Mitsubishi Chemical Holdings Corporation

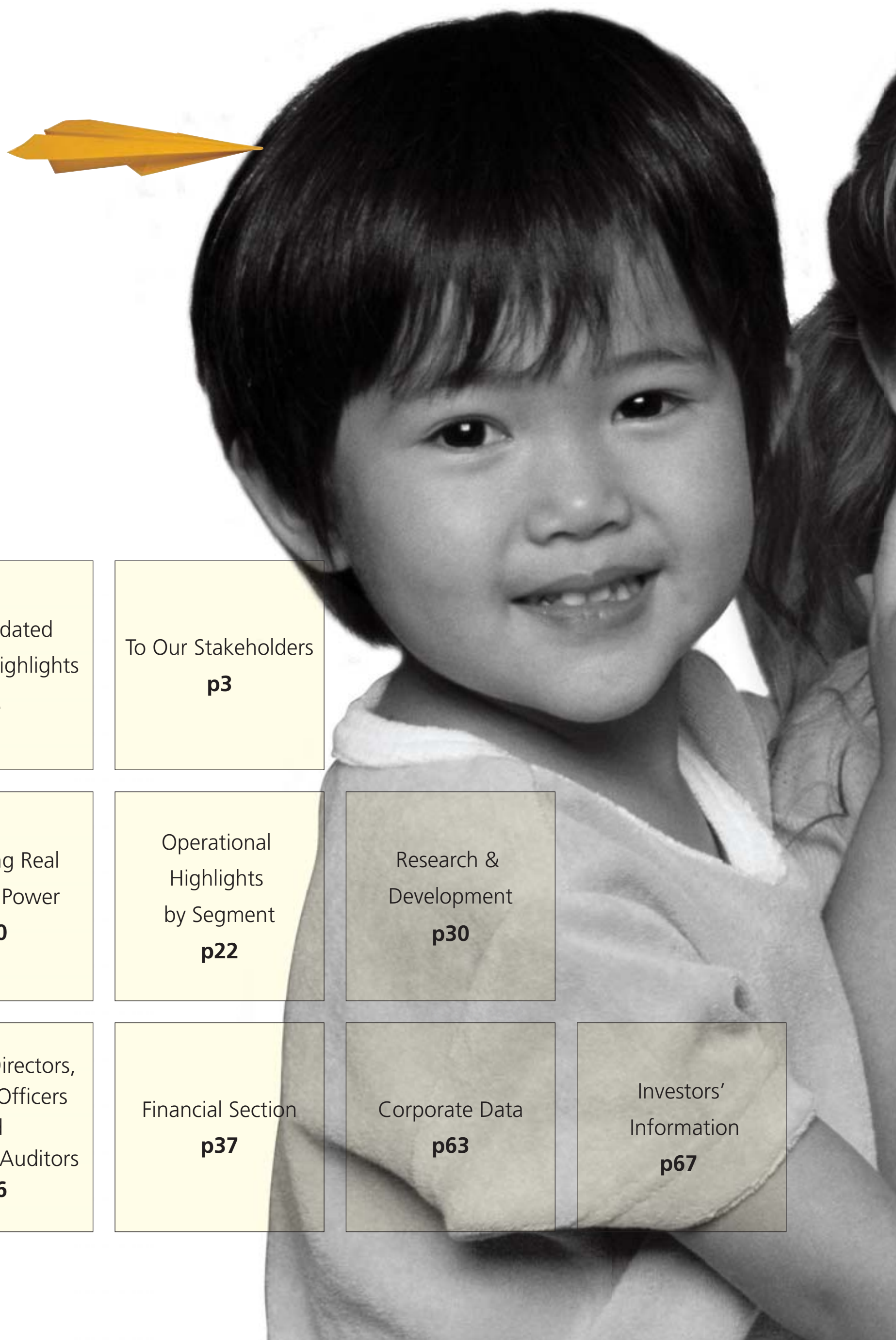
Good Chemistry for Tomorrow

Harnessing Real Earnings Power

Annual Report 2006

Our business portfolio consists of three pillars: petrochemicals, performance and functional products, and healthcare. In an effort to minimize cyclic fluctuations inherent in the petrochemical industry and any subsequent impact on the Group's activities and to secure stable earnings, we considered that strengthening of the pharmaceutical business is an important management issue. We have made a decision to further develop and enhance the Group portfolio management by establishing a holding company, Mitsubishi Chemical Holdings Corporation, to increase the corporate value and accelerate positioning of the pharmaceutical business as a global research-driven company, as well as expedite other business restructuring and alliances.

Good Chemistry for



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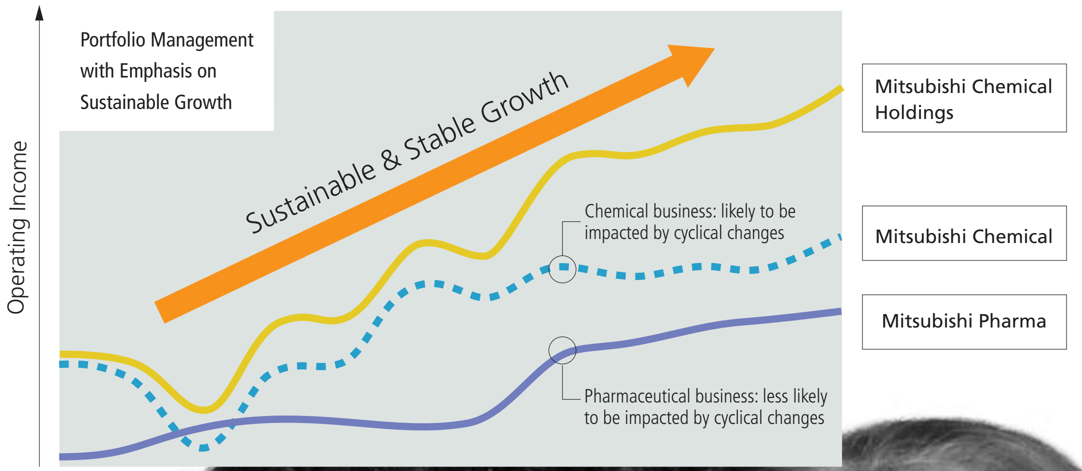

Portfolio Management with Emphasis on Sustainable Growth
Operating Income
Sustainable & Stable Growth
Chemical business: likely to be impacted by cyclical changes
Pharmaceutical business: less likely to be impacted by cyclical changes
Mitsubishi Chemical Holdings
Mitsubishi Chemical
Mitsubishi Pharma

Tomorrow

Consolidated Financial Highlights

Mitsubishi Chemical Holdings Corporation and Its Consolidated Subsidiaries

Years ended March 31

	Mitsubishi Chemical Holdings Corporation	Mitsubishi Chemical Corporation	Mitsubishi Chemical Holdings Corporation
	Millions of yen	Millions of yen	Millions of U.S. dollars
	FY2005	FY2004	FY2005
Results of operations:			
Net sales	¥2,408,945	¥2,189,462	$20,589.3
Operating income	133,619	148,624	1,142.0
Income before income taxes	115,070	106,604	983.5
Net income	85,569	55,372	731.4
Financial position:			
Total assets	2,126,612	1,970,528	18,176.2
Shareholders' equity	656,060	445,977	5,607.4
	Yen	Yen	U.S. dollars
Per share:			
Net income	¥ 69.51	¥ 25.40	$ 0.59
Cash dividends	14.00	6.00	0.12

Notes: 1. U.S. dollar amounts are converted, for convenience only, at the rate of ¥117=US$1.

2. Financial results of Mitsubishi Chemical Holdings Corporation for the fiscal year ended March 31, 2006 (FY2005) comprise Mitsubishi Chemical Corporation's consolidated financial results for the first half and Mitsubishi Chemical Holdings Corporation's consolidated financial results for the second half of FY2005.

3. Net income per share of Mitsubishi Chemical Holdings Corporation for FY2005 is calculated based on the weighted-average number of common shares of Mitsubishi Chemical Corporation for the first half and weighted-average number of common shares of Mitsubishi Chemical Holdings Corporation for the second half of the year. The number of common shares of Mitsubishi Chemical Corporation is adjusted to the basis of common shares of Mitsubishi Chemical Holdings Corporation by utilizing a stock exchange ratio.

4. Cash dividends of Mitsubishi Chemical Holdings Corporation for FY2005 (¥14.00) consist of ¥6.00 of Mitsubishi Chemical Corporation for the first half, which is adjusted to the basis of Mitsubishi Chemical Holdings Corporation utilizing a stock exchange ratio, and ¥8.00 of Mitsubishi Chemical Holdings Corporation for the second half of FY2005.

Targets of "KAKUSHIN Plan: Phase 2"

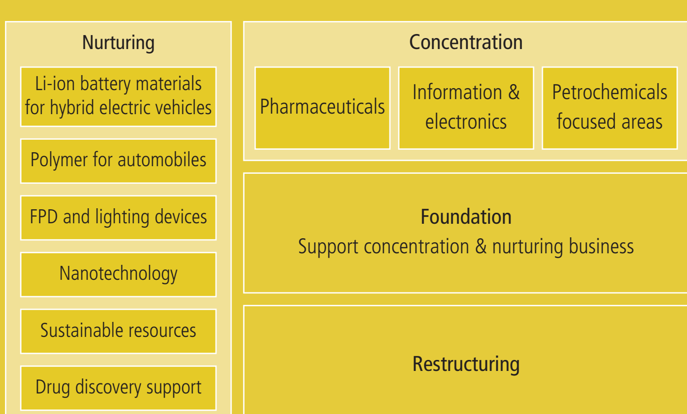
	FY2007
Operating Income	> ¥140 billion
ROA (income before income taxes)	> 5.5%
D/E Ratio	< 1.5

Forward-looking Statements

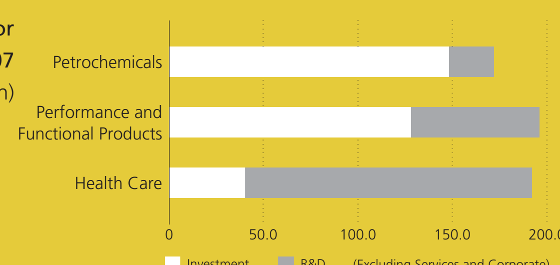
The forward-looking statements are based largely on information available as of the date hereof, and are subject to risks and uncertainties which may be beyond company control. Actual results could differ largely, due to numerous factors, including but not limited to the following: Group companies engage in businesses across many different fields, such as petrochemicals, carbon and inorganic products, information and electronics, pharmaceuticals, polymers and processed products, and these businesses are subject to influences such as world demand, exchange rates, price and procurement volume of crude oil and naphtha, trends and market speed in technology innovation, National Health Insurance price revision, product liabilities, lawsuits, laws and regulations.

Since April 2003, "KAKUSHIN" has been the spirit underpinning all our activities. It means the implementation of changes to the status quo and represents our determination to make a quantum leap through continuous innovation and reorganization. Under the mid-term management plan, "KAKUSHIN Plan: Phase 2" (Phase 2), we are accelerating selection and focus initiatives in petrochemicals, performance and functional products, and healthcare, which are the three business pillars of the Group. An emphasis is placed on minimizing the effects of inherent cyclical factors associated with the petrochemical business as we endeavor to reduce fluctuations in earnings results and maintain stable earnings by strengthening pharmaceuticals and performance and functional products, while investing in new R&D and business developments for sustainable growth. Looking at domestic conditions, the Japanese economy is experiencing a steady recovery buoyed by robust consumption. Closely aligned to the consumer market, our performance and functional products such as LCD-related materials are the most likely to benefit from this positive environment.

Business Portfolio



Expenditures for FY2005*–2007
(Billions of yen)



FY2005*: April 1, 2005–March 31, 2006

Continuing to emphasize change as the key to our strategies for growth

This fiscal year was the first year for Phase 2, the second phase of our mid-term management plan, that aims to build on the results of "KAKUSHIN Plan: Phase 1" (Phase 1).

The top priority of Phase 1 was to decrease interest-bearing debt, and to rebuild the business portfolio of the Group. This initial phase of our management plan was a resounding success. Not only did we meet the plan's goals for improving and enhancing our management infrastructure and achieving its numerical targets, we also strengthened our marketing efforts through expanding sales and development of new markets while recovering product prices against surging raw material prices. Our efforts resulted in record-breaking annual profits for FY2004.

The biggest challenge in Phase 2 is to fully and unreservedly implement strategies to prepare for sustainable medium- and long-term growth and progress. We have set numerical targets for Phase 2 to be achieved by the end of FY2007. Moreover, we have projected operating income of approximately ¥180.0 billion for FY2010. To achieve these targets, we will focus on growth by continuing business reorganization of our portfolio and strongly promoting strategies. To make concrete progress in business selection and focus, 61 business units have been classified into "concentration," "nurturing," "foundation," and "restructuring" categories.

Shifting to a holding company system to enhance our management strategies

Upon further review of Group management, it was concluded that a pure holding company system would have a greater impact on increasing corporate value and providing advantages for flexibly responding to changes in respective business environments through various forms of alliances in each business area. Therefore, Mitsubishi Chemical Corporation and Mitsubishi Pharma Corporation decided to establish a holding company, Mitsubishi Chemical Holdings Corporation (MCHC), through a stock-for-stock exchange effective as of October 1, 2005. This management system will facilitate the positioning of Mitsubishi Pharma as a global research-driven pharmaceutical company by fully applying the MCHC Group's technological strengths, while handling the business alliance more effectively.

Phase 2: Leveraging the sound fruits of Phase 1

In our business portfolio, the "concentration" category consists of a total of 12 business units, including four businesses in petrochemicals, seven businesses in information and electronics, such as optical recording media, and the pharmaceuticals business. We intend to spend ¥360.0 billion of capital investment and investment and loan over a three-year period, which is 20% greater than the total amount estimated for depreciation during the same period. As for R&D expenditure, ¥300.0 billion is planned during the three years of Phase 2. In the first year of Phase 2, we focused investment on "concentration" categories. At present, we have decided specific allocations for ¥180.0 billion of the ¥360.0 billion investment planned. We are shifting our gears to focus more on growth in Phase 2. However, we are maintaining a tight rein on restructuring businesses. The "restructuring" businesses category currently consists of 15 business units, equal to 25% of all business units, with streamlining already under way in half of these business units.

Portfolio Restructuring in Progress

		Major Items: Petrochemicals	Major Items: Performance and Functional Products
Expansion of Capacity or Increasing of Efficiency	Japan Market	Polypropylene (Kashima) Polycarbonate (Kurosaki) Ethylene (Mizushima)	Customer Laboratory (Yokkaichi) Blu-ray Disc (Mizushima) Display components for LCDs Chemical toner Alumina fibers for automobiles
	Global Market	Purified terephthalic acid (India) Polycarbonate, BPA (China) [at the stage of feasibility study]	HD DVD (Singapore) OPC (USA, Singapore) Performance polymer for air bag covers (USA)
Acquisition		PP components (USA and Singapore) >Mytex Polymers General Partnership >Mytex Polymers Asia Pacific Private Limited →Wholly owned subsidiaries of MCC	>Japan Epoxy Resins Co., Ltd. →Wholly owned subsidiary of MCC
Transfer		>Dia-Nitrix Co., Ltd. →Minor affiliate of MCC	
Withdrawal		Linear alkylbenzene Styrene monomer >Yuka Seraya Private Limited Melamine	

MCC: Mitsubishi Chemical Corporation

Petrochemicals

Progress has been rapid in petrochemicals operations, which is capital intensive in nature. For example, we decided upon new investment in "concentration" businesses such as capacity expansion of purified terephthalic acid in China and India and polypropylene in Japan, operations that are able to leverage our unique strengths in the areas of catalyst technologies, composite processes and manufacturing systems. At the same time, we are working aggressively to expand overseas business, particularly in Asian markets, while reinforcing domestic business infrastructure in an effort to raise competitiveness in petrochemical complexes.

Performance and Functional Products

In order to maintain a competitive position in our current major businesses, investments for Blu-ray Discs in Mizushima and HD DVDs in Singapore, and expansion of production capacity for OPC and chemical toner have also been executed. LCD-related key material businesses such as polyester films, color resists, phosphors for CCFL, and plastic-metal composites have contributed to favorable profits, and further expansion of production capacities is being executed. As an example of business for automobiles, investment in the alumina fiber *MAFTEC*, which is widely used and respected as an autowrap in high-temperature environments and helps environmental load, have been determined. While each of these investment amounts is not large, they have a significant cumulative impact on the Group's future earnings.

Health Care

Our basic focus is developing Mitsubishi Pharma as a global research-driven pharmaceutical company. We intend to enhance R&D productivity by maximizing proprietary technologies in the Group, such as metabolomics and structure-based drug design. By combining pharmaceuticals and diagnostics fully supported by the Group competencies, we will answer growing medical needs in the society. Naturally, the pharmaceutical business is R&D intensive, and we spend nearly half of our total R&D expenditure in this area.

Challenging innovations in "Chemistry" with top-notch expertise in chemicals and analysis

Collaborative innovation with our customers

We believe our growth will come from strengthened technology and business competitiveness, which will be achieved through our success in strengthening the mother laboratories and mother plants of the Group. These mother laboratories and mother plants function as places where our technology platforms and client needs meet and technologies and new products are further developed through the process of "inclusive production design." While our main research center is located in Yokohama, we are building what we call a "customer laboratory" in Yokkaichi, Japan, an area which is geographically unique, as the home to the automotive and electronics industries.

Induced innovation will be used by our customers in their efforts to become world leaders in their respective business domains.

Capital Investment and Investment and Loan in Progress

(Launch/Decision in FY2005)

		Three-year Plan (Billions of yen)	Progress (%)	Major Items
Petrochemicals		150	73	Increase of production capacity >Purified terephthalic acid (India) >Polycarbonate (Kurosaki) >Polypropylene (Kashima) >Ethylene (Mizushima) Acquisition >PP compounds (Mytex Polymers General Partnership Mytex Polymers Asia Pacific Private Limited)
Performance and Functional Products	Performance Products Functional Products	125	34	**Information and Electronics** New production >Next generation optical discs (Singapore, Mizushima) Increase of production capacity >OPC (USA, Singapore), Chemical toner >Materials and components for LCDs Polyester films, color resists, phosphors Acquisition >Japan Epoxy Resins Co., Ltd.→Wholly owned subsidiary of MCC **Automobiles** New production >Alumina fibers (*MAFTEC*) (Sakaide)
Health Care		40	20	Renewal >Apparatuses for pharmaceuticals, diagnostics and testing, etc.
Services/Corporate		45	30	New construction >Customer Laboratory (Yokkaichi): Support concentrated businesses
Total		360	50	

Targeted medicine

In an effort to respond to increasing requirements for improved pharmaceuticals for a better safety profile and higher efficacy, and as the first step toward "Targeted Medicine," we are organizing the capabilities of three group companies engaged in diagnostic testing and drug development support services. This integration of pharmaceuticals and diagnostics is a move to create new values in medicine for total disease management including personalized medicine and preventive medicine for longer and healthier lives.

Overview of business results for the fiscal year ended March 31, 2006 (FY2005)

Supported by strong demand both in Japan and international markets, the business environment during the period under review remained sound, in spite of the unprecedented scope and speed at which naphtha and other raw material costs increased.

Net sales in the fiscal year under review totaled ¥2,408.9 billion, a 10% year-on-year increase, as a result of strong petrochemical product sales in the wake of rising naphtha prices, as well as robust demand from steel-related industries. Operating income fell 10.1% to ¥133.6 billion as a result of regular maintenance at the Mizushima Plant and weak prices for petrochemical products in international markets. Net income, however, jumped 54.5% to ¥85.6 billion due to a decrease in extraordinary losses and other factors.

Interest-bearing debt as of March 31, 2006 was ¥639.8 billion, down from ¥711.1 billion a year earlier. Shareholders' equity, on the other hand, rose ¥210.1 billion to ¥656.1 billion due to increases in net income and unrealized gains in investment securities, as well as an increase in accordance with the transfer of stocks. As a result, the shareholders' equity ratio totaled 30.9%, and the debt-equity ratio improved from 1.59 to 0.98. This marks the early attainment of Phase 2 target for the debt-equity ratio, one year ahead of schedule.

MCHC also attained its ROA (based on income before income taxes) target one year ahead of schedule, improving from 5.4% a year earlier to 5.6% as of March 31, 2006.

Outlook for the fiscal year ending March 31, 2007 (FY2006)

We are confident that the seeds we sow during Phase 2 will be the source of our medium- to long-term growth. MCHC forecasts that net sales for FY2006 will increase to ¥2,600.0 billion, while operating income will hover in the region of the fiscal year under review to finish at ¥136.0 billion, based upon a scenario of further increases in naphtha prices. Net income is expected to increase to ¥100.0 billion, owing to a significant decrease in extraordinary losses and lower taxation on allowance for acquisition of treasury stock.

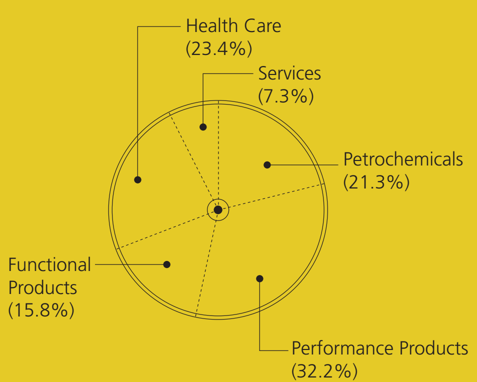
For future growth and good customer relationships, it is essential that we leverage the collective strengths of the Group. MCHC believes that contributing to the growth of its customers through business will enhance corporate value as a whole.

