

Q&A Summary for CEO Presentation in November 2023

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Place	Hybrid conference (Tokyo Midtown Yaesu and online)
Speakers and Respondents	HASHIMOTO Osamu, President & CEO YOSHINO Tadashi, Senior Managing Executive Officer & CTO NAKAJIMA Hajime, Senior Managing Executive Officer & CFO
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Q&A

■ Life & Healthcare Solutions

Q1. The results for the first half of FY2023 for vision care materials were significantly lower than the previously announced outlook. Please explain the reasons why it was difficult to forecast when inventory adjustments would be completed, and the outlook for the second half and thereafter.

A1. In vision care materials, we raised the price of ophthalmic lens materials, and our customers built up their inventories before the price increase. As a result, distribution inventories accumulated more than we had anticipated. Because of this, the first half results fell short of the outlook. From the second half of FY2023, sales have returned to normal levels, so we believe that the distribution inventories have almost been cleared.

Q2. Please explain the reasons why agrochemical product sales have been firm despite the difficult external environment.

A2. As for agrochemical products, although the business environment in some countries including Brazil has not been necessarily favorable, the sales of dinotefuran in Brazil have remained firm compared to conventional agrochemicals. The reasons behind this are that dinotefuran is still new on the Brazilian market and that customers have been purchasing it for stockpiling. However, we must closely watch how long its sales will remain firm going forward. In addition, we are also expanding new agrochemicals, such as TENEBENAL™, in India and other overseas markets. How much these new agrochemicals will contribute to our profits will also be a key factor. The efficacy of these new products has already been confirmed, so we hold high expectations for them and believe that their sales will grow steadily over the long term.

Q3. As for the oral care business, you mentioned an M&A in the U.S. While the profit level in this business area has improved compared to what it was three or four years ago, the profit margin is still at a low level. Please explain as to whether strengthening investment in this business is efficient from a Group-wide standpoint, and whether you are the best owner of this business.

A3. As for the oral care materials business, the profit level was low for a while after we conducted an M&A in FY2013, but it has been improving recently. In Japan, we have been strengthening our sales networks and distribution channels by investing in SHOFU on top of the dental materials business of our subsidiary Sun Medical. When we considered the next step to take, we realized the weakness of our oral care business in the U.S. As Kulzer's business is based mainly in Europe and its share is ranked medium in the U.S. market, it is necessary to take measures to strengthen our business foundations, not only through M&As but also through alliances. We believe that these measures will allow us to accelerate growth through the launch and expansion of the same products in the European, Japanese, and U.S. markets. In particular, we must improve our position in the U.S. since it is an overwhelmingly large and highly profitable market. It is after we take these expansion measures that we can determine whether

this business will be a new pillar of the Life & Healthcare Solutions segment. Improvement in our profit level over the past two years has been somewhat delayed because we have been focusing on development, but recently, we are seeing results, so we expect profits to increase as development costs decrease. However, although our profit level has been steadily improving recently, it will be difficult to achieve significant growth if we keep the same pace in the future. Therefore, it will be necessary for us to implement measures such as M&As and alliances in the U.S. Accordingly, we recognize our oral care business at this point as one in which we need to further invest resources to make it a new pillar of the segment.

■ ICT Solutions

Q4. As for ICT solutions, you aim to achieve a significant increase in profits toward attaining the FY2025 target; however, currently, the switch to EUV pellicles with 90% transmittance seems to be slower than your expectation. Please explain the current status as to how your customers are shifting from their internally developed pellicles and pellicle-less products to your pellicle products. Also, please explain how you will work toward the commercialization of EUV pellicles using carbon nanotubes.

