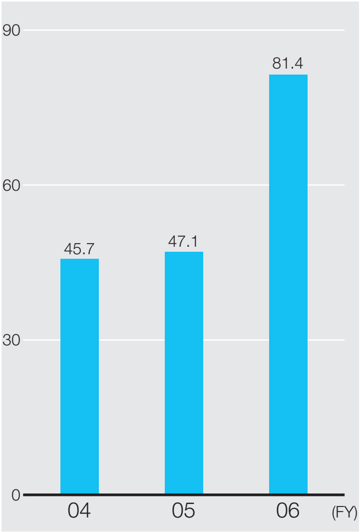
1) Maintain a high credit rating so that low-cost funds can be procured, mainly through bonds, loans and commercial paper, whenever necessary.
2) A certain level of indirect financing will be used to preserve the stability of fund procurement activities.
3) Securitization and other schemes will be used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

(Billions of yen)



CAPITAL EXPENDITURES (SUMMARY)

Capital expenditures by Mitsui Chemicals and its consolidated subsidiaries totaled ¥81,400 million (US$693 million) for the year under review, which included investments in intangible fixed assets and long-term prepaid expenses. Expenditures by business segment were as follows.

Functional Chemicals and Engineered Materials

Capital expenditures amounted to ¥11,859 million (US$101 million), and included construction by Mitsui Chemicals on mass production facilities for optical filters used in plasma display panels.

Functional Polymeric Materials

Capital expenditures were ¥14,523 million (US$124 million), and included construction of manufacturing facilities by Mitsui Chemicals for ethylene propylene rubber and a project to augment facilities for manufacturing specialty polyolefin.

Basic Chemicals

Capital expenditures were ¥19,559 million (US$167 million), including work on environmental measures by Mitsui Chemicals at manufacturing facilities for PTA, and a project to augment PTA manufacturing facilities at Siam Mitsui PTA.

Petrochemicals

Capital expenditures were ¥34,303 million (US$292 million), including replacement by Mitsui Chemicals of propylene refrigeration facilities. Production facilities for polyethylene and polypropylene were also acquired from Idemitsu Kosan in conjunction with the establishment of a joint venture at Prime Polymer.

Others and Eliminations

Capital expenditures for the year were ¥1,156 million (US$10 million).

RESEARCH AND DEVELOPMENT

Research and development at Mitsui Chemicals and its consolidated subsidiaries 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. Research and development expenditures by Mitsui Chemicals and its consolidated subsidiaries in the year under review totaled ¥37,146 million (US$316 million). Mitsui Chemicals employed approximately 920 researchers.

Corporate Research and Development

Conducted primarily by Mitsui Chemicals, these activities involve the development of next-generation polyolefin catalysts and phosphazene catalysts, research and development focused on fostering and strengthening important basic technologies for new polyolefin resins and next-generation performance materials, and R&D for the creation of next-generation performance products. Corporate R&D expenditures totaled ¥5,013 million (US$43 million).

Strategic Research and Development

These activities are also primarily conducted by Mitsui Chemicals. They include establishing a semi-commercial, multipurpose plant as part of a project to promote the development of new performance polymers in order to grow and expand the functional polymeric materials segment, development of high-performance elastomers for automobiles and electronic materials, and development of next-generation functional films. Expenditures on strategic research and development for the fiscal year totaled ¥234 million (US$2 million).

Functional Chemicals and Engineered Materials

R&D activities in this segment are conducted mainly by Mitsui Chemicals and target fabricated functional polymer products, electronic materials, information materials, agrochemical products, and fine chemical products. During the fiscal year under review, priority was put on display materials, semiconductor materials and fabricated resin products, while products developed and commercialized included highly reflective substrates for LCD displays, light-sensitive polyamide film for electronic circuitry, nonwoven crimped fabric for hygiene materials, and a range of Starkle brand insecticides.

Segment R&D expenditures, including the above, amounted to ¥11,732 million (US$100 million).

Functional Polymeric Materials

R&D activities in this segment center on elastomers, functional polymeric materials, industrial resins, and urethane resins, and are conducted primarily by Mitsui Chemicals and Mitsui Takeda Chemicals, Inc. (name changed to Mitsui Chemicals Polyurethane, Inc. on April 1, 2006). Products developed and commercialized during the year included new resins for optical lenses and liquid ethylene propylene rubber, which is used in sealing materials for electronic and electrical components.

Segment R&D expenditures for the year, including the above, totaled ¥10,757 million (US$92 million).

Basic Chemicals

R&D activities in this segment are conducted primarily by Mitsui Chemicals and center on strengthening core businesses, including PTA, bisphenol A and PET resins.

Segment R&D expenditures were ¥1,347 million (US$11 million).

Petrochemicals

R&D activities in this segment are conducted primarily by Mitsui Chemicals and Prime Polymer and center on developing new products to bolster the competitiveness of polyolefin resins and create new markets. R&D expenditures in this segment totaled ¥6,840 million (US$58 million).

Others

Mitsui Chemicals is primarily responsible for conducting R&D in this segment, which focuses on plant-derived polylactic acid resins and next-generation functional resins. Segment R&D expenditures amounted to ¥1,223 million (US$10 million).

Consolidated Balance Sheets

MITSUI CHEMICALS, INC. AND CONSOLIDATED SUBSIDIARIES
March 31, 2006, 2005 and 2004

	Millions of yen			Thousands of U.S. dollars (Note 3)
ASSETS	**2006**	2005	2004	**2006**
Current assets:				
Cash and cash equivalents (Note 4)	¥ 31,221	¥ 28,068	¥ 28,005	$ 265,779
Short-term investments	133	150	137	1,132
Receivables:				
Trade notes and accounts	290,914	225,416	211,296	2,476,496
Other	47,375	37,741	31,152	403,294
Inventories (Note 5)	219,705	184,367	153,232	1,870,307
Deferred tax assets – current (Note 10)	13,804	17,178	12,155	117,511
Other current assets	6,347	4,827	5,579	54,031
Allowance for doubtful accounts	(504)	(460)	(1,039)	(4,290)
Total current assets	608,995	497,287	440,517	5,184,260
Property, plant and equipment (Notes 7 and 9):				
Land	168,556	172,138	189,958	1,434,886
Buildings and structures	288,406	272,052	268,641	2,455,146
Machinery and equipment	1,043,050	899,509	885,101	8,879,288
Construction in progress	13,828	19,186	19,291	117,715
	1,513,840	1,362,885	1,362,991	12,887,035
Accumulated depreciation	(981,516)	(841,999)	(814,192)	(8,355,461)
Property, plant and equipment, net	532,324	520,886	548,799	4,531,574
Investments and other non-current assets:				
Investment securities (Notes 6 and 7)				
Non-consolidated subsidiaries and affiliates	57,872	57,274	58,424	492,653
Other	89,372	65,610	61,796	760,807
Long-term receivables	5,995	7,382	2,154	51,034
Deferred tax assets – non-current (Note 10)	5,454	28,957	33,476	46,429
Other non-current assets	30,805	31,335	46,705	262,237
Allowance for doubtful accounts	(1,927)	(3,546)	(3,405)	(16,404)
Total investments and other non-current assets	187,571	187,012	199,150	1,596,756
Total assets	¥1,328,890	¥1,205,185	¥1,188,466	$11,312,590

