

# Forging Ahead...

**Mitsui Chemicals**

Annual Report 2000

Year Ended March 31, 2000

Another  
Year of  
Progress

***Mitsui Chemicals, Inc. (“Mitsui Chemicals”) aspires to be  
“a diversified chemical company with a strong  
competitive position in the global market”***

*and is working toward this goal in line with its Medium-Term Corporate Plans.*

***Mitsui Chemicals’ business centers on **petrochemicals &  
basic chemicals and performance materials.*****

*In trying to build a more powerful company, we are creating a new corporate  
culture of selective focus that embodies three concepts:*

***Speed, Efficiency and Effect.***

*This March 31, 2000 term annual report looks back on the achievements  
of the past two years and outlines our future plans.*

Note: Mitsui Petrochemical Industries, Ltd. and Mitsui Toatsu Chemicals, Inc. merged on October 1, 1997 to form Mitsui Chemicals, Inc.

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# Forging Ahead...

**Message From the Management**

# Another Year of Progress



Left: SHIGENORI KODA *Chairman* Right: HIROYUKI NAKANISHI *President*

## Forging Ahead... Another Year of Progress

### Financial Highlights

(Millions of yen)	2000	1999	Change (%)	2000 (Thousands of U.S. dollars)
Net sales	<b>¥ 884,246</b>	¥ 855,942	3.3%	<b>\$ 8,326,234</b>
Operating income	<b>55,739</b>	58,226	(4.3%)	<b>524,850</b>
Net income	<b>16,042</b>	7,739	107.3%	<b>151,055</b>
Stockholders' equity	<b>345,690</b>	329,685	4.9%	<b>3,255,085</b>
Total assets	<b>1,237,179</b>	1,208,168	2.4%	<b>11,649,520</b>

U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥106.2=U.S.\$1, the approximate Tokyo foreign exchange market rate as of March 31, 2000.

***“FORGING AHEAD” APTLY DESCRIBES OUR FISCAL 2000, THE YEAR ENDED MARCH 2000. IN THIS MESSAGE, WE WILL LOOK BACK AT THE YEAR FROM THE STANDPOINT OF BUSINESS PERFORMANCE AND PROGRESS MADE IN IMPLEMENTING OUR MEDIUM-TERM CORPORATE PLANS.***

### **Growth in the Top and Bottom Lines**

The Japanese economy continued its gradual recovery, underpinned by the government's pump-priming measures and recovery in Asia. Even so, the economy still faced severe difficulties, since consumer spending remained sluggish and private-sector capital investment plunged sharply.

The chemical industry saw production rise as exports to the Asian region surged, but faced severe challenges in the second half of the year as raw material prices rose sharply.

In the midst of this challenging environment, the Mitsui Chemicals Group sought to improve business performance through enhanced marketing and cost-cutting.

As a result, net sales rose 3% from the previous year to ¥884.2 billion, and net income increased 107% to ¥16.0 billion. However, operating income fell 4% to ¥55.7 billion, mainly due to deterioration in the terms of trade.

### **Medium-Term Corporate Plans on Target**

Mitsui Chemicals launched Medium-Term Corporate Plans in Fiscal 1999 (April 1998 - March 1999) to build on the success of the October 1997 merger. With Fiscal 2001 as the target year, we have been implementing a series of management reforms to achieve “an early realization of effective merger results.”

We are pleased to report that basic strategies are being implemented as planned, and we are on track to achieving our goals.

By implementing our “Focus” strategy, one of the six basic strategies contained in our plans, we have completed identification of core businesses and prospective core businesses. Now we are steadily channeling domestic and overseas management resources into these businesses to the point where they accounted for 80% of aggregate capital investment in Fiscal 2000.

Restructuring of businesses with structural problems and liquidation of

money-losing businesses is progressing on schedule. There are still issues that need to be addressed, but most business restructuring projects have been completed and their related extraordinary losses had been written off by the end of Fiscal 2000.

In accordance with our “Globalization” strategy, we are steadily reinforcing our presence in Asian markets for our core business in petrochemicals & basic chemicals. Positive results in Fiscal 2000 included marked progress in our phenol and bisphenol projects in Singapore.

Efforts to achieve “Early Effective Merger Results” saw the company make steady progress in consolidating production and R&D facilities. In April 2000, we integrated the Hokkaido Works and Sapporo branch to start Hokkaido Mitsui Chemicals Co., Ltd. In the fall of 2000, the Shimonoseki Works will also become an independent profit center. At the same time, our Mobara Works and Ichihara Works will be placed under integrated management.

We are steadily consolidating R&D at Sodegaura, and rapidly expanding our facilities there. By the end of Fiscal 2000, some 320 researchers were working there; the figure will rise to 640 by the end of Fiscal 2001, representing approximately half of all the company's researchers.

Looking back on the progress made so far, we are confident that we will achieve most of the targets of our program to realize “Early Effective Merger Results.”

### **Fiscal 2001: For Renewed Growth**

We expect the challenging business environment to continue in Fiscal 2001. The Japanese economy is expected to continue to recover only at a gradual pace, the yen is likely to show continued strength, and personal consumption is expected to stay sluggish. Overseas, competition should continue to intensify in Asia, the growth market for the chemical industry. The business environment will continue to be harsh since raw material prices are likely to hover at high levels for the foreseeable future.

Fiscal 2001 will be the last year of our current Medium-Term Corporate Plans, and we shall focus on addressing the remaining management issues.

We will also lay the groundwork for our next Medium-Term Corporate Plans to be launched in Fiscal 2002 to forge ahead toward the goals of our long-term corporate vision.

### Major Issues in Fiscal 2001

We face a number of major management issues in Fiscal 2001, as described below.

First, in order to expand sales and earnings, we must accelerate new product development and launch a new generation of products. This is particularly urgent in respect of our performance materials segments, if we are to achieve the goals of our corporate vision. We will be focusing closely on this area in Fiscal 2001 as a part of our new strategy.

In addition to quickly tapping the synergy realized through consolidation of R&D at Sodegaura, we expect our new product development system "ACCEL21" to start delivering results.

Second, we must strengthen the consolidated management of the Mitsui Chemicals Group. In this respect, we have clearly defined the missions of individual affiliates and are working on management reforms to fulfill such missions.

The Medium-Term Corporate Plans that we will launch in Fiscal 2002 will see us take these strategies further. A key concern is to establish a system that assures smooth running of the PDCA cycle (Plan-Do-Check-Action) based on the management-planning system, particularly for affiliates that are central to our business strategy. We see Fiscal 2001 as a trial run for realizing these objectives.

Third is closer attention to "Identification and Focus." The Medium-Term Corporate Plans we will launch in Fiscal 2002 will see us redouble attention to "Identification and Focus" in order to secure funds for capital investment to expand operations, while reducing total assets to raise ROA. In Fiscal 2001, we will focus on rearranging the formation of strategic business units.

Lastly, we are convinced that protecting the environment is both our social responsibility and the major prerequisite for our existence. We will continue to contribute to protection of the environment and securing safety in line with the basic philosophies outlined in our Responsible Care concept.

### To Create a Powerful Mitsui Chemicals Group

In order to overcome the above issues and become a formidable competitor in global markets, the goal of our corporate vision, Mitsui Chemicals will strengthen its leadership position to create a "powerful Mitsui Chemicals Group." The keywords in achieving this will be "Speed," "Efficiency" and "Effect."

The first keyword, "Speed," will see us work to double the speed of decision-making by reforming our management systems and administrative procedures. An "Administrative Reform Project" is being headed by the president to promote reforms. We are also rebuilding our information infrastructure by installing SAP/R3 ERP packages in support of these reforms.

In pursuit of "Efficiency" we will use ROA as the yardstick by which to measure the efficiency of utilization of assets and enhancement of business performance. The next Medium-Term Corporate Plans will see us define numerical ROA targets.

Regarding "Effect," we aim to maximize free cash flow in preparation for our next growth phase.

By focusing on these three concepts, we expect to create a "change-embracing culture."

We are committed to maintaining transparency of management and to working with a full resolve to live up to the expectations of our business associates and shareholders.

We look forward to your continuing support as we forge ahead.

August 2000



Shigenori Koda

Chairman



Hiroyuki Nakanishi

President

# Forging Ahead... Another Year of Progress

## **Focus**

Focus on high-performance products, growth markets and profitable product lines, while implementing measures to rebuild businesses beset by structural problems and pulling out of unprofitable business lines.

## **Development of New Products**

Reinforce performance materials businesses with a series of measures in support of an all-out effort to quicken product development.

## **Globalization**

Expand core petrochemicals & basic chemicals businesses in Asia, while leveraging niche technologies to promote performance materials in the three major markets of Asia, the U.S. and Europe.

## **Streamlined Group**

Reorganize and consolidate group companies and build a group-based management system.

## **Early Effective Merger Results**

Efficiently allocate human resources and consolidate R&D and production networks.

## **Caring for the Environment and Safety**

Assure environmental protection in accordance with the spirit of Responsible Care.

## **Strengthening of Corporate Vitality**

Build foundations of a corporate culture conducive to innovation, and bolster management resources for the implementation of corporate strategies.

# Focus

MITSUI CHEMICALS IS FOCUSING ON 14 CORE BUSINESSES AND 7 PROSPECTIVE CORE BUSINESSES AND ALLOCATING MANAGEMENT RESOURCES ACCORDINGLY. IN THE FISCAL YEAR ENDED MARCH 2000, MITSUI CHEMICALS CHANNELED 80% OF INVESTMENTS INTO THESE CORE AND PROSPECTIVE CORE BUSINESSES. ON THE OTHER HAND, MITSUI CHEMICALS IS REBUILDING BUSINESSES SUFFERING STRUCTURAL PROBLEMS AND CLOSING DOWN MONEY-LOSING BUSINESSES.

		CORE BUSINESSES	PROSPECTIVE CORE BUSINESSES
PETROCHEMICALS & BASIC CHEMICALS	Basic Chemicals	<ul style="list-style-type: none"> <li>• Petrochemical Feedstocks</li> <li>• Purified Terephthalic Acid</li> <li>• Phenol/Bisphenol</li> <li>• Ethylene Oxide, Ethylene Glycol and Derivatives</li> <li>• Acrylonitrile, Acrylamide and Derivatives</li> </ul>	<ul style="list-style-type: none"> <li>• Hydroquinone, Resorcinol, Aniline and Meta/paracresol</li> </ul>
	Polymers	<ul style="list-style-type: none"> <li>• Polyethylene (HDPE/LLDPE)</li> <li>• Elastomers</li> <li>• PET Resin</li> <li>• Polypropylene</li> </ul>	
PERFORMANCE MATERIALS	Functional & Fine Chemicals	<ul style="list-style-type: none"> <li>• Urethane Chemicals (MDI/TDI/Polyol)</li> <li>• Fine Chemicals</li> <li>• Healthcare Products</li> </ul>	<ul style="list-style-type: none"> <li>• Papermaking Materials</li> <li>• Additives</li> <li>• Processed Urethane Products</li> <li>• Agrochemicals</li> </ul>
	Engineered Materials	<ul style="list-style-type: none"> <li>• Spunbonded Nonwoven Fabrics</li> <li>• Semiconductor Materials</li> </ul>	<ul style="list-style-type: none"> <li>• Electronic Circuit Board Materials</li> <li>• Toner Resins</li> </ul>

## BUSINESS RESTRUCTURING

Major businesses restructured or consolidated in Fiscal 2000 are as follows:

- The ABS/AS business was merged with Sumitomo Chemical Co., Ltd., and Nippon A&L Inc. was established in July 1999 (Mitsui Chemicals has a 33% equity ownership).
- Chlor-alkali operations at the Osaka Works were closed down and production of vinyl chloride monomers (VCM) was consigned to Tosoh Corp. in January 2000.
- Taiyo Vinyl Corp., a PVC joint venture, was reorganized to give Tosoh Corp. management control; Mitsui Chemicals reduced its equity interest from 37% to 16% in April 2000.
- In the wood adhesive business, Mitsui Chemicals entered into partnership with Sumitomo Bakelite Co., Ltd., setting up Sunbake Co., Ltd., in which Mitsui Chemicals has a 60% equity interest, in April 2000.
- Pharmaceuticals affiliate Mitsui Pharmaceuticals Inc. was sold to Nihon Schering K. K. in March 2000.
- Mitsui Chemicals' phthalic anhydride business was sold to Nippon Steel Chemical Co., Ltd. in April 2000.
- The methylene chloride business was transferred to Shin-Etsu Chemical Co., Ltd. in April 2000.

## PLANS IN HAND

Plans are in hand for restructuring Mitsui Chemicals' styrene monomer business and its PVC business in Vietnam (Mitsui Vina Plastic & Chemical Corp., Ltd.).



# Development of New Products

ONE OF THE GOALS OF MITSUI CHEMICALS' "NEW PRODUCT DEVELOPMENT" STRATEGY IS TO ACHIEVE ¥100 BILLION IN SALES OF NEW PRODUCTS IN THE TERM TO MARCH 2003. PERFORMANCE MATERIALS WILL REPRESENT 90% OF NEW PRODUCT SALES. NEW PRODUCTS ARE DEFINED AS PRODUCTS BROUGHT TO MARKET IN AND AFTER APRIL 1998.

## ACCEL21

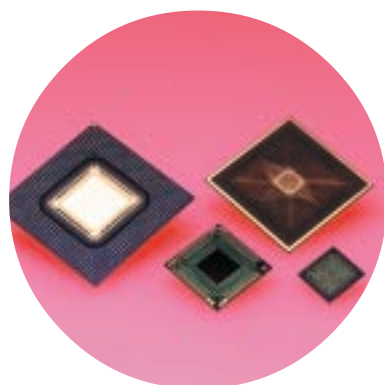
"ACCEL21," a program to accelerate new product development, was launched in April 1999. The program includes the following four parts:

### Idea Laboratory

An open intranet site designed to encourage new idea development and to spark discussions among employees for better screening of ideas.



Idea Laboratory



Advanced Materials Substrate (SBDU)

### Stage Gate System

A 5-stage system for systematically selecting and deciding on the continuation of development projects.

### SBDUs (Strategic Business Development Units)

An organization for promoting commercialization of products in their latter stages of development.

### Incentive System

Designed to reward new ideas, give priority in assignments to employees seeking to start development projects, reflect achievement in job performance evaluation and finance R&D costs.

### BUSINESS ALLIANCES AND M&A

Mitsui Chemicals is promoting business alliances and mergers and acquisitions to complement in-house new product development.

# Globalization

OVERSEAS SALES, THE AGGREGATE OF EXPORTS AND INTEREST IN THE SALES OF THE COMPANY'S OVERSEAS AFFILIATES, INCREASED 10% YEAR ON YEAR TO ¥170 BILLION, AND REPRESENTED 19.3% OF NET SALES. OVERSEAS SALES ARE ON A GROWTH TRACK.

## OVERSEAS PROJECTS

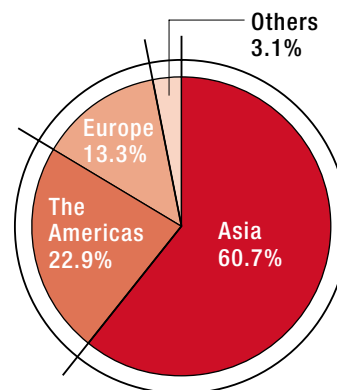
Some specific examples of the company's overseas projects during the year under review were as follows:

### Petrochemicals & Basic Chemicals

- **Purified terephthalic acid (PTA) (Thailand)** >> A 350,000-ton-per-year PTA plant belonging to a joint venture with the Siam Cement Group started commercial operations in April 1999.
- **Purified terephthalic acid (Indonesia)** >> Capacity of the joint venture with BP Amoco was bolstered to 420,000 tons a year in March 2000.
- **Phenol (Singapore)** >> Mitsui Phenol Singapore Pte. Ltd., a joint venture with Mitsui & Co., commenced construction of a new facility with an annual capacity of 200,000 tons in September 1999.
- **Bisphenol (Singapore)** >> Wholly owned subsidiary Mitsui Bisphenol Singapore Pte. Ltd. brought a 70,000-ton-per-year plant on stream in September 1999.

## OVERSEAS SALES BY REGION

(Consolidated)



Siam Mitsui PTA Co., Ltd.



Kumho Mitsui Chemicals' MDI Plant

## Performance Materials

- **Urethane chemicals (Republic of Korea)** >> At Kumho Mitsui Chemicals, Inc., a joint venture in South Korea with the Kumho Group, work began to raise the production capacity from 30,000 to 50,000 tons per year. The additional capacity is scheduled to come on stream by December 2000.
- **NF<sub>3</sub> (U.S.A.)** >> NF<sub>3</sub> gas (nitrogen trifluoride) production capacity at wholly owned U.S. subsidiary Anderson Development Company was doubled to 50 tons per year in February 2000.

