



MITSUI CHEMICALS, INC.

CEO Explanation

Business Results & Priorities

1st Half FY2011

May 18, 2011

Toshikazu Tanaka

President & CEO

At the outset, I would like to extend heartfelt condolences to the victims of the March 11th Great East Japan Earthquake and their families and my sincerest sympathy to all who still suffering. I hope for the early recovery of the affected areas.

The Mitsui Chemicals Group will unite in assisting in Japan's recovery and will contribute to society as best we can by offering relief to victims and cooperate in producing and supplying the necessary provisions while saving energy.

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1. Financial Results for FY2010

2. Plans for FY2011

- FY11 Performance Forecast**

- Status of “5-5-5 Strategy”**

- Achieving Mid-Term Business Plan**

FY2010 Consolidated Financial Highlights

(Billion yen)

Items	FY2009	FY2010	Increase (Decrease)
Sales	1207.7	1391.7	184.0
Operating income (loss)	-9.5	40.5	50.0
Non-operating income (expenses)	-3.6	-1.6	2.0
Ordinary income (loss)	-13.1	38.9	52.0
Special gains/losses	-3.0	6.1	9.1
Net income (loss) before income taxes and minority interest	-16.1	45.0	61.1
Net income (loss)	-28.0	24.9	52.9
Exchange Rate (Yen/US\$)	93	86	-7
Domestic Standard Naphtha Price (Yen/KL)	41,200	47,500	6,300
Interest-bearing liabilities	494.2	480.7	-13.5
Equity	377.3	383.7	6.4
D/E Ratio	1.31	1.25	-0.06
Annual dividend (Yen/share)	3.00	6.00	3.00

FY2010 Consolidated Financial Highlights by Segment

Segment	FY2009	FY2010	Increase (Decrease)	Breakdown		
				Volume	Price*	Costs
Petrochemicals	-3.4	12.8	16.2	5.3	3.0	7.9
Basic chemicals	-4.8	20.4	25.2	3.9	16.4	4.9
Polyurethane	-2.1	-9.0	-6.9	2.2	-10.3	1.2
Functional polymeric materials	-4.4	7.2	11.6	6.4	0.1	5.1
Fabricated products	0.8	1.4	0.6	1.9	-1.2	-0.1
Functional chemicals	7.4	10.0	2.6	1.0	0.8	0.8
Others	-3.0	-2.3	0.7	0.0	0.0	0.7
Total	-9.5	40.5	50.0	20.7	8.8	20.5

*Price: including both sale and purchase price variances

FY2010 Effects of Earthquake: Approx. -2 billion yen

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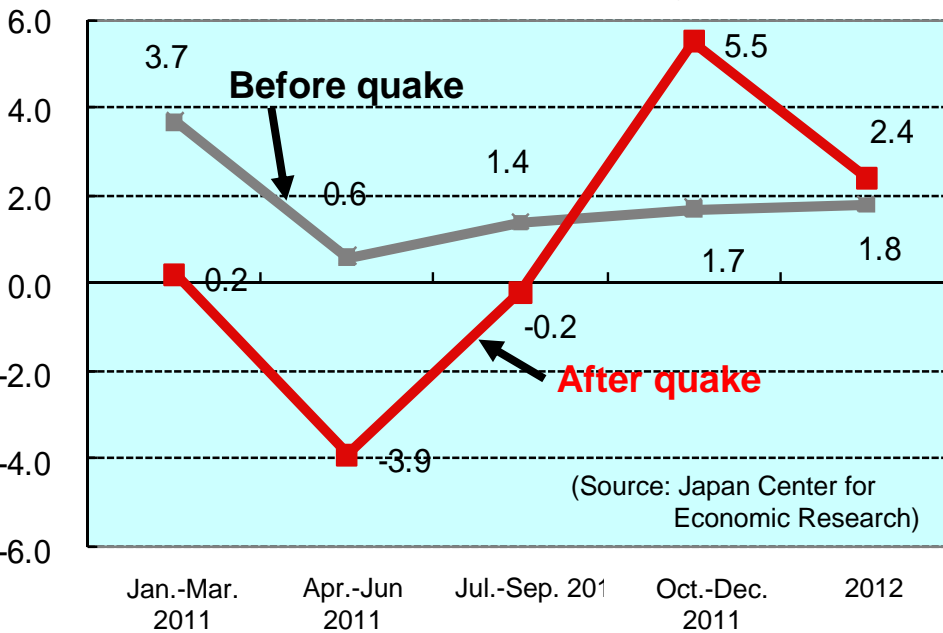
-Achieving Mid-Term Business Plan

Outlook for FY2011 – Demand Trends in Japan

Domestic demand:

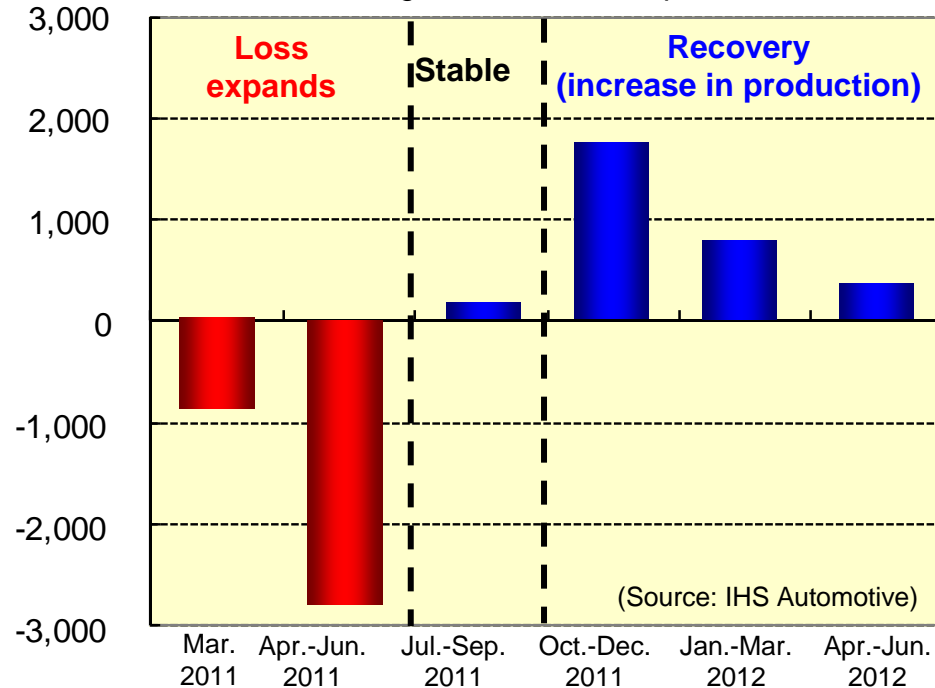
Significant downturn in first half due to effects of the earthquake.
 Recovery expected in second half due to reconstruction demand.

(%) Outlook on Japan's real GDP growth rate



(Thousand units)

Outlook on global loss in auto production



2011 Total: (Before quake) 1.5, (After quake) -0.1

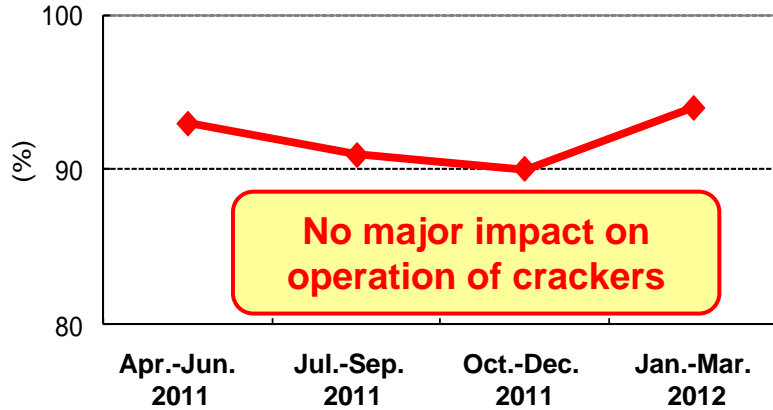
Outlook for FY2011 – Assumptions

- ◇ Impact of quake
 - No serious damage to major plants**
 - Plants below experienced minor effects. All except Kashima are **operating at full capacity** (Ichihara, Kashima, Mobara, Mitsui Chemicals Tohcello's Ibaragi, Furukawa, and Katsuta, and Mitsui Chemicals Agro's Funaoka)
 - Kashima (suspended):
Operation to be resumed following **late June regular maintenance.**
 - ◇ Impact of TEPCO disaster (energy shortage)
 - Budget assuming **25% reduction** in energy supplies.
 - Mobara Branch Factory and Mitsui Chemicals Tohcello expect a slight drop in production. Overall we expect a **minimal impact** due to shifting production to western Japan and overseas.
 - ◇ Demand trends
 - Expect affect of **post-quake demand trends** of major client industries (auto, electronic information, etc.)
- ⇒ **FY11 Effects of earthquake:**
Approx. -9 billion yen (Operating income)

