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

Date	August 6, 2024
Speaker	NAKAJIMA Hajime, Representative Director, Member of the Board, Senior Managing Executive Officer & CFO
Reference	Results for 1st Quarter of FY2024 & Outlook for 1st Half of FY2024

Q&A

■Life & Healthcare Solutions

Q1. Please explain whether there was any impact caused by your customer's system failure in vision care.

A1. We recognize the impact of this system failure was minor in terms of overall sales, as we have been able to offset it with increased sales to other customers on the back of firm demand.

Q2. As for agrochemicals, it appears that other companies are still facing the impact of inventory level adjustments in herbicides. Please explain the shipment status of your insecticides TENEBENAL™ and dinotefuran. Please also explain whether there is any risk that your market share may be reduced due to the shortage of container ships and whether there are any regional strengths or weaknesses in your shipment volume.

A2. We recognize that sales of our products have remained firm. While there have been some changes in shipment schedules for TENEBENAL™ due to delays in securing container ships, its Q1 sales were firm compared with the year-ago period. The sales of dinotefuran have remained firm despite the impact of inventory level adjustments in some regions.

Regarding issues in container shipping, our customers already have secure inventory, and we do not see a situation where our market share will decline. In addition, the shipment volume by region has remained firm as a whole.

Q3. As for oral care, you mentioned in your VISION 2030 Business Strategy Presentation in June that you expect sales growth of new products and manufacturing process rationalization to contribute to profitability. Please explain the progress.

A3. We are currently working on rationalization in oral care, but the effects were still limited in Q1.

■Mobility Solutions

Q4. Please explain the sales volume of PP compounds in Q1 (April to June) in comparison with the year-ago period and your outlook for Q2 (July to September).

A4. Our global sales volume of PP compounds in Q1 has remained mostly flat year-on-year. While sales volume in Japan and ASEAN has declined due to automotive production slowdown in these regions, sales volume in North America, our major market, has remained firm. We expect that our sales volume will continue to remain firm also in Q2, mainly in North America.

Q5. Please explain the situation on the sales volume and terms of trade for TAFMER™. Please also explain the impact of the production capacity expansion by your competitors.

A5. With regard to TAFMER™, we have factored in our initial forecast for FY2024 the softening of the supply-demand balance due to our competitors' capacity expansion and the deterioration of terms of trade, and we are now seeing these factors playing out as we anticipated. In addition, inventory level adjustments of solar panels in China started earlier than we had expected. As a result, the sales volume has not grown as much as we initially forecasted even though it has shown steady growth compared with the year-ago period. However, we believe that the softening of the supply-demand balance and inventory level adjustments of solar panels will gradually be resolved toward FY2025.

Q6. Please explain the operating rates of TAFMER™ in Q1 (April to June) and Q2 (July to September), given the deterioration in the supply and demand environment. Please also explain whether you are considering postponing the commencement of commercial operation of your new plant that is currently under construction in Singapore.

A6. Our plant in Singapore was undergoing regular maintenance from May to June, resulting in lower operating rates in Q1. In addition, we are conducting the production in Q2 at slightly reduced operating rates. As for the timing of the commencement of commercial operation of the new plant in Singapore, it is still possible for us to make adjustments, so we would like to determine the timing also taking into consideration the supply and demand environment.

■ICT Solutions

Q7. Please explain the sales situation of your major products in Q1 (April to June) and Q2 (July to September). In addition, you mentioned that you expect to increase your EUV pellicle sales revenue by approximately 50% from FY2023. So, please also explain the progress on the sales revenue increase and the improvement of EUV transmittance of your products.

A7. ICROS™ Tape is widely adopted for use in the manufacturing of so-called legacy semiconductors as well as cutting-edge semiconductors, and we ship ICROS™ Tape for both 300mm and 200mm wafer applications. In Q1, the demand for legacy semiconductors, primarily 200mm wafers, did not grow as much as we had expected. In Q2, we expect to increase the sales volume of ICROS™ Tape compared to FY2023. Our shipment volume of APEL™ has been increasing, albeit gradually, mainly for camera lens applications for smartphones made in China. The sales of EUV pellicles were firm in Q1 and remain firm into Q2 as well. In addition, the development of products with improved EUV transmittance is progressing as planned, as we have already commenced the construction of production facilities for CNT pellicles, which have higher EUV transmittance than our existing products.

Q8. You mentioned that the recovery of the semiconductor market is slower than you initially forecasted for FY2024. Please explain as to which specific products are affected.

A8. From the perspective of sales volume, we see that the demand recovery is slower than we expected mainly in legacy semiconductors within the semiconductor market that is related to ICROS™ Tape.

Q9. In Q1 (April to June), fixed costs and other costs increased by 1.9 billion yen compared to the corresponding period of FY2023. Please explain the details of the increase.

A9. Fixed costs and other costs increased due to an increase in overall development expenses attributable in part to the development of CNT-based EUV pellicles.

■Basic & Green Materials

Q10. Please explain the factors behind the improvement in operating income before special items by approximately 10 billion yen from Q4 (January to March) of FY2023 to Q1 (April to June) of FY2024. Please also explain the outlook from Q1 (April to June) to Q2 (July to September). You have not revised the forecast for this period due to the delay in production restart of the ethylene plant in Osaka Works, but please explain your qualitative outlook, as well as the effect of your sales price increases.

A10. In Q4 FY2023, we recorded approximately 4 billion yen in levies such as property tax under IFRS accounting standards, but there was no recording of such levies in Q1 FY2024, which reduced our fixed costs. Also, the effect of the sales price increases we have been promoting for products mainly including polyolefins has gradually started to emerge in Q1. In addition, we also benefited from inventory valuation gains and time-lag effects of sales price formula of around 2 billion yen due to the rise in naphtha prices. Regarding our outlook from Q1 to Q2, we will not have the inventory valuation gains and time-lag effects of sales price formula that were recorded in Q1, and we would have to incur the costs regarding the delay in production restart of the ethylene plant in Osaka on top of costs for regular maintenance. Meanwhile, we anticipate the effect of sales price increases to be around 1 billion yen and also anticipate the impact of business restructuring to reduce fixed costs by around 1 billion yen.

Q11. Please explain how much you expect in the combined impact of inventory valuation and the time-lag effects of sales price formula in Q1 (April to June) and Q2 (July to September).

A11. The combined impact of inventory valuation gains and the time-lag effects of sales price formula was slightly more than 2 billion yen in Q1, but we do not expect such impact in Q2.

■Group-wide

Q12. Please explain the impact of the delay in production restart of the ethylene plant in Osaka Works. Please also explain the details behind the delay.

A12. We discovered a failure in the steam supply system of the ethylene plant during the process of relaunch after completing the regular maintenance of the plant. Given the time required for matters such as procuring materials and installing parts, we currently expect that it will take approximately two to three months for production operations to resume.

We will work on this matter so that there will be no delay from this estimate. We are currently examining in detail the impact of this delay. In the meantime, we are also working to minimize its impact on our financial results through ethylene sharing with other companies and production at an alternative location, Ichihara Works, by operating it at full capacity.

Q13. Do you consider that this delay at the Osaka ethylene plant is a short-term event and will not affect your collaboration with Asahi Kasei and Mitsubishi Chemical on carbon neutrality of ethylene production facilities in the western Japan area?

A13. We consider that it will not affect the three-company collaboration, and we are continuing to work on exploring options to promote this collaboration.

Please note that this document has been translated from the original Japanese into English for the convenience of our stakeholders. The information was originally provided in Japanese. If there is any discrepancy, the Japanese language version is the official document and is available on our Japanese language website.