Introduction

The current state of our business is detailed in the “Business Report” attached to the Convocation Notice for the 17th Ordinary General Meeting of Shareholders. However, we have also prepared this document so that our shareholders can understand our business more easily. We hope that you find this helpful and informative.

We posted net sales of ¥1,566.0 billion for fiscal 2013, up ¥159.8 billion from the previous fiscal year. This was mainly resulted from the following factors: the succession of the dental materials business under the functional chemicals business; increased sales in the functional polymeric materials business; higher prices of raw materials and fuels such as naphtha; and higher selling prices due to the impact of the weakening yen.

We had a net loss of ¥25.1 billion for fiscal 2013, down ¥17.0 billion from the previous fiscal year, mainly due to the recognition of extraordinary loss on a drastic restructuring of the bulk & commodity product businesses including polyurethane business and phenols business.

Achieved solid profit growth in the functional product businesses, while accelerating drastic restructuring measures

In fiscal 2013, the final year of our 2011 Mid-Term Business Plan, we achieved solid profit growth in the businesses of high functional products and high-value-added polymers by intensively inputting our management resources, in order to accelerate the restructuring of business portfolio. Meanwhile, we have recorded the costs of business restructuring on a continuous basis since fiscal 2011 as shown in the chart on the left. In fiscal 2013, we have determined to implement the drastic restructuring ahead of schedule, including the suspension of plants and the closing of works. This decision was made taking into consideration the continued harsh business environment for the bulk & commodity product businesses, resulting from a rapidly worsening balance of supply and demand triggered by new construction of facilities in China and other countries. As a result, we recorded a net loss of ¥25.1 billion in fiscal 2013. Therefore, we regretfully determined to omit the payment of a year-end dividend for the year.

In fiscal 2014, we will make our utmost efforts towards a V-shaped turnaround as early as possible and resume the payment of dividends. We would like to ask for your continuous support in the years to come.
Aiming to become “New Mitsui Chemicals” that seeks solutions for social challenges through business activities

The progress of strategic measures in fiscal 2013

- Solid growth in the businesses of functional products
- Restructuring of the petrochemicals business.

In fiscal 2013, as a result of our aggressive efforts to expand the high functional products businesses such as healthcare and agrochemicals as well as the high-value-added polymer businesses such as elastomers and polypropylene (PP) compounds, operating income for both of the fields was ¥49.0 billion, up 75% from the previous fiscal year. In addition, we have implemented strategic measures to strengthen the following businesses.

- **High-functional products**
  - Acquisition of the dental materials business of Heraeus Holding GmbH (Germany, June 2013)
  - Acquisition of DENTICA, Inc. (the U.S., June 2013)
  - Establishment of the operating site of DSC Technologies, Inc. (Singapore, October 2013)
  - Decision on the construction of the world first, large-scale XDI plant (December 2013)
  - Further expanding the businesses of ophthalmic lens materials, coatings & engineering materials
  - Commencement of commercial operations of high-functional nonwoven fabrics (Japan, December 2013)

- **High-value-added polymers**
  - Expansion of production capacity of PP compounds (the U.S. and Mexico)
  - Aiming to achieve the world largest annual production capacity of one million tons by the end of fiscal 2014
  - Expansion of production capacity of TAMIFER™ (Singapore, February 2014)
  - Ongoing construction of EPT plant (China)
  - Ongoing construction of ADMER™ and MILASTOMER™ plant (China)
  - Ongoing construction of Evolue™ plant (China)
  - Commencement of commercial operations of high functional packaging film T.U.X™ (Thailand, January 2014)

- **Determining the acceleration of drastic measures for business restructuring**

We have decided to implement drastic restructuring for the underperforming bulk & commodity product businesses.

- Suspension of one polypropylene plant in Ichihara (July 2013)
- Suspension of two polyethylene plants in Ichihara (April 2013 and December 2014)
- Withdrawal from the business operations of Keiyo Ethylene Co., Ltd. (the end of fiscal 2014)
- Conclusion of a basic agreement on the transfer of the organic acids business (May 2014)
- Suspension of TDI plant at Kashima Works (slated in around December 2016)

We have also been actively working on the restructuring of the petrochemicals business.

- **Restructuring of the petrochemicals business.**
  - Determining the acceleration of drastic measures for business restructuring.

We have formulated a new Mid-Term Business Plan starting from fiscal 2014.