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

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen 2006	2005	2004	Thousands of U.S. dollars (Note 3) 2006
Current liabilities:				
Short-term bank loans (Note 7)	¥ 125,817	¥ 123,347	¥ 126,060	$ 1,071,056
Current portion of long-term debt (Note 7)	44,456	34,569	77,298	378,446
Commercial paper (Note 7)	1,200	21,000	27,700	10,215
Payables:				
Trade notes and accounts	211,277	152,108	134,131	1,798,561
Other	53,805	51,598	37,938	458,032
Employees' savings deposits	627	686	2,546	5,338
Accrued expenses	24,434	24,386	25,461	208,002
Reserve for periodic repairs	4,901	7,536	2,498	41,721
Accrued income taxes (Note 10)	5,383	22,178	5,922	45,824
Other current liabilities	3,174	3,158	1,315	27,020
Total current liabilities	475,074	440,566	440,869	4,044,215
Long-term liabilities:				
Long-term debt due after one year (Note 7)	252,465	243,426	251,568	2,149,187
Accrued employees' retirement benefits (Note 8)	47,230	59,299	64,217	402,060
Accrued directors' and corporate auditors' retirement benefits	1,233	2,178	–	10,497
Reserve for periodic repairs	3,608	1,067	2,017	30,714
Other non-current liabilities	10,156	7,419	7,540	86,456
Total long-term liabilities	314,692	313,389	325,342	2,678,914
Minority interests	75,103	45,457	38,890	639,338
Contingent liabilities (Note 12)				
Shareholders' equity:				
Common stock (Note 11):				
Authorized – 3,000,000,000 shares				
Issued – 789,156,353 shares in 2006, 2005 and 2004	103,226	103,226	103,226	878,744
Capital surplus	66,945	66,913	66,912	569,890
Retained earnings (Notes 11 and 17)	269,191	231,497	210,109	2,291,572
Net unrealized holding gain on securities	29,016	16,572	13,969	247,008
Foreign currency translation adjustments	(764)	(9,349)	(8,423)	(6,504)
Treasury stock, at cost: 6,073,702 shares in 2006, 5,444,879 shares in 2005 and 4,269,533 shares in 2004	(3,593)	(3,086)	(2,428)	(30,587)
Total shareholders' equity	464,021	405,773	383,365	3,950,123
Total liabilities, minority interests and shareholders' equity	¥1,328,890	¥1,205,185	¥1,188,466	$11,312,590

Consolidated Statements of Income

MITSUI CHEMICALS, INC. AND CONSOLIDATED SUBSIDIARIES
For the years ended March 31, 2006, 2005 and 2004

	Millions of yen			Thousands of U.S. dollars (Note 3)
	2006	2005	2004	2006
Net sales	¥1,472,435	¥1,227,547	¥1,089,518	$12,534,562
Cost of sales (Notes 8 and 14)	1,217,564	968,230	861,965	10,364,893
Gross profit	254,871	259,317	227,553	2,169,669
Selling, general and administrative expenses (Notes 8 and 14)	196,166	178,826	173,611	1,669,924
Operating income	58,705	80,491	53,942	499,745
Other income (expenses):				
Interest expense	(6,035)	(6,353)	(7,415)	(51,375)
Interest and dividend income	1,872	1,405	1,425	15,936
Equity in earnings of non-consolidated subsidiaries and affiliates	8,101	6,887	2,915	68,962
Gain on sales of investment securities (Note 6)	378	4,916	5,339	3,218
Loss on sales and disposal of property, plant and equipment	(7,851)	(6,833)	(10,762)	(66,834)
Loss on impairment of fixed assets (Note 9)	(1,519)	(17,689)	–	(12,931)
Loss on restructuring of subsidiaries and affiliates	(597)	(5,525)	(6,862)	(5,082)
Net retirement benefits obligation at transition (Note 8)	–	(6,119)	(6,118)	–
Gain on securities contributed to employees' retirement benefit trust (Note 8)	10,280	–	–	87,512
Immediate recognition of reduction in prior service cost due to the revision of system for severance and retirement benefits (Note 8)	–	11,788	–	–
Gain on change in interests in consolidated subsidiaries	9,366	77	–	79,731
Other, net	225	(8,393)	(10,230)	1,915
	14,220	(25,839)	(31,708)	121,052
Income before income taxes and minority interests	72,925	54,652	22,234	620,797
Income taxes (Note 10):				
Current	8,026	25,344	11,100	68,324
Deferred	19,655	(2,291)	(3,177)	167,319
	27,681	23,053	7,923	235,643
Income before minority interests	45,244	31,599	14,311	385,154
Minority interests in earnings of consolidated subsidiaries	(1,119)	(5,407)	(1,845)	(9,526)
Net income	¥ 44,125	¥ 26,192	¥ 12,466	$ 375,628

	Yen			U.S. dollars (Note 3)
Amounts per share of common stock:				
Net income	¥56.20	¥33.26	¥15.78	$0.478
Cash dividends applicable to the year	8.00	7.00	6.00	0.068

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

Consolidated Statements of Shareholders' Equity

MITSUI CHEMICALS, INC. AND CONSOLIDATED SUBSIDIARIES
For the years ended March 31, 2006, 2005 and 2004

		Millions of yen					
	Number of shares of common stock (Thousands)	Common stock	Capital surplus	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)
Balance at March 31, 2005	789,156	¥103,226	¥66,913	¥231,497	¥16,572	¥(9,349)	¥(3,086)
Gain on sales of treasury stock	–	–	32	–	–	–	–
Net income	–	–	–	44,125	–	–	–
Increase resulting from decrease in non-consolidated subsidiaries and affiliates accounted for by the equity method	–	–	–	12	–	–	–
Decrease resulting from decrease in consolidated subsidiaries	–	–	–	(39)	–	–	–
Decrease resulting from decrease in non-consolidated subsidiaries and affiliates accounted for by the equity method	–	–	–	(31)	–	–	–
Bonuses to directors and corporate auditors	–	–	–	(95)	–	–	–
Cash dividends paid	–	–	–	(6,278)	–	–	–
Net unrealized holding gain on securities	–	–	–	–	12,444	–	–
Foreign currency translation adjustments	–	–	–	–	–	8,585	–
Net increase in treasury stock	–	–	–	–	–	–	(507)
Balance at March 31, 2006	**789,156**	**¥103,226**	**¥66,945**	**¥269,191**	**¥29,016**	**¥ (764)**	**¥(3,593)**

	Thousands of U.S. dollars (Note 3)					
	Common stock	Capital surplus	Retained earnings	Net unrealized holding gain on securities	Foreign currency translation adjustments	Treasury stock, at cost
Balance at March 31, 2005	$878,744	$569,618	$1,970,690	$141,074	$(79,586)	$(26,271)
Gain on sales of treasury stock	–	272	–	–	–	–
Net income	–	–	375,628	–	–	–
Increase resulting from decrease in non-consolidated subsidiaries and affiliates accounted for by the equity method	–	–	102	–	–	–
Decrease resulting from decrease in consolidated subsidiaries	–	–	(332)	–	–	–
Decrease resulting from decrease in non-consolidated subsidiaries and affiliates accounted for by the equity method	–	–	(264)	–	–	–
Bonuses to directors and corporate auditors	–	–	(809)	–	–	–
Cash dividends paid	–	–	(53,443)	–	–	–
Net unrealized holding gain on securities	–	–	–	105,934	–	–
Foreign currency translation adjustments	–	–	–	–	73,082	–
Net increase in treasury stock	–	–	–	–	–	(4,316)
Balance at March 31, 2006	**$878,744**	**$569,890**	**$2,291,572**	**$247,008**	**$ (6,504)**	**$(30,587)**

