



## Summary of Financial Results for the Third Quarter Ended December 31, 2005

### I. Financial Results (April 1, 2005 – December 31, 2005)

#### 1. Consolidated Financial Results

##### (1) Results of Operations

	Millions of Yen - Except Per Share Data and Percents				
	Third Quarter ended December 31,				Fiscal Year March 31,
	2005	%	2004	%	2005
Net Sales .....	1,072,742	18.8	902,994	13.3	1,227,547
Operating Income .....	40,179	(20.4)	50,505	41.9	80,491
Recurring Income .....	43,635	(11.0)	49,011	62.2	79,737
Net Income .....	28,434	417.5	5,494	(49.9)	26,192
Net Income per Share (yen) .....	36.30		7.00		33.26
Net Income per Share, diluted (yen).....					

Note: Percentages for operating revenues, operating income, recurring income and net income represent changes compared with the previous period.

##### (2) Financial Position

	Millions of Yen - Except Per Share Data and Percents		
	Third Quarter ended December 31,		Fiscal Year March 31,
	2005	2004	2005
Total Assets .....	1,354,426	1,209,601	1,205,185
Shareholders' Equity .....	442,284	386,759	405,773
Shareholders' Equity Ratio .....	32.7%	32.0	33.7
Shareholders' Equity per Share .....	564.94	493.31	517.63

##### (3) Cash Flows

	Millions of Yen - Except Per Share Data and Percents		
	Third Quarter ended December 31,		Fiscal Year ended March 31,
	2005	2004	2005
Cash Flows from Operating Activities.....	28,521	—	96,503
Cash Flows from Investing Activities .....	(46,783)	—	(33,085)
Cash Flows from Financing Activities .....	26,907	—	(63,213)
Cash and Cash Equivalents at End of Period....	37,532	—	28,068

Note: The Company began disclosing consolidated cash flow information in the current consolidated fiscal year, thus no information is given for the same period last year.



**2. Consolidated Operating Performance Outlook for Fiscal Year 2005  
(April 1, 2005 – March 31, 2006)**

	Millions of Yen
	<b>Full Year Ending March 31, 2006</b>
Net Sales .....	1,500,000
Recurring Income .....	70,000
Net Income .....	42,000

(Reference) Projected net income per share for Fiscal Year ending March 31, 2006: 53.63 yen  
There is no change in the forecasts announced November 15, 2005

\* The outlook shown above is prepared based on information available as of the time of writing, and therefore actual results may differ significantly from the projections due to risks and various unknown factors. Please refer to 'Outlook for Fiscal Year Ending March 31, 2006' on page 6 for more information.



## II. Qualitative Information Related to Financial Progress in the Consolidated Business

### 1. Overview

Despite firm production and shipments for all but a few products, the chemical industry faced an extremely challenging business environment due to high fuel prices, which rose even higher.

Efforts were made to improve profitability throughout the Group by concentrating efforts on marketing activities and through stringent cost cutting, among other measures.

As a result, sales rose to 1.73 trillion yen, an increase of 169.7 billion yen or 18.8% over the same period last year. The sales increase resulted from efforts to revise product prices based on the rapid rise in fuel prices such as naphtha and the establishment of Prime Polymer Co., Ltd., a joint venture with Idemitsu Kosan Co., Ltd. in April.

Operating income declined 10.3 billion yen over the same period last year to 40.2 billion yen, a decline of 20.4%. This resulted from a substantial rise in the cost of goods sold due to the extreme rise in fuel prices such as naphtha, despite efforts to revise product pricing. The Company and some of the Group's consolidated subsidiaries also changed the method of accounting for tangible fixed asset depreciation for the current fiscal year. Please see Changes in Accounting Methods on page 10 for the reasons for this change and the impact on current quarter results.

Recurring income declined by 5.4 billion yen, or 11%, from the same period last year, to 43.6 billion yen. Factors affecting this were a 2.5 billion yen increase in non-operating income over the same period last year due to a 1.1 billion yen rise in investment profits from equity interests and a 2.4 billion yen decrease in non-operating expenses due to a decrease in interest paid as interest bearing liabilities were reduced. As a result, an increase of 4.9 billion yen was recorded for net non-operating income over the same period last year.

