Mitsui Chemicals

Special Explanation of Business Results & Outlook

February 6, 2014
Toshikazu Tanaka
President & CEO
Today, details of a key measure in assuring our Group’s future growth and sustainability, namely the restructuring of our three volume market sectors, will be announced.

With unwavering determination, we will initiate the measures and tactics full force to assure realization of a “V-Shaped” turnaround.
1. Financial Results & Outlook for FY2013
2. Restructuring Measures for Unprofitable Businesses
3. V-shaped Turnaround
4. Conclusion
## Financial Results & Outlook for FY2013

Operating income is unchanged from the previously announced.

(Billion yen)

<table>
<thead>
<tr>
<th>Items</th>
<th>FY2012</th>
<th>FY2013 forecast</th>
<th>FY2013 Forecast (on Nov.1)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1-3Q</td>
<td>Full Year</td>
<td>1-3Q</td>
</tr>
<tr>
<td>Sales</td>
<td>1007.4</td>
<td>1406.2</td>
<td>1108.8</td>
</tr>
<tr>
<td>Operating income (loss)</td>
<td>2.5</td>
<td>4.3</td>
<td>15.1</td>
</tr>
<tr>
<td>Non-operating income (expenses)</td>
<td>▲ 1.1</td>
<td>4.9</td>
<td>▲ 1.0</td>
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<tr>
<td>Ordinary income (loss)</td>
<td>1.4</td>
<td>9.2</td>
<td>14.1</td>
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<tr>
<td>Special gains/losses</td>
<td>▲ 5.3</td>
<td>▲ 10.0</td>
<td>▲ 22.9</td>
</tr>
<tr>
<td>Net income (loss) before income taxes and minority interests</td>
<td>▲ 3.9</td>
<td>▲ 0.8</td>
<td>▲ 8.8</td>
</tr>
<tr>
<td>Net income (loss)</td>
<td>▲ 9.7</td>
<td>▲ 8.1</td>
<td>▲ 18.5</td>
</tr>
</tbody>
</table>

| Exchange Rate (Yen/US$) | 80  | 83  | 99  | 100 | 99    |
| Domest Standard Naphtha Price (Yen/KL) | 55,400 | 57,500 | 65,700 | 67,300 | 64,900 |
1）Special losses (Impairment)  
- Record 32 billion yen extraordinary loss for current fiscal year for measures including restructuring of unprofitable large volume market

2）Dividend per share  
- Fiscal 2013 dividends: 3 yen interim dividend / 0 yen year-end dividend  
- Concentrate management resources on V-shaped turnaround measures  
- Recompense director bonuses & reduce monthly remuneration (minus 12 - 20%)
# Operating Income (business segment)

(Billion Yen)

<table>
<thead>
<tr>
<th>Segment</th>
<th>FY2012 1-3Q</th>
<th>FY2012 Full Year</th>
<th>FY2013 forecast 1-3Q</th>
<th>FY2013 forecast Full Year</th>
<th>FY2013 forecast (on Nov 1)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>(a)</td>
<td>(b)</td>
<td>(b)-(a)</td>
<td></td>
</tr>
<tr>
<td>Functional Chemicals</td>
<td>9.5</td>
<td>12.4</td>
<td>12.1</td>
<td>16.5</td>
<td>4.1</td>
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<tr>
<td>Functional Polymeric</td>
<td>6.6</td>
<td>8.4</td>
<td>9.3</td>
<td>13.0</td>
<td>4.6</td>
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<tr>
<td>Materials</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Polyurethane</td>
<td>▲ 1.8</td>
<td>▲ 2.6</td>
<td>▲ 4.8</td>
<td>▲ 4.0</td>
<td>▲ 1.4</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>▲ 2.0</td>
</tr>
<tr>
<td>Basic Chemicals</td>
<td>▲ 12.6</td>
<td>▲ 18.9</td>
<td>▲ 13.9</td>
<td>▲ 18.5</td>
<td>0.4</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>▲ 16.0</td>
</tr>
<tr>
<td>Petrochemicals</td>
<td>4.3</td>
<td>7.7</td>
<td>15.4</td>
<td>23.0</td>
<td>15.3</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>19.5</td>
</tr>
<tr>
<td>Films &amp; Sheets</td>
<td>▲ 2.2</td>
<td>▲ 3.3</td>
<td>1.2</td>
<td>0.5</td>
<td>3.8</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>▲ 0.5</td>
</tr>
<tr>
<td>Others</td>
<td>▲ 1.3</td>
<td>0.6</td>
<td>▲ 4.2</td>
<td>▲ 5.5</td>
<td>▲ 6.1</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>▲ 5.5</td>
</tr>
<tr>
<td>Total</td>
<td>2.5</td>
<td>4.3</td>
<td>15.1</td>
<td>25.0</td>
<td>20.7</td>
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</table>