Ryuichi Tomizawa
Representative Director, President

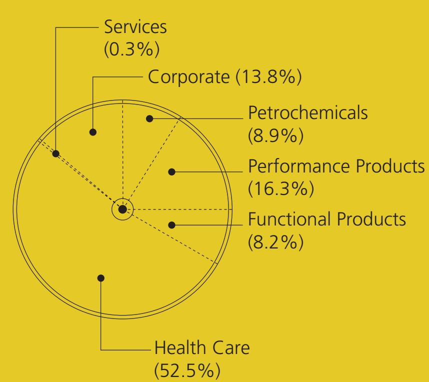
Petrochemicals

Key Statistics (FY2005)

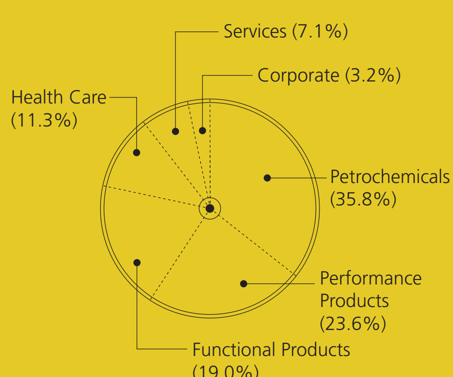
Operating Income by Business Segment
(Excluding Corporate)



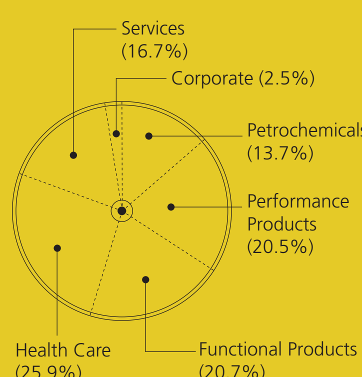
R&D Expenditure by Business Segment



Capital Expenditure by Business Segment



Number of Employees by Business Segment



The Petrochemicals Segment provides a variety of polymers, monomers, and basic chemicals. Utilizing our unique strengths in marketing, product development and production technology, our derivative products respond to advanced and specific client needs. Making every effort to boost our competitiveness and profitability, we are aggressively expanding our business presence, especially in robust Asian markets.

Major Products

Purified terephthalic acid (PTA), polypropylene, polycarbonate/phenol chain, 1,4-butandiol (1,4-BG), polytetramethylene ether glycol (PTMG), other derivatives

Competence

> Major supplier in the global market: PTA, polycarbonate, 1,4-BG/PTMG

> Broad line-up of polymers

Good Chemistry

Performance Products

The Performance Products Segment delivers a variety of high-value-added products in the fields of information and electronics; environment and energy; carbon-related businesses; and medical care and food ingredients. Known for the Verbatim brand in the recording media, we are pursuing a leadership position in Blu-ray Disc and HD DVD markets.

Major Products

Optical recording media, printing supplies, display materials, Li-ion battery materials, carbon products, environment-related materials/services, API, food ingredients

Competence

> No. 1 for four consecutive years in recordable DVDs

> Competitive business platforms in "Light and Colors"

Functional Products

The Functional Products Segment boasts considerable accumulated knowledge in polymer processing, and composite technology, as well as carbon chemistry and handles a broad range of processed resin and film products. In recent years, polyester films, plastic-metal composite plates, PVC plates, and carbon fiber products have been contributing to business performance especially in LCD businesses.

Major Products

Food packaging materials, polyester films, carbon fiber, alumina fiber, civil engineering materials, construction materials, agricultural materials, plastic pipes

Competence

> High-value-added food packaging materials

> Major supplier of polyester films for LCDs

> World largest supplier of pitch-type carbon fiber

> World largest supplier of alumina fiber

Health Care

Mitsubishi Pharma Corporation forms the core of the Health Care Segment, where R&D capabilities are a significant strength. Leveraging our competitive advantage in the clinical testing, diagnostics, and safety assessment areas, we are cultivating a new targeted medicine field by integrating pharmaceutical and diagnostic functions.

Major Products

RADICUT holds the No. 1 position in Japan for acute cerebral infarction drugs

Competence

> Pharmaceuticals in neuropsychiatry, circulatory system and metabolism

> Support for drug discovery

for Tomorrow

We are Strengthening Our Fundamental Earning Power...

PTA

Expansion of Production Capacity

800kt

PTA

Expansion of Production Capacity

600kt

Where ?

In the Petrochemicals Segment, we have drawn up dual growth scenarios based upon aggressive expansion of "concentration" businesses in robust Asian markets and the strengthening of our domestic operating base. To achieve our targets, we are striving to refortify plants at Kashima and Mizushima to make them into leading Asian petrochemical complexes by increasing collaboration with business partners to reduce costs. In particular, we are implementing thorough streamlining efforts, and diversifying raw material use to reduce reliance on naphtha and enhance our in-house production capacity. In addition, we are vigorously pressing ahead with global expansion, having positioned the purified terephthalic acid (PTA), polypropylene/performance polymers, polycarbonate/phenol chain and the 1,4-BG/PTMG as "concentration" businesses. These are businesses in which we will be able to utilize our unique strengths in marketing and R&D capabilities, catalyst technologies, polymerization processes and manufacturing systems. In the PTA business, for example, based on our principle of expanding business in rapidly growing markets, we not only kicked off a plant construction in China, in May 2005 with an annual capacity of 600 kilotons (kt), which is expected to commence its commercial operation by the end of 2006, but we also decided to increase capacities in India to add 800kt in 2008.

Strengthen Our Business in Growing Asian Markets

According to the Ministry of Economy, Trade and Industry, over 70% of world PTA demand in 2010 will be concentrated in Asia, and PTA demand will outstrip supply by 4 million tons mainly because of double-digit growth in China.

How can we meet this booming demand? One answer to this question is a plant in Ningbo, China with capacity of 600 kt per annum. This plant will be our fifth production site, adding to those in Japan, Korea, Indonesia and India. In addition, we also decided to increase PTA production capacity by 800 kt to meet expected demand growth in India.

New technologies developed at existing plants will be introduced at new plants, enabling continued process evolution and scaling-up of plant capacities. The new plant in India will achieve the world's largest production capacity of 800kt per annum. With our own technology, we will meet rapidly growing demand by adding innovative and large-scale PTA facilities.

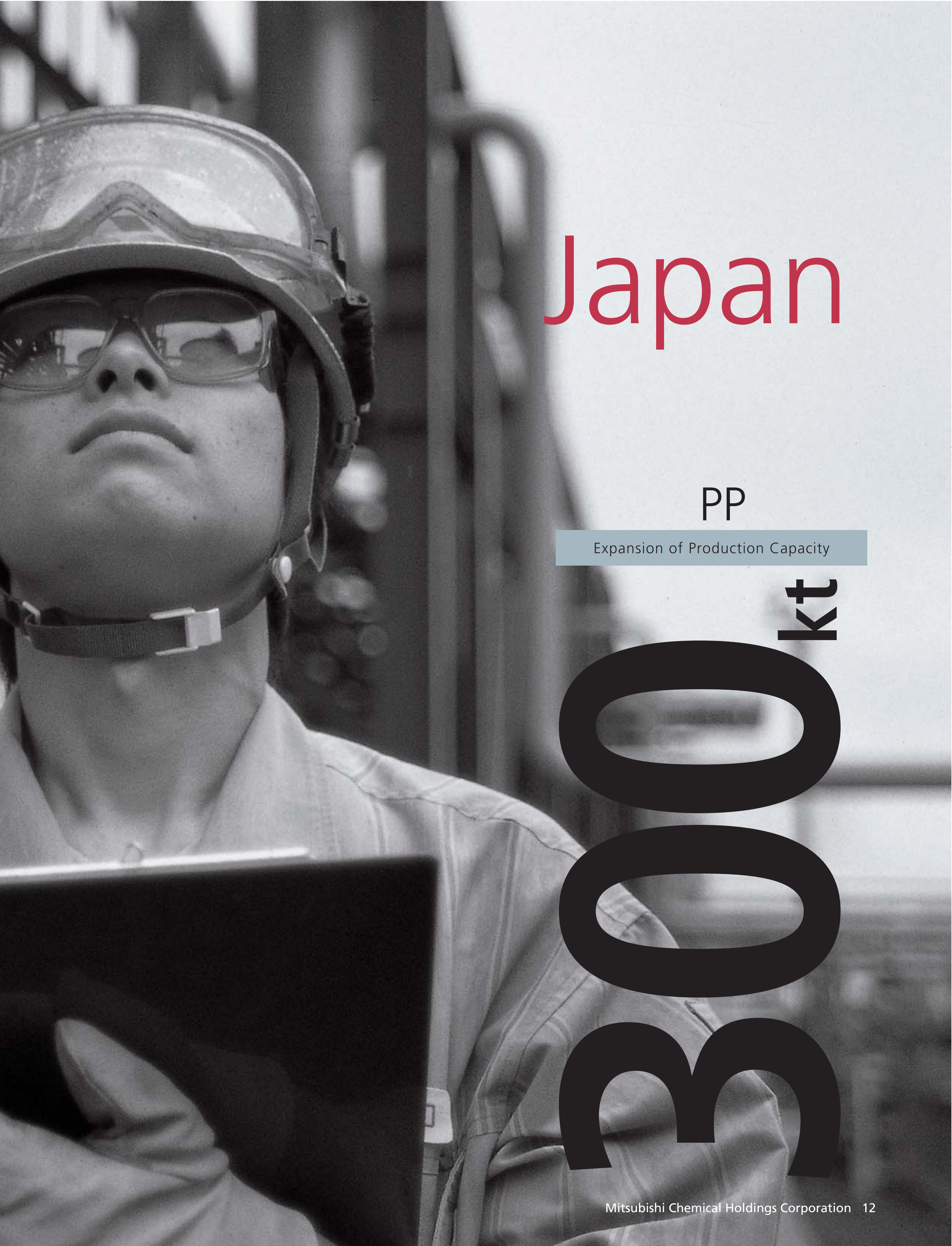
State-of-the-Art Facilities for High Added Value and Greater Competitiveness

Based upon strong overall demand, polypropylene (PP) demand is rising steadily in Japan and internationally, with worldwide annual growth of 6-7% and domestic annual growth of 2-3% expected. With 12 lines at five PP production plants, we boast a total annual production capacity of 1,080kt. To further strengthen our competitive position in the PP business, we have decided to introduce state-of-the-art facilities at Kashima with 300kt capacity, and to close down existing facilities as a result. The new facility will feature our proprietary cutting-edge process technology, which will contribute to increased production of impact copolymers, demand for which is expected to be especially strong in the automobile materials industry. Through the construction of this facility, we aim to accelerate the growth in value of our PP business.

Demand for engineering plastic polycarbonate is growing rapidly due to its superior transparency and outstanding resistance to impact, heat and weather. In response to this demand, we have decided to construct a new 60kt per year plant at Kurosaki that leverages our world-class cost competitive and environmentally friendly new technology. Accordingly, we will rationalize small-scale, older facilities. In China, the world's largest demand region, we are conducting a joint feasibility study regarding the development of polycarbonate and bisphenol-A, a raw material of polycarbonate, together with China Petroleum & Chemical Corporation (Sinopec Corp.), China's largest state-owned corporation.

These are some of the steps that we are taking toward our goal of expanding automotive-related polymer businesses. In addition, we also established a new polymer division in April 2006 that will oversee and manage various polymer businesses within the Group. We expect this to strengthen overall polymer operations due to synergistic effects between polymer businesses. We will conduct joint development activities in collaboration with customers, aiming to increase business by providing polymer solutions.

In this context, we are now in the midst of constructing a “Customer Laboratory” with one of our primary goals being to increase development and proposal strengths in the automotive market, which currently generates approximately ¥100 billion in net sales. We will concentrate polymer development for automobiles at this facility, and construct a structure to carry out development activities integrated from upstream processes through to the customer.



Japan

PP

Expansion of Production Capacity

300kt

Harnessing Real Earnings Power

The optical recording media of Mitsubishi Kagaku Media Co., Ltd. (MKM)/Verbatim Group accounts for the largest portion of the Performance Products Segment's sales, and is positioned as a "concentration" business within "KAKUSHIN Plan: Phase 2," mid-term management plan. Operating under the Mitsubishi brand in Japan and the Verbatim brand abroad, the business has sat atop the world's recordable DVD market for four consecutive years*. Underpinning our competitiveness is our "Something a Bit Advanced" policy, which emphasizes R&D and Marketing and Sales, as well as Services and Solutions in the midst of the rapidly advancing optical recording media market. "A Bit Advanced" is a challenge, since it means seeking technological differentiation amid strict global standards of recording media. In R&D, MKM does not simply pursue the latest technology trends, but rather it is working to outpace competitors to establish mass-production technologies that become industry standards. In recordable DVDs, for example, MKM's Azo dyes became the global standard. In Marketing and Sales, we fully leverage the strength of the Verbatim brand in the recording media market. We utilize our sales channels and the marketing prowess that has made Verbatim the top brand. In Services and Solutions, we aim to build upon our record of success in next-generation media to diversify our range of unique and innovative solutions.

*Based on data from Santa Clara Consulting Group

Something a Bit Advanced: Bolstering our Presence in Growth Markets


Verbatim
Blu-ray
BD-R
Recordable
Verbatim
Blu-ray
BD-RE
Rewritable


MITSUBISHI
HD DVD-R
HD DVD-R DL
15GB
30GB

What?

A 15-Year Record of World Breakthroughs

The full-fledged entry of the Group into the recording media business was in 1982. Our entry into the business was through the establishment of a joint venture to supply floppy disks together with Verbatim Corporation, acquired in 1990. With this acquisition, MKM/Verbatim Group cemented its position as the world's first entrant amid fast-changing optical recording media markets.

- **1991 World's first launch of 3.5-inch magneto-optical (MO) disc**
- **1994 Commencement of CD-R production through own organic Azo dye technology for a recording layer**
- **1997 World's first launch of CD-RW**
- **2001 World's first launch of DVD+RW**
- **2002 World's first launch of DVD+R**
- **2004 World's first launch of DVD+R DL**
- **2005 World's first launch of DVD-R DL**
- **2006 Achieved the top global market share for recordable CDs for the second consecutive year and for the fourth consecutive year for recordable DVDs**
  World's first launch of 3-inch (8cm) DVD+R DL
  Launch of BD R/RE
  World's first launch of HD DVD-R SL/DL

"Something a Bit Advanced" policy enabled the MKM/Verbatim Group to become a leader in the world's optical recording media market.

First in Market in Next-Generation DVDs

As evidenced by the series of shifts to new standards, advances in PC functions and capabilities have supplied the igniting force behind the tremendous increase in recording-media memory. The drive to enhance the quality of moving images will provide the next boost to this trend. Terrestrial digital broadcasting, which began in some areas of the United States from November 1998 and those of Japan from December 2003, is also expected to open up new possibilities for optical recording media.

The Blu-ray Disc and the HD DVD (High Definition DVD) are competing to become the standard in next-generation DVDs. MKM has pioneered the commercialization of an optical recording-media product that applies to both Blu-ray Discs and HD DVDs. In addition to unique new materials for organic dyed write-once discs, inorganic write-once discs and phase-change rewritable discs, MKM has succeeded in developing competitive mass-production technologies in the mastering process, injection-molding and dual-layer media production technologies for both standards. These developments represent another success in being first to market a high-quality new product for these new standards.

Singapore-based Mitsubishi Chemical Infonics Pte Ltd (MCI) is the company heading up development efforts for MKM. MCI has inherited a number of MKM's original technologies. MCI continues to take up the challenge of developing world-leading technologies in the area of dual-layer DVDs. The addition of R&D bases at state-of-the-art manufacturing facilities is another of the factors underlying the strength of the MKM/Verbatim Group.


1
No. 1 Market Share
DVD World Demand
3.5
(billion units)

Harnessing Real Earnings Power

Through Sharpened Focus

The Health Care Segment generates 23.4% of the entire Group's operating income, playing a vital role in the stable growth of the Group. Looking at the overall healthcare industry through to 2010, we can foresee an acceleration of measures to constrain healthcare expenses, with the industry adopting a new paradigm, focusing on the total healthcare management of each patient. The resultant diversification of healthcare needs will raise the level of importance of pharmaceuticals and diagnostics integration, opening a new field of personalized medicine which is the next step after the field of Targeted Medicine.

From this perspective, the Health Care Segment aims to leverage the business strengths of both pharmaceuticals and diagnostic areas, which have conventionally been separated by other pharmaceutical companies, and to step into the field of Targeted Medicine. In integrating the pharmaceuticals and diagnostics functions, each patient will be able to receive more appropriate treatment.

We are Establishing Engine in Specific

How?

Our Future Growth Areas...

Health Care

Operating Income Margin

12.1

(percent)

Harnessing Group Strengths to Develop Innovative New Drugs

The strength of the Health Care Segment lies in its R&D capabilities. One clear example of this is Mitsubishi Pharma's neuroprotective agent *RADICUT*, which, was launched on the market in June 2001, and then the first pharmaceutical product developed in Japan to have a premium added to its price reflecting its innovative mechanism and remarkable efficacy.

Mitsubishi Pharma forms the core of the Health Care Segment and adopts a selective approach to the allocation of R&D resources focusing on the core areas of the neuropsychiatry; circulatory system and metabolism; respiratory and immunology; as well as the areas of cancer and hepatic diseases.

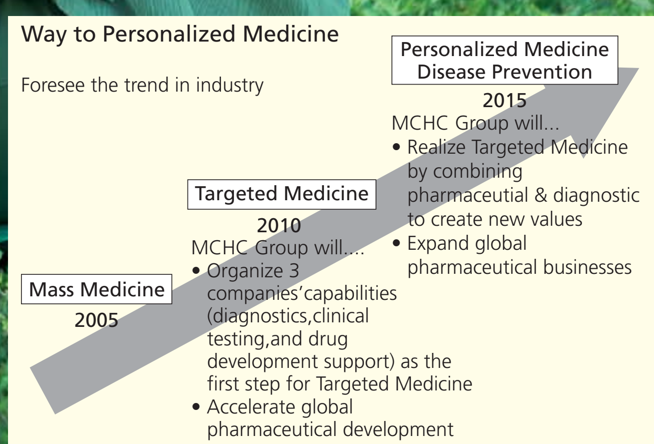
For future growth, it is essential that we leverage the collective strengths of the Group from basic research for drug discovery to clinical development in order to create the innovative pharmaceuticals for unmet clinical needs on a global basis. While strengthening collaboration with other companies in the Health Care Segment that are engaged in clinical testing and diagnostic drugs, Mitsubishi Pharma is also working with Mitsubishi Kagaku Institute of Life Sciences, ZOEGENE Corporation, and Mitsubishi Chemical Group Science and Technology Research Center, Inc., and utilizing their outstanding analysis capabilities to develop genome-based drug discoveries.

Through strategic alliances and a variety of initiatives, MCHC will press vigorously ahead to achieve sufficient R&D scale to transform Mitsubishi Pharma into a global research-driven pharmaceutical company.

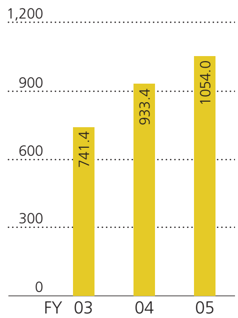
In July 2005, Mitsubishi Pharma began sales of the selective antithrombin agent Argatroban in Germany. This marked the company's first product to be independently marketed in Europe. In addition, Mitsubishi Pharma plans to begin building an independent marketing infrastructure for its pharmaceuticals in the U.S. by approximately 2010.

Heading the New Wave To Personalized Medicine

As the first step toward Targeted Medicine, the Health Care Segment integrated its pharmaceuticals and diagnostics activities. In an effort to respond to increasing requirements for improved pharmaceuticals for a better safety profile and higher efficacy, MCHC is also organizing the capabilities of three group companies engaged in diagnostic testing and drug development support services. Furthermore, the integration of pharmaceuticals and diagnostics is expected to promote quickly growing new business areas for total disease management including personalized medicine and preventive medicine for longer and healthier lives.

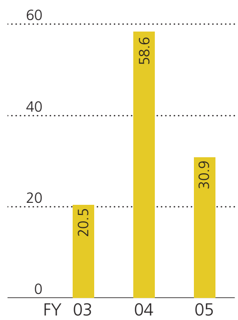


Petrochemicals **Segment**



Net Sales

(Billions of yen)



Operating Income

(Billions of yen)

Performance Review

Basic petrochemicals, monomers and polymers businesses were faced with sharply rising international naphtha prices. The production decrease of ethylene resulted from lower production in line with regular maintenance at the Mizushima Plant and temporary suspension of production caused by an earthquake and mechanical problems. The Group made efforts to pass on product prices amidst the continued strong demand in Japan. Overseas market demand remained weak, however, for products such as styrene monomer, ethylene glycol, and purified terephthalic acid.

As a result, net sales in the Petrochemicals Segment were ¥1,054.0 billion, a 12.9% increase compared to the previous fiscal year. Operating income totaled ¥30.9 billion, a 47.3% decrease.

R&D costs in the Petrochemicals Segment for FY2005 were ¥8.0 billion and capital investment was ¥35.0 billion.

