Q&A Summary for CEO Presentation in May 2025

Date	May 30, 2025 15:30-17:00
Place	Hybrid conference (Tokyo Midtown Yaesu and online)
Speakers and Respondents	HASHIMOTO Osamu, President & CEO OMOTE Toshihiko, Managing Executive Officer & CTO YOSHIDA Osamu, Managing Executive Officer & CFO
Reference	FY25-1 CEO Presentation posted on May 30, 2025

Q&A

■Group-wide strategy

Q1. You described that your ideal vision for the Basic & Green Materials (B&GM) business is to build a globally competitive, Japan-leading business entity through transformation and collaborations with other companies. Please explain which specific businesses you are considering to split off, and to what extent the discussions regarding potential partners for the transformation and collaborations have progressed at this point, including the potential future impact on your PL and BS.

A1. We recognize that the strategic directions of the B&GM segment and the specialty chemicals domains have started to diverge. Accordingly, we have held extensive internal discussions over the past several years regarding the ideal vision for the segment. We have announced our policy of splitting off the B&GM business, given the progress made in our restructuring efforts and the ongoing discussions across the industry regarding potential collaborations. With this split-off, we aim to make B&GM a strong, self-sustaining business entity, which will enable us to accelerate transformation within the industry. In addition, not only in the B&GM domain but also in the specialty chemicals domains, we are now facing strong competition from neighboring countries in fields such as semiconductor, display, and medical applications. To succeed in the specialty chemicals domains amid such a highly competitive environment, we consider it necessary to expand the scale of our business operations and resource investments in these domains as well. To achieve both a strong, self-sustaining B&GM business entity and scale expansion of the specialty chemicals domains, we believe we should not operate these businesses as a single entity given their different strategic directions; instead, we need to establish a structure that facilitates collaboration and other initiatives with external partners, enabling each business to be strengthened independently. Moreover, while our investments in the specialty chemicals domains have been increasing, we also allocate substantial resources to the B&GM segment, including those required for the maintenance of plants. As such, the key to strengthening our competitiveness going forward will be to ensure that each business can generate sufficient cash flow to stand on its own financially.

These businesses operate under different time horizons. In the specialty chemicals domains, where individual businesses do not have substantial assets, we are able to respond swiftly and flexibly to changes. In contrast, the B&GM segment has substantial assets, and factors such as interconnection of facilities via pipelines within industrial complexes make it difficult to take quick action. Therefore, we have decided to pursue the transformation by splitting off the segment. At this stage, we have not yet determined our collaboration and transformation partners. However, compared to when we first initiated internal discussions, we have made progress in considering collaborations aimed at achieving green chemical complexes for crackers, as well as in exploring collaborations with other companies for derivatives such as phenols and polyolefins. We believe that the advancement of these discussions will ultimately lead to the realization of our ideal vision for the B&GM business. Although these collaborations remain under consideration, we do not intend to merely maintain the status quo until the consideration process is completed. Rather, we plan to advance the splitting off of the B&GM business by around 2027, thereby enabling each business to pursue its strategic direction.

We believe that, if the B&GM business becomes self-standing in the future as a strong company leading the shift to green society, pursuing an IPO would become an important strategic option. In the event such situation is reached, it is unlikely that we would retain a majority equity stake, given that multiple companies will likely be involved in future collaborations. However, our goal is to create a strong business entity, and we regard the investment structure and shareholding ratios as means to achieve this goal; simply reducing our equity stake to deconsolidate the entity is not our objective. At present, our Group's B&GM business has undergone significant restructuring overseas, and it also does not have any joint ventures in Japan in which we are partnering with multiple companies regarding their operation. While coordination with our partners particularly in Japan will be necessary, we believe that this challenge can be successfully overcome if we pursue this transformation with a shared sense of purpose with them. Negotiations with partners will be necessary going forward, and the specific adjustments required will vary depending on the form of the transformation we ultimately pursue. However, even taking these challenges into account, we have determined that now is the appropriate time to move forward with our consideration of splitting off the B&GM business.

Q2. Please explain the technological impact resulting from this split, including your future approach to the process technologies and the catalyst technologies that have been shared between the B&GM segment and the specialty chemicals domains.