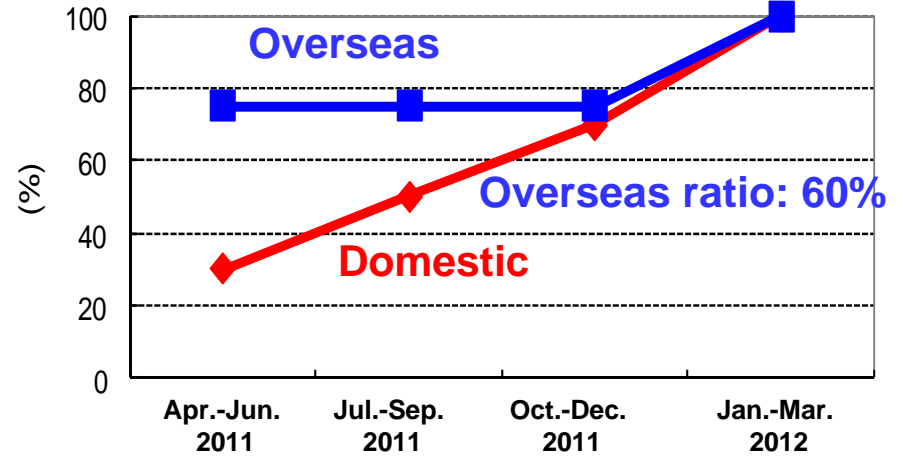
Demand/Supply Outlook of Major Products - 1

<Petrochemicals>

Operation rate of naphtha crackers

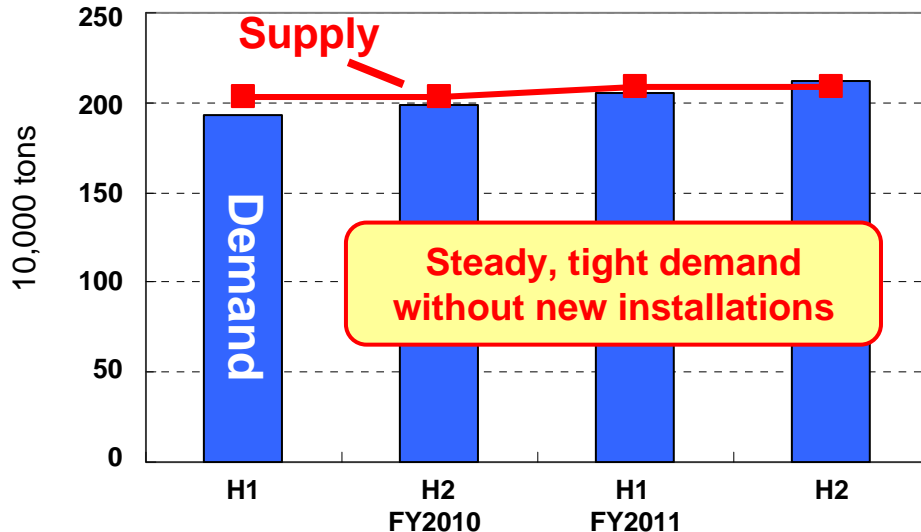


Sales of PP for automobiles (comparison to forecast prior to quake)

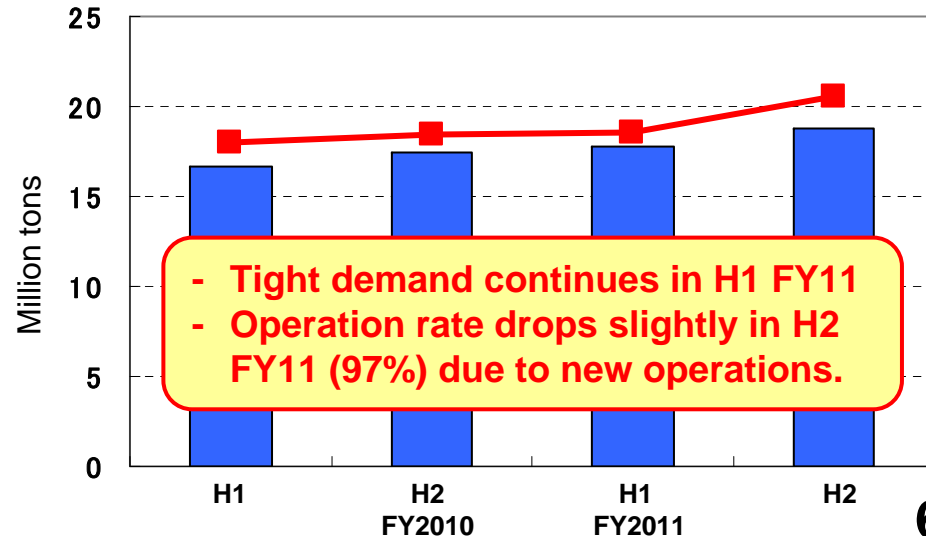


<Basic chemicals>

Outlook on phenol demand/supply (Asia)



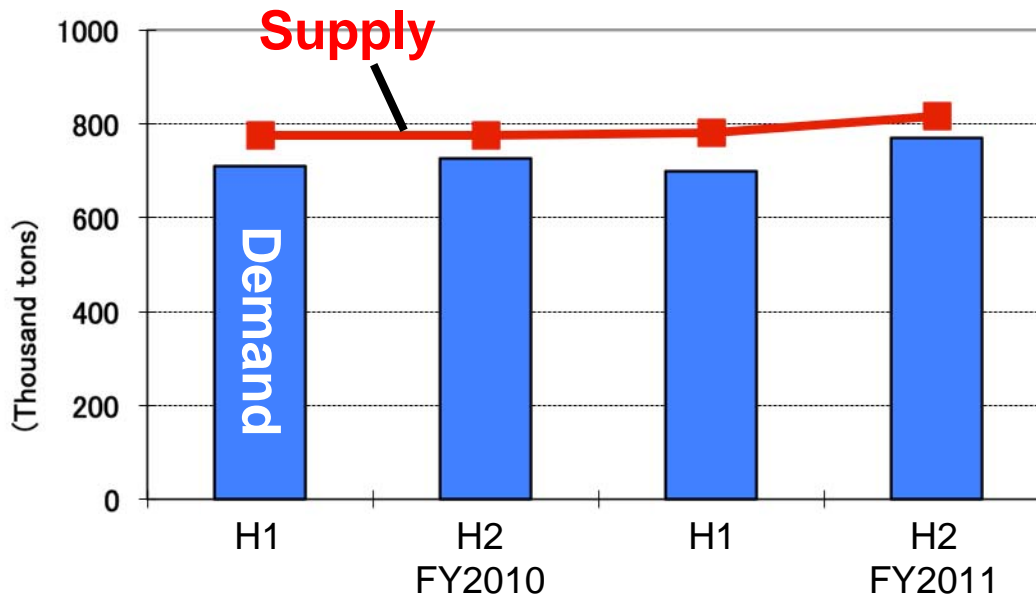
Outlook on PTA demand/supply (Asia)



Demand/Supply Outlook of Major Products - 2

<Functional polymeric materials>

Global demand/supply outlook for elastomers (EPT+TAFMER)



Demand temporarily drops due to fall in auto production, but **supplies continue to be tight.**
(Operation rate: over 90%)

