Presentation

Operational Summary

for the First Half of the Fiscal Year Ending March 31, 2025

November 1, 2024
Mitsubishi Chemical Group Corporation

[Title]
[Q&A section at end]
Mitsubishi Chemical Group reports that 1H core operating income exceeds initial forecast by 57%, leading to upward revision of full-year core operating income forecast by 16%

[Lead]
The following is a transcription of Mitsubishi Chemical Group Corporation’s 1H FY2024 financial results presentation, which was released on November 1, 2024.

[Speakers]
Manabu Chikumoto, Representative Corporate Executive Officer, President and CEO
Minoru Kida, Vice President and CFO
Akihiro Tsujimura, Executive Vice President (Head of Pharma)

Operational Summary for 1H FY2024

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MITSUBISHI CHEMICAL GROUP

List of Abbreviations

FY2024	April 1, 2024 – March 31, 2025
FY2023	April 1, 2023 – March 31, 2024
MCG	Mitsubishi Chemical Group Corporation
MCC	Mitsubishi Chemical Corporation
MTPC	Mitsubishi Tanabe Pharma Corporation
NSHD	Nippon Sanso Holdings Corporation

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Chikumoto: I am Chikumoto, Representative Corporate Executive Officer, President and Chief Executive Officer. Thank you very much for taking the time to attend today's financial results briefing, and for your continued understanding and support of our business operations. I would like to take this opportunity to express my sincere gratitude.

First, I will give a brief comment, and then Kida, Vice President and Chief Financial Officer, will explain the details of 1H performance.

The financial results for 1H FY2024 have exceeded the Group's initial forecast by approximately 40%.

The increase in MMA market prices and growing demand in the display market have had a significant positive impact, and we are relieved to see a strong start. In the six moths since I assumed the role of President, I have established a new management team and pursued various strategic initiatives. In the petrochemical business, three companies in western Japan have begun joint studies to achieve carbon neutrality in their ethylene production facilities. In the carbon business, where performance has remained challenging, we have decided to downscale the coke ovens at the Kagawa Plant and transfer relevant subsidiaries.

We will rigorously implement structural reforms in order to achieve profitability next fiscal year. In the Specialty Materials business, we have decided to transfer the triacetate business to the optimal owner. In addition, we are also streamlining unprofitable sites. Furthermore, in order to achieve sustainable growth, we have also decided to increase production capacity for photosensitive polymers for photoresists for semiconductors, ion exchange resins for the production of ultrapure water for semiconductors, and OPL films for displays.

We will accelerate the selection and concentration of our businesses while assessing growth potential, competitiveness, and profitability. Currently, we are preparing to explain our new medium- to long-term management policy to investors at the management policy briefing scheduled for November 13. We are fully committed to enhancing our corporate value and sincerely ask for your continued support.

Summary

Summary

MITSUBISHI CHEMICAL GROUP

FY2024 1H Actual

- The business environment during the first half of fiscal 2024 generally remained stable, despite some different levels of strength in demand among regions and industries. Display-related sales remained brisk on the back of the high operating rate of panel manufacturers, and semiconductor-related sales remained on a moderate recovery path, driven by demand related to generative AI. On the other hand, sales were sluggish in some regions and sectors, such as automotive and food-related markets.
- Compared to the same period of the previous year, price gap improved as a result of the efforts to promote price management in each business and a significant increase in market prices for MMA monomer, leading to an improvement in sales volume for Specialty Materials and Pharma. In addition, our cost reduction efforts continued to contribute to income. As a result, looking at the Group on the whole, sales revenue increased 4% year on year, and core operating income rose 44% year on year.
- Net income attributable to owners of the parent decreased 39% year on year due mainly to the recording of structure reform expenses under special items.