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, 2006, 2005 and 2004

	Millions of yen			Thousands of U.S. dollars (Note 3)
	2006	2005	2004	2006
Cash flows from operating activities				
Income before income taxes and minority interests	¥ 72,925	¥ 54,652	¥ 22,234	$ 620,797
Depreciation and amortization	70,099	56,770	56,101	596,740
Loss on impairment of fixed assets	1,519	17,689	–	12,931
Gain on change in interests in consolidated subsidiaries	(9,366)	(77)	–	(79,731)
Changes in allowance for doubtful accounts	(1,628)	(441)	(97)	(13,859)
Reserve for periodic repairs	(1,021)	4,088	(368)	(8,692)
Accrued directors' and corporate auditors' retirement benefits	(945)	1,798	–	(8,045)
Interest and dividend income	(1,872)	(1,405)	(1,425)	(15,936)
Interest expense	6,035	6,353	7,415	51,375
Equity in earnings of non-consolidated subsidiaries and affiliates	(8,101)	(6,887)	(2,915)	(68,962)
Gain on sales of investment securities	(385)	(4,916)	(5,339)	(3,277)
Loss on sales of investment securities	907	501	85	7,721
Loss on write-downs of investment securities	17	3,106	260	145
Gain on sales of property, plant and equipment	(1,157)	(714)	(982)	(9,849)
Loss on sales and disposal of property, plant and equipment	2,986	5,179	6,249	25,419
Gain on securities contributed to employees' retirement benefit trust	(10,280)	–	–	(87,512)
Immediate recognition of reduction in prior service cost due to the revision of system for severance and retirement benefits	–	(11,788)	–	–
Net retirement benefits obligation at transition	–	6,119	6,118	–
(Increase) decrease in trade receivables	(44,459)	(14,923)	210	(378,471)
(Increase) decrease in inventories	(14,934)	(31,994)	4,901	(127,130)
Increase in trade payables	45,039	19,264	8,030	383,408
Other, net	(2,575)	4,559	(2,970)	(21,920)
Subtotal	102,804	106,933	97,507	875,152
Interest and dividends received	8,013	5,217	4,203	68,213
Interest paid	(5,933)	(6,559)	(7,602)	(50,507)
Income taxes paid	(25,175)	(9,088)	(11,945)	(214,310)
Net cash provided by operating activities	79,709	96,503	82,163	678,548
Cash flows from investing activities				
Acquisition of property, plant, equipment and others	(63,829)	(41,228)	(49,743)	(543,364)
Proceeds from sales of property, plant, equipment and others	6,232	2,729	1,752	53,052
Purchases of investment securities	(1,068)	(1,940)	(1,920)	(9,092)
Proceeds from sales of investment securities	1,492	8,972	19,947	12,701
Purchases of business	–	–	(1,511)	–
Proceeds from sale of a business	–	–	6,100	–
Other, net	(1,074)	(1,618)	(432)	(9,143)
Net cash used in investing activities	(58,247)	(33,085)	(25,807)	(495,846)
Cash flows from financing activities				
Net decrease in short-term loans	(24,563)	(8,384)	(319)	(209,100)
Proceeds from long-term debt	49,744	28,296	41,706	423,461
Repayments of long-term debt	(34,932)	(78,649)	(83,109)	(297,370)
Issuance of common stock to minority shareholders	305	2,156	–	2,596
Proceeds from sales of treasury stock	24	58	100	204
Purchases of treasury stock	(859)	(715)	(443)	(7,312)
Cash dividends paid	(6,278)	(4,716)	(4,719)	(53,443)
Other, net	(3,031)	(1,259)	(7,544)	(25,802)
Net cash used in financing activities	(19,590)	(63,213)	(54,328)	(166,766)
Effect of exchange rate changes on cash and cash equivalents	1,253	(140)	(662)	10,666
Net increase in cash and cash equivalents	3,125	65	1,366	26,602
Cash and cash equivalents at beginning of the year	28,068	28,005	26,616	238,938
Increase (decrease) in cash resulting from changes in numbers of consolidated subsidiaries	28	(2)	23	239
Cash and cash equivalents at end of the year (Note 4)	¥ 31,221	¥ 28,068	¥ 28,005	$ 265,779

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, 2006, 2005 and 2004

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.

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 assets and liabilities attributable to minority shareholders of the subsidiaries are recorded based on the financial statements of each 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 shareholders' 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 were 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 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, in the year ended March 31, 2005, operating income and income before income taxes and minority interests decreased by ¥1,775 million 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 declining-balance method over the estimated useful lives of the respective assets except for buildings, which are depreciated using the straight-line method.

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

Through the year ended March 31, 2005, depreciation was calculated principally by the straight-line method. Effective the year ended March 31, 2006, the Company and its consolidated domestic subsidiaries changed the accounting policy for depreciation and calculated principally by the declining-balance method except for buildings.

In recent years, capital expenditures in the performance materials sector have been growing in an effort to transform the structure of business operations at the Company and its consolidated domestic subsidiaries. In this sector, which is characterized by a rapid pace of technological innovation, particularly with respect to manufacturing equipment, this change was made in order to recoup investments in the shortest time possible and enhance the financial position of the Mitsui Chemicals Group.

As a result of this change, in the year ended March 31, 2006, depreciation and amortization increased by ¥5,870 million ($49,970 thousand) and operating income and income before income taxes and minority interests decreased by ¥5,779 million ($49,196 thousand) compared to the amounts that would have been reported if the previous methods had been applied consistently.

f. Software

The Company and its consolidated subsidiaries amortize the cost of software intended 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, 2006, 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, of which ¥398 million was recognized as an expense as a result of the contribution of investment securities worth ¥398 million to the employees' retirement benefit trust in 2000. The remaining net transition obligation amounting to ¥53,450 million was 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 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 the 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 the Mitsui Chemicals Group.

As a result of this change, in the year ended March 31, 2005, operating income decreased by ¥315 million and income before income taxes and minority interests decreased by ¥1,686 million compared to the amounts that would have been reported if the previous accounting policy had been applied consistently.

Effective from the meeting of the Company's shareholders held on June 28, 2005, the Company abolished its system of retirement benefits for directors and corporate auditors, but plans to pay out a suitable level of benefits applicable to directors and corporate auditors for their time in office up to the date of abolishment upon their retirement. Accordingly, while no further liabilities will be incurred for directors' and corporate auditors' retirement benefits due to the system's abolishment, the remaining balance of liabilities will be canceled as said directors and corporate auditors retire.

m. Reserve for periodic repairs

The Company and several consolidated subsidiaries provide a reserve for the costs of periodic repairs of production facilities at 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 last fiscal year, overall quarterly disclosure of financial information has been mandated and more precise disclosure of information has been 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 the Mitsui Chemicals Group.

As a result of this change, in the year ended March 31, 2005, operating income decreased by ¥174 million and income before income taxes and minority interests decreased by ¥2,027 million 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 were mandatory from the year beginning April 1, 2005.

As a result of adopting this standard, in the year ended March 31, 2005, income before income taxes and minority interests decreased by ¥17,689 million 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 was deducted from the respective assets, in accordance with the revised Regulations of Consolidated Financial Statements.

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 ¥117.47=US$1.00, the approximate rate of exchange in effect on March 31, 2006. 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.

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents at March 31, 2006, 2005 and 2004 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2006	2005	2004	2006
Cash	¥31,221	¥28,068	¥27,986	$265,779
Cash equivalents	–	–	19	–
	¥31,221	¥28,068	¥28,005	$265,779

5. INVENTORIES

Inventories at March 31, 2006, 2005 and 2004 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2006	2005	2004	2006
Finished goods	¥153,347	¥128,795	¥ 99,859	$1,305,414
Work in process	5,978	5,423	6,899	50,890
Raw materials and supplies	60,380	50,149	46,474	514,003
	¥219,705	¥184,367	¥153,232	$1,870,307

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, 2006, 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
	2006	2005	2004	2006
Book value	¥1	¥1	¥11	$9
Fair value	1	1	11	9
Difference	0	0	0	0

(b) Available-for-sale securities

Securities with book value exceeding their acquisition cost

	Millions of yen			Thousands of U.S. dollars
	2006	2005	2004	2006
Equity securities:				
Acquisition cost	¥18,294	¥16,706	¥16,553	$155,733
Book value	67,510	44,012	39,826	574,700
Difference	49,216	27,306	23,273	418,967

