

Condensed Transcript of Q&A Session at MGC's FY2021 Results Briefing

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(Note about this transcript)

This transcript was edited for clarity and brevity at the Company's discretion. Additionally, forward-looking statements, including plans and targets, contained herein, like those in the briefing's presentation materials, are judgments based on information in the Company's possession as of the briefing's date and certain assumptions deemed reasonable by the Company. Forward-looking statements involve uncertainty. Actual outcomes may differ substantially from such forward-looking statements as a result of various factors.

Q1: I want to know more about the engineering plastics business's medium-term strategy. As you steadily expand your polyacetal (POM) business, what are your plans in terms of growth strategy? For polycarbonates (PC), with general-purpose products driving considerable earnings volatility, what is your timeline for expansion combined with attenuation of earnings volatility? Lastly, in terms of PC derivatives, what are your medium/long-term plans with respect to PC produced using CO₂ as a feedstock?

A1: Regarding our POM growth strategy, we publicly disclosed a new joint venture in China, the world's biggest POM market, on May 12. We will continue to develop our POM business in China. As a result of forming subsidiary Global Polyacetal to manage our POM operations, we added Korea Brand Kepital to our POM product line in addition to our Lupital brand. We are confident the two brands will generate synergies in their respective application markets and such synergies will better enable us to expand our presence globally, especially in Asia.

Regarding your second question, we faced a very adverse operating environment in the PC market in FY2021. In particular, raw material and fuel prices were very volatile. It was extremely difficult to keep up with raw material and energy cost inflation. Currently, the raw material and fuel environment is changing again, with Bisphenol A now declining in price. We want to take advantage of such an operating environment to rebuild our PC business. Specifically, we aim to boost margins by reducing general-purpose products' share of sales, expanding sales of high-value-added products, particularly optical grades, and raising prices to pass through cost increases as necessary. In terms of timeline, we believe we can achieve a major turnaround in FY2022 relative to FY2021. We will expand sales of high-value-added products as swiftly as possible, not only in China but globally, while restructuring Mitsubishi Engineering-Plastics (MEP). Regarding PC produced using CO₂ as a feedstock, we are establishing foundational concepts and technologies that we hope to bring to fruition as we advance to the next step.

Q2: To what extent can we expect synergies in the POM business during or after the current medium-term plan's term? Will improvement in PC margins have to wait until you roll out a differentiated product made using CO₂ as a feedstock? Is it reasonable to expect you to be able to somehow stabilize the PC business's earnings within the next two years?

A2: In the POM business, we can directly bring in more profits by consolidating our Korean subsidiary. In terms of sales synergies, we expect to make solid progress in capturing growth or price markups in the Korean market again in FY2022. Over the next few years, we believe we can add even more value through cross-pollination of core competencies.

We think PC production that uses CO₂ as a feedstock is still a little ways off. Rather than waiting until using CO₂ as a feedstock is feasible, we will figure out how we can leverage our existing capabilities to shift our PC sales mix away from general-purpose products toward high-performance products while delving deeper instead of pursuing scale. Specifically, we believe we must develop new grades or narrow

down our PC product line to essential grades. We aim to do so within the next few years by steadily increasing high-value-added products' share of sales.

Q3: How much do you expect optical polymer sales to recover in FY2022 from their large decline in FY2021? Also, I think you plan to complete an optical polymer capacity expansion this July or thereabouts. How much is the additional capacity expected to contribute to unit-volume growth or improve production efficiency/quality?

A3: The optical polymer market experienced heavy inventory destocking in the first half of FY2021. We have exited this inventory destocking phase in our assessment. However, smartphone production remains constrained by semiconductor shortages. How smartphone and assembly makers will source needed semiconductors is a key question going forward, but we expect optical polymer demand to embark on a recovery trend without any more inventory destocking. Additionally, with the market landscape changing in response to US-China tensions among other catalysts, we will closely track actual demand from smartphone makers. Regarding your second question about production growth, we are steadily moving forward with capacity expansion but the current supply-demand imbalance precludes an immediate ramp-up to full-capacity production. We will monitor actual demand and order bookings to most efficiently balance our production with demand.

Q4: Are you seeing any shifts in market share or new entrants in the optical polymer market? And have you been able to maintain sales prices?

A4: In our current assessment based on wide-ranging market research, we believe our optical polymer products still maintain a competitive advantage. As for pricing, we are not seeing any significant price movements at present.

