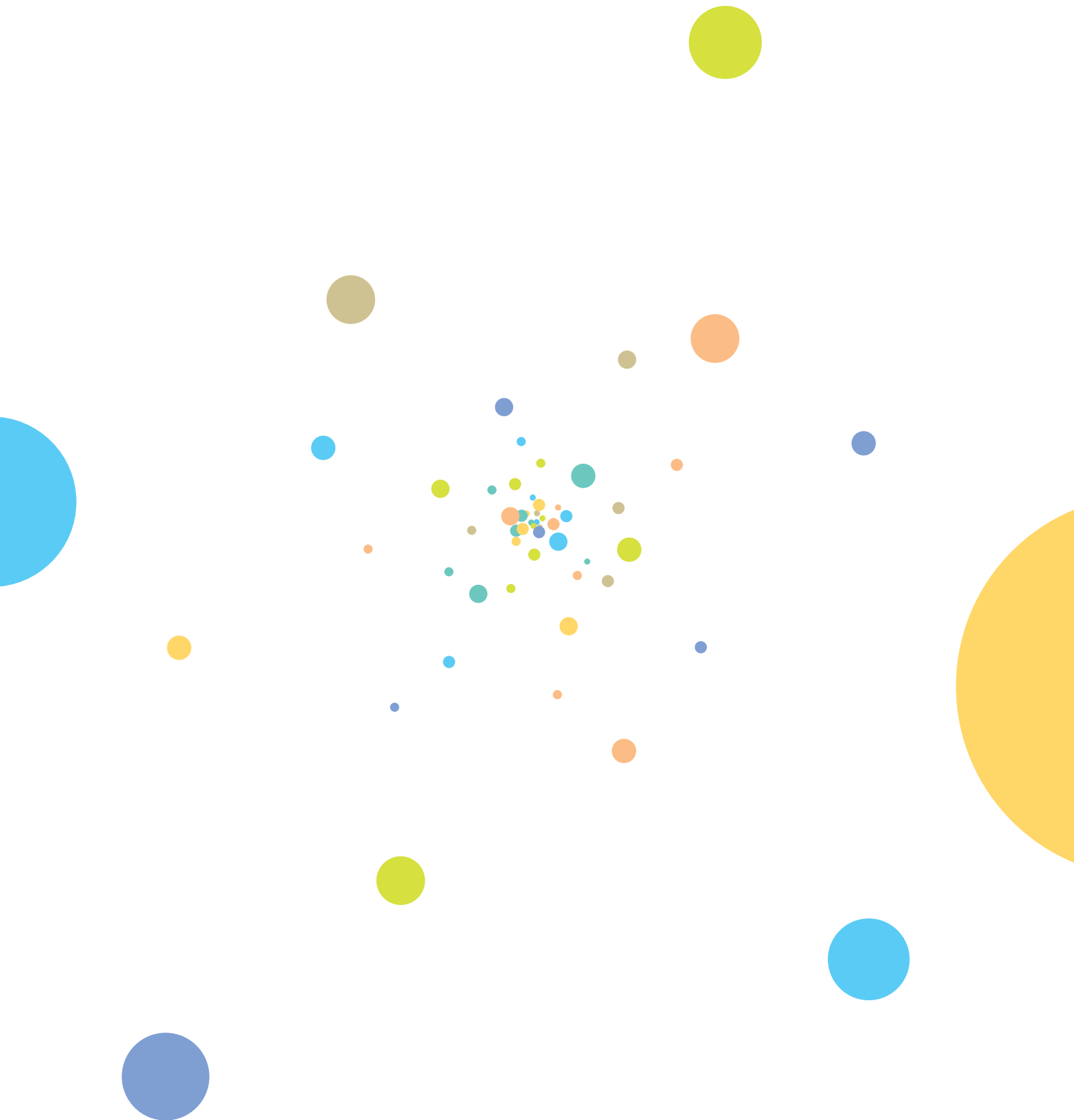


AsahiKASEI
Annual Report 2006



Basic Credo of the Asahi Kasei Group

Basic tenets

We the Asahi Kasei Group, through constant innovation and advances based in science and the human intellect, will contribute to human life and human livelihood.

Guiding precepts

We will create new value, thinking and working in unison with the customer, from the perspective of the customer.

We will respect the employee as an individual, and value teamwork and worthy endeavor.

We will contribute to our shareholders, and to all whom we work with and serve, as an international, high earnings enterprise.

We will strive for harmony with the natural environment and ensure the safety of our products, operations, and activities.

We will progress in concert with society, and honor the laws and standards of society as a good corporate citizen.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

The statements contained in this annual report with respect to Asahi Kasei's estimated future revenues and profits, strategies, tenets, financial forecasts, and other statements that are not historical facts are forward-looking statements. Such forward-looking statements are based on management's judgments, predictions, and forecasts in light of information currently available and involve many potential risks and uncertainties that could cause actual results to differ materially from the content of these statements. Accordingly, undue reliance should not be placed on such forward-looking statements.



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Consolidated Financial Highlights

Asahi Kasei Corporation and consolidated subsidiaries

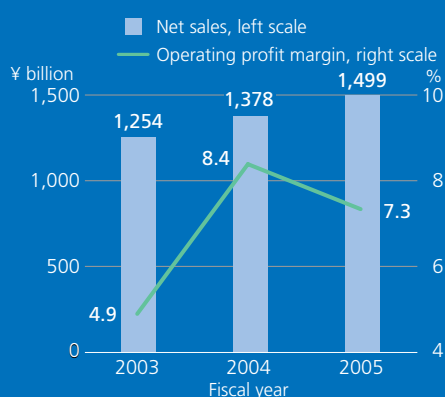
Fiscal year beginning April 1	¥ billion			US\$ million*
	2005	2004	2003	2005
For the year				
Net sales	¥1,498.6	¥1,377.7	¥1,253.5	\$12,809
Operating profit	108.7	115.8	60.9	929
Income before income taxes and minority interest	94.5	91.1	54.8	808
Net income	59.7	56.5	27.7	510
Capital expenditure	66.3	68.5	86.4	567
Depreciation and amortization	69.4	71.5	64.4	593
R&D expenditures	51.5	50.7	48.4	440
At year-end				
Total assets	¥1,376.0	¥1,270.1	¥1,249.2	\$11,761
Shareholders' equity	594.2	511.7	450.5	5,079
<hr/>				
Fiscal year beginning April 1	¥			US\$*
2005	2004	2003	2005	
Per share				
Net income	¥ 42.46	¥ 40.16	¥ 19.62	\$0.36
Shareholders' equity**	424.34	365.43	321.41	3.63
Cash dividends	10.00	8.00	6.00	0.09

* U.S. dollar amounts in this annual report are translated from Japanese yen, for convenience only, at the rate of ¥117=US\$1 as described in Note 3 of Notes to Consolidated Financial Statements.

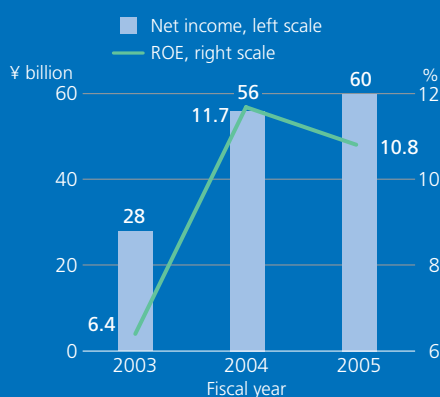
** At fiscal year end.

Fiscal year beginning April 1	2005	2004	2003
Key indexes			
Operating profit margin	7.3%	8.4%	4.9%
ROE	10.8%	11.7%	6.4%
Shareholders' equity to total assets	43.2%	40.3%	36.1%
D/E ratio	0.40	0.49	0.62

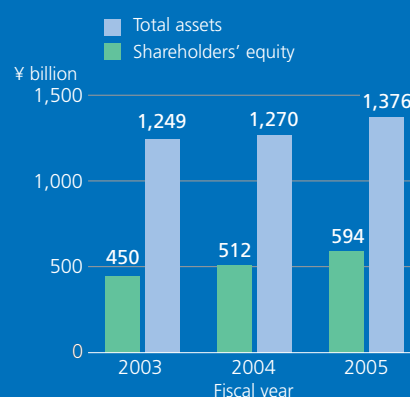
Net Sales and Operating Profit Margin



Net Income and ROE



Total Assets and Shareholders' Equity



To Our Shareholders

The Japanese economy showed signs of recovery during fiscal 2005, the final year of our *Ishin-05* strategic initiative, with increased private-sector capital investment and strong corporate results. The operating environment nevertheless remained challenging, with petroleum prices continuing to increase on strong demand growth world-wide, especially in China, driving up the cost of naphtha and other petrochemical feedstocks.

Sales increased in chemicals operations, with strong overseas demand, and in electronics operations, with strong demand in IT-related markets. Net sales were ¥1,498.6 billion, increasing by ¥120.9 billion from the previous year. Operating profit was ¥108.7 billion, with a decrease of ¥7.1 billion. Amortization of actuarial differences in retirement benefit accounts resulted in a ¥16.2 billion decrease in operating profitability; a ¥4.0 billion surplus was amortized during the year, as opposed to a ¥20.2 billion surplus amortized during the preceding year. Operating profit excluding this amortization was ¥104.7 billion, increasing by ¥9.1 billion. Ordinary profit was ¥104.2 billion, decreasing by ¥8.7 billion. Net income was ¥59.7 billion, increasing by ¥3.2 billion.

These were record highs in net sales and net income for the second year in a row, and operating profit excluding retirement benefits amortization exceeded ¥100 billion for the first time, as we achieved our *Ishin-05* targets. Dividends were increased by ¥2 per share to ¥10 per share in light of these results.

Efforts are now dedicated to building on the solid achievements gained through *Ishin-05*, as we implement the new **Growth Action – 2010** strategic business plan to drive the expansion of global businesses and the enhancement of domestic businesses through strategic investment and business portfolio realignment for expansion and growth, heightening corporate value and brand strength.

August 2006



Nobuo Yamaguchi
Chairman of the Board



Shiro Hiruta
President



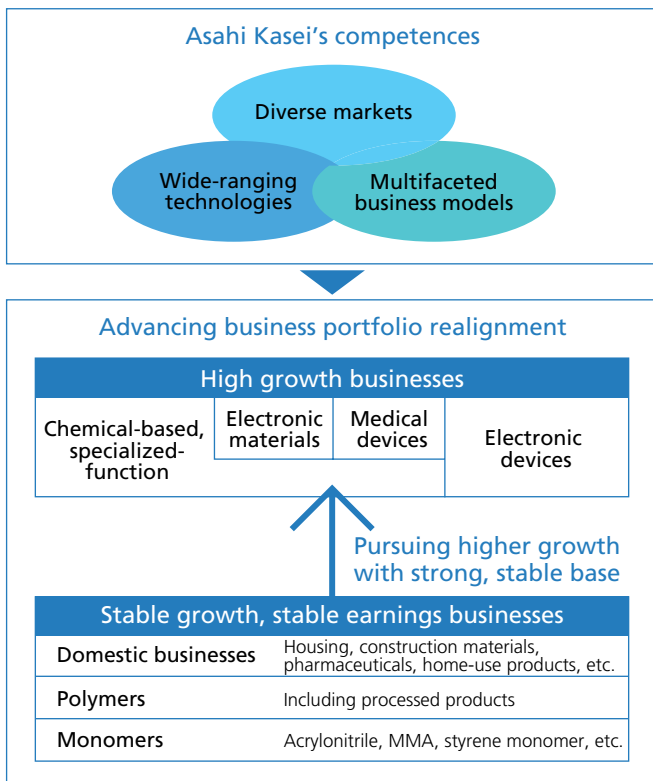
Strategic Five-Year Business Plan

Growth Action – 2010 is a plan of action to guide the growth of operations throughout the Asahi Kasei Group from fiscal year 2006 through fiscal year 2010. It builds on the strong financial and operational base established through the *Ishin-05* strategic initiative, advancing the transformation of the business portfolio with strategic investments for expansion and growth, to effect greater corporate value and brand strength.

Strategic pillars of the plan are the expansion of businesses characterized by global competitiveness and the enhancement of businesses focused on the domestic Japanese market. The plan provides for investment over the five years totaling ¥800 billion, of which ¥400 billion is strategic investment including M&A. Targets for fiscal year 2010 include consolidated net sales of ¥1,800 billion, operating profit of ¥150 billion, and maintaining ROE at least 10%.

Conceptual Framework

The Asahi Kasei Group serves many different markets with a wide range of outstanding technologies and a variety of separate business models. Based on the strengths and competences we enjoy in each area, our businesses with a stable growth and earnings base are being enhanced for greater performance while generating the resources which enable the expansion of high-growth businesses, thus driving a new phase of development and growth for the Asahi Kasei Group.



Pillars of Strategy

Expanding global operations

- Reinforcement of strong businesses & expansion of business areas
 - Development of new businesses with global potential
- Expansions are focused on global businesses whose growth is unimpeded by the limits of the mature Japanese economy. In addition to furthering the program of "building on strengths" already advanced, this includes extending the geographical cover of businesses with established presence in overseas markets, and the creation of new businesses with potential for development on a global scale. By fiscal year 2010 we aim to raise the portion of sales in global businesses from the current 55% of our sales to 60% and to raise the rate of overseas sales from 25% to one third or more.

Enhancing domestic operations

- Higher added value
 - Development of services peripheral to established businesses
- Growth and greater earnings in domestic businesses are achieved by expanding into services peripheral to established businesses, cultivating new demand by dynamic response to emerging market trends, and pursuing higher added value throughout.

Expanding global businesses

Enhancing domestic businesses

Ishin-05 accomplishments

Establishment of selectively diversified enterprise group

Building on strengths

- Monomers, specialized-function products, electronics, medical devices

Completion of restructuring

- Acrylic fiber, liquors, salt, large ALC panels, etc.

Establishment of New Business Development

- Enhanced holding company function for development of new businesses

Ishin-2000
FY1999–2002

Selectivity and focus

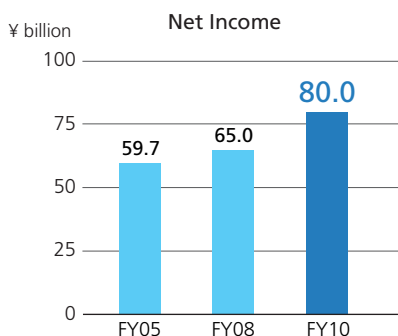
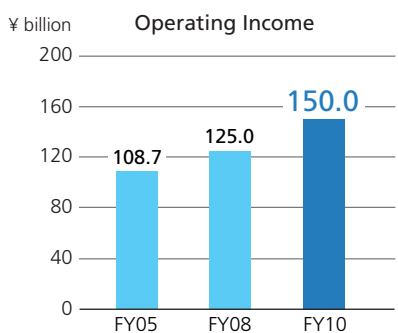
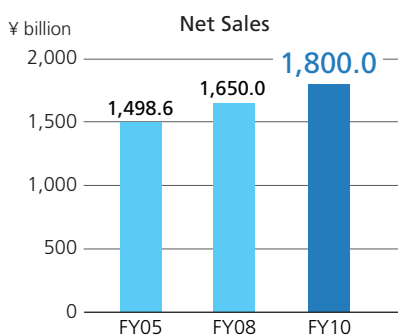
Ishin-05
FY2003–2005

Selective diversification

Growth Action – 2010

Greater corporate value and brand strength

Performance Targets

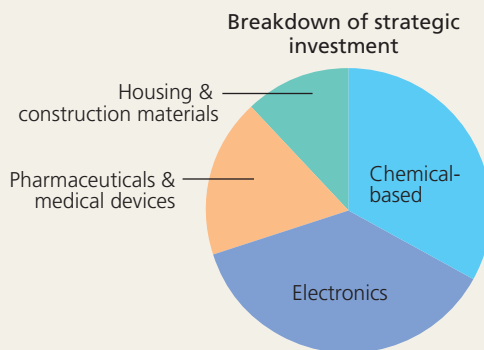


Strategic investment

The Asahi Kasei Group currently invests on the order of ¥70–80 billion per year. In addition to ordinary investment on this scale, the plan provides for strategic investment of ¥400 billion, including M&A, by fiscal year 2010, for a total of some ¥800 billion of investment during the five-year period. Strategic investment is largely be directed to the four product categories of monomers, chemical-based, specialized-function products, electronics products, and medical devices, including both business expansion and new business creation.

¥400 billion
¥800 billion/year × 5
 + ¥400 billion
Strategic investment

 ¥800 billion



Transformation of operating structure for cash flow creation

- Cash flow management in addition to EVA
- Improved free cash flow

Greater management speed & autonomy

- Transition to holding company configuration
- Separation of execution and oversight functions
- Adoption of executive officer system of management

Growth Action – 2010

FY2006–2010

- Business portfolio realignment for expansion and growth
- Strategic investment

Positioned for Growth

President Shiro Hiruta on the strategic outlook

Shiro Hiruta
President



Ishin-05 retrospective

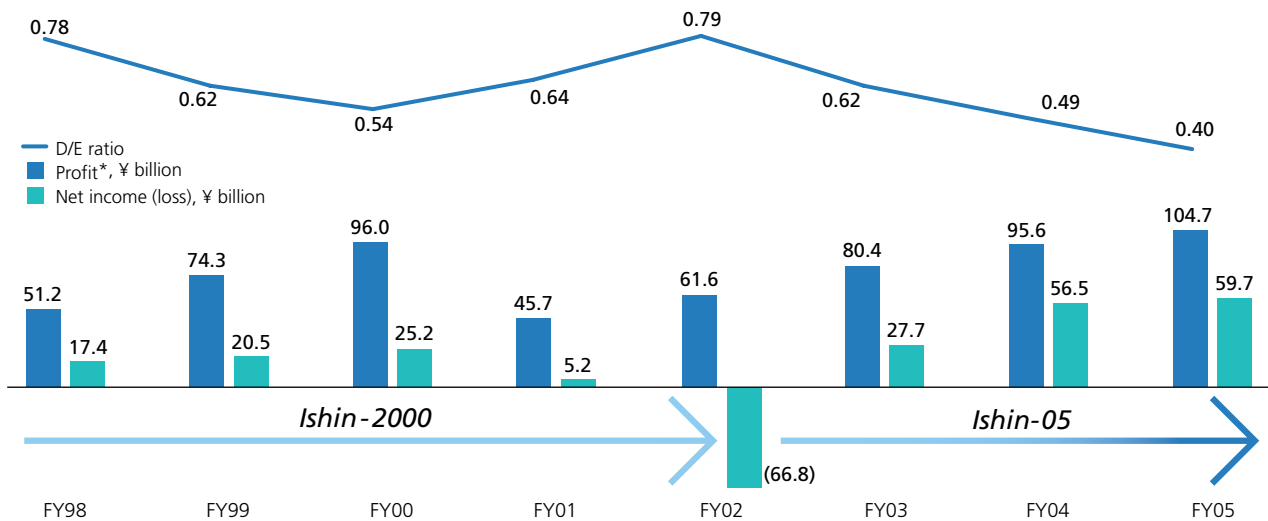
In our *Ishin-05* strategic initiative from fiscal 2003 to fiscal 2005 we completed portfolio realignments to refound ourselves as a selectively diversified enterprise group. We reinforced and expanded our strong businesses, heightening competitiveness in high value-added fields, with investments for expansion in areas of competitive superiority. The operational structure was transformed for

cash flow creation, with heightened awareness of cash flow in day-to-day operation and strict cash flow criteria for investment. Management speed and autonomy were increased with the October 2003 transition to a holding company configuration and with authority devolved to the business units. Fiscal 2005 results show that these actions have been effective, resulting in record high sales and net income and enabling increased dividends for the second year in a row.

Major Investments since Formulation of *Ishin-05*

		Location	Start-up	Applications
Chemicals	New plant for Delaglas™ acrylic sheet for light-guide plates	Pyeongtaek, Korea	November 2003	Back-light units for LCD panels
	Expansion of plant for Hipore™ rechargeable Li-ion battery separators	Moriyama, Japan	March 2005	Batteries for mobile electronics
	Omega Process plant	Mizushima, Japan	March 2006	Propylene production
	Expansion of plant for Hipore™ rechargeable Li-ion battery separators	Moriyama, Japan	July 2006	Batteries for mobile electronics
	New plant for Duranate™ hexamethylene diisocyanate based polyisocyanate	Nantong, China	Spring 2007	Polyurethane coatings
Pharma	New hollow-fiber plant for Planova™ virus removal filters	Nobeoka, Japan	May 2004	Production of pharmaceuticals
	New hollow-fiber plant for APST™ artificial kidneys	Nobeoka, Japan	April 2005	Hemodialysis for patients with renal failure
	Expansion of hollow-fiber plant for APST™ artificial kidneys	Nobeoka, Japan	October 2005	Hemodialysis for patients with renal failure
	New plant for assembly of APST™ artificial kidneys	Hangzhou, China	January 2006	Hemodialysis for patients with renal failure
Fibers	Expansion of plant for Roica™ spandex	Hangzhou, China	April 2004	Swimwear and other apparel
	New plant for Roica™ spandex	Chonburi, Thailand	December 2005	Swimwear and other apparel
	Acquisition of spandex business from German Lanxess Group	Germany, America	March 2006	Swimwear and other apparel
EMD	New plant for large pellicles	Nobeoka, Japan	May 2004	Production of large LCD panels
	Expansion of plant for LSIs	Nobeoka, Japan	September 2004	Communications, signal processing
	Expansion of plant for Sunfort™ dry film resist	Suzhou, China	November 2004	Production of printed wiring boards
	Expansion of plant for large pellicles	Nobeoka, Japan	May 2005	Production of large LCD panels
	Expansion of plant for LSIs	Nobeoka, Japan	July 2006	Communications, signal processing

Improvement in Financial Strength



* Operating profit from FY98 to FY01; operating profit absent amortization of actuarial differences in retirement benefits from FY02 to FY05.

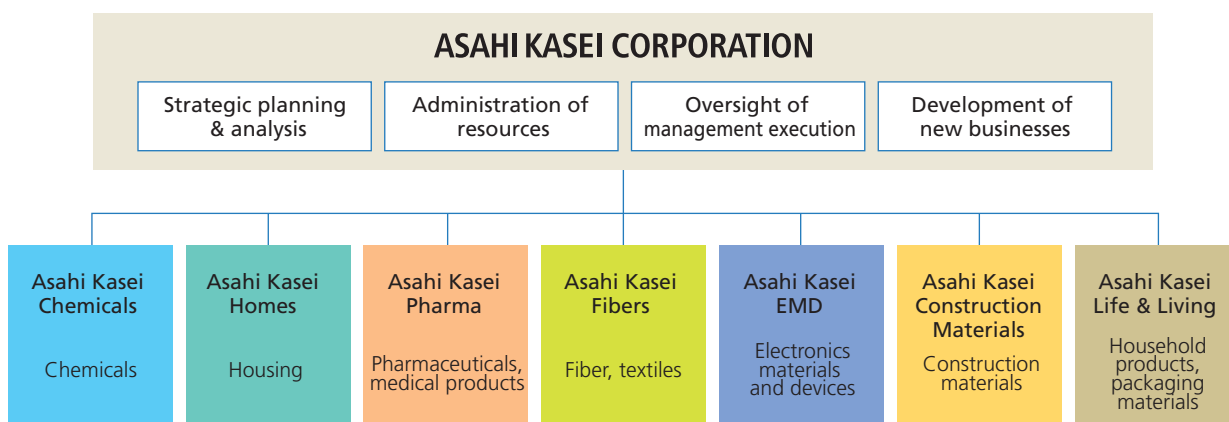
Corporate governance

With the transition to a holding company configuration we also adopted an executive officer system to separate execution and oversight functions, and established a management framework with clear delineation of executive authority and responsibility. In our third year under the new configuration it is clear that management speed has increased,

and that each core operating company is advancing as an autonomous and self-reliant profit-making unit.

Other measures to enhance corporate governance include the April 2005 formation of a CSR Council in the holding company to lead the effort related to corporate social responsibility throughout the Asahi Kasei Group, and the October 2005 formation of an Internal Control Project to lead the preparation and implementation of an optimum system for internal control.

Holding Company Configuration



Challenges ahead

Despite the advances we have made, I see two challenges that must be met. The first is the correspondence between the growth of the Asahi Kasei Group and the growth of Japan's GDP. With the maturing of the Japanese economy, it is natural that growth rates tend to be moderate. We have to de-link our growth from that of Japan's economy.

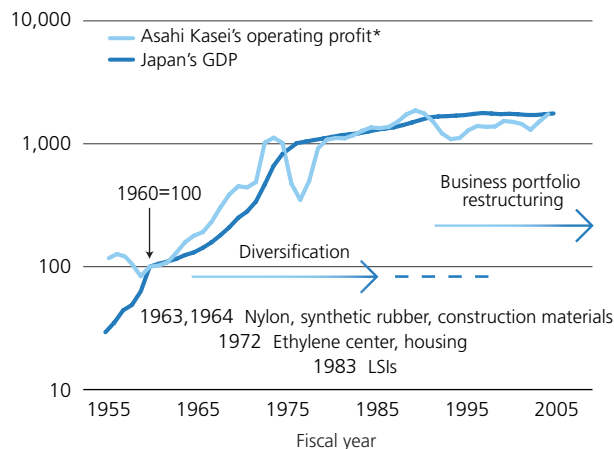
The second challenge is to raise the proportion of business we have overseas. Our overseas sales are only about a quarter of the total, and overseas production is only about 7%. The new strategic business plan we launched at the beginning of fiscal 2006, *Growth Action – 2010*, sets the path to meet these challenges and effect the expansion and growth of the Asahi Kasei Group over the next five years.

Growth Action – 2010

The Asahi Kasei Group's greatest strength lies in our unparalleled combination of competences in diverse markets, wide-ranging technologies, and multiple business models. *Growth Action – 2010* builds on this with strategic action to expand global businesses and enhance domestic businesses. The increased earnings ability and improved financial foundation achieved through *Ishin-05* has enabled the execution of substantial strategic investment to advance the transformation of our business portfolio for expansion and growth.

For fiscal 2010 we are targeting net sales of ¥1,800 billion, operating profit of ¥150 billion, and net income of ¥80 billion. This operating profit figure is 38% higher than our fiscal 2005 result, and the net income figure is 34% higher. Sustained growth in earnings should also enable successive dividends increases.

Asahi Kasei's Operating Profit and Japan's GDP



* Three-year moving average, non-consolidated until FY 1980.