▲: Denotes a minus
Operating Income from FY2008

(billion yen)

<table>
<thead>
<tr>
<th>FY08</th>
<th>FY09</th>
<th>FY10</th>
<th>FY11</th>
<th>FY12</th>
<th>FY13(Outlook)</th>
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<tbody>
<tr>
<td>10</td>
<td>▲45.5</td>
<td>9.5</td>
<td>17.4</td>
<td>28.7</td>
<td>40.5</td>
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<tr>
<td></td>
<td>▲9.5</td>
<td></td>
<td>21.6</td>
<td></td>
<td>11</td>
</tr>
<tr>
<td></td>
<td></td>
<td>▲45.5</td>
<td></td>
<td></td>
<td>14</td>
</tr>
</tbody>
</table>

- Lehman Shock
- Accident at Iwakuni Works
- European Financial Crisis
- Economic slowdown in emerging countries

▲ Denotes a minus
1. Financial Results & Outlook for FY2013
2. Restructuring Measures for Unprofitable Businesses
3. V-shaped Turnaround
4. Conclusion
Business Portfolio Condition and Challenges

- Steady progress in “High Functional Products” and “High Value Added Polymers”
- Restructuring of Phenol, PTA, and Polyurethane businesses

(Operating income: billion yen)

▲ Denotes a minus

<table>
<thead>
<tr>
<th>Business Sector</th>
<th>FY11</th>
<th>FY12</th>
<th>FY13 Budget ('13/5/10)</th>
<th>FY13 Outlook ('14/2/6)</th>
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</thead>
<tbody>
<tr>
<td>High Functional Products</td>
<td>21.6</td>
<td>4.3</td>
<td>28</td>
<td>28</td>
</tr>
<tr>
<td>High Value Added Polymers</td>
<td>5.4</td>
<td>23.7</td>
<td>39</td>
<td>49</td>
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<tr>
<td>Phenol, PTA, Polyurethane, etc.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Restructuring</td>
<td></td>
<td></td>
<td></td>
<td>2Q Forecast 45 billion yen</td>
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</table>

▲ Denotes a minus
Restructuring Businesses

① Polyurethanes

② Phenols

③ Purified Terephthalic Acid (PTA)

④ Summary
①-1) Key Point in Restructuring Polyurethane

- Reinforce Coating & Engineering business through specialty isocyanates
- Establish optimum operations for general-use polyurethane by terminating non-competitive plants and maintaining competitive plants

Polyurethane Business Sector

- Polyurethanes
  - General Polyurethanes
    - TDI
    - MDI
  - PPG
    - System housing
  - Bio-Polyol
  - Organic acid (maleic anhydride, fumaric acid)

- Coating & Engineering Materials
  - Specialty isocyanates
  - Urethane coating resins
  - Acrylic coating resins
  - Others

Sales 170 billion yen

64%

36%
①-2) Reinforcing Specialty Isocyanates

- Establish new large-scale, state-of-the-art competitive plant for specialty isocyanates (XDI) made with unique proprietary technology to match increasing demands for coating resins and ophthalmic lens monomers (Omuta Works, 5,000MT/y, Oct. 2015)

