Questions from the Internet Briefing for Institutional Investors and Analysts on Mitsui Chemicals Group's Consolidated Financial Results for 3rd Quarter of Fiscal 2024

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Reference	Results for 3rd Quarter of FY2024 & Outlook for FY2024

Q&A

■Life & Healthcare Solutions

Q1. Please explain the background behind the decline in the operating income before special items from Q2 (July to September) to Q3 (October to December) in the Life & Healthcare Solutions segment. Please also explain the background behind the expected profit increase from Q3 to Q4 (January to March), including the situation in each subsegment.

A1. The main factors behind the profit decline from Q2 to Q3 include that Q2 coincided with a peak demand period in some overseas markets in the agrochemicals business, as well as shipment timing delays worth a total of around 1.5 to 2 billion yen, which shifted revenue recognition from Q3 to Q4. As for the vision care business, performance remained firm in Q3 as was in Q2. However, the nonwovens business and the oral care business experienced a slight decrease in profit.

The main factors behind the expected profit increase from Q3 to Q4 are also primarily related to the agrochemicals business. In addition to the impact of shipment timing delays from Q3 to Q4, the sales volume is expected to increase significantly for Q4, which coincides with the peak demand period in Japan. We also expect firm sales in other businesses. For the oral care business, in particular, we anticipate a significant increase in sales volumes from Q3 to Q4, driven in part by a scheduled dental show.

Q2. In connection with the terms of trade in the Life & Healthcare Solutions segment, the operating income before special items increased by 3.3 billion yen year-on-year for the period from Q1 to Q3 (April to December) in FY2024, while the full-year forecast indicates a year-on-year increase of 2 billion yen. This implies that the profit for Q4 (January to March) in FY2024 is expected to decline by 1.3 billion yen year-on-year. Please explain the reasons for the decline in Q4.

A2. One of the factors is that we anticipate a rise the prices of raw materials such as naphtha from Q3 to Q4, which is expected to lead to the deterioration in the terms of trade in the nonwovens business. However, since our selling prices are determined based on formulas linked to raw material prices, even if the terms of trade temporarily deteriorate, the deterioration is expected to be resolved in the next fiscal year and beyond.

Q3. Please explain the situation regarding each product in the agrochemicals business.

A3. Although the sales of dinotefuran have been affected by inventory adjustments in Brazil, we expect its sales revenue to be on a par with the previous year. As for TENEBENAL™, we have been expanding the number of countries where it is launched, and its sales revenue has been growing in FY2024 as well, particularly in Asia. Although sales of flupyrimin have yet to reach the same scale as those of dinotefuran and TENEBENAL™, we expect an increase in its sales revenue in FY2024 compared to FY2023.

■**Mobility Solutions**

Q4. Please explain the background behind the high level of the operating income before special items in the Mobility Solutions segment in Q3 (October to December), including the situation in the elastomer and composite materials businesses.

A4. In Q3, the operating income before special items increased by 2.0 billion yen from Q2, reaching 15.1 billion yen. This is because firstly, elastomers including TAFMER™ and PP compounds showed firm sales. Secondly, profits generated from time-lag effects in the sales price formula driven by a decline in raw material prices, mainly in the PP compound business in North America, improved the terms of trade. TAFMER™ continued to see an increase in sales volume from Q2 to Q3, maintaining the year-on-year volume growth trend. Overall, the product is performing well.

Q5. In connection with the terms of trade in the Mobility Solutions segment, the operating income before special items declined by 1.4 billion yen year-on-year for the period from Q1 to Q3 (April to December) in FY2024, while the full-year forecast indicates a year-on-year decline of 6 billion yen. This implies that the profit for Q4 (January to March) in FY2024 is expected to decline by 4.6 billion yen year-on-year. Please explain the reasons for the decline in Q4 compared to the period from Q1 to Q3.

A5. In Q3, we recorded gains from time-lag effects in the sales price formula due to a decline in raw material prices, in the PP compound business—where our selling prices are determined based on formulas linked to raw material prices—mainly in North America. However, in Q4, we anticipate a deterioration in the terms of trade due to time-lag effects, caused by the regular rise of raw material prices due to the impact of cold waves and other seasonal factors. We do not expect a structural deterioration in the terms of trade because products we offer in Mobility Solutions are primarily specialty products where we can maintain a certain level of added value without using sales price formulas. Time-lag effects arising from raw material price fluctuations do occur, but even if the terms of trade temporarily deteriorate in Q4, we expect it to be resolved in the next fiscal year or thereafter. Moreover, since the current raw material prices have not risen as much as anticipated, the terms of trade may not deteriorate as much as expected in Q4.

