Condensed Transcript of Q&A Session at MGC's Medium-Term Management Plan Briefing

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(Note about this transcript)
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Q1: You explained that the business portfolio reform is still halfway through. During the last medium-term management plan period, I think that you broadly carried out all of your stated objectives. However, I feel that the initial estimate regarding the xylene separators and derivatives business was slightly over optimistic. Since this issue also affects the downstream chain, could you talk about what action you might take there?

A1: During the previous medium-term management plan period, we considered what would happen with regard to xylene separators and derivatives if we were to stop the purified isophthalic acid (PIA). As a result, we decided to scale down the businesses in tandem with the growth of the meta-xylene (MX) derivative meta-xylenediamine (MXDA), rather than stopping the facility in a way that would cause a hard landing . In other words, we recognized the overall benefit of the joint production process to make this decision.
To explain it again from the basics, the raw material, mixed xylene (RX) is separated into the isomers paraxylene (PX), metaxylene (MX), orthoxylene (OX), and ethylbenzene (EB). In our case, we established a business in MX and MX derivatives. With MX derivatives, in particular, our operations focused on not only PIA, which is a PET modifier also produced by other companies, but also high-performance products such as MXDA.
RX is fed into a xylene separator, and then the required MX is extracted. Then, xylene, which is rich in residual PX, is fed into PX extraction equipment . This combination of the xylene separator and the PX extraction equipment creates a system that can produce competitive MX and PX. Moreover, the xylene separator has a partial overlap with the equipment for producing aromatic aldehydes, another high-performance product like MXDA. We therefore recognize that there is a benefit in these joint production processes.
After conducting various case studies, we decided to stop OX and maintain the production of the MX-based PIA, while scaling down the business in step with the growth of other MX derivatives. OX is extracted last after extracting MX and PX, but by isomerizing it and returning it to xylene, we decided that we could increase the production efficiency of PX, and therefore to stop the chain from OX downward.

Q2: Is there no need to consider the risk that the graduated reduction of PIA will increase other fixed expenses? MXDA and so forth will increase as PIA is reduced, so can we understand that you will address this once a target is established for that?

A2: Yes, that's correct.

Q3: With regard to the polycarbonate (PC) chain, you have announced the withdrawal of MGC Filsheet Osaka Plant; however, I think one of the original reasons for taking a 75% equity stake in Mitsubishi

Engineering Plastics (MEP) was to improve the overall PC chain. Considering this, what is action are you likely to take in the future?

A3: As you point out, the reason for taking a majority stake in MEP was naturally to do with making an overall improvement in the PC business. In the current medium-term management plan, we also have to move forward with this and the environment is now making this an imperative.
As has happened with many products, the market situation has reached a point that precludes exporting from Japan, even if we wanted to, because of the significant production capacities of neighboring countries. And, although this is also related to the case of Filsheet, in Japan PC demand is not expected to increase going forward, and is actually decreasing in some respects. Japan clearly has excessive PC production capacity, and we have to achieve two objectives of right-sizing our production capacity over the coming three years and figuring out how to put that capacity full use after right-sizing.
While we will eventually achieve these objectives, it will take time for the effect to materialize. We are not expecting much benefit from the right-sizing under the current medium-term management plan. However, as we right-size our production capacity, we will of course deliver the effects that can be delivered quickly. Last fiscal year we started concrete steps towards development of products that can benefit from added value commensurate with our production capacity, and we plan to take the lead on launching such products into the market.

Q4: I think it is MGC's extremely high-levels of safety and control expertise that enable it to handle harsh processes using phosgene in PC. That being the case, can we take it that your approach is naturally to favor the effective utilization of this expertise, and to streamline by retreating from other non-specialization fields? MEP's joint venture partners also stated that they would focus on their specialized fields, and I suppose that when both partners focus on their fields of expertise, a direction appears naturally in due course. Is this basic idea correct?

A4: We will refine the phosgene method while carefully protecting the methods cultivated by the Company to date at the Kashima Plant in Japan, TPCC in Thailand, and MGC ENGINEERING PLASTICS(SHANGHAI) in China. However, we will consider right-sizing production capacity itself. As I have mentioned, exports seem likely to become tougher going forward, and I suspect that we may have to think about things in terms of our export-ready production capacity, although we would need to discuss this with our partners.

Q5: Xylene separators and derivatives were left out of restructuring under the previous medium-term management plan. This time, does it show that you have done various research and you are confident that there are no businesses that will require restructuring at the end of the current medium-term management plan?