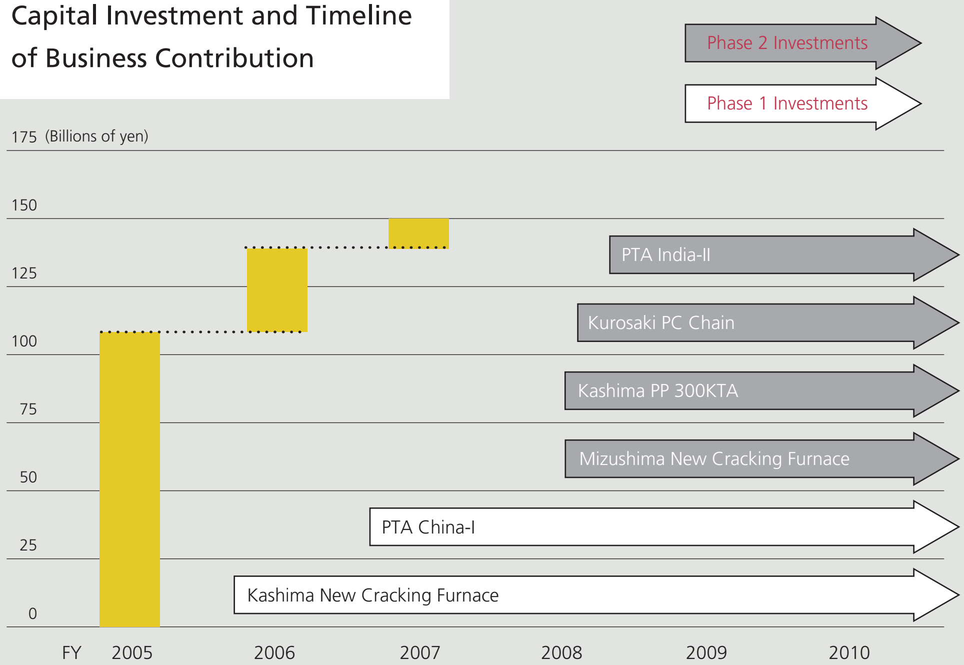
PTA

The cornerstone laying ceremony for the PTA plant of Ningbo Mitsubishi Chemical Co., Ltd

Year's Topics

- Sun-Dia Polymers, Ltd. constructed a plant for super-absorbent polymers in Nantong, China, and has commenced commercial production. (April 2005)
- Ningbo Mitsubishi Chemical Corporation began construction of a purified terephthalic acid plant in the Ningbo Daxie Development Zone, China. (May 2005)
- Mitsubishi Chemical Corporation and Japan Energy Corporation reached an agreement on a joint investment for the purpose of constructing a new production facility for aromatic products, light naphtha and others, using imported condensate as a raw material. (November 2005)
- Mitsubishi Chemical Corporation added facilities capable of producing a diverse range of raw materials at the chemical complex of its Kashima Plant, aimed at enhancing its competitiveness. (December 2005)
- Japan Polypropylene Corporation decided to increase its PP capacity by constructing a new 300kt/y production facility at its Kashima Plant. (December 2005)
- Mitsubishi Chemical Corporation decided to increase purified terephthalic acid production capacity by building a new 800kt/y production facility at MCC PTA India Corp. Private Limited. (December 2005)
- Mitsubishi Chemical Corporation decided to shut down linear alkyl benzene production facilities at the end of March 2006, and to withdraw from the business. (December 2005)
- V-Tech Corporation increased its PVC monomer production capacity by 50kt/y to 400kt/y. (December 2005)
- Mitsubishi Chemical Corporation decided to transfer 15% of its shares in the joint venture, Dia Nitrix Co., Ltd. to partner company Mitsubishi Rayon Co., Ltd. and to decrease its equity ratio from 50% to 35%. (February 2006)

Capital Investment and Timeline of Business Contribution



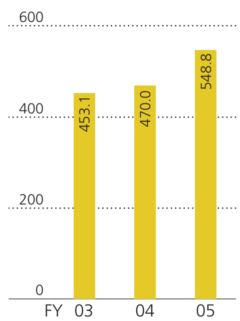
In "KAKUSHIN Plan: Phase 2" (Phase 2), we have earmarked ¥150.0 billion for investments in the Petrochemicals Segment, ¥100.0 billion of which was determined in FY2005. These large-scale capital investments will be completed steadily from FY2008 and beyond, and we expect subsequent major contributions to earnings results.

We have also made steady progress in the investments determined in "KAKUSHIN Plan: Phase 1," and expect those investments to start contributing to business results during Phase 2.

Kashima Plant

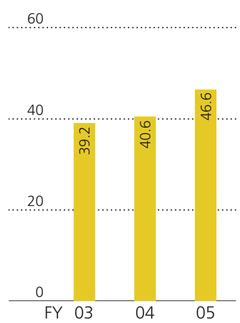
The Ethylene Center at the Kashima Plant

Performance Products **Segment**



Net Sales

(Billions of yen)



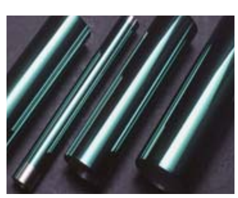
Operating Income

(Billions of yen)

Performance Review

Sales of performance polymers and food ingredients remained steady. In information and electronics-related products, strong DVD sales volume offset declining prices. Vigorous demand led to sales increases in imaging device materials such as organic photo conductor (OPC) drums and chemical/pulverized toner, and in display materials such as color resists. In the carbon businesses, coking coal sales were strong overall in spite of price decreases in the fourth quarter, while the carbon black business faced difficult circumstances due to hikes in raw material prices. High raw material costs also led to streamlining in the fertilizer business.

As a result, net sales in the Performance Products Segment totaled ¥548.8 billion, a 16.8% increase over the previous fiscal year, and operating income amounted to ¥46.6 billion, an increase of 14.7%.



OPC

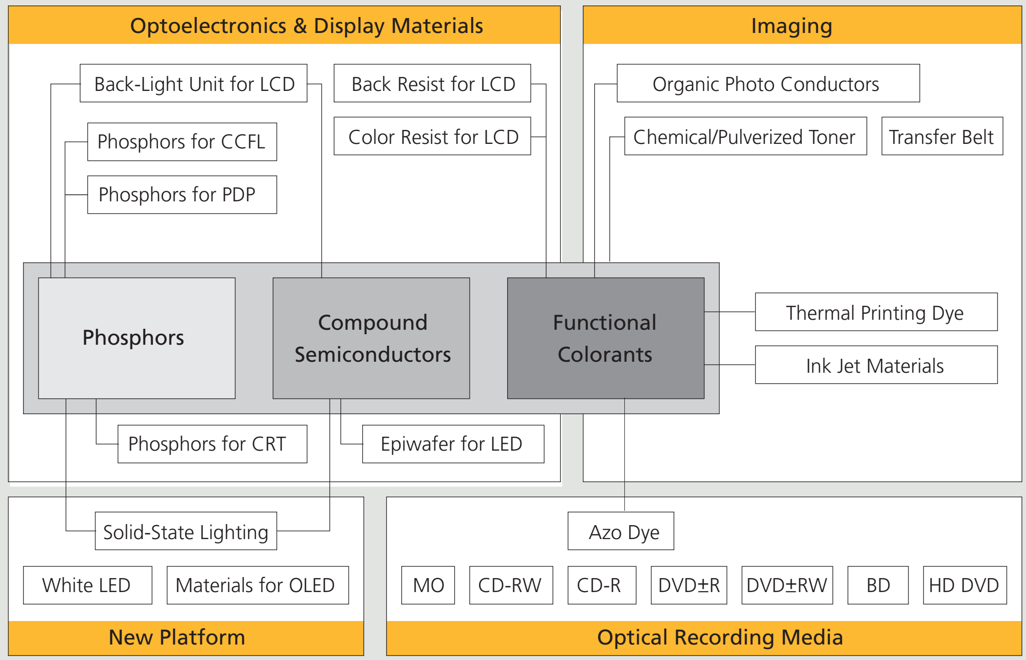
OPC production was increased in Mitsubishi Kagaku Imaging Corporation (USA) and investment to increase capacity in Mitsubishi Chemical Infonics Pte Ltd (Singapore) was decided in FY2005.

R&D costs in the Performance Products Segment during FY2005 were ¥14.6 billion and capital investment was ¥23.1 billion.

Year's Topics

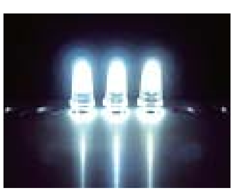
- API Corporation started contract production of *Cefzon* bulk for overseas markets on behalf of Astellas Pharma Inc. API Corporation was previously contracted to produce *Cefzon* bulk only for the domestic market. (April 2005)
- Nippon Kasei Chemical Company Limited decided to withdraw from three businesses: dimethylol propionic acid, dimethylol butane acid, and hexamethylenetetramine. (July 2005)
- Mitsubishi Kagaku Imaging Corporation (VA, USA) expanded OPC production facilities. (September 2005)
- Mitsubishi Chemical Corporation added to its anode material production facilities for Li-ion battery equipped on hybrid electric vehicles. (September 2005)
- Kasei Optonix, Ltd. expanded facilities for producing phosphors for LCD backlights. (September 2005)
- Mitsubishi Kagaku Media Co., Ltd. launched sales of a mastering disc called the *Green Tune* CD-R for the professional music market. (November 2005)
- Mitsubishi Chemical Corporation decided to expand production facilities for thermoplastic olefin elastomer, *ZELAS*, in addition to the co-production facility for thermoplastic olefin elastomer *THERMORUN* and thermoplastic styrene elastomer *RABALON*. (November 2005)
- Mitsubishi Chemical Corporation commenced shipment of GaN substrate samples used for blue LDs and LEDs. (November 2005)
- Mitsubishi Chemical Infonics Pte Ltd decided to expand OPC production facilities. (December 2005)
- Mitsubishi Chemical Corporation added to its color resists production facilities at the Kurosaki Plant. (March 2006)

I&E Business Platforms



Chemical Toner

White LED



Blu-ray Disc

Primary R&D Results

– Mitsubishi Kagaku Media Co., Ltd. and Pioneer Corporation succeeded in joint development of a next-generation write-once blu-ray disc, applying organic dye recording material to the recording layer with the spin coating process. (June 2005)

– Mitsubishi Kagaku Media Co., Ltd. and Hitachi Maxell, Ltd. succeeded in joint development of a prototype for mass-production of HD DVD-R discs, the next generation DVD standard in write-once recording media (15GB per layer). The development was made possible by application of a new organic dye jointly developed by Hayashibara Biochemical Laboratories, Mitsubishi Kagaku Media Co., Ltd. and Toshiba Corporation. (June 2005)

– Mitsubishi Kagaku Media Co., Ltd. developed a 8x double-layer DVD+R disc, which became the first of its kind in the world to receive certification from the Philips Verification Laboratory. (June 2005)

I&E Vision

1

Stabilize and expand three main business platforms:
optical recording media, imaging, and optoelectronics & display materials.

e.g. *Expand chemical toner business
*Launch next generation optical recording media to the market in a timely manner

2

Develop new business platform based on our core technologies.

e.g. *Display materials and devices
*Solid-state lighting display materials and devices

Functional Products **Segment**

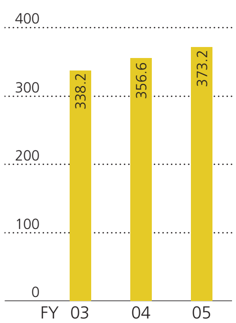
Performance Review

Sales of films, composite films and sheets remained strong, supported by robust demand from the information and electronics industry such as protective films for LCDs. Sales of construction materials including composite materials and industrial application materials such as carbon and alumina fibers grew steadily.

As a result, net sales in the Functional Products Segment totaled ¥373.2 billion, a 4.6% increase compared to the previous fiscal year, and operating income was ¥22.8 billion, up 6.0% year on year.

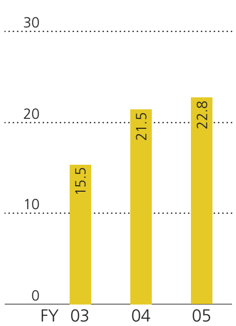
For FY2005, ¥18.6 billion was spent in capital investment for new facilities and improvements in the Functional Products Segment.

R&D expenses in the Functional Products Segment for the fiscal year under review were ¥7.3 billion. R&D activities in this segment were related to plastic processing products and composite materials.



Net Sales

(Billions of yen)



Operating Income

(Billions of yen)

Year's Topics

– Mitsubishi Plastics, Inc. developed and launched industrial-use PVC plate that contains no lead stabilizer and is certified by FM Approvals, meeting flame resistance standards for clean room materials. (June 2005)

– By combining silicon with carbon fiber-plastic composites, Mitsubishi Chemical Functional Products, Inc. succeeded in developing a high performance carbon brake disc, which is one-third lighter than metallic-base discs. (July 2005)

– *ECOLOJU*, a biodegradable plastic film made by Mitsubishi Plastics, Inc., became the first biodegradable plastic label to be used on PET bottles in Japan. (July 2005)

– Mitsubishi Plastics, Inc. launched a heat-ray absorbing polycarbonate corrugated plate, *Hishinami Polyca Heat Guard Hyper*. Its heat-ray absorbing rate is approximately 18% greater than existing products. (July 2005)

– Mitsubishi Chemical Functional Products, Inc. started shipments of high performance robot arms and other carbon fiber products for 8th generation liquid crystal glass substrates carrier systems. (September 2005)

– Mitsubishi Plastics, Inc. began marketing its new X Series of *TECHBARRIER* vacuum coated plastic film with improved gas barrier properties. (December 2005)

– Mitsubishi Kagaku Functional Products, Inc. decided to construct a new 300t/y alumina fiber production facility at its Sakaide Plant. (March 2006)

FPD-Related Businesses

Polyester Film

Robot Arm

Carbon Fiber Rolls

ALSET Series

Sales to the flat panel display (FPD) industry are leading business results in the Functional Products Segment.

Mitsubishi Polyester Film Corporation is seeing robust sales of polyester films for FPDs, especially LCDs, and plans to increase production from approximately the middle of FY2006.

Mitsubishi Chemical Functional Products, Inc. manufactures *DIALEAD* carbon fibers, which are in strong demand for use in robot arms that maximize *DIALED*'s characteristics for use on FPD production line conveyors. *DIALED* is also used in rolls for FPD film production lines, making it an indispensable material to FPD production. We expect to see a greater range of applications in the future.

The Mitsubishi Plastics Group's information and electronics-related business is strong, with FPD components such as *ALSET* plastic-metal composite and injection molding products being widely used.

ECOLOJU

Biodegradable plastic film

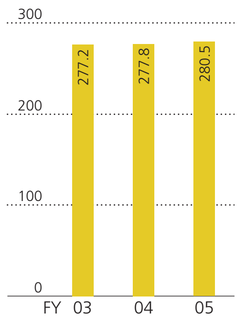
Hishinami Polyca Heat Guard Hyper

Heat-ray absorbing polycarbonate corrugated plate

TECHBARRIER

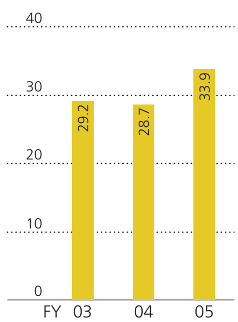
Vacuum coated plastic film

Health Care **Segment**



Net Sales

(Billions of yen)



Operating Income

(Billions of yen)

Performance Review

Sales in the pharmaceutical business remained on par with the previous fiscal year, with growth in sales of the ethical neuroprotective agent *RADICUT* and the anti-platelet agent, *ANPLAG* offsetting decreases in sales of some other products. Sales in the clinical testing business increased, with contributions from new branch laboratories within hospitals in various parts of Japan. Sales in the business of testing for clinical trials also increased steadily.

As a result, net sales in the Healthcare Segment increased to ¥280.5 billion, a 1.0% increase compared to the previous fiscal year, and operating income also improved to ¥33.9 billion, up 18.4%.

R&D costs in the Health Care Segment during FY2005 were ¥47.0 billion and capital investment was ¥11.1 billion.

RADICUT inj.

Neuroprotective agent

Year's Topics

– Mitsubishi Pharma Europe Ltd. received approval in June 2005 for the sale in Germany of the selective antithrombin agent Argatroban, which was released by Mitsubishi Pharma Deutschland GmbH in July under the brand name *ARGATRA*. This was the first product independently marketed by Mitsubishi Pharma Corporation in Europe. (July 2005)

– Osadano Plant of Benesis Corporation started integrated manufacturing of plasma fractionation preparations. (October 2005)

– Thrombolytic agent (rt-PA) *GRTPA* of Mitsubishi Pharma Corporation received approval for an additional indication for improvement of functional impairment related to acute ischemic stroke. (October 2005)

– Mitsubishi Kagaku Bio-Clinical Laboratories, Inc., Mitsubishi Kagaku Iatron, Inc., and Mitsubishi Chemical Safety Institute Ltd. commenced investigation of a possible integration between the three companies, with the aim of expanding new business opportunities. (January 2006)

– Mitsubishi Pharma Corporation and Lequio Pharma Co., Ltd. concluded a license agreement for the internal hemorrhoid sclerotherapy agent, *ZIONE*, with the South Korean company Yuhan Corporation. (February 2006)

– MP-Technopharma Corporation, began contract manufacturing of four of Chugai Pharmaceutical's prescription pharmaceutical products (seven items). (March 2006)

– Mitsubishi Kagaku Iatron, Inc. launched *IMM-FAST Check J2*, a rapid detection kit for food (eggs, milk and wheat) allergen-specific IgE. (March 2006)

For details regarding R&D activities by Mitsubishi Phama, please refer to p.30-32.

The First Product to Be Independently Marketed in Europe

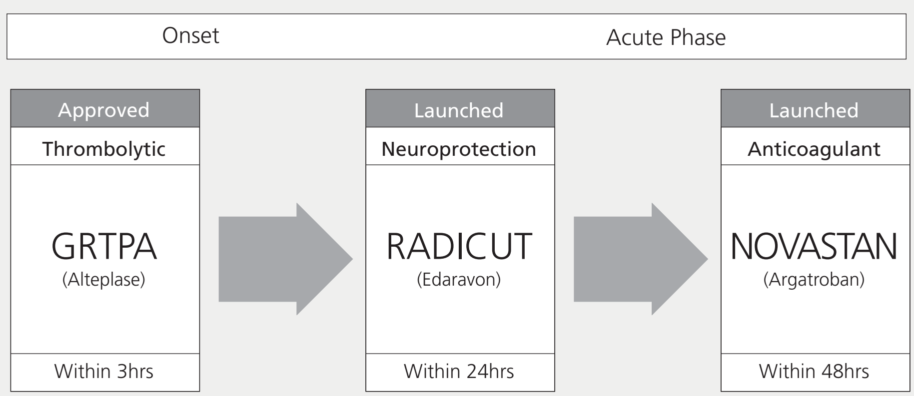
ARGATRA

As an anticoagulant for use in heparin-induced thrombocytopenia type II, Mitsubishi Pharma Corporation, through Mitsubishi Pharma Deutschland GmbH, launched the selective antithrombin agent Argatroban under the brand name *ARGATRA* in Germany in July 2005. *ARGATRA* is the first product to be marketed independently by Mitsubishi Pharma in Europe. Marketing approval was acquired in Sweden, the Netherlands, Austria, Denmark, Ireland and Norway. Through this product, Mitsubishi Pharma is committed to building a business base within Europe.

Product Pipeline for Acute Ischemic Stroke

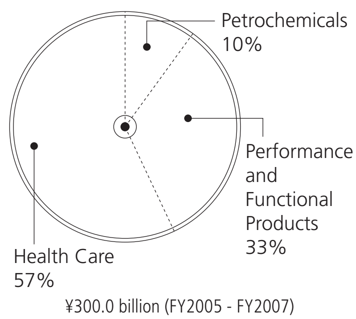
GRTPA

In October 2005, Mitsubishi Pharma received approval of thrombolytic agent (rt-PA) *GRTPA* for an additional indication for improvements of functional impairment related to acute ischemic stroke in Japan. Building on its cerebral medicine line-up of *RADICUT*, *NOVASTAN* and *GRTPA*, Mitsubishi Pharma is strengthening its position as a leading therapeutic company.

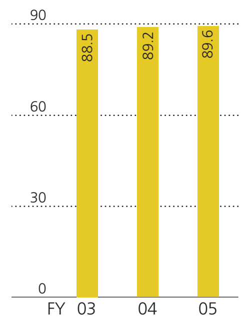


	Billions of yen	
Pharmaceuticals business	FY2004	FY2005
CNS agents	63.1	64.1
Circulatory medicines	27.1	26.6
Respiratory medicines	20.3	17.3
Gastrointestinal medicines	22.3	23.3
Metabolism medicines	23.7	25.4
Biological preparations	23.0	24.0
Other medicines	22.7	22.1
Pharmaceuticals total	202.7	203.0

R&D



Breakdown of R&D Expenditures
(Including Corporate R&D)



R&D Expenses
(Billions of yen)

Under the banner of "Good Chemistry for Tomorrow," Mitsubishi Chemical Holdings (MCHC) Group aims to deliver the most innovative and society-impacting products in a timely manner. Indeed, commitment, creativity and diligence have characterized the Group's R&D experience, and have provided the foundations for continuous growth leading to its present pre-eminent position as Japan's largest chemical company. Since our establishment, we have constantly created innovative products and technologies in various areas, such as phenol chain, purified terephthalic acid, C4 chemicals, organic photo conductors, lithium-ion battery materials, compound semiconductors, optical recording media, and pharmaceuticals. It is therefore the mission of R&D to deliver value to our customers with strongly differentiating technologies and intellectual properties through continuous focus on innovation by advancing and integrating technologies.

R&D Investment from a Long-term Perspective

The Group recognizes R&D as a principle driver of sustainable growth, and our management policy regarding R&D is not only to commit to current business platforms but also to commit resources stably to new business creation from a long-term perspective. As part of its "KAKUSHIN Plan: Phase 2," which was launched in April 2005, the Group has decided to invest ¥300.0 billion in R&D over the three years to FY2007, with more than 50% of that total earmarked for allotment to the Health Care Segment, and more than 30% to the Performance and Functional Products Segments. R&D investment of ¥95.0 billion is planned for FY2006.