Q6. Regarding the Mobility Solutions segment, you operate the PP compound business in Mexico. Please explain your thoughts on the move by the United States to impose tariffs on Mexico.

A6. The PP compound business of our Group has so far been expanding through a strategy of local production for local consumption at each of our sites. Among them, we have two bases in the United States and one base in Mexico, and we have established a supply chain system in the North American market. During the first Trump administration, there were also the move by the United States to impose tariffs on Mexico. However, we were able to stably supply our products by allocating part of the production from Mexico to the US in line with customers' production needs. In addition, we have been investing in improving production efficiency at manufacturing lines in each base, thereby building a flexible production and supply system, so we will continue to monitor the situation and respond to changes.

Q7. As for TAFMER™, I think there has been a decline in sales volume for solar cell encapsulant applications caused by the inventory level adjustments of solar panels. Please explain which specific applications have contributed to the increase in overall sales volume.

A7. With regard to TAFMER™ used as a solar cell encapsulant, we were affected by the inventory level adjustments regarding solar panels, but the impact of the adjustments has bottomed out, so we have managed to maintain the sales volume for this application at the same level as the previous fiscal year. The sales volume for automotive applications has been showing steady growth. Simultaneously, we are pursuing expansion into various applications, including high performance packaging materials. Consequently, the overall sales volume of TAFMER™ is on the rise.

■ICT Solutions

Q8. As for the ICT Solutions segment, please explain the background behind an increase in the operating income before special items by 2.0 billion yen, despite a decline in the sales revenue by 1.1 billion yen from Q2 (July to September) to Q3 (October to December). Please also explain the background behind the expected significant increase in the sales revenue of 9.4 billion yen and the expected increase in the operating income before special items of 1 billion yen from Q3 to Q4 (January to March), despite the usual impact from seasonal factors in Q4.

A8. As the sales of EUV pellicles and DUV pellicles remained firm from Q2 to Q3, the operating income before special items, primarily from the semiconductor and optical materials businesses, increased. In the industrial films business, the sales of ICROS™ Tape also remained firm. Overall, we secured operating income before special items of 8.0 billion yen in Q3.

We expect the sales of EUV pellicles to remain firm in Q4 as well, and we are anticipating a growth of approximately 50% year-on-year for the annual sales revenue for this product, in line with our previous forecast.

However, there is a risk of a downturn in profit due to seasonal factors, such as the Chinese New Year and levies, in Q4.

■Basic & Green Materials

Q9. With regard to the operating income before special items in the Basic & Green Materials segment, please explain the impact of naphtha price fluctuations on inventory valuation gains and losses.

A9. The inventory valuation gains and losses (including time-lag effects of sales price formula) in FY2024 are as follows: a gain of approximately 2.5 billion yen for Q1 (April to June), a gain of approximately 0.5 billion yen for Q2 (July to September), a loss of approximately 3 billion yen in Q3 (October to December), and an estimated gain of approximately 2 billion yen in Q4 (January to March). Therefore, we saw an inventory valuation gain of approximately 3 billion yen for H1 (April to September) and nearly break-even for the period from Q1 to Q3 (April to December), and we estimate a loss of approximately 1 billion yen for H2 (October to March). For the full year (April to March), we expect an inventory valuation gain of approximately 2 billion yen.

Q10. As for the Basic & Green Materials segment, please explain the breakdown of the 8.5 billion yen negative impact from the failure at the ethylene plant in Osaka Works in the period from Q1 to Q3 (April to December) of FY2024.

A10. The rough breakdown is as follows: a loss of approximately 2 billion yen due to decrease in sales volume, a loss of approximately 4 billion yen resulting from the deterioration in the terms of trade including an increase in procurement costs, and a loss of approximately 2.5 billion yen due to fixed costs and other costs including maintenance and repair expenses and steam losses during the downtime of the ethylene plant.

Q11. Please explain your thoughts on the impact of the failure at the ethylene plant in Osaka Works on your business on Q4 (January to March) and onward, including the updates on progress with measures to prevent recurrence.