<Fabricated products>

SOLAR EVA: Tight supply due to robust demand for solar cells in Asia

⇒ **Sustainment of full-capacity operation**

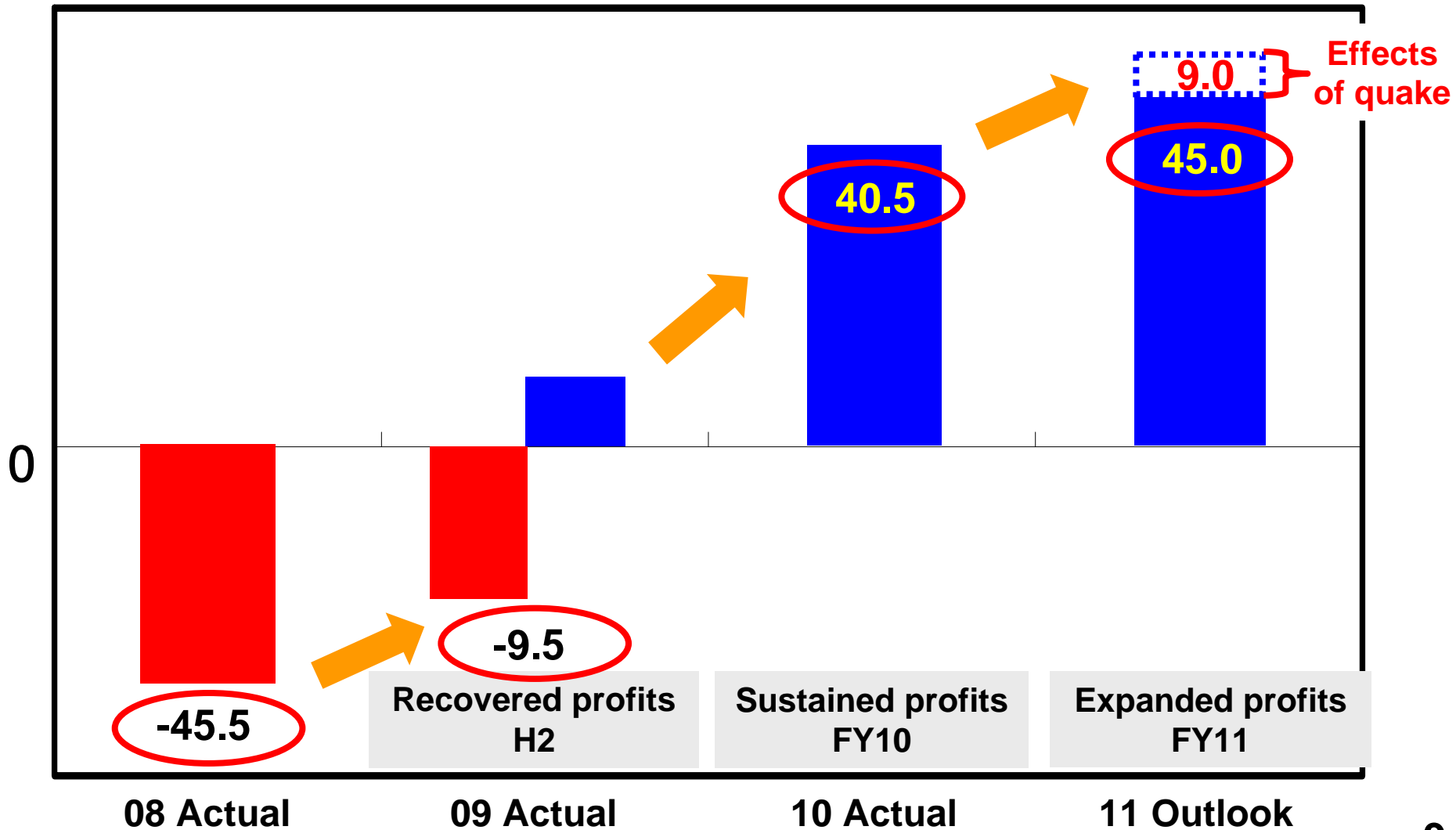
FY2011 Financial Outlook by Segment

(Unit: Billion yen)

Segment	FY10	FY11	Increase (Decrease)	Breakdown		
				Unit difference	Exchange conditions	Fixed cost, others
Petrochemicals	12.8	11.0	-1.8	-0.8	-0.6	-0.4
Basic chemicals	20.4	20.0	-0.4	2.0	0.0	-2.4
Polyurethane	-9.0	-7.5	1.5	0.8	-1.2	1.9
Functional polymeric materials	7.2	9.5	2.3	3.3	0.9	-1.9
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Functional chemicals	10.0	10.0	0.0	1.8	-0.9	-0.9
Others	-2.3	-2.0	0.3	0.0	0.0	0.3
Total	40.5	45.0	4.5	8.7	-2.3	-1.9

FY2011 Financial Outlook by Segment

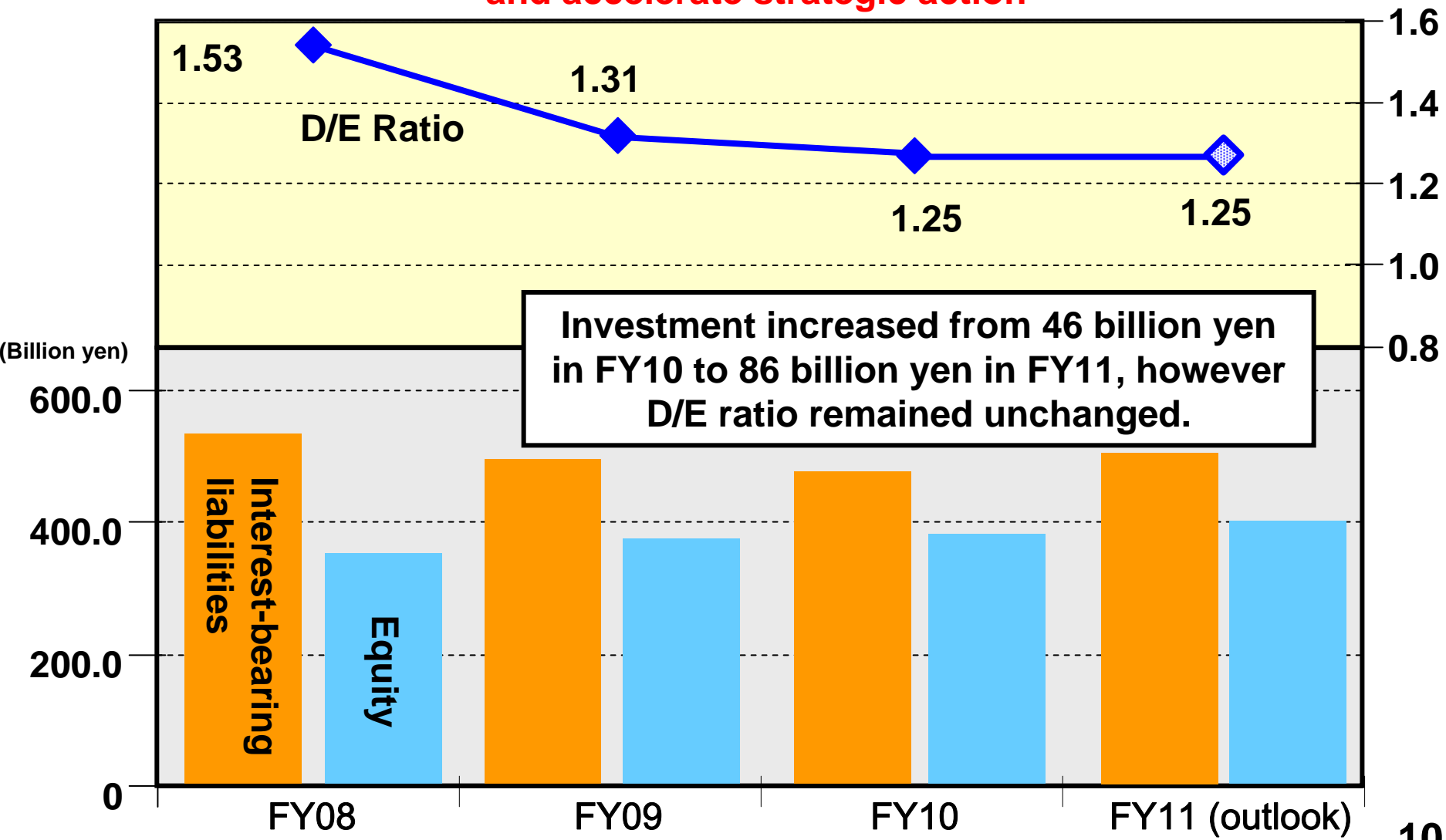
(Operating income: billion yen)