Other securities

	Millions of yen			Thousands of U.S. dollars
	2006	2005	2004	2006
Equity securities:				
Acquisition cost	¥188	¥1,534	¥2,253	$1,600
Book value	173	1,366	1,605	1,473
Difference	(15)	(168)	(648)	(127)

B. The following tables summarize the book value of securities with no known fair value as of March 31, 2006, 2005 and 2004:

	Millions of yen			Thousands of U.S. dollars
	2006	2005	2004	2006
(a) Held-to-maturity debt securities:				
Local government bonds	¥ 54	¥ 61	¥ 57	$ 460
(b) Available-for-sale securities:				
Unlisted equity securities	¥21,380	¥19,847	¥19,922	$182,004

C. Available-for-sale securities with maturities and held-to-maturity debt securities as of March 31, 2006, 2005 and 2004 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2006	2005	2004	2006
Local government bonds:				
Due within one year	¥16	¥17	¥17	$136
Due over one year but within five years	26	26	26	221
Due over five years but within ten years	13	19	25	111
Due over ten years	–	–	–	–
Total	¥55	¥62	¥68	$468

D. Information related to available-for-sale securities for the year ended March 31, 2006, 2005 and 2004 was as follows:

	Millions of yen			Thousands of U.S. dollars
	2006	2005	2004	2006
Sales – total	¥585	¥1,119	¥12,823	$4,980
Related gain – total	355	804	4,171	3,022
Related loss – total	1	57	85	9

7. SHORT-TERM DEBT AND LONG-TERM DEBT

At March 31, 2006, 2005 and 2004, short-term debts were as follows:

	Millions of yen			Thousands of U.S. dollars
	2006	2005	2004	2006
0.26%–6.28% bank loans	¥125,817	¥123,347	¥126,060	$1,071,056
Commercial paper	¥ 1,200	¥ 21,000	¥ 27,700	$ 10,215

At March 31, 2006, 2005 and 2004, long-term debts were as follows:

	Millions of yen			Thousands of U.S. dollars
	2006	2005	2004	2006
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	10,000	10,000	10,000	85,128
2.7% bonds due in 2008	10,000	10,000	10,000	85,128
2.475% bonds due in 2005	–	–	10,000	–
2.07% bonds due in 2010	10,000	10,000	10,000	85,128
1.35% bonds due in 2005	–	10,000	10,000	–
1.94% bonds due in 2011	10,000	10,000	10,000	85,128
1.84% bonds due in 2011	10,000	10,000	10,000	85,128
1.62% bonds due in 2011	10,000	10,000	10,000	85,128
0.67% bonds due in 2006	10,000	10,000	10,000	85,128
0.79% bonds due in 2007	10,000	10,000	10,000	85,128
1.04% bonds due in 2009	10,000	10,000	10,000	85,128
1.36% bonds due in 2012	10,000	10,000	10,000	85,128
0.56% bonds due in 2007	10,000	10,000	10,000	85,128
0.50% bonds due in 2006	10,000	10,000	10,000	85,128
0.78% bonds due in 2013	10,000	10,000	10,000	85,128
1.52% bonds due in 2015	10,000	–	–	85,128
1.57% bonds due in 2013	10,000	–	–	85,128
1.84% bonds due in 2016	10,000	–	–	85,128
0.88% bonds due in 2005	–	1,000	1,000	–
1.26% bonds due in 2009	2,000	2,000	3,000	17,026
1.60% bonds due in 2004	–	–	100	–
0.57% bonds due in 2007	100	100	100	852
0.46% bonds due in 2005	–	120	120	–
0.40% bonds due in 2006	–	34	68	–
0.80% bonds due in 2010	99	–	–	843
Loans, principally from banks and insurance companies:				
Secured, at rates of 0.77% to 6.40% maturing through 2025	12,821	22,396	26,901	109,144
Unsecured, at rates of 0.42% to 5.95% maturing through 2016	121,901	112,345	107,577	1,037,720
	296,921	277,995	328,866	2,527,633
Less current portion	44,456	34,569	77,298	378,446
	¥252,465	¥243,426	¥251,568	$2,149,187

The aggregate annual maturities of long-term debt subsequent to March 31, 2006 are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2007	¥ 44,456	$ 378,446
2008	43,747	372,410
2009	33,424	284,532
2010	20,077	170,912
2011 and thereafter	155,217	1,321,333
	¥296,921	$2,527,633

At March 31, 2006, the assets pledged as collateral for short-term debt and long-term debt were as follows:

	Millions of yen	Thousands of U.S. dollars
Investment securities	¥ 10	$ 85
Property, plant and equipment, net of accumulated depreciation	23,474	199,830

8. ACCRUED EMPLOYEES' RETIREMENT BENEFITS

The liability for severance and retirement benefits included in the consolidated balance sheets as of March 31, 2006, 2005 and 2004 consisted of the following:

	Millions of yen			Thousands of U.S. dollars
	2006	2005	2004	2006
Projected benefit obligation	¥ 206,893	¥206,065	¥216,754	$ 1,761,241
Unrecognized prior service cost	20	24	28	170
Unrecognized actuarial loss	(35,899)	(54,866)	(62,762)	(305,601)
Less fair value of pension plan assets	(124,627)	(92,261)	(83,959)	(1,060,926)
Less unrecognized net retirement benefits obligation at transition	–	–	(6,119)	–
Prepaid pension and severance cost	843	337	275	7,176
Liability for severance and retirement benefits	¥ 47,230	¥ 59,299	¥ 64,217	$ 402,060

Included in the consolidated statements of income for the years ended March 31, 2006, 2005 and 2004 are severance and retirement benefit expenses comprised of the following:

	Millions of yen			Thousands of U.S. dollars
	2006	2005	2004	2006
Service cost-benefits earned during the year	¥ 5,163	¥ 5,637	¥ 5,589	$ 43,952
Interest cost on projected benefit obligation	4,987	4,968	5,122	42,453
Expected return on plan assets	(2,226)	(2,026)	(1,628)	(18,949)
Amortization of net retirement benefits obligation at transition	–	6,119	6,118	–
Amortization of actuarial loss	5,669	5,851	6,281	48,259
Amortization of prior service cost	(4)	(11,792)	(4)	(34)
Severance and retirement benefit expenses	¥13,589	¥ 8,757	¥21,478	$115,681

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

	2006	2005	2004
Discount rate	2.50%	2.50%	2.50%
Rate of expected return on the pension plan assets	2.50%	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, 2006 consisted of the following:

Location	Major use	Asset category	Millions of yen	Thousands of U.S. dollars	Remarks
Sakai City, Osaka Prefecture, others	Production facilities	Machinery and equipment, buildings and structures, lease assets, others	¥1,040	$ 8,853	Business assets in use
Suginami Ward, Tokyo Prefecture, others	Employee housing, etc.	Land, buildings and structures	479	4,078	When losses were recognized: Business assets in use End of the year: Idle property
Total			¥1,519	$12,931	

The Company and its consolidated 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 ¥1,519 million ($12,931 thousand) was recorded as other expenses. This impairment loss comprised ¥556 million ($4,733 thousand) for buildings and structures, ¥492 million ($4,188 thousand) for machinery and equipment, ¥354 million ($3,014 thousand) for land, ¥103 million ($877 thousand) for lease assets, and ¥14 million ($119 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 that are to be sold, the estimated sales price is used. For all other assets, the appraisal value 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%, 40.6% and 41.9% for the years ended March 31, 2006, 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, 2006, 2005 and 2004:

	2006	2005	2004
Statutory tax rates	40.6%	40.6%	41.9%
Non-deductible expenses	1.1	1.3	3.2
Equity in earnings of non-consolidated subsidiaries and affiliates	(4.5)	(5.1)	(5.5)
Gain on change in interests in consolidated subsidiaries	(5.2)	–	–
Loss carryforwards of consolidated subsidiaries	–	–	9.8
Increase in valuation allowance	7.4	13.9	–
Elimination of unrecognized gain on sales of consolidated subsidiaries and affiliates	–	1.3	–
Tax credit	(2.2)	(5.6)	(7.6)
Differences of statutory tax rate in overseas consolidated subsidiaries	–	(4.8)	(4.6)
Other	0.8	0.6	(1.6)
Effective tax rates	38.0%	42.2%	35.6%

The significant components of the Company's and its consolidated subsidiaries' deferred tax assets and liabilities as of March 31, 2006, 2005 and 2004 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2006	2005	2004	2006
Deferred tax assets:				
Allowance for doubtful accounts	¥ 1,008	¥ 1,941	¥ 2,986	$ 8,581
Employees' retirement benefits	23,816	23,534	25,239	202,741
Accrued bonuses	4,921	4,824	4,773	41,892
Depreciation	7,222	5,422	5,342	61,480
Accrued enterprise tax	804	2,223	815	6,844
Loss carryforwards of consolidated subsidiaries	9,245	8,205	6,089	78,701
Reserve for periodic repairs	3,392	3,466	1,788	28,875
Elimination of unrecognized gain on sale of a business	–	1,383	2,767	–
Loss on write-down of inventories	1,604	1,651	1,307	13,655
Loss on write-down of investment securities	4,246	4,536	4,105	36,145
Loss on impairment of fixed assets	4,082	7,160	–	34,749
Other	11,598	11,368	8,761	98,732
Subtotal	71,938	75,713	63,972	612,395
Valuation allowance	(17,034)	(10,675)	(3,374)	(145,008)
Total deferred tax assets	54,904	65,038	60,598	467,387

	Millions of yen			Thousands of U.S. dollars
	2006	2005	2004	2006
Deferred tax liabilities:				
Net unrealized holding gain on securities	¥(19,899)	¥(10,951)	¥ (9,033)	$(169,396)
Deferred gain on real properties	(3,764)	(3,726)	(3,791)	(32,042)
Reserve for special depreciation	(72)	(148)	(236)	(613)
Retained earnings of overseas consolidated subsidiaries, etc.	(8,156)	(4,233)	(1,979)	(69,431)
Employees' retirement benefit trust	(4,275)	–	–	(36,392)
Other	(3,052)	(2,796)	(2,840)	(25,981)
Total deferred tax liabilities	(39,218)	(21,854)	(17,879)	(333,855)
Net deferred tax assets	¥ 15,686	¥ 43,184	¥ 42,719	$ 133,532

11. SHAREHOLDERS' 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 shareholders. 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 shareholders' approval has been obtained. Retained earnings at March 31, 2006 include amounts representing the year-end cash dividends and bonuses to directors and corporate auditors approved at the shareholders' meeting held on June 27, 2006 as discussed in Note 17.

12. CONTINGENT LIABILITIES

Contingent liabilities at March 31, 2006 were as follows:

	Millions of yen	Thousands of U.S. dollars
As guarantor of indebtedness, principally of non-consolidated subsidiaries and affiliates	¥19,128	$162,833
As issuer of commitments for guarantees	60	511

13. LEASES

A. At March 31, 2006, 2005 and 2004, assets leased under non-capitalized financial leases were as follows:

(a) Equivalent Purchase Amount, Accumulated Depreciation Amount, Accumulated Impairment Amount and Balance at Year-end:

	Millions of yen			Thousands of U.S. dollars
	2006	2005	2004	2006
Machinery and equipment:				
Equivalent purchase amount	¥13,659	¥15,864	¥17,289	$116,277
Equivalent accumulated depreciation amount	8,323	9,457	10,052	70,852
Equivalent accumulated impairment amount	103	–	–	877
Equivalent balance at year-end	5,233	6,407	7,237	44,548

(b) Future Minimum Lease Payments:

	Millions of yen			Thousands of U.S. dollars
	2006	2005	2004	2006
Due within one year	¥1,975	¥2,189	¥2,552	$16,813
Due after one year	3,258	4,218	4,685	27,735
	5,233	6,407	7,237	44,548
Impairment of lease assets amount on the balance sheet	¥ 103	–	–	$ 877

(c) Paid Lease Fees, Equivalent Depreciation Expense Amount and Impairment Loss:

	Millions of yen			Thousands of U.S. dollars
	2006	2005	2004	2006
Paid lease fees	¥2,375	¥2,613	¥3,108	$20,218
Equivalent depreciation expense amount	2,375	2,613	3,108	20,218
Impairment loss on lease assets	¥ 103	–	–	$ 877

B. Obligations under operating leases at March 31, 2006, 2005 and 2004, were as follows:
Future Minimum Lease Payments:

	Millions of yen			Thousands of U.S. dollars
	2006	2005	2004	2006
Due within one year	¥19	¥12	¥25	$162
Due after one year	58	18	25	494
	¥77	¥30	¥50	$656

14. RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses for the years ended March 31, 2006, 2005 and 2004 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2006	2005	2004	2006
Research and development expenses	¥37,146	¥34,881	¥32,894	$316,217

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, 2006, 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, 2006, 2005 and 2004 is summarized as follows:

	Millions of yen						
Year ended March 31, 2006	Functional Chemicals & Engineered Materials	Functional Polymeric Materials	Basic Chemicals	Petrochemicals	Others	Eliminations	Consolidated
I. Sales and operating income:							
Customers	¥192,690	¥281,738	¥474,310	¥487,039	¥ 36,658	¥ –	¥1,472,435
Inter-segment	3,492	15,832	41,476	107,267	113,792	(281,859)	–
Total sales	196,182	297,570	515,786	594,306	150,450	(281,859)	1,472,435
Operating expenses	185,383	287,504	493,924	578,439	149,864	(281,384)	1,413,730
Operating income	¥ 10,799	¥ 10,066	¥ 21,862	¥ 15,867	¥ 586	¥ (475)	¥ 58,705
II. Assets, depreciation, loss on impairment of fixed assets and capital expenditures:							
Total assets	¥205,572	¥280,058	¥314,425	¥395,383	¥ 60,026	¥ 73,426	¥1,328,890
Depreciation and amortization	12,414	19,901	15,749	20,970	1,238	(173)	70,099
Loss on impairment of fixed assets	–	192	–	848	–	479	1,519
Capital expenditures	11,859	14,523	19,559	34,303	1,107	49	81,400

	Thousands of U.S. dollars						
Year ended March 31, 2006	Functional Chemicals & Engineered Materials	Functional Polymeric Materials	Basic Chemicals	Petrochemicals	Others	Eliminations	Consolidated
I. Sales and operating income:							
Customers	$1,640,334	$2,398,382	$4,037,712	$4,146,071	$ 312,063	$ –	$12,534,562
Inter-segment	29,727	134,775	353,077	913,144	968,690	(2,399,413)	–
Total sales	1,670,061	2,533,157	4,390,789	5,059,215	1,280,753	(2,399,413)	12,534,562
Operating expenses	1,578,131	2,447,467	4,204,682	4,924,142	1,275,764	(2,395,369)	12,034,817
Operating income	$ 91,930	$ 85,690	$ 186,107	$ 135,073	$ 4,989	$ (4,044)	$ 499,745
II. Assets, depreciation, loss on impairment of fixed assets and capital expenditures:							
Total assets	$1,749,996	$2,384,081	$2,676,641	$3,365,821	$ 510,990	$ 625,061	$11,312,590
Depreciation and amortization	105,678	169,414	134,068	178,514	10,539	(1,473)	596,740
Loss on impairment of fixed assets	–	1,634	–	7,219	–	4,078	12,931
Capital expenditures	100,953	123,632	166,502	292,015	9,424	417	692,943

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

Year ended March 31, 2004	Functional Chemicals & Engineered Materials	Functional Polymeric Materials	Basic Chemicals	Petrochemicals	Others	Eliminations	Consolidated
	Millions of yen						
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, 2006, the Company and its consolidated domestic subsidiaries changed the method of accounting for depreciation of tangible fixed assets. This change had the effect of increasing depreciation cost by ¥1,299 million ($11,058 thousand) in Functional Chemicals & Engineered Materials, by ¥743 million ($6,325 thousand) in Functional Polymeric Materials, by ¥1,424 million ($12,122 thousand) in Basic Chemicals, by ¥2,394 million ($20,380 thousand) in Petrochemicals and by ¥10 million ($85 thousand) in the Others business segment. This change had the effect of reducing operating income by ¥1,220 million ($10,386 thousand) in Functional Chemicals & Engineered Materials, by ¥734 million ($6,248 thousand) in Functional Polymeric Materials, by ¥1,421 million ($12,097 thousand) in Basic Chemicals, by ¥2,394 million ($20,380 thousand) in Petrochemicals and by ¥10 million ($85 thousand) in the Others business segment.

