



Mitsui Chemicals

**「Chemistry」 「Innovation」 「Dreams」**

~Realization of ideals through the wonders of chemistry~

## **Explanation of Financial Results**

November 4, 2008

Mitsui Chemicals

# OVERVIEW: Operations in First Half FY2008

First Half of FY2008

- Record increases in domestic naphtha prices  
*Domestic standard naphtha prices were at record highs in July-September*
- World markets impacted by U.S. sub-prime loan crisis  
*Slowdown in demand for chemical material resulted in production cutbacks after June*
- Beijing Olympic related shipping restrictions impacted market demands

## Impact on Operations

- Prices did not reflect material cost increases
- Profitability impacted by interval between material purchase and sell through of finished goods
- Production cutback to adjust to demand slowdown for Phenol and Ethylene cracker

# Operating Profit for the First Half FY2008

( ) = minus

Against preceding year FY

Unit: billion yen

| Segment                  | FY2007<br>Apr-Sep<br>Results | FY2008<br>Apr-Sep<br>Results | Loss          | Breakdown of Loss |               |              |                                       |
|--------------------------|------------------------------|------------------------------|---------------|-------------------|---------------|--------------|---------------------------------------|
|                          |                              |                              |               | Volume            | Price         | Costs        | Notes                                 |
| Performance<br>Materials | 19.0                         | 9.2                          | (9.8)         | (1.6)             | (3.8)         | (4.4)        | • Insufficient<br>reflection in price |
| Advanced<br>Chemicals    | 5.0                          | 3.6                          | (1.4)         | 0                 | (0.6)         | (0.8)        | • Increase in<br>depreciation costs   |
| Basic<br>Chemicals       | 19.6                         | (0.2)                        | (19.8)        | (2.8)             | (15.0)        | (2.0)        | • PH, PO period time<br>gaps          |
| Others                   | (0.9)                        | (2.6)                        | (1.7)         | (0.6)             | (0.6)         | (0.5)        |                                       |
| <b>Total</b>             | <b>42.7</b>                  | <b>10.0</b>                  | <b>(32.7)</b> | <b>(5.0)</b>      | <b>(20.0)</b> | <b>(7.7)</b> |                                       |

# Operating Profit for the First Half of FY2008

( ) = minus

Against Forecast of July 31

Unit: billion yen

| Segment                  | FY2008<br>Apr-Sep<br>Forecast | FY2008<br>Apr-Sep<br>Results | Loss         | Breakdown of Loss |            |            |             |
|--------------------------|-------------------------------|------------------------------|--------------|-------------------|------------|------------|-------------|
|                          |                               |                              |              | Volume            | Price*     | Costs      | Notes       |
| Performance<br>Materials | 10.0                          | 9.2                          | (0.8)        | (4.0)             | 1.6        | 1.6        | •TDI        |
| Advanced<br>Chemicals    | 5.0                           | 3.6                          | (1.4)        | (0.8)             | (0.6)      | 0          | •HQ, RS     |
| Basic<br>Chemicals       | 2.0                           | (0.2)                        | (2.2)        | (2.7)             | 0.8        | (0.3)      | •PH related |
| Others                   | (1.0)                         | (2.6)                        | (1.6)        | (0.2)             | (0.4)      | (1.0)      | • Services  |
| <b>Total</b>             | <b>16.0</b>                   | <b>10.0</b>                  | <b>(6.0)</b> | <b>(7.7)</b>      | <b>1.4</b> | <b>0.3</b> |             |

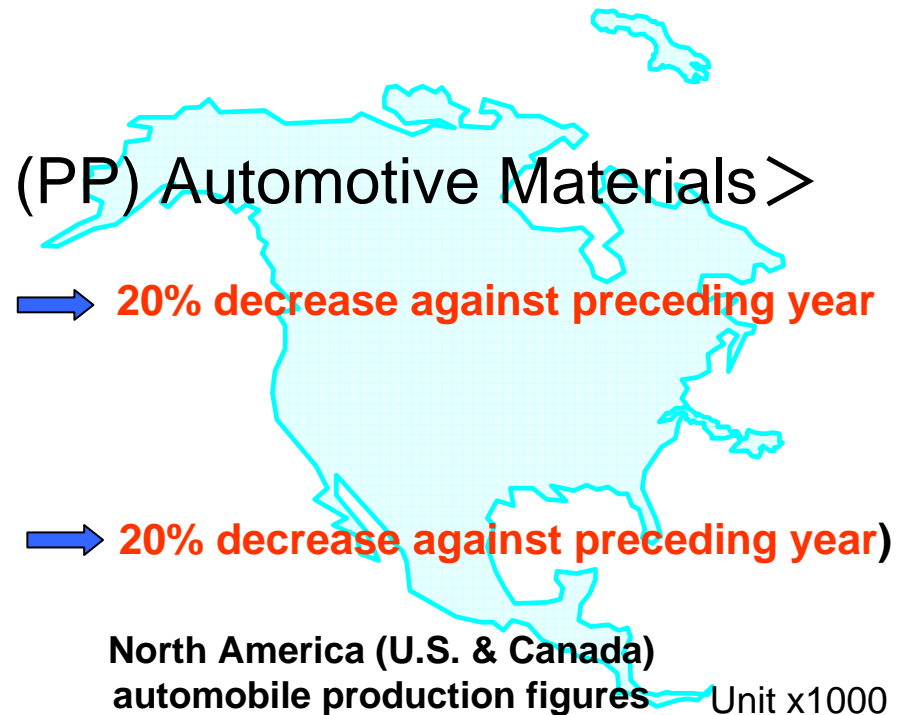
\* Price includes both selling and purchasing price variances

# FORECAST: Operations in Second Half FY2008

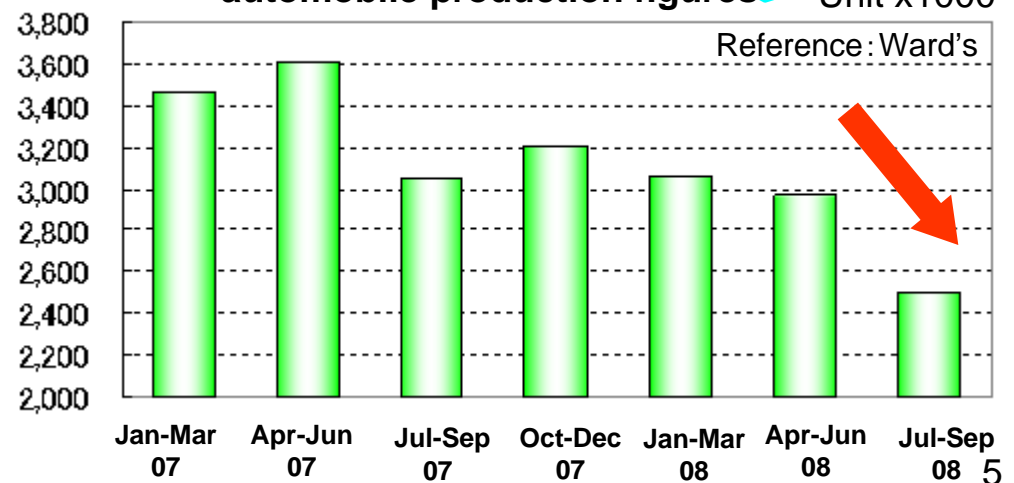
[ Market Slowdown ]