This resulted in a recurring income margin (Return on Sales) of 4.1%.

Extraordinary income was 10.9 billion yen due to 9.1 billion yen in equity interest attendant to the establishment of Prime Polymer Co., Ltd. and a 1.1 billion yen reversal in the allowance for doubtful accounts. Extraordinary losses were 5.7 billion yen due to a loss of 4.4 billion yen on the write-off and sale of fixed assets and 500 million yen in impairment losses. This resulted in net extraordinary profit of 5.2 billion yen, an increase of 32.2 billion over the same period last year.

Quarterly net income before taxes and other adjustments rose 26.8 billion yen over the same period last year to 48.8 billion yen due to the above factors.

Net income for the quarter, after the deduction of minority interest losses and corporate and other taxes, rose 22.9 billion yen over the same period last year to 28.4 billion yen, a quarterly profit of 36.30 yen per share.

### 2. Results by Business Segment

#### Functional Chemicals & Engineered Materials

In the Hygienic Materials segment, the demand for nonwoven fabric registered strong growth in East and Southeast Asia, particularly in the Thai and Chinese markets; however, overseas sales of permeable film declined and conditions were severe, leading to low sales.

Sales for Construction Materials were firm, supported mainly by demand for civil engineering materials.

Sales for Semiconductor Materials remained firm despite the impact of price declines in the semiconductor market and the liquid crystal display market due to active expansion of sales for semiconductor gas.



Market expansion sustained strong sales for Display Materials despite the impact of price declines for plasma display panels.

Sales for Healthcare Businesses such as monomers for ophthalmic lens and Pharmaceutical Intermediates were strong due to firm sales for plastic lens material with a high refractive index.

Sales for Chemical Products Businesses such as polymerization retardants and adhesive ingredients for tires and wood were strong due to product price hikes reflecting the steep rise in materials prices.

Expanded sales of insecticides and other products resulted in strong sales for the Agrochemicals Business.

The above factors resulted in 140.8 billion yen in sales for this segment, 7.3 billion yen higher than the sales for the same period last year and comprising 13% of total Group sales. Operating income also increased by 1 billion yen to 7 billion yen.

### **Functional Polymeric Materials**

Sales for products such as Ethylene Propylene Rubber and Alpha Olefin Copolymer in the Elastomer Business remained firm as the Company made steady progress in gaining new customers and developing the market for various uses of flexible plastic, with a focus on Asia, in addition to benefiting from expanding domestic demand for auto parts in particular.

Polymethyl Pentene, Cyclic Olefin Copolymer and other Special Polymers saw demand expand, primarily for IT-related applications. Sales remained strong as the plant continued to operate at near full capacity.

Sales for Engineering Plastics remained strong due to growth in sales of new grades in China, despite stagnant sales volume for Polyamide 6T, primarily used for electronic components.

Resins used as raw materials for paper manufacturing and coating applications saw sales volume stagnate for the construction and general material industries, but coating resins for cell phone applications and for heat- and pressure-sensitive paper were strong, sustaining strong sales for resins overall.

Sales of Waxes, Petroleum Resins, and other additives were also strong due to product price hikes, which reflected the steep rise in materials prices.

Both sales volume and pricing were stable for Acryl Amides used as Flocculants, sustaining firm sales.

Sales of Urethane raw materials were strong due especially to improved market conditions for TDI in East and Southeast Asia, particularly in China, and pricing that held firm for MDI. Sales for Urethane Resins, Coating Materials, adhesives and casting materials were all strong on the back of increased demand both domestically and overseas.

The above factors resulted in an increase of 14.0 billion yen in segment sales over the same period last year to 206 billion yen, comprising 19% of Group sales. Operating income also increased by 700 million yen to 5.4 billion yen.

### **Basic Chemicals**

Although price revisions for Purified Terephthalic Acid (PTA) did not completely cover the steep rise in materials prices, the growth in sales volume to China and the rest of Asia sustained strong sales.