Effective the year ended March 31, 2005, the Company and its consolidated subsidiaries partially changed business segment classification 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 is summarized in the above chart. Business segment information prior to this change is summarized in the chart below.

Year ended March 31, 2004	Functional Chemicals & Engineered Materials	Functional Polymeric Materials	Basic Chemicals	Petrochemicals	Others	Eliminations	Consolidated
	Millions of yen						
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 their accounting policy for inventories. This change had the effect of reducing operating income by ¥1,336 million in Functional Chemicals & Engineered Materials, by ¥186 million in Functional Polymeric Materials, by ¥83 million in Basic Chemicals, by ¥137 million in Petrochemicals and by ¥33 million 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 in the above chart.

Geographic segment information of the Company and its consolidated subsidiaries for the years ended March 31, 2006, 2005 and 2004 is summarized as follows:

	Millions of yen				
Year ended March 31, 2006	Japan	Asia	Others	Eliminations	Consolidated
I. Sales and operating income:					
Customers	¥1,232,958	¥157,616	¥81,861	¥ –	¥1,472,435
Inter-segment	48,159	51,669	3,272	(103,100)	–
Total sales	1,281,117	209,285	85,133	(103,100)	1,472,435
Operating expenses	1,238,834	193,708	84,350	(103,162)	1,413,730
Operating income	¥ 42,283	¥ 15,577	¥ 783	¥ 62	¥ 58,705
II. Assets	¥1,152,509	¥166,153	¥46,759	¥ (36,531)	¥1,328,890

	Thousands of U.S. dollars				
Year ended March 31, 2006	Japan	Asia	Others	Eliminations	Consolidated
I. Sales and operating income:					
Customers	$10,495,939	$1,341,756	$696,867	$ –	$12,534,562
Inter-segment	409,969	439,848	27,854	(877,671)	–
Total sales	10,905,908	1,781,604	724,721	(877,671)	12,534,562
Operating expenses	10,545,961	1,649,000	718,055	(878,199)	12,034,817
Operating income	$ 359,947	$ 132,604	$ 6,666	$ 528	$ 499,745
II. Assets	$ 9,811,092	$1,414,429	$398,051	$(310,982)	$11,312,590

	Millions of yen				
Year ended March 31, 2005	Japan	Asia	Others	Eliminations	Consolidated
I. Sales and operating income:					
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
II. Assets	¥1,084,381	¥129,276	¥39,858	¥(48,330)	¥1,205,185

	Millions of yen				
Year ended March 31, 2004	Japan	Asia	Others	Eliminations	Consolidated
I. Sales and operating income:					
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
II. Assets	¥1,088,003	¥111,064	¥36,181	¥(46,782)	¥1,188,466

Effective the year ended March 31, 2006, the Company and its consolidated domestic subsidiaries changed the method of accounting for depreciation of tangible fixed assets. This change had the effect of increasing depreciation cost by ¥5,870 million ($49,970 thousand) in Domestic (in Japan). This change had the effect of increasing operating income by ¥5,779 million ($49,196 thousand) in Domestic (in Japan).

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 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.

Overseas sales of the Company and its consolidated subsidiaries for the years ended March 31, 2006, 2005 and 2004 are summarized by geographic area as follows:

	Millions of yen				
Year ended March 31, 2006	Asia	North America and Latin America	Europe	Others	Overseas sales
Overseas sales	**¥414,202**	**¥68,191**	**¥33,007**	**¥7,862**	**¥ 523,262**
Consolidated net sales					**1,472,435**
Ratio of overseas sales to consolidated net sales	**28.1%**	**4.6%**	**2.3%**	**0.5%**	**35.5%**

	Thousands of U.S. dollars				
Year ended March 31, 2006	Asia	North America and Latin America	Europe	Others	Overseas sales
Overseas sales	**$3,526,024**	**$580,497**	**$280,982**	**$66,928**	**$4,454,431**

	Millions of yen				
Year ended March 31, 2005	Asia	North America and Latin America	Europe	Others	Overseas sales
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%

	Millions of yen				
Year ended March 31, 2004	Asia	North America and Latin America	Europe	Others	Overseas sales
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

The following appropriations of retained earnings at March 31, 2006 were duly approved at the meeting of the Company's shareholders held on June 27, 2006, as follows:

	Millions of yen	Thousands of U.S. dollars
Cash dividends of ¥4 ($0.03) per share	**¥3,135**	**$26,688**
Bonuses to directors and corporate auditors	**73**	**621**

Independent Auditors' Report

To the Shareholders 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, 2006, 2005 and 2004, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended March 31, 2006, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion 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 subsidiaries as of March 31, 2006, 2005 and 2004, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2006, 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.e to the consolidated financial statements, effective April 1, 2005, Mitsui Chemicals, Inc. and consolidated domestic subsidiaries changed the method of accounting for depreciation of tangible fixed assets.
(2) As discussed in Note 2.c to the consolidated financial statements, effective April 1, 2004, Mitsui Chemicals, Inc. and consolidated subsidiaries changed the method of accounting for inventories.
(3) As discussed in Note 2.l to the consolidated financial statements, effective April 1, 2004, Mitsui Chemicals, Inc. and consolidated subsidiaries changed the method of accounting for directors' and corporate auditors' retirement benefits.
(4) As discussed in Note 2.m to the consolidated financial statements, effective April 1, 2004, Mitsui Chemicals, Inc. and several consolidated subsidiaries changed the method of accounting for the reserve for periodic repairs.
(5) As discussed in Note 2.p to the consolidated financial statements, effective April 1, 2004, Mitsui Chemicals, Inc. and consolidated domestic subsidiaries adopted early the new accounting standards for impairment of fixed assets.
(6) As discussed in Note 16 to the consolidated financial statements, effective April 1, 2004, Mitsui Chemicals, Inc. 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, 2006 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 27, 2006

Ernst & Young ShinNihon

KPMG AZSA & Co.