<North America / Polypropylene (PP) Automotive Materials>

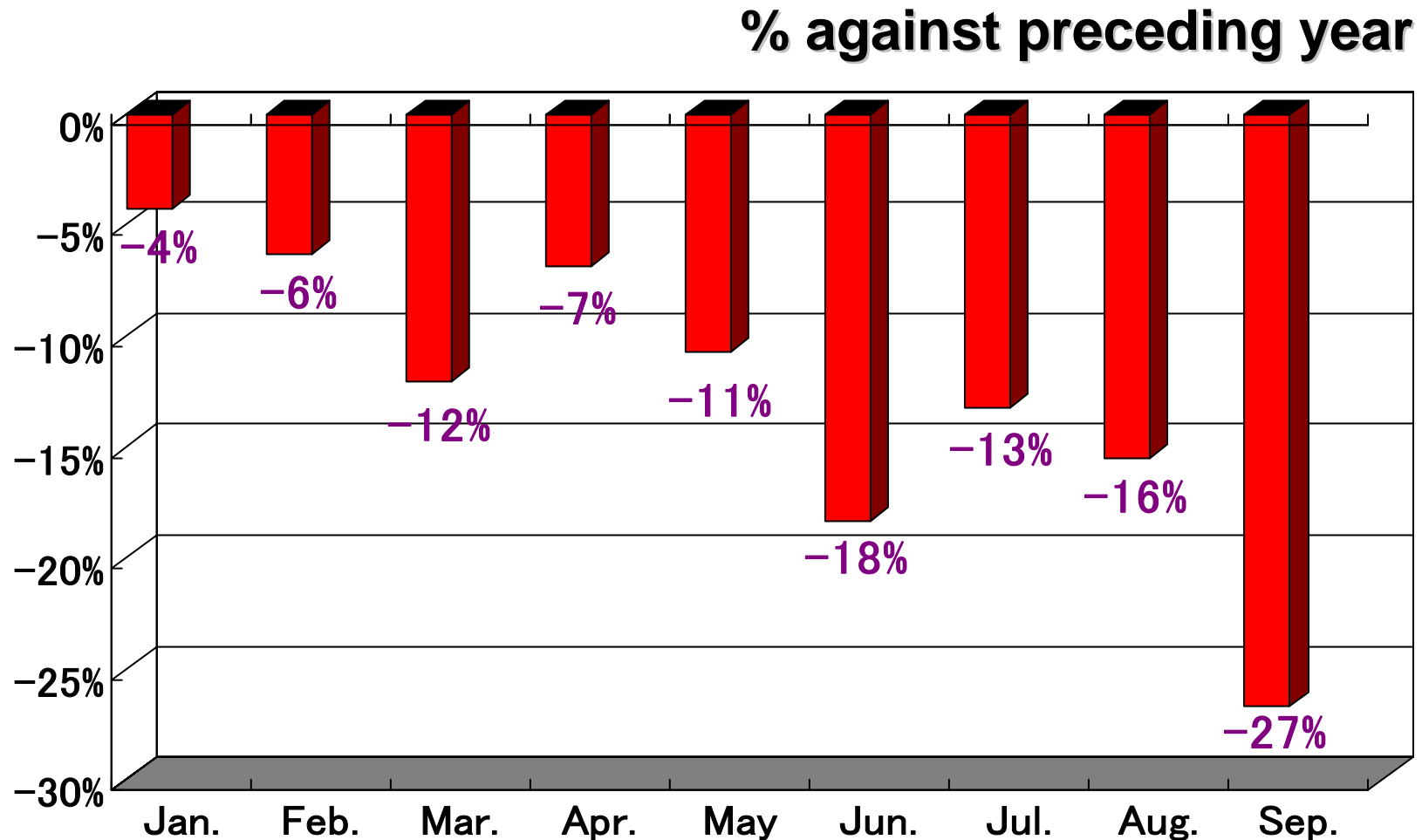
- Jul-Sep North America Automobile Production Figures
- Decrease in Japanese Automobile Sales ("T" company sales in North America in Sep



**Forecasted fall in North America PP automotive materials sales volume**



# U.S. Automobile Industry Sales (Jan–Sep 2008)



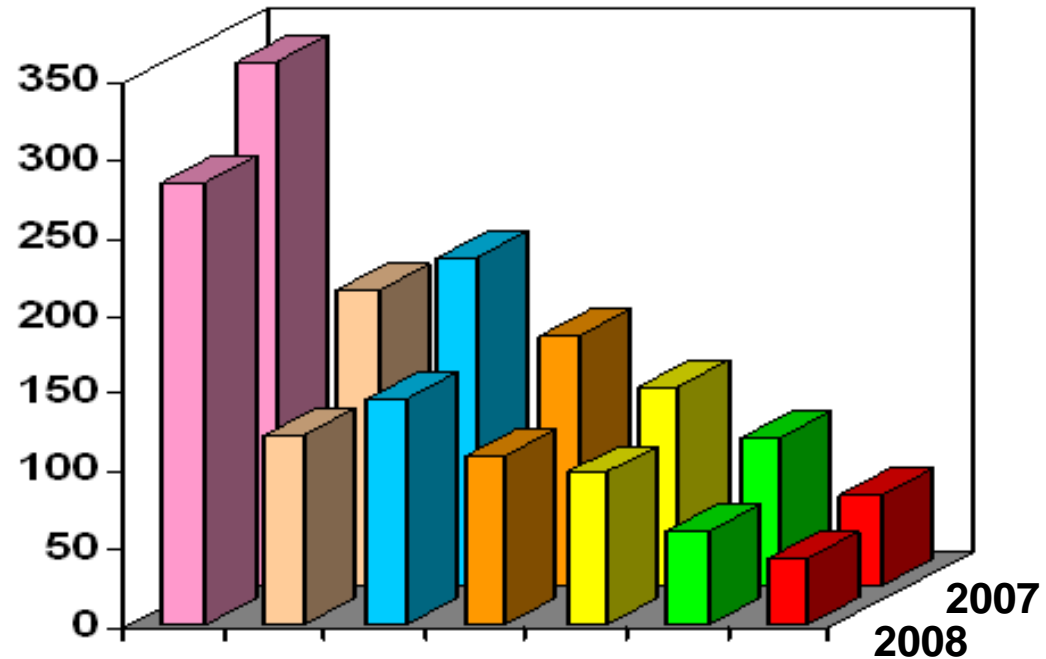
- 1H: Sharp decline in sales against preceding year due to high fuel costs.
- 2H: Market slowdown continue in September due to unfavorable economic conditions. October figures are at a record 20 year low.

# U.S. Automobile Sales (Sep 2008)

- G company**  
– **Down 15.6%**
- F company**  
– **Down 36.3%**
- T company**  
– **Down 31.4%**
- D company**  
– **Down 32.8%**
- H company**  
– **Down 24%**
- N company**  
– **Down 36.8%**
- HY company**  
– **Down 26.4%**

**US Total Decline 26.6%**

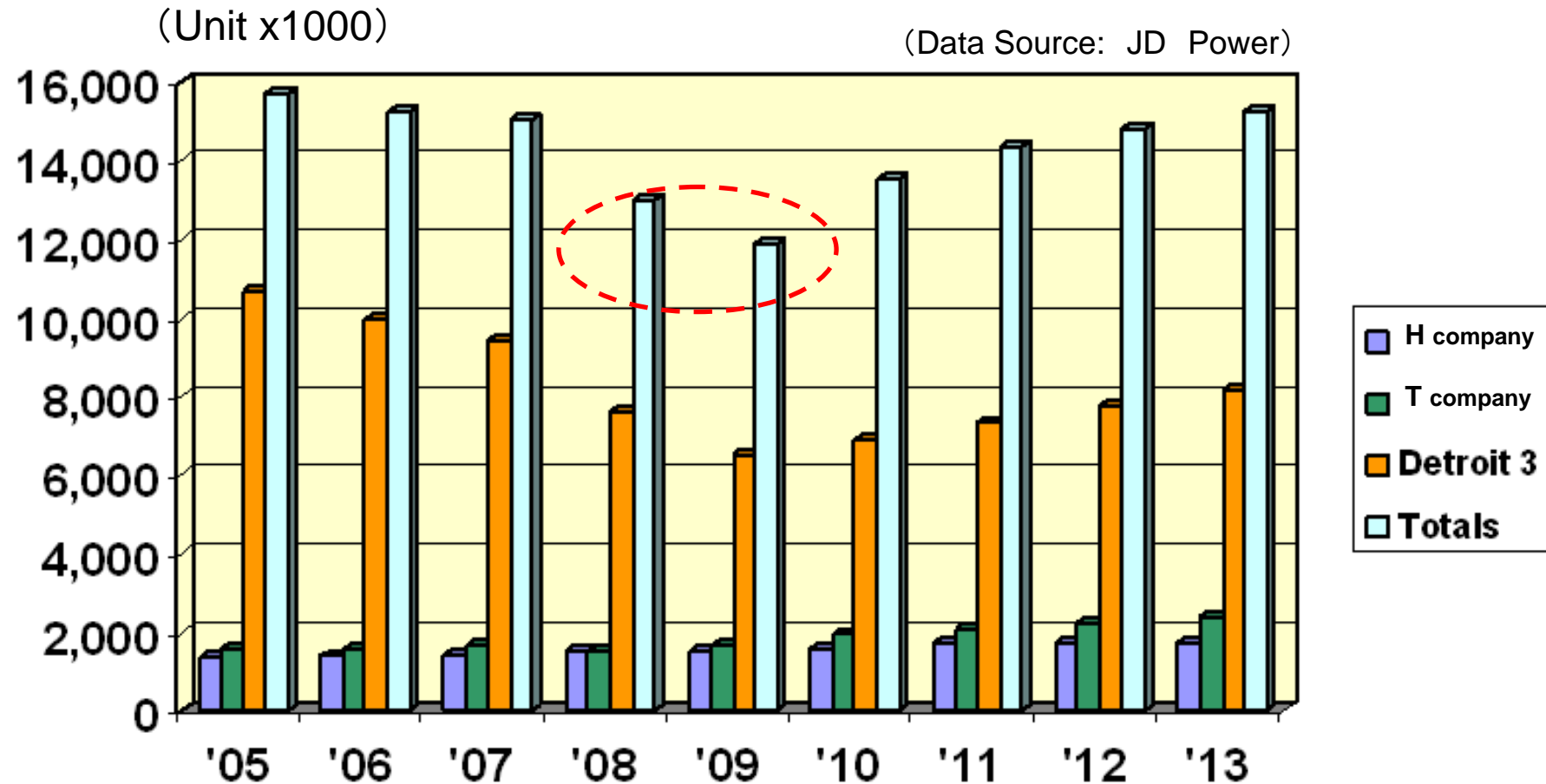
(1,000 Units)