FY2024 Forecast

- Core operating income for the first half of fiscal 2024 was 57% higher than the initial forecast. On the other hand, in the second half of fiscal 2024, business performance is expected to fall behind the initial forecast, mainly in Specialty Materials and Basic Materials & Polymers, due mainly to a reactionary decline in demand related to displays, which had been brisk during the first half of fiscal 2024, a delay in the recovery of demand related to semiconductors for consumer, industrial and automobile applications, intensified competitions for carbon fibers, and a delay in the recovery of market prices for petrochemicals and carbon products. We predict that core operating income for fiscal 2024 will increase 16% compared to the initial forecast to 290.0 billion yen, in light of brisk results in the first half of fiscal 2024.
- We reiterate our initial forecast of 52.0 billion yen for net income attributable to owners of the parent as several business structure reform projects are considered in the second half of fiscal 2024 and losses under special items are expected to be recorded.
- Dividend forecast remains unchanged from our initial forecast of a year-end dividend of 16 yen per share and an annual dividend of 32 yen per share.

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Kida: I am Kida, Vice President and Chief Financial Officer. I will explain the financial results for 1H FY2024. First, here is the summary.

The business environment in 1H was generally stable, although there were differences in demand trends depending on the region and industry. The display-related business was strong due to high capacity utilization rates at panel manufacturers. The semiconductor-related business was on a gradual recovery trend, driven by demand for AI-related products but there were signs of weakness in some regions and fields, such as the automotive and food packaging materials markets.

In each business, price gaps improved compared to the same period last year due to the promotion of price management and the significant rise in the market price of MMA monomer, and sales volume improved in Specialty Materials and Pharma.

In addition, the cumulative effect of cost reductions also contributed to profits. As a result, the Group's overall sales revenue increased by 4% YoY, and core operating income increased by 44%. Net income attributable to owners of the parent decreased by 39% YoY due to the recording of structural reform-related expenses in special items.

Core operating income in 1H was 57% higher than the initial forecast. On the other hand, in 2H, we expect results to fall short of the initial forecast, particularly in Specialty Materials and Basic Materials & Polymers. This is due to a reactionary fall in demand for display-related products, which was strong in 1H, and a delay in the recovery of demand for semiconductor-related products, particularly consumer and automotive applications. Additionally, intensifying competition in the carbon fiber market and a delay in the recovery of market conditions for petrochemical carbon products are expected to impact our performance.

Core operating income for the full year is expected to be JPY290.0 billion, a 16% increase compared to the initial forecast, due to the strong results in 1H.

We are also considering several business structure reform projects for 2H. As losses under special items are expected to be recorded, we reiterate our initial forecast of JPY52.0 billion for the net income attributable to owners of the parent. The dividend forecast remains unchanged from our initial forecast of a year-end dividend of JPY16 per share and an annual dividend of JPY32 per share.

Consolidated Statement of Operations

Consolidated Statements of Operations

	FY2023 1H	FY2024 1H	Difference	%
Exchange Rate (¥/$)	142.6	152.5	9.9	7%
Naphtha Price (¥/kl)	65,500	77,900	12,400	19%

(Billions of Yen)

	FY2023 1H	FY2024 1H	Difference	%
Sales Revenue	2,149.9	**2,242.1**	**92.2**	4%
Core Operating Income *1	119.6	**172.4**	**52.8**	44%
Special Items	19.0	**(35.7)**	**(54.7)**	
Operating Income	138.6	**136.7**	**(1.9)**	(1%)
Income before Taxes	130.2	**106.1**	**(24.1)**	(19%)
Net Income	94.1	**71.2**	**(22.9)**	
Net Income Attributable to Owners of the Parent	67.2	**40.9**	**(26.3)**	(39%)
Net Income Attributable to Non-Controlling Interests	26.9	**30.3**	**3.4**	
*1 Share of profit of associates and joint ventures included	4.2	**3.1**	**(1.1)**	

Core operating income is calculated as operating income (loss) excluding certain gains and expenses attributable to non-recurring factors (losses incurred by business withdrawal and streamlining, etc.).

I will now explain the consolidated statement of operations for 1H FY2024. The exchange rate for 1H averaged JPY152.5 to the US dollar, a 7% depreciation of the yen YoY, and the unit price of naphtha was JPY77,900, up 19% YoY.

Sales revenue totaled JPY2,242.1 billion, an increase of JPY92.2 billion, or up 4% YoY. This YoY increase can primarily be attributable to foreign exchange effects of some JPY79.0 billion followed by higher selling prices of JPY46.0 billion, and volume factors of JPY11.0 billion, which were partially offset by a decrease of JPY44.0 billion due to business restructuring initiatives.