Our R&D Activities are Categorized in Three Domains:

1 Delivering new products in current businesses

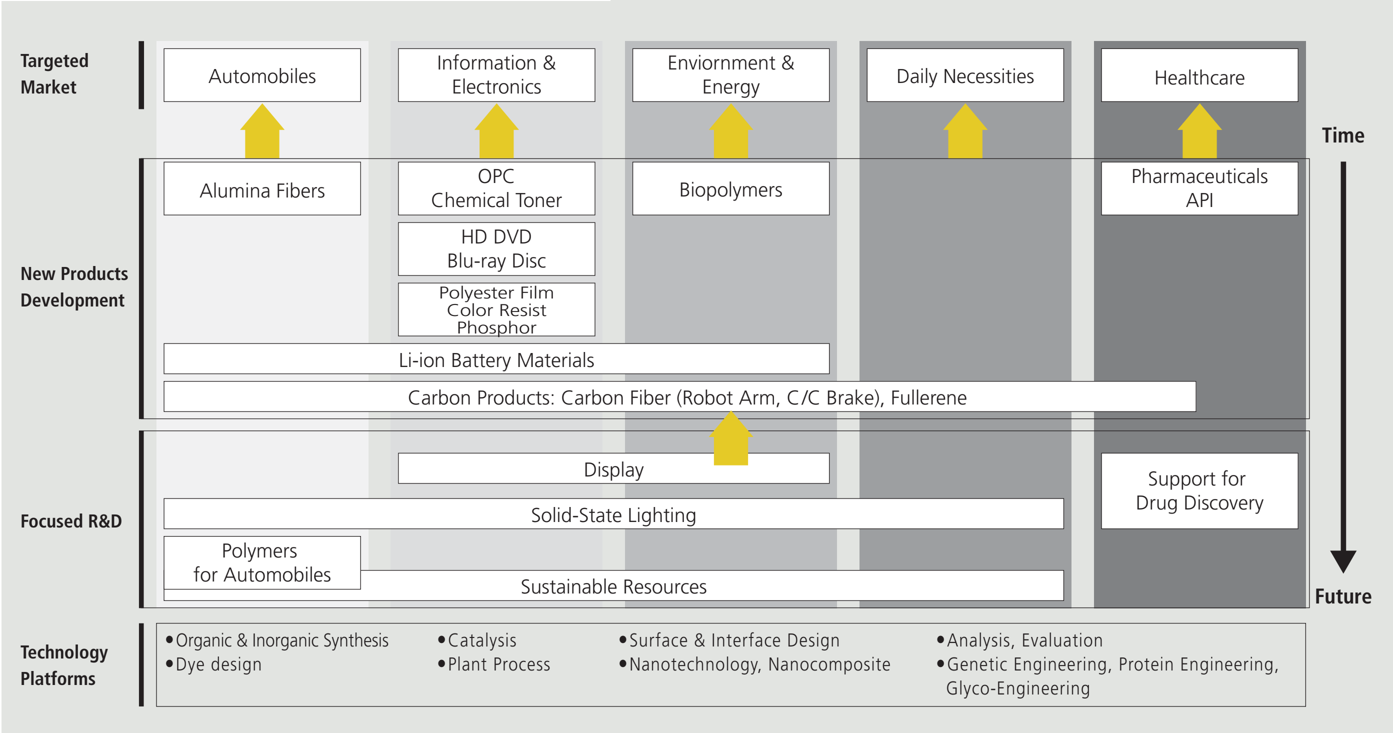
2 Advancing and integrating technologies to strengthen technology platforms

3 Creating new businesses, targeting commercialization in 3-5 years

In the Health Care Segment, which has been allocated almost half of the Group's R&D budget, we are pursuing research themes that include post-genomics and proteomics with the aim of first-in-class drug discovery. The synergy of the Group is displayed, for example, in challenging structural analysis of protein crystals, elucidating of proteins that cause Alzheimer's disease using glyco-engineering and cell-free protein synthesis by wheat germ extracts.

In the Performance and Functional Products Segments, where by integrating efforts toward product leadership, business leadership, and effective market access from the early stages of product concept development, we aim to deliver synergetic solutions and value for our customers.

Major R&D Activities for Sustainable Growth



Focused R&D Themes

The following five areas are focused R&D themes, and we invest over 60%, an increase of 56% compared to the previous fiscal year, of our corporate R&D budget to these areas.

Mitsubishi Chemical Group Yokohama Research Center

1 Display

Prepare pipeline in materials for devices, such as organic electroluminescence display, with coating technology.

2 Solid-State Lighting

Accelerate commercialization of new materials such as GaN substrates and phosphors to become one of the major suppliers in solid-state lighting devices in the world.

3 Support of Drug Discovery

Improve R&D productivity by building an efficient molecular design system, and support Mitsubishi Pharma in its goal of becoming a global research-driven pharmaceutical company.

4 Polymers for Automobiles

Become the preferred solution partner for automotive manufacturers by applying the polymer technologies and functions of the Group.

5 Sustainable Resources

Become a pioneer in developing environmentally sound products from plant resources by utilizing technologies such as biosynthesis, catalysis and synthesis/processing of polymers.

Pharmaceutical Pipeline

In the biopharmaceuticals field, a reliable and efficient production system has now been established for *ALBREC*, the world's first example of a recombinant human albumin, which now awaits approval for domestic manufacture. The submission of a Drug Master File is also planned in the U.S.

Mitsubishi Pharma has concluded a licensing agreement with Perlegen Sciences, Inc. (California, USA) for the late-stage development and commercialization of MCC-555 (a peroxisome proliferator activated receptor (PPAR) agonist) for the treatment of diabetes and other metabolic disorders. Perlegen intends to apply its leading whole genome pharmacogenomics technology to improve upon the demonstrated efficacy and safety profile of MCC-555, which has been tested on over 1,000 patients. By guiding treatment to patients most likely to benefit, the companies expect this "personalization" of the drug to provide superior therapeutic benefit in an area of significant medical need.

New Molecular Entity | Additional Indications | Licensing-Out

Domestic

Phase II	Phase III	Preparation for filing	Filed
MCC-847 Allergic Rhinitis	MCC-847 Asthma		Albrec Hypoalbuminemia
FTY720 Renal Transplantaion	Anplag Prevention of Recurrence of Cerebral Infarction		Neuart Toxemia of Pregnancy
Y-700 Gout, Hyperuricemia	Venoglobulin-IH Systemic Sclerosis		Venoglobulin-IH IgG2 Deficiency
MP-513 Type 2 Diabetes Mellitus	Radicut Amyotrophic Lateral Sclerosis		Venoglobulin-IH Polymyositis, Dermatomyositis
Cleanal Acute Respiratory Disease			Omeprazon Non-Erosive Reflux Disease
Cholebine Type 2 Diabetes Mellitus			Urso Hepatitis C

Overseas

Phase II	Phase III	Preparation for filing	Filed
MCC-135 Myocardial Infarction [USA/Europe]	Cholebine Hyperphosphatemia [USA/Europe]	Novastan Acute Cerebral Thrombosis [China]	
MCC-977 Deep Vein Thrombosis [Europe]	Novastan HIT Patients undergoing PCI [Europe]	Novastan Heparin-induced Thrombocytopenia Type II [Europe]	
MCC-257 Diabetic Polyneuropathy [USA]			

Licensing-Out

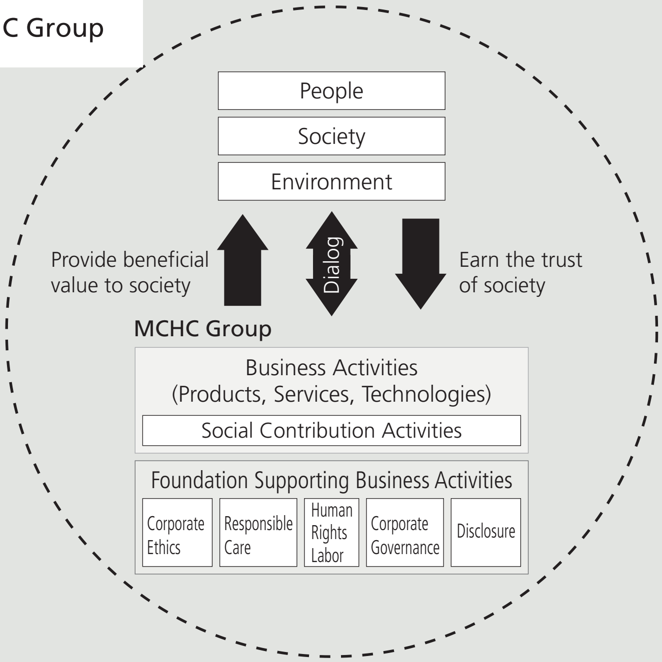
FTY720 Renal Transplantaion	MCI-225 Diarrhea-predominant Irritable Bowel Syndrome	MKC-733 Constipation-predominant Irritable Bowel Syndrome
FTY720 Multiple Sclerosis	MCI-225 Pain	TU-199 Gastroesophageal Reflux Disease
MCC-555 Type 2 Diabetes Mellitus	MKC-242 Generalized Anxiety Disorder	Y-128 Diabetic Neuropathy

(As of March 31, 2006)

Good Chemistry for Tomorrow

CSR/RC

CSR at MCHC Group



Mitsubishi Chemical Holdings Corporation (MCHC) is working to strengthen CSR as one of the priority themes of its "KAKUSHIN Plan: Phase 2."

Contributing to society through our business activities is the foundation of our CSR vision. Stated another way, MCHC relentlessly examines whether or not it is providing value to society and whether or not it is earning the trust of society through its individual business activities. Moving the Company in an even better direction is the very way to fulfill the Group's corporate philosophy of "Good Chemistry for Tomorrow." Standing on this perspective, we will take even greater care in our dialog with various stakeholders and members of society, and reexamine the cornerstones of our business activities, including compliance and environmental protection. We will implement social contribution activities through our own unique methods.

The MCHC Group recently took part in the Global Compact advocated by the U.N. It is our goal to implement through our business activities the ten principles propounded by the Global Compact in the areas of "Human Rights," "Labor Standards," "Environment" and "Anti-corruption."

Responsible Care Initiatives

Responsible Care (RC) activities are an extremely important aspect of our efforts, to earn the trust of the public while achieving sustainable growth and development. Mitsubishi Chemical Corporation (MCC) has actively implemented RC initiatives since the establishment of the Japan Responsible Care Council in 1995. In 2003, MCC formulated a Group policy based on the spirit of RC, and has advanced with group-level initiatives in the five key areas of environmental conservation, disaster prevention, occupational health and safety, chemical safety, and quality assurance. The MCHC Group has inherited this basic philosophy and continues these activities.

Global Compact

Mitsubishi Chemical Group RC Promotion Policy formulated in 2003

1. Position environment and safety as core focuses of all our business activities.
2. Maintain a firm commitment to customer confidence regarding products and guarantee quality.
3. Target zero accidents and workplace injuries.
4. Work to minimize waste and chemical emissions.
5. Work to conserve resources and energy.
6. Develop technologies and products that contribute to the environment and safety.
7. Enhance public confidence in MCC.

Corporate Governance

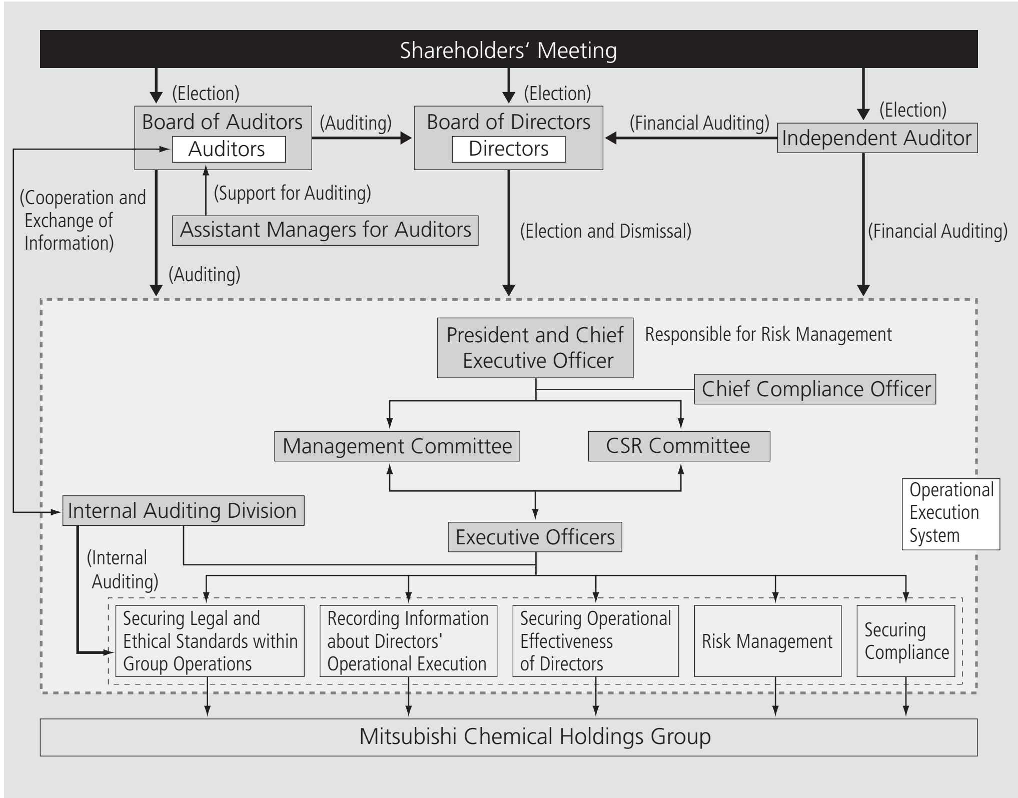
Corporate Governance
Mitsubishi Chemical Holdings Corporation (MCHC) was established as a holding company through a stock-for-stock exchange by Mitsubishi Chemical Corporation (MCC) and Mitsubishi Pharma Corporation (MPC) in October 2005. This marked a shift in the management system to that of a holding company, with complete separation of portfolio management functions and individual business management functions. As a holding company responsible for the Group's portfolio management, MCHC will aggressively promote management strategies aimed at increasing corporate value, working to advance Group management initiatives and allocating resources aimed at sustainable growth.

MCHC has positioned expediting decision-making and business execution, clarifying management responsibilities, securing compliance throughout the Group and strengthening risk management as the most important corporate governance issues, with the goal of enhancing corporate value.

Corporate Governance Structure and Management Organization Related to Decision-Making, Business Execution and Supervision
The basic management organization of MCHC includes a Board of Directors, Management Committee, CSR Committee, auditors and a Board of Auditors.

MCHC has introduced an executive officer system in order to promote the separation of management and business execution functions. Based on internal regulations, deliberative bodies such as the Board of Directors, determine the authority of each position, as well as the items that each division is responsible for, in order to promote efficient and appropriate decision-making and business execution in relation to the Group management.

The Board of Directors
Based on regulations of the Board of Directors and related guidelines, the Board of Directors determines important matters related to MCHC's business and basic matters regarding the management of the Group. The Board of Directors also oversees the execution of business matters by directors. The Board of Directors meets, in principle, on a monthly basis. There are currently* eight directors at MCHC. MCHC is constructing a management system to enable rapid response to changes in the business climate. In order to promote clarification of roles and responsibilities, the term of office for directors is one year.



Management Committee

Functioning as a body to advise the President regarding decisions, the Management Committee deliberates regarding important business matters in MCHC and Group companies, such as investment and loan activities. Directors make decisions about important matters that have been thoroughly discussed. The Management Committee meets twice a month, and consists of the President, directors, managing executive officers and auditors.

CSR Committee

Functioning as a body to advise the President regarding decisions, the CSR Committee deliberates on important matters related to the promotion of corporate social responsibility (CSR) at MCHC and Group companies. The CSR Promotion Committee meets, in principle, twice a year. It consists of the President, directors, Chief Compliance Officer (CCO), an officer responsible for risk management, an officer of responsible care, other officers relating to CSR, and auditors of MCHC, MCC, and MPC.

Auditing

Auditors and the Board of Auditors

Auditors and the Board of Auditors carry out auditing functions at MCHC. The Board of Auditors meets, in principle, once a month. Currentry*, MCHC has five auditors, three of which are outside auditors.

The Board of Directors has passed a resolution establishing a basic policy for developing an internal controls system. Based on that policy, MCHC aims to establish a sound internal controls system and a thorough risk management system.

Compliance

The MCHC Group has long positioned “Compliance” (compliance with laws and corporate ethics) as a top management priority, and is striving to ensure and promote adherence to the Group compliance program.

The MCHC Group has created the “Corporate Ethics of MCHC Group” and the “Code of Conduct of MCHC Group” as guides to the execution of daily business activities by Group employees. MCHC has developed a compliance promotion program that encompasses an awareness and education program, auditing and monitoring system, and a compliance hotline, and has established the position of Chief Compliance Officer to oversee the implementation of our compliance program.

* AS of June 28, 2006

Board of Directors, Executive Officers and Corporate Auditors

(As of June 28, 2006)

(Seated from left) Ryuichi Tomizawa, Yosuke Yamada, Takeshi Komine
(Standing from left) Ryuichi Sato, Shotaro Yoshimura, Masaoki Funada, Kunihiko Shimojuku, Yoshimitsu Kobayashi, Kiyoshi Nakayama

Representative Director,
Member of the Board,
President
Ryuichi Tomizawa

Representative Director,
Member of the Board,
Deputy Chief Executive Officer
Yosuke Yamada
Chief Compliance Officer
Presidential Assistant
Supervising-Administration,
Human Resources,
Public Relations, CSR, and Internal Audit

Representative Director,
Member of the Board
Takeshi Komine

Member of the Board,
Managing Executive Officer
Ryuichi Sato
Supervising-Corporate Strategy

Member of the Board,
Managing Executive Officer
Shotaro Yoshimura
Supervising-Corporate Management,
Investor Relations

Member of the Board
Masaoki Funada

Member of the Board
Kunihiko Shimojuku

Member of the Board
Yoshimitsu Kobayashi

Managing Executive Officer
Kiyoshi Nakayama
Supervising - Health Care Strategy

Executive Officer
Kenichi Uno
General Manager,
Corporate Strategy Office

Executive Officer
Noriyoshi Ohira

Executive Officer
Kuniaki Kaga
General Manager,
Health Care Strategy Office

Executive Officer
Toshiyuki Seiki

Executive Officer
Noboru Tsuda
General Manager, Internal Audit Office

Executive Officer
Kiyotaka Hattori

Executive Officer
Koichi Fujisawa
General Manager,
Administration and Human Resources
Office; General Manager, CSR Office

Corporate Auditor (full-time)
Hideaki Yoshida

Corporate Auditor (full-time)
Yoshikazu Takagaki*

Corporate Auditor (full-time)
Takayasu Kishi

Corporate Auditor
Hiroyasu Sugihara*
(Attorney-at-law)

Corporate Auditor
Somitsu Takehara*
(Certified public accountant)

*Outside Corporate Auditor

Financial Section

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Consolidated Five-Year Summary

Years ended March 31

	Mitsubishi Chemical Holdings Corporation				Mitsubishi Chemical Corporation	Mitsubishi Chemical Holdings Corporation
	Millions of Yen				Millions of Yen	Millions of U.S. Dollars
	2006	2005	2004	2003	2002	**2006**
Results of operations:						
Net sales	**¥2,408,945**	¥2,189,462	¥1,925,331	¥1,887,493	¥1,780,346	**$ 20,589.3**
Operating income	**133,619**	148,624	98,163	91,962	34,841	**1,142.0**
Income (loss) before income taxes	**115,070**	106,604	70,804	43,821	(55,444)	**983.5**
Net income (loss)	**85,569**	55,372	34,547	21,386	(45,253)	**731.4**
Financial position:						
Total assets	**2,126,612**	1,970,528	2,001,601	2,117,002	2,246,150	**18,176.2**
Inventories	**317,573**	277,721	251,762	276,072	290,568	**2,714.3**
Property, plant and equipment	**686,680**	674,953	723,265	811,892	844,193	**5,869.1**
Short-term and long-term debt	**636,669**	704,077	861,496	962,197	1,051,675	**5,441.6**
Shareholders' equity	**656,060**	445,977	397,063	350,338	343,749	**5,607.4**
Ratio of shareholders' equity to total assets (%)	**30.8**	22.6	19.8	16.5	15.3	—
General:						
Capital expenditures	**97,864**	67,123	69,331	85,339	99,750	**836.4**
Depreciation and amortization	**88,165**	87,708	95,559	103,151	116,279	**753.5**
R&D expenditures	**89,594**	89,215	88,513	91,041	84,588	**765.8**
Shareholders of record (number)	**197,875**	166,217	175,138	181,407	180,615	—
Employees (number)	**32,955**	33,261	33,496	37,633	38,617	—
	Yen				Yen	U.S. Dollars
Per share:						
Net income (loss)	**¥ 69.51**	¥ 25.40	¥ 15.82	¥ 9.75	¥ (20.78)	**$ 0.594**
Shareholders' equity	**478.72**	205.09	182.59	161.06	157.86	**4.092**
Cash dividends	**14.00**	6.00	4.00	3.00	—	**0.120**

Notes: 1. U.S. dollar amounts are converted, for convenience only, at the rate of ¥117=US$1.

2. Financial results of Mitsubishi Chemical Holdings Corporation for the year ended March 31, 2006 comprise Mitsubishi Chemical Corporation's consolidated financial results for the first half and Mitsubishi Chemical Holdings Corporation's consolidated financial results for the second half of the year.

3. Net income per share of Mitsubishi Chemical Holdings Corporation for the year ended March 31, 2006 is calculated based on the weighted-average number of common share of Mitsubishi Chemical Corporation for the first half and the weighted-average number of common share of Mitsubishi Chemical Holdings Corporation for the second half of the year. The number of common share of Mitsubishi Chemical Corporation is adjusted to the basis of common share of Mitsubishi Chemical Holdings Corporation by utilizing the stock exchange ratio.

