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

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Speaker	YOSHIDA Osamu, Managing Executive Officer & CFO
Reference	Results for FY2024 & Outlook for FY2025

Q&A

■Life & Healthcare Solutions

Q1. Please explain the background behind the increase in the operating income before special items by 8.1 billion yen from Q3 (October to December) to Q4 (January to March) in FY2024.

A1. The sales volume increased significantly in Q4 driven mainly by the peak demand season in domestic and some overseas markets as well as the impact of shipment timing delays from Q3 to Q4 in the agrochemicals business. For the oral care business, the sales volume also increased, driven in part by our sales promotion activities at an international dental show held in Q4.

Q2. You expect the operating income before special items to increase by 1.4 billion yen in FY2025 compared to FY2024. Please explain the outlook for each business.

A2. We expect an increase of 5 billion yen attributable to higher sales volume, with the increase split roughly evenly between the vison care business and the agrochemicals business. In the vision care business, in addition to steady demand for ophthalmic lenses, we expect sales to grow for high refractive index lenses, which are one of our areas of expertise. In the agrochemicals business, we expect particularly sales expansion of TENEBENAL™ in India as well as in Vietnam and Thailand driven by the launch in those two countries in FY2025. We do not expect sales to expand significantly in the oral care business in FY2025; however, we will work to improve its profitability through business restructuring, as it operates various sites and businesses globally. In addition, we expect a negative impact of 2 billion yen attributable to terms of trade. This is primarily due to foreign exchange losses caused by the appreciation of the yen. Because the products we offer in the vision care and agrochemicals businesses are primarily high-performance products, we have been able to maintain a certain level of added value. Therefore, if we exclude the effects of foreign exchange losses, there is no impact from changes in the business environment.

■Mobility Solutions

Q3. Please explain the background behind the decline in operating income before special items by 3.1 billion yen from Q3 (October to December) to Q4 (January to March) in FY2024, including the terms of trade for your major products.

A3. In Q4, the profit declined compared to Q3 primarily due to a temporary deterioration in the terms of trade in the PP compound business, which was attributable to a time lag in the sales price formula following fluctuations in raw material prices, and an increase in fixed costs including levies such as property tax. There were no significant changes in the terms of trade for TAFMER™ from Q3 to Q4.

Q4. Please explain the background behind the anticipated decline in terms of trade of 8 billion yen in FY2025 compared to FY2024. In particular, while the terms of trade for elastomers deteriorated in FY2024 due to temporary changes in the market environment, the said terms of trade are expected to deteriorate due to foreign exchange losses in your outlook for FY2025. So, please explain whether it is correct to understand that the deterioration in the terms of trade for elastomers bottomed out in H2 FY2024.

A4. In FY2024, in addition to foreign exchange gains due to the depreciation of the yen, there was an improvement in the terms of trade for PP compounds associated with a time lag in sales price formula following fluctuations in raw material prices. However, there was also a temporary deterioration in the terms of trade for TAFMER™ due to changes in the market environment for some of its applications. In FY2025, in addition to the anticipated foreign exchange losses due to the appreciation of the yen, we also expect that the improvement in terms of trade due to the time lag caused by the decline in raw material prices in FY2024 will no longer be present in PP compounds. With regard to TAFMER™, the plant operating rate was nearly at full capacity and the sales remained firm in H2 FY2024, and we therefore understand that the deterioration in the terms of trade has bottomed out. In FY2025, we do not expect major changes in the market environment from H2 FY2024, and we plan to capture demand such as by expanding our products into multiple applications in growth markets.

■ICT Solutions

Q5. You expect the operating income before special items to increase by 6.8 billion yen in FY2025 compared to FY2024. Please explain the outlook for each business.

