Mitsui Chemicals, Inc. Annual Report 2008

The Challenge to Create Innovative Values

Annual Report 2008

Year Ended March 31, 2008

Mitsui Chemicals

Contents

Forward-Looking Statements

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

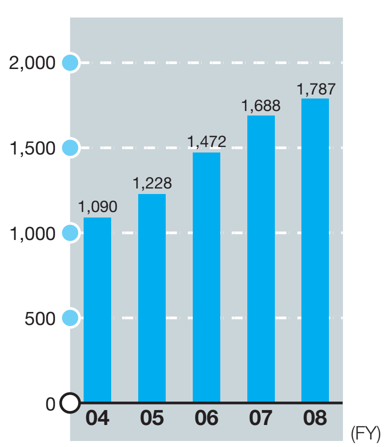
Consolidated Financial Highlights

For the years ended March 31

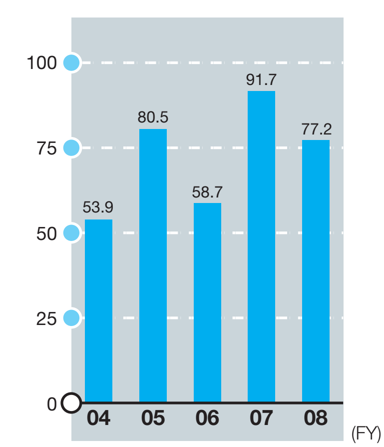
	Millions of yen			% Change	Thousands of U.S. dollars
	FY2008	FY2007	FY2006	FY2008/FY2007	FY2008
For the year:					
Net sales	¥1,786,680	¥1,688,062	¥1,472,435	5.8	$17,832,917
Operating income	77,176	91,678	58,705	(15.8)	770,296
Net income	24,831	52,297	44,125	(52.5)	247,840
Capital expenditures	84,667	72,671	81,400	16.5	845,064
R&D expenses	42,130	36,943	37,146	14.0	420,501
At year-end:					
Total assets	¥1,469,248	¥1,498,183	¥1,328,890	(1.9)	$14,664,616
Total shareholders' equity	500,044	504,509	464,021	(0.9)	4,990,956
	Yen			% Change	U.S. dollars
Per share of common stock:					
Net income	¥ 32.22	¥ 66.68	¥ 56.20	(51.7)	$0.32
Shareholders' equity	649.63	653.84	592.42	(0.6)	6.48
Cash dividends	12.00	10.00	8.00	20.0	0.12
Performance indicators:					
Return on equity	4.94%	10.80%	10.15%		
Return (operating income) on assets	5.20%	6.49%	4.63%		

Notes: 1) U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥100.19=U.S.$1, the approximate Tokyo foreign exchange market rate as of March 31, 2008.
2) Changes are between the years ended March 31, 2008 and 2007.
3) Total shareholders' equity = Total net assets – Minority interests (as recorded on the balance sheet)

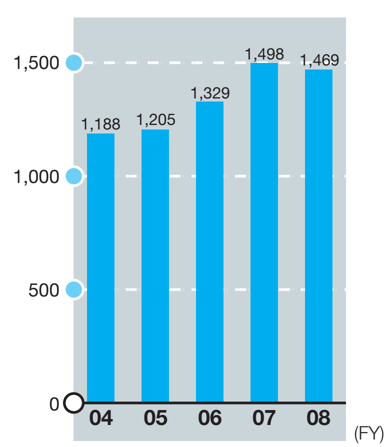
Net Sales
(Billions of Yen)



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, FY08 indicates the fiscal year from April 1, 2007 to March 31, 2008.

To Our Shareholders, Customers and Partners

The Challenge to Create Innovative Values

Kenji Fujiyoshi President and CEO

Fiscal 2008 (Year Ended March 31, 2008) Business Environment and Results

Despite healthy growth in personal consumption and exports, the Japanese economy lost momentum during fiscal 2008, the year ended March 31, 2008, due to lackluster capital investment, a sharp drop-off in housing investment, and a slowdown in global economic growth from the second half of the fiscal year.

Similarly, Japan's chemical industry continued to face a severe business environment, with weak production and shipments as well as soaring feedstock prices, which reached an even higher level during 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 ¥1,786.7 billion, up ¥98.6 billion year on year, and operating income of ¥77.2 billion, a decrease of ¥14.5 billion. Net income, meanwhile, was ¥24.8 billion, ¥27.5 billion lower than the previous year. We paid a dividend of ¥12 per share for fiscal year 2008, up ¥2 from last year.

Business Environment in Fiscal 2009 (Year Ending March 31, 2009)

Japan's economic outlook is marred by uncertainty, including concerns over a global economic slowdown triggered by fallout from the U.S. subprime mortgage problem, pressure on corporate earnings due to rising prices for crude oil, iron ore and other raw materials, and weak personal consumption. These conditions will likely undermine economic growth rates, causing overall growth to level off particularly in the first half of the year.

Similarly, the Mitsui Chemicals Group's business environment is expected to remain challenging, due to large-scale ethylene production facilities that are scheduled to come on stream throughout the Middle East and Asia, and lingering concerns over the impact of high feedstock prices.

Accordingly, the Group is ensuring that all employees are fully aware of the severity of the business environment, and that all employees make concerted efforts to accelerate measures designed to improve business performance.

Priority Issues for Fiscal 2009

In light of these conditions, the Group formulated the 2008 Medium-term Business Plan, a new four-year plan launched in April 2008, in the drive to achieve long-term business objectives. Underlying this latest medium-term plan is the "Grand Design"—the basic framework for Mitsui Chemicals Group management. Guided by the new plan, the Group will promote management driven by a three-dimensional strategy based on the concepts of "Economy," "Environment" and "Society." Put differently, the goals of the plan are to promote greater economic growth, environmental harmony and social coexistence, and to generate new value through innovative technology. I will personally spearhead efforts by the Group to meet the challenges that these goals present with greater speed than ever before.

Fiscal 2009, the first year of this new medium-term plan, will see us address the following priority issues.

(Economy)

- Grow and expand to achieve long-term targets through selective and concentrated investment of management resources and realize quick returns on these investments
- Secure favorable terms of trade amid record-high feedstock prices
- Enact extensive cost reduction and asset reduction measures throughout the Group

(Environment)

- Achieve GHG (greenhouse gas) reduction targets and formulate other specific reduction targets
- Implement reduction plans at all production sites and affiliates ahead of steps to achieve "minimization" of industrial waste sent to landfill

(Society)

- Promote activities as a Group to eradicate occupational accidents and injuries
- Eradicate violations of laws and rules by entrenching a compliance mindset Group-wide

In closing, I would like to take this opportunity to ask our many stakeholders, including our shareholders, customers, and partners, for their continued cooperation with and support of the Mitsui Chemicals Group.

K. Fujiyoshi

Kenji Fujiyoshi
President and CEO

Mitsui Chemicals has formulated the 2008 Medium-term Business Plan, a new four-year medium-term business plan launched in April 2008. In an interview with President and CEO Kenji Fujiyoshi, we discuss details of the plan and the background behind its formulation.

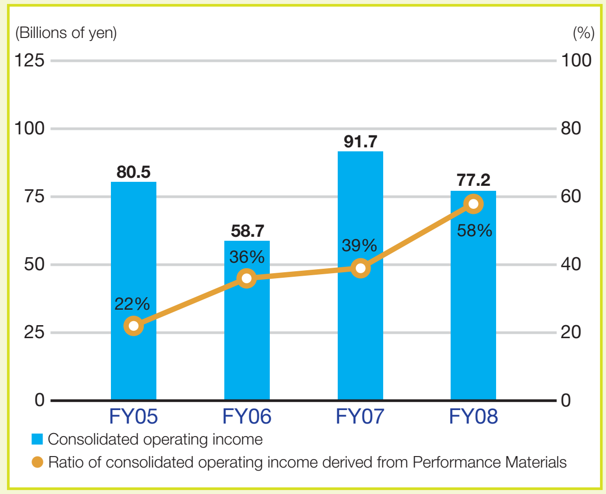
Q How successful was the company in achieving the targets of the previous medium-term plan?

A The year under review was the final year of our earlier four-year plan (the 2004 Medium-term Business Plan), which originally got under way in fiscal 2005. One of the key phrases of this plan was, “Shift from Commodities to Specialties.” With this in mind, we pursued greater selection and focus in our operations, which entailed a push to expand and grow in the former performance materials sector, and to strengthen profitability in the former petrochemicals & basic chemicals sector. In the former, we sought to grow and strengthen functional polymers and related products, while in the latter, we focused on strengthening propylene chain and aroma chain profitability. At the same time, we withdrew from certain businesses, such as PDP optical filters, after judging that these operations no longer offer prospects for earnings going forward.

1. Operating Income for 2004 Medium-term Business Plan

(Cumulative four-year operating income)
2004 Plan (Target) ¥320.0 billion
Result ¥308.1 billion

▶ Cumulative four-year operating income almost achieved

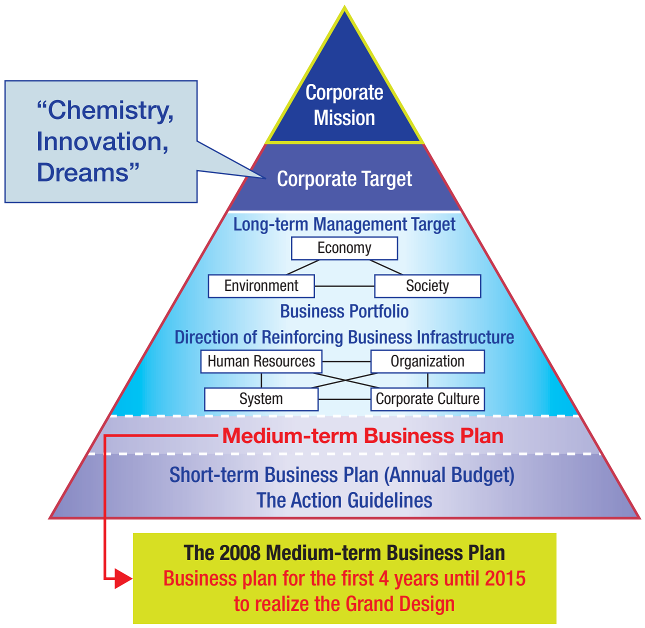


The outcome of these actions was that the former performance materials sector now accounts for over half of our operating income, surpassing our targeted share of 50%. In fact, cumulative operating income over the plan’s four-year period was ¥308.1 billion, somewhat in line with our target of ¥320.0 billion. This result came despite an adverse business environment marred by soaring feedstock prices. (Diagram 1)

Q What guided the formulation of initiatives targeted in the 2008 Medium-term Business Plan?

A Mitsui Chemicals celebrated its 10th anniversary in 2007. This milestone prompted us to draw up a basic management framework for attaining growth over the next 10 to 15 years; a vision that we call the “Grand Design.” The Grand Design establishes long-term management target that we hope to achieve by around 2015. The 2008 Medium-term Business Plan was formulated to guide our actions during the first four years leading up to 2015. (Diagram 2)

2. Grand Design* and the 08 MTP



Long-term Management Target
(targeting around 2015)

Financial Goals [Growth]

- Operating Income: ≥ ¥ 150 billion
- ROA (Return on Asset): ≥ 10%

Environmental Goals [Harmony]

- Index of GHG Basic Unit: 90 ≤ (1990 as 100)
- Industrial Wastes "Minimization"*
- Development of Technologies to Utilize Non-Fossil Resources

* Final disposal amount/The amount of industrial waste produced ≦ 1%

* Grand Design is the basic framework of the MCI Group management which sets goals with an eye on further growth in the next 10 to 15 years.

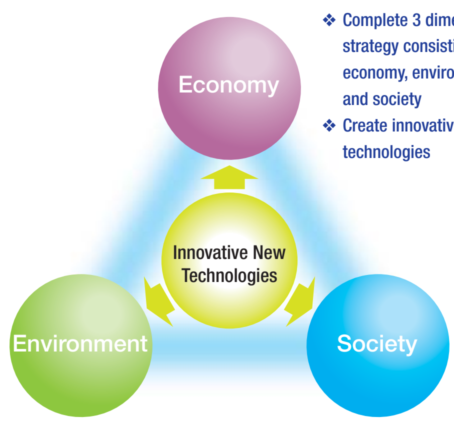
Q What is the basic concept behind the 2008 Plan?

A We seek to adopt a balanced approach to management focused on three areas—what we refer to as "Economy" (i.e. economic growth), as well as the "Environment" (greater harmony with the environment) and "Society" (greater social co-existence). Taken together, we intend to tackle the challenge of creating innovative value by developing innovative new technologies. (Diagram 3)

Though such management is considered a matter of course for the company to sustain its growth, the Mitsui Chemicals Group has clearly and intentionally set it forth in its 2008 Plan. As such, there should be no need to explicitly mention it again when formulating our next medium-term plan, since it will have become part of our corporate DNA by that time.

3. Basic Concept of the 08 MTP

"The Challenge to Create Innovative Values"



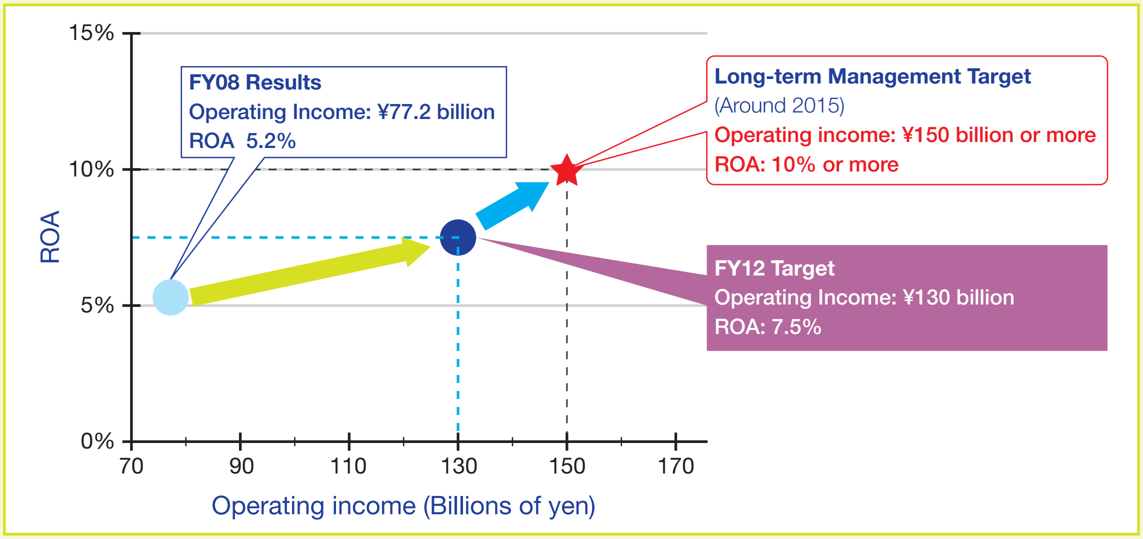
- ❖ Complete 3 dimensional strategy consisting of economy, environment and society
- ❖ Create innovative new technologies

What are the your "Economy" targets?

We have set specific targets for the three areas of Economy, Environment and Society. In the first area, the plan calls for operating income of ¥130.0 billion and ROA of 7.5% for the 2012 fiscal year. As the graph below shows, the 2008 Medium-term Business Plan will see us aggressively invest management resources. By giving first priority to expanding operating income, the plan seeks to lay the groundwork for achieving our long-term management targets (Diagram 4).

Basic strategies for each business sector are referred to in the diagram below (Diagram 5).

4. "Economy" Targets



5. Mission & Basic Strategy for Business Sectors

	Performance Materials	Advanced Chemicals	Basic Chemicals
Mission	Establish high-profitability as a growth driver.	Pursue business scale to establish the third pillar.	Strengthen profitability
Basic Strategy	Expand functional polymers and restructure business portfolio.	Expand business scale by focusing on M&A.	Strengthen competitiveness against threat by capacity expansion in the Middle East.
Approaches	Aggressively invest management resources in functional polymers.	Expand agrochemicals, vision care and catalysis businesses.	Introduce competitive technologies to manufacture high-value-added products. Win in growing Asian market.

What are your "Environment" targets?

In terms of greenhouse gases (GHG), widely viewed as the culprit behind global warming, our target is to lower the company's GHG per unit of production to no more than 85% of the fiscal 1991 level. To meet this target, we will progressively invest in greater energy efficiency, and develop revolutionary processes to sharply reduce GHG emissions based on innovative technology.

We are also taking proactive steps to address other goals in this area—minimize the final disposal volume of industrial waste and develop technologies for utilizing non-fossil resources. With respect to the latter, two key points will be to develop new material conversion technologies enabling the utilization of inedible resources so as to avoid encroaching on food staples. Realizing these objectives will also demand that we take full advantage of innovative technologies (Diagram 6).

6. Environment Targets

1. GHG (greenhouse gas) Basic Unit

<Management Target (FY2012)>
GHG Basic Unit **85 or less** (FY1991 as 100)
(Index of Energy Basic Unit 80 or less)

2. Land-filled Industrial Wastes "Minimization"

<Management Target (FY2012)>
Japan: **1% or less at every site (minimization)**
Overseas: **5% or less on average**

3. Development of Technologies Utilizing Non-fossil Resources

<Basic Strategy>
(1) Development of **transformational technology**
(2) Utilization of **inedible resources**

What are your "Society" targets?

Our focal points in this area are occupational safety and compliance with relevant laws and regulations.

In terms of occupational safety, our mission is to attain the world's top levels of safety, using the Frequency Rate of Occupational Injury as a key index.

Where compliance is concerned, our aim is straightforward—to completely eradicate compliance violations (Diagram 7).

7. Society Targets

<Management Target>

❖ Achieve world-top class safety level (FY2012)
- Frequency Rate of Occupational Injury (lost-time) **0.15 or less**
- Ditto (lost-time+non-lost time+light wound) **1.8 or less**

❖ Eradicate violation against laws and regulations

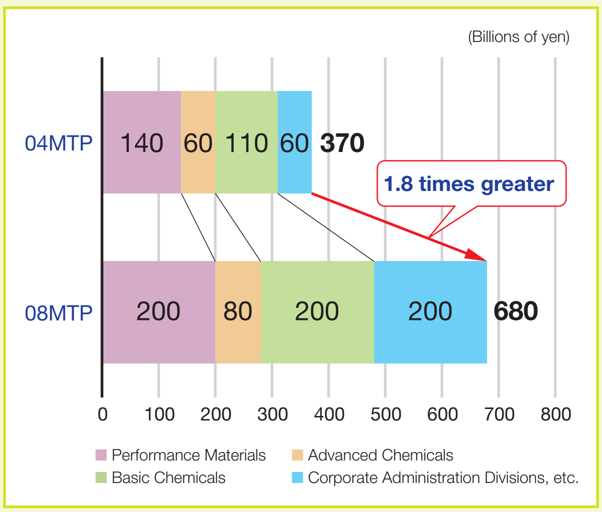
<Basic Strategy>

(1) Promote motivation group-widely
(2) Establish best-suit framework to realize optimal labor safety

How do you plan to invest management resources to meet your targets?

We plan to invest a total of ¥680 billion over the four-year duration of the new plan, 1.8 times the ¥370 billion used in the 2004 Medium-term Business Plan. This figure includes ¥100 billion in company-wide M&A expenses classified as infrastructure for production sites and strategic M&A expenses (Corporate Administration Divisions, etc.) Targeting global growth markets, we are determined to realize definitive growth and expansion by investing in highly promising businesses (Diagram 8).

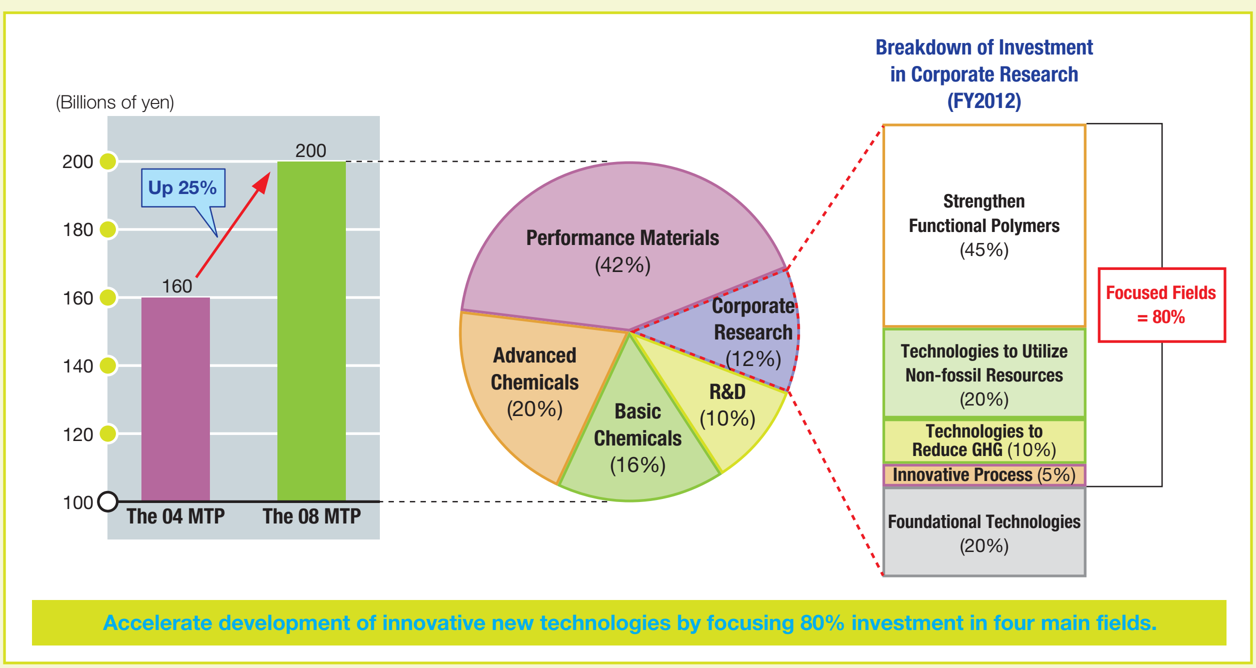
8. Management Resource Investment Plan
Investment By Organization



Please share your investment plan to boost R&D?

We will augment our investment in R&D by 25% to ¥200 billion over the four years of the 2008 Plan compared to the previous plan, most of this will be invested in the performance materials and advanced chemicals business sectors (Diagram 9).

9. Management Resource Investment Plan
R&D/ Focus on Corporate Research



You spoke earlier of "innovative new technologies." What kind of technologies does the company intend to develop?

The types of technology I'm referring to are categorized by Economy, Environment and Society in the following diagram (Diagram 10).

Among these, there are some technologies we are close to commercializing, some for which significant technical hurdles remain, and some that are more of a vision than a reality at this stage. Nonetheless, we intend to do our utmost to develop these technologies.