Financial Status

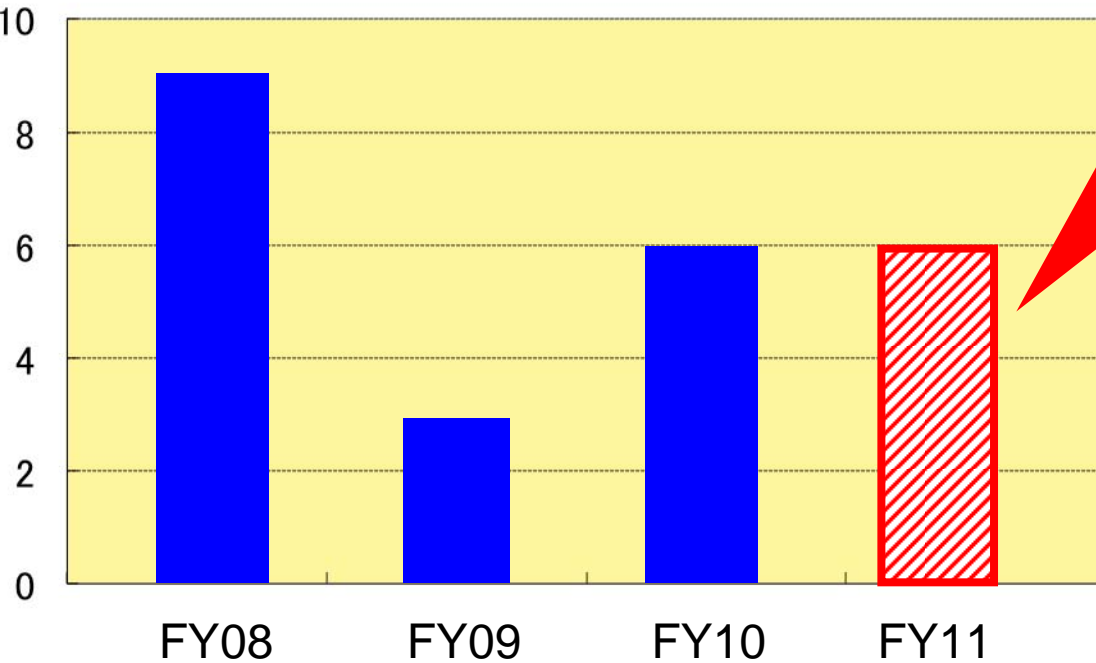
**Maintain balance in financial standing
and accelerate strategic action**

(Times increase)



FY2011 Dividend Outlook

(Annual dividends, yen/share)



FY11 dividend outlook

Interim: ¥3/share

Term end: ¥3/share

Year: ¥6/share

Consolidated payout ratio

= 29%

DOE = 1.6

Goal of Mid-Term Business Plan:

Consolidated payout ratio of 25% or more and DOE of 2% or more

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Outline of “5-5-5 Strategy”

FY2011 is the critical first year of FY11 Mid-Term Plan
⇒ **Further accelerate** FY11 Mid-Term strategy

[Target]

- ◇ **Establish business portfolio** for growth and sustainability
- ◇ **Establish global presence** focusing on Asia

[FY11 Mid-Term Basic Strategy] “5-5-5 Strategy”

Five priority businesses

[1] Expand businesses resilient to economic changes

[2] Global expansion of businesses with competitive advantage

[3] Create next generation core businesses

**Five world-leading
businesses**

[4] Strengthen competitiveness in the domestic market

Five development areas

Main points of “5-5-5 Strategy”

Five priority businesses	Five world-leading businesses	Five development areas	Sustained Domestic Competitiveness
<ol style="list-style-type: none"> 1. Enhance functional films, sheets 2. Expand business of nonwoven fabrics for hygienic products 3. Expand system housing 4. Expand engineering plastic compounds 5. Expand overseas agrochemical business - Develop medical adhesives 	<ol style="list-style-type: none"> 1. Expand highly refractive glasses lenses 2. Strengthen ties with Sinopec 3. Enhance metallocene polymers (EVOLUE) <p><Ref.> Expand Elastomers</p> <ul style="list-style-type: none"> - Strengthen PP compounds 	<p>Develop heat ray-shielding films</p> <ul style="list-style-type: none"> - Next generation sealant sheets - Lightweight films - Materials for lithium ion batteries - New pesticides - Dental materials - Bio-polyurethane 	<ol style="list-style-type: none"> 1. Strengthen foundations of petrochemical business (streamline LLP, PO) 2. Re-establish polyurethane materials business 3. Start 1-Hexene operation 4. Acquire EO clients for Osaka Plant 5. Integrate PET bottle resin business with Teijin 6. Promote local collaboration at Osaka Plant

1. Enhance Functional Films/Sheets

- ◇ Mitsui Chemicals Tohcello established (October 2010 / 1100 employees)



⇒ Integration of functional films/sheets completed on April 2011

- ◇ Enhance SOLAR EVA (solar cell sealants)

[Capital enhancement]

-Double capacity of Nagoya production facility (20,000 ⇒ 40,000 tons / scheduled for completion in August 2011)

[Strengthen Asian market share]

-Establish new plant in Malaysia (10,000 tons / scheduled for completion in H1 2012) Joint venture with SCIENEX

-Further expansion to meet robust demand

⇒ Expand business as global leader



2. Expand Nonwoven Fabrics for Hygienic Products

Growing demand for nonwoven fabrics for hygienic products in response to greater demand for disposable diapers in Asia.



<China>
Studying new plants
Local supplying function

<Japan> Enhancing highly functional products
Mother plant to develop technology
Production capacity: Increase from 34,000 to 49,000 tons (1 line)
(Commercial operation scheduled for end of 2011)

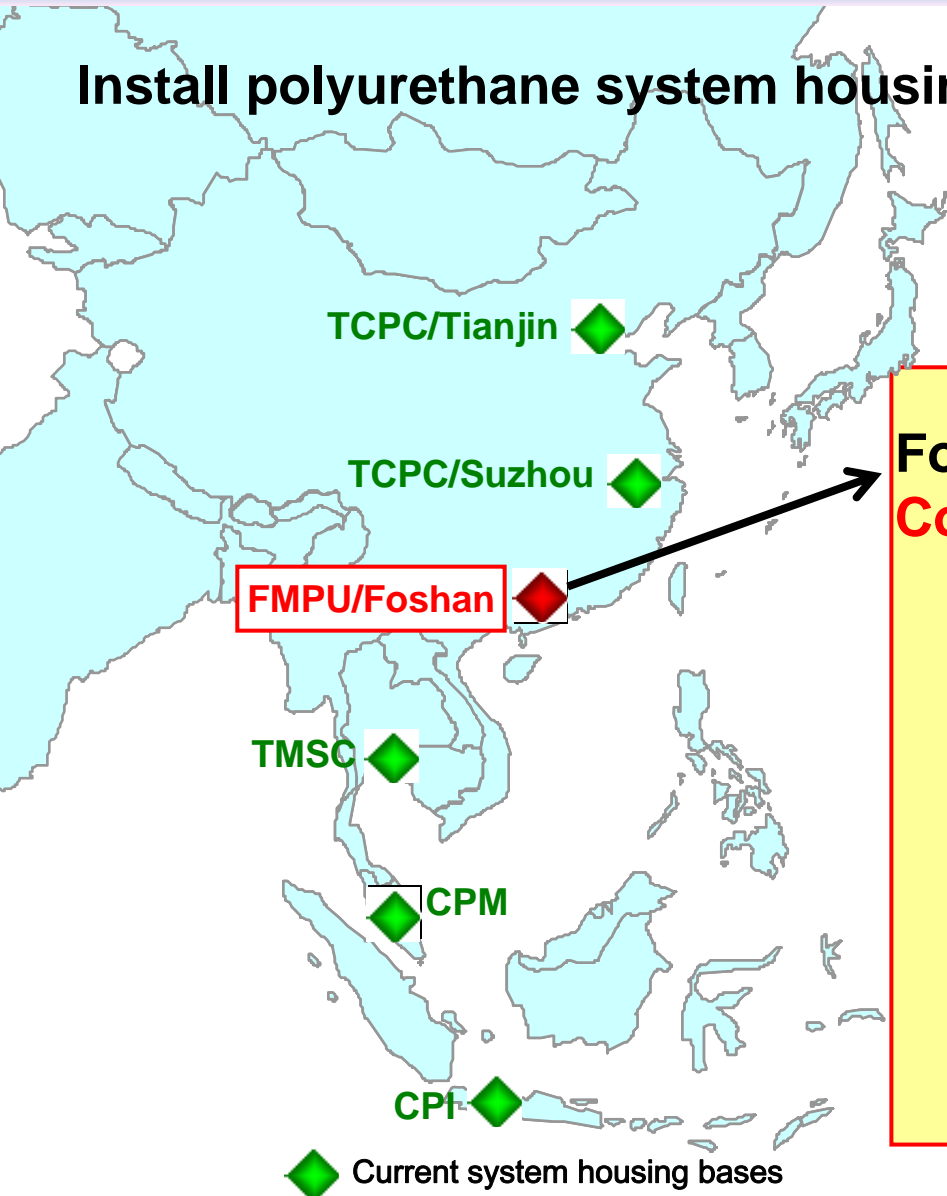
<Thailand> Studying upgrade
Export base focusing primarily on Asia
(Current production capacity: 30,000 tons)

**Establish a three-tier system while looking to further expansion.
Strengthen position as Asia's top manufacturer of nonwoven fabrics.**

3. Expand System Housing

Install polyurethane system housing in China where demand is robust

Uses of polyurethane:
auto seats, heat shields, etc.