Q5: In the semiconductor materials business, what were the drivers of BT materials' robust sales growth in FY2021? I assume their growth may slow a bit in FY2022. If so, what would be the factors behind the slowdown? Also, what is your outlook for chemicals used in semiconductor manufacturing, including in North America and Korea?

A5: Regarding BT materials, demand from the semiconductor industry bounced back strongly in FY2021 from its pandemic-induced downturn. Additionally, we saw marked expansion of new semiconductor applications. These developments were tailwinds for not only our BT materials but also other materials. General-purpose products that experienced major sales growth in FY2021 may downshift somewhat in FY2022. We have factored the impact of such a slowdown into our outlook.

Demand for chemicals used in semiconductor manufacturing also has been exhibiting tremendous growth in tandem with global semiconductor production. Such demand is still booming even today, particularly in North America and Korea. With demand expected to keep growing globally in FY2022, we will increase production in sync with demand.

Q6: What applications do you expect to drive BT materials sales growth in FY2022—for example, DRAM for data centers or growth in mobile devices' 5G-related content, including AiPs? I think BT materials are starting to be used even in computers. Would you elaborate on your FY2022 outlook, including the new Thai plant's capacity utilization?

A6: With BT materials being used not only in memory chips, their original application, but also logic chips, we intend to pursue further sales growth. The direction in which the telecom environment is moving is conducive to growth in smartphones' content of our materials on a per-unit basis, including AiPs. In such an environment, we can capitalize on BT's distinctive properties. We will also functionally upgrade our BT production operations, including the new capacity we added in Thailand.

Q7: Would you provide more details on your capex plans? You said you are proceeding as planned with ¥240 billion of capex, but your FY2021 capex seems to have ended up at around ¥55 billion, below your initial budget of ¥70 billion. Am I correct to assume that the shortfall will be carried over to FY2022?

FY2022 capex of ¥90 billion implies ¥95 billion of capex in FY2023. Do these numbers jibe with your plans? Of the ¥240 billion, I think you were planning to invest about ¥90 billion in “differentiating businesses.” Are you now planning to invest more than initially planned in such businesses? Lastly, could you talk more about the expected increase in periodic maintenance expenses in FY2022?

A7: Investments may get pushed back a little because of, e.g., minor project delays. That said, we currently see no need to reduce our ¥240 billion capex plan for FY2021-23 because we are adding new investments to our plans. Depending on how events unfold, we could conceivably invest more than initially planned in differentiating businesses. While inflation in construction and various other costs is a concern with respect to investment, we are simultaneously working on figuring out how to absorb cost inflation so it does not materially impact earnings. We intend to respond effectively.

We expect to spend ¥3.5 billion more on maintenance in FY2022 than in FY2021. This ¥3.5 billion, which is for essential biennial maintenance, is already factored into our medium-term plan.

Q8: Regarding the investment in the polyacetal production plant, will the planned increase in capacity from 90,000t to 150,000t/year involve investment of additional funds? And once capacity has increased to 150,000t, how do you plan to recover your investment when new capacity expansion plans arise?

A8: The increase in capacity from 90,000t to 150,000t will basically be done by our local joint venture. Our plan is for the 60,000t capacity addition to basically be handled locally. Any further capacity increases beyond 150,000t would be subject to thorough due diligence, but we have high hopes for the Chinese market’s growth.

Q9: I want to ask about your FY2022 operating profit forecast by business. First, for aromatic chemicals, you are forecasting a decrease in operating profit. What are the factors behind the projected sequential decrease in aromatic chemicals’ second-half operating profit? Second, for specialty chemicals, you are forecasting a sizable sequential increase in second-half operating profit. I would like an explanation of this difference between first- and second-half operating profit also.

A9: The aromatic chemicals business has periodic maintenance scheduled next February. The sequential decrease in its second-half operating profit is related to recognition of the maintenance expenses in the second half. As mentioned earlier, major biennial maintenance is scheduled in FY2022. We have adopted a biennial maintenance strategy because it enables us to maximize production while saving money on maintenance. We consequently expect to spend ¥3.5 billion more on maintenance in FY2022 than in FY2021.

