

Q&A Summary for CEO Presentation in June 2022

Date	June 2, 2022 15:00-16:30
Place	Online conference
Speakers and Respondents	HASHIMOTO Osamu, President & CEO YOSHINO Tadashi, Senior Managing Executive Officer & CTO NAKAJIMA Hajime, Senior Managing Executive Officer & CFO
Reference	FY22-1 CEO Presentation posted on June 2, 2022

Q&A

■Group-wide

Q1. Under the current circumstances, now that two months have passed since the new business segment structure was launched, what is your feeling or sense with respect to your target of achieving operating income before special items of 200 billion yen around FY2025?

A1. In FY2022, we expect operating income before special items to exceed 100 billion yen in the growth domains, representing more than 10% growth compared to FY2021. We expect to see continued steady growth going forward toward our challenging target for around FY2025.

■Life & Healthcare Solutions

Q2. What progress has been made in the Life & Healthcare Solutions segment with respect to the targets for around FY2025?

A2. In dental materials, in FY2022, we have launched a new organizational structure to pursue profit growth. In the orthopedic surgery sector, we have formed an alliance with Japan Medical Dynamic Marketing, Inc. (Japan MDM) and acquired a 30% stake in the company in FY2021. We have dispatched our employees to the company and begun collaboration on research and business development, leveraging the technology we have cultivated in dental materials. We believe the business will grow steadily.

Q3. What is your approach to risk management within your growth strategy for the Life & Healthcare Solutions segment? In particular, the agrochemical sector is heavily affected by regulations in each country, while solutions offered in the orthopedic surgery sector involve objects that are inserted into the human body, so the risks include lawsuits. What is your approach to risk management in terms of how you will work on minimizing those risks?

A3. To expand our agrochemicals globally, we are making full use of our overseas resources and knowledge through collaboration with and investment in overseas sales companies to proceed with registration in the target countries. For example, we are collaborating with Iharabras S.A. Indústrias Químicas in Brazil and a local company in India to provide products globally. In order to pursue active development in the medical solutions sector, we need to respond to changing regulations and litigation risk in this field by making use of various risk management methods. We are simultaneously promoting the acquisition of human resources possessing knowledge related to risk management and collaboration with other companies in the medical solutions sector, while leveraging the knowledge from our former pharmaceuticals business. The number of mid-career hires is currently increasing among our employees in this sector.

■Mobility Solutions

Q4. What progress has been made in the Mobility Solutions segment with respect to the targets for around FY2025?

A4. We have invested intensively in this sector over the past five years, and the facilities are becoming operational, so we expect to start seeing steady results. In the materials business, we expect to see growth of TAFMER™ not only in mobility applications but also in solar cell encapsulant applications as explained today along with several other frontier fields, so we expect further growth. Going forward, we will boost our production capacity as necessary. In regard to expansion of the solutions business, factors such as COVID-19 and the semiconductor shortage have caused delays in our customers' product development, which has, in turn, caused delays in our own development. Nevertheless, we will stay on top of major environmental changes such as CASE and MaaS and keep moving forward steadily.

Q5. What does it mean to expand high value-added fields for TAFMER™ in the Mobility Solutions segment? Also, what is behind the expansion of solar cell encapsulants? Does this mean that Mitsui Chemicals Tohcello's encapsulant sheets for solar cells are likewise expanding in the ICT Solutions segment?

A5. While we brought up solar cell encapsulants as an example today, TAFMER™ is used widely not only in mobility applications but in other applications as well. Here, we are shifting from low-profitability fields to high value-added fields and working to improve our product mix. As the need for renewable energy grows, demand for solar panels has increased substantially. In the past, solar cell encapsulants have primarily been made from ethylene-vinyl acetate (EVA), but TAFMER™ is being adopted more and more as polyolefin elastomers offer better performance. As such, we expect to see continued growth. Mitsui Chemicals Tohcello's encapsulant sheets, too, have shifted from EVA to TAFMER™. As competition is fierce in the encapsulants field, we will focus on securing steady profits and strengthening the business foundation.

■ICT Solutions

Q6. What progress has been made in the ICT Solutions segment with respect to the targets for around FY2025?

A6. We brought our ICT-related products all together in the ICT Solutions segment, and we established a new research division dedicated to ICT. This is a high-paced sector, so we are leveraging technical synergy and accelerating collaboration with customers. In regard to the pellicle business, acquisition of the pellicle business from Asahi Kasei will expand our portfolio in this field, and we believe it will lead to future growth. In particular, we expect to strengthen the business foundation in the cutting-edge market of ArF immersion lithography, which is now mainstream, and benefit from synergy between the distinctive technology of Asahi Kasei and our own. Furthermore, we will add new products to our lineup such as large pellicles for flat panel displays that we did not have before, and we can expect to strengthen our business with Asahi Kasei's production technology. We are also rolling out APEL™ into new fields such as AR/VR and developing new ICROS™ Tape products, so we expect further growth. We will keep an eye on return on invested capital (ROIC) while we invest intensively in the ICT Solutions segment through FY2025.

