

## Mitsubishi Chemical Corporation

### Condensed Consolidated Financial Information for the Year Ended March 31, 2004

#### 1. Business Results for the Year Ended March 31, 2004 (Business Period: April 1, 2003 ~ March 31, 2004)

Millions of Yen	
2004	2003
Year Ended March 31, 2004	Year Ended March 31, 2003

Thousands of U.S. Dollars
2004
Year Ended March 31, 2004

#### (1) Results of Operations:

Net sales	1,925,331	1,887,493
Operating income	98,163	91,962
Income before Income taxes	70,804	43,821
Net income	34,547	21,386

(Note2)

18,163,500
926,066
667,962
325,915

#### (2) Financial Position:

Total assets	2,001,601	2,117,002
Inventories	251,762	276,072
Property, Plant and equipment	723,265	811,892
Short-term and long-term debt	861,496	962,197
Shareholders' equity	397,063	350,338
Ratio of shareholders' equity to total assets (%)	19.8	16.5

18,883,028
2,375,113
6,823,255
8,127,321
3,745,877

#### (3) Cash Flows:

Net cash provided by operating activities	144,992	132,480
Net cash used in investing activities	(75,707)	(56,071)
Net cash provided by (used in) financing activities	(70,252)	(92,985)
Cash and cash equivalents at end of the year	57,538	59,317

1,367,849
(714,217)
(662,755)
542,811

#### (4) General:

Capital expenditures	69,331	85,339
Depreciation and amortization	95,559	103,151
R&D expenditures	88,513	91,041
Employees (number)	33,496	37,633

654,066
901,500
835,028

#### (5) Per Share:

	(Yen)	(U.S.Dollars)
Net income	15.82	9.75
Shareholders' equity	182.59	161.06

0.149
1.723

\* Net income per share is based on the average number of common shares (excluding treasury stocks) during the respective period.

[2004] 2,173,948,548 [2003] 2,175,105,579

\* Shareholders' equity per share is based on the number of common shares outstanding (excluding treasury stocks) as of the following closing dates.

[2004] 2,173,764,447 [2003] 2,174,130,809

#### (6) Ratio of Net Income to:

	(%)	
Shareholders' equity	9.2	6.1
Total assets	1.6	0.9
Net sales	1.7	1.1

\* Based on the average of each amounts at the beginning and the end of the respective period.

Millions of Yen	
2004	2003
Year Ended March 31, 2004	Year Ended March 31, 2003

Thousands of U.S. Dollars
2004
Year Ended March 31, 2004

(7) Segment information:

**[Net Sales by Segment]**

Petrochemicals	741,443	679,106
Performance Products	453,118	451,830
Functional Products	338,144	320,699
Healthcare	277,217	319,970
Services	115,409	115,888
Total	1,925,331	1,887,493

6,994,745
4,274,698
3,190,038
2,615,255
1,088,764
18,163,500

**[Operating Income (Loss) by Segment]**

Petrochemicals	20,463	20,630
Performance Products	39,234	30,444
Functional Products	15,446	10,829
Healthcare	29,206	30,501
Services	9,794	9,849
Elimination & Corporate Costs	(15,980)	(10,291)
Total	98,163	91,962

193,047
370,132
145,717
275,528
92,396
(150,754)
926,066

**[Total Assets by Segment]**

Petrochemicals	599,968	635,902
Performance Products	412,021	422,658
Functional Products	331,369	338,183
Healthcare	339,148	373,098
Services	301,558	317,996
Elimination & Corporate Assets	17,537	29,165
Total	2,001,601	2,117,002

5,660,075
3,886,991
3,126,123
3,199,509
2,844,887
165,443
18,883,028

**[Depreciation by Segment]**

Petrochemicals	30,348	32,789
Performance Products	22,059	23,301
Functional Products	16,718	17,496
Healthcare	14,743	17,349
Services	7,721	8,147
Corporate Costs	3,970	4,069
Total	95,559	103,151

286,302
208,104
157,717
139,085
72,840
37,453
901,501

**[Capital Expenditures by Segment]**

Petrochemicals	13,704	16,500
Performance Products	16,510	17,918
Functional Products	15,255	22,558
Healthcare	15,198	17,339
Services	5,651	8,279
Corporate Assets	3,013	2,745
Total	69,331	85,339

129,283
155,755
143,915
143,377
53,311
28,425
654,066

**Notes:**

1. The accompanying consolidated financial information has been prepared in accordance with generally accepted accounting standards in Japan, which are different in certain respects as to application and disclosure requirements of International Accounting Standards.
2. The Corporation and its domestic consolidated subsidiaries maintain their accounting recorded 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 106 Yen to US\$1, the approximate exchange rate prevailing in the Tokyo foreign exchange market at the end of March 2004.

