

Questions from the Internet Briefing for Institutional Investors and Analysts on Mitsui Chemicals Group's Consolidated Financial Results for 2nd Quarter of Fiscal 2021

Date	November 5, 2021
Speaker	NAKAJIMA Hajime, Member of the Board, Managing Executive Officer & CFO
Reference	Results for 1st Half of FY2021 & Outlook for FY2021

Q&A

■ Mobility

Q1. Please explain the impact of decreased automobile production.

A1. We expect automobile production in FY2021 to recover around 7% over FY2020, which was impacted by COVID-19. In H2 FY2021, automobile production is expected to be at the same level as H2 FY2020. From H1 to H2, we expect a recovery of more than 15%. As such, although it will vary by region, we expect the PP compound sales volume to follow roughly the same trend.

Q2. Please explain the situation with ICT-related material sales.

A2. ICT material products are performing well. We will increase the production capacity for APEL™ in March 2022, and its sales remain firm. We are working on customer evaluation and certification for EUV pellicles, and their sales are picking up as planned.

■ Health Care

Q3. Please explain the background behind the decreased operating income before special items from Q1 FY2021 (April to June) to Q2 FY2021 (July to September) in the Health Care segment.

A3. Operating income before special items decreased due to decreased sales of dental materials during the low demand season and regular maintenance in vision care.

Q4. Please explain the background behind the decreased operating income before special items from H1 FY2021 to H2 FY2021 in the Health Care segment.

A4. From H1 to H2, the main factor is a worsening of terms of trade for nonwovens due to rising raw material prices.

Q5. Please explain the situation with vision care material sales in the United States.

A5. Sales remain firm. The superiority of MR compared to polycarbonate resin in terms of workability has also been recognized.

■ Food & Packaging

Q6. Please explain the background behind the decreased operating income before special items from Q1 FY2021 (April to June) to Q2 FY2021 (July to September) in the Food & Packaging segment.

A6. Coating & engineering materials were impacted by decreased automobile production. In addition, one-off income was added in Q1 FY2021, so if that is excluded, then operating income before special items has remained flat.

Q7. How much will the acquisition of the agrochemicals business contribute to operating income before special items in FY2022?

A7. In FY2022, there will be some amortization costs for intangible assets, but we expect there to be a positive impact.

Q8. Please explain the situation with ICROS™ Tape sales.

A8. ICROS™ Tape sales remain firm. We are also working on customer certification at our plant in Taiwan and expect sales to increase in FY2022 and beyond.

■ Basic Materials

Q9. Please explain the background behind the decreased operating income before special items from H1 FY2021 to H2 FY2021 in the Basic Materials segment.

A9. Deteriorating terms of trade are a major factor in the decrease. Inventory valuation and time-lag effects of sales price formula in H1 FY2021 together had an impact of around 9 billion yen. We expect around 3 billion yen in H2, so the decrease in operating income before special items will be around 6 billion yen. In addition, the decline in bisphenol A market has a negative impact of around 7 billion yen, and the rise in fuel costs and other factors contribute to the decrease as well. Fixed costs are also expected to increase in H2 as levies such as property tax are recorded as a lump sum in 4Q under IFRS accounting standards.

Q10. What level of operating income before special items do you think the Basic Materials segment is capable of?

A10. Even if you exclude the combined impact of inventory valuation and time-lag effects of sales price formula arising from fluctuations in prices of raw materials, and the effects of fluctuations in bisphenol A and other markets, we believe we can generate around 20 to 30 billion yen.

Q11. What is your outlook on bisphenol A supply and demand next year and beyond?

A11. From H2 FY2020 to Q1 FY2021, amid robust demand for polycarbonate and epoxy resins, there was a squeeze on supply and demand due to a supply shortage arising from cold waves in North America. Going into Q2, the robust demand continued, and the market soared due to supply-side constraints arising from regular maintenance in Asia and electric power shortages in China. On the other hand, currently, operation of new plants has eased things, so the market is also coming down.

Q12. What level of operating income before special items do you foresee for the Basic Materials segment in FY2022?

A12. We have to keep a close watch on the bisphenol A market, which was heavily impacted in FY2021. In China, epoxy resin demand is expected to remain at a certain level in wind power generation and other applications, but the future of the market is still uncertain. We will monitor the situation closely in FY2022.

Q13. What level of impact on profit and loss in FY2022 do you expect the JV dissolution in the polyurethane raw materials business to have?

A13. We do not think there will be significant fluctuations in profit and loss compared to FY2021.

■ **Group-wide**

Q14. Please explain how you will address rising raw material prices in selling prices going into H2.

A14. We have adopted sales price formulas for Mobility products, primarily PP compounds, so we have been able to address raw material prices in our selling prices. We have also adopted sales price formulas for nonwovens. We have been negotiating for packaging films in the Food & Packaging segment since H1 and have gradually been able to raise the prices. We are currently continuing to negotiate.

Q15. Please explain the non-recurring items.

A15. We will not go into specifics, but we have recorded costs associated with structural reform. By dissolving the JV in the polyurethane raw materials business, we believe we will be able to begin full-blown structural reform in this business.

Q16. In regard to investment projects, there will likely be no factors working to increase fixed costs in FY2022 for projects that started operations in FY2021, so is it safe to say that the volume effect will increase operating income before special items?

A16. Yes, that is correct. We expect an increase in operating income before special items with increased sales in the next fiscal year and thereafter.

Q17. Looking at the composition of profit in FY2021, it appears as though volatility has increased for the Basic Materials segment. What is your assessment in that regard?

A17. In the three growth domains, past profit levels were stagnant, but our efforts have borne fruit, and operating income before special items of 100 billion yen is now in sight. We expect continued growth in the next fiscal year and beyond. At the same time, the profit level for the Basic Materials segment has risen this fiscal year owing to the sharp rise in naphtha prices and the sharp rise in the bisphenol A market. The sharp rise in the bisphenol A market is temporary, and we do not believe that it will continue in the next fiscal year and beyond. It is important not to be affected by market fluctuations caused by the supply-demand balance like this. We remain committed to continued implementation of structural reform and portfolio reform in the Basic Materials segment and will not let up.

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.