# Streamlined Group

**MITSUI CHEMICALS IS PROACTIVELY MERGING AFFILIATES TO ELIMINATE OVERLAPPING BUSINESS LINES AND/OR FUNCTIONS, AND LOSS-MAKING SUBSIDIARIES WITH LITTLE PROSPECT OF RECOVERY ARE BEING LIQUIDATED. SUBSIDIARIES AND AFFILIATES LIQUIDATED OR MERGED IN THE TERM ENDED MARCH 2000 WERE AS FOLLOWS:**

## MERGERS

- Two affiliates operating in agricultural materials-related businesses were merged in April 1999 to form Mitsui Kagaku Iattech Co., Ltd.
- Two affiliates operating in human resources businesses were merged in April 1999 to form MC Human Resources Inc.
- Mitsui Chemicals Engineering Co., Ltd. was established in October 1999 through a merger of two engineering service firms.
- Mitsui Chemical Analysis & Consulting Service, Inc. was formed in October 1999 by merging two affiliates offering testing and analysis services.



Mitsui Chemicals Engineering Co., Ltd.



Mitsui Chemical Analysis & Consulting Service, Inc.

## LIQUIDATIONS

- PVC compounds: Vinyclone Co., Ltd. was wound up in June 1999.
- Golf-club management: Kokusai Kuko Shoji K.K. was closed down in July 1999.
- Synthetic resin manufacturing and marketing: Taniyama Chemical Industries, Ltd. was liquidated in September 1999.

## CONSOLIDATION PLANS

In construction materials, two affiliates are to be merged, as are three logistics services companies.

# Early Effective Merger Results

## PERSONNEL REDUCTIONS

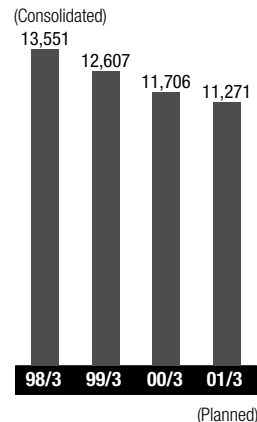
Mitsui Chemicals had 7,006 employees at the end of March 1998, a figure that reached 13,551 when consolidated. As of March 31, 2000, those numbers stood at 5,802 and 11,706, respectively, down by 20% and 14%. The company is thus making steady progress in its personnel reduction program, achieving goals ahead of target dates. Plans call for a parent company and total headcount of 5,445 and 11,271, a reduction of 25% and 17%, respectively, by March 2001.

## INTEGRATING R&D FACILITIES

Mitsui Chemicals is consolidating most of its R&D facilities into a single establishment at Sodegaura. During the first phase of the program, due for completion by the end of Fiscal 2001, about half of the company's R&D personnel will be moved to Sodegaura Center.

In line with the increase in personnel, R&D facilities at Sodegaura Center are being expanded.

## HEADCOUNT



Sodegaura Center



Hokkaido Mitsui Chemicals Co., Ltd.

## CONSOLIDATING PRODUCTION FACILITIES

Consolidation also extends to production facilities, where Mitsui Chemicals is optimizing production by integrating eight domestic works into five: Ichihara, Nagoya, Osaka, Iwakuni-Ohtake and Omuta.

The Hokkaido Works merged with the Sapporo branch and resumed operations in April 2000 as "Hokkaido Mitsui Chemicals Co., Ltd.," a new subsidiary serving the Hokkaido market.

In October 2000, the Shimonoseki Works will become an independent profit center, with business focused on phosphorous products. The Mobara Works will be run as an integrated unit with the Ichihara Works.

# Caring for the Environment and Safety

**ENVIRONMENTAL PROTECTION AND SAFETY ARE FUNDAMENTAL TO THE CONTINUED EXISTENCE OF COMPANIES. THIS PREMISE UNDERPINS MITSUI CHEMICALS' CORPORATE ACTIVITIES.**

## RESPONSIBLE CARE REPORT

In January 2000, Mitsui Chemicals launched "Responsible Care Report" to introduce its achievements and future plans in regards to environmental protection. This publication will provide annual updates on the company's progress in environmental protection.

## CREATING NEW BUSINESS OPPORTUNITIES

Convinced that environmental protection also presents excellent business opportunities, Mitsui Chemicals is developing technologies and products that will contribute to environmental protection.

Group firms, including Mitsui Chemical Analysis & Consulting Service and Mitsui Chemicals Engineering, are actively targeting and growing the environmental protection businesses including analytical support for compliance with laws and regulations and soil surveys.



Responsible Care Report 2000

The company's plans and achievements in environmental protection and safety are discussed in detail on Pages 24–25.

# Strengthening of Corporate Vitality

**"SPEED, EFFICIENCY AND EFFECT" ARE PREREQUISITES FOR BUILDING A "POWERFUL MITSUI CHEMICALS GROUP."**

## SPEED:

The company's "Administrative Reform Project," headed by the President, is reforming the management system to double the speed at which decisions are made and work is done.

## EFFICIENCY:

Mitsui Chemicals has chosen ROA as the yardstick for measuring management efficiency. Management will focus on raising the company's ROA by enhancing asset utilization efficiency and increasing profit margins.

## EFFECT:

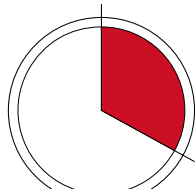
Mitsui Chemicals will focus on maximizing free cash flow as a measure of performance.

## IT INFRASTRUCTURE

Mitsui Chemicals is installing SAP/R3 to reinforce the IT infrastructure underpinning administrative reform. The company's information systems will be designed to support e-commerce that is expected to spread rapidly.

**BASIC  
CHEMICALS**

SHARE OF SALES

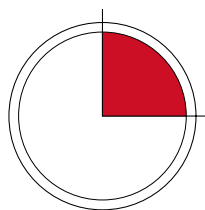


33%



**POLYMERS**

SHARE OF SALES

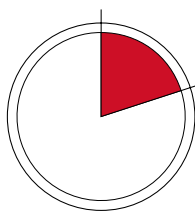


25%



**FUNCTIONAL &  
FINE CHEMICALS**

SHARE OF SALES

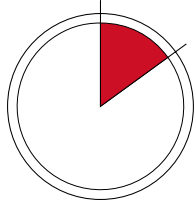


20%



**ENGINEERED  
MATERIALS**

SHARE OF SALES



15%



**OTHERS**

SHARE OF SALES

7%

BUSINESS SECTIONS	MAJOR PRODUCTS	MARKET POSITION	
		JAPAN	ASIA
> Petrochemical feedstocks	> Ethylene	No. 2	No. 2
> Fiber intermediates	> Purified terephthalic acid	No. 1	No. 3
> Phenols	> Phenol	No. 1	No. 1
> Industrial chemicals	> Bisphenol A	No. 1	No. 1
	> Ethylene oxide & glycol	No. 3	No. 6
	> Ethanolamine	No. 2	No. 2
	> Acrylamide	No. 2	No. 1

BUSINESS SECTIONS	MAJOR PRODUCTS	MARKET POSITION	
		JAPAN	ASIA
> Polyethylene	> Polyethylene	No. 3	No. 5
> Elastomers	> Alpha-olefin copolymer	No. 1	No. 1
> PET resin	> PET resin	No. 1	No. 3
> Styrenics	> Polypropylene	No. 2	No. 3
> VCM/PVC			
> Polypropylene			

BUSINESS SECTIONS	MAJOR PRODUCTS	MARKET POSITION		
		JAPAN	ASIA	WORLD
> Specialty resins	> TDI	No. 1	No. 1	No. 5
> Urethane chemicals	> MDI	No. 3	No. 4	No. 6
> Performance polymers	> Functional dyes (phthalocyanine dye for CD-Rs)	–	No. 2	No. 2
> Agrochemicals	> Chemicals for plastic lens with high refractive index	No. 1	No. 1	No. 1
> Fine chemicals				

BUSINESS SECTIONS	MAJOR PRODUCTS	MARKET POSITION		
		JAPAN	ASIA	WORLD
> Fabricated polymer products	> Spunbonded nonwoven fabrics (for hygiene applications)	No. 1	No. 1	No. 3
> Electronics & information materials	> Silicon wafer protective tape	No. 1	No. 1	No. 1
	> Pellicles	No. 1	No. 1	No. 1
	> NF <sub>3</sub> gas	No. 1	No. 2	No. 2

BUSINESS SECTIONS
> Engineering, warehousing and freight transportation and others

## Basic Chemicals

### OSAKA PETROCHEMICALS CONVERTED INTO A WHOLLY OWNED SUBSIDIARY

Mitsui Chemicals turned Osaka Petrochemical Industries, Ltd., in which it had 55% equity ownership, into a wholly owned subsidiary through an exchange of stock in March 2000. This will allow Mitsui Chemicals to manage Osaka Petrochemical Industries unitedly with Ukishima Petrochemicals Co., Ltd. and Keiyo Ethylene Co., Ltd., both of which are located in eastern Japan. The move puts in place a framework designed to speed up decision-making and streamlines Mitsui Chemicals' ethylene operations.



### EXPANSION OF PTA CAPACITY IN INDONESIA

Demand for purified terephthalic acid (PTA) is rising in Southeast Asia with growing production of polyester fiber and PET bottles. In March 2000, production capacity was expanded at P.T. Amoco Mitsui PTA Indonesia by 70,000 tons to meet demand. This joint venture with BP Amoco now has an annual production capacity of 420,000 tons.

Further steps will see production capacity at Siam Mitsui PTA Co., Ltd., a joint venture with Thailand's Siam Cement Group, increased from 350,000 tons to 400,000 tons a year by the end of 2000.



## STRENGTHENING PHENOL BUSINESS IN SINGAPORE

### > Construction of Phenol Plant Starts

Mitsui Phenol Singapore Pte. Ltd. has been gearing up to launch a phenol business to meet growing demand in the ASEAN countries. Mitsui Phenol Singapore held a groundbreaking ceremony for a phenol plant in Jurong in September 1999. On its completion in April 2001, the plant will have the capacity to produce 200,000 tons of phenol and 120,000 tons of acetone a year. Commercial production is slated to commence in September 2001.



### > BPA Plant Comes on Stream, Green Light for Capacity Expansion

Mitsui Bisphenol Singapore Pte. Ltd. started operations in September 1999 at a 70,000-ton-a-year plant for bisphenol A (BPA), a phenol derivative. Construction of the plant was completed in March 1999, on a site adjacent to Mitsui Phenol Singapore's phenol plant. A ceremony to mark the plant's completion was held in March 2000.

Demand for BPA as a raw material for polycarbonate resins is increasing rapidly, particularly in Asia. Mitsui Chemicals plans to double capacity of the plant to meet the growing demand. When expansion is completed in November 2001, the plant will be able to produce 140,000 tons of BPA a year.

## Polymers

### STRENGTHENING OF TAFMER® BUSINESS

Mitsui Chemicals has been steadily expanding its alpha-olefin copolymer TAFMER® business, leveraging the company's metallocene catalyst technology. TAFMER® is used as an additive to thermoplastics such as polyethylene and polypropylene to strengthen resistance against impact and tearing. In meeting growing demand for TAFMER®, Mitsui Chemicals has converted its existing polyethylene plant at the Iwakuni-Ohtake Works into a dedicated TAFMER® production facility. Mitsui Chemicals will have a combined production capacity of 90,000 tons per year when commercial production starts at this plant in July 2000; the company's Ichihara Works already produces 70,000 tons a year.

Further, a plan is in hand for construction of a TAFMER® plant in Southeast Asia to meet rising demand in that region.



### GRAND POLYMER RESEARCH WING COMPLETED

Grand Polymer Co., Ltd. (GRP), a polypropylene manufacturing and marketing joint venture with Ube Industries, Ltd., has been working to consolidate its three R&D facilities in order to enhance R&D efficiency, expand and deepen the scope of research and improve responsiveness to customers. A new wing to house the polypropylene research facility was completed in April 2000 at Sodegaura Center, where Mitsui Chemicals is consolidating its own R&D functions and facilities. Through this consolidation, GRP hopes to strengthen the synergy of integrated research facilities with Mitsui Chemicals.



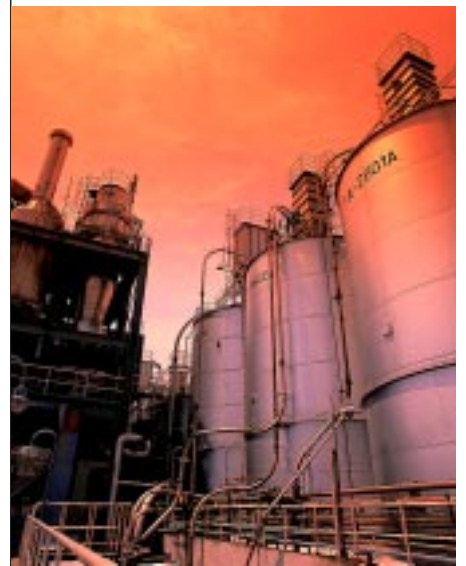
#### **EXPANSION OF PP COMPOUND PLANT IN THE U.S.**

Mitsui Chemicals' U.S. subsidiary Color & Composite Technologies, Inc. manufactures and markets polypropylene compounds for automotive applications. In August 1999, the company increased annual production capacity by 5,000 tons, from 44,000 to 49,000 tons, to meet growing demand for polypropylene compounds, reflecting rising auto output in North America.

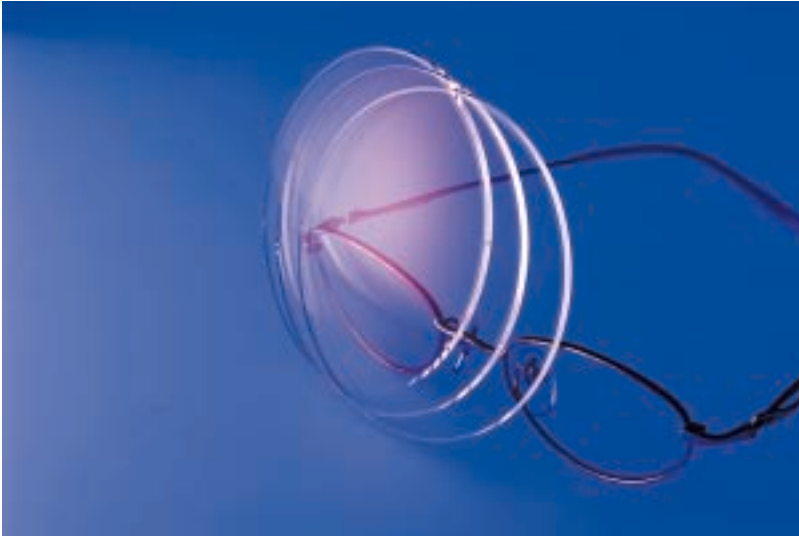
Color & Composite Technologies is ISO9001, ISO14001, A2LA, and QS9000 certified. The company is expanding business by leveraging the superior quality of its products, as recognized by the above certifications.

#### **RESTRUCTURING THE PVC BUSINESS**

In 1996, Mitsui Chemicals transferred its PVC business to Taiyo Vinyl Corp., a joint venture with Tosoh Corporation and Denki Kagaku Kogyo K.K. Although Taiyo Vinyl has strengthened its international competitiveness by achieving cost reductions worth ¥3 billion annually, the PVC business is still suffering with the sluggishness of the Japanese economy. Mitsui Chemicals closed down its own VCM facility at its Osaka Works at the end of 1999 and consigned production to Tosoh. Taiyo Vinyl was restructured as of April 2000 to fully leverage Tosoh's cost competitiveness in VCM under Tosoh's management initiative.



## Functional & Fine Chemicals



### **SUPER HIGH INDEX LENS MONOMER**

With plastic lenses for glasses in growing use, competition to develop thinner plastic lenses is heating up. In this connection, Mitsui Chemicals has been expanding its thio-urethane-based lens monomer business. The lens material not only has a superior refractive index but also has excellent durability. In April 2000, Mitsui Chemicals succeeded in developing a new product that achieves the highest refractive index of 1.74. This achievement will allow production of even thinner lenses, allowing a broader line-up of products to meet customer needs.



### **INTEGRATED ADHESIVES BUSINESS WITH SUMITOMO BAKELITE**

Mitsui Chemicals established Sunbake Co., Ltd., a wood adhesive manufacturing and marketing joint venture with Sumitomo Bakelite Co., Ltd. Strengthening the cost competitiveness of wood adhesives was an urgent issue in view of the slowdown in domestic demand. As a leader in the sector, the new company will enhance operational efficiency and maximize the synergy of integration to reinforce cost competitiveness.