A4. As for ICT solutions, we aim to steadily grow semiconductor and assembly solutions; in particular, pellicles are one of the key growth drivers. As for EUV pellicles, the current situation is that, in addition to customers that have already decided to adopt our products, some customers that had originally planned not to adopt pellicles are shifting toward adopting EUV pellicles and considering the use of our products. However, the weak demand for semiconductors slowed down our customers' consideration process, resulting in a slower profit growth than we had originally anticipated. Our customers are certainly making progress in their consideration of adopting our products, so we believe that once their consideration process is completed, their contribution to profits will increase. We believe that there are strong market needs for EUV pellicles that have higher EUV transmittance as well as durability. In particular, we have improved EUV transmittance of our products from 88% to 90% as customers' performance requirements have increased. Looking beyond that, we need to develop new pellicles by utilizing new technologies and materials, such as carbon nanotubes. As we find it difficult to develop the next-generation pellicles using only our knowledge, we will pursue joint development with world-leading partners ASML and imec, since they have expertise that we do not possess. This joint development has become possible thanks to our carbon nanotube technology and materials, which our partners found advantageous compared to competitors, and we aim to take advantage of this opportunity to promote the future growth of our EUV pellicle business. As for the contribution to our profits, I cannot provide specific figures here at this point, but we will steadily implement measures toward achieving our ICT solutions targets and increase our overall pellicle market share. In addition, although we were previously unable to produce large pellicles with our own technologies, the acquisition of Asahi Kasei's pellicle technologies—covering large pellicles—through an M&A will allow us to accelerate the development of pellicles for 3D assembly in the back-end process. Through all these efforts, we aim to secure the number one position as a pellicle manufacturer by maintaining our first-mover advantage.

Q5. Please explain what you are thinking about the reorganization of Mitsui Chemicals Tohcello's Packaging Solution business.

A5. When considering future developments of Mitsui Chemicals Tohcello's semiconductor-related and Packaging Solution businesses, we believe that it would be more advantageous for future collaborations and alliances to strengthen them separately. As for the semiconductor business,

by separating it into a new ICT company, it will be easier for us to pursue alliances and other new developments in the future. As for the Packaging Solution business, strengthening of the business foundation is essential since it is difficult to grow in the mature domestic market simply by continuing the business as Mitsui Chemicals Tohcello in its current state. We have been supplying a large quantity of raw material resins to SunTox through our subsidiary, Prime Polymer, so the merger between Mitsui Chemicals Tohcello and SunTox will provide synergies in raw material resins and development. In addition, it enables the newly merged company, RM TOHCELLO, to become number one in terms of market share of a key packaging film market in Japan, strengthening its foundation. Rengo also has a partnership with the Siam Cement Group and is planning to expand its packaging business, including packaging films, in Southeast Asia. Since the packaging market in Southeast Asia is growing, we believe that, by successfully following this trend, we too can acquire growth opportunities. The growth scenario in which we would expand into Asia by taking advantage of the resin technology that Prime Polymer has, together with the film technologies of Mitsui Chemicals Tohcello and SunTox, has led to the realization of this reorganization. We have made this decision because we foresaw a growth scenario in the JV: we will leverage the strengths of Mitsui Chemicals Tohcello by making it the surviving company and holding a share of 34 percent or more.

■ Basic & Green Materials (B&GM)

Q6. As for Basic & Green Materials, please explain how much improvement in capital efficiency and operating income before special items is expected by promoting the second phase of restructuring and bolstering downstream businesses. Also, you have set the FY2025 targets of operating income before special items of 40 billion yen and ROIC of 7%, but please explain if their achievement will be delayed to FY2026 or later given the current situation.

A6. We aim to achieve an ROIC of 8% by proceeding with various measures to promote the restructuring and bolster downstream businesses. However, this ROIC target of 8% has not been derived by adding up the effects of each measure. Under the assumption that we add up profits based on the assets we currently have, we can only expect to achieve a level of 5% to 6%. Therefore, we have discussed how much added value we can increase from this level, and as a result, we have set a target of 8%. In addition, there are many uncertainties involved in each of the measures, so there may be changes as we proceed with specific considerations. It will be difficult to maintain the cycle of generating profits steadily and reinvesting in this segment unless we implement these measures and achieve an ROIC of at least 8%, so we will make every effort to achieve the target. As we are currently in the red, in and after FY2024 we must first get out of the red, and then we aim to increase our profits and improve capital efficiency by promoting restructuring and bolstering downstream businesses, thereby raising our profit level to around 30 billion yen, a figure we have said we can stably generate. In order to achieve our next target of 40 billion yen or more, it will be necessary to further increase our profits through measures such as alliances. We need to revise our original target of achieving 7% in FY2025 due to changes in the current environment, but we aim to achieve it around FY2026 or FY2027.