**2. The Prospects for the Next Fiscal Year**

The First Half of Next Fiscal Year	The Next Fiscal Year
April 1, 2004 ~ September 30, 2004	April 1, 2004 ~ March 31, 2005
(Millions of Yen)	(Millions of Yen)

Net sales	960,000	1,970,000
Operating income	41,000	100,000
Net income	2,000	22,000
	(Yen)	(Yen)
Net income per share	0.92	10.05

### **3. Management Policies**

#### **(1) Basic Management Policies**

Mitsubishi Chemical Group companies are directed under the following management principles:

##### **Three Satisfaction**

The Mitsubishi Chemical Group pursues satisfactions for customers, shareholders and employees. The highest priority is placed on our customers' satisfaction. By regarding it as a fundamental element of all our business activities and forming deeper relationships with our customers, we aim to enhance the satisfaction of our shareholders and employees.

Maximization of our integrated strengths will be directed for the Group to become our customers' preferred solution partners.

Accordingly, since April 2002, the Group's businesses are realigned into five business segments: Petrochemicals, Performance Products, Functional Products, Health Care, and Services. Each segment will pursue satisfaction of our customers with more value by fully integrating competencies of the Group and creating further mobility in business operations.

##### **Challenging Change**

The Mitsubishi Chemical Group will challenge to arouse corporate culture based on the spirit of the Group Corporate Motto: 'Create Waves of Change! Make Changes Work!'

##### **Corporate Ethics**

The Mitsubishi Chemical Group will ensure to observe corporate responsibilities and to comply with laws and regulations. In addition, the Group will continue to actively work on information disclosure.

As a profitability metrics, ROA (earnings before income taxes) is mainly used.

#### **(2) Policy for Profit Distribution**

Mitsubishi Chemical Corporation's basic policy is to give our shareholders continued dividends according to the business results, while considering stable dividends for mid- and long-term perspectives and expanding reserves for the future business development.

#### **(3) Mid- and Long-Term Management Strategies**

The Mitsubishi Chemical Group has announced a new mid-term management plan called the 'KAKUSHIN Plan' in November 2002. 'KAKUSHIN' means the implementation of changes to the status quo and represents our determination to make a quantum leap through continuous innovation and renovation. The 'KAKUSHIN Plan' is a five-years plan composed of a two-step approach and is targeted for a vision of the Group in the fiscal year ending March 31,

2008 (FY2008). The Phase 1 from FY2004-2005 will be a preparation phase for rebuilding the business foundation and the Phase 2 from FY2006-2008 will be a consolidation period for strength and building momentum for sustainable growth.

Action items for the Phase 1 are acceleration of portfolio management strategy, improvement of financial position, R&TD for sustainable growth, thorough cost reduction, and integration of group strength.

As for the business portfolio management, selection and focus will be accelerated according to the business categorized into four strategic positions: concentration, nurturing, strengthening, or restructuring.

### **Petrochemicals**

As for the Petrochemicals Segment, rationalization, alliance, and strengthening are key actions.

The Mitsubishi Chemical Group will seek transformation of business structures that will secure profit even under harsh business environment and greater allocation of management resources to business units which offer global business opportunities using our group's competitive advantages.

### **Performance Products and Functional Products**

As for the Performance Products Segment and the Functional Products Segment, shift to higher value-added products and businesses is the key action.

Businesses in these two segments will seek delivering materials, products, and services of excellent value and outstanding solution for our customers. In the Performance Products Segment, we have set targeted markets in information and electronics, medical care and food ingredients, and environment and energy. As for the Functional Products Segment, we will aim to establish stable business management structure by keeping pace with rapidly changing customer needs and developing new value-creating businesses supported by maximized energies in the Group.

### **Health Care**

As for the Health Care Segment, boosting earnings through organic growth and alliance are key actions.