XDI features & uses

- World’s top high refractive ophthalmic lens monomers
- Solar panel back sheets
- Micro capsules (non-formalin)
- Immediate hardening agent for ink
- New durable sealant for building materials
- Highly safe adhesives for food packaging

Contribute to expansion and strengthening of coating resin and lens monomers competitiveness through large-scale XDI facilities
①-3) Restructuring General-Use Polyurethane

Environment (TDI)
- New facilities in Asia centering on China upset supply balance causing downward market prices
- Omuta TDI remains competitive while Kashima TDI loses competitiveness

Environment (MDI)
- Driven by strong growth in demand, market deterioration slight despite new facilities in Asia centering on China
- Korean MDI is competitive while Omuta MDI loses competitiveness due to small capacity facilities

Maintain competitive plants and suspend non-competitive plants

Restructuring

1) Kashima Works: Terminate all plants incl. TDI and Shut-down (target Dec. 2016)
- TDI (117KTA) / Stable supply to existing customers by sourcing from third parties
- Specialty isocyanate (2.4KTA) / Establish new large scale plant in Omuta
- Organic acid (maleic anhydride 32KTA, Fumaric acid 15KTA) / Withdrawal from organic acids with shut-down Kashima Works

2) Omuta Works: Terminate MDI plant (60KTA, target Dec. 2016)
※maintain employment of all staff
①-4) Summary of Polyurethane Restructuring

Kashima
- Shut-down Works (Target Dec. 2016)
  - TDI
  - Organic acid
  - Specialty isocyanate

Omuta
- Terminate MDI (Target Dec. 2016)
  - TDI
  - Specialty isocyanate
  - Large-scale XDI plant (Oct. 2015)

Korea
- MDI
- India
  - Bio-polyol (Jan. 2015)
- Middle-East (under consideration)
  - TDI
  - MDI

- Establish optimal production system for general-use polyurethane raw material sustainability through plant competitiveness
- Strengthen position by strategic deployment in highly competitive Middle East and through business alliances

- Strengthen Coating & Engineering and Ophthalmic lens monomers
Increasing demand for high refractive lens monomers

Ageing

Strengthening of Purchasing power (developing countries)

Comfort

Thin & Lightweight

Clear View

Strong & Safe

Good Durability

Material
Only 1
World’s first use of XDI thiol technology for lens materials

Patent
Over 250
Strong global patent network

Global
45%
Highest share in the world

Marketing Branding
Strategic partnership with global customers

Respond to expanding demand for high refractive lens through competitive new large-scale plant for proprietary XDI
Restructuring Businesses

① Polyurethanes

② Phenols

③ Purified Terephthalic Acid (PTA)

④ Summary
②-1) Key Point for Restructuring Phenol

【Background of phenol business deterioration】
- Over supply from new facilities and production increases in China
- Weak market and sharp increases in benzene prices
  ⇒ Spread deterioration between phenol/BPA and benzene

Startup of new players has slowed. Existing manufacturers are expanding facilities to offer selections including derivatives. World supply and demand is expected to improve gradually by 2016-17.
②-2) Restructuring Phenol (Japan)

Environment
- Surplus 300KTA in Japan
- Stop export to China due to unprofitable margin (anti-dumping duties: 6%, high transport costs)
⇒ Need to establish local production for local consumption

Restructuring
1) Terminate BPA plant (90KTA, Ichihara, Mar.2014)
2) Terminate Chiba Phenol (250KTA, Sep.2014)
3) Energy cost cuts
4) Use advantage of Chinese plant competitiveness in growing Chinese market

Establish local production-local consumption for domestic profitability
- Reduce exports of phenol & BPA while establishing a local production for local consumption system
- Exports with be continued for strategic customers with long-term agreements
②-4) Restructuring Phenol (Singapore)

Environment
- Only 2 phenol companies in ASEAN
- High energy costs (electricity, steam, etc.)
- Low operation rates for BPA due to weak market
  ⇒ Strengthen competitiveness of energy costs while establishing a local production for local consumption system

Restructuring
1) Cost cuts
   - Convert to competitive energy (coal)/ electricity (new partner)
   - Purchase competitive raw materials (new supplier)
2) Suspend BPA (70KTA)
3) Establish system to distribute total amount in ASEAN (zero export to China)
4) Study partnerships

