

## Overview of Our Business

The current state of our business is detailed in the Business Report attached to the Convocation Notice for the 13th Ordinary General Meeting of Shareholders. However, we have also prepared this document so that shareholders can understand our business more easily. Our present situation and future outlook are as reported below. We will go into further detail in the booklet *To Our Shareholders*, which we plan to send you after the general meeting. We would be very grateful if you could browse the booklet and this document.

### I. Operating Results and Year-End Dividends for FY2009

For fiscal 2008, we reported a huge operating loss of ¥45.5 billion, amid the unprecedentedly severe business environment such as a sharp decline in demand due to the worldwide economic recession that began in 2008. Against this backdrop, we strove to thoroughly streamline operations and cut expenses, aiming to improve earnings. In addition, we reduced remuneration for officers by 23% to 35% and slashed wages for managerial and general employees. As a result, costs decreased by ¥43.4 billion for fiscal 2009, 45% higher than the original target of ¥30.0 billion (see Fig. 1). Meanwhile, we expanded sales and production by steadily capturing demand for petrochemical products, which was robust in Asia, mainly China, and by substantially increasing sales of the Group's products (sealing materials) in the solar cell area that is growing rapidly. Consequently, we posted an operating income of ¥9.5 billion in the second half, showing a steady recovery in business performance (see Fig. 2). However, we registered an operating loss of ¥9.5 billion for the full fiscal year, as operating loss was ¥19.0 billion for the first half.

Fig. 1

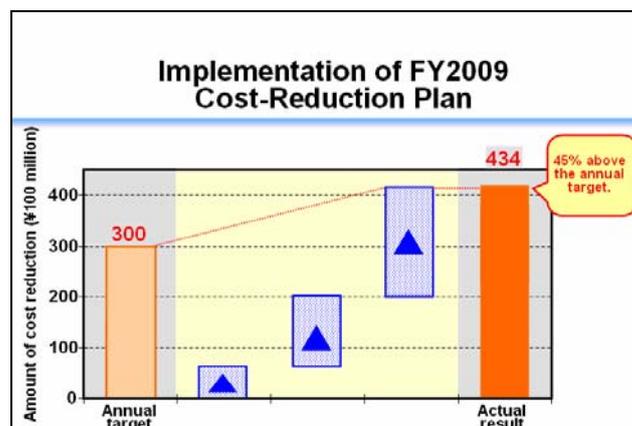
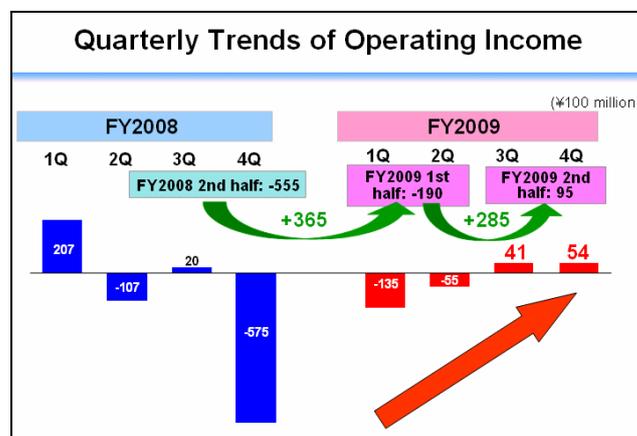


Fig. 2



For fiscal 2009, as mentioned above, we posted an operating loss for the second consecutive year. After comprehensive consideration of such results, we have resolved to pay a year-end dividend of ¥3 per share to our shareholders. Since we suspended the payment of interim dividends, the annual dividend will decrease from the previous fiscal year, and we deeply regret this. As mentioned below, however, we forecast operating results for fiscal 2010 to improve significantly, and we are steadily implementing new growth strategies. Hence, we would like to ask for your ongoing understanding and cooperation.

## II. Outlook for FY2010

With regard to the business environment in fiscal 2010, we expect demand for petrochemical products to increase sharply in emerging countries, but to remain sluggish in the domestic market.

Furthermore, we forecast that the huge amount of petrochemicals manufactured in the Middle East, which has access to inexpensive raw materials, and China, which operates new and advanced plants, will begin to be supplied to Asia in the latter half of this year.