10. Creation of Innovative New Technologies
Direction

Economy
- ❖ Strengthening of functional polymers portfolio
- ❖ Development of innovative processes for olefin and aroma products

Environment
- ❖ Development of technologies to utilize non-fossil resources
  - •Plant-derived polyurethane
  - •Bio-olefin products
- ❖ Technologies to reduce greenhouse gas
  - •CO_2 immobilization

Society
- ❖ Development of innovative, highly safe processes
  - •Non-phosgene isocyanate process

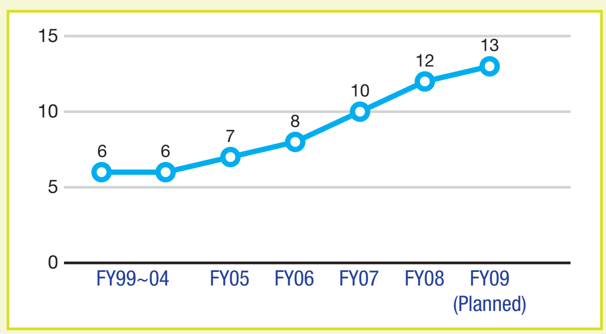
Can you explain the changes to your dividend policy for shareholders?

We have long held that comprehensive consideration should be given to returning profits to shareholders while ensuring sufficient internal reserves to support our growth and expansion strategies. That overarching belief remains unchanged.

As part of recent revisions, we established two specific targets: a consolidated dividend payout ratio of 25% or more, and a consolidated dividend on equity ratio of 2% or more. Keeping these targets in mind, we will strive to pay a consistent and stable dividend commensurate with consolidated business results over the medium to long term.

In step with this basic policy, we plan to pay a full-year dividend of ¥13 per share for fiscal 2009, consisting of an interim dividend of ¥6 per share, and a year-end dividend of ¥7 per share (Chart 11).

11. Dividend Amounts



A Social Contribution Through Our Main Businesses

We regard CSR in terms of a commitment to realize the corporate mission of the Mitsui Chemicals Group. In line with this view, we have set management target that go beyond financial targets to include objectives related to environmental performance. We aim to be actively involved in addressing environmental issues, rather than just viewing the environment as a constraint on economic activity.

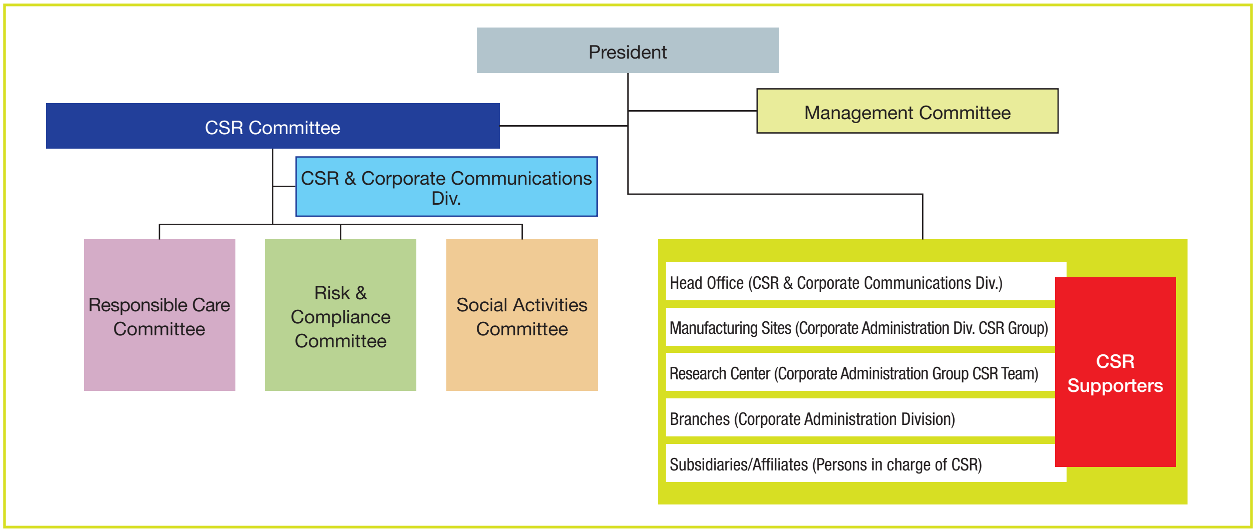
From fiscal 2008 we introduced a performance evaluation system for executive officers and senior managers that assesses results with “Economy,” “Environment,” and “Society” as key dimensions. In addition to the “Economy” dimension (financial results), this system takes into serious consideration performance along the “Environment” and “Society” (such as efforts to eliminate workplace accidents or full compliance with laws and regulations) lines. Through this approach, we aim to promote management that is balanced along each of these three dimensions.

We do not see CSR as a special initiative in its own right, but rather as an approach that provides the entire framework underpinning our management. Our overall goal is to make a positive contribution through our main businesses for the benefit of all stakeholders.

Corporate Mission

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

CSR promotion system



Employee-centered CSR

In promoting CSR, we believe it is important to involve the thoughts and actions of individual employees, who have the closest level of interaction with our stakeholders, into this process. We have created a group of over 400 "CSR Supporters" selected from the employees at each operating site, including those working at our major overseas subsidiaries in Asia. Employed in many different jobs, these people provide the core energy for promoting CSR-related activities across the Group.

Currently we are undertaking a Group-wide communication program ("Dream Talk") to disseminate and entrench the Action Guidelines for the Group formulated in 2006. This ongoing program involves group discussions held throughout the company.

Action Guidelines for Mitsui Chemicals Group

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

A Two-way Dialogue

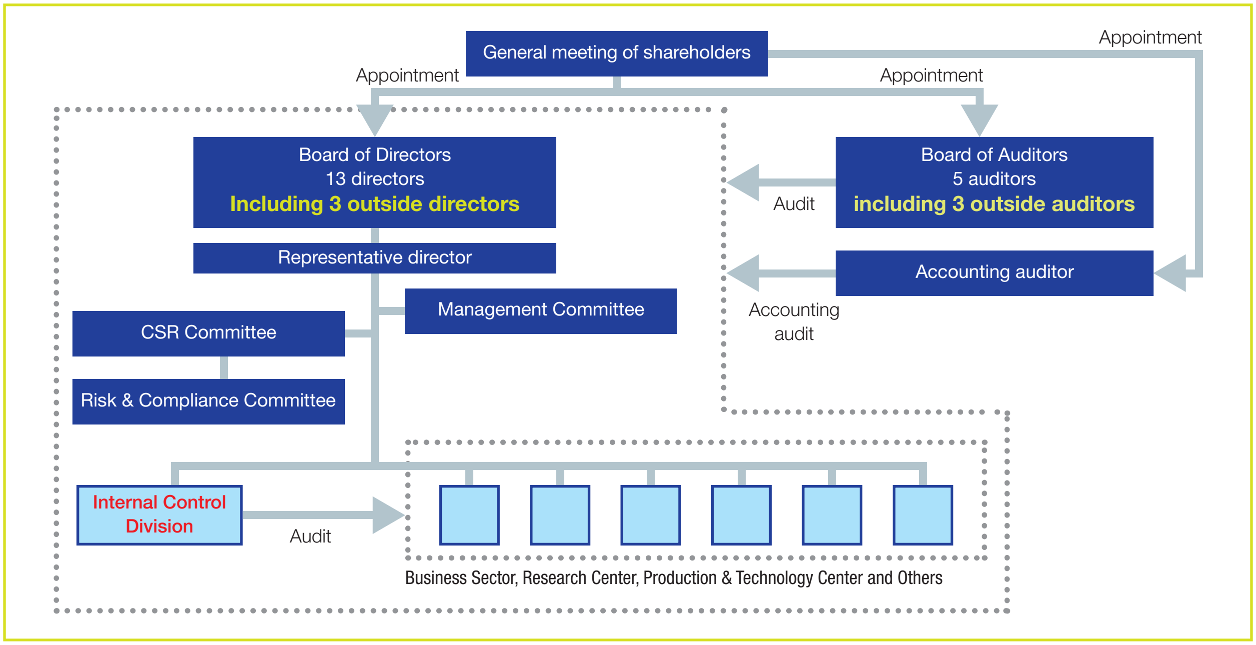
Earning the trust of society is essentially a two-way communication process. The company must listen to comments, opinions and other feedback from stakeholders and then respond through various corporate activities. Going forward, we aim to upgrade and expand our efforts to foster this two-way dialogue with stakeholders.

Below is an outline of specific CSR-related activities at Mitsui Chemicals (corporate governance, risk management, compliance, Responsible Care (RC) activities and social contribution programs).

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).

Corporate Governance Diagram



Outside Executives

Board Director

Yukio Machida

Role within Board of Directors

Mr. Machida mainly provides advice on compliance-related issues, based on his legal knowledge and extensive experience in the legal field.

Comment

One aspect of corporate governance at Mitsui Chemicals is the checks used to evaluate the performance of senior executives. Under this system, the progress made by each director in achieving agreed reform objectives relating to organizational structure, human resources, systems and corporate culture in his area of functional responsibility is assessed along economic, social and environmental dimensions. Mitsui Chemicals' senior management explains company issues in a straightforward manner that avoids the use of insider jargon so that those outside the company are able to understand the issues well. Essentially, management is proactive, and is extremely patient when it comes to waiting for and listening to our comments. As you can imagine, this makes for very lively board meetings.

Board Director

Tetsuji Tanaka

Role within Board of Directors

Dr. Tanaka mainly provides advice on matters related to determining business direction, based on his specialist knowledge of monetary policy and other broad experience, particularly in relation to Central Asia and China.

Comment

The past year was my first as a participant in board meetings. However, it marks the 10th year since the establishment of what I view as a stable corporate governance structure that arose from the merger of two industry giants. With further globalization on the horizon, I expect this framework will underpin stronger strategies for markets outside Japan and efforts to train people that are up to the challenges ahead.

Board Director

Akemi Ori

Role within Board of Directors

Dr. Ori mainly provides advice on issues relating to the Responsible Care program of activities and to public relations and other external communications, based on her specialist knowledge and experience in environmental fields.

Comment

At board meetings, the other directors work to answer even the naive questions that I frequently ask in a sincere and straightforward manner. I hope that my participation will help highlight the difference between what companies view as common sense, versus what the public believes. Realizing that a gap actually exists is important to become a truly open company.

Corporate Auditor

Isao Ijyuin

Role within Board of Directors and Board of Auditors

Mr. Ijyuin mainly provides advice with the aim of ensuring the appropriate execution of business based on his legal knowledge and extensive experience in the legal field.

Comment

I perform my duties as an outside auditor always with the consciousness of a person entrusted with the task of attending to shareholders' interests. I am convinced that my role is to contribute to the Company's growth by promoting accountability and transparency in various corporate actions performed through directors' execution of their duties as well as by ensuring legal compliance and reasonableness of corporate actions.

Corporate Auditor

Hisao Muramoto

Role within Board of Directors and Board of Auditors

Mr. Muramoto mainly provides advice on issues relating to the appropriateness of business execution, based on his broad general business knowledge and experience gained over many years in financial institution management and work in areas related to government regulation of fiscal and tax matters.

Comment

The system of corporate governance differs from company to company. However, whichever systems are adopted, I think that everyone acknowledges that the key is to ensure fairness and transparency. From that standpoint, I hope that I can play a useful role in ensuring optimal governance at Mitsui Chemicals by actively participating in the discussions at the meetings of the Board of Directors.

Corporate Auditor

Hideharu Kadowaki

Role within Board of Directors and Board of Auditors

Mr. Kadowaki mainly provides advice on issues relating to the appropriateness of business execution, based on his broad general business knowledge and experience gained over many years in financial institution management.

Comment

The global economic turmoil we see today shows no signs of abating. Harsh environments of this kind in particular demand that companies maintain sound corporate governance structures capable of supporting their sustainable growth and earning society's trust. As an outside corporate auditor, I know that continuously honing my own skills is vital to helping ensure that the company's business activities are conducted in an appropriate manner.

Introduction of Takeover Defense Measures

Mitsui Chemicals introduced takeover defense measures following the approval by the Ordinary General Meeting of Shareholders in June 2007. For occasions when the Company receives an acquisition proposal for MCI's shares from an acquirer, it is necessary to introduce a mechanism that enables the Board of Directors to ensure necessary time and information for the shareholders to decide whether or not to accept such proposal and for the Board of Directors to make an alternative proposal to the shareholders, and to negotiate with the acquirer for the benefit of the shareholders, and, thus, deters acquisitions that are detrimental to MCI's corporate value and the common interests of its shareholders and to prevent decisions on the Company's financial and operating policies from being controlled by inappropriate parties. For further information about the nature of these takeover defenses, please refer to the April 3, 2007 press release entitled "Introduction of Countermeasures to Large-Scale Acquisitions of Shares (Takeover Defense Measures)." This is available from the Mitsui Chemicals web site.

[URL]

http://www.mitsuichem.com/ir/pdf/070403e.pdf

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 to better promote internal control systems.

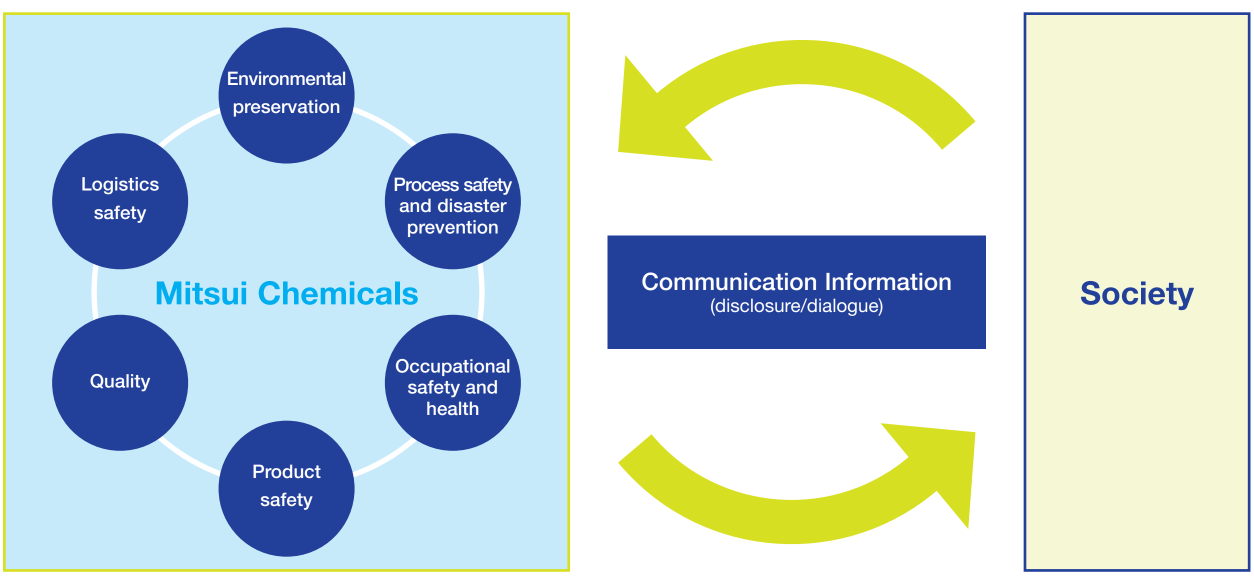
Meanwhile, Mitsui Chemicals conducts compliance education specifically tailored to the corporate management team, line managers, newly appointed administrators and new recruits to ensure that compliance awareness is firmly entrenched among all of its employees.

Divergence from content ratio for recycled plastics by Mitsui Chemicals Fabro

In January 2008, our Group company, Mitsui Chemicals Fabro, Inc., was discovered to have manufactured and sold its environmentally friendly expanded plastic sheets in violation of the required content for recycled plastics as guaranteed to customers by The Eco Mark and Japan’s Green Purchasing Law. Mitsui Chemicals Fabro immediately suspended all production and sales of the said product and made a full public disclosure of the relevant facts.

The Mitsui Chemicals Group takes this compliance violation extremely seriously. Efforts are underway to try to restore trust by putting in place appropriate measures to prevent recurrence of any similar event within the Group.

Relationship between Mitsui Chemicals’ RC Management System and Society



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.

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 sites in Japan, to increase opportunities for children to experience the fun and wonder of chemistry firsthand.

In other activities, Mitsui Chemicals commenced afforestation activities in the Inner Mongolia region of China in 2007, utilizing its own proprietary technology.

International Symposium on Catalysis Science

Wonders-in-Chemistry Class

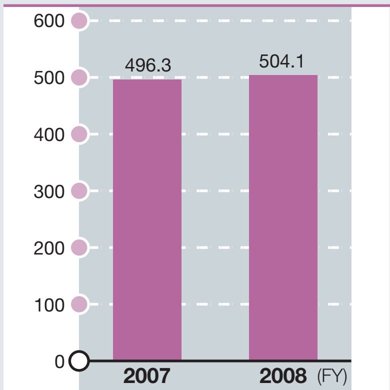

Tree planting experiments in Inner Mongolia

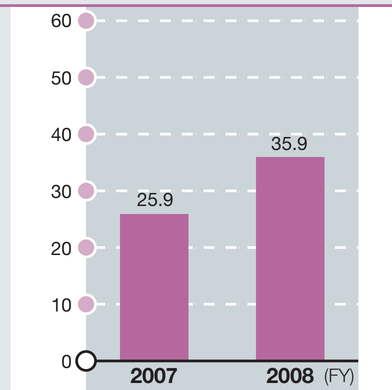
	CORE BUSINESS	MAIN PRODUCTS
Performance Materials	• Automotive & Industrial Materials	• EPT • MILASTOMER™ • TAFMER™ • Polyethylene wax
	• Packaging & Engineering Materials • Living & Energy Materials	• Nonwoven fabrics for hygiene materials and breathable films • TPX™ • APEL™ • NF3 gas
	• Information & Electronics Materials	• Polyimide flexible laminate • Packages for image sensors • Silicon wafer back-grinding tape • 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 • Polyolefin • Phenols	• Ethylene • Propylene • Polyethylene • Polypropylene • Phenol • 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	

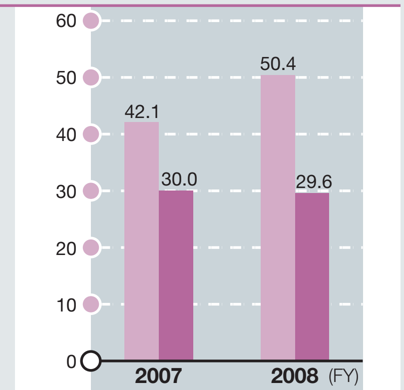
NET SALES
(Billions of yen)

OPERATING INCOME
(Billions of yen)

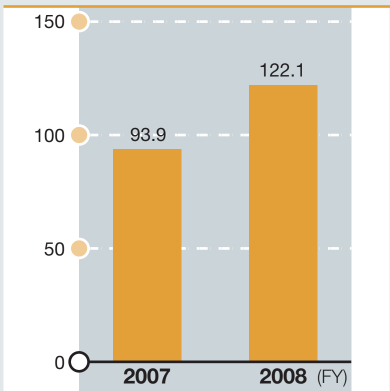
CAPITAL EXPENDITURES/ DEPRECIATION AND AMORTIZATION
(Billions of yen)

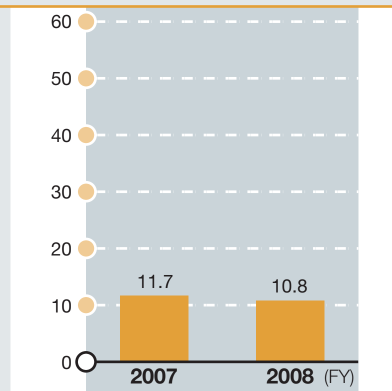


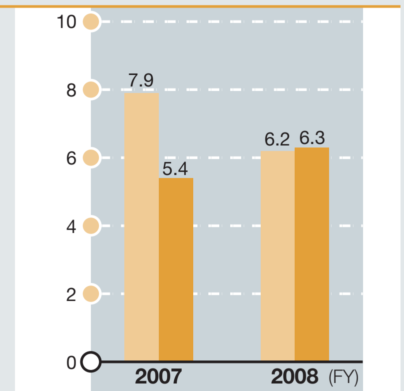




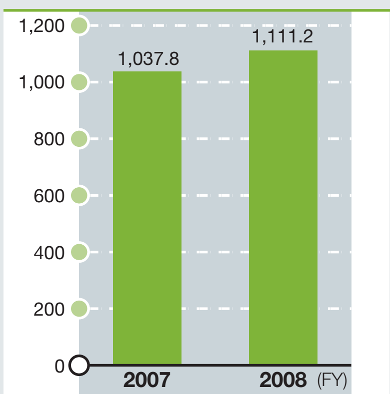
Capital Expenditures Depreciation and Amortization

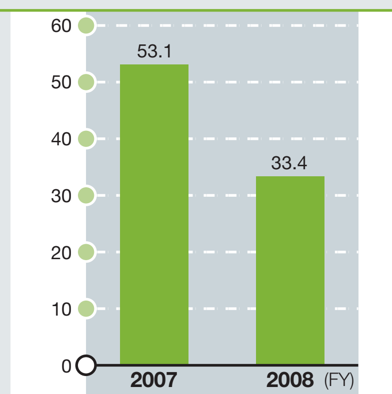


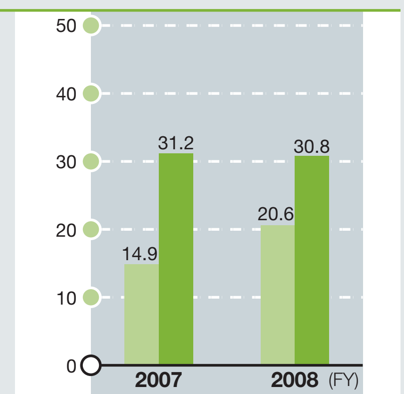




Capital Expenditures Depreciation and Amortization

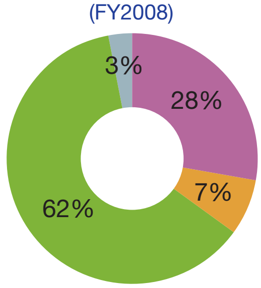




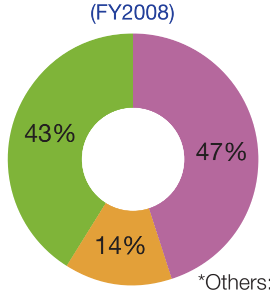


Capital Expenditures Depreciation and Amortization

Ratio to Total Net Sales (FY2008)



Ratio to Total Operating Income (FY2008)



*Others: -4%

Major Products and Applications

Digital cameras
- PLAPACS™ (plastic packages for image sensors)

CDs and DVDs
- Bisphenol A (raw material for highly transparent polycarbonate resin)
- Functional dyes

HDD suspensions
- SCL (flexible substrate)

DVD drives
- APEL™ (resin used in pickup lenses)