4. Cash dividends of Mitsubishi Chemical Holdings Corporation for the year ended March 31, 2006 (¥14.00) consists of ¥6.00 of Mitsubishi Chemical Corporation for the first half, which is adjusted to the basis of Mitsubishi Chemical Holdings Corporation by utilizing the stock exchange ratio, and ¥8.00 of Mitsubishi Chemical Holdings Corporation for the second half of the year.

Segment Information

Mitsubishi Chemical Holdings Corporation and its consolidated subsidiaries
Years ended March 31, 2006 and 2005

	Net Sales			Operating Income (Loss)		
	Millions of Yen		Millions of U.S. Dollars	Millions of Yen		Millions of U.S. Dollars
INDUSTRY SEGMENT	2006	2005	2006	2006	2005	2006
Petrochemicals	¥1,053,991	¥ 933,425	$ 9,008.5	¥ 30,867	¥ 58,586	$ 263.8
Performance Products	548,788	469,946	4,690.5	46,602	40,642	398.3
Functional Products	373,191	356,641	3,189.7	22,795	21,499	194.8
Health Care	280,561	277,808	2,397.9	33,962	28,694	290.3
Services	152,414	151,642	1,302.7	10,519	11,215	89.9
Subtotal	2,408,945	2,189,462	20,589.3	144,745	160,636	1,237.1
Corporate Costs	—	—	—	(11,126)	(12,012)	(95.1)
Total	¥2,408,945	¥2,189,462	$20,589.3	¥133,619	¥148,624	$1,142.0

	Total Assets			Depreciation		
	Millions of Yen		Millions of U.S. Dollars	Millions of Yen		Millions of U.S. Dollars
INDUSTRY SEGMENT	2006	2005	2006	2006	2005	2006
Petrochemicals	¥ 722,010	¥ 631,681	$ 6,171.0	¥23,805	¥23,660	$203.5
Performance Products	483,488	426,098	4,132.4	20,435	20,021	174.6
Functional Products	341,888	331,888	2,922.1	17,505	17,808	149.6
Health Care	338,661	331,293	2,894.6	16,121	14,119	137.8
Services	310,333	293,418	2,652.4	7,008	7,311	59.9
Subtotal	2,196,380	2,014,378	18,772.5	84,874	82,919	725.4
Corporate Assets and Eliminations	(69,768)	(43,850)	(596.3)	3,291	4,789	28.1
Total	¥2,126,612	¥1,970,528	$18,176.2	¥88,165	¥87,708	$753.5

	Capital Expenditures			R&D Expenditures		
	Millions of Yen		Millions of U.S. Dollars	Millions of Yen		Millions of U.S. Dollars
INDUSTRY SEGMENT	2006	2005	2006	2006	2005	2006
Petrochemicals	¥34,949	¥14,019	$298.7	¥ 7,985	¥ 7,043	$ 68.2
Performance Products	23,129	17,916	197.7	14,633	13,826	125.1
Functional Products	18,548	12,122	158.5	7,323	6,546	62.6
Health Care	11,127	15,709	95.1	47,017	49,758	401.9
Services	6,977	5,238	59.6	263	227	2.2
Subtotal	94,730	65,004	809.6	77,221	77,400	660.0
Corporate R&D and Other	3,134	2,119	26.8	12,373	11,815	105.8
Total	¥97,864	¥67,123	$836.4	¥89,594	¥89,215	$765.8

	Employees (Number)	
INDUSTRY SEGMENT	2006	2005
Petrochemicals	4,515	4,530
Performance Products	6,777	6,622
Functional Products	6,816	7,053
Health Care	8,539	8,608
Services	5,491	5,648
Subtotal	32,138	32,461
Corporate R&D and Other	817	800
Total	32,955	33,261

Note: For the year ended March 31, 2006, one consolidated subsidiary was reclassified from the Health Care Segment to the Performance Products Segment to reflect its performance in the more appropriate segment. This change increased sales by 951 million yen and total assets by 1,718 million yen in the Performance Products Segment and decreased sales by 951 million yen and total assets by 1,718 million yen in the Health Care Segment compared to the results that would have been achieved under the previous segmentation. The impact on the operating income, depreciation, capital expenditures, and R&D expenditures in both segments is immaterial.

GEOGRAPHIC DISTRIBUTION	Net Sales			Operating Income (Loss)		
	Millions of Yen		Millions of U.S. Dollars	Millions of Yen		Millions of U.S. Dollars
	2006	2005	2006	2006	2005	2006
Japan	¥2,015,511	¥1,826,246	$ 17,226.6	¥138,782	¥144,417	$ 1,186.2
Asia	257,069	235,552	2,197.2	3,142	12,213	26.8
Other	136,365	127,664	1,165.5	2,821	4,006	24.1
Subtotal	2,408,945	2,189,462	20,589.3	144,745	160,636	1,237.1
Corporate Costs	—	—	—	(11,126)	(12,012)	(95.1)
Total	¥2,408,945	¥2,189,462	$ 20,589.3	¥133,619	¥148,624	$ 1,142.0

GEOGRAPHIC DISTRIBUTION	Total Assets		
	Millions of Yen		Millions of U.S. Dollars
	2006	2005	2006
Japan	¥1,714,145	¥1,630,874	$ 14,650.8
Asia	202,977	167,767	1,734.8
Other	119,393	94,945	1,020.5
Subtotal	2,036,515	1,893,586	17,406.1
Corporate Assets and Eliminations	90,097	76,942	770.1
Total	¥2,126,612	¥1,970,528	$ 18,176.2

OVERSEAS SALES	Millions of Yen		Millions of U.S. Dollars
	2006	2005	2006
Asia	¥ 433,550	¥ 397,315	$ 3,705.5
Other	192,343	170,898	1,644.0
Total Overseas Sales	625,893	568,213	5,349.5
Consolidated Sales	2,408,945	2,189,462	20,589.3
Percentage of Overseas Sales to Consolidated Sales	25.9%	25.9%	—

Note: Major countries or areas in the categories Asia and Other are as follows:
Asia : China, Taiwan, Korea, Indonesia, Thailand, India
Other: North America, Europe

The Consolidated Accounting Period in Review

Despite the impact of crude oil prices, which continued to hover at high levels, the Japanese economy generally fared well in the consolidated accounting period ended March 31, 2006, benefiting from export growth due to a strong global economy (particularly in the United States and China), growth in capital spending caused by increased corporate profitability and a recovery in consumer spending buoyed by improvements in employment conditions.

Fueled by continued strong demand both in Japan and overseas, the business environment surrounding the Mitsubishi Chemical Holdings Corporation Group ("MCHC Group") remained firm despite the unprecedented scope and speed at which naphtha and other raw material costs increased.

Under these circumstances, MCHC Group strove to revise product prices in response to hikes in raw material costs and actively pursued marketing activities in an effort to increase sales and develop new demand. In line with "KAKUSHIN Plan: Phase 2," a mid-term management plan that covers the three-year period from April 2005 through March 2008, MCHC Group also accelerated its business selection and focus initiatives, investing actively in priority fields, and implemented Group-wide cost reduction measures, emphasizing production reform.

As a result of these factors, consolidated net sales for the fiscal year ended March 31, 2006 rose 10.0% year on year to ¥2,408.9 billion, supported by adjustments in product prices in line with rises in crude oil prices. Operating income declined 10.0% to ¥133.6 billion owing primarily to regular maintenance at the Mizushima Plant. Income before income taxes increased 7.9% to ¥115.0 billion, including factors such as increased equity in earnings of affiliates and exchange gains. Net income climbed 54.5% to ¥85.5 billion, primarily as a result of a decrease in extraordinary losses.

Results of Operations

Net Sales

In the fiscal year under review, MCHC Group's business environment was characterized by mixed conditions. While crude oil and naphtha prices peaked at a level that exceeded expectations, demand in Japan and overseas remained strong, with overall robust conditions prevalent.

Under these circumstances, consolidated net sales rose 10.0% compared with the previous fiscal year to ¥2,408.9 billion, as a result of strong petrochemical product sales in the wake of rising naphtha prices, and strong demand for performance products from steel-related industries.

Operating Income

On the earnings front, operating income fell 10.0% year on year to ¥133.6 billion despite an increase in sales of performance products including industrial application materials and sales of protective PET film for LCDs, as well as a drop in selling, general and administrative expenses including research and development expenditure in the Health Care Segment. This decline in earnings was the result of reduced output due to regular maintenance at the Mizushima Plant and the temporary suspension of production following earthquakes and mechanical trouble as well as weak overseas markets for styrene monomer, ethylene glycol and terephthalic acid. Accordingly, the ratio of operating income to net sales for the fiscal year under review deteriorated from 6.7% in the previous fiscal year to 5.5%.

Other Income and Expenses

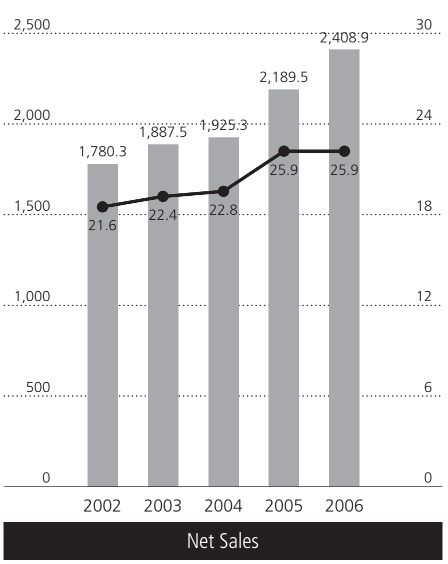
In the fiscal year ended March 31, 2006, interest income was ¥1.5 billion and dividend income was ¥4.4 billion, a year-on-year increase of ¥0.3 billion and ¥0.8 billion, respectively. Interest expense on the other hand was ¥11.0 billion, a slight increase of ¥0.1 billion. Consequently, net financial expenses amounted to ¥5.0 billion, a year-on-year reduction of ¥1.1 billion.

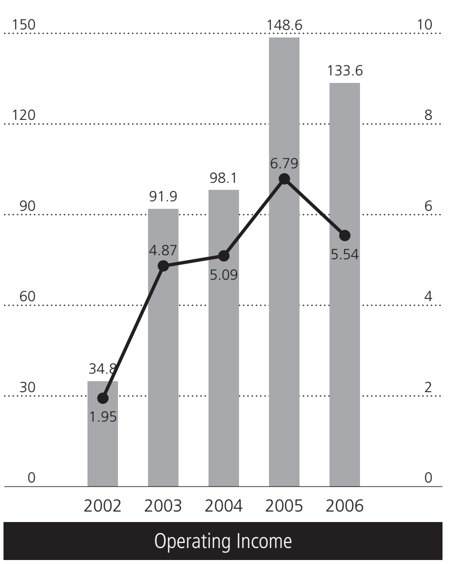
Equity in earnings of non-consolidated subsidiaries and affiliates totaled ¥12.8 billion, up ¥3.8 billion compared with the previous fiscal year. This was primarily due to the fact that a majority of the affiliates to which the equity method was applied, including Mitsubishi Engineering-Plastic Corporation and Japan Polyethylene Corporation, reported increased net income.

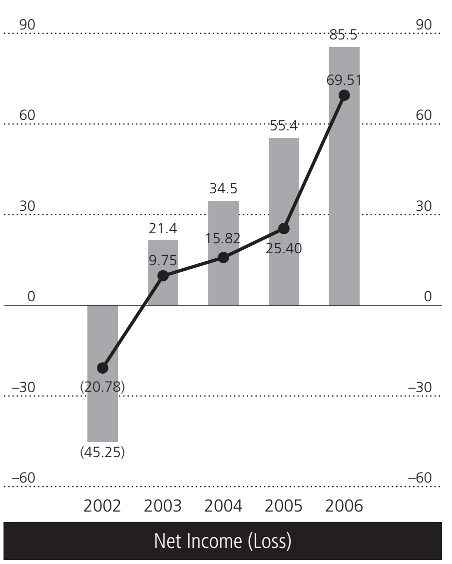
An exchange gain of ¥6.1 billion was reported for the fiscal year under review as non-operating income, an increase of ¥2.0 billion compared with the previous fiscal year. This was mainly due to exchange gains from the appreciation of the dollar against the yen reported by consolidated subsidiaries in Japan.

Personnel expenses of employees on secondment charged by affiliated and unaffiliated companies amounted to ¥4.1 billion, a reduction of ¥0.3 billion year on year.

In addition to the aforementioned items, MCHC Group increased its provision for loss on the disposal of businesses in affiliated companies to ¥15.7 billion in connection with the reorganization of a consolidated subsidiary based in Singapore. Impairment loss on fixed assets however fell to ¥1.1 billion from ¥17.3 billion in the previous fiscal year.







Net Income
Current income taxes in the fiscal year under review totaled ¥35.2 billion with deferred income tax credits amounting to ¥14.9 billion. As a result, taxation expense totaled ¥20.2 billion for the fiscal year ended March 31, 2006. The income tax burden after applying tax-effect accounting was 17.6%, lower than the effective tax rate by 21.9%. This was mainly attributed to the recognition of tax effects on a temporary tax differential following the decision by Mitsubishi Chemical Corporation to dissolve a U.S.-based subsidiary.

Minority interests totaled ¥9.2 billion, a decrease of ¥1.1 billion compared with the previous fiscal year. This was attributed to the conversion of Mitsubishi Pharma Corporation to a wholly owned subsidiary in line with the establishment of Mitsubishi Chemical Holdings Corporation on October 3, 2005 through a stock transfer by Mitsubishi Chemical Corporation and Mitsubishi Pharma Corporation.

As a result of these factors, net income surged ¥30.1 billion to ¥85.5 billion in the fiscal year ended March 31, 2006.

Results by Industry Segment

Petrochemicals
The production volume of ethylene, one of the major basic raw materials for the Petrochemicals Segment, was 1,270kt, a decrease of 5% compared to the previous fiscal year. This was attributed to regular maintenance at the Mizushima Plant in the first quarter.

Basic petrochemicals, chemical products, synthetic fiber intermediates and synthetic resins businesses were faced with sharply rising international naphtha prices. MCHC Group made efforts to revise product prices amidst the continued strong demand in Japan. Overseas market demand remained weak, however, for products such as styrene monomer, ethylene glycol, and purified terephthalic acid.

As a result of the above, net sales in the Petrochemicals Segment were ¥1,053.9 billion, a 12.9% increase compared to the previous fiscal year. Operating income totaled ¥30.8 billion, a 47.3% decrease. This decline resulted from lower production in line with regular maintenance at the Mizushima Plant, and falling overseas market prices.

Performance Products
Sales of performance polymers and food ingredients remained steady. In information and electronics related products, strong optical recording media sales volume offset declining prices. Vigorous demand led to sales increases in imaging device materials such as organic photo conductor (OPC) drums and toner, and in display materials such as color resists. In the carbon businesses, coking coal sales were strong overall in spite of price decreases in the fourth quarter. High raw material costs also led to streamlining in the fertilizer business.

As a result of the above factors, net sales in the Performance Products Segment totaled ¥548.7 billion, a 16.7% increase over the previous fiscal year, and operating income amounted to ¥46.6 billion, an increase of 14.6%.

Functional Products

Sales of films, composite films and sheets remained strong, supported by robust demand from the information and electronics industry for protective films for LCDs. Sales of construction materials such as composite materials and industrial application materials such as carbon and alumina fibers grew steadily.

As a result, net sales in the Functional Products Segment totaled ¥373.1 billion, a 4.6% increase compared to the previous fiscal year, and operating income was ¥22.7 billion, up 6.0% year on year.

Health Care

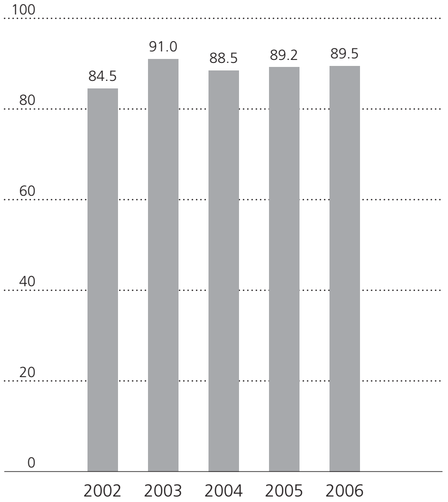
Sales in the pharmaceutical business remained on par with the previous fiscal year, with growth in sales of the ethical neuroprotective agent *RADICUT* and the anti-platelet agent, *ANPLAG* offsetting decreases in sales of other products. Sales in the clinical testing business increased, with contributions from new branch laboratories within hospitals in various parts of Japan. Sales in the business of testing for clinical trials also increased steadily.

As a result, net sales in the Health Care Segment increased to ¥280.5 billion, a 0.9% increase compared to the previous fiscal year. Operating income also improved to ¥33.9 billion, up 18.3% as a result of lower selling, general and administrative (SG&A) costs, which include R&D costs.

Services

Targets set at the beginning of the fiscal period were reached in the engineering and logistics businesses, as well as other businesses.

As a result, net sales in the Services Segment increased 0.5% to ¥152.4 billion. Operating income decreased 6.2% to ¥10.5 billion.



R&D Expenditures

(Billions of Yen)

Results by Geographic Distribution

Japan

MCHC Group companies implemented product sales price increases in line with rising raw material and fuels prices. This led to sales in Japan of ¥2,015.5 billion, a year-on-year increase of 10.3%. Operating income dropped 3.9% to ¥138.7 billion as a result of high raw material prices for petrochemical products, as well as decreasing prices for optical recording media.

Asia

Consolidated Group companies in Asia implemented sales price increases for petrochemical products such as synthetic fiber intermediates, leading to sales of ¥257.0 billion for a year-on-year increase of 9.1%. Operating income fell 74.2% to ¥3.1 billion, impacted by steep increases in raw material prices for petrochemical products.

Other Regions

Sales in international operations other than Asia were ¥136.3 billion, a 6.8% year-on-year increase on the back of sales growth of optical recording media and related products. Operating income was ¥2.8 billion, down 29.5% year on year as a result of decreases in sales prices of materials for printers and copiers.

R&D Expenditures

In addition to independent R&D activities within each company, MCHC Group is also strengthening ties between Group companies to promote mutual sharing of information about technologies and markets, collaborative research, and mutual commissioning of R&D operations. Moreover, MCHC Group is moving aggressively ahead with joint R&D activities with non-Group companies and institutes, working to develop new technologies and improve existing technologies.

MCHC Group had 2,997 R&D employees as of March 31, 2006, while R&D expenditures for the fiscal year totaled ¥89.5 billion.

Financial Position

Assets

Total assets as of March 31, 2006 stood at ¥2,126.6 billion, an increase of ¥156.0 billion as of the previous fiscal year-end. Major components were an increase in securities reflecting the upswing in stock market prices, a jump in inventories due to the sharp rise in raw material costs and other factors and an increase in trade receivables in line with net sales growth.

Liabilities

Total liabilities were ¥1,401.6 billion, up ¥16.5 billion year on year. While interest-bearing liabilities declined primarily reflecting the drop in debt, trade payables rose owing to the sharp increase in raw material costs. MCHC Group also recorded a provision for loss on the disposal of businesses in affiliated companies.

Minority Interests

Following a drop of ¥87.5 billion in connection with the transfer of Mitsubishi Pharma Corporation shares, minority interests fell ¥70.5 billion to ¥68.8 billion as of March 31, 2006.

Equity
Buoyed by net income of ¥85.5 billion, an increase in valuation gain on investment securities after tax effect of ¥49.5 billion and an upward swing in capital of ¥84.8 billion following the transfer of shares, total shareholders' equity rose ¥210.0 billion year on year to ¥656.0 billion.

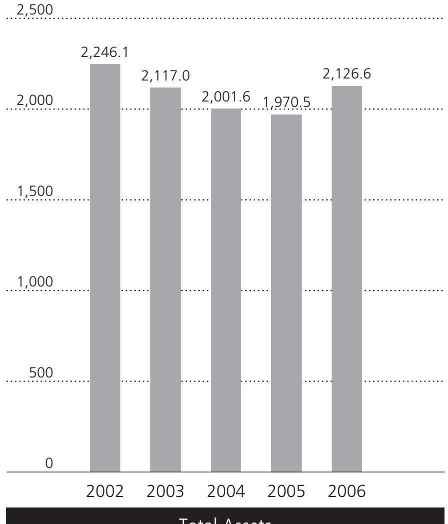
As a result, the shareholders' equity ratio as of the end of the fiscal year under review was 30.8%, up 8.2 percentage points from March 31, 2005.

Cash Flows

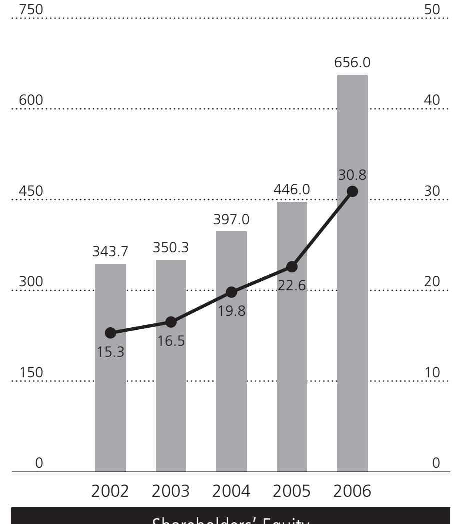
Free cash flows, which consist of cash flows from operating and investing activities, amounted to ¥105.3 billion, down ¥59.8 billion compared with the previous fiscal year. While income before income taxes amounted to ¥115.0 billion, the factors behind the decrease include an increase in working capital reflecting the sharp rise in raw material costs and a rise in capital investment. As a result, cash and cash equivalents generated were allocated to the repayment of interest-bearing debt and the payment of dividends to minority shareholders of Mitsubishi Chemical Corporation and its consolidated subsidiaries. Cash and Cash equivalents as of March 31, 2006 stood at ¥61.5 billion, an increase of ¥8.9 billion from the previous fiscal year-end.

