

Questions from the Internet Briefing for Institutional Investors and Analysts on Mitsui Chemicals Group's Consolidated Financial Results for 1st Half of Fiscal 2024

Date	November 7, 2024
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Reference	Results for 1st Half of FY2024 & Outlook for FY2024

Q&A

■Life & Healthcare Solutions

Q1. As for the vision care business, please explain the status of the new plant that started its operation in January 2024 and the current demand trends in that business area.

A1. Although our sales volumes declined in H1 of FY2023 due to the impact of inventory level adjustments among our customers, we recognize that the current demand is expanding as expected due to elimination of negative impact from inventory level adjustments. The new plant is operating smoothly, and we recognize that it is contributing to an increase in our operating income before special items because our sales volumes is growing in response to the expanding demand.

Q2. As for the nonwovens business, you mentioned that your sales volumes have increased due to the business integration. Please explain the effects of the business integration. In addition, the hygiene materials market is facing a challenging market environment, so please also explain the situation regarding the terms of trade and related matters for your high-performance nonwoven product lines.

A2. Although our sales volumes have increased due to the business integration, we have not yet achieved a significant increase in our operating income before special items, because fixed expenses have also increased. The hygiene materials market continues to face a challenging market environment, but our high-performance nonwovens for hygiene materials have captured added value. Therefore, we will reduce the production of general-purpose products and also streamline the operations to improve the profitability and expand our high-performance hygiene materials and industrial materials which are our core offerings.

Q3. You mentioned that some impact of inventory level adjustments is expected to remain in your agrochemicals business in H2 as well. Please explain the situation including year-on-year comparisons.

A3. Dinotefuran is a relatively new product in the Brazilian market, and it is experiencing some impact from inventory level adjustments occurring in the market. Conversely, our sales volume of TENEBENAL™, which is sold mainly in Asia, has grown significantly year-on-year, because it is a newly introduced product. Given this situation, our global sales volumes have remained firm, and we expect them to remain so in H2 as well.

■Mobility Solutions

Q4. Please explain the background behind the decline in operating income before

special items in the period from Q1 (April to June) to Q2 (July to September), including the major trends in this segment. Please also explain the background behind the expected decline in profits from H1 to H2.

A4. Our sales volumes remained firm also in Q2, following a favorable performance in Q1. In Q1, the PP compound business showed profit from time lag in sales price formula due to fluctuations in raw material prices. However, the amount of time-lag effects has declined in Q2, thus a decrease in the profit is seen compared to Q1. In addition, fixed costs have increased from Q1 to Q2 due to the impact of regular maintenance in elastomer which have relatively large facilities.

Although we expect sales volumes to remain steady from H1 to H2, the amount of the time-lag effects in the PP compound business that occurred mainly in Q1 is forecasted to decline. In addition, we also expect an increase in fixed costs such as levies in H2.

Q5. It seems that you are forecasting an increase in the sales volumes in H2 compared to both the same period last year and H1 of the current fiscal year. Please explain whether you can gain market share in composite materials and elastomers or expand the adoption of them, in a situation where automobile production volumes are stagnating.

A5. Among composite materials, the PP compound business is performing well in the North American market, one of our focus markets, and we have been able to secure a spread through the raw material price formula in our terms of trade. In the performance compounds business, we expect an increase in our sales volumes, partly due to the expanding adoption in automotive and other applications. Regarding elastomers, the demand for synthetic rubber has been expanding, mainly in automotive applications, and the sales volume of EPT has also been increasing.

Q6. As for the situation regarding the sales volume and terms of trade of TAFMER™, please explain the changes in the period from Q1 (April to June) to Q2 (July to September) and from H1 to H2, including trends in demand and the situation of your competitors.

A6. Our sales volume of TAFMER™ increased over the period from Q1 to Q2. We also expect the sales volume to continue increasing from H1 to H2. With regard to TAFMER™ used as a solar cell encapsulant, inventory level adjustments regarding solar panels occurred in H1. However, since we are starting to see signs of recovery, we forecast the sales volume to recover. TAFMER™ has long been used for many applications in addition to the solar cell encapsulant. The demand for TAFMER™ is remaining firm for applications mainly including automotive applications, and we are also currently advancing the expansion into other applications, therefore, the overall sales volume of TAFMER™ is increasing.