Sales volume growth for Polyethylene Terephthalate (PET) was sluggish due to the drop in growth for domestic demand for PET bottles and the rise in imports. Despite this, product price hikes reflecting the steep rise in materials prices sustained firm sales. Sales for Phenol, Bisphenol A and derivative products were strong, supported by price hikes reflecting the steep rise in materials prices.

Ethylene Glycol, Ethylene Oxide, and associated derivative products also saw strong sales, supported by firm demand.



The above factors contributed to a 30 billion yen increase in segment sales over the same period last year, to 348.2 billion yen, comprising 32% of Group sales. Operating income declined by 4 billion yen to 17.5 billion yen.

### **Petrochemicals**

Overseas and domestic demand for Ethylene and Propylene experienced growth, supported by the steady economic recovery worldwide, but production volume for both Ethylene and Propylene were low due to periodic maintenance at the Ichihara and Osaka plants.

Despite price revisions for Polyethylene and Polypropylene in the face of rapidly rising materials prices, the late implementation of the price hikes and further increases in already high materials prices made it difficult to fully cover these costs. Both Polyethylene and Polypropylene experienced sales growth in spite of this due to an increase in the amount handled by Idemitsu Kosan Co., Ltd. in conjunction with the establishment of Prime Polymer Co., Ltd.

The above factors contributed to an increase of 121.4 billion yen in segment sales over the same period last year to 350.2 billion yen, comprising 33% of Group sales. Operating income declined 7.1 billion yen to 10.7 billion yen.

### **Others**

Sales for this segment declined 3 billion yen over the same period last year to 27.5 billion yen and comprised 3% of Group sales. A 300 million yen operating loss was recorded due to a 700 million yen decline in operating income.

## **3. Financial Position**

Despite continued efforts to reduce assets, total assets as of the end of the current quarter increased 149.2 billion yen over the end of the same quarter last year to 1.35 trillion yen, due to increased trade accounts receivable resulting from sales growth, increased inventory resulting from the rapid rise in materials prices and the transfer of assets from Idemitsu Kosan Co., Ltd. accompanying the establishment of Prime Polymer Co., Ltd.

Liabilities as of the end of the current quarter increased by 85.7 billion yen over the end of the same period last year to 839.6 billion yen. Incorporated in this was a 44.9 billion yen increase in interest-bearing liabilities to 467.2 billion yen. The interest-bearing debt ratio improved by 0.5 point over the end of the previous period to 34.5%.

Minority shareholder interest as of the end of the current quarter rose by 27 billion yen over the end of the previous period to 72.5 billion yen.

Shareholders' equity as of the end of the current quarter increased by 36.5 billion yen over the end of the previous period to 442.3 billion yen. Shareholder's equity to total assets was 32.7%, almost level with the end of the previous period.

The above factors contributed to a debt-equity ratio of 1.06 as of the end of the current quarter, nearly level with the end of the same quarter last year.

## **4. Cash Flows**

Cash and cash equivalents as of the end of current quarter ("cash") increased 9.5 billion yen over the end of the previous period to 37.5 billion yen.

### **Cash Flow from Operating Activities**

Cash inflow from operating activities was 28.5 billion yen. This resulted from increased working capital required for the holidays at the end of the period and the rapid rise in material prices, which detracted from the 48.8 billion yen in net income before taxes and other adjustments for the current quarter.



### **Cash Flow from Investing Activities**

Cash outflow from investing activities was 46.8 billion yen. This was mainly due to increased expenditures for the acquisition of tangible fixed assets.

### **Cash Flow from Financing Activities**

Cash procured from financing activities was 26.9 billion yen. This resulted from interest-bearing debt acquired to finance the negative cash flow resulting from the combination of cash inflow from operating activities and cash outflow from investment activities.

## **III. Outlook for Fiscal Year Ending March 31, 2006**

Despite the anticipated continuance of a challenging business environment, we expect to achieve our initial forecast for full year consolidated operating results by focusing all efforts on marketing activities and cost cutting and are, therefore, not revising the forecast for operating results announced November 15, 2005 at this time.



