Questions from the Internet Briefing for Institutional Investors and Analysts on Mitsui Chemicals Group's Consolidated Financial Results for Fiscal 2023

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Reference	Results for FY2023 & Outlook for FY2024

Q&A

■Life & Healthcare Solutions

Q1. Please explain the background behind the high level of operating income before special items of over 10 billion yen in the Life & Healthcare Solutions segment in Q4 FY2023 (January to March). Please also explain the reason for the expected decrease in the period from H2 of FY2023 to H1 of FY2024.

A1. In Q4, our operating income before special items increased mainly due to higher sales volume both due to a recovery from the negative impact from inventory level adjustments in vision care, and also being the domestic demand season for agrochemicals. For vision care, in FY2023, we were unable to recover the sales decline during H1 caused due to inventory level adjustments within H2. However, demand is recovering, and we expect sales to grow again in FY2024. In agrochemicals, sales increased mainly overseas after overcoming the impact of inventory level adjustments. We expect demand to remain firm also in FY2024. However, since the domestic demand season falls in H2 of the year, we anticipate a decrease in operating income before special items in the period from H2 of FY2023 to H1 of FY2024 in agrochemicals.

Q2. In the Life & Healthcare Solutions segment, it seems to me that you can expect an increase in profit in FY2024 given the expected increase in sales volume driven by sales expansion in sub-segments such as vision care, agrochemicals, and oral care in the period from H2 of FY2023 to H2 of FY2024, as well as the fact that one-time and other expenses were incurred in FY2023 when the JV was launched for nonwovens. Despite that, you only forecast a slight increase in operating income before special items. So, please explain factors, if any, that may cause any decrease of profit.

A2. In agrochemicals, we expect an increase in sales volume in the period from H2 of FY2023 to H2 of FY2024, but we also plan to steadily implement investment in resources, including R&D expenses and registration maintenance fees. In vision care, we expect an increase in sales volume, but we also expect higher fixed costs due to operation of a new plant to handle the increased sales volume. In oral care, although our profitability is improving compared to the past, we do not expect a significant increase in operating income before special items in FY2024. In nonwovens business, although we plan to improve our profitability through price increases and other measures, we do not expect a significant increase in operating income before special items in FY2024, due to the continued severe supply and demand environment mainly for hygiene materials such as for diapers.

Q3. With regard to agrochemicals in the Life & Healthcare Solutions segment, I am aware that sales of TENEBENAL™ remained firm in FY2023, while the sales of

dinotefuran were impacted by inventory level adjustments. Please explain the current environment.

A3. Sales of dinotefuran were impacted by inventory level adjustments in FY2023. However, we expect sales to remain firm in FY2024. Since TENEBENAL™ has only been on the market for a short time, sales of the product expanded in FY2023. We expect to further expand its sales also in FY2024.

Q4. Please explain the sales situation of vision care in the Life & Healthcare Solutions segment in North America.

A4. Regarding products for North America, we continue to sell to Costco, and Costco itself is expanding its market share in North America, so our sales volume of products for North America is also increasing. We plan to expand our sales volume, also including sales volume of products sold to online eyeglass retailers, in addition to sales volume of products sold to Costco.

■Mobility Solutions

Q5. Please explain the background behind the increase in operating income before special items in the Mobility Solutions segment in the period from Q3 (October to December) to Q4 (January to March) of FY2023.

A5. Our sales volume of elastomers, mainly TAFMER™, increased due to continued firm demand for those as solar cell encapsulants. Moreover, in the solutions business, our operating income before special items has increased to some degree as orders received by ARRK have been recovering and sales usually tend to be concentrated in Q4. In addition to the foreign exchange impact, terms of trade for PP compounds have improved.

Q6. Please explain the reason for the projected increase in your sales volume in the outlook for FY2024 for the Mobility Solutions segment despite the fact that global automotive production is forecasted to remain flat. Please also explain the anticipated worsening of terms of trade regarding elastomers.

A6. The most significant increase in sales volume is expected for elastomers, and we anticipate an increase in sales volume due to firm demand for TAFMER™, particularly for use as a solar cell encapsulant. In FY2024, we do not anticipate an environment where automotive production volume will increase significantly, but we believe we can solidly increase our sales, especially in North America and Japan, where we have strengths in PP compounds. Although demand for TAFMER™ as a solar cell encapsulant is growing, we anticipate that demand will temporarily weaken relative to supply as competitors plan to conduct large-scale expansion in FY2024, so we have factored the impact in our forecast as the worsening of terms of trade.

Q7. As for TAFMER™ in the Mobility Solutions segment, please explain how you consider the situation of inventory level adjustments regarding solar panels in China. Please also explain when the new plant in Singapore is scheduled to commence its operation.

A7. We anticipate that demand for TAFMER™ as a solar cell encapsulant will remain firm also in the future, but we will also continue to carefully monitor movements of inventory level adjustments regarding solar panels. We are smoothly proceeding with our expansion in Singapore and plan to complete construction of the new plant by the end of FY2024 and to commence its commercial operation in FY2025.