Disposable diapers
- SYNTEX™ (nonwoven fabrics for soft diapers)
- ESPOIR™ (liquid impermeable and water vapor permeable microporous film)

Personal computers
- LC-STRUCTBOND (liquid crystal sealant)
- ICROS TAPE™ (protective tape used when grind a backside of semiconductor wafer)
- Mitsui MP (dust-proof membrane applied on photo mask)
- OPULENT™ (release film for the process of manufacturing flexible circuit boards)
- ARLEN™ (heat-resistant resin suitable for use with lead-free solder)
- Nitrogen trifluoride (cleaning agent for semiconductor and liquid crystal production equipment)
- Monosilane (raw material for silicon membranes)
- Bisphenol A (raw material for polycarbonate resin of high impact resistance and weather resistance)

Mobile phones
- NEOFLEX™ (flexible printed-circuit board materials)
- PLAPACS™ (pre-mold plastic package for image sensors that excels in humidity resistance and dimensional accuracy)
- APEL™ (materials for compact and highly precise camera lens)

Printers
- Mitsui EPT (used in printer paper feeder/discharger rolls)
- Hi-WAX (toner additive)
- FTR™ (toner additive)
- ALMATEX™ (toner binder resin)

Newspaper and corrugated cardboard
- Acrylamide (raw material for paper reinforcing agent)
- BONRON™ (paper processing resin)

Sneakers
- TAFMER™ (midsoles)

Insulator for refrigerators
- Urethane

Tea bags
- SWP™ (heat-seal type tea bags)

Polyester fibers
- Purified terephthalic acid
- Ethylene glycol (polyester fiber feedstock)

Detergent containers and food packages
- HI-ZEX™
- ULTZEX™
- EVOLUE™
- PRIME POLYPRO™
- MIRASON™

Drug medicine
- Taurine

PET bottles
- MITSUI PET
- PRIME POLYPRO

Food packages
- ADMER™ (adhesive for resins of different properties)
- Urethane (adhesive for resins of different properties)
- CHEMIPEARL™ (adhesive for resins of different properties)

Gas pipes
- Mitsui PE gas pipe system (pipes and fittings)

Pipes and fittings for cold/hot water
- ELMEX™

Gear oil/engine oil additive
- LUCANT™

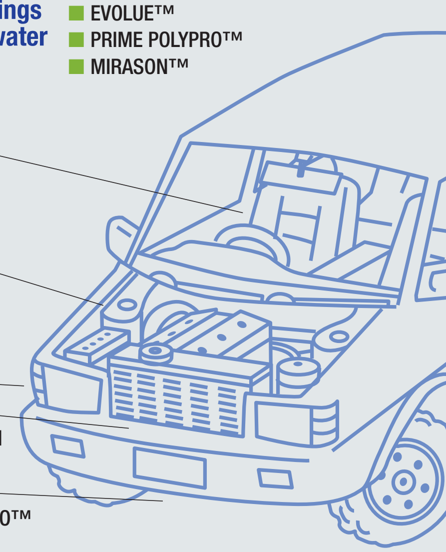
Hoses
- Mitsui EPT

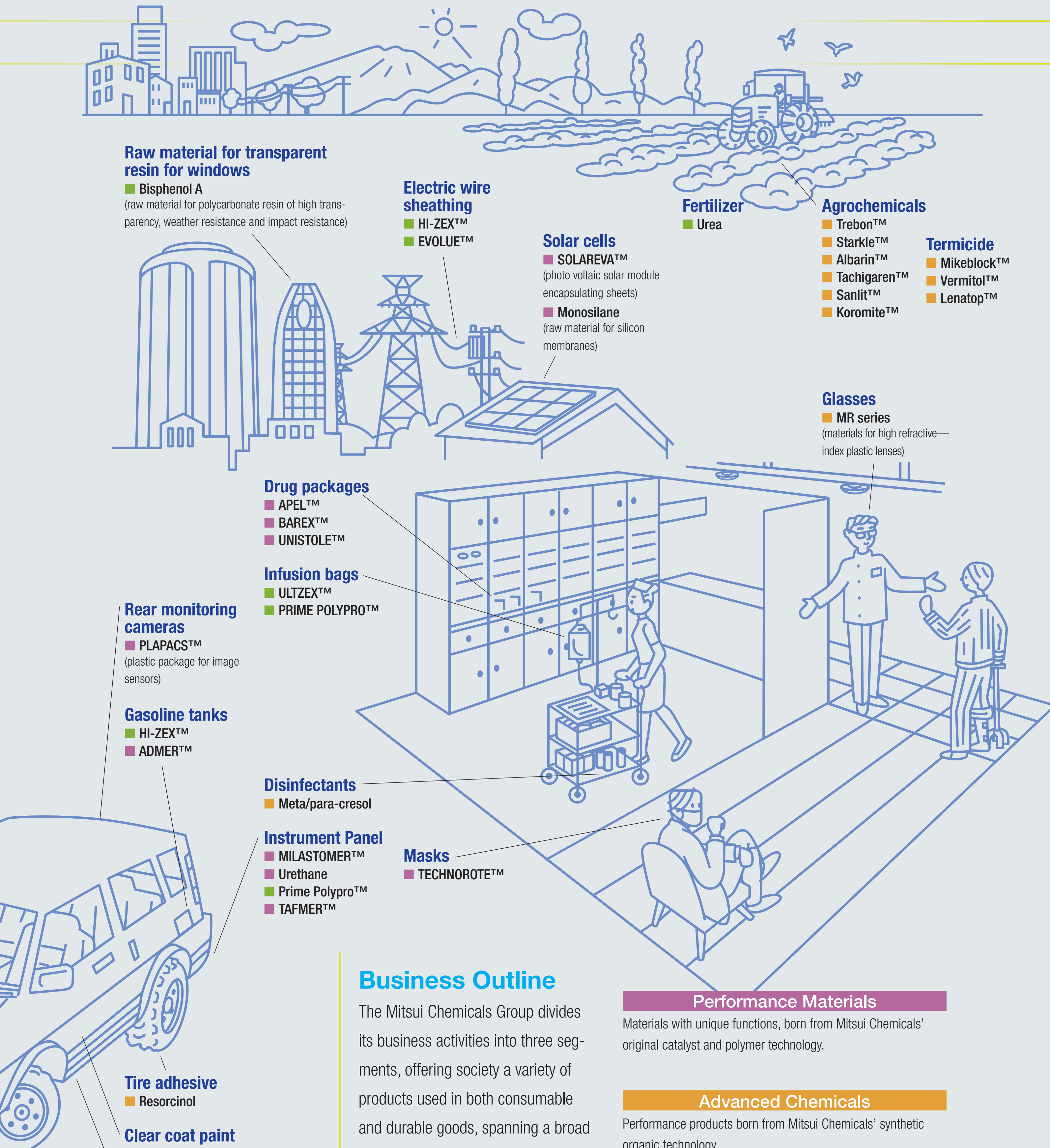
Resin for headlamp lenses
- Bisphenol A (raw material for polycarbonate resin of high transparency and impact resistance)

Cushions
- Urethane

Antifreeze
- Ethylene glycol

Bumpers
- PRIME POLYPRO™
- TAFMER™ (material modified with impact-resistant resin)
- UNISTOLE™ (primer for painting resin)





Business Outline

The Mitsui Chemicals Group divides its business activities into three segments, offering society a variety of products used in both consumable and durable goods, spanning a broad range of fields, from automobiles, electronics and IT to medical, health-related, agricultural, housing, construction and household products.

Performance Materials

Materials with unique functions, born from Mitsui Chemicals' original catalyst and polymer technology.

Advanced Chemicals

Performance products born from Mitsui Chemicals' synthetic organic technology.

Basic Chemicals

A variety of raw materials useful in our daily lives, processed through chemical technologies from petroleum and natural gas.

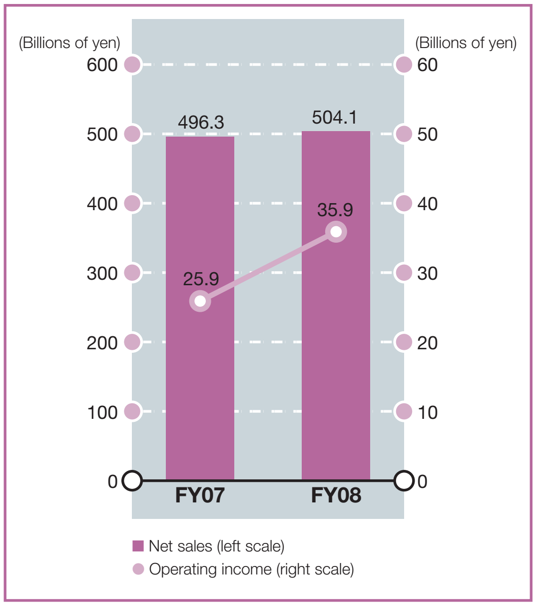
Performance Materials Business Sector

Hirokazu Kajiura
Business Sector President
Performance Materials Business Sector

(Billions of yen)	Fiscal 2007	Fiscal 2008	Change	
Net Sales	496.3	504.1	7.8	1.6%
Operating Income	25.9	35.9	10.0	38.3%

Main Products

- EPT (ethylene-propylene diene terpolymer)
- MILASTOMER™ (thermoplastic olefin elastomer)
- TAFMER™ (alpha-olefin copolymers)
- Polyethylene wax
- Nonwoven fabrics for hygiene materials and breathable films
- TPX™ (methylpentene copolymers)
- APEL™ (cycloolefin copolymers)
- HI-ZEX MILLION™ (ultra-high molecular weight polyethylene)
- NF3 gas
- ICROS TAPE™ (ultra-clean protective tape)
- NEOFLEX™ (all polymide flexible copper clad laminate)
- PLAPACS™ (packages for CCD/CMOS image sensors)
- Toner binder resins
- Urethane foam materials
- Urethane CASE (Coating/Adhesive/Sealant/Elastomer) materials
- Photovoltaic solar module encapsulating sheets



TAFMER™ is used to make vehicle bumpers

Fiscal 2008 Overview

Sales of EPT, alpha-olefin copolymers and other automotive and industrial materials grew due to higher domestic demand along with steady progress in the development of new customers, notably in Asian markets. New markets in applications such as soft polymeric resins also generated growth.

Sales of industrial materials were slightly lower than in the previous year. Steady growth in sales of resins for use in coating materials for data recording paper and for mobile phone and automotive applications helped to offset the loss of revenue due to the discontinuation of some petroleum resin product lines and subsequent withdrawal from operations.

Sales of hygiene materials increased in year-on-year terms, as demand for nonwoven fabrics continued to escalate across East and Southeast Asia, especially in markets such as Thailand and China.

Sales of engineering plastics and specialty polyolefins such as TPX™ and APEL™ increased over the previous year, reflecting higher demand for various electronics and IT-related applications.

Semiconductor materials generated year-on-year sales growth despite the effects of widespread price erosion within semiconductor and LCD markets. This was mainly due to concerted efforts to expand sales of semiconductor gases.

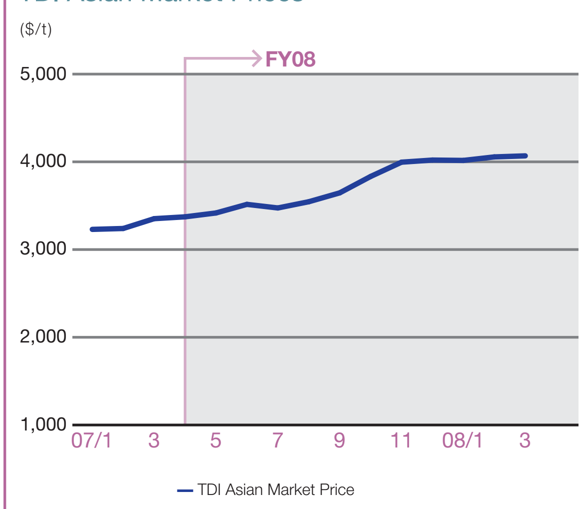
Sales of optical materials were significantly lower than in fiscal 2007 due to a slump in demand in the North American plasma display panel (PDP) market and the effects of price erosion. Based on an assessment that conditions in this sector are unlikely to recover quickly, Mitsui Chemicals decided to exit the PDP optical filter business from the end of fiscal 2008.

Sales of urethane foam materials were higher in year-on-year terms. Market prices for toluene diisocyanate (TDI) continued to rise during the year across East and Southeast Asia, extending the period of high prices seen from fiscal 2007. Mitsui Chemicals was also able to upwardly revise product prices to pass on increases in raw material costs for polypropylene glycol (PPG).

Reflecting higher demand in Japan and overseas markets for product applications such as coating hardeners and adhesives, sales of urethane CASE materials were higher than in the previous year.

Overall, net sales for the segment increased by ¥7.8 billion to ¥504.1 billion, while operating income rose by ¥10.0 billion to ¥35.9 billion. This favorable result reflected upward sales price revisions and better conditions in overseas markets, which helped to offset the impact of high and rising prices for raw materials.

TDI Asian Market Prices



EPT plant with expanded capacity

MELS production facility

Highlights

Expanded EPT Production Capacity Comes on Stream

Construction on the capacity expansion for EPT at the Ichihara Works was completed in October 2007. The project boosted production capacity by 75,000 tons to 120,000 tons per year. Entering operation in April 2008, the new plant is the largest EPT facility in the world and is equipped with state-of-the-art metallocene catalyst technology.

EPT is used in automotive parts, electric cables and other industrial components. Supported by double-digit annual growth in automobile production volumes, demand for EPT is rising rapidly, notably across the Asian region.

EPT is the main ingredient in the manufacture of thermoplastic olefin elastomers. In addition to the properties of EPT, these elastomers are lightweight and recyclable. In recent years this has boosted worldwide demand for their use as eco-friendly materials in many applications, ranging from vehicle interiors and building materials to components for household appliances.

Following the construction of this production facility, Mitsui Chemicals is targeting further expansion and growth in the EPT business.

Decision to Boost TAFMER™ Production Capacity

Responding to rapid demand growth in Asia, Mitsui Elastomers Singapore Pte. Ltd. (MELS), which is wholly owned by Mitsui Chemicals, decided in July 2007 to double production capacity for TAFMER™ to 200,000 tons per year. Construction work began in March 2008.

TAFMER™, a flexible and light resin modifier, dramatically improves impact resistance for molded materials such as automobile bumpers and sealability for packaging materials, when blended with a thermoplastic resin such as polyethylene or polypropylene. TAFMER™ is expected to cover a wide range of application areas such as automobiles and industrial and packaging materials, in which dramatic market growth is expected.

This capacity expansion will make Mitsui Chemicals one of the leading suppliers of polyolefin elastomers. Plans call for the ongoing expansion of this business.

Higher Capacity for Nonwoven Fabrics Used in Hygiene Materials

The market for disposable diapers is growing rapidly in East and Southeast Asia. In response to this demand, Mitsui Chemicals has been increasing production

Our nonwoven fabrics and breathable films are used in disposable diapers.

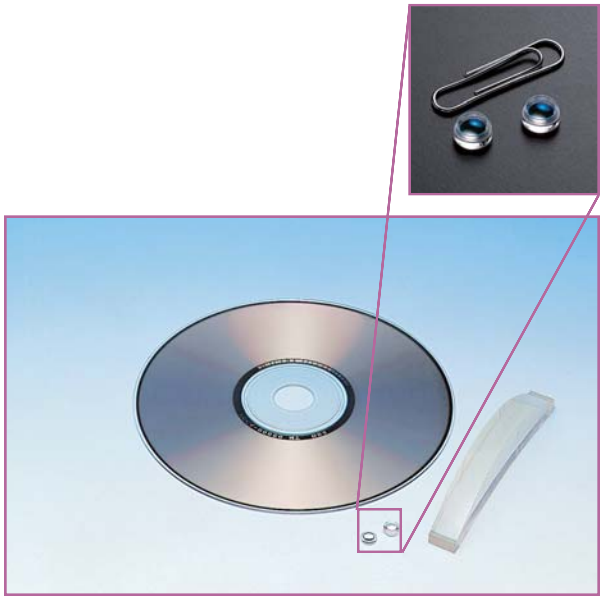
Mitsui Hygiene Materials (Thailand) Co., Ltd.

The new APEL™ production plant at the Osaka Works

capacity for nonwoven fabrics used in such products. Construction work was completed in fiscal 2008 on a production capacity upgrade of 16,000 tons per year at the site in Thailand. The new capacity came on stream in August 2007. Including existing capacity of 48,000 tons per year at plants in Japan and Thailand, Mitsui Chemicals now has a total annual production capacity of 64,000 tons.

New Facility Boosts APEL™ Production Capacity

Construction work finished on a new production facility for APEL™ at the Osaka Works with a capacity of 3,000 tons per year. The plant became operational in May 2008. Including existing capacity of 3,400 tons per year at the Iwakuni-Ohtake Works, Mitsui Chemicals now has a total annual production capacity of 6,400 tons for this product.



APEL™ used for pick-up lenses of DVD recorders

APEL™ combines a high refractive index with low birefringence. Demand is rising rapidly for APEL™ as an optical material for electronics and IT-related applications, such as lenses used in DVD recorder pickups and camera-equipped mobile phones. Other areas where market demand is growing significantly are applications as a performance packaging material. These include PTP (press-through packaging) materials for tablets, which make use of its resistance to humidity, and shrink-wrap film, where the product's ability to constrict is useful. These markets are projected to expand by over 20% per year going forward.

Expanded NF3 plant now operational

In response to rising demand for NF3 gas in semiconductor and LCD manufacturing processes, construction work proceeded and was finished in fiscal 2008 on a 400 tons-per-year production capacity upgrade to the Shimonoseki plant. The new capacity came on stream in August 2007. Including existing annual production capacity of 1,300 tons at plants in Shimonoseki and in the United States, Mitsui Chemicals now has a total production capacity of 1,700 tons per year.

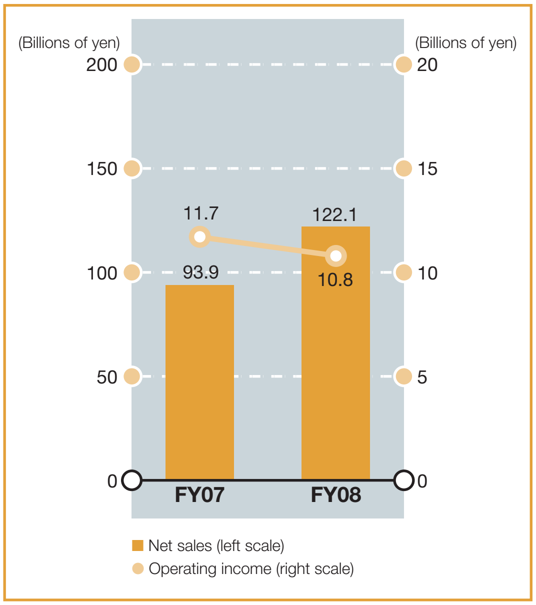
Advanced Chemicals Business Sector

Kiichi Suzuki
Business Sector President
Advanced Chemicals Business Sector

(Billions of yen)	Fiscal 2007	Fiscal 2008	Change	
Net Sales	93.9	122.1	28.2	30.0%
Operating Income	11.7	10.8	–0.9	–7.9%

Main Products

- Materials for optical lenses
- Olefin polymerization catalysts
- Polymerization inhibitors
- Insecticides and fungicides



Integration with Sankyo Agro substantially broadened the Company's agrochemicals product lineup

Optical plastic lenses

The Year in Review

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

Sales of olefin polymerization catalysts increased year on year, supported by healthy 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. Although sales increased as a result, these efforts were unable to fully offset the impact of increased costs.

Meanwhile, agrochemicals products, which include insecticides and fungicides, underwent substantial sales growth, benefiting from the consolidation of Sankyo Agro Co., Ltd.

As a result, sales in this segment climbed ¥28.2 billion year on year to ¥122.1 billion. Operating income was down ¥0.9 billion year on year, at ¥10.8 billion, as soaring feedstock prices outweighed increased earnings from the consolidation of Sankyo Agro Co., Ltd.

Highlights

Enhancement of Agrochemicals Business

Aiming to accelerate the expansion and growth of the agrochemicals business, Mitsui Chemicals purchased Sankyo Agro Co., Ltd., formerly an agrochemicals company 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. To further strengthen the management base for the agrochemicals business, this purchase was followed in October of the same year by the re-launch of Sankyo Agro, following integration with Mitsui Chemicals Crop Life, Inc. Today, Mitsui Chemicals and the new Sankyo Agro are sharing their respective knowledge and expertise and collaborating on strategy to expand the scale of business and earnings from agrochemicals products.

Acquisition of SDC Technologies, Inc. of the U.S.

In June 2008, Mitsui Chemicals purchased U.S.-based SDC Technologies, Inc., a manufacturer and seller of coating materials for plastic and non-ferrous metals and coating systems. With this acquisition, the Company newly entered the business of coating materials for optical lenses. Going forward, Mitsui Chemicals intends to accelerate the pace at which new coatings in this field are developed. In doing so, the Company hopes to expand its presence in the vision care business, centered on its existing materials for optical lenses.

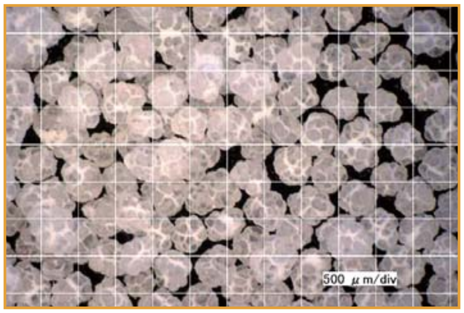
Topics

Large Particle Size Catalysts for Polypropylene Production

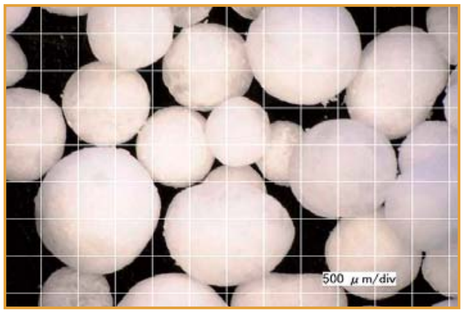
Catalysts are positioned as a core operation in the Advanced Chemicals segment.

In fiscal 2004, Mitsui Chemicals developed and launched the sale of large particle size catalysts for polypropylene (PP) production. As the name suggests, the PP grains manufactured using these catalysts are large—nearly 1.5 mm in diameter on average. For certain production methods, the sheer size of the catalysts helps prevent PP grains from escaping from the reactor or adhering to the reactor walls, enabling more consistent production.

Sales of these catalysts have grown steadily since their initial launch. Accordingly, Mitsui Chemicals will work to groom them into a core product in the catalyst business in the years ahead.



