Questions from the Internet Briefing for Institutional Investors and Analysts on Mitsui Chemicals Group's Consolidated Financial Results for 3rd Quarter of Fiscal 2023

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Reference	Results for 3rd Quarter of FY2023 & Outlook for FY2023

Q&A

■Life & Healthcare Solutions

Q1. Please explain the background behind the increased operating income before special items from Q2 (July to September) to Q3 (October to December) in the Life & Healthcare Solutions segment. Also, please explain the reason for the expected increase from Q3 (October to December) to Q4 (January to March).

A1. From Q2 to Q3, the increase was mainly due to higher sales volume in vision care with the resolution of customer inventory level adjustments. In agrochemicals, the demand season for some overseas customers is Q2, so profit was down in Q3 from Q2 for that reason. On top of that, worsening terms of trade in nonwovens pushed profit down from Q2. However, the increase in vision care was greater than the decrease in these.

From Q3 to Q4, we anticipate an increase in fixed costs in vision care due to the launch of operations at the new plant, but we expect an increase in operating income before special items due to an increased sales volume. Q4 is the demand season for agrochemicals in Japan, so we expect an increase there as well.

Q2. You have revised the full-year forecast for the Life & Healthcare Solutions segment downward. Please explain the situation in each sub-segment.

A2. The downward revision is mainly due to the expected decrease in sales volume in vision care and agrochemicals compared to the previous forecast. In vision care, the previous forecast was that we would make up for lower H1 sales in H2. However, we now expect the increase in sales to fall short of the previous forecast. In agrochemicals, the previous forecast was that inventory level adjustments would have a minor impact in South America because dinotefuran is a relatively new agrochemical. However, there has been an impact to a certain extent. In addition, a decrease in seeded acreage in Asia, particularly in India, caused by poor weather conditions has had an impact. Despite these factors, sales of dinotefuran and TENEBENAL™ remain firm. In particular, we expect continued strong growth for TENEBENAL™ in line with the previous forecast because it has only been on the market for a short time.

■Mobility Solutions

Q3. Please explain the background behind the year-on-year decrease in operating income before special items in the Mobility Solutions segment in Q3 (October to December), especially the worsening of terms of trade. Also, please explain the reason for the expected increase from Q3 (October to December) to Q4 (January to March).

A3. TAFMER™ is performing well for solar cell encapsulants compared to the previous Q3. While terms of trade for PP compounds improved in Q3 FY2022 due to lower raw material prices, terms of trade deteriorated in Q3 FY2023 due to rising raw material prices. From Q3 to Q4, we expect an increase in operating income before special items due to an increase in orders in the solutions business in addition to the increase from higher sales in automotive applications.

■ICT Solutions

Q4. There was a significant increase in sales revenue from Q2 (July to September) to Q3 (October to December) in the ICT Solutions segment. Which products were the main drivers of this increase? Also, please explain the factors behind the expected increase in sales revenue from Q3 (October to December) to Q4 (January to March).

A4. The sales volume of EUV pellicles has increased significantly, as we have started to ship products with EUV transmittance of 90% since Q3. In addition, demand in the semiconductor-related market in general has bottomed out and is recovering, resulting in an increase in sales volume from Q2 to Q3, for an increase in sales revenue. From Q3 to Q4, despite seasonal effects such as in China, we expect a slight increase in sales revenue due in part to a recovery in demand.

Q5. Please explain the reason why the increase in operating income before special items in the ICT Solutions segment was only around 500 million yen from Q2 (July to September) to Q3 (October to December), when sales revenue increased by around 7 billion yen.

A5. Sales were up from Q2 to Q3 due to the increased sales volume, but the difference in sales composition impacted profit as the increased sales of APEL™ and others were also from products for relatively low-priced non-optical applications.

Q6. Please explain why the terms of trade for coating & engineering materials improved in the first nine months (April to December) compared to the same period of the previous year.

A6. Many of the products in coating & engineering materials are in niche fields. As such, terms of trade have improved by raising our product prices as well as controlling the drop in selling prices in response to falling raw material prices.

Q7. You have revised the forecast for the ICT Solutions segment downward from the previous forecast. Please explain the outlook for the semiconductor-related market in H2, which is the basis of the forecast. Also, please explain the status of EUV pellicles and ICROS™ Tape, which still appear firm despite the semiconductor-related market's slow recovery.

A7. At the time of the previous forecast, we believed demand in the semiconductor-related market had already bottomed out. As such, the previous forecast was based on the assumption that demand would recover somewhat in H2. However, the recovery in demand has been slower than expected, resulting in a downward revision of sales volume compared to the previous forecast. In addition, although we expected to expand sales of APEL™ in high-value-added XR applications in addition to a recovery in sales volume for smartphones, we now expect a decrease in profit from the previous forecast due to the slowdown in demand for XR devices. On the other hand, EUV pellicle sales came in according to our expectations in Q3. As for ICROS™ Tape, on top of the recovery in general demand, Q3 was demand season, so the sales volume recovered from where it was in Q2.

Q8. Please explain the forecast for the timing of the recovery in demand for semiconductor materials, optical materials, and other products.

A8. Overall, the semiconductor-related market is gradually recovering, but there is a difference in the recovery timing depending on the field of use. As for APEL™, the sales volume in Q3 has recovered from Q2 as a result of the recovery in smartphone production. However, we believe it will still take some time to return to the level it was at around FY2021. Because customer inventory level adjustments began early for ICROS™ Tape, we expect an earlier recovery compared to other semiconductor-related products. We expect a slight increase in its sales volume in the full-year forecast, even compared to the previous year.