A11. The failure caused a negative impact of approximately 7 billion yen in Q2 and approximately 1.5 billion yen in Q3. Furthermore, we estimate a negative impact of approximately 2 billion yen in Q4, which includes approximately 1 billion yen in removal costs associated with the affected equipment. The financial impact of the failure, excluding removal costs, is expected to improve from a loss of approximately 1.5 billion yen in Q3 to a loss of approximately 1 billion yen in Q4, and we are continuing our efforts to minimize the losses. In addition, the impact for H1 includes a loss of approximately 2 billion yen due to the decrease in sales volume. This was caused by reduced sales to our customers during the downtime of our plant. However, we expect this issue to be resolved as our plant operations recover. Although the impact has persisted into H2, we are implementing measures aimed at fundamental improvements and expect that no significant impact will remain in the next fiscal year.

Q12. It is my understanding that the operating income before special items in the Basic & Green Materials segment in Q3 (October to December) recorded a loss of 4.7 billion yen. Approximately 1.5 billion yen of this loss was due to the failure at the ethylene plant in Osaka Works, while inventory valuation losses accounted for approximately 3 billion yen. Therefore, excluding these factors from the operating income before special items, the profit and loss is nearly flat. Please explain the breakdown, including the status of equity in earnings and the status of each product.

A12. In Q3, the business environment for petrochemicals and basic chemicals remained challenging. With regard to equity in earnings, the challenging business environment continues, particularly in the phenols business in China. On the other hand, in the polyurethanes business, we secured a profit due to the steady equity in earnings of an affiliate related to MDI.

Q13. The MDI production facilities at Kumho Mitsui Chemicals, which have completed their capacity expansion, appear to be operating at a higher-than-expected utilization rate. Please explain the background behind the current high utilization

rate and your perspective on future expansions.

A13. The sales of MDI have been firm and the MDI production facilities have been operating at a high utilization rate even before the completion of its capacity expansion. Furthermore, we recognize that proactive efforts to expand the sales in anticipation of the capacity expansion have contributed to the current high utilization rate. We will consider further capacity expansions, if necessary, taking into account not only the current situation but also the future supply and demand environment.

Q14. Please explain the status of the regional collaboration with other companies to achieve carbon neutrality at ethylene facilities.

A14. The collaboration in western Japan involves many considerations due to the geographical separation of the facilities, but we are steadily advancing our discussions. We will promptly disclose information once the discussions conducted by each company are finalized.

■Group-wide

Q15. Please explain the background behind the decline in equity in earnings from 3.9 billion yen in Q2 (July to September) to 1.3 billion yen in Q3 (October to December).

A15. The equity in earnings declined primarily due to the persistently challenging conditions in the phenols market in China.

Q16. Please explain your current outlook for each segment for FY2025, including your perspective on fixed costs.

A16. In the growth domains, we have businesses that are expected to continue driving the growth of sales volume. In the Life & Healthcare Solutions segment, we will continue to pursue growth centered around vision care and agrochemicals businesses in FY2025 and beyond. In the Mobility Solutions segment, we do not expect any major changes in automobile production volumes, and the situation is uncertain due to factors such as the impact of tariffs to be imposed by the Trump administration in the United States. Even in such circumstances, we aim to achieve growth by expanding our products into multiple applications in growing markets other than the automotive sector. In the ICT Solutions segment, we anticipate continuous growth in semiconductor demand in the cutting-edge field. In addition to this, we intend to expand the sales by capturing demand in applications other than the cutting-edge field, which is expected to recover by FY2025.

In FY2024, our fixed costs have increased due to the operation of new plants and higher sales expansion-related and other costs in the growth domains, as well as higher maintenance and repair expenses due to rise in labor costs and construction-related material costs, and higher labor costs due to inflation both in Japan and overseas. We recognize the need to continuously control fixed costs in these domains for FY2025 onward, while balancing them with the growth in sales volume. In particular, for FY2025, we expect an increase in depreciation and other expenses due to the commencement of commercial operations at large-scale investment projects such as the TAFMER™ plant in Singapore and the high-performance polypropylene plant in Japan, although the commencement dates for such commercial operations are still under consideration. Under such circumstances, we recognize that controlling fixed costs will be crucial to securing profit growth.