Subsidiaries and Major Affiliates

(As of March 31, 2006)

* Consolidated subsidiary

	Companies	Major Products or Lines of Business	Paid-in Capital (In millions)		Equity Interest (%)
Functional Chemicals & Engineered Materials Business Group					
*	Sun Medical Co., Ltd.	Dental materials	¥	100	70
*	Sunrex Industry Co., Ltd.	Spunbonded nonwoven fabrics and plastic film	¥	240	100
*	Toyo Beauty Supply Corporation	Cosmetics	¥	40	60
*	Nippon Corrosion Resistant Material Co., Ltd.	Corrosion resistant materials	¥	30	80
*	Mitsui Chemicals Fabro, Inc.	Functional fabricated products	¥	400	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 Fine Chemicals, Inc.	Fine chemical products	¥	400	63
*	Mitsui Chemicals Crop Life, Inc.	Agricultural formulation products	¥	350	100
*	ESCO Company Limited Partnership	Color former and catalyst	US$	21	51
*	Mitsui Hygiene Materials (Thailand) Co., Ltd.	Spunbonded nonwoven fabrics	Baht	862.15	100
*	Mitsui Petrochemicals (Netherlands) B.V.	Binder split yarn	¥	54	100
*	Taiwan Mitsui Chemicals, Inc.	Sales of electronics and information materials	NT$	14	100
	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$	10.34	50
	Image Polymers Europe UK Partnership	Toner resin	Pound	9.97	50
	Mc Albemarle Pte Limited	Marketing of aluminum alkyl	S$	0.12	50
	Polyimide Laminate Systems, LLC	Polyimide flexible laminate	US$	0.1	50
Functional Polymeric Materials Business Group					
*	MC Industries, Ltd.	Synthetic resin compounds and wood preservatives	¥	300	100
*	Saxin Corporation	Molded synthetic resin	¥	128	71.4
*	Sun Alloys Co., Ltd.	Compounded polymers	¥	50	100
*	Sanseikaihatsu Co., Ltd.	Consignment from Mitsui Chemicals and miscellaneous	¥	490	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.	Synthetic resins, wood adhesives, formalin and other chemical products	¥	80	100
*	Bohsoh Fine Co., Ltd.	Compounded polymers	¥	20	100
*	Hokuto Industry, Ltd.	Synthetic resin molding compounds and molded parts	¥	40	83
*	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
*	Anderson Development Company	Specialty chemicals	US$	19.2	100
*	P.T. Arjuna Utama Kimia	Adhesives and formalin	US$	2.6	59
*	P.T. Cosmo Polyurethane Indonesia	Urethane premixture	US$	10.5	81
*	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. 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
*	Tianjin Cosmo Polyurethane Co., Ltd.	Urethane premixture	Yuan	54.16	70
*	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
	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	35,000	50
	Sun Alloys Europe Gmbh	Compounded polymers	Euro	2	50

* Consolidated subsidiary

Companies	Major Products or Lines of Business	Paid-in Capital (In millions)		Equity Interest (%)
Basic Chemicals Business Group				
* Kyodo Monomer Co., Ltd.	Methacrylic acid and methyl methacrylate	¥	400	100
* San-eito Co., Ltd.	Direct contracting and miscellaneous	¥	10	50
* Shimonoseki 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 Phenols Singapore Pte. Ltd.	Phenol, acetone and bisphenol A	US$	120	95
* 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 bottles	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
Petrochemicals Business Group				
* Ube Polypropylene Co., Ltd.	Polypropylene	¥	475	100
* Osaka Petrochemical Industries, Ltd.	Ethylene, propylene and other basic petrochemical products	¥	5,000	100
* Cosumosu Co., Ltd.	Consignment from Mitsui Chemicals and miscellaneous	¥	45	100
* Tohcello Co., Ltd.	Plastic film	¥	3,450	53.39
* Evolue Japan Co., Ltd.	Polyethylene	¥	400	75
* Himawari Co., Ltd.	Consignment from Mitsui Chemicals and miscellaneous	¥	85	100
* Prime Polymer Co., Ltd.	Polyolefin	¥	20,000	65
* Advanced Composites, Inc.	Polypropylene compound	US$	14.1	62.8
* Advanced Composites Mexicana S.A. DE C.V.	Compounded polymers	US$	2.6	100
* Mitsui Advanced Composites (Zhongshan) Co., Ltd.	Polypropylene compound	US$	9.23	90
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 ethylenic copolymers	¥	6,480	50
Eternal Plastics Co., Ltd.	Polystyrene	Baht	240	43.75
Grand Siam Composites Co., Ltd.	Polypropylene and polypropylene compound	Baht	63.7	48.2
Mitsui Hi-Polymer (Asia) Ltd.	Sales of high-density polyethylene	US$	4.6	50
Others				
* 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	¥	50	100
* Mitsui Chemicals Engineering Co., Ltd.	Engineering, plant construction and machine maintenance	¥	400	100
* Mitsui Chemicals Logistics, Inc.	Logistics freight transport, 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 and sales of ADMER and marketing of Mitsui Chemicals products	US$	71.67	100
* Mitsui Chemicals Europe GmbH	Manufacture of polypropylene compound, ADMER and marketing of Mitsui Chemicals products	Euro	1.2	100
* Mitsui Chemicals Singapore, Ltd.	Marketing of Mitsui Chemicals products	S$	3	100
* Mitsui Chemicals (Shanghai) Co., Ltd.	Marketing of Mitsui Chemicals products	US$	0.3	100
Toyo Engineering Corporation	Design and construction of industrial plants	¥	13,017	22.9

Corporate Data

(As of March 31, 2006)

Date Incorporated

July 25, 1947

(Inaugurated October 1, 1997)

Paid-in Capital

¥103,226 million

Number of Employees

12,473 (Consolidated)

4,459 (Non-consolidated)

Shares of Common Stock Issued and Outstanding

789,156,353

Number of Shareholders

94,339

Stock Listings

Tokyo

Transfer Agent

The Chuo Mitsui Trust & Banking Co., Ltd.

Offices

Head Office

Shiodome City Center, 1-5-2, Higashi-Shimbashi,
Minato-ku, Tokyo 105-7117, Japan
Phone: +81-3-6253-2100
Facsimile: +81-3-6253-4245
URL: http://www.mitsui-chem.co.jp/e/index.htm
e-mail: WEB_MASTER@mitsui-chem.co.jp

U.S.A.

MITSUI CHEMICALS AMERICA, INC.
800 Westchester Avenue, Suite N607 Rye Brook,
NY 10573, U.S.A.
Phone: +1-914-253-0777
Facsimile: +1-914-253-0790
URL: http://www.mitsuichemicals.com/
e-mail: info@mitsuichem.com

Germany

MITSUI CHEMICALS Europe GmbH
Oststrasse 10, D-40211 Düsseldorf, Germany
Phone: +49-211-173320
Facsimile: +49-211-323486

Singapore

MITSUI CHEMICALS SINGAPORE, LTD.
1 Raffles Place, #36-00
OUB Centre, Singapore
048616, Singapore
Phone: +65-6534-2611
Facsimile: +65-6535-5161

China

MITSUI CHEMICALS (Shanghai) Co., Ltd.
Room 2309, Bank of China Tower, 200 Yin Cheng Road Central,
Pudong New Area, Shanghai 200120, China
Phone: +86-21-5888-6336
Facsimile: +86-21-5888-6337

Organization Chart

(As of June 27, 2006)