Cash Flows from Operating Activities
Net cash provided by operating activities totaled ¥179.7 billion, down ¥43.0 billion compared with the previous fiscal year. This was attributed to an increase in inventories reflecting the sharp rise in raw material costs and an increase in income taxes paid.

Cash Flows from Investing Activities
Net cash used in investing activities was ¥74.3 billion, up ¥16.7 billion year on year. The major component consisted of payments for purchases of property, plant and equipment in connection with the commencement of construction of a purified terephthalic acid plant by Ningbo Mitsubishi Chemical Co., Ltd.



(Billions of Yen)



(Billions of Yen)
Equity Ratio (%)

Cash Flows from Financing Activities

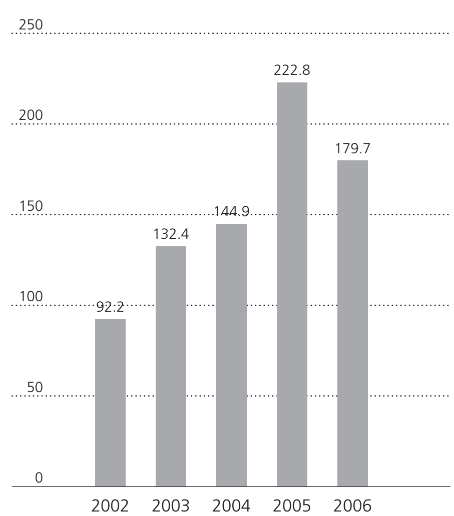
Net cash used in financing activities amounted to ¥97.1 billion, an improvement of ¥74.1 billion compared with the previous fiscal year. During the fiscal year under review, MCHC Group redeemed corporate bonds totaling ¥37.5 billion and undertook the repayment of long-term debt to the tune of ¥44.1 billion. In the area of funds procurement, MCHC Group issued new corporate bonds totaling ¥34.7 billion and increased its long-term debt by ¥42.7 billion. While short-term debt declined ¥89.7 billion, the balance of commercial paper increased by ¥17.0 billion. Furthermore, dividend payments to minority shareholders of Mitsubishi Chemical Corporation and its consolidated subsidiaries totaled ¥24.3 billion.

After accounting for the effects of exchange rate changes and adjustments to the scope of consolidation on cash and cash equivalents at the beginning of the year, cash and cash equivalents as of Match 31, 2006 stood at ¥61.5 billion, an increase of ¥8.9 billion compared with the previous fiscal year-end.

Capital Expenditures

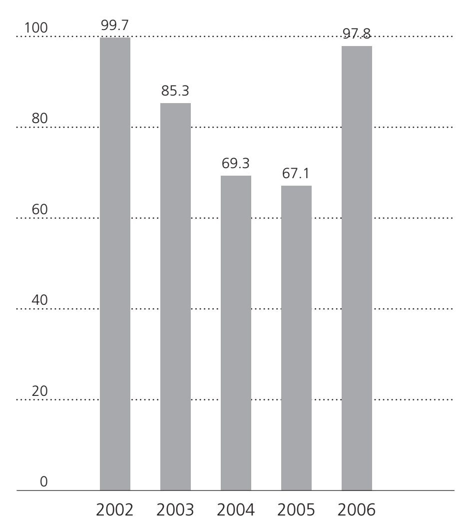
Capital expenditures for the fiscal year ended March 31, 2006 were ¥97.8 billion, an increase of ¥30.7 billion compared with the previous fiscal year. Of these expenditures, ¥39.3 billion was for new facilities and facility expansions, ¥22.1 billion was related to streamlining, ¥6.8 billion went for R&D, while ¥29.7 billion was for other uses. Major new facilities and facility expansions included PTA production facilities at Ningbo Mitsubishi Chemical Co., Ltd. (Petrochemicals Segment).

In Management's Discussion and Analysis section, every figure with billions of Yen is followed by the consolidated financial statements filed with the Director of the Kanto Local Finance Bureau.



Net Cash Provided by Operating Activities

(Billions of Yen)



Capital Expenditures

(Billions of Yen)

Consolidated Balance Sheets

Mitsubishi Chemical Holdings Corporation and its consolidated subsidiaries
March 31

	Mitsubishi Chemical Holdings Corporation	MItsubishi Chemical Corporation	Mitsubishi Chemical Holdings Corporation
	Millions of Yen	Millions of Yen	Thousands of U.S. Dollars (Note 2)
ASSETS	2006	2005	2006
Current assets:			
Cash and cash equivalents	¥ 61,547	¥ 52,575	$ 526,042
Short-term investments	3,835	2,648	32,778
Securities (Note 4)	7	13	60
Trade receivables	548,300	515,274	4,686,325
Inventories:			
Finished goods	146,511	126,682	1,252,231
Work in process	69,228	63,922	591,692
Raw materials and supplies	96,909	82,177	828,282
Land held for sale	4,925	4,940	42,094
Deferred income taxes-current (Note 10)	32,087	32,806	274,248
Prepaid expenses and other current assets	26,954	36,169	230,376
Allowance for doubtful accounts	(1,923)	(2,327)	(16,436)
Total current assets	988,380	914,879	8,447,692
Property, plant and equipment (Note 5):			
Land	178,016	176,169	1,521,504
Buildings	630,413	631,316	5,388,145
Machinery and equipment	1,509,497	1,489,944	12,901,684
Construction in progress	40,984	26,538	350,291
	2,358,910	2,323,967	20,161,624
Accumulated depreciation	(1,672,230)	(1,649,014)	(14,292,564)
Net property, plant and equipment	686,680	674,953	5,869,060
Investments and other assets:			
Investment securities (Note 4)	345,577	259,816	2,953,650
Long-term loans	3,128	3,024	26,735
Deferred income taxes-non-current (Note 10)	36,219	44,731	309,564
Other	67,761	74,477	579,154
Allowance for doubtful accounts	(1,133)	(1,352)	(9,684)
Total investments and other assets	451,552	380,696	3,859,419
Total assets	¥ 2,126,612	¥ 1,970,528	$ 18,176,171

See Notes to Consolidated Financial Statements.

LIABILITIES, MINORITY INTERESTS AND SHAREHOLDERS' EQUITY	Mitsubishi Chemical Holdings Corporation Millions of Yen 2006	MItsubishi Chemical Corporation Millions of Yen 2005	Mitsubishi Chemical Holdings Corporation Thousands of U.S. Dollars (Note 2) 2006
Current liabilities:			
Short-term debt (Note 5)	¥ 180,065	¥ 248,381	$ 1,539,017
Current portion of long-term debt (Note 5)	92,936	78,875	794,325
Trade payables	499,065	439,009	4,265,513
Accrued expenses	52,688	48,776	450,325
Accrued income taxes	14,654	23,333	125,248
Other current liabilities	51,799	44,168	442,726
Total current liabilities	891,207	882,542	7,617,154
Long-term liabilities:			
Long-term debt (Note 5)	363,668	376,821	3,108,273
Accrued retirement benefits (Note 6)	100,111	102,600	855,650
Other non-current liabilities	46,699	23,184	399,137
Total long-term liabilities	510,478	502,605	4,363,060
Minority interests	68,867	139,404	588,607
Shareholders' equity:			
Common stock:			
Authorized–6,000,000 thousand shares;			
Issued–1,806,288 thousand shares at March 31, 2006 and 2,177,675 thousand shares at March 31, 2005	50,000	145,086	427,350
Additional paid-in capital	412,876	117,108	3,528,855
Retained earnings (Note 14)	227,836	162,966	1,947,316
Revaluation surplus	1,886	1,901	16,120
Valuation gain on investment securities after tax effect	87,355	37,794	746,624
Foreign currency translation adjustments	(3,773)	(17,917)	(32,248)
Treasury stock at cost– 436,198 thousand shares at March 31, 2006 and 3,880 thousand shares at March 31, 2005	(120,120)	(961)	(1,026,667)
Total shareholders' equity	656,060	445,977	5,607,350
Total liabilities, minority interests and shareholders' equity	¥2,126,612	¥1,970,528	$18,176,171

See Notes to Consolidated Financial Statements.

Consolidated Statements of Operations

Mitsubishi Chemical Holdings Corporation and its consolidated subsidiaries
Years ended March 31

	Mitsubishi Chemical Holdings Corporation	Mitsubishi Chemical Corporation	Mitsubishi Chemical Holdings Corporation
	Millions of Yen	Millions of Yen	Thousands of U.S. Dollars (Note 2)
	2006	2005	**2006**
Net sales	**¥2,408,945**	¥2,189,462	**$20,589,274**
Cost of sales (Notes 11, 12)	**1,888,535**	1,668,818	**16,141,325**
Gross profit	**520,410**	520,644	**4,447,949**
Selling, general and administrative expenses (Notes 11, 12)	**386,791**	372,020	**3,305,906**
Operating income	**133,619**	148,624	**1,142,043**
Other income (expenses):			
Interest expenses	**(11,009)**	(10,856)	**(94,094)**
Interest income	**1,567**	1,178	**13,393**
Dividend income	**4,440**	3,573	**37,949**
Equity in earnings of non-consolidated subsidiaries and affiliates	**12,864**	8,999	**109,949**
Exchange gain (loss)	**6,129**	4,081	**52,384**
Provision for loss on the disposal of businesses	**(15,716)**	(917)	**(134,325)**
Personnel expenses of employees on secondment charged by affiliated and unaffiliated companies	**(4,164)**	(4,541)	**(35,590)**
Gain (Loss) on sale and disposal of property, plant and equipment, net	**(3,126)**	(8,639)	**(26,718)**
Write-down of property, plant and equipment	**(2,932)**	(1,462)	**(25,060)**
Write-down of other investment	**(2,869)**	—	**(24,521)**
Write-down of securities and investment securities	**(2,208)**	(3,601)	**(18,872)**
Provision for prospective loss on removal of fixed assets	**(2,150)**	(3,493)	**(18,376)**
Additional benefits for employees' early retirement (Note 6)	**(1,905)**	(3,300)	**(16,282)**
Impairment loss on fixed assets	**(1,131)**	(17,302)	**(9,667)**
Amortization of transition amount under post-employment benefits accounting (Note 6)	**—**	(8,061)	**—**
Gain on sale of securities and investment securities	**2,195**	2,499	**18,761**
Immediate recognition of reduction in prior service cost (Note 6)	**—**	2,427	**—**
Gain on sale of business	**—**	535	**—**
Other, net	**1,466**	(3,140)	**12,530**
Income before income taxes	**115,070**	106,604	**983,504**
Income taxes (Note 10):			
Current	**35,221**	35,706	**301,034**
Deferred	**(14,931)**	5,121	**(127,615)**
	20,290	40,827	**173,419**
Minority interests in consolidated subsidiaries	**(9,211)**	(10,405)	**(78,726)**
Net income	**¥ 85,569**	¥ 55,372	**$ 731,359**

See Notes to Consolidated Financial Statements.

	Yen	Yen	U.S. Dollars
Per share:			
Net income—Basic	**¥ 69.51**	¥ 25.40	**$ 0.594**
—Diluted	**69.38**	25.20	**0.593**
Cash dividends	**14.00**	6.0	**0.120**

Note: Cash dividends of Mitsubishi Chemical Holdings Corporation for the year ended March 31, 2006 (¥14.00) consists of ¥6.00 of Mitsubishi Chemical Corporation for the first half, which is adjusted to the basis of Mitsubishi Chemical Holdings Corporation by utilizing the stock exchange ratio, and ¥8.00 of Mitsubishi Chemical Holdings Corporation for the second half of the year.

Consolidated Statements of Shareholders' Equity

Mitsubishi Chemical Holdings Corporation and its consolidated subsidiaries
Years ended March 31

	Number of outstanding shares of common stock (thousands)	Common stock	Additional paid-in capital	Retained earnings	Revaluation surplus	Valuation gain on investment securities after tax effect	Foreign currency translation adjustments	Treasury stock at cost
		Millions of Yen						
Balance at March 31, 2004	2,177,675	¥145,086	¥116,980	¥127,744	¥1,901	¥24,897	¥(18,772)	¥ (773)
Net income	—	—	—	55,372	—	—	—	—
Cash dividends	—	—	—	(8,701)	—	—	—	—
Bonuses to directors	—	—	—	(102)	—	—	—	—
Increase from retirement or resale of treasury stock	—	—	128	—	—	—	—	—
Valuation gain on investment securities, after tax effect	—	—	—	—	—	12,897	—	—
Foreign currency translation adjustments	—	—	—	—	—	—	855	—
Decrease resulting from exclusion of an affiliate from the scope of application of the equity method	—	—	—	(11,501)	—	—	—	—
Increase resulting from exclusion of subsidiaries and affiliates from the scope of application of the equity method	—	—	—	343	—	—	—	—
Decrease resulting from the merger of a consolidated subsidiary with a non-consolidated subsidiary	—	—	—	31	—	—	—	—
Decrease resulting from the merger of a subsidiary accounted for by the equity method with a non-consolidated subsidiary	—	—	—	(18)	—	—	—	—
Decrease resulting from inclusion of a subsidiary in the scope of application of the consolidated subsidiaries	—	—	—	(13)	—	—	—	—
Decrease resulting from inclusion of an affiliate in the scope of application of the equity method	—	—	—	(13)	—	—	—	—
Minimum pension liability adjustment	—	—	—	(176)	—	—	—	—
Net increase in treasury stock	—	—	—	—	—	—	—	(188)
Balance at March 31, 2005	2,177,675	¥145,086	¥117,108	¥162,966	¥1,901	¥37,794	¥(17,917)	¥ (961)
Net income	—	—	—	85,569	—	—	—	—
Cash dividends	—	—	—	(19,570)	—	—	—	—
Bonuses to directors	—	—	—	(116)	—	—	—	—
Decrease resulting from stock transfer	(371,387)	(95,086)	—	—	—	—	—	—
Increase resulting from stock transfer	—	—	295,761	—	—	—	—	(117,719)
Increase from retirement or resale of treasury stock	—	—	7	—	—	1,930	—	—
Valuation gain on investment securities, after tax effect	—	—	—	—	—	47,631	—	—
Foreign currency translation adjustments	—	—	—	—	—	—	14,144	—
Increase resulting from the merger of an affiliate accounted for by the equity method with an affiliate not accounted for by the equity method	—	—	—	272	—	—	—	—
Increase resulting from exclusion of subsidiaries from the scope of application of the consolidated subsidiaries	—	—	—	32	—	—	—	—
Increase resulting from exclusion of an affiliate from the scope of application of the equity method	—	—	—	4	—	—	—	—
Increase resulting from the merger of an affiliate accounted for by the equity method with other entity	—	—	—	3	—	—	—	—
Increase resulting from inclusion of a subsidiary in the scope of application of the consolidated subsidiaries	—	—	—	2	—	—	—	—
Decrease resulting from exclusion of subsidiaries from the scope of application of the consolidated subsidiaries	—	—	—	(90)	—	—	—	—
Decrease in revaluation surplus	—	—	—	—	(15)	—	—	—
Minimum pension liability adjustment	—	—	—	(1,236)	—	—	—	—
Net increase in treasury stock	—	—	—	—	—	—	—	(1,440)
Balance at March 31, 2006	**1,806,288**	**¥ 50,000**	**¥412,876**	**¥227,836**	**¥1,886**	**¥87,355**	**¥ (3,773)**	**¥(120,120)**
		Thousands of U.S. Dollars (Note 2)						
Balance at March 31, 2005	2,177,675	$1,240,051	$1,000,923	$1,392,872	$16,248	$323,026	$(153,137)	$ (8,214)
Net income	—	—	—	731,359	—	—	—	—
Cash dividends	—	—	—	(167,265)	—	—	—	—
Bonuses to directors	—	—	—	(991)	—	—	—	—
Decrease resulting from stock transfer	(371,387)	(812,701)	—	—	—	—	—	—
Increase resulting from stock transfer	—	—	2,527,872	—	—	—	—	(1,006,145)
Increase from retirement or resale of treasury stock	—	—	60	—	—	16,495	—	—
Valuation gain on investment securities, after tax effect	—	—	—	—	—	407,103	—	—
Foreign currency translation adjustments	—	—	—	—	—	—	120,889	—
Increase resulting from the merger of an affiliate accounted for by the equity method with an affiliate not accounted for by the equity method	—	—	—	2,325	—	—	—	—
Increase resulting from exclusion of subsidiaries from the scope of application of the consolidated subsidiaries	—	—	—	273	—	—	—	—
Increase resulting from exclusion of an affiliate from the scope of application of the equity method	—	—	—	34	—	—	—	—
Increase resulting from the merger of an affiliate accounted for by the equity method with other entity	—	—	—	25	—	—	—	—
Increase resulting from inclusion of a subsidiary in the scope of application of the consolidated subsidiaries	—	—	—	17	—	—	—	—
Decrease resulting from exclusion of subsidiaries from the scope of application of the consolidated subsidiaries	—	—	—	(769)	—	—	—	—
Decrease in revaluation surplus	—	—	—	—	(128)	—	—	—
Minimum pension liability adjustment	—	—	—	(10,564)	—	—	—	—
Net increase in treasury stock	—	—	—	—	—	—	—	(12,308)
Balance at March 31, 2006	**1,806,288**	**$ 427,350**	**$3,528,855**	**$1,947,316**	**$16,120**	**$746,624**	**$ (32,248)**	**$(1,026,667)**

See Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

Mitsubishi Chemical Holdings Corporation and its consolidated subsidiaries
Years ended March 31

	Mitsubishi Chemical Holdings Corporation	Mitsubishi Chemical Corporation	Mitsubishi Chemical Holdings Corporation
	Millions of Yen	Millions of Yen	Thousands of U.S. Dollars (Note 2)
	2006	2005	**2006**
Cash flows from operating activities:			
Income before income taxes	**¥115,070**	¥ 106,604	**$ 983,504**
Adjustments for:			
Depreciation and amortization	**85,233**	86,246	**728,487**
Write-down of property, plant and equipment	**2,932**	1,462	**25,060**
Interest expenses	**11,009**	10,856	**94,094**
Interest and dividend income	**(6,007)**	(4,751)	**(51,342)**
Equity in earnings of the non-consolidated subsidiaries and affiliates	**(12,864)**	(8,999)	**(109,949)**
Exchange loss (gain)	**514**	142	**4,393**
Gain (loss) on sale and disposal of property, plant and equipment, net	**3,126**	8,639	**26,718**
Write-down of other investment	**2,869**	—	**24,521**
Write-down of securities and investment securities	**2,208**	3,601	**18,872**
Provision for prospective loss on removal of fixed assets	**2,150**	3,493	**18,376**
Impairment loss on fixed assets	**1,131**	17,302	**9,667**
Amortization of transition amount under post-employment benefits accounting	**—**	8,061	**—**
Gain on sale of securities and investment securities	**(2,195)**	(2,499)	**(18,761)**
Increase in trade receivables	**(13,264)**	(1,312)	**(113,367)**
Increase in inventories	**(34,301)**	(25,090)	**(293,171)**
Increase in trade payables	**45,615**	63,340	**389,872**
Other, net	**17,237**	(11,748)	**147,325**
	220,463	255,347	**1,884,299**
Interest and dividends received	**10,429**	7,404	**89,137**
Interest paid	**(11,394)**	(10,842)	**(97,385)**
Income taxes paid	**(39,775)**	(29,088)	**(339,957)**
Net cash provided by operating activities	**179,723**	222,821	**1,536,094**
Cash flows from investing activities:			
Proceeds from repayments of securities	**13**	2,751	**111**
Payments for purchases of property, plant and equipment	**(94,265)**	(67,873)	**(805,683)**
Proceeds from sales of property, plant and equipment	**6,803**	8,598	**58,145**
Payments for purchases of investment securities	**(4,671)**	(9,854)	**(39,923)**
Proceeds from sales of investment securities	**11,558**	11,525	**98,786**
Proceeds form sales of business	**—**	535	**—**
Decrease in loans receivable, net	**10,788**	1,271	**92,205**
Other, net	**(4,591)**	(4,595)	**(39,239)**
Net cash used in investing activities	**(74,365)**	(57,642)	**(635,598)**
Cash flows from financing activities:			
Decrease in short-term debt, net	**(72,750)**	(96,006)	**(621,795)**
Proceeds from issuance of long-term debt	**77,446**	69,733	**661,932**
Repayments of long-term debt	**(81,682)**	(132,027)	**(698,137)**
Cash dividends paid	**(19,570)**	(8,701)	**(167,265)**
Other, net	**(625)**	(4,305)	**(5,342)**
Net cash used in financing activities	**(97,181)**	(171,306)	**(830,607)**
Effect of exchange rate changes on cash and cash equivalents	**1,429**	414	**12,214**
Increase (Decrease) in cash and cash equivalents	**9,606**	(5,713)	**82,103**
Cash and cash equivalents at beginning of the year	**52,575**	57,538	**449,359**
Effect of adjustment of scope of consolidation on cash and cash equivalents at beginning of the year	**(634)**	750	**(5,419)**
Cash and cash equivalents at end of the year	**¥ 61,547**	¥ 52,575	**$ 526,043**

See Notes to Consolidated Financial Statements.

1. Significant Accounting Policies

(a) Basis of Presentation

The accompanying consolidated financial statements have been prepared from the accounts maintained by Mitsubishi Chemical Holdings Corporation (the "Corporation") and its consolidated subsidiaries in accordance with the provisions set forth in the Japanese Commercial Code and in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects from the application and disclosure requirements of International Financial Reporting Standards.
Certain items presented in the consolidated financial statements filed with the Director of the Kanto Local Finance Bureau have been reclassified for the convenience of readers outside Japan.
Where appropriate, certain prior year balances have been reclassified to conform to the year ended March 31, 2006 presentation.