#### **REGISTERED "SOILEAN," A SOIL FUMIGANT**

Mitsui Chemicals developed "Soilean," a soil fumigant jointly with SDS Biotech K.K. The compound was registered in December 1999.

"Soilean," containing chloropicrin and 1,3-dichloropropene as the active ingredients, shows excellent germicidal properties against soil-borne diseases and pests and will help reduce farmers' workloads. The compound has been approved for seven crops, including carrots, cucumbers and strawberries. Mitsui Chemicals plans to expand registration to cover other crops, while promoting the compound also as a herbicide.

## Engineered Materials

### NONWOVEN CAPACITY ADDITION

Demand is expected to grow in nonwoven fabrics, which Mitsui Chemicals leads in personal hygiene products, including diapers. In April 2000, a nonwoven plant with a 9,000-ton-a-year production capacity started commercial production at Sunrex Industry Co., Ltd, a wholly owned subsidiary of Mitsui Chemicals. This brought Mitsui Chemicals total capacity to 36,000 tons per year, reinforcing its position as the largest nonwoven polypropylene fabric producer in Japan.

The new plant will produce nonwovens with a triple-layer construction, featuring a melt-blown material sandwiched between two spunbonded layers. This design is superior to conventional nonwovens in water-barrier properties. Mitsui Chemicals expects triple-layer nonwovens to rapidly increase market share.



### NF<sub>3</sub> CAPACITY ADDITION

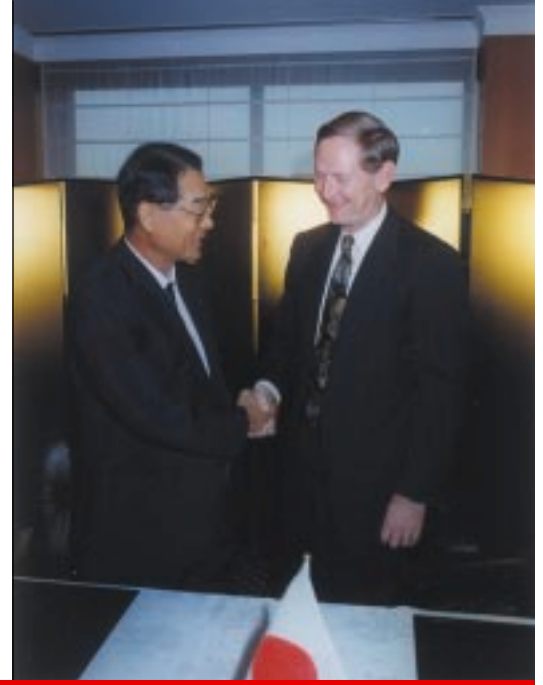
Demand for NF<sub>3</sub> gas (nitrogen trifluoride) as a cleaning gas in semiconductor and LCD production is growing, and is expected to receive an additional boost from its anticipated use as a substitute for C<sub>2</sub>F<sub>6</sub> (hexa fluoroethane), a competing material. Mitsui Chemicals increased capacity at its wholly owned U.S. subsidiary Anderson Development Company in February 2000.

Mitsui Chemicals is also adding NF<sub>3</sub> capacity at its Shimonoseki Works and readying for it to come on stream in summer 2000.

Together, these initiatives will boost Mitsui Chemicals' NF<sub>3</sub> capacity to 200 tons a year, accounting for more than one-fourth of total world supply.

**PARTNERING WITH ROGERS CORPORATION IN SUBSTRATE MATERIAL FOR HDD SUSPENSION**

In January 2000, Mitsui Chemicals established Polyimide Laminate Systems LLC in Phoenix, Arizona, U.S.A., an equally owned joint venture with Rogers Corporation, to manufacture and market high performance circuit materials. The company markets special flexible polyimide substrates made from copper foil, stainless steel foil and polyimide resin. These substrates are used to manufacture an integrated suspension unit with both circuit and HDD head to enhance HDD performance. The company will initially market Japanese-made products, but a production facility will be built following steady growth of the market.



**LFP INTO MARKET**

Mitsui Chemicals has commercialized LFP (PREGLON®) developed by one of the company's strategic business development units. LFP is a composite sheet with glass fibers and polypropylene laid at right angles. The sheet shows superior tensile strength and dimensional stability.

Mitsui Chemicals has been expanding the range of applications that now include thin *tatami* mats for use in barrier-free housing and a reinforcing sheet for highway paving to enhance durability.

PREGLON® has every sign of becoming a promising business, as Mitsui Chemicals is the pioneer in commercializing this type of sheet.



# Research & Development Strategy

**TECHNOLOGY IS THE SOURCE OF COMPETITIVE POWER FOR A MANUFACTURER. MITSUI CHEMICALS DRAWS UP AN ANNUAL “R&D STRATEGY” THAT UNDERPINS THE EFFICIENT, EFFECTIVE REFINEMENT OF OUR TECHNOLOGY AND NEW PRODUCT DEVELOPMENT.**



## MISSION AND GOALS

The following are the mission statements for our R&D activities:

- >> **In petrochemicals & basic chemicals, acquire world-class technologies that allow us to compete effectively with other chemical producers and that contribute to business expansion in the growing Asian markets.**
- >> **In performance materials, identify areas that need to be nurtured and strengthened from the standpoint of group strategy and that contribute to new product and new business development.**

As milestones for realizing Mitsui Chemicals' corporate goals, our R&D activities will have to reach the following targets by Fiscal 2003.

- >> **World-class technology in core products**
- >> **Products launched in and after Fiscal 1999 must contribute to sales in a significant manner (sales target: ¥100 billion)**

## R&D STRATEGY

Guided by the above mission statements and goals, Mitsui Chemicals' R&D strategy focuses on the following six areas:

### (1) Developing technologies in core business areas and pursuing them to their limits

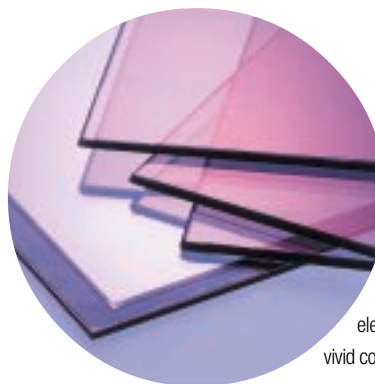
The global restructuring of the chemical industry is prompting expanded investment and consolidation of R&D activities at our competitors. In this fast-changing environment, maintaining a competitive edge in our core businesses is a crucial issue for Mitsui Chemicals. Mitsui Chemicals sees joint research and development with Japanese and foreign companies as an important option in this respect. The July 1999 agreement with Dow Chemicals for joint research on polarized monomer/olefin copolymer catalyst is representative of the approach we are taking.

### (2) New product development in performance materials area

Mitsui Chemicals is channeling resources into the following four major areas as the means to accelerate new business development:

- Environmentally friendly materials
- Healthcare materials
- New energy-related materials
- Information and telecommunications-related materials

Mitsui Chemicals also promotes R&D projects designed to expand potential core businesses and foster SBDUs.



#### • Optical Filter for Plasma Display Panels (PDP)

Mitsui Chemicals has developed a new optical filter for PDP panels by combining high-precision sputtering control technology with our unique pigmentation technology. This highly transparent and electrically conductive filter is ideally suited for reproducing vivid colors. The new PDP filter is to be commercialized soon.



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### (3) Strengthening and fostering key basic technologies

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In basic chemicals the thrust is toward commercializing manufacturing technologies for next-generation polyolefin catalysts and non-Hosgen Isocyanate. In performance materials we are emphasizing establishment of thin-film formation technologies, thermo-plastic urethane technologies, super-critical liquid application technologies, and rice-related biotechnologies.

At the same time we are strengthening our technological position in basic technologies including combinatorial chemistry (high-throughput reaction and screening technologies) and computational sciences (molecular design, and computational engineering).

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### (4) Addressing global environmental issues

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Mitsui Chemicals is developing environmentally friendly materials and technologies that support compliance with environmental regulations such as dioxin and fluorocarbon emission regulations.

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### (5) Efficient and effective R&D management

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Mitsui Chemicals is consolidating the R&D functions at a single establishment in Sodegaura, a move taken to enhance the efficiency and effectiveness of our R&D programs.

Half of our researchers; roughly 640 employees, will be working at Sodegaura Center by March 2001. This figure will rise to more than 900 when the second phase of the consolidation program is completed by the end of Fiscal 2003.

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### (6) Tapping the strategic and innovative potential of the organization

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In a key move, Mitsui Chemicals is expanding and strengthening the "Technology Platform" introduced in Fiscal 2000, so as to fully exploit the synergy of the merger in each of three areas: markets, products and technologies.

A system of rotation is being employed for the training, reinforcing and proper allocation of researchers. Mitsui Chemicals also hires experts in selected disciplines to strengthen our R&D capabilities.



#### • LACEA

Development of biodegradable polymers was an urgent issue from the standpoint of environmental protection. Here again, Mitsui Chemicals has come up with an innovative product. Our biodegradable polylactide, developed by direct polymerization of lactic acid for the first time in the world, addresses the above needs.



#### • Stainless-Copper Laminated Sheet

Mitsui Chemicals' new stainless-copper laminated sheet shows superior conductivity and dimensional stability in varying humidity conditions. It is particularly suited for use in hard disk drives.

# Responsible Care

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**GUIDED BY THE BASIC POLICY FOR RESPONSIBLE CARE, MITSUI CHEMICALS TAKES PARTICULAR CARE TO PROTECT THE ENVIRONMENT AND TO ASSURE SAFETY AND QUALITY THROUGHOUT THE LIFE CYCLE OF OUR PRODUCTS, FROM R&D AND MANUFACTURING TO DISTRIBUTION, USE AND DISPOSAL. THROUGH RESPONSIBLE CARE ACTIVITIES MITSUI CHEMICALS AIMS TO WIN THE TRUST OF ITS CUSTOMERS AND THE WIDER SOCIETY.**



## RC ORGANIZATION

Mitsui Chemicals is working toward voluntarily set targets of Responsible Care:

- >> **Close communication with society through just disclosure of information**
- >> **Zero accidents, injuries and product liability occurrence**
- >> **Win the trust and satisfaction of society and customers**

An "RC Committee," headed by the President, reviews RC initiatives and draws up plans for RC activities for each new year. The RC Committee has two subcommittees: Environmental, Health & Safety Committee and the Quality Management Committee, each headed by an assigned director. The director heading the committee or his representative carries out audits on Works and Research Centers more than once a year.

As a part of the program to enhance the transparency of RC activities, Mitsui Chemicals encourages pursuit of ISO9000s certification for all our products, as an objective assessment of quality.

As a part of the environmental protection program, Mitsui Chemicals plans to have all its works ISO-14001 certified by the end of March 2003.

## ACTIVE INVOLVEMENT IN ENVIRONMENTAL PROTECTION

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### (1) Voluntary Reduction of Chemical Substance Emissions

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Based upon a comprehensive company-wide program, Mitsui Chemicals has developed voluntary guidelines for reducing air, water, soil and ground-water pollutants, as well as waste, to reduce environmental loads in a planned manner.

### (2) Compliance with Legal Requirements

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The legislative framework for environmental protection is taking shape. The Dioxin Control Act was put in force in January 2000, and PRTR (Pollutant Release and Transfer Register) was introduced in March 2000. To assure compliance with all environmental protection regulations, Mitsui Chemicals regularly inspects the status of compliance at its works and other facilities and draws up required measures.

### (3) Energy Conservation

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Energy conservation is an important element in advancing our manufacturing technology, where Mitsui Chemicals has seen progress. Mitsui Chemicals has achieved reductions of more than 1% in basic energy units every year since 1990. Mitsui Chemicals' original target of a 10% reduction by 2010 was achieved by March 2000, a full ten years ahead of schedule.

#### (4) Recycling and Reducing Waste Products

The focus here is on cutting waste products by controlling the waste generated in production processes and by recycling byproducts. Disposal of waste products in landfills is to be reduced by 76% by 2010, against the base year of Fiscal 1991. Mitsui Chemicals is well on track: a 51% reduction had already been achieved by March 2000.

In addition to in-house activities, the company is also active in recycling through participation in the activities of industrial bodies, including the Plastic Waste Management Institute and the Council for PET Bottle Recycling.

#### ACCIDENT AND INJURY FREE OPERATION

Prevention of industrial and labor accidents is a theme that pervades the entire company, from top management to the shop floor. Everybody is an active participant. Directors conduct safety audits at our works more than once a year, to check on actual operating conditions and to heighten awareness of safety issues. Mitsui Chemicals will also introduce the labor safety and hygiene management system (OHSAS18001/OHSMS), as the best means to taking a scientific approach to accident and injury free operation and health maintenance.

#### PRODUCT SAFETY PROMOTIONS

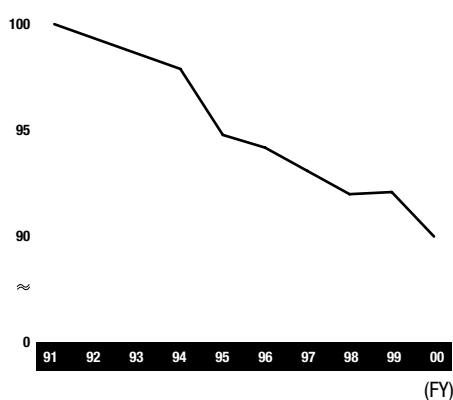
As a manufacturer of basic materials, the company employs a system for evaluating product safety from the standpoint of consumer safety.

Mitsui Chemicals maintains Material Safety Data Sheets (MSDS) for 100% of our products, which allow us to provide the customers with advice and information on safe handling and use.

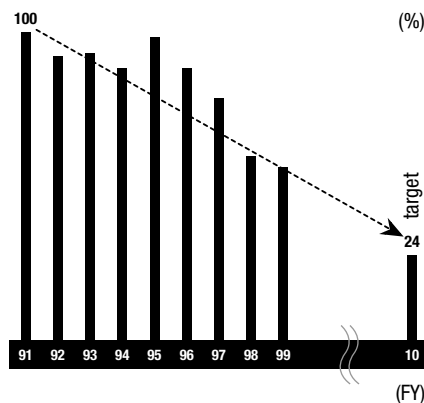
#### RESOURCES FOR PROMOTING RC ACTIVITIES

Securing adequate financial resources for implementing RC programs is a must. The budget for our environmental protection programs and machinery is based on precise evaluation of investment costs. Introduction of environmental accounting is under study to further fine-tune cost-evaluation standards.