Q7. As for the phenol business, you explained that you are mulling over downsizing the business in Japan. Please explain the direction of the phenol business including China.

A7. We have three production sites for phenols: two sites in Japan (Ichihara and Osaka) and a JV with Sinopec in China. We are now considering not only how to respond to the current situation,

but also how to utilize these production sites in the future. In addition, the most important thing for us is how to meet the demand for our products by our customers. We are currently considering the optimal production system for phenols taking this perspective into account as well. We cannot tell you today how we are going to utilize each of our production sites in the future, but we plan to explain after we reach a conclusion.

Q8. Please explain the status of the government's support for the transformation of chemical complexes. Also, please explain the status of participation by companies in regions such as Chiba and Osaka.

A8. We have received support from the government in various forms, including a fund to promote GX. As we further promote the transformation in the future, we consider that, in order to form an advanced chemical complex that incorporates the concepts of carbon-neutral crackers and recycling, there will be limits to what the private sector can do alone. Accordingly, various types of support and cooperation, including those from both national and local governments, will become important, especially support with a focus on operating expenses rather than capital expenditures. However, in order to receive the support, we should first make our own efforts for the transformation. To this end, it is important to create a structure in which we can grow competitive derivatives and contribute to industries that Japan is aiming to strengthen, such as semiconductors and automobiles.

Q9. As for B&GM in your explanation of the approach to pursuing business portfolio transformation, it seems difficult to achieve an ROIC of 8% only by bolstering downstream businesses and speeding up restructuring. In addition to that, there is an increase in costs due to the activities of the Green Sustainable Chemicals Division. Please explain how you will generate added value against the cost increase. In particular, please explain how the activities of the Green Sustainable Chemicals Division will ultimately lead to the improvement of the ROIC, including the sales situation of products derived from bio-based hydrocarbons and whether the technology for monomaterial packaging can be profitable.

A9. There will be a temporary increase in cash outflow due to the activities of the Green Sustainable Chemicals Division, and the question here will be whether the shift to green chemicals can really contribute to the improvement of our ROIC while we have set a target of 8%. There is support from the government for capital expenditures, such as the fund to promote GX, and we are currently considering R&D and social implementation within this framework. In order for our business to be sustainable, it is important that products that contribute to the environment are, in the end, properly evaluated and their added value is recognized by the market and consumers. In order to achieve an ROIC of 8%, we must first make our utmost efforts to improve our ROIC by speeding up restructuring and bolstering downstream businesses while combining measures such as the possibility of optimization in the Keiyo area that is being explored by the three companies collaborating in this area. We believe that the activities of the Green Sustainable Chemicals Division will lead to results after these efforts for improving ROIC produce results. Of these, speeding up of restructuring and bolstering of downstream businesses are measures we can carry out independently, so it is necessary for us to first proceed with them. As for collaborations, we have already started considering various possibilities, such as those that would lead to the improvement of supply and demand and strengthening of our foundation. However, given the Antimonopoly Act of Japan, we will proceed with this matter by properly consulting with the relevant authorities.

The Green Sustainable Chemicals Division is working on many themes in parallel, such as

bio-based hydrocarbons, recycling, and the circular economy. The Division has been handling an increasing number of fields, namely areas where we can provide higher added value, such as products we introduced today, and areas where we can enhance our brand recognition. However, it will take some time before these products and technologies contribute to our earnings. Going forward, measures toward carbon neutrality will be essential to facilitate the reorganization of crackers. Therefore, we believe that the progress of the measures taken by the Green Sustainable Chemicals Division will support our Group's future development. When the carbon border tax and the Scope 3 CO₂ emissions regulation are introduced in the future, we believe the added value of our products will increase.

Q10. As for competitive derivatives, please explain whether you are targeting the global market or mainly targeting domestic demand.