As for the worsening of terms of trade regarding TAFMER™, we experienced developments as initially projected both in the results of H1 and the annual forecast, and there have been no significant changes. We think that, due to decline in sales volume of solar panels caused by the inventory level adjustments, the solar panel manufacturers prioritized reducing

manufacturing costs, resulting in an increased use of inexpensive EVA employed in mid- to low-performance solar panels. As the inventory level of solar panels becomes adjusted, we forecast that demand for high-performance products that employ TAFMER™ will recover. Although the market conditions, including competition, are expected to remain tough for the time being, we expect that the supply and demand environment will gradually improve as demand grows.

Q7. I understand that the feature of TAFMER™ is its high compatibility (the property of becoming homogeneous when mixed with other resins). Please explain whether it is correct to understand that TAFMER™ continues to maintain a strong competitive advantage in compound applications due to this property. Please also explain whether it is correct to understand that the knowledge that you have accumulated throughout the history of the development of applications, such as the compatibility between resins, has led to your competitive advantage, in terms of the applications of TAFMER™ as an additive or compound.

A7. TAFMER™ originally started as a resin modifier, and we have continued the development of its new applications for the past 30 years. As a result, it is now used in various applications and maintains high profitability. Throughout the history of the development of its applications, there have been fluctuations in operating income before special items, depending on its applications and timing, and we aim to achieve further growth by not only continuing to develop applications that leverage the strengths of this product but also by expanding the regions in which we market this product. In addition, we strive to continue our development in response to the needs of the society by utilizing the knowledge we accumulated through our previous developments.

■ICT Solutions

Q8. Please explain the changes in operating income before special items in this segment in the period from Q1 (April to June) to Q2 (July to September), including the trends in our major products. Please also explain the background behind the increase in the profit over the period from H1 to H2.

A8. The smartphone market has been on a recovery trend, and our sales volume of APEL™ has also remained firm. In the semiconductor market, we recognize that while the high-functionality sector has performed well, there has been a variation in performance in other sectors. Since our ICROS™ Tape is employed in a wide range of areas, sales volume has remained firm. Due to the capacity expansion in Taiwan, costs such as depreciation expenses have increased since Q2. However, we plan to expand the sales volume, mainly in high-functionality sector in H2 and thereafter. In semiconductor-related applications, the sales of EUV pellicles, used in high-performance applications, as well as DUV pellicles remained firm. We expect our EUV pellicle sales revenue to increase by 50% year-on-year, as initially planned. As we expect the semiconductor market to further recover in the period from H1 to H2, we have planned this increase in the sales volumes of our products.

■Basic & Green Materials

Q9. Please explain the background behind the decrease in the operating income before special items in the period from Q1 (April to June) to Q2 (July to

September). Please also explain the reason for the expected decline in the profit from H1 to H2 in the annual forecast and that from the initial forecast, including the changes in inventory valuation gains and losses.

A9. We had a favorable start in Q1, partly due to inventory valuation gains and time-lag effects resulting from rising raw material prices. However, in Q2, our operating income before special items declined by 10.6 billion yen compared to Q1, due to the diminished inventory valuation gains and time-lag effects as well as approximately 7 billion yen negative impact from the failure at the ethylene plant in Osaka Works. While inventory valuation gains and time-lag effects in Q1 were approximately 2.5 billion yen, they shrank to approximately 500 million yen in Q2. This decrease in inventory revaluation gains and time-lag effects contributed to a decline in profit of approximately 2 billion yen compared to Q1. In H2, we expect inventory revaluation losses and time-lag effects of approximately 2.5 billion yen due to falling raw material prices, which is anticipated to contribute to a reduction in profit of approximately 5.5 billion yen compared to H1. In H2, we expect the price increases we have been implementing since the beginning of the fiscal year to take hold, as well as the impact of the said trouble to diminish. Still, we expect a decline in our profit by 4.8 billion yen compared to H1, due to an increase in fixed costs by seasonal factors such as levies and a deterioration of equity method investment income, in addition to inventory revaluation losses and time-lag effects. Our annual forecast for our operating income before special items has deteriorated by 14 billion yen from the initial forecast, mainly due to the deterioration of equity method investment income in the phenol business in China, in addition to the negative impact of 11 billion yen from the failure that occurred at our ethylene plant. We recognize that the phenol market conditions in China is extremely severe and that we need to further improve our business structure.

Q10. In the explanation you provided in August 21, you mentioned that you would make every effort to ensure that the annual impact of the failure at the ethylene plant in Osaka Works does not reach 10 billion yen, but in this announcement, the annual negative impact of the failure increased to approximately 11 billion yen. Please explain why a negative impact of approximately 4 billion yen will occur even after the resumption of the plant operations in October, and how long this situation will continue. Please also explain whether support for raw materials and products is being provided from the Ichihara Works, or whether you have procured them from other companies.