(b) Establishment of the Corporation

The Corporation was established on October 3, 2005 as a holding company through a 100 percent stock transfer (exchange) by Mitsubishi Chemical Corporation ("MCC") and Mitsubishi Pharma Corporation ("MPC") which was a wholly owned subsidiary of MCC.
The stock exchange ratio was as follows;
•For each share of MCC common stock, 0.5 share of the Corporation's common stock
•For each share of MPC common stock, 1.565 share of the Corporation's common stock
As a result, MCC and MPC both became wholly owned subsidiaries of the Corporation and the shareholders of MCC and MPC became the shareholders of the Corporation.

Since, on formation date the consolidated Corporation is in substance the same as the consolidated MCC, the consolidated financial statements presented herein for the year ended March 31, 2006 succeeded the ending balance of consolidated retained earnings of MCC as of September 30, 2005, and the consolidated net income of the Corporation for the same year succeeded the first half of consolidated income of MCC and the second half of that of the Corporation. Accordingly, the consolidated financial figures of MCC for the year ended March 31, 2005 are presented for comparative purposes.

(c) Capital Consolidation Procedures Related to the Transfer of Shares

Capital consolidation procedures related to the stock transfer in connection with the establishment of the Corporation are in compliance with the "Consolidation Procedures for Full Parent-subsidiary Relationship Established Utilizing Share Exchange and Transfer System," as presented in Accounting Committee Research Report No.6 issued by the Japanese Institute of Certified Public Accountants.
Because the transfer of shares took place between parent and subsidiary companies, the transaction does not fall under the category of a merger of two corporations. Therefore, concerning capital consolidation, the former parent company, MCC, was handled under the pooling-of-interests method, while the subsidiary company, MPC, was handled according to consolidation principles.

(d) Principles of Consolidation

The consolidated financial statements include the accounts of the Corporation and its significant subsidiaries. Investments in subsidiaries not consolidated and affiliates are, with minor exceptions, accounted for by the equity method of accounting.
Generally, companies that are owned more than 50% fall under the category of subsidiaries and companies that are owned 20% or more but not more than 50% fall under the category of affiliates. However, companies that are owned 40% to 50% may also fall under the category of subsidiaries and companies that are owned 15% to under 20% may also fall under the category of affiliates, if the Corporation substantially controls the investees' management or has significant influence and relationship with the investees.
All significant intercompany accounts and transactions have been eliminated in consolidation. On acquisition, the assets and liabilities of the subsidiaries are valued at fair value.
The excess of the cost over the fair value on acquisition of underlying net equity in subsidiaries and affiliates that are consolidated or accounted for by the equity method is amortized on a straight-line basis within a period of twenty years, but mainly five years.

(e) Securities

Debt securities that are intended to be held to maturity ("held- to-maturity debt securities") are measured at amortized cost in the balance sheet. Securities other than held-to-maturity debt securities and equity investments in subsidiaries and affiliates ("other securities") are measured at fair value.
The difference between the fair value and the historical cost is recorded as a separate component of shareholders' equity. The historical cost is determined by the moving average cost. Securities that have no market price, if not impaired, are stated at their historical cost.

Debt securities due within one year are presented as "current" in the consolidated balance sheets. All the other securities are presented as "non-current" in the consolidated balance sheets.

(f) Allowance for Doubtful Accounts
Allowance for doubtful accounts is provided for at an amount estimated with reference to individual accounts deemed uncollectible plus an amount calculated by a historical rate based on the actual uncollectible amounts in prior years.

(g) Inventories
Finished goods are stated principally at the lower of cost or market value, using the average cost method. Other inventories are stated principally at average cost.

(h) Property, Plant and Equipment
Property, plant and equipment is stated at cost. Depreciation of the property, plant and equipment of the Corporation and its consolidated subsidiaries in Japan is principally calculated using the declining-balance method at rates based on their estimated useful lives. Depreciation for overseas consolidated subsidiaries is principally calculated using the straight-line method over the estimated useful lives.
Principal estimated useful lives of the assets are as follows:

Buildings:	10—50 years
Machinery and equipment:	4—17 years

(i) Leases
Finance leases other than those that are deemed to transfer the ownership of the leased assets to the lessees are principally accounted for by the method that is applicable to ordinary operating leases.

(j) Research and Development
Expenses related to research and development activities are charged to income as incurred.

(k) Foreign Currency Translation
All receivables and payables denominated in foreign currencies at the balance sheet date are translated into Japanese yen at the exchange rates as of the balance sheet date. The resulting exchange gains or losses are charged to income.

(l) Foreign Currency Financial Statements
The balance sheet accounts of foreign subsidiaries and affiliates are translated into Japanese yen at the exchange rate as of the balance sheet date, except for shareholders' equity, which is translated at the historical exchange rate. Revenues and expense accounts of foreign subsidiaries and affiliates are translated into Japanese yen at the average exchange rates during the fiscal year.
Translation adjustments resulting from the process of translating the financial statements of foreign subsidiaries and affiliates into Japanese yen are accumulated and reported as a component of shareholders' equity in the consolidated balance sheet.

(m) Income Taxes
The tax effect of temporary differences between the financial statements and income tax base of assets and liabilities is recognized as deferred income taxes, using enacted tax rates applicable to the periods in which the differences are expected to affect taxable income.
A valuation allowance is provided for any portion of the deferred tax assets where it is considered more likely than not that they will not be realized.

(n) Accrued Retirement Benefits and Pension Plan
Upon terminating their employment, employees of the Corporation and its subsidiaries in Japan are entitled, under most circumstances, to lump-sum severance payments or pension payments. For retiring employees, under normal circumstances, payment is an amount based on current rates of pay, length of service and the type of termination (voluntary or involuntary). In calculating the payment for employees retiring due to meeting mandatory retirement age requirements, the Corporation and its significant subsidiaries in Japan may grant additional benefits. The Corporation and its significant subsidiaries in Japan have defined benefit pension plans funded through several financial institutions in accordance with the applicable laws and regulations. The funding policy is to make actuarially determined contributions to provide the plans with sufficient assets to meet future benefit payment requirements. The pension benefits are determined based on years of service and the compensation amounts, as stipulated in the pension plan's regulations, are payable at the option of the retiring employee in a lump-sum amount or as a monthly pension.
Some foreign subsidiaries have defined benefit pension plans that substantially cover all of their employees, under which the cost of benefits is currently funded or accrued.

(o) Directors' Retirement Benefits

Accrued lump-sum retirement benefits for directors, executive officers and corporate auditors are determined based on the Corporation's internal regulations approved by the Board of Directors. Similar plans are adopted by several consolidated subsidiaries. In the consolidated balance sheet, ¥2,259 million ($19,308 thousand) and ¥2,435 million were included in other non-current liabilities at March 31, 2006 and 2005, respectively.

(p) Appropriations of Retained Earnings

Cash dividends and bonuses to directors (including those of consolidated subsidiaries) are recorded in the fiscal year in which they are approved at the relevant shareholders' meeting or, in the case of interim dividends, the years in which they are declared by the Board of Directors.

(q) Reserve for Periodic Repairs

The Corporation and several consolidated subsidiaries provide for the costs of periodic repairs of production facilities in the plants and oil tanks. In the consolidated balance sheet, ¥8,433 million ($72,077 thousand) and ¥10,012 million were included in Other current liabilities and Other non-current liabilities at March 31, 2006 and 2005, respectively.

(r) Reserve for Prospective Loss on Removal of Fixed Assets

The Corporation and several consolidated subsidiaries provide for the prospective loss on removal of fixed assets. In the consolidated balance sheet, ¥5,547 million ($47,410 thousand) and ¥3,493 million were included in Other current liabilities and Other non-current liabilities at March 31, 2006 and 2005, respectively.

(s) Net Income (Loss) per Share

Net income (loss) per share has been computed based on the average number of shares of common stock outstanding during the fiscal year. Fully diluted net income per share additionally assumes the conversion of the convertible bonds.

(t) Cash and Cash Equivalents

Cash and cash equivalents in the consolidated statements of cash flows are composed of cash on hand, bank deposits available for withdrawal on demand and short-term investments with original maturities of three months or less and which represent a minor risk of fluctuation in value.

2. U.S. Dollar Amounts

The Corporation and its domestic consolidated subsidiaries maintain their accounting records in Japanese yen. The U.S. dollar amounts are included solely for convenience and have been translated, as a matter of arithmetical computation only, at the rate of ¥117 to US$1, the approximate exchange rate prevailing on the Tokyo foreign exchange market at the end of March 2006. This translation should not be construed as a representation that the yen amounts actually represent, or have been, or could be, converted into U.S. dollars at this, or at any other rate.

3. Information on Environmental Remediation

Umeda Plant Soil Survey and Cleanup Activities

The Umeda Plant in Adachi Ward, Tokyo, of MPC, a consolidated subsidiary of the Corporation, was closed on May 31, 2003. The bulk manufacturing of Urso, an agent for improving hepatic, biliary, and digestive functions, was moved to API Corporations’s Iwaki Plant in Fukushima Prefecture. As there had been a history of mercury use on the site vacated by the plant, MPC was engaged in survey activities and measures to prevent the spread of pollution from March 2001 in accordance with the Environmental Ordinance for the Securing of Public Health and Safety issued by the Tokyo metropolitan government and with soil treatment guidelines. These operations were completed in September 2004.

The results of the above survey activities were summarized in a soil contamination status report, which was submitted to the Adachi Ward authorities together with a plan detailing measures to prevent the spread of pollution. These were accepted in October 2004. In November, meetings were held with local residents to present the results of the soil surveys and to explain the details of the clean-up operations. The clean-up operations, which were conducted using methods sensitive to the surrounding environment and with appropriate disclosure of information, were completed as of March 31, 2006 as originally scheduled.

A sales agreement was reached in February 2005 for the sale of the site after completion of the clean-up operations. The site has been sold in accordance with this agreement upon the completion of the clean-up operations.

Held-to-maturity debt securities are measured at amortized cost in the balance sheet. However, some held-to-maturity debt securities have fair value. The carrying amount, gross unrealized gains, gross unrealized losses and estimated fair value of held-to-maturity debt securities at March 31, 2006 and 2005, were summarized as follows:

	Millions of Yen			
	2006			
March 31	Carrying Amount	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Held-to-maturity debt securities:				
Government bonds	**¥20**	**¥ 0**	**¥ 0**	**¥20**
Corporate bonds	—	—	—	—
Other debt securities	—	—	—	—
	¥20	**¥ 0**	**¥ 0**	**¥20**

	Millions of Yen			
	2005			
March 31	Carrying Amount	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Held-to-maturity debt securities:				
Government bonds	¥20	¥ 0	¥ 0	¥20
Corporate bonds	—	—	—	—
Other debt securities	—	—	—	—
	¥20	¥ 0	¥ 0	¥20

	Thousands of U.S. Dollars			
	2006			
March 31	Carrying Amount	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Held-to-maturity debt securities:				
Government bonds	**$171**	**$ 0**	**$ 0**	**$171**
Corporate bonds	—	—	—	—
Other debt securities	—	—	—	—
	$171	**$ 0**	**$ 0**	**$171**

Other securities are measured at fair value. The difference between the fair value and the historical cost is recorded in the category of shareholders' equity. The differences at March 31, 2006 and 2005, were summarized as follows.

	Millions of Yen				
	2006				
March 31	Historical Costs	Fair Value	Net Differences	Gross Gains	(Breakdown) Gross Losses
Other securities:					
Equity securities	**¥59,397**	**¥206,298**	**¥146,901**	**¥146,958**	**¥(57)**
Government bonds	—	—	—	—	—
Corporate bonds	—	—	—	—	—
Other debt securities	—	—	—	—	—
	¥59,397	**¥206,298**	**¥146,901**	**¥146,958**	**¥(57)**

	Millions of Yen				
	2005				
March 31	Historical Costs	Fair Value	Net Differences	Gross Gains	(Breakdown) Gross Losses
Other securities:					
Equity securities	¥59,795	¥124,862	¥65,067	¥65,558	¥(491)
Government bonds	30	30	0	0	—
Corporate bonds	—	—	—	—	0
Other debt securities	3	3	0	—	0
	¥59,828	¥124,895	¥65,067	¥65,558	¥(491)

March 31	Thousands of U.S. Dollars 2006 Historical Costs	Fair Value	Net Differences	Gross Gains	(Breakdown) Gross Losses
Other securities:					
Equity securities	$507,667	$1,763,231	$1,255,564	$1,256,051	$(487)
Government bonds	—	—	—	—	—
Corporate bonds	—	—	—	—	—
Other debt securities	—	—	—	—	—
	$507,667	$1,763,231	$1,255,564	$1,256,051	$(487)

The carrying amount of held-to-maturity debt securities and other securities which have maturities at March 31, 2006 and 2005, by contractual maturity, are shown below.

	Millions of Yen 2006 Held-to-Maturity Debt Securities				
	Government Securities	Corporate Securities	Other Debt Securities	Other Securities	Total
Maturity:					
Due in one year or less	¥—	¥ —	¥—	¥—	¥ —
Due after one year through five years	20	2,500	2	—	2,522
Due after five years through ten years	—	—	1	—	1
Due after ten years	—	—	—	—	—

	Millions of Yen 2005 Held-to-Maturity Debt Securities				
	Government Securities	Corporate Securities	Other Debt Securities	Other Securities	Total
Maturity:					
Due in one year or less	¥10	¥ —	¥ 3	¥—	¥ 13
Due after one year through five years	40	—	—	—	40
Due after five years through ten years	—	2,000	2	—	2,002
Due after ten years	—	—	1	—	1

	Thousands of U.S. Dollars 2006 Held-to-Maturity Debt Securities				
	Government Securities	Corporate Securities	Other Debt Securities	Other Securities	Total
Maturity:					
Due in one year or less	$ —	$ —	$—	$—	$ —
Due after one year through five years	171	21,368	17	—	21,556
Due after five years through ten years	—	—	9	—	9
Due after ten years	—	—	—	—	—

5. Short-Term Debt and Long-Term Debt

At March 31, 2006 and 2005, the short-term debt of the Corporation and its consolidated subsidiaries consisted of the following:

March 31	Millions of Yen 2006	2005	Thousands of U.S. Dollars 2006
Short-term loans, principally from banks and other financial institutions, interest ranging from 0.00% to 8.00% at March 31, 2006, and from 0.06% to 6.20% at March 31, 2005	¥148,065	¥233,381	$1,265,513
Commercial paper	32,000	15,000	273,504
	¥180,065	¥248,381	$1,539,017

At March 31, 2006 and 2005, the long-term debt of the Corporation's consolidated subsidiaries consisted of the following:

March 31	Millions of Yen 2006	Millions of Yen 2005	Thousands of U.S. Dollars 2006
Debt issued by MCC:			
1.6% convertible bonds due 2006, currently convertible at ¥502.9	¥ —	¥ 8,000	$ —
3.0% notes due 2005	—	10,000	—
3.1% notes due 2005	—	10,000	—
4.2% notes due 2006	10,000	10,000	85,470
3.4% notes due 2006	10,000	10,000	85,470
2.85% notes due 2007	10,000	10,000	85,470
3.05% notes due 2007	10,000	10,000	85,470
2.775% notes due 2007	10,000	10,000	85,470
2.675% notes due 2007	10,000	10,000	85,470
3.25% notes due 2007	10,000	10,000	85,470
Floating rate notes due 2007	5,000	5,000	42,736
2.75% notes due 2008	10,000	10,000	85,470
0.55% notes due 2008	10,000	10,000	85,470
1.08% notes due 2008	15,000	15,000	128,205
3.0% notes due 2009	10,000	10,000	85,470
1.43% notes due 2009	15,000	15,000	128,205
1.27% notes due 2009	20,000	20,000	170,940
2.65% notes due 2010	5,000	5,000	42,736
1.15% notes due 2010	10,000	10,000	85,470
1.3% notes due 2011	10,000	—	85,470
1.46% notes due 2011	10,000	10,000	85,470
1.8% notes due 2013	15,000	15,000	128,205
1.16% notes due 2013	10,000	10,000	85,470
1.90% notes due 2014	10,000	10,000	85,470
2.02% notes due 2014	10,000	10,000	85,470
2.01% notes due 2016	20,000	—	170,940
Debt issued by consolidated subsidiaries other than MCC, due 2005—2009, interest 0.58%—5.001% ranging from 0.58% to 5.001% at March 31, 2006 and from 0.58% to 1.621% at March 31, 2005	9,745	14,151	83,291
Loans, principally from banks and insurance companies due 2005 to 2027, interest ranging from 0.0% to 6.15% at March 31, 2006, and from 0.0% to 13.407% at March 31, 2005:			
Collateralized	12,421	19,296	106,162
Non-collateralized	179,438	169,249	1,533,658
	456,604	455,696	3,902,598
Less, current portion	(92,936)	(78,875)	(794,325)
	¥363,668	¥376,821	$3,108,273

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

March 31	Millions of Yen	Thousands of U.S. Dollars
Property, plant and equipment	¥72,457	$619,291
	¥72,457	$619,291

The aggregate annual maturities of the non-current portion of long-term debt are as follows:

Years ending March 31	Millions of Yen	Thousands of U.S. Dollars
2008	¥ 75,000	$ 641,026
2009	70,340	601,196
2010	61,316	524,068
2011 and thereafter	157,012	1,341,983
	¥363,668	$3,108,273

6. Pension and Severance Plans

At March 31, 2006 and 2005, the compositions of amounts recognized in the consolidated balance sheets were as follows:

	Millions of Yen		Thousands of U.S. Dollars
March 31	2006	2005	2006
Projected benefit obligation at end of year	¥(369,924)	¥(375,334)	$(3,161,744)
Fair value of plan assets at end of year	317,944	263,967	2,717,470
Funded status	(51,980)	(111,367)	(444,274)
Unrecognized transition amount under post-employment benefits accounting	7,584	8,503	64,821
Unrecognized actuarial loss (gain)	(22,928)	39,350	(195,966)
Unrecognized prior service cost	(26,472)	(35,395)	(226,256)
Net amount recognized	(93,796)	(98,909)	(801,675)
Prepaid pension expense	6,315	3,691	53,975
Accrued retirement benefits	¥(100,111)	¥(102,600)	$ (855,650)

The components of net pension and severance costs for the year ended March 31, 2006 and 2005, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
Years ended March 31	2006	2005	2006
Service cost	¥ 9,705	¥10,275	$ 82,949
Interest cost	8,190	8,229	70,000
Expected return on plan assets	(4,813)	(4,338)	(41,137)
Amortization of transition amount under post-employment benefits accounting	919	8,061	7,855
Recognized actuarial loss	17,575	16,524	150,213
Amortization of prior service cost	(8,751)	(8,873)	(74,795)
Decrease of post-employment benefits obligation	—	(2,427)	—
Net periodic benefit cost	¥22,825	27,451	$195,085

Notes: 1. Actuarial loss is recognized using the straight-line method over a period of mainly five years from the fiscal year following the year in which the loss arises.
2. Prior service cost is amortized using the straight-line method over a period of mainly five years from the relevant fiscal year.
3. Transition amount under post-employment benefits accounting is amortized using the straight-line method over a period of mainly fifteen years from the year ended March 31,2001.
4. Additional benefits for employees' early retirement amounting to ¥1,905 million and ¥3,300 million were recorded in addition to the amount of net periodic benefit cost for the year ended March 31, 2006 and 2005, respectively.

Assumptions used as of March 31, 2006 and 2005, were as follows:

Years ended March 31	2006	2005
Discount rate	2.0%	2.0%
Expected return on plan assets	2.0%	2.0%

7. Contingent Liabilities

At March 31, 2006, the Corporation and its consolidated subsidiaries were contingently liable for trade notes discounted for ¥3,822 million ($32,667 thousand). They were also guarantors for the borrowing below, principally incurred by non-consolidated subsidiaries, affiliates, and others.

	Gross including Third Parties' Liabilities		Net Corporation and Its Consolidated Subsidiaries' Own Liabilities	
March 31	Millions of Yen	Thousands of U.S. Dollars	Millions of Yen	Thousands of U.S. Dollars
Guarantee	¥26,465	$226,197	¥22,536	$192,615
Stand-by guarantee	1,422	12,154	1,422	12,154
Other construed guarantee	9,349	79,906	4,816	41,162

8. Lease Transactions

At March 31, 2006 and 2005, finance leases other than those that are deemed to transfer the ownership of the leased assets to the lessees were accounted for as operating leases. Equivalent amounts for these leases, if they were capitalized, were as follows:

Equivalent Purchase Amount, Accumulated Depreciation Amount, Accumulated Impairment Amount and Balance at Year-End

	Millions of Yen		Thousands of U.S. Dollars
March 31	2006	2005	2006
Machinery and equipment:			
Equivalent purchase amount	¥19,919	¥21,937	$170,248
Equivalent accumulated depreciation amount	10,970	12,209	93,761
Equivalent accumulated impairment amount	185	159	1,581
Equivalent balance at year-end	8,764	9,569	74,906

Notes: 1. Equivalent purchase amount includes interest.
2. Equivalent purchase amount excludes subleased assets.

Future Minimum Lease Payments for the Remaining Lease Periods

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Due within one year	¥ 4,002	¥ 3,819	$34,205
Due after one year	6,338	6,584	54,171
	10,340	10,403	88,376
Impairment of lease assets amount on the balance sheet	¥ 120	¥ 135	$ 1,026

Notes: 1. Lease Payments include interest.
2. Lease Payments include sublease payments.