**Foshan Mitsui Chemicals Polyurethane
Commenced operations in May 2011**

- Capacity: 10,000 tons
- Location: Guangdong Province

⇒ Establish six bases in Asia



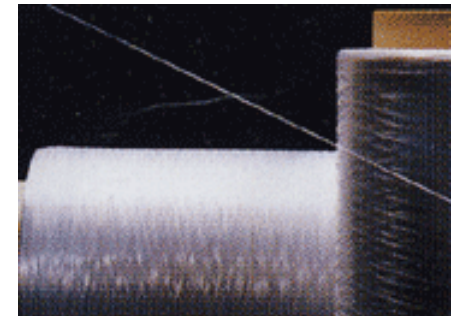
4. Expand Engineering Plastic Compounds

Enhance production capacity of UHMW-PE (Hizex Million)

⇒ Strong competitive advantage in quality of **LiB separators and highly durable fiber**

<Capacity increase>

- Location: Iwakuni Ohtake Plant
- Increase: **5,000 ⇒ 7,500 tons/year**
(1 line, +2,500 tons)
- Operation: January 2012



5. Expand Overseas Agrochemical Business

- Expand sales of existing products in global market
- Secure production bases looking to expanding overseas business

Production bases for business expansion in India/SE Asia
Scheduled for 2011

Americas, Europe Fungicide Penthiopyrad
Joint development with Company D.
2012: Launch in U.S., U.K. markets
From 2013: Launch in EU markets

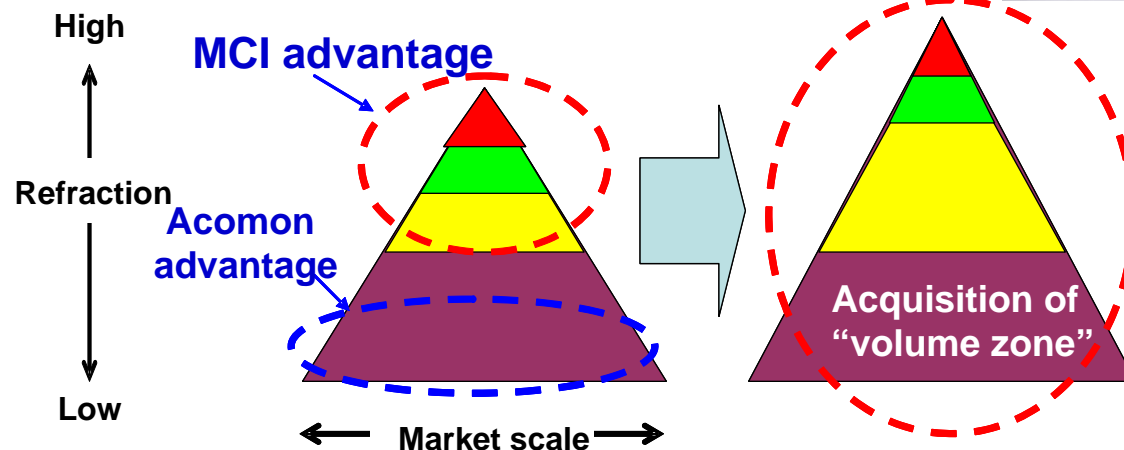
India Insecticide Dinotefuran
Launch in 2011

Brazil Insecticide Dinotefuran
Launch in 2013

1. Expand Highly Refractive Optical Lens Business

◇ Overview of Acomon AG (Switzerland)

- A global leader in low/medium refractive lens material
- Advantage in new developing markets such as China
- Established global distribution network



“Leader of global niche” (Top global share in high refractive glasses lens monomer)



“Global leader” (Top global share in all index lens monomer)

2. Strengthen Ties with Sinopec

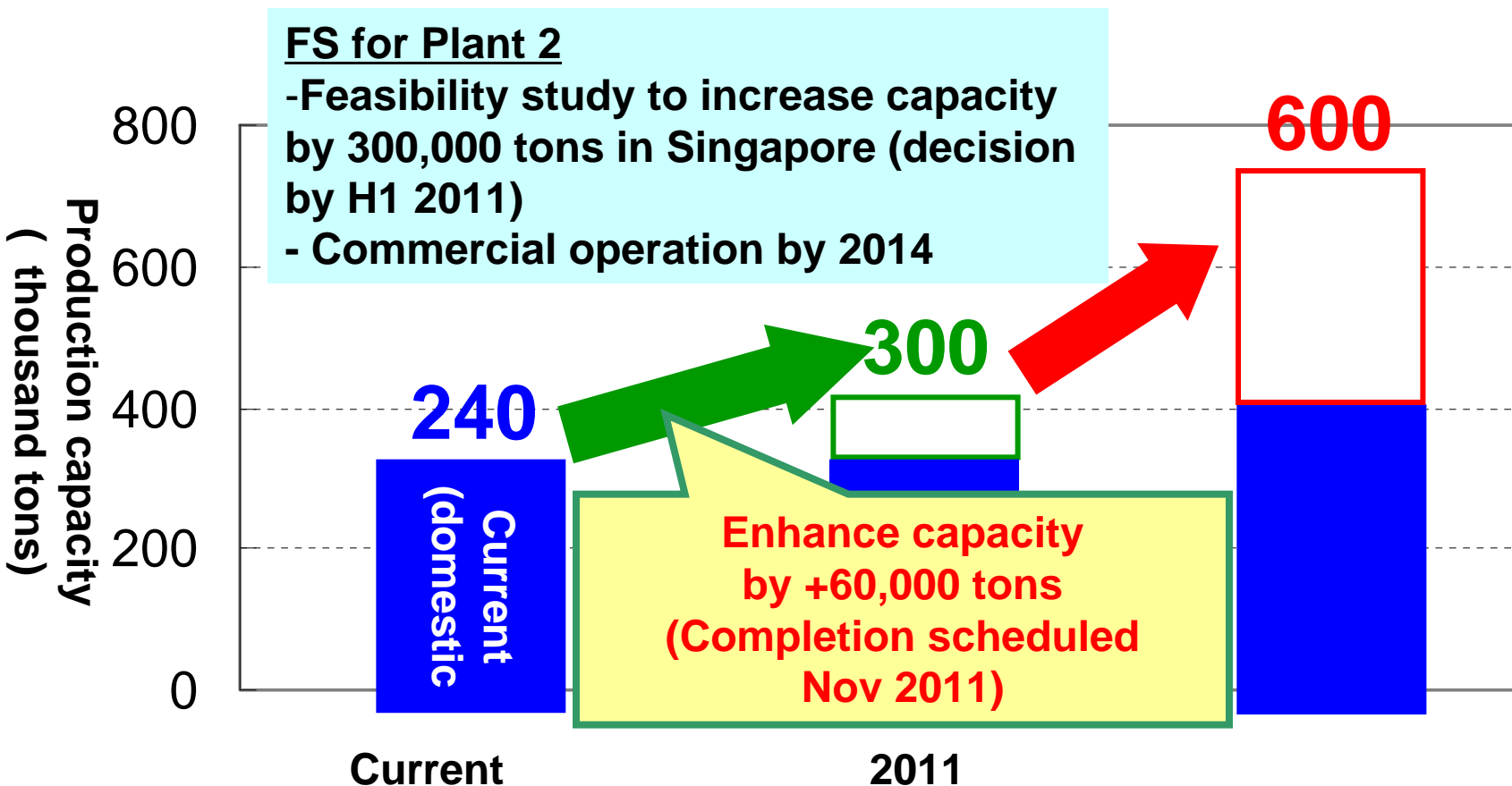
May 2011: Agreement with Sinopec

1. Steady progress in project for phenols (250,000 tons, 2013) and EPT (75,000 tons, 2014) ⇒ **Further acceleration**
2. Study **new collaboration** possibilities in environment and energy



3. Enhance Metallocene Polymers (EVOLUE)

Feasibility studies for production capacity expansion to meet robust demand



(Topics) Development of Heat Shielding Films

Development of new film to **block infrared rays** and allow passage of visible light ⇒ **Help reduce air conditioner use in summer** when applied to windows

<Characteristics>

- Heat shielding effect: **-5 °C**
- Non-adhesive ⇒ Non-glue (reusable)
- Light transparency: **80%**
⇒ Does not affect brightness
- Cost competitive compared to current products



Due on market soon

1. Strengthen Foundation of Petrochemical Business

1. Operation of LLP (Chiba Chemical Manufacturing LLP) (Oct 2010)

- **FY11 cost rationalization target: Approx. 1 billion yen**

2. Strengthen competitiveness of polyolefin business (Prime Polymer)

(1) Production optimization

- ⇒ **Termination of Ube Polypropylene (PP: 90,000 tons, Mar 2011)**

(2) Exhaustive cost cutting

- ⇒ **Cut labor, rationalize production/distribution, etc.**

FY11 rationalization: Approx. 4 billion yen

- ⇒ **Rationalization target 10 billion yen by 2013**

2. Restructure Polyurethane Materials Business

1. Exhaustive organizational reform

(1) **Cost cuts at Omuta and Kashima Works**

(Labor cuts, cost reductions in wastewater disposal, etc.)

