

Business Risks

Operational and other risk factors that could have an impact on the business performance, share prices and financial position of the Mitsubishi Rayon Group companies (Mitsubishi Rayon Co., Ltd., consolidated subsidiaries, and equity-method affiliates) are outlined below. Forward-looking statements appearing in this text are based on evaluations by the Group's management at the end of the fiscal year under review (ended March 31, 2009).

(1) Impact of economic conditions and competitors

The Mitsubishi Rayon Group primarily sells materials for the production of a wide variety of finished products including automobiles and transportation equipment, consumer electronics such as electronic appliances and IT devices, clothing, linen, sporting goods, home interior goods, luxury articles, sundry items, building materials, and solvents. Our products are also used in the plant engineering field. Consequently, demand for our products is affected by overall fluctuations in the economy of Japan. In addition, overseas sales accounted for approximately 43% of total sales in the term ended March 2009, which means that the Group's performance is also affected by global economic trends.

The Mitsubishi Rayon Group conducts business operations in Japan, East Asia and the United States. Regarding our Group companies based in East Asia and the United States, the conversion of foreign currencies into yen exposes the Group to possible currency translation losses as a result of exchange rate fluctuations. With regard to imports and exports by Group companies based in Japan, exchange rate fluctuations (primarily movements in the Japanese yen against the U.S. dollar) can have a significant impact on our earnings performance and financial position. In such cases, normally it is the yen's appreciation against the U.S. dollar which has a strong negative impact on earnings performance.

Regarding the Group's corporate bonds and loans payable, short-term loans are exposed to the impact of interest rate fluctuations. It is also possible that corporate bonds and long-term loans will be affected by interest rate fluctuations over a longer period.

The Mitsubishi Rayon Group holds equity securities in its investment securities portfolio, while a portion of pension assets has been invested in stocks issued in Japan and foreign-denominated bonds. Consequently, movements in the

stock and bond markets could have a material impact on our business performance and financial position.

The Group manufactures and sells chemical products related to MMA (methyl methacrylate), acrylic fiber and other synthetic fibers, and also procures petrochemical raw materials and other chemical products to manufacture these products. At the same time, the Group purchases fuel for in-house power generation. Prices for these raw materials and fuels fluctuate in response to demand conditions, and a delay or shortage of supply due to an accident at the supplier's end could have a negative impact on the Group's business performance.

The Mitsubishi Rayon Group primarily engages in chemical and fiber operations, and under current conditions an intensification of our competition with rivals appears unavoidable. Resultant changes in supply and demand conditions as well as fluctuations in market prices could have a negative effect on the Group's business performance. Among the Group's core businesses, regarding such products as MMA monomers, acrylic resin pellets, acrylic resin sheets, and carbon fibers, production overcapacity may become apparent when a previously planned boost in production results in a temporary imbalance in supply and demand due to the current global recession. This could have a negative impact on the Group's earnings performance.

Large-scale natural disasters, such as earthquakes, typhoons and flood damage, could halt production and prevent the execution of normal business activities, which would also hurt the Group's earnings performance.

(2) Risks associated with product sales and manufacturing

The Mitsubishi Rayon Group sells chemical products (including some that are subject to regulation as hazardous substances), many of which require that specific precautions be taken when handling them. We always provide customers with product information which includes a list of the potential dangers involved in the handling of these substances. Nevertheless, there exists the possibility of an accident occurring during the transport of hazardous substances. Also, despite our strict quality assurance system which involves the implementation of various measures, there is also the possibility of claims being filed for faulty products or plant engineering at the time of installation.

With regard to manufacturing, we make the implementation of environmental preservation and safety measures a top priority. However, our operational bases consist of chemical plants, and the main manufacturing processes involve the handling of various chemical substances. Consequently, there is always an inherent danger involved in the conduct of such operations.

In the case that any of the above-mentioned risks is manifested, there is a possibility of a negative impact on our earnings performance.

In the past, the Group has used asbestos in some of its products. Regarding the asbestos used in some buildings and equipment, we have since undertaken the necessary safety countermeasures and introduced substitutes. To date, one former employee has been awarded workers' compensation for work-related health damages. There have been no inquiries or complaints from people living in the vicinity of our plants. We will continue to implement regular health checkups for our employees.

Future developments have the potential to impact the Group's business performance.

(3) Overseas business activities

The Mitsubishi Rayon Group conducts overseas business activities in East Asia and the United States. With regard to our overseas operations, there exist numerous risks, including unanticipated changes in laws and regulations, dramatic changes in political systems, difficulties in hiring qualified personnel, problems related to inadequate industrial infrastructure, and the possibility of social unrest.

The Group signed an agreement on November 11, 2008 to acquire the outstanding shares of the Lucite International Group Limited and make it a wholly owned subsidiary of the Company, and began the necessary procedures for share acquisition. Following the completion of the acquisition, Mitsubishi Rayon will further expand its overseas activities, which entails further potential risks. The resultant increase in interest-bearing debt could have a negative impact on the Group's financial position in the event of a rise in interest rates.

Regarding the acquisition of Lucite, we received approval from the antitrust authorities in all related countries, and completed the legal procedures on May 28, 2009.

The Group is planning further investment in overseas

markets. However, there is a possibility that a fluctuation in market prices and delays in construction may prevent operations for commencing on schedule.

In the event that these risks are materialized, this could have a negative impact on the Group's business performance.

(4) Lawsuits, etc.

On December 11, 2003, Mitsubishi Rayon Co., Ltd. received a Recommendation from Japan's Fair Trade Commission (FTC), in which it asserted that the Company was in violation of the provisions of Article 3 (unreasonable restraint of trade) of the Antimonopoly Law with regard to its PVC (polyvinyl chloride) resin modifier business. The FTC asserted that an agreement with certain other manufacturers of PVC resin modifier to raise the sales price of the product in question, which would be an obstacle to free market competition, constituted a violation of the Antimonopoly Law. Mitsubishi Rayon has filed a Notification of Rejection of Recommendation by the Fair Trade Commission, and has initiated judicial proceedings.

The results of these judicial proceedings have the potential to negatively affect the Group's earnings performance.