Performance Targets

(¥ billion, except ROE)

	FY05 results	FY08 targets	FY10 targets
Net sales	1,498.6	1,650.0	1,800.0
Operating profit	108.7	125.0	150.0
Net income	59.7	65.0	80.0
ROE (%)	10.8	≥10	≥10

Positioned for Growth

Expanding global businesses

Our global businesses are basically in four fields: Monomers, including acrylonitrile and methyl methacrylate; chemical-based, specialized-function products, including elastic polyurethane filament, thermoplastic elastomers, and battery materials; electronics, including electronic materials and electronic devices; and medical devices. We will focus strategic investment in these fields to expand in global markets based on our competitive superiority.

We are now the world's second largest supplier of acrylonitrile, and have developed the world's first process to produce acrylonitrile from propane. We are now studying a joint project with PTT of Thailand for a propane-process acrylonitrile plant. The completion of this project would bring our total supply capacity to nearly one million tons per year, on par with the world-leading position.

Our elastic polyurethane filament business was recently augmented by the acquisition of the business of the Lanxess Group of Germany, with production sites in Germany and the US. Complementing our production sites in Japan, China, Taiwan, and Thailand, this gives us a solid presence in each of the world's major market regions.

In electronics we will accelerate our global expansion with M&A, and develop higher-function, higher-performance electronic devices and electronic materials for new applications to expand a high-earnings operational structure.

In medical devices we are building global leadership in blood purification systems and expanding production capacity for artificial kidneys used in hemodialysis therapy.

Enhancing domestic businesses

Our domestic-oriented businesses are basically in three fields: Housing, construction materials, and pharmaceuticals. While Japan's economy had in the past been centered on capital-intensive production industries, a transformation of the industrial structure is emerging where creative know-how and services are playing an increasingly prominent role. Our domestic businesses must adapt to these new circumstances in order to add more value.

The strategic focus of our housing business is the Long Life Home product concept for Hebel Haus™ homes providing long-term comfort and utility. The strategy is being extended into peripheral services such as remodeling, real estate, and financing, as the operational structure is expanded to include value-additive customer support for the living environment in addition to the provision of the home itself.

In construction materials we are expanding sales of high-performance insulation material, bringing a more customer-centered perspective into marketing activities, exploiting synergies with housing operations, and advancing R&D for new business.

Our pharmaceuticals business is sharpening the focus on selected therapeutic fields, chiefly orthopedics, and building alliances with domestic and international pharmaceutical firms in joint development, joint sales, and licensing.

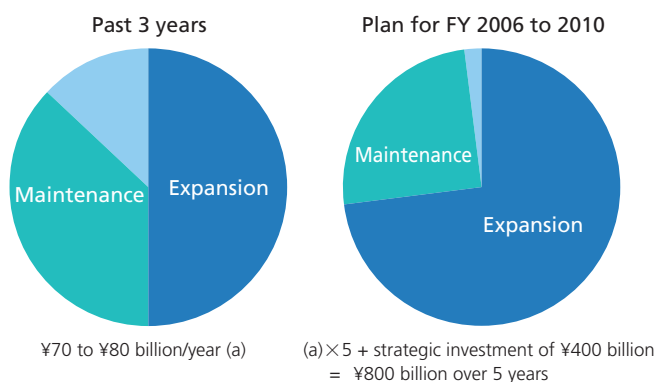


Strategic investment

In addition to our ordinary investment of around ¥70 to ¥80 billion per year, *Growth Action – 2010* provides for strategic investment of ¥400 billion including M&A over the five years of the plan, for a five-year total of some ¥800 billion. Investment for expansion has been around half of the total, but with inclusion of the strategic investment this will increase to around three fourths.

For expansion of global businesses, strategic investment will be focused on chemicals, electronics, and medical devices. For enhancement of domestic businesses, it will be focused on housing and construction materials. M&A will be primarily in chemical-based, specialized function products and in electronic materials and devices. About 70% of the strategic investment other than M&A should be done in the first half of the five-year period.

Long-term Investment



Allocation of Strategic Investment Funds

(¥ billion)

		FY 2006 to 2010	
		M&A	Organic
Expanding global businesses	Monomers	—	40
	Specialized function products	50	40
	Electronics	100	50
Enhancing domestic businesses		—	30
New business creation		—	40
Renewing ethylene center, etc.		—	20
Total		150	220
Return to shareholders (increased dividend, etc.)		20 ~ 30	

Development of new businesses

In October 2005 we reorganized the R&D function in the holding company with the establishment of New Business Development. Our traditional R&D process began with basic investigation to identify projects to pursue, followed by research, then development, and finally commercialization. Projects were often passed from one team to another as they progressed from one stage to the next. We have adopted a new process in which the same team is responsible from investigation through commercialization.

Projects are currently in progress in three main fields: Electronics, with projects for flexible printed circuit materials, flat panel display materials, and capacitors; chemical based, specialized function products, with projects for polyketone filament and battery materials; and medical devices. In each field, the effort is directed toward the creation of new businesses which can develop on a global scale. Projects to develop new businesses peripheral to established businesses are being advanced at each core operating company.

Vision for 2010

The strength of the Asahi Kasei Group has always lain in the diversity of our operations, and this will be no less the case in 2010. We hold contribution to human life and human livelihood through constant innovation and advances based in science and the human intellect as basic tenets, and this provides a unified outlook and purpose which binds together the many operations in different fields.

Our business portfolio has undergone many changes as we adapt dynamically to new challenges and new opportunities, and I cannot say just what changes will emerge by 2010, but our products and technologies will certainly be making more of a difference to more people's lives throughout the world.

Operating Segments

Chemicals

Homes

Pharma

Fibers

Electronics Materials
& Devices

Construction
Materials

Life & Living



Note: Leona™ nylon 66 filament operations were transferred from the Fibers segment to the Chemicals segment in April 2005. Results for the year-ago period have been revised accordingly for comparison purposes.

At a Glance

Core Operating Companies

Chemicals



ASAHI KASEI CHEMICALS CORPORATION

Taketsugu Fujiwara	President & Representative Director, Presidential Executive Officer
Keiji Kamei	Director, Vice-Presidential Executive Officer
Masanori Warabi	Director, Primary Executive Officer
Masami Fujimori	Director, Senior Executive Officer
Kyosuke Komiya	Director, Senior Executive Officer
Tadashi Akaishi	Director, Senior Executive Officer

Homes



ASAHI KASEI HOMES CORPORATION

Toshiaki Okamoto	Chairman of the Board & Representative Director
Shingo Hatano	President & Representative Director, Presidential Executive Officer
Katsuhiko Sato	Director, Vice-Presidential Executive Officer
Tsuyoshi Shimizu	Director, Senior Executive Officer
Morio Watanabe	Director, Senior Executive Officer

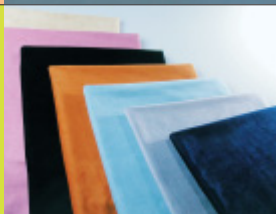
Pharma



ASAHI KASEI PHARMA CORPORATION

Kei Oe	President & Representative Director, Presidential Executive Officer
Yasuyuki Yoshida	Director, Primary Executive Officer
Tsutomu Inada	Director, Primary Executive Officer
Akio Kobayashi	Director, Senior Executive Officer

Fibers



ASAHI KASEI FIBERS CORPORATION

Masaki Sakamoto	President & Representative Director, Presidential Executive Officer
Ryo Matsui	Director, Senior Executive Officer
Hidehumi Takai	Director, Executive Officer

Electronics Materials & Devices



ASAHI KASEI EMD CORPORATION

Makoto Konosu	President & Representative Director, Presidential Executive Officer
Katsuhiko Yamazoe	Director, Senior Executive Officer
Koji Yamada	Director, Executive Officer

Construction Materials



ASAHI KASEI CONSTRUCTION MATERIALS CORPORATION

Yoichi Saji	President & Representative Director, Presidential Executive Officer
Ryozo Eguro	Director, Senior Executive Officer
Hiroshi Kobayashi	Director, Senior Executive Officer
Tsuyoshi Shimizu	Director

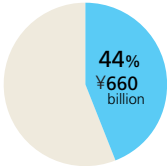
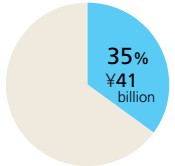
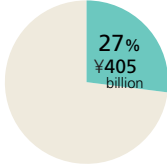
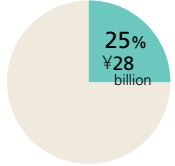
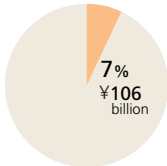
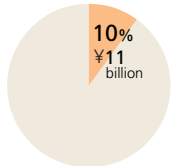
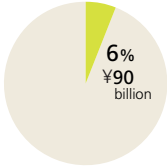
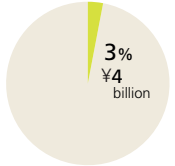
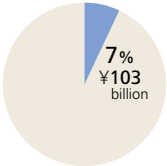
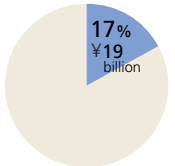
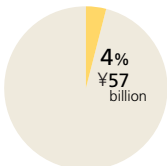
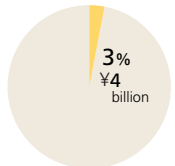
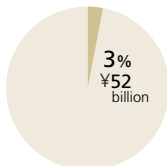
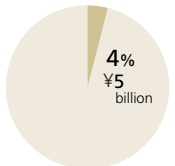
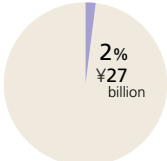
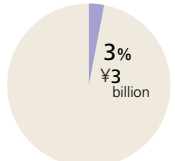
Life & Living



ASAHI KASEI LIFE & LIVING CORPORATION

Keiji Kamei	President & Representative Director, Presidential Executive Officer
Kenji Haneda	Representative Director, Vice-Presidential Executive Officer
Yasuyuki Itoh	Director, Executive Officer

Services, Engineering and Others

FY05 Net Sales	FY05 Operating Profit*	Major Consolidated Subsidiaries	Main Businesses
 <p>44% ¥660 billion</p>	 <p>35% ¥41 billion</p>	<p>Sanyo Petrochemical Co., Ltd. Japan Elastomer Co., Ltd. Asahi Kasei Technoplus Co., Ltd. Tong Suh Petrochemical Corp. Ltd. Asahikasei Plastics (America) Inc. Asahi Kasei Plastics Singapore Pte. Ltd. NV Asahi Photoproducts (Europe) SA</p>	<p>Organic and inorganic industrial chemicals, synthetic resin, synthetic rubber, high-compound fertilizer, coating materials, latex, pharmaceutical and food additives, explosives, photopolymers and platemaking systems, separation and ion-exchange membranes, systems, and equipment.</p>
 <p>27% ¥405 billion</p>	 <p>25% ¥28 billion</p>	<p>Asahi Kasei Jyuko Co., Ltd. Asahi Kasei Mortgage Corp. Asahi Kasei Real Estate, Ltd. Asahi Kasei Reform Co., Ltd.</p>	<p>Hebel Haus™ houses, Hebel Maison™ apartments, condominiums, remodeling, real estate, residential land development, financial services.</p>
 <p>7% ¥106 billion</p>	 <p>10% ¥11 billion</p>	<p>Asahi Kasei Medical Co., Ltd. Asahi Kasei N&P Co., Ltd. Asahikasei Aime Co., Ltd.</p>	<p>Pharmaceuticals, pharmaceutical intermediates, feed additives, diagnostic reagents, hemodialyzers and other medical devices.</p>
 <p>6% ¥90 billion</p>	 <p>3% ¥4 billion</p>	<p>Kyokuyo Sangyo Co., Ltd. Hangzhou Asahikasei Spandex Co., Ltd. Hangzhou Asahikasei Textiles Co., Ltd. Asahi Chemical (HK) Ltd. Thai Asahi Kasei Spandex Co., Ltd.</p>	<p>Roica™ elastic polyurethane filament (spandex), Eltas™ spunbond, Lamous™ artificial suede, Bemliese™ cupro cellulosic nonwoven, Bemberg™ cupro cellulosic fiber, polyester filament, Solutex™ polytrimethylene terephthalate (PTT) fiber.</p>
 <p>7% ¥103 billion</p>	 <p>17% ¥19 billion</p>	<p>Asahi Kasei Microsystems Co., Ltd. Asahi Kasei Electronics Co., Ltd. Asahi-Schwebel Co., Ltd. Asahi-Schwebel (Taiwan) Co., Ltd. Asahi Kasei Electronics Materials (Suzhou) Co., Ltd.</p>	<p>Pimel™ photosensitive polyimide precursor, Sunfort™ photosensitive dry-film resist, Hall elements, LSIs, glass fabric for printed circuit boards.</p>
 <p>4% ¥57 billion</p>	 <p>3% ¥4 billion</p>	<p>Asahi Kasei Foundation Systems Corp. Asahi Kasei Marinetech Co., Ltd.</p>	<p>Hebel™ autoclaved lightweight concrete, construction piles, Neoma™ foam and other thermal insulation, artificial fish reef and other marine structures.</p>
 <p>3% ¥52 billion</p>	 <p>4% ¥5 billion</p>	<p>Asahi Home Products Co., Ltd. Asahi Kasei Pax Corp.</p>	<p>Saran Wrap™ cling film, Ziploc™ storage bags, plastic film, sheet, and foam.</p>
 <p>2% ¥27 billion</p>	 <p>3% ¥3 billion</p>	<p>Asahi Research Center Co., Ltd. Asahi Finance Co., Ltd. Asahi Kasei Engineering Co., Ltd. Asahi Kasei Amidas Co., Ltd.</p>	<p>Plant, equipment, process engineering, employment agency, think tank.</p>

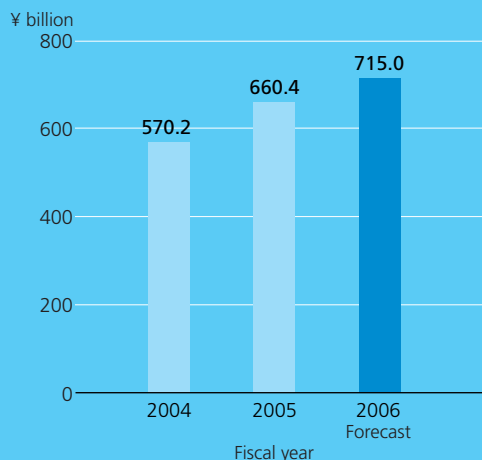
* Before corporate expenses and eliminations

Chemicals

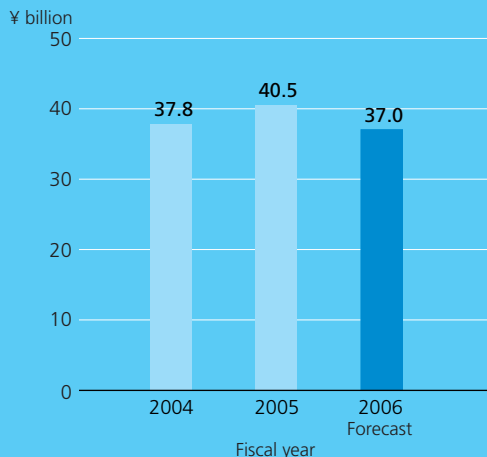


Taketsugu Fujiwara
President, Asahi Kasei Chemicals

Net Sales



Operating Profit



Creating the Future with Chemistry is the basic ideal to guide the advancement and growth of operations. All businesses have been classified as those for strategic expansion and those for stable earnings. Management resources are focused on advancing the growth of strategic expansion businesses, while stable earnings businesses are strengthened and enhanced to heighten profitability.

The Year in Review

Sales for the segment increased by ¥90.2 billion to ¥660.4 billion, a 15.8% rise. Operating profit increased by ¥2.7 billion to ¥40.5 billion, a 7.1% rise. This included a credit to amortize the actuarial surplus for retirement benefits which was ¥4.3 billion smaller than a year ago.

In volume products, sales grew with strong overseas demand but operating profit decreased due to higher feedstock costs. Operating profit in monomers and basic chemicals decreased with elevated feedstock costs for acrylonitrile and styrene. Operating profit in polymers and elastomers increased with improved market conditions for Xyron™ modified polyphenylene ether and other engineering resins.

Operating profit in specialty products and systems increased. Sales of Hipore™ Li-ion rechargeable battery separators continued to grow with strong demand. Sales of both membrane-process salt electrolysis systems and their ion-exchange membranes remained strong.

Notable Developments

The Microza™ membrane bioreactor (MBR) process was selected in August 2005 for wastewater treatment at two large-scale petrochemical complexes in China, which will be among the largest such water treatment facilities in the world. Microza™ microfiltration (MF) was selected in December 2005 for Singapore's largest wastewater recovery project.

Asahi Kasei Performance Chemicals Corp. was established in November 2005 in Nantong, Jiangsu, China, for the production and sale of Duranate™ hexamethylene diisocyanate (HDI) based polyisocyanate, with plant start-up scheduled for spring 2007. Duranate™ is used as a curing agent for non-yellowing polyurethane coatings and as a production material for inks, adhesives, and cast moldings.

In May 2006, a memorandum of understanding was concluded with PTT Plc. of Thailand for the establishment of joint facilities for production of acrylonitrile (AN), methyl

Major Products

Monomers and basic chemicals

Ammonia, nitric acid, caustic soda, high-compound fertilizers, acrylonitrile (AN), styrene, adipic acid, methyl methacrylate (MMA).

Polymers and elastomers

Suntec™ polyethylene (PE), Stylac™-AS styrene-acrylonitrile, Stylac™-ABS acrylonitrile-butadiene-styrene, polymethyl methacrylate (PMMA), synthetic rubber and elastomer, styrene-butadiene latex, Tenac™ polyacetal, Xyron™ modified polyphenylene ether (mPPE), Leona™ nylon 66 polymer and filament.

Specialty products and systems

Coating materials, Ceolus™ microcrystalline cellulose, explosives, explosion-bonded metal clad, APR™ photosensitive resin, AFP™ photosensitive plates, printing plate making systems, Microza™ UF and MF membranes and systems, Hipore™ microporous membrane, ion-exchange membranes and electrolysis systems.

methacrylate (MMA), and polymethyl methacrylate (PMMA), with start-up scheduled for year-end 2009. The AN facility will be the world's first commercial plant to use propane instead of propylene as starting material, and will raise the AN supply capability of the Asahi Kasei Group to a world-leading level.

Asahi Kasei's non-phosgene process technology for polycarbonate (PC) production was honored with an Okochi Memorial Foundation Award in February 2006. The award is granted in recognition of technology which makes outstanding contribution to industrial development. The PC process eliminates the need for the highly toxic phosgene as process material, and by using CO₂ as feedstock effects carbon sequestration. Featuring low production costs, it has elicited strong interest worldwide from potential licensees.

Growth Action – 2010

Asahi Kasei Chemicals has reviewed the position of each business, classifying each either as a business for strategic expansion, with management resources focused on achieving growth and high earnings, or as a business for stable earnings, with efforts focused on strengthening and enhancement to heighten profitability.

Strategic expansion businesses, characterized by the potential to attain greater earnings and stronger market position through expansion of scale, include AN, MMA, and synthetic rubber and elastomers. Those characterized by the potential to attain growth through linkage with growing market segments, building on established strengths, and extension into peripheral fields, include battery/fuel cell materials and water treatment systems.

Stable earnings businesses, characterized by the potential to attain greater added value and stable earnings growth through a leading position in growing market segments, include polymers/compounds and performance chemicals.

Those characterized by the potential to maintain stable earnings through a strengthened operational base and structure include petrochemicals, basic chemicals, and ethylene center derivatives with the exception of those marked for strategic expansion.

R&D

The structural configuration for R&D was reorganized in April 2006. R&D related to each established business, with the exception of monomers and basic chemicals, has been devolved to the authority of the relevant business division. Divisional R&D is focused on enhanced market development in downstream fields. Corporate-level R&D comprises chemical process and catalyst technology, and individual projects to develop new businesses in the areas of electronics/optics, environment/energy, and healthcare. Throughout, the effort is directed to achieving global niche leadership, enhanced competitiveness, and development of peripheral business fields based on technological strengths in catalysts, organic synthesis, chemical processes, and polymer processing and modification.

Highlights

Water treatment systems

Water treatment systems is marked for growth as a competitive, high value-added business. Adoption of Microza™ microfiltration (MF) and ultrafiltration (UF) modules and systems continues to grow at large-scale water-treatment facilities throughout the world.

In August 2005, the Microza™ membrane bioreactor (MBR) process was selected for wastewater treatment at two large-scale petrochemical complexes in China, which will be among the largest such water treatment facilities in the world. Microza™ MBR enables outstanding water treatment quality with a small space requirement. In December 2005 Microza™ MF was selected for Singapore's largest wastewater recovery project.



Microza™ modules at a water treatment facility

Subsidiary for Duranate™ in China

Demand for Duranate™ hexamethylene diisocyanate (HDI) based polyisocyanate has continued to grow, most notably in Asia. To meet this growing demand, Asahi Kasei Performance Chemicals Corp. was established in November 2005 in Nantong, Jiangsu, China, for the production and sale of Duranate™ with plant start-up scheduled for spring 2007.

Duranate™ is used as a curing agent for non-yellowing polyurethane coatings and as a production material for inks, adhesives, and cast moldings. Applications include the automotive, architectural, and maritime fields. The new capacity in China will reinforce our presence in the growing Asia-Pacific region.



Groundbreaking ceremony for Duranate™ plant in China

Joint facilities with PTT in Thailand

In February 2006 Asahi Kasei Chemicals and PTT Plc. of Thailand began studies for a joint project for the production of acrylonitrile (AN), methyl methacrylate (MMA), and polymethyl methacrylate (PMMA). A memorandum of understanding was concluded with PTT in May 2006 for the establishment of joint facilities in Thailand, with start-up targeted for year-end 2009. The AN facility is to be the world's first commercial plant to use propane instead of propylene as starting material, raising the AN supply capability of the Asahi Kasei Group to a world-leading level.



Signing ceremony with PTT Plc.

Omega Process facility

A facility using the proprietary Omega Process for catalytic cracking of olefins began commercial operation at our Mizushima Works in June 2006. The Omega Process is used to produce ethylene and propylene from C4 and C5 raffines which occur as by-products of petrochemical plants and refineries. The process features unprecedented selectivity for propylene, and with lower operating temperature than conventional naphtha cracking enables reduced energy consumption and CO₂ emissions. The new facility increases the self-sufficiency of feedstock supply at the Mizushima Works, optimizing and enhancing the competitiveness of operations. With the commercial validation of the Omega Process, Asahi Kasei Chemicals is studying the potential to license the technology to secure new sources of propylene.



Our Mizushima Works

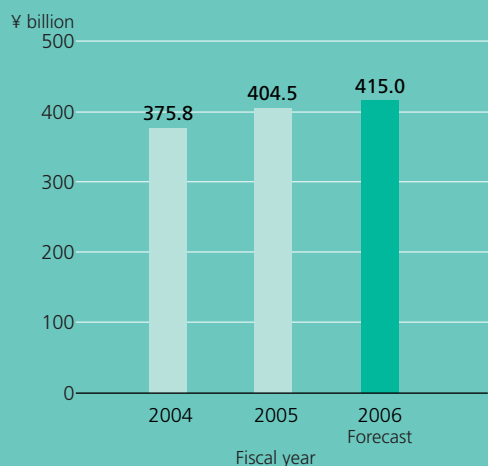
Operating Segment

Homes

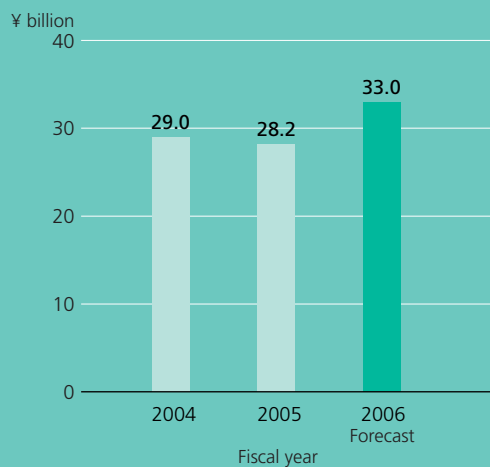


Shingo Hatano
President, Asahi Kasei Homes

Net Sales



Operating Profit



Marketing resources are focused on demand for rebuilding in urban areas, backed by the Long Life Home product strategy to maintain and enhance customer satisfaction over the long term.

The Year in Review

Sales for the segment increased by ¥28.8 billion to ¥404.5 billion, a 7.7% rise. Operating profit decreased by ¥0.8 billion to ¥28.2 billion, a 2.7% decline. This included a credit to amortize the actuarial surplus for retirement benefits which was ¥2.2 billion smaller than a year ago.

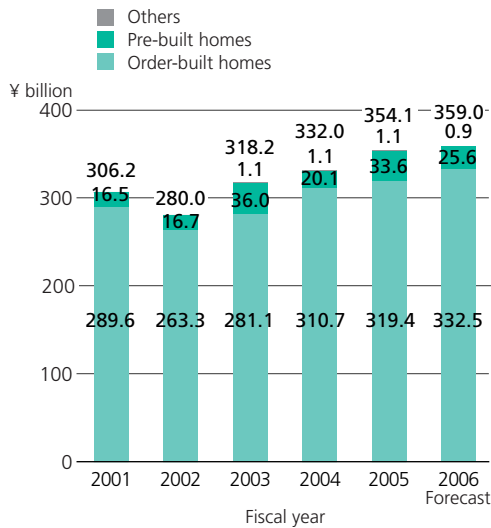
Sales of homes, both order-built and pre-built, increased with higher unit prices and the completion of large condominium reconstruction projects, but operating profit decreased with higher costs for materials. The value of orders received during the year increased by ¥11.5 billion to ¥313.3 billion.

Sales and operating profit in real estate operations grew with rising income from rentals. Sales and operating profit in remodeling operations also grew.

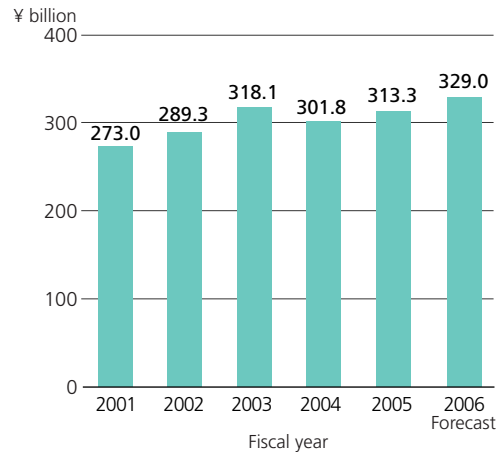
Notable Developments

A new product line of Hebel Haus™ Long Life two-generation homes featuring enhanced flexibility to adapt the floor-plan to emerging changes in household composition went on sale in April 2005. Two-story Hebel Maison Court Villa™ apartments went on sale in September 2005.