In the Health Care Segment, pharmaceuticals business is positioned as business for 'concentration', while diagnostics businesses are positioned as business for 'nurturing' and seek to be a second pillar of the segment. The position of Mitsubishi Pharma Corporation, through takeover bid (TOB), has been further solidified both in name and reality. Competencies of health care businesses centered on pharmaceuticals will be further

strengthened, by tightening the interaction with Mitsubishi Kagaku Institute of Life Sciences, ZOEGENE Corporation, and other Group companies. In order to reinforce diagnostics businesses, Mitsubishi Kagaku Medical, Inc., Iatron Laboratories, Inc., and Dia-Iatron Co., Ltd. were merged to form Mitsubishi Kagaku Iatron, Inc. in July 2003.

### **Services**

Businesses in this segment will deliver qualitative services to our customers, while increasing business competitiveness.

### **(4) Basic Policy for Corporate Governance and the Current Status**

Mitsubishi Chemical Corporation recognizes and positions expediting decision-making and management execution, clarification of management responsibilities, and securing legality in corporate activities as important managerial tasks of corporate governance. The Corporation aims to further increase in corporate value through following measures to improve corporate governance.

First, Mitsubishi Chemical Corporation introduced executive officer system in June 1999 under the above-mentioned basic policy, and transferred considerable responsibility and authority to the executive officers under the conduct of the Chief Executive Officer.

Second, the Company currently has 9 directors including 1 outside director, 4 corporate auditors including 2 outside auditors, and 26 executive officers including 5 officers concurrently holding director position. Supervision of business management, as well as decision-making on critical matters that required to be solved for the Company and basic policies for the Group management are made at the board meetings. Management execution of the board members is audited by the corporate auditors, based on the audit plan through attendance to the board meetings, the executive management committee meetings, and other important meetings.

Third, the Company also positions compliance as an important managerial task. Raising awareness of our employees is being urged through provision of 'Corporate Ethics Guidelines of Mitsubishi Chemical', 'Antitrust Law Compliance Program', other corporate regulations, and 'Compliance Hot Line'. Reinforcement of compliance promotion structure among the Group companies is currently under way in order to secure ethical corporate conduct and compliance with laws and regulations.

### **(5) Important Management Issues**

Although Japanese economy is expected to continue mild upswing driven by steady world economy, prospects of the economy are still unpredictable due to sluggish consumer spending and concern with deceleration in favorable export by sharp rise in the value of the yen.

The business environment for the Group also continues to be beyond prophecy, owing to uncertainties of strong yen, inflation of materials caused by soaring prices in crude oil and

naphtha driven by brisk market in China, and others.

Under these circumstances, the Group has been executing the 'KAKUSHIN Plan: Phase 1 — Rebuilding Foundations'.

First, the Group has positioned the improvement of its financial structure as its most prioritized corporate financial discipline. The target is to reduce interest-bearing debt by ¥180 billion during FY2003 to FY2005. At the turn of the Phase 1, reduction has been executed at a pace exceeding the target, and we continue to execute the plan accordingly.

Second, management resources will be allocated steadily to R&TD that is consistent with our long-term strategy and integrate R&TD activities across the Group with increased effectiveness. As part of measure, Mitsubishi Chemical Group Science and Technology Research Center, Inc. was established in July 2003.

Third, thorough cost reduction will be implemented with the 'Production KAKUSHIN' activities at plant sites. Simultaneously, various initiatives for achievement of extremely stable operation of production facilities are carried out.

Fourth, the Group's Responsible Care (RC) activity, a voluntary self-controlled activity to secure healthy environment and safety throughout R&TD, manufacturing, product usages and disposal, will continue to tackle the issues on safety and stable operations, and environment. RC activity is promoted as the Group under the corporate principle: 'Protecting the environment and ensuring safety underline all the business activities of the Mitsubishi Chemical Group and stand at the foundation of its management.' In addition, the Group will provide assuring products and sufficient information to our customers by making full use of our knowledge on environment, safety and quality in response to green procurement.