A5: With regard to xylene separators and derivatives, to add to my explanation just before, during the previous medium-term management plan, we initially planned to stop PIA, but with MXDA we had made a significant investment to build a plant in Europe, and it was necessary to secure MX as a raw material for it. Of course, we considered external procurement of MX, but any instability at that point would have an impact on the entire chain, so our first priority was to secure raw materials. Naturally we are aiming for vertical start-up at the Europe plant. If we can achieve that as planned, and secure a reliable supply of raw material, then we will of course be able to cut out the unprofitable parts. However, the timing is delicate for determining whether a major decision can be made during the current medium-term management plan.
With regard to MEP, the Company has taken leadership in dealing with this, and has built an extremely capable R&D structure and sale structure. However, we aim to approach areas of excess from various angles, slimming down some parts and right-sizing production, and so forth. Currently, at its base in China, the Company is delivering high-value-added products such as highly transparent items for automobiles, to both Japanese and Chinese manufacturers. We will continue to expand sales of these and we will build a structure for PC that will reliably deliver profits, treating it as a strategic product. We will avoid becoming embroiled in competition over general items, while focusing on different fields with unique items that have high earning potential. Since this will leave us with excess production capacity, we

believe we will inevitably have to reduce capacity a little. We cannot state decisively that we will be able make all operations profitable during the current medium-term management plan, but we intend to try.

Q6: Looking at page 23 of the presentation materials, if net sales for the three ICT businesses (electronic materials, electronic chemicals (EL chemicals), and optical materials) increase by 1.5 times over three years as shown in the materials, that would mean annual growth of around 11%. Given the current downturn in semiconductors, even a recovery from this would probably be enough to achieve the goal, but could you tell us if there is any variation in the growth of the three businesses? Is this because, for example, while electronic materials and EL chemicals will grow in step with the semiconductor market, optical materials are mainly used for smartphone applications, so this three-year period is a preparation period for the latter?

A6: As you have pointed out, our plan for optical materials (optical polymer) is not something like doubling sales by investment, but rather to confirm that demand has grown before proceeding. For EL chemicals, on the other hand, the semiconductor market is projected to grow steadily through to 2030, and we are therefore planning to invest, primarily in North America. We are also encouraged by the expectation of subsidies in relation to the CHIPS Act. With strong trust from our customers, we also plan expand sales of products such as super-pure hydrogen peroxide and super-pure ammonium hydroxide. For electronic materials also, we have decided to increase production in Thailand and construction is already under way. Beyond that, with regard to whether we will continue to increase production in Thailand or consider a new location, our policy will be decided while observing demand growth.

Q7: In the MMA-related business, you are working in a niche field and we recognize that you have a strong competitive advantage. On the other hand, there are issues such as costs such as repair expenses for the aging Niigata Plant. Your competitors are considering structural reforms such as stopping MMA facilities. How does MGC position this business?
Also, in the energy resources and environmental business, you are making considerable investments in iodine production. How much of a contribution do you expect this to make to earnings given the increasing needs due to the current geopolitical risks?

A7: Compared with other companies, the scale of our MMA business is small; however, we use an in-house process that is different from that of other companies, and we are focusing on developing our business in intermediates and derivatives. Generally, we are seen as selling MMA monomer externally, but there are also hydrogen cyanide, which is a raw material for our electronic materials business, as well as associated products used for various applications such as solvents for semiconductors, raw material for agrochemicals, and raw material for coatings. These product groups have considerably high profit margins. We will strive to increase the ratio of these products, while reducing costs in our processes in light of the aging of our plant, as you have pointed out. While putting safety front and center, we would like you to understand that we are currently examining further radical reductions in fixed expenses.
Regarding iodine, the market is buoyant as can be seen from general reports. Japan is the second largest producer of iodine in the world, and as it is connected to national policy, we intend to continue steadily increasing production as a strategic product. While there are various competitors in the market, applications are also steadily expanding, and the Company intends to focus on iodine together with water-soluble natural gas. In particular, one of the applications is perovskite solar cells, and we have R&D currently looking at providing this material, which we are accelerating. We expect this business to become even more exciting going forward.

Q8: With regard to the growth potential of electronic materials, could you confirm that you are expanding your share in advanced BT materials and that OPE has growth potential?

A8: With respect to the growth potential of electronic materials, the semiconductor market has recently experienced a major slump, but we do not anticipate such a slump during the three years of the current medium-term management plan. We see a steady growth trend, and since the domains for semiconductor use are themselves expanding we are certain that the market will grow naturally. It is difficult to say which field will expand first; but to start with, we think there is a high certainty of growth in smartphones and PCs, although this is a conventional area, including the prospect of continued

replacement purchase demand. With smartphones, in particular, we have seen an impact in recent years as Chinese smartphones have started to use various semiconductors, which is partly due to the effect of the number of these units.
Regarding OPE, we are certainly seeing expansion in demand. However, the market is still small. Even if it were to double or treble in size, it would still be small overall. Furthermore, this is an area where various technological innovations are taking place, and the market has yet to see the emergence of a de facto standard. As such, we see an unpredictable element here, and we are currently following a plan to maintain a certain solid base level while adding only reliable extras.