**Significant decline in Japanese automobile sales volume. Record 15 year low.**

# RESULTS & FORECAST: North America Automobile Production

October 2008



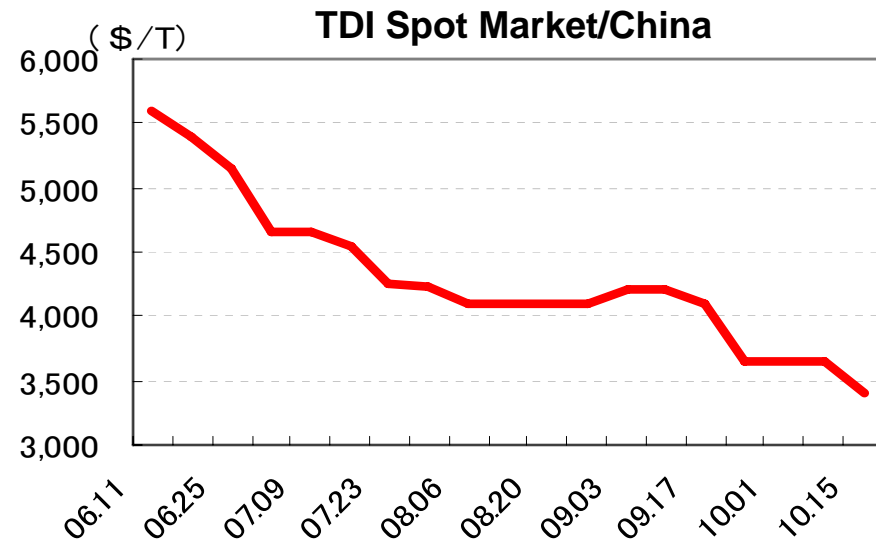
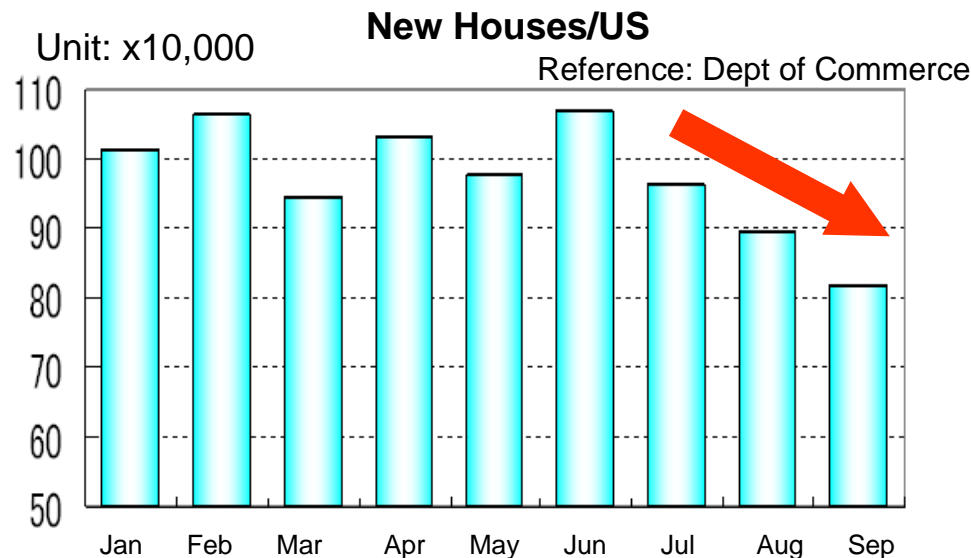
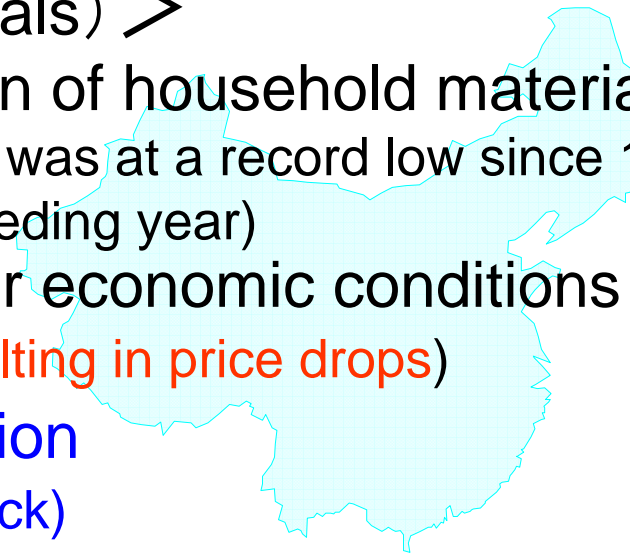
- Automobile production expected to slow down in 2008 and 2009
- Companies “H” and “T” will review model selection and revise plant expansion plans
- Detroit “Big 3” market share expected to continue to fall