#### **4. Business Performances and Financial Position**

##### **(1) Business Performances**

###### **(i) Consolidated Performance for the Fiscal Year Ended March 31, 2004**

(From April 1, 2003 to March 31, 2004)

During the fiscal year ended March 2004, the Japanese economy was on a path of recovery owing to increase in export reflecting overseas economic upturns especially in the US and China, and increase in capital investments, in spite of stagnant economy in the first half of the fiscal year brought by sluggish consumer spending in the domestic market, effects of Iraqi issue, and SARS issue.

In terms of business environments for the Group, business performance was mostly favorable driven by active demand in information and electronics businesses and steel-related businesses. In the second half of the fiscal year, however, business environments were far from reassuring owing to tight supply of crude oil caused by sharp increase in demand in

China, continuing high prices of crude oil and naphtha, and a sharp rise in the yen.

Under these circumstances, in order to achieve our goals set in the 'KAKUSHIN Plan: Phase 1 — Rebuilding Foundations' which was worked out in November 2002, the Group has promoted expansion in sales and reinforcing marketing, and price correction of products, while rebuilding and strengthening management foundations were executed.

As a result, the consolidated business results for the fiscal year ended March 2004 as follows. The total sales increased to ¥1,925.3 billion (2.0% increase compared to the previous fiscal year), supported by price increase in derivatives and raw materials for synthetic fibers; strong sales in information and electronics businesses especially in the optical recording media, despite sales decrease in pharmaceuticals. Operating profits amounted to ¥98.2 billion (6.7% increase compared to the previous fiscal year), due to sales expansion in information and electronics related products and overall rationalization efforts in most businesses. Recurring profit increased to ¥82.6 billion (9.2% increase compared to the previous fiscal year), due to improvements in financial income; consolidated net income also increased to ¥34.5 billion (61.5% increase compared to the previous fiscal year), while non-consolidated net income was ¥6.9 billion due to income decrease in technology fee.

#### **(ii) Dividends**

Mitsubishi Chemical Corporation intends to pay year-end dividends of ¥4 per share, considering business performance of the fiscal year ended March 31, 2004; our basic policy to consider stable dividends for mid- and long-term perspectives. The year-end dividends of ¥4 per share are the result of adding ¥1 per share as special dividends to ordinary dividends of ¥3 per share.

#### **(iii) Overview of Business Segments**

##### **Petrochemicals**

Sales of the segment were ¥741.4 billion (9.2% increase compared to the previous fiscal year), and the operating income was ¥20.5 billion (0.8% decrease compared to the previous fiscal year).

The production volume of ethylene, a major basic raw material for petrochemicals, increased by 3.0% compared to the previous year, and reached 1,350 thousand tons. The increase was mainly due to the effect of the production operation without regular maintenance for some of the facilities in the Kashima Plant.

Shipment of basic petrochemicals, derivatives, and raw materials for synthetic fibers were satisfactory, mainly due to active overseas demand. At the same time, however, the business was strongly affected by naphtha price that remained at a high level and the sharp rise in the yen. As for the synthetic resins, various rationalizations were promoted along with efforts for price corrections in regard to continuing high raw material prices.

Major actions taken for the Petrochemicals Segment during the fiscal year ended March 2004 are as follows:

- PS Japan Corp. was established by integrating the polystyrene businesses of A&M Styrene Co., Ltd., and Idemitsu Petrochemical Co., Ltd. (April 2003)
- Sam Nam Petrochemical Co., Ltd. expanded the production facility for terephthalic acid. (May 2003)
- Japan Polychem Corp. became the wholly-owned subsidiary of Mitsubishi Chemical Corp. (June 2003)
- V-Tech Corp. expanded the production facility for vinyl chloride monomer at the Mizushima Plant. (June 2003)
- Mitsubishi Chemical Foam Plastic Corp. merged with JSP Corp. (July 2003)
- Mitsubishi Chemical Corp. expanded the production facility for phenol at the Kashima Plant. (July 2003)
- Mitsubishi Chemical Corp. and Sasol Limited established two new joint venture companies in acrylic acid and acrylates businesses; Sasol Dia Acrylates (Pty) Limited and Sasol Dia Acrylates (South Africa) (Pty) Limited. (September 2003)
- Japan Polyethylene Corp. was established by integrating the polyethylene businesses of Japan Polychem Corp. and Japan Polyolefins Co., Ltd., and also the investment of Mitsubishi Shoji Plastics Corp. to the company. (September 2003)
- Japan Polypropylene Corp. was established by integrating the polypropylene businesses of Japan Polychem Corp. and Chisso Corp. (October 2003)
- V-Tech Corp. expanded the chlor-alkali manufacturing facility at the Mizushima Plant. (December 2003)
- Mitsubishi Chemical Corp. changed the investment rate to V-Tech Corp. from 60% to 85.1%. (March 2004)

### **Performance Products**

Sales of the segment amounted to ¥453.1 billion (0.3% increase compared to the previous year), and the operating income increased to ¥39.2 billion (28.9% increase compared to the previous year).