A2. We recognize that there are considerable connections between the B&GM segment and the specialty chemicals domains. In particular, we consider that the boundaries between the B&GM segment and the Mobility Solutions segment should be handled with particular care. Thus far, we have conducted preliminary assessments to ensure that splitting off the segment does not result in a division of technologies that hinders effective use or the disruption of resources essential for production. Moving forward, we intend to examine in greater detail how to define the boundaries with other business segments, based on the businesses currently belonging to the B&GM segment. In particular, the Ichihara Works and the Osaka Works serve as the core facilities for the B&GM segment. However, since these sites also house plants for the Mobility Solutions and the ICT Solutions segments, we need to carefully consider how we should manage these going forward. Among these segments, the Mobility Solutions segment in particular, has strong technological ties with the B&GM segment. Therefore, even after the split, it will be essential to ensure continued collaboration and operational efficiency between the two businesses. At this point, the scope of businesses considered to be split off is mainly those belonging to the B&GM segment. However, as we move forward with discussions on possible integrations following collaborations with other companies, it may become necessary to consider whether to include part of the businesses within the Mobility Solutions segment in the scope of the split. The key is to establish a system that minimizes the reduction in existing synergies resulting from the split-off.

The catalyst technologies and the process technologies are the key sources of our competitiveness, and we consider it crucial to ensure these technologies are distributed and utilized in an effective manner between the future B&GM entity and the specialty chemicals domains. In this regard, we will examine what approach will be most appropriate for each case. For example, one option is for the specialty chemicals domains to retain ownership of catalyst and process technologies related to these domains and grant usage rights to the B&GM entity. Alternatively, the B&GM entity could retain the technologies and utilize them more broadly beyond raw materials for the specialty chemicals domains. The technological issues had been identified as a challenge from the consideration stage of the split-off. However, with our recent progress in building a database covering these technologies, it is now possible to split the resources from a patent perspective. Still, we see that what is most beneficial to both businesses is likely to change, depending on the direction of future collaboration and transformation we take. Furthermore, we believe it is necessary for our research and development divisions to consider what kind of approach we should take for the development of next-generation catalysts, given that first-principles calculations utilizing quantum computers and similar technologies are expected to reveal our knowledge of catalysts we have accumulated over time.

Q3. In the B&GM segment, operating losses before special items were reported for two consecutive years in FY2023 and FY2024, and the profit outlook for FY2025 also remains at approximately 1.5 billion yen. In addition, based on past performance, depreciation and amortization expenses are approximately 30 billion yen, and capital expenditures are approximately 40 billion yen annually. Therefore, even if you achieve the operating income before special items of 32 billion yen in FY2028, the resources available for investments in green transition are expected to be insufficient, and it will likely be necessary to secure funding through an IPO or debt finance. Please explain how you plan to turn the B&GM business self-sustaining after splitting.

A3. In FY2024, we recorded operating losses before special items due to the ethylene plant failure in Osaka and other factors. However, while we anticipate an impact from major regular maintenance in FY2025, we expect to improve profits and reduce capital expenditures from FY2025 onwards, driven by the elimination of the plant failure impact, the shift to an asset-light structure through restructuring, and the strengthening of downstream operations. Investments in green transition will require significant resources, so we will need to consider options such as an IPO and government programs including the Green Innovation Fund. However, in order to secure sufficient cash flow, we must first make B&GM a self-sustaining business and in turn build a globally competitive, Japan-leading business entity through transformation and collaborations with other companies.

Q4. I understand the idea of splitting off the B&GM segment due to differences in the strategic directions of the segment and the specialty chemicals domains. Please explain whether the Life & Healthcare Solutions, the Mobility Solutions, and the ICT Solutions segments within your specialty chemicals domains would need to manage their own cash flows independently.

A4. Considering that further resource investments are necessary for the Life & Healthcare Solutions and the ICT Solutions segments, we plan to secure returns from existing investments across the entire specialty chemicals domains to expand profits and make growth investments. In order to achieve the FY2030 targets, we need to expand the resources available for investment also in the specialty chemicals domains to accelerate growth, including through alliances.

Q5. The expansion of China's production capacity and the economic slowdown appear to have loosened the supply-demand balance, thereby intensifying global competition. In addition, Chinese companies have shown remarkable growth in terms of technology, and they are investing far more resources in R&D, including human resources, compared to Japanese companies. Given this situation, please explain whether you believe the pace of responding to competitive threats, particularly from Chinese companies, is sufficient, considering your announcement this time to implement the split-off by around 2027.