Polypropylene grains manufactured from small particle size catalysts
Average grain diameter: approx. 0.5 mm



Polypropylene grains manufactured from large particle size catalysts
Average grain diameter: approx.1.5 mm

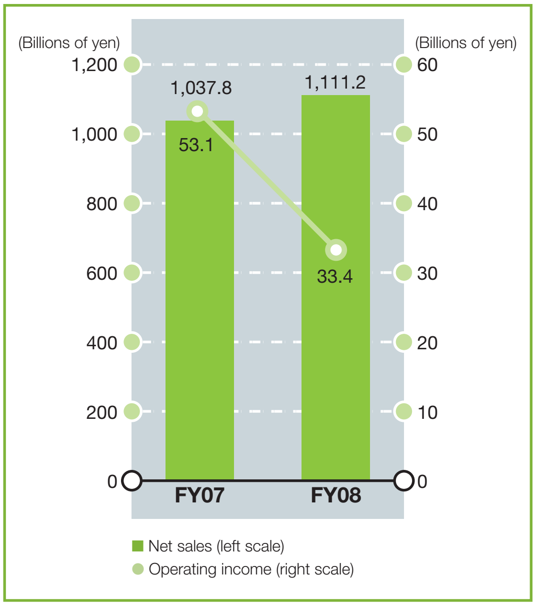
Basic Chemicals Business Sector

Keiichi Sano
Business Sector President
Basic Chemicals Business Sector

(Billions of yen)	Fiscal 2007	Fiscal 2008	Change	
Net Sales	1,037.8	1,111.2	73.4	7.1%
Operating Income	53.1	33.4	–19.7	–37.0%

Main Products

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



The Year in Review

In ethylene and propylene, although demand for these products in and outside of Japan remained firm, production volumes declined year on year due to scheduled maintenance at the Ichihara Works and Osaka Works.

In phenols, sales increased year on year, reflecting benefits from upward product price revisions imposed in response to rising raw material prices.

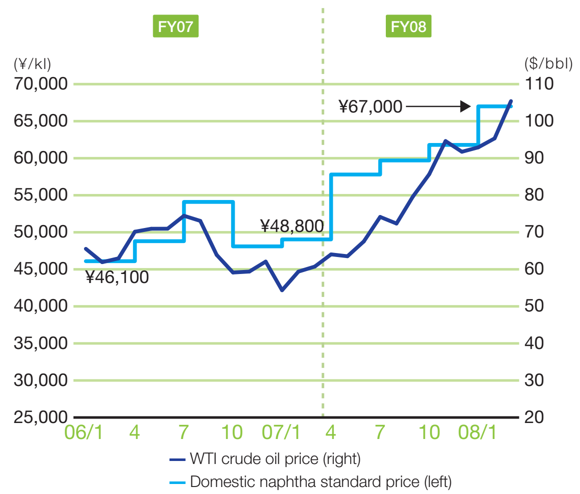
Sales of bisphenol A also increased from the previous fiscal year. In addition to robust sales volume supported by increased demand from Asian markets, sales benefited from upward product price revisions imposed in response to rising raw material prices.

Sales of purified terephthalic acid (PTA) declined year on year, tracking a slump in the market for these products in China. Similarly, sales of polyethylene terephthalate (PET) resins decreased compared to the previous year, as healthy domestic demand for materials used in PET bottles was offset by a decrease in the stock received from an overseas affiliate due to an upswing in market conditions overseas.

Sales of ethylene glycol, ethylene oxide and their derivatives climbed year on year, benefiting from upward product price revisions imposed in response to rising raw material prices. Meanwhile, sales of both polyethylene and polypropylene rose from the previous fiscal year, reflecting benefits from upward product price revisions imposed in response to surging feedstock prices. However, the earnings environment for these products has become adverse due to delays in passing on naphtha price increases to sales prices. This trend is a consequence of proactive efforts to peg sales prices to domestic naphtha prices to stabilize earnings.

As a result, while segment sales rose by ¥73.4 billion year on year to ¥1,111.2 billion, operating income declined by ¥19.7 billion to ¥33.4 billion. Income was negatively impacted largely by a slump in the PTA market in China, as well as delays in enacting upward price revisions for polyethylene and polypropylene products.

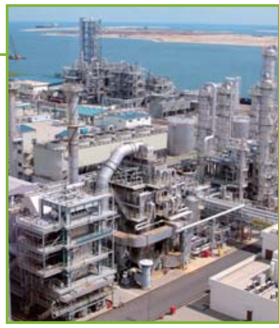
Crude Oil/Naphtha Prices



Highlights

Expansion of Phenol Production Capacity

In response to a growing market, Mitsui Chemicals boosted annual production capacity at Mitsui Phenols Singapore Pte. Ltd. (95% investment by Mitsui Chemicals; 5% by Mitsui & Co.) by 50,000 tons to 300,000 tons in August 2007. The subsidiary's 300,000-ton capacity gives its phenol plant the largest production capacity in the world from a single site. Looking ahead, Mitsui Chemicals is planning to expand production capacity in step with demand to further entrench its position as the top phenol producer in Asia.


Mitsui Phenols Singapore

Began Construction of High-Efficiency Propylene Production System

In February 2008, Mitsui Chemicals, in partnership with Idemitsu Kosan and Sumitomo Chemical, began the construction of a key research facility for the development of a high-efficiency propylene production system utilizing C4-fraction by-products generated at their shared petroleum complex. The facility is being built at the Ichihara Works, with a targeted annual production capacity of 150,000 tons, and is scheduled to become operational by the third quarter of fiscal 2010.

The new production system is intended to enhance the competitiveness of domestic oil refining and petrochemicals businesses in Japan by building closer ties between the three firms and encouraging greater integration within their shared petroleum complex. In addition to sharply higher crude oil prices, this move was taken in response to intensifying global competition from large-scale, state-of-the-art propylene plants across the Middle East and China.

Idemitsu Kosan, Sumitomo Chemical and Mitsui Chemicals each have plants located close to one another and utilize a shared pipeline network. In June 2006, the companies agreed to leverage these location features to embark on the joint development of a high-efficiency propylene production system, which would use C4-fraction by-products from their refineries and petrochemical plants and ethylene as raw materials. The project is 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. All three companies have participated in the project since April 2006.

Signing ceremony for the Nghi Son project in Vietnam

Expectations are high that the completion of this system will encourage a shift to higher-value-added propylene products.

Participation in a Joint Venture toward Construction of the Vietnam Nghi Son Refinery and Petrochemical Complex

In April 2008, Mitsui Chemicals and Idemitsu Kosan agreed to take part, alongside Kuwait Petroleum International and Petro Vietnam, in "Nghi Son Refinery & Petrochemical Limited Liability Company (tentative name)." This joint venture will conduct detailed studies of engineering design, economic potential, fund procurement methods and other tasks ahead of construction of the Vietnam Nghi Son Refinery & Petrochemical Complex. Mitsui Chemicals will take a 4.7% stake in the joint venture, with the goal of enhancing the stability and profitability of its PTA and phenol businesses through more stable procurement of aroma raw materials from the new complex.

Over the next two years, the joint venture will investigate various areas, including basic engineering design for facilities, economic potential, and fund procurement methods, prior to determining whether to proceed to the construction phase of the project. If construction commences, the commercial operation of the complex will be targeted to start at the end of 2013.

Bolstering Global Production of Polypropylene (PP)–based Automotive Materials

In answer to growing demand for PP-based automotive materials, Mitsui Chemicals established a new production subsidiary in India in September 2007. Construction of the subsidiary's production facility (15,000 tons/yr) has commenced, and it is scheduled to become operational in April 2009.

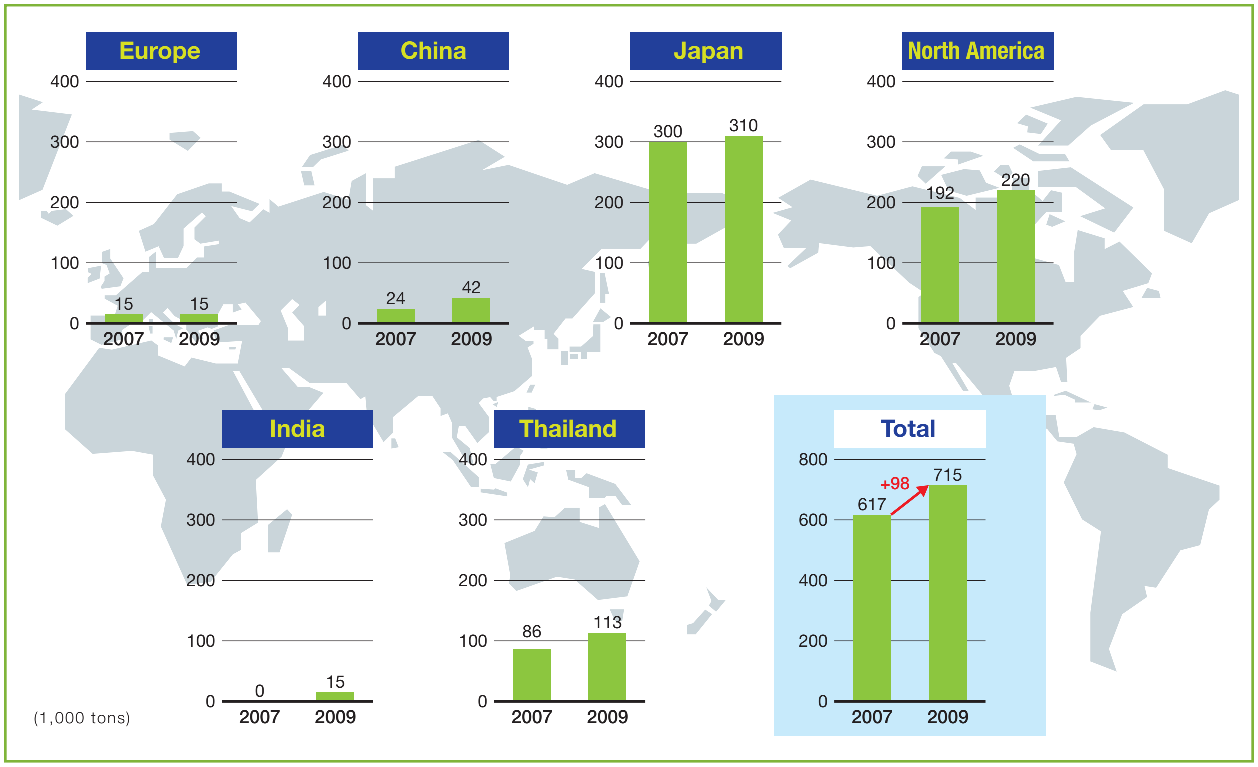
Accompanying this move, Mitsui Chemicals opted to raise production capacity for PP-based automotive materials produced in North America, Thailand and China by a total of 73,000 tons per year (or 24%) in April 2008. Together with the new subsidiary in India, Mitsui Chemicals will ramp up its production capacity by a total of 88,000 tons per year (29%) within the next two years.

Mitsui Chemicals has positioned PP-based automotive materials as a core operation within the Basic Chemicals business, with specific business development decisions entrusted to key operating company Prime Polymer.

Japanese automakers are accelerating the pace of global expansion, which is spurring steady growth in unit production volumes outside of Japan. Accordingly, Prime Polymer has taken steps to strengthen and expand its global production network comprising sites in Japan, North America, Europe, Thailand, China and India. From 2006 to 2007 alone, the company raised production capacity by a total of 63,000 tons (27%) per year in North America, Thailand and China. This round of capacity upgrades in these regions will further strengthen Mitsui Chemicals' world-class supply capacity with respect to PP-based automotive materials.

Production site under construction in India

Production capacity for PP-based automotive materials



1. R&D Mission and Goals

For a chemicals company, technological capabilities are the key to competitiveness, just as new products are the driver behind growth.

The basic concept of the 2008 Medium-term Business Plan calls for adopting a balanced approach to management focused on the three dimensions of "Economy," "Environment," and "Society." To this end, Mitsui Chemicals is pursuing R&D that will give rise to the innovative technologies required to achieve this vision.

In other words, Mitsui Chemicals develops technologies and materials in harmony with the global environment, while maintaining competitive advantage in its three business domains: Performance Materials, Advanced Chemicals, and Basic Chemicals. In addition to obtaining and maintaining superior levels of R&D competitiveness that serve as a driving force behind the growth of the Mitsui Chemicals Group, we aim to vigorously address global issues such as global warming and the shortage of oil, while creating innovative new technologies to keep in harmony with the global environment.

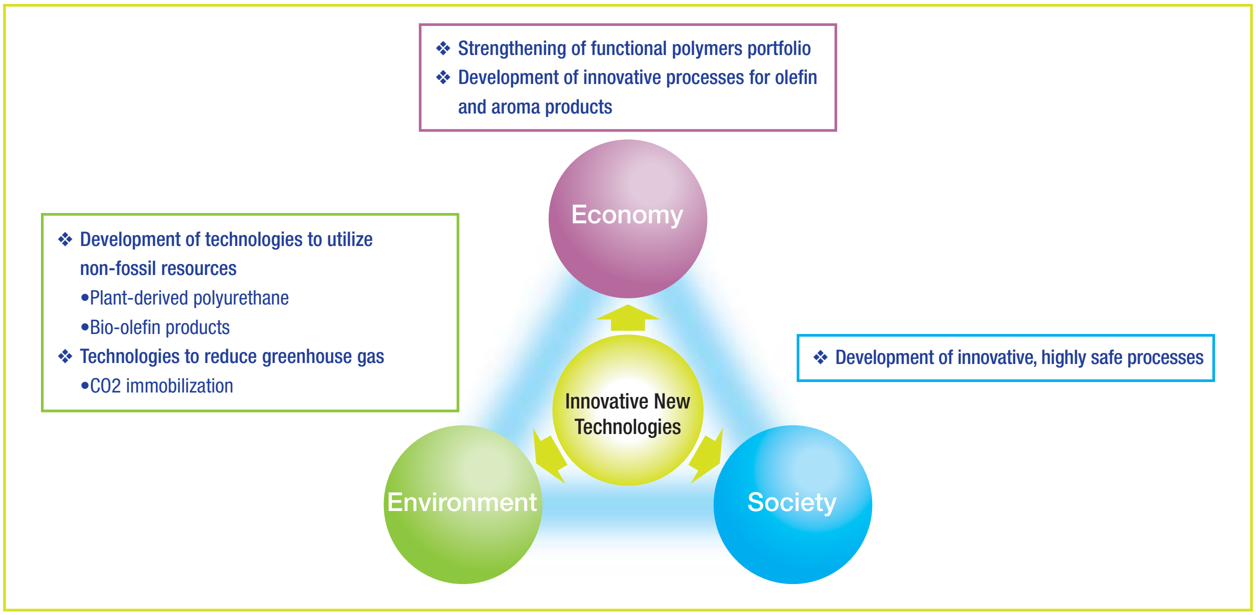
2. R&D Organization

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.

Direction of R&D



The Research Laboratories in the Research Center conduct company-wide R&D activities, including the development of basic technologies that support next-generation chemicals, 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.

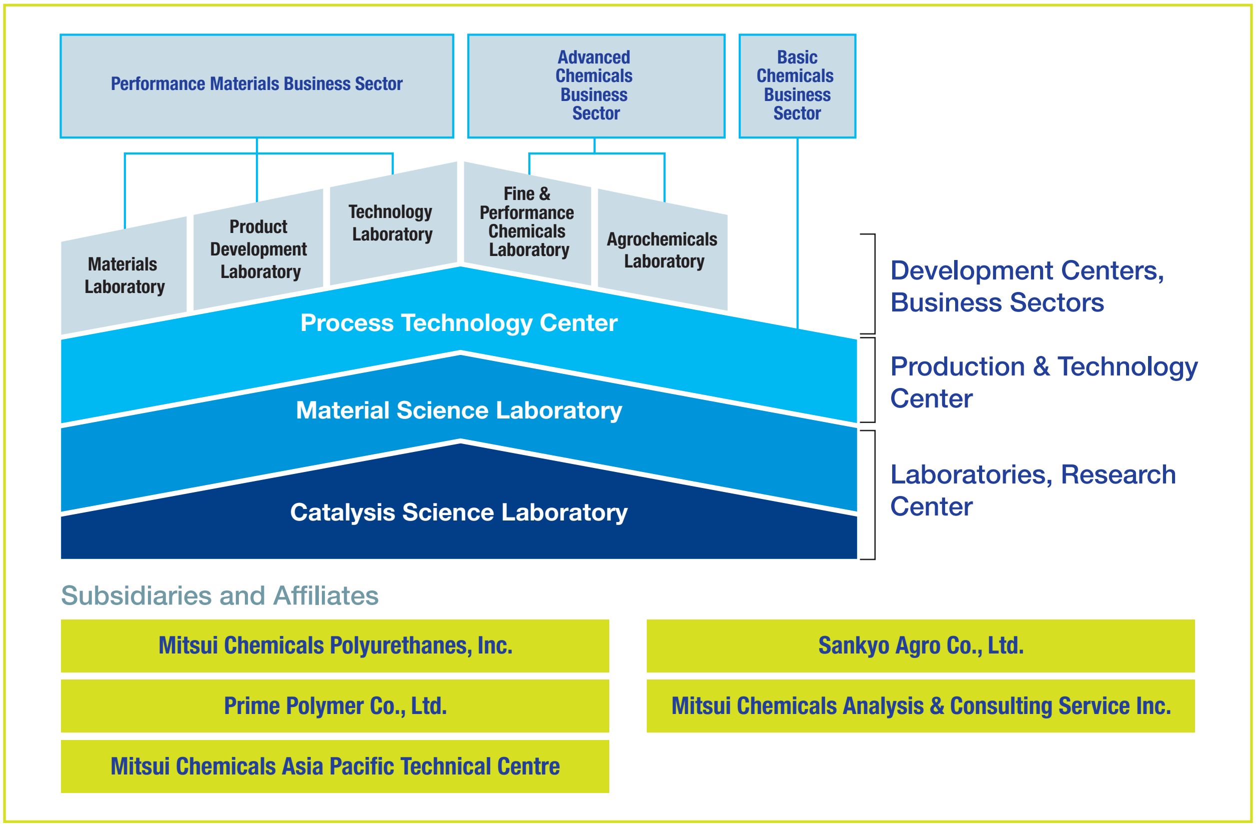
Beyond these organizations, Mitsui Chemicals is forging tighter alliances with subsidiaries and affiliates, mobilizing R&D resources to unify the entire Group in a push to develop the technologies and materials that will bring the future of chemistry to life.

3. Global Science Network: Linking Researchers Throughout the World

The Mitsui Chemicals Group strives to construct a solid science network by exchanging and 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 is involved in a range of other activities, including presenting R&D results at academic conferences and publishing 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' R&D Organization



In a bid to capture synergies between The Catalysis Research Center of Hokkaido University (CRC) and its own core catalysis technology, Mitsui Chemicals sponsored a second symposium in November 2007. All of the professors at CRC and some researchers at Mitsui Chemicals gave lectures or held poster sessions, and everyone at CRC entered into lively discussions on catalysis science with the Mitsui researchers. Mitsui Chemicals is also proud to sponsor The Professor Jean-Marie Lehn Symposium on Advanced Materials under the theme of “Creation of Functional Materials: Current Status and Future Prospects.” Prof. Lehn, known as the “father of supramolecular chemistry,” and other world famous researchers in the field of advanced materials, will lecture at this symposium. In addition Mitsui Chemicals will hold The Fourth Mitsui Chemicals International Symposium on Catalysis Science (MICS2009) in March 2009.

In these ways, Mitsui Chemicals is transcending the traditional boundaries between industry, academia and government to form a global science network of pioneering researchers from around the globe. 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.

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


The 2007 Mitsui Chemicals Catalysis Science Award Ceremony

Group Intellectual Property Strategy

The Mitsui Chemicals Group's 2008 Medium-term Business Plan has two underlying goals—to adopt a balanced approach to management focused on the three dimensions of "Economy," "Environment" and "Society," and the creation of new value through innovative new technologies. To this end, the Intellectual Property Division is implementing the following strategies formulated with the view to optimizing the Group's intellectual property assets.

1. Mission and Goals

Mission:

Expand the corporate value of the Mitsui Chemicals Group by building up and utilizing intellectual property

Goals:

Economy

Contribute to businesses by developing an intellectual property strategy closely linked to business strategies and R&D strategies throughout the Group

Environment

Develop intellectual property strategies around technologies for reducing GHGs and utilizing non-fossil resources

Society

Respect and comply with intellectual property rights

2. Enhancing Ties Between Business, R&D and Intellectual Property Divisions

Mitsui Chemicals sees intellectual property as encompassing a wide range of intangible assets that contribute to operations. Beyond conventional patents, utility models, designs, trademarks and copyrights, such assets include employee expertise and a variety of internal information.

To bolster implementation of intellectual property strategies, the Intellectual Property Division launched the Intelligence & Information Center Unit in April 2008. The new unit supports business and technology strategies through operational ties with the division's three existing units (e.g., IP Management, Business Support and R&DE Support). As one initiative under the new framework, the division is building and scrutinizing its portfolio of intellectual properties, which encompass a variety of assets, to further enhance the quality of the intellectual properties that it owns. The intellectual property portfolio, moreover, is shared with the company's business and R&D divisions and incorporated into business and R&D strategies. This arrangement is translating into greater corporate value for Mitsui Chemicals.

3. Enhancing and Expanding Group Intellectual Property Capabilities

Mitsui Chemicals strives to integrate its intellectual property portfolio with those of strategic Group companies. In-depth strategic combination of this portfolio provides the basis for efforts to enhance and expand the Group's intellectual property capabilities.

In cooperation with outside experts, the company is further bolstering its educational training program concerning intellectual property, adapting it as appropriate for job or rank, in an effort to cultivate human resources that possess the proper mindset and skills for managing these assets.

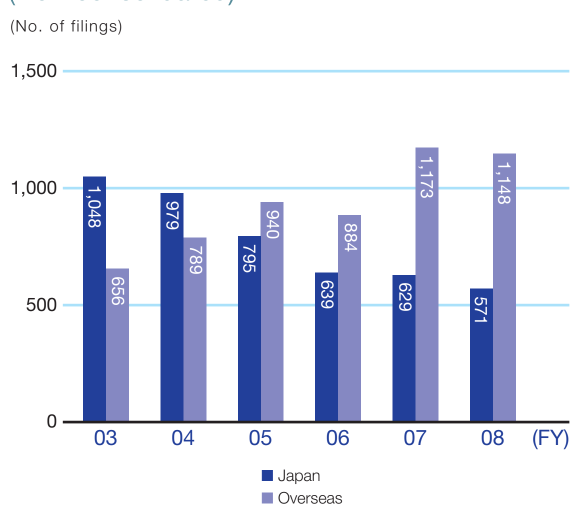
4. Upgrading Intellectual Property Activities in Asia

In recent years, the need to further reinforce and ascribe greater importance to intellectual property risk management has grown more pronounced for companies pursuing business operations in Asia. Mitsui Chemicals endeavors to comprehend, analyze and devise countermeasures appropriate to the status of intellectual property in each country, all the while strengthening risk management for these assets in cooperation with its regional holding companies throughout Asia. At production sites for Mitsui Chemicals' products and major consumer markets in the region, the company formulates patent filing tactics specific to product field and country in the drive to secure its intellectual property rights.