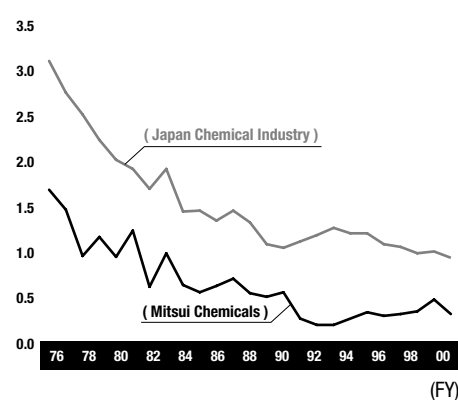
**THE SPECIFIC CONSUMPTION OF ENERGY** (FY 1991=100)



**FINAL DISPOSALS AT LANDFILLS** (FY 1991=100)



**EMPLOYEE ACCIDENT FREQUENCY RATE**



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

## Board of Directors



**Shigenori Koda**  
**Chairman**



**Goro Watanabe**  
**Vice Chairman**



**Hiroyuki Nakanishi**  
**President**



**Takeshi Nakai**  
**Executive Vice President**

**Chairman**  
Shigenori Koda

**Vice Chairman**  
Goro Watanabe

**President**  
Hiroyuki Nakanishi

**Executive Vice President**  
Takeshi Nakai  
(Legal & Administrative Division, Purchasing Division,  
Human Resources Division, Labor Relations Division)

**Senior Managing Directors**  
Hyo Naito  
Group Executive, Basic Chemicals Group  
Group Executive, Industrial Chemicals Group

Yoshiyuki Sakaki  
Group Executive, Polymers Group

Tsutomu Takase  
R&D Center

Katsuharu Hoshi  
(Affiliates Coordination Division, Logistics Division)

Yoza Kinoshita  
(Production & Technology Division,  
Environment, Safety & Quality Division,  
LACEA Business Development Unit)

**Managing Directors**  
Hiroshi Ozawa  
Group Executive, Functional Materials Group

Nobuyuki Sugahara  
(Human Resources Division, Labor Relations Division)

Ryutaro Koyasu  
(Accounting & Finance Division, Management  
Audit Division)

Yoshihiko Nieda  
Group Executive, Fine Chemicals Group

Katsumasa Kokeguchi  
General Manager, Iwakuni-Ohtake Works

Yoshihiko Kataoka  
(Licensing Division, Intellectual Property Division,  
Information Management Division)

Kazuyoshi Isogaya  
Group Executive, Engineered Materials Group

Koichi Tominaga  
(Corporate Planning Division, Management  
Accounting Division)

**Board Directors**  
Katsunosuke Maeda  
[Chairman of the Board, Toray Industries, Inc.]

Katsuji Suzuki  
General Manager, Fabricated Polymer Products  
Division, Engineered Materials Group

Shoichi Asao  
General Manager, Osaka Works

Toshiharu Tomatsu  
General Manager, Planning & Coordination Division,  
Industrial Chemicals Division-I, Industrial Chemicals  
Group

Hideo Mineshima  
General Manager, Production & Technology Division

Osamu Ito  
General Manager, Omuta Works

Shinji Tanikawa  
General Manager, Labor Relations Division

Koji Yoshida  
General Manager, Urethane Chemicals Division,  
Functional Materials Group

Masafumi Kataita  
General Manager, Specialty Resins Division,  
Functional Materials Group

Ritsuo Yamamoto  
General Manager, Legal & Administrative Division

Kenji Fujiyoshi  
General Manager, R&D Coordination Division,  
R&D Center

Akihiro Yamaguchi  
General Manager, Material Science Laboratory, R&D  
Center

Mineo Kimura  
General Manager, Petrochemical Feedstocks Division,  
Basic Chemicals Group

Satoshi Numata  
General Manager, Agrochemicals Division, Fine  
Chemicals Group

Yoshiyuki Shinohara  
General Manager, Planning & Coordination Division,  
VCM/PVC Division, Polymers Group

Yasuhiro Takeda  
General Manager, Ichihara Works

Toshikazu Tanaka  
General Manager, Phenols Division, Industrial  
Chemicals Group

Yoshihito Ezoe  
General Manager, Accounting & Finance Division

**Corporate Auditors**  
Satoshi Nakayama  
Masami Yokoi  
Kazuhiro Asano  
Keno Yamamoto  
Keiu Nishida

(As of June 29, 2000)

# Financial Section

**Mitsui Chemicals**

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## Selected Consolidated Financial and Operating Data

(Millions of yen except per share amounts)

	Reported Basis					Restated Basis
	2000	1999	1998	1997	1996	1998
Net sales	¥ 884,246	¥ 855,942	¥ 681,234	¥399,548	¥392,016	¥ 927,688
Cost of sales	659,327	632,036	532,414	304,778	286,926	721,409
SG&A	169,180	165,680	110,497	70,474	71,776	157,010
Operating income	55,739	58,226	38,323	24,296	33,313	49,269
Other income (expenses)	(29,603)	(36,099)	(14,334)	(7,242)	(13,308)	(20,063)
Income before income taxes, minority interests and equity in earnings of nonconsolidated subsidiaries and affiliates	-	-	-	17,054	20,005	-
Income before income taxes and minority interests	26,136	22,127	23,989	-	-	29,206
Income taxes	8,182	12,674	11,290	7,534	12,241	14,963
Income before minority interests and equity in earnings of nonconsolidated subsidiaries and affiliates	-	-	-	9,520	7,763	-
Income before minority interests	17,954	9,453	12,699	-	-	14,243
Equity in earnings of nonconsolidated subsidiaries and affiliates	-	-	-	2,375	675	-
Net income	16,042	7,739	11,702	11,569	8,123	13,010
Total current assets	544,837	548,668	616,871	243,791	227,805	616,871
Property, plant and equipment, net	530,827	513,268	530,860	189,820	195,133	530,860
Total investments and other non-current assets	161,515	146,232	150,505	64,349	66,869	150,505
Total assets	1,237,179	1,208,168	1,298,236	497,960	489,807	1,298,236
Total current liabilities	528,643	482,912	612,583	236,703	220,309	612,583
Long-term liabilities	346,242	378,274	349,972	89,047	101,646	349,972
Stockholders' equity	345,690	329,685	318,532	167,656	163,527	318,532
Depreciation and amortization	52,634	51,081	38,422	23,936	23,162	52,802
Capital expenditures	54,435	52,058	46,428	17,853	18,831	60,060
R&D expenses	38,141	39,295	28,036	15,181	19,259	40,451
Return on sales	1.81%	0.90%	1.72%	2.90%	2.07%	1.40%
Return on equity	4.75%	2.39%	4.81%	6.99%	5.05%	4.08%
Return on assets	1.31%	0.62%	1.30%	2.34%	1.67%	1.02%
Net income per share (basic)	¥20.57	¥9.97	¥21.53	¥37.12	¥26.07	-
Net income per share (diluted)	¥20.41	-	¥20.98	¥35.87	¥25.42	-
Cash dividends per share	¥ 6.00	¥6.00	¥ 6.00	¥ 6.00	¥ 6.00	-

Mitsui Chemicals' activities were classified into four business segments: Basic Chemicals, Polymers, Performance Materials, and Others. However, from the fiscal year starting April 1999 (Fiscal 2000), Mitsui Chemicals split the Performance Materials segment into Functional & Fine Chemicals and Engineered Materials, bringing the total number of business segments to five.

This change was instituted with the following two objectives in mind:

- (1) To reflect the importance of the Performance Materials segment moving forward based on the company's key strategy of expanding the segment's sales and earnings.
- (2) To give investors a clearer understanding of the scale, the profit contribution and the growth potential of individual segments.

Mitsui Chemicals has restated Fiscal 1999 segment information based on the new classifications so that comparisons and analyses between Fiscal 1999 and Fiscal 2000 can be made.

## >> Operating Results

Net sales of ¥884,246 million (US\$8,326 million) were recorded, an increase of ¥28,304 million (US\$267 million), or 3.3%, from the previous year. An improved chemicals market in Southeast Asia boosted overseas sales, including exports to that region, and product prices were raised in order to counter the sky-rocketing prices of fuel and raw materials, including naphtha. However, the strong yen adversely affected receipts in yen, holding sales to a 3.3% increase.

Cost of sales rose by 4.3%, or ¥27,291 million (US\$257 million), from the previous term to ¥659,327 million (US\$6,208 million).

Gross profit increased 0.5%, or ¥1,013 million (US\$10 million), from the previous year to ¥224,919 million (US\$2,118 million). The increase was attributable to such positive factors as higher shipment volumes and higher product prices combined with a lower head count and reduced fixed production costs in addition to the benefits of rationalization measures such as energy and resource conservation. On the other hand, the impact of the strong yen and higher fuel and raw materials prices dampened profit growth. As a result, gross profit showed only a small increase overall for Fiscal 2000.

Selling, general and administrative (SG&A) expenses rose by 2.1%, or ¥3,500 million (US\$33 million), to ¥169,180 million (US\$1,593 million). Increasing logistics costs were the primary factor in driving up SG&A expenses. Despite rationalization efforts, increased sales volume resulted in rising logistics costs.

Research and development expenses fell by 2.9% to ¥38,141 million (US\$359 million). Enhancement of R&D efficiency, including cutbacks in research administration staff in the course of consolidating R&D sites and functions, helped reduce costs. Overall, the ratio of R&D expenses to total net sales was 4.3%.

As a result of the foregoing, operating income declined by 4.3%, or ¥2,487 million (US\$23 million). The operating income margin narrowed to 6.3%, from the 6.8% recorded in Fiscal 1999.

## >> Segment Information

### BUSINESS SEGMENTS

The Mitsui Chemicals Group consists of Mitsui Chemicals, Inc., 100 subsidiaries and 86 affiliates. For accounting purposes, 42 major subsidiaries are consolidated and 144 other subsidiaries and affiliates are accounted for by the equity method.

As mentioned earlier, effective from Fiscal 2000 Mitsui Chemicals divided the Performance Materials segment into Functional & Fine Chemicals and Engineered Materials, resulting in a total of five business segments. The five segments cover the following businesses.

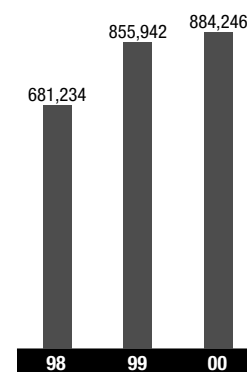
*Basic Chemicals:* Petrochemical feedstocks, fiber intermediates, phenolics and industrial chemicals and chemical fertilizers.

*Polymers:* Polyethylene, elastomers, polypropylene, PET resin and styrene monomer.

*Functional & Fine Chemicals:* Industrial resins, performance polymers, fine chemicals and agrochemicals.

*Engineered Materials:* Fabricated polymer products and electronic & information materials.

Net Sales  
(¥ Million)



*Others:* Plant construction and maintenance, warehousing and logistics, and consulting services, including chemical testing and analysis and safety inspection of chemical substances.

## Basic Chemicals

(Millions of yen)			
	2000	1999	Change (%)
Total sales	<b>¥289,361</b>	¥277,551	4.3%
Operating income	<b>20,506</b>	24,102	(14.9%)
Total assets	<b>414,965</b>	368,485	12.6%
Depreciation and amortization	<b>14,617</b>	15,350	(4.8%)
Capital expenditures	<b>18,732</b>	18,546	1.0%

Ethylene and propylene production facilities operated at full capacity throughout the year and production volume rose by 4% on the strength of increased demand for derivatives due to recovery of demand, particularly in overseas markets.

In purified terephthalic acid (PTA), stronger overseas demand and an improved supply-demand balance caused prices to increase. However, external sales declined 4%, as in-house consumption of PET resin production increased sharply.

The company's phenol business made good progress overall, with sales increasing by 12% thanks mainly to increased demand for phenol for bisphenol A production.

Bisphenol A performed well, posting an 8% rise in sales due to increased demand mainly in Asia for polycarbonate and epoxy resins production.

Domestic demand for ethylene oxide, ethanolamine, and acrylamide was comparable to the previous year, but exhibited steady growth overall, owing to growing demand in Asia. Sales increased 1%.

Chemical fertilizer sales were sluggish, held back by stagnant markets and government-imposed acreage reduction. Sales of chemical fertilizers fell 2%.

As a result, overall Basic Chemicals net sales amounted to ¥289,361 million (US\$2,725 million), an increase of ¥11,810 million (US\$111 million) over the previous term. Operating income, however, fell by ¥3,596 million (US\$34 million) to ¥20,506 million (US\$193 million). Basic Chemicals represented 32.7% of total net sales.

## Polymers

(Millions of yen)			
	2000	1999	Change (%)
Total sales	<b>¥216,332</b>	¥212,070	2.0%
Operating income	<b>9,106</b>	12,642	(28.0%)
Total assets	<b>294,603</b>	319,731	(7.9%)
Depreciation and amortization	<b>17,354</b>	14,745	17.7%
Capital expenditures	<b>14,427</b>	7,785	85.3%

Polyethylene made steady progress, with increases in both domestic sales and exports. Sales grew 4% in this area.

Polypropylene sales were weak, declining by 4% due to falling sales prices and sluggish domestic demand.

Elastomers, including ethylene-propylene diene terpolymer and alpha-olefin copolymers, returned a favorable performance, mainly in the automotive parts market despite flat domestic automobile production. Sales expansion initiatives and replacement of existing materials led to a 7% increase in sales.

Although competition from imported PET resin increased significantly, sales were up 30% thanks to growth in demand for small PET bottles and business tie-ups with other firms.

As a result, segment sales increased by ¥4,262 million (US\$40 million) to ¥216,332 million (US\$2,037 million). Operating income declined by ¥3,536 million (US\$33 million) to ¥9,106 million (US\$86 million). Polymers represented 24.5% of total net sales.

## Functional & Fine Chemicals

(Millions of yen)			
	2000	1999	Change (%)
Total sales	<b>¥179,235</b>	¥170,864	4.9%
Operating income	<b>13,243</b>	14,229	(6.9%)
Total assets	<b>283,282</b>	263,879	7.4%
Depreciation and amortization	<b>11,277</b>	11,465	(1.6%)
Capital expenditures	<b>8,263</b>	11,494	(28.1%)

Except for certain applications, polyurethane raw materials such as TDI and MDI posted good performances owing to growth in both domestic sales and exports. Total sales rose 7% here.



Additive materials such as wax and hydrocarbon resins made solid progress. Wax exports increased on the back of Asia's economic recovery and expansion of the customer base in China. Sales in this area rose 2%.

On the other hand, the SBR latex business was transferred to Nippon A&L Inc., a newly created joint venture with Sumitomo Chemical Co., Ltd. during the year.

Electronics & information materials and fine chemicals such as intermediates remained in a slump, negatively impacted by intensifying competition and a stronger yen. Sales fell 3% from the previous year.

Healthcare products, including monomers for optical plastic lens and pharmaceutical intermediates, performed well thanks to sales drives aimed at new customers and the introduction of new products. As a result, healthcare products sales increased 5% from the previous year.

Although agrochemicals such as pesticides faced stiff competition from new competing products, sales as a whole were solid and largely unchanged from the previous year.

As a result, Functional & Fine Chemicals sales increased by ¥8,371 million (US\$79 million) to ¥179,235 million (US\$1,688 million). Operating income fell by ¥986 million (US\$9 million) to ¥13,243 million (US\$125 million). The segment accounted for 20.3% of total sales.

### Engineered Materials

(Millions of yen)			
	2000	1999	Change (%)
Total sales	<b>¥135,703</b>	¥131,211	3.4%
Operating income	<b>9,644</b>	4,833	99.5%
Total assets	<b>176,581</b>	169,238	4.3%
Depreciation and amortization	<b>8,017</b>	8,089	(0.9%)
Capital expenditures	<b>10,245</b>	12,628	(18.9%)

Spunbonded nonwoven fabrics performed well in industrial applications, but overall sales were sluggish and declined 8% from the previous year. Rising imports of spunbonded nonwoven fabrics for personal hygiene applications, such as diapers, and lethargic demand held back total sales.

Sales of packaging film were steady, rising 1%, with declining product prices being offset by a sales drive centered on high-value-added products.

Sales of agricultural films were sluggish, and declined by 5%, adversely affected by conversion to films made of alternative raw materials.

Bolstered by expanded sales volumes in certain product categories, industrial materials performed steadily. Sales rose 2%.

Sales of semiconductor and electronic circuit materials rose 9%, thanks to a recovery in the global semiconductor market and increasing demand for personal computers and computer peripherals.

Toner binder sales rose 14%, fueled by increasing sales for digital copying machines.

Recording media sales surged 50% due to rapid expansion of demand and higher volumes, which offset declining sales prices.

Engineered Materials segment sales rose by ¥4,492 million (US\$42 million) to ¥135,703 million (US\$1,278 million). Operating income increased by ¥4,811 million (US\$45 million) to ¥9,644 million (US\$91 million). The segment contributed 15.3% of total net sales.

### Others

(Millions of yen)			
	2000	1999	Change (%)
Total sales	<b>¥ 63,615</b>	¥ 64,246	(1.0%)
Operating income	<b>1,658</b>	2,951	(43.8%)
Total assets	<b>107,706</b>	124,333	(13.4%)
Depreciation and amortization	<b>2,085</b>	2,263	(7.9%)
Capital expenditures	<b>2,768</b>	1,605	72.5%

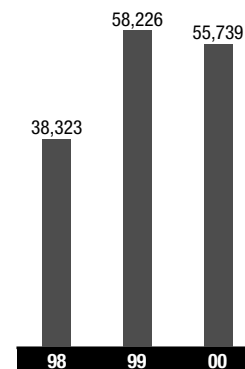
Plant construction and maintenance operations turned in a solid performance, with sales rising by 4% due to increased orders from customers outside the group.

Warehousing and logistics services were generally positive. Sales were unchanged from the previous year, underpinned by rising orders from the beverage sector.

Segment sales declined by ¥631 million (US\$6 million) to ¥63,615 million (US\$599 million), representing 7.2% of total sales. Operating income fell by ¥1,293 million (US\$12 million) to ¥1,658 million (US\$16 million).