Core operating income increased by 44% YoY, and I will explain the details of this later. Special items were negative JPY35.7 billion, a deterioration of JPY54.7 billion YoY.

Operating income was JPY136.7 billion, and income before taxes was JPY106.1 billion. Net income attributable to owners of the parent was JPY40.9 billion, a decrease of JPY26.3 billion YoY, but a significant increase compared to 1H forecast of JPY10.0 billion announced in May.

Sales Revenue and Core Operating Income by Business Segment

Sales Revenue and Core Operating Income by Business Segment

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(Billions of Yen)

	FY2023 1H		FY2024 1H		Difference			
Total Consolidated	**2,149.9**	**119.6**	**2,242.1**	**172.4**	**92.2**	4%	**52.8**	44%
Specialty Materials	**520.2**	**18.8**	**542.8**	**24.5**	**22.6**	4%	**5.7**	30%
Advanced Films & Polymers	233.9	16.6	239.2	19.5	5.3		2.9	
Advanced Solutions	177.5	2.8	175.2	7.2	(2.3)		4.4	
Advanced Composites & Shapes	108.8	(0.6)	128.4	(2.2)	19.6		(1.6)	
Industrial Gases	**608.2**	**80.3**	**639.4**	**91.9**	**31.2**	5%	**11.6**	14%
Pharma	**219.3**	**32.4**	**232.5**	**41.4**	**13.2**	6%	**9.0**	28%
MMA & Derivatives	**181.3**	**2.2**	**227.4**	**25.9**	**46.1**	25%	**23.7**	-
MMA	138.4	1.6	180.2	23.9	41.8		22.3	
Coating & Additives	42.9	0.6	47.2	2.0	4.3		1.4	
Basic Materials & Polymers	**528.7**	**(14.7)**	**521.2**	**(10.5)**	**(7.5)**	(1%)	**4.2**	-
Materials & Polymers	372.1	(4.6)	379.1	5.8	7.0		10.4	
Carbon Products	156.6	(10.1)	142.1	(16.3)	(14.5)		(6.2)	
Others	**92.2**	**0.6**	**78.8**	**(0.8)**	**(13.4)**	(15%)	**(1.4)**	-

[Inventory valuation gain/loss]	FY2023 1H	FY2024 1H	Difference
Advanced Films & Polymers	0.1	(0.1)	(0.2)
Materials & Polymers	(5.2)	3.2	8.4
Carbon Products	(2.1)	(6.4)	(4.3)
Total	(7.2)	(3.3)	3.9

- From Q1 FY2024, the current financial reporting segments has been reclassified into Specialty Materials, Industrial Gases, Pharma, MMA & Derivatives, Basic Materials & Polymers, and Others. In addition, the company is reclassifying the managing segments for some of its businesses. Accordingly, for purposes of comparison, we are restated the results for FY2023.
- Breakdown figures of segment are approximation for reference purpose only.
- Based on careful examination of results for FY2023 of new business segment basis, the figures has been changed partially from those announced on May 15,2024.

The table shows sales revenue and core operating income by business segment. Specialty Materials reported a 4% increase in sales and a 30% increase in profits YoY. Due to strong demand in the display-related market, Advanced Films & Polymers and Advanced Solutions achieved results that exceeded the initial forecast.

Industrial Gases remained strong, with a 5% increase in sales and a 14% increase in profits YoY. As sales of RADICAVA in North America remained strong, Pharma reported a 6% increase in sales and a 28% increase in profits, significantly exceeding the initial forecast. Due to the rise in market prices for MMA monomers, MMA & Derivatives saw a significant increase in both sales and profits and achieved results that significantly exceeded the initial forecast, with a 25% increase in sales and a JPY23.7 billion increase in profits YoY.