Q7. In regard to the ICT Solutions segment, please tell us about semiconductor-related businesses, especially the pellicle business. To the extent that you can, please tell us about your outlook for EUV pellicles, including the shift to in-house production and whether growth can be expected in FY2022 and beyond. Also, in regard to acquisition of the Asahi Kasei's pellicle business, will this lead to expansion of EUV pellicle sales in terms of customers in addition to the technical benefits?

A7. Currently, in the semiconductor-related market, mobile phone production is being adjusted downward, but overall, we see demand for semiconductors themselves has not changed. There are various views when it comes to EUV, but the production volume has been increasing steadily at our EUV pellicle facility, and customer needs are likewise increasing. As such, we are expecting the EUV pellicle business to turn profitable in FY2022. We expect EUV pellicle demand will continue to be robust. We believe that we now have the resources to grow as a diversified pellicle manufacturer by utilizing the extensive product lineup and technology platform we obtained through the business acquisition. We also have high hopes of expanding collaboration with customers that we did not previously have relationships with.

Q8. You mentioned functional dicing tape as a new field for the semiconductor materials business, but there is a manufacturer in Japan that already has a high share in this field. I do not think it will be easy to capture a share of the market without a product that is considerably attractive in terms of performance or price. Is there a chance of success?

A8. We have been working on development and collaborating with customers to capture future market needs.

■Basic & Green Materials

Q9. Please tell us about your plans to increase operating income before special items to 50 billion yen in FY2030 from 36 billion yen in FY2022 through restructuring and bolstering of downstream businesses in the Basic & Green Materials segment.

A9. In regard to PTA, we made the decision to shut down the production facility at the Iwakuni-Ohtake Works in FY2023, having obtained the understanding of our customers. As for phenols and polyurethane, we had been looking into various restructuring measures such as stopping operations of production facilities and going asset light, but we are currently taking the approach of increasing profit stability through negotiations with other companies. In the not-so-distant future, we should be able to explain our reinforcement measures for these two businesses. We plan to increase operating income before special items to 50 billion yen in FY2030 through these restructuring measures as well as measures to bolster downstream businesses. The idea is to invest in bolstering downstream businesses without increasing our total assets in order to boost and stabilize earnings.

Q10. How much do you expect the restructuring in the Basic & Green Materials segment to contribute to profits? I would like to confirm whether we can expect an increase in profits through the measures you are currently working on such as alliances with other companies in phenols and polyurethane. Also, please explain the reason for the delay compared to your initial outlook.

A10. We cannot give an amount, but we are mainly expecting a contribution to profit from the restructuring in the phenols and polyurethane businesses as well as the shutting down of the PTA facility in Japan. We are continuing negotiations with other parties, and it is taking time to hammer out all the details in the process.

Q11. Please tell us about digital transformation (DX) in the Basic & Green Materials segment. For example, I think DX is very important in supporting the branding of RePLAYER™, BePLAYER™ in the green chemicals business. I would also like to ask about profitability in the recycling business.

A11. We are pursuing DX in the Basic & Green Materials segment by working on a system to increase the accuracy of raw material price predictions through machine learning with past data utilizing AI, as well as a Sales & Operation Planning (S&OP) system that will optimize the supply chain from the purchase of raw materials to production to the sale of final products through the integrated use of related data. In the recycling business, we are working on developing new business models. We believe that DX is an effective tool for adding value to new value chains aimed at realizing a circular economy and carbon neutrality. For example, as previously announced, we have begun activities to ensure traceability by keeping track of the history of recycled products, utilizing IBM's blockchain technology. We are also looking into the possibility of accelerating technical development related to chemical recycling by utilizing DX. At the same time, we are faced with the issue of a lack of internal human resources in the field of DX, so we need to work on securing those human resources.

Q12. Please tell us about how you plan to promote the green chemicals business in the Basic & Green Materials segment.

A12. We recognize that the Basic & Green Materials segment requires a different marketing approach than the growth domains. We are working to calculate and consider the carbon footprint in our business, which is very important for enhancing business value in this field.

■Others

Q13. In your outlook for FY2022, it seems that terms of trade are improving in the growth domains and that, generally speaking, price revisions for the high cost of raw materials are proceeding smoothly. However, currently, naphtha prices have risen further since the outlook was announced. Would you still be able to raise your product prices if they go even higher? Also, my understanding is that among products that have a sales price formula, there are some that are revised about every six months. With raw material prices fluctuating so wildly, will it be necessary to hasten the timing of those price revisions?

A13. In FY2021, there were some products for which the rapid increase in raw material prices could not be fully passed on to the product price. However, with products for which there is a sales price formula, ultimately, we will be able to pass on the increase, although there will be a time lag. As for how much we will be able to achieve ahead of schedule, we have completed negotiations with customers for several products, and we are continuing to work diligently on that. At the same time, we are working diligently on negotiating with customers to promote sales price formulas in the field of functional products.

Q14. Have you seen any price elasticity problems where your sales price increases led to a negative impact on product demand?

A14. At present, we do not see price elasticity problems, and we see continued robust demand. However, if this situation were to become prolonged and raw material prices were to go even higher, it could give rise to the problem of price elasticity, so we will continue to monitor the situation.

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