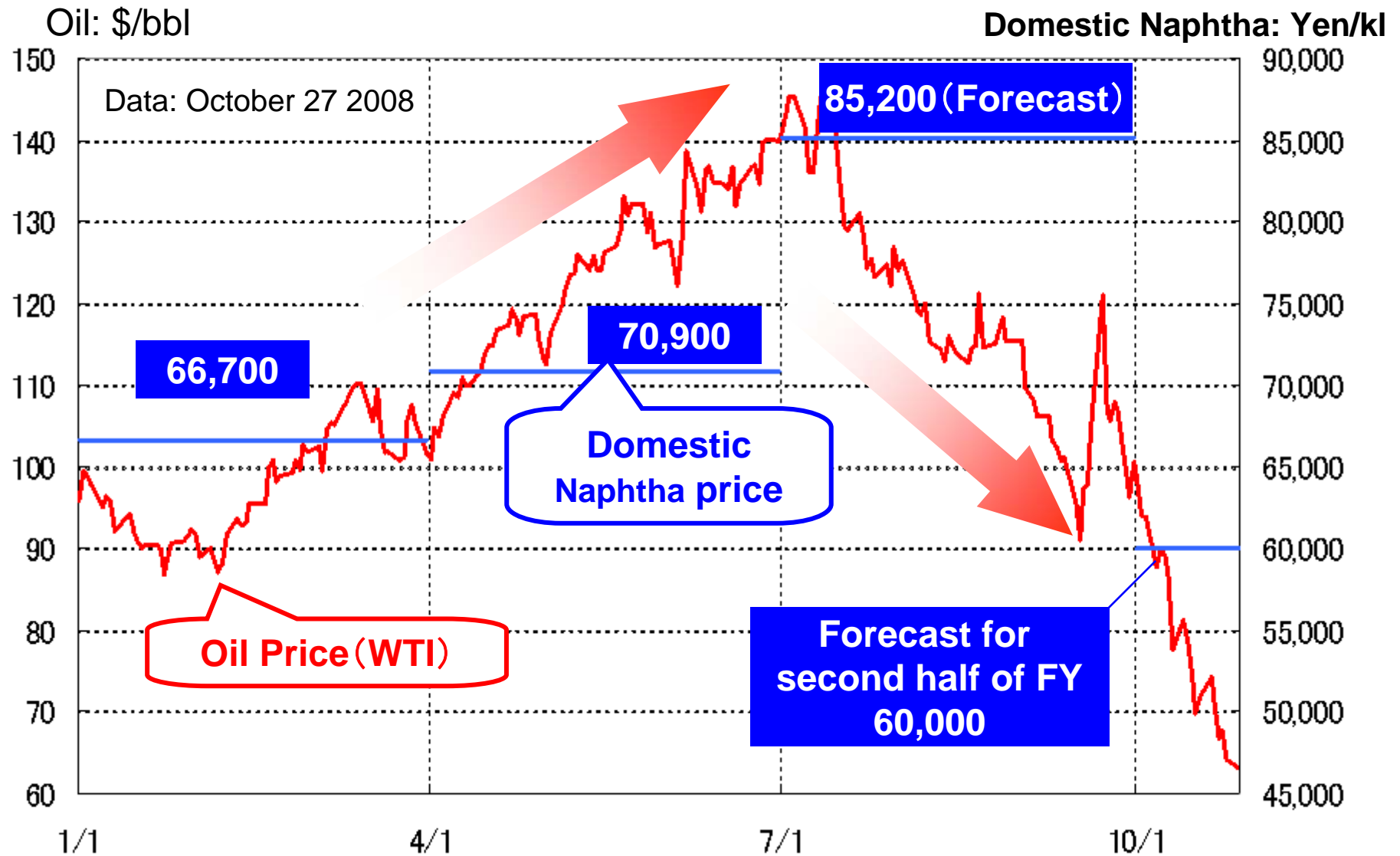
# Operations in Second Half FY2008

## < China / TDI (Urethane Materials) >

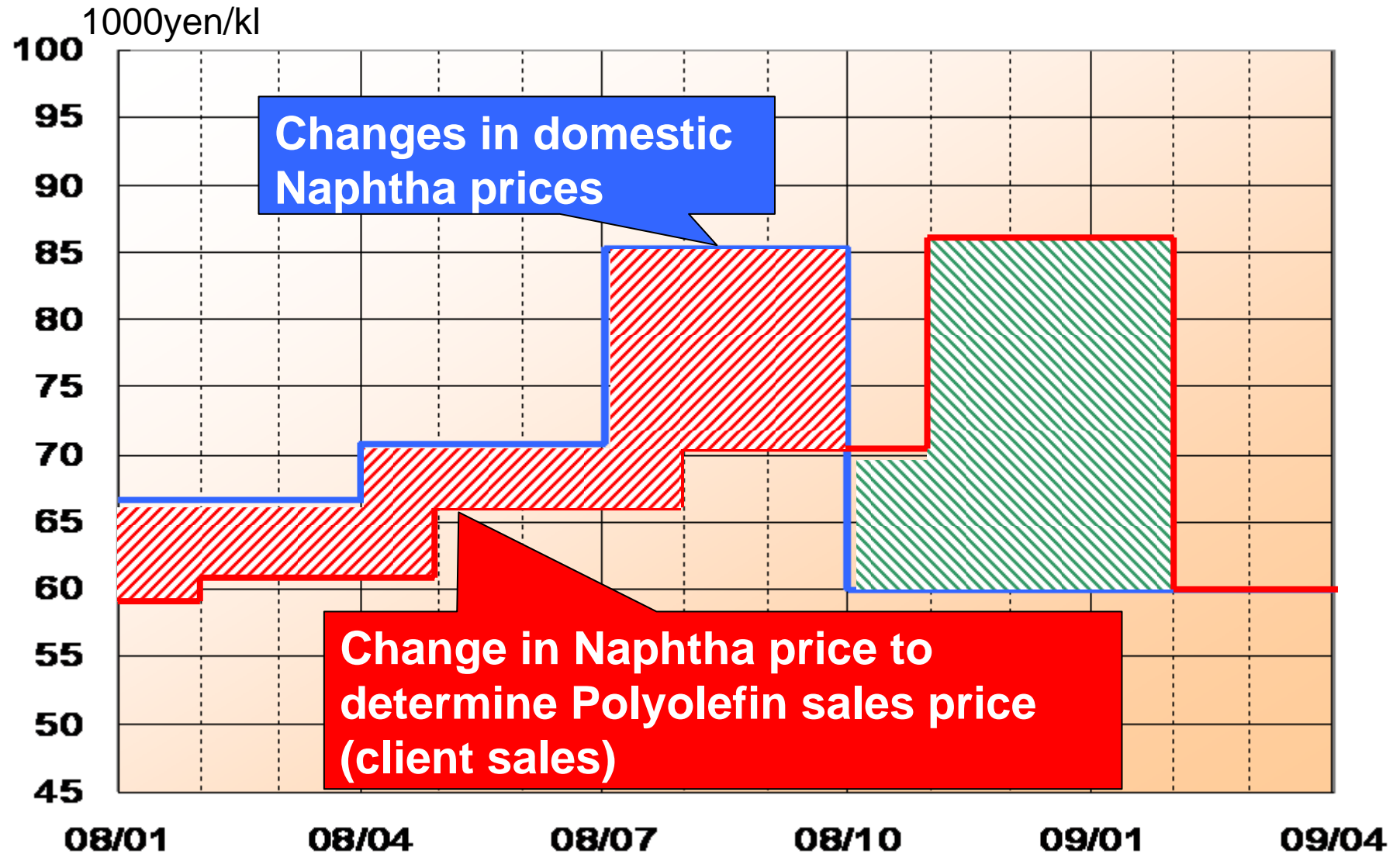
- **U.S.** Slowdown in consumption of household materials  
(September new house construction was at a record low since 1991  
➔ minus 6.3% against the preceding year)
- **China** Exports slow due to poor economic conditions in U.S.  
(Chinese TDI demand low ➔ **resulting in price drops**)
- **Mitsui has cutback TDI production**  
(Late October: 50% production cutback)



# Oil-Naphtha Prices



# NAPHTHA FORMULA: Polyolefin Prices



# MAIN PRODUCT: Phenol

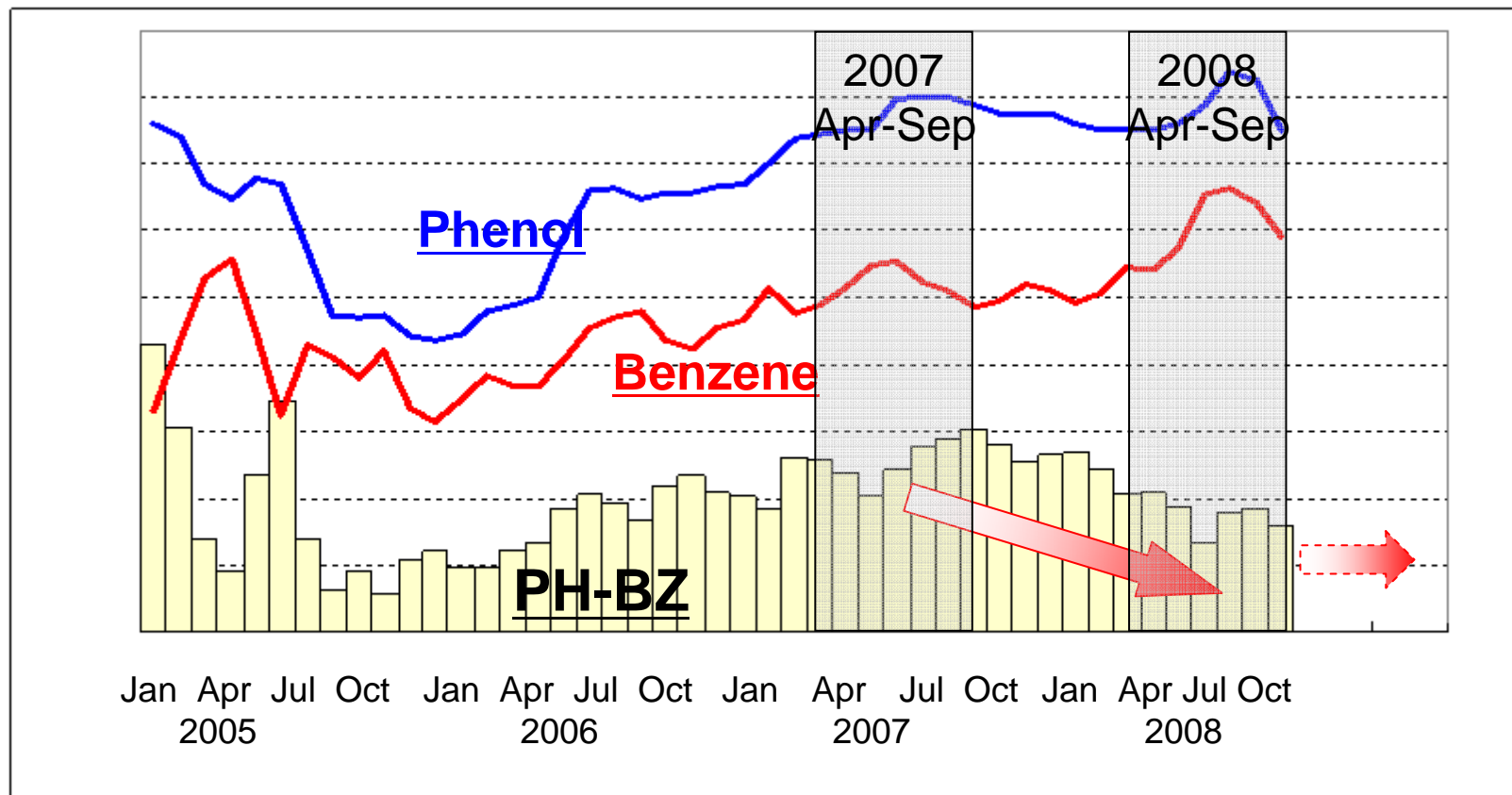
[ First Half ]

- >Increased material costs/demand slowdown
- >Production cutback from June



[ Forecast for Second Half ]