Sales Trends of Homes Segment



Orders Received



Major Products

Hebel Haus™ houses, Hebel Maison™ apartments, condominiums, remodeling, real estate, residential land development, home financing.

Growth Action – 2010

Marketing of order-built homes is focused on demand for home rebuilding in major urban areas, as a high-earnings operational structure is reinforced and expanded. Specific actions include:

- Successive development of new products tailored to specific market characteristics in different regions.
- Advancement of cost reductions through shared logistical networks with other home builders.
- Productivity enhancements through reduced home construction time.
- Advanced development of technology to enhance the Long Life Home product strategy.

Long-term customer relationships are maintained through the provision of remodeling, real estate, and financial services. Specific actions include:

- Expansion of real estate operations in brokerage of used Hebel Haus™ homes.
- Expansion of remodeling operations through high value-added services for long-term maintenance and enhancement of home asset value.
- Establishment of stable earnings in home financing operations with mortgage securitization and development of homeowners insurance business.
- Development of new businesses utilizing proprietary technology, know-how, and the asset value of Hebel Haus™ homes.

R&D

R&D is focused on enhancing core technologies.

Shelter technology brings greater safety and security through earthquake resistance, seismic damping, and fire resistance; greater long-term usability through physical durability/evaluation, systematic maintenance, and ease of remodeling; enhanced livability through thermal insulation, air circulation, and sound barrier; and enhanced ecology through recycling and incorporation of greenery. Lifestyle technology brings greater comfort, convenience, and satisfaction, while evaluation/simulation technology is being enhanced to enable buyers to more intuitively appreciate the real-world effects of variations and modifications to a home design so that it is optimized to taste before building. Additional research is focused on the physiological and psychological aspects of comfort, and how these can be utilized through technological development to achieve greater energy efficiency and environmental compatibility in homes optimized for health and comfort.

Highlights

New Hebel Haus™ Long Life two-generation home product line

A new product line of Hebel Haus™ Long Life two-generation homes was launched in April 2005, building on a long heritage that dates to the industry-leading introduction of the two-generation home in 1975. As a pioneer in the field of homes for two-generation occupancy, Asahi Kasei Homes has constantly studied the needs of residents, the features of a home which can meet them, and how these change over time as a result of lifestyle adaptations, changes which emerge in household composition, and demographic trends.

The new product line is the latest development based on the results of such study and analysis, and offers an unprecedented level of flexibility to rearrange the floor-plan of the home in order to adapt to changing needs over the course of long-term ownership. The ability to rearrange interior wall placement without diminishing structural integrity enables the division between living zones to be adjusted in response to changes in the numbers of residents. If desired, part of the living space can also be separated for use as a rental unit.



Hebel Haus™ Long Life two-generation home

Hebel Maison Court Villa™

Two-story Hebel Maison Court Villa™ apartment buildings went on sale in September 2005, meeting growing demand in urban markets for innovative rental units designed with recent demographic trends and current tastes in mind. Featuring a higher degree of privacy and higher quality amenities than with commonly available rental units, Hebel Maison Court Villa™ apartments have strong appeal to moderately affluent singles and couples without children, a growing segment of the Japanese urban population.



Hebel Mansion Court Villa™

Urban renewal

Urban renewal and redevelopment, including reconstruction of large condominiums and housing complexes, is a growing field of business for Asahi Kasei Homes. Several large projects were delivered during the year, including the Dojunkai Edogawa Apartment Complex whose reconstruction was completed in June 2005.

It has been estimated that at least a million older condominium units throughout Japan are in need of extensive renovation or demolishing and rebuilding. With its established know-how and experience in the field, Asahi Kasei Homes continues to expand its business in this market.



The Dojunkai Edogawa Apartment Complex, before rebuilding (left) and after (right)

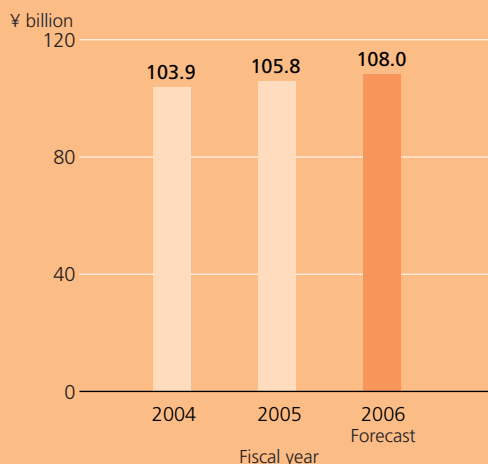
Pharma



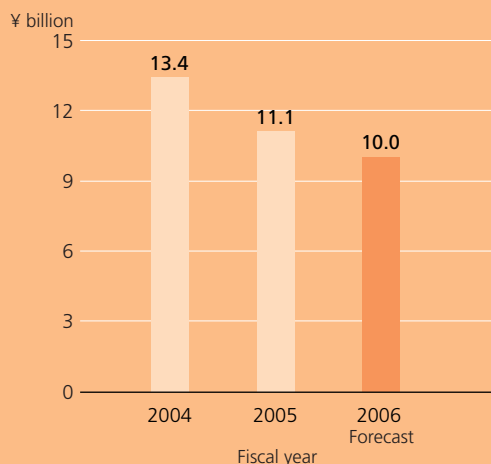
Kei Oe

President, Asahi Kasei Pharma

Net Sales



Operating Profit



The pharmaceuticals business is advancing as a specialized, R&D-centered operation, with the field of orthopedics the central focus of management resources. The medical device business is directed toward for global leadership in systems for therapeutic blood filtration.

The Year in Review

Sales for the segment increased by ¥1.9 billion to ¥105.8 billion, a 1.8% rise. Operating profit decreased by ¥2.3 billion to ¥11.1 billion, a 17.2% decline. This included a credit to amortize the actuarial surplus for retirement benefits which was ¥2.1 billion smaller than a year ago.

In pharmaceuticals, sales of Elcitonin™ calcitonin formulation decreased as market share was lost to competing products, but sales of Flivas™ therapy for benign prostatic hyperplasia and Toledomin™ antidepressant continued to grow, and operating profit from pharmaceuticals increased.

Shipments of APS™ artificial kidneys grew both in Japan and overseas, but elevated capital depreciation following plant expansions resulted in decreased operating profit for medical devices.

Notable Developments

In June 2005 Asahi Kasei Pharma and Novartis Pharma K.K. began co-promotion in Japan of Novartis Pharma's Voltaren* nonsteroidal anti-inflammatory drug. In March 2006 Asahi Kasei Pharma granted Eisai China Inc. rights to promote Eril™ vasodilator in China beginning in June. Asahi Kasei Medical's artificial kidney assembly plant in China began operation in November 2005.

Growth Action – 2010

Pharmaceuticals business:

Advancement as a specialized, R&D-centered operation, with management resources focused on selected therapeutic fields. Expansion of operations through structural reform and slim, robust management, building on an established presence in selected therapeutic fields in the Japanese market. In pharmaceutical intermediates and diagnostic reagents, structural reform is advancing to enable global growth and expansion in selected fields of competitive superiority.

Asahi Kasei Medical:

Directed toward global leadership in therapeutic blood filtration systems. Global growth and expansion as a high-earnings enterprise based on consolidation in the field of hemodialysis, eliciting new demand for plasmapheresis and leukocytapheresis products, expanding demand for

Major Products

Elcitonin™, Bredinin™, Flivas™, Toledomin™, and other pharmaceuticals, pharmaceutical intermediates, functional food additives, diagnostic reagents, APS™ artificial kidneys, Sepacell™ leukocyte reduction filters, Cellsorba™ leukocyte adsorption columns, Planova™ virus removal filters, contact lenses.

Pharmaceutical Product Pipeline

Development stage	Product	Objective	Class	Indication
Pre-registration	ART-123 (injection)	New biologic	Recombinant human thrombomodulin	Disseminated intravascular coagulation
Phase III	AKT-120 (oral)	New chemical	Anti-virus	Herpes zoster
	AT-877 (injection)	Additional indication	Rho-kinase inhibitor	Acute cerebral thrombosis
	PTH (injection)	Additional indication	Synthetic human parathyroid hormone	Osteoporosis
Phase II	AT-877 (oral)	New dosage form	Rho-kinase inhibitor	Angina pectoris
	KT-611 (oral)	Additional indication	α -1 blocker	Neurogenic bladder
Phase II (overseas)	ART-123 (injection)	New biologic	Recombinant human thrombomodulin	Deep vein thrombosis

Sepacell™ leukocyte reduction filters, and expanding demand for Planova™ virus removal filters.

R&D

In pharmaceuticals, the focus is on new drug development in the fields of orthopedics, the central nervous system, and urology, and on extension of market life through enhanced product conformation. In medical devices, developments are advancing in fields related to hemodialysis, apheresis, leukocyte removal, and virus removal. Next-generation fields of research include autohemotherapy and cell therapy.

Highlights

Co-promotion of Voltaren

In June 2005 Asahi Kasei Pharma and Novartis Pharma K.K. began co-promotion of Voltaren* diclofenac sodium in Japan. Voltaren* is a nonsteroidal anti-inflammatory drug (NSAID) widely used to reduce inflammation and alleviate pain. The co-promotion was expanded effective April 2006 to include gel, tape, and other transdermal formulations, further reinforcing Asahi Kasei Pharma's established position in orthopedics as a core field of competence.

* Voltaren is a trademark of Novartis.

Promotion of Eril™ in China

In March 2006 Asahi Kasei Pharma and Eisai China Inc. concluded an agreement for Eisai China to promote injectable formulations of Eril™ in China beginning in June. Eril™ fasudil hydrochloride is a vasodilator indicated for prevention of cerebral vasospasm and ensuing cerebral ischemia following surgery for subarachnoid hemorrhage. With a strong presence in China in the field of neurology, Eisai China is well positioned to expand sales of Eril™ in this key market. Consignment of promotion of Eril™ in China

to Eisai China enables Asahi Kasei Pharma to focus its Chinese resources on expanding sales of Elcitonin™ osteoporosis therapy and Bredinin™ immunosuppressant.

Artificial kidney assembly plant in China

Asahi Kasei Medical's plant in China for assembly of APS™ polysulfone-membrane artificial kidneys began operation in November 2005. To meet strong demand growth, a decision was made in April 2006 to add a second assembly line. The expanded plant in China will enhance Asahi Kasei Medical's capacity to maintain stable supply, and will provide an optimum base from which to serve China, Southeast Asia, the Middle East, and other developing markets.

The market for artificial kidneys is growing steadily in Japan and throughout the world, as the number of hemodialysis patients increases and facilities for hemodialysis therapy become increasingly available. Demand growth is particularly strong for polysulfone-membrane dialyzers, due to their exceptional performance and biocompatibility. The new assembly line is part of an ongoing program of R&D and plant investments to heighten the trust and satisfaction of the hemodialysis community, to advance Japan's world-leading hemodialysis technology, and ultimately to contribute to the quality of life for hemodialysis patients.



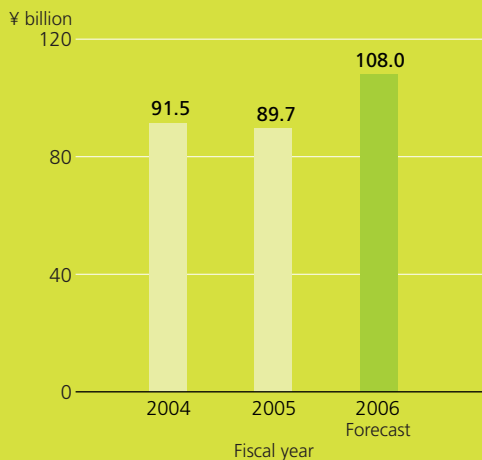
New APS™ assembly plant in China

Fibers

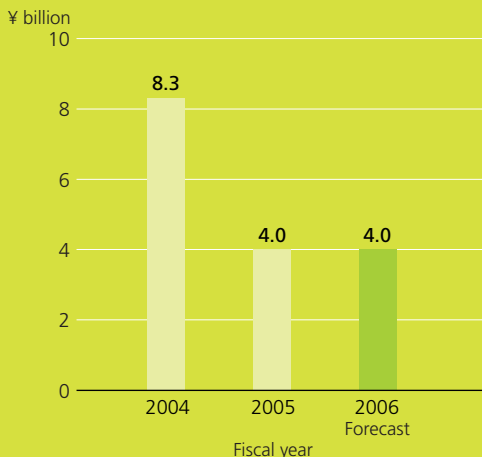


Masaki Sakamoto
President, Asahi Kasei Fibers

Net Sales



Operating Profit



The focus is on achieving growth through the global expansion of products with exceptional performance features and the development of new businesses in industrial-use materials.

The Year in Review

Sales for the segment decreased by ¥1.8 billion to ¥89.7 billion, a 2.0% decline. Operating profit decreased by ¥4.3 billion to ¥4.0 billion a 51.8% decline. This included a credit to amortize the actuarial surplus for retirement benefits which was ¥1.3 billion smaller than a year ago.

Operating profit in Roica™ spandex decreased with elevated feedstock prices and lower sales prices due to intensified competition. Operating profit in Bemberg™ cupro filament, used principally in linings, increased with strong overseas sales.

Sales of Eltas™ spunbond increased in diaper and hand-warmer applications, but operating profit in nonwovens decreased with elevated feedstock costs.

Notable Developments

In March 2006 Asahi Kasei Fibers acquired the spandex business of Lanxess, with production facilities in Germany and the US. Together with production facilities in Japan, China, Taiwan, and Thailand, Asahi Kasei Fibers now has a truly global supply infrastructure for spandex filament and yarn.

Growth Action – 2010

Achieving continuous growth by advancing a transformation from a business structure centered on products for the Japanese market for apparel through expansion of overseas business and development of business in non-apparel, industrial-use materials. R&D is focused on driving the growth of business in industrial-use materials to develop as a new core field of operation.

For greater earnings in established businesses:

- Expansion in global markets. Development of Roica™ as a leading global spandex brand, with production in six countries.
- Full utilization of available resources to expand earnings. Concerted forward-looking execution of investment for expansion.
- Intensive development of high value-added products. Establishment of pricing structure to reflect added value.

For expansion of new businesses:

- Expansion of Solotex™ polytrimethylene terephthalate (PTT) fiber business in new application fields.

Major Products

Roica™ elastic polyurethane filament (spandex), Eltas™ spunbond, Lamous™ artificial suede, and other nonwovens, Bemberg™ cuprammonium rayon, polyester filament.

Commercialization of polyketone filament business.

- Development of new businesses peripheral to established cellulosic and nonwovens businesses. Rapid scale-up to form new core business.
- Extension of business domain based on established technology and know-how, not limited to traditional fields of fiber production.
- Flexible implementation of alliances and joint projects with partners within and outside the Asahi Kasei Group.

R&D

The ratio of R&D expenditure on new materials to that on existing materials is 2:3 and increasing as greater emphasis is focused on development of new materials. R&D on existing materials is directed toward the development of new high value-added grades of Roica™ spandex, Bemberg™ cupro, and nonwovens which meet market needs for advanced performance. R&D on new materials is directed toward the development of unique products which will elicit new demand. A pilot plant for polyketone filament started up at the beginning of 2006, with samples supplied to users for evaluation.

Highlights

Acquisition of spandex business

In March 2006 Asahi Kasei Fibers acquired the spandex business of the German Lanxess Group, including production facilities in Germany and the US. Featuring elastic stretch and recovery, spandex is widely used in sportswear, swimwear, and stockings. The product lineup of Roica™ spandex is distinguished by high-performance grades with added functionality enabled by innovative technological advances and integrated production from raw material to finished yarns. The newly acquired production bases complement those in Japan, China, Taiwan, and Thailand, establishing Asahi Kasei Fibers as a truly global supplier of spandex products. The business will be expanded and grown to establish Roica™ as a leading global spandex brand.



Press conference announcing acquisition of spandex business from Lanxess

75th anniversary for Bemberg™

In June 2006, Asahi Kasei Fibers celebrated 75 years of production of Bemberg™ cupro fiber in Nobeoka. Bemberg™ is an environmentally compatible fiber made from cotton linter, short fibers on the seeds of cotton plants which are not used in cotton yarn. Production technology was licensed from Germany in 1929 and the first commercial shipment from Nobeoka was in June 1931.

Bemberg™ cupro is widely used in high quality linings, and use is growing in fashionable apparel, innerwear, bedding, and sportswear.



Newspaper advertisement commemorating the 75th anniversary of Bemberg™



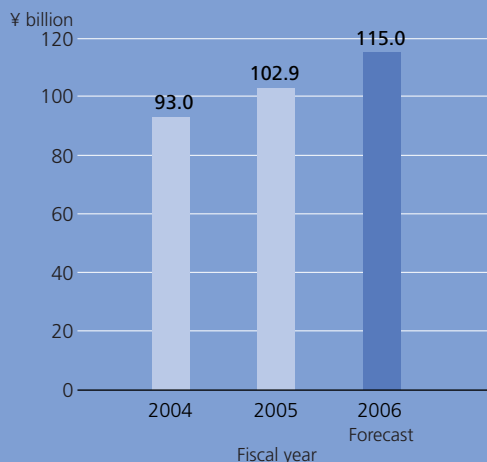
Swimwear made with Roica™

Electronics Materials & Devices

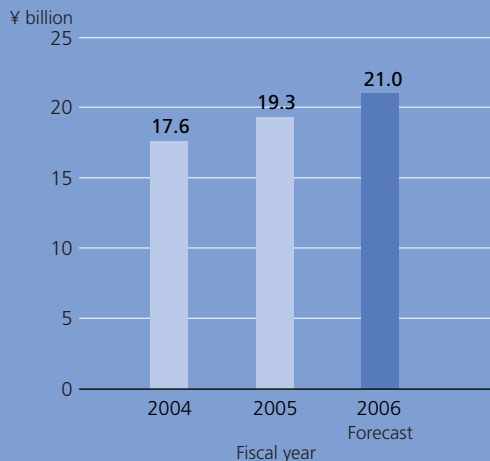


Makoto Konosu
President, Asahi Kasei EMD

Net Sales



Operating Profit



Growth of a high-earnings operational structure is obtained through leadership in the development of products for emerging applications in each market segment for electronic materials and electronic devices.

The Year in Review

Sales for the segment increased by ¥9.8 billion to ¥102.9 billion, a 10.6% rise. Operating profit increased by ¥1.7 billion to ¥19.3 billion, a 9.9% rise. This included a credit to amortize the actuarial surplus for retirement benefits which was ¥1.1 billion smaller than a year ago.

Operating profit in electronics devices grew with strong demand in cell phone, DVD recorder, and other home electronics applications. Operating profit in electronics materials grew with increased sales of Sunfort™ dry film resist for printed wiring board production following an expansion of capacity in China.

Notable Developments

A second production line began commercial operation in May 2005 at Asahi Kasei EMD's plant for large pellicles in Nobeoka. In September 2005 Asahi Kasei Electronics announced the development of a high-precision contact-free rotation angle sensor for use in automotive and industrial applications. In March 2006 Asahi Kasei Microsystems announced the development of the world's smallest and thinnest 6-axis electronic compass for use in cell-phone navigation systems and other portable electronics applications.

Growth Action – 2010

In electronic devices:

- Established LSI and sensor businesses are being expanded.
- New high-performance hybrid devices combining sensors and LSIs, including a contact-free position detector IC, are being developed.
- Marketing is being expanded world-wide.

In electronic materials:

- Industry-leading positions are being reinforced for Sunfort™ DFR, Pimel™ PSPI, and photomask pellicles for LCD panel production.
- Other core businesses including glass fabric are also being expanded.

Major Products

Pimel™ photosensitive polyimide precursor (PSP), Sunfort™ photosensitive dry film resist (DFR), photomask pellicles, Luminous™ plastic optical fiber, LSIs, Hall elements, glass fabric.

- Development of new applications is being advanced, including materials for flat-panel displays using established core technology in photosensitive materials and materials for semiconductor packaging.

R&D

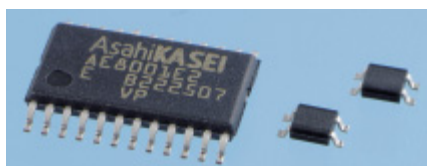
R&D is directed toward meeting needs and providing solutions to problems identified through interaction with the customer. Developments in electronics devices include combinations of sensor technology with digital/analog mixed-signal LSI technology for hybrid devices with unique functions. Developments in electronics materials include high-performance structural materials for LCD panels and organic electroluminescent (EL) materials for flat-panel displays, and next-generation package substrate materials compatible with emerging standards for high transmission speeds, performance, and reliability.

Highlights

Contact-free rotation angle sensor

The high-precision contact-free rotation angle sensor developed by Asahi Kasei Electronics (AKE) comprises the AE-8001 controller IC and two high-sensitivity Hall elements. It is the world's first magnetic rotation angle sensor to achieve the high precision standard of $\pm 0.5^\circ$ across the broad temperature range of -40° to 125°C . The sensor also features reliable performance under severe conditions of dust and vibration, making it well suited for use in automotive applications including electric motor control and steering angle detection, and in industrial applications including control of machine tools and robotic equipment.

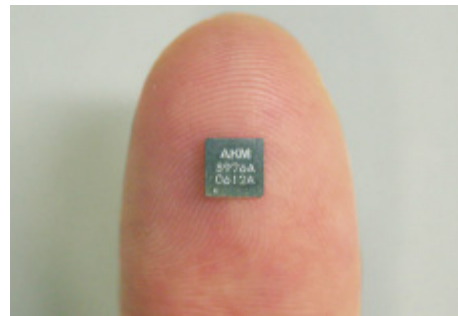
AKE is the world's leading supplier of Hall elements, magnetic sensors widely used in the control of electric motors for consumer electronics. Advanced products of AKE include Hall ICs and cell phone input devices. New sensor solutions for emerging applications are being developed through a combination of magnetic sensor function with digital/analog signal processing technology and innovative algorithms to efficiently extract the required information from electronic signals.



Contact-free rotation angle sensor controller IC (left) and Hall elements (right)

World's smallest and thinnest 6-axis electronic compass

The AK8976A developed by Asahi Kasei Microsystems (AKM) comprises a 3-axis geomagnetic sensor and a 3-axis acceleration sensor to form the world's smallest and thinnest 6-axis electronic compass. AKM is one of the world's leading suppliers of 3-axis electronic compasses widely used in GPS-enabled cell phones for pedestrian navigation systems. The new 6-axis electronic compass provides accurate navigation performance regardless of handset orientation, enabling advanced functions and services such as continuous alignment of 3D map display with handset orientation angle, and access to real-time shopping or events information by pointing the handset at a building.



AK8976A 6-axis electronic compass

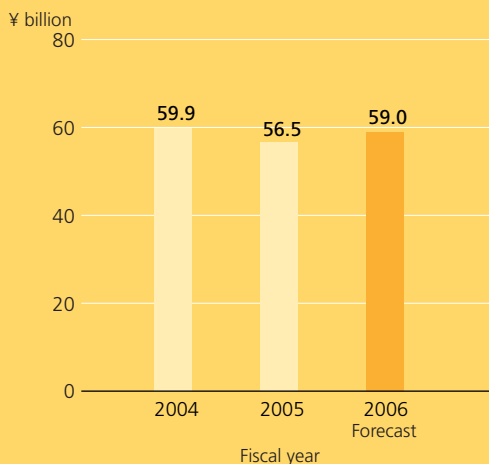
Construction Materials



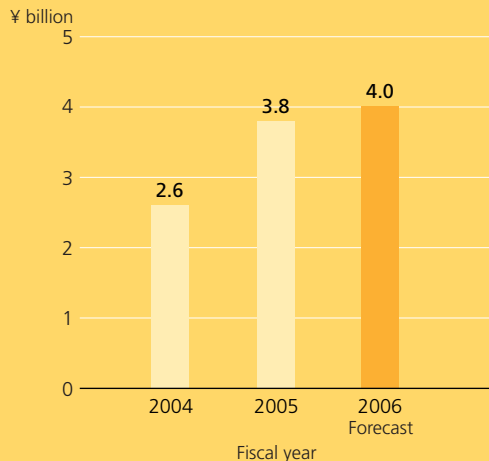
Yoichi Saji

President, Asahi Kasei Construction Materials

Net Sales



Operating Profit



With a reinforced commitment to customer focus, safety, security, and comfort, operational reform is advancing for heightened competitiveness of established businesses, expansion and development of new businesses, and establishment of new business models.

The Year in Review

Sales for the segment decreased by ¥3.4 billion to ¥56.5 billion, a 5.7% decline. Operating profit increased by ¥1.2 billion to ¥3.8 billion, a 48.6% rise. This included a credit to amortize the actuarial surplus for retirement benefits which was ¥1.5 billion smaller than a year ago.

Operating profit in building materials and housing materials increased with operating cost reductions and growing sales of Hebel™ autoclaved lightweight concrete (ALC) panels in large retail outlets, factories, and apartment buildings, and with operating cost reductions and growing sales of Hebel Powerboard™ ALC panels in new market segments.

Sales of pre-cast concrete piles decreased, but operating profit in foundation systems increased with growing sales of Eazet™ and ATT Column™ piles for small-scale construction.

Operating profit in insulation materials decreased with elevated feedstock costs and lower demand for Neoma™ high-performance foam insulation panels due to a downturn in wood-frame home construction.

Notable Developments

Nanorooft™ fiber-reinforced cement roofing tiles went on sale in November 2005. The E-coupler™ steel column coupling system went on sale in January 2006.

Growth Action – 2010

Further reinforcing the enhanced operational structure with growth through the expansion and development of new businesses and the establishment of new business models.

Enhancing competitiveness of established businesses:

- Ongoing operating cost reductions and enhanced product quality and service to ensure stable profitability of the Hebel™ ALC business.
- Expansion and reinforcement of Hebel Lite™, Hebel Powerboard™, and small-scale piles businesses.

Expansion and development of new businesses:

- Wide-ranging study of new business opportunities, both domestic and overseas.
- Swift commercialization of projects under development.
- Collaboration with Asahi Kasei Homes.

Major Products

Hebel™ autoclaved lightweight concrete (ALC) panels, steel-frame structural components, piles and foundation systems, Neoma™ foam insulation panels, artificial fish reefs and marine structures.

Establishment of new business models:

- Expansion of installation business for piles and foundation systems and for ALC panels and other exterior wall products.
- Identification of new research projects based on customer needs.
- Intensified marketing of housing materials and insulation materials through direct contact with builders and constructors.

R&D

The phenolic foam thermal insulation business will be expanded through developments to enhance production efficiency and enable composite product variations. Products under development include materials with humidity/temperature regulating function and the incorporation of added function to ALC panels.