Q9: Estimating the depreciation and amortization for each business sector based on EBITDA from page 16 of the materials, it looks like depreciation and amortization is going to increase sharply for the Green Energy & Chemicals Business Sector. Investments in this business sector are often large in scale, and this is probably unavoidable to some extent. However, I would like to hear why you have increased investment to this extent. Also, could you explain why it is necessary to make even larger investments in the lead up to 2030?

A9: We have made significant investments in our strategic products, aromatic aldehydes and MXDA, and we will therefore see a corresponding increase in depreciation and amortization. There is a strong infrastructure component to the applications for these products. We cannot expect to recover the investments immediately, but we believe the products will enable stable recovery of the investments. We intend to steadily recover our investments while expanding sales of downstream derivative products, 1,3-BAC and MX nylon.
Looking at investments going forward, we recognize that we have secured the necessary production capacity for aromatic aldehydes and MXDA for now. We have two production sites for MX nylon—Niigata and MGC Advanced Polymers, Inc. in the United States, and we will examine further investments with the intention of strategically expanding sales.

Q10: Will the investment in MX nylon be a large-scale investment?

A10: This plant expansion makes use of shared facilities, so we do not expect the investment to be large.

Q11: My question is about capital investment. There is an extremely high level of investment in EL chemicals, is this simply a coincidence of timing? Or are you actually seeing more demand than ever before? Also, on page 25 of the materials, you have stated that you have a plan to increase production capacity by 1.7 times over six years, which is an annual increase of around 9%. Can we assume a similar increase in sales?

A11: The growth in sales will be around the same level as the increase in production capacity. We have strong customer demand over the medium to long term, and our plan is to increase production capacity accordingly.

Q12: My question is about the methanol business. Could you please explain your measures to increase profitability and measures to stabilize earnings, including equity-method affiliates.

A12: In the methanol business, we recorded an impairment loss for CARIBBEAN GAS CHEMICAL LIMITED (CGCL) in the previous fiscal year. However, we have not changed our basic structure for other joint ventures. CGCL is expected to show an improvement in profits going forward due to recording the impairment loss. Since methanol demand is for basic chemicals, we expect it to recover gradually going forward. On the supply side, we have plans to build two new plants at other companies this year ; however, there are no other plans during the medium-term management plan. In terms of the balance of supply and demand, the market is picking up and we plan to see earnings improve as well.

Q13: For EL chemicals, how do you view the situation with respect to competitors increasing their production facilities? Also, when you make an investment, could you explain what kind of consultation process do you have with customers to reach the point of deciding to invest?

A13: Other companies have announced their plans to invest in South Korea. In North America, there have been no announcements, so we have not been able to confirm. We have been invested in North America for a long time, and construction expenses there have increased two- to three-fold over compared with 10 years ago. We invested in North America at an early stage, and has already built a base there, which is a strong point for us. I think that having a base built up from before is what makes it possible to increase our investment there. It would be difficult to enter North America for the first time without an existing base.
As to our investment decision making process, this construction to expand the facility requires more additional costs than 10 years ago. We negotiate with customers by asking them to help bear the cost in order to make the investment decision.

Q14: Is some of the capacity in this facility expansion guaranteed with long-term contracts?

A14: We expect long-term contracts as a basic requirement.

Q15: Companies that abandon unprofitable businesses are also appearing in Japan. Last fiscal year you invested 40.0 billion yen in the former Basic Chemicals (GEC) business sector, which has a low profit margin. This would not increase ROE or ROIC. Don't you think this is not an example of management with an awareness of the cost of capital and share price?

A15: With regard to GEC, we are sorting out our businesses in order, starting from where we can, and we are also proceeding with stoppages. On the other hand, within GEC there are also products that have earning capability like MXDA, so we will continue to grow these. In addition, in the field of chemical products that are environmentally friendly and in harmony with society, we believe that we can achieve profitability using our unique characteristics. For example, as we work to realize CCS, we aim to sequester 1.5 million tonnes of other companies' CO_2 emissions per year in East-Niigata area. Furthermore, shipping companies are seeing movement towards purchasing 1,000 USD green methanol , and 260 methanol-powered vessels have been ordered worldwide. Since we can expect 260 methanol-powered vessels to begin operating around the world, demand for green methanol is likely to increase. While this has been a basic chemical until now, we see potential for it to be transformed into a high-performance product. With a view to that kind of future, we will incorporate CCS as we make the necessary investments to advance our preparations.
We are expecting steadily rising, linear growth in the semiconductor market through to 2030. Given the large number of data centers that are to be built, there is shortage of electricity. To provide clean electricity, various hydrogen sources such as methanol and ammonia will be needed. We are also working on technologies such as methanol fuel cells, and going forward we intend to develop our business while focusing on the changes in electricity demand.
Products such as EL chemicals and electronic materials are at the heart of the expanding semiconductor market and can therefore be expected to grow significantly. We consider our plan to achieve net sales of 1.2 trillion yen by 2030 including GEC growth to be fully achievable, and we will work with determination to achieve it.