- >Production adjustment to respond to demand slowdown



# MAIN PRODUCT: Bisphenol A (BPA)

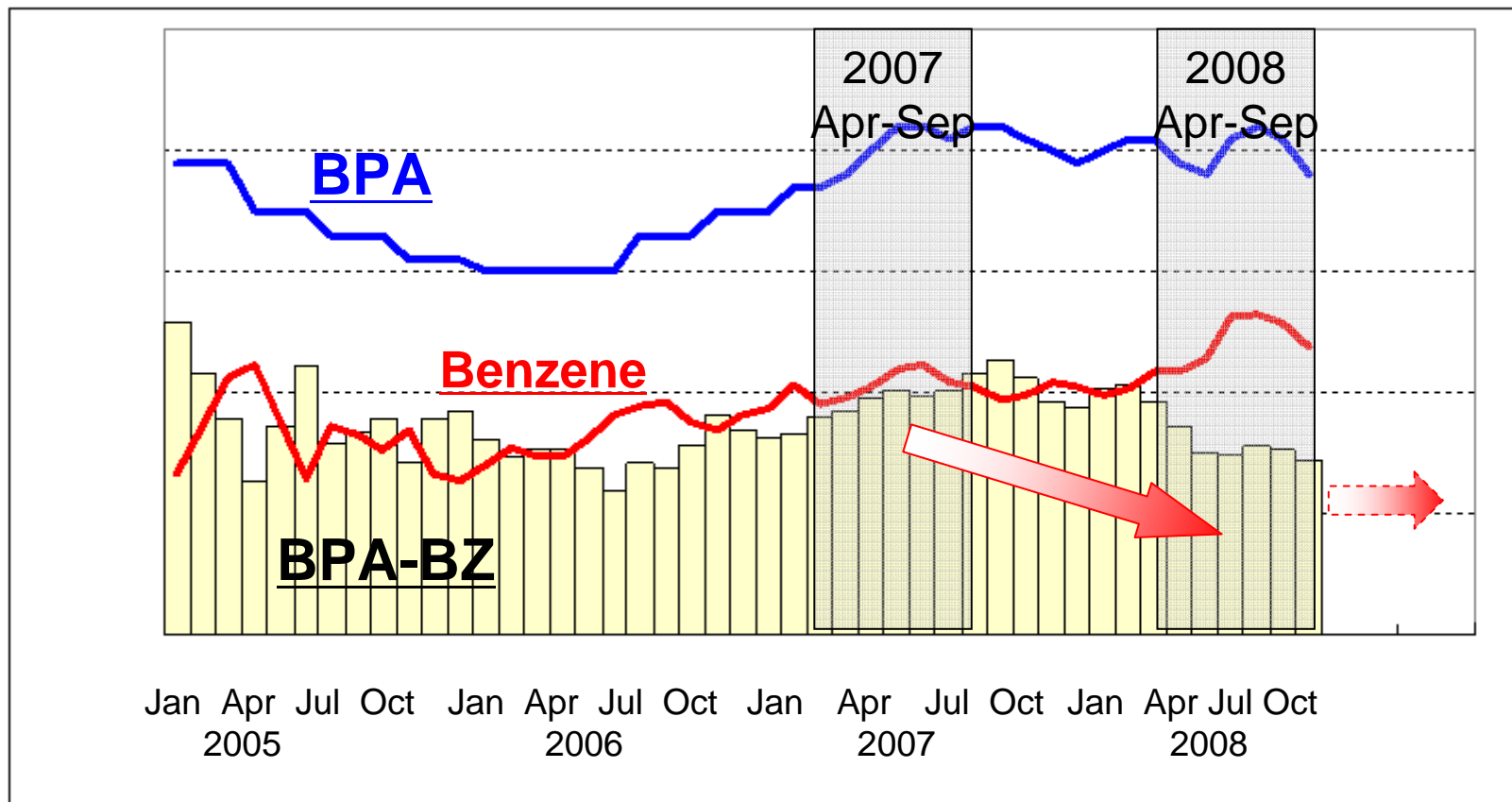
## [ First Half ]

- >Increased material costs/slowdown in polycarbonate product demand due to poor economic conditions
- >Production cutback from June



## [ Forecast for Second Half ]

- >Production adjustment to respond to demand slowdown
- >Commence plant operations at BPA Plant (Shanghai)



# MAIN PRODUCT: Toluene Diisocyanate (TDI)

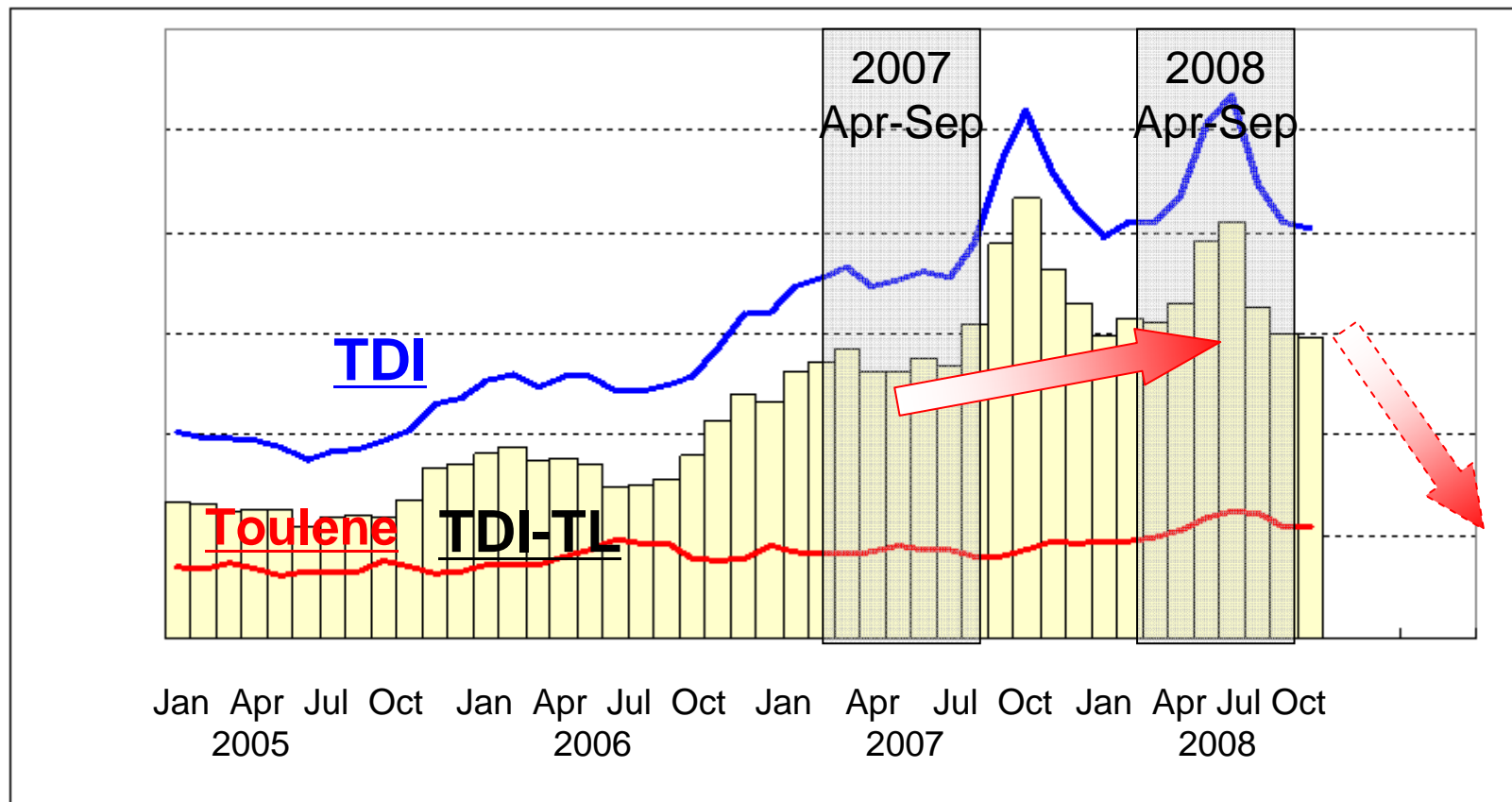
[ First Half ]

- >Favorable market conditions in China
- >Favorable market price



[ Forecast for Second Half ]

- >Poor market conditions in U.S. will affect China exports to U.S.
- >Decrease in production