Highlights

Nanoroof™ cement roofing tiles

Nanoroof™ fiber-reinforced cement roofing tiles went on sale in November 2005. While the clay roofing tiles most commonly used in Japan feature durability and a substantial appearance, their heavy weight poses a danger in the event of an earthquake. Many attempts to develop a lighter-weight roofing tile have failed to find market approval due to lack of sufficient durability and indistinct appearance. With the Nanoroof™ tile, Asahi Kasei Construction Materials has succeeded in matching the durability and appearance of traditional clay tiles at half the weight loading per unit of roof area.

The outstanding strength and durability of the thin Nanoroof™ tiles is made possible by the proprietary development of an ultra-fine material composition in which the pores in the cement are reduced to nanometer-order size, in contrast to the micrometer-order pores in conventional cement. Containing no asbestos, Nanoroof™ is a safe, environmentally compatible product.



Nanoroof™ cement roofing tiles

E-coupler™ steel column coupling system

The E-coupler™ coupling system for steel columns went on sale in January 2006. The system enables quick and precise coupling of steel columns for building frames without the need for welding at the construction site. Based on column coupling technology developed jointly by Asahi Kasei Homes and Unytite Corp. for use in the Hebel Haus Frex™ series of homes, the E-coupler™ system is the product of a three-way collaboration including Asahi Kasei Construction Materials to develop material components enabling general use in building frames. Asahi Kasei Construction Materials is advancing the development of other innovative structural systems and components with strong demand growth foreseen.



E-coupler™ steel column coupling system

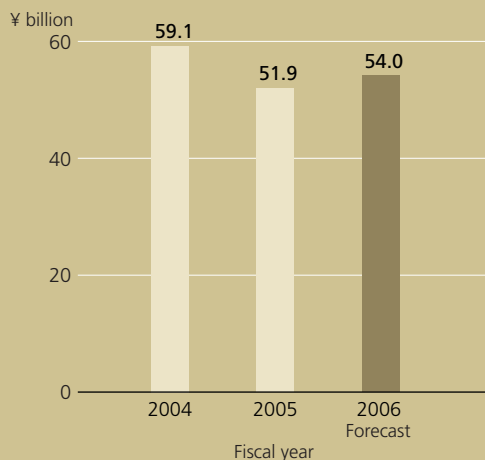
Life & Living



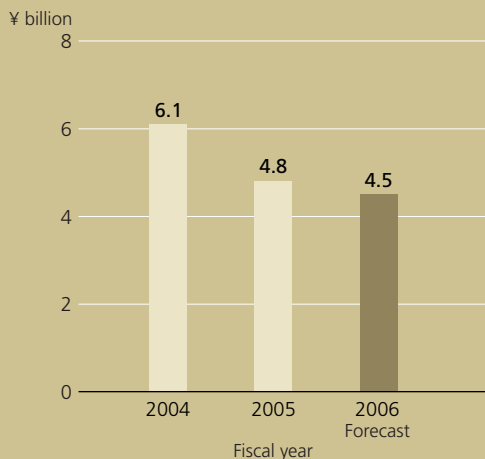
Keiji Kamei

President, Asahi Kasei Life & Living

Net Sales



Operating Profit



A revitalization of operations is advancing by reinforcing strong businesses, selecting and prioritizing new businesses, quickly performing necessary restructuring, and strengthening links with other core operating companies.

The Year in Review

Sales for the segment decreased by ¥7.2 billion to ¥51.9 billion, a 12.2% decline, largely due to the transfer of biaxially oriented polystyrene sheet operations to a joint venture with Dainippon Ink and Chemicals, Inc. Operating profit decreased by ¥1.2 billion to ¥4.8 billion, a 20.5% decline. This included a credit to amortize the actuarial surplus for retirement benefits which was ¥0.6 billion smaller than a year ago.

Feedstock costs rose, but operating profit in home-use products increased with higher sales of Saran Wrap™ cling film and increased exports of Saran™ fiber.

Sales prices for packaging and cushioning materials continued to rise, but operating profit decreased due to still higher feedstock costs.

Notable Developments

Ziploc™ containers with twist-sealing lids and Ziploc™ bags with double zippers went on sale in March 2006.

Growth Action – 2010

Reinforcing strong businesses and expanding into growth applications. Strengthening links with Asahi Kasei Chemicals and other core operating companies.

In home-use products:

Expansion of operations by reinforcing the Saran Wrap™ brand and development of new products which meet market demand.

In packaging products:

Expansion and growth with applications development in films for use in electronics and pharmaceuticals packaging, in addition to the main-line foods application field.

Major Products

Saran Wrap™ cling film, Ziploc™ storage bags, film, sheet, foam.

R&D

Development in the main business fields of Saran Wrap™ food wrapping film, cushioning material, Saran™ fiber, and plastic containers, is directed toward heightening productivity and eliciting new demand through product differentiation. R&D for new business growth is focused on the following areas: Development of performance films, packaging systems, functional packaging, and easy-opening packaging for enhanced consumer safety, reliability, and convenience in food and pharmaceutical applications; development of improved performance and new applications for biodegradable polymers; development of new consumer products which enable more comfortable living; and advanced utilization of the PAOSS™ cushioning design and simulation technology.

Highlights

Biodegradable plastic cups

Biodegradable Green Promax™ cups from Asahi Kasei Pax were used at Aichi Expo 2005. The cups are made with 100% polylactic acid (PLA), a biodegradable plastic material derived from corn. Asahi Kasei Pax developed proprietary technology for thermal processing and additive formulation to enable the production of PLA cups with transparency and strength equivalent to plastic drinking cups made of polystyrene or polypropylene. Green Promax™ cups are used at fast food chains, and other new applications based on the established technology are emerging.



Biodegradable Green Promax™ cup

New Ziploc™ products

Ziploc™ containers with twist-sealing lids, rectangular Ziploc™ containers, and Ziploc™ bags with double zippers went on sale in March 2006. With a tighter seal, the twist-sealing containers are ideal for storage of soups, stews, or other liquid foodstuffs without spillage, and also for protecting dry ingredients from humidity. The rectangular Ziploc™ containers are specially designed for use in the limited space of a Japanese kitchen, and are perfect for efficient storage of small portions. The new Ziploc™ bags feature two zippers to assure a tight and secure seal.



Ziploc™ containers with twist-sealing lids



Rectangular Ziploc™ containers



Ziploc™ bags with double zippers

Services, Engineering and Others

The Year in Review

Sales for the segment increased by ¥2.6 billion to ¥26.8 billion, a 10.7% rise. Operating profit decreased by ¥0.3 billion to ¥3.3 billion, a 7.9% decline, largely as a result of the exclusion of Asahi Kasei Information Systems as a consolidated subsidiary with the April 2005 divestment of a majority of its shares to TIS Inc.

Sales and operating profit in engineering operations increased with growing business in domestic plant construction.

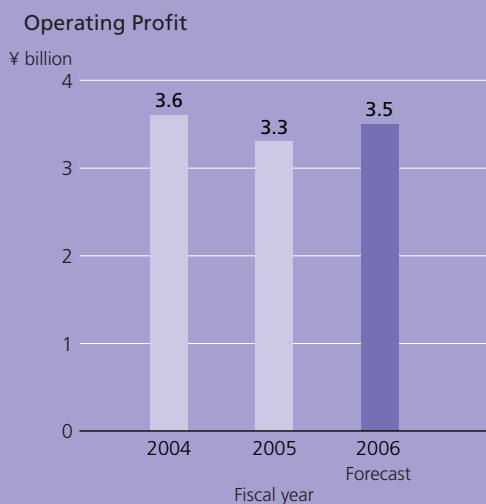
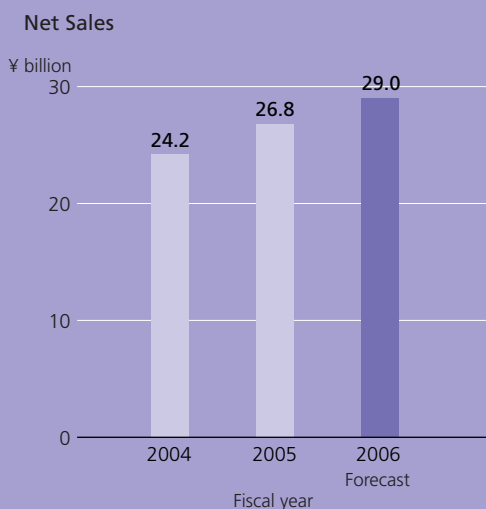
Sales and operating profit in personnel staffing and placement operations increased with growing business in staffing and an expanded sales network.

R&D

Projects under development at Asahi Kasei Engineering include technology for evaluation of high performance films and sheets used in display panels, technology for examination of minute metallic impurities, and technology for microbicial photocatalysis. During the fiscal year, Asahi Kasei Engineering and Asahi Research Center completed a three-year commission from the New Energy and Industrial Technology Development Organization (NEDO) for development of biodiesel fuel production technology in a joint project including Kyoto University and others.

Major Products

Plant engineering, environmental engineering, personnel staffing and placement, think tank services.



New Business Development and Intellectual Property



Research & Development and New Operations

Asahi Kasei Corporation CTO Kageyasu Akashi
on the new approach to development.



Kageyasu Akashi
Director, Executive Officer
R&D

Renewing the organizational structure

Since the holding company configuration was adopted in October 2003, R&D related to established businesses has been the responsibility of the core operating companies. The holding company has continued to perform basic research and new business projects. In August 2005 these were brought together with intellectual property in a new organization, New Business Development. As part of this, basic research functions are performed by the Central R&D Laboratories.



(As of August 1, 2006)

The role of New Business Development

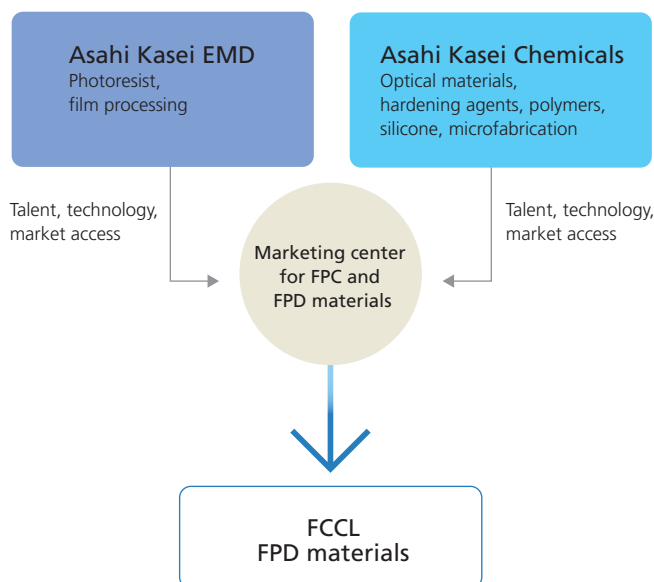
While each core operating company remains responsible for development of new businesses in its own field of operation, New Business Development performs the development of new businesses which extend beyond the range of any single operating segment, or would be impractical for any single core operating company to perform independently. In the past our corporate R&D organs had served to support the R&D efforts of the business units. With the new structure, in contrast, the core operating companies support our work in New Business Development with their established marketing capabilities and infrastructure. In this sense there has been quite a change in the way we function at the core of the Asahi Kasei Group's effort for the expansion and growth of operations.

Flexible printed circuit (FPC) and flat panel display (FPD) materials

The Marketing Center for FPC and FPD Materials was established as a holding company project in October 2004, to develop new businesses in electronic chemicals. The project combines personnel and technology from Asahi Kasei Chemicals, Asahi Kasei EMD, and the holding company. It marks a new way of doing things for us in that the same organ is responsible for the whole process encompassing research, development, and commercialization, tailoring its work in real time to emerging market needs, with the

authority to license technology or make acquisitions as necessary. A two-layer flexible copper-clad laminate (FCCL) for flexible printed wiring boards and a wire-grid polarizing film for liquid crystal displays are in advanced stages of development, with preparations for sample shipment.

Marketing Center for FPC and FPD Materials



Other areas of development

One area with great potential we are looking at is biotechnology. Successful developments with biotechnology have largely been limited to the fields of crop science and pharmaceuticals, but important new fields of application will emerge, including therapeutic devices and systems, and we are studying the prospects for establishing a new business model using biotechnology in such emerging fields.

Another project we have is to develop a business which can support the establishment of private clinics and medical offices. Established in November 2004, this project combines personnel and technology from Asahi Kasei Homes, Asahi Kasei Pharma, and Asahi Kasei Medical. This project also has the potential to lead to new developments in biotechnology utilizing information related to hemodialysis technology.

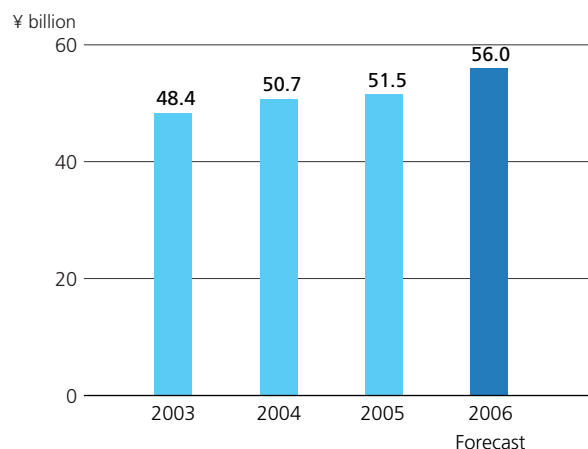
Our speech recognition technology also has the potential for cross-application to data processing related to

biotechnology. Our internet businesses include an electronic marketplace for construction materials and home fixtures, and a web-based personal diet management system.

Outlook

We have a clear mission to develop new businesses that can grow to become the next generation of core businesses for Asahi Kasei. The growth fields we are targeting require speed and flexibility if we going to succeed, and the personnel we have in New Business Development welcome and enjoy the challenge. Fiscal 2006 will be a pivotal year for much of our work, and we look forward to achieving progress in several areas.

R&D Expenditure (consolidated)

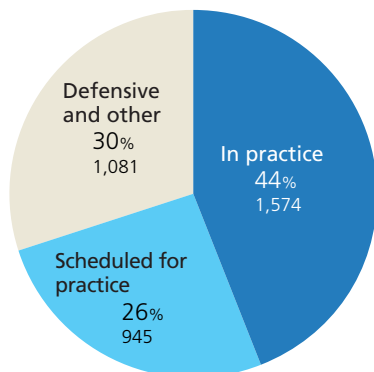


Intellectual Property

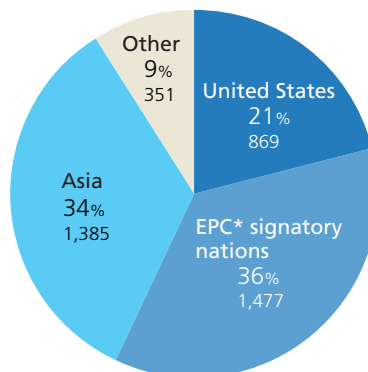
A systematic patent portfolio is maintained to secure the market superiority of operations. Strategic development of the patent portfolio is directed toward international patent

protection to support the globalization of business. The figures below show domestic patents held by category of use and overseas patents held by region of registration.

Domestic patents of the Asahi Kasei Group,
by category of use



Overseas patents of the Asahi Kasei Group,
by region of registration



* European Patent Convention

Public recognition of inventions

Many key inventions which support Asahi Kasei Group businesses have been honored with prestigious awards and commendations in recognition of the public benefits which

have been made possible. The main awards received from fiscal 2003 to fiscal 2005 are shown below.

Japan Medal of Merit, Purple Ribbon	Akira Yoshino, Asahi Kasei Group Research Fellow	Li-ion rechargeable battery	FY 2004
	Ichiro Shibasaki, Asahi Kasei Group Research Fellow	InSb Hall element	FY 2003
Science and Technology Award (Distinguished Service Award until 2004) from Minister of Education, Culture, Sports, Science and Technology		Oil-extended SBR with functional groups for silica-compound tires	FY 2005
		Novel catalytic reaction with high-concentration heteropolyacid	FY 2005
		Li-ion rechargeable battery	FY 2003
National Commendation for Invention, Japan Institute of Invention and Innovation		Virus removal filter	FY 2005

Governance and Responsibility

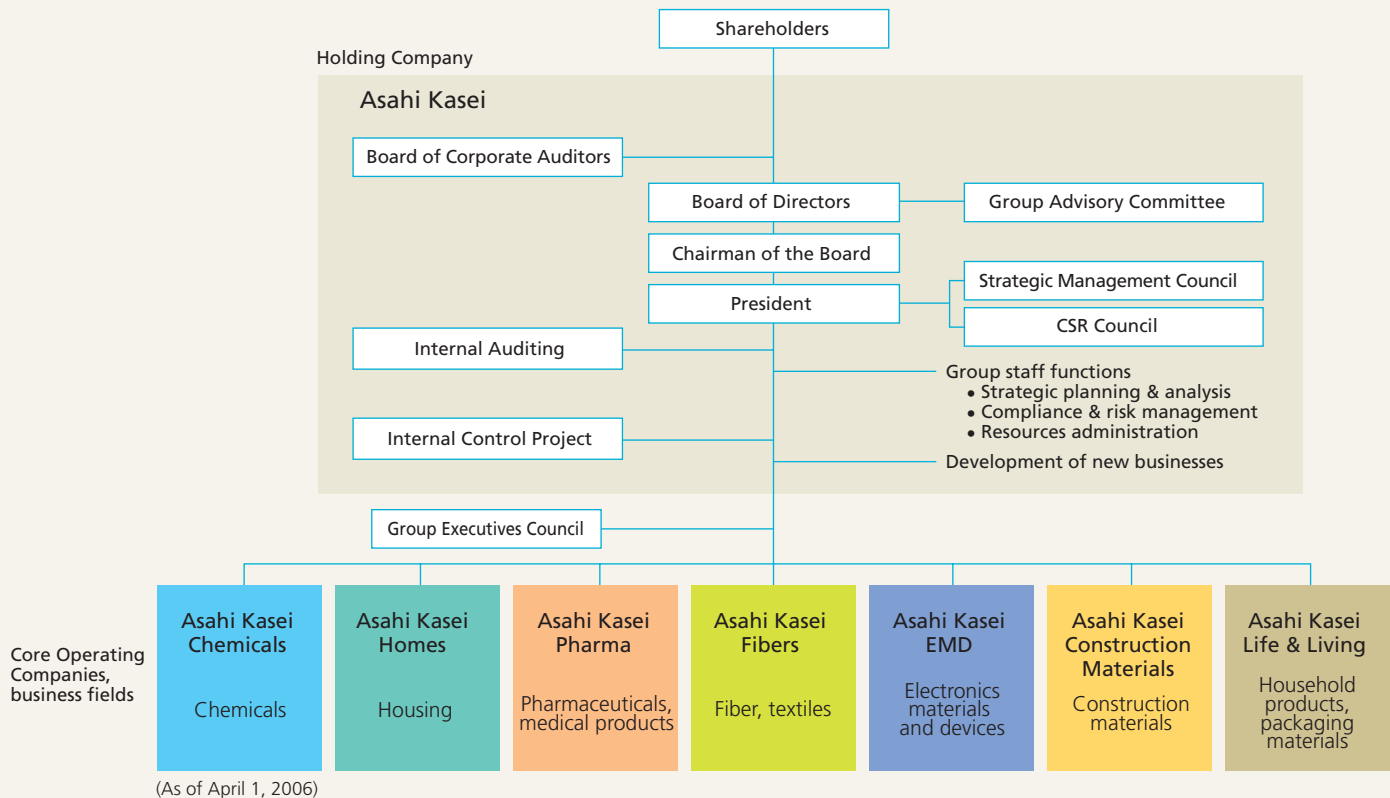


Corporate Governance

The Asahi Kasei Group constantly endeavors to heighten fast-moving and transparent management as essential for maximum corporate value and greater earnings. The effort for enriched and enhanced corporate governance is ongoing, building on the October 2003 transformation to

a holding company configuration with separate execution and oversight functions which established a management framework with clear delineation of executive authority and responsibility.

Corporate Governance System



Board of Directors

Oversees group management, and deliberates and decides on basic group policy and strategy, and on substantive proposals by the Strategic Management Council. The chairman of the holding company chairs meetings of the Board of Directors. Meets once or twice per month.

Strategic Management Council

Deliberates and decides on substantive matters relating to the operation of the holding company and of the group. Its decisions are made by the president of the holding company, who chairs meetings of the council, after deliberation by the attending constituent members. Meets twice per month.

Group Advisory Committee

The advisory body to the holding company Board of Directors, composed of the chairman and the president of the holding company and outside advisors. Meets twice per year.

Group Executives Council

Conducts the dissemination of substantive group information and the exchange of group information, and deliberates on matters requiring coordination among the core operating companies. Meets once per month.

Board of Corporate Auditors

Comprises four Corporate Auditors, of which two are Outside Auditors. Corporate Auditors exchange views, deliberate, and decide on substantive matters relating to auditing. Meets at least once per quarter.

Membership of Group Advisory Committee (as of March 31, 2006)

External Members	Yuzo Seto	Counsellor	Asahi Breweries, Ltd.
	Kodama Yukiharu	President	Japan Information Processing Development Corporation
	Norio Wada	President and CEO	Nippon Telegraph and Telephone Corporation
	Masumi Shiraishi	Professor	Faculty of Economics, Toyo University
	Kazuo Tezuka	Attorney	Kaneko & Iwamatsu
	Akio Makabe	Professor	Faculty of Economics, Shinshu University
Internal Members	Nobuo Yamaguchi	Chairman of the Board & Representative Director	Asahi Kasei Corporation
	Shiro Hiruta	President & Representative Director, Presidential Executive Officer	Asahi Kasei Corporation
Internal Observer	Ichiro Ito	Director, Primary Executive Officer	Asahi Kasei Corporation
Secretariat	Kenichi Shibukawa	Director, Senior Executive Officer	Asahi Kasei Corporation

Executive Officer System

An executive officer system of management is employed at the holding company and at each core operating company. Authority and responsibility for the management of each core operating company is held by the president and the other executive officers of that company. Authority and responsibility for the management of the holding company and of the group is held by the president and the other executive officers of the holding company.

The president of the holding company oversees the executive management and performance of the core operating companies and of their presidents. The holding company board of directors oversees the executive management and performance of the holding company president and of the group.

For both the holding company and the core operating companies, the number of board directors and executive officers is as small as possible. In all cases, the term of office is one year, and management results and performance are reviewed each fiscal year.

Recent developments

The Board of Directors, Strategic Management Council, Group Advisory Committee, Group Executives Council, and Board of Corporate Auditors met as scheduled. In October 2005 an Internal Control Project was formed to lead the preparation and implementation of an optimum system for internal control. After studying what would be the optimum content of documentation for the Asahi Kasei Group based on a standard internal control framework, the project began in earnest in April 2006. The Corporation Law which came into effect in May 2006 requires a Board of Directors resolution related to the preparation of an internal control system. At its May 2006 meeting, our Board of Directors adopted a basic policy for the Asahi Kasei Group's internal control system.

Audits

Internal Auditing is a corporate organ under the direct authority of the president of the holding company. Each year, Internal Auditing prepares plans for an internal audit in accordance with basic corporate regulations for internal audits, obtains the president's approval for these plans, and then performs the internal audit.

In accordance with the audit policy adopted by the Board of Corporate Auditors, each Corporate Auditor attends meetings of the Board of Directors and audits Directors in the discharge of their duties through examination of business performance. The Statutory Auditors Office provides staff to assist Corporate Auditors.

Chuo Aoyama PricewaterhouseCoopers was contracted as an independent auditor to perform the financial audit in accordance with the Commercial Code and Securities Law. Partners of the independent auditor designated to perform the audit for fiscal 2005 and the number of years auditing Asahi Kasei were as follows.

- Koji Kobayashi, CPA, 10 years
- Takahiro Nakazawa, CPA, 5 years
- Tetsuo Kitagawa, CPA, 10 years

The independent auditor forms a team of assistants for performance of the audit in accordance with its audit plan. The team mainly comprises certified public accountants and junior accountants, and also includes certified information systems accountants and other specialist assistants.

Internal Auditing, the Board of Corporate Auditors, and the corporate auditors of core operating companies and other subsidiaries regularly meet to confirm the effectiveness of internal governance systems for legal compliance and risk management. The Board of Corporate Auditors provides counsel to the independent auditor with respect to its audit plan, and receives the results of the consolidated financial audit of Asahi Kasei for the fiscal half-year and fiscal year.

Corporate Social Responsibility

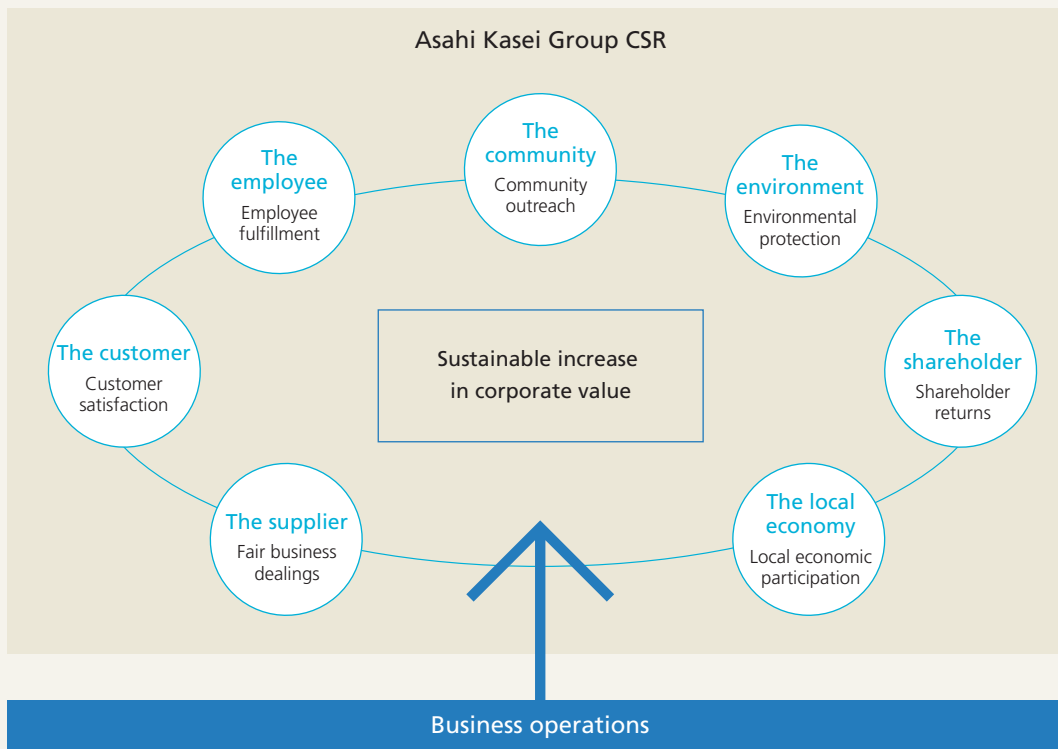
CSR at the Asahi Kasei Group

CSR in Action

We believe that CSR is achieved through the sustainable expansion of operations effecting increased corporate value, enabling fulfillment of the needs and expectations of our various stakeholders, in accordance with our basic tenets of contribution to human life and human livelihood through constant innovation and advances based in science and the human intellect.