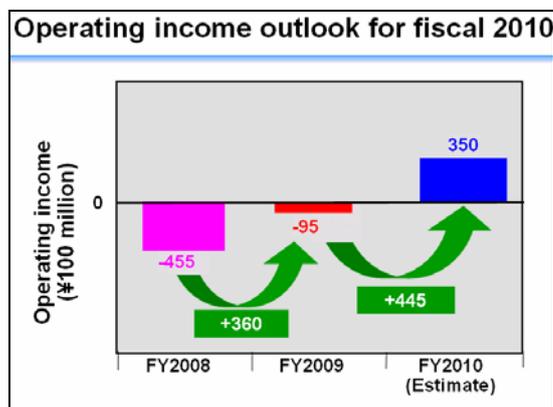
In response, we have been steadily shifting to products that are not competitive with these cheap general-purpose ones and to higher-value-added products for more than five years. For fiscal 2010, the Company expects the No. 2 plant that produces high-performance resin TAFMER (with a production capacity of 100 kt/year) in Singapore to fully operate. In addition, the Company plans to enhance manufacturing facilities for value-added Evolve, and launch operations of the plant producing 1-hexene, raw materials of Evolve. As for the business of high-performance film sheets such as solar cell sealing materials, we will integrate the related operations of the wholly owned subsidiary Tohcello Co., Ltd., Mitsui Chemicals Fabro, Inc. and the Company, aiming to expand the business in Japan and abroad. In addition, in the fields of agricultural chemicals that are relatively unaffected by economic trends and performance chemicals such as monomers for spectacle lenses, we will proactively expand our business by means including merger and acquisition. We expect the supply-demand balance for mainstay products such as PTA, phenol and urethane to improve, resulting in a sharp increase in profits.

We will make even further efforts to reduce costs, aiming to increase our earnings capabilities.

Specifically, we will review our retirement benefit and pension systems, and we expect to post an extraordinary profit of ¥14.6 billion because of this. We will also reduce production costs by reorganizing the structure of our plants.

Through these efforts for business expansion and cost reduction, we expect to record an operating income of ¥35.0 billion for fiscal 2010 (see Fig. 3).

Fig. 3



## III. Organizational Restructuring

We implemented drastic organizational restructuring on April 1, 2010 to speedily respond to rapid changes in the business environment. The previous three business sectors were reorganized into six business sectors (see Fig. 4), as we shifted from a system consisting of large sectors to a system consisting of small sectors that can respond to changes more quickly and flexibly. Along with this shift, we formed a system that enables us to quickly make decisions and take actions by appointing human resources who have leadership skills, a fighting spirit and the ability to get things done and young talented personnel to responsible positions and transferring authority to them (see Fig. 5).

We placed the plants, the basis of our manufacturing, under the direct control of the president, and reinforced production frontlines.

We also strengthened our corporate structure to expand overseas operations by dispatching senior managing executive officers to our important operating bases—China, where demand is likely to grow significantly from now on, and Europe, which formulates various chemical standards—as our general representatives.

Fig. 4

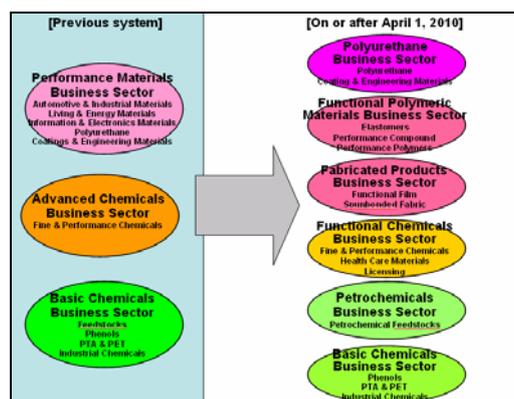


Fig. 5

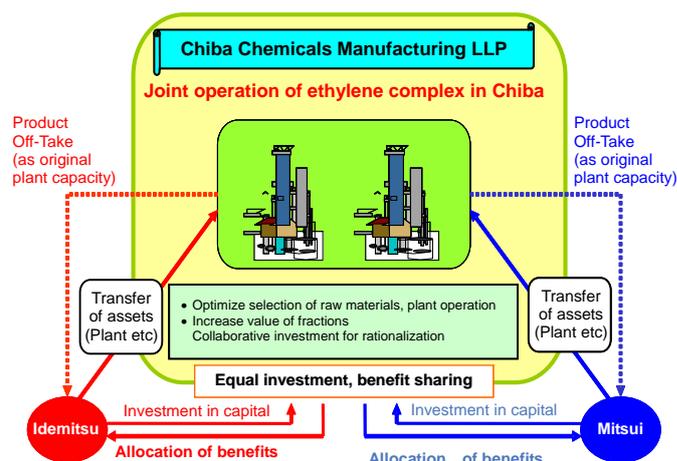


## IV. Alliance with Idemitsu Kosan

The Company and Idemitsu Kosan Co., Ltd., which had studied joint operation of their ethylene equipment in the Chiba area since May 2009, established on April 1, 2010 a limited liability partnership (LLP) on an equal investment basis (see Fig. 6).