# MAIN PRODUCT: Purified Terephthalic Acid (PTA)

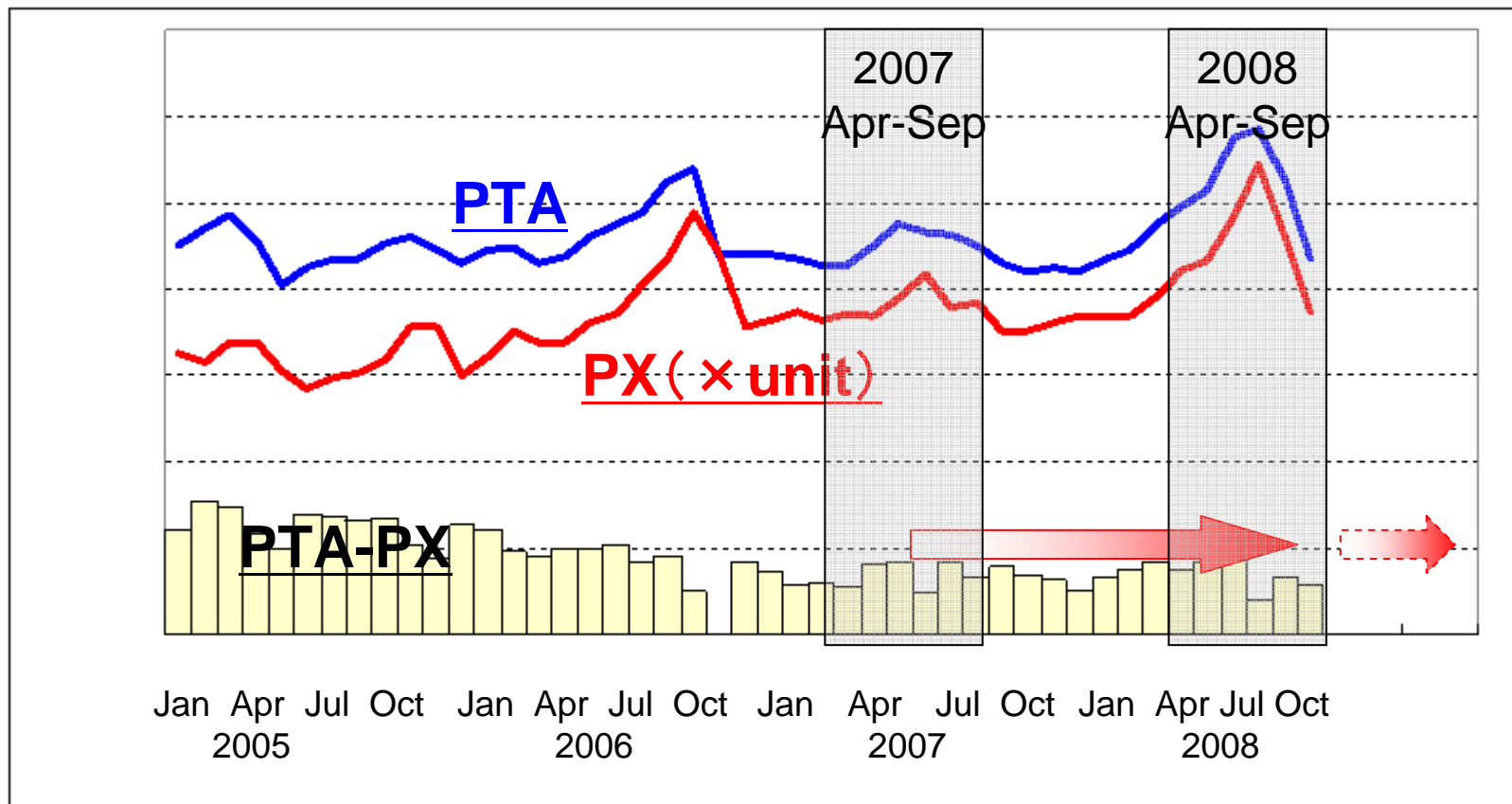
## [ First Half ]

- > Increase in material costs/  
slowdown in demand
- > Continue 20% production cutback



## [ Forecast for Second Half ]

- > Supply overabundance
- > Recovery forecasted for 2009
- > Continue production cutback



# FORECAST & MEASURES: Second Half of FY2008

- **Poor economic conditions slows demand for Naphtha despite low prices**
- **Chemical product demand recovery forecasted for 2010**

## Measures

### **1. Selective investment**

- **Operations:** First Half steamlined investments by approximately 30 billion yen
- **Safety, Environment:** No change

### **2. Acceleration of 2008 Long-term Plan Target**

- No change in plans but actualization will be accelerated

### **3. Inventory management/cost cutting**



# 2008 LONG-TERM PLAN ACCELERATION: Performance Materials

## Expansion of Solar Cell Operations

### 1. Establishment of division to concentrate on solar cell business (Aug 1)

Intensify market strategy and new product development capabilities

### 2. Expand solar cell encapsulant production capacity

- **9,000→20,000T** (Nagoya 2009)
- Strengthen position as a global leader



Solar cell encapsulant

# 2008 LONG-TERM PLAN ACCELERATION: Performance Materials (continued)

## Expansion of Solar Cell Operations (continued)

### 3. Co-development of monosilane gas production process with Tokuyama

#### Schedule

Development completion: 2010

Actualization: 2012

**= Mitsui Chemicals =**  
**Leader in**  
**Monosilane Gas**  
Silane gas production technology

**Synergy**

**×**

**= Tokuyama =**  
**Diverse silicone product**  
**range**  
Silicone production technology

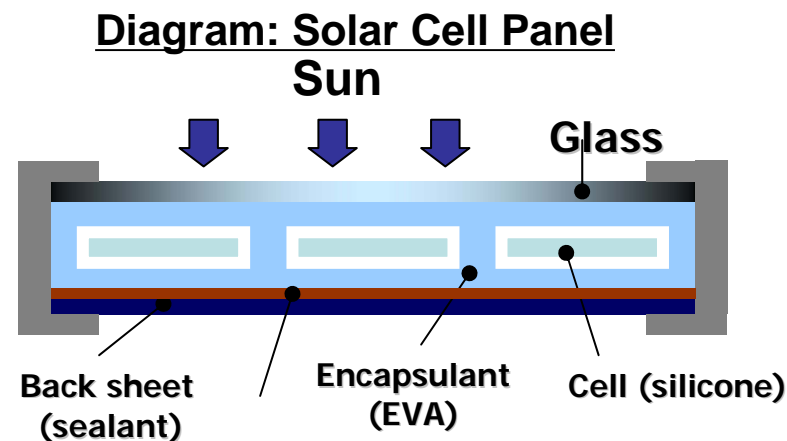
# Mitsui Chemicals Group Solar Cell Operations

| Product   | Use         | Annual Production | Share   |
|---|-------------|-------------------|---|
| <i>Solar Eva</i>  | encapsulant | 9,000T            | Approx. 30%<br><b>(global leader)</b>         |
| monosilane gas  | special gas | 150T              | Approx. 15%<br><b>(global 3<sup>rd</sup>)</b> |
| <i>Takelac, Takenate</i>  | adhesives   | —                 | Approx. 70~80%<br><b>(domestic leader ※)</b>  |
| Other, NF3 (special gas), <i>Milastomer</i> (use: aluminum frame gasket material) |             |                   |   |

※Share of sealant for solar cells

Solar Cell Related Sales:  
approximately 8 billion yen

**2011 Target: 20 billion yen**



# PRODUCTION: Performance Materials

| Plant                 | Date/Capacity  | Conditions  |
|-----------------------|--|---|
| EPT<br>(Ichihara)     | <ul style="list-style-type: none"> <li>• From Apr 2008</li> <li>• +75KT expansion</li> </ul>       | <ul style="list-style-type: none"> <li>• <b>First Half Operations: Full capacity to meet healthy demands</b></li> <li>• <b>After Oct Operations: Full capacity despite poor economic conditions and slow automobile sales</b></li> </ul>          |
| APEL<br>(Osaka)       | <ul style="list-style-type: none"> <li>• From May 2008</li> <li>• +3KT expansion</li> </ul>        | <ul style="list-style-type: none"> <li>• <b>First Half Operations: Production to meet healthy demands for optical lens</b></li> <li>• <b>After Oct Operations: Production to meet healthy demands despite poor economic conditions</b></li> </ul> |
| Tafmer<br>(Singapore) | <ul style="list-style-type: none"> <li>• Under construction</li> <li>• +100KT expansion</li> </ul> | <ul style="list-style-type: none"> <li>• <b>July Operations: Commence construction scheduled for December 2009 completion</b></li> <li>• <b>Current Condition: Construction as scheduled</b></li> </ul>   |



EPT (Ichihara Plant)



2<sup>nd</sup> APEL (Osaka Plant)



Construction site Tafmer Plant (Singapore)

# NEW PLANTS: Basic Chemicals

## China/Bisphenol A Plant

- Capacity : 120KT
- Completion: Jul 2008
- Operation : Dec 2008



BPA Plant (Shanghai China)