(2) Cost cuts in administrative expenses, distribution, etc.

2. Ongoing study to restructure MDI

FY11 rationalization: Approx. 3 billion yen
⇒ Rationalization target **8 billion yen** by 2015.

3. Startup of 1-Hexene Commercial Operations

- ◇ **Successful vertical launch** of 1-Hexene manufacturing plant
⇒ **April 2011 commercial operation**
- ◇ **Contribution to high added value of Ichihara Works ethylene products and stabilization/strengthening of EVOLUE business**

<Outline of 1-Hexene plant>

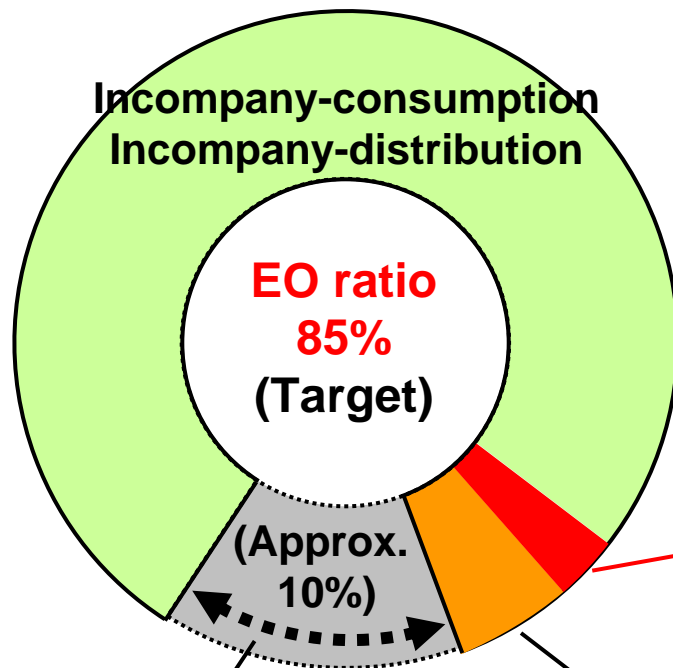
- Application: Secondary material for EVOLUE, high added-value PE
- Capacity: 30,000 tons
- Technology: Proprietary catalyst technology (**approx. 600 times greater reactivity over conventional technology**)
- Investment: 7.5 billion yen



1-Hexene Plant (Ichihara Works)

4. Expand EO Clients for Osaka Works

Enhance added value ethylene by expanding EO share



Enter joint venture with Toagosei for cell electrolyte solution material

(Osaka Works)

- Production capacity: 5,000 tons (EO demand: 2,500 tons)
- Construction commenced May 2011. Scheduled for completion late November.

Further expansion. Studying possibilities with several companies.

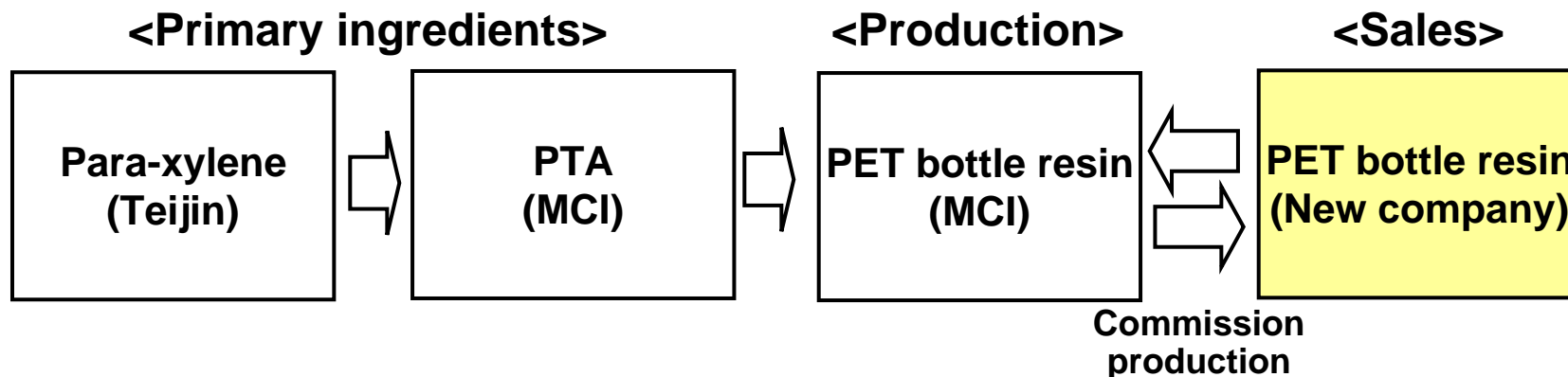
Company M (Commercial operation April 2009)

5. Integrate PET Bottle Resin Business with Teijin

New joint venture “MCT PET Resin” launched (April 2011)

<Effects of integration>

- Improve operations with concentrated production
(Suspended production of pet bottle resin at Teijin/
Tokuyama facilities)
- Strengthen supply chain competitiveness of Teijin and MCI



6. Promote Local Collaboration at Osaka Works

Use of LNG latent heat by collaboration with Osaka Gas (October 2010)

Use of Osaka Gas' LNG latent heat at our ethylene plant in Osaka Works reduces burdens of current freezing equipment.

⇒ CO₂ cut of
38,000 tons/year



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1. Reinforce Management

1. Fast, slim management

Reduce number of directors (June 2011)

(14 to 11: minus 3 directors)

⇒ Expand authority/responsibility of executive directors (headquarter directors)

2. Accelerate new product/business development and strengthen research/technology management

⇒ Establish new R&D Strategy Division (June 2011)

3. Strengthen robust management foundation

- Streamline back-office departments

(Cut 30% by 2013 → Reduce by 100 persons)

2-1 Strengthen Global Management

Transfer TAFMER related Head Office functions to Mitsui Elastomers Singapore (MELS) and strengthened operations (April 2011)

- Purpose:
Quickly secure share of robust demand in Asia by transferring management to MELS, which already handles **80%** of production and sales.
- Transferred functions: **developing business strategies, planning production, providing technical services, sales, and profit responsibility**

<Outline of MELS>

- TAFMER production capacity:
Singapore: 200,000 tons Japan: 50,000 tons
- Employees: about 100 persons
- Distribution: Asia 55% Europe 25% Japan 20%

2-2 Strengthen Global Management

Mitsui Chemicals Singapore R&D Center forms independent organization (June 2011)

- Purpose:

(1) Accelerate development of biomass and methane-to-benzene technologies, etc.