A10. On August 21, we explained that we aim to confine the negative impact of the failure at the ethylene plant in Osaka Works to 10 billion yen or less per year. We are still in the process of promoting our measures to minimize the amount of negative impact, and we have factored a negative impact of 11 billion yen into the annual forecast this time. The cause of the negative impact at Osaka Works was a failure in the steam supply system of the ethylene plant, so there will be no problems with production of ethylene after the resumption of the plant's operations. However, since the ethylene plant is not only responsible for supplying raw materials to the derivatives, but also for providing the steam necessary for its operation, after the resumption of the operations, we need to control the steam balance of the entire industrial complex including the derivatives, and therefore the

negative impact of approximately 4 billion yen is still expected to remain in H2. Considering that the impact of the problem will be mitigated over time through the effect of various measures to be taken, we expect that the amount of the negative impact in H2 will be more significant in Q3. We will continue to aim to reduce the amount of the negative impact to 10 billion yen or less per year.

During the period when the plant's operation was suspended in Q2, we responded to the situation to minimize the impact on our customers while receiving support from other companies, in addition to transferring inventory from Ichihara Works. Ethylene production has been smooth since the plant's operations were resumed, and we do not expect to procure additional ethylene from outside sources in H2.

Q11. With regard to your affiliate Kumho Mitsui Chemicals Inc., the increase in the production capacity of methylene diphenyl diisocyanate (MDI) has been completed. Please explain the expected impact of this capacity increase on your operating income before special items in H2.

A11. We have completed the capacity increase of 200,000 tons, and the production facility is operating smoothly. Demand for MDI is expanding globally, and our current sales of MDI are also firm, so we expect that this increase in production capacity, combined with the shift to high-functionality products, will contribute the expansion of sales volume in H2, thus leading to the increase of operating income before special items.

Q12 With regard to the business restructuring included in the results for H1 and the annual forecast, please explain the details of your initiatives and the amount of impact of these initiatives.

A12. As part of these initiatives, we have already suspended PTA production in August 2023 and determined the suspension of phenol production at Ichihara Works in March 2024. The amount of positive impact was approximately 2 billion yen in H1, and it is expected to be approximately 4 billion yen for the annual forecast.

■Group-wide

Q13. I understand that you have adopted a policy to reduce policy-held shares to zero in principle. You have contributed your policy-held shares to a retirement benefit trust, and as a result, the assets related to retirement benefits have decreased by approximately 12 billion yen, compared to the end of the previous fiscal year in the statement of financial position. So, is it correct to understand that you have already reduced your policy-held shares equivalent to approximately 12 billion yen? Please explain the progress of the reduction of policy-held shares. In addition, there are increasing cases of other companies conducting share buybacks in connection with the sale of policy-held shares. Please explain your thoughts, given that your price book-value ratio (PBR) continues to be below 1.

A13. Since we have contributed our policy-held shares to a retirement benefit trust, the sale of these shares and their return to the company will result in a decrease in assets related

to retirement benefits. The main factors for the decrease in this financial statement include not only the sale of policy-held shares but also the impact of stock price fluctuations. Going forward, we plan to continue selling these shares in a planned and cautious manner, considering the trends in the stock prices of the shares we hold and their impact on the market. Additionally, we expect to use the cash obtained from the sale of policy-held shares not only for growth investments but also for the agile acquisition of our own shares.

Q14. At the end of H1, your interest-bearing debt decreased by approximately 40 billion yen, and your cash also decreased by approximately 30 billion yen, compared to the end of the previous half. This suggests that your net interest-bearing debt also decreased by approximately 10 billion yen. However, the forecast for the net D/E ratio at the end of the H2 indicates that net interest-bearing debt is expected to increase, compared to the end of the previous half. Please explain the reason for this expected increase. Please also explain whether your recent actions are based on the concept of cash compression, as described by your CFO in the interview article in the Nikkei newspaper in July.

A14. We have set the forecast for the net D/E ratio given at the end of H2 at 0.71, considering our current cash balance forecast and our plan for active resource investment continuing in H2. As we work to effectively leverage our assets, we obviously need to reduce cash, so we recognize that the results of our progress to optimize the cash balance for our global group are also beginning to appear in the results of H1.

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