Questions from the Internet Briefing for Institutional Investors and Analysts on Mitsui Chemicals Group's Consolidated Financial Results for 3rd Quarter of Fiscal 2022

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Speaker	TAKATAMA Yoshinori Deputy General Manager, Corporate Communications Division Director, IR Department, Corporate Communications Division
Reference	Results for 3rd Quarter of FY2022 & Outlook for FY2022

Q&A

■Life & Healthcare Solutions

Q1. There are no changes from the previously announced full-year forecast for Life & Healthcare Solutions, but please explain the situation of individual businesses.

A1. Sales remain firm, driven by vision care materials and agrochemicals. As for terms of trade, although the appreciation of the yen has had a negative impact, selling price increases in domestic agrochemicals and lower raw material prices in nonwovens have brought improvements. As such, we expect the terms of trade to remain mostly flat. Accordingly, we have not changed our previous forecast for Life & Healthcare Solutions.

Q2. When comparing fixed costs in FY2022 versus the previous year in Life & Healthcare Solutions, which subsegments account for the most significant change?

A2. The increase in agrochemicals account for more than half of the change, followed by the increase in oral care.

Q3. Please explain the background behind the deterioration of terms of trade for vision care materials.

A3. As raw material prices rise, we have been working on sales price revisions. However, as we do not engage in regular negotiations with our customers in this business, negotiations have taken time. In FY2022, we revised selling prices, but terms of trade have deteriorated due to this time lag. We have recently settled negotiations on selling price increases, so we expect the effects to gradually manifest going forward.

Q4. Please explain the situation in oral care, including the details of the increase in fixed costs.

A4. Sales remain on par with the year-ago level, despite the impact of China's zero-COVID policy. As for fixed costs, while we had reduced our personnel and costs due to COVID-19 in FY2020 and FY2021, we have been increasing our investments in resources, including personnel and R&D expenses, for future growth. We have also raised wages in response to inflation, particularly in Europe.

■Mobility Solutions

Q5. Please explain the background behind the increase in the profit level of the Mobility Solutions segment.

A5. While the recovery in automobile production has had an impact on volume, a major improvement in FY2022 is in terms of trade. Around half of this is from depreciation of the yen. The remainder includes a contribution from sales price revisions and improvements in our product mix from a shift to high value-added products such as solar cell encapsulants. It also includes the benefit of time-lag effects of sales price formula as raw material prices dropped for PP compounds in FY2022.

Q6. Please explain your thoughts on the terms of trade in Mobility Solutions in FY2023 and beyond if the current exchange rate (around 130 yen to the dollar) holds.

A6. If the current exchange rate holds, we expect that there will be an impact on terms of trade as the yen will be stronger in FY2023 than in FY2022. On the other hand, we are raising selling prices and shifting to high value-added products, so we will continue to work on securing favorable terms of trade.

Q7. Has the increase in electric vehicles had an impact on volume or brought about changes in the profit structure?

A7. Some of our sales are for electric vehicles, but these are still a small percentage of the overall sales volume, so there has not been a significant change in the profit structure.

Q8. Please explain the situation of the solutions business, as it seems to still be sluggish.

A8. We are pursuing new projects through collaboration with emerging original equipment manufacturers (OEMs) and other measures, but demand has not fully recovered due in part to the shift to in-house development at OEMs and the recent economic slowdown, especially in Europe. This has delayed improvement in business performance.

■ICT Solutions

Q9. Please explain the trend in sales of major products in the ICT Solutions segment.

A9. APEL™ production and sales were in full swing up until FY2021, but even so, we were unable to meet all demand, which we believe led to customers building up considerable inventory. Customer inventory levels remain high, so we anticipate that APEL™ sales will remain low. On the other hand, we have been actively expanding into non-smartphone applications, so we expect future growth in this field. As for ICROS™ Tape, the growth rates since Q2 FY2022 have fallen short of the same periods of the previous year. Despite Q3 being demand season, the sales volume has remained mostly flat from Q2. In Q4, we expect sales to decrease from Q3 due in part to a seasonal effect in China. As such, we expect ICROS™ Tape sales to remain low due to weak demand in the field of semiconductor back-end processes. EUV pellicle sales have been expanding steadily, so we expect further growth in FY2023 and beyond.

Q10. Please explain the background behind the increased operating income before special items from Q2 FY2022 (July to September) to Q3 FY2022 (October to December) in the ICT Solutions segment.

A10. One of the factors behind the increase was the difference in volume as a result of firm EUV pellicle sales. The depreciation of the yen and improvement in the terms of trade for coating & engineering materials and packaging films as raw material prices dropped also contributed.

Q11. Please explain the background behind the decreased operating income before special items from Q3 FY2022 (October to December) to Q4 FY2022 (January to March) in the ICT Solutions segment.

A11. We expect a deterioration in terms of trade from appreciation of the yen, and an increase in costs due to such factors as levies such as property tax being recorded as a lump sum in Q4 under IFRS accounting standards.

■Basic & Green Materials

Q12. Please explain the background behind the decreased operating income before special items from Q2 FY2022 (July to September) to Q3 FY2022 (October to December) in the Basic & Green Materials segment.

A12. The terms of trade deteriorated due to the combined impact of inventory valuation and time-lag effects of sales price formula resulting from a drop in naphtha prices.

Q13. Please explain the background behind the decreased operating income before special items from Q3 FY2022 (October to December) to Q4 FY2022 (January to March) in the Basic & Green Materials segment.

A13. We expect the volume and terms of trade to remain mostly flat. Fixed costs are expected to increase due to such factors as levies such as property tax being recorded as a lump sum in Q4 under IFRS accounting standards.

Q14. Please explain the operating rates for ethylene crackers.

A14. The operating rate was low, being just under 80% for Q3. We also expect it to be at the same level for Q4.

Q15. Please explain the background behind the low operating rates for ethylene crackers.

A15. We believe poor consumer sentiment due to concerns of an economic slowdown has had an impact. As for polyolefins, we believe that some imported products normally destined for China have been entering the domestic market due to weak demand in the Chinese market and low overseas market prices. If the economy recovers and demand bounces back in China, we expect the operating rate to improve.

Q16. Please explain the market conditions for the bisphenol A (BPA).

A16. BPA spreads have remained mostly flat since Q2 at a low level, so the impact on operating income before special items in Q4 over Q3 is minor.

Q17. Please explain the status of the share transfer of the Singapore phenols business.

A17. The transfer is proceeding according to plan, and we are in the final step of obtaining approval under competition laws.

Q18. Please explain how you will improve profitability of Basic & Green Materials amid the current difficult conditions and any progress that has been made on structural reform.

A18. We believe that steadily implementing restructuring measures will be the key. We expect volatility to be lower in FY2023 with the shutdown of domestic PTA production and the transfer of the phenols business in Singapore. In addition, there is an inventory valuation loss from the drop in raw material prices in H2 FY2022, so if raw material prices stabilize, profitability is expected to improve. As for volume, it depends on what happens with demand, but we see this as a business that can secure a certain level of stable profits should demand bounce back. We have been exploring options for the restructuring of the TDI business.

■Group-wide

Q19. Please explain your policy on shareholder returns again.

A19. Our basic policy is to maintain a total return ratio of 30% or more and dividends on equity (DOE) of 3.0% or more, and we will continue to place emphasis on stable and continuous dividend payment.

Q20. Please explain the change in your FY2022 cash flow statement forecast from the previously announced one.

A20. In regard to cash flow from operating activities, working capital has improved owing largely to lower raw material prices and inventory reductions. Cash flow from investing activities has improved due to decrease in investments as a result of review and revision of some of our investment projects.

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.