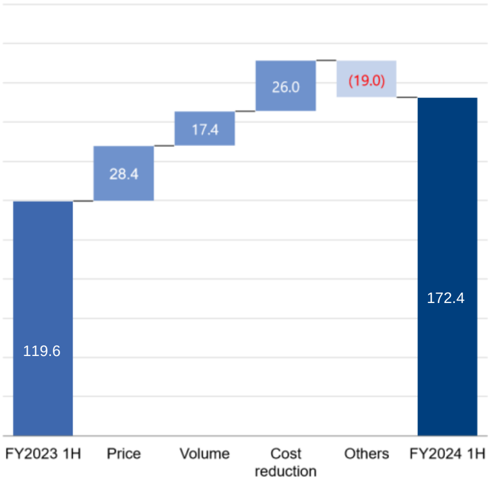
Basic Materials & Polymers reported a 1% decrease in sales YoY and reduced the deficit by JPY4.2 billion. Among the factors contributing to this improvement YoY, the impact of inventory valuation gains or losses was positive JPY4.1 billion. Materials & Polymers increased profits YoY, and secured double-digit profits, despite being in the middle of the periodic repair period for the ethylene center in Ibaraki. However, Carbon Products continued to see no improvement in the coke market and recorded a deficit of JPY16.3 billion.

Analysis of Core Operating Income

Analysis of Core Operating Income

(Billions of Yen)

+52.8 Billion Yen



(Billions of Yen)

	FY2023 1H	FY2024 1H	Difference	Price	Volume	Cost reduction	Others *1
Total Consolidated	119.6	**172.4**	**52.8**	**28.4**	**17.4**	**26.0**	**(19.0)**
Specialty Materials	18.8	**24.5**	**5.7**	**3.6**	**4.8**	**4.8**	**(7.5)**
Industrial Gases	80.3	**91.9**	**11.6**	**2.8**	**(1.6)**	**14.6**	**(4.2)**
Pharma	32.4	**41.4**	**9.0**	**3.5**	**8.9**	**0.6**	**(4.0)**
MMA & Derivatives	2.2	**25.9**	**23.7**	**21.4**	**1.6**	**2.2**	**(1.5)**
Basic Materials & Polymers	(14.7)	**(10.5)**	**4.2**	**(2.6)**	**3.4**	**2.0**	**1.4**
Others	0.6	**(0.8)**	**(1.4)**	**(0.3)**	**0.3**	**1.8**	**(3.2)**

*1 Items included are impacts from differences of inventory valuation gain/loss 3.9 billion yen and differences of share of profit of associates and joint ventures (1.1) billion yen, etc.

	Difference	Price	Volume	Cost reduction	Others
Changes in exchange rates	9.9	11.6	-	-	(1.7)
Changes in foreign currency translation included in above		6.6			

This is a breakdown of the JPY52.8 billion increase in core operating income YoY. The price gap had an incremental effect of JPY28.4 billion on core operating income. Of this, the impact of foreign exchange rates, mainly in Industrial Gases and Pharma, was a positive JPY9.9 billion.

Excluding the impact of foreign exchange rates, the rise in market prices for MMA monomer in MMA & Derivatives significantly contributed to the increase. Specialty Materials made efforts to maintain and increase selling prices overall, and improved price gaps. Sales volume had a positive impact of JPY17.4 billion for the Company as a whole, driven by the increase in Pharma. For Specialty Materials, sales volume decreased in 1H YoY, but all sub-segments increased sales volume by the end of 2H.

Cost reduction had a positive impact of JPY26.0 billion, progressing as planned toward the annual reduction target of JPY47.0 billion. Other factors had a negative impact of JPY19.0 billion. Inventory valuation gains or losses improved by JPY3.9 billion, but this was offset by an increase in fixed costs in each business such as labor costs and the impact of inflation.

Analysis of Core Operating Income: Specialty Materials Segment

Analysis of Core Operating Income
Specialty Materials Segment

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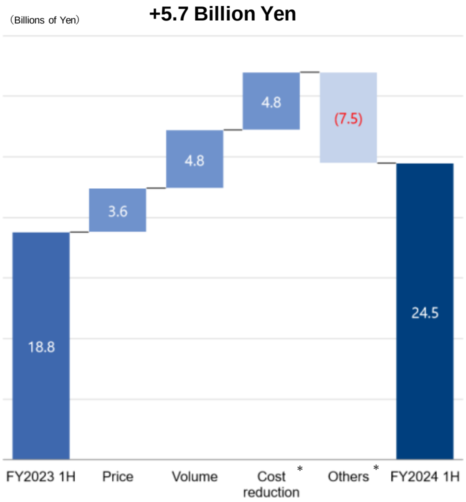