Favorable business results continued overall for performance polymers and epoxy resins. Significant results continued in information and electronics related products: sales in optical media business increased substantially due to rapid market expansion, while sales price fell; sales in Organic Photo Conductor (OPC) drums continued successfully. Both carbon and inorganic businesses were also favorable: the production volume of cokes increased both in domestic and overseas production of crude steel; carbon black business was supported by active demand for tyre industry. Profit for inorganic products decreased, however, owing to insufficient price correction of high price raw materials. Profits for fertilizers improved as a result of sales expansion and efforts to decrease fixed costs.

Major actions taken for the Performance Products Segment during the fiscal year ended

March 2004 are as follows:

- Frontier Carbon Corp. constructed a pre-marketing scale, 40t-per-year fullerene plant in Kurosaki. (April 2003)
- Mitsubishi Kagaku Media Co., Ltd. launched a new lineup of 4x DVD+RW discs for video and data use. (May 2003)
- Mitsubishi Chemical Corp. received the JCIA Award for Chemical Technology for the Development of High Purity Electrolyte Manufacturing Process from Japan Chemical Industry Association. (May 2003)
- Mitsubishi Kagaku Media Co., Ltd. launched a new Blu-ray disc for video. (July 2003)
- Mitsubishi Kagaku Media Co., Ltd. launched a new 32x ultra speed CD-RW disc. (August 2003)
- Mitsubishi Kagaku Media Co., Ltd. launched a new 8x high-speed DVD+R data disc and a new DVD-R 'Cine-R' series for video. (September 2003)
- Mitsubishi Chemical Corp. launched the high-contrast optical filter for plasma display panels. (November 2003)
- Mitsubishi Chemical Corp. acquired 40% of the outstanding shares of Japan Epoxy Resins Co., Ltd. from a subsidiary of Resolution Performance Products LLC, Resolution Holdings B.V. in the Netherlands [As a result, Mitsubishi Chemical Corp. acquired 90% of the outstanding shares of Japan Epoxy Resins Co., Ltd.] (November 2003)
- Mitsubishi Kagaku Media Co., Ltd. announced the launch of UDO (Ultra Density Optical) disc scheduled for autumn 2004. (December 2003)
- Taiyo Toyo Sanso Co., Ltd. reached an agreement on merger with Nippon Sanso Corp. as of October 1, 2004. (December 2003)
- Mitsubishi Kagaku Media Co., Ltd. launched 8x speed DVD-R data discs, and 4x speed DVD-RW discs. (March 2004)
- Mitsubishi Kagaku Media Co., Ltd. developed new 16x recording dye for DVD recordable discs. (March 2004)

### **Functional Products**

Sales of the segment were ¥338.2 billion (5.4% increase compared to the previous fiscal year), and the operating income was ¥15.5 billion (42.6% increase compared to the previous fiscal year).

Polyester films and composite films and sheets for food packaging and industrial applications were in good condition reflecting sales growth in new products and strong demand from IT-related industry. Also, both sales and profits progressed steadily for alumina fibers and composite materials, even some products were influenced by strong yen. Civil engineering and construction-related products secured earnings by contribution from high value-added products and rationalization efforts, in spite of falling demands in public works and deterioration of market condition reflecting deflation effect.