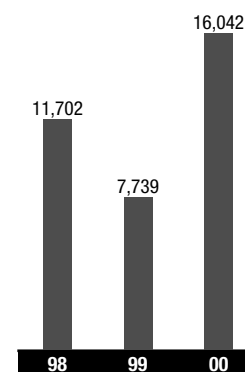
### Operating Income

(¥ Million)



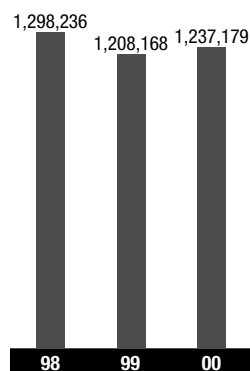
### Net Income

(¥ Million)



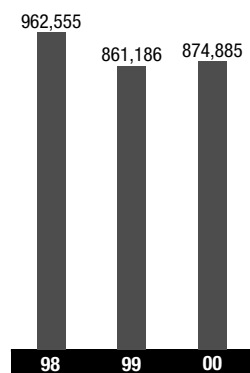
## Total Assets

(¥ Million)



## Total Liabilities

(¥ Million)



## GEOGRAPHIC SEGMENTS

Overseas net sales for Fiscal 2000 totaled ¥170,337 million (US\$1,604 million), representing 19.3% of total net sales.

By region, Asia accounted for ¥103,366 million (US\$973 million), or 11.7% of total net sales. Sales in North and Latin America totaled ¥39,031 million (US\$368 million), accounting for 4.4% of total net sales. Europe represented ¥22,603 million (US\$213 million), or 2.6% of total net sales. Sales in other regions accounted for ¥5,337 million (US\$50 million), or 0.6% of total net sales.

### >> Other Income (Expenses)

Interest and dividend income totaled ¥1,811 million (US\$17 million), 4.1%, or ¥72 million (US\$1 million), higher than a year earlier. Interest expenses, on the other hand, totaled ¥13,366 million (US\$126 million), resulting in net financial expenses of ¥11,555 million (US\$109 million). In Fiscal 1999, interest expenses totaled ¥14,768 million (US\$139 million), but net financial expenses were ¥13,029 million (US\$123 million). Net financial expenses thus improved by ¥1,474 million (US\$14 million). This improvement was primarily due to lower interest rates.

Equity in earnings of non-consolidated subsidiaries and affiliates totaled ¥5,034 million (US\$47 million), representing a marked improvement of ¥5,173 million (US\$49 million) from the ¥139 million (US\$1 million) loss recorded in the previous term. The principal reasons behind this improvement were the fact that Toyo Engineering Co., Ltd. moved into the black after posting substantial restructuring-related losses in the previous term, and profit contributions from joint-venture PTA businesses in Thailand and Indonesia. Moreover, other equity-method subsidiaries and affiliates generally yielded earnings at around the same level as the previous term.

Loss on disposal of property, plant and equipment of ¥5,616 million (US\$53 million) and ¥8,262 million (US\$78 million) on loss from restructuring of subsidiaries and affiliates were charged to income. There was also a ¥15,321 million (US\$144 million) loss resulting from a change in the accounting method for pension fund liabilities. Through the year ended March 31, 1999, past service liabilities of the contributory funded pension plan were charged to income at the time of contribution. Effective from the year ended March 31, 2000, past service liabilities of the contributory funded pension plan are charged as incurred.

The company proceeded with sales of marketable

securities holdings as part of its asset consolidation program. Gains on securities sales totaled ¥4,275 million (US\$40 million), which were included in other, net.

As a result of the foregoing, other net expenses totaled ¥29,603 million (US\$279 million), representing a ¥6,496 million (US\$61 million) improvement from the previous term.

### >> Net Income

Income taxes were ¥8,182 million (US\$77 million), ¥4,492 million (US\$42 million) lower than a year earlier.

Income before minority interests increased by ¥8,501 million (US\$80 million) from the previous term to ¥17,954 million (US\$169 million).

Minority interests in earnings of consolidated subsidiaries were ¥1,912 million (US\$18 million), representing a decrease of ¥198 million (US\$2 million) from the previous term.

Net income thus increased by 107.3%, or ¥8,303 million (US\$78 million), from the previous term to ¥16,042 million (US\$151 million). Net income per share rose by ¥10.60 (US\$0.10) to ¥20.57 (US\$0.19).

### >> Financial Position

As of March 31, 2000, total assets were ¥1,237,179 million (US\$11,650 million), up 2.4%, or ¥29,011 million (US\$273 million).

Total current assets declined 0.7%, or ¥3,831 million (US\$36 million), to ¥544,837 million (US\$5,130 million).

Despite ongoing asset consolidation initiatives such as shorter payment terms and inventory cutbacks, the raising of selling prices aimed at passing on higher costs due to soaring fuel and raw materials prices as well as increased sales volumes resulted in a ¥18,308 million (US\$172 million) increase in trade notes and accounts receivable to ¥291,528 million (US\$2,745 million), and a ¥5,064 million (US\$48 million) increase in inventories to ¥148,560 million (US\$1,399 million).

On the other hand, as financial markets stabilized, the company reduced cash and cash equivalents, which declined by ¥23,464 million (US\$221 million), in line with its policy of consolidating assets. Marketable securities declined by ¥2,111 million (US\$20 million) from a year ago to ¥51,586 million (US\$486 million), as the company sold some of its holdings as a part of its program to consolidate assets.

Property, plant and equipment increased 3.4%, or ¥17,559 million (US\$165 million), to ¥530,827 million

(US\$4,998 million). This increase was mainly due to the purchase of land from a non-consolidated subsidiary that owned the company's employee housing upon its liquidation.

Total investments and other non-current assets increased 10.5%, or ¥15,283 million (US\$144 million), to ¥161,515 million (US\$1,521 million), due mainly to increased in investment securities and deferred tax assets.

Investment securities increased 1.7%, or ¥1,693 million (US\$16million), to ¥99,988 million (US\$942 million), as a result of an increase in retained earnings at equity-method subsidiaries and affiliates.

Deferred tax assets rose 116.0%, or ¥13,941 million (US\$131 million), to ¥25,954 million (US\$244 million). The increase was largely attributable to the loss arising from changes in the method of accounting for past service liabilities of the contributory funded pension plan and a part of the loss on restructuring of subsidiaries and affiliates.

On the other side of the balance sheet, liabilities increased 1.6%, or ¥13,699 million (US\$129 million), to ¥874,885 million (US\$8,238 million).

Total current liabilities increased 9.5%, or ¥45,731 million (US\$431 million), to ¥528,643 million (US\$4,978 million). The increase in current liabilities was mainly attributable to a 17.5%, or ¥24,442 million (US\$230 million), increase in payables to ¥164,073 million (US\$1,545 million), which reflected higher fuel and raw material prices.

Short-term bank loans increased 3.3%, or ¥6,230 million (US\$59 million), to ¥195,063 million (US\$1,837 million). Current portion of long-term debt rose 176.7%, or ¥52,987 million (US\$499 million), to ¥82,981 million (US\$781 million).

On the other hand, the outstanding balance of commercial paper declined 30%, or ¥16,500 million (US\$155 million), to ¥38,500 million (US\$363 million).

Employees' savings deposits declined 84.2%, or ¥21,177 million (US\$199 million), due in part to a payout of ¥21,508 million (US\$203 million) from employees' savings deposits under changes made in the employees' savings program.

Total long-term liabilities declined 8.5%, or ¥32,032 million (US\$302 million), to ¥346,242 million (US\$3,260 million). This was mainly due to a 17.9%, or ¥47,613 million (US\$448 million), decrease in straight bonds and convertible bonds to ¥218,092 million (US\$2,054 million), principally because ¥49,544 million (US\$467 million) worth of straight bonds and convertible bonds maturing within a year were moved to current portion of long-term debt.

Other non-current liabilities increased by ¥13,104 million (US\$123 million), reflecting changes in the accounting for past service liabilities of the contributory funded pension plan.

Interest-bearing liabilities decreased 0.3%, or ¥1,978 million (US\$19 million), to ¥617,076 million (US\$5,811 million).

Stockholders' equity increased 4.9%, or ¥16,005 million (US\$151 million), to ¥345,690 million (US\$3,255 million). This change was mainly the result of a ¥11,547 million (US\$109 million) increase in consolidated retained earnings. Moreover, there was a ¥464 million (US\$4 million) increase in common stock associated with the conversion of Osaka Petrochemical Industries, Ltd. into a wholly owned subsidiary through an exchange of stocks, in addition to a ¥3,326 million (US\$31 million) increase in the additional paid-in capital. Stockholders' equity as a proportion of total assets increased by 0.6 percentage points to 27.9%. Equity per share rose 3.4% to ¥438.06 (US\$4.12).

#### >> Cash Flows

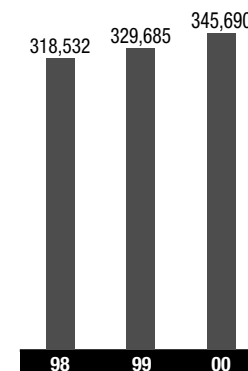
Cash flows from operating activities decreased 20.8%, or ¥17,579 million (US\$166 million), to ¥66,874 million (US\$630 million). Although income before income taxes and minority interests rose by ¥4,009 million (US\$38 million), higher sales volume and an increase in working capital due to higher fuel and raw materials costs, notwithstanding the company's efforts to raise the selling prices, affected cash flows from operating activities.

Cash flows from investing activities decreased 27.3%, or ¥16,157 million (US\$152 million), to ¥42,967 million (US\$405 million). In the period under review, the company invested in the construction of new plants and facilities to bolster capacity, and in rationalization to raise energy efficiency and productivity. However, cash flows still decreased because acquisition of property, plant, equipment and others declined by ¥4,912 million (US\$46 million) and purchase of marketable and investment securities declined by ¥14,194 million (US\$134 million).

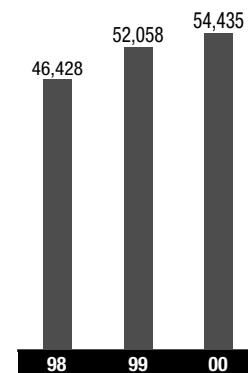
Cash flows from financing activities increased 156.7%, or ¥28,567 million (US\$269 million), to ¥46,798 million (US\$441 million). This increase occurred mainly because cash was used for paying out employees' savings deposits due to changes in the employees' savings program and for net decrease in long-term debt and short-term loans.

As a result, cash and cash equivalents as of the end of March 2000 had decreased 43.9%, or ¥23,464 million (US\$221 million), from a year ago to ¥30,033 million (US\$283 million).

**Total Stockholders' Equity**  
(¥ Million)



**Capital Expenditure**  
(¥ Million)



## Consolidated Balance Sheets

MITSUI CHEMICALS, INC. AND CONSOLIDATED SUBSIDIARIES  
March 31, 2000 and 1999

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 3)
	2000	1999	2000
<b>Current assets:</b>			
Cash and cash equivalents (Note 4) . . . . .	¥ 30,033	¥ 53,497	\$ 282,797
Short-term investments . . . . .	894	302	8,418
Marketable securities (Notes 6 and 7) . . . . .	51,586	53,697	485,744
Receivables:			
Trade notes and accounts . . . . .	291,528	273,220	2,745,085
Other . . . . .	13,238	11,871	124,652
Inventories (Note 5) . . . . .	148,560	143,496	1,398,870
Deferred tax assets—current (Note 9) . . . . .	5,639	6,402	53,098
Other current assets . . . . .	4,722	7,912	44,463
Allowance for doubtful accounts . . . . .	(1,363)	(1,729)	(12,834)
Total current assets . . . . .	544,837	548,668	5,130,293
<b>Property, plant and equipment (Note 7):</b>			
Land . . . . .	196,769	172,902	1,852,815
Buildings and structures . . . . .	257,489	250,368	2,424,567
Machinery and equipment . . . . .	824,634	848,788	7,764,915
Construction in progress . . . . .	15,049	21,271	141,704
	1,293,941	1,293,329	12,184,001
Accumulated depreciation . . . . .	(763,114)	(780,061)	(7,185,631)
Property, plant and equipment, net . . . . .	530,827	513,268	4,998,370
<b>Investments and other non-current assets:</b>			
Investment securities (Notes 6 and 7)			
Non-consolidated subsidiaries and affiliates . . . . .	70,123	71,425	660,292
Other . . . . .	29,865	26,870	281,215
Long-term receivables . . . . .	30,958	28,435	291,507
Deferred tax assets—non-current (Note 9) . . . . .	25,954	12,013	244,388
Other non-current assets . . . . .	24,103	22,439	226,958
Allowance for doubtful accounts . . . . .	(19,488)	(14,950)	(183,503)
Total investments and other non-current assets . . . . .	161,515	146,232	1,520,857
Total assets . . . . .	¥1,237,179	¥1,208,168	\$11,649,520

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

LIABILITIES AND STOCKHOLDERS' EQUITY	Millions of yen		Thousands of U.S. dollars (Note 3)
	2000	1999	2000
<b>Current liabilities:</b>			
Short-term bank loans (Note 7) . . . . .	¥ 195,063	¥ 188,833	\$ 1,836,751
Current portion of long-term debt (Note 7) . . . . .	82,981	29,994	781,366
Commercial paper (Note 7) . . . . .	38,500	55,000	362,524
Payables:			
Trade notes and accounts . . . . .	125,773	100,326	1,184,303
Other . . . . .	38,300	39,305	360,640
Employees' savings deposits . . . . .	3,982	25,490	37,495
Accrued expenses . . . . .	26,296	26,201	247,608
Accrued income taxes (Note 9) . . . . .	14,247	12,710	134,153
Other current liabilities . . . . .	3,501	5,053	32,966
Total current liabilities . . . . .	528,643	482,912	4,977,806
<b>Long-term liabilities:</b>			
Long-term debt due after one year (Note 7) . . . . .	300,532	345,227	2,829,868
Accrued severance indemnities (Note 8) . . . . .	23,572	24,013	221,959
Other non-current liabilities . . . . .	22,138	9,034	208,455
Total long-term liabilities . . . . .	346,242	378,274	3,260,282
<b>Minority interests</b> . . . . .	16,604	17,297	156,347
<b>Contingent liabilities</b> (Note 11)			
<b>Stockholders' equity:</b>			
Common stock, ¥50 par value (Note 10); Authorized — 3,000,000,000 shares Issued — 789,156,353 shares in 2000 . . . . .	103,226	102,762	971,996
— 779,868,353 shares in 1999			
Additional paid-in capital . . . . .	66,901	63,575	629,953
Retained earnings (Notes 7, 10 and 16) . . . . .	175,574	164,027	1,653,239
Treasury common stock, at cost:			
15,572 shares in 2000 and 2,046,962 shares in 1999 . . . . .	(11)	(679)	(103)
Stockholders' equity—net . . . . .	345,690	329,685	3,255,085
Total liabilities and stockholders' equity . . . . .	¥1,237,179	¥1,208,168	\$11,649,520

## Consolidated Statements of Income

MITSUI CHEMICALS, INC. AND CONSOLIDATED SUBSIDIARIES  
For the years ended March 31, 2000 and 1999

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2000	1999	2000
Net sales . . . . .	<b>¥884,246</b>	¥855,942	<b>\$8,326,234</b>
Cost of sales (Note 13) . . . . .	<b>659,327</b>	632,036	<b>6,208,352</b>
Gross profit . . . . .	<b>224,919</b>	223,906	<b>2,117,882</b>
Selling, general and administrative expenses (Notes 8 and 13) . . . . .	<b>169,180</b>	165,680	<b>1,593,032</b>
Operating income . . . . .	<b>55,739</b>	58,226	<b>524,850</b>
Other income (expenses):			
Interest expense . . . . .	<b>(13,366)</b>	(14,768)	<b>(125,857)</b>
Interest and dividend income . . . . .	<b>1,811</b>	1,739	<b>17,053</b>
Equity in earnings (loss) of non-consolidated subsidiaries and affiliates . . . . .	<b>5,034</b>	(139)	<b>47,401</b>
Loss on disposal of property, plant and equipment . . . . .	<b>(5,616)</b>	(2,956)	<b>(52,881)</b>
Loss from restructuring of subsidiaries and affiliates . . . . .	<b>(8,262)</b>	(14,369)	<b>(77,797)</b>
Past service liabilities of the contributory funded pension plan . . . . .	<b>(15,321)</b>	—	<b>(144,266)</b>
Other, net . . . . .	<b>6,117</b>	(5,606)	<b>57,599</b>
	<b>(29,603)</b>	(36,099)	<b>(278,748)</b>
Income before income taxes and minority interests . . . . .	<b>26,136</b>	22,127	<b>246,102</b>
Income taxes (Note 9):			
Current . . . . .	<b>20,698</b>	20,860	<b>194,896</b>
Deferred . . . . .	<b>(12,516)</b>	(8,186)	<b>(117,853)</b>
	<b>8,182</b>	12,674	<b>77,043</b>
Income before minority interests . . . . .	<b>17,954</b>	9,453	<b>169,059</b>
Minority interests in earnings of consolidated subsidiaries . . . . .	<b>(1,912)</b>	(1,714)	<b>(18,004)</b>
Net income . . . . .	<b>¥ 16,042</b>	¥ 7,739	<b>\$ 151,055</b>
Amounts per share of common stock:			
Net income . . . . .	<b>¥20.57</b>	¥9.97	<b>\$0.194</b>
Diluted net income . . . . .	<b>20.41</b>	—	<b>0.192</b>
Cash dividends applicable to the year . . . . .	<b>6.00</b>	6.00	<b>0.056</b>