Advanced Films & Polymers ＋2.9

Price (−)	(＋) Improvement in price gap for various products as retaining and improving selling price (−) Deterioration in price gap for barrier packaging, etc.
Volume	(＋) Increase in sales due to a rise in demand for displays and other applications

Advanced Solutions ＋4.4

Price	(＋) Improvement in price gap for various products as retaining and improving selling price
Volume	(＋) Increase in sales due to a moderate recovery in demand related to semiconductors

Advanced Composites & Shapes （1.6）

Price	(＋) Improvement in price gap for various products as retaining and improving selling price
Volume (＋)	(＋) Increase in sales due to a moderate recovery in demand for high performance engineering plastics (−) Decline in sales owning to intensified competitions for some carbon fiber applications

*** Cost reduction, Others**

Cost reduction	(＋) Business structure reform, optimization of procurement, productivity enhancement, etc.
Others	(−) Increase in labor cost and other fixed expenses, increase in amortization of intangible assets in tandem with acquisition of CPC as a consolidated subsidiary, etc.

I would like to explain the details by segment. Specialty Materials posted a JPY5.7 billion increase in core operating income YoY, and the price gap had a positive impact of JPY3.6 billion.

Although sales for barrier packaging materials declined YoY, efforts to maintain and increase selling prices for other products overall lead to an improvement in price gaps. Sale volume had a positive impact of JPY4.8 billion.

In Advanced Films & Polymers, demand for polyester films and OPL films increased due to higher capacity utilization rates among panel manufacturers, driven by anticipated growth in TV demand from major shopping events in China and international sports events.

In Advanced Solutions, while there are still some differences by product and field, demand for semiconductor-related products recovered gradually. Volume increased in the areas of materials for semiconductor manufacturing processes, precision cleaning business, and water treatment equipment.

In Advanced Composites & Shapes, demand for high-performance engineering plastics mainly for semiconductor manufacturing equipment applications recovered, and sales volume increased.

On the other hand, for carbon fibers, although volume for wind power generation and other applications increased, volume for pressure vessel applications, which have a relatively high profit margins, decreased due to intensifying competition with other companies, resulting in a decline in sales volume.

Cost reduction had a positive impact of JPY4.8 billion due to the business structure reforms such as the withdrawal from the acrylic fiber business, as well as cumulative self-help efforts such as procurement optimization and productivity improvement. Other factors had a negative impact of JPY7.5 billion, due to an increase in fixed costs such as labor costs, as well as an increase in amortization of intangible assets following the consolidation of CPC as a subsidiary.

Analysis of Core Operating Income: Industrial Gases Segment

Analysis of Core Operating Income
Industrial Gases Segment

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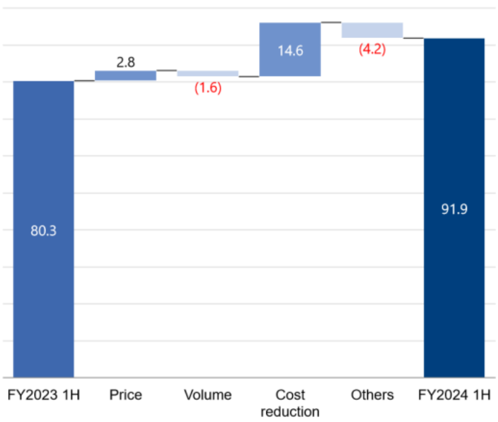
(Billions of Yen) **+11.6 Billion Yen**

