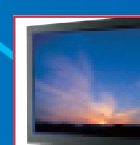
Growth in Harmony with Environment & Society

Annual Report 2007 Year Ended March 31, 2007




Mitsui Chemicals

Contents

1 Consolidated Financial Highlights

2 To Our Shareholders, Customers and Partners

4 Medium-term Business Plan Progress and Drawing-up of Grand Design

10 Corporate Social Responsibility (CSR) Initiatives

14 At a Glance

16 Functional Chemicals and Engineered Materials Business Group

19 Functional Polymeric Materials Business Group

22 Basic Chemicals Business Group

24 Petrochemicals Business Group

27 Research & Development

30 Group Intellectual Property Strategy

32 Board of Directors

33 Financial Section

69 Mitsui Chemicals Group Risks

70 Subsidiaries and Major Affiliates

72 Corporate Data

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

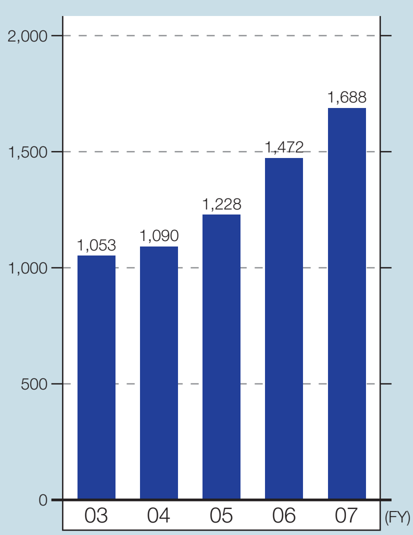
(For the years ended March 31)

	Millions of yen			% Change	Thousands of U.S. dollars
	FY2007	FY2006	FY2005	FY2007/FY2006	**FY2007**
For the year:					
Net sales	**¥1,688,062**	¥1,472,435	¥1,227,547	14.6	**$14,299,551**
Operating income	**91,678**	58,705	80,491	56.2	**776,603**
Net income	**52,297**	44,125	26,192	18.5	**443,007**
Capital expenditures	**72,671**	81,400	47,135	(10.7)	**615,595**
R&D expenses	**36,943**	37,146	34,881	(0.5)	**312,944**
At year-end:					
Total assets	**¥1,498,183**	¥1,328,890	¥1,205,185	12.7	**$12,691,089**
Total shareholders' equity	**504,509**	464,021	405,773	8.7	**4,273,689**
	Yen			% Change	U.S. dollars
Per share of common stock:					
Net income	**¥ 66.68**	¥ 56.20	¥ 33.26	18.6	**$0.56**
Shareholders' equity	**653.84**	592.42	517.63	10.4	**5.54**
Cash dividends	**10.00**	8.00	7.00	25.0	**0.08**
Performance indicators:					
Return on equity	**10.80%**	10.15%	6.64%		
Return (operating income) on assets	**6.49%**	4.63%	6.73%		

Notes: 1) U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥118.05=U.S.$1, the approximate Tokyo foreign exchange market rate as of March 31, 2007.
2) Changes are between the years ended March 31, 2007 and 2006.
3) Total shareholders' equity = Total net assets – Minority interests (as recorded on the balance sheet)

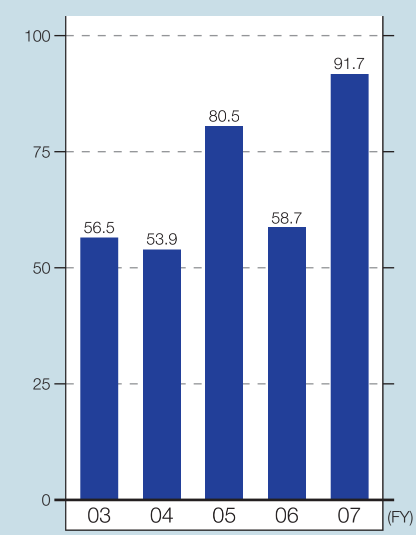
NET SALES

(Billions of Yen)



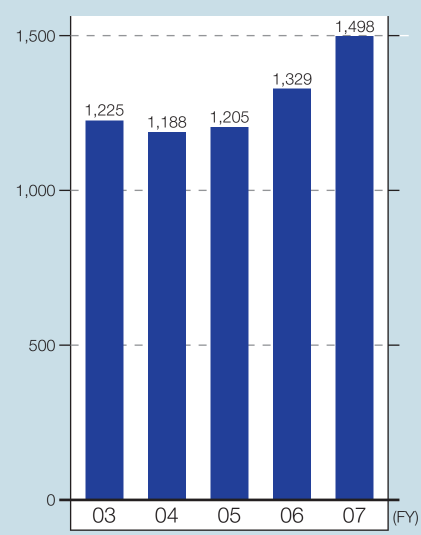
OPERATING INCOME

(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, FY07 indicates the fiscal year from April 1, 2006 to March 31, 2007.

To Our Shareholders, Customers and Partners

Growth in Harmony with Environment & Society

Kenji Fujiyoshi
President and CEO

Fiscal 2007 (Year Ended March 31, 2007) Business Environment and Results

The Japanese economy remained on a recovery track during fiscal 2007, ended March 31, 2007. While growth in personal consumption faltered, the economy was lifted by increased capital investment due to improved corporate earnings, as well as steady growth in exports.

Japan's chemical industry, however, continued to face a severe business environment. While shipments held firm, feedstock prices remained at a high level throughout the year.

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 ¥1,688.1 billion, up ¥215.7 billion year on year; operating income of ¥91.7 billion, an increase of ¥33.0 billion; and net income of ¥52.3 billion, ¥8.2 billion higher than the previous year. We paid a dividend of ¥10 per share for fiscal year 2007, up ¥2 from last year.

Business Environment in Fiscal 2008 (Year ending March 31, 2008)

Japan's economy is expected to continue to enjoy healthy growth during the remainder of fiscal 2008, buoyed by demand from the domestic private sector. However, the harsh business environment confronting the Group is likely to persist due to a possible slowdown in the U.S. economy and concerns that feedstock prices may climb yet again.

Priority Issues for Fiscal 2008

In light of these conditions, the Group will take aggressive steps to shift from Commodities to Specialties. The key phrase here will be "Challenge for Change," with Group actions guided by the basic strategy outlined in our four-year medium-term business plan drafted in fiscal 2005. With the plan scheduled to conclude in fiscal 2008, 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 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

(5) Intensify human resource development

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 and CEO

Medium-term Business Plan Progress and Drawing-up of Grand Design

1. Medium-term Business Plan

Mitsui Chemicals is conducting a four-year medium-term business plan scheduled to run from fiscal 2005 (ended March 31, 2005) to fiscal 2008 (ending March 31, 2008). Plan objectives and basic strategies are detailed below. (Diagrams 1 and 2)

1. Consolidated Management Targets (Fiscal 2008)

<Profitability>

- Operating Income — **¥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**

2. Basic Strategies

Ⅰ. Change business structure

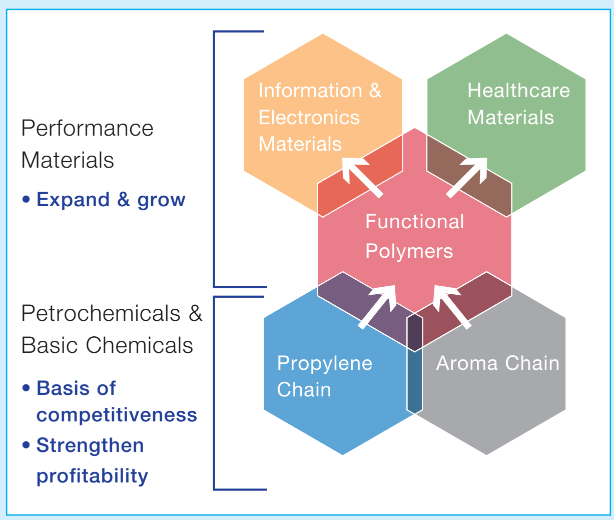
1. Expand & grow Performance Materials
   Expand & grow Functional Polymers and Related Products
2. Strengthen profitability of Petrochemicals & Basic Chemicals

Ⅱ. Reinforce consolidated management system

Ⅲ. Secure the environment, safety and quality

Mitsui Chemicals strives to maintain the environment, safety 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. These actions will help Mitsui Chemicals achieve its basic strategy of expansion and growth in Performance Materials.

3. Business Portfolio Reforms



2. Plan Progress

(1) Consolidated Overview of Fiscal 2007 (Ended March 2007)

In fiscal 2007, the third year of the plan, the Group posted net sales of ¥1,688.1 billion, operating income of ¥91.7 billion and net income of ¥52.3 billion.

Looking at operating income by segment, profits declined year on year in the Basic Chemicals segment, as efforts to boost sales volume and revise product prices proved unable to completely cover higher costs due to escalating prices for raw materials. In the Petrochemicals, Functional Polymeric Materials and Functional Chemicals & Engineered Materials segments, meanwhile, profits grew atop higher sales volumes and benefits from product price revisions.

Operating income is expected to dip slightly in fiscal 2008, with severe operating conditions for Japan's chemicals industry likely to persist due to concerns over an anticipated slowdown in the U.S. economy and rising feedstock prices. (Chart 4)

4. Operating Income by Business Segment

(Billions of yen)

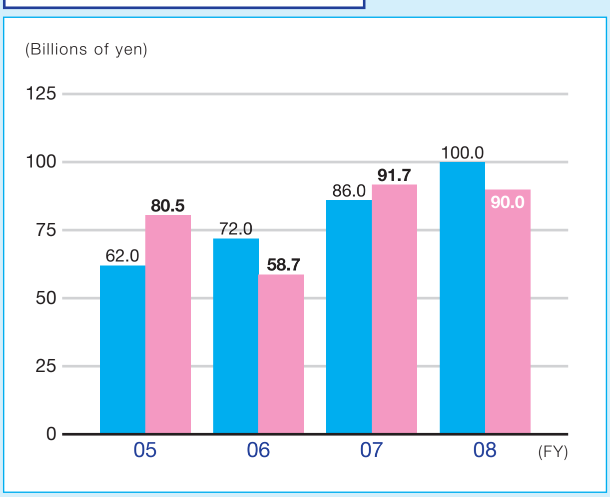
Segment	FY2006	FY2007	FY2008 Outlook
Functional Chemicals & Engineered Materials	10.8	13.5	18.0
Functional Polymeric Materials	10.1	22.2	24.0
Basic Chemicals	21.8	11.0	17.0
Petrochemicals	15.9	45.4	35.0
Others	0.6	2.1	(4.0)
Total	58.7	91.7	90.0

On the basis of these performance outlooks, cumulative operating income for the four-year period of the medium-term plan should be in line with plan targets. (Diagram 5)

5. Cumulative Operating Income for FY2005-2008

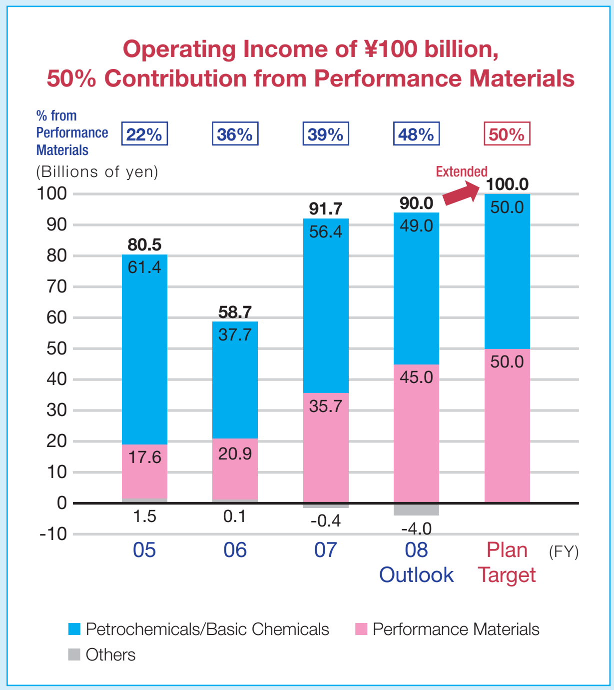
Medium-term Plan	**¥320 billion**
Result (Estimated)	**¥320.9 billion**

▶ In line with plan



However, targets for the final year of the plan with respect to operating income (¥100 billion) and the contribution from Performance Materials (50%) are not likely to be met based on outlooks for fiscal 2008 (ending March 31, 2008). The company's policy, therefore, will be to view these targets as extended targets, to be achieved by accelerating expansion and growth in Performance Materials and strengthening profitability in Petrochemicals and Basic Chemicals. (Diagram 6)

6. Operating Income by Segment for FY2005-2008



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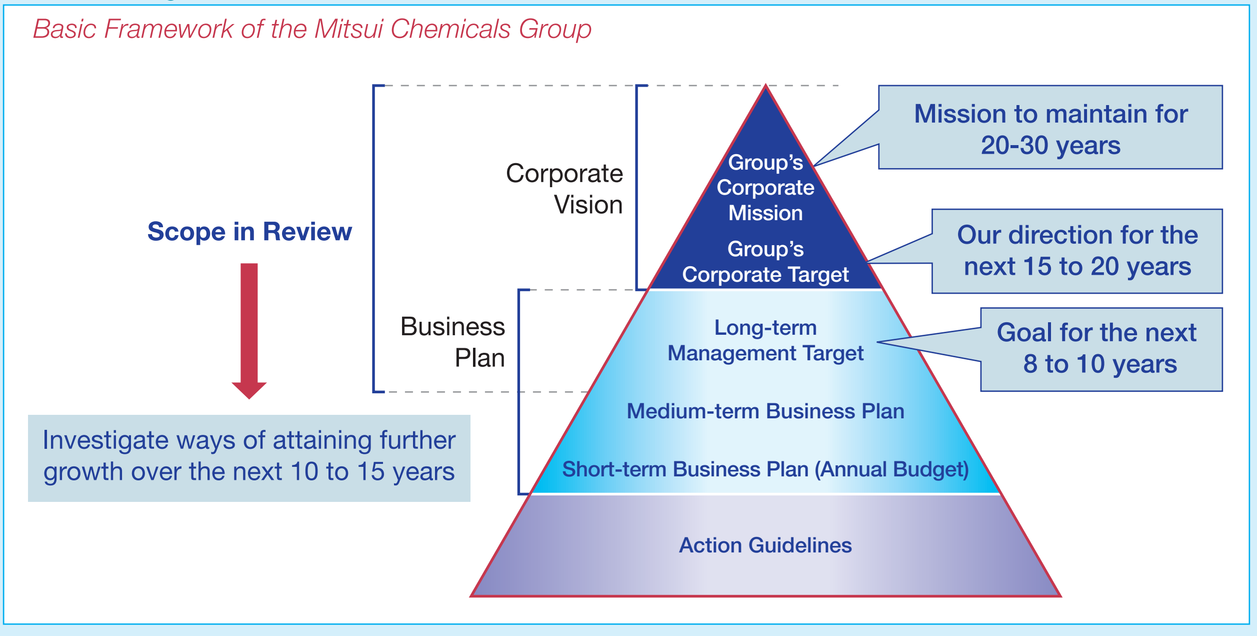
3. Formulation of Grand Design

In addition to being the final year of the company's latest medium-term business plan, 2007 marks the tenth anniversary of the establishment of Mitsui Chemicals. It is also a starting point for the company's next 10 to 15 years.

Ahead of this milestone, we have compiled various measures for achieving a further leap in growth over the next 10 to 15 years into a long-term vision for Mitsui Chemicals.

Called the "Grand Design," which serves as the basic framework of the Mitsui Chemicals group and consists of the Corporate Vision, Business Plan, and Action Guidelines. Of these components, the Action Guidelines were already completed last year. Scope in review is the Corporate Vision, comprising the Group's Corporate Mission and Corporate Target, and the Long-term Management Target, a component of the Business Plan. (Diagram 7)

7. Grand Design

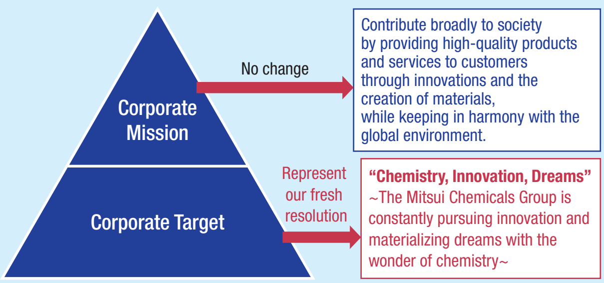


(1) Revisions to the Corporate Vision

No changes will be made to the company's corporate mission, which already meets all necessary criteria with respect to economy, environment, and society.

The company's corporate target, however, has been revised to reflect the new direction and resolve that will guide the Mitsui Chemicals Group over the next 15 to 20 years. (Diagram 8)

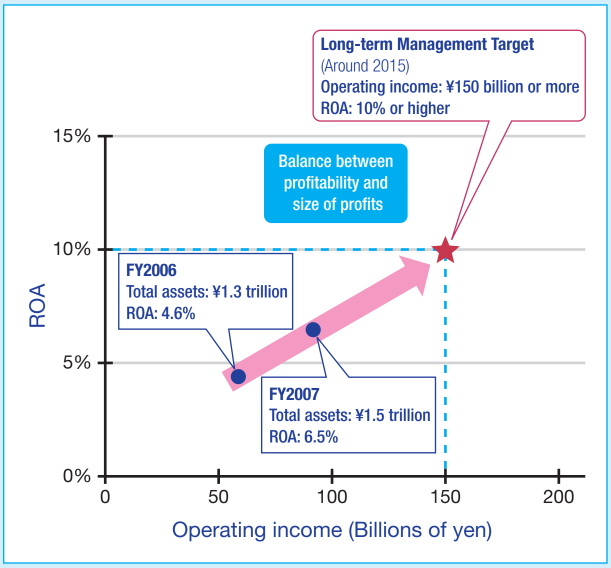
8. Redefining the Corporate Vision



(2) Long-term Management Target

In setting long-term management targets, we have tried to envision the kind of operating environment the company may face in or around the year 2015. To attain growth, we will emphasize balance between profitability and size of profits. To this end, we are targeting ¥150 billion or more in operating income and an ROA of 10% or higher. (Diagram 9)

9. Long-term Management Target (Profit Target)



(3) Business Portfolio

The company's business portfolio will play a critical role in realizing these long-term management targets. Here, we have positioned Basic Chemicals, Performance Materials and Advanced Chemicals as core businesses going forward, on the assumption that steps must be taken to raise overall profitability as we replace businesses in our portfolio. (Chart 10)

10. Business Portfolio

Business	Role
Basic Chemicals	Secure stable profits
Performance Materials	Secure growth markets
Advanced Chemicals	Grow into the third domain

Determined to move in the direction outlined in the Grand Design, we are shifting the company's organizational structure for both early realization of the business portfolio we envision and the acceleration of new product development. Accordingly, we are making the following changes to the company's business segments. (Chart 11)

11. Changes in Business Segments (Operating Income)

(Billions of yen)

Former Segment	FY2007 Result	FY2008 Outlook
Functional Chemicals & Engineered Materials	13.5	18.0
Functional Polymeric Materials	22.2	24.0
Basic Chemicals	11.0	17.0
Petrochemicals	45.4	35.0
Others	2.1	(4.0)
Total	91.7	90.0

New Segment	FY2008 Outlook
Performance Materials	33.0
Advanced Chemicals	12.0
Basic Chemicals	49.0
	0.0
Others	(4.0)
Total	90.0

Organizational changes were implemented on April 1, 2007, to help realize the portfolio targeted in the Grand Design, as explained above.

Under this new organizational structure, we have begun drafting a new medium-term business plan set to begin in April 2008, with specific objectives aimed at achieving our long-term management targets. We plan to unveil this new plan sometime in early 2008.

4. Dividend Policy

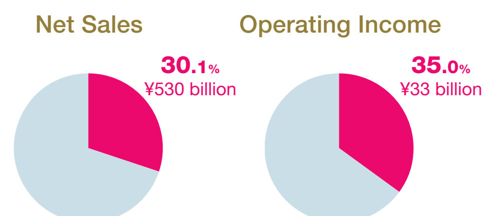
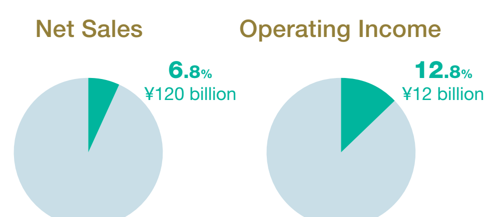
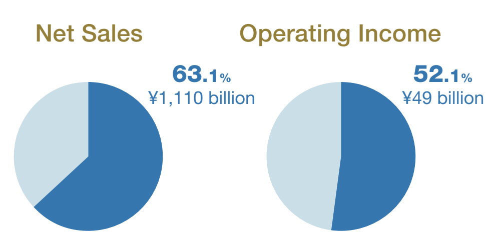
The company's approach to profit distribution is guided by a basic policy that takes into account a comprehensive range of factors, from the need to return profits to shareholders, to the company's level of internal reserves. The company's goal is to return profits through the payment of a stable and consistent dividend, with due consideration given to consolidated performance from a medium- to long-term perspective.

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
Fiscal 2007:	¥10/yr
Fiscal 2008:	¥12/yr (planned)

New Segments & Main Products

New Segment / Core Business	Main Products	Outlook for FY2008 (ending March 31, 2008)
PERFORMANCE MATERIALS		
• **Automotive & Industrial Materials**	• EPT • MILASTOMER™ • TAFMER™	
• **Packaging & Engineering Materials**	• Polyethylene wax	
• **Living & Energy Materials**	• Nonwoven fabrics for hygiene materials and breathable films	
• **Information & Electronics Materials**	• TPX™ • APEL™ • NF3 gas • Polyimide flexible laminate • Packages for image sensors • Silicon wafer back-grinding tape • PDP optical filters • Toner binder resin	
• **Polyurethane**	• Polyurethane • Urethane chemicals (TDI/MDI/PPG)	
ADVANCED CHEMICALS		
• **Fine & Performance Chemicals**	• Materials for optical lenses • Olefin polymerization catalysts • Polymerization inhibitors • Acryl amide	
• **Agrochemicals**	• Insecticides and fungicides	
BASIC CHEMICALS		
• **Feedstocks**	• Ethylene • Propylene	
• **Polyolefin**	• Polyethylene • Polypropylene	
• **Phenols**	• Phenols • Bisphenol A • Acetone	
• **PTA & PET**	• Purified terephthalic acid (PTA) • PET resins	
• **Industrial Chemicals**	• Ethylene glycol • Ethylene oxide	
• **Licensing**	• Licensing	
OTHERS		
• **Engineering, warehousing, freight transportation and others**		

Corporate Social Responsibility (CSR) Initiatives

Evaluating Performance on Three Axes: Economic, Environmental and Social

Corporate social responsibility, or CSR, refers to initiatives by Mitsui Chemicals to attain sustainable growth for itself and society by fulfilling its responsibilities in the three areas of economy, environment and society by taking into account the interests of all stakeholders.