5. Promotion of Intellectual Property Licensing

In addition to initiatives in the petrochemicals sector, Mitsui Chemicals promotes the licensing of intellectual properties that it owns in the Performance Materials Business Sector as an innovative measure targeting operations in this field. By pursuing a licensing strategy based on close scrutiny of the market value of those assets, the company aims to spur further growth in the Performance Materials Business.

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



Board of Directors (As of June 25, 2008)

Chairman	Hiroyuki Nakanishi	
President & CEO	Kenji Fujiyoshi	
Executive Vice President	Toshikazu Tanaka	[Assistant to the President: Internal Control Division, 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 General Manager, Internal Control Division
Senior Managing Directors	Akihiro Yamaguchi	[Research Center and Intellectual Property Division] Center Executive, Research Center
	Yoshiyuki Shinohara	[Production & Technology Center, SCM 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	[Purchasing Division, Logistics Division, Information Technology Planning Division, Management Accounting Division, Finance & Accounting Division and CSR & Corporate Communications Division (IR)]
	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	Yasuo Takeshita	Hidenori Toki	Isao Ijyuin	Hisao Muramoto	Hideharu Kadowaki

Executive Vice President
Toshikazu Tanaka

President and CEO
Kenji Fujiyoshi

Chairman
Hiroyuki Nakanishi

Financial Section

Selected Consolidated Financial and Operating Data

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

(Millions of yen except per share amounts)	2008	2007	2006
For the Year			
Net sales	¥1,786,680	¥1,688,062	¥1,472,435
Cost of sales	1,509,308	1,402,022	1,217,564
SG&A	200,196	194,362	196,166
Operating income	77,176	91,678	58,705
Other income (expenses)	(32,623)	(7,136)	14,220
Income before income taxes and minority interests	44,553	84,542	72,925
Income taxes	19,430	27,416	27,681
Income before minority interests	25,123	57,126	45,244
Net income	24,831	52,297	44,125
Reference: Ordinary income	66,146	95,478	61,989
At Year-End			
Total current assets	726,361	733,150	608,995
Property, plant and equipment, net	564,805	542,340	532,324
Total investments and other non-current assets	178,082	222,693	187,571
Total assets	1,469,248	1,498,183	1,328,890
Total current liabilities	569,560	591,253	475,074
Total long-term liabilities	335,461	336,678	314,692
Total shareholders' equity	500,044	504,509	464,021
Per Share			
Net income per share (basic)	¥ 32.22	¥ 66.68	¥ 56.20
Net income per share (diluted)	–	–	–
Cash dividends per share	¥ 12.00	¥ 10.00	¥ 8.00
Ratios			
Return on sales	1.39%	3.10%	3.00%
Return on equity	4.94%	10.80%	10.15%
Return (operating income) on assets	5.20%	6.49%	4.63%
Other			
Depreciation and amortization	72,596	70,207	70,099
Capital expenditures	84,667	72,671	81,400
R&D expenses	42,130	36,943	37,146

	Reported Basis								Restated Basis
	2005	2004	2003	2002	2001	2000	1999	1998	1998
	¥1,227,547	¥1,089,518	¥1,053,182	¥ 952,680	¥ 939,782	¥ 884,246	¥ 855,942	¥ 681,234	¥ 927,688
	968,230	861,965	823,523	730,059	720,524	659,327	632,036	532,414	721,409
	178,826	173,611	173,201	180,239	164,746	169,180	165,680	110,497	157,010
	80,491	53,942	56,458	42,382	54,512	55,739	58,226	38,323	49,269
	(25,839)	(31,708)	(17,496)	(32,142)	(26,118)	(29,603)	(36,099)	(14,334)	(20,063)
	54,652	22,234	38,962	10,240	28,394	26,136	22,127	23,989	29,206
	23,053	7,923	13,465	1,830	10,523	8,182	12,674	11,290	14,963
	31,599	14,311	25,497	8,410	17,871	17,954	9,453	12,699	14,243
	26,192	12,466	20,320	7,651	17,068	16,042	7,739	11,702	13,010
	79,737	47,694	48,716	37,394	49,067	55,902	43,870	32,507	43,866
	497,287	440,517	445,239	486,642	563,245	544,837	548,668	616,871	616,871
	520,886	548,799	580,830	583,949	552,759	530,827	513,268	530,860	530,860
	187,012	199,150	199,125	227,272	198,509	161,515	146,232	150,505	150,505
	1,205,185	1,188,466	1,225,194	1,297,863	1,314,513	1,237,179	1,208,168	1,298,236	1,298,236
	440,566	440,869	451,613	525,532	532,586	528,643	482,912	612,583	612,583
	313,389	325,342	359,638	365,708	388,159	346,242	378,274	349,972	349,972
	405,773	383,365	370,738	366,988	352,988	345,690	329,685	318,532	318,532
	¥ 33.26	¥ 15.78	¥ 25.72	¥ 9.70	¥ 21.63	¥ 20.57	¥ 9.97	¥ 21.53	–
	–	–	¥ 25.47	–	¥ 21.44	¥ 20.41	–	¥ 20.98	–
	¥ 7.00	¥ 6.00	¥ 6.00	¥ 6.00	¥ 6.00	¥ 6.00	¥ 6.00	¥ 6.00	–
	2.13%	1.14%	1.93%	0.80%	1.82%	1.81%	0.90%	1.72%	1.40%
	6.64%	3.31%	5.51%	2.13%	4.89%	4.75%	2.39%	4.81%	4.08%
	6.73%	4.47%	4.48%	3.24%	4.27%	4.56%	4.65%	4.27%	3.86%
	56,770	56,101	56,850	56,609	51,755	52,634	51,081	38,422	52,802
	47,135	45,722	68,753	117,564	61,524	54,435	52,058	46,428	60,060
	34,881	32,894	37,114	39,012	36,543	38,141	39,295	28,036	40,451

Overview

In this fiscal year (2008), the year ended March 31, 2008, the Japanese chemical industry continued to face difficult operating conditions. In addition to weak domestic production and shipment volume, raw materials prices, already at high levels, saw additional increases.

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 63 subsidiaries within the scope of consolidation, 7 fewer than the previous fiscal year, as a result of the establishment and consolidation of Mitsui Prime Advanced Composites India Pvt. Ltd. and the exclusion of Miike Dyes Works, Ltd. and 7 other companies due to amalgamation and other reasons. The equity method is applied to 38 non-consolidated subsidiaries and affiliated companies, 9 fewer than the previous fiscal year.

Operating Results

Net Sales

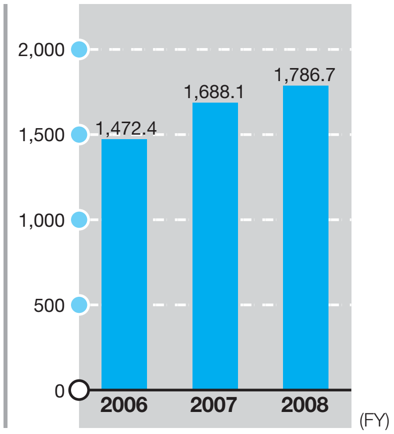
Net sales increased ¥98,618 million (US$984 million), or 5.8% compared to the previous fiscal year, to ¥1,786,680 million (US$17,833 million). Although a decline in sales volume exerted a negative effect of approximately ¥36.8 billion (US$0.37 billion), increased prices raised sales by approximately ¥135.4 billion (US$1.35 billion). These increases were primarily due to price revisions to reflect the high prices of naphtha and other feedstock, and to improved overseas market conditions.

Operating Income

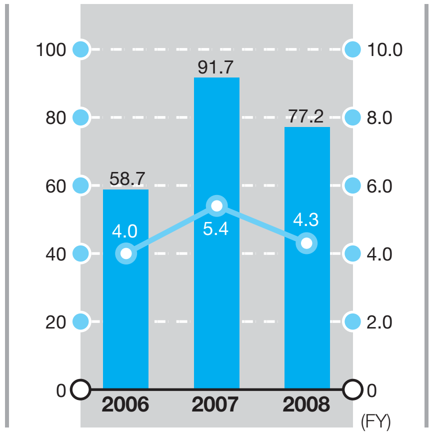
Operating income decreased ¥14,502 million (US$145 million), or 15.8%, to ¥77,176 million (US$770 million) despite upward product price revisions and improved overseas market conditions. High prices for naphtha and other feedstock pushed up the cost of sales significantly, as did an increase in fixed costs, including maintenance costs and depreciation costs.

Increased sales volume contributed roughly ¥3.5 billion (US$0.03 billion) to operating income growth, while price increases on finished products added ¥135.4 billion (US$1.35 billion) to profit. Higher prices for raw materials and other variable costs had a ¥140.9 billion (US$1.41 billion) negative impact on operating income. Fixed costs detracted from profit by ¥12.5 billion (US$0.12 billion).

NET SALES
(Billions of yen)



OPERATING INCOME/RATIO TO NET SALES
(Billions of yen, %)



Operating income (left scale)
Ratio to net sales (right scale)

Segment Information

Business Segment

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

Net Sales

(Billions of yen)

	2008	2007	Change		
			Total	Volume contribution	Price contribution
Performance materials	504.1	496.3	7.8	(22.1)	29.9
Advanced chemicals	122.1	93.9	28.2	28.6	(0.4)
Basic chemicals	1,111.2	1,037.8	73.4	(32.5)	105.9
Others	49.3	60.1	(10.8)	(10.8)	–
Eliminations	–	–	–	–	–
Total	1,786.7	1,688.1	98.6	(36.8)	135.4

Operating Income

(Billions of yen)

	2008	2007	Change				
			Total	Volume contribution	Price contribution	Variable cost differential	Fixed cost and other cost differential
Performance materials	35.9	25.9	10.0	1.1	29.9	(16.5)	(4.5)
Advanced chemicals	10.8	11.7	(0.9)	4.6	(0.4)	(3.9)	(1.2)
Basic chemicals	33.4	53.1	(19.7)	(2.1)	105.9	(120.5)	(3.0)
Others	3.4	3.6	(0.2)	(0.1)	–	–	(0.1)
Eliminations or corporate	(6.3)	(2.6)	(3.7)	–	–	–	(3.7)
Total	77.2	91.7	(14.5)	3.5	135.4	(140.9)	(12.5)

Performance Materials

(Millions of yen)

	2008	2007	Change (%)
Net sales	¥504,060	¥496,250	1.6
Operating income	35,857	25,926	38.3
Total assets	489,968	476,989	2.7
Depreciation and amortization	29,564	30,012	(1.5)
Capital expenditures	50,383	42,084	19.7

Japanese domestic demand for ethylene-propylene rubber, alpha-olefinic copolymers, and other automotive and industrial materials expanded during fiscal 2008. Mitsui Chemicals' attraction of new customers, particularly in Asia, and development of new uses for pliable resins proceeded smoothly. As a result, sales increased by 20% year on year.

In engineering plastics, although coating resins for use in data recording paper, mobile phones and automobiles were strong, sales decreased by 3% compared to the previous fiscal year due to the withdrawal from certain products in the petroleum resin business.

Sales of hygiene materials rose by 4% year on year, reflecting higher demand for nonwoven fabrics in East and Southeast Asia, particularly in Thailand and China.

Sales of specialty polyolefins and engineering plastics increased by 16% compared to fiscal 2007 as a result of expanded demand for electronics and information-related materials.

Sales of semiconductor materials increased 6%. 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 sales.

Sales of optical materials fell by 52%, affected by the waning demand and falling unit prices of plasma display panels in the North American market. Mitsui Chemicals determined that the situation is unlikely to recover in the near future, and therefore withdrew from the PDP optical filter business as of March 31, 2008.

In urethane raw materials, sales rose 12% compared to the previous fiscal year, reflecting improvements in the markets for TDI in East and Southeast Asia, coupled with a price increase for PPG to offset high raw materials prices.

Sales of urethane resins were supported by strong demand both in Japan and overseas for urethane products used as paint-thickening agents and in adhesives. Consequently, sales rose 2% year on year.

As a result, net sales in this segment increased by ¥7,810 million (US$78 million) year on year to ¥504,060 million (US$5,031 million), accounting for 28% of total net sales. Lower sales volume had a negative impact of ¥22.1 billion (US$0.22 billion), while higher sales prices contributed ¥29.9 billion (US$0.30 billion) to revenues.

Operating income in this segment rose by ¥9,931 million (US$99 million) to ¥35,857 million (US$358 million). Increased sales volume added about ¥1.1 billion (US$ 0.01 billion) to operating income, while sales prices contributed about ¥29.9 billion (US$0.30 billion). Variable costs differential reduced operating income by about ¥16.5 billion (US$0.16 billion), while fixed costs and other costs had a negative impact of about ¥4.5 billion (US$0.04 billion).

Advanced Chemicals

(Millions of yen)

	2008	2007	Change (%)
Net sales	¥122,113	¥ 93,929	30.0
Operating income	10,761	11,688	(7.9)
Total assets	159,030	160,005	(0.6)
Depreciation and amortization	6,328	5,437	16.4
Capital expenditures	6,238	7,930	(21.3)

In the healthcare business, which includes materials for eyeglass lenses and pharmaceutical intermediates, sales rose steadily, posting a 16% 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 10% year on year. Aggressive marketing efforts and price hikes in response to higher raw materials prices contributed to sales growth, but this was not sufficient to fully offset the increase in costs.

In the agrochemicals business, sales grew 134.0% year on year as a result of the consolidation of Sankyo Agro Co., Ltd..

As a result, sales in this segment increased by ¥28,184 million (US$281 million) year on year to ¥122,113 million (US$1,219 million), accounting for 7% of total net sales. Sales volume contributed ¥28.6 billion (US$0.29 billion) to revenue, while sales prices had a negative impact of about ¥0.4 billion (US$0.004 billion).

Operating income in this segment declined by ¥927 million (US$9 million) to ¥10,761 million (US$107 million). Sales volume added about ¥4.6 billion (US$0.05 billion) to operating income, while sales prices had a negative impact of about ¥0.4 billion (US$0.004 billion). Variable costs differential reduced operating income by about ¥3.9 billion (US$0.04 billion), while fixed costs and other costs had a negative impact of about ¥1.2 billion (US$0.01 billion).

Basic Chemicals

(Millions of yen)

	2008	2007	Change (%)
Net sales	¥1,111,166	¥1,037,771	7.1
Operating income	33,450	53,063	(37.0)
Total assets	697,856	710,138	(1.7)
Depreciation and amortization	30,767	31,241	(1.5)
Capital expenditures	20,648	14,940	38.2

In spite of robust demand for ethylene and propylene both in Japan and overseas, production volumes declined year on year due to regularly scheduled maintenance at the Osaka Works and the Ichihara Works. Production of ethylene fell by 5%, while propylene dropped by 6%.

Sales of phenols increased by 25%, reflecting benefits from upward product price revisions imposed in response to rising raw material prices.

Sales of bisphenol A also increased by 25% year on year atop firm sales volume supported by growth in demand from markets in Asia and product price revisions reflecting the rising cost of raw materials.

Sales of purified terephthalic acid (PTA) dropped 15% year on year, reflecting stagnant Chinese market conditions.

In the market for polyethylene terephthalate (PET) resins, against a backdrop of an upswing in market conditions overseas, healthy domestic demand for materials used in PET bottles was offset by a decrease in the stock received from an overseas affiliate. As a result, sales declined by 3%.

Sales of ethylene glycol, ethylene oxide and their derivatives increased 13%, reflecting upward product price revisions in response to rising raw material prices.

Product prices for polyethylene and polypropylene were adjusted in order to reflect the higher cost of raw materials. This contributed to a 10% increase in polyethylene sales and a 16% rise in sales of polypropylene compared with the previous year. The price revisions were put into effect too late to offset the increased costs entirely, however.

As a result, net sales in this segment increased by ¥73,395 million (US$733 million) year on year to ¥1,111,166 million (US$11,091 million), accounting for 62% of total net sales. Sales volume had a negative impact of about ¥32.5 billion (US$0.32 billion) on revenue, while sales prices added about ¥105.9 billion (US$1 billion).

Operating income in the segment declined by ¥19,613 million (US$196 million) to ¥33,450 million (US$334 million). Sales volume had a negative effect on operating income of about ¥2.1 billion (US$0.02 billion), while sales prices contributed about ¥105.9 billion (US$1.06 billion). Variable costs differential and fixed costs and other costs detracted from operating income by about ¥120.5 billion (US$1.20 billion) and ¥3.0 billion (US$0.03 billion), respectively.

Others

(Millions of yen)

	2008	2007	Change (%)
Net sales	**¥49,341**	¥60,112	(17.9)
Operating income	**3,390**	3,577	(5.2)
Total assets	**71,897**	88,552	(18.8)
Depreciation and amortization	**3,811**	2,621	45.4
Capital expenditures	**5,589**	4,113	35.9

Sales to third parties associated with plant construction and maintenance, warehousing and logistics services, and testing and analysis services declined by ¥10,771 million (US$107.5 million) year on year to ¥49,341 million (US$492 million), accounting for 3% of total net sales. Sales volume had a negative effect of about ¥10.8 billion (US$0.11 billion) on revenue.

Operating income in the segment declined by ¥187 million (US$2 million) to ¥3,390 million (US$34 million). Sales volume had a negative effect on operating income of about ¥0.1 billion (US$0.001 billion), while fixed costs and other costs contributed a loss of about ¥0.1 billion (US$0.001 billion).

Geographic Distribution

Japan

Despite the effect of lower sales volume, sales in Japan posted a year-on-year increase. This was due primarily to the effect of higher prices resulting from the improved situation in overseas markets and product price revisions to reflect the high cost of naphtha and other feedstock. In contrast, operating income decreased compared to the previous year due to a significant rise in cost of sales. Higher fixed costs, including the high price of materials such as naphtha; maintenance costs; and depreciation expenses contributed to the increase in cost of sales.

Sales in Japan increased by ¥53,819 million (US$537 million) year on year to ¥1,466,628 million (US$14,638 million), accounting for 82% of total net sales. Operating income decreased by ¥12,720 million (US$127 million) to ¥72,061 million (US$719 million).

Asia

Sales rose as a result of price revisions by Mitsui Phenols Singapore Pte. Ltd., a subsidiary involved in the manufacture and sale of phenol and bisphenol A in Singapore. On the other hand, Siam Mitsui PTA Co., Ltd., a subsidiary involved in the manufacture and sale of PTA in Thailand, was 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 establishment and consolidation in November 2006 of Prime Polymer Asia Co., Ltd., a China-based company that sells polyolefin products.

Sales in Asia increased by ¥37,139 million (US$371 million) year on year, to ¥215,553 million (US$2,151 million), accounting for 12% of the total net sales. Operating income declined by ¥2,798 million (US$28 million) year on year, to ¥1,165 million (US$12 million).

Others

In the U.S. a subsidiary involved in the production and sale of resin compounds for automotive uses saw sales volume growth, leading to increases in both sales and operating income.

As a result, sales in this segment rose by ¥7,660 million (US$76 million) year on year to ¥104,499 million (US$1,043 million), accounting for 6% of the total net sales. Operating income increased by ¥1,187 million (US$12 million) to ¥3,936 million (US$39 million).

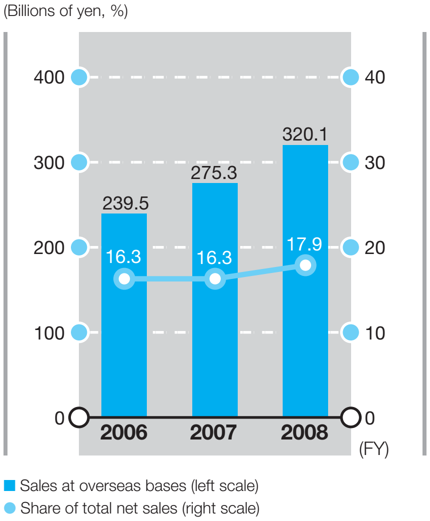
Overseas Sales

Overseas sales during the period increased by ¥38,961 million (US$389 million) year on year to ¥696,266 million (US$6,949 million), accounting for 39.0% of total net sales, an increase of 0.1 percentage points compared with the previous year.

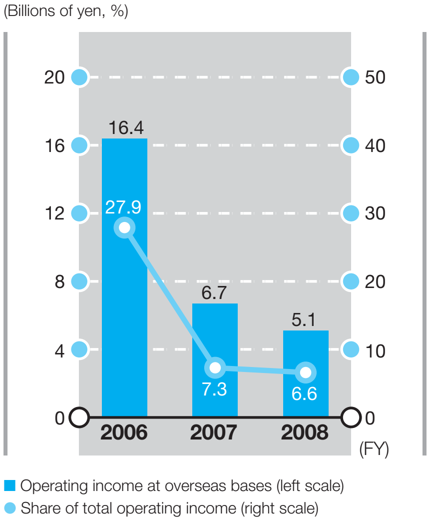
Breaking down overseas sales contributions by region, and their share of the sales total, Asia accounted for ¥544,347 million (US$5,433 million), 30.5% of total net sales, North America and Latin America contributed ¥84,029 million (US$839 million), 4.7% of total net sales, Europe accounted for ¥52,409 million (US$523 million), 2.9%, and other regions recorded ¥15,481 million (US$155 million) in sales, 0.9% of total net sales.

Comparing these figures with the previous year, growth was particularly strong in Asia, where sales rose ¥34,893 million (US$348 million) year on year. This increase was a major contributor to overseas sales for the year.

SALES AT OVERSEAS BASES
SHARE OF TOTAL NET SALES
(Billions of yen, %)



OPERATING INCOME AT OVERSEAS BASES
SHARE OF TOTAL OPERATING INCOME
(Billions of yen, %)



Other Income (Expenses)

Other income (expenses) deteriorated by ¥25,487 million (US$254 million) year on year, to a net expense of ¥32,623 million (US$326 million). The main items affecting other income and expenses were as follows:

Interest expense amounted to ¥9,512 million (US$95 million), reflecting an increase in interest-bearing liabilities.

Equity in earnings of non-consolidated subsidiaries and affiliates amounted to ¥5,947 million (US$59 million).

The Group posted ¥5,399 million (US$54 million) as a loss on sales and disposal of property, plant and equipment.

In addition, the Group posted a ¥3,218 million (US$32 million) loss on restructuring of subsidiaries and affiliates and loss on sales of investment securities, a ¥2,556 million (US$26 million) loss on withdrawal accompanying the cessation of the PDP optical filter business, and ¥11,746 million (US$117 million) in environmental expenses.