A5. In FY2025, we expect profit to increase by 10 billion yen due to higher sales volumes of our main products in the semiconductor & optical materials, coating & engineering materials, ICT films & sheets, and nonwovens businesses. In particular, we anticipate that the increase in the sales volume in semiconductor & optical materials, primarily including EUV pellicles, will account for approximately half of the overall increase in the sales volume in this segment. With respect to the terms of trade, we primarily anticipate foreign exchange losses due to the appreciation of the yen. However, we also expect some improvement in the terms of trade due to positive effects of the sales mix, as high-margin products such as EUV pellicles are seeing high growth. Because our semiconductor-related and other products we offer in this segment are primarily high-performance products, we have been able to maintain a certain level of added value. Therefore, if we exclude the effects of foreign exchange losses, there is no impact from changes in the business environment.

Q6. Regarding EUV pellicles, please explain the growth in the sales revenue from FY2023 to FY2024 and the expected growth in FY2025 compared to FY2024, including the contribution of CNT pellicles to the sales revenue.

A6. The sales revenue from EUV pellicles in FY2024 increased by approximately 30 to 40% compared to FY2023 due to the demand growth in the cutting-edge field. The sales revenue in FY2025 is expected to continue increasing by approximately 30 to 40% compared to FY2024 due to the growing demand in this field. As for CNT pellicles, we are currently proceeding with capital investment and development. We believe that it will begin contributing to revenue from FY2026 or later.

■Basic & Green Materials

Q7. Please explain the background behind the increase in the operating income before special items by 0.6 billion yen from Q3 (October to December) to Q4 (January to March) in FY2024.

A7. In Q4, despite a rise in fixed costs due partly to levies such as property tax being recorded as a lump sum in this quarter, the operating income before special items increased by 0.6 billion yen. This is due to an improvement in inventory valuation gains (including time-lag effects of sales price formula) resulting from the impact of naphtha price fluctuations, and an improvement in the equity in earnings of affiliates, primarily Kumho Mitsui Chemicals Inc., which is an equity-method affiliate related to polyurethanes.

Q8. Please explain the background behind the expected increase in the operating income before special items by 12.9 billion yen in FY2025 compared to FY2024.

A8. Operating income before special items in FY2025 is expected to improve mainly in H2, as we plan a major regular maintenance in H1. The increase in FY2025 is primarily due to the resolution of the impact from the ethylene plant failure in Osaka Works that occurred in FY2024, which is expected to have a combined positive impact of approximately 10.5 billion yen on sales volume, terms of trade, and fixed costs and others. In addition, while we expect inventory valuation losses (including time-lag effects of sales price formula) of approximately 3 to 3.5 billion yen due to the decline in naphtha prices, we also expect an increase in the profit through business restructuring and in equity in earnings of our affiliates, primarily driven by Kumho Mitsui Chemicals Inc.

Q9. Regarding inventory valuation gains and losses and cracker operating rates, please explain the results for FY2024 and the outlook for FY2025.

A9. Regarding inventory valuation gains and losses (including time-lag effects of sales price formula) in FY2024, we recorded a total gain of approximately 1.5 billion yen. The breakdown is as follows: a gain of approximately 3 billion yen in H1, a loss of approximately 3 billion yen in Q3 (October to December), and a gain of approximately 1.5 billion yen in Q4 (January to March), that is, a loss of approximately 1.5 billion yen in H2. In FY2025, we expect a loss of approximately 1.5 to 2 billion yen due to a decline in naphtha prices. The cracker operating rates are expected to remain below 80% in FY2025, continuing the trend observed in H2 FY2024.

Q10. Regarding the business restructuring of the Basic & Green Materials segment, I understand that you are considering to consolidate the crackers in the Chiba area by FY2027 and planning to close the phenol plant at Ichihara Works in FY2026. Please explain how the effects expected from these initiatives, such as cost reductions in the regular maintenance and improvements in operations, will become visible from FY2027 onward.

A10. We are currently working on optimizing the two crackers we own by promoting collaboration with various companies for each of the regions of the crackers, in eastern and western Japan. We are not yet in a position to present a clear vision for the future at this time, but we will provide the details promptly once they have been made clear. As a prerequisite for optimizing the crackers, it is necessary to select competitive derivatives and strengthen downstream operations. Therefore, we intend to hold discussions with each company with a view to achieving our ultimate goal of shifting to green chemicals throughout the production chain, from crackers to derivatives, and make this segment a capital-efficient business. We plan to explain the progress of the business restructuring at the CEO presentation scheduled for May 30.