Extensive cost cuts for regional sustainability
②-5) Restructuring Phenol (China)

**Environment**
- Forecast of continuing phenol surplus in China demand.
- With start-up of derivative plants, *improvement forecasted in 2016-17*
- China domestic spread competitive over imports due to 5.5% duty and transportation costs

**Supply vs. Demand**

- **Import position**
  - Expansion of existing makers
  - No new players

- **Operating rate**
  - 87%

- **New players**

- **Supply**

- **Demand**

- **Improvement**
  - 87%
  - 96%

**China (million MT)**

- 2012: Supply: 1, Demand: 80%
- 2013: Supply: 1.2, Demand: 87%
- 2014: Supply: 1.4, Demand: 80%
- 2015: Supply: 1.6, Demand: 87%
- 2016: Supply: 1.8, Demand: 87%
- 2017: Supply: 2, Demand: 96%
②-6) Restructuring Phenol (China)

- Strategic sites in growing Chinese market through joint ventures with Sinopec (250KTA, startup May 2014)
- Use of superior low cost utilities and new state-of-the-art proprietary processes (25% improvement over earlier processes)
- Low cost utility and competitive materials through collaboration with Asia’s largest Sinopec
- Sinopec’s strong sales network in China

Smooth startup of China plant for immediate profitability

Comparison of competitiveness (MCI estimate)

- Secure top competitiveness

Top competitiveness in growing Chinese market
## ②-7) Summary of Phenol Restructuring

<table>
<thead>
<tr>
<th>Japan</th>
<th>Singapore (tax measures, FTA)</th>
<th>China (tariff merit)</th>
</tr>
</thead>
</table>
| **Terminate BPA**  
(90KTA, Mar.2014) | **Suspend BPA**  
(70KTA) | **Newest state-of-the-art processes with superior utility per unit** |
| **Terminate Chiba Phenol**  
(250KTA, Sep.2014) | **Cost cuts**  
(utility, materials) | **Partnership with Sinopec**  
Competitive utility and raw materials |
| **Zero exports to China**  
Stable, long-term sales to good domestic customers | **Secure competitive raw materials**  
(Nghi Son Project) | **Sinopec’s huge sales network**  
Stable supply to good customers |
| **Sustainability through optimum operations** | **Local sustainability through extensive cost cuts** | **Top competitiveness locally to secure Chinese market** |
Restructuring Businesses

1. Polyurethanes
2. Phenols
3. Purified Terephthalic Acid (PTA)
4. Summary
③-1) Restructuring PTA

Environment

- New facilities in China result in 15 million ton surplus after 2013
- Demand/supply gap will not be resolved soon

Restructuring

1) AMI (Indonesia): Transfer all shares to BP Global (540KTA, Mar. 2014)
2) SMPC (Thailand):
   Secure world’s top class competitiveness through rationalization
③-2) Transfer all shares in AMI to BP Global

Company Outline
Name: P.T. Amoco Mitsui PTA Indonesia (AMI)
Capital: BP (50%), MCI (45%), Mitsui & Co (5%)
Timing of transfer: end of Mar. 2014
Sales: 530 Million US$ (2012)

Details
- Studied future prospects from 2012 with BP and AMI
- MCI focused on: Lessening performance variation and prioritizing portfolio reform
- BPI focused on: Strengthening Indonesian PTA operations
- Based on these differences, the companies commenced studies related to purchase/sale of AMI stock in 2013.
- By December the companies agreed that MCI would sell all its shares to BP

Due to equity company status, there is no impact on operating income. Sale will contribute to reduction of performance variables of income before taxes.
③-3) Restructuring PTA (Thailand)

Environment
- Suspension of China exports result in oversupply in Asia
- Resolution of supply/demand gap cannot be expected

Comparison of competitiveness (MCI estimate)