Q9. You mentioned that the EUV pellicle sales volume in Q3 (October to December) was firm. Please explain whether there is any change in the outlook for a 30% increase in annual volume compared to the previous year, which you explained in your previous forecast. Also, please explain the situation with shipments of products with EUV transmittance of 90%.

A9. EUV pellicle shipments in Q3 were in line with our previous forecast. The full-year forecast also remains unchanged, and we continue to expect an approximately 30% increase in sales volume compared to the previous year. Since H2, most shipments have been products with EUV transmittance of 90% instead of the previous ones with EUV transmittance of 88%.

Q10. Regarding the improvement of EUV transmittance, please explain the status of joint development of carbon nanotube (CNT)-based pellicles with imec.

A10. As explained earlier, we are working with imec on joint development of CNT-based pellicles. We also have a strong relationship with ASML, the world's only manufacturer of EUV lithography equipment, so the three companies will work together on CNT-based pellicle development.

■Basic & Green Materials

Q11. Please explain the reason for the increase in operating income before special items from Q2 (July to September) to Q3 (October to December) in the Basic & Green Materials segment.

A11. Profit improved by around 10 billion yen from Q2 to Q3. Specifically, around 7 billion yen was from inventory valuation difference, and around 3 billion yen was from recovery from regular maintenance and mechanical issues that arose in Q2.

Q12. Please explain the reason for the significant decrease in operating income before special items from Q3 (October to December) to Q4 (January to March) in the H2 forecast for the Basic & Green Materials segment.

A12. We expect profit to decline by around 10 billion yen from Q3 to Q4. There were inventory valuation gains in Q3 due to higher raw material prices, but inventory valuation losses are expected in Q4 due to lower raw material prices. As such, we expect a negative impact of around 4 billion yen from this. We also expect a negative impact of around 3.5 billion yen from levies such as property tax. On top of this, we expect a deterioration of about 2.5 billion yen from factors such as a decrease in equity in earnings due to deteriorating market conditions for phenol chains and seasonal effects in the polyurethane business, increased inventory fixed costs due to inventory control in response to slowing demand, and increased maintenance and repair expenses.

Q13. You have revised the full-year forecast for the Basic & Green Materials segment downward by 8 billion yen. Please provide a breakdown.

A13. The main factor behind the downward revision is the declining sales volume. At the time of the previous forecast, we had expected demand to recover to the point where the cracker operating rate would be around 80%. However, we now expect the cracker operating rate to fall due to a further decline in demand and from the viewpoint of inventory control.

Q14. Please explain why the cracker operating rate in the H2 forecast has been lowered from the previous forecast and is even lower than the domestic average for the October to December period. Please include the operating rates for each quarter.

A14. At the time of the previous forecast, we expected the cracker operating rate to be around 80% in H2. In the current forecast, the assumption is that the operating rate will fall below 80% in both Q3 and Q4. The downward revision from the previous forecast is due to the fact that we are adjusting the operating rate to control our inventory level to secure cash flow amid a weak demand environment.

Q15. Please explain where you are at in your consideration of reducing domestic production capacity for phenol chains.

A15. We are currently reviewing the optimal production system for phenols. Going forward, we plan to explain when we make any decisions.

Q16. Please explain the expected effects of the several optimization and restructuring projects planned from FY2023 to FY2024 and beyond on operating income before special items.

A16. As for the TDI downsizing, optimization is planned for July 2025, so its contribution to operating income before special items is expected to come in or after FY2025. The sale of our phenols subsidiary has already been executed, and the loss of around 4 billion yen in FY2022 has been improving in FY2023 as a result. As for the PTA and PET plant shutdowns, while the impact of the decrease in depreciation costs is expected to be small because the assets involved are not very significant and have already been impaired, we do expect a certain degree of improvement in operating income before special items in FY2024 and beyond.

Q17. In the November 2023 CEO presentation, you explained your approach to the reorganization of crackers. My understanding is that regional collaborations and cracker reorganization will take time. Considering the current situation of operating income before special items in the Basic & Green Materials segment, it seems that cash flow would deteriorate unless some profitability improvement

measures are taken in the period leading up to the cracker reorganization. What are your thoughts in that regard?

A17. In FY2023, the cracker operating rate has been trending low due to the decline in demand as well as mechanical issues. While certain aspects hinge on demand, we believe that as long as we can secure a cracker operating rate of around 80%, we will not incur losses. For FY2024, we plan to eliminate the losses by improving profitability through such means as cost reductions and price increases in an effort to turn this segment profitable. Until we complete the reorganization of crackers, it will be important to make steady progress in the Basic & Green Materials strategy of improving capital efficiency through restructuring and bolstering downstream businesses. We will announce progress as it is made.

■Group-wide

Q18. Please explain the impact of levies such as property tax on each segment in Q4 (January to March).

A18. In Q4, we expect an impact of around 1 billion yen each for Life & Healthcare Solutions, Mobility Solutions, and ICT Solutions. In Basic & Green Materials, we expect the impact to be around 3.5 billion yen.

Q19. Please explain the non-recurring items in the full-year forecast.

A19. In addition to the fair value revision in conjunction with the splitting of Mitsui Chemicals Tohcello, we expect losses associated with business restructuring, especially in Basic & Green Materials.