In February 2007, Mitsui Chemicals reviewed and added long-term management targets to the “Grand Design,” basic framework of the Mitsui Chemicals Group management. These long-term targets include both financial and environmental goals. This latest initiative will see Mitsui Chemicals strive to develop in a sustainable manner through management that is well-balanced not simply in terms of profits, or economy, but on environmental and social dimensions as well.

As set forth in plans for fiscal 2008, Mitsui Chemicals has begun evaluating the performance of each organization and director along three axes—environmental (i.e., greenhouse gas reduction), social (occupational health and safety, legal and regulatory compliance), and economic (profit targets)—on a trial basis.

Prevalence and Settlement of Action Guidelines

Mitsui Chemicals has initiated a group-wide communication program for discussing issues that emerge at Group worksites, namely, whether the guidelines are being properly implemented. The aim of Dream Talk is to promote the prevalence and implementation of the Mitsui Chemicals Group Action Guidelines formulated in February 2006.

Mitsui Chemicals Group Action Guidelines

We will:

(1) always act in good faith.

(2) have a high regard for people and society.

(3) aim for the “Dream-Inspiring Innovations.”

Group-wide Communication Program

Long-term Management Targets (Around 2015)

<Finance>

Growth

Operating income:
¥150 billion or more

ROA:
10% or higher

<Environment>

Harmony

(1) Greenhouse gases per unit of production
Less than 90% of fiscal 1991 level (Mitsui Chemicals, domestic consolidated subsidiaries)

(2) Minimize industrial waste
Mitsui Chemicals, domestic and overseas consolidated subsidiaries 1% or less for all bases
(Final disposal volume/industrial waste volume of 1% or less)

(3) Develop technologies for utilizing non-fossil resources

The following represent some of the specific CSR-related activities (e.g., corporate governance, risk management and compliance, responsible care (RC) activities, and social contributions) undertaken by Mitsui Chemicals.

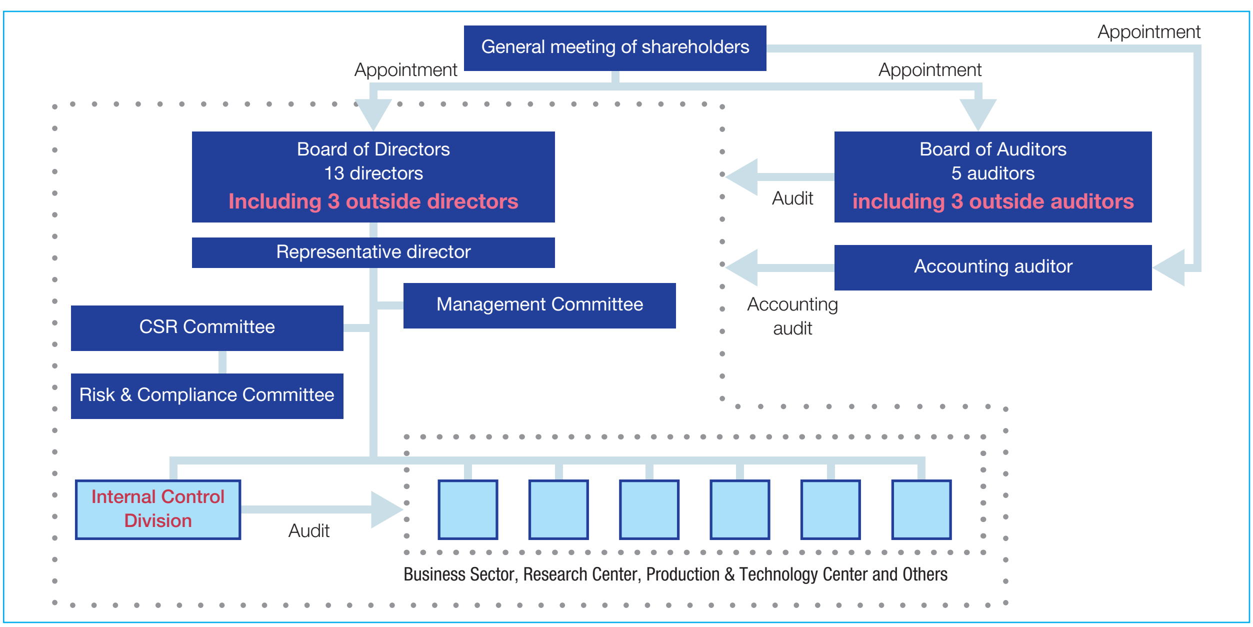
Corporate Governance

Mitsui Chemicals' basic policy in striving to earn society's trust and 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. In particular, Mitsui Chemicals has moved to enhance management's supervisory functions through the roles performed by outside directors (3 of the 13 directors) and outside corporate auditors (3 of the 5 corporate auditors).

Risk & Compliance Management

Mitsui Chemicals has adopted a "Group Risk Management System" for the early discovery of risks and to prevent those risks from becoming more acute. The operation of this system is largely the responsibility of the Risk and Compliance Committee. An Internal Control Division, which upgrades the functions of the former Management Audit Division, was also established in April 2007 to better promote internal control systems.

Corporate Governance Diagram



Meanwhile, Mitsui Chemicals conducts compliance education specifically tailored to the corporate management team, all of whom are line managers, newly appointed administrators and new recruits to ensure that compliance awareness is firmly entrenched among all of its employees.

Compliance Education

Fair Trade Commission Inspection

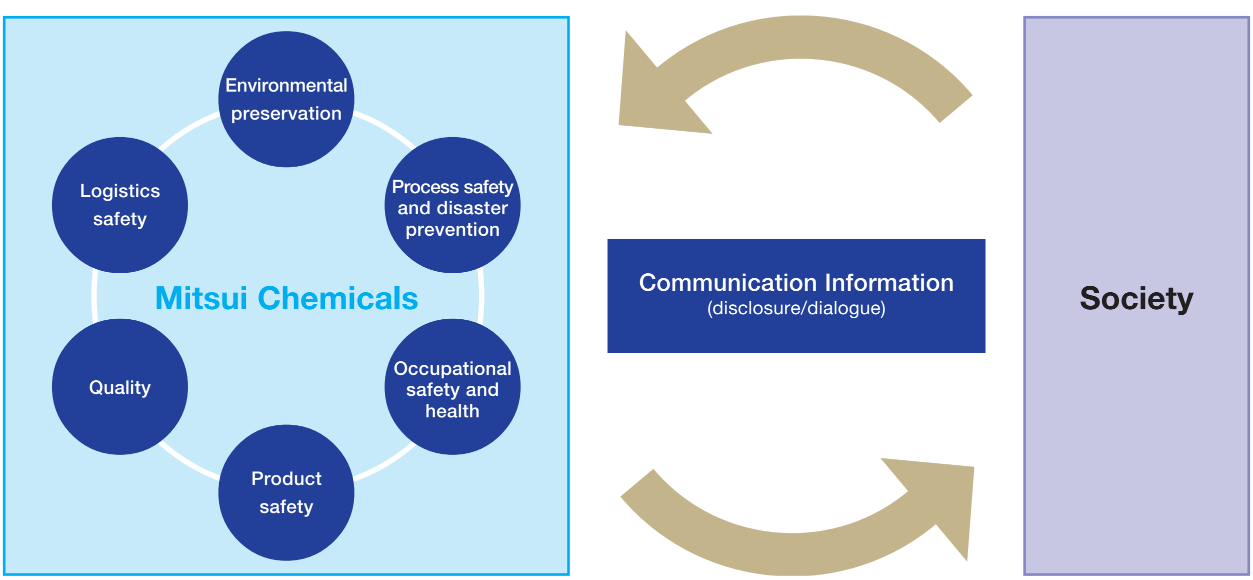
In November 2006, Mitsui Chemicals was subject to an on-the-spot inspection by the Fair Trade Commission. At issue was suspicion of violation of Japan's Anti-Monopoly Law on the setting of sales prices for polyethylene-based gas pipes and joints. In June 2007, Mitsui Chemicals was ordered by the commission to implement measures to eliminate violations and to pay fines for the violation.

Mitsui Chemicals recognizes the seriousness of these events. The company will redouble efforts to ensure full compliance with Japan's Anti-Monopoly Law at every level of the organization.

Responsible Care Activities

The Mitsui Chemicals Group promotes Responsible Care (RC) activities aimed at making its operations more environmentally friendly. Along with the promotion of these activities in the fields of environmental conservation, security and disaster prevention, occupational health and safety, chemical product safety, quality and logistics safety, Mitsui Chemicals works to publicize RC information and hold discussions with stakeholders in these areas.

Relationship between Mitsui Chemicals' RC Management System and Society



Social Activities

Mitsui Chemicals is involved in ongoing social activities befitting its role as a manufacturer of chemical products. Among other contributions, Mitsui Chemicals hosts international symposia in Japan and overseas, as well as the Mitsui Chemicals Catalysis Science Award, in order to support the sustainable development of chemistry and the chemical industry.

Mitsui Chemicals also holds chemistry experiment classes ("Wonders-in-Chemistry Class") for elementary and junior high school students at each of its works in Japan and at the Sodegaura Center, to increase opportunities for children to experience the fun and wonder of chemistry firsthand.

Mitsui Chemicals Catalysis Science Award Ceremony

Wonders-in-Chemistry Class

International Symposium on Catalysis Science

At a Glance

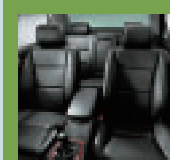
CORE BUSINESS | MAIN PRODUCTS

Functional Chemicals & Engineered Materials

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

Main Products
- Nonwoven fabrics for hygiene materials and breathable films
- Photovoltaic solar module encapsulating sheets
- NF3 gas
- Polyimide flexible laminate
- Packages for image sensors
- Silicon wafer back-grinding tape
- PDP optical filters
- Toner binder resin
- Materials for optical lenses
- Olefin polymerization catalysts
- Polymerization inhibitors
- Insecticides and fungicides

Functional Polymeric Materials



Core Business
- Elastomers
- Performance Polymers
- Specialty Resins
- Urethane Chemicals

Main Products
- EPT (ethylene-propylene diene terpolymer)
- MILASTOMER™ (thermoplastic olefinic elastomer)
- TAFMER™ (alpha-olefinic copolymers)
- TPX™ (methylpentene copolymers)
- APEL™ (cycloolefin copolymers)
- Acryl amide
- Polyethylene wax
- Polyurethane (TDI/MDI/PPG)

Basic Chemicals

Core Business
- Fiber Intermediates
- PET Resin
- Phenols
- Industrial Chemicals

Main Products
- Purified terephthalic acid (PTA)
- PET resins
- Phenols
- Bisphenol A
- Acetone
- Ethylene glycol
- Ethylene oxide

Petrochemicals

Core Business
- Petrochemical Feedstocks
- Polyolefin
- Licensing

Main Products
- Ethylene
- Propylene
- Polyethylene
- Polypropylene
- Licensing

Others

Core Business
- Engineering, Warehousing, Freight Transportation and Others

NET SALES

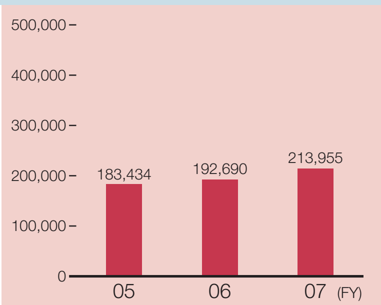
(Millions of yen)

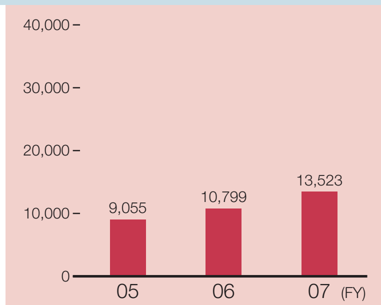
OPERATING INCOME

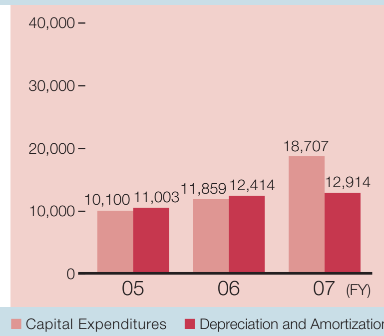
(Millions of yen)

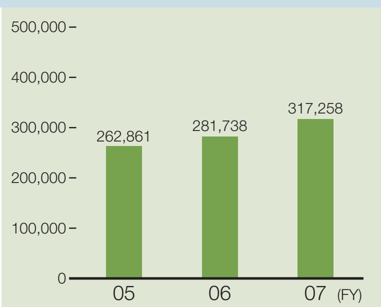
CAPITAL EXPENDITURES/ DEPRECIATION AND AMORTIZATION

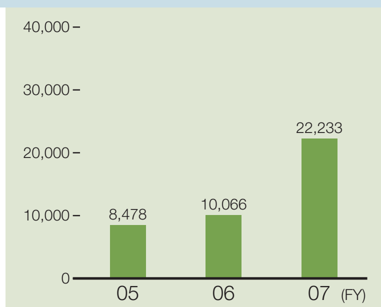
(Millions of yen)

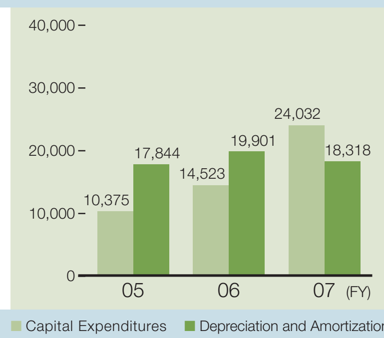


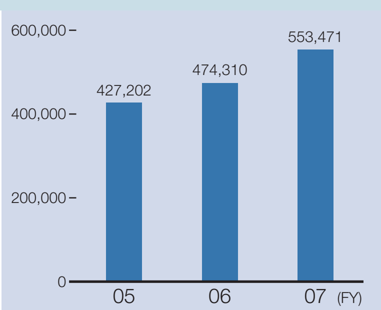


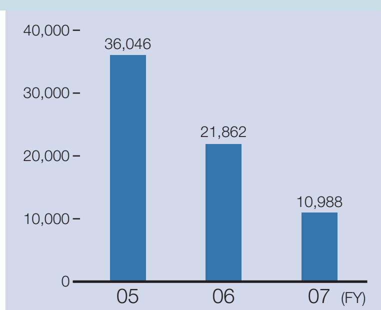


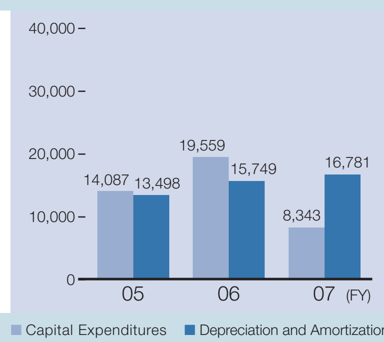


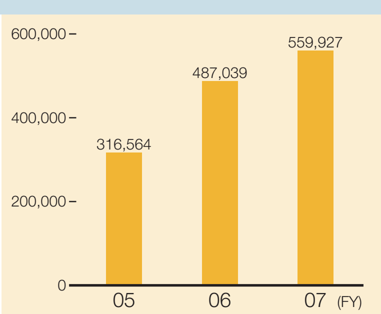


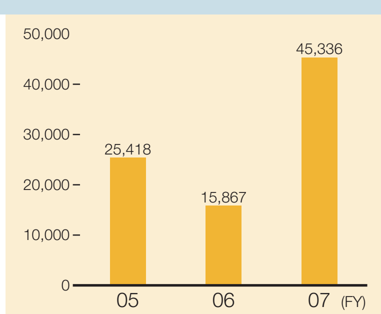


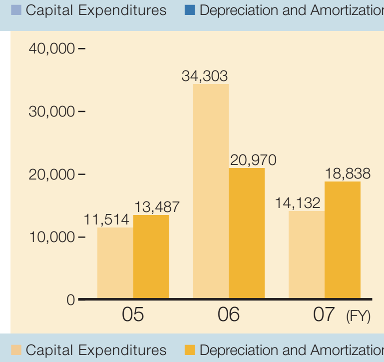










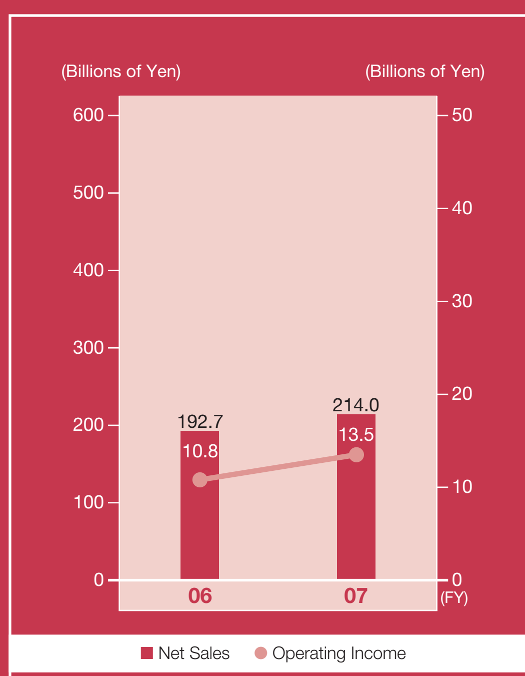


Functional Chemicals and Engineered Materials Business Group

(Billions of yen)	Fiscal 2006	Fiscal 2007	Change	
Net Sales	192.7	214.0	**21.3**	**11.1%**
Operating Income	10.8	13.5	**2.7**	**25.0%**

Main Products

- Nonwoven fabrics for hygiene materials and breathable films
- Photovoltaic solar module encapsulating sheets
- NF3 gas
- Polyimide flexible laminate
- Packages for image sensors
- Silicon wafer back-grinding tape
- PDP optical filters
- Toner binder resin
- Materials for optical lenses
- Olefin polymerization catalysts
- Polymerization inhibitors
- Insecticides and fungicides



Optical plastic lenses

Optical filters for plasma display panels

The Year in Review

Sales of healthcare products, including materials for optical lenses and pharmaceutical intermediates, rose during the year atop firm product sales.

In specialty chemicals, which include polymerization inhibitors and adhesive raw materials for tires and wood products, Mitsui Chemicals took active steps to expand sales and raised product prices in response to higher prices for raw materials. These efforts, however, were unable to fully offset the impact of increased costs.

Meanwhile, agrochemicals division boosted its sales volume by growth in sales of insecticides.

Sales were also higher for hygiene materials, reflecting increased demand for nonwoven fabrics from East and Southeast Asia, due most notably to market growth in Thailand and China.

Elsewhere, sales of semiconductor materials increased atop growing sales of NF3 and other semiconductor gases, overcoming the impact of lower prices in the semiconductor and LCD markets.

Regarding PDP filters, while sales rose approximately 30% compared with the previous year due to the growth in the PDP market, overall profit, however, was heavily impacted by the sharp drop in market prices.

As a result, sales in this segment climbed ¥21.3 billion year on year to ¥214.0 billion, with operating income up ¥2.7 billion to ¥13.5 billion.

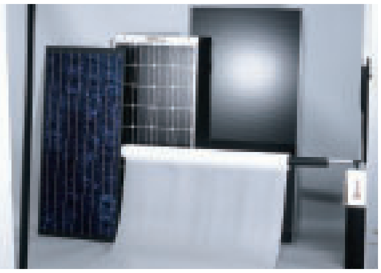
Highlights

Expansion of PDP Filter (Film-type) Production Capacity

In answer to a growing market, in April 2006, Mitsui Chemicals installed production facilities at its Nagoya Works, thus having additional production capacity for film-type PDP filters of 960,000 sheets per year. As a result, Mitsui Chemicals now has a total annual production capacity of 1.8 million sheets for film-type filters.

Expansion of Capacity for Photovoltaic Solar Module Encapsulating Sheets

In August 2006, Mitsui Chemicals responded to favorable market conditions by boosting production capacity for photovoltaic solar module encapsulating sheets by 4,000 tons per year at Mitsui Chemicals Fabro, Inc. From this upgrade, Mitsui Chemicals now has a total annual production capacity of 9,200 tons for these products.



SOLAR EVA™
Photovoltaic solar module encapsulating sheets

Mitsui Hygiene Materials (Thailand)

Highly Functional Film Center

Addition of New Equipment for Breathable Films for Hygiene Materials

To take advantage of growing demand for hygiene materials in Asia, Mitsui Chemicals added new production equipment at Mitsui Hygiene Materials in Thailand in August 2006. The company now has the capacity to produce 6,000 tons of breathable films per year.

Acquisition of Sankyo Agro

To accelerate expansion and growth in its agrochemicals business, Mitsui Chemicals purchased Sankyo Agro Co., Ltd., an agrochemicals subsidiary of the Daiichi Sankyo Group, in March 2007. Reinforcing its sales force, product portfolio, and R&D capabilities through the acquisition, Mitsui Chemicals has become the second largest player in Japan's agrochemicals market.

Acquisition of Toner Binder Resin Business from Sekisui Chemical

In March 2007, Mitsui Chemicals solidified its leading position in toner binder resin business through the acquisition of sales rights and intellectual property from Sekisui Chemical Co., Ltd.

Completion of Highly Functional Film Center

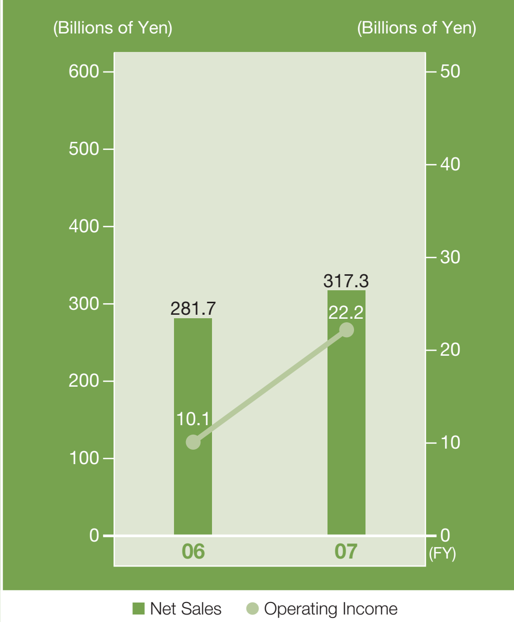
Mitsui Chemicals has completed construction of its Highly Functional Film Center, one of the strategic research projects designed to accelerate expansion and growth in performance materials. Prototype production at the center commenced in March 2007. By aggressively testing new films utilizing its high-functional resins, Mitsui Chemicals plans to speed up growth in the production of new products.