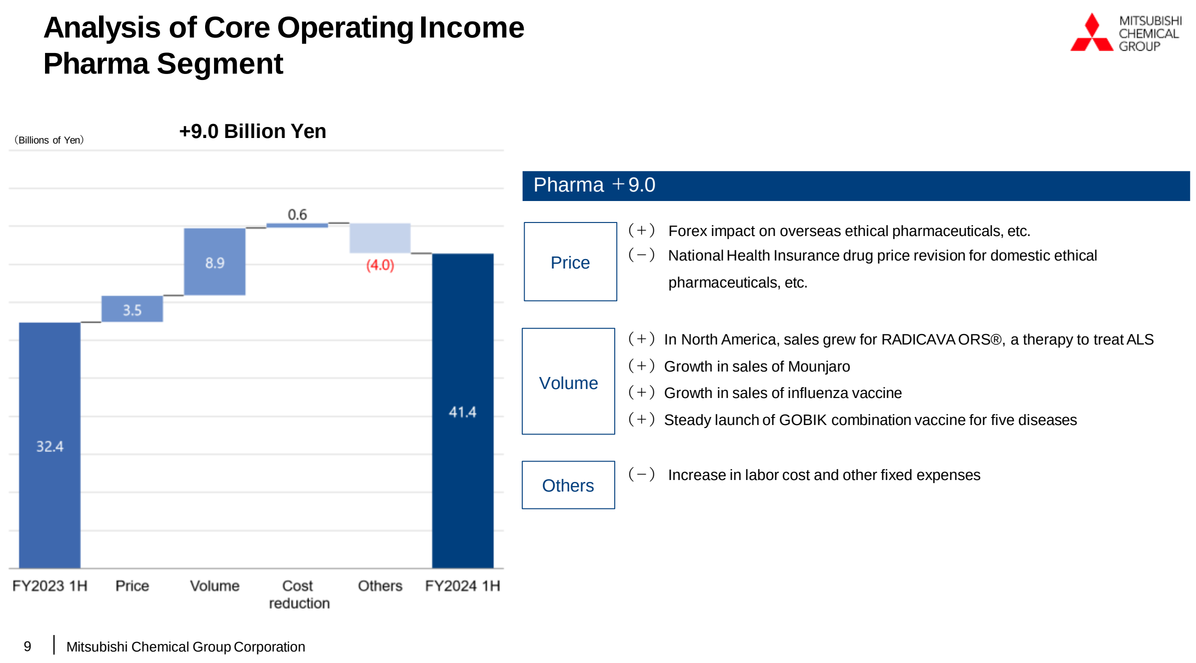


Industrial Gases ＋11.6

Price	(＋) Price improvement owning to price management in each region
Cost reduction	(＋) Productivity improvement activities, include the use of DX and optimization of plant operations
Others	(－) Increase in labor cost and other fixed expenses

In Industrial Gases, core operating income increased by JPY11.6 billion YoY. There was some softness in volume, particularly in the United States. However, due to the impact of foreign exchange rates, as well as initiatives for price management and productivity improvement in each region, the price gap had an impact of JPY2.8 billion, and the cost reduction had a positive impact of JPY14.6 billion, leading to a YoY increase in profits.

Analysis of Core Operating Income: Pharma Segment



In Pharma, core operating income increased by JPY9.0 billion YoY. Despite a negative impact from the domestic drug price revisions, the price gap improved by JPY3.5 billion, supported by positive foreign exchange effects.

The sales volume had a positive impact of JPY8.9 billion. Sales of RADICAVA ORS in North America remained strong, underpinning the profitability of Pharma business. Sales of Mounjaro, influenza vaccines, and GOBIK, a five-in-one vaccine, in the domestic market also grew. Other factors had a negative impact of JPY4.0 billion, primarily due to increased costs including labor costs.

Analysis of Core Operating Income: MMA & Derivatives Segment

Analysis of Core Operating Income MMA & Derivatives Segment

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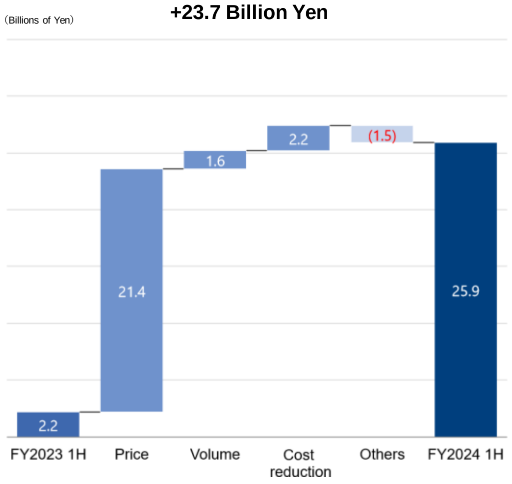