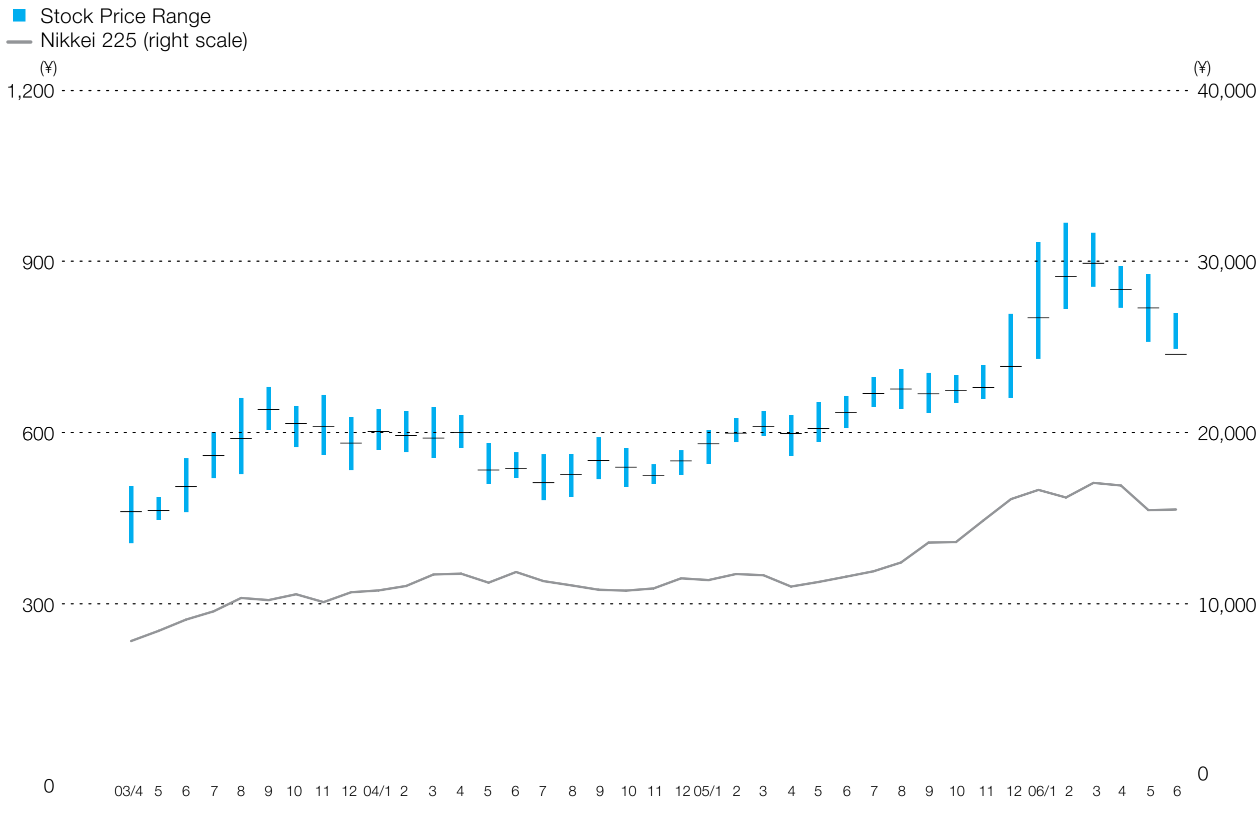
- Board of Directors
  - Chairman
    - President
      - Management Committee

- Board of Corporate Auditors
  - Corporate Auditors

- 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.
  - Highly Functional Films Development Div.
  - (Electronic & Engineered Materials Lab.)
  - (Functional Chemicals Lab.)
- Functional Polymeric Materials Business Group
  - Planning & Coordination Div.
  - Elastomers Div.
  - Performance Polymers Div.
  - Specialty Resins Div.
  - Mitsui Chemicals Polyurethanes, Inc.
  - (Functional Polymeric Materials Lab.)
- Basic Chemicals Business Group
  - Planning & Coordination Div.
  - Fiber Intermediates Div.
  - PET Resin Div.
  - Phenols Div.
  - Industrial Chemicals Div.
- Petrochemicals Business Group
  - Planning & Coordination Div.
  - Petrochemical Feedstocks Div.
  - Styrenics Div.
  - Licensing Div.
  - Prime Polymer Co., Ltd.
- Planning Div-Greater China
- Polymer Business Development Div.
- New Automotive Materials Development Div.
- Nagoya Branch
- Osaka Branch
- Fukuoka Branch
- Mitsui Chemicals America, Inc.
- Mitsui Chemicals Europe GmbH
- Mitsui Chemicals Singapore, Ltd.
- Mitsui Chemicals (Shanghai) Co., Ltd.

- Production & Technology Center
  - Production & Technology Div.
  - Safety & Environment Div.
  - Quality Assurance Div.
  - Ichihara Works
  - Nagoya Works
  - Osaka Works
  - Iwakuni-Ohtake Works
  - Omuta Works
  - Mitsui Chemicals Engineering Co., Ltd.
  - Mitsui Chemical Analysis & Consulting Service Inc.
- SCM Div.
- Purchasing Div.
- Logistics Div.
- Information Technology Planning Div.
- R&D Center
  - R&D Planning & Coordination Div.
  - Organo-metal Complexes Catalyzation Lab.
  - R&D Administration Div.
  - Functional Polymeric Materials Lab.
  - Electronic & Engineered Materials Lab.
  - Functional Chemicals Lab.
  - Material Science Lab.
  - Catalysis Science Lab.
  - Process Technology Lab.
- Intellectual Property Div.
- Corporate Planning Div.
- Affiliates Management, Planning & Coordination Div.
- Management Accounting Div.
- Finance & Accounting Div.
- Management Audit Div.
- Executive Offices
- Corporate Communications Div.
- Corporate Administration Div.
- Legal Div.
- Human Resources & Employee Relations Div.
- CSR Div.

Common Stock Price Range



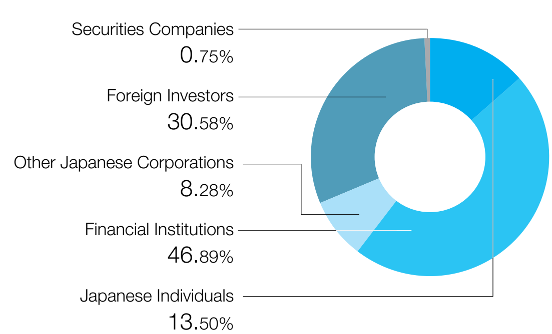
Major Shareholders

(As of March 31, 2006)

	Number of shares held (Thousands)	Percentage of shares held (%)
Japan Trustee Services Bank, Ltd. (Trust account)	62,511	7.92
The Master Trust Bank of Japan, Ltd. (Trust account)	60,935	7.72
Japan Trustee Services Bank, Ltd. (Toray Industries Inc. Retirement Benefit Trust Account re-entrusted by The Mitsui Asset Trust and Banking Company, Limited)	37,425	4.74
Japan Trustee Services Bank, Ltd. (Trust Account 4)	30,008	3.80
Sumitomo Mitsui Banking Corporation	21,837	2.76
Mitsui Life Insurance Co., Ltd. (Standing Proxy: Japan Trustee Services Bank, Ltd.)	18,330	2.32
Mitsui & Co., Ltd. (Standing Proxy: Trust & Custody Services Bank, Ltd.)	17,217	2.18
The Chuo Mitsui Trust and Banking Co., Ltd. (Standing Proxy: Japan Trustee Services Bank, Ltd.)	16,100	2.04
Mitsui Sumitomo Insurance Co., Ltd.	15,652	1.98
State Street Bank and Trust Company (Standing Proxy: Mizuho Corporate Bank, Ltd.)	15,094	1.91
Total	295,109	37.39

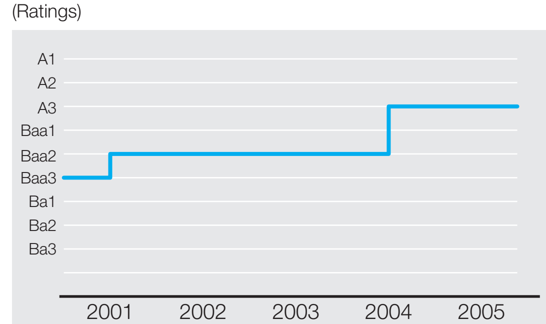
Composition of Shareholders

(As of March 31, 2006)



Moody's Long-term Credit Ratings of MCI

(Ratings)



Mitsui Chemicals

MITSUI CHEMICALS, INC.

Corporate Communications Division

Shiodome City Center, 1-5-2, Higashi-Shimbashi,
Minato-ku, Tokyo 105-7117, Japan
Telephone: +81-3-6253-2100
Facsimile: +81-3-6253-4245
URL: http://www.mitsui-chem.co.jp/
e-mail: WEB_MASTER@mitsui-chem.co.jp

Responsible Care

PRINTED WITH SOY INK™

R100

Printed in Japan