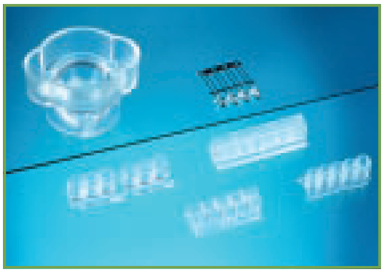
Functional Polymeric Materials Business Group

(Billions of yen)	Fiscal 2006	Fiscal 2007	Change	
Net Sales	281.7	317.3	35.6	12.6%
Operating Income	10.1	22.2	12.1	119.8%

Main Products

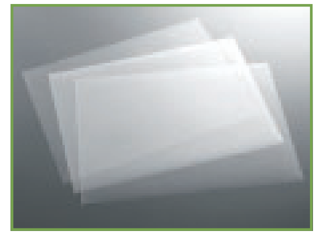
- EPT (ethylene-propylene diene terpolymer)
- MILASTOMER™ (thermoplastic olefinic elastomer)
- TAFMER™ (alpha-olefinic copolymers)
- TPX™ (methylpentene copolymers)
- APEL™ (cycloolefin copolymers)
- Acryl amide
- Polyethylene wax
- Polyurethane (TDI/MDI/PPG)





TPX™ mould

TPX™ for flexible printed circuit board release film



The Year in Review

In elastomers, including EPT and alpha-olefin copolymers, sales increased atop growth in domestic demand mainly for use in automotive parts, as well as from healthy progress in developing new markets, most notably in Asia.

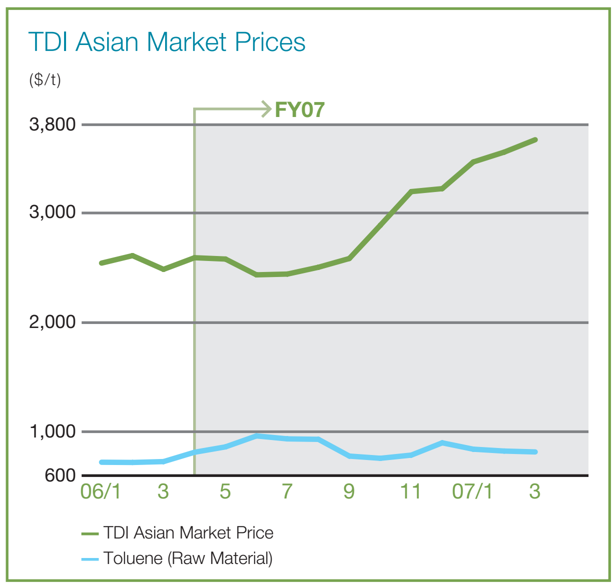
Sales of TPX™, APEL™ and other specialty polyolefins were also higher, thanks to increased demand for use in optical and electronic materials applications.

Sales rose for wax, petroleum resins and other additive materials, and acrylamide for papermaking applications, reflecting upward product price revisions in response to rising prices for raw materials.

In urethane chemicals, meanwhile, sales climbed 22% compared to the previous fiscal year, reflecting improvements in the markets for TDI in East and Southeast Asia, particularly China, coupled with a price increase for PPG, which offset a weak performance in the market for MDI overseas.

Elsewhere, sales of polyurethane increased, tracking growth in demand in Japan and overseas for use mainly in building materials and adhesives.

Due to these factors, segment sales rose ¥35.6 billion to ¥317.3 billion, with operating income up ¥12.1 billion year on year to ¥22.2 billion.



3 EPT (Under construction)

Multipurpose Semi-commercial Plant
(The Iwakuni-Ohtake Works)

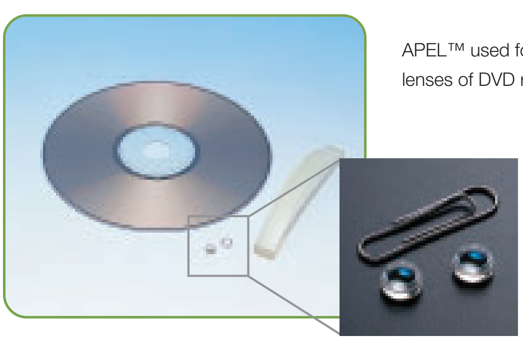
Highlights

Expansion of EPT Capacity

In response to an expanding market, Mitsui Chemicals decided in September 2005 to raise annual EPT production capacity to 120,000 tons by adding 75,000 tons per year of capacity at its Ichihara Works. Ongoing construction for this project is scheduled to be completed in October 2007.

Expansion of APEL™ Capacity

In answer to a growing market of optical lens applications, Mitsui Chemicals is constructing a new APEL™ plant at its Osaka Works with a production capacity of 3,000 tons per year. Operations at the new plant are scheduled to begin in May 2008. Together with the 3,400 tons per year capacity of the existing APEL™ plant at the Iwakuni-Ohtake Works, Mitsui Chemicals plans to develop a twin-base framework with a production capacity of 6,400 tons per year, or roughly double its current output.



APEL™ used for pick-up lenses of DVD recorders

Multipurpose Semi-commercial Plant Completed

Mitsui Chemicals has completed the construction of a multipurpose, semi-commercial plant at the Iwakuni-Ohtake Works, one of several strategic research projects aimed at accelerating expansion and growth in the field of performance materials. Prototype production at the plant began in January 2007. Able to meet orders for several tons of products per day, the plant will also serve as a testing site for the mass production of new resins developed by Group research centers. Mitsui Chemicals intends to use the new plant to accelerate market development by answering customer requests more promptly.

Decision to Boost MDI Capacity

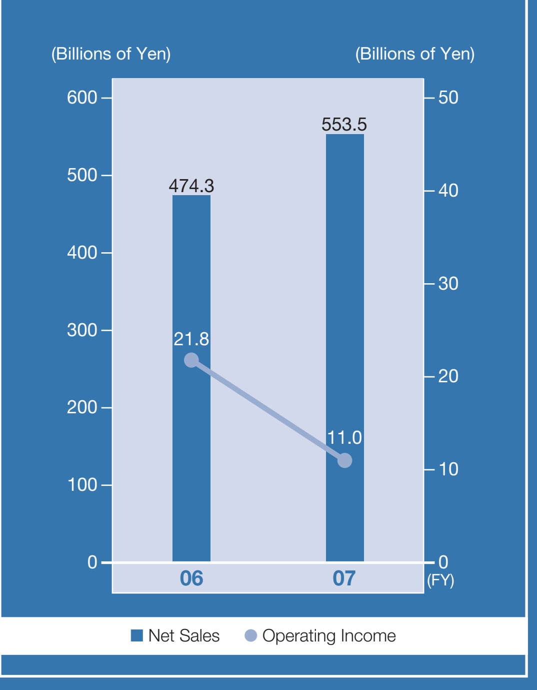
In April 2007, Mitsui Chemicals decided to raise annual production capacity for MDI, a raw material for urethane, at its production center, Kumho Mitsui Chemicals, Inc., in South Korea by 65,000 tons, for a total capacity of 130,000 tons per year. This move was taken in response to a growing market for this product.

Basic Chemicals Business Group

(Billions of yen)	Fiscal 2006	Fiscal 2007	Change	
Net Sales	474.3	553.5	79.2	16.7%
Operating Income	21.8	11.0	-10.8	-49.5%

Main Products

- Purified terephthalic acid (PTA)
- PET resins
- Phenols
- Bisphenol A
- Acetone
- Ethylene glycol
- Ethylene oxide



Polyester fibers with PTA as the raw material

PET resin for bottles

A Ceremony to Mark the Start of Construction of SSMC

The Year in Review

Sales of purified terephthalic acid (PTA) rose by 24% year on year. Growth in sales volume was supported by the expansion of production capacity in Thailand, while monetary sales benefited from upward product price revisions in response to soaring prices for raw materials.

PET resins, meanwhile, recorded higher sales atop upward product price revisions in answer to rising raw materials prices. Benefits from these revisions offset slow growth in sales volume resulting from lackluster demand for PET bottles in Japan and an influx of rival imports.

In phenols, sales increased by 37% year on year, reflecting benefits from upward product price revisions imposed in response to rising raw materials and fuel prices and growth in demand from markets in Asia.

Sales of bisphenol A also increased atop firm sales volume.

This growth notwithstanding, product price increases were unable to fully offset the impact of surging feedstock and fuel prices in all product categories.

As a result, while segment sales rose by ¥79.2 billion year on year to ¥553.5 billion, operating income declined by ¥10.8 billion to ¥11.0 billion.

Compact discs with phenol and BPA as raw materials

Highlights

Establishment and New Plant Construction for New BPA Site in China

In April 2006, Mitsui Chemicals, in partnership with China Petroleum & Chemical Corp. (Sinopec Corp.), established Shanghai Sinopec Mitsui Chemicals, Co., Ltd. (SSMC) as a joint venture company in Shanghai, China. This was followed in July by a ceremony to mark the start of construction of a new bisphenol-A plant at the site with an annual production capacity of 120,000 tons. The new plant is scheduled for completion in 2008.

Expansion of Phenol Production Capacity

Also in April 2006, Mitsui Chemicals responded to market growth by raising production capacity at Chiba Phenol Co., Ltd. by 30,000 tons a year, giving the site a total annual capacity of 230,000 tons. Chiba Phenol is a joint venture owned by Mitsui Chemicals (55%) and Idemitsu Kosan Co., Ltd. (45%).

Operations Resumed at Idemitsu Kosan Benzene Production Facility

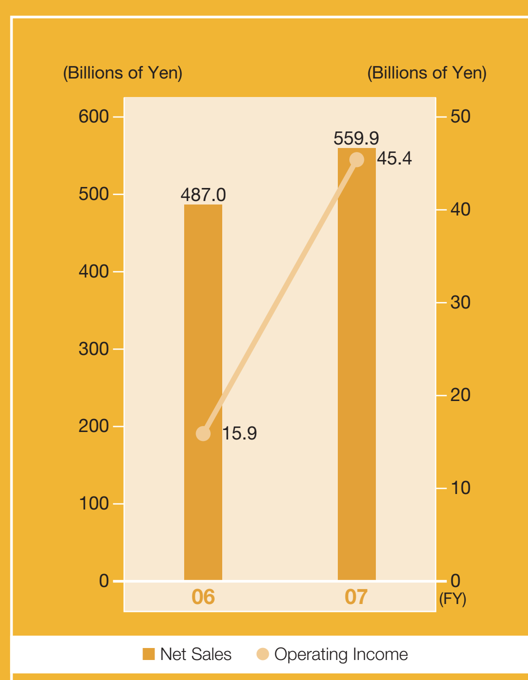
Mitsui Chemicals reached an agreement with Idemitsu Kosan and Sumitomo Chemical, which culminated in the resumption of benzene production at facilities owned by Idemitsu Kosan in October 2006. The reactivation of the site, which has an annual production capacity of 250,000 tons, will facilitate the stable procurement of benzene, a raw material used in phenol production. Of the benzene produced, Mitsui Chemicals will receive 125,000 tons of the material each year.

Petrochemicals Business Group

(Billions of yen)	Fiscal 2006	Fiscal 2007	Change	
Net Sales	487.0	559.9	72.9	15.0%
Operating Income	15.9	45.4	29.5	185.5%

Main Products

- Ethylene
- Propylene
- Polyethylene
- Polypropylene
- Licensing



The Year in Review

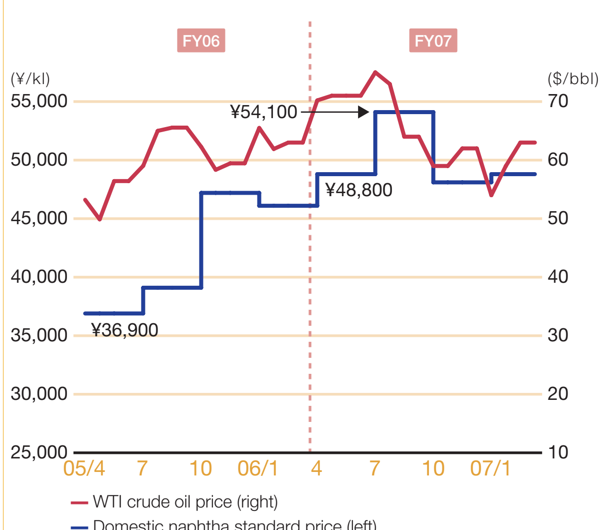
Production volumes of ethylene and propylene increased, as a result of increased demand in Japan and overseas, and fewer plant closings for scheduled maintenance turnaround than in the previous fiscal year.

Sales of polyethylene and polypropylene rose by 15% and 13%, respectively, from the previous fiscal year, as sales benefited from upward product price revisions in response to surging feedstock prices.

Prime Polymer Co., Ltd., a joint venture between Mitsui Chemicals and Idemitsu Kosan Co., Ltd. launched in April 2005, continued to realize synergies from the integration of parent companies' polyethylene and polypropylene operations.

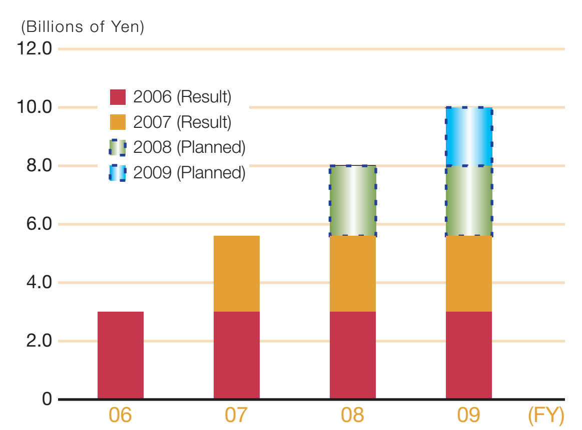
As a result of these factors, sales in this segment rose by ¥72.9 billion year on year to ¥559.9 billion, and operating income increased by ¥29.5 billion to ¥45.4 billion.

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

Prime Polymer's Synergy Effect



Highlights

Increased Capacity for Polypropylene (PP)–based Automotive Materials

In answer to global market growth, Mitsui Chemicals opted to raise production capacity for PP-based automotive materials produced in North America, Thailand and China by a total of 63,000 tons per year in 2006. A string of construction projects to this end were enacted through May 2007. As a result, the Mitsui Chemicals

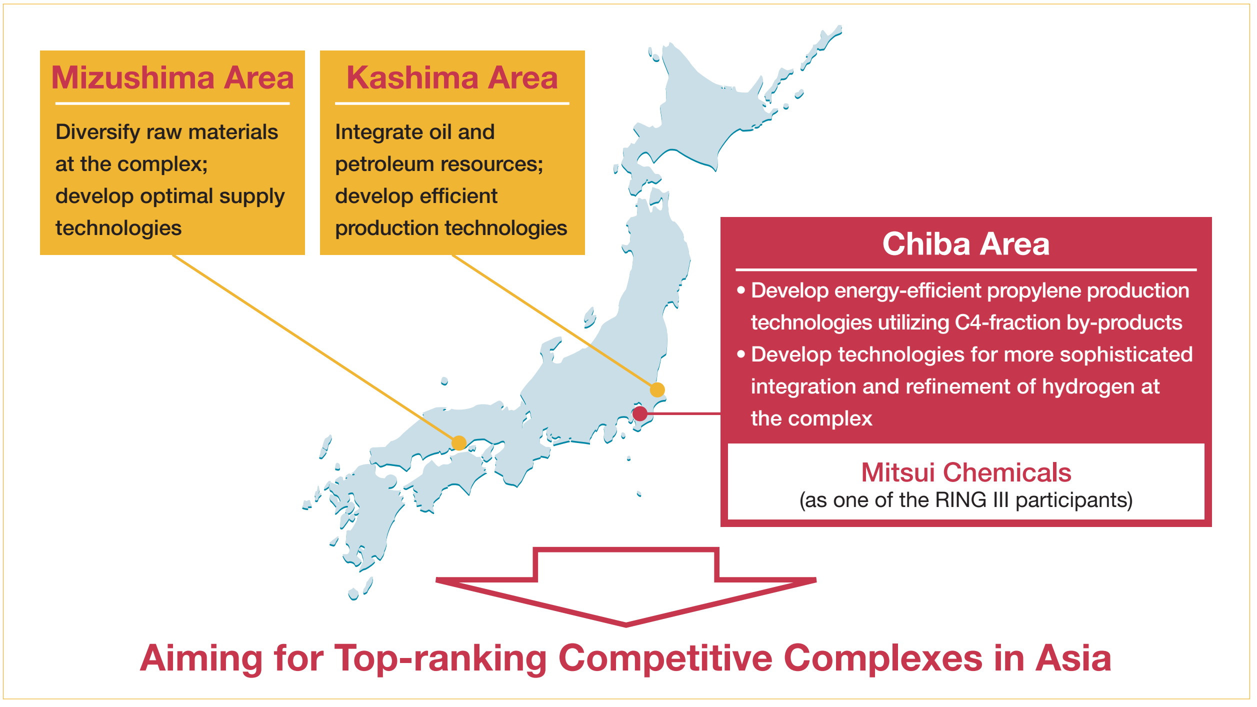
Group now has an annual production capacity worldwide for PP-based automotive materials of more than 600,000 tons, which has further enhanced the Group's world-class supply capacity.

Joint Development of High-efficiency Propylene Production System

In June 2006, Mitsui Chemicals, in partnership with Idemitsu Kosan and Sumitomo Chemical, embarked on the joint development of a high-efficiency propylene production system utilizing C4-fraction by-products, at a petroleum complex in Chiba, Japan.

Taken in response to intensifying global competition, this move is a part of RING-III (Research Association of Refinery Integration for Group-Operation), a business initiative that aims to integrate advanced capabilities for technology development at petroleum complexes in Japan. As such, this cooperative venture will strengthen ties among the three companies, and lead to further integration and other actions that will enhance the competitiveness of the complex. Plans currently call for installation of a propylene production facility at Ichihara Works, which will use the C4-fraction by-products and ethylene as raw materials, with an annual production capacity of 150,000 tons by mid-2009.

RING III (Research Association of Refinery Integration for Group Operation Project)



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 competitiveness 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.

Mitsui Chemicals' R&D Goal

Performance Materials Sector:
Accelerate the development of next-generation products and improve the company's core business products and expand its line-up, thus contributing to increased profitability.

Petrochemicals & Basic Chemicals Sector:
Strengthen the production technology of core businesses, thus contributing to increased profitability.

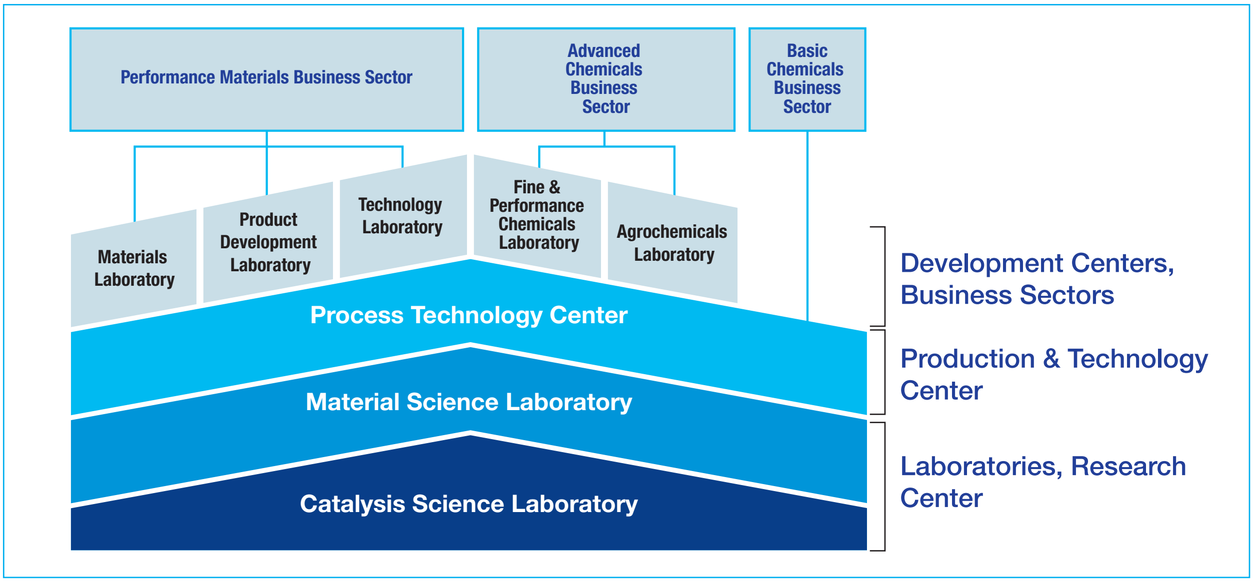
2. R&D ORGANIZATION

Mitsui Chemicals has reassessed its Grand Design, a basic framework of the Mitsui Chemicals Group management formed by its Corporate Vision, Business Plan, and Action Guidelines. Accordingly, in April 2007, the company reconstructed its R&D organization with the aim of being a "Chemistry, Innovation, Dreams" driven Mitsui Chemicals Group.

To this end, Mitsui Chemicals' R&D organization is composed of three sections under which R&D is conducted: the Development Centers in business sectors, the Research Laboratories in the Research Center, and the Process Technology Center within the Production & Technology Center.

The Development Centers, established under business sectors in order to accelerate new product development, are responsible for developing products aimed at maintaining, strengthening, and expanding the company's core businesses and conducting other related R&D in their respective sectors.

Mitsui Chemicals' R&D Organization



The Research Laboratories in the Research Center conduct company-wide R&D activities, including the development of basic technologies, the development of new materials, and the development of innovative processes to break new ground in chemistry.

Meanwhile, the Process Technology Center was established under the Production & Technology Center to develop process technologies for the industrial production of materials created by the Development Centers and Research Laboratories and strengthen common fundamental technologies.

Under this configuration, Mitsui Chemicals strives to create high-quality products that spark technological innovation through cross-organizational projects, thus boosting the organization's overall creative and strategic capabilities.

3. GLOBAL SCIENCE NETWORK: LINKING RESEARCHERS THROUGHOUT THE WORLD

Mitsui Chemicals strives to construct a solid science network by dispatching researchers to major universities around the world, hosting international symposia and other initiatives. The company also invites outside experts to objectively evaluate and offer advice regarding its R&D activities.

In addition to conducting joint research designed to create new business opportunities, the company presents R&D results at academic conferences and publishes in scientific journals. Moreover, Mitsui Chemicals hosts international symposia in 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 chemical industry.

Mitsui Chemicals International Symposium on Catalysis Science

Mitsui Chemicals Catalysis Science Award Ceremony

Moreover, in October 2006, Mitsui Chemicals established "Mitsui Chemicals Asia Pacific Technical Centre", the company's first overseas research center located in Singapore. Mitsui Chemicals and A*STAR, Agency for Science, Technology and Research of the Singapore Government have been jointly conducting research on catalysis and materials, in accordance with a joint research agreement concluded in 2004. It is expected to promote research activities between the parties.