(2) Promote technological exchange with Singapore Agency for Science, Technology and Research

(3) Form new business models

**- Increase employees (11 to 15)
20-30 personnel organization by 2013**

**- Position in line with mainframe R&D
headquarters**



2-3 Strengthen Global Management

Establish Representative in the Americas to expand business in North & Central/South America and seek new opportunities. (June 2011)

Europe, Russia,
Middle East,
Africa

China

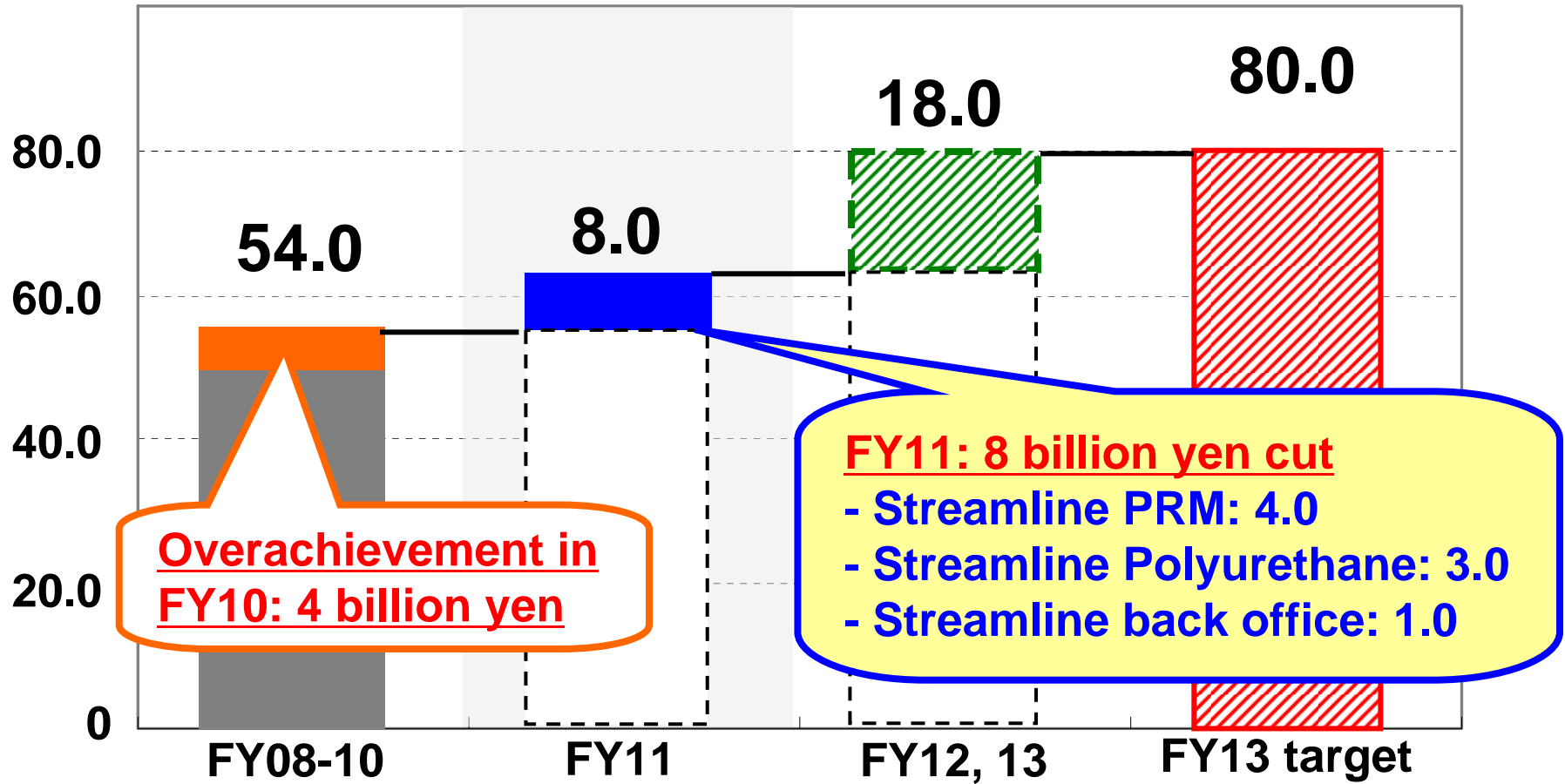
North &
Central/South
Americas

China & Europe Representatives have been established. (April 2010)

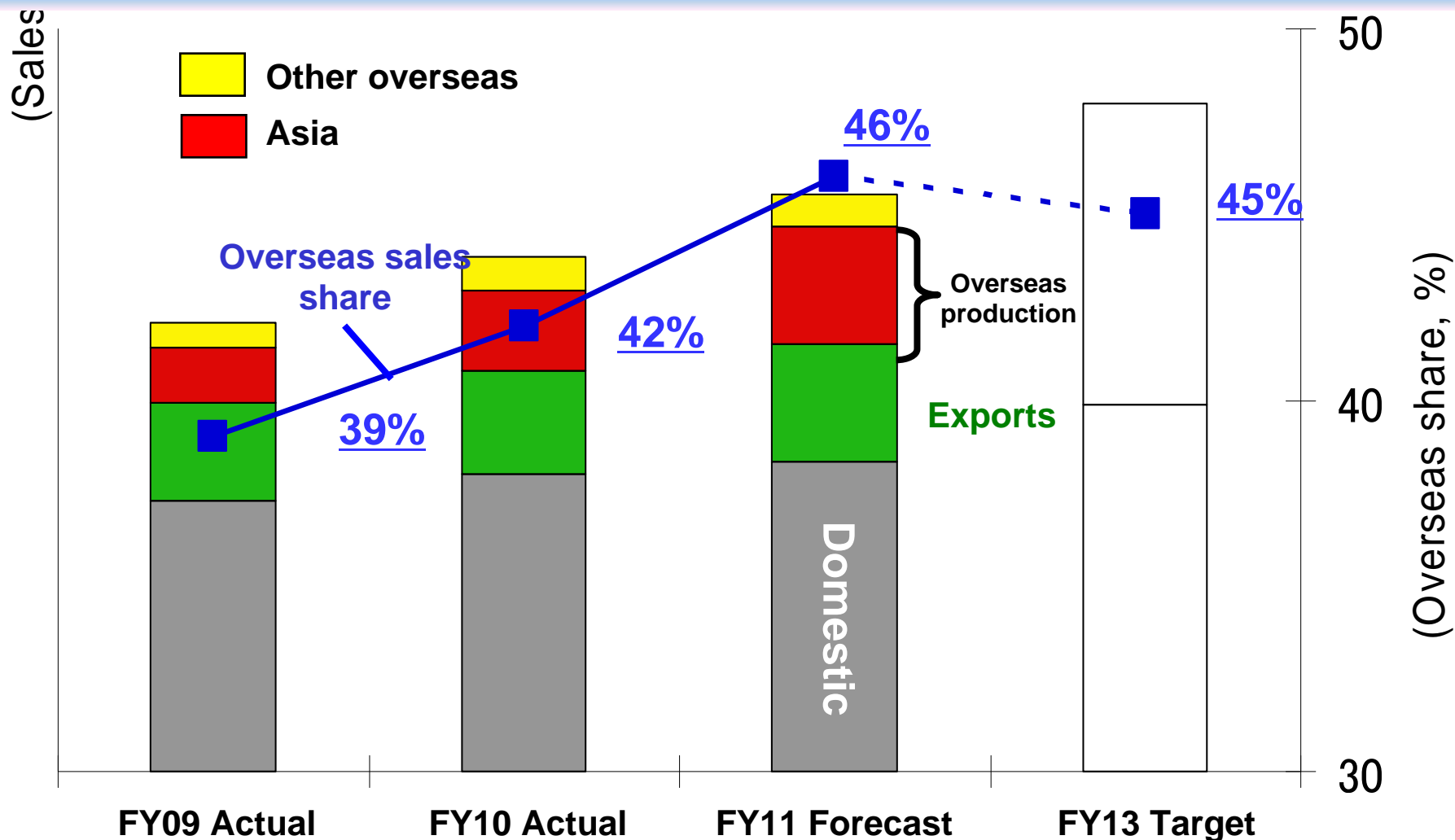
3. Cut Costs

Cost reduction plan of **8 billion yen** for FY11

(Billion yen)