CSR Fundamentals

Based in an understanding of the effects of our operations on the global environment and the global community, efforts and actions related to CSR are based in our four CSR Fundamentals: Compliance, Respect for Employee Individuality, Responsible Care*, and Corporate Citizenship.



* Responsible Care represents the commitment and initiative to secure and improve safety and environmental protection at every step of the product life-cycle through the individual determination and responsibility of each firm producing and handling chemical products. As of April 2006, fifty-two countries throughout the world have a Responsible Care program.

Framework for advancement

The CSR Council formed in April 2005, with the president serving as chair, formulates CSR policy and guides the CSR effort throughout the Asahi Kasei Group. The Asahi Kasei CSR Fundamentals were promulgated by the CSR Council in November 2005.

Specific CSR initiatives are implemented by the committees under the authority of the CSR Council, including the Corporate Ethics Committee to ensure

regulatory compliance and the Responsible Care Committee to guide efforts for environment, health, and safety.

The Risk Management Committee formulates the response to contingencies such as a major earthquake. The Community Fellowship Committee promotes and coordinates the effort for outreach and fellowship in each local community where we operate.

Framework for Advancement of CSR



Public recognition of CSR results

In April 2006 the Asahi Kasei Group received the Grand Prize in the 15th Annual Global Environment Award sponsored by Fujisankei Communications Group with the support of WWF Japan. The award cited the Asahi Kasei Group’s advancement of Responsible Care, particularly curtailment of fiscal 2004 greenhouse gas emissions to approximately half the level of the baseline year fiscal 1990, and also the provision of the “Eco-footprint Club” website for children to learn about the environment, ecology, and conservation.



President Hiruta accepts the Grand Prize at the Global Environment Award Ceremony

Directors, Auditors, Executive Officers

(As of June 30, 2006)



Nobuo Yamaguchi
Chairman of the Board &
Representative Director



Shiro Hiruta
President & Representative
Director, Presidential
Executive Officer



Ichiro Itoh
Director, Vice-Presidential
Executive Officer
*Strategy; Accounting &
Finance*

Yuji Tsuchiya
Auditor

Kenji Nakamae
Auditor

Hidefumi Sakamoto
Outside Auditor

Katsuo Wajiki
Outside Auditor



Kunio Kohga
Director, Primary Executive
Officer
*ESH; Production
Technology; PL*



Kenichi Shibukawa
Director, Senior Executive
Officer
*Legal & General Affairs;
Procurement; Compliance*



Shigeru Mizutani
Director, Executive Officer
*ESH; Production
Technology; PL*

Hatsuki Onitsuka
Executive Officer

Masanori Mizunaga
Executive Officer

Koji Fujiwara
Executive Officer

Yoshio Hayashi
Executive Officer



Kageyasu Akashi
Director, Executive Officer
R&D



Kiyoshi Tsujita
Director, Executive Officer
Human Resources

Financial Section

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Consolidated Eleven-Year Summary

Asahi Kasei Corporation and Consolidated Subsidiaries

For the year ended March 31	2006	2005**	2004	2003	2003†
Net Sales	¥1,498,620	¥1,377,697	¥1,253,534	¥1,193,614	¥1,193,614
Chemicals	660,402	570,182	453,707	424,673	–
Chemical and Chemical-related	–	–	–	–	477,581
Chemicals and Plastics	–	–	–	–	–
Homes	404,539	375,755	361,273	320,553	–
Housing and Construction Materials	–	–	–	–	383,654
Pharma*	105,842	103,933	105,965	105,463	105,463
Fibers*	89,704	91,518	101,514	110,551	110,551
Electronics Materials & Devices*	102,859	93,024	82,484	71,579	71,579
Construction Materials	56,512	59,908	60,622	63,101	–
Life & Living	51,942	59,149	59,813	52,908	–
Special Products and Services	–	–	–	–	–
Electronics	–	–	–	–	–
Membranes and Systems	–	–	–	–	–
Biotechnology and Medical Products	–	–	–	–	–
Speciality Products	–	–	–	–	–
Foods and Liquors	–	–	–	–	–
Engineering and Others*	–	–	–	–	–
Services, Engineering and Others*	26,821	24,228	28,156	44,786	44,786
Domestic sales	1,125,454	1,067,893	1,011,366	981,064	981,064
Overseas sales	373,166	309,804	242,168	212,550	212,550
Operating profit	108,726	115,809	60,932	61,555	61,555
Ordinary profit	104,166	112,876	53,643	50,389	50,389
Income (loss) before income taxes	94,481	91,141	54,820	(100,869)	(100,869)
Net income (loss)	59,668	56,454	27,672	(66,791)	(66,791)
Net income (loss) per share (yen)	42.46	40.16	19.62	(47.63)	(47.63)
Capital expenditure	66,310	68,479	86,387	93,985	93,985
Depreciation and amortization	69,399	71,531	64,408	60,808	60,808
R&D expenditures	51,467	50,715	48,420	49,311	49,311
Cash dividends per share (yen)	10.00	8.00	6.00	6.00	6.00
As of March 31	2006	2005	2004	2003	2003
Total assets	¥1,376,044	¥1,270,057	¥1,249,206	¥1,212,374	¥1,212,374
Inventories	214,062	202,521	181,609	176,788	176,788
Property, plant and equipment	414,368	419,969	428,302	427,188	427,188
Investments and other assets	284,390	223,958	226,825	198,697	198,697
Shareholders' equity	594,211	511,726	450,451	407,639	407,639
Shareholders' equity per share (yen)	424.34	365.43	321.41	290.92	290.92
Shareholders' equity to total assets (%)	43.2	40.3	36.1	33.6	33.6
Number of employees	23,030	23,820	25,011	25,730	25,730

* For continuity, figures for business categories which were renamed are shown on the same line.

• Through the year ended March 31, 2003: Figures shown as Pharma are those for the previous Health Care sector, figures shown as Fibers are those for the previous Fibers and Textiles sector, figures shown as Electronics Materials & Devices are those for the previous Electronics sector, and figures shown as Services, Engineering and Others are those for the previous Liquors, Services and Others sector.

• With the divestment of foods operations, the "foods and liquors" and "engineering and services" segments are combined as "engineering and others." Through the year ended March 31, 1999, figures shown as "engineering and others" are those for the previous "engineering and services" segment.

** For comparison purposes, results for the year ended March 31, 2005 are recalculated to reflect the April 2005 transfer of Leona™ nylon 66 filament operations from the Fibers segment to the Chemicals segment.

† For comparison purposes, results by business category for the year ended March 31, 2003 are recalculated in accordance with the revised categories for the year ended March 31, 2004, which are aligned with the core operating companies in the holding company configuration adopted in October 1, 2003.

• The "fabricated home products" segment of the Chemical and Chemical-related sector is separated to an independent Life & Living segment. The remainder of the Chemical and Chemical-related sector is reclassified as the Chemicals segment.

• The Housing and Construction Materials sector is separated into the Homes segment and the Construction Materials segment.

• The Health Care sector is renamed the Pharma segment.

• The Fibers and Textiles sector is renamed the Fibers segment.

• The Electronics sector is renamed the Electronics Materials & Devices segment.

• With the divestment of liquors operations, the Liquors, Services and Others sector is renamed the Services, Engineering and Others segment.

Millions of yen, except where noted

2002	2001 [†]	2001	2000	1999	1998 [§]	1998	1997	1996
¥1,195,393	¥1,269,415	¥1,269,415	¥1,194,462	¥1,171,845	¥1,281,675	¥1,281,675	¥1,291,599	¥1,210,170
-	-	-	-	-	-	-	-	-
440,698	449,470	-	-	-	-	-	-	-
-	-	430,934	379,677	375,048	400,420	373,874	363,589	354,595
-	-	-	-	-	-	-	-	-
408,474	433,440	433,440	412,954	372,649	425,553	424,532	451,407	392,030
98,686	95,481	-	-	-	-	-	-	-
125,908	134,791	134,791	139,181	148,277	181,542	181,542	184,065	177,499
64,062	95,999	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	270,250	262,650	275,871	274,160	301,727	292,538	286,046
-	-	96,228	80,653	66,212	63,235	62,337	59,457	56,794
-	-	18,307	17,967	18,133	20,828	-	-	-
-	-	95,481	93,460	88,050	82,703	82,703	82,058	81,294
-	-	-	-	-	-	33,593	29,464	28,810
-	-	-	-	90,068	88,478	88,478	89,014	82,742
-	-	60,234	70,570	13,408	18,916	34,616	32,545	36,406
57,565	60,234	-	-	-	-	-	-	-
1,006,810	1,086,219	1,086,219	1,044,630	1,009,439	1,127,590	1,127,590	1,133,811	1,065,670
188,583	183,196	183,196	149,832	162,406	154,085	154,085	157,788	144,500
45,664	96,024	96,024	74,323	51,237	62,814	62,814	72,103	56,271
39,849	86,747	86,747	85,853	42,443	56,271	56,271	60,686	47,604
10,679	50,318	50,318	39,615	37,525	40,264	40,264	49,259	27,075
5,180	25,177	25,177	20,525	17,392	20,809	20,809	25,353	9,235
3.61	17.45	17.45	14.23	12.06	14.43	14.43	17.57	6.40
74,826	69,188	69,188	63,213	70,461	74,981	74,981	73,217	71,908
60,676	62,222	62,222	63,629	63,845	67,117	67,117	70,897	74,875
49,574	49,768	49,768	50,015	56,844	57,023	57,023	55,591	55,306
6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00
2002	2001	2001	2000	1999	1998	1998	1997	1996
¥1,193,011	¥1,240,008	¥1,240,008	¥1,180,372	¥1,185,249	¥1,206,872	¥1,206,872	¥1,250,921	¥1,235,054
180,826	196,510	196,510	181,771	193,691	198,651	198,651	206,253	198,282
415,193	419,168	419,168	416,881	435,005	424,499	424,499	424,002	426,744
181,618	176,177	176,177	127,013	132,251	141,388	141,388	151,804	156,984
496,826	516,013	516,013	476,159	464,339	455,250	455,250	442,730	425,947
353.16	357.70	357.70	330.07	321.88	315.64	315.64	306.89	295.26
41.6	41.6	41.6	40.3	39.2	37.7	37.7	35.4	34.5
26,227	26,695	26,695	26,580	29,263	27,792	27,792	26,721	28,155

[†] For comparison purposes, results by business category for the year ended March 31, 2001 are recalculated in accordance with the revised categories for the year ended March 31, 2002.

- Operations of the "membranes and systems" segment combine with the Chemicals and Plastics sector to form the Chemical and Chemical-related sector.
- The "electronics" segment is reclassified as the Electronics sector.
- Operations of the "biotechnology and medical products" segment are reclassified as the Health Care sector.
- The remaining operations comprise the Liquors, Services and Others sector, in place of the "engineering and others" segment.

[§] For comparison purposes, results by business category for the year ended March 31, 1998 are recalculated in accordance with the revised categories for the year ended March 31, 1999.

- Photopolymer and explosives operations are transferred from the Special Products and Services sector to the Chemicals and Plastics sector.
- Artificial fish reef operations are transferred from the Special Products and Services sector to the Housing and Construction Materials sector.
- Within the Special Products and Services sector, functional membrane operations are transferred from the "speciality products" segment to the "membranes and systems" segment, and ion-exchange product operations are transferred from the "engineering and services" segment to the "membranes and systems" segment.

Management's Discussion and Analysis

Fiscal year 2005 (April 1, 2005 – March 31, 2006)

Overview of Fiscal 2005 Consolidated results

Operating Environment

The Japanese economy showed signs of recovery during the year, with increased private-sector capital investment and strong corporate results. The operating environment nevertheless remained challenging, with petroleum prices continuing to increase on strong demand growth worldwide, especially in China, driving up the cost of naphtha and other petrochemical feedstocks.

Net Sales, Operating Profit

Sales increased in chemicals operations, with strong overseas demand, and in electronics operations, with strong demand in IT-related markets. Net sales increased by ¥120.9 billion to ¥1,498.6 billion, an 8.8% rise.

Operating profit decreased by ¥7.1 billion to ¥108.7 billion, a 6.1% decline. Amortization of actuarial differences in retirement benefit accounts resulted in a ¥16.2 billion decrease in operating profitability (a ¥20.2 billion surplus was amortized during the year-ago term, and a ¥4.0 billion surplus was amortized during the term under review), reducing cost of sales by ¥5.5 billion and selling, general and administrative expenses (SGA) by ¥10.7 billion. Operating profit excluding this amortization grew by ¥9.1 billion to ¥104.7 billion, a 9.5% increase. As a percentage of net sales, cost of sales increased by 1.8 percentage points to 75.2%, largely due to feedstock cost increases and the above amortization. SGA increased by ¥11.0 billion, but

decreased as a percentage of net sales by 0.7 percentage points to 17.5% due to the higher rate of growth in net sales. Operating profit as a percentage of net sales decreased by 1.1 percentage points to 7.3%.

Non-operating Income and Expenses, Ordinary Profit

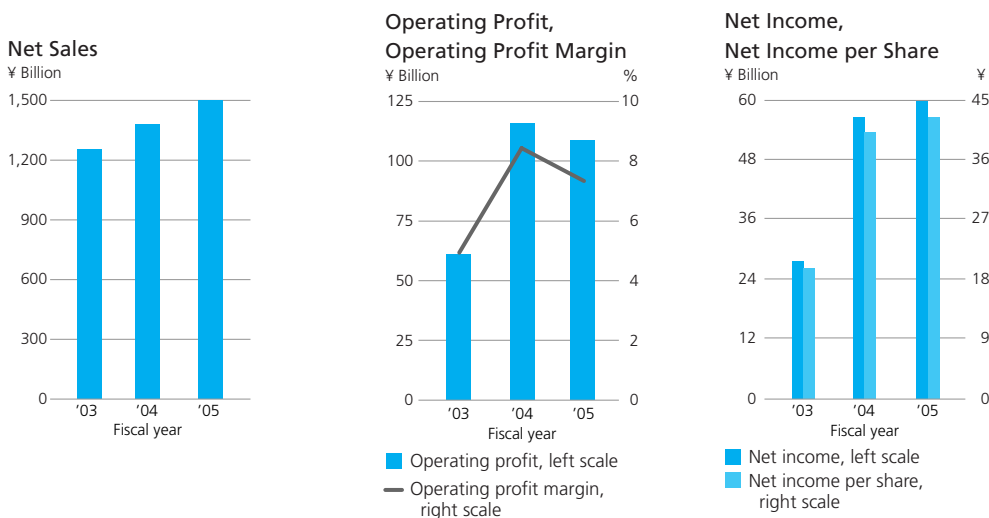
Net non-operating expenses were ¥4.6 billion, ¥1.6 billion higher than the ¥2.9 billion of a year earlier. Net financing expenses decreased by ¥0.4 billion. Equity in net earnings of unconsolidated subsidiaries and affiliates was ¥0.5 billion, ¥2.1 billion lower than the ¥2.6 billion of a year earlier, with declining performance of overseas subsidiaries and affiliates. As a result, ordinary profit decreased by ¥8.7 billion to ¥104.2 billion, a 7.7% decline.

Special Gains and Losses

Special gains of ¥5.9 billion included a ¥5.7 billion gain on sale of idle land. Special losses of ¥15.6 billion included a ¥7.0 billion loss on sale disposal of property, plant, and equipment and a ¥3.8 billion impairment loss on idle land. The net special loss of ¥9.7 billion was ¥12.1 billion lower than a year earlier, when significant restructuring charges were incurred including for closure of overseas subsidiaries.

Net Income

With ordinary profit of ¥104.2 billion and the net special loss of ¥9.7 billion, income before income taxes and minority interests was ¥94.5 billion. Current income taxes of ¥39.0 billion and deferred income taxes of ¥4.4 billion



resulted in a net income tax expense of ¥34.5 billion. Minority interest in income of consolidated subsidiaries was ¥0.3 billion. As a result, net income increased by ¥3.2 billion to ¥59.7 billion, a 5.7% rise, and net income per share increased by ¥2.30 to ¥42.46 from the ¥40.16 of a year earlier.

Results by Segment

Operating Segments

Leona™ nylon 66 filament operations were transferred from the Fibers segment to the Chemicals segment in April 2005. Results for the year-ago period have been revised accordingly for comparison purposes.

Within each segment, operating performance of individual businesses is described absent amortization of actuarial differences in retirement benefits accounting.

Chemicals

Sales for the segment increased by ¥90.2 billion to ¥660.4 billion, a 15.8% rise. Operating profit increased by ¥2.7 billion to ¥40.5 billion, a 7.1% rise. This included a credit to amortize the actuarial surplus for retirement benefits which was ¥4.3 billion smaller than a year ago.

In volume products, sales grew with strong overseas demand but operating profit decreased due to higher feedstock costs. Operating profit in monomers and basic chemicals decreased with elevated feedstock costs for acrylonitrile and styrene. Operating profit in polymers and elastomers increased with improved market conditions for

Xyron™ modified polyphenylene ether and other engineering resins.

Operating profit in specialty products and systems increased. Sales of Hipore™ Li-ion rechargeable battery separators continued to grow with strong demand. Sales of both membrane-process salt electrolysis systems and their ion-exchange membranes remained strong.

Homes

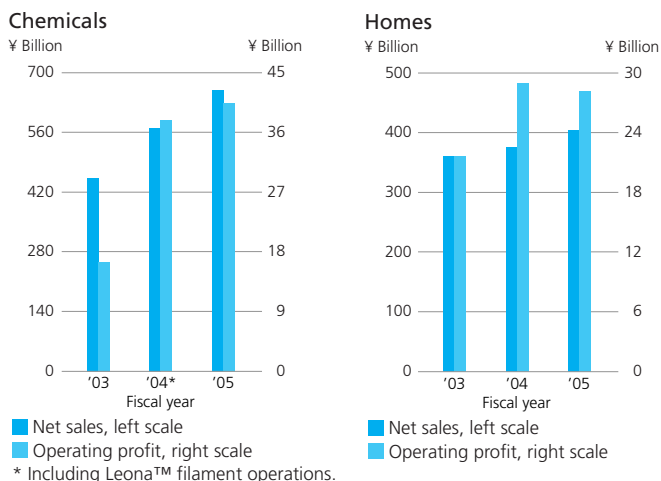
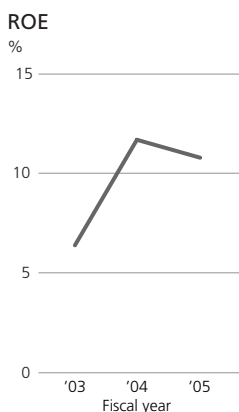
Sales for the segment increased by ¥28.8 billion to ¥404.5 billion, a 7.7% rise. Operating profit decreased by ¥0.8 billion to ¥28.2 billion, a 2.7% decline. This included a credit to amortize the actuarial surplus for retirement benefits which was ¥2.2 billion smaller than a year ago.

Sales of homes, both order-built and pre-built, increased with higher unit prices and the completion of large condominium reconstruction projects, but operating profit decreased with higher costs for materials. The value of orders received during the year increased by ¥11.5 billion to ¥313.3 billion.

Sales and operating profit in real estate operations grew with rising income from rentals. Sales and operating profit in remodeling operations also grew.

Pharma

Sales for the segment increased by ¥1.9 billion to ¥105.8 billion, a 1.8% rise. Operating profit decreased by ¥2.3 billion to ¥11.1 billion, a 17.2% decline. This included a



credit to amortize the actuarial surplus for retirement benefits which was ¥2.1 billion smaller than a year ago.

In pharmaceuticals, sales of Elcitonin™ calcitonin formulation decreased as market share was lost to competing products, but sales of Flivas™ therapy for benign prostatic hyperplasia and Toledomin™ antidepressant continued to grow, and operating profit from pharmaceuticals increased.

Shipments of APS™ artificial kidneys grew both in Japan and overseas, but elevated capital depreciation following plant expansions resulted in decreased operating profit for medical devices.

Fibers

Sales for the segment decreased by ¥1.8 billion to ¥89.7 billion, a 2.0% decline. Operating profit decreased by ¥4.3 billion to ¥4.0 billion a 51.8% decline. This included a credit to amortize the actuarial surplus for retirement benefits which was ¥1.3 billion smaller than a year ago.

Operating profit in Roica™ elastic polyurethane filament decreased with elevated feedstock prices and lower sales prices due to intensified competition. Operating profit in Bemberg™ cupro filament, used principally in linings, increased with strong overseas sales.

Sales of Eltas™ spunbond increased in diaper and hand-warmer applications, but operating profit in nonwovens decreased with elevated feedstock costs.

Electronics Materials & Devices

Sales for the segment increased by ¥9.8 billion to ¥102.9

billion, a 10.6% rise. Operating profit increased by ¥1.7 billion to ¥19.3 billion, a 9.9% rise. This included a credit to amortize the actuarial surplus for retirement benefits which was ¥1.1 billion smaller than a year ago.

Operating profit in electronics devices grew with strong demand in cell phone, DVD recorder, and other home electronics applications. Operating profit in electronics materials grew with increased sales of Sunfort™ dry film resist for printed wiring board production following an expansion of capacity in China.

Construction Materials

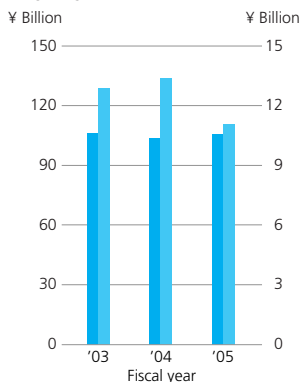
Sales for the segment decreased by ¥3.4 billion to ¥56.5 billion, a 5.7% decline. Operating profit increased by ¥1.2 billion to ¥3.8 billion, a 48.6% rise. This included a credit to amortize the actuarial surplus for retirement benefits which was ¥1.5 billion smaller than a year ago.

Operating profit in building materials and housing materials increased with operating cost reductions and growing sales of Hebel™ autoclaved lightweight concrete (ALC) panels in large retail outlets, factories, and apartment buildings, and with operating cost reductions and growing sales of Hebel Powerboard™ ALC panels in new market segments.

Sales of pre-cast concrete piles decreased, but operating profit in foundation systems increased with growing sales of Eazet™ and ATT Column™ piles for small-scale construction.

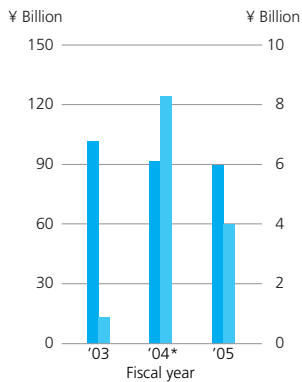
Operating profit in insulation materials decreased with elevated feedstock costs and lower demand for Neoma™

Pharma



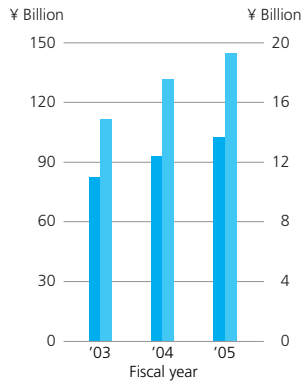
■ Net sales, left scale
■ Operating profit, right scale

Fibers



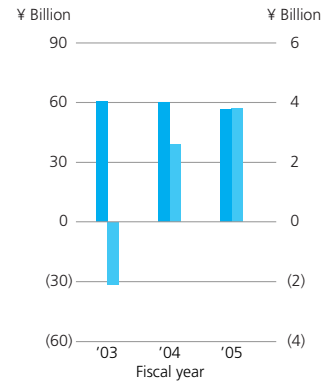
■ Net sales, left scale
■ Operating profit, right scale
* Not including Leona™ filament operations.

Electronics Materials & Devices



■ Net sales, left scale
■ Operating profit, right scale

Construction Materials



■ Net sales, left scale
■ Operating profit, right scale

high-performance foam insulation panels due to a downturn in wood-frame home construction.

Life & Living

Sales for the segment decreased by ¥7.2 billion to ¥51.9 billion, a 12.2% decline, largely due to the transfer of biaxially oriented polystyrene sheet operations to a joint venture with Dainippon Ink and Chemicals, Inc. Operating profit decreased by ¥1.2 billion to ¥4.8 billion, a 20.5% decline. This included a credit to amortize the actuarial surplus for retirement benefits which was ¥0.6 billion smaller than a year ago.

Feedstock costs rose, but operating profit in home-use products increased with higher sales of Saran Wrap™ cling film and increased exports of Saran™ fiber.

Sales prices for packaging and cushioning materials continued to rise, but operating profit decreased due to still higher feedstock costs.

Services, Engineering and Others

Sales for the segment increased by ¥2.6 billion to ¥26.8 billion, a 10.7% rise. Operating profit decreased by ¥0.3 billion to ¥3.3 billion, a 7.9% decline, largely as a result of the exclusion of Asahi Kasei Information Systems as a consolidated subsidiary with the April 2005 divestment of a majority of its shares to TIS Inc.

Sales and operating profit in engineering operations increased with growing business in domestic plant

construction.

Sales and operating profit in personnel staffing and placement operations increased with growing business in staffing and an expanded sales network.

Geographical Information

Geographic segment information is not shown because over 90% of total sales were from operations domiciled in Japan and over 90% of total assets were located in Japan.

Overseas Sales

Overseas sales increased, largely in Chemicals, by ¥63.4 billion to ¥373.2 billion, a 20.5% increase and a 2.4 percentage points increase to 24.9% of consolidated net sales.

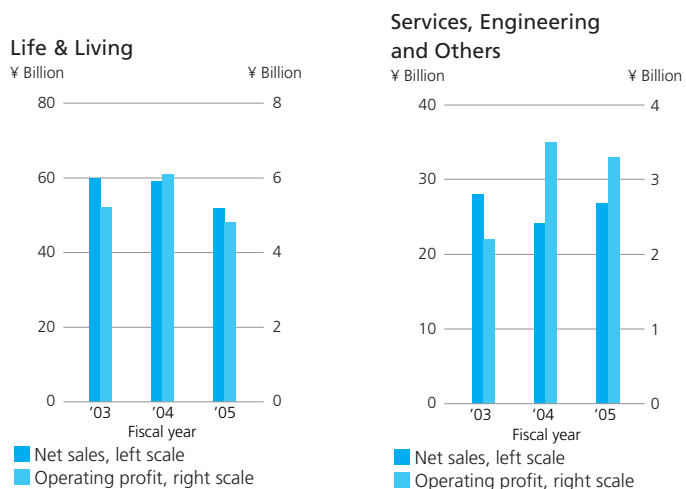
Liquidity and Capital Resources

Financial Position

Total assets at fiscal year end were ¥1,376.0 billion, ¥106.0 billion (8.3%) higher than a year earlier.