Major actions taken for the Functional Products Segment during the fiscal year ended March

2004 are as follows:

- Mitsubishi Polyester Film, LLC expanded the production facility for polyester. (May 2003)
- Mitsubishi Plastics, Inc. launched a rigid PVC plate produced by a continuous press method, which product is FM4910-accredited. (May 2003)
- Mitsubishi Chemical MKV Co. constructed the production facility for agricultural polyolefin film at the Tsukuba Plant. (June 2003)
- Mitsubishi Chemical MKV Co. and Mitsui Kagaku Iatch Co., Ltd. reached a basic agreement to merge their agricultural material businesses into a single entity. (August 2003)
- Mitsubishi Chemical Functional Products, Inc. launched supply of fullerene-applied construction chemicals products. (December 2003)

### **Health Care**

Sales of the segment were ¥277.2 billion (13.4% decrease compared to the previous fiscal year), and the operating income was ¥29.2 billion (4.2% decrease compared to the previous fiscal year).

As to pharmaceuticals, both the sales and operating income decreased owing to effects of several medical system reforms, sales decrease of 'RADICUT', an ethical neuroprotective agent, which is one of the key products for Mitsubishi Pharma Corporation and divestiture completion of plasma fractionation business in the US. Intense competition in clinical testing business resulted in decrease of profits.

Major actions taken for the Health Care Segment during the fiscal year ended March 2004 are as follows:

- Mitsubishi Chemical Corp. formed a comprehensive research association with ZOEGENE Corp., Fujitsu Ltd., and Celester Lexico-Sciences, Inc. in biotechnology. (May 2003)
- Mitsubishi Pharma Corp. established a local corporation, Mitsubishi Pharma Deutschland GmbH, assigned sales and marketing of one's products in Germany. (June 2003)
- Mitsubishi Chemical Safety Institute Ltd. formed an alliance with Affymetrix Japan K.K., and started comprehensive contract analysis services using Affymetrix's microarray, 'GeneChip®.' (June 2003)
- Mitsubishi Kagaku Medical, Inc. launched Ghrelin ELISA Kit. (June 2003)
- Alpha Therapeutic Corp., US subsidiary of Mitsubishi Pharma Corp. transferred its plasma fractionation business to Probitas Pharma S.A. (July 2003)
- Mitsubishi Kagaku Medical, Inc., Iatron Laboratories, Inc., and Dia-Iatron Co., Ltd. merged to form Mitsubishi Kagaku Iatron, Inc. (July 2003)
- Mitsubishi Pharma Corp. concluded an agreement to transfer the business in over-the-counter (OTC) drugs to Sato Pharmaceutical Co., Ltd. (July 2003)
- Mitsubishi Chemical Corp. launched TOB of common shares of Mitsubishi Pharma Corp.

[As a result, Mitsubishi Chemical Corp. acquired 58.94% of the outstanding shares of Mitsubishi Pharma Corp. at ¥53.5 billion.] (December 2003)

- API Corp. announced to absorb its wholly-owned subsidiary, API Corp. as of April 1, 2004. (January 2004)
- Mitsubishi Chemical Corp. liquidated GenCom Corp. (March 2004)

### **Services**

Sales of the segment were ¥115.4 billion (0.4% decrease compared to the previous fiscal year), and the operating income was ¥9.8 billion (0.6% decrease compared to the previous fiscal year).

Engineering service business was affected by decrease in orders and sales decreased. Logistics service business increased its sales through acquisition of new customers.

Major actions taken for the Services Segment during the fiscal year ended March 2004 are as follows:

- Ryoka Rix Corp. and Ryoka Service Corp. merged to form Dia Rix Corp. (April 2003)
- ACT Research Center Inc. and Ibaraki Environmental Technical Center Co., Ltd. merged to form Dia Analysis Service Inc. (April 2003)
- Mitsubishi Chemical Logistics Corp. reached an agreement to contract overall logistics business with Chuo Kagaku Co, Ltd. (July 2003)
- Ryoka Systems Inc. developed the software 'Ph4Dock' with Tokai University, which can retrieve compounds for drug candidates efficiently. (September 2003)

### **Others**

Expenses including corporate research and technology development that cannot be defined to specific businesses have not been included in the operational income for each segment. The concerned investment was ¥16.0 billion for the first half of this fiscal year.