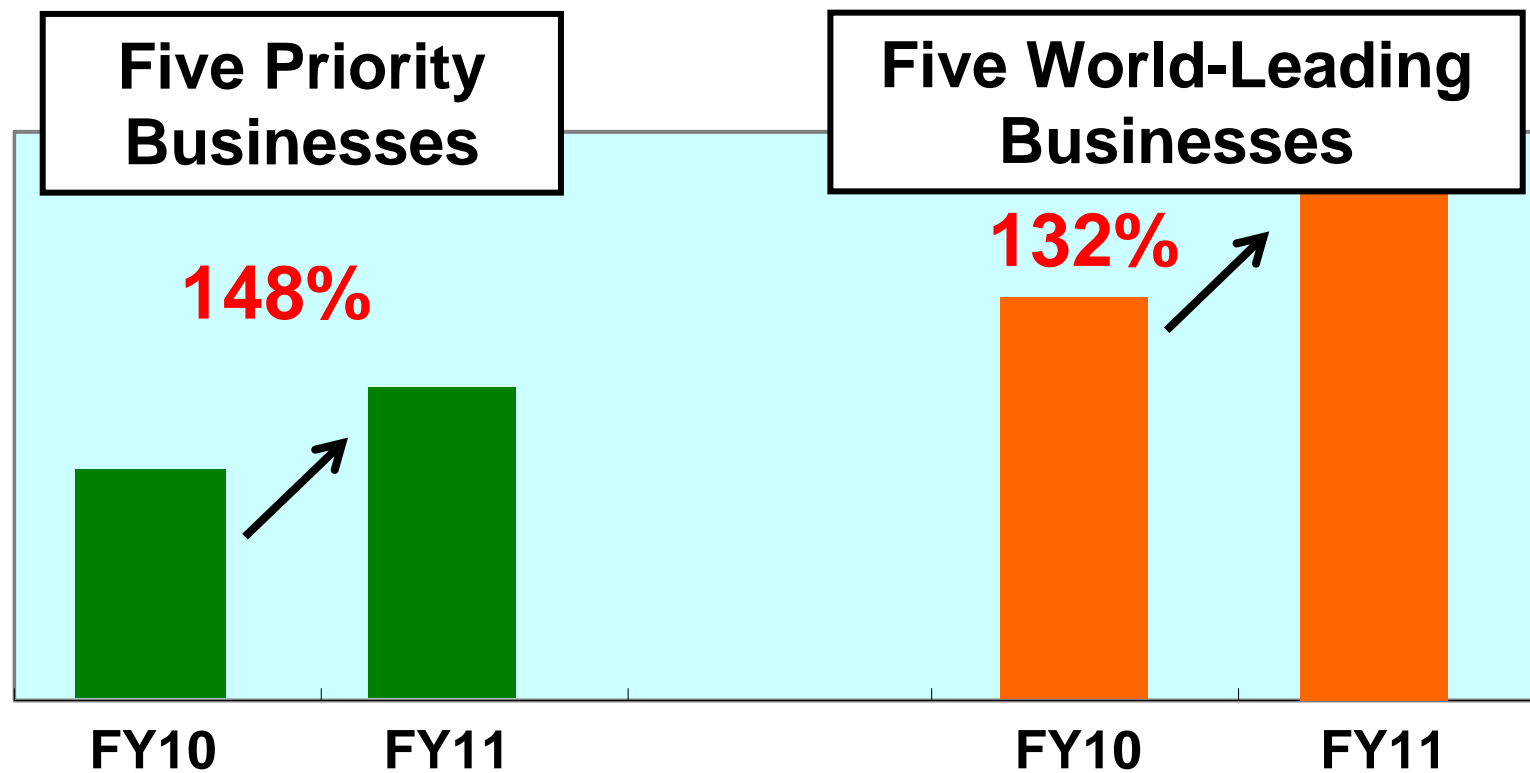


4. Overseas Sales Share



- Ratio of overseas sales and production are **steadily increasing**.
 - Operating income, **about 70% is currently from overseas**.

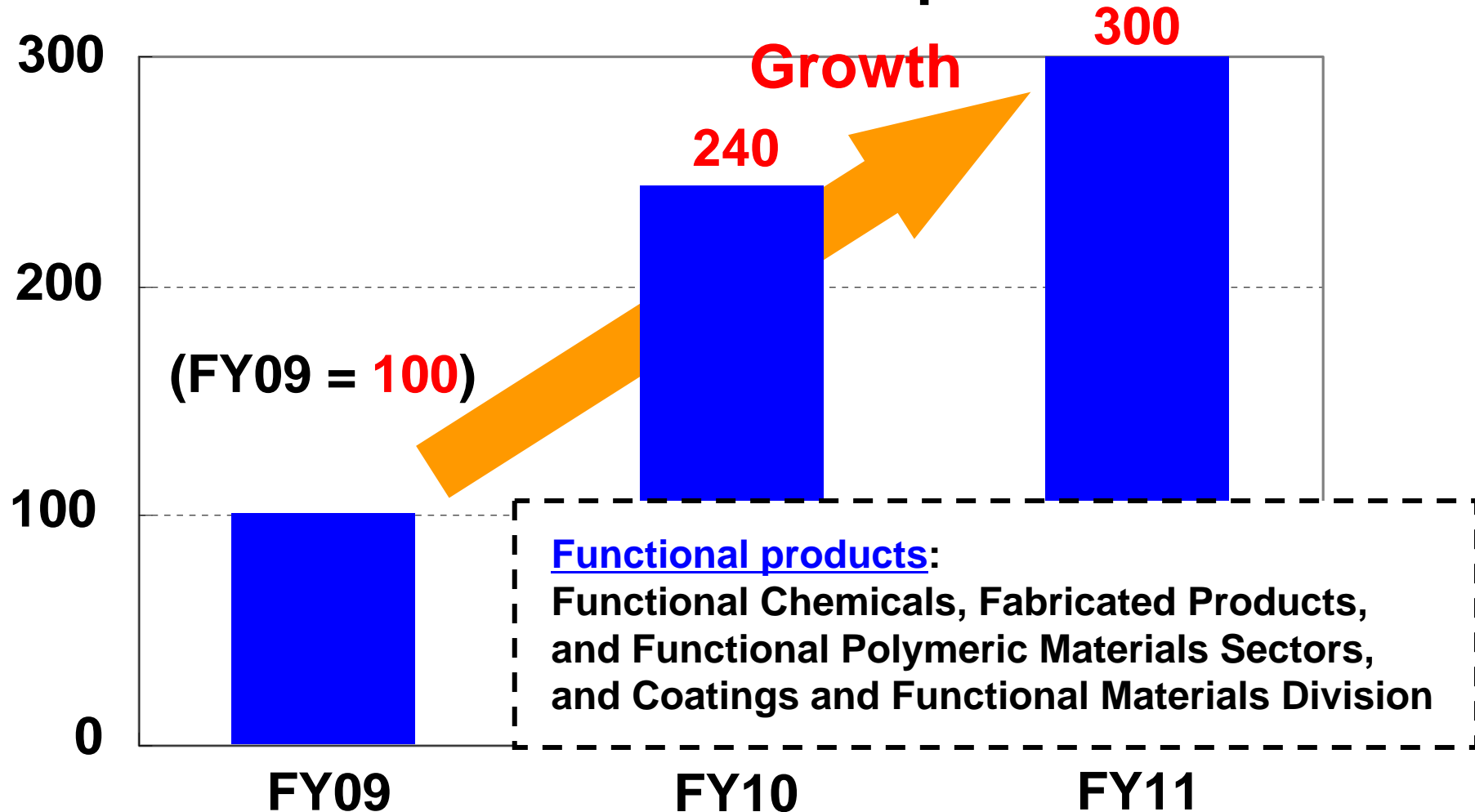
5. Profits from Growth Drivers



Steady increase in profits

6. Changes to Business Portfolio

<Profits from functional products>



FY11 Mid-Term Plan Achievement

Response to environmental changes and advance acceleration of FY11 Mid-Term Plan strategies.



- ◆ **Actualize portfolio restructuring**
- ◆ **Actualize true globalization**



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<Reference> Growth Drivers of the 5-5-5 Strategy

Five Priority Businesses	Five World-Leading Businesses	Five Developing Areas
<ul style="list-style-type: none"> - Functional films, functional sheets and nonwoven fabrics - Coatings and adhesive materials - Engineering plastics and compounds - Precision chemicals (Healthcare, catalysts) - Agrochemicals 	<ul style="list-style-type: none"> - Phenol chains (Phenols, BPA) - PO compounds (PP compounds, ADMER) - Elastomers (TAFMER, EPT) - Metallocene polymers (EVOLUE) - Highly refractive optical lenses (MR Series) 	<ul style="list-style-type: none"> - Electronic and information films - Solar power components - Next generation functional chemical products (Next generation pesticides, dental materials) - Materials for eco-friendly vehicles (Lightweight materials, components for Lithium ion batteries) - Biomass chemicals

<Reference> Expanding Elastomer Production

◇ TAFMER

- Singapore Plant 2 begins operation.
(100,000 tons, March 2010)
- Production capacity increase 150,000 → 250,000 tons to **strengthen position as global leader**
(Singapore 200, Japan 50)
- **Considering further expansion of production capacity**



◇ EPT

Tight conditions continue due to robust demand

⇒ Joint venture with Sinopec (75,000 tons, 2014)

Target acceleration for early **establishment of 150,000-ton capacity**