Current assets increased by ¥54.5 billion (9.2%) to ¥644.2 billion. Notes and accounts receivable increased by ¥17.3 billion and inventories increased by ¥11.5 billion with higher selling prices and greater sales in the Chemicals segment. Cash on-hand and in banks increased by ¥18.1 billion.

Fixed assets increased by ¥51.5 billion (7.6%) to ¥731.9 billion. Investment securities increased by ¥58.7 billion with



increased fair value of shares held. Tangible fixed assets decreased by ¥5.6 billion and intangible fixed assets decreased by ¥3.3 billion as the value of depreciation and disposals exceeded the value of asset acquisitions. Notable capital expenditure included capacity expansions for Hipore™ microporous membrane and APS™ polysulfone-membrane hemodialyzers.

Current liabilities increased by ¥36.7 billion (9.1%) to ¥439.7 billion. Short-term borrowings increased by ¥24.9 billion, and accrued expenses increased by ¥11.5 billion.

Long-term liabilities decreased by ¥13.8 billion (3.9%) to ¥335.2 billion. Bonds decreased by ¥23.0 billion, and long-term debt decreased by ¥6.9 billion. Deferred income tax liabilities increased by ¥18.8 billion.

Interest-bearing debt decreased by ¥13.0 billion to ¥235.8 billion, with ¥31.0 billion of bonds redemption.

Shareholders' equity increased by ¥82.5 billion (16.1%) to ¥594.2 billion. Retained earnings increased by ¥46.9 billion with net income of ¥59.7 billion, while net unrealized gain on securities increased by ¥30.7 billion. Shareholders' equity per share increased by ¥58.91 to ¥424.34. Shareholders' equity/total assets increased from 40.3% to 43.2%, and debt-to-equity ratio decreased from 0.49 to 0.40.

Capital Expenditure

Capital expenditure was primarily for new and expanded production plant and equipment in long-term growth fields.

Investments were also made for rationalization, modification, maintenance, and IT systems to bring greater product reliability and cost reductions. Capital expenditure by operating segment shown below is for tangible and intangible fixed assets, combined, before consumption tax.

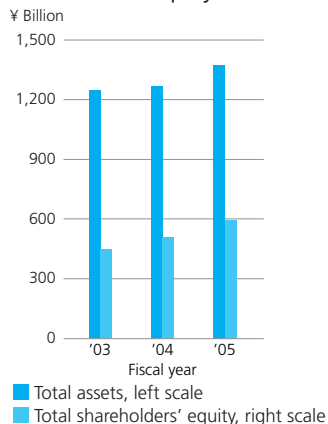
For comparison purposes, the previous year's segment figures have been revised to reflect the April 2005 transfer of Leona™ nylon 66 filament operations from Fibers to Chemicals.

	Totals for the year (¥ Million)	Compared to previous year
Chemicals	26,632	106.2 %
Homes	3,583	103.9 %
Pharma	4,897	59.3 %
Fibers	5,417	109.9 %
Electronics Materials & Devices	14,960	91.0 %
Construction Materials	2,313	104.7 %
Life & Living	4,655	107.5 %
Services, Engineering and Others	1,038	72.9 %
Combined	63,495	96.0 %
Corporate assets and eliminations	2,815	119.6 %
Consolidated	66,310	96.8 %

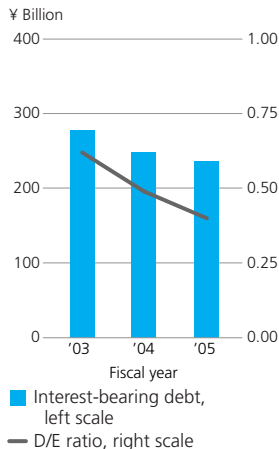
Notable capital expenditure by operating segment was as follows:

- Chemicals: New facility for propylene production.
- Homes: IT systems.
- Pharma: Capacity expansion for APS™ polysulfone-membrane hemodialyzers.
- Fibers: Capacity expansion for Bemliese™ nonwoven cellulose filament; IT systems.
- Electronics Materials & Devices: Capacity expansion for large pellicles.
- Construction Materials: Plant modification, rationalization, and maintenance.
- Life & Living: Plant modification, rationalization, and maintenance.
- Services, Engineering and Others: IT systems, rationalization, labor-saving, and maintenance.
- Corporate assets: Corporate research facilities; maintenance.

Total Assets and Total Shareholders' Equity



Interest-Bearing Debt, D/E Ratio



Cash Flows

Free cash flows were ¥48.2 billion as cash generated, principally operating profit and depreciation and amortization, exceeded cash used, principally for acquisition of fixed assets and investment securities. Cash flows from financing activities, principally for reduction of interest-bearing debt and payment of dividends, were a net ¥30.9 billion net cash used. After including ¥0.1 billion cash and cash equivalents held by newly consolidated subsidiaries, cash and cash equivalents at fiscal year end were ¥86.4 billion, ¥17.9 billion greater than a year earlier.

Cash flows from operating activities

Greater sales and higher selling prices resulted in increases in notes and accounts receivable, trade, and in inventories, aggregating ¥27.5 billion cash used, while ¥29.1 billion was used for payment of income taxes. Income before income taxes and minority interest generated ¥94.5 billion, and depreciation and amortization generated ¥69.4 billion. Net cash generated from operating activities was ¥108.6 billion, ¥10.3 billion more than a year earlier.

Cash flows from investing activities

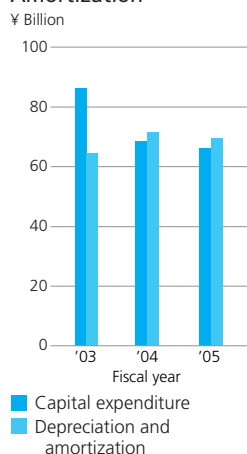
Cash used included ¥59.1 billion for acquisition of tangible fixed assets for continuing expansion of competitive-superiority operations and enhancement of overall competitiveness and ¥7.3 billion for acquisition of intangible

fixed assets. Cash generated from sales of idle land and other property, plant and equipment aggregated ¥8.8 billion. Net cash used in investing activities was ¥60.4 billion, ¥2.5 billion less than a year earlier.

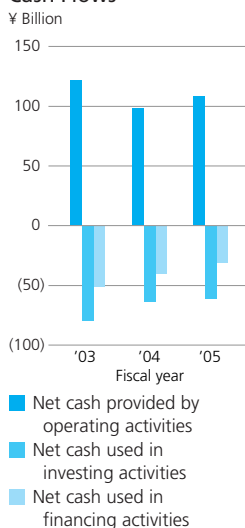
Cash flows from financing activities

A net ¥17.6 billion was used for interest-bearing debt such as borrowings and bonds. A further ¥12.6 billion was used for payment of parent-company dividends. A net ¥30.9 billion was used in financing activities, ¥8.7 billion less than a year earlier.

Capital Expenditure, Depreciation and Amortization



Cash Flows



Risk Analysis

Operating risks and non-operating risks which may influence investor decisions are described below. The management maintains awareness of the possibility that these scenarios may emerge, and measures to avoid their emergence and to minimize their impact on corporate performance in the event that they do emerge are implemented to the fullest possible extent.

The description of risks given here includes elements which may emerge in the future, but being based on current evaluations as this report is being prepared it does not include risks which could not be foreseen at this time.

Crude Oil and Naphtha Prices

Operating costs in operations based on petrochemicals are affected by prices for crude oil and naphtha. If crude oil and naphtha prices rise, selling prices for products derived from these feedstocks must be increased in a timely manner to maintain sufficient price spreads. Price spreads may diminish, thereby affecting our consolidated performance and financial condition.

Exchange Rate Fluctuation

Operations based overseas maintain accounts in the local currency where they operate. The yen value of items carried in these accounts is affected by the rate of exchange at the time of conversion to yen. Although measures such as currency exchange hedges are utilized to minimize the short-term effects of exchange rate fluctuations, such fluctuations may exceed the foreseeable range over the short to long term, thereby affecting our consolidated performance and financial condition.

Overseas Operations

Overseas operations may face a variety of risks which cannot be foreseen, including the existence or emergence of economically unfavorable circumstances due to legal and regulatory changes, vulnerability of infrastructure, difficulty in hiring/retaining qualified employees, or other factors, and social or political instability due to terrorism, war, or other factors. Overseas operations may be impaired by such scenarios, thereby affecting our consolidated performance and business plans.

Housing-Related Tax Policy, Interest Rate Fluctuation

Operations in the Homes segment are affected by Japanese tax policies as they relate to home acquisition and by fluctuations in Japanese interest rates. Changes in Japanese tax policy, including consumption taxes, or fluctuations in Japanese interest rates may result in diminished housing demand, thereby affecting our consolidated performance and financial condition.

Profitability of Electronics-Related Businesses

The electronics industry is characterized by sharp market cycles. The profitability of electronics-related businesses may decline significantly in a relatively short time, thereby affecting our consolidated performance and financial condition. Because products in this field rapidly become obsolete, the timely development and commercialization of leading-edge devices and materials is required. New product development may be delayed, or demand fluctuations may exceed expectations, thereby affecting our consolidated performance and financial condition.

Pharmaceuticals and Medical Devices

Pharmaceutical and medical device businesses may be significantly affected by government measures to curtail health care expenditure or other changes in government policy. Unforeseeable side effects or complications may emerge, significantly affecting these businesses. The pharmaceutical business additionally faces the possibility that product approval may be withdrawn as a result of Japan's reexamination system, and that competition may intensify as a result of the market entry of generics. For pharmaceuticals and medical devices under development, regulatory approval may fail to be obtained, market demand may be lower than expected, and the national reimbursement prices may be lower than expected. Such scenarios may affect our consolidated performance and financial condition.

Industrial Accidents and Natural Disasters

The occurrence of a significant industrial accident or natural disaster at a plant or elsewhere may result in a loss of public trust, the emergence of costs associated with accident

response, including compensation, and the emergence of costs associated with plant shutdown, including opportunity loss and compensation to customers, thereby affecting our consolidated performance and financial condition.

Intellectual Property, Product Liability, and Legal Regulation

An unfavorable ruling may emerge in a dispute relating to intellectual property, a product defect resulting in a large-scale recall and compensation whose costs exceed insurance coverage may emerge, and detrimental legal and regulatory changes may emerge in any country where we operate. Such scenarios may affect our consolidated performance and financial condition.

Irrecoverable Credits

Credits extended to customers may become irrecoverable to an unforeseeable extent, necessitating additional losses or allowances to be recorded in financial accounts, and thereby affecting our consolidated performance and financial condition.

Consolidated Balance Sheets

Asahi Kasei Corporation and Consolidated Subsidiaries
March 31, 2006 and 2005

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 3)
	2006	2005	2006
Current assets:			
Cash on hand and in banks (Note 5)	¥ 86,422	¥ 68,279	\$ 738,650
Notes and accounts receivable, trade (Note 6)	269,509	252,210	2,303,496
Marketable securities (Notes 5 and 7)	446	307	3,812
Inventories	214,062	202,521	1,829,590
Deferred income taxes (Note 11)	29,385	25,670	251,154
Other current assets (Note 6)	45,828	42,209	391,692
Allowance for doubtful accounts	(1,460)	(1,477)	(12,479)
Total current assets	644,192	589,719	5,505,915
Fixed assets:			
Property, plant and equipment, net of accumulated depreciation (Notes 8 and 9) –			
Buildings	155,630	155,667	1,330,171
Machinery and equipment	170,364	174,754	1,456,103
Land	55,240	59,912	472,137
Construction in progress	18,108	14,601	154,769
Other	15,026	15,035	128,427
	414,368	419,969	3,541,607
Intangible fixed assets –			
Goodwill	5,700	5,974	48,718
Other	27,394	30,437	234,137
	33,094	36,411	282,855
Investments and other assets –			
Investment securities (Notes 6 and 7)	248,616	189,894	2,124,923
Long-term receivables (Note 6)	3,043	2,992	26,008
Deferred income taxes (Note 11)	8,915	10,452	76,197
Other	24,680	22,643	210,940
Allowance for doubtful accounts	(864)	(2,023)	(7,385)
	284,390	223,958	2,430,683
Total fixed assets	731,852	680,338	6,255,145
Total assets	¥1,376,044	¥1,270,057	\$11,761,060

The accompanying notes are an integral part of these statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen		Thousands of U.S. dollars (Note 3)
	2006	2005	2006
Liabilities:			
Current liabilities –			
Notes and accounts payable, trade (Note 6)	¥ 132,980	¥ 133,918	\$ 1,136,581
Short-term borrowings (Notes 6 and 9)	46,380	27,369	396,410
Current portion of long-term debt (Note 9)	32,842	34,991	280,701
Accrued income taxes	19,511	10,405	166,761
Deferred income taxes (Note 11)	–	0	–
Accrued expenses (Note 6)	110,231	98,759	942,145
Advances received	48,877	50,053	417,752
Other current liabilities	48,902	47,527	417,966
Total current liabilities	<u>439,723</u>	<u>403,022</u>	<u>3,758,316</u>
Long-term liabilities –			
Long-term debt (Note 9)	156,300	186,246	1,335,898
Accrued pension and severance costs (Note 10)	132,433	135,565	1,131,906
Deferred income taxes (Note 11)	27,781	8,964	237,444
Customers' guarantee deposits	18,306	17,806	156,462
Other long-term liabilities	373	376	3,188
Total long-term liabilities	<u>335,193</u>	<u>348,957</u>	<u>2,864,898</u>
Minority interest in consolidated subsidiaries	<u>6,917</u>	<u>6,352</u>	<u>59,120</u>
Shareholders' equity:			
Common stock –			
Authorized – 4,000,000,000 shares			
Issued and outstanding – 1,442,616,332 shares	103,389	103,389	883,667
Capital surplus	79,433	79,423	678,915
Retained earnings (Note 19)	342,450	295,594	2,926,923
Revaluation surplus (Note 12)	966	966	8,256
Net unrealized gain on securities (Note 11)	85,383	54,703	729,769
Cumulative translation adjustments	(99)	(5,380)	(846)
	<u>611,522</u>	<u>528,695</u>	<u>5,226,684</u>
Treasury stock, at cost			
(2006 – 42,799,834 shares, 2005 – 42,260,226 shares)	(17,311)	(16,969)	(147,958)
Total shareholders' equity	<u>594,211</u>	<u>511,726</u>	<u>5,078,726</u>
Commitments and contingent liabilities (Notes 17 and 20)			
Total liabilities and shareholders' equity	<u>¥1,376,044</u>	<u>¥1,270,057</u>	<u>\$11,761,060</u>

The accompanying notes are an integral part of these statements.

Consolidated Statements of Income

Asahi Kasei Corporation and Consolidated Subsidiaries
Years ended March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2006	2005	2006
Net sales (Notes 6 and 18)	¥1,498,620	¥1,377,697	\$12,808,718
Cost of sales (Notes 6 and 13)	1,127,530	1,010,526	9,637,009
Gross profit	371,090	367,171	3,171,709
Selling, general and administrative expenses (Note 13)	262,364	251,362	2,242,427
Operating profit (Note 18)	108,726	115,809	929,282
Non-operating income:			
Interest and dividend income	2,653	2,286	22,675
Equity in net earnings of unconsolidated subsidiaries and affiliates	536	2,617	4,581
Insurance recoveries	1,292	2,381	11,043
Other	2,935	3,323	25,086
Total non-operating income	7,416	10,607	63,385
Non-operating expenses:			
Interest expense	3,570	3,648	30,513
Loss due to disasters	1,285	1,393	10,983
Loss on disposal of inventories	2,703	3,324	23,102
Other	4,418	5,175	37,761
Total non-operating expenses	11,976	13,540	102,359
Ordinary profit	104,166	112,876	890,308
Special gains:			
Gain on sales of investment securities	–	3,373	–
Gain on sale of property, plant and equipment	5,670	1,016	48,461
Reversal of allowance for doubtful account	210	411	1,795
Total special gains	5,880	4,800	50,256
Special losses:			
Loss on sales of investment securities	854	–	7,299
Loss on devaluation of investment securities	703	429	6,008
Loss on disposal of property, plant and equipment	7,038	8,568	60,154
Impairment loss (Note 14)	3,799	–	32,470
Litigation settlement (Note 15)	–	2,617	–
Restructuring charges (Note 16)	3,171	14,921	27,103
Total special losses	15,565	26,535	133,034
Income before income taxes and minority interest	94,481	91,141	807,530
Income taxes (Note 11) – current	(38,963)	(29,245)	(333,017)
– deferred	4,417	(4,760)	37,752
Minority interest in income of consolidated subsidiaries	(267)	(682)	(2,282)
Net income	¥ 59,668	¥ 56,454	\$ 509,983
		Yen	U.S. dollars (Note 3)
	2006	2005	2006
Per share data:			
Net income (Note 21) – Basic	¥ 42.46	¥ 40.16	\$ 0.36
– Diluted	¥ –	¥ –	\$ –
Cash dividends	¥ 10.00	¥ 8.00	\$ 0.09

The accompanying notes are an integral part of these statements.

Consolidated Statements of Shareholders' Equity

Asahi Kasei Corporation and Consolidated Subsidiaries
Years ended March 31, 2006 and 2005

Millions of yen

	Common stock	Capital surplus	Retained earnings (Note 19)	Revaluation surplus (Note 12)	Net unrealized gain on securities	Cumulative translation adjustments	Treasury stock, at cost	Total
Balance at March 31, 2004	¥103,389	¥79,396	¥249,820	¥1,066	¥43,413	¥(9,973)	¥(16,660)	¥450,451
Gain on sales of treasury stock		27						27
Net income for the year ended March 31, 2005			56,454					56,454
Decrease in retained earnings due to newly consolidated subsidiaries and affiliates, or subsidiaries and affiliates excluded from consolidation			(692)					(692)
Net change in revaluation surplus				(100)				(100)
Net change in unrealized gain on securities					11,290			11,290
Foreign currency translation adjustments						4,593		4,593
Purchase of treasury stock							(309)	(309)
Cash dividends			(9,806)					(9,806)
Bonuses to directors and corporate auditors			(182)					(182)
Balance at March 31, 2005	¥103,389	¥79,423	¥295,594	¥ 966	¥54,703	¥(5,380)	¥(16,969)	¥511,726
Gain on sales of treasury stock		10						10
Net income for the year ended March 31, 2006			59,668					59,668
Decrease in retained earnings due to newly consolidated subsidiaries and affiliates, or subsidiaries and affiliates excluded from consolidation			(11)					(11)
Net change in revaluation surplus								
Net change in unrealized gain on securities					30,680			30,680
Foreign currency translation adjustments						5,281		5,281
Purchase of treasury stock							(342)	(342)
Cash dividends			(12,602)					(12,602)
Bonuses to directors and corporate auditors			(199)					(199)
Balance at March 31, 2006	¥103,389	¥79,433	¥342,450	¥ 966	¥85,383	¥ (99)	¥(17,311)	¥594,211

Thousands of U.S. dollars (Note 3)

	Common stock	Capital surplus	Retained earnings (Note 18)	Revaluation surplus (Note 12)	Net unrealized gain on securities	Cumulative translation adjustments	Treasury stock, at cost	Total
Balance at March 31, 2005	\$883,667	\$678,829	\$2,526,444	\$8,256	\$467,547	\$(45,983)	\$(145,034)	\$4,373,726
Gain on sales of treasury stock		86						86
Net income for the year ended March 31, 2006			509,983					509,983
Decrease in retained earnings due to newly consolidated subsidiaries and affiliates, or subsidiaries and affiliates excluded from consolidation			(94)					(94)
Net change in revaluation surplus								
Net change in unrealized gain on securities					262,222			262,222
Foreign currency translation adjustments						45,137		45,137
Purchase of treasury stock							(2,924)	(2,924)
Cash dividends			(107,709)					(107,709)
Bonuses to directors and corporate auditors			(1,701)					(1,701)
Balance at March 31, 2006	\$883,667	\$678,915	\$2,926,923	\$8,256	\$729,769	\$ (846)	\$(147,958)	\$5,078,726

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

Asahi Kasei Corporation and Consolidated Subsidiaries
Years ended March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2006	2005	2006
Cash flows from operating activities:			
Income before income taxes and minority interest	¥ 94,481	¥ 91,141	\$ 807,530
Depreciation and amortization	69,399	71,531	593,154
Impairment loss	3,799	–	32,470
Amortization of goodwill	259	248	2,214
Decrease in accrued pension and severance costs	(3,127)	(23,365)	(26,727)
Interest and dividend income	(2,653)	(2,286)	(22,675)
Interest expense	3,570	3,648	30,513
Equity in net earnings of unconsolidated subsidiaries and affiliates	(536)	(2,617)	(4,581)
Gain on sales of investment securities	–	(3,373)	–
Loss on sales of investment securities	854	–	7,299
Loss on devaluation of investment securities	703	429	6,008
Gain on sale of property, plant and equipment	(5,670)	(1,016)	(48,461)
Loss on disposal of property, plant and equipment	7,038	8,568	60,154
Litigation settlement	–	2,617	–
Increase in notes and accounts receivable, trade	(16,393)	(15,117)	(140,111)
Increase in inventories	(11,075)	(20,317)	(94,658)
(Decrease) Increase in notes and accounts payable, trade	(2,075)	13,037	(17,735)
Increase in accrued expenses	11,532	18,488	98,564
(Decrease) Increase in advances received	(1,192)	222	(10,188)
Other	(11,695)	2,266	(99,958)
Sub total	137,219	144,104	1,172,812
Interest and dividend income, received	4,110	3,413	35,128
Interest expense, paid	(3,656)	(3,897)	(31,248)
Litigation settlement, paid	–	(2,617)	–
Income taxes, paid	(29,053)	(42,704)	(248,316)
Net cash provided by operating activities	108,620	98,299	928,376
Cash flows from investing activities:			
Payments for purchases of time deposits	(498)	(669)	(4,256)
Proceeds from maturities of time deposits	125	718	1,068
Payments for purchases of marketable securities	–	(0)	–
Proceeds from sales of marketable securities	30	20	256
Payments for acquisition of property, plant and equipment	(59,074)	(72,408)	(504,906)
Proceeds from sales of property, plant and equipment	8,824	8,733	75,419
Payments for acquisition of intangible fixed assets	(7,341)	(6,262)	(62,744)
Payments for purchases of investment securities	(6,848)	(1,889)	(58,530)
Proceeds from sales of investment securities	1,099	8,440	9,393
Proceeds from sales of consolidated subsidiaries	1,962	–	16,769
Payments for loan receivables	(5,293)	(2,056)	(45,239)
Collections of loan receivables	7,600	4,354	64,957
Other	(959)	(1,827)	(8,196)
Net cash used in investing activities	(60,373)	(62,846)	(516,009)
Cash flows from financing activities:			
Proceeds from short-term borrowings	25,019	8,715	213,838
Repayment of short-term borrowings	(7,923)	(13,171)	(67,718)
Proceeds from issuance of commercial papers	–	5,000	–
Repayment of commercial papers	–	(5,000)	–
Proceeds from long-term loans	2,903	1,265	24,812
Repayment of long-term loans	(6,584)	(2,895)	(56,274)
Proceeds from issuance of bonds	–	2,000	–
Repayment of bonds	(31,000)	(25,104)	(264,957)
Payments for purchases of treasury stock	(378)	(414)	(3,231)
Proceeds from sale of treasury stock	33	129	282
Dividends paid by parent company	(12,592)	(9,800)	(107,624)
Dividends paid to minority interests in consolidated subsidiaries	(355)	(268)	(3,034)
Other	(4)	(14)	(34)
Net cash used in financing activities	(30,881)	(39,557)	(263,940)
Effect of exchange rate changes on cash and cash equivalents	426	122	3,641
Net increase (decrease) in cash and cash equivalents	17,792	(3,982)	152,068
Cash and cash equivalents at beginning of year	68,456	70,898	585,094
Cash and cash equivalents held by newly consolidated subsidiaries	142	1,540	1,214
Cash and cash equivalents at end of year (Note 5)	¥ 86,390	¥ 68,456	\$ 738,376

The accompanying notes are an integral part of these statements.

Notes to Consolidated Financial Statements

Asahi Kasei Corporation and Consolidated Subsidiaries
March 31, 2005 and 2004

1. Major policies for preparing the consolidated financial statements

The consolidated financial statements, which are filed with the Japanese Ministry of Finance (hereinafter called the "MOF") as required by the Securities and Exchange Law in Japan, are prepared in accordance with accounting principles generally accepted in Japan, which are different in certain respects from the application and disclosure requirements of International Financial Reporting Standards. The accompanying consolidated financial statements are a translation of those filed with the MOF and incorporate certain modifications to enhance foreign readers' understanding of the financial statements. In addition, the notes to the consolidated financial statements include certain financial information which is not required under the disclosure regulations in Japan, but is presented herein as additional information. In addition, certain reclassifications of previously reported amounts have been made to conform to current classifications. Such modifications or reclassifications have no effect on net income or retained earnings.

Consolidation and investments in affiliated companies –

The consolidated financial statements consist of the account of parent company and 105 subsidiaries (106 subsidiaries at March 31, 2005) (hereinafter collectively referred to as the "Company") which, with minor exceptions due to materiality, are all majority and wholly owned companies, including 7 Core operating companies (Asahi Kasei Chemicals Corporation, Asahi Kasei Homes Corporation, Asahi Kasei Pharma Corporation, Asahi Kasei Fibers Corporation, Asahi Kasei EMD Corporation, Asahi Kasei Construction Materials Corporation, and Asahi Kasei Life & Living Corporation), Tong Suh Petrochemical Corp. Ltd. (Korea), Sanyo Petrochemical Co., Ltd., Asahi Kasei

Microsystems Co., Ltd. and Asahi Kasei Medical Co., Ltd. All significant inter-company transactions and accounts have been eliminated.

Investments in unconsolidated subsidiaries and 20% to 50% owned companies in which the Company exercises significant influence are accounted for, with minor exceptions due to materiality, using the equity method of accounting. There were 55 such unconsolidated subsidiaries and 20% to 50% owned companies to which the equity method is applied at March 31, 2006 (53 at March 31, 2005), including Asahi Kasei Metals Ltd., Asahi Kasei Finechem Co., Ltd. and Asahi Organic Chemicals Industry Co., Ltd.

Certain subsidiaries results are reported in the consolidated financial statements using a December 31, or a February 28 year-end. Material differences in inter-company transactions and accounts arising from the use of different fiscal year-ends are appropriately adjusted for through consolidation procedures.

