Overview of Our Business

Introduction

First of all, we would like to extend our deepest sympathy and condolences to the people who were affected by the Great East Japan Earthquake that occurred on March 11, 2011, and to those who passed away in the disaster and their families. The recent catastrophic earthquake is truly an unprecedented peril for Japan. In response to such a crisis, we as a group will do our utmost to produce and supply the daily commodities needed for reconstruction, and contribute to society through supporting the victims.

We have prepared this document so that shareholders can understand more easily the current state of our business, which is detailed in the Business Report attached to the Convocation Notice for the 14th Ordinary General Meeting of Shareholders. Our present situation and future outlook are as reported below.

1. Effects of the Great East Japan Earthquake on the Group

Immediately after the earthquake and tsunami occurred, we established a disaster response headquarters headed by our President, through which we have assessed the effects of the disaster on the Group and taken various measures. As of May 31, such effects and our support for the affected areas are as follows.

(1) Safety of employees and their families

We confirmed the safety of all employees and their families.

(2) Damage to our plants

Right after the disaster earthquake, some facilities stopped operating at a number of our plants. However, all of these plants restarted operations, except the Kashima Plant (Kamisu, Ibaraki Prefecture), a manufacturer of urethane products. The plant is slated to be operational again in late June after planned regular repairs. Fortunately, all plants escaped major damage from the disaster.

(3) Indirect effects

Immediately after the disaster, we feared we would be unable to continue producing many products due to the difficulty in obtaining raw materials, the shutdown of operations at our corporate customers and the damaged logistics system. At the moment, however, we have no major problems in operations. Yet, our future direction remains uncertain given there is concern that our customer companies, such as auto manufacturers, would reduce their production. Nevertheless, there is a possibility that demand for our products may grow, fueled by reconstruction projects. The Group will focus on minimizing possible adverse effects of the disaster on our performance.

(4) Effects of short supply of electric power

The Group has multiple plants in the service areas of Tokyo Electric Power Co. (TEPCO) and Tohoku Electric Power Co. Of them, the major manufacturing base Ichihara Plant has its own power-generation facilities to enable all its operations to continue, and intends to supply its surplus power of about 10,000 kW to TEPCO and thus help avoid power shortages. Furthermore, when power demand peaks in the summer, the Ichihara Plant is to undergo regular repairs. Hence, we plan to supply more power to TEPCO. Other plants will also cooperate in these initiatives by implementing all possible power-saving measures, including suspending operations at some facilities, operating equipment only on holidays and at night, and reducing lighting in offices.
(5) Support for disaster-stricken areas

We donated ¥100 million to the victims of the disaster-stricken areas through the Central Community Chest of Japan. In addition to this, affiliated companies in Japan and abroad contributed more than ¥70.0 million and employees of the Group donated over ¥20.0 million.

Besides, we rapidly sent items such as urethane mats, blue sheets, plastic wraps, and polyethylene containers, for which our products are used, to the disaster-stricken areas, and these goods were delivered to shelters. We always store these supplies as disaster relief supplies.

2. Operating Results and Year-End Dividends for FY2010

In fiscal 2010, we steadily captured high demand caused by strong economic growth in Asia, mainly China, and made group-wide efforts to enhance marketing abilities and expand sales of new products and high value-added products. As a result, we posted net sales of ¥1,391.7 billion, up ¥184.0 billion from the previous fiscal year.

Costs decreased by over ¥50.0 billion from fiscal 2008 thanks to various efforts we made, including cutting expenses, reducing costs at plants, slashing remuneration for officers and employees, and cutting back on the number of our employees by natural attrition.

We strove to properly pass on the continuously rising prices of raw materials to product prices, by obtaining understanding from our customers and through the efforts of the sales division. Specifically, we increased the application of the system which automatically calculates the prices of our products to be delivered to customers according to raw materials prices.

Through these efforts, we posted an operating income of ¥40.5 billion for fiscal 2010, higher than our initial projection of ¥35.0 billion at the beginning of the year.

Despite the uncertainty over the future business environment caused by the earthquake, recognizing the importance of returning profits to shareholders, we plan to pay a year-end dividend of ¥3 per share, which will result in an annual disbursement of ¥6 per share including an interim dividend of ¥3 per share.

3. Outlook for FY2011 Earnings

With regard to the business environment in fiscal 2011, we fear that our earnings will be adversely affected by various factors caused by the earthquake, including production cuts at our corporate customers, a shortage of electric power, and a decrease in orders received from overseas in association with the nuclear power plant accidents. Besides, there are expected to be unfavorable factors for the economy such as price hikes of raw materials and fuel and unstable foreign exchange rates. Meanwhile, demand from reconstruction is forecast to grow in the latter half of the fiscal year. Given these factors, the difficulty in predicting our future direction is likely to continue.