## IV. Consolidated Financial Statements

### 1. Consolidated Balance Sheets (Summary)

	Millions of Yen		
	As of December 31, 2005	As of December 31, 2004	Change
<b>Assets</b>			
<b>Current Assets</b> .....	622,668	497,287	125,831
<b>Fixed Assets</b> .....	731,758	707,898	23,860
<b>Total Assets</b> .....	1,354,426	1,205,185	149,241
<b>Liabilities</b>			
<b>Current Liabilities</b> .....	539,131	440,566	98,565
<b>Long-term Liabilities</b> .....	300,555	313,389	12,834
<b>Total Liabilities</b> .....	839,686	753,955	85,731
<b>Minority interests</b> .....	72,456	45,457	26,999
<b>Shareholders' Equity</b>			
Common stock .....	103,226	103,226	—
Additional paid-in capital .....	66,915	66,913	2
Retained earnings .....	253,532	231,497	22,035
Treasury stock, at cost .....	—	—	—
Others .....	18,611	4,137	14,474
<b>Total Shareholders' Equity</b> .....	442,284	405,773	36,511
<b>Total Liabilities and Shareholders' Equity</b> .....	1,354,426	1,205,185	149,241
<b>(Reference)</b>			
Interest-bearing debts .....	467,204	422,342	44,862



## 2. Consolidated Statements of Income (Summary)

	Millions of Yen			
	April 1, 2005 to December 31, 2005	April 1, 2004 to December 31, 2004	Change	April 1, 2004 to March 31, 2005
<b>Net Sales</b> .....	<b>1,072,742</b>	<b>902,994</b>	<b>169,748</b>	<b>1,227,547</b>
Cost of sales .....	886,506	718,984	167,522	968,230
<b>Gross profit</b> .....	<b>186,236</b>	<b>184,010</b>	<b>2,226</b>	<b>259,317</b>
Selling, general and administrative expenses .....	146,057	133,505	12,552	178,826
<b>Operating Income</b> .....	<b>40,179</b>	<b>50,505</b>	<b>(1,0326)</b>	<b>80,491</b>
<b>Non-operating Income and Expenses</b>				
<b>Non-operating Income</b>				
Equity in earnings of non-consolidated subsidiaries and affiliates .....	6,215	5,109	1,106	6,887
Other, net .....	7,357	5,954	1,403	8,385
<b>Non-operating Income</b> .....	<b>13,572</b>	<b>11,063</b>	<b>2,509</b>	<b>15,272</b>
<b>Non-Operating Expenses</b>				
<b>Non-operating Expenses</b> .....	<b>10,116</b>	<b>12,557</b>	<b>(2,441)</b>	<b>16,026</b>
<b>Recurring Income</b> .....	<b>43,635</b>	<b>49,011</b>	<b>(5,376)</b>	<b>79,737</b>
<b>Extraordinary Gain and Loss</b>				
Gain on return of reserve for doubtful debt .....	1,125	—	1,125	—
Gain on change in equity .....	9,116	—	9,116	—
Immediate recognition of reduction in prior service cost due to the revision of system for severance and retirement benefits .....	—	11,788	(11,788)	11,788
Other extraordinary gains .....	632	1,021	(389)	5,278
<b>Extraordinary Gains</b> .....	<b>10,873</b>	<b>12,809</b>	<b>(1,936)</b>	<b>17,066</b>
Losses on disposal or sale of fixed assets .....	4,352	4,826	(474)	6,833
Loss of impairment of fixed assets .....	542	16,771	(16,229)	17,689
Loss on restructuring of subsidiaries and affiliates .....	—	8,781	(8,781)	5,525
Difference from changes in accounting methods for retirement benefits .....	—	4,589	(4,589)	6,119
Other extraordinary losses .....	762	4,824	(4,062)	5,985
<b>Extraordinary Losses</b> .....	<b>5,656</b>	<b>39,791</b>	<b>(34,135)</b>	<b>42,151</b>
<b>Net Income Before Income Taxes</b> .....	<b>48,852</b>	<b>22,029</b>	<b>26,823</b>	<b>54,652</b>
<b>Corporate Income Taxes</b> .....	<b>20,422</b>	<b>14,091</b>	<b>6,331</b>	<b>23,053</b>
<b>Minority Interest in Net Income of Consolidated Subsidiaries</b> .....	<b>(4)</b>	<b>2,444</b>	<b>(2,448)</b>	<b>5,407</b>
<b>Net Income</b> .....	<b>28,434</b>	<b>5,494</b>	<b>22,970</b>	<b>26,192</b>