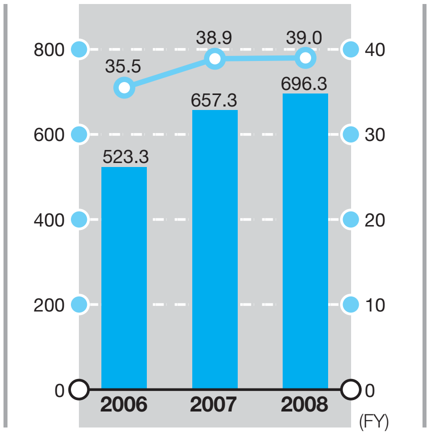
As a result, income before income taxes and minority interests decreased by ¥39,989 million (US$399 million) year on year, to ¥44,553 million (US$445 million).

Net Income

Net income after deduction of income taxes and minority interests decreased ¥27,466 million (US$274 million), or 52.5% year on year, to ¥24,831 million (US$248 million). Net income per share decreased ¥34.46 (US$0.34), to ¥32.22 (US$0.32) per share.

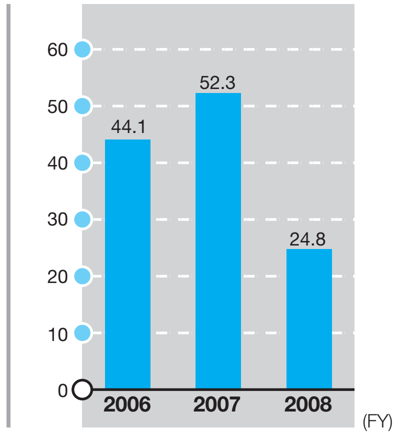
Summarizing the results, net sales increased by 5.8% year on year, from ¥1,688,062 million to ¥1,786,680 million (US$17,833 million), while net income fell 52.5% year on year, from ¥52,297 million to ¥24,831 million (US$248 million). Thus, the return (net income) on sales dropped from 3.10% to 1.39%.

OVERSEAS SALES
SHARE OF TOTAL NET SALES
(Billions of yen, %)



■ Overseas sales (left scale)
● Share of total net sales (right scale)

NET INCOME
(Billions of yen)



Financial Position

Overview

Total assets decreased by ¥28,935 million (US$289 million) from ¥1,498,183 million to ¥1,469,248 million (US$14,665 million). Operating income also declined by ¥14,502 million (US$145 million), decreasing from ¥91,678 million to ¥77,176 million (US$770 million). As a result, return on assets (operating income) fell from 6.49% to 5.20%.

The debt-to-equity ratio at the end of fiscal 2008 was 0.97.

Assets

Total assets at the end of the period decreased by ¥28,935 million (US$289 million) year on year, to ¥1,469,248 million (US$14,665 million).

Liabilities

Liabilities decreased by ¥22,910 million (US$229 million), to ¥905,021 million (US$9,033 million) at the end of the fiscal year. Of this total, interest-bearing liabilities decreased by ¥12,351 million (US$123 million), to ¥485,972 million (US$4,850 million) at the end of the period. This caused the interest-bearing liabilities ratio to improve by 0.2 percentage points year on year, to 33.1%.

Net Assets

Total net assets at the end of the period declined by ¥6,025 million (US$60 million) year on year, to ¥564,227 million (US$ 5,632 million).

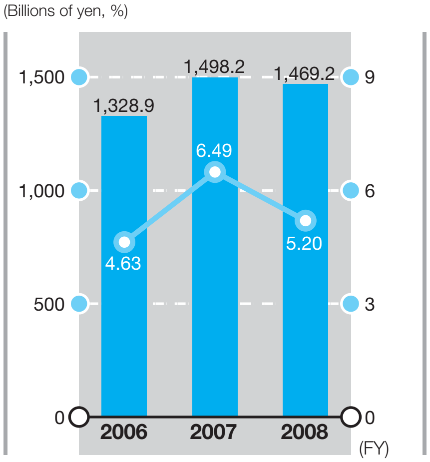
Of this total, shareholders' equity at the end of fiscal 2008 amounted to ¥479,570 million (US$4,787 million), an increase of ¥13,664 million (US$136 million) from the figure at the end of the previous year. Contributing factors were the posting of net income of ¥24,831 million (US$248 million) and a decrease of ¥9,256 million (US$92 million) due to payment of dividends.

Valuation and translation adjustments were down by ¥18,129 million (US$181 million) compared to the previous year, to ¥20,474 million (US$204 million). This reflected a ¥15,165 (US$151 million) million decline in unrealized gain on securities caused by a fall in listed stock prices.

Minority interests stood at ¥64,183 million (US$641 million) at the end of the period, a decline of ¥1,560 million (US$16 million) year on year.

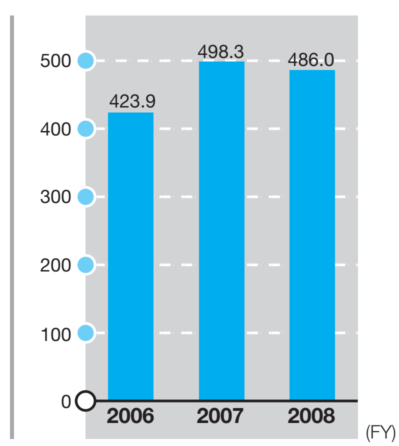
As a result of these changes, the equity ratio improved by 0.3 percentage points compared with the end of the previous year, to 34.0% at the end of fiscal 2008.

TOTAL ASSETS
RETURN (OPERATING INCOME) ON ASSETS
(Billions of yen, %)



Total assets (left scale)
Return (operating income) on assets (right scale)

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, 2008 stood at ¥25,502 million (US$255 million), ¥14,941 million (US$149 million) less than at the end of the previous fiscal year.

Cash Flows From Operating Activities

Net cash provided by operating activities was ¥92,423 million (US$922 million), a decrease of ¥8,142 million (US$81 million) year on year. Despite a substantial increase in operating capital resulting from growth in accounts receivable and inventories, income before taxes decreased and corporate income taxes paid increased.

As a result, the debt repayment multiple increased from 5.0 in the previous year to 5.3, while an increase in interest payments reduced the interest coverage ratio from 12.8 times in the previous year to 9.7 times in fiscal 2008.

Cash Flows From Investing Activities

Net cash used in investing activities was ¥78,206 million (US$781 million), a year-on-year decrease of ¥55,412 million (US$553 million), reflecting the acquisition of shares in Sankyo Agro Co., Ltd. and Mitsui Chemicals Polyurethane, Inc., during the previous fiscal year.

Cash Flows From Financing Activities

Net cash used in financing activities was ¥28,734 million (US$287 million). This reflected settlement of interest-bearing liabilities and payment of dividends, among other factors.

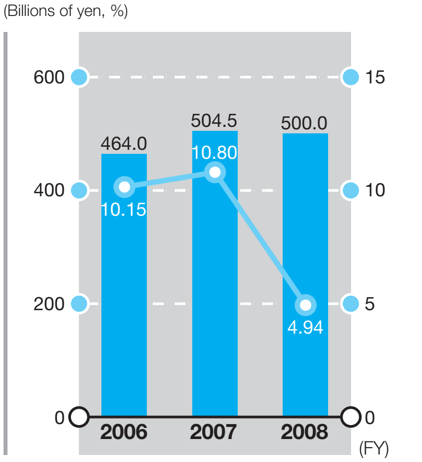
Cash Flow-related Performance Indicators

	2008	2007	2006	2005	2004
Equity ratio (%)	34.0	33.7	34.9	33.7	32.3
Market cap equity ratio (%)	34.6	53.0	51.0	39.0	42.3
Debt repayment multiple	5.3	5.0	5.3	4.4	5.9
Interest coverage ratio (times)	9.7	12.8	13.4	14.7	10.8

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

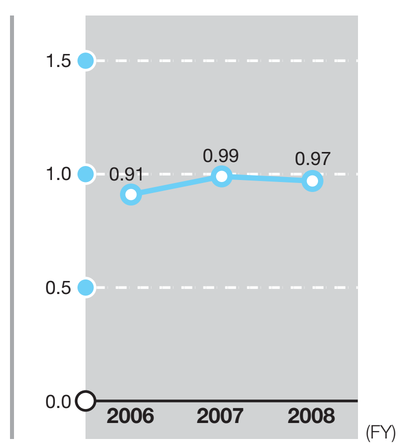
- *All figures are based on consolidated financial results.*
- *Market capitalization is calculated by multiplying the closing share price on the last day of the fiscal year by the total number of shares outstanding at the year-end (excluding treasury stock).*
- *Figures for cash flows are taken from operating cash flows.*
- *Figures for operating cash flows are taken from the consolidated statements of cash flows, 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 statements of cash flows.*

TOTAL SHAREHOLDERS’ EQUITY
RETURN ON EQUITY
(Billions of yen, %)



■ Total shareholders’ equity (left scale)
● Return on equity (right scale)

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 credit and overdraft facilities.

Capital Expenditures (Summary)

Mitsui Chemicals and its consolidated subsidiaries made total capital expenditures during fiscal 2008 in the amount of ¥84,667 million (US$845 million). This amount also includes expenditures on intangible fixed assets and long-term prepaid expenses.

Expenditures by business segment were as follows.

Performance Materials

Mitsui Chemicals constructed facilities for production of ethylene-propylene rubber and olefin copolymers.

In addition, Mitsui Elastomers Singapore Pte. Ltd. constructed a facility for production of alpha-olefin copolymers.

The total cost of these and other capital expenditures made by this segment was ¥50,383 million (US$ 503 million).

Advanced Chemicals

Mitsui Chemicals expanded production capacity at its optical lens monomers production facility. The total cost of this and other capital expenditures made by this segment was ¥6,238 million (US$62 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 ¥20,648 million (US$206 million).

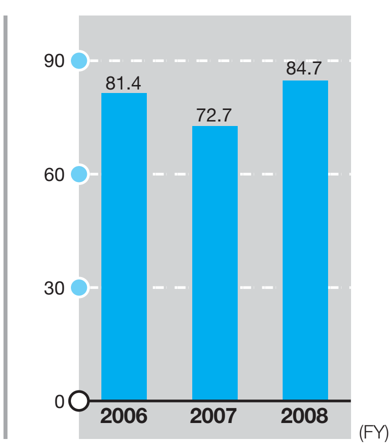
Others and Corporate

The total cost of capital expenditures was ¥7,398 million (US$74 million).

Research and Development

Research and development at Mitsui Chemicals and its consolidated subsidiaries is conducted by the development centers of the Performance Materials and Advanced Chemicals Headquarters; the

CAPITAL EXPENDITURES
(Billions of yen)



production technology center of the production/technology headquarters, the R&D centers of the corporate research and development division, and the R&D divisions of consolidated subsidiaries. Research and development expenditures by Mitsui Chemicals and its consolidated subsidiaries in the year under review totaled ¥42,130 million (US$421 million). Mitsui Chemicals employed approximately 1,000 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 2008 amounted to ¥4,964 million (US$50 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 ¥4,218 million (US$42 million).

Performance Materials

Mitsui Chemicals and Mitsui Chemicals Polyurethane, Inc. took the lead in developing functional polymers and urethane resins for automotive, IT, energy, and lifestyle and industrial areas, as well as finished goods made from these materials. During fiscal 2008, research activities emphasized new elastomers, new resins for optical lenses, display materials, semiconductor materials, sealant materials for electronic and electric parts, and functional finished products. Research and development expenditures in this segment in fiscal 2008 amounted to ¥17,843 million (US$178 million).

Advanced Chemicals

Mitsui Chemicals and Sankyo Agro Co., Ltd. took the lead in development of fine chemicals and agrochemicals. During fiscal 2008, research activities emphasized display materials and agricultural pesticides, developing and launching sales of organic electroluminescent dyes and various compounds based on Starkle brand insecticide. Research and development expenditures in this segment in fiscal 2008 amounted to ¥8,304 million (US$83 million).

Basic Chemicals

Mitsui Chemicals took the lead in research and development in this sector, focusing on process development for a new generation of catalysts that can be used in the production of propylene, phenol, and bisphenol A. Mitsui Chemicals and Prime Polymer Co., Ltd. are leading research to enhance the competitiveness of polyolefin resins and develop high-performance new brands and new markets. Research and development expenditures in this segment in fiscal 2008 amounted to ¥6,801 million (US$68 million).

Consolidated Balance Sheets

MITSUI CHEMICALS, INC. AND CONSOLIDATED SUBSIDIARIES
March 31, 2008, 2007 and 2006

	Millions of yen			Thousands of U.S. dollars (Note 3)
ASSETS	**2008**	2007	2006	**2008**
Current assets:				
Cash and cash equivalents (Note 4)	**¥ 25,502**	¥ 40,443	¥ 31,221	**$ 254,536**
Short-term investments	**430**	2,467	133	**4,292**
Receivables:				
Trade notes and accounts	**332,953**	346,659	290,914	**3,323,216**
Other	**69,371**	57,062	47,375	**692,394**
Inventories (Note 5)	**269,229**	257,069	219,705	**2,687,184**
Deferred tax assets – current (Note 10)	**18,268**	19,283	13,804	**182,334**
Other current assets	**11,066**	10,669	6,347	**110,450**
Allowance for doubtful accounts	**(458)**	(502)	(504)	**(4,571)**
Total current assets	**726,361**	733,150	608,995	**7,249,835**
Property, plant and equipment (Notes 7 and 9)**:**				
Land	**172,140**	173,106	168,556	**1,718,136**
Buildings and structures	**303,888**	296,416	288,406	**3,033,117**
Machinery and equipment	**1,087,996**	1,059,529	1,043,050	**10,859,327**
Construction in progress	**50,448**	22,651	13,828	**503,523**
	1,614,472	1,551,702	1,513,840	**16,114,103**
Accumulated depreciation	**(1,049,667)**	(1,009,362)	(981,516)	**(10,476,764)**
Property, plant and equipment, net	**564,805**	542,340	532,324	**5,637,339**
Investments and other non-current assets:				
Investment securities (Notes 6 and 7):				
Non-consolidated subsidiaries and affiliates	**47,019**	55,578	57,872	**469,298**
Other	**74,434**	114,901	89,372	**742,928**
Long-term receivables	**6,621**	6,463	5,995	**66,084**
Deferred tax assets – non-current (Note 10)	**18,299**	7,389	5,454	**182,643**
Other non-current assets (Note 7)	**33,743**	40,253	30,805	**336,790**
Allowance for doubtful accounts	**(2,034)**	(1,891)	(1,927)	**(20,301)**
Total investments and other non-current assets	**178,082**	222,693	187,571	**1,777,442**
Total assets	**¥ 1,469,248**	¥ 1,498,183	¥1,328,890	**$ 14,664,616**

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

LIABILITIES AND NET ASSETS	Millions of yen 2008	2007	2006	Thousands of U.S. dollars (Note 3) 2008
Current liabilities:				
Short-term bank loans (Note 7)	¥ 96,329	¥ 133,690	¥ 125,817	$ 961,463
Current portion of long-term debt (Note 7)	36,860	42,213	44,456	367,901
Commercial paper (Note 7)	80,000	51,000	1,200	798,483
Payables:				
Trade notes and accounts	239,031	242,866	211,277	2,385,777
Other	67,440	56,379	53,805	673,121
Employees' savings deposits	712	1,261	627	7,106
Accrued expenses	22,584	23,701	24,434	225,412
Accrual for directors' bonuses	122	160	–	1,218
Reserve for periodic repairs	8,703	11,601	4,901	86,865
Accrued income taxes (Note 10)	15,513	25,101	5,383	154,836
Other current liabilities	2,266	3,281	3,174	22,617
Total current liabilities	569,560	591,253	475,074	5,684,799
Long-term liabilities:				
Long-term debt due after one year (Note 7)	272,783	271,420	252,465	2,722,657
Accrued employees' retirement benefits (Note 8)	33,564	50,353	47,230	335,003
Accrued directors' and corporate auditors' retirement benefits	369	1,288	1,233	3,683
Reserve for periodic repairs	4,874	2,290	3,608	48,648
Provision for environmental measures	11,106	–	–	110,849
Other non-current liabilities	12,765	11,327	10,156	127,408
Total long-term liabilities	335,461	336,678	314,692	3,348,248
Contingent liabilities (Note 12)				
Net assets:				
Shareholders' equity (Note 11):				
Common stock:				
Authorized – 3,000,000,000 shares				
Issued – 792,020,076 shares in 2008 and 2007, 789,156,353 shares in 2006	103,226	103,226	103,226	1,030,302
Capital surplus	69,238	69,257	66,945	691,067
Retained earnings	326,932	311,703	269,191	3,263,120
Treasury stock, at cost:				
22,287,515 shares in 2008, 20,407,827 shares in 2007 and 6,073,702 shares in 2006	(19,826)	(18,280)	(3,593)	(197,884)
	479,570	465,906	435,769	4,786,605
Valuation and translation adjustments:				
Net unrealized holding gain on securities	19,125	34,290	29,016	190,887
Net unrealized holding gain on hedging derivatives	39	21	–	389
Foreign currency translation adjustments	1,310	4,292	(764)	13,075
	20,474	38,603	28,252	204,351
Minority interests	64,183	65,743	75,103	640,613
Total net assets	564,227	570,252	539,124	5,631,569
Total liabilities and net assets	¥1,469,248	¥1,498,183	¥1,328,890	$14,664,616

Consolidated Statements of Income

MITSUI CHEMICALS, INC. AND CONSOLIDATED SUBSIDIARIES
For the years ended March 31, 2008, 2007 and 2006

	Millions of yen			Thousands of U.S. dollars (Note 3)
	2008	2007	2006	2008
Net sales	¥1,786,680	¥1,688,062	¥1,472,435	$17,832,917
Cost of sales (Notes 8 and 14)	1,509,308	1,402,022	1,217,564	15,064,458
Gross profit	277,372	286,040	254,871	2,768,459
Selling, general and administrative expenses (Notes 8 and 14)	200,196	194,362	196,166	1,998,163
Operating income	77,176	91,678	58,705	770,296
Other income (expenses):				
Interest expense	(9,512)	(8,096)	(6,035)	(94,940)
Interest and dividend income	3,972	2,721	1,872	39,645
Equity in earnings of non-consolidated subsidiaries and affiliates	5,947	5,979	8,101	59,357
Loss on disposal of inventories	(5,462)	(2,656)	(3,364)	(54,516)
Foreign exchange losses	(6,149)	–	–	(61,373)
Gain on sales of investment securities (Note 6)	743	1,938	378	7,416
Loss on sales and disposal of property, plant and equipment	(5,399)	(5,979)	(7,851)	(53,888)
Loss on impairment of fixed assets (Note 9)	(719)	(1,347)	(1,519)	(7,176)
Loss on restructuring of subsidiaries and affiliates	(2,871)	(1,997)	(597)	(28,656)
Gain on securities contributed to employees' retirement benefit trust (Note 8)	–	–	10,280	–
Gain on change in interests in consolidated subsidiaries	–	3,102	9,366	–
Environmental expenses	(11,746)	–	–	(117,237)
Other, net	(1,427)	(801)	3,589	(14,243)
	(32,623)	(7,136)	14,220	(325,611)
Income before income taxes and minority interests	44,553	84,542	72,925	444,685
Income taxes (Note 10):				
Current	20,067	28,875	8,026	200,289
Deferred	(637)	(1,459)	19,655	(6,358)
	19,430	27,416	27,681	193,931
Income before minority interests	25,123	57,126	45,244	250,754
Minority interests in earnings of consolidated subsidiaries	(292)	(4,829)	(1,119)	(2,914)
Net income	¥ 24,831	¥ 52,297	¥ 44,125	$ 247,840

	Yen			U.S. dollars (Note 3)
Amounts per share of common stock:				
Net income	¥32.22	¥66.68	¥56.20	$0.322
Cash dividends applicable to the year	12.00	10.00	8.00	0.120

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, 2008, 2007 and 2006

	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, 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
Cash dividends paid	–	–	–	(9,256)	–	–	–	–	–	(9,256)
Net income	–	–	–	24,831	–	–	–	–	–	24,831
Purchase of treasury stock	–	–	–	–	(1,809)	–	–	–	–	(1,809)
Disposition of treasury stock	–	–	(19)	(22)	263	–	–	–	–	222
Changes resulting from decrease in non-consolidated subsidiaries and affiliates accounted for by the equity method	–	–	–	(324)	–	–	–	–	–	(324)
Other changes	–	–	–	–	–	(15,165)	18	(2,982)	(1,560)	(19,689)
Balance at March 31, 2008	792,020	¥103,226	¥69,238	¥326,932	¥(19,826)	¥ 19,125	¥39	¥ 1,310	¥64,183	¥564,227

	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, 2007	$1,030,302	$691,257	$3,111,119	$(182,453)	$ 342,250	$209	$ 42,839	$656,183	$5,691,706
Cash dividends paid	–	–	(92,384)	–	–	–	–	–	(92,384)
Net income	–	–	247,840	–	–	–	–	–	247,840
Purchase of treasury stock	–	–	–	(18,056)	–	–	–	–	(18,056)
Disposition of treasury stock	–	(190)	(221)	2,625	–	–	–	–	2,214
Changes resulting from decrease in non-consolidated subsidiaries and affiliates accounted for by the equity method	–	–	(3,234)	–	–	–	–	–	(3,234)
Other changes	–	–	–	–	(151,363)	180	(29,764)	(15,570)	(196,517)
Balance at March 31, 2008	$1,030,302	$691,067	$3,263,120	$(197,884)	$ 190,887	$389	$ 13,075	$640,613	$5,631,569

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, 2008, 2007 and 2006

	Millions of yen			Thousands of U.S. dollars (Note 3)
	2008	2007	2006	2008
Cash flows from operating activities				
Income before income taxes and minority interests	¥ 44,553	¥ 84,542	¥ 72,925	$ 444,685
Depreciation and amortization	68,185	66,705	70,099	680,557
Goodwill amortization	4,411	3,502	–	44,026
Loss on impairment of fixed assets	719	1,347	1,519	7,176
Gain on change in interests in consolidated subsidiaries	–	(3,102)	(9,366)	–
Changes in allowance for doubtful accounts	81	–	(1,628)	809
Reserve for periodic repairs	(314)	5,382	(1,021)	(3,134)
Accrued directors' and corporate auditors' retirement benefits	(917)	66	(945)	(9,153)
Provision for environmental measures	11,106	–	–	110,849
Interest and dividend income	(3,972)	(2,721)	(1,872)	(39,645)
Interest expense	9,512	8,096	6,035	94,940
Equity in earnings of non-consolidated subsidiaries and affiliates	(5,947)	(5,979)	(8,101)	(59,357)
Gain on sales of investment securities	(743)	(1,938)	(385)	(7,416)
Loss on sales of investment securities	347	3,600	907	3,463
Loss on write-downs of investment securities	844	–	17	8,424
Gain on sales of property, plant and equipment	(2,443)	(389)	(1,157)	(24,384)
Loss on sales and disposal of property, plant and equipment	4,343	4,441	2,986	43,348
Gain on securities contributed to employees' retirement benefit trust	–	–	(10,280)	–
(Increase) decrease in trade receivables	12,804	(42,697)	(44,459)	127,797
(Increase) decrease in inventories	(11,913)	(27,039)	(14,934)	(118,904)
Increase (decrease) in trade payables	(2,718)	20,105	45,039	(27,128)
Other, net	5,145	(3,519)	(2,575)	51,353
Subtotal	133,083	110,402	102,804	1,328,306
Interest and dividend received	9,570	7,436	8,013	95,519
Interest paid	(9,600)	(7,854)	(5,933)	(95,818)
Income taxes paid	(40,630)	(9,419)	(25,175)	(405,530)
Net cash provided by operating activities	92,423	100,565	79,709	922,477
Cash flows from investing activities				
Acquisition of property, plant, equipment and others	(86,363)	(67,433)	(63,829)	(861,992)
Proceeds from sales of property, plant, equipment and others	3,028	1,406	6,232	30,222
Purchases of investment securities	(8,663)	(16,494)	(1,068)	(86,466)
Proceeds from sales of investment securities	9,776	5,443	1,492	97,575
Payments for purchase of minority interests in subsidiaries	(136)	(27,309)	–	(1,357)
Payment for purchases of newly consolidated subsidiaries, net of cash acquired	(58)	(24,875)	–	(579)
Other, net	4,210	(4,356)	(1,074)	42,020
Net cash used in investing activities	(78,206)	(133,618)	(58,247)	(780,577)
Cash flows from financing activities				
Net increase (decrease) in short-term loans	(10,177)	58,116	(24,563)	(101,577)
Proceeds from long-term debt	34,185	59,611	49,744	341,202
Repayments of long-term debt	(40,215)	(48,344)	(34,932)	(401,387)
Issuance of common stock to minority shareholders	–	–	305	–
Proceeds from sales of treasury stock	222	38	24	2,215
Purchases of treasury stock	(1,809)	(17,866)	(859)	(18,056)
Cash dividends paid	(9,256)	(6,299)	(6,278)	(92,384)
Other, net	(1,684)	(4,088)	(3,031)	(16,808)
Net cash provided by (used in) financing activities	(28,734)	41,168	(19,590)	(286,795)
Effect of exchange rate changes on cash and cash equivalents	(139)	608	1,253	(1,387)
Net increase (decrease) in cash and cash equivalents	(14,656)	8,723	3,125	(146,282)
Cash and cash equivalents at beginning of the year	40,443	31,221	28,068	403,663
Increase (decrease) in cash resulting from changes in numbers of consolidated subsidiaries	(285)	499	28	(2,845)
Cash and cash equivalents at end of the year (Note 4)	¥ 25,502	¥ 40,443	¥ 31,221	$ 254,536

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

1. BASIS OF PREPARATION

The accompanying consolidated financial statements of Mitsui Chemicals, Inc. (the "Company") and its consolidated subsidiaries have been prepared in accordance with accounting principles generally accepted in Japan and have been compiled from those prepared by the Company as required under the Financial Instruments and Exchange Law of Japan (formerly Securities and Exchange Law), 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 2006 are also prepared for the convenience of readers, although such statements were not required by the Financial Instruments 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.