A5. Global competition is becoming increasingly intense. We feel that, especially in the semiconductor field, the pace of development in China has accelerated since the onset of US-China trade frictions. In China, a large number of human resource is allocated to research and development, and there are even cases where R&D projects with clearly defined objectives are pursued on a 24-hour basis. As a result, not only the development speed but also the quality and nature of deliverables have changed significantly from what we traditionally expect. However, we recognize that our Group still maintains a competitive advantage in our business areas within the specialty chemicals domains where we differentiate ourselves. Moving forward, we recognize that our challenge is to sustain this advantage over time. While competition in the Asian market is intensifying due to the rapid growth of Chinese companies, the situation is different in markets such as India and North America, where we see potentials for future growth. Given these changes in the competitive global environment, we recognize the need to adjust our priorities and strategies for each region moving forward. Under our policies announced today, we have set a timeline for splitting off the B&GM segment by around 2027. However, having clearly presented the direction we are heading, we intend to move forward with the necessary actions without waiting until 2027. In the past, there have been global market shifts in fields such as electronics and machinery, similar to what we are currently seeing in the field of chemistry, driven by the expansion of commodity products by Chinese companies. However, even amid such intense competition, some Japanese companies have managed to succeed. We believe there is much we can learn from their experiences. Simply replicating what Chinese companies are doing will only intensify competition. What is essential for us is to consider how we can take the lead in new fields and growing markets. Given that the domestic market is not expected to see significant growth in the future, each business in the specialty chemicals domains needs to formulate an overseas expansion strategy, tailored to the specific markets where growth is anticipated. If the nature of the business is to respond quickly and closely to customer needs, we do not expect it to become a scale-driven competition, as is typical with commodity products.

■Financial outlook

Q6. Please explain your growth outlook for the operating income before special items in the ICT Solutions segment, including the development status of CNT-based EUV pellicles and the competitive environment. Please also explain the status of APEL™.

A6. Regarding EUV pellicles, we expect continued steady growth in FY2025 as well, following the positive performance in FY2024. In addition, we are making steady progress in the development of CNT-based EUV pellicles by leveraging our collaborative relationship with ASML and imec. The mass production facility is scheduled for completion in December 2025, and we plan to begin commercial operations within FY2026. For APEL™, although the situation has remained challenging for some time, the new plant's operations have finally begun to ramp up, and sales volume has been increasing, including those through expansion in applications.

Q7. Please explain your outlook for FY2025, given that your financial outlook has been revised downward for the past three years.

A7. In the Life & Healthcare Solutions segment, although there is some seasonality in demand for agrochemicals, we anticipate a high likelihood of year-round growth in sales volume. In the Mobility Solutions segment, while there are indirect impacts from U.S. tariffs as well as risks such as a potential decline in automobile production volume, approximately 60% of this segment's sales revenue is derived from automotive-related applications, with the remaining 40% generated from other applications. Therefore, we expect that the allocation of sales provides a certain level of resilience against these risks. The outlook for the ICT Solutions segment may seem challenging, but we have well-founded plans for profit growth drivers, such as achieving year-on-year growth of between 30% and 40% for EUV pellicles. In the B&GM segment, while the impact of the Osaka ethylene plant failure is expected to resolve and we are working to implement structural improvements, in FY2025, there will be major regular maintenance at the Ichihara Works, which is expected to significantly increase costs. As a result, the operating income before special items for FY2025 is expected to remain at approximately 1.5 billion yen. We see that this segment has the potential to earn nearly 10 billion yen annually excluding these costs, so we view that its financial outlook is highly probable. We are aware that we have been criticized for repeatedly revising our forecasts downward in the past, but for the current fiscal year, we have announced a well-founded plan that incorporates the uncertain impact of U.S. trade policies and other factors.

Q8. Please explain your measures to minimize the anticipated negative impact from U.S. trade policies of 8 billion yen in FY2025.

A8. We hold the view that our outlook for FY2025 is a highly probable plan based on the current status of each business, but there is still uncertainty as to whether the negative impact of U.S. trade policies for the entire Group will not exceed 8 billion yen as we estimated in our forecast. However, as a general rule, the burden of tariffs is to be borne by the importer. Therefore, to minimize the impact, we will continue discussions carefully with our customers regarding how to share the costs increased due to the tariffs.