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

## Consolidated Statements of Stockholders' Equity

MITSUI CHEMICALS, INC. AND CONSOLIDATED SUBSIDIARIES  
For the years ended March 31, 2000 and 1999

	Number of shares of common stock (Thousands)	Millions of yen		
		Common stock	Additional paid-in capital	Retained earnings
Balance at March 31, 1998	779,868	¥102,762	¥63,575	¥153,502
Net income	—	—	—	7,739
Increase resulting from decrease of consolidated subsidiaries	—	—	—	1,253
Decrease resulting from decrease of affiliates on equity method	—	—	—	(216)
Increase resulting from application of tax effect accounting	—	—	—	5,982
Increase resulting from change in currency unit of consolidated subsidiaries	—	—	—	546
Bonuses to directors and corporate auditors	—	—	—	(125)
Cash dividends paid	—	—	—	(4,654)
Balance at March 31, 1999	779,868	¥102,762	¥63,575	¥164,027
Net income	—	—	—	16,042
Shares issued in exchange of stocks	9,288	464	3,326	—
Increase resulting from increase of non-consolidated subsidiaries and affiliates on equity method	—	—	—	140
Increase resulting from decrease of non-consolidated subsidiaries and affiliates on equity method	—	—	—	53
Bonuses to directors and corporate auditors	—	—	—	(16)
Cash dividends paid	—	—	—	(4,672)
<b>Balance at March 31, 2000</b>	<b>789,156</b>	<b>¥103,226</b>	<b>¥66,901</b>	<b>¥175,574</b>

	Thousands of U.S. dollars (Note 3)		
	Common stock	Additional paid-in capital	Retained earnings
Balance at March 31, 1999	\$967,627	\$598,635	\$1,544,510
Net income	—	—	151,055
Shares issued in exchange of stocks	4,369	31,318	—
Increase resulting from increase of non-consolidated subsidiaries and affiliates on equity method	—	—	1,318
Increase resulting from decrease of non-consolidated subsidiaries and affiliates on equity method	—	—	499
Bonuses to directors and corporate auditors	—	—	(151)
Cash dividends paid	—	—	(43,992)
<b>Balance at March 31, 2000</b>	<b>\$971,996</b>	<b>\$629,953</b>	<b>\$1,653,239</b>

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

## Consolidated Statements of Cash Flows

MITSUI CHEMICALS, INC. AND CONSOLIDATED SUBSIDIARIES  
For the years ended March 31, 2000 and 1999

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2000	1999	2000
<b>Cash flows from operating activities</b>			
Income before income taxes and minority interests . . . . .	¥ 26,136	¥ 22,127	\$ 246,102
Depreciation and amortization . . . . .	52,634	51,081	495,612
Provision for allowance for doubtful accounts . . . . .	7,082	14,250	66,685
Interest and dividend income . . . . .	(1,811)	(1,739)	(17,053)
Interest expense . . . . .	13,366	14,768	125,857
Equity in (earnings) loss of non-consolidated subsidiaries and affiliates . . . . .	(5,034)	139	(47,401)
Gain on sale of securities . . . . .	(4,275)	(3,685)	(40,254)
Write-down of marketable and investment securities . . . . .	413	11,308	3,889
Loss on sale and disposal of property, plant and equipment . . . . .	5,654	1,385	53,239
Past service liabilities of the contributory funded pension plan . . . . .	15,321	-	144,266
(Increase) Decrease in trade receivables . . . . .	(14,883)	29,513	(140,141)
(Increase) Decrease in inventories . . . . .	(4,760)	2,597	(44,821)
Increase (Decrease) in trade payables . . . . .	19,109	(27,090)	179,934
Other, net . . . . .	(15,307)	1,142	(144,134)
Subtotal . . . . .	93,645	115,796	881,780
Interest and dividend income received . . . . .	6,554	4,713	61,714
Interest paid . . . . .	(13,367)	(15,493)	(125,866)
Income taxes paid . . . . .	(19,958)	(20,563)	(187,929)
Net cash provided by operating activities . . . . .	66,874	84,453	629,699
<b>Cash flows from investing activities</b>			
Purchases of marketable securities . . . . .	(223)	(8,757)	(2,100)
Proceeds from sales of marketable securities . . . . .	8,074	5,099	76,026
Acquisition of property, plant, equipment and others . . . . .	(49,296)	(54,208)	(464,181)
Proceeds from sales of property, plant and equipment . . . . .	6,395	10,503	60,217
Purchases of investment securities . . . . .	(6,621)	(12,281)	(62,345)
Proceeds from sales of investment securities . . . . .	1,611	1,835	15,169
Net increase in loans receivable . . . . .	(5,318)	(1,844)	(50,075)
Proceeds from sale of a consolidated subsidiary . . . . .	7,370	-	69,397
Other, net . . . . .	(4,959)	529	(46,694)
Net cash used in investing activities . . . . .	(42,967)	(59,124)	(404,586)
<b>Cash flows from financing activities</b>			
Net decrease in short-term debt . . . . .	(8,989)	(9,913)	(84,642)
Proceeds from long-term debt . . . . .	19,739	92,844	185,866
Repayment of long-term debt . . . . .	(36,068)	(97,423)	(339,623)
Repayment of employees' savings deposits resulting from changes in the in-house saving program . . . . .	(21,508)	-	(202,524)
Issuance of common stock by subsidiaries to minority stockholders . . . . .	2,847	-	26,808
Proceeds from sales of treasury stock . . . . .	4,131	1,539	38,898
Purchases of treasury stock . . . . .	(2,189)	(525)	(20,612)
Cash dividends paid . . . . .	(4,672)	(4,654)	(43,992)
Other, net . . . . .	(89)	(99)	(838)
Net cash used in financing activities . . . . .	(46,798)	(18,231)	(440,659)
Effect of exchange rate changes on cash and cash equivalents . . . . .	(1,600)	215	(15,066)
Net (decrease) increase in cash and cash equivalents . . . . .	(24,491)	7,313	(230,612)
Cash and cash equivalents at beginning of the year . . . . .	53,497	46,489	503,738
Increase (Decrease) in cash resulting from changes in consolidated subsidiaries . . . . .	1,027	(305)	9,671
Cash and cash equivalents at end of the year . . . . .	¥ 30,033	¥ 53,497	\$ 282,797

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



### 1. BASIS OF PREPARATION

The accompanying consolidated financial statements of Mitsui Chemicals, Inc. (the "Company") and its consolidated subsidiaries have been prepared in accordance with accounting principles and practices generally accepted in Japan and have been compiled from those prepared by the Company as required under the Securities and Exchange Law of Japan, which may differ in certain respects from accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

In preparing the accompanying consolidated financial statements, certain reclassifications have been made in the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. The consolidated cash flow statement for the year ended March 31, 1999 has been prepared for the purpose of inclusion in the consolidated financial statements, although consolidated statements of cash flows were not customarily prepared in Japan prior to 2000.

### 2. SIGNIFICANT ACCOUNTING POLICIES

#### *a. Consolidation*

The Company has prepared the consolidated financial statements for the year ended March 31, 2000 in accordance with the revised Accounting Principles for Consolidated Financial Statements effective the year ended March 31, 2000.

The accompanying consolidated financial statements include the accounts of the Company and significant companies over which the Company has the power of control through majority voting rights or the existence of certain conditions evidencing control by the Company. Previously, only majority-owned companies were consolidated. The prior years' consolidated financial statements have not been restated.

Investments in non-consolidated subsidiaries and affiliates of which the Company has the ability to exercise significant influence over 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 at fair value as of the respective dates when such shares were acquired. The amounts of such assets and liabilities attributable to minority stockholders of the subsidiaries are recorded based on the financial statements of the subsidiary.

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

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

#### *b. Foreign currency translation*

The current and non-current foreign currency denominated assets and liabilities are translated into yen at historical rates, except for those hedged by forward foreign exchange contracts.

Revenue and expense items denominated in foreign currencies are translated into yen at the rates of exchange prevailing when such transactions are made.

Gains and losses on foreign exchange are credited or charged to income in the year in which they occur.

#### *c. Inventories*

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

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

Through the year ended March 31, 1999, inventories at the Hokkaido, Mobarra, Nagoya, Osaka, Shimonoseki and Omuta works and certain sections of the head office at the Company were stated at cost by the gross average method. Effective the year ended March 31, 2000, such inventories have been stated at cost by the last-in first-out method.

This change was implemented to reflect immediately changes in the costs of raw materials in the cost of sales and to achieve a proper correspondence between income and expenses. The last-in first-out method is now applied uniformly to inventories by the Company. The change in the accounting policy was made following the completion of a new computer program during the year ended March 31, 2000.

As the result of this change, inventories for the year ended March 31, 2000 decreased by ¥616 million, and operating income and income before income taxes and minority interests decreased by the same amount.

### **d. Marketable securities and investment securities**

Listed securities are stated at the lower of cost or market, cost being determined by the moving average method. Unlisted securities are stated at cost.

### **e. Property, plant and equipment**

Property, plant and equipment is stated at cost. Depreciation is calculated principally by the straight-line method over the estimated useful lives of the respective assets. Maintenance, repairs and minor renewals are currently charged to income; major renewals and improvements are capitalized.

### **f. Software cost**

The Company amortizes software for internal using the straight-line method over the 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 subsidiaries lease certain equipment under noncancelable lease agreements referred to as finance leases. Finance leases other than those which transfer the ownership of the leased property to the leasees are accounted for in the same manner as operating leases.

### **i. Allowance for doubtful accounts**

The allowance for doubtful accounts is provided for in amount sufficient to cover possible losses on collection. It consists of the estimated uncollectible amount with respect to identified doubtful accounts and an amount calculated by the formula based on the Corporation Tax Law of Japan with respect to remaining receivables.

### **j. Employees' retirement indemnities**

The Company: The Company's employees are covered by the contributory funded pension plan and the employees' severance indemnity plan.

Following the merger in 1997, the contributory funded pension plan covering employees of the former Mitsui Toatsu Chemicals, Inc. has been taken over. A portion of the tax-qualified non-contributory pension plan and the employees' severance indemnity plan were merged following the consolidation of the pension plans in October 1999.

Past service liabilities of the contributory funded pension plan are charged to income as incurred.

The employees' severance indemnity plan is provided to cover the liabilities which would be required if all employees voluntarily retired at the balance sheet date.

Consolidated Subsidiaries: Employees of the consolidated subsidiaries are covered by the employees' severance indemnity plan, tax-qualified non-contributory pension plan or the Company's contributory funded pension plan.

Through the year ended March 31, 1999, past service liabilities of the contributory funded pension plan were charged to income at the time when payments of contribution were made to the pension plan. Effective the year ended March 31, 2000, past service liabilities of the contributory funded pension plan are charged to income as incurred.

This change was implemented primarily to assure fair distribution of pension costs and to strengthen the financial condition since past service liabilities are expected to increase following the consolidation of pension plans made during the year ended March 31, 2000 and the planned introduction of pension fund accounting in the next fiscal year.

As the result of this change, other non-current liabilities increased by ¥15,321 million and income before income taxes and minority interests decreased by ¥16,596 million.

### **k. 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 the respective year.

## I. Consolidated statements of cash flows

In preparing the consolidated statements of cash flows, cash on hand, readily-available deposits and short-term highly liquid investments with maturities not in excess of three months at the time of purchase are considered to be cash and cash equivalents. In accordance with the "Standards for Preparation of Consolidated Cash Flow Statements, etc.", effective the year ended March 31, 2000, the Company is required to prepare consolidated cash flow statements. The prior year's consolidated statement of cash flows, which was prepared for readers outside Japan although such statement was not required, has been restated to conform to the 2000 presentation.

### 3. U.S. DOLLAR AMOUNTS

The translation of yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan, using the exchange rate of ¥106.2=US\$1, the approximate rate of exchange at March 31, 2000. The translation should not be construed as a representation that yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this rate or any other rate.

### 4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents at March 31, 2000 and 1999 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	2000
Cash . . . . .	<b>¥28,187</b>	¥41,304	<b>\$265,414</b>
Cash equivalents . . . . .	<b>1,846</b>	12,193	<b>17,383</b>
	<b>¥30,033</b>	¥53,497	<b>\$282,797</b>

### 5. INVENTORIES

Inventories at March 31, 2000 and 1999 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	2000
Finished goods . . . . .	<b>¥107,305</b>	¥103,897	<b>\$1,010,405</b>
Work in process . . . . .	<b>5,143</b>	6,146	<b>48,427</b>
Raw materials and supplies . . . . .	<b>36,112</b>	33,453	<b>340,038</b>
	<b>¥148,560</b>	¥143,496	<b>\$1,398,870</b>

### 6. MARKET VALUE INFORMATION

At March 31, 2000, book value, market value and net unrealized gains of quoted securities were as follows:

	Millions of yen		Thousands of U.S. dollars
	2000		2000
Book value:			
Current . . . . .	<b>¥ 51,586</b>		<b>\$485,744</b>
Non-current . . . . .	<b>29,511</b>		<b>277,881</b>
	<b>81,097</b>		<b>763,625</b>
Market value			
Current . . . . .	<b>81,776</b>		<b>770,019</b>
Non-current . . . . .	<b>23,647</b>		<b>222,665</b>
	<b>105,423</b>		<b>992,684</b>
Net unrealized gains . . . . .	<b>¥ 24,326</b>		<b>\$229,059</b>

Disclosure of market value information on a consolidated basis was not required prior to 2000.

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

At March 31, 2000 and 1999, short-term debt were as follows:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	2000
0.64%–6.96% bank loans	<b>¥195,063</b>	¥188,833	<b>\$1,836,751</b>
Commercial paper	<b>¥ 38,500</b>	¥ 55,000	<b>\$ 362,524</b>

At March 31, 2000 and 1999, long-term debt were as follows:

1.875% bonds due 2002	<b>¥ 10,000</b>	¥ 10,000	<b>\$ 94,162</b>
2.1% bonds due 2003	<b>10,000</b>	10,000	<b>94,162</b>
2.25% bonds due 2004	<b>10,000</b>	10,000	<b>94,162</b>
2.5% bonds due 2002	<b>10,000</b>	10,000	<b>94,162</b>
2.95% bonds due 2004	<b>10,000</b>	10,000	<b>94,162</b>
2.1% bonds due 2002	<b>10,000</b>	10,000	<b>94,162</b>
1.975% bonds due 2002	<b>10,000</b>	10,000	<b>94,162</b>
2.4% bonds due 2004	<b>10,000</b>	10,000	<b>94,162</b>
2.25% bonds due 2003	<b>10,000</b>	10,000	<b>94,162</b>
2.7% bonds due 2005	<b>10,000</b>	10,000	<b>94,162</b>
1.975% bonds due 2001	<b>10,000</b>	10,000	<b>94,162</b>
2.0% bonds due 2002	<b>10,000</b>	10,000	<b>94,162</b>
2.95% bonds due 2008	<b>10,000</b>	10,000	<b>94,162</b>
2.7% bonds due 2008	<b>10,000</b>	10,000	<b>94,162</b>
1.875% bonds due 2003	<b>10,000</b>	10,000	<b>94,162</b>
1.425% bonds due 2001	<b>10,000</b>	10,000	<b>94,162</b>
1.85% bonds due 2003	<b>10,000</b>	10,000	<b>94,162</b>
1.775% bonds due 2003	<b>10,000</b>	10,000	<b>94,162</b>
2.475% bonds due 2005	<b>10,000</b>	10,000	<b>94,162</b>
5.3% bonds due 2000	<b>20,000</b>	20,000	<b>188,324</b>
3.5% bonds due 2001	<b>10,000</b>	10,000	<b>94,162</b>
2.45% bonds due 2000	<b>0</b>	3,000	<b>0</b>
2.75% bonds due 2004	<b>3,000</b>	3,000	<b>28,249</b>
1.65% bonds due 2003	<b>3,000</b>	0	<b>28,249</b>
2.60% bonds due 2008	<b>500</b>	500	<b>4,708</b>
1.425% notes due 1999	<b>0</b>	531	<b>0</b>
2.79% notes due 2001	<b>958</b>	1,084	<b>9,021</b>
Floating rate notes due 2001	<b>942</b>	1,065	<b>8,870</b>
Floating rate notes due 2001	<b>1,418</b>	1,603	<b>13,352</b>
1.9%, 2.2% notes due 2001	<b>0</b>	530	<b>0</b>
Floating rate notes due 2002	<b>805</b>	910	<b>7,580</b>
0.8%, 1.1% notes due 1999	<b>0</b>	856	<b>0</b>
1.8% convertible debentures due 2003	<b>17,611</b>	17,611	<b>165,829</b>
1.8% convertible debentures due 2001	<b>9,544</b>	9,544	<b>89,868</b>
1.8% convertible debentures due 2004	<b>9,858</b>	9,858	<b>92,825</b>
Loans, principally from banks and insurance companies:			
Secured, at rates of 0.64% to 7.5% maturing through 2013	<b>64,976</b>	69,787	<b>611,827</b>
Unsecured, at rates of 0.51% to 8.0% maturing through 2008	<b>50,901</b>	35,342	<b>479,292</b>
	<b>383,513</b>	375,221	<b>3,611,234</b>
Less current portion	<b>82,981</b>	29,994	<b>781,366</b>
	<b>¥300,532</b>	¥345,227	<b>\$2,829,868</b>