■Group-wide

Q11. Please explain the background behind the decrease in inventories Q3 (October to December) to Q4 (January to March) in FY2024.

A11. Inventories decreased on the back of the Group-wide drive to optimize inventory levels throughout FY2024, and a decline in product inventory in Q4 due to the increase in the sales of agrochemicals in particular.

Q12. In your outlook for FY2025, you estimate a negative impact of approximately 8 billion yen from U.S. trade policies on your business. Please explain the details of the expected negative impact and your countermeasures.

A12. With regard to the impact of U.S. trade policies, the situation is changing on a daily basis due to the ongoing negotiations between the United States and China and other factors. However, as we believe that the U.S. government will not change its policy of imposing a certain level of tariffs, we have incorporated the negative impact into our outlook under certain assumptions. In the assumptions, we have estimated cost increases by applying certain tariff rates to the sales revenue of our products exported from our global sites to the United States, based on their sales revenue data we collect and monitor. Regarding the anticipated impact of U.S. trade policies on each of our segments, approximately 80% of the total impact is accounted for by products for automotive applications in the Mobility Solutions segment and products for semiconductor-related applications in the ICT Solutions segment. In PP compounds, which account for a large portion of our automotive businesses, we have been pursuing the strategy of local production for local consumption in our global expansion. We have an established supply chain in the North American market with two manufacturing sites in the United States, so we will continue optimizing our production allocation. Having such a supply chain is one of our Group’s strengths, and we intend to leverage it to create new sales opportunities. In addition, regarding how to share the costs increased due to additional tariffs, we will continue discussions carefully with our customers to minimize the impact.

Q13. Please explain whether there was any rush demand in Q4 FY2024 (January to March) due to the impact of U.S. trade policies.

A13. We believe that there was no surge of demand brought forward in anticipation of the additional tariffs and the impact caused by such was minimal. No significant increase in the number of automobiles produced in North America was seen in Q4.

Q14. While you plan to maintain your dividend for FY2025 at 150 yen per share, unchanged from FY2024, you also indicated that you would consider enhancing

shareholder returns if the impact of U.S. trade policies and other factors turn out to be smaller than expected, resulting in increased profits. If the dividend is set at 150 yen per share based on the projected EPS for FY2025, the total return ratio would be around 50%, which significantly exceeds your shareholder return policy of 40%. Therefore, it could be said that the current dividend level is already sufficiently high. So, please explain your thoughts on enhancing shareholder returns when profits increase.

A14. We are aware of the fact that our net income has been at a low level due in part to the recording of impairment losses from the business restructuring measures we have pursued in Basic & Green Materials and other segments over the past few years, and as a result, dividend increase and other initiatives to enhance shareholder returns lead to a high total return ratio. Improving our cash flow has been a management priority for us, so we also place importance on how we allocate our cash, aiming to ensure sufficient cash for growth investments and also direct cash to shareholder returns. Therefore, in FY2025, we will consider increasing dividends taking into account our cash flow and the negative impact of U.S. trade policies, while remaining aligned with our shareholder return policy.

Q15. As the new CFO, please explain your thoughts on capital policy and measures to address the issue of your stock trading below book value (P/B ratio < 1).

A15. I believe that it is essential for us to improve capital efficiency to swiftly improve our sluggish stock price, and as CFO, I intend to focus on improving ROE and ROIC. To improve capital efficiency, in terms of earnings, we need to expand the specialty chemicals domains by further strengthening businesses that will serve as growth drivers, while managing costs with an eye on the break-even point amid rising fixed costs. Furthermore, from a financial perspective, since we need to continue investing for future growth, we will ensure that we generate cash through an asset-light approach and utilize various financing options.