MMA ＋22.3

Price
（+） Improvement in price gap due to a rise in market prices chiefly for MMA monomer

Coating & Additives ＋1.4

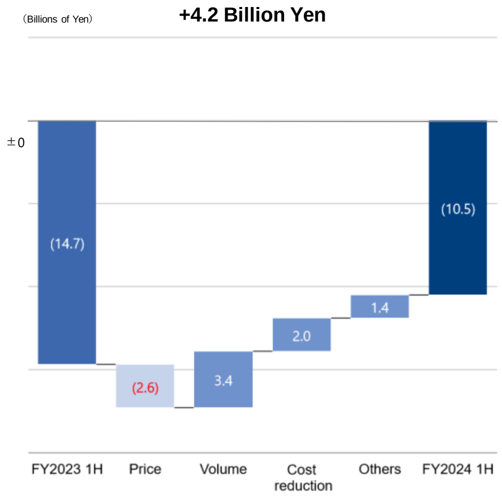
Price
（+） Improvement in price gap for paints / adhesives / inks / additives

In MMA & Derivatives, core operating income increased by JPY23.7 billion YoY. The price gap had a significantly positive impact of JPY21.4 billion.

Market conditions of MMA monomer improved YoY, resulting in an expansion of spreads. Additionally, price gaps improved in Coating & Additives business.

Analysis of Core Operating Income: Basic Materials & Polymers Segment

Analysis of Core Operating Income
Basic Materials & Polymers Segment



Materials & Polymers ＋10.4

Volume (＋)	(－)	Expanded the scale of scheduled maintenance and repairs
	(＋)	Diminished impact of one-off troubles during the previous fiscal year
Others	(＋)	Improvement in inventory valuation in tandem with a rise in raw material prices

Carbon Products（6.2）

Price	(－)	Deterioration in price due to decline in cokes market price etc.
Others	(－)	Deterioration in inventory valuation in tandem with a decline in raw material prices

In Basic Materials & Polymers, the deficit was reduced by JPY4.2 billion YoY. The price gap had a negative impact of JPY2.6 billion. While Materials & Polymers saw slight improvement, the decline in coke market price resulted in a negative impact in Carbon Products business, leading to the negative impact in total.

The sales volume had a positive impact of JPY3.4 billion, due to a reduced impact from troubles in the previous period, offsetting a negative impact from periodic repairs to the ethylene center in Ibaraki in the current period. The cost reduction had a positive impact of JPY2.0 billion, adding up the structural reforms and other measures in the derivatives business of the petrochemicals business, as well as the optimization of equipment procurement and repair costs.

Other factors with a positive impact of JPY1.4 billion includes JPY4.1 billion in improved inventory valuation gains or losses. In Carbon Products, inventory valuation gains or losses deteriorated due to the downward trend in coking coal prices. However, in Materials & Polymers, the rise in the domestic naphtha benchmark price from the end of the previous fiscal year through 1H had a significantly positive impact.

Consolidated Special Items

Consolidated Special Items

(Billions of Yen)

	FY2023 1H	FY2024 1H	Difference
Total Special Items	19.0	**(35.7)**	**(54.7)**
Gain on sales of shares of subsidiaries and associates	7.4	**11.1**	**3.7**
Gain on sale of carbon credit	-	**2.7**	**2.7**
Gain on sale of property, plant and equipment	0.8	**1.5**	**0.7**
Impairment loss	(3.2)	**(27.6)**	**(24.4)**
Special retirement expenses	(0.4)	**(17.9)**	**(17.5)**
Loss on sale and disposal of fixed assets	(1.3)	**(2.8)**	**(1.5)**
Provision for loss on business liquidation	(0.5)	**(1.8)**	**(1.3)**
Loss on business liquidation	(2.7)	**(0.6)**	**2.1**
Others	18.9	**(0.3)**	**(19.2)**

Special items in 1H totaled negative JPY35.7 billion. While the special items for 1Q were positive JPY2.4 billion, we newly recorded special losses of JPY38.1 billion in 2Q.

Here, I will provide additional details on some major items. Gain on sale of shares of subsidiaries and associates amounted to a positive JPY11.1 billion. This was due to