### 3. Consolidated Statements of Cash Flows (Summary)

	Millions of Yen	
	April 1, 2005 to December 31, 2005	April 1, 2004 to December 31, 2004
<b>I. Cash flows from operating activities .....</b>	<b>28,521</b>	<b>96,503</b>
<b>II. Cash flows from investing activities .....</b>	<b>(46,783)</b>	<b>(33,085)</b>
<b>III. Cash flows from financing activities .....</b>	<b>26,907</b>	<b>(63,213)</b>
<b>IV. Exchange rate adjustments on cash and cash equivalents .....</b>	<b>820</b>	<b>(140)</b>
<b>V Net increase in cash and cash equivalents .....</b>	<b>9,465</b>	<b>65</b>
<b>VI. Cash and cash equivalents at beginning of year .....</b>	<b>28,068</b>	<b>28,005</b>
<b>VII. Increase due to inclusion of consolidations .....</b>	<b>(1)</b>	<b>(2)</b>
<b>VIII. Cash and cash equivalents at end of year .....</b>	<b>37,532</b>	<b>28,068</b>



## V. Changes in Accounting Methods

### 1. Tangible Fixed Assets

The Company and its domestic consolidated subsidiaries have mainly employed the straight line method for depreciation of tangible fixed assets up to this point but have converted to the declining balance method for tangible fixed assets, excluding buildings, beginning in the current consolidated fiscal year.

This change was made to accelerate recovery of funds invested and to strengthen the Company's financial status. It was deemed necessary due to an increasing trend of capital investment in the Functional Materials segment aimed at reforming the operating structure for the Company and its domestic consolidated subsidiaries, and the rapid technological revolution in manufacturing plants notable in this sector.

This change resulted in an increase of 3.7 billion yen in depreciation expenses for the current quarter, compared to the expense under the former method. Operating income, recurring income and net income before taxes and other adjustments for the current quarter decreased by 3.65 billion yen, respectively.

### 2. Additional Information

Machinery and equipment for some of the domestic consolidated subsidiaries and areas other than the company's Ichihara Plant and Iwakuni Otake Plant was previously depreciated to 5%; this has been changed to depreciation to a substantive residual value of zero from the current fiscal period.

This change resulted from a re-assessment of residual value in conjunction with the change in the depreciation method for tangible fixed assets.

Depreciation expenses for the current quarter increased 1.69 billion yen, compared with expenses under the previous method. Operating income, recurring income and net income before taxes and other adjustments for the current quarter decreased by 1.66 billion yen, respectively, as a result of this change.



## VI. Segment Information

### Net Sales and Operating Income by Segment

(Millions of Yen)

		April, 2005 to December 31, 2005	April, 2004 to December 31, 2004	Change	April, 2004 to March 31, 2005
Functional Chemicals and Engineered Materials	Net sales	140,837	133,511	7,326	183,434
	Operating income	6,991	6,039	952	9,055
Functional Polymeric Materials	Net sales	206,043	192,050	13,993	262,861
	Operating income	5,423	4,715	708	8,478
Basic Chemicals	Net sales	348,157	318,167	29,990	427,202
	Operating income	17,459	21,474	(4,015)	36,046
Petrochemicals	Net sales	350,212	228,755	121,457	316,564
	Operating income	10,691	17,805	(7,114)	25,418
Other	Net sales	27,493	30,511	(3,018)	37,486
	Operating income	(245)	392	(637)	1,281
Total	Net sales	1,072,742	902,994	169,748	1,227,547
	Operating income	40,319	50,425	(10,106)	80,278
Elimination and corporate	Net sales	—	—	—	—
	Operating income	(140)	80	(220)	213
Consolidated total	Net sales	1,072,742	902,994	169,748	1,227,547
	Operating income	40,179	50,505	(10,326)	80,491