In these ways, "Mitsui Chemicals Global Science Network" extends beyond national borders and strengthens communication between people of industry and academia. Through this network, the company aims to be a chemical corporate group "constantly pursuing innovation and materializing dreams with the wonder of chemistry" by accelerating the integration of knowledge.

Opening Ceremony for Mitsui Chemicals Asia Pacific Technical Centre

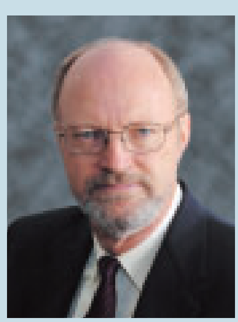
The Third Mitsui Chemicals International Symposium on Catalysis Science (MICS2007)

Dates: Held on March 14 (Wed.)~15 (Thurs.), 2007
Venue: Kazusa Akademia Hall (Kisarazu, Chiba Prefecture, Japan)
Participants: 1,600 (total for both days)
Theme: "Polymerization Catalysis *-Current Status and Future Prospects-*"

Catalysis is a key technology to create chemical products. Mitsui Chemicals has hosted "The Mitsui Chemicals International Symposium on Catalysis Science" every other year since 2003 in hope of development of catalysis science contributing to the "Dream-Inspiring Innovation" in the future.

This year's symposium, the third so far, featured lectures presented by eleven of the world's front-line experts in catalysis science, including three Nobel Prize laureates Prof. J.-M. Lehn, Prof. R. H. Grubbs, and Prof. R. R. Schrock, focusing on the current status and the future prospects of polymerization catalysis which creates new functional materials.

Prof. J.-M. Lehn
Louis Pasteur University, France
1987 Nobel Prize in Chemistry



Prof. R. H. Grubbs
California Institute of Technology, U.S.A.
2005 Nobel Prize in Chemistry

Prof. R. R. Schrock
Massachusetts Institute of Technology, U.S.A.
2005 Nobel Prize in Chemistry

Group Intellectual Property Strategy

1. MISSION AND GOAL

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

<Mission>
To build up and strengthen portfolios of IP rights that serve as key advantages in the Mitsui Chemicals Group's competitive strategies, to utilize the portfolios for contributing to
(1) enhanced business competitiveness,
(2) faster incubation of new business, and
(3) comply with pertinent laws related to intellectual property,
all in close cooperation among the business, R&D and IP divisions

<Goal>
To expand businesses in the performance materials sector by enhancing and upgrading IP in all relevant businesses and products, enabling Mitsui Chemicals to forge strong business foundations by
(1) securing licensing and prior user's rights, and
(2) expanding its portfolio of exclusive property rights.

2. ENHANCING TIES BETWEEN BUSINESS, R&D AND INTELLECTUAL PROPERTY DIVISIONS

To maintain the supremacy of the Group's businesses over competitors, the Mitsui Chemicals Group has started a new IP Strategy. This strategy aims to build, strengthen and utilize the Group's IP rights portfolio, and outlines measures for clearing obstacles to patenting those rights. The strategy rests on close ties between the Group's business, R&D and IP divisions based on key themes identified by the business divisions. Similarly, the ability of business divisions to freely develop businesses is preserved through collaboration and joint implementation between the three divisions on the development of new products.

Stronger support for IP-related activities is also extended to subsidiaries and affiliates important to Group strategies in an effort to improve Group capabilities with respect to IP.

3. MEASURES TO PROMOTE VALUABLE INVENTIONS

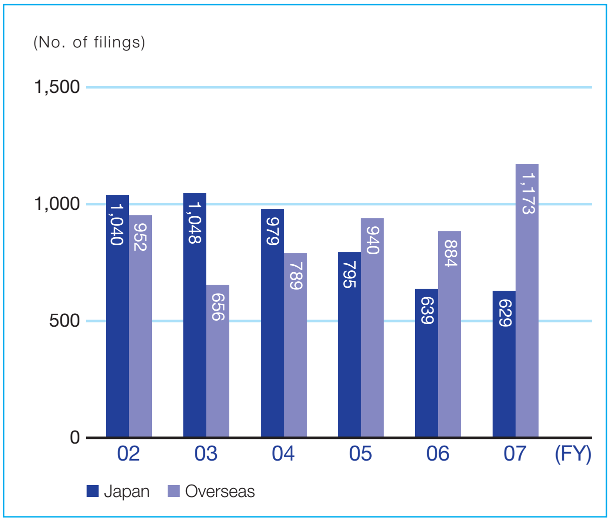
While focusing resources on carefully selected businesses and product development initiatives, Mitsui Chemicals conducts Patent Portfolio Management in accordance with the IP Strategy, which is closely linked to its Business Strategy and R&D Strategy. Through such management, in conjunction with a system introduced in fiscal 2005 for evaluating inventions, Mitsui Chemicals strives to acquire and maintain high-quality patents. In this way, the Group is eyeing development of an IP portfolio that will add options to its Business Strategy, including more robust licensing of rights, in the push to expand its presence in performance materials.

4. INITIATIVES FOR MANAGING STRATEGIC EXPERTISE

Prompted by guidelines pertaining to prior user's rights announced by the Japan Patent Office in June 2006, Mitsui Chemicals has formulated a strategy for managing critical expertise. This initiative was taken to ensure the Group's freedom to conduct business activities from an IP standpoint.

The aggressive push to utilize IP rights by many firms today has increased the potential to become embroiled in disputes over prior user's rights. Moreover, the discarding of documentation in line with ISO and other standards could make it difficult for supplying evidence of prior use. For these reasons, Mitsui Chemicals has drafted criteria for identifying, preserving and storing documents and products that can confirm its prior user's rights. Preservation work in this area is already under way.

Number of Patent and Utility Model Applications (non-consolidated)



Board of Directors (As of June 26, 2007)

Chairman	Hiroyuki Nakanishi	
President & CEO	Kenji Fujiyoshi	
Executive Vice President	Toshikazu Tanaka	[Assistant to the President: Corporate Planning Division, Group Management Promotion Division, Branch Offices, Mitsui Chemicals America, Inc., Mitsui Chemicals Europe GmbH, Mitsui Chemicals Asia Pacific, Ltd. and Mitsui Chemicals (Shanghai) Co., Ltd. CSR Committee] Representative in China
Senior Managing Directors	Akihiro Yamaguchi	[Research Center and Intellectual Property Division] Center Executive, Research Center
	Yoshiyuki Shinohara	[Production & Technology Center, SCM Division, Purchasing Division, Logistics Division and Information Technology Planning Division Responsible Care Committee] Center Executive, Production & Technology Center
	Keiichi Sano	[Basic Chemicals Business Sector] Business Sector President, Basic Chemicals Business Sector
	Hirokazu Kajiura	[Performance Materials Business Sector] Business Sector President, Performance Materials Business Sector
Managing Directors	Koichi Sano	[Internal Control Division, Management Accounting Division, Finance & Accounting Division and CSR & Corporate Communications Division (IR)] General Manager, Internal Control Division
	Kiichi Suzuki	[Advanced Chemicals Business Sector] Business Sector President, Advanced Chemicals Business Sector
	Hiroshi Tokumaru	[Executive Offices, CSR & Corporate Communications Division (except IR), Corporate Administration Division, Legal Division and Human Resources & Employee Relations Division Risk & Compliance Committee and Social Activities Committee]
Board Directors	Yukio Machida	Akemi Ori, Tetsuji Tanaka
Corporate Auditors	Ritsuo Yamamoto	Yasuo Takeshita, Isao Ijyuin, Hisao Muramoto, Hideharu Kadowaki

Executive Vice President
Toshikazu Tanaka

President and CEO
Kenji Fujiyoshi

Chairman
Hiroyuki Nakanishi

Financial Section

Contents

34 Selected Consolidated Financial and Operating Data
36 Management's Discussion and Analysis
46 Consolidated Balance Sheets
48 Consolidated Statements of Income
49 Consolidated Statements of Changes in Net Assets
50 Consolidated Statements of Cash Flows
51 Notes to Consolidated Financial Statements
68 Independent Auditors' Report

Selected Consolidated Financial and Operating Data

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

(Millions of yen except per share amounts)	2007	2006	2005
Net sales	¥1,688,062	¥1,472,435	¥1,227,547
Cost of sales	1,402,022	1,217,564	968,230
SG&A	194,362	196,166	178,826
Operating income	91,678	58,705	80,491
Other income (expenses)	(7,136)	14,220	(25,839)
Income before income taxes, minority interests and equity in earnings of non-consolidated subsidiaries and affiliates	–	–	–
Income before income taxes and minority interests	84,542	72,925	54,652
Income taxes	27,416	27,681	23,053
Income before minority interests and equity in earnings of non-consolidated subsidiaries and affiliates	–	–	–
Income before minority interests	57,126	45,244	31,599
Equity in earnings of non-consolidated subsidiaries and affiliates	–	–	–
Net income	52,297	44,125	26,192
Total current assets	733,150	608,995	497,287
Property, plant and equipment, net	542,340	532,324	520,886
Total investments and other non-current assets	222,693	187,571	187,012
Total assets	1,498,183	1,328,890	1,205,185
Total current liabilities	591,253	475,074	440,566
Total long-term liabilities	336,678	314,692	313,389
Total shareholders' equity	504,509*1	464,021	405,773
Depreciation and amortization	70,207	70,099	56,770
Capital expenditures	72,671	81,400	47,135
R&D expenses	36,943	37,146	34,881
Return on sales	3.10%	3.00%	2.13%
Return on equity	10.80%	10.15%	6.64%
Return (operating income) on assets	6.49%	4.63%	6.73%
Net income per share (basic)	¥ 66.68	¥ 56.20	¥ 33.26
Net income per share (diluted)	–	–	–
Cash dividends per share	¥ 10.00	¥ 8.00	¥ 7.00

*1 *Total shareholders' equity = Total net assets–Minority interests (as recorded on the balance sheet)*

Reported Basis							Restated Basis	
2004	2003	2002	2001	2000	1999	1998	1998	1997
¥1,089,518	¥1,053,182	¥ 952,680	¥ 939,782	¥ 884,246	¥ 855,942	¥ 681,234	¥ 927,688	¥ 899,896
861,965	823,523	730,059	720,524	659,327	632,036	532,414	721,409	690,208
173,611	173,201	180,239	164,746	169,180	165,680	110,497	157,010	163,501
53,942	56,458	42,382	54,512	55,739	58,226	38,323	49,269	46,187
(31,708)	(17,496)	(32,142)	(26,118)	(29,603)	(36,099)	(14,334)	(20,063)	(17,103)
–	–	–	–	–	–	–	–	29,084
22,234	38,962	10,240	28,394	26,136	22,127	23,989	29,206	–
7,923	13,465	1,830	10,523	8,182	12,674	11,290	14,963	14,879
–	–	–	–	–	–	–	–	14,205
14,311	25,497	8,410	17,871	17,954	9,453	12,699	14,243	–
–	–	–	–	–	–	–	–	779
12,466	20,320	7,651	17,068	16,042	7,739	11,702	13,010	14,185
440,517	445,239	486,642	563,245	544,837	548,668	616,871	616,871	598,660
548,799	580,830	583,949	552,759	530,827	513,268	530,860	530,860	479,906
199,150	199,125	227,272	198,509	161,515	146,232	150,505	150,505	179,256
1,188,466	1,225,194	1,297,863	1,314,513	1,237,179	1,208,168	1,298,236	1,298,236	1,257,822
440,869	451,613	525,532	532,586	528,643	482,912	612,583	612,583	616,726
325,342	359,638	365,708	388,159	346,242	378,274	349,972	349,972	312,223
383,365	370,738	366,988	352,988	345,690	329,685	318,532	318,532	319,565
56,101	56,850	56,609	51,755	52,634	51,081	38,422	52,802	52,695
45,722	68,753	117,564	61,524	54,435	52,058	46,428	60,060	45,117
32,894	37,114	39,012	36,543	38,141	39,295	28,036	40,451	37,275
1.14%	1.93%	0.80%	1.82%	1.81%	0.90%	1.72%	1.40%	1.58%
3.31%	5.51%	2.13%	4.89%	4.75%	2.39%	4.81%	4.08%	4.47%
4.47%	4.48%	3.24%	4.27%	4.56%	4.65%	4.27%	3.86%	3.66%
¥ 15.78	¥ 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	¥ 6.00	–	–

Management's Discussion and Analysis

Overview

In this fiscal year (2007), the year ended March 31, 2007, the Japanese chemical industry continued to face difficult operating conditions. Although shipment volume was solid, raw material prices remained at a high level throughout the fiscal year.

Under such conditions, the Mitsui Chemicals Group concentrated its effort 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 70 consolidated subsidiaries within the scope of consolidation, 2 more than the previous fiscal year, as a result of adding Yamamoto Chemicals, Inc. and 9 other companies due to acquisition as wholly owned subsidiaries and other reasons, and excluding P.T. Mitsui Eterindo Chemicals and 7 other companies due to the sales of shares and other reasons. The equity method is applied to 47 non-consolidated subsidiaries and affiliated companies, 16 less than the previous fiscal year.

Operating Results

Net Sales

Net sales increased ¥215,627 million (US$1,827 million), or 14.6%, compared to the previous fiscal year, to ¥1,688,062 million (US$14,300 million).

Growth in sales volume raised sales by approximately ¥71.6 billion (US$0.61 billion) and higher prices raised sales by approximately ¥144.1 billion (US$1.22 billion). These increases were primarily due to our efforts to reflect the rising prices of naphtha and other feedstock in the form of higher product prices, as well as increased sales volume.

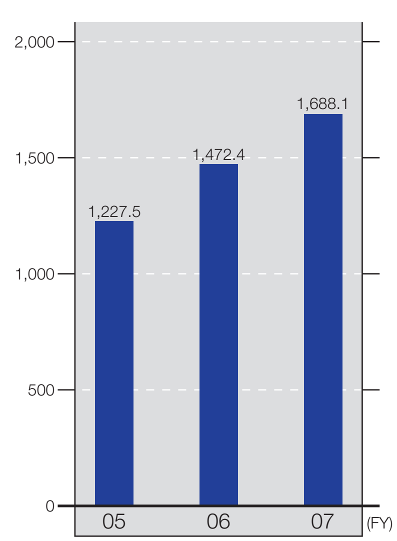
Operating Income

Operating income increased ¥32,973 million (US$279 million) or, 56.2%, to ¥91,678 million (US$777 million). High prices for naphtha and other feedstock pushed up the cost of sales, but this was offset by adjustments to the prices of finished products and the impact of higher sales volume.

Increased sales volume contributed roughly ¥16.8 billion (US$0.14 billion) to operating income growth, while price increases on finished products added ¥144.1 billion (US$1.22 billion) to profit. On the other hand, higher prices for raw materials and other variable costs had a ¥129.1 billion (US$1.09 billion) negative impact on operating income, though cuts in fixed costs added ¥1.2 billion (US$0.01 billion) to profit. Segment information follows on the next page.

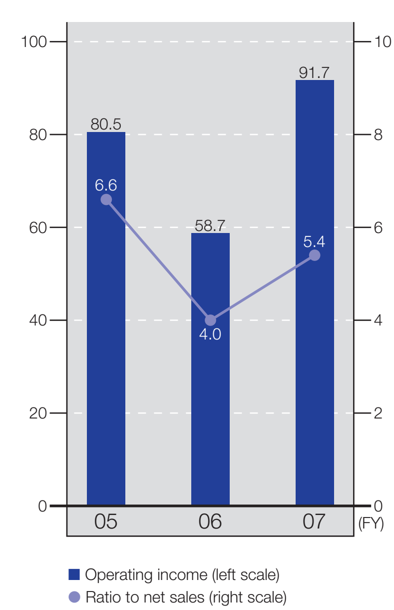
NET SALES

(Billions of yen)



OPERATING INCOME/RATIO TO NET SALES

(Billions of yen, %)



Segment Information

Business Segment

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

Net Sales

(Billions of yen)

	2007	2006	Change		
			Total	Volume contribution	Price contribution
Functional chemicals and engineered materials	**214.0**	192.7	21.3	21.6	(0.3)
Functional polymeric materials	**317.3**	281.7	35.6	11.7	23.9
Basic chemicals	**553.5**	474.3	79.2	25.1	54.1
Petrochemicals	**559.9**	487.0	72.9	6.7	66.2
Others	**43.4**	36.7	6.7	6.5	0.2
Eliminations	**–**	–	–	–	–
Total	**1,688.1**	1,472.4	215.7	71.6	144.1

Operating Income

(Billions of yen)

	2007	2006	Change				
			Total	Volume contribution	Price contribution	Variable cost differential	Fixed cost and other costs differential
Functional chemicals and engineered materials	**13.5**	10.8	2.7	5.2	(0.3)	(1.9)	(0.3)
Functional polymeric materials	**22.2**	10.1	12.1	0.9	23.9	(13.8)	1.1
Basic chemicals	**11.0**	21.8	(10.8)	4.4	54.1	(69.9)	0.6
Petrochemicals	**45.4**	15.9	29.5	6.1	66.2	(42.9)	0.1
Others	**2.1**	0.6	1.5	0.2	0.2	(0.6)	1.7
Eliminations or Corporate	**(2.5)**	(0.5)	(2.0)	–	–	–	(2.0)
Total	**91.7**	58.7	33.0	16.8	144.1	(129.1)	1.2

Functional Chemicals and Engineered Materials

(Millions of yen)

	2007	2006	Change (%)
Total sales	**¥213,955**	¥192,690	11.0
Operating income	**13,523**	10,799	25.2
Total assets	**265,064**	205,572	28.9
Depreciation and amortization	**12,914**	12,414	4.0
Capital expenditures	**18,707**	11,859	57.7

Sales of hygiene materials rose by 6% year on year, due to higher demand for nonwoven fabrics in East and Southeast Asia, particularly in Thailand and China.

In the construction materials business, demand for materials used in civil engineering projects held steady, but the transfer of the company’s waterproof materials business caused sales to decline by 14% year on year.

Sales of semiconductor materials increased 11%. Although revenues were affected by declining unit prices in the semiconductor market and the LCD market, aggressive efforts to boost sales of semiconductor gas were successful in elevating overall sales. In the display materials business, expansion in the market for plasma display panels produced a 29% year-on-year increase in sales, though earnings were greatly affected by the impact of rapidly falling unit prices.

In the healthcare business, which includes monomers for optical lenses and pharmaceutical intermediates, sales rose steadily, posting a 14% increase compared with the previous year.

Sales in the fine chemicals business, which includes polymerization retarders and adhesive raw materials for tires and wood products, increased by 11% year on year. Aggressive marketing efforts and price hikes aimed at offsetting the impact of higher raw materials prices contributed to sales growth, but this was not sufficient to fully offset the increase in cost.

In the agrochemicals business, rising sales of insecticides and other products contributed to 12% sales growth, year on year.

As a result, sales in the functional chemicals and engineered materials segment rose by ¥21,265 million (US$180 million) compared to the previous fiscal year, to ¥213,955 million (US$1,812 million), accounting for 13% of the total consolidated sales. Increased sales volume added ¥21.6 billion (US$0.18 billion) to sales, while unit price factors depressed sales by ¥0.3 billion (US$2.5 million).

Operating income in this segment rose by ¥2,724 million (US$23 million) compared to the previous fiscal year, to ¥13,523 million (US$115 million). Increased sales volume added about ¥5.2 billion (US$0.04 billion) to operating income, while sales prices had a negative impact of roughly ¥0.3 billion (US$2.5 million). Variable costs differential reduced profit by around ¥1.9 billion (US$0.02 billion), while fixed cost and other costs differential increases had a negative impact of ¥0.3 billion (US$0.003 billion).

Functional Polymeric Materials

(Millions of yen)

	2007	2006	Change (%)
Total sales	**¥317,258**	¥281,738	12.6
Operating income	**22,233**	10,066	120.9
Total assets	**327,878**	280,058	17.1
Depreciation and amortization	**18,318**	19,901	(8.0)
Capital expenditures	**24,032**	14,523	65.5

Sales of elastomers, including ethylene-propylene rubber and alpha-olefin copolymers, rose 13% year on year. Domestic demand, centering on auto parts, expanded and Mitsui Chemicals developed new markets by attracting new customers, particularly in Asia, and by developing new uses for pliable resins.

Sales of specialty polyolefins increased 8% due to the rising demand for use in optical applications and electronic materials.

Sales of engineering plastics declined by 3% year on year and sales volume was generally stagnant, despite rising sales of new items in China, particularly in the market for electronic components.

Coating resins recorded 5% sales growth, year on year, supported by firm sales of products used in data recording paper and mobile phone applications.

Sales of wax, petroleum resins and other additive materials were elevated by price increases to reflect the higher cost of raw materials, rising 21% year on year.

Sales of acrylamide, used in papermaking materials, rose 13% as product prices were raised to reflect surging prices for raw materials.

Sales of urethane raw materials increased 22% from the previous year. Although the overseas market for MDI was sluggish, market conditions for TDI improved, particularly in China and other parts of East and Southeast Asia, and prices of PPG products rose as well.

Sales of urethane resins were supported by strong demand both in Japan and overseas for urethane products used in building materials, cast molding and adhesives. As a result, sales rose 5% year on year.

As a result, total sales in the functional polymeric materials segment increased by ¥35,520 million (US$301 million) compared to the previous year, to ¥317,258 million (US$2,687 million), accounting for 19% of the total consolidated sales. Higher sales volume added roughly ¥11.7 billion (US$0.10 billion) to revenues, compared with the previous year, while unit price factors contributed around ¥23.9 billion (US$0.20 billion).

Operating income in this segment increased by ¥12,167 million (US$103 million) compared to the previous year, to ¥22,233 million (US$188 million). Sales volume factors added ¥0.9 billion (US$7.6 million) to operating income, while sales prices contributed ¥23.9 billion (US$0.20 billion) to profit growth. Variable costs differential had a negative impact of ¥13.8 billion (US$0.12 billion), but fixed cost and other costs differential added around ¥1.1 billion (US$9.3 million) to profit.

Basic Chemicals

(Millions of yen)

	2007	2006	Change (%)
Total sales	**¥553,471**	¥474,310	16.7
Operating income	**10,988**	21,862	(49.7)
Total assets	**326,966**	314,425	4.0
Depreciation and amortization	**16,781**	15,749	6.6
Capital expenditures	**8,343**	19,559	(57.3)

Sales of purified terephthalic acid (PTA) climbed 24% year on year. This reflected the unit price increases introduced to offset rising raw materials costs, and also an increase in volume due to the expansion of production capacity at Siam Mitsui PTA Co., Ltd., in Thailand.