Drop in China exports after 2012 result in area oversupply

Restructuring
1) Secure world’s top competitiveness through improvement in acetic acid consumption
2) Suspension of China exports (1 plant currently suspended)
   Strengthen sales to other areas
③-4) Summary of PTA Restructuring

**Indonesia**
- PTA (AMI) 540KTA
- PET (PNR) 80KTA
- AMI sales: 530MUS$

Transfer all shares in AMI to BP Global

Withdrawal of PTA in Indonesia

**Thailand**
- PTA (SMPC) 1,440KTA
- PET (TPRC) 100KTA

Suspension of China export (1 plant currently suspended)

Secure world’s top competitiveness

Secure competitive raw materials (Ngi-Son Project)

Sustainability through collaboration with local production for local consumption in derivatives (PET)

Promotion of integrated alliance from raw material to derivatives

**Japan**
- Iwakuni PTA 400KTA
- PET 145KTA

*Only domestic integrated manufacturer of PTA・PET bottle resin

*Independent operations

Cost cuts
"Target early profitability by restructuring volume market products”

- Targeted restructuring will mitigate 23 billion yen deficit of three businesses and improve operating profit by 14 billion yen without taking into account recovery of market conditions.

- Push forward with new large-scale alliances and extensive cost cuts to actualize early profitability.
④-2) Profit range of restructuring

Current

Proposed
Terminate plants
Shut-down Works

Further restructuring
(alliance, etc.)

Large scale project
(Middle East project, etc.)

Profit Range

Max30

2013: ▲23

(Operating income: billion yen)
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3. V-shaped Turnaround

“Aims of V-Shaped Turnaround”

1) Early profitability in net profit
2) Restore year end dividends for FY2014

“Aims of Mid-Term Business Plan”

3) Early actualization of net D/E ratio = x1.2
4) ROS=5% (Long range target ROS=7%)
Improvement Model of Net Income

Early profitability in net profit & Restore year end dividends for FY14

- **FY10**: Dividend 6yen
- **FY11**: Dividend 6yen
- **FY12**: Dividend 6yen
- **FY13**: Dividend 3yen
- **FY14**: No dividend at year-end
- **FY15**: Stable Dividend

*(Net income: billion yen)*

- **FY10**: 24.9
- **FY11**: $\Delta 13.9$ (Restructuring costs incl. impairment of polyurethane business)
- **FY12**: $\Delta 9.9$ (Restructuring costs incl. suspension of general PE plant)
- **FY13**: $\Delta 32$ (Impairment of restructuring)
- **FY14**: No dividend
- **FY15**: Stable Dividend

- **Investment effect**: +21
- **Restructuring effect**: +14
- **Restructuring costs**: $\Delta 56$

*Performance targets for 2014 will be presented in May 2014 (tentative)*
Financial Conditions

- Extensive restructuring efforts result in net D/E x1.46 at FY2013 year end
- Target net D/E x1.2 through improvement in operating income, asset liquidation and divestitures

Note: FY2013 NDER = ×1.56 (including projected retirement obligations)
Effect of investments

*Focus 90% of growth investments on “High Functional Products” and “High Value Added Polymers”*

**FY2011-2013 Growth investments**

**Investment effect (50 themes)**

- **High Functional Products**
  - Phenol Chains
  - Others
- **High Value Added Polymers**
- **Heraeus Dental M&A**

- **130 billion yen**

**Effect of current growth investments will result in rapid expansion after FY2014**
Steady Progress in Two Key Areas

- Steady progress in “High Functional Products” and “High Value Added Polymers”
- Accelerate further expansion

(Operating income: billion yen)
Growth Trajectory

(Operating income: billion yen)

- Restructuring: 14
- Investment effects: 31
- Further restructuring: 10
- Strengthen and Expand
  - "High Functional Products"
  - "High Value Added Polymers"

FY13: 25
Target: 100
1. Financial Results & Outlook for FY2013
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Conclusion

“V-shaped Turnaround”

◆ Extensive restructuring maneuvers in painful manner to pursue growth path

◆ Culmination of portfolio transformation

◆ Early profitability/stable share dividends

◆ Improvement of financial structure
Challenge, Diversity, One Team

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