In the specialty chemicals business, we anticipate improvement in engineering plastics margins in the second half. Engineering plastics’ profitability hinges largely on market prices of energy and raw materials, particularly Bisphenol A. We assume engineering plastics margins will remain under pressure in the first half as we draw down inventories of Bisphenol A purchased in FY2021 at higher than current prices. Additionally, we expect the feasibility of turning around specialty chemical subsidiaries, mainly in China, to increase as the year progresses. We are forecasting that their profits will be disproportionately concentrated in the second half.

Q10: In FY2021, you undertook various business portfolio reforms, including downsizing of trimethylolpropane (TMP) production. You appear to have made considerable progress in restructuring unprofitable businesses. Am I correct? Is restructuring of foundation businesses now more or less completed with MEP’s restructuring? Also, how are your new/next-generation businesses shaping up? I am personally very bullish on OXYCAPT. Please provide an update on your progress in the three categories of businesses other than differentiating businesses.

A10: We will decisively take action to strengthen differentiating businesses and restructure or liquidate unprofitable businesses. Recent examples include our decisions to partially discontinue formalin and TMP production. Among foundation businesses, the biggest is polycarbonates, but we are discussing others as well. Stay tuned for news on this front. For example, in the methanol business, we recognize that we must

certainly proceed with commercialization of CO₂ feedstock use. In energy businesses, we will likewise expedite decarbonization initiatives that can contribute to society. Meanwhile, we will make sure such initiatives contribute to earnings also.

We are developing new businesses, staffing them with researchers and ramping up R&D spending, but such initiatives take time. A case in point is solid electrolytes, which we are developing as an EV battery material. New BT materials also have promising prospects. Additionally, the antibody-drug contract manufacturing business has been growing steadily, though it will take a while to reach profitability. We are committed to building it into a future pillar of our operations. Another promising new business is lactic-acid bacteria. We have identified extremely efficient bacteria.

Q11: Could you update us on both supplies of methanol, including methanol produced in Russia, and methanol demand, including for MTO (methanol to olefin)?

A11: Methanol prices have increased from \$300-350/t in April 2021 to \$400-450/t in April 2022. Last year, two 1,700kt methanol plants were commissioned into operation, one in the US and the other in Iran, but they encountered delays in ramping up production. Additionally, some plants shut down for periodic maintenance in FY2021 and plants in Europe and the US resumed production later than scheduled after the maintenance. Methanol prices rose in 2021 in response to several catalysts, including supply-demand imbalances due to hurricane-induced plant shutdowns and an increase in Chinese coal prices last October. In 2022, no new methanol plants are scheduled to come on line as far as we know. With demand holding firm, the supply-demand balance remains tight. We expect methanol to average \$420/t in FY2022, up from around \$400/t in FY2021.

Russia's annual methanol production is 4,000kt vs. global methanol demand of 90,000kt. Russia had been exporting half (2,000kt) of its production to Europe but with Europeans now mostly boycotting Russian products, Russia has started exporting methanol elsewhere, including India. Given the reduced demand for Russian products, most of Russia's methanol production capacity is currently shut down ahead of schedule for periodic maintenance. After the maintenance has been completed, the feasibility of supplying methanol to India alone is unclear. For suppliers, the supply-demand balance will presumably be a bit tight.

Regarding MTO, crude oil is currently trading around \$100/bbl vs. an average FY2021 price modestly below \$80/bbl. As crude oil prices rise, olefins such as propylene and ethylene naturally rise in price, making MTO more price-competitive. In April, China's MTO plants were operating at 80-90% of capacity, up from 60-70% in February-March. In light of such, we expect the supply-demand balance to tighten in FY2022.

Q12: Regarding optical polymers, could you provide an update on the trend toward multiple higher-resolution cameras in mobile phones, the state of adoption of new applications such as ToF and non-mobile applications such as automotive and security cameras? Also, what is your outlook for your optical polymer business's medium/long-term growth rate?

A12: The trend toward multi-camera smartphones with ever more functionality will continue. However, the number of cameras per phone will not increase indefinitely; it will eventually reach a maximum. We expect the lenses used in smartphones to be made from increasingly functional materials and smartphone users' camera needs to continue to become more diverse and sophisticated. Additionally, we anticipate substantial demand for optical polymers for non-smartphone applications like automotive and security cameras. We believe such applications in aggregate will definitely end up being a large market at some point in the future. We are preparing for future sales expansion. According to media reports and survey data, the automotive and security camera markets are expected to grow at a double-digit pace. We intend to use such data as a benchmark as we grow our optical polymer business.