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

	Conversion price per share	Convertible at any time up to and including
1.8% convertible debentures due 2003 .....	¥1,371.20 (\$12.91)	March 28, 2003
1.8% convertible debentures due 2001 .....	1,617.00 (\$15.23)	March 29, 2001
1.8% convertible debentures due 2004 .....	1,617.00 (\$15.23)	March 30, 2004

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

The aggregate annual maturities of long-term debt subsequent to March 31, 2000, were as follows:

	Millions of yen	Thousands of U.S. dollars
Year ending March 31		
2001 .....	¥ 82,981	\$ 781,366
2002 .....	53,444	503,239
2003 .....	90,269	849,991
2004 .....	65,499	616,751
2005 and thereafter .....	91,320	859,887
	<u>¥383,513</u>	<u>\$3,611,234</u>

At March 31, 2000, assets pledged as collateral for long-term debt were as follows:

	Millions of yen	Thousands of U.S. dollars
Marketable securities and investment securities .....	¥ 1,303	\$ 12,269
Property, plant and equipment, net of accumulated depreciation .....	280,589	2,642,081

## 8. SEVERANCE INDEMNITIES AND PENSION PLANS

The amounts charged to income for the years ended March 31, 2000 and 1999 with respect to severance indemnities and the pension plans were as follows:

	Millions of yen		Thousands of U.S. dollars
	<b>2000</b>	1999	<b>2000</b>
Provision for severance indemnities .....	<b>¥1,737</b>	¥4,432	<b>\$16,356</b>
Pension costs .....	<b>7,602</b>	6,474	<b>71,582</b>

The value of the contributory funded pension plan as of March 31, 2000, was ¥136,423 million.

**9. INCOME TAXES**

The Company and its domestic consolidated subsidiaries are subject to a number of income taxes which, in the aggregate, resulted in statutory rates in Japan of approximately 41.9% and 47.5% for the years ended March 31, 2000 and 1999, respectively. Foreign consolidated subsidiaries are subject to income taxes in their countries of domicile.

The following table summarizes the significant differences between the statutory tax rates and effective tax rates for consolidated financial statement purposes for the years ended March 31, 2000 and 1999:

	2000	1999
Statutory tax rate . . . . .	<b>41.9%</b>	47.5%
Non-taxable dividend income . . . . .	<b>(2.2)</b>	(2.8)
Non-deductible expenses . . . . .	<b>3.8</b>	3.8
Effect of changes in tax rate . . . . .	<b>(2.9)</b>	6.0
Equity in earnings of non-consolidated subsidiaries and affiliates . . . . .	<b>(8.1)</b>	-
Per capita inhabitants tax . . . . .	<b>-</b>	0.6
Other . . . . .	<b>(1.2)</b>	2.2
Effective tax rate . . . . .	<b>31.3%</b>	57.3%

The significant components of the Company's and its subsidiaries' deferred tax assets and liabilities as of March 31, 2000 and 1999 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	2000
Deferred tax assets:			
Allowance for doubtful accounts . . . . .	¥ <b>8,459</b>	¥ 6,397	<b>\$ 79,652</b>
Employees' retirement indemnities . . . . .	<b>7,003</b>	2,963	<b>65,942</b>
Accrued bonuses . . . . .	<b>1,274</b>	935	<b>11,996</b>
Depreciation . . . . .	<b>4,822</b>	3,592	<b>45,405</b>
Enterprise tax . . . . .	<b>1,239</b>	1,092	<b>11,667</b>
Loss carryforwards of consolidated subsidiaries . . . . .	<b>1,146</b>	2,489	<b>10,791</b>
Past service liabilities of the contributory funded pension plan . . . . .	<b>6,132</b>	-	<b>57,740</b>
Other . . . . .	<b>8,302</b>	11,172	<b>78,173</b>
Subtotal . . . . .	<b>38,377</b>	28,640	<b>361,366</b>
Valuation allowance . . . . .	<b>(1,356)</b>	(3,507)	<b>(12,768)</b>
Total deferred tax assets . . . . .	<b>37,021</b>	25,133	<b>348,598</b>
Deferred tax liabilities:			
Deferred gains on real properties . . . . .	<b>(4,669)</b>	(4,995)	<b>(43,964)</b>
Reserve for special depreciation . . . . .	<b>(769)</b>	(562)	<b>(7,241)</b>
Other . . . . .	<b>(1,050)</b>	(1,161)	<b>(9,887)</b>
Total deferred tax liabilities . . . . .	<b>(6,488)</b>	(6,718)	<b>(61,092)</b>
Net deferred tax assets . . . . .	<b>¥30,533</b>	¥18,415	<b>\$287,506</b>

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## 10. STOCKHOLDERS' EQUITY

The Commercial Code of Japan provides that certain amount of retained earnings equal to at least 10% of cash dividends and bonuses to directors and corporate auditors shall be appropriated and set aside as legal reserve until such reserve equals 25% of common stock. This reserve is not available for dividends but may be used to reduce a deficit by resolution of the stockholders or may be capitalized by resolution of the Board of Directors. Legal reserve is included in retained earnings.

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 Commercial Code of Japan.

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## 11. CONTINGENT LIABILITIES

Contingent liabilities at March 31, 2000 were as follows:

	Millions of yen	Thousands of U.S. dollars
As endorser of trade notes discounted . . . . .	¥ 1,357	\$ 12,778
Endorsed notes . . . . .	285	2,684
As guarantor of indebtedness, principally of nonconsolidated subsidiaries and affiliates . . . . .	37,432	352,467
As issuer of letters of awareness and commitments for guarantees . . . . .	3,701	34,849

The Company, together with ten other companies and the Japanese government, is a defendant in lawsuits brought in 1989, 1990 and 1997 before the Nagoya District Court by inhabitants of the southern part of Nagoya City and its surrounding area.

The plaintiffs are claiming damages for air pollution and are also seeking an injunction to prevent the discharge of contaminants by the defendants.

The Company has applied for dismissal of these lawsuits on their merits. The management of the Company believes that these lawsuits will not have a material adverse effect on the Company's financial position or results of operations on a consolidated basis.

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## 12. LEASES

Lease payment under finance leases which are accounted for in the same manner as operating leases for the year ended March 31, 2000 were ¥4,654 million (\$43,823 thousand). Future lease payments under such finance leases as of March 31, 2000, inclusive of interest, were ¥12,708 million (\$119,661 thousand), including ¥3,796 million (\$35,744 thousand) due within one year.

Future lease payments under operating leases as of March 31, 2000 were ¥63 million (\$593 thousand), including ¥44 million (\$414 thousand) due after one year.

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## 13. RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses for the years ended March 31, 2000 and 1999 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	2000
Research and development expenses . . . . .	¥38,141	¥39,295	\$359,143

#### 14. FINANCIAL DERIVATIVE TRANSACTIONS

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

The counterparties to the above financial derivative transactions are major financial institutions and, therefore, the management of the Company believes that there is no significant credit risk of a default by a counterparty. All derivative transactions the Company and certain of its consolidated subsidiaries enter into are approved by directors of financial section. The conditions and results of such transactions are reported semiannually to the Board of Directors.

The contract amounts and unrealized gain or loss of outstanding financial derivative positions at March 31, 2000 were as follows:

	Millions of yen	Thousands of U.S. dollars
	2000	2000
Currency related		
Currency swaps:		
Contracts outstanding . . . . .	¥ 4,123	\$ 38,823
Unrealized gain . . . . .	412	3,879
Interest related		
Interest rate swaps:		
Pay fixed		
Contracts outstanding . . . . .	24,358	229,360
Unrealized loss . . . . .	(975)	(9,181)
Pay floating		
Contracts outstanding . . . . .	26,748	251,864
Unrealized gain . . . . .	1,403	13,211

Disclosure of financial derivative transactions' information on a consolidated basis was not required prior to 2000.

#### 15. SEGMENT INFORMATION

Business segment information of the Company and consolidated subsidiaries for the years ended March 31, 2000, and 1999 was summarized as follows:

Year ended March 31, 2000	Millions of yen						Consolidated
	Basic Chemicals	Polymers	Functional & Fine Chemicals	Engineered Materials	Others	Eliminations	
I. Sales and operating income:							
Customers . . . . .	¥289,361	¥216,332	¥179,235	¥135,703	¥ 63,615	¥ -	¥ 884,246
Inter-segment . . . . .	95,121	23,565	2,718	18,108	81,439	(220,951)	-
Total sales . . . . .	384,482	239,897	181,953	153,811	145,054	(220,951)	884,246
Operating expenses . . . . .	363,976	230,791	168,710	144,167	143,396	(222,533)	828,507
Operating income . . . . .	¥ 20,506	¥ 9,106	¥ 13,243	¥ 9,644	¥ 1,658	¥ 1,582	¥ 55,739
II. Assets, depreciation and capital expenditures:							
Total assets . . . . .	¥414,965	¥294,603	¥283,282	¥176,581	¥107,706	¥ (39,958)	¥1,237,179
Depreciation and amortization . . . . .	14,617	17,354	11,277	8,017	2,085	(716)	52,634
Capital expenditures . . . . .	18,732	14,427	8,263	10,245	2,768	-	54,435





Thousands of U.S. dollars

Year ended March 31, 2000	Basic Chemicals	Polymers	Functional & Fine Chemicals	Engineered Materials	Others	Eliminations	Consolidated
<b>I. Sales and operating income:</b>							
Customers	\$2,724,680	\$2,037,024	\$1,687,712	\$1,277,806	\$ 599,012	\$ -	\$ 8,326,234
Inter-segment	895,678	221,893	25,593	170,508	766,846	(2,080,518)	-
Total sales	3,620,358	2,258,917	1,713,305	1,448,314	1,365,858	(2,080,518)	8,326,234
Operating expenses	3,427,269	2,173,173	1,588,606	1,357,505	1,350,245	(2,095,414)	7,801,384
Operating income	\$ 193,089	\$ 85,744	\$ 124,699	\$ 90,809	\$ 15,613	\$ 14,896	\$ 524,850
<b>II. Assets, depreciation and capital expenditures:</b>							
Total assets	\$3,907,392	\$2,774,040	\$2,667,439	\$1,662,721	\$1,014,181	\$ (376,253)	\$11,649,520
Depreciation and amortization	137,637	163,409	106,186	75,490	19,633	(6,743)	495,612
Capital expenditures	176,384	135,847	77,806	96,469	26,064	-	512,570

Millions of yen

Year ended March 31, 1999	Basic Chemicals	Polymers	Performance Materials	Others	Eliminations	Consolidated
<b>I. Sales and operating income:</b>						
Customers	¥277,551	¥212,070	¥314,274	¥ 52,047	¥ -	¥855,942
Inter-segment	86,456	24,029	19,100	77,249	(206,834)	-
Total sales	364,007	236,099	333,374	129,296	(206,834)	855,942
Operating expenses	339,905	223,457	313,887	126,770	(206,303)	797,716
Operating income	¥ 24,102	¥ 12,642	¥ 19,487	¥ 2,526	¥ (531)	¥ 58,226
<b>II. Assets, depreciation and capital expenditures:</b>						
Total assets	¥377,231	¥319,878	¥423,153	¥123,369	¥ (35,463)	¥1,208,168
Depreciation and amortization	15,350	14,745	19,650	2,137	(801)	51,081
Capital expenditures	18,546	7,785	23,177	2,550	-	52,058

In 2000, the Company and consolidated subsidiaries changed business segment classification. The business segment information based on the new classification for the year ended March 31, 1999 was summarized as follows:

Millions of yen

Year ended March 31, 1999	Basic Chemicals	Polymers	Functional & Fine Chemicals	Engineered Materials	Others	Eliminations	Consolidated
<b>I. Sales and operating income:</b>							
Customers	¥277,551	¥212,070	¥170,864	¥131,211	¥ 64,246	¥ -	¥ 855,942
Inter-segment	86,456	24,029	6,049	16,664	77,578	(210,776)	-
Total sales	364,007	236,099	176,913	147,875	141,824	(210,776)	855,942
Operating expenses	339,905	223,457	162,684	143,042	138,873	(210,245)	797,716
Operating income	¥ 24,102	¥ 12,642	¥ 14,229	¥ 4,833	¥ 2,951	¥ (531)	¥ 58,226
<b>II. Assets, depreciation and capital expenditures:</b>							
Total assets	¥368,485	¥319,731	¥263,879	¥169,238	¥124,333	¥ (37,498)	¥1,208,168
Depreciation and amortization	15,350	14,745	11,465	8,089	2,263	(831)	51,081
Capital expenditures	18,546	7,785	11,494	12,628	1,605	-	52,058

## Notes to Consolidated Financial Statements

Operating income or total assets of certain business segments have increased or decreased as the result of change in method of accounting for part of the Company's inventories. (see Note 2)

As the result of change in the method of accounting for part of the Company's inventories, operating income and total assets at March 31, 2000 of Basic Chemicals, Polymers and Functional & Fine Chemicals decreased by ¥355 million (\$3,343 thousand), ¥46 million (\$433 thousand) and ¥251 million (\$2,363 thousand), and those of Engineered Materials increased by ¥36 million (\$339 thousand).

Geographic segment information was not shown as aggregate sales of overseas consolidated subsidiaries were less than 10% of the consolidated net sales for the years ended March 31, 2000 and 1999 and the assets of overseas consolidated subsidiaries were less than 10% of the consolidated total assets at March 31, 2000 and 1999.

The overseas sales of the Company and consolidated subsidiaries for the years ended March 31, 2000 and 1999 were summarized by geographic area as follows:

Year ended March 31, 2000	Millions of yen				
	Asia	North America and Latin America	Europe	Others	Overseas sales
Overseas sales . . . . .	<b>¥103,366</b>	<b>¥39,031</b>	<b>¥22,603</b>	<b>¥5,337</b>	<b>¥170,337</b>
Consolidated net sales . . . . .					<b>¥884,246</b>
Ratio of overseas sales to the consolidated net sales . . . . .	<b>11.7%</b>	<b>4.4%</b>	<b>2.6%</b>	<b>0.6%</b>	<b>19.3%</b>

Year ended March 31, 2000	Thousands of U.S. dollars				
	Asia	North America and Latin America	Europe	Others	Overseas sales
Overseas sales . . . . .	<b>\$973,315</b>	<b>\$367,524</b>	<b>\$212,834</b>	<b>\$50,254</b>	<b>\$1,603,927</b>

Year ended March 31, 1999	Millions of yen				
	Asia	North America and Latin America	Europe	Others	Overseas sales
Overseas sales . . . . .	¥90,470	¥40,782	¥27,661	¥5,541	¥164,454
Consolidated net sales . . . . .					¥855,942
Ratio of overseas sales to the consolidated net sales . . . . .	10.6%	4.8%	3.2%	0.6%	19.2%

### 16. SUBSEQUENT EVENTS

Appropriations of retained earnings at March 31, 2000 were duly approved at the stockholders' meeting held on June 29, 2000 as follows:

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥3 per share) . . . . .	¥2,367	\$22,288

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

We have audited the accompanying consolidated balance sheets of Mitsui Chemicals, Inc. and consolidated subsidiaries at March 31, 2000 and 1999, and the related consolidated statements of income, stockholders' equity, and cash flows for the years ended, all expressed in yen. Our audits were made in accordance with auditing standards, procedures and practices generally accepted and applied in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated financial statements, expressed in yen, present fairly the consolidated financial position of Mitsui Chemicals, Inc. and consolidated subsidiaries at March 31, 2000 and 1999, and the consolidated results of their operations and their cash flows for the years ended in conformity with accounting principles and practices generally accepted in Japan which, except for the changes in (1) the method of accounting for inventories, (2) the method of accounting for past service liabilities of the contributory funded pension plan, referred to in Note 2, and the related effects on the segment information as referred to in Note 15, were applied on a consistent basis.