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, 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 and operating income and income before income taxes and minority interests decreased by ¥1,214 million compared to the amounts that would have been reported if the previous methods had been applied consistently.

Effective the year ended March 31, 2008, the Company and its consolidated domestic subsidiaries changed the depreciation method for the property, plant and equipment acquired on or after April 1, 2007 due to the revision of Japanese Corporate Tax Law and its regulation. As a result of this change, for the year ended March 31, 2008, depreciation and amortization increased by ¥1,872 million ($18,685 thousand) and operating income and income before income taxes and minority interests decreased by ¥1,848 million ($18,445 thousand) compared to the amounts that would have been reported if the previous methods had been applied consistently.

Effective the year ended March 31, 2008, the Company and its consolidated domestic subsidiaries started the depreciation for the property, plant and equipment, which were acquired on or before March 31, 2007 and were already depreciated to 5% of the acquisition cost. The depreciation was calculated by the straight-line method within next five years after these assets were depreciated to 5% of the acquisition cost. The depreciation was charged to depreciation expense. As a result of this change, for the year ended March 31, 2008, depreciation and amortization increased by ¥993 million ($9,911 thousand) and operating income and income before income taxes and minority interests decreased by ¥967 million ($9,652 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 that for 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, 2008, 2007 and 2006 based on the estimated amounts of the projected benefit obligation less the fair value of the pension plan assets.

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 of directors' bonuses 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.

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.

Several domestic consolidated subsidiaries have abolished the system of retirement benefits for directors and corporate auditors.

Effective the year ended March 31, 2008, Accrued directors' and corporate auditors' retirement benefits are shown in Other non-current liabilities.

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.

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. Provision for environmental measures

Effective the year ended March 31, 2008, the Company provided a provision for environmental measures. As a result, income before income taxes and minority interests decreased by ¥11,106 million (US$110,849 thousand).

p. 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.

q. Cash and cash equivalents

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.

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 consolidated balance sheet was ¥504,488 million. At March 31, 2008, the amount corresponding to conventional "Total shareholders' equity" in the consolidated balance sheet was ¥500,005 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 the statements of shareholders' equity for the year 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 ¥100.19=US$1.00, the approximate rate of exchange in effect on March 31, 2008. 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, 2008, 2007 and 2006 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2008	2007	2006	2008
Cash	¥21,752	¥32,568	¥31,221	$217,107
Cash equivalents	3,750	7,875	–	37,429
	¥25,502	¥40,443	¥31,221	$254,536

5. INVENTORIES

Inventories at March 31, 2008, 2007 and 2006 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2008	2007	2006	2008
Finished goods	¥188,192	¥183,135	¥153,347	$1,878,351
Work in process	4,313	5,685	5,978	43,048
Raw materials and supplies	76,724	68,249	60,380	765,785
	¥269,229	¥257,069	¥219,705	$2,687,184

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, 2008, 2007 and 2006:

(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
	2008	2007	2006	2008
Book value	¥ –	¥ –	¥1	$ –
Fair value	–	–	1	–
Difference	–	–	0	–

(b) Available-for-sale securities

Securities with book value exceeding their acquisition cost

	Millions of yen			Thousands of U.S. dollars
	2008	2007	2006	2008
Equity securities and bonds:				
Acquisition cost	¥19,409	¥30,386	¥18,294	$193,722
Book value	49,210	85,033	67,510	491,167
Difference	29,801	54,647	49,216	297,445

Securities with book value not exceeding their acquisition cost

	Millions of yen			Thousands of U.S. dollars
	2008	2007	2006	2008
Equity securities and bonds:				
Acquisition cost	¥5,508	¥8,153	¥188	$54,975
Book value	5,155	7,803	173	51,452
Difference	(353)	(350)	(15)	(3,523)

B. The following table summarizes the book value of securities with no known fair value as of March 31, 2008, 2007 and 2006:

	Millions of yen			Thousands of U.S. dollars
	2008	2007	2006	2008
(a) Held-to-maturity debt securities:				
Local government bonds	¥ 41	¥ 48	¥ 54	$ 409
(b) Available-for-sale securities:				
Unlisted equity securities	¥21,475	¥22,200	¥21,380	$214,343

C. Available-for-sale securities with maturities and held-to-maturity debt securities as of March 31, 2008, 2007 and 2006 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2008	2007	2006	2008
Bonds:				
Due within one year	¥1,716	¥ 449	¥16	$17,127
Due over one year but within five years	1,924	3,628	26	19,204
Due over five years but within ten years	1	6	13	10
Due over ten years	100	93	–	998
Total	¥3,741	¥4,176	¥55	$37,339

D. Information related to sales of available-for-sale securities for the years ended March 31, 2008, 2007 and 2006 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2008	2007	2006	2008
Sales - total	¥771	¥2,860	¥585	$7,695
Related gain - total	586	1,082	355	5,849
Related loss - total	27	2	1	269

7. SHORT-TERM DEBT AND LONG-TERM DEBT

At March 31, 2008, 2007 and 2006, short-term debts were as follows:

	Millions of yen			Thousands of U.S. dollars
	2008	2007	2006	2008
0.85% - 7.07% bank loans	¥ 96,329	¥133,690	¥125,817	$ 961,463
Commercial paper	¥ 80,000	¥ 51,000	¥ 1,200	$ 798,483

At March 31, 2008, 2007 and 2006, long-term debts were as follows:

	Millions of yen			Thousands of U.S. dollars
	2008	2007	2006	2008
2.95% bonds due in 2008	¥ 10,000	¥ 10,000	¥ 10,000	$ 99,810
2.70% bonds due in 2008	10,000	10,000	10,000	99,810
2.07% bonds due in 2010	10,000	10,000	10,000	99,810
1.94% bonds due in 2011	10,000	10,000	10,000	99,810
1.84% bonds due in 2011	10,000	10,000	10,000	99,810
1.62% bonds due in 2011	10,000	10,000	10,000	99,810
0.67% bonds due in 2006	–	–	10,000	–
0.79% bonds due in 2007	–	10,000	10,000	–
1.04% bonds due in 2009	10,000	10,000	10,000	99,810
1.36% bonds due in 2012	10,000	10,000	10,000	99,810
0.56% bonds due in 2007	–	10,000	10,000	–
0.50% bonds due in 2006	–	–	10,000	–
0.78% bonds due in 2013	10,000	10,000	10,000	99,810
1.52% bonds due in 2015	10,000	10,000	10,000	99,810
1.57% bonds due in 2013	10,000	10,000	10,000	99,810
1.84% bonds due in 2016	10,000	10,000	10,000	99,810
2.09% bonds due in 2016	10,000	10,000	–	99,810
1.40% bonds due in 2012	10,000	10,000	–	99,810
1.96% bonds due in 2017	10,000	10,000	–	99,810
1.42% bonds due in 2012	10,000	–	–	99,810
1.93% bonds due in 2017	10,000	–	–	99,810
1.26% bonds due in 2009	2,000	2,000	2,000	19,962
0.57% bonds due in 2007	–	–	100	–
0.80% bonds due in 2010	55	77	99	549
1.45% bonds due in 2011	1,000	1,000	–	9,981
Loans, principally from banks and insurance companies:				
Secured, at rates of 1.07% to 6.07% maturing through 2010	3,671	6,166	12,821	36,640
Unsecured, at rates of 0.96% to 7.10% maturing through 2018	132,917	134,390	121,901	1,326,656
	309,643	313,633	296,921	3,090,558
Less current portion	36,860	42,213	44,456	367,901
	¥272,783	¥271,420	¥252,465	$2,722,657

The aggregate annual maturities of long-term debt subsequent to March 31, 2008 are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2009	¥ 36,860	$ 367,901
2010	32,531	324,693
2011	41,825	417,457
2012	25,044	249,965
2013 and thereafter	173,383	1,730,542
	¥309,643	$3,090,558

At March 31, 2008, 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	¥15,474	$154,447
Investment securities	10	100
Other non-current assets	156	1,557
Total	¥15,640	$156,104

8. ACCRUED EMPLOYEES' RETIREMENT BENEFITS

The liability for severance and retirement benefits included in the consolidated balance sheets as of March 31, 2008, 2007 and 2006 consisted of the following:

	Millions of yen			Thousands of U.S. dollars
	2008	2007	2006	2008
Projected benefit obligation	¥ 207,245	¥ 210,847	¥ 206,893	$ 2,068,520
Unrecognized prior service cost	12	16	20	120
Unrecognized actuarial loss	(48,362)	(36,888)	(35,899)	(482,703)
Less fair value of pension plan assets	(126,690)	(124,821)	(124,627)	(1,264,498)
Prepaid pension and severance cost	1,359	1,199	843	13,564
Liability for severance and retirement benefits	¥ 33,564	¥ 50,353	¥ 47,230	$ 335,003

Included in the consolidated statements of income for the years ended March 31, 2008, 2007 and 2006 are severance and retirement benefit expenses which comprised of the following:

	Millions of yen			Thousands of U.S. dollars
	2008	2007	2006	2008
Service cost - benefits earned during the year	¥ 5,655	¥ 5,414	¥ 5,163	$ 56,443
Interest cost on projected benefit obligation	5,110	5,021	4,987	51,003
Expected return on plan assets	(2,954)	(2,611)	(2,226)	(29,484)
Amortization of actuarial loss	4,958	4,522	5,669	49,486
Amortization of prior service cost	(4)	(4)	(4)	(40)
Severance and retirement benefit expenses	¥12,765	¥12,342	¥13,589	$127,408

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

	2008	2007	2006
Discount rate	2.50%	2.50%	2.50%
Rate of expected return on the pension plan assets	2.50%	2.50%	2.50%

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

9. LOSS ON IMPAIRMENT OF FIXED ASSETS

Loss on impairment of fixed assets for the year ended March 31, 2008 consisted of the following:

Location	Major use	Asset category	Millions of yen	Thousands of U.S. dollars	Remarks
Stirlingshire, United Kingdom	Production Facilities	Machinery and equipment, buildings and structures	¥605	$6,038	Business assets in use
Other	Production Facilities, etc.	Machinery and equipment, buildings and structures, other	114	1,138	Business assets in use
Total			¥719	$7,176	

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 ¥719 million ($7,176 thousand) was recorded as other expenses. This impairment loss comprised ¥397 million ($3,963 thousand) for machinery and equipment, ¥293 million ($2,924 thousand) for buildings and structures, and ¥29 million ($289 thousand) for other assets.

The recoverable amounts were calculated on the basis of utility value, with future cash flows discounted by mainly 7%.

10. INCOME TAXES

The Company and its consolidated domestic subsidiaries are subject to a number of income taxes in Japan which, in the aggregate, resulted in statutory tax rate of approximately 40.6% for the years ended March 31, 2008, 2007 and 2006. The consolidated overseas 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, 2008, 2007 and 2006:

	2008	2007	2006
Statutory tax rate	40.6%	40.6%	40.6%
Non-deductible expenses	2.1	1.9	1.1
Equity in earnings of non-consolidated subsidiaries and affiliates	(5.4)	(2.9)	(4.5)
Gain on change in interests in consolidated subsidiaries	–	(1.5)	(5.2)
Increase (decrease) in valuation allowance	–	(4.2)	7.4
Tax credits	(2.5)	(4.4)	(2.2)
Differences of statutory tax rates in consolidated overseas subsidiaries	8.4	1.6	–
Other	0.4	1.3	0.8
Effective tax rate	43.6%	32.4%	38.0%

The significant components of the Company's and its consolidated subsidiaries' deferred tax assets and liabilities as of March 31, 2008, 2007 and 2006 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2008	2007	2006	2008
Deferred tax assets:				
Allowance for doubtful accounts	¥ 1,086	¥ 1,036	¥ 1,008	$ 10,839
Employees' retirement benefits	19,827	22,142	23,816	197,894
Accrued bonuses	4,704	5,286	4,921	46,951
Depreciation	7,089	8,225	7,222	70,756
Accrued enterprise taxes	1,020	2,242	804	10,181
Loss carryforwards of consolidated subsidiaries	2,296	2,851	9,245	22,916
Reserve for periodic repairs	5,503	5,613	3,392	54,926
Provision for environmental measures	4,509	–	–	45,004
Loss on write-down of inventories	3,352	1,937	1,604	33,456
Loss on write-down of investment securities	5,707	4,216	4,246	56,962
Loss on impairment of fixed assets	3,865	3,883	4,082	38,577
Other	10,282	8,188	11,598	102,625
Subtotal	69,240	65,619	71,938	691,087
Valuation allowance	(11,274)	(10,202)	(17,034)	(112,526)
Total deferred tax assets	57,966	55,417	54,904	578,561

	Millions of yen			Thousands of U.S. dollars
	2008	2007	2006	2008
Deferred tax liabilities:				
Net unrealized holding gain on securities	¥ (9,393)	¥(19,067)	¥(19,899)	$ (93,752)
Deferred gain on real properties	(3,510)	(3,675)	(3,764)	(35,033)
Reserve for special depreciation	–	(12)	(72)	–
Retained earnings of consolidated overseas subsidiaries, etc	(10,620)	(8,708)	(8,156)	(105,999)
Employees' retirement benefit trust	–	–	(4,275)	–
Other	(2,305)	(2,221)	(3,052)	(23,006)
Total deferred tax liabilities	(25,828)	(33,683)	(39,218)	(257,790)
Net deferred tax assets	¥ 32,138	¥ 21,734	¥ 15,686	$ 320,771

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, 2008 include amounts representing the year-end cash dividends approved at the shareholders' meeting held on June 25, 2008.

The amount of cash dividends relating to the year ended March 31, 2008 that has been approved is shown below.

	Millions of yen	Thousands of U.S. dollars
Cash dividends of ¥6 ($0.06) per share	¥4,618	$46,092

12. CONTINGENT LIABILITIES

Contingent liabilities at March 31, 2008, 2007 and 2006 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2008	2007	2006	2008
As endorser of trade notes discounted	¥ 38	¥ 86	¥ –	$ 379
As guarantor of indebtedness, principally of non-consolidated subsidiaries and affiliates	10,839	14,327	19,128	108,184
As issuer of commitments for guarantees	637	662	60	6,358

13. LEASES

A. At March 31, 2008, 2007 and 2006, assets leased under non-capitalized financial leases were as follows:

(a) Equivalent purchase amount, accumulated depreciation amount, accumulated impairment amount and balance at year-end:

	Millions of yen			Thousands of U.S. dollars
	2008	2007	2006	2008
Machinery and equipment:				
Equivalent purchase amount	¥10,327	¥12,497	¥13,659	$103,074
Equivalent accumulated depreciation amount	5,834	7,598	8,323	58,229
Equivalent accumulated impairment amount	–	–	103	–
Equivalent balance at year-end	4,493	4,899	5,233	44,845

(b) Future minimum lease payments:

	Millions of yen			Thousands of U.S. dollars
	2008	2007	2006	2008
Due within one year	¥1,730	¥1,803	¥1,975	$17,267
Due after one year	2,763	3,096	3,258	27,578
	¥4,493	¥4,899	¥5,233	$44,845
Impairment of lease 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
	2008	2007	2006	2008
Paid lease fees	¥2,006	¥2,369	¥2,375	$20,022
Reversal of leased asset impairment loss	–	103	–	–
Equivalent depreciation expense amount	2,006	2,266	2,375	20,022
Impairment loss on lease assets	¥ –	¥ –	¥ 103	$ –

B. Obligations under operating leases at March 31, 2008, 2007 and 2006, were as follows:
Future minimum lease payments:

	Millions of yen			Thousands of U.S. dollars
	2008	2007	2006	2008
Due within one year	¥33	¥15	¥19	$329
Due after one year	51	46	58	509
	¥84	¥61	¥77	$838

14. RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses for the years ended March 31, 2008, 2007 and 2006 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2008	2007	2006	2008
Research and development expenses	¥42,130	¥36,943	¥37,146	$420,501

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 currencies
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 derivatives positions open as of March 31, 2006 has not been disclosed as deferred hedge accounting has been applied.

The Company and certain of its consolidated subsidiaries had the following derivatives contracts outstanding at March 31, 2008:

	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	¥6,757	¥6,379	¥(378)	$67,442	$63,669	$(3,773)
Foreign currency swaps:						
Receiving Singapore dollar, paying U.S. dollar	242	51	51	2,418	509	509

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

	Millions of yen		
	Contract amount	Fair value	Unrealized gain
Forward foreign exchange contracts:			
Buying U.S. dollar	¥5,154	¥5,415	¥261
Foreign currency swaps:			
Receiving Singapore dollar, paying U.S. dollar	480	72	72

16. SEGMENT INFORMATION

Business segment information of the Company and its consolidated subsidiaries for the years ended March 31, 2008, 2007 and 2006 is summarized as follows:

	Millions of yen					
Year ended March 31, 2008	Performance Materials	Advanced Chemicals	Basic Chemicals	Others	Eliminations or Corporate	Consolidated
I. Sales and operating income:						
Customers	¥504,060	¥122,113	¥1,111,166	¥ 49,341	¥ –	¥1,786,680
Inter-segment	18,685	3,034	143,177	149,511	(314,407)	–
Total sales	522,745	125,147	1,254,343	198,852	(314,407)	1,786,680
Operating expenses	486,888	114,386	1,220,893	195,462	(308,125)	1,709,504
Operating income	¥ 35,857	¥ 10,761	¥ 33,450	¥ 3,390	¥ (6,282)	¥ 77,176
II. Assets, depreciation, loss on impairment of fixed assets and capital expenditures:						
Total assets	¥489,968	¥159,030	¥ 697,856	¥ 71,897	¥ 50,497	¥1,469,248
Depreciation and amortization	29,564	6,328	30,767	3,811	2,126	72,596
Loss on impairment of fixed assets	605	41	–	60	13	719
Capital expenditures	50,383	6,238	20,648	5,589	1,809	84,667

	Thousands of U.S. dollars					
Year ended March 31, 2008	Performance Materials	Advanced Chemicals	Basic Chemicals	Others	Eliminations or Corporate	Consolidated
I. Sales and operating income:						
Customers	$5,031,041	$1,218,814	$11,090,588	$ 492,474	$ –	$17,832,917
Inter-segment	186,496	30,283	1,429,054	1,492,275	(3,138,108)	–
Total sales	5,217,537	1,249,097	12,519,642	1,984,749	(3,138,108)	17,832,917
Operating expenses	4,859,647	1,141,691	12,185,777	1,950,913	(3,075,407)	17,062,621
Operating income	$ 357,890	$ 107,406	$ 333,865	$ 33,836	$ (62,701)	$ 770,296
II. Assets, depreciation, loss on impairment of fixed assets and capital expenditures:						
Total assets	$4,890,388	$1,587,284	$ 6,965,326	$ 717,607	$ 504,012	$14,664,617
Depreciation and amortization	295,079	63,160	307,086	38,038	21,220	724,583
Loss on impairment of fixed assets	6,038	409	–	599	130	7,176
Capital expenditures	502,874	62,262	206,088	55,784	18,056	845,064

	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

Effective the year ended March 31, 2008, the Company and its consolidated subsidiaries changed their business segment classification. Business segment information based on the new classification for the year ended March 31, 2007 is summarized as follows:

	Millions of yen					
Year ended March 31, 2007	Performance Materials	Advanced Chemicals	Basic Chemicals	Others	Eliminations or Corporate	Consolidated
I. Sales and operating income:						
Customers	¥496,250	¥ 93,929	¥1,037,771	¥ 60,112	¥ –	¥1,688,062
Inter-segment	17,231	3,511	126,261	151,421	(298,424)	–
Total sales	513,481	97,440	1,164,032	211,533	(298,424)	1,688,062
Operating expenses	487,555	85,752	1,110,969	207,956	(295,848)	1,596,384
Operating income	¥ 25,926	¥ 11,688	¥ 53,063	¥ 3,577	¥ (2,576)	¥ 91,678
II. Assets, depreciation, loss on impairment of fixed assets and capital expenditures:						
Total assets	¥476,989	¥160,005	¥ 710,138	¥ 88,552	¥ 62,499	¥1,498,183
Depreciation and amortization	30,012	5,437	31,241	2,621	896	70,207
Loss on impairment of fixed assets	176	268	148	–	755	1,347
Capital expenditures	42,084	7,930	14,940	4,113	3,604	72,671

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

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 in depreciation (Million yen)		¥ 1,220					¥ 1,220
Effect in operating income (Million yen)		¥(1,214)					¥(1,214)
Year ended March 31, 2006							
Effect in depreciation (Million yen)	¥ 1,299	¥ 743	¥ 1,424	¥ 2,394	¥ 10		¥ 5,870
Effect in operating income (Milion yen)	¥(1,220)	¥ (734)	¥(1,421)	¥(2,394)	¥(10)		¥(5,779)

Effective the year ended March 31, 2008, the Company and its consolidated domestic subsidiaries changed the depreciation method for the property, plant and equipment acquired on or after April 1, 2007 due to the revision of Japanese Corporate Tax Law and its regulation.