Paid Lease Fees, Amortization Expense Amount, Equivalent Depreciation Expense Amount, and Impairment Loss

	Millions of Yen		Thousands of U.S. Dollars
Years ended March 31	2006	2005	2006
Paid lease fees	¥5,128	¥5,189	$43,829
Amortization expense amount	31	24	265
Equivalent depreciation expense amount	5,097	5,165	43,564
Impairment loss on lease assets	¥ 16	¥ 159	$ 137

Note: Equivalent depreciation expense amount is calculated using the straight-line method,with the lease period as the useful life and zero (0) as the residual value.

Future Minimum Sublease Income for the Remaining Lease Periods

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Due within one year	¥ 366	¥172	$ 3,128
Due after one year	1,210	662	10,342
	¥1,576	¥834	$13,470

At March 31, 2006 and 2005, noncancellable operating lease obligations were accounted for as follows:

Future Minimum Lease Payments for the Remaining Lease Periods

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Due within one year	¥1,084	¥1,078	$ 9,265
Due after one year	2,953	3,502	25,239
	¥4,037	¥4,580	$34,504

9. Derivative Financial Instruments

Several consolidated subsidiaries enter into foreign currency forward exchange contracts, currency swaps, interest rate swaps, interest rate caps, commodity futures contracts and commodity swaps in order to manage exposures resulting from fluctuations in foreign currency exchange rates, interest rates and commodity prices.

The Corporation and its subsidiaries have internal rules to designate the purpose, policy and procedures for derivative financial instruments. It is the Corporation's policy that the Corporation and its subsidiaries do not enter into derivative instruments for any purpose other than hedging purposes.

The forward exchange contracts and currency swaps are used to hedge the risk of foreign currency exchange rates associated with assets and liabilities denominated in foreign currencies, and to fix the future net cash flows from operating transactions denominated in foreign currencies. The interest rate swaps and caps contracts are used to manage fluctuations in cash flows resulting from interest rate risk associated with financial transactions.

The commodity future contracts and commodity swaps are used to hedge the risk of fluctuations in commodity prices.

Most of the hedging relationships between the derivative financial instruments and their hedged items are highly effective in achieving offsetting changes in foreign currency exchange rates, interest rates and commodity prices.

Several subsidiaries are also exposed to credit-related losses in the event of non-performance by counter-parties to derivative financial instruments, but it is not expected that any counterparties will fail to meet their obligations, because most of the counterparties are internationally recognized financial institutions and contracts are diversified across a number of major financial institutions.

10. Income Taxes

At March 31, 2006 and 2005, significant components of deferred tax assets and liabilities were as follows:

	Millions of Yen		Thousands of U.S. Dollars
March 31	2006	2005	2006
Deferred tax assets:			
Tax loss carryforwards	¥ 43,974	¥ 42,366	$ 375,846
Employees' retirement benefits	40,327	41,295	344,675
Write-down of investment securities	27,101	10,467	231,633
Bonus payment reserve for employees	10,348	9,893	88,444
Depreciation	9,186	6,757	78,513
Unrealized earnings	6,283	6,242	53,701
Impairment of fixed assets	3,656	7,292	31,248
Other	37,358	36,723	319,299
Deferred tax assets	¥178,233	¥161,035	$1,523,359
Valuation allowance	(47,327)	(45,022)	(404,505)
Total deferred tax assets	¥130,906	¥116,013	$1,118,854
Deferred tax liabilities:			
Valuation gain of investment securities	(53,161)	(22,509)	(454,367)
Accelerated tax depreciation	(10,545)	(8,377)	(90,128)
Valuation of assets	(9,387)	(10,263)	(80,231)
Tax deductible reserve	(1,095)	(1,401)	(9,359)
Other	(1,181)	(1,254)	(10,094)
Total deferred tax liabilities	(75,369)	(43,804)	(644,179)
Net deferred tax assets	¥ 55,537	¥ 72,209	$ 474,675

At March 31, 2006 and 2005 the net deferred tax assets are included in the consolidated balance sheets as follows:

	Millions of Yen		Thousands of U.S. Dollars
March 31	2006	2005	2006
Deferred income taxes-current	¥32,087	¥32,806	$274,248
Deferred income taxes-non-current	36,219	44,731	309,564
Other current liabilities	(3,871)	(2,649)	(33,085)
Other non-current liabilities	(8,898)	(2,679)	(76,051)

The reconciliation of the statutory tax rate to the effective income tax rate for the year ended March 31, 2006 was as follows:

Year ended March 31	2006
Statutory tax rate	39.5%
Increase (decrease) in taxes resulting from:	
Increase of valuation allowance	10.1
Permanent differences	4.9
Investment valuation loss of consolidated subsidiaries	(20.0)
Allowance for doubtful accounts in the affiliated companies	(5.1)
Equity in earnings of non-consolidated subsidiaries and affiliates	(4.1)
Tax credits for research and development costs	(4.1)
Differences of statutory tax rate in overseas subsidiaries	(1.2)
Unrealized earnings	(1.2)
Other	(1.2)
Effective income tax rate	17.6%

A reconciliation of the statutory tax rate to the effective income tax rate for the year ended March 31, 2005 is not disclosed as the difference is immaterial.

11. Research and Development

For the years ended March 31, 2006 and 2005, the following items were recorded in the statements of operations:

	Millions of Yen		Thousands of U.S. Dollars
Years ended March 31	2006	2005	2006
Research and Development	¥89,594	¥89,215	$765,761

12. Supplemental Information to the Statements of Operations

For the years ended March 31, 2006 and 2005, the following items were recorded in the statements of operations:

	Millions of Yen		Thousands of U.S. Dollars
Years ended March 31	2006	2005	2006
Depreciation and amortization	¥88,165	¥87,708	$753,547

13. Segment Information

Segment Information is described on page 39 and 40.

14. Subsequent Events

Appropriation of Retained Earnings

On June 28, 2006, the shareholders of the Corporation approved the following appropriations of retained earnings:

Years ended March 31	Millions of Yen	Thousands of U.S. Dollars
Cash dividends	¥14,436	$123,385

Pursuant to the Japanese Commercial Code, the maximum amount available for cash dividends is determined based upon the Corporation's non-consolidated financial position.

Kasumigaseki Bldg. 32nd Floor
3-2-5, Kasumigaseki, Chiyoda-ku,
Tokyo 100-6088, Japan

To the Board of Directors and Shareholders of
Mitsubishi Chemical Holdings Corporation

We have audited the accompanying consolidated balance sheet of Mitsubishi Chemical Holdings Corporation and its consolidated subsidiaries (the Corporation) as of March 31, 2006 and that of Mitsubishi Chemical Corporation and its consolidated subsidiaries as of March 31, 2005 (refer to Note 1(b)), and the related consolidated statements of operations, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese Yen. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Mitsubishi Chemical Holdings Corporation and its consolidated subsidiaries as of March 31, 2006 and of Mitsubishi Chemical Corporation and its consolidated subsidiaries as of March 31, 2005, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

The amounts expressed in U.S. dollars, which are provided solely for the convenience of the reader, have been translated on the basis set forth in Note 2 to the accompanying consolidated financial statements.

Tokyo, Japan
June 28, 2006

Mitsubishi Chemical Group: Major Affiliates

● Consolidated subsidiaries
● Affiliates accounted for by the equity method

Petrochemicals Segment

Name	Major Products or Lines of Business	Equity Participation (%)
Japan		
● Chuo Rika Kogyo Corporation	Emulsions	45.8%
● Dia Chemical Co., Ltd.	Industrial chemicals, Specialty chemicals	100.0%
● Dia-Nitrix Co., Ltd.	Acrylonitrile, Acrylamide, Polyacrylamide, N-vinylformamide and its polymers	50.0%
● Dia Terephthalic Acid Corporation	Purified terephthalic acid	65.0%
● Echizen Polymer Co., Ltd.	PET resins, A-PET sheet	95.0%
● Japan Ethanol Company Limited	Synthetic alcohol for industrial use	100.0%
● Japan Polychem Corporation	Holding company of Japan Polyethylene Corp. and Japan Polypropylene Corp.	100.0%
● Japan Polyethylene Corporation	Polyethylene resins	50.0%
● Japan Polypropylene Corporation	Polypropylene resins	65.0%
● Japan Unipet Co., Ltd.	PET resins for bottles	44.9%
● J-PLUS Co., Ltd.	Plasticizers	50.0%
● KAWASAKI KASEI CHEMICALS LTD.	Organic acid and its derivatives, Quinone-related products	38.1%
● Mitsubishi Engineering-Plastics Corporation	Engineering plastics	50.0%
● Nihon Isobutylene Company Limited	Isobutylene	50.0%
● Nippon Ester Co., Ltd.	Polyester fibers, PET resins	40.0%
● PS Japan Corporation	Polystyrene	27.5%
● San-Dia Polymers, Ltd.	Super-absorbent polymers	40.0%
● Techno Polymer Co., Ltd.	ABS resins	40.0%
● The Nippon Synthetic Chemical Industry Co., Ltd.	PVOH, EVOH, PVOH films, Specialty polymers, Industrical and fine chemicals	35.5%
● V-Tech Corporation	Electrolytes products, Vinyl chloride monomer, Polyvinyl chloride	85.1%
● Yokkaichi Chemical Co., Ltd.	Nonionic surfactants, Glycol ethers, Fine chemicals	55.0%
● Yuka Schenectady Co., Ltd.	Alkylphenol products (PTBP, PTOP, PDDP)	50.0%
Asia Pacific		
● Dia Chemics Korea Limited	1,4-BG, THF, PTMG, GBL, NMP	100.0%
● HMT Polystyrene Co., Ltd.	Polystyrene resins	100.0%
● MCC PTA India Corp. Private Limited	Purified terephthalic acid	66.0%
● Mytex Polymers Asia Pacific Pte Ltd	Polypropylene polymers and compounds for automotive and consumer-electronics industries	50.0%
● Ningbo Mitsubishi Chemical Co., Ltd	Purified terephthalic acid	90.0%
● Novapex Australia Pty Ltd.	PET resins	100.0%
● PT. Mitsubishi Chemical Indonesia	Purified terephthalic acid, PET resins	100.0%
● Sam Nam Petrochemical Co., Ltd.	Purified terephthalic acid	40.0%
● Sam Yang Kasei Co., Ltd.	Polycarbonate	25.0%
● Tai Young Nylon Co., Ltd.	Nylon resins	100.0%
● Yuka Seraya Private Limited	Styrene monomer	100.0%
America		
● Mytex Polymers General Partnership	Polypropylene compounds for automotive industry	50.0%
Africa		
● Sasol Dia Acrylates (Pty) Limited	Acrylic acid, Acrylic esters	50.0%

Performance Products Segment

Japan		
● API Corporation	Active pharmaceutical ingredients, Fine chemicals	100.0%
● Calgon Mitsubishi Chemical Corporation	Activated carbon	51.0%
● Dia Chemco Company Limited	Substrate for cosmetics	100.0%
● Dia Fine Co., Ltd.	Dye stuff and chemicals for paper industry	50.0%
● Dia Instruments Co., Ltd.	Analysis equipments	100.0%
● Frontier Carbon Corporation	Nanocarbon products	50.0%
● Japan Epoxy Resins Co., Ltd.	Epoxy resins	100.0%
● Kasei Optonix, Ltd.	Phosphors, Intensifying screen for radiography	97.4%

Name	Major Products or Lines of Business	Equity Participation (%)
Mitsubishi Chemical Agri, Inc.	Fertilizers, Green and gardening materials	100.0%
Mitsubishi-Kagaku Foods Corporation	Food ingredients, Sugar esters, Erythritol	100.0%
Mitsubishi Kagaku Media Co., Ltd.	DVD±R/±RW, CD-R/-RW, MO, FD	100.0%
Nippon Kasei Chemical Company Limited	Industrial chemicals, Specialty chemicals, Inorganic chemicals	52.8%
Osaka Kasei Co., Ltd.	Chemicals	100.0%
Shinryo Corporation	Ecological recycling, Semiconductors, Fine chemicals	100.0%
THE KANSAI COKE AND CHEMICALS CO., LTD.	Coke, Tar derivatives	51.0%
Yuka Denshi Company Limited	Materials for electronics devices	100.0%
Asia Pacific		
Mitsubishi Chemical Infonics Pte Ltd	OPC, CD-RW, DVD±R/±RW	100.0%
Tai Young Chemical Co., Ltd.	Ion exchange resins	100.0%
Tai Young High Tech Co., Ltd.	Electronics grade chemicals, Precision cleaning, LCD glass recycling	100.0%
America		
Mitsubishi Chemical Performance Polymers, Inc.	Thermoplastic polyester elastomer: *THERMORUN, RABALON*, High performance adhesive polymer: *MODIC*, Fine chemicals	100.0%
Mitsubishi Kagaku Imaging Corporation	Copy machine-related and printer-related products (Organic photo conductor (OPC), Toner)	100.0%
USR Optonix Inc.	Phosphors, Intensifying screen for radiography	100.0%
Verbatim Corporation	DVD±R/±RW, CD-R/-RW, MO	100.0%
Europe		
RESINDION S.R.L.	Ion exchange resins	100.0%
Verbatim Limited	DVD±R/±RW, CD-R/-RW, MO	100.0%

Functional Products Segment

Japan		
Kodama Chemical Industry Co., Ltd.	Plastic molding products	20.7%
Mitsubishi Chemical Functional Products, Inc.	Products for construction, civil engineering, and other industries	100.0%
MITSUBISHI CHEMICAL MKV COMPANY	Plastic films for agricultural use, Plastic films and sheets for general use	100.0%
Mitsubishi Plastics, Inc.	Plastic pipes, plates, films, containers, and tanks	52.7%
Mitsubishi Polyester Film Corporation	Polyester films	100.0%
NITTO KAKO CO., LTD.	Rubbers for industrial use	39.7%
Ryoka MACS Corporation	Aluminum mold and casting	100.0%
YUPO CORPORATION	Synthetic paper	50.0%
America		
Mitsubishi Chemical FP America, Inc.	*ALPOLIC*, *DIALEAD*, *REPLARK*, *MAFTEC*	100.0%
Mitsubishi Polyester Film, Inc.	Polyester films	100.0%
Europe		
Mitsubishi Polyester Film GmbH	Polyester films	100.0%

Health Care Segment

Japan		
Mitsubishi Chemical Safety Institute Ltd.	Safety testing and research for chemicals	100.0%
Mitsubishi Kagaku Bio-Clinical Laboratories, Inc.	Clinical testing	94.2%
Mitsubishi Kagaku Iatron, Inc.	Clinical diagnostics, Medical analytical instruments, Research reagents	86.3%
ZOEGENE Corporation	Drug candidate compounds, Protein engineering	100.0%

Services Segment

Japan		
Dia Analysis Service Inc.	Environmental analysis, investigation and assessment	100.0%
DIA RESEARCH MARTECH INC.	Investigation, Consulting, Publication, Informational services, Agency services	93.2%
DIA RIX CORPORATION	Real estate, Insurance agency, Office services	100.0%
Kitakyushu Prince Hotel Inc.	Hotel business	80.0%
Misuzu Erie Co., Ltd.	Construction and maintenance of electrical measuring instruments	92.0%
Mitsubishi Chemical Engineering Corporation	Engineering, Plant construction	100.0%
Mitsubishi Chemical Logistics Corporation	Logistics services	100.0%
Nippon Rensui Co.	Plant engineering for water treatment, Ion exchange resins	100.0%
RHOMBIC CORPORATION	Resin compounds	100.0%
Ryoka Systems Inc.	Computer systems, Software development	88.0%

Others

Name	Major Products or Lines of Business	Equity Participation (%)
Japan		
● Arpa Staff Inc.	Recruiting, Job placement, Temporary personnel service, Job consulting	100.0%
● MCFA Inc.	Financing and accounting for the Mitsubishi Chemical Holdings Group	100.0%
● Mitsubishi Chemical Group Science and Technology Research Center, Inc.	Research and technology development, Analysis services	100.0%
● Mitsubishi Kagaku Institute of Life Sciences	Research institute of life sciences	100.0%
● MNET Corporation	Education, Training	100.0%
America		
● MC Research & Innovation Center, Inc.	Research and technology development	100.0%

Mitsubishi Pharma Group: Major Affiliates

Health Care Segment

Japan		
● Benesis Corporation	Manufacture and sales of plasma fractionation preparations	100.0%
● BIPHA CORPORATION	Manufacture of pharmaceuticals	51.0%
● MP-Logistics Corporation	Logistics services	100.0%
● MP-Technopharma Corporation	Contracted drug formulation and manufacture	100.0%
● Welfide Service Corporation	Insurance agency, Real estate, Office services	100.0%
● Yoshitomiyakuhin Corporation	Commissioned medical information services on pharmaceuticals	100.0%

Directory

*As effective from October 10, 2006

Name	Address	TEL	FAX
Mitsubishi Chemical Holdings Corporation (Head Office)	33-8 Shiba 5-chome, Minato-ku, Tokyo 108-0014, Japan 14-1 Shiba 4-chome, Minato-ku, Tokyo, 108-0014, Japan*	[+81] (0)3-6414-4870	[+81] (0)3-6414-4879
Mitsubishi Chemical Group			
Domestic			
Mitsubishi Chemical Corporation (Head Office)	33-8 Shiba 5-chome, Minato-ku, Tokyo 108-0014, Japan 14-1 Shiba 4-chome, Minato-ku, Tokyo, 108-0014, Japan*	[+81] (0)3-6414-3730	[+81] (0)3-6414-3745
Overseas			
Mitsubishi Chemical America, Inc. (Head Office)	One North Lexington Avenue, White Plains, NY 10601, USA	[+1] 914-286-3600	[+1] 914-681-0760
Mitsubishi Chemical America, Inc. (Virginia Office)	401 Volvo Parkway, Chesapeake, VA 23320, USA	[+1] 757-382-5750	[+1] 757-547-0119
Mitsubishi Chemical Europe GmbH	Prinzenallee 13, Duesseldorf 40549, Germany	[+49] (0)211-523920	[+49] (0)211-591272
Mitsubishi Chemical Hong Kong Ltd.	Room 1303, 13th Floor, Tower 1, Admiralty Centre, 18 Harcourt Road, Hong Kong	[+852] 2522-7031	[+852] 2868-1470
Mitsubishi Chemical Singapore Pte Ltd	79 Anson Road, #12-01, Singapore 079906	[+65] 6226-3707	[+65] 6226-1676
Mitsubishi Chemical (Thailand) Co., Ltd.	18th Floor, Regent House Building, 183 Rajdamri Road, Bangkok 10330, Thailand	[+66] (0)-2255-2821	[+66] (0)-2255-2824
Mitsubishi Chemical Corporation (Beijing Office)	No. 5, Dong San Huan Bei Lu, Chao Yang District, Beijing 100004, PRC	[+86] (0)10-6590-8621	[+86] (0)10-6590-8623
Mitsubishi Chemical Corporation (Shanghai Office)	No. 4209, The Center, 989 Chang Le Road, Shanghai 200031, PRC	[+86] (0)21-5407-6000	[+86] (0)21-5407-6111
Mitsubishi Pharma Group			
Domestic			
Mitsubishi Pharma Corporation (Head Office)	6-9 Hirano-machi 2-chome, Chuo-ku, Osaka-shi, Osaka, 541-0046, Japan	[+81] (0)6-6201-1600	[+81] (0)6-6233-2516
Overseas			
Mitsubishi Pharma America, Inc.	25 Independence Boulevard, Suite 201, Warren, NJ 07059, USA	[+1] 908-607-1950	[+1] 908-604-9110
Mitsubishi Pharma Deutschland GmbH	Prinzenallee 13, Duesseldorf 40549, Germany	[+49] (0)211-523920	[+49] (0)211-5239281
Mitsubishi Pharma Europe Ltd.	Jupiter House, Triton Court, 14 Finsbury Square, London EC2A 1BR, UK	[+44] (0)20-7065-5000	[+44] (0)20-7065-5050
Mitsubishi Pharma (Guangzhou) Co., Ltd.	Jiaoyuan Road, GETDD, Guangzhou, PRC	[+86] (0)20-8222-0238	[+86] (0)20-8222-1868
Welfide Korea Co., Ltd.	903-4, Sangsin-Ri, Hyangnam-Myun, Hwasung-City, Kyonggi-Do, Korea	[+82] 339-353-6671	[+82] 339-353-6675

Investors' Information
(As of March 31, 2006)

Mitsubishi Chemical Holdings Corporation

Establishment:
October 3, 2005

Paid-in Capital:
¥50,000 million

Authorized Shares:
6,000,000,000

Outstanding Shares:
1,806,288,107

Number of Shareholders:
197,875

General Meeting:
The general meeting of shareholders was held on June 28, 2006.

Stock Listings:
Tokyo Stock Exchange
Osaka Securities Exchange

Transfer Agent:
Mitsubishi UFJ Trust and Banking Corporation
4-5, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-8212

Distribution of Shareholders:

	Percentage of Total (%)
Financial institutions	34.5
Other corporations	32.3*
Individuals and others	19.0
Foreign corporations and other foreign investors	13.2
Securities companies	0.7
National and local government institutions	0.0

*Including shares (24.0%) held by Mitsubishi Chemical Corporation and Mitsubishi Pharma Corporation

Major Shareholders:

	Number of Shares Held (Thousands)	Percentage of Total (%)
The Master Trust Bank of Japan, Ltd. (Trust account)	71,480	3.9
Japan Trustee Services Bank, Ltd. (Trust account)	63,815	3.5
Meiji Yasuda Life Insurance Company	60,644	3.3
Takeda Pharmaceutical Company Limited	51,529	2.8
Nippon Life Insurance Company	49,428	2.7
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	48,828	2.7
The Tokio Marine & Nichido Fire Insurance Co., Ltd.	42,312	2.3
The Taiyo Life Insurance Company	23,547	1.3
Mitsubishi UFJ Trust and Banking Corporation	18,992	1.0
The Dai-ichi Mutual Insurance Company	18,423	1.0

Mitsubishi Chemical Holdings Corporation

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