A10. It depends on which market each of our products is aimed at and what the situation of each customer is. For domestic chemical complexes, we need to strengthen our domestic business foundation. However, there are some products that we manufacture overseas, such as high-performance MDI. We need to produce distinctive and differentiated products that cannot be imitated by other companies and are tailored to the needs of our customers. At this point, we need to strengthen our domestic business foundation first, and we are not currently thinking of proactively expanding to the international market with products that we consider as competitive derivatives. However, if situations arise where our customers need our materials overseas and it becomes more appropriate to produce them overseas, we may consider expanding our business overseas.

Q11. As for the carbon border tax, we are not hearing much about it in Japan recently. Please explain your thoughts toward the carbon tax when considering the domestic and global expansion of derivatives.

A11. In Japan, the main topic of discussion is not the carbon tax but emissions trading. Meanwhile, overseas, topics such as the carbon tax have begun to be discussed. As we expand globally, not only B&GM, but also Life & Healthcare, Mobility, and ICT products will be subject to the carbon tax. We believe that the carbon tax should be promoted in a way that will not hinder market entry in an unfair manner. In addition, given the need for increasing the added value of green chemical products, we believe that the carbon tax and emissions trading are effective means. In Europe, various measures are being taken ahead of the rest of the world, and we need to consider our own measures. However, it is difficult for one company to do this alone, so the key is how to spread this approach. In promoting a shift to green chemicals, we are holding various discussions with the relevant authorities regarding how to proceed with this matter. In FY2024, some GX transitional bonds will be issued and a system called the GX League will also begin, so the reduction of CO₂ emissions and the promotion of green chemicals will become important. In the future, we need to consider the utilization of systems such as tax mechanisms that will encourage the consumption and utilization of green chemical products. It is necessary to gain the understanding of the broad public that they can contribute by purchasing green chemical products. We will focus on enhancing our product and corporate brand capabilities through these efforts.

Q12. As for the promotion of the second phase of restructuring, please explain the timeline as to whether decisions are to be made between FY2023 and FY2025 and when we will see the effects.

A12. As for the derivatives, we plan to conduct studies for decision making by FY2025, and

therefore we will be able to see the effects after that time. However, if we can make a decision during FY2024, there may be some projects we can execute in FY2025. As for crackers, it will take time to consider them given the restrictions of the Antimonopoly Act, so we plan to determine our direction by FY2025, share it with various parties concerned, and then put it into action. I cannot provide a specific timeline as of this point because there are other parties concerned, but we aim to move the schedule forward as much as possible by speeding up our consideration. As for crackers, we need to consider not just optimizing their production capacities. We also must incorporate facilities and functions that are different from conventional ones, such as those aimed at the shift to green chemicals and recycling, in order to realize advanced chemical complexes. As such, we are envisioning a five-year or ten-year time span for implementing these efforts.

Q13. Toward the achievement of increased added value through bolstering downstream businesses in B&GM, it is possible for you to procure raw materials from outside parties, and I do not think it is necessary for Mitsui Chemicals to own crackers. Please explain what you think about owning crackers and the business operations in the B&GM segment.

A13. As to whether each of the three companies working for collaboration in the Keiyo area will continue to hold their own crackers, we are currently in the process of considering various options including optimization in the future. However, we do not believe that the current form, in which we have crackers on our own and production facilities for derivatives connected to them, will continue 10 or 20 years from now. We are currently discussing, without constraints, as to what the optimal state of the chemical complexes will be in 10 or 20 years from now, and are considering various possibilities including the possibility for us or other companies to ultimately own the crackers.

Since we do not sell ethylene or propylene but manufacture derivatives in an integrated production chain, we have the advantage of chemical complexes in which strengthening the upstream part of our production chain leads to the strengthening of downstream parts. It has been pointed out that the profitability of our crackers is not high, which are located in the most upstream part of our production chain. However, when considering future developments, we must take into account any benefits of our integrated production chain, both tangible and intangible, for our future initiatives such as the shift to green chemicals. The reasons we have provided separate strategies for the growth domains and for B&GM in this presentation are that it is not a good idea for us to have only a single strategy when considering our developments in the future, and that the measures for growth may change between the growth domains and B&GM. As for the growth domains, we aim to pursue a global specialty chemical business through alliances and collaborations to accelerate growth. On the other hand, as for B&GM, we will basically strengthen its business foundation through alliances mainly in Japan.

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