As described in Note 2 to the consolidated financial statements, Mitsui Chemicals, Inc. and consolidated subsidiaries have adopted new accounting standard for consolidation in the preparation of their consolidated financial statements for the year ended March 31, 2000.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2000 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.

*Century Ota Showa & Co.*

*Asahi & Co.*

Tokyo, Japan  
June 29, 2000

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

## Major Subsidiaries and Affiliates

\* Consolidated subsidiary

Companies	Major Products or Lines of Business	Paid-in Capital (In millions)	Equity Interest (%)	Tel	Fax
<b>Basic Chemicals</b>					
Keiyo Ethylene Co., Ltd.	Ethylene, propylene and other basic petrochemical products	¥ 6,000	22.5	81-3-3552-9373	81-3-3552-9443
* Osaka Petrochemical Industries, Ltd.	Ethylene, propylene and other basic petrochemical products	¥ 5,000	100	81-3-3592-4191	81-3-3592-4269
* Toyo Phosphoric Acid, Inc	Phosphoric acid	¥ 1,500	83.3	81-3-3592-4186	81-3-3592-4236
MTC Sohio, Inc.	Maleic anhydride	¥ 512	100	81-3-3592-4333	81-3-3592-4235
Kyodo Monomer Inc.	Methylmethacrylate	¥ 400	50	81-3-3592-4340	81-3-3592-4236
* Chiba Phenol Company, Limited	Phenol	¥ 300	55	81-3-3592-4329	81-3-3592-4281
Nippon Epoxy Polymers Co., Ltd.	Basic liquid epoxy resins	¥ 200	50	81-3-3592-4328	81-3-3592-4281
Ukishima Petrochemicals Co., Ltd.	Ethylene, propylene and other basic petrochemical products	¥ 100	50	81-3-3504-8513	81-3-3592-4230
Nippon Fine Gas, Inc.	Industrial gases	¥ 100	50	81-722-68-3321	81-722-68-1132
Kyodo Phosphoric Acid, Co.	Purified phosphoric acid	¥ 100	42.5	81-3-3592-4186	81-3-3592-4236
Kyodo Tansan Co.	Liquid hyperpure carbon dioxide gas and dry ice	¥ 100	30	81-143-55-3074	81-143-55-3796
P.T. Amoco Mitsui PTA Indonesia	PTA	US\$ 160	45	62-21-252-6854	62-21-252-6856
* P.T. Mitsui Eterindo Chemicals	Acrylamide	US\$ 3	70	62-21-572-3201	62-21-572-4338
* Mitsui Phenol Singapore Pte. Ltd.	Phenol	S\$ 54	90	65-534-0537	65-534-4509
* Mitsui Bisphenol Singapore Pte Ltd	Bisphenol A	S\$ 27	100	65-535-1678	65-535-7232
Siam Mitsui PTA Co., Ltd.	PTA	Baht 2,800	49	66-2-586-5282	66-2-586-5285
Yongsan Chemicals, Inc.	Maleic anhydride and acrylamide	Won 6,000	36.7	82-2-718-9111	82-2-718-7330
<b>Polymers</b>					
* Grand Polymer Co., Ltd.	Polypropylene	¥ 13,500	66.7	81-3-3535-0721	81-3-3535-0735
Du Pont-Mitsui Polychemicals Co., Ltd.	Ethylene vinyl acetate copolymer and other plastics	¥ 6,480	50	81-3-3580-5531	81-3-3592-1540
Japan Polystyrene Inc.	Polystyrene	¥ 2,000	50	81-3-5640-1551	81-3-5640-1573
* Ube Polypro Co., Ltd.	Polypropylene	¥ 475	54.2	81-3-3535-0721	81-3-3535-0735
* Evolve Japan Co., Ltd.	Metallocene catalyst-based LLDPE	¥ 400	75	81-3-3592-4349	81-3-3592-4239
Nishioki Utility Co.	Utility	¥ 100	50	81-3-5460-3240	81-3-5460-3397
* Sun Alloys Co., Ltd.	Compound polymers	¥ 50	100	81-438-64-0251	81-438-64-0255
P.T. Petnesia Resindo	Polyethylene terephthalate resin for bottles	US\$ 29	41.6	62-21-551-6251	62-21-552-0645
Mitsui Hi-Polymer (Asia) Ltd.	Sales of high-density polyethylene	US\$ 5	50	85-22-528-1777	85-22-520-0780
Grand Siam Composite Co., Ltd.	Polypropylene compound	Baht 60	32	66-2-586-2517	66-2-586-2522
* Color & Composite Technologies, Inc.	Polypropylene compound	US\$ 10	64.8	1-937-492-9187	1-937-498-4837
FM Technologies S.A.	Polypropylene compound	BFr. 40	50	32-2-288-9111	32-2-288-9550
<b>Functional &amp; Fine Chemicals</b>					
GE Plastics Japan Ltd.	Bisphenol A and engineering plastics	¥ 9,800	41	81-3-5695-4888	81-3-5695-4860
Nippon A&L Inc.	SBR ratex and ABS resin	¥ 6,000	33	81-6-6220-3633	81-6-6220-3699
GEM PC Ltd.	Polycarbonate	¥ 3,600	42	81-3-5644-0551	81-3-5695-4860
Yamamoto Chemicals, Inc.	Color former, catalyst	¥ 2,134	35.1	81-729-49-4561	81-729-49-5479
Honshu Chemical Industry Co., Ltd.	Raw materials for synthetic resins, synthetic fibers, dyes, pharmaceuticals, agricultural chemicals, rubber and other chemicals	¥ 1,500	26.9	81-3-3272-1481	81-3-3272-1480
GEM Polymers, Ltd.	Polyphenylene ether, 2,6-xyleneol and orthocresol	¥ 840	49	81-3-3667-9695	81-3-3667-5858
Mitsui Cytec, Ltd.	Organic flocculant and methylated amino resins for paint	¥ 620	50	81-3-3231-6071	81-3-3231-6080
Nippon Alkyl Phenol Co., Ltd.	2,6 DTBP, 2,4 DTBP and other alkylphenols	¥ 450	50	81-3-3591-4125	81-3-3591-4126
* Mitecs Corporation	Dimethyl carbonate and derivatives	¥ 400	100	81-3-3580-3686	81-3-3580-3689
Taisho MTC Ltd.	Taurine	¥ 400	40	81-3-3592-4461	81-3-3592-4251
Toyo Fiber Glass, Co.	Glass fiber	¥ 300	40	81-125-52-2849	81-125-54-3935

\* Consolidated subsidiary

Companies	Major Products or Lines of Business	Paid-in Capital (In millions)	Equity Interest (%)	Tel	Fax
* Saxin Corporation	Engineering plastic moldings	¥ 128	69.6	81-775-46-3121	81-775-46-3636
* Sun Technochemicals Co., Ltd.	Sales of industrial organic chemical products	¥ 100	100	81-3-3241-1380	81-3-3241-1759
* Chiba Polyol Corporation	Polyol	¥ 100	90	81-3-3592-4391	81-3-3592-4245
* Sun Medical Co., Ltd.	Dental materials and medical devices	¥ 100	70	81-77-582-9981	81-77-582-9984
Jl Chemicals, Inc.	Iodine derivatives	¥ 100	70	81-3-3592-4461	81-3-3592-4253
* Mitsui Kagaku Fine Chemicals Inc.	Sales of fine chemical products	¥ 100	76.9	81-3-5695-0295	81-3-5695-0296
* P.T. Arjuna Utama Kimia	Adhesives and formalin	US\$ 3	58.9	62-31-8411413	62-31-8432672
P.T. Cosmo Polyurethane Indonesia	Urethane premixture	US\$ 1	46	62-21-572-3101	62-21-572-3108
* MTK Chemicals PTE. Ltd.	Coating resins	S\$ 4	65	65-265-7955	65-265-6898
Singapore Adhesives & Chemicals Pte., Ltd.	Adhesives	S\$ 2	25	65-733-3600	65-733-3188
Malayan Adhesives & Chemicals Sdn. Bhd.	Adhesives	M\$ 14	32	60-3-559-1801	60-3-550-2168
Thai Mitsui Specialty Chemicals Co., Ltd.	Specialty chemicals	Baht 318	44	66-2-634-1970	66-2-237-9792
Tianjin Cosmo Polyurethane Co., Ltd.	Urethane premixture	Yuan 30	45	86-22-2437-5389	86-22-2437-5387
Cosmo Polyurethane (HK) Co., Ltd.	Sales of TDI	HK\$ 2	33.3	85-22-736-3083	85-22-375-1265
Kumho Mitsui Chemicals, Inc.	MDI	Won 50,000	50	82-2-399-7400	82-2-720-6295
* Esco Company Limited Partnership	Color former, catalyst	US\$ 21	51	1-231-726-3106	1-231-727-6452
* Anderson Development Company	Specialty chemicals	US\$ 18	100	1-517-263-2121	1-517-263-1000
<b>Engineered Materials</b>					
* Tohcello Co., Ltd.	Plastic film	¥ 2,370	62.9	81-3-3272-3461	81-3-3272-4805
* Mitsui Kagaku Platech Co., Ltd.	Molded plastic products	¥ 1,250	100	81-3-3259-1405	81-3-3259-1468
* Mitsui Petrochemical Industrial Products, Ltd.	Civil engineering and construction materials	¥ 300	75	81-3-3837-0281	81-3-3837-1945
* Printec Corp.	Printed wiring boards, electronic appliances	¥ 250	100	81-46-224-5731	81-46-224-5708
* Sunrex Industry Co., Ltd.	Spunbonded nonwoven fabrics and plastic film	¥ 240	100	81-593-36-2200	81-593-36-2208
* Hi-Sheet Industries, Ltd.	Plastic products	¥ 100	100	81-3-3274-0300	81-3-3274-0311
Mitsui Toatsu Construction Materials Incorporated	Sales of building chemicals	¥ 100	100	81-3-3837-5820	81-3-3837-5851
* Sanshin Kako Co., Ltd.	Plastic dishes, bowls, etc.	¥ 100	61.7	81-3-3861-4331	81-3-3861-4337
Image Polymers Company	Toner resin	US\$ 15	50	1-978-658-0691	1-978-658-7882
* Mitsui Advanced Media, Inc.	CD-Rs	US\$ 10	100	1-719-262-2460	1-719-592-0057
Polyimide Laminate Systems LLC	Sales of substrate material for HDD suspension	US\$ 1	50	1-480-917-5223	1-480-917-5256
Image Polymers Europe UK Partnership	Toner resin	Pound 8	50	44-1324-494887	44-1324-494615
* Mitsui Advanced Media S.A.	CD-Rs	Fr. 76	100	33-3-89-83-4646	33-3-89-83-4074
Mitsui Petrochemicals (Netherlands) B.V.	Binder splitted yarn	NLG 1	100	31-5154-23881	31-5154-19698
<b>Others</b>					
* MTB Co., Ltd.	Freight transport, warehousing	¥ 600	100	81-3-3845-6521	81-3-3845-6716
* Sansei Kaihatu Co., Ltd.	General damage insurance agency	¥ 490	100	81-944-52-8411	81-944-52-7253
* Mitsui Chemicals Engineering Co., Ltd.	Engineering, plant construction and machine maintenance	¥ 400	100	81-3-3538-1701	81-3-3538-1712
* Mitsui Chemical Analysis & Consulting Service, Inc.	Physical property measurements, analysis and safety tests on chemicals	¥ 130	100	81-438-64-2400	81-438-64-2402
* Mitsui Chemicals Asia, Ltd.	Marketing of Mitsui Chemicals' products	S\$ 24	100	65-534-2611	65-535-5161
Mitsui Chemicals (Shanghai) Co., Ltd.	Marketing of Mitsui Chemicals' products	US\$ 0.3	100	86-21-6841-3716	86-21-6841-4100
* Mitsui Chemicals America, Inc.	Manufacture of ADMER® and marketing of Mitsui Chemicals' products	US\$ 51	100	1-914-253-0777	1-914-253-0790
* Mitsui Chemicals Europe GmbH.	Manufacture of ADMER® and marketing of Mitsui Chemicals' products	DM 2	100	49-211-173320	49-211-323486

(As of March 31, 2000)

### Date Incorporated

July 25, 1947  
(Inaugurated October 1, 1997)

### Paid-in Capital

¥103,226 million

### Number of Employees

11,706

### Shares of Common Stock Issued and Outstanding

789,156,353

### Number of Stockholders

115,884

### Stock Listings

Tokyo, Osaka

### Transfer Agent

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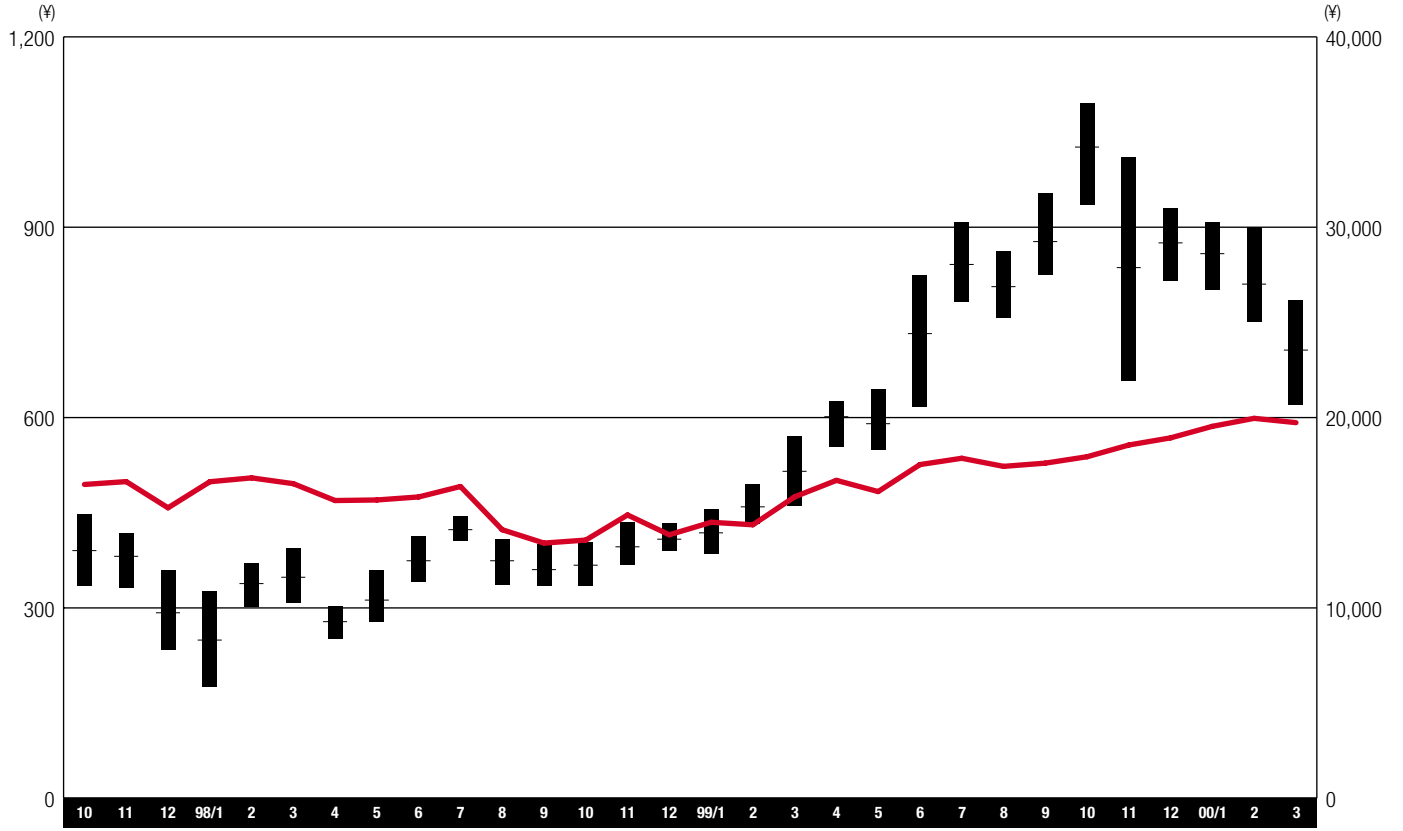
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Facsimile: 65-535-5161

(As of March 31, 2000)

### Common Stock Price Range

- Stock Price Range
- Nikkei 225 (right scale)



# Mitsui Chemicals, Inc.

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



**Responsible Care**

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