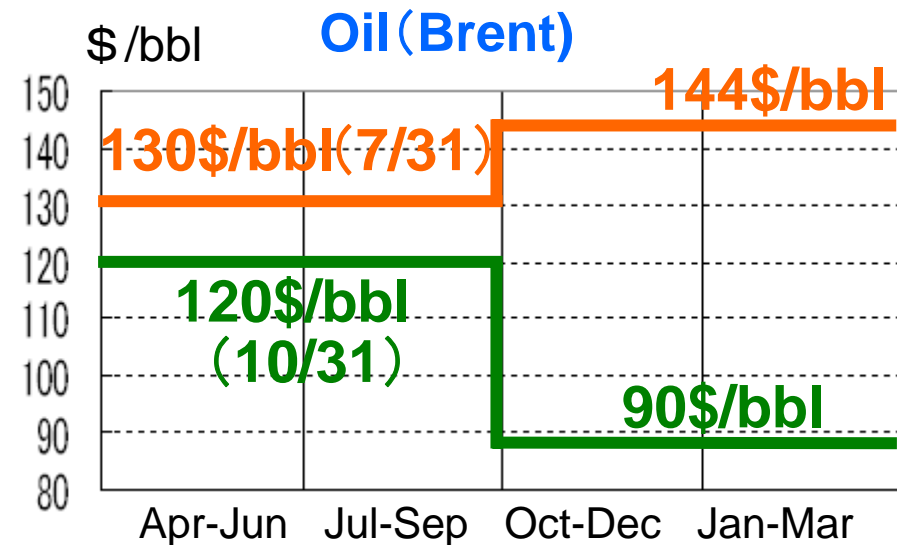
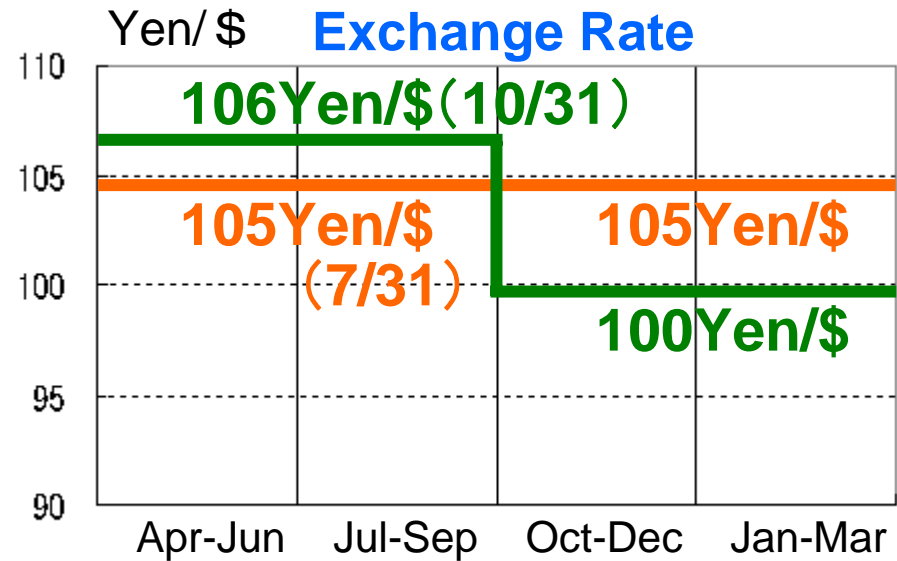
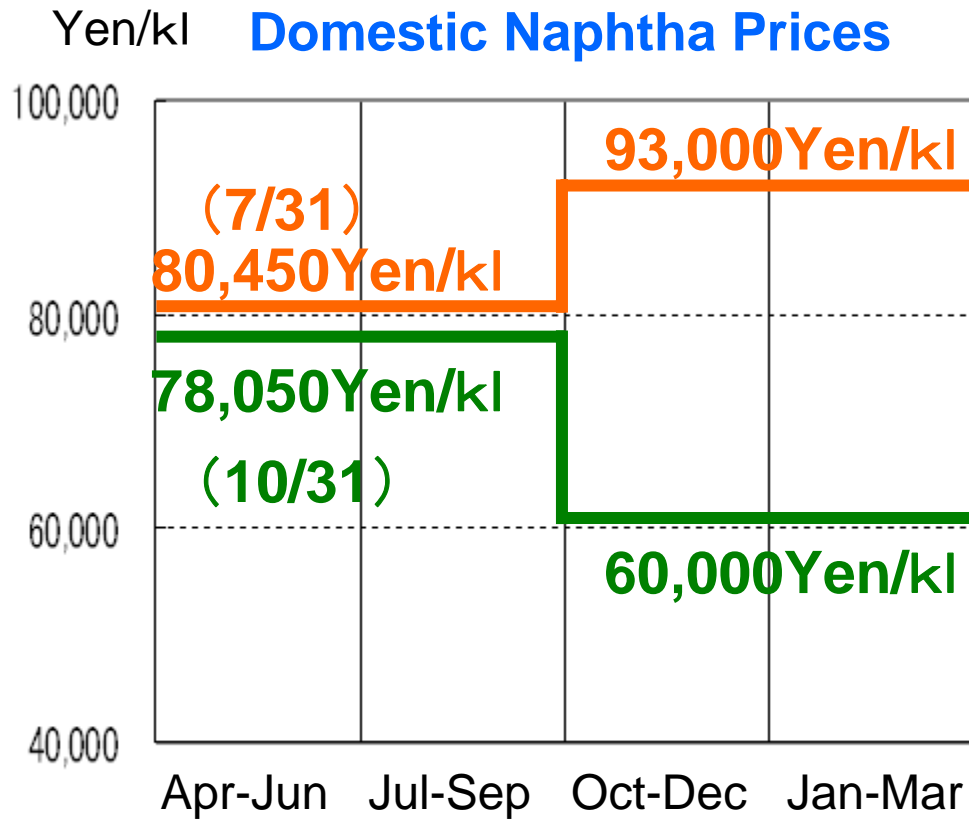
## India/Polypropylene Automotive Materials

- Capacity : 15KT
- Completion: Oct 2008
- Operation : Apr 2009



PP Automotive Material Plant (India)

# FORECAST: Second Half FY2008



# FORECAST: Operating Income in FY2008

( ) = minus

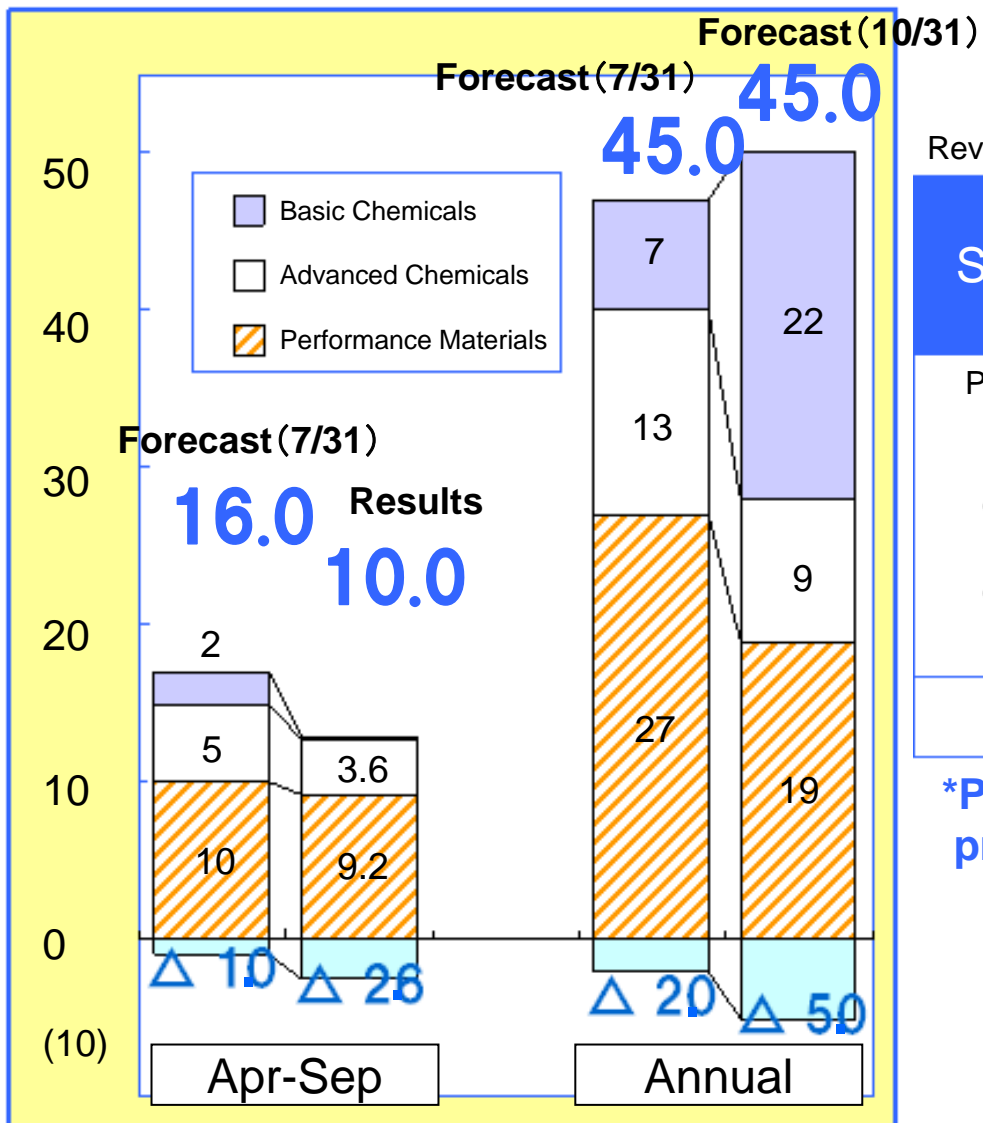
Unit: billion yen

| Segment                  | FY2007<br>Results | FY2008<br>Forecast | Loss          | Breakdown of Loss |            |               |                         |
|--------------------------|-------------------|--------------------|---------------|-------------------|------------|---------------|-------------------------|
|                          |                   |                    |               | Volume            | Price*     | Costs         | Notes                   |
| Performance<br>Materials | 359               | 19.0               | (16.9)        | 3.4               | (5.9)      | (14.4)        | • Depreciation<br>costs |
| Advanced<br>Chemicals    | 108               | 9.0                | (1.8)         | 0                 | (0.2)      | (1.6)         |                         |
| Basic<br>Chemicals       | 334               | 22.0               | (11.4)        | (14.8)            | 7.1        | (3.7)         | • PO,PH                 |
| Others                   | △29               | (5.0)              | (2.1)         | (0.6)             | (0.6)      | (0.9)         |                         |
| <b>Total</b>             | <b>77.2</b>       | <b>45.0</b>        | <b>(32.2)</b> | <b>(12.0)</b>     | <b>0.4</b> | <b>(20.6)</b> |                         |