- Mitsubishi Chemical Corp. launched biodegradable and green sustainable plastic, 'GS Pla<sup>®</sup>.' (April 2003)
- Mitsubishi Kagaku Institute of Life Sciences started to invite applications for research project leaders in order to focus on the fundamental research which play a part in therapeutic treatments. (April 2003)
- Mitsubishi Chemical Corp. issued the 26th and the 27th domestic straight bonds. [Total bond issue: ¥20.0 billion] (May 2003)
- Corporate R&TD division, MCC-Group Science & Technology Research Center was separated from Mitsubishi Chemical Corp. to merge with the Center for Analytical Chemistry and Science, Inc. and form an independent R&TD company, Mitsubishi Chemical Group Science and Technology Research Center, Inc. (July 2003)
- Mitsubishi Chemical Corp. set guidelines for the management of properties to be

understood on the process through material purchase to delivery in order to improve its accountability, corresponding to green procurement for customers. (September 2003)

- Mitsubishi Chemical Corp. issued the 28th domestic straight bond. [Total bond issue: ¥20.0 billion] (November 2003)
- Mitsubishi Chemical Corp. and Tokyo Institute of Technology reached an agreement on the industry-academia partnership for collaborative research on the new technology for catalytic processes, and novel design and production techniques of inorganic materials. (January 2004)

#### **(iv) Business Forecast for the Fiscal Year Ending March 31, 2005**

In terms of the future business environment, despite the fact that exports and production are increasing and capital investments are picking up following strong American and other foreign economies, future prospects continues to remain extremely uncertain as autonomous recovery is expected to take time such that private consumption are still hovering. Business environments for the chemical industry still exert anxiety as severe market conditions are expected to continue with high naphtha price following high crude oil price.

Under these circumstances, however, the Mitsubishi Chemical Group will be in the last year of the mid-term management plan, the 'KAKUSHIN Plan: Phase 1'. The Group companies will continue to execute various action plans and strive to strengthen business competencies, price adjustments, and put efforts in increasing profits.

As to the forecast for the consolidated business results for the fiscal year ending March 31, 2005, we expect the total sales of ¥1,970.0 billion, operating income of ¥100.0 billion, recurring profit of ¥88.0 billion and net profit of ¥22.0 billion. The above forecast has included the price correction in petrochemical products, decrease in sales for pharmaceuticals due to National Health Insurance price revision and decrease of net income by expected early adoption of accounting for the impairment loss of fixed assets.

The expected numerical values of the major indices are as follows:

(Unit: in ¥ billion)

	Forecast for the fiscal year ending March 2005	Actual results for the fiscal year ended March 2004
Capital investment	85.0	69.3
Depreciation	88.4	95.6
R&TD expenditures	93.0	88.5
Exchange rate (¥/\$)	105	113
Naphtha (¥/kl)	28,000	25,800

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: The Group companies execute businesses in many different fields, such as petrochemicals, carbon and inorganic products, information and electronics, pharmaceuticals, polymers and processed products, and these business results are subjected to influences of world demands, exchange rates, price and procurement volume of crude oil and naphtha, trend of market price, speed in technology innovation, National Health Insurance price revision, product liabilities, lawsuits, laws and regulations.

## **(2) Financial Position**

### **(i) Financial Position for the fiscal year ended March 2004**

Total consolidated assets was ¥2001.6 billion, a reduction of ¥115.4 billion compared to the previous fiscal year. The decrease was mainly due to divestiture of plasma fractionation business in the US; exclusion of some subsidiary companies from consolidation in accordance with the restructuring of polyolefin businesses; reduction of the assets in overseas subsidiaries because of devaluated dollar against yen; reduction of book value of fixed assets with restrained capital expenditures; and reduction of deferred tax assets.

Total consolidated liabilities was ¥1468.7 billion, a reduction of ¥132.4 billion compared with the previous fiscal year due to above-mentioned business restructurings and reduction of interest-bearing debts particularly short-term borrowings.

The balance of minority interest was ¥135.8 billion, a reduction of ¥29.7 billion mainly due to acquisition of shares of Mitsubishi Pharma Corporation by TOB, acquisition of shares of Japan Polychem Corporation from Tonen Chemical Corporation.

The balance of shareholders' equity was ¥397.1 billion, an increase of ¥46.7 billion compared with the previous fiscal year. The increase was due to net income of ¥34.5 billion and unrealized gains on investment securities, regardless of the negative impact of dividend paid and reduced translation adjustment due to the devalued dollar against yen.

As a result, the equity ratio was 19.8% (3.3% increase compared with the previous fiscal year).