Q8. Please explain how the tightening in the U.S. of tariff policies for solar panels made in China will impact TAFMER™.

A8. Regarding the increase of tariffs on Chinese products in the U.S., not only TAFMER™ but also all related products may be impacted by the resulting changes in the supply chain, so, we believe it is necessary for us to respond reliably to such changes, and we will continue to monitor how the situation develops in the future.

■ICT Solutions

Q9. Please explain the background behind the decrease in operating income before special items in the period from Q3 FY2023 (October to December) to Q4 FY2023 (January to March) in the ICT Solutions segment. Please also explain the background for the decrease in Q4 from the previous forecast.

A9. In Q4, the decrease was due to the worsening of terms of trade caused by rise in raw material prices in packaging films and coating & engineering materials, as well as increased fixed costs caused by the impact of levies. The decrease compared to the previous forecast was mainly due to higher fixed costs and lower operating rates of APEL™ as a result of a delay in demand recovery.

Q10. Please explain the factors behind the expected increase in operating income before special items in the outlook for the period from FY2023 to FY2024 in the ICT solutions segment, while focusing mainly on the trends for each product.

A10. The expected increase is mainly due to sales volume increase. With regard to EUV pellicles, we expect to expand its sales. In addition, as for ICROS™ Tape, demand has been recovering since H2 of FY2023, and we expect its sales volume to increase also in FY2024. Regarding APEL™, recovery of demand for use in smartphones has been delayed, but we anticipate a gradual recovery from FY2023. In addition, we expect an increase in sales volume of coating & engineering materials due to firm demand for mono-material packaging materials.

Q11. Please explain the sales situation of EUV pellicles in FY2023. Please also explain how much year-on-year sales growth you expect for FY2024, including the status of the improvement of EUV transmittance and expansion of adoption.

A11. Our EUV pellicle sales revenue increased by 30% in FY2023, compared to the previous year. Since demand from customers is increasing in general, we expect to increase the sales revenue by approximately 50% year-on-year also in FY2024 by expanding its sales in response to increasing customer demand. With regard to the improvement of transmittance, we plan to accelerate the development of CNT-based pellicles in particular.

■Basic & Green Materials

Q12. Please explain the breakdown of the expected increase in operating income before special items in the period from FY2023 to FY2024 in the Basic & Green

Materials segment. Please also explain the inventory valuation difference in the outlook for the period from FY2023 to FY2024.

A12. We expect to improve profit by around 3.0 billion yen mainly through the removal of impact of inventory evaluation losses incurred in FY2023, around 3.0 billion yen through the elimination of the impact of mechanical issues occurred in FY2023, and around 8.0 to 9.0 billion yen through the impact of sales price increases. We incurred inventory valuation losses of around 2.5 billion yen in FY2023 (an inventory valuation loss of around 6.0 billion yen in H1 and inventory valuation gains of around 3.5 billion yen in H2) due to naphtha price fluctuations. We expect inventory valuation gains of around 0.5 billion yen in H1 of FY2024.

Q13. Please explain the current progress of the B&GM segment with respect to the degree of certainty of improvement in terms of trade through sales price increases planned for the period from FY2023 through FY2024. Please also explain how you think about the risk where the supply and demand environment may deteriorate further from the current situation.

A13. We mapped out our plan to increase prices of products mainly including polyolefins in January 2024, and we have commenced negotiations on this matter with our customers. Some customers have already accepted the price increase, and we recognize that, as an overall direction, we are in an environment where we can gain our customers' understanding toward the price increase. We will also proceed with the price increase for basic chemicals and polyurethane products in Japan. Regarding the supply and demand outlook, we expect that severe environment will continue also in FY2024, and we expect the cracker operating rates to be around 80% in FY2024 through the elimination of the impact of the mechanical issues that occurred in FY2023. Furthermore, we cannot say that there is no risk that the supply-demand balance will further deteriorate in the future, but our forecast for FY2024 is already based on the premise of low operating rates.

Q14. In the outlook for FY2024 for the Basic & Green Materials segment, as fixed costs and other costs are expected to deteriorate from FY2023 in a situation where the cracker operating rates will not increase, I consider that you should promote further cost reduction. Please explain what kind of problems you are aware of.

A14. Although we are currently promoting business restructuring by making decisions on restructuring measures and other means, it will still take some time before we are able to actually shut down the plants**.** Since we have many plants in operation at this point, maintenance and repair expenses and other expenses necessary to maintain production also continue to be incurred. We are promoting cost reduction in our departments, including indirect departments, but maintenance and repair expenses are increasing due to rise in labor costs and construction-related material costs, so we expect that fixed and other costs will deteriorate in FY2024, compared to those we incurred in FY2023.

■Group-wide

Q15. Please explain the specific non-recurring items that are incorporated in the outlook for FY2024.

A15. We anticipate removal and other expenses, including those for the removal of plants that have shut down.

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