\* Price includes both selling and purchasing price variances

# FORECAST: Operating Income in FY2008

Unit: billion yen



Revision in previous forecast (annual)

Unit: billion yen

| Segment               | Increase/<br>(Decrease) | Breakdown of Loss |        |       |
|-----------------------|-------------------------|-------------------|--------|-------|
|                       |                         | Volume            | Price* | Costs |
| Performance Materials | (8.0)                   | (6.0)             | (3.4)  | 1.4   |
| Advanced Chemicals    | (4.0)                   | (3.8)             | (0.2)  | 0     |
| Basic Chemicals       | 15.0                    | (14.7)            | 30.4   | (0.7) |
| Other                 | (3.0)                   | (0.7)             | (0.9)  | (1.4) |
| TOTAL                 |                         | (25.2)            | 25.9   | (0.7) |

\*Price includes both selling and purchasing price variances



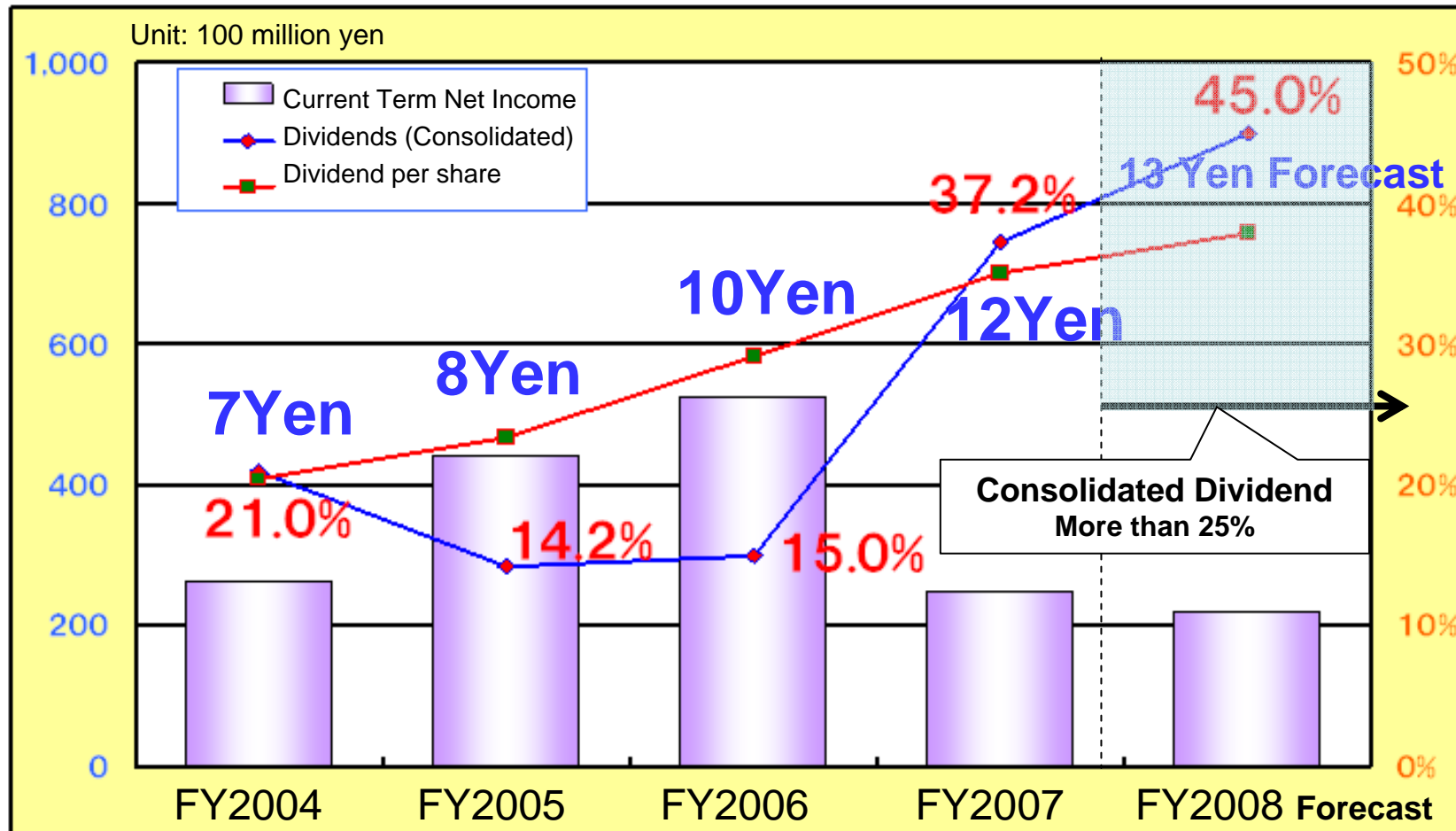
# DIVIDENDS: Policy from FY2008

Consolidated Dividend Payout Ratio (DPR) over 25%  
 Additionally DOE over 2.0%



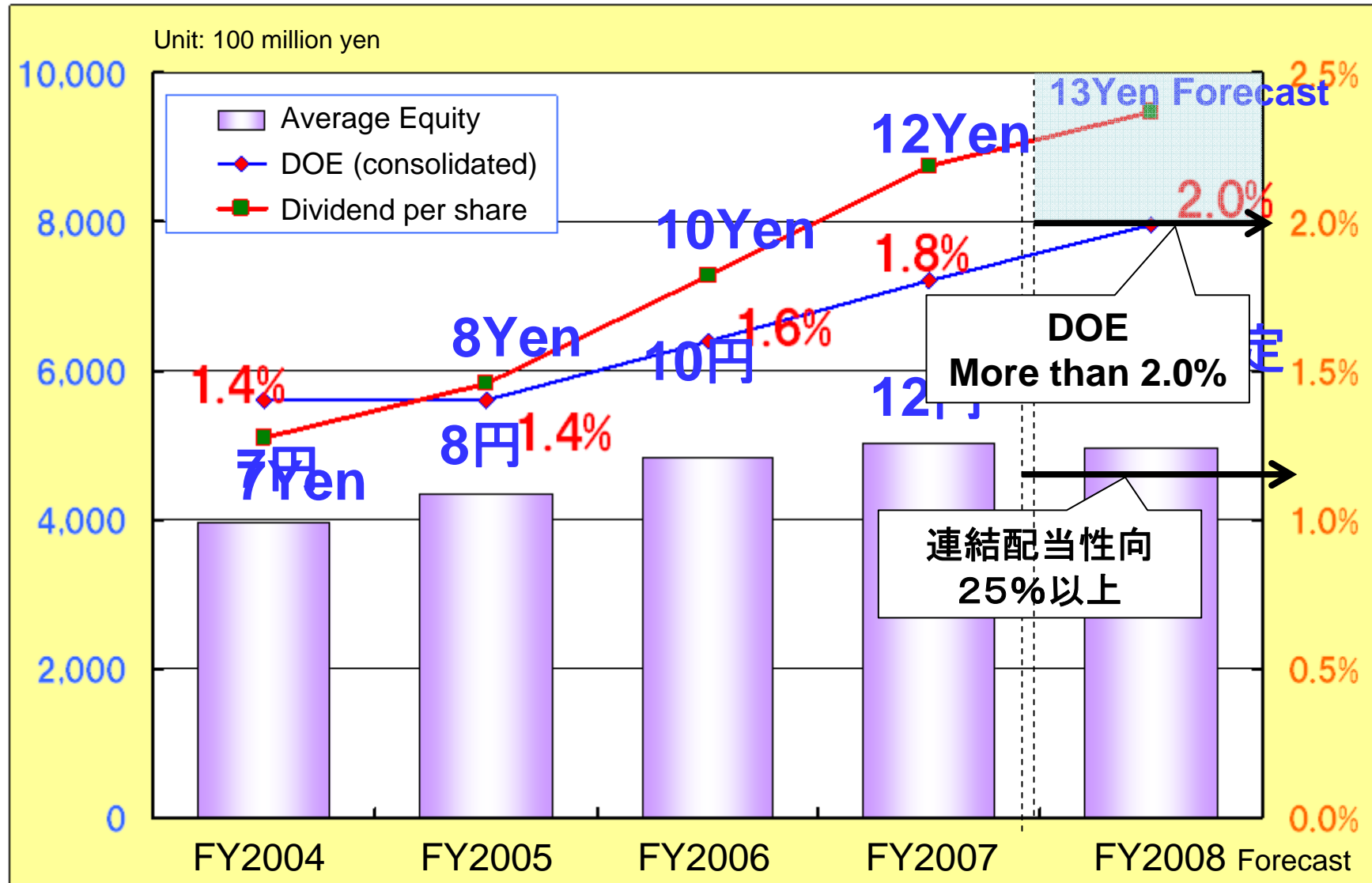
| Interim Period | End of Second Interim Period (forecast) | FY (forecast) |
|----------------|---|---------------|
| 6 yen/share    | 7 yen/share                             | 13 yen/share  |

## <CONSOLIDATED DPR>



# DIVIDENDS: Policy from FY2008

## < Consolidated Shareholders' Dividend on Equity (DOE) >





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