In the market for polyethylene terephthalate (PET) resins, weak domestic demand for materials used in PET bottles and an increase in PET resin imports caused domestic sales volume to stagnate.

However, higher unit prices, reflecting the increase in raw materials costs, supported a 7% year-on-year increase in sales.

Sales of phenol increased by 37% year on year, due to unit price increases to reflect higher raw materials costs, as well as rising demand from Asia.

Sales of bisphenol A rose 3% year on year, supported by strong sales volume.

In the market for ethylene glycol, ethylene oxide and their derivatives, sales volume declined due to regularly scheduled maintenance work carried out at production facilities. However, higher unit prices generated a 3% increase in sales value, compared with the previous year.

All of the products in this segment were affected by the rising prices of raw materials, which greatly increased costs. Sales growth was unable to fully offset this impact.

As a result, total sales in the basic chemicals segment rose by ¥79,161 million (US$671 million) from the previous year, to ¥553,471 million (US$4,688 million), accounting for 33% of the total consolidated sales. Sales volume factors added roughly ¥25.1 billion (US$0.21 billion) to revenues, whereas unit price factors contributed around ¥54.1 billion (US$0.46 billion) to sales growth.

Operating income, meanwhile, declined by ¥10,874 million (US$92 million) year on year, to ¥10,988 million (US$93 million). Sales volume added roughly ¥4.4 billion (US$0.04 billion) to profits, and sales prices increased, bolstering profits by ¥54.1 billion (US$0.46 billion). However, variable cost differential depressed operating income by around ¥69.9 billion (US$0.59 billion). Fixed cost and other costs differential had a ¥0.6 billion (US$5.1 million) positive impact on profit.

Petrochemicals

(Millions of yen)

	2007	2006	Change (%)
Total sales	**¥559,927**	¥487,039	15.0
Operating income	**45,336**	15,867	185.7
Total assets	**438,063**	395,383	10.8
Depreciation and amortization	**18,838**	20,970	(10.2)
Capital expenditures	**14,132**	34,303	(58.8)

Demand for ethylene and propylene increased both in Japan and overseas, and the impact of regularly scheduled maintenance work on production facilities was less than in the previous year. As a result, production volume of ethylene increased by 7% year on year and propylene production rose by 8%.

Selling prices of polyethylene and polypropylene were adjusted in order to reflect the higher cost of raw materials. This contributed to a 15% increase in polyethylene sales and a 13% rise in sales of polypropylene, compared with the previous year.

As a result, total sales in the petrochemicals segment increased by ¥72,888 million (US$617 million), to ¥559,927 million (US$4,743 million), accounting for 33% of the consolidated sales total. Sales volume factors added around ¥6.7 billion (US$0.06 billion) to revenues, while unit price factors boosted sales by roughly ¥66.2 billion (US$0.56 billion).

Operating income from this segment increased by ¥29,469 million (US$250 million) year on year, to ¥45,336 million (US$384 million). Sales volume contributed roughly ¥6.1 billion (US$0.05 billion) to profit growth while sales prices elevated profit by ¥66.2 billion (US$0.56 billion). Variable costs differential had a negative impact of around ¥42.9 billion (US$0.36 billion) but fixed cost and other cost differential added around ¥0.1 billion (US$0.8 million) to operating income.

Others

(Millions of yen)

	2007	2006	Change (%)
Total sales	**¥43,451**	¥36,658	18.5
Operating income	**2,082**	586	255.3
Total assets	**62,485**	60,026	4.1
Depreciation and amortization	**2,572**	1,238	107.8
Capital expenditures	**2,703**	1,107	144.2

Outside sales associated with plant construction and maintenance declined by 19% year on year. This reflects the efforts to restructure the outside sales system and concentrate resources on business development within the Group.

Warehousing and logistics services benefited from strong trends in cargo handling volume, and outside sales increased by 29% year on year.

As a result, sales from this segment, including other businesses, increased by ¥6,793 million (US$58 million) year on year, to ¥43,451 million (US$368 million), accounting for 2% of total consolidated sales. Sales volume factors contributed roughly ¥6.5 billion (US$0.06 billion) to sales growth, while unit price factors elevated revenues by ¥0.2 billion (US$1.7 million) year on year.

Operating income for the others segment increased by ¥1,496 million (US$13 million) year on year, to ¥2,082 million (US$18 million). Sales volume contributed about ¥0.2 billion (US$1.7 million) and sales prices added ¥0.2 billion (US$1.7 million) to profit growth. Variable cost differential had a negative impact of around ¥0.6 billion (US$5.1 million) but fixed cost and other costs differential contributed around ¥1.7 billion (US$0.01 billion) to profit growth.

Geographical Distribution

Japan

The Group implemented price revisions to offset the impact of rising prices for naphtha and other feedstock. This, coupled with rising sales volume and other factors, supported an increase in both sales and operating income compared with the previous year.

Sales in Japan increased by ¥179,851 million (US$1,524 million) year on year, to ¥1,412,809 million (US$11,968 million), accounting for 84% of total consolidated sales. Operating income increased by ¥42,498 million (US$360 million), to ¥84,781 million (US$718 million).

Asia

Expanded production capacity of Siam Mitsui PTA Co., Ltd, a subsidiary involved in the manufacture and sale of PTA in Thailand, allowed the Group to increase sales volume, and as a result, sales of these products increased year on year. However, both this company and Mitsui Phenols Singapore Pte. Ltd., a subsidiary involved in the manufacture and sale of phenol and bisphenol A, were adversely affected by rising prices for raw materials and deteriorating terms of trade, causing operating income to decline year on year.

Another factor that contributed to sales growth was the full consolidation, in January 2006, of Tianjin Cosmo Polyurethane Co., Ltd., a China-based company that manufactures and sells Polyurethane and related products.

Sales in Asia increased by ¥20,798 million (US$176 million) year on year, to ¥178,414 million (US$1,511 million), accounting for 10% of the total net sales. Operating income, on the other hand, declined by ¥11,614 million (US$98 million) year on year, to ¥3,963 million (US$34 million).

Others

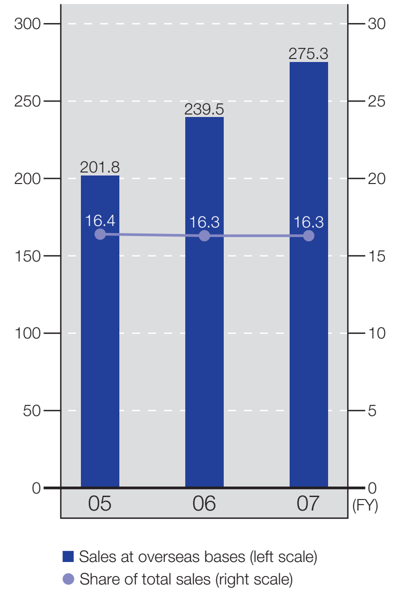
In the U.S. a subsidiary involved in the production and sale of resin compounds for automotive uses introduced price increases in order to reflect the higher price of raw materials. Both this subsidiary, and another subsidiary involved in the production and sale of semiconductor gas and other products, recorded increased sales volume. As a result, total sales in this segment increased by ¥14,978 million (US$127 million) year on year, to ¥96,839 million (US$820 million), accounting for 6% of the total net sales. Operating income increased by ¥1,966 million (US$17 million), to ¥2,749 million (US$23 million).

Overseas Sales

Overseas sales during the period increased by ¥134,043 million (US$1,135 million) year on year, to ¥657,305 million (US$5,568 million), accounting for 38.9% of total consolidated sales, an increase of 3.4 percentage points compared with the previous year. Breaking down the overseas sales contributions by region, and their share of the sales total, Asia accounted for ¥509,454

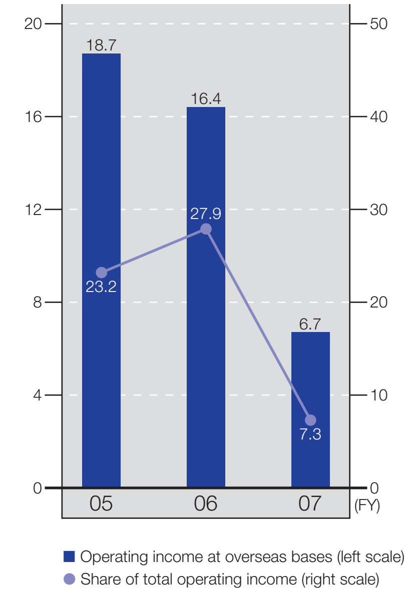
SALES AT OVERSEAS BASES SHARE OF TOTAL SALES

(Billions of yen, %)



OPERATING INCOME AT OVERSEAS BASES SHARE OF TOTAL OPERATING INCOME

(Billions of yen, %)



million (US$4,316 million), 30.2% of total sales, North and South America contributed ¥81,645 million (US$692 million), 4.8% of total sales, Europe accounted for ¥52,960 million (US$449 million), 3.1% and other regions recorded ¥13,246 million (US$112 million) in sales, 0.8% of total sales.

Comparing these figures with the previous year, growth was particularly strong in Asia, where sales rose ¥95,252 million (US$807 million) year on year. This increase was a major contributor to overseas sales for the year.

Other Income (Expenses)

Other income (expenses) deteriorated by ¥21,356 million (US$181 million) year on year, to a net expense of ¥7,136 million (US$60 million). The main items affecting other income and expenses were as follows:

Interest expense amounted to ¥8,096 million (US$69 million), reflecting an increase in interest-bearing liabilities.

Equity in earnings of non-consolidated subsidiaries and affiliates amounted to ¥5,979 million (US$51 million).

The Group posted ¥5,979 million (US$51 million) as a loss on sales and disposal of property, plant and equipment.

In addition, The Group posted a ¥3,102 million (US$26 million) gain on change in interests in consolidated subsidiaries due to the establishment of MT AquaPolymer, Inc., and other factors, and ¥5,597 million (US$47 million) in loss on restructuring of subsidiaries and affiliates, and loss on sales of investment securities.

As a result, income before income taxes and minority interests increased by ¥11,617 million (US$98 million) year on year, to ¥84,542 million (US$716 million).

Net Income

Net income after deduction of income taxes and minority interests increased ¥8,172 million (US$69 million), or 18.5% year on year, to ¥52,297 million (US$443 million). Net income per share increased ¥10.48 (US$0.09), to ¥66.68 (US$0.56) per share.

Summarizing the results, net sales increased by 14.6% year on year, from ¥1,472,435 million (US$12,473 million) to ¥1,688,062 million (US$14,300 million), while net income rose 18.5% year on year, from ¥44,125 million (US$374 million) to ¥52,297 million (US$443 million), and thus, the return (net income) on sales improved from 3.00% to 3.10%.

Financial Position

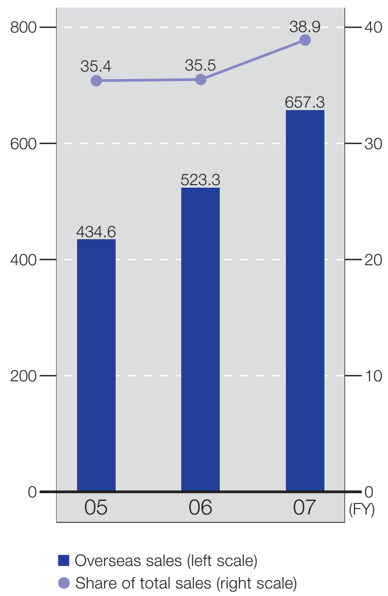
Overview

While total assets increased, operating income increased, causing the return (operating income) on assets to improve substantially from 4.63% to 6.49%.

An increase in the balance of interest-bearing liabilities raised the debt-equity ratio at the end of fiscal 2007 to 0.99. The Medium-term Business Plan has set a target for the debt-to-equity ratio of 1.0, for fiscal 2008, the year ending March 31, 2008.

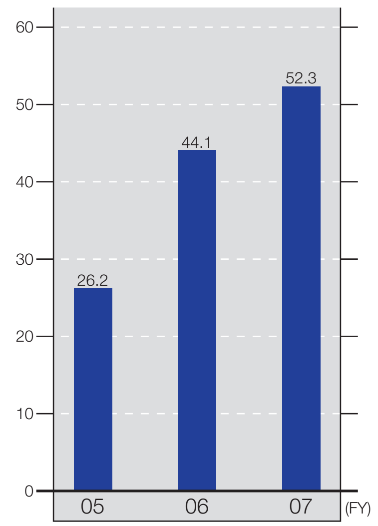
OVERSEAS SALES
SHARE OF TOTAL SALES

(Billions of yen, %)



NET INCOME

(Billions of yen)



Assets

Total assets at the end of the period increased by ¥169,293 million (US$1,434 million) year on year, to ¥1,498,183 million (US$12,691 million). Although the company continued its ongoing effort to reduce total assets, sales growth produced an increase in accounts receivable, whereas a rise in the market prices of feedstock pushed up the value of inventory assets. In addition, Mitsui Chemicals purchased shares in Sankyo Agro Co., Ltd. from Sankyo Co., Ltd. (currently Daiichi Sankyo Co., Ltd.) in order to make the company a wholly owned subsidiary, and it acquired shares in Mitsui Chemicals Polyurethane, Inc. from Takeda Pharmaceutical Co., Ltd., for the same reason.

Liabilities

Liabilities increased by ¥138,165 million (US$1,170 million), to ¥927,931 million (US$7,860 million) at the end of fiscal 2007. Of this total, interest-bearing liabilities increased by ¥74,385 million (US$630 million), to ¥498,323 million (US$4,221 million) at the end of the period. This caused the interest-bearing liabilities ratio to rise by 1.4 percentage points year on year, to 33.3%.

Minority Interests

Minority interests stood at ¥65,743 million (US$557 million) at the end of the period, a decline of ¥9,360 million (US$79 million) year on year.

Total Shareholders' Equity*

Total shareholders' equity increased by ¥40,488 million (US$343 million) compared with the end of the previous year, to ¥504,509 million (US$4,274 million.)

Retained earnings rose by ¥42,512 million (US$360 million) year on year, to ¥311,703 million (US$2,640 million), with net income for the period adding ¥8,172 million (US$69 million) to the balance and dividends paid reducing the total by ¥6,299 million (US$53 million).

Net unrealized holding gain on securities was elevated by rising prices for listed securities, increasing by ¥5,274 million (US$45 million) year on year, to ¥34,290 million (US$290 million.)

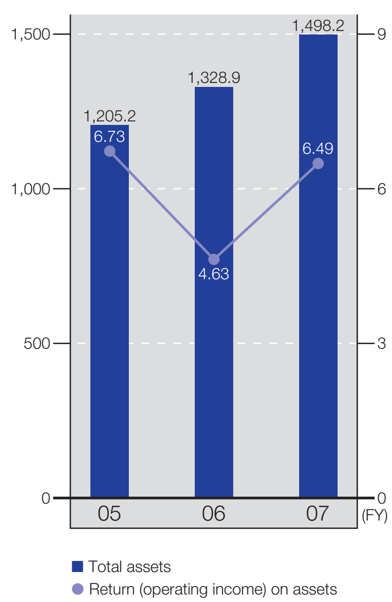
Mitsui Chemicals acquired treasury stock during the period in order to respond to changing business conditions and allow the company to adopt a more flexible capital procurement strategy. The balance of treasury stock increased by ¥14,687 million (US$124 million) year on year, to ¥18,280 million (US$155 million). The increase in treasury stock was matched by a corresponding decline in shareholders' equity.

As a result of these changes, the equity ratio improved by 1.2 percentage points compared with the end of the previous year, to 34.9% at the end of fiscal 2007.

* Total shareholders' equity=Total net assets−Minority interests

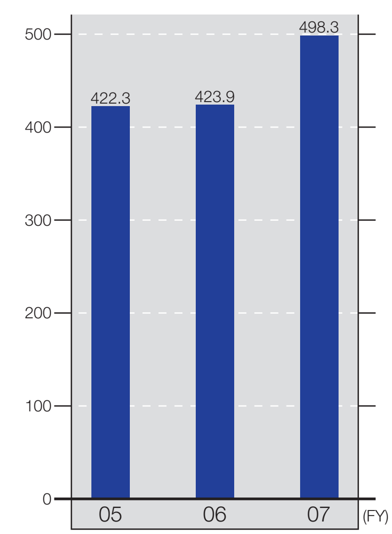
TOTAL ASSETS
RETURN (OPERATING INCOME) ON ASSETS

(Billions of yen, %)



INTEREST-BEARING LIABILITIES

(Billions of yen)



Capital Resources and Liquidity

Cash Flows

The balance of cash and cash equivalents (hereafter, "cash") as of March 31, 2007 stood at ¥40,443 million (US$343 million), an increase of ¥9,222 million (US$78 million) compared with the end of the previous year.

Cash Flows from Operating Activities

Net cash provided by operating activities was ¥100,565 million (US$852 million), an increase of ¥20,856 million (US$177 million) year on year. The main factors contributing to this increase were an increase in net income before income taxes and a decline in corporate income taxes paid, offsetting growth in accounts receivable and the balance of inventory assets.

As a result, the debt repayment multiple declined from 5.3 in the previous year to 5.0, while an increase in interest payments reduced the interest coverage ratio from 13.4 times in the previous year to 12.8 times in fiscal 2007.

Cash Flows from Investing Activities

Net cash used in investing activities was ¥133,618 million (US$1,132 million), ¥75,371 million (US$638 million) more than in the previous year. This reflected the acquisition of shares in Sankyo Agro Co., Ltd., and Mitsui Chemicals Polyurethane, Inc., among other items.

Cash Flows from Financing Activities

Net cash provided by financing activities was ¥41,168 million (US$349 million), an improvement of ¥60,758 million (US$515 million) from the previous year. This reflected an increase in capital procurement activities, compared with the previous year.

Cash Flow-related Performance Indicators

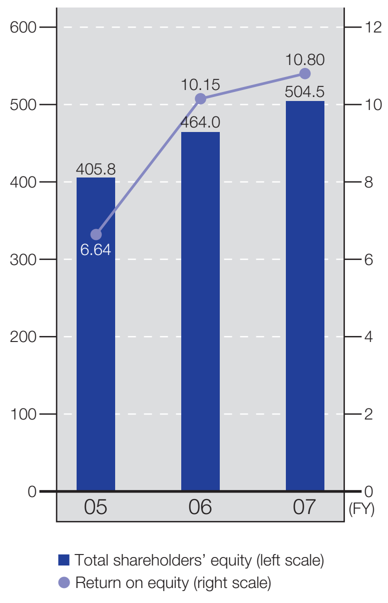
	2007	2006	2005	2004	2003
Equity ratio (%)	**33.7**	34.9	33.7	32.3	30.3
Market cap equity ratio (%)	**53.0**	51.0	39.0	42.3	29.8
Debt repayment multiple	**5.0**	5.3	4.4	5.9	3.7
Interest coverage ratio (times)	**12.8**	13.4	14.7	10.8	15.7

Notes: Equity ratio=shareholders' equity/total assets
Market cap equity ratio=market capitalization/total assets
Debt repayment multiple=interest-bearing liabilities/operating cash flow
Interest coverage ratio=operating cash flow/interest expense

- *All figures are based on consolidated financial results.*
- *Market capitalization is calculated by multiplying the closing share price on the last day of the fiscal year by the total number of shares outstanding at the year-end (excluding treasury stock).*
- *Figures for operating cash flow are taken from the consolidated cash flows statement, interest-bearing liabilities data is the sum of all liabilities which incur interest expenses, as shown on the consolidated balance sheet, and interest expense figures are taken from the consolidated cash flow statement.*

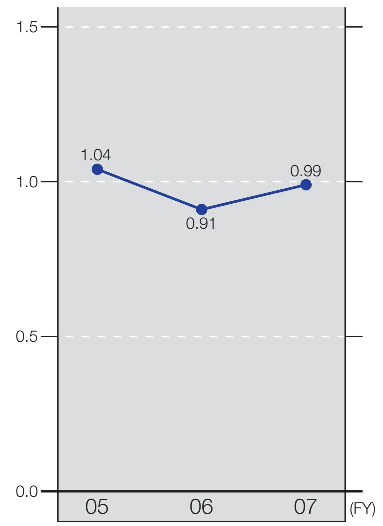
TOTAL SHAREHOLDERS' EQUITY
RETURN ON EQUITY

(Billions of yen, %)



DEBT-TO-EQUITY RATIO

(times)



Fund Procurement

The basic policy on fund procurement activities is as follows:

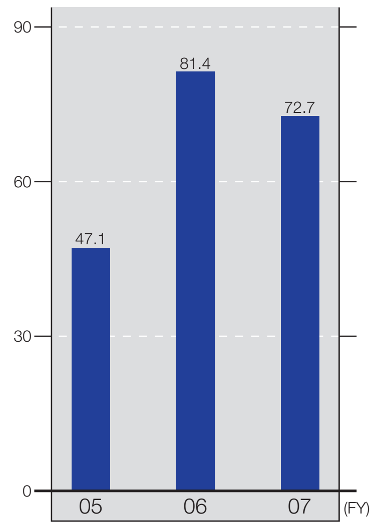
1) Maintain a high credit rating so that low-cost funds can be procured, mainly through bonds, loans and commercial paper, whenever necessary.
2) A certain level of indirect financing will be used to preserve the stability of fund procurement activities.
3) Securitization and other schemes will be used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

Mitsui Chemicals and its consolidated subsidiaries made total capital expenditures during fiscal 2007 in the amount of ¥72,671 million (US$616 million). This amount also includes expenditures on intangible fixed assets and long-term prepaid expenses. Below is a breakdown of expenditures for each business segment.

Functional Chemicals and Engineered Materials

Mitsui Chemicals carried out construction work on test-stage equipment for highly functional film. In addition, Mitsui Hygiene Materials Thailand Co., Ltd. carried out construction work on a production facility for hygiene materials. The total cost of these and other capital expenditures conducted by this segment amounted to ¥18,707 million (US$158 million).

Functional Polymeric Materials

Mitsui Chemicals carried out construction work on a production facility for ethylene propylene rubber. The total cost of this and other capital expenditures made by this segment was ¥24,032 million (US$204 million).

Basic Chemicals

Mitsui Phenols Singapore Pte. Ltd. expanded production capacity at its phenol production facility. The total cost of this and other capital expenditures made by this segment was ¥8,343 million (US$71 million).

Petrochemicals

The total cost of capital expenditures made by this segment was ¥14,132 million (US$120 million).

Others and Eliminations

The total cost of capital expenditures was ¥7,457 million (US$63 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 ¥36,943 million (US$313 million). Mitsui Chemicals employed approximately 900 researchers.

Corporate Research and Development

Mitsui Chemicals took the lead in cultivating and improving basic technologies that can be applied to the research and development of a new generation of catalysts for use in the production of functional polymers and basic chemicals, new polyolefin resins, and next-generation high-performance materials, as well as applied research and development of next-generation high-performance materials. Total corporate research and development expenditures in fiscal 2007 amounted to ¥5,156 million (US$44 million).