The excess of the cost over the underlying net equity of investments in subsidiaries and affiliated companies accounted for using the equity method of accounting is allocated to identifiable assets and liabilities based on fair values at the date of acquisition. The unassigned residual value of the excess of the cost over the underlying net equity is recognized as goodwill. The Company amortizes goodwill using the straight-line method over the estimated period of benefit over a five or twenty-year period, with the exception of minor amounts, which are charged to income in the year of acquisition.

2. Significant accounting policies

(a) Cash and cash equivalents

For cash flow statement purposes, cash and cash equivalents include all highly liquid investments, generally with original maturities of three months or less, which are readily convertible to known amounts of cash and are so near maturity that they present an insignificant risk of changes in value due to changes in interest rates.

(b) Inventories

Inventories are principally stated at the lower of average cost or market value. Residential lots and dwellings under construction are stated at specifically identified costs.

(c) Fixed assets and depreciation / amortization

Property, plant and equipment are stated at cost. Significant renewals and improvements are capitalized at cost, while maintenance and repairs are charged to income as incurred. Depreciation is provided for under the declining-balance method for property, plant and equipment, except for buildings which are depreciated using the straight-line method, at rates based on estimated useful lives of the assets, principally ranging

from five to sixty years for buildings and from four to twenty-two years for machinery and equipment.

Intangible fixed assets including software for internal use are amortized using the straight-line method over the estimated useful life of the asset. The estimated useful life of software for internal use is five years.

(Accounting for impairment of fixed assets)

On August 9, 2002, the Business Accounting Council in Japan issued "Accounting Standards for Impairment of Fixed Assets." The standard requires that fixed assets should be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss is recognized in the income statement by reducing the carrying amount of impaired assets or a group of assets to the recoverable amount to be measured as the higher of the net selling price or value in use. The standard became effective for the fiscal year ended March 31, 2006. The Company adopted this new standard in the fiscal year ended March 31, 2006, this had the effect of decreasing

income before income taxes and minority interests by ¥3,799 million (US\$32,470 thousand). Accumulated impairment losses on fixed assets are deducted directly from the corresponding assets in the consolidated balance sheets.

(d) Accrued pension and severance costs

Accrued pension and severance costs at March 31, 2006 and 2005 represent the estimated present value of projected benefit obligations in excess of the fair value of the plan assets. Unrecognized prior service costs are being amortized on a straight-line basis primarily over ten years. Unrecognized actuarial gains / losses are being fully recognized in the year following that in which they arise.

(Change in method of amortization of unrecognized actuarial gains / losses)

The parent company and certain Japanese subsidiaries have been fully amortizing unrecognized actuarial gains / losses in the year following that in which they arose. Beginning with the fiscal year ended March 31, 2006, actuarial gains / losses which arise each year are amortized on a straight-line basis over the following ten years.

This change was adopted due to the following reasons.

- (1) Stock markets, both in Japan and overseas, have fluctuated more widely than was foreseen when the policy of one-year amortization was adopted, bringing large actuarial gains / losses on pension fund investments each fiscal year. As a result, year-to-year fluctuations in operating profit, ordinary profit, and net income have largely been attributable to amortization of the previous year's large unrecognized actuarial gains / losses as an operating expense.
- (2) This situation is undesirable in terms of clarity of disclosure, as levels of profit have not always directly represented trends and evaluations of business performance.
- (3) Adoption of a method where unrecognized actuarial gains / losses were amortized over a longer term will enable gains on pension fund investments from stock market rises in some years to offset losses from stock market declines in other years. In consideration of the gains / losses on pension fund investments in recent years, the economic circumstance is more suitable to the conventional approach of stable, long-term amortization of actuarial gains / losses.

As the full amount of the actuarial gain which occurred in the fiscal year ended March 31, 2005 was amortized in one year in accordance with the previously adopted policy, this change will not affect profits for the fiscal year ended March 31, 2006. Because the ¥23,604 million (US\$201,744 thousand) actuarial gain occurring in the year ended March 31, 2006 will be amortized on a straight-line basis over the following ten years, net pension and severance costs will be ¥21,244 million (US\$181,573 thousand) higher, ordinary profit will be ¥19,639

million (US\$167,855 thousand) lower, and income before income taxes and minority interests will be ¥19,639 million (US\$167,855 thousand) lower in the year ended March 31, 2007 than if one-year amortization were continued. The effect by industry segment is shown in Note 18.

Provision is made for lump-sum indemnities to directors and corporate auditors equal to the estimated liability calculated under the internal rules of the Company.

(e) Financial instruments

i) Securities

Securities are classified into four categories; trading securities, held-to-maturity debt securities, equity securities of unconsolidated subsidiaries and affiliates, and other securities. At March 31, 2006 and 2005, the Company did not have trading securities or held-to-maturity debt securities.

Equity securities of unconsolidated subsidiaries and affiliates are accounted for, with minor exceptions due to materiality, using the equity method of accounting.

Other securities, whose fair values are readily determinable, are carried at fair value with net unrealized gains or losses included as a component of shareholders' equity, net of related taxes. Other securities not practicable to fair value are stated at cost. In cases where any significant decline in the realizable value is assessed to be other than temporary, the cost of other securities is devalued by the impaired amount and is charged to income.

Realized gains and losses are determined using the average cost method and are reflected in the income statement.

ii) Derivative financial instruments

All derivatives are stated at fair value. Gains or losses arising from changes in fair value are charged or credited to income for the period in which they arise, except for derivatives that are designated as hedging instruments. Gains or losses arising from changes in fair value of the derivatives designated as hedging instruments are deferred as assets or liabilities to be off-set against gains or losses on the underlying hedged assets and liabilities.

(f) Taxes

Accrued income taxes are stated at the estimated amount payable for corporation, enterprise, and inhabitant taxes. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities.

The Company applied to file its return under the consolidated tax filing system.

(g) Leases

Under Japanese accounting practices, financing leases must be capitalized by the lessee except for those leases that do not transfer ownership of the leased asset to the lessee as part of the lease. Such exceptions can be accounted for either as financing leases or operating leases with an appropriate footnote disclosure. Periodic lease charges for financing leases entered into by the parent company and its Japanese subsidiaries, where lessors retain the ownership of the leased assets, are charged to income as incurred.

(h) Translation of foreign currencies

Foreign currency receivables and payables are translated into Japanese yen at the exchange rates prevailing at the balance sheet date. Resulting gains and losses are charged or credited to income for the period.

Assets, liabilities, income and expenses of foreign subsidiaries and 20% to 50% owned companies accounted for using the equity method of accounting are translated into Japanese yen

at year-end rates. Shareholders' equity of foreign subsidiaries and 20% to 50% owned companies is translated into Japanese yen at the historical rates. The translation differences in Japanese yen amounts arising from the use of different rates are recognized as cumulative translation adjustments in the balance sheets.

A portion of the cumulative translation adjustments is allocated to "Minority interest in consolidated subsidiaries" and the Company's portion is presented as a separate component of shareholders' equity in the balance sheets.

(i) Net income per share

The computation of net income per share is based on the weighted average number of shares outstanding each year. Net income per share of common stock, assuming full dilution, is determined on the assumption that convertible bonds outstanding were converted into common stock at the beginning of the year or at the time of debt issuance, if later.

3. United States dollar amounts

The U.S. dollar amounts presented in the financial statements are included solely for the convenience of readers. These translations should not be construed as representations that the Japanese yen amounts actually represent, or have been or could be converted into U.S. dollars. As the amounts shown in U.S. dollars are for convenience only, and are not intended to

be computed in accordance with generally accepted translation procedures, the approximate current exchange rate of ¥117=US\$1 prevailing on March 31, 2006 has been used for the purpose of presentation of the U.S. dollar amounts in the accompanying consolidated financial statements.

4. Derivative financial instruments

The Company operates internationally, giving rise to exposure to market risks from fluctuations in foreign currency exchange and interest rates. In the normal course of its risk management efforts, the Company uses a variety of derivative financial instruments, which are comprised of foreign currency forward exchange contracts, interest rate swap agreements and currency swap agreements, to reduce its exposures. In accordance with the Company's policy, these financial instruments are utilized solely for hedging purposes and the Company does not hold or issue financial instruments for trading or speculation purposes.

The Company has entered into foreign currency forward exchange contracts with banks as hedges against receivables and payables denominated in foreign currencies. As these foreign currency forward exchange contracts are utilized solely for hedging purposes, the resulting gains or losses are offset against foreign exchange gains or losses on the underlying hedged assets and liabilities.

Interest rate swap agreements and currency swap agreements are used to limit the Company's exposure to losses in relation to interest expense from adverse fluctuations in foreign currency exchange and interest rates. The related differentials to be paid or received under the interest rate swap agreements are recognized in interest expense over the terms of the agreements. Currency swap agreements are accounted for in a manner similar to that used for foreign currency forward exchange contracts.

The Company does not anticipate any credit loss from nonperformance by the counter-parties to foreign currency forward exchange contracts, interest rate swap agreements and currency swap agreements.

Since the derivative financial instruments of the Company are solely for hedging purposes, gains or losses arising from changes in fair value are deferred as assets or liabilities to be off-set against foreign exchange gains or losses on the underlying hedged assets and liabilities. Accordingly, the information relating to fair values is not applicable.

5. Cash and cash equivalents

Reconciliation of cash and cash equivalents on the consolidated statements of cash flows to the amounts disclosed on the balance sheets at March 31 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Cash on hand and in banks	¥86,422	¥68,279	\$738,650
Time deposits with deposit term of over 3 months	(454)	(74)	(3,880)
Money market funds, medium-term government bond funds and others included in marketable securities	422	251	3,606
Cash and cash equivalents	¥86,390	¥68,456	\$738,376

6. Account balances and transactions with affiliated companies

Major account balances with unconsolidated subsidiaries and 20% to 50% owned companies accounted for using the equity method of accounting are as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Notes and accounts receivable, trade	¥15,606	¥14,285	\$133,385
Other current assets	7,692	15,394	65,744
Investment securities	44,383	38,788	379,342
Long-term receivables	2,064	1,457	17,641
Notes and accounts payable, trade	5,171	6,069	44,197
Short-term borrowings	1,093	1,098	9,342
Accrued expenses	4,028	4,730	34,427

Major transactions between the Company and its unconsolidated subsidiaries and 20% to 50% owned companies accounted for using the equity method of accounting are as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Sales	¥65,818	¥69,170	\$562,547
Purchases	13,436	13,325	114,838

7. Marketable securities and investment securities

(a) Other securities with available fair value

The aggregate cost, carrying amount which was identical to fair value, gross unrealized gains and losses of debt and equity securities classified as other securities for which fair values were available at March 31 are as follows:

	Millions of yen		
	2006		Unrealized gains (losses)
	Cost	Carrying amount	
Securities with unrealized gains:			
Equity securities	¥38,774	¥181,704	¥142,930
	38,774	181,704	142,930
Securities with unrealized losses:			
Equity securities	130	106	(24)
Debt securities	24	24	-
	154	130	(24)
	¥38,928	¥181,834	¥142,906

	Millions of yen		
	2005		
	Cost	Carrying amount	Unrealized gains (losses)
Securities with unrealized gains:			
Equity securities	¥37,556	¥129,511	¥91,955
Debt securities	60	60	0
	37,616	129,571	91,955
Securities with unrealized losses:			
Equity securities	1,726	1,601	(125)
Debt securities	28	28	–
	1,754	1,629	(125)
	¥39,370	¥131,200	¥91,830

	Thousands of U.S. dollars		
	2006		
	Cost	Carrying amount	Unrealized gains (losses)
Securities with unrealized gains:			
Equity securities	\$331,402	\$1,553,026	\$1,221,624
	331,402	1,553,026	1,221,624
Securities with unrealized losses:			
Equity securities	1,111	906	(205)
Debt securities	205	205	–
	1,316	1,111	(205)
	\$332,718	\$1,554,137	\$1,221,419

Losses on devaluation of other securities, whose fair values were readily determinable, for the years ended March 31, 2005 was ¥11 million.

(b) The realized gains and losses on the sale of other securities during the year ended March 31 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Selling amount	¥625	¥4,922	\$5,342
Gain on sales of securities	267	1,514	2,282
Loss on sales of securities	4	23	34

(c) The carrying amounts of other securities for which it was not practicable to determine fair value at March 31 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Equity investment in funds	¥10,001	¥10,005	\$85,479
Equity investments in nonpublic companies	7,521	7,625	64,282

(d) Redemption schedules for maturity of debt securities at March 31 are as follows:

Millions of yen				
2006				
	Due within one year	Due after one year, within five years	Due after five years, within ten years	Due after more than ten years
Debt securities:				
Government and municipal bonds	¥23	¥1	¥-	¥-
	<u>¥23</u>	<u>¥1</u>	<u>¥-</u>	<u>¥-</u>

Millions of yen				
2005				
	Due within one year	Due after one year, within five years	Due after five years, within ten years	Due after more than ten years
Debt securities:				
Government and municipal bonds	¥46	¥42	¥-	¥-
Corporate debt securities	10	-	-	-
	<u>¥56</u>	<u>¥42</u>	<u>¥-</u>	<u>¥-</u>

Thousands of U.S. dollars				
2006				
	Due within one year	Due after one year, within five years	Due after five years, within ten years	Due after more than ten years
Debt securities:				
Government and municipal bonds	\$197	\$9	\$-	\$-
	<u>\$197</u>	<u>\$9</u>	<u>\$-</u>	<u>\$-</u>

8. Accumulated depreciation

Accumulated depreciation at March 31 comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Buildings	¥ 208,128	¥207,781	\$ 1,778,872
Machinery and equipment	891,598	867,851	7,620,496
Other	84,591	82,112	723,000
	<u>¥1,184,317</u>	<u>¥1,157,744</u>	<u>\$10,122,368</u>

9. Borrowings

Short-term borrowings at March 31, 2006 and 2005 represented loans, principally from banks. The weighted average interest rates on these borrowings were 1.23 % in 2006 and 1.32 % in 2005.

Long-term debt at March 31 comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Loans, principally from banks and insurance companies due 2006 to 2018 with weighted average interest rates of 2.12% (short-term portion) and 1.83% (long-term portion):			
Secured	¥ 1,354	¥ 1,596	\$ 11,573
Unsecured	80,788	81,641	690,496
Unsecured 0.54% to 2.15% yen bonds due 2006 to 2009	65,000	90,000	555,556
Unsecured 1.0% to 1.8% step up coupon Euro yen bonds due 2011	10,000	10,000	85,470
Unsecured 10 years constant maturity swap rate less 0.9% Euro yen bonds due 2006	-	1,000	-
Unsecured 10 years constant maturity swap rate less 6 months yen LIBOR multiplied by 0.45 Euro yen bonds due 2006	2,000	3,000	17,094
Unsecured 0.29% to 3.45% Euro yen bonds due 2006 to 2009	18,000	22,000	153,846
Unsecured US\$1.9% to 3.5% reversal dual currency Euro yen bonds due 2007 to 2013	12,000	12,000	102,564
	<u>189,142</u>	<u>221,237</u>	<u>1,616,599</u>
Less – Portion due within one year	<u>(32,842)</u>	<u>(34,991)</u>	<u>(280,701)</u>
	<u>¥156,300</u>	<u>¥186,246</u>	<u>\$1,335,898</u>

The aggregate annual maturities of long-term debt after March 31, 2006 are as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2007	¥ 32,842	\$ 280,701
2008	34,540	295,214
2009	31,698	270,923
2010 and thereafter	90,062	769,761
	¥189,142	\$1,616,599

A summary of assets pledged as collateral for short-term loans and long-term debt at March 31, 2006 is as follows:

	Millions of yen	Thousands of U.S. dollars
Property, plant and equipment	¥5,630	\$48,120

10. Accrued pension and severance costs

Upon terminating employment, employees of the parent company and its major subsidiaries in Japan are entitled, under most circumstances, to lump-sum severance indemnities and/or pension payments determined by reference mainly to their current basic rate of pay and length of service. Additional benefits may be granted to employees depending on the conditions under which termination of employment occurs. Certain foreign subsidiaries have defined benefit pension plans or defined contribution plans.

The obligation for these severance indemnity benefits is provided for through accruals, contributory funded defined benefit pension plans, contributory funded defined benefit

enterprise pension plans and/or non-contributory funded tax-qualified pension plans.

The parent company and 16 Japanese subsidiaries (16 subsidiaries at March 31, 2005) have non-contributory tax-qualified pension plans. On April 1, 1999, the portion of indemnities to the parent company's employees, who had not qualified as vested at April 1, 1999, was transferred to the contributory funded defined benefit pension plan from the non-contributory funded tax-qualified pension plan of the parent company.

Currently, the parent company's non-contributory funded tax-qualified pension plan covers the indemnities of employees qualified as vested at April 1, 1999.

Information on accrued severance and pension costs as at March 31, 2006 and 2005 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Projected benefit obligations	¥(300,327)	¥(290,655)	\$(2,566,898)
Fair value of plan assets	206,022	172,419	1,760,872
	(94,305)	(118,236)	(806,026)
Unrecognized actuarial gains/losses	(23,619)	(2,663)	(201,872)
Unrecognized prior service costs	(9,797)	(11,176)	(83,735)
Prepaid pension cost	(3,896)	(2,730)	(33,299)
Retirement benefits for employees	(131,617)	(134,805)	(1,124,932)
Retirement benefits for directors and corporate auditors	(816)	(760)	(6,974)
Accrued pension and severance costs	¥(132,433)	¥(135,565)	\$(1,131,906)

Note: The figures in the above table do not include additional benefit payables amounting to ¥1,352 million (US\$11,556 thousand) and ¥219 million at March 31, 2006 and 2005, respectively. The amounts are recorded as part of current liabilities on the consolidated balance sheets at March 31, 2006 and 2005.

Net periodic pension and severance costs for employees for the years ended March 31, 2006 and 2005 included the following components:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Service cost (Note 1)	¥ 8,697	¥ 8,438	\$ 74,333
Interest cost	7,293	7,049	62,333
Expected return on plan assets	(4,409)	(4,158)	(37,684)
Amortization of unrecognized actuarial gains / losses	(2,726)	(23,480)	(23,299)
Amortization of unrecognized prior service costs	(1,394)	(1,394)	(11,914)
Net pension and severance costs	¥ 7,461	¥(13,545)	\$ 63,769

Note 1: The figures in the above table do not include the contributions made by employees.

Note 2: In addition to the above costs, additional benefits amounting to ¥1,962 million (US\$ 16,769 thousand) and ¥1,376 million were charged to income for the year ended March 31, 2006 and 2005, respectively.

The assumptions used in calculation of the above information are as follows:

	2006	2005
Discount rate	2.5%	2.5%
Expected rate of return on plan assets	2.5%	2.5%
Method of attributing the projected benefits to periods of employee service	Straight-line basis	Straight-line basis
Amortization of unrecognized prior service costs	Mainly 10 years	Mainly 10 years
Amortization of unrecognized actuarial gains / losses	1 year	1 year

11. Taxes

Income taxes applicable to the parent company and subsidiaries in Japan include (1) corporation tax, (2) enterprise tax and (3) inhabitants tax which, in the aggregate. For the year ended

March 31, 2005, a corporation size-based enterprise tax was introduced which reduces the income-based enterprise tax rate. As a result, the statutory tax rate is approximately 40.7%.

Significant components of the deferred tax assets and liabilities at March 31 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Deferred tax assets:			
Accrued pension and severance costs	¥ 53,496	¥52,517	\$457,231
Accrued bonuses	8,317	8,747	71,085
Loss on disposal of property, plant and equipment	6,205	6,710	53,034
Unrealized gain on fixed assets and others	4,130	3,736	35,299
Tax loss carryforwards	3,196	3,580	27,316
Devaluation of inventories	3,016	2,863	25,778
Accrued enterprise tax	2,145	2,152	18,333
Impairment loss	1,308	-	11,180
Devaluation of investment securities	1,037	906	8,863
Allowance for doubtful accounts	525	703	4,487
Depreciation	425	433	3,633
Other	13,817	9,996	118,094
Sub total deferred tax assets	97,617	92,343	834,333
Less: Valuation allowance	(6,203)	(4,144)	(53,017)
Total deferred tax assets	91,414	88,199	781,316
Deferred tax liabilities:			
Unrealized gains on securities	(60,281)	(39,845)	(515,222)
Property, plant and equipment	(15,777)	(16,256)	(134,846)
Reserve for special depreciation	(1,621)	(1,790)	(13,855)
Other	(3,216)	(3,150)	(27,487)
Total deferred tax liabilities	(80,895)	(61,041)	(691,410)
Net deferred tax assets (liabilities)	¥ 10,519	¥ 27,158	\$ 89,906

Reconciliation of the differences between the statutory tax rate and the effective income tax rate for the year ended March 31 is as follows:

	2006		2005
Statutory tax rate	40.7%	Statutory tax rate	40.7%
Increase (reduction) in taxes resulting from:		Increase (reduction) in taxes resulting from:	
Non-deductible expenses and non-taxable income	2.1	Non-deductible expenses and non-taxable income	2.6
Equalization inhabitants taxes	0.4	Equalization inhabitants taxes	0.4
R&D expenses deductible from income taxes	(6.4)	R&D expenses deductible from income taxes	(4.5)
IT investments deductible from income taxes	(0.4)	IT investments deductible from income taxes	(0.4)
Amortization of goodwill	0.1	Amortization of goodwill	0.1
Equity in earnings of unconsolidated subsidiaries and affiliates	(0.2)	Equity in earnings of unconsolidated subsidiaries and affiliates	(1.2)
Other	0.3	Other	(0.4)
Effective income tax rate	36.6%	Effective income tax rate	37.3%

In Japan, the consumption tax system is designed so that all goods and services are taxed at a flat rate of 5% unless specifically provided otherwise. Assets, liabilities and profit and loss accounts were stated net of consumption tax.

12. Revaluation surplus

A revaluation surplus was recorded by a consolidated foreign subsidiary, based on the applicable laws.

13. Selling, general and administrative expenses

Major components of selling, general and administrative expenses were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Freight and storage	¥32,554	¥33,637	\$278,239
Salaries and benefits	87,117	71,357	744,590
Depreciation	10,718	10,759	91,607
Research and development	35,832	36,445	306,256
Advertising	13,411	15,167	114,624
Rent	28,072	30,069	239,932

Note: The aggregate amounts of research and development expenses included in manufacturing costs and selling, general and administrative expenses for the years ended March 31, 2006 and 2005 were ¥51,467 million (US\$ 439,889 thousand) and ¥50,715 million, respectively.

14. Impairment loss

Grouping of operating assets is based on managerial accounting categories, with consideration given to production process, geographic location, and domain of authority for making investment decisions. Idle assets are recorded separately in each fixed assets class.

In the fiscal year ended March 31, 2006, the book value of idles assets with diminished market value was reduced to the recoverable amount, resulting in a special loss of ¥3,799 million (US\$ 32,470 thousand) as impairment loss. Recoverable amount for these assets was taken as net selling price mainly based on the appraisal value as determined by the real estate appraiser.

15. Litigation settlement

A settlement agreement was concluded in March 2005 with the plaintiffs in class action litigation in US district court who claimed damages related to an alleged violation of US antitrust law with respect to microcrystalline cellulose, a tableting agent

and food additive, by the Company and a US maker of microcrystalline cellulose. After the relevant court procedures for approval, this settlement was determined in July 2005.

16. Restructuring charges

Major components of the restructuring charges were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Loss on disposal and devaluation of assets and others	¥2,456	¥ 6,983	\$20,992
Loss on liquidation of subsidiaries and others	715	7,938	6,111
Total	¥3,171	¥14,921	\$27,103

17. Leases

Periodic lease charges for the Company's financing leases, where lessors retain the ownership of the leased assets, are charged to income. Such lease charges were ¥4,554 million

(US\$38,923 thousand) and ¥6,230 million for the year ended March 31, 2006 and 2005, respectively.

The future lease payments under the Company's financing leases and noncancelable operating leases at March 31, including amounts representing interest, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Due within one year	¥ 3,971	¥ 4,488	\$33,940
Due after one year	6,161	5,798	52,658
	¥10,132	¥10,286	\$86,598

The leased assets under the Company's financing leases, where lessors retain ownership of the leased assets were accounted for as operating leases by the Company. If the leases had been capitalized, then the cost of the assets and the related accumulated amortization, computed using the straight-line method over the term of the lease, at March 31, 2006 and 2005 would have been as follows:

	Millions of yen			Thousands of U.S. dollars
	2006	2006	2006	2006
	Cost	Accumulated amortization	Net amount	Net amount
Buildings	¥15,125	¥6,387	¥ 8,738	\$74,684
Machinery and equipment	616	378	238	2,034
Other tangible fixed assets	1,724	841	883	7,547
Intangible fixed assets – other	628	355	273	2,333
	¥18,093	¥7,961	¥10,132	\$86,598

	Millions of yen		
	2005	2005	2005
	Cost	Accumulated amortization	Net amount
Buildings	¥16,043	¥ 8,250	¥ 7,793
Machinery and equipment	648	349	299
Other tangible fixed assets	4,448	2,780	1,668
Intangible fixed assets – other	1,577	1,051	526
	¥22,716	¥12,430	¥10,286

The amortization amount of the leased assets, computed using the straight-line method over the term of the lease, would have been ¥4,554 million (US\$38,923 thousand) and ¥6,230 million for the year ended March 31, 2006 and 2005, respectively.

No impairment loss is allocated to the leased assets.