Under such circumstances, in fiscal 2011, the initial year of our new medium-term business plan, we will endeavor to promote active management including proactive investments, steadily capture high demand overseas mainly in the Asian region, further expand sales of new products and high value-added products, and reduce costs. Through these measures, we expect to post an operating income of ¥45.0 billion for fiscal 2011, improving on the results for fiscal 2010. We will do our utmost to achieve this goal.
In June 2011, we will make personnel and organizational changes to expedite the management decision-making process. To this end, we are going to reduce the number of directors and strengthen the responsibility and authority of business sector presidents. Furthermore, we plan to establish an independent research institute in Singapore in order to accelerate the globalization of R&D activities. By making these changes, we will agilely respond to the situation at home and abroad that is predicted to change more rapidly than before, aiming to steadily seize business opportunities.

4. Progress of 2011 Medium-Term Business Plan

The Group formulated the 2011 Medium-Term Business Plan in November 2010 aiming to change its business portfolio and globalize management, positioning the three-year period from fiscal 2011 to fiscal 2013 as the phase of establishing the growth foundation.

In the medium-term business plan, four basic strategies have been set up to build a “business portfolio that ensures growth potential and durability” and to realize “a chemical company with a global presence, especially in Asia.” Among the four basic strategies, we will steadily implement the following three: an “expansion strategy focusing on the five priority businesses more resilient to changing economic conditions,” which are expected to be a growth driver for the Group; a “strategy for establishing five highly competitive, as world-leading businesses”; and a “strategy for creating new core businesses for the future within five development areas.” As the fourth basic strategy, we have formulated the one aiming at “sustained competitiveness in the domestic market through business restructuring and thorough rationalization.”

The uncertain domestic business environment caused by the recent massive earthquake is forecast to remain over the medium to long term. Under such circumstances, the above strategies for expanding businesses more resilient to changing economic conditions, expanding highly competitive businesses, creating more central businesses, and thoroughly enhancing domestic businesses’ competitiveness are becoming increasingly important, and we believe these strategies should be sped up. Over the last six months, we have steadily implemented the following measures, which provided us with excellent results and led to a further acceleration in the expansion of the Group’s overseas operations.

(1) Launch of Mitsui Chemicals Tohcello, Inc. (October 2010)

Demand for high value-added highly functional films and sheets is sharply rising in a wide range of fields, such as electronic components, optical components, solar power
generation applications and packaging applications. The Group integrated the business of highly functional films and sheets, which was operated separately by Tohcello Co., Ltd., Mitsui Chemicals Fabro, Inc. and Mitsui Chemicals, Inc., into the newly established Mitsui Chemicals Tohcello, Inc. Under this new framework, we concentrated management resources in the new company, and are promoting new product development and strengthening competitiveness. Furthermore, thanks to synergy from this integration, the business of highly functional films is steadily expanding overseas.

(2) Establishment of production and sales bases for solar cell encapsulants in Malaysia (April 2011)

With demand for solar cells growing worldwide, demand for solar cell encapsulants is expected to increase rapidly at an annual rate of at least 20%. As for the Group’s products, solar cell encapsulant SOLAR EVATM of Mitsui Chemicals Tohcello, Inc. is highly rated by customers for the ease with which the company procures the needed raw materials, and for its durability, quality and technical services. Demand for this product is expected to exceed the production capacity. Previously, we provided the product and related technical services from Japan. However, given that demand for the product is sharply growing in the Asian region, it is important for us to set up production, sales and technical service bases for the product in that region. Against this backdrop, Mitsui Chemicals Tohcello established these bases in Malaysia. Accordingly, the Group’s annual production capacity of the product has reached 48,000 tons/year, the world’s top-level output.

(3) Acquisition of Acomon AG of Switzerland (April 2011)

As one of the businesses more resilient to changing economic conditions, we are strengthening the business of optical lens materials, and boast the world’s top share for high value-added highly refractive products. In April 2011, we acquired all the shares of Acomon AG of Switzerland, a manufacturer and seller of materials for low- and medium-refraction optical lenses, volume-zone (popular) models, for which demand is rising in the Asian region, mainly China. With this acquisition, we became the world’s largest manufacturer in the entire field of materials for plastic optical lenses.

With regard to our mainstay products, including phenols, polypropylene compounds, elastomers and optical lens monomer, the business environment is forecast to be continuously favorable during the medium-term business plan and demand is expected to increase. Aiming for higher sales, we will proactively make investments mainly in the Asian region, speeding up the strategy for expanding operations globally. In line with this, we have steadily conducted the following measures over the last six months, and begun to obtain excellent results.

Furthermore, we are developing new and innovative products such as a polarizing diffusion film used in electronic and information films and a heat resistant transparent film used for saving power. Thus, future, highly functional products are also growing steadily.
Conclusion

From now on, Japan needs to achieve reconstruction as soon as possible through people's united efforts. We believe that Japan is certain to rebuild itself after the major earthquake, backed by its people's characteristics of diligence and earnestness, and the technical and economic capabilities that the nation has cultivated. As we head towards reconstruction, we, as a supplier of materials and products necessary for society, will contribute to society by steadily playing the roles required of us. The Japanese economy will likely continue to be uncertain over the long term due to the effects of the massive earthquake. To cope with this, we will increase our profitability by speeding up the reform of our business portfolio and the globalization of management, in line with the above-mentioned basic strategies.

We hope that all of our shareholders will extend even greater support and encouragement to the Group in the time to come.