Strategic Research and Development

In order to expand and develop functional materials operations, Mitsui Chemicals took the lead in a new functional polymer development promotion project, setting up a multi-purpose semi-commercial plant and developing highly-functional elastomers for use in automobiles and electronic materials, and next-generation highly functional films. Total strategic research and development expenditures amounted to ¥1,408 million (US$12 million).

Functional Chemicals & Engineered Materials

R&D efforts in this segment are conducted mainly by Mitsui Chemicals. The efforts focus on developing new electronic materials, information materials, agrochemicals, fine chemicals and fabricated resin products. During fiscal 2007, research activities emphasized display materials, semiconductor materials and fabricated resin products. The company succeeded in developing and launching organic electroluminescent dyes, high-performance binders for printer toner, and various compounds based on *Starkle* brand insecticide. The total cost of these and other research and development activities amounted to ¥10,924 million (US$93 million).

Functional Polymeric Materials

Mitsui Chemicals and Mitsui Chemicals Polyurethane, Inc. took the lead in researching and developing elastomers, functional polymers, industrial resins and urethane resins. During fiscal 2007, research activities emphasized new elastomers and functional polymers. The company succeeded in developing and launching transparent elastomers used in tubes and other products, coating materials for electric wiring, new types of elastomers used to adjust the quality of various types of film, resin additives for inkjet printer ink, a type of wax used in molding enhancing agent, and sealant materials used for manufacturing LCDs via the one-drop fill method. The total cost of these and other research and development activities was ¥10,506 million (US$89 million).

Basic Chemicals

R&D efforts in this segment are mainly conducted by Mitsui Chemicals, and focused on developing and improving products in core businesses, such as PTA, bisphenol A and PET resins. The total cost of research and development activities was ¥1,085 million (US$9 million).

Petrochemicals

R&D efforts in this segment are mainly conducted by Mitsui Chemicals and Prime Polymer Co., Ltd., and focus on efforts to improve the competitiveness of polyolefin resins, and cultivate markets for new products. The total cost of research and development activities was ¥6,990 million (US$59 million).

Others

R&D efforts in this segment are mainly conducted by Mitsui Chemicals, and focused on developing plant-derived polylactic acid resins and next-generation functional resins. The total cost of research and development activities conducted by the others segment was ¥874 million (US$7 million).

Consolidated Balance Sheets

MITSUI CHEMICALS, INC. AND CONSOLIDATED SUBSIDIARIES
March 31, 2007, 2006 and 2005

	Millions of yen			Thousands of U.S. dollars (Note 3)
ASSETS	2007	2006	2005	2007
Current assets:				
Cash and cash equivalents (Note 4)	¥ 40,443	¥ 31,221	¥ 28,068	$ 342,592
Short-term investments	2,467	133	150	20,898
Receivables:				
Trade notes and accounts	346,659	290,914	225,416	2,936,544
Other	57,062	47,375	37,741	483,371
Inventories (Note 5)	257,069	219,705	184,367	2,177,628
Deferred tax assets – current (Note 10)	19,283	13,804	17,178	163,346
Other current assets	10,669	6,347	4,827	90,377
Allowance for doubtful accounts	(502)	(504)	(460)	(4,252)
Total current assets	733,150	608,995	497,287	6,210,504
Property, plant and equipment (Notes 7 and 9):				
Land	173,106	168,556	172,138	1,466,379
Buildings and structures	296,416	288,406	272,052	2,511,749
Machinery and equipment	1,059,529	1,043,050	899,509	8,977,044
Construction in progress	22,651	13,828	19,186	191,876
	1,551,702	1,513,840	1,362,885	13,147,048
Accumulated depreciation	(1,009,362)	(981,516)	(841,999)	(8,552,893)
Property, plant and equipment, net	542,340	532,324	520,886	4,594,155
Investments and other non-current assets:				
Investment securities (Notes 6 and 7)				
Non-consolidated subsidiaries and affiliates	55,578	57,872	57,274	470,801
Other	114,901	89,372	65,610	973,325
Long-term receivables	6,463	5,995	7,382	54,748
Deferred tax assets – non-current (Note 10)	7,389	5,454	28,957	62,592
Other non-current assets (Note 7)	40,253	30,805	31,335	340,983
Allowance for doubtful accounts	(1,891)	(1,927)	(3,546)	(16,019)
Total investments and other non-current assets	222,693	187,571	187,012	1,886,430
Total assets	¥ 1,498,183	¥1,328,890	¥1,205,185	$12,691,089

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

LIABILITIES AND NET ASSETS	Millions of yen 2007	2006	2005	Thousands of U.S. dollars (Note 3) 2007
Current liabilities:				
Short-term bank loans (Note 7)	¥ 133,690	¥ 125,817	¥ 123,347	$ 1,132,486
Current portion of long-term debt (Note 7)	42,213	44,456	34,569	357,586
Commercial paper (Note 7)	51,000	1,200	21,000	432,020
Payables:				
Trade notes and accounts	242,866	211,277	152,108	2,057,315
Other	56,379	53,805	51,598	477,586
Employees' savings deposits	1,261	627	686	10,682
Accrued expenses	23,701	24,434	24,386	200,771
Accrual for directors' bonuses	160	–	–	1,355
Reserve for periodic repairs	11,601	4,901	7,536	98,272
Accrued income taxes (Note 10)	25,101	5,383	22,178	212,630
Other current liabilities	3,281	3,174	3,158	27,793
Total current liabilities	591,253	475,074	440,566	5,008,496
Long-term liabilities:				
Long-term debt due after one year (Note 7)	271,420	252,465	243,426	2,299,195
Accrued employees' retirement benefits (Note 8)	50,353	47,230	59,299	426,540
Accrued directors' and corporate auditors' retirement benefits	1,288	1,233	2,178	10,911
Reserve for periodic repairs	2,290	3,608	1,067	19,398
Other non-current liabilities	11,327	10,156	7,419	95,951
Total long-term liabilities	336,678	314,692	313,389	2,851,995
Contingent liabilities (Note 12)				
Net assets:				
Shareholders' equity (Note 11):				
Common stock:				
Authorized – 3,000,000,000 shares				
Issued – 792,020,076 shares in 2007, 789,156,353 shares in 2006 and 2005	103,226	103,226	103,226	874,426
Capital surplus	69,257	66,945	66,913	586,675
Retained earnings	311,703	269,191	231,497	2,640,432
Treasury stock, at cost:				
20,407,827 shares in 2007, 6,073,702 shares in 2006 and 5,444,879 shares in 2005	(18,280)	(3,593)	(3,086)	(154,849)
	465,906	435,769	398,550	3,946,684
Valuation and translation adjustments:				
Net unrealized holding gain on securities	34,290	29,016	16,572	290,470
Net unrealized holding gain on hedging derivatives	21	–	–	178
Foreign currency translation adjustments	4,292	(764)	(9,349)	36,358
	38,603	28,252	7,223	327,006
Minority interests	65,743	75,103	45,457	556,908
Total net assets	570,252	539,124	451,230	4,830,598
Total liabilities and net assets	¥1,498,183	¥1,328,890	¥1,205,185	$12,691,089

Consolidated Statements of Income

MITSUI CHEMICALS, INC. AND CONSOLIDATED SUBSIDIARIES
For the years ended March 31, 2007, 2006 and 2005

	Millions of yen			Thousands of U.S. dollars (Note 3)
	2007	2006	2005	2007
Net sales	¥1,688,062	¥1,472,435	¥1,227,547	$14,299,551
Cost of sales (Notes 8 and 14)	1,402,022	1,217,564	968,230	11,876,510
Gross profit	286,040	254,871	259,317	2,423,041
Selling, general and administrative expenses (Notes 8 and 14)	194,362	196,166	178,826	1,646,438
Operating income	91,678	58,705	80,491	776,603
Other income (expenses):				
Interest expense	(8,096)	(6,035)	(6,353)	(68,581)
Interest and dividend income	2,721	1,872	1,405	23,050
Equity in earnings of non-consolidated subsidiaries and affiliates	5,979	8,101	6,887	50,648
Gain on sales of investment securities (Note 6)	1,938	378	4,916	16,417
Loss on sales and disposal of property, plant and equipment	(5,979)	(7,851)	(6,833)	(50,648)
Loss on impairment of fixed assets (Note 9)	(1,347)	(1,519)	(17,689)	(11,410)
Loss on restructuring of subsidiaries and affiliates	(1,997)	(597)	(5,525)	(16,917)
Net retirement benefits obligation at transition (Note 8)	–	–	(6,119)	–
Gain on securities contributed to employees' retirement benefit trust (Note 8)	–	10,280	–	–
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	3,102	9,366	77	26,277
Other, net	(3,457)	225	(8,393)	(29,285)
	(7,136)	14,220	(25,839)	(60,449)
Income before income taxes and minority interests	84,542	72,925	54,652	716,154
Income taxes (Note 10):				
Current	28,875	8,026	25,344	244,600
Deferred	(1,459)	19,655	(2,291)	(12,359)
	27,416	27,681	23,053	232,241
Income before minority interests	57,126	45,244	31,599	483,913
Minority interests in earnings of consolidated subsidiaries	(4,829)	(1,119)	(5,407)	(40,906)
Net income	¥ 52,297	¥ 44,125	¥ 26,192	$ 443,007

	Yen			U.S. dollars (Note 3)
Amounts per share of common stock:				
Net income	¥66.68	¥56.20	¥33.26	$0.565
Cash dividends applicable to the year	10.00	8.00	7.00	0.085

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

Consolidated Statements of Changes in Net Assets

MITSUI CHEMICALS, INC. AND CONSOLIDATED SUBSIDIARIES
For the years ended March 31, 2007, 2006 and 2005

	Number of shares of common stock (Thousands)	Millions of yen								
		Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Net unrealized holding gain on securities	Net unrealized holding gain on hedging derivatives	Foreign currency translation adjustments	Minority interests	Total net assets
Balance at March 31, 2004	789,156	¥103,226	¥66,912	¥210,109	¥ (2,428)	¥13,969	–	¥(8,423)	¥38,890	¥422,255
Gain on sales of treasury stock	–	–	1	–	–	–	–	–	–	1
Net income	–	–	–	26,192	–	–	–	–	–	26,192
Decrease resulting from decrease in a consolidated subsidiary	–	–	–	(1)	–	–	–	–	–	(1)
Decrease resulting from decrease in non-consolidated subsidiaries and affiliates accounted for by the equity method	–	–	–	(17)	–	–	–	–	–	(17)
Bonuses to directors and corporate auditors	–	–	–	(70)	–	–	–	–	–	(70)
Cash dividends paid	–	–	–	(4,716)	–	–	–	–	–	(4,716)
Net unrealized holding gain on securities	–	–	–	–	–	2,603	–	–	–	2,603
Foreign currency translation adjustments	–	–	–	–	–	–	–	(926)	–	(926)
Net increase in treasury stock	–	–	–	–	(658)	–	–	–	–	(658)
Other changes	–	–	–	–	–	–	–	–	6,567	6,567
Balance at March 31, 2005	789,156	¥103,226	¥66,913	¥231,497	¥ (3,086)	¥16,572	–	¥(9,349)	¥45,457	¥451,230
Gain on sales of treasury stock	–	–	32	–	–	–	–	–	–	32
Net income	–	–	–	44,125	–	–	–	–	–	44,125
Increase resulting from decrease in non-consolidated subsidiaries and affiliates accounted for by the equity method	–	–	–	12	–	–	–	–	–	12
Decrease resulting from decrease in consolidated subsidiaries	–	–	–	(39)	–	–	–	–	–	(39)
Decrease resulting from decrease in non-consolidated subsidiaries and affiliates accounted for by the equity method	–	–	–	(31)	–	–	–	–	–	(31)
Bonuses to directors and corporate auditors	–	–	–	(95)	–	–	–	–	–	(95)
Cash dividends paid	–	–	–	(6,278)	–	–	–	–	–	(6,278)
Net unrealized holding gain on securities	–	–	–	–	–	12,444	–	–	–	12,444
Foreign currency translation adjustments	–	–	–	–	–	–	–	8,585	–	8,585
Net increase in treasury stock	–	–	–	–	(507)	–	–	–	–	(507)
Other changes	–	–	–	–	–	–	–	–	29,646	29,646
Balance at March 31, 2006	789,156	¥103,226	¥66,945	¥269,191	¥ (3,593)	¥29,016	–	¥ (764)	75,103	¥539,124
Share exchange (Note 17)	2,864	–	2,310	–	2,667	–	–	–	–	4,977
Cash dividends paid	–	–	–	(6,299)	–	–	–	–	–	(6,299)
Bonuses to directors and corporate auditors	–	–	–	(103)	–	–	–	–	–	(103)
Net income	–	–	–	52,297	–	–	–	–	–	52,297
Purchase of treasury stock	–	–	–	–	(17,866)	–	–	–	–	(17,866)
Disposition of treasury stock	–	–	2	–	36	–	–	–	–	38
Changes resulting from decrease in non-consolidated subsidiaries and affiliates accounted for by the equity method	–	–	–	(3,383)	476	–	–	–	–	(2,907)
Other changes	–	–	–	–	–	5,274	21	5,056	(9,360)	991
Balance at March 31, 2007	**792,020**	**¥103,226**	**¥69,257**	**¥311,703**	**¥(18,280)**	**¥34,290**	**¥21**	**¥ 4,292**	**¥65,743**	**¥570,252**

	Thousands of U.S. dollars (Note 3)								
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Net unrealized holding gain on securities	Net unrealized holding gain on hedging derivatives	Foreign currency translation adjustments	Minority interests	Total net assets
Balance at March 31, 2006	$874,426	$567,090	$2,280,314	$ (30,436)	$245,794	–	$ (6,472)	$636,197	$4,566,913
Share exchange (Note 17)	–	19,568	–	22,592	–	–	–	–	42,160
Cash dividends paid	–	–	(53,359)	–	–	–	–	–	(53,359)
Bonuses to directors and corporate auditors	–	–	(873)	–	–	–	–	–	(873)
Net income	–	–	443,007	–	–	–	–	–	443,007
Purchase of treasury stock	–	–	–	(151,342)	–	–	–	–	(151,342)
Disposition of treasury stock	–	17	–	305	–	–	–	–	322
Changes resulting from decrease in non-consolidated subsidiaries and affiliates accounted for by the equity method	–	–	(28,657)	4,032	–	–	–	–	(24,625)
Other changes	–	–	–	–	44,676	178	42,830	(79,289)	8,395
Balance at March 31, 2007	**$874,426**	**$586,675**	**$2,640,432**	**$(154,849)**	**$290,470**	**$178**	**$36,358**	**$556,908**	**$4,830,598**

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, 2007, 2006 and 2005

	Millions of yen			Thousands of U.S. dollars (Note 3)
	2007	2006	2005	**2007**
Cash flows from operating activities				
Income before income taxes and minority interests	**¥ 84,542**	¥ 72,925	¥ 54,652	**$ 716,154**
Depreciation and amortization	**66,705**	70,099	56,770	**565,057**
Goodwill amortization	**3,502**	–	–	**29,665**
Loss on impairment of fixed assets	**1,347**	1,519	17,689	**11,410**
Gain on change in interests in consolidated subsidiaries	**(3,102)**	(9,366)	(77)	**(26,277)**
Changes in allowance for doubtful accounts	**–**	(1,628)	(441)	**–**
Reserve for periodic repairs	**5,382**	(1,021)	4,088	**45,591**
Accrued directors' and corporate auditors' retirement benefits	**66**	(945)	1,798	**559**
Interest and dividend income	**(2,721)**	(1,872)	(1,405)	**(23,050)**
Interest expense	**8,096**	6,035	6,353	**68,581**
Equity in earnings of non-consolidated subsidiaries and affiliates	**(5,979)**	(8,101)	(6,887)	**(50,648)**
Gain on sales of investment securities	**(1,938)**	(385)	(4,916)	**(16,417)**
Loss on sales of investment securities	**3,600**	907	501	**30,496**
Loss on write-downs of investment securities	**–**	17	3,106	**–**
Gain on sales of property, plant and equipment	**(389)**	(1,157)	(714)	**(3,295)**
Loss on sales and disposal of property, plant and equipment	**4,441**	2,986	5,179	**37,620**
Gain on securities contributed to employees' retirement benefit trust	**–**	(10,280)	–	**–**
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	**–**
(Increase) decrease in trade receivables	**(42,697)**	(44,459)	(14,923)	**(361,686)**
(Increase) decrease in inventories	**(27,039)**	(14,934)	(31,994)	**(229,047)**
Increase in trade payables	**20,105**	45,039	19,264	**170,309**
Other, net	**(3,519)**	(2,575)	4,559	**(29,809)**
Subtotal	**110,402**	102,804	106,933	**935,213**
Interest and dividends received	**7,436**	8,013	5,217	**62,990**
Interest paid	**(7,854)**	(5,933)	(6,559)	**(66,531)**
Income taxes paid	**(9,419)**	(25,175)	(9,088)	**(79,788)**
Net cash provided by operating activities	**100,565**	79,709	96,503	**851,884**
Cash flows from investing activities				
Acquisition of property, plant, equipment and others	**(67,433)**	(63,829)	(41,228)	**(571,224)**
Proceeds from sales of property, plant, equipment and others	**1,406**	6,232	2,729	**11,910**
Purchases of investment securities	**(16,494)**	(1,068)	(1,940)	**(139,720)**
Proceeds from sales of investment securities	**5,443**	1,492	8,972	**46,108**
Payment for purchase of minority interests in a subsidiary	**(27,309)**	–	–	**(231,334)**
Payment for purchases of newly consolidated subsidiaries, net of cash acquired	**(24,875)**	–	–	**(210,716)**
Other, net	**(4,356)**	(1,074)	(1,618)	**(36,900)**
Net cash provided by (used in) in investing activities	**(133,618)**	(58,247)	(33,085)	**(1,131,876)**
Cash flows from financing activities				
Net increase (decrease) in short-term loans	**58,116**	(24,563)	(8,384)	**492,300**
Proceeds from long-term debt	**59,611**	49,744	28,296	**504,964**
Repayments of long-term debt	**(48,344)**	(34,932)	(78,649)	**(409,521)**
Issuance of common stock to minority shareholders	**–**	305	2,156	**–**
Proceeds from sales of treasury stock	**38**	24	58	**322**
Purchases of treasury stock	**(17,866)**	(859)	(715)	**(151,343)**
Cash dividends paid	**(6,299)**	(6,278)	(4,716)	**(53,359)**
Other, net	**(4,088)**	(3,031)	(1,259)	**(34,629)**
Net cash provided by (used in) financing activities	**41,168**	(19,590)	(63,213)	**348,734**
Effect of exchange rate changes on cash and cash equivalents	**608**	1,253	(140)	**5,150**
Net increase in cash and cash equivalents	**8,723**	3,125	65	**73,892**
Cash and cash equivalents at beginning of the year	**31,221**	28,068	28,005	**264,473**
Increase (decrease) in cash resulting from changes in numbers of consolidated subsidiaries	**499**	28	(2)	**4,227**
Cash and cash equivalents at end of the year (Note 4)	**¥ 40,443**	¥ 31,221	¥ 28,068	**$ 342,592**

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, 2007, 2006 and 2005

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.

As discussed in Note 2.s, effective the year ended March 31,2007, the consolidated statements of changes in net assets were implemented. The consolidated statements of changes in net assets for 2005 and 2006 are also prepared for the convenience of readers, although such statements were not required by the Securities and Exchange Law of 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 valuation and translation adjustments and minority interests.

c. Inventories

Inventories are stated primarily at the lower of cost or market, cost being 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 cost or market 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 cost or market 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.

For the year ended March 31, 2005 and 2006, unrealized gain or loss on these securities was reported as "Net unrealized holding gain on securities" in shareholders' equity. Effective the year ended March 31, 2007, it has been reported in "Net assets". 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 are 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 it principally by the declining-balance method except for buildings.

In recent years, capital expenditures for 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 Mitsui Chemicals Group.

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

For the year ended March 31, 2007, to unify the accounting policy among the Mitsui Chemicals Group, several consolidated subsidiaries, which were additionally wholly-owned by the Company, applied this accounting policy for depreciation.

As a result of this change, depreciation and amortization increased by ¥1,220 million ($10,335 thousand) and operating income and income before income taxes and minority interests decreased by ¥1,214 million ($10,284 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, 2007, 2006 and 2005 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. Accrual for directors' bonuses

Effective the year ended March 31, 2007, the Company provided on accrual for bonuses to directors.

Directors' bonuses had been previously accounted for as a decrease in retained earnings. Effective the year ended March 31, 2007, the Company adopted a new accounting standard, "Accounting Standard for Directors' Bonuses" (Accounting Standards Board of Japan Statement No. 4, ASBJ, November 29, 2005).

As a result of adopting the standard, directors' bonuses have been accounted for as an expense, not as a decrease in retained earnings.

The Company provided an accrual for the estimated amount at the end of the year. The effect on net income was not material.

m. Directors' and corporate auditors' retirement benefits

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

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

In recent years, the accounting policy of accruing liabilities for directors' and corporate auditors' retirement benefits has gained wider acceptance. Defining common accounting practices for 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 cancelled as said directors and corporate auditors retire.

n. 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 from fiscal 2005, 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.

For the year ended March 31, 2007, to unify the accounting policy among the Mitsui Chemicals Group, several consolidated subsidiaries, which were additionally wholly-owned by the Company, provided a reserve for the costs of annual repairs.

As a result of this change, for the year ended March 31, 2007, operating income decreased by ¥731 million (US$6,192 thousand) and income before income taxes and minority interests decreased by ¥1,762 million (US$14,926 thousand) compared to the amounts that would have been reported if the previous accounting policy had been applied consistently.

o. 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.

p. 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.

q. Impairment of fixed assets

Effective the year ended March 31, 2005, the Company and its consolidated domestic subsidiaries adopted early an 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 on 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.

r. Accounting standard for presentation of net assets in the balance sheet

Effective the year ended March 31, 2007, the Company has adopted a new accounting standard entitled "Accounting Standards for Presentation of Net Assets in the Balance Sheet" (Accounting Standards Board of Japan Statement No. 5, ASBJ, December 9, 2005) and "Guidance on Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Accounting Standards Board of Japan Guidance No. 8, ASBJ, December 9, 2005).

Under the new accounting standard and the related guidance, "Net unrealized holding gain on hedging derivatives," "Share subscription rights," and "Minority interests" are required to be shown in net assets.