The ending balance of interest-bearing debts including discounted notes payables was ¥869.7 billion, which was less than the target set in the mid-term plan 'KAKUSHIN Plan: Phase 1' as ¥870.0 billion at the end of March 2005 by reducing ¥180.0 billion from March 2002.

### **(ii) Consolidated Statements of Cash Flows of the Fiscal Year Ended March 31, 2004**

The free cash flow (operation cash flow and investing cash flow) for the fiscal year was ¥69.3

billion, a decrease of ¥7.1 billion compared with the previous fiscal year. Regardless of net income before income taxes of ¥70.8 billion and restrained capital expenditures within the amount of depreciation and disposal of assets, the decrease was due to the negative cash flow of share acquisition of Mitsubishi Pharma Corporation by ¥53.5 billion. The cash and cash equivalents generated by above free cash flow was mainly used for repayment of interest-bearing debts and dividend paid to shareholders and minority shareholders of a subsidiary company. The ending balance of cash and cash equivalents was ¥57.5 billion, decreased by ¥1.8 billion compared with the end of previous fiscal year.

The net cash provided by operating activities in the fiscal year ended March 2004 was ¥145.0 billion, an increase of ¥12.5 billion compared with the previous fiscal year mainly due to increased net income before income taxes and reduced payment of taxes.

The net cash used in investing activities was ¥75.7 billion, an increase of ¥19.6 billion compared with the previous year. This was mainly due to acquisition of shares of Mitsubishi Pharma Corporation (¥53.5 billion), regardless of the cash provided by the divestiture of businesses and decreased capital expenditures.

The net cash used in financing activities was ¥70.3 billion, a decrease of ¥22.7 billion compared with the previous fiscal year, mainly due to repayment of interest-bearing debts and dividend payment.

### **(iii) Forecast for the Fiscal Year Ending March 31, 2005**

The consolidated net income before income taxes in the next fiscal year ending March 2005 is expected to be ¥59.0 billion. Decrease of income is mainly forecasted by the impairment loss of fixed assets which is non-cash expense by early adoption of new accounting rule and the operational assets will be continuously reduced. The interest-bearing debts will be continuously reduced in the next fiscal year ending March 2005.

### **(iv) Cash Flow Ratios**

	Fiscal year ended March 2001	Fiscal year ended March 2002	Fiscal year ended March 2003	Fiscal year ended March 2004
Ratio of shareholders' equity to total assets (%)	19.0%	15.3%	16.5%	19.8%
Ratio of market value shareholders' equity to total assets (%)	36.7%	27.3%	21.6%	34.5%
Debt payment year (year)	8.4	11.4	7.3	6.0
Interest coverage ratio (%)	412.5%	386.6%	792.4%	1094.1%

- Ratio of shareholders' equity to total assets:  

$$\text{Book value of shareholders' equity} / \text{Book value of total assets}$$
- Ratio of market value shareholders' equity to total assets:  

$$\text{Market value of shareholders' equity} / \text{Book value of total assets}$$
- Debt payment year:  

$$\text{Interest-bearing debts} / \text{Net cash provided by operating activities}$$
- Interest coverage ratio:  

$$\text{Net cash provided by operating activities} / \text{Interest paid}$$

1. Each ratio is calculated by consolidated financial figures.
2. Market value shareholders' equity is calculated by multiplying market value of a share by the number of shares outstanding at the end of the fiscal year.
3. Net cash provided by operating activities is from 'net cash provided by operating activities' in the consolidated financial information.  
 Interest-bearing debts consist of all of the liabilities which bear interest in the consolidated balance sheet including discounted notes.  
 Interest paid is from the consolidated statement of cash flows.

#### Forward-Looking Statements:

The forward-looking statements are based largely on company expectations and information available as of the date hereof, and are subject to risks and uncertainties which may be beyond company control. Actual results could differ materially due to numerous factors, including without limitation market conditions, and the effects of industry competition. The company expectations for the forward-looking statements are described in Page [3], Page [7], Page [13], and Page [15] hereof.

## **Notes and Errata**

This is to correct the inaccurate information in page 12 as follows:

In page 12, a major action in the Health Care Segment: API Corp. announced to absorb its wholly-owned subsidiary, API Corp. as of April 1, 2004. (January 2004) should have not been listed here. The correct category is the Performance Products Segment in page 10.