With this LLP, we will be able to fully seek synergy effects, which cannot be obtained by a sole company, including optimizing the selection of raw materials and plant operation, increase value of fractions, and making collaborative investments for rationalization, and set up an ethylene center with Japan's top-level competitiveness.

Fig. 6



As the first step of this joint operation, we expect costs to be reduced by about ¥3.0 billion per year. For the second step, we will strive to further intensify the rationalization effects through optimizing the production of petroleum refineries and such like, in addition to the joint operation of ethylene equipment.

Reference: Overview of LLP

The LLP system was introduced in 2005 to promote alliances among companies and joint ventures. Compared with ordinary joint-stock companies, this system has merits in terms of taxation and operations. The LLP formed by us and Idemitsu is the first case in Japan which involves the operation of a large-scale production facility.

## V. New Growth Strategies

We formulated three basic strategies for new growth, as shown in the figure on the right, aiming to accelerate business expansion and the creation of new businesses (see Fig. 7). Combined with these growth strategies, we will strengthen our business structure by thoroughly reducing costs and boost marketing capability. Through these measures, we will build a solid corporate base that can quickly respond to any change in the business environment. Recently there have been news reports on our involvement in the production of methanol using CO<sub>2</sub>, the manufacture of chemical products using non-fossil and non-edible resources and the production of buthadiene, which is in short supply, using ethylene, which is expected to be in surplus supply in the future. These products, for which we have already succeeded in establishing basic technologies, are likely to substantially reform our portfolio of products. We will go all-out to quickly establish new business models based on these technologies and commercialize them.

Fig. 7



Based on these new growth strategies, we will formulate a new business plan, which contains specific numerical targets, by the end of fiscal 2010, aiming to steadily achieve further growth. In December 2009, we raised funds totaling about ¥43.7 billion through a public offering. We intend to use the funds effectively for merger and acquisition to materialize these growth strategies, alliances with other companies, and new capital investments, aiming to improve our corporate value. We would like to introduce the details of these new growth strategies in the booklet *To Our Shareholders*, slated to be sent you after the general meeting of shareholders.

## **VI. Accident at Shimonoseki Mitsui Chemicals**

We deeply apologize for the inconvenience and concerns caused to our shareholders, those who suffered injuries, the residents of the local community, the authorities concerned and our clients with regard to the fire and explosion at Shimonoseki Mitsui Chemicals, Inc., our subsidiary, in November 2009. Since then, we have sincerely taken care of those who were injured and those whose houses and vehicles were damaged. All, except some still receiving outpatient care, have finished their treatment, while all damage to houses and vehicles has been repaired. The Company and Shimonoseki Mitsui Chemicals have investigated the cause of the accident and worked out measures to prevent recurrence at the Joint Committee of Investigation, which was attended by external academic experts as well. The report compiled by the committee has been filed and accepted by the proper authorities. We have also explained the cause and the countermeasures to local residents. From now on, we will take necessary measures to prevent recurrence, and then prepare for the resumption of operations at Shimonoseki Mitsui Chemicals. Recognizing the gravity of this accident, the Group will work together on renewed and thoroughgoing implementation of safety management and focus all efforts on implementing countermeasures to prevent recurrence.

## **VII. Conclusion**

We expect the severe business environment will continue for some time. Under such circumstances, we will strengthen our earnings capability by reducing costs and concentrate entirely on expanding competitive businesses and creating new businesses, in order to bolster corporate value steadily. Furthermore, we will strive to grow as a corporation that contributes to society by creating new technologies and products based on catalyst techniques, our forte, in the environment and energy fields where the chemical industry is expected to play an important role. It goes without saying that safety is the major premise for the continuation of a company. Given this, we will accumulate track records to recover the trust of society without delay as a company that never causes an accident or disaster. We hope that all of our shareholders will extend even greater support and encouragement to the Group in the time to come.