At March 31, 2007, the amount corresponding to conventional "Total shareholders' equity" in the balance sheet was ¥504,488 million (US$4,274 million).

s. Accounting standard for statement of changes in net assets

Effective the year ended March 31, 2007, the Company and its consolidated domestic subsidiaries have adopted a new accounting standard entitled "Accounting Standard for Statement of Changes in Net Assets" (Accounting Standards Board of Japan Statement No. 6, ASBJ, December 27, 2005) and "Guidance on Accounting Standard for Statement of Changes in Net Assets" (Accounting Standards Board of Japan Guidance No. 9, ASBJ, December 27, 2005).

t. Accounting standards for business combinations and divestitures

Effective the year ended March 31, 2007, the Company and its consolidated domestic subsidiaries have adopted a new accounting standard entitled "Accounting Standard for Business Combinations in Japan" (Business Accounting Council, October 31,2003), and "Accounting Standard for Business Divestitures" (Accounting Standards Board of Japan Statement No. 7, ASBJ, December 27, 2005), and its guidance entitled "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (Accounting Standards Board of Japan Guidance No. 10, ASBJ, revised December 22, 2006).

u. Reclassification and restatement

Certain prior year amounts have been reclassified to conform to the current year presentation.

Because of the changes described in Notes 2.r and 2.s, the consolidated balance sheets as of March 31, 2006 and 2005 and the statements of shareholders' equity for the years then ended have been reclassified to conform to the current year presentation, for the convenience of readers.

3. U.S. DOLLAR AMOUNTS

The translation of yen amounts into U.S. dollar amounts is included solely for the convenience of readers, using ¥118.05=US$1.00, the approximate rate of exchange in effect on March 30, 2007. The translation should not be construed as a representation that yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at the above or any other rate.

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents at March 31, 2007, 2006 and 2005 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2007	2006	2005	2007
Cash	¥32,568	¥31,221	¥28,068	$275,883
Cash equivalents	7,875	–	–	66,709
	¥40,443	¥31,221	¥28,068	$342,592

5. INVENTORIES

Inventories at March 31, 2007, 2006 and 2005 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2007	2006	2005	2007
Finished goods	¥183,135	¥153,347	¥128,795	$1,551,334
Work in process	5,685	5,978	5,423	48,158
Raw materials and supplies	68,249	60,380	50,149	578,136
	¥257,069	¥219,705	¥184,367	$2,177,628

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, 2007, 2006 and 2005:

(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
	2007	2006	2005	2007
Book value	–	¥1	¥1	–
Fair value	–	1	1	–
Difference	–	0	0	–

(b) Available-for-sale securities

Securities with book value exceeding their acquisition cost

	Millions of yen			Thousands of U.S. dollars
	2007	2006	2005	2007
Equity securities and bonds:				
Acquisition cost	¥30,386	¥18,294	¥16,706	$257,399
Book value	85,033	67,510	44,012	720,313
Difference	54,647	49,216	27,306	462,914

Other securities

	Millions of yen			Thousands of U.S. dollars
	2007	2006	2005	2007
Equity securities and bonds:				
Acquisition cost	¥8,153	¥188	¥1,534	$69,064
Book value	7,803	173	1,366	66,099
Difference	(350)	(15)	(168)	(2,965)

B. The following table summarizes the book value of securities with no known fair value as of March 31, 2007, 2006 and 2005:

	Millions of yen			Thousands of U.S. dollars
	2007	2006	2005	2007
(a) Held-to-maturity debt securities:				
Local government bonds	¥ 48	¥ 54	¥ 61	$ 407
(b) Available-for-sale securities:				
Unlisted equity securities	¥22,200	¥21,380	¥19,847	$188,056

C. Available-for-sale securities with maturities and held-to-maturity debt securities as of March 31, 2007, 2006 and 2005 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2007	2006	2005	2007
Bonds:				
Due within one year	¥ 449	¥16	¥17	$ 3,803
Due over one year but within five years	3,628	26	26	30,733
Due over five years but within ten years	6	13	19	51
Due over ten years	93	–	–	788
Total	¥4,176	¥55	¥62	$35,375

D. Information related to available-for-sale securities for the years ended March 31, 2007, 2006 and 2005 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2007	2006	2005	2007
Sales–total	¥2,860	¥585	¥1,119	$24,227
Related gain–total	1,082	355	804	9,166
Related loss–total	2	1	57	17

7. SHORT-TERM DEBT AND LONG-TERM DEBT

At March 31, 2007, 2006 and 2005, short-term debts were as follows:

	Millions of yen			Thousands of U.S. dollars
	2007	2006	2005	2007
0.28%-6.95% bank loans	¥133,690	¥125,817	¥123,347	$1,132,486
Commercial paper	¥ 51,000	¥ 1,200	¥ 21,000	$ 432,020

At March 31, 2007, 2006 and 2005, long-term debts were as follows:

	Millions of yen			Thousands of U.S. dollars
	2007	2006	2005	2007
2.95% bonds due in 2008	¥ 10,000	¥ 10,000	¥ 10,000	$ 84,710
2.70% bonds due in 2008	10,000	10,000	10,000	84,710
2.07% bonds due in 2010	10,000	10,000	10,000	84,710
1.35% bonds due in 2005	–	–	10,000	–
1.94% bonds due in 2011	10,000	10,000	10,000	84,710
1.84% bonds due in 2011	10,000	10,000	10,000	84,710
1.62% bonds due in 2011	10,000	10,000	10,000	84,710
0.67% bonds due in 2006	–	10,000	10,000	–
0.79% bonds due in 2007	10,000	10,000	10,000	84,710
1.04% bonds due in 2009	10,000	10,000	10,000	84,710
1.36% bonds due in 2012	10,000	10,000	10,000	84,710
0.56% bonds due in 2007	10,000	10,000	10,000	84,710
0.50% bonds due in 2006	–	10,000	10,000	–
0.78% bonds due in 2013	10,000	10,000	10,000	84,710
1.52% bonds due in 2015	10,000	10,000	–	84,710
1.57% bonds due in 2013	10,000	10,000	–	84,710
1.84% bonds due in 2016	10,000	10,000	–	84,710
2.09% bonds due in 2016	10,000	–	–	84,710
1.40% bonds due in 2012	10,000	–	–	84,710
1.96% bonds due in 2017	10,000	–	–	84,710
0.88% bonds due in 2005	–	–	1,000	–
1.26% bonds due in 2009	2,000	2,000	2,000	16,942
0.57% bonds due in 2007	–	100	100	–
0.46% bonds due in 2005	–	–	120	–
0.40% bonds due in 2006	–	–	34	–
0.80% bonds due in 2010	77	99	–	652
1.45% bonds due in 2011	1,000	–	–	8,471
Loans, principally from banks and insurance companies:				
Secured, at rates of 0.77% to 2.6% maturing through 2011	6,166	12,821	22,396	52,232
Unsecured, at rates of 0.41% to 6.65% maturing through 2016	134,390	121,901	112,345	1,138,414
	313,633	296,921	277,995	2,656,781
Less current portion	42,213	44,456	34,569	357,586
	¥271,420	¥252,465	¥243,426	$2,299,195

The aggregate annual maturities of long-term debt subsequent to March 31, 2007 are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2008	¥ 42,213	$ 357,586
2009	39,459	334,257
2010	22,222	188,242
2011	40,537	343,388
2012 and thereafter	169,202	1,433,308
	¥313,633	$2,656,781

At March 31, 2007, the assets pledged as collateral for long-term debt were as follows:

	Millions of yen	Thousands of U.S. dollars
Property, plant and equipment, net of accumulated depreciation	¥19,564	$165,726
Investment securities	10	85
Other non-current assets	109	923

8. ACCRUED EMPLOYEES' RETIREMENT BENEFITS

The liability for severance and retirement benefits included in the consolidated balance sheets as of March 31, 2007, 2006 and 2005 consisted of the following:

	Millions of yen			Thousands of U.S. dollars
	2007	2006	2005	2007
Projected benefit obligation	¥ 210,847	¥ 206,893	¥206,065	$ 1,786,082
Unrecognized prior service cost	16	20	24	136
Unrecognized actuarial loss	(36,888)	(35,899)	(54,866)	(312,478)
Less fair value of pension plan assets	(124,821)	(124,627)	(92,261)	(1,057,357)
Prepaid pension and severance cost	1,199	843	337	10,157
Liability for severance and retirement benefits	¥ 50,353	¥ 47,230	¥ 59,299	$ 426,540

Included in the consolidated statements of income for the years ended March 31, 2007, 2006 and 2005 are severance and retirement benefit expenses comprised of the following:

	Millions of yen			Thousands of U.S. dollars
	2007	2006	2005	2007
Service cost-benefits earned during the year	¥ 5,414	¥ 5,163	¥ 5,637	$ 45,862
Interest cost on projected benefit obligation	5,021	4,987	4,968	42,533
Expected return on plan assets	(2,611)	(2,226)	(2,026)	(22,118)
Amortization of net retirement benefits obligation at transition	–	–	6,119	–
Amortization of actuarial loss	4,522	5,669	5,851	38,306
Amortization of prior service cost	(4)	(4)	(11,792)	(34)
Severance and retirement benefit expenses	¥12,342	¥13,589	¥ 8,757	$104,549

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

	2007	2006	2005
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 or 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, 2007 consisted of the following:

A. Impairment in the Company and its consolidated domestic subsidiaries

Location	Major use	Asset category	Millions of yen	Thousands of U.S. dollars	Remarks
Tahara City, Aichi Prefecture	Factory	Land	¥ 755	$6,395	Idle property
Shimonoseki City, Yamaguchi Prefecture, others	Production facilities	Machinery and equipment, buildings and structures, others	¥ 324	$2,745	Business assets in use
Total			¥1,079	$9,140	

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 ¥324 million ($2,745 thousand) was recorded as other expenses. This impairment loss comprised ¥221 million ($1,872 thousand) for machinery and equipment, ¥99 million ($839 thousand) for buildings and structures, and ¥4 million ($34 thousand) for other assets.

Values in use of these assets are used as their recoverable amount for the measurement of the impairment loss. However, since there were no future cash flows, the value in use of these assets were zero.

The book value of assets that are idle or not being used for production activities is, in cases where there are no specific plans for future use and where the recoverable amount is below its book value due to a decline in the market price of land, reduced to the recoverable amount. The resulting impairment loss amounting to ¥755 million ($6,396 thousand) was recorded as other expenses. This impairment loss comprised ¥755 million ($6,396 thousand) for land.

Net sales prices of these assets are used as their recoverable amounts for the measurement of the impairment loss. As net sales prices, the appraisal value is primarily used.

B. Impairment in a certain consolidated subsidiary in the United States

A certain consolidated subsidiary in the United States recorded impairment loss of goodwill ¥268 million ($2,270 thousand) under the accounting method prescribed in U. S. Statement of Financial Accounting Standards (“SFAS”) No. 142, “Goodwill and Other Intangible Assets.”

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 a statutory tax rate of approximately 40.6% for the years ended March 31, 2007, 2006 and 2005. 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 rate and effective tax rates for consolidated financial statement purposes for the years ended March 31, 2007, 2006 and 2005.

	2007	2006	2005
Statutory tax rate	**40.6%**	40.6%	40.6%
Non-deductible expenses	**1.9**	1.1	1.3
Equity in earnings of non-consolidated subsidiaries and affiliates	**(2.9)**	(4.5)	(5.1)
Gain on change in interests in consolidated subsidiaries	**(1.5)**	(5.2)	–
Increase in valuation allowance	**(4.2)**	7.4	13.9
Elimination of unrecognized gain on sales of consolidated subsidiaries and affiliates	**–**	–	1.3
Tax credit	**(4.4)**	(2.2)	(5.6)
Differences of statutory tax rate in overseas consolidated subsidiaries	**1.6**	–	(4.8)
Other	**1.3**	0.8	0.6
Effective tax rate	**32.4%**	38.0%	42.2%

The significant components of the Company's and its consolidated subsidiaries' deferred tax assets and liabilities as of March 31, 2007, 2006 and 2005 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2007	2006	2005	**2007**
Deferred tax assets:				
Allowance for doubtful accounts	**¥ 1,036**	¥ 1,008	¥ 1,941	**$ 8,776**
Employees' retirement benefits	**22,142**	23,816	23,534	**187,564**
Accrued bonuses	**5,286**	4,921	4,824	**44,777**
Depreciation	**8,225**	7,222	5,422	**69,674**
Accrued enterprise tax	**2,242**	804	2,223	**18,992**
Loss carryforwards of consolidated subsidiaries	**2,851**	9,245	8,205	**24,151**
Reserve for periodic repairs	**5,613**	3,392	3,466	**47,548**
Elimination of unrecognized gain on sale of a business	**–**	–	1,383	**–**
Loss on write-down of inventories	**1,937**	1,604	1,651	**16,408**
Loss on write-down of investment securities	**4,216**	4,246	4,536	**35,714**
Loss on impairment of fixed assets	**3,883**	4,082	7,160	**32,893**
Other	**8,188**	11,598	11,368	**69,360**
Subtotal	**65,619**	71,938	75,713	**555,857**
Valuation allowance	**(10,202)**	(17,034)	(10,675)	**(86,421)**
Total deferred tax assets	**55,417**	54,904	65,038	**469,436**

	Millions of yen			Thousands of U.S. dollars
	2007	2006	2005	**2007**
Deferred tax liabilities:				
Net unrealized holding gain on securities	**¥(19,067)**	¥(19,899)	¥(10,951)	**$(161,516)**
Deferred gain on real properties	**(3,675)**	(3,764)	(3,726)	**(31,131)**
Reserve for special depreciation	**(12)**	(72)	(148)	**(102)**
Retained earnings of overseas consolidated subsidiaries, etc	**(8,708)**	(8,156)	(4,233)	**(73,765)**
Employees' retirement benefit trust	**–**	(4,275)	–	**(18,814)**
Other	**(2,221)**	(3,052)	(2,796)	**–**
Total deferred tax liabilities	**(33,683)**	(39,218)	(21,854)	**(285,328)**
Net deferred tax assets	**¥ 21,734**	¥ 15,686	¥ 43,184	**$ 184,108**

11. SHAREHOLDERS' EQUITY

The Corporate Law of Japan (the "Law") became effective on May 1, 2006, replacing the Japanese Commercial Code.

Under the Law, the amount paid for new shares is required to be accounted for as common stock, although a company may account for the amount not exceeding one-half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

The Law provides that an amount equal to 10% of distribution from surplus shall be appropriated and set aside as legal earnings reserve or additional paid-in capital, until the total amount of legal earnings reserve and additional paid-in capital equals 25% of common stock. Legal earnings reserve and additional paid-in capital may be used to eliminate or reduce a deficit or may be transferred to common stock by resolution of the shareholders' meeting. The Law also stipulates that the amount of any such excess is available for appropriations 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 Law.

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, 2007 include amounts representing the year-end cash dividends approved at the shareholders' meeting held on June 26, 2007.

The amounts that have been approved are shown below.

	Millions of yen	Thousands of U.S. dollars
Cash dividends of ¥6 ($0.05) per share	**¥4,629**	**$39,212**

12. CONTINGENT LIABILITIES

Contingent liabilities at March 31, 2007 were as follows:

	Millions of yen	Thousands of U.S. dollars
As guarantor of indebtedness, principally of non-consolidated subsidiaries and affiliates	**¥14,327**	**$121,364**
As issuer of commitments for guarantees	**662**	**5,608**

13. LEASES

A. At March 31,2007, 2006 and 2005, assets leased under non-capitalized financial leases were as follows:

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

	Millions of yen			Thousands of U.S. dollars
	2007	2006	2005	**2007**
Machinery and equipment:				
Equivalent purchase amount	**¥12,497**	¥13,659	¥15,864	**$105,862**
Equivalent accumulated depreciation amount	**7,598**	8,323	9,457	**64,363**
Equivalent accumulated impairment amount	**–**	103	–	**–**
Equivalent balance at year-end	**4,899**	5,233	6,407	**41,499**

(b) Future Minimum Lease Payments:

	Millions of yen			Thousands of U.S. dollars
	2007	2006	2005	**2007**
Due within one year	**¥1,803**	¥1,975	¥2,189	**$15,273**
Due after one year	**3,096**	3,258	4,218	**26,226**
	¥4,899	¥5,233	¥6,407	**$41,499**
Impairment of leased assets amount on the balance sheet	**–**	¥ 103	–	**–**

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

	Millions of yen			Thousands of U.S. dollars
	2007	2006	2005	**2007**
Paid lease fees	**¥2,369**	¥2,375	¥2,613	**$20,068**
Reversal of leased asset impairment loss	**103**	–	–	**873**
Equivalent depreciation expense amount	**2,266**	2,375	2,613	**19,195**
Impairment loss on leased assets	**–**	¥ 103	–	**–**

B. Obligations under non-cancelable operating leases at March 31, 2007, 2006 and 2005 were as follows:
Future Minimum Lease Payments:

	Millions of yen			Thousands of U.S. dollars
	2007	2006	2005	**2007**
Due within one year	**¥15**	¥19	¥12	**$127**
Due after one year	**46**	58	18	**390**
	¥61	¥77	¥30	**$517**

14. RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses for the years ended March 31, 2007, 2006 and 2005 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2007	2006	2005	**2007**
Research and development expenses	**¥36,943**	¥37,146	¥34,881	**$312,944**

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 Company and certain of its consolidated subsidiaries 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 Company and certain of its consolidated subsidiaries 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 open derivatives positions as of March 31, 2006 and 2005 has not been disclosed as deferred hedge accounting was applied.

The amount handled as deferred hedge accounting is excluded.

The Company and certain of its consolidated subsidiaries had the following derivatives contracts outstanding at March 31, 2007:

	Millions of yen			Thousands of U.S. dollars		
	Contract amount	Fair value	Unrealized gain	Contract amount	Fair value	Unrealized gain
Forward foreign exchange contracts:						
Buying U.S. Dollar	¥5,154	¥5,415	¥261	$43,659	$45,870	$2,211
Foreign currency swaps:						
Receiving Singapore Dollar, paying U.S. Dollar	480	72	72	4,066	610	610

16. SEGMENT INFORMATION

Business segment information of the Company and its consolidated subsidiaries for the years ended March 31, 2007, 2006 and 2005 is summarized as follows:

	Millions of yen						
Year ended March 31, 2007	Functional Chemicals & Engineered Materials	Functional Polymeric Materials	Basic Chemicals	Petrochemicals	Others	Eliminations or Corporate	Consolidated
I. Sales and operating income:							
Customers	¥213,955	¥317,258	¥553,471	¥559,927	¥ 43,451	¥ –	¥1,688,062
Inter-segment	5,114	18,869	48,963	128,700	131,440	(333,086)	–
Total sales	219,069	336,127	602,434	688,627	174,891	(333,086)	1,688,062
Operating expenses	205,546	313,894	591,446	643,291	172,809	(330,602)	1,596,384
Operating income	¥ 13,523	¥ 22,233	¥ 10,988	¥ 45,336	¥ 2,082	¥ (2,484)	¥ 91,678
II. Assets, depreciation, loss on impairment of fixed assets and capital expenditures:							
Total assets	¥265,064	¥327,878	¥326,966	¥438,063	¥ 62,485	¥ 77,727	¥1,498,183
Depreciation and amortization	12,914	18,318	16,781	18,838	2,572	784	70,207
Loss on impairment of fixed assets	141	303	148	–	–	755	1,347
Capital expenditures	18,707	24,032	8,343	14,132	2,703	4,754	72,671

Year ended March 31, 2007	Functional Chemicals & Engineered Materials	Functional Polymeric Materials	Basic Chemicals	Petrochemicals	Others	Eliminations or Corporate	Consolidated
	Thousands of U.S. dollars						
I. Sales and operating income:							
Customers	$1,812,410	$2,687,488	$4,688,446	$4,743,134	$ 368,073	$ –	$14,299,551
Inter-segment	43,321	159,839	414,765	1,090,216	1,113,426	(2,821,567)	–
Total sales	1,855,731	2,847,327	5,103,211	5,833,350	1,481,499	(2,821,567)	14,299,551
Operating expenses	1,741,178	2,658,992	5,010,132	5,449,309	1,463,862	(2,800,525)	13,522,948
Operating income	$ 114,553	$ 188,335	$ 93,079	$ 384,041	$ 17,637	$ (21,042)	$ 776,603
II. Assets, depreciation, loss on impairment of fixed assets and capital expenditures:							
Total assets	$2,245,354	$2,777,450	$2,769,725	$3,710,826	$ 529,310	$ 658,424	$12,691,089
Depreciation and amortization	109,394	155,173	142,152	159,576	21,787	6,641	594,723
Loss on impairment of fixed assets	1,194	2,567	1,254	–	–	6,395	11,410
Capital expenditures	158,467	203,575	70,673	119,712	22,897	40,271	615,595

Year ended March 31, 2006	Functional Chemicals & Engineered Materials	Functional Polymeric Materials	Basic Chemicals	Petrochemicals	Others	Eliminations or Corporate	Consolidated
	Millions of yen						
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

Year ended March 31, 2005	Functional Chemicals & Engineered Materials	Functional Polymeric Materials	Basic Chemicals	Petrochemicals	Others	Eliminations or Corporate	Consolidated
	Millions of yen						
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

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.

Effective the year ended March 31, 2007, to unify the accounting policy among the Mitsui Chemicals Group, several consolidated subsidiaries, which were additionally wholly-owned by the Company, applied this accounting policy for depreciation.

These changes have had the effect of increasing depreciation and reducing operating income as follows:

	Functional Chemicals & Engineered Materials	Functional Polymeric Materials	Basic Chemicals	Petrochemicals	Others	Eliminations or Corporate	Consolidated
Year ended March 31, 2007							
Effect on depreciation (Millions of yen)		¥ 1,220					¥ 1,220
Effect on operating income (Millions of yen)		¥ (1,214)					¥(1,214)
Effect on depreciation (Thousands of U.S. dollars)		$ 10,335					$ 10,335
Effect on operating income (Thousands of U.S. dollars)		$(10,284)					$(10,284)
Year ended March 31, 2006							
Effect on depreciation (Millions of yen)	¥ 1,299	¥ 743	¥ 1,424	¥ 2,394	¥ 10		¥ 5,870
Effect on operating income (Millions of yen)	¥ (1,220)	¥ (734)	¥ (1,421)	¥ (2,394)	¥(10)		¥(5,779)

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, 2007, to unify the accounting policy among the Mitsui Chemicals Group, several consolidated subsidiaries, which were additionally wholly-owned by the Company, provided a reserve for the costs of annual repairs.

As a result of this change, for the year ended March 31, 2007, operating income decreased by ¥731 million ($6,192 thousand) in Functional Polymeric Materials.

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.