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

	Performance Materials	Advanced Chemicals	Basic Chemicals	Others	Eliminations or Corporate	Consolidated
Year ended March 31, 2008						
Effect in depreciation (Millions of yen)	¥ 722	¥ 97	¥ 667	¥ 69	¥ 317	¥ 1,872
Effect in operating income (Millions of yen)	¥ (711)	¥ (92)	¥ (659)	¥ (69)	¥ (317)	¥ (1,848)
Effect in depreciation (Thousands of U.S. dollars)	$ 7,206	$ 968	$ 6,658	$ 689	$ 3,164	$ 18,685
Effect in operating income (Thousands of U.S. dollars)	$(7,097)	$(918)	$(6,577)	$(689)	$(3,164)	$(18,445)

Effective the year ended March 31, 2008, the Company and its consolidated domestic subsidiaries started the depreciation for the property, plant and equipment, which were acquired on or before March 31, 2007 and were already depreciated to 5% of the acquisition cost.

The depreciation was calculated by the straight-line method within next five years after these assets were depreciated to 5% of the acquisition cost. the depreciation was charged to depreciation expense.

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

	Performance Materials	Advanced Chemicals	Basic Chemicals	Others	Eliminations or Corporate	Consolidated
Year ended March 31, 2008						
Effect in depreciation (Millions of yen)	¥ 297	¥ 117	¥ 528	¥ 51		¥ 993
Effect in operating income (Millions of yen)	¥ (295)	¥ (103)	¥ (518)	¥ (51)		¥ (967)
Effect in depreciation (Thousands of U.S. dollars)	$ 2,964	$ 1,168	$ 5,270	$ 509		$ 9,911
Effect in operating income (Thousands of U.S. dollars)	$(2,945)	$(1,028)	$(5,170)	$(509)		$(9,652)

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 in Functional Polymeric Materials.

Geographic segment information of the Company and its consolidated subsidiaries for the years ended March 31, 2008, 2007 and 2006 is summarized as follows:

	Millions of yen				
Year ended March 31, 2008	Japan	Asia	Others	Eliminations	Consolidated
I. Sales and operating income:					
Customers	¥1,466,628	¥215,553	¥104,499	¥ –	¥1,786,680
Inter-segment	69,586	102,320	1,758	(173,664)	–
Total sales	1,536,214	317,873	106,257	(173,664)	1,786,680
Operating expenses	1,464,153	316,708	102,321	(173,678)	1,709,504
Operating income	¥ 72,061	¥ 1,165	¥ 3,936	¥ 14	¥ 77,176
II. Total assets	¥1,300,926	¥188,424	¥ 52,047	¥ (72,149)	¥1,469,248

	Thousands of U.S. dollars				
Year ended March 31, 2008	Japan	Asia	Others	Eliminations	Consolidated
I. Sales and operating income:					
Customers	$14,638,467	$2,151,442	$1,043,008	$ –	$17,832,917
Inter-segment	694,540	1,021,260	17,547	(1,733,347)	–
Total sales	15,333,007	3,172,702	1,060,555	(1,733,347)	17,832,917
Operating expenses	14,613,764	3,161,074	1,021,270	(1,733,487)	17,062,621
Operating income	$ 719,243	$ 11,628	$ 39,285	$ 140	$ 770,296
II. Total assets	$12,984,589	$1,880,667	$ 519,483	$ (720,123)	$14,664,616

Year ended March 31, 2007	Millions of yen 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. Total assets	¥1,327,744	¥179,844	¥51,778	¥ (61,183)	¥1,498,183

Year ended March 31, 2006	Millions of yen 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. Total assets	¥1,152,509	¥166,153	¥46,759	¥ (36,531)	¥1,328,890

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 in Domestic (in Japan), reducing operating income by ¥1,214 million 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 in Domestic (in Japan).

Effective the year ended March 31, 2008, the Company and its consolidated domestic subsidiaries changed the depreciation method for the property, plant and equipment acquired on or after April 1, 2007 due to the revision of Japanese Corporate Tax Law and its regulation.

For the year ended March 31, 2008, this change had the effect of increasing depreciation cost by ¥1,872 million ($18,685 thousand) in Domestic (in Japan), reducing operating income by ¥1,848 million ($18,445 thousand) in Domestic (in Japan).

Effective the year ended March 31, 2008, the Company and its consolidated domestic subsidiaries started the depreciation for the property, plant and equipment, which were acquired on or before March 31, 2007 and were already depreciated to 5% of the acquisition cost.

The depreciation was calculated by the straight-line method within next five years after these assets were depreciated to 5% of the acquisition cost. The depreciation was charged to depreciation expense.

For the year ended March 31, 2008, this change had the effect of increasing depreciation cost by ¥993 million ($9,911 thousand) in Domestic (in Japan), reducing operating income by ¥967 million ($9,652 thousand) in Domestic (in Japan).

Overseas sales of the Company and its consolidated subsidiaries for the years ended March 31, 2008, 2007 and 2006 are summarized by geographic area as follows:

	Millions of yen				
Year ended March 31, 2008	Asia	North America and Latin America	Europe	Others	Overseas sales
Overseas sales	¥ 544,347	¥84,029	¥52,409	¥15,481	¥ 696,266
Consolidated net sales					1,786,680
Ratio of overseas sales to consolidated net sales	30.5%	4.7%	2.9%	0.9%	39.0%

	Thousands of U.S. dollars				
Year ended March 31, 2008	Asia	North America and Latin America	Europe	Others	Overseas sales
Overseas sales	$5,433,147	$838,697	$523,096	$154,516	$6,949,456

	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%

	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%

17. BUSINESS COMBINATIONS

Effective the year ended March 31, 2007, the Company and its consolidated subsidiaries adopted new accounting standards 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).

For the year ended March 31, 2007, 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 transactions 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
Expenditure directly required for acquisition	–
Total acquisition cost	¥4,833 million

(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 the 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

(e) Negative goodwill

Negative goodwill of ¥2,782 million 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
Non-current assets	¥8,128 million
Total assets	¥13,101 million
Current liabilities	¥1,514 million
Long-term liabilities	¥66 million
Total liabilities	¥1,580 million

18. SUBSEQUENT EVENTS

There were no applicable items under this category.

Independent Auditors' Report

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

We have audited the accompanying consolidated balance sheets of Mitsui Chemicals, Inc. and consolidated subsidiaries as of March 31, 2008, 2007 and 2006, 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, 2008, 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Mitsui Chemicals, Inc. and consolidated subsidiaries as of March 31, 2008, 2007 and 2006, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2008, 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 16 to the consolidated financial statements, effective April 1, 2007, 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, 2008 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 25, 2008

Ernst & Young Shinnihon

KPMG AZSA & Co.

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, 2008.

(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. Business continuity plans have also been formulated to quickly reestablish the business chain of command in the event that head office functions are affected by a major earthquake in the Tokyo metropolitan area. Nevertheless, the Group faces risks 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.

(7) The environment

As a group that handles a wide range of chemical substances, the Mitsui Chemicals Group has made harmony with the environment one of its long-term management targets. In addition to ensuring compliance with environmental laws and regulations, the Group promotes initiatives for reducing greenhouse gas (GHG) emissions and minimizing the amount of industrial waste sent to landfill for final disposal.

Environmental risks relevant to the Group include the incurrence of new social responsibilities due to tighter environmental regulations or changes in public sentiment regarding environmental protection, as well as the discovery of environmental pollution stemming from actions taken by the Group prior to the enactment of environmental laws. These and other situations could increase costs associated with legal compliance and environmental countermeasures and have other consequences, which could adversely impact the Group's operating performance.

Subsidiaries and Major Affiliates

(As of March 31, 2008)

* Consolidated subsidiary

	Companies	Major Products or Lines of Business	Paid-in Capital (In millions)		Equity Interest (%)
	Performance Materials				
*	Chiba Polyol Corporation	Polypropylene glycol	¥	100	90
*	Japan Composite Co., Ltd.	Unsaturated polyester resins and molding materials for FRP	¥	1,005	65
*	MC Industries, Ltd.	Synthetic resin compounds and wood preservatives	¥	300	100
*	Mitsui Chemicals Fabro, Inc.	Functional fabricated products	¥	400	100
*	Mitsui Chemicals Industrial Products, Ltd.	Civil engineering and construction materials	¥	400	100
*	Mitsui Chemicals Polyurethane, Inc.	Urethane raw materials, urethane derivatives and organic acids	¥	20,008	100
*	Nippon Corrosion Resistant Material Co., Ltd.	Corrosion resistant materials	¥	30	100
*	Printec Corp.	Printed wiring boards and electronic appliances	¥	250	100
*	Saxin Corporation	Molded synthetic resin	¥	128	71.4
*	Shimonoseki Mitsui Chemicals, Inc.	Phosphoric acid and fertilizers	¥	4,000	100
*	Sun Alloys Co., Ltd.	Compounded polymers	¥	50	100
*	Sunrex Industry Co., Ltd.	Spunbonded nonwoven fabrics and plastic film	¥	240	100
*	Toyo Phosphoric Acid, Inc.	Phosphoric acid	¥	1,500	83.3
*	Tohcello Co., Ltd.	Plastic film	¥	3,450	53.4
*	Tohoku Uloid Co., Ltd.	Synthetic resins, wood adhesives, formalin and other chemical products	¥	80	100
*	Anderson Development Company	Specialty chemicals	US$	19.20	100
*	Cosmo Scientex (M) Sdn. Bhd.	Urethane prepolymers for flexible packaging applications and providing technical services and assistance to customers	RM	10	70
*	Image Polymers Company	Toner resin	US$	10.34	100
*	Image Polymers Europe UK Partnership	Toner resin	Pound	9.97	100
*	Mitsui Elastomers Singapore Pte. Ltd.	Elastomers	US$	35	100
*	Mitsui Hygiene Materials (Thailand) Co., Ltd.	Spunbonded nonwoven fabrics	Baht	1,310	100
*	P.T. Cosmo Polyurethane Indonesia	Urethane premixture	US$	10.50	81
*	Taiwan Mitsui Chemicals, Inc.	Sales of electronics and information materials	NT$	14	100
*	Thai Mitsui Specialty Chemicals Co., Ltd.	Specialty chemicals	Baht	318	51.9
*	Tianjin Cosmo Polyurethane Co., Ltd.	Urethane premixture	Yuan	54.16	70
*	Zhang Jia Gang Free Trade Zone Mitsui Link-Upon Advanced Materials, Inc.	Engineering plastic compound	US$	4.66	60
	Kumho Mitsui Chemicals, Inc.	MDI	Won	35,000	50
	Polyimide Laminate Systems, LLC	Polyimide flexible laminate	US$	0.10	50
	Sun Alloys Europe GmbH	Compounded polymers	Euro	2	50
	Advanced Chemicals				
*	Mitsui Fine Chemicals, Inc.	Fine chemical products	¥	400	63
*	Sankyo Agro Co., Ltd.	Agrochemical formulation products and public health insecticides	¥	350	100
*	Sun Medical Co., Ltd.	Dental materials	¥	100	70
*	Toyo Beauty Supply Corporation	Cosmetics	¥	40	60
*	Utsunomiya Chemical Industry Co., Ltd.	Agrochemical formulation products and public health insecticides	¥	20	100
*	Yamamoto Chemicals, Inc.	Dyes, pigments and industrial chemicals	¥	350	100
*	ESCO Company Limited Partnership	Color former and catalyst	US$	21	100
*	Yongsan Mitsui Chemicals, Inc.	Acrylamide	Won	3,850	50
	Honshu Chemical Industry, Ltd.	Raw materials for synthetic resins, synthetic fibers, dyes, pharmaceuticals, agricultural chemicals, rubber and other chemicals	¥	1,500	26.9
	MT AquaPolymer, Inc.	Organic flocculant	¥	460	49

* Consolidated subsidiary

	Companies	Major Products or Lines of Business	Paid-in Capital (In millions)		Equity Interest (%)
	Basic Chemicals				
*	Chiba Phenol Company, Limited	Phenol and acetone	¥	300	55
*	Evolue Japan Co., Ltd.	Polyethylene	¥	400	75
*	Kyodo Monomer Co., Ltd.	Methacrylic acid and methyl methacrylate	¥	400	100
*	Mitsui Toatsu Inorganic Chemicals, Inc.	Inorganic chemicals	¥	100	50
*	Osaka petrochemical Industries, Ltd.	Ethylene, propylene and other basic petrochemical products	¥	5,000	100
*	Prime Polymer Co., Ltd.	Polyolefin	¥	20,000	65
*	Ube Polypropylene Co., Ltd.	Polypropylene	¥	475	100
*	Advanced Composites, Inc.	Polypropylene compound	US$	14.10	62.8
*	Advanced Composites Mexicana S.A. de C.V.	Polypropylene compound	US$	2.60	100
*	Mitsui Advanced Composites (Zhongshan) Co., Ltd.	Polypropylene compound	US$	9.23	90
*	Mitsui Phenols Singapore Pte Ltd.	Phenol, Acetone and Bisphenol-A	US$	120	95
*	Mitsui Prime Advanced Composites India Pvt Ltd.	Polypropylene compound	Rupee	480	100
*	Prime Polymer Asia Co., Ltd.	Polyolefin	HK$	1	100
*	Siam Mitsui PTA Co., Ltd.	PTA	Baht	2,800	49
*	Smh Co., Ltd.	Investment to Siam Mitsui PTA Co., Ltd.	Baht	60	51
	Japan Polystyrene Inc.	Polystyrene	¥	2,000	50
	Keiyo Ethylene Co., Ltd.	Ethylene, propylene and other basic petrochemical products	¥	6,000	22.5
	Grand Siam Composites Co., Ltd.	Polypropylene compound	Baht	63.7	48.2
	P.T. Amoco Mitsui PTA Indonesia	PTA	US$	160	45
	P.T. Petnesia Resindo	Polyethylene terephthalate resin for bottles	US$	28.60	49.8
	Shanghai Sinopec Mitsui Chemicals, Co., Ltd.	Bisphenol-A	Yuan	307	50
	Thai Pet Resin Co., Ltd.	Polyethylene terephthalate resin for bottles	Baht	900	40
	Others				
*	Hokkaido Mitsui Chemicals, Inc.	Wood adhesives, paper resins and foliar activator	¥	1,500	100
*	MC Business Supports, Inc.	Placements, temporary work and insurance and travel agency	¥	50	100
*	MC Operation Supports, Inc.	Operation support for MCI Production sites	¥	10	100
*	MCI Logistics (west), Inc.	General trucking and warehousing	¥	400	100
*	Mitsui Chemical Analysis & Consulting Service, Inc.	Performing analysis, physical property measurements, and safety tests on chemicals	¥	140	100
*	Mitsui Chemicals Engineering Co., Ltd.	Engineering, plant construction and machine maintenance	¥	400	100
*	Sanseikaihatsu Co., Ltd.	Consignment from Mitsui Chemicals and miscellaneous	¥	490	100
*	Mitsui Chemicals America, Inc.	Manufacture and sales of ADMER and marketing of Mitsui Chemicals products	US$	71.67	100
*	Mitsui Chemicals Asia Pacific, Ltd	Marketing of Mitsui Chemicals products	S$	3	100
*	Mitsui Chemicals Europe GmbH	Manufacture of polypropylene compound, ADMER and marketing of Mitsui Chemicals products	Euro	1.2	100
*	Mitsui Chemicals (Shanghai) Co., Ltd.	Marketing of Mitsui Chemicals products	US$	0.30	100
	Du Pont-Mitsui Fluorochemicals Co., Ltd.	Fluorocarbon resin and gas, and other chemicals	¥	2,880	50
	Du Pont-Mitsui Polychemicals Co., Ltd.	Ethylene vinyl acetate copolymer and other ethylenic copolymers	¥	6,480	50
	Gem Pc Ltd.	Engineering plastics	¥	3,600	42

Corporate Data

(As of March 31, 2008)

Date Incorporated

July 25, 1947

(Inaugurated October 1, 1997)

Paid-in Capital

¥103,226 million

Number of Employees

12,814 (Consolidated)

Shares of Common Stock Issued and Outstanding

792,020,076

Number of Shareholders

82,565

Stock Listing

Tokyo

Transfer Agent

The Chuo Mitsui Trust & Banking Co., Ltd.

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Phone: +86-21-5888-6336

Facsimile: +86-21-5888-6337

URL: http://cn.mitsuichem.com/

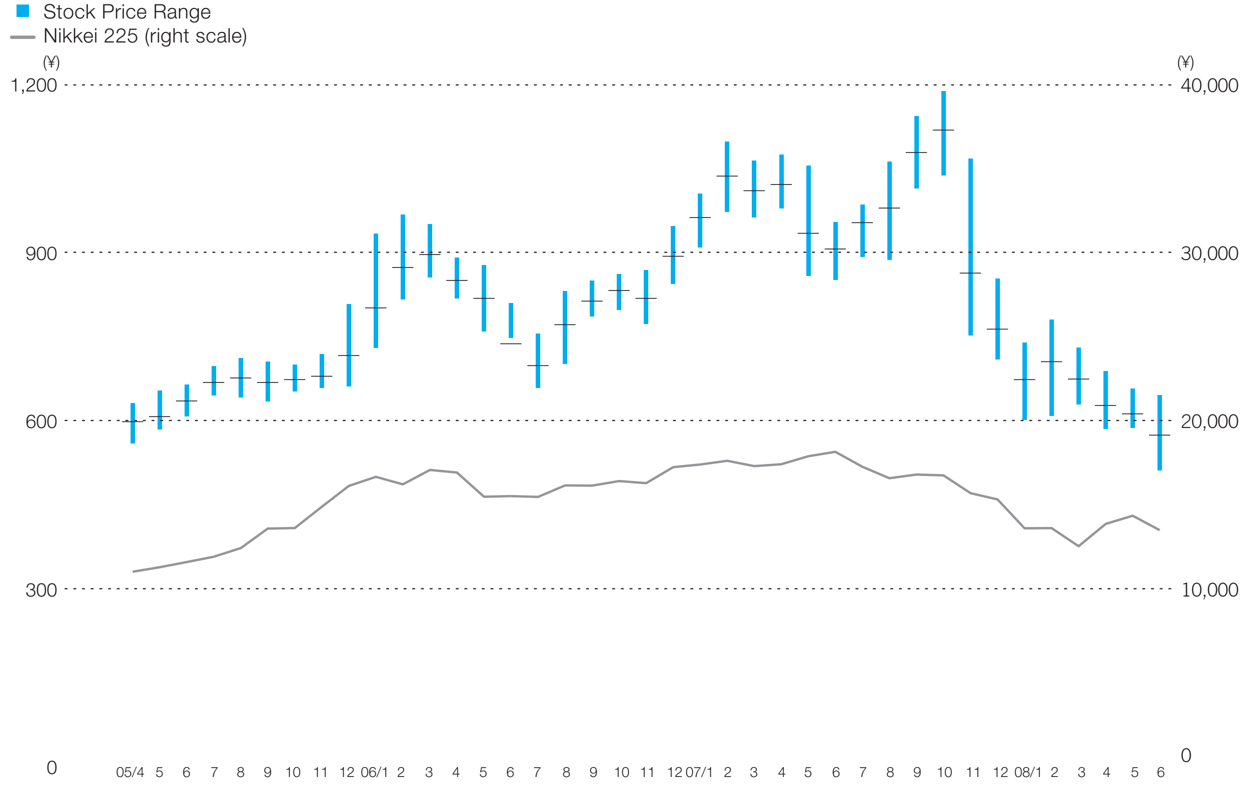
Mitsui Chemicals Organization Chart

(As of July 1, 2008)

- **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 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



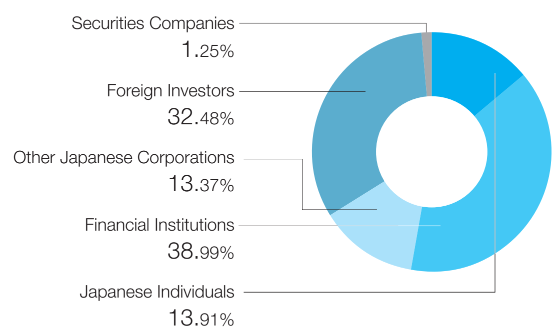
Major Shareholders

(As of March 31, 2008)

	Number of shares held (Thousands)	Percentage of shares held (%)
The Master Trust Bank of Japan, Ltd. (Trust account)	53,429	6.74
Japan Trustee Services Bank, Ltd. (Toray Industries Inc. Retirement Benefit Trust Account re-entrusted by Chuo Mitsui Asset Trust and Banking Company, Ltd.)	37,425	4.72
Mitsui & Co., Ltd. (Standing Proxy: Trust & Custody Services Bank, Ltd.)	34,740	4.38
Japan Trustee Services Bank, Ltd. (Trust account)	30,818	3.89
Japan Trustee Services Bank, Ltd. (Trust account 4)	22,689	2.86
State Street Bank and Trust Company (Standing Proxy: Mizuho Corporate Bank, Ltd.)	22,557	2.84
Sumitomo Mitsui Banking Corporation	21,946	2.77
Mitsui Life Insurance Co., Ltd. (Standing Proxy: Japan Trustee Services Bank, Ltd.)	18,030	2.27
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	274,275	34.62

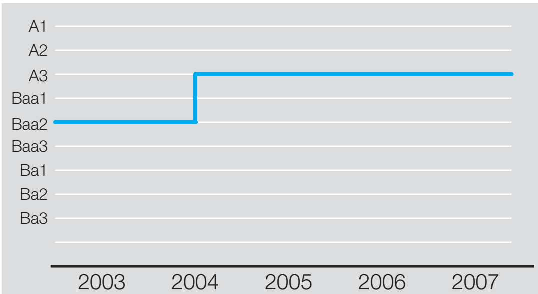
Composition of Shareholders

(As of March 31, 2008)



Moody's Long-term Credit Ratings of MCI

(Ratings)



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Mitsui Chemicals

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