18. Business segment information

(1) Industry segments –

Sales and operating profit (loss) for the year ended March 31:

											Millions of yen	
											2006	
	Chemicals	Homes	Pharma	Fibers	Electronics Materials and Devices	Construction Materials	Life & Living	Services, Engineering and Others	Combined	Corporate expenses and eliminations	Consolidated	
Sales:												
Customers	¥660,402	¥404,539	¥105,842	¥89,704	¥102,858	¥56,512	¥51,942	¥26,821	¥1,498,620	¥ –	¥1,498,620	
Intersegment	16,659	111	19	2,262	992	11,596	3,624	27,247	62,510	(62,510)	–	
Total	677,061	404,650	105,861	91,966	103,850	68,108	55,566	54,068	1,561,130	(62,510)	1,498,620	
Operating expenses	636,549	376,432	94,803	87,950	84,517	64,292	50,740	50,785	1,446,068	(56,174)	1,389,894	
Operating profit (loss)	¥ 40,512	¥ 28,218	¥ 11,058	¥ 4,016	¥ 19,333	¥ 3,816	¥ 4,826	¥ 3,283	¥ 115,062	¥ (6,336)	¥ 108,726	

											Millions of yen	
											2005	
	Chemicals	Homes	Pharma	Fibers	Electronics Materials and Devices	Construction Materials	Life & Living	Services, Engineering and Others	Combined	Corporate expenses and eliminations	Consolidated	
Sales:												
Customers	¥570,182	¥375,755	¥103,933	¥91,518	¥93,024	¥59,908	¥59,149	¥24,228	¥1,377,697	¥ –	¥1,377,697	
Intersegment	14,175	86	35	2,071	709	11,326	4,613	36,447	69,462	(69,462)	–	
Total	584,357	375,841	103,968	93,589	93,733	71,234	63,762	60,675	1,447,159	(69,462)	1,377,697	
Operating expenses	546,545	346,853	90,611	85,251	76,142	68,666	57,695	57,111	1,328,874	(66,986)	1,261,888	
Operating profit (loss)	¥ 37,812	¥ 28,988	¥ 13,357	¥ 8,338	¥17,591	¥ 2,568	¥ 6,067	¥ 3,564	¥ 118,285	¥ (2,476)	¥ 115,809	

											Thousands of U.S. dollars	
											2006	
	Chemicals	Homes	Pharma	Fibers	Electronics Materials and Devices	Construction Materials	Life & Living	Services, Engineering and Others	Combined	Corporate expenses and eliminations	Consolidated	
Sales:												
Customers	\$5,644,462	\$3,457,598	\$904,632	\$766,701	\$879,128	\$483,009	\$443,949	\$229,239	\$12,808,718	\$ –	\$12,808,718	
Intersegment	142,385	949	162	19,333	8,479	99,111	30,975	232,880	534,274	(534,274)	–	
Total	5,786,847	3,458,547	904,794	786,034	887,607	582,120	474,924	462,119	13,342,992	(534,274)	12,808,718	
Operating expenses	5,440,590	3,217,368	810,282	751,709	722,368	549,504	433,675	434,060	12,359,556	(480,120)	11,879,436	
Operating profit (loss)	\$ 346,257	\$ 241,179	\$ 94,512	\$ 34,325	\$165,239	\$ 32,616	\$ 41,249	\$ 28,059	\$ 983,436	\$ (54,154)	\$ 929,282	

Identifiable assets, depreciation and amortization, impairment loss and capital expenditure as of and for the year ended March 31:

											Millions of yen	
											2006	
	Chemicals	Homes	Pharma	Fibers	Electronics Materials and Devices	Construction Materials	Life & Living	Services, Engineering and Others	Combined	Corporate assets and eliminations	Consolidated	
Identifiable assets	¥529,100	¥200,066	¥118,721	¥105,718	¥114,743	¥49,557	¥50,970	¥317,171	¥1,486,046	¥ (110,002)	¥1,376,044	
Depreciation and amortization	31,281	2,448	6,364	5,337	12,051	3,129	4,352	715	65,677	3,722	69,399	
Impairment loss	–	251	–	–	–	–	–	–	251	3,548	3,799	
Capital expenditure	26,632	3,583	4,897	5,417	14,960	2,313	4,655	1,038	63,495	2,815	66,310	

											Millions of Yen	
											2005	
	Chemicals	Homes	Pharma	Fibers	Electronics Materials and Devices	Construction Materials	Life & Living	Services, Engineering and Others	Combined	Corporate assets and eliminations	Consolidated	
Identifiable assets	¥494,313	¥186,837	¥ 123,762	¥100,031	¥109,055	¥58,068	¥55,738	¥297,826	¥1,425,630	¥ (155,573)	¥1,270,057	
Depreciation and amortization	31,553	2,280	6,372	5,200	13,312	3,797	4,535	1,192	68,241	3,290	71,531	
Capital expenditure	25,084	3,447	8,260	4,927	16,446	2,209	4,329	1,423	66,125	2,354	68,479	

Thousands of U.S. dollars

	2006										
	Chemicals	Homes	Pharma	Fibers	Electronics Materials and Devices	Construction Materials	Life & Living	Services, Engineering and Others	Combined	Corporate assets and eliminations	Consolidated
Identifiable assets	\$4,522,222	\$1,709,966	\$1,014,710	\$903,573	\$980,709	\$423,564	\$ 435,641	2,710,863	\$12,701,248	\$(940,188)	\$11,761,060
Depreciation and amortization	267,359	20,923	54,393	45,615	103,000	26,744	37,197	6,111	561,342	31,812	593,154
Impairment loss	–	2,145	–	–	–	–	–	–	2,145	30,325	32,470
Capital expenditure	227,624	30,624	41,855	46,299	127,863	19,769	39,786	8,872	542,692	24,060	566,752

Note 1: The Company's industry segments are aggregated into eight segments based primarily upon similarities of products, services, and economic characteristics.

Chemicals –

The Company produces, processes and sells Monomers and basic chemicals (such as Ammonia, Nitric acid, Caustic soda, Acrylonitrile, Styrene monomer, Methyl Methacrylate (MMA) monomer, PMMA resin, High-compound fertilizers, and Adipic acid), Polymer and elastomers (such as Suntec™ polyethylene (PE), Stylac™ - AS (styrene-acrylonitrile), Stylac™-ABS (acrylonitrile-butadiene-styrene), synthetic rubber, Tenac™ polyacetal, Xyron™ modified polyphenylene ether (mPPE), and Leona™ nylon 66 polymer and filament), Specialty products and systems (such as Coating materials, Latex, Ceolus™ microcrystalline cellulose, Explosives, Explosion-bonded metal clad, APR™ photosensitive resin and printing plate making systems, Microza™ UF and MF membranes and systems, Hipore™ microporous membrane, and ion-exchange membranes and electrolysis systems).

Homes –

The Company builds Hebel Haus™ pre-fabricated, custom-built homes, and Hebel Maison™ apartments, and operates related businesses such as condominiums, remodeling, real estate, residential land development, and home financing.

Pharma –

The Company produces and sells pharmaceuticals (such as Elcitonin™, Bredinin™, Flivas™, and Toledomin™), pharmaceutical intermediates, diagnostics reagents. The Company also manufactures APS™ artificial kidneys, Sepacell™ leukocyte reduction filters, Cellsorba™ leukocyte adsorption columns, Planova™ virus removal filters, and contact lenses.

Fibers –

The Company produces and sells Roica™ elastic polyurethane filament, nonwoven fabrics (such as Eltas™ spunbond and Lamous™ artificial suede), Bemberg™ cuprammonium rayon, and polyester filament.

Electronics Materials and Devices –

The Company produces and sells Pimel™ photosensitive polyimide, Sunfort™ photosensitive dry film resist (DFR), photomask pellicles, LSIs, Hall elements, and glass fabric.

Construction Materials –

The Company produces and sells autoclaved lightweight concrete (ALC) panels (such as Hebel™), piles, Neoma™ foam insulation panels, and artificial fish reefs.

Life & Living –

The Company produces and sells Saran Wrap™ cling film, Ziploc™ storage bags, and plastic films, sheets, and foams.

Services, Engineering, and Others –

The Company provides Plant engineering, Environmental engineering, Personnel staffing and replacement, and Think tank services.

- Accounting Standards for Impairment of Fixed Assets became effective for the fiscal year ended March 31, 2006. The Company applies this new standard in the fiscal year ended March 31, 2006, this had the effect of decreasing "Home segment" Identifiable assets by ¥251 million (US\$2,145 thousand) and "Corporate assets and eliminations" by ¥3,548 million (US\$30,325 thousand).
- The parent company and certain Japanese subsidiaries have been fully amortizing unrecognized actuarial gains/losses in the year following that in which they arose. Beginning with the fiscal year ended March 31, 2006, actuarial gains/losses are amortized on a straight-line basis over the ten years following that in which they arise.
As the full amount of the actuarial gain which occurred in the fiscal year ended March 31, 2005 was amortized in one year in accordance with the previously adopted policy, this change will not affect profits for the fiscal year ended March 31, 2006. Because the ¥23,604 million (US\$201,744 thousand) actuarial gain occurring in the year ended March 31, 2006 will be amortized on a straight-line basis over the following ten years, net pension and severance costs will be ¥19,639 million (US\$167,855 thousand) higher. The effect by industry segment is that operating expenses in the following segment will be lower by the following amounts: "Chemicals" ¥6,064 million (US\$51,829 thousand), "Homes" ¥3,097 million (US\$26,470 thousand), "Pharma" ¥2,830 million (US\$24,188 thousand), "Fibers" ¥1,869 million (US\$15,974 thousand), "Electronics Materials and Devices" ¥1,077 million (US\$9,205 thousand), "Construction Materials" ¥1,368million (US\$11,692thousand), " Life & Living" ¥855million (US\$7,308thousand), "Corporate" ¥2,478million (US\$21,179 thousand) in the year ended March 31, 2007 than if one-year amortization had been continued.
- With the April 1, 2005 transfer of Leona™ nylon 66 filament operations from Asahi Kasei Fibers Corporation to Asahi Kasei Chemicals Corporation, classification of the corresponding sales, operating expenses, operating profit (loss), identifiable assets, depreciation and amortization, and capital expenditure for the year ended march 31,2005 has been changed from the Fiber segment to the Chemicals segment.
- Corporate operating expenses included in "Corporate expenses and eliminations" in 2006 and 2005 amount to ¥15,209 million (US\$129,991 thousand) and ¥10,205 million, respectively.
- Corporate assets such as surplus funds (cash on hands and in banks), long-term-investment funds (investment securities etc.) and lands etc. included in "Corporate assets and eliminations" in 2006 and 2005 amount to ¥447,076 million (US\$3,821,162 thousand) and ¥390,975 million, respectively.

(2) Geographic areas –

Total sales and assets of consolidated subsidiaries located in countries or regions outside of Japan as of and for the years ended March 31, 2006 and 2005 were not significant.

(3) Overseas sales –

Overseas sales for the years ended March 31, 2006 and 2005 were as follows:

	Millions of yen			Millions of yen			Thousands of U.S. dollars		
	2006			2005			2006		
	East Asia	Others	Total	East Asia	Others	Total	East Asia	Others	Total
Overseas sales	¥222,377	¥150,789	¥ 373,166	¥187,017	¥122,787	¥ 309,804	\$1,900,658	\$1,288,795	\$ 3,189,453
Consolidated net sales	–	–	1,498,620	–	–	1,377,697	–	–	12,808,718
Percentage of consolidated net sales (%)	14.8%	10.1%	24.9%	13.6%	8.9%	22.5%			

Note 1: Geographical distance is considered in the classification of country or area.

Note 2: Major countries or areas included in each category are as follows;

East Asia: China (including Hong Kong), Korea and Taiwan

Others: Southeast Asia (except East Asia), U.S.A., Europe and others.

Note 3: Overseas sales represent the sales of the Company to countries and areas outside of Japan.

19. Appropriation of retained earnings

Appropriations of retained earnings are not accrued in the financial statements for the period to which they relate, but are recorded in the subsequent accounting period after shareholders' approval has been obtained. Retained earnings at March 31, 2006 include amounts representing final cash dividends of

¥6,999 million (US\$59,821 thousand) and bonuses to directors and corporate auditors of ¥73 million (US\$624 thousand) which were approved at the shareholders' meeting held on June 29, 2006.

20. Contingent liabilities

Contingent liabilities at March 31, arising in the ordinary course of business were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Notes discounted	¥ 296	¥ 225	\$ 2,530
Loans guaranteed	15,569	17,044	133,068
Commitment for guarantees	2,646	2,739	22,615
Letters of awareness	734	190	6,274
	¥19,245	¥20,198	\$164,487

The parent company and certain of its subsidiaries and affiliates were defendants in several pending lawsuits. However, based upon the information currently available to both the Company and its legal counsel, the management of the Company believes that any damages from such lawsuits will not have a material effect on the Company's consolidated financial statements.

21. Reconciliation of the differences between basic and diluted net income per share:

Reconciliation of the differences between basic and diluted net income per share for the year ended March 31 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Net income	¥59,668	¥56,454	\$509,983
Amount not allocated to the common stock	(218)	(199)	(1,863)
Net income allocated to the common stock	¥59,450	¥56,255	\$508,120
Effect of dilutive securities	—	—	—
Net income allocated to the common stock for computation of diluted net income per share	¥59,450	¥56,255	\$508,120
	Thousands of shares		
	2006	2005	
Weighted-average shares	1,400,109	1,400,671	
Effect of dilutive securities	—	—	
Weighted-average shares for computation of diluted net income per share	1,400,109	1,400,671	
	Yen		U.S. dollars
	2006	2005	2006
Basic net income per share	¥42.46	¥40.16	\$0.36
Diluted net income per share	¥ —	¥ —	\$ —

As the Company had no dilutive securities as at March 31, 2006 and 2005, the Company does not disclose diluted net income for the years ended March 31, 2006 and 2005.

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Tokyo 100-6088, Japan

Report of Independent Auditors

To the Board of Directors and Shareholders
of Asahi Kasei Corporation

We have audited the accompanying consolidated balance sheets of Asahi Kasei Corporation and its subsidiaries as of March 31, 2005 and 2006, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese Yen. These consolidated financial statements are the responsibility of the Company'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 Asahi Kasei Corporation and its subsidiaries as of March 31, 2005 and 2006, 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.

As discussed in Note 2.(c) to the consolidated financial statements, the Company adopted "Accounting Standards for Impairment of Fixed Assets" for the fiscal year ended March 31, 2006.

As discussed in Note 2.(d) to the consolidated financial statements, effective for the fiscal year ended March 31, 2006, the Company changed its method of amortization of unrecognized actuarial gains/losses.

As discussed in Note 18. to the consolidated financial statements, effective for the fiscal year ended March 31, 2006, the Company changed the segmentation of its industry segments.

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 3. to the accompanying consolidated financial statements.



June 29, 2006

Major Subsidiaries and Affiliates

As of April 1, 2006

Company	Main products/business line		Paid-in capital (million)	Equity interest (%)
Chemicals Segment				
Asahi Kasei Chemicals Corp.*	Chemicals	¥	3,000	100.0
Sanyo Petrochemical Co., Ltd.*	Benzene, ethylene	¥	2,000	100.0
Asahi Kasei Epoxy Co., Ltd.*	Epoxy resin	¥	300	100.0
Asahi Kasei Metals Ltd.	Aluminum paste	¥	250	100.0
Asahi Kasei Finechem Co., Ltd.	Specialty chemicals	¥	175	100.0
Asahi SKB Co., Ltd.	Shotgun cartridges	¥	100	100.0
Asahi Kasei Geotechnologies Co., Ltd.	Sale of industrial explosives, civil engineering materials	¥	132	100.0
Asahi Kasei Technoplus Co., Ltd.*	Processing and sale of plastic and fiber	¥	160	99.4
Japan Elastomer Co., Ltd.*	Synthetic rubber	¥	1,000	75.0
Wacker Asahikasei Silicone Co., Ltd.	Silicone	¥	4,200	50.0
Okayama Chemical Co., Ltd.	Caustic soda, chlorine	¥	1,000	50.0
Chisso Asahi Fertilizer Co., Ltd.	Sale of fertilizer	¥	305	50.0
PS Japan Corp.	Polystyrene	¥	5,000	45.0
Asahi Organic Chemicals Industry Co., Ltd.	Synthetic resin, fabricated plastic products	¥	5,000	29.8
Asahikasei Plastics (America) Inc.*	Sale of compounded performance resin	US\$	17.8**	100.0
Asahi Kasei Plastics North America, Inc.*	Coloring and compounding of performance resin	US\$	21.5**	100.0
Asahi Chemical Intermediates Inc.*	Sale of acrylonitrile	US\$	16.4	100.0
Sun Plastech Inc.*	Sale of purging compound	US\$	1.0	100.0
Tong Suh Petrochemical Corp. Ltd.*	Acrylonitrile, sodium cyanide	W	50,642	100.0
Asahi Kasei Adipic Acid (Korea) Co., Ltd.	Sale of adipic acid	W	1,500	100.0
Delaglas Korea Corporation	PMMA sheet for light-guide plates	W	5,000	60.0
Asahikasei Plastics (Shanghai) Co., Ltd.	Sale of performance resin	CNY	18	100.0
Asahikasei (Suzhou) Plastics Compound Co., Ltd.	Coloring and compounding of performance resin	CNY	50	51.0
SAL Petrochemical (Zhangjiagang) Co., Ltd.	Polystyrene	CNY	222	50.0
Asahi-DuPont POM (Zhangjiagang) Co., Ltd.	Polyacetal	US\$	32.0	50.0
Styron Asia Ltd.	Sale of polystyrene	US\$	1.0	50.0
Asahi Kasei Performance Chemicals Corporation	High-performance HDI-based polyisocyanate	US\$	20.0	100.0
Asahi Kasei Microza (Hangzhou) Co., Ltd.	Industrial membranes and systems	¥	400	100.0
Asahi Kasei Plastics Singapore Pte. Ltd.*	Performance resin	US\$	46.0	100.0
Polyxylenol Singapore Pte. Ltd.*	PPE powder	US\$	35.0	70.0
Asahikasei Plastics (Thailand) Co., Ltd.	Coloring and compounding of performance resin	B	140	100.0
PT Nippisun Indonesia	Coloring and compounding of styrenic resin	US\$	6.3	25.7
NV Asahi Thermofil (Europe) SA*	Sale of compounded performance resin	€	5.0	100.0
NV Asahi Photoproducts (Europe) SA*	Sale of photopolymer, printing plate making systems	€	3.4	100.0
Asahi Photoproducts (UK) Ltd.*	Sale of photopolymer, printing plate making systems	£	0.3	100.0
AK&N (UK) Ltd.*	Compounded performance resin operations	£	11.1	65.0
Asahi Thermofil (UK) Ltd.*	Coloring and compounding of performance resin	£	5.3	65.0
Asahi Thermofil (France) SA*	Coloring and compounding of performance resin	€	4.3	65.0
Homes Segment				
Asahi Kasei Homes Corp.*	Housing	¥	3,250	100.0
Asahi Kasei Jyuko Co., Ltd.*	Steel frames	¥	2,820	100.0
Asahi Kasei Mortgage Corp.*	Financial services	¥	500	100.0
Asahi Kasei Real Estate, Ltd.*	Home leasing, real estate brokerage	¥	200	100.0
Asahi Kasei Reform Co., Ltd.*	Home maintenance and remodeling	¥	250	100.0
Pharma Segment				
Asahi Kasei Pharma Corp.*	Pharmaceuticals, medical products	¥	3,000	100.0
Asahi Kasei Medical Co., Ltd.*	Medical devices, medical systems	¥	800	100.0
Asahi Kasei N&P Co., Ltd.*	Functional food ingredients	¥	495	100.0

* Consolidated subsidiary

** Including capital reserve

Company	Main products/business line		Paid-in capital (million)	Equity interest (%)
Asahikasei Aime Co., Ltd.*	Contact lenses	¥	480	100.0
Asahi Kasei Medical America Inc.	Sale of medical devices, medical systems	US\$	0.2	100.0
Nikkiso Asahi Kasei Medical Korea Co., Ltd.	Sale of medical devices	₩	4,400	50.0
Asahi Kasei Medical (Hangzhou) Co., Ltd.	Hemodialyzers	US\$	10.0	100.0
Asahi Kasei Medical Europe GmbH	Sale of medical devices, medical systems	€	0.2	100.0
NV Asahi Kasei Planova Europe SA	Sale of virus removal filters	€	0.2	100.0
Asahi Pharma Spain, SL	Sale of pharmaceuticals	€	0.1	100.0
Fibers Segment				
Asahi Kasei Fibers Corp.*	Fiber, textiles	¥	3,000	100.0
Kyokuyo Sangyo Co., Ltd.*	Processing and sale of fiber, textiles	¥	80	100.0
DuPont-Asahi Flash Spun Products Co., Ltd.	Flash spun	¥	450	50.0
Solotex Corp.	Polytrimethylene terephthalate fiber	¥	250	50.0
Asahi Kasei Fibers America, Inc.	Spandex	US\$	10.2**	100.0
(Asahi Kasei Fibers America, Inc. was renamed Asahi Kasei Spandex America, Inc. on May 1, 2006.)				
Hangzhou Asahikasei Spandex Co., Ltd.*	Spandex	CNY	132	100.0
Hangzhou Asahikasei Textiles Co., Ltd.*	Knitting and dyeing of spandex	CNY	78	82.5
Formosa Asahi Spandex Co., Ltd.	Spandex	NT\$	801	50.0
Asahi Chemical (HK) Ltd.*	Sale of fiber and textiles	HK\$	65	100.0
Thai Asahi Kasei Spandex Co., Ltd.*	Spandex	B	520	60.0
Asahi Kasei Spandex Europe GmbH	Spandex	€	10.0**	100.0
Asahi Kasei Fibers Italy SRL	Sale of spandex and cupuro cellulosic fiber	€	3.0	100.0
Asahi Kasei Fibers Deutschland GmbH	Sale of artificial suede	€	0.3	100.0
EMD Segment				
Asahi Kasei EMD Corp.*	Electronics materials and devices	¥	3,000	100.0
Asahi Kasei Microsystems Co., Ltd.*	LSIs	¥	14,000	100.0
Asahi-Schwebel Co., Ltd.*	Glass fabric	¥	648	100.0
Asahi Kasei Electronics Co., Ltd.*	Hall elements	¥	400	100.0
AKM Semiconductor, Inc.*	Sale of LSIs	US\$	2.9	100.0
Asahi Kasei Electronics Materials (Suzhou) Co., Ltd.*	Photosensitive dry film resist	CNY	60	100.0
Asahi Kasei Wah Lee Hi-Tech Corp.*	Photosensitive dry film resist	NT\$	49	80.6
Asahi-Schwebel (Taiwan) Co., Ltd.*	Glass fabric	NT\$	326	51.0
Constructions Materials Segment				
Asahi Kasei Construction Materials Corp.*	Construction materials	¥	3,000	100.0
Asahi Kasei Foundation Systems Co., Ltd.*	Installation of piles	¥	200	100.0
Asahi Kasei Marintech Co., Ltd.*	Sale of marine structures	¥	30	100.0
Life & Living Segment				
Asahi Kasei Life & Living Corp.*	Household products, packaging material	¥	3,000	100.0
Asahi Kasei Pax Corp.*	Packaging products and solutions	¥	490	100.0
Asahi Home Products Co., Ltd.*	Sale of cling film, other household products	¥	250	100.0
Sundic Inc.	Biaxially oriented polystyrene sheet	¥	1,050	50.0
Asahi Packaging GmbH	Sale of food packaging material	€	0.7	100.0
Service, Engineering and Others Segment				
Asahi Research Center Co., Ltd.*	Information and analysis	¥	3,000	100.0
Asahi Finance Co., Ltd.*	Investment, finance	¥	800	100.0
Asahi Kasei Engineering Co., Ltd.*	Plant, equipment, process engineering	¥	400	100.0
Asahi Kasei Trading Service Co., Ltd.*	Sale of Asahi Kasei products	¥	98	100.0
Sun Trading Co., Ltd.*	Sale of Asahi Kasei products	¥	94	100.0
Asahi Kasei Amidas Co., Ltd.*	Employment agency, consulting	¥	80	100.0
AJS Inc.	Computer software, IT systems	¥	800	49.0

* Consolidated subsidiary

** Including capital reserve

Corporate Profile

As of April 1, 2006

Company Name	Asahi Kasei Corporation
Date of Establishment	May 21, 1931
Paid-in Capital	¥103,388,521,767
Employees	23,030 (Consolidated) 806 (Non-consolidated)

Asahi Kasei Group Offices

Asahi Kasei Corporation

Tokyo Head Office
1-1-2 Yurakucho, Chiyoda-ku
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Phone: +81-3-3507-2060
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Core Operating Companies

Asahi Kasei Chemicals Corporation
1-1-2 Yurakucho, Chiyoda-ku
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Phone: +81-3-3507-2220

Asahi Kasei Homes Corporation
1-24-1 Nishi-shinjuku, Shinjuku-ku
Tokyo 160-8345, Japan
Phone: +81-3-3344-7111

Asahi Kasei Pharma Corporation
9-1 Kanda Mitoshiro-cho, Chiyoda-ku
Tokyo 101-8481, Japan
Phone: +81-3-3259-5777

Asahi Kasei Fibers Corporation
1-2-6 Dojimahama, Kita-ku
Osaka 530-8205, Japan
Phone: +81-6-6347-3600

Asahi Kasei EMD Corporation
1-23-7 Nishi-shinjuku, Shinjuku-ku
Tokyo 160-0023, Japan
Phone: +81-3-6911-2700

Asahi Kasei Construction Materials Corporation
2-12-7 Higashi-shinbashi, Minato-ku
Tokyo 105-0021, Japan
Phone: +81-3-5473-5251

Asahi Kasei Life & Living Corporation
1-1-2 Yurakucho, Chiyoda-ku
Tokyo 100-8440, Japan
Phone: +81-3-3507-2939

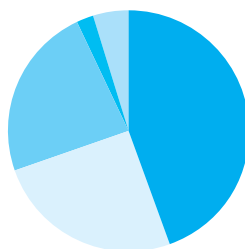
Investors Information

Stock Listings	Tokyo, Osaka, Nagoya, Fukuoka, Sapporo
Authorized Shares	4,000,000,000
Outstanding Shares	1,442,616,332
Transfer Agent	Sumitomo Trust & Banking Co., Ltd. 4-5-33 Kitahama, Chuo-ku Osaka 541-8639, Japan
Independent Auditors	ChuoAoyama PricewaterhouseCoopers (PricewaterhouseCoopers Aarata was appointed Interim Independent Auditors on July 1, 2006)

Largest Shareholders	% of equity
Master Trust Bank of Japan, Ltd. TS.....	5.43
Japan Trustee Services Bank, Ltd. TS.....	4.94
Nippon Life Insurance Co.	4.66
Employees' Stockholding.....	2.84
Sumitomo Mitsui Banking Corp.	2.45
Dai-ichi Mutual Life Insurance Co.	2.23
Tokio Marine & Nichido Fire Insurance Co., Ltd.....	2.16
Meiji Yasuda Life Insurance Co.	1.70
Nomura Securities Co., Ltd.	1.57
Japan Trustee Services Bank, Ltd. TS4.....	1.43

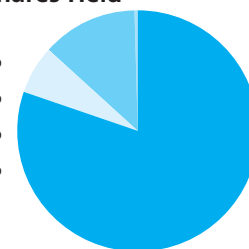
Distribution by Type of Shareholder

Japanese financial institutions	44.08%
Japanese individuals and groups	25.02%
Foreign investors	23.09%
Japanese securities companies	2.26%
Other Japanese companies	4.73%



Distribution by Number of Shares Held

100,000 or more	80.25%
10,000~99,999	6.50%
1,000~9,999	12.81%
less than 1,000	0.44%



A copy of the Company's annual report and further information will be made available upon request in writing to:

Corporate Communications

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