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 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, 2007, 2006 and 2005 is summarized as follows:

	Millions of yen				
Year ended March 31, 2007	Japan	Asia	Others	Eliminations	Consolidated
I. Sales and operating income:					
Customers	¥1,412,809	¥178,414	¥96,839	¥ –	¥1,688,062
Inter-segment	53,439	87,652	2,299	(143,390)	–
Total sales	1,466,248	266,066	99,138	(143,390)	1,688,062
Operating expenses	1,381,467	262,103	96,389	(143,575)	1,596,384
Operating income	¥ 84,781	¥ 3,963	¥ 2,749	¥ 185	¥ 91,678
II. Assets	¥1,327,744	¥179,844	¥51,778	¥ (61,183)	¥1,498,183

	Thousands of U.S. dollars				
Year ended March 31, 2007	Japan	Asia	Others	Eliminations	Consolidated
I. Sales and operating income:					
Customers	$11,967,886	$1,511,343	$820,322	$ –	$14,299,551
Inter-segment	452,681	742,499	19,475	(1,214,655)	–
Total sales	12,420,567	2,253,842	839,797	(1,214,655)	14,299,551
Operating expenses	11,702,389	2,220,271	816,510	(1,216,222)	13,522,948
Operating income	$ 718,178	$ 33,571	$ 23,287	$ 1,567	$ 776,603
II. Assets	$11,247,302	$1,523,456	$438,611	$ (518,280)	$12,691,089

	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

	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

Effective the year ended March 31, 2006, the Company and its consolidated subsidiaries changed the method of accounting for depreciation on tangible fixed assets. For the year ended March 31, 2006, this change had the effect of increasing depreciation cost by ¥5,870 million in Domestic (in Japan), reducing operating income by ¥5,779 million in Domestic (in Japan).

For the year ended March 31, 2007, this change had the effect of increasing depreciation cost by ¥1,220 million ($10,335 thousand) in Domestic (in Japan), reducing operating income by ¥1,214 million ($10,284 thousand) in Domestic (in Japan).

For the year ended March 31, 2007, to unify the accounting policy among the Mitsui Chemicals Group, several consolidated subsidiaries, which were additionally wholly-owned by the Company, provided a reserve for the costs of annual repairs.

As a result of this change, for the year ended March 31, 2007, operating income decreased by ¥731 million ($6,192 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, 2007, 2006 and 2005 are summarized by geographic area as follows:

	Millions of yen				
Year ended March 31, 2007	Asia	North America and Latin America	Europe	Others	Overseas sales
Overseas sales	**¥509,454**	**¥81,645**	**¥52,960**	**¥13,246**	**¥ 657,305**
Consolidated net sales					**1,688,062**
Ratio of overseas sales to consolidated net sales	**30.2%**	**4.8%**	**3.1%**	**0.8%**	**38.9%**

	Thousands of U.S. dollars				
Year ended March 31, 2007	Asia	North America and Latin America	Europe	Others	Overseas sales
Overseas sales	**$4,315,578**	**$691,614**	**$448,623**	**$112,207**	**$5,568,022**

	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%

	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%

17. BUSINESS COMBINATIONS

Effective the year ended March 31, 2007, the Company and its consolidated subsidiaries adopted a new accounting standard entitled "Accounting Standards for Business Combinations in Japan" (Business Accounting Council, October 31, 2003), and "Accounting Standard for Business Divestitures (Accounting Standards Board of Japan Statement No. 7, ASBJ, December 27, 2005), and its guidance entitled "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (Accounting Standards Board of Japan Guidance No. 10, ASBJ, revised December 22, 2006).

Making Yamamoto Chemicals, Inc. a wholly-owned subsidiary by share exchange

A. Corporate name and business of the entity combined, legal form of business combinations, corporate name after business combinations, and overview of the transaction including purpose.

(a) Corporate name and business of the entity combined
Name: Yamamoto Chemicals, Inc.
Business: dyes, pigments, industrial chemicals

(b) Legal form of business combinations
Share exchange

(c) Corporate name after business combinations
Yamamoto Chemicals, Inc. (name remains unchanged.)

(d) Overview of the transaction including purpose
The Company and Yamamoto Chemicals, Inc. agreed to make Yamamoto Chemicals, Inc. a wholly-owned subsidiary and the Company completed the procedures on April 1, 2006.
The Company reinforces the partnership of the two companies and further enhance corporate values as written below in (i) and (ii) by integrating Yamamoto Chemicals, Inc. as a wholly-owned subsidiary of the Company through the share exchange.
(i) Propelling the efficient operation of color formers
(ii) Promoting effective manufacturing, marketing and R&D in functional dye and accelerating new product development

B. Matters related to additional acquisition of shares of subsidiaries

(a) Acquisition cost and its breakdown

Consideration for acquisition	
Shares of the Company	¥4,833 million (US$40,940 thousand)
Expenditure directly required for acquisition	–
Acquisition cost total	¥4,833 million (US$40,940 thousand)

(b) Ratio of allocations of shares
1.10 shares of the Company were allocated to one share of Yamamoto Chemicals, Inc.

(c) Basis for calculating the share exchange ratio
The Company and Yamamoto Chemicals, Inc. agreed upon the ratio of the allocation of shares, referring to evaluations from third parties.

(d) Number of new shares of the Company allocated to share exchange

Number of shares	7,463,723 ordinary shares
Value of shares	¥5,083 million (US$43,058 thousand)

(e) Negative goodwill
Negative goodwill of ¥2,782 million ($23,566 thousand) was booked , due to the difference between the earning power of Yamamoto Chemicals, Inc. and the cost for making Yamamoto Chemicals, Inc. a wholly-owned subsidiary. Amortization is done by equal amortization over 5 years.

(f) Assets and liabilities gained by acquisition

Current assets	¥4,973 million	(US$42,126 thousand)
Non current assets	8,128 million	(US$68,852 thousand)
Total Assets	¥13,101 million	(US$110,978 thousand)
Current liabilities	¥1,514 million	(US$40,940 thousand)
Long-term liabilities	66 million	(US$559 thousand)
Total Liabilities	¥1,580 million	(US$13,384 thousand)

18. SUBSEQUENT EVENT

There were no applicable items under this category.

Independent Auditors' Report

To the Shareholders and 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, 2007, 2006 and 2005, and the related consolidated statements of income, changes in net assets and cash flows for each of the three years in the period ended March 31, 2007, all expressed in Japanese yen. These financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these 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 financial statements referred to above present fairly, in all material respects, the consolidated financial position of Mitsui Chemicals, Inc. and consolidated subsidiaries as of March 31, 2007, 2006 and 2005, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2007 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 accounting policy 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.m 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 benefit.

(4) As discussed in Note 2.n 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.q 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, 2007 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 26, 2007

KPMG AZSA & Co.

Ernst & Young ShinNihon

Mitsui Chemicals Group Risks

BUSINESS RISKS

The Mitsui Chemicals Group recognizes that management activities may be threatened by a wide range of conceivable and apparent risks. For this reason, the Group is dedicated to crafting initiatives able to prevent or minimize the escalation of these risks.

The items detailed below represent some of the risks that could potentially and adversely impact the Group's future operating performance and financial position. Readers are cautioned that this partial list does not constitute all of the risks faced by Mitsui Chemicals.

Please note that the risks discussed below were those deemed relevant as of March 31, 2007.

(1) EXTERNAL OPERATING ENVIRONMENT

Mitsui Chemicals Group businesses may be influenced by certain elements of the operating environment outside of the Group, including customers, market trends and the business operations of rival firms. With respect to products, a variety of risks could conceivably result in a decline in profitability. These include, but are not limited to, an erosion of market demand, the decision by customers to source products from overseas, deterioration in market conditions caused by oversupply due to increased production capacity at rival firms or the market entry of low-priced imports, and the appearance of alternative products. Profitability may also decline due to the rising cost of raw materials, as well as the impact of supply stoppages due to accidents or bankruptcies at raw material manufacturers. Any or all of these risks could impair the Group's production activities. Consequently, the occurrence of such risks could adversely impact the Group's operating performance.

(2) OVERSEAS ACTIVITIES (COUNTRY RISK)

The Mitsui Chemicals Group is involved in a wide range of activities outside of Japan, from the export of products to production at overseas bases. These activities overseas are subject to various risks, including deterioration in political and economic conditions, regulations regarding imports and foreign capital, deterioration in public safety and security, and the outbreak of terrorism or warfare. The occurrence of such risks could impair Group business activities overseas, which may adversely impact operating performance.

(3) CHANGES IN LAWS AND TIGHTENING OF REGULATIONS

The business development of the Mitsui Chemicals Group is subject to a wide range of legal acts and ordinances, which include a variety of licensing and regulatory requirements. Consequently, the Group remains keenly aware that its continued survival as a corporation is contingent on strict compliance with laws and regulations. To this end, the Group has enacted training programs that incorporate examples of legal violations within and outside Mitsui Chemicals together with other initiatives aimed at promoting legal compliance.

Other risks faced by the Mitsui Chemicals Group are the prospect of major changes to or a tightening of laws relevant to the Group, or unexpected amendments to laws and regulations overseas. Restrictions placed on Group activities, as well as increased costs associated with compliance with amended laws or more stringent regulations, could impair Group business activities, thus adversely impacting operating performance.

(4) FINANCIAL RISKS

Among the financial risks faced by the Mitsui Chemicals Group are increased concerns about confidence in customers due to deteriorating economic conditions, currency exchange losses due to dramatic fluctuations in exchange rates, and rising interest rates and a reluctance to lend by financial institutions with respect to fund procurement. The occurrence of any one of these risks could adversely impact the Group's financial position.

(5) ACCIDENTS AND DISASTERS

In an effort to ensure workplace safety, the Mitsui Chemicals Group vigorously promotes OHSAS 18001 certification of the occupational health and safety management systems used in its production activities at plants. Nevertheless, the Group faces risks in this area from a variety of unforeseen events, including damage to production facilities caused by natural disasters such as major earthquakes and typhoons, plant accidents, and accidents during the course of product transport or storage at warehousing facilities outside the Group. The occurrence of these risks may not only impede plant operations or the supply of products to customers, thereby adversely impacting the Group's operating performance and financial position, but could also potentially undermine the social standing of the Mitsui Chemicals Group.

(6) QUALITY

To uphold its quality assurance system, the Mitsui Chemicals Group vigorously promotes efforts to obtain ISO 9001 certification of the quality management systems at each of its plants. Nevertheless, the Group faces risks from the discovery of unforeseen quality defects in its products and product liability lawsuits. Because many Group products are used as raw materials in finished consumer goods, the appearance of large-scale customer recalls due to product defects could potentially result in massive damages. The occurrence of these risks may not only adversely impact the Group's operating performance and financial position, but could also potentially undermine the social standing of the Mitsui Chemicals Group.

Subsidiaries and Major Affiliates

(As of March 31, 2007)

* Consolidated subsidiary

	Companies	Major Products or Lines of Business	Paid-in Capital (In millions)		Equity Interest (%)
Functional Chemicals & Engineered Materials Business Group					
*	Utsunomiya Chemical Industry Co., Ltd.	Agrochemical formulation products and public health insecticides	¥	20	100
*	Sankyo Agro Co., Ltd.	Agrochemical formulation products and public health insecticides	¥	350	100
*	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
*	Yamamoto Chemicals, Inc.	Dyes, pigments and industrial chemicals	¥	350	100
*	ESCO Company Limited Partnership	Color former and catalyst	US$	21	51
*	Image Polymers Company	Toner resin	US$	10.34	100
*	Image Polymers Europe UK Partnership	Toner resin	Pound	9.97	100
*	Mitsui Hygiene Materials (Thailand) Co., Ltd.	Spunbonded nonwoven fabrics	Baht	862.15	100
*	Taiwan Mitsui Chemicals, Inc.	Sales of electronics and information materials	NT$	14	100
	Honshu Chemical Industry, Ltd.	Raw materials for synthetic resins, synthetic fibers, dyes, pharmaceuticals, agricultural chemicals, rubber and other chemicals	¥	1,500	26.9
	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
*	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
*	Hokkaido Mitsui Chemicals, Inc.	Wood adhesives, paper resins and foliar activator	¥	2,000	100
*	Mitsui Chemicals Polyurethane, Inc.	Urethane raw materials, urethane derivatives and organic acids	¥	20,008	100
*	Anderson Development Company	Specialty chemicals	US$	19.2	100
*	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
*	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
	MT AquaPolymer, Inc.	Organic flocculant	¥	460	49
	Gem Pc Ltd.	Engineering plastics	¥	3,600	42
	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
*	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
	Shanghai Sinopec Mitsui Chemicals, Co., Ltd.	Bisphenol-A	Yuan	307	50
Petrochemicals Business Group					
*	Ube Polypropylene Co., Ltd.	Polypropylene	¥	475	100
*	Osaka petrochemical Industries, Ltd.	Ethylene, propylene and other basic petrochemical products	¥	5,000	100
*	Tohcello Co., Ltd.	Plastic film	¥	3,450	53.39
*	Evolue Japan Co., Ltd.	Polyethylene	¥	400	75
*	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
*	Prime Polymer Asia Co., Ltd.	Polyolefin	HK$	1	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
	Grand Siam Composites Co., Ltd.	Polypropylene and polypropylene compound	Baht	63.7	48.2
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
*	Cosumosu Co., Ltd.	Consignment from Mitsui Chemicals and miscellaneous	¥	45	100
*	San-eito Co., Ltd.	Direct contracting and miscellaneous	¥	10	50
*	Sanseikaihatsu Co., Ltd.	Consignment from Mitsui Chemicals and miscellaneous	¥	490	100
*	San-Business Services, Ltd.	Travel and general damage insurance	¥	50	100
*	Himawari Co., Ltd.	Consignment from Mitsui Chemicals and miscellaneous	¥	85	100
*	Mitsui Chemicals Engineering Co., Ltd.	Engineering, plant construction and machine maintenance	¥	400	100
*	Mitsui Chemicals Logistics, Inc.	Logistics freight transport and packaging	¥	600	100
*	Mitsui Chemical Analysis & Consulting Service, Inc.	Performing analysis, physical property measurements, and safety tests on chemicals	¥	130	100
*	Mitsui 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

Corporate Data

(As of March 31, 2007)

Date Incorporated

July 25, 1947

(Inaugurated October 1, 1997)

Paid-in Capital

¥103,226 million

Number of Employees

12,511 (Consolidated)

4,493 (Non-consolidated)

Shares of Common Stock Issued and Outstanding

792,020,076

Number of Shareholders

87,889

Stock Listings

Tokyo

Transfer Agent

The Chuo Mitsui Trust & Banking Co., Ltd.

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Pudong New Area, Shanghai 200120, China
Phone: +86-21-5888-6336
Facsimile: +86-21-5888-6337

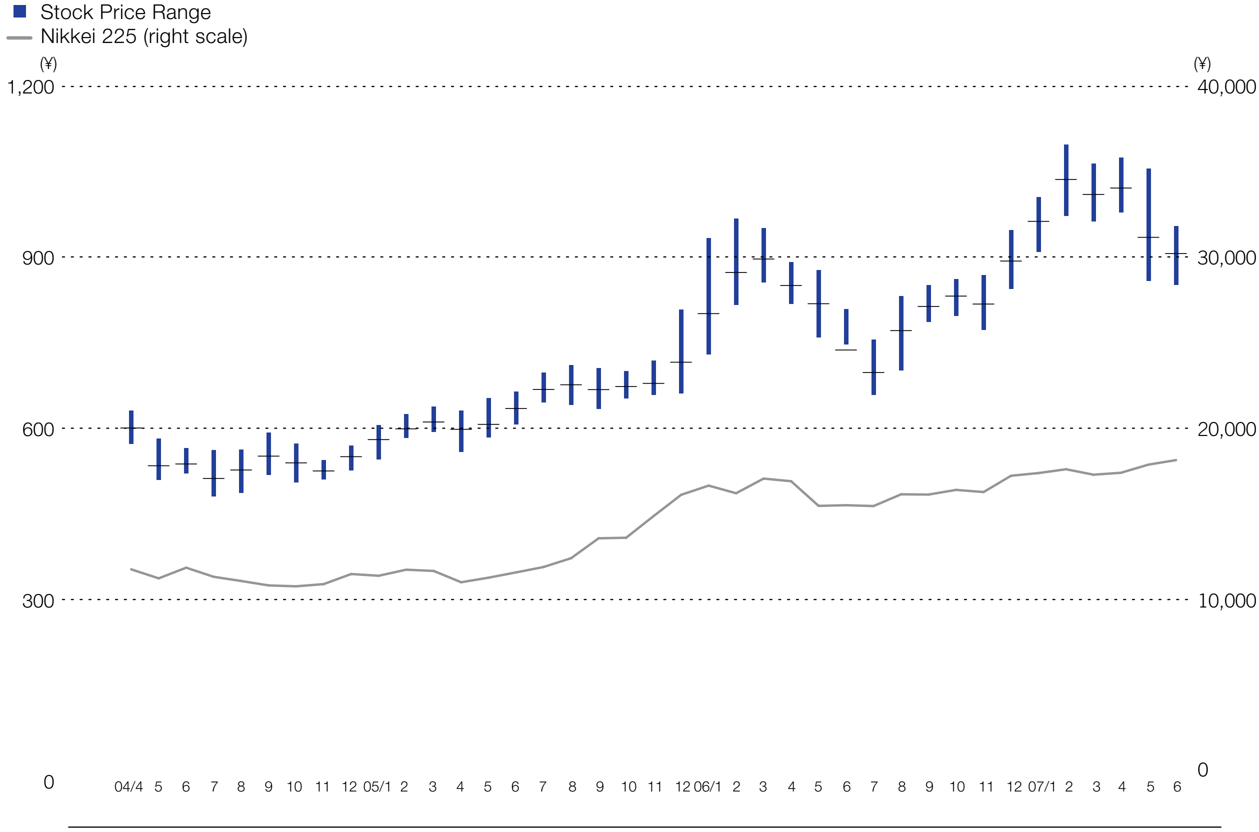
Mitsui Chemicals Organization Chart

(As of April 1, 2007)

- **Board of Directors**
  - **Chairman**
    - **President & CEO**
      - **Management Committee**
        - **Performance Materials Business Sector**
          - Business Planning & Development Div.
          - Administration & Accounting Div.
          - Automotive & Industrial Materials Div.
          - Packaging & Engineering Materials Div.
          - Living & Energy Materials Div.
          - Information & Electronics Materials Div.
          - Development Center
            - Materials Lab.
            - Product Development Lab.
            - Technology Lab.
            - (Mitsui Chemicals Polyurethanes, Inc.)
        - **Advanced Chemicals Business Sector**
          - Business Planning & Development Div.
          - Administration & Accounting Div.
          - Fine & Performance Chemicals Div.
          - Agrochemicals Div.
          - Development Center
            - Fine & Performance Chemicals Lab.
            - Agrochemicals Lab.
        - **Basic Chemicals Business Sector**
          - Business Planning, Development & License Div.
          - Administration & Accounting Div.
          - Feedstocks Div.
          - Phenols Div.
          - PTA & PET Div.
          - Industrial Chemicals Div.
          - (Prime Polymer Co., Ltd.)
        - Nagoya Branch
        - Osaka Branch
        - Fukuoka Branch
        - Mitsui Chemicals America, Inc.
        - Mitsui Chemicals Europe GmbH
        - Mitsui Chemicals Asia Pacific, Ltd.
        - Mitsui Chemicals (Shanghai) Co., Ltd.
        - **Production & Technology Center**
          - Planning & Coordination Div.
          - Safety & Environment Div.
          - Quality Assurance Div.
          - Process Technology Center
          - Ichihara Works
          - Nagoya Works
          - Osaka Works
          - Iwakuni-Ohtake Works
          - Omuta Works
          - (Mitsui Chemicals Engineering Co., Ltd.)
          - (Mitsui Chemicals Analysis & Consulting Service, Inc.)
        - SCM Div.
        - Purchasing Div.
        - Logistics Div.
        - Information Technology Planning Div.
        - **Research Center**
          - Planning & Coordination Div.
          - Organo-metal Complexes Catalization Lab.
          - Catalysis Science Lab.
          - Material Science Lab.
        - Intellectual Property Div.
        - Corporate Planning Div.
        - Group Management Promotion Div.
        - Management Accounting Div.
        - Finance & Accounting Div.
        - Executive Offices
        - CSR & Corporate Communications Div.
        - Corporate Administration Div.
        - Legal Div.
        - Human Resources & Employee Relations Div.
        - **Internal Control Div.**

- **Board of Corporate Auditors**
  - **Corporate Auditors**

Common Stock Price Range



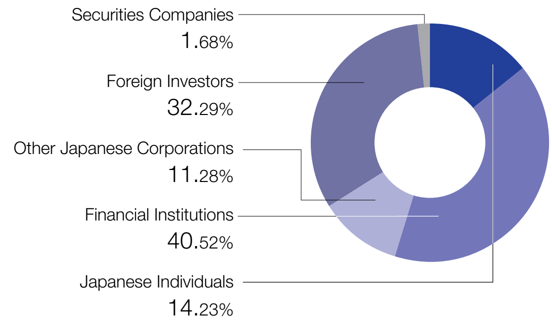
Major Shareholders

(As of March 31, 2007)

	Number of shares held (Thousands)	Percentage of shares held (%)
The Master Trust Bank of Japan, Ltd. (Trust account)	57,330	7.23
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	4.72
Japan Trustee Services Bank, Ltd. (Trust Account 4)	31,954	4.03
Japan Trustee Services Bank, Ltd. (Trust account)	30,840	3.89
Mitsui & Co., Ltd. (Standing Proxy: Trust & Custody Services Bank, Ltd.)	28,007	3.53
Sumitomo Mitsui Banking Corporation	21,946	2.77
State Street Bank and Trust Company (Standing Proxy: Mizuho Corporate Bank, Ltd.)	21,786	2.75
Mitsui Life Insurance Co., Ltd. (Standing Proxy: Japan Trustee Services Bank, Ltd.)	18,330	2.31
Mitsui Sumitomo Insurance Co., Ltd.	16,322	2.06
The Chuo Mitsui Trust and Banking Co., Ltd. (Standing Proxy: Japan Trustee Services Bank, Ltd.)	16,317	2.06
Total	280,259	35.38

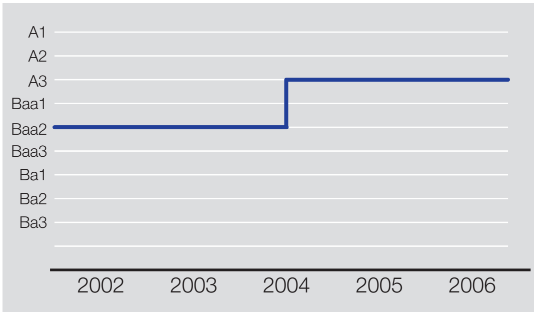
Composition of Shareholders

(As of March 31, 2007)



Moody's Long-term Credit Ratings of MCI

(Ratings)



Mitsui Chemicals

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