- **Future Image of the Group**
  - We aim to become a company that contributes to society through its business activities by combining our three dimensional activities of economy, environment and society to solve social challenges. To achieve this, we identified three targeted business domains that offer growth potential: that is, “Mobility” consisting mainly of automotive materials, “Healthcare” consisting of ophthalmic lens monomers, dental materials and nonwoven fabrics, and “Food & Packaging” consisting of food packaging materials and agrochemicals. We will also deploy business domain of “Basic Materials” consisting of commodity chemicals such as petrochemicals and basic chemicals that will support society and industries.

- **2014 Mid-Term Business Plan**
  - Policies
    - Recover the earning power through vigorous restructuring of the bulk & commodity product businesses
    - Recover growth investments planned and executed under the 2011 Mid-Term Business Plan
    - Intensively input management resources in the targeted domains of “Mobility”, “Healthcare” and “Food & Packaging” towards business portfolio transformation
    - Accelerate the creation of new businesses and products
    - Improve and strengthen the financial structure

- **Basic Strategies**
  - **Mobility**
    - Achieving solid income growth by leveraging integrated strength
  - **Healthcare**
    - Establishing a new growth platform
  - **Food & Packaging**
    - Securing business opportunities for a third earnings pillar
  - **Basic materials**
    - Securing stable profits through restructuring

- **Goals of fiscal 2016**
  - Consolidated operating income: ¥60 billion
  - Consolidated net income: ¥30 billion
  - ROA (Return on assets): 4% or more

- **Image of business portfolio for around 2020**
  - Basic materials
  - Food & Packaging
  - Mobility
  - Healthcare
  - Effective efforts to solve social challenges through business activities
New facility in China started operations, aiming to capture the top share in Asia

In the disposable diaper markets of East and Southeast Asia, a significant increase in demand for high-quality, high functional nonwoven fabrics is expected, backed by the rapid pace of economic growth and high birth rates.

We started commercial operations of a new facility in China (Tianjin) for manufacturing high functional nonwoven fabrics in December 2013. In addition to the existing production bases in Japan and Thailand, the new plant will serve as a component of the tri-polar production system established in Asia.

As a result, the integrated production capacity achieved 94,000 tons per year, which enables the Mitsui Chemicals Group to strengthen its top share in Asia.

Expanding the business of T.U.X™/Evolue™

Our new plant in Thailand for high functional packaging film “T.U.X™”, which had been under construction, started commercial operations in January 2014. The product has excellent transparency, intensity and sealing performance, and is used to package frozen foods, liquids, and refills. The demand for T.U.X™ is expected to grow in Asia and other countries.

We will strive to increase our presence in the Asian market by steadily capturing growing demand in the region through the operations of the new plant.

In addition, we are constructing a new plant in Singapore for high performance polyethylene “Evolue™”, one of our core products and the raw material of T.U.X™.

We expect to expand our business by making use of synergy effects through an established supply system ranging from raw material plastics to films produced by these two plants.

Messages from the former and new presidents

Toshikazu Tanaka

Member of the Board (will assume the role of Senior Advisor on June 24, 2014)

On April 1, 2014, I retired from the position of president of Mitsui Chemicals. Based on our Mid-Term Business Plan, we have substantially expanded the businesses of high functional products and high-value-added polymers, taken the difficult decision to drastically restructure underperforming bulk & commodity product businesses, and built the foundation for our V-shaped turnaround.

In light of these developments, I have determined that it would be the best way to implement our new Mid-Term Business Plan under a new management team, and transferred my role to new president Tsutomu Tannowa. We have established a more effective management system by eliminating the post of chairman which gives the president full authority in order to accelerate the pace of decision-making process as well as reducing the number of directors (less one director). Under the new management system, we plan to conduct the re-engineering of corporate structure and culture.

Since my accession to office in 2009, we have encountered various challenges. Taking this opportunity, I would like to extend my sincerest thanks and appreciation to the shareholders who have offered their unfailing support for Mitsui Chemicals over these years.

Tsutomu Tannowa

President

I have succeeded the post of president from the former president Tanaka. Mitsui Chemicals is now facing the need of reform that breaks all conventional rules, such as the restructuring of the bulk & commodity product businesses. I will make every effort to accomplish our restructuring measures at the earliest stage possible and maintain the pace of business growth, by motivating all employees to consistently contribute their best.

We kindly ask for our shareholders’ continued cooperation and support while we together build a brighter and more prosperous future.

Career summary

1976 Joined Mitsui Toatsu Chemicals, Inc.
2005 General Manager of Industrial Chemicals Division
2007 Executive Officer, General Manager of Human Resources & Employee Relations Division
2010 Managing Executive Officer, Business Sector President of Basic Chemicals Business Sector
2012 Member of the Board and Managing Executive Officer
2013 Member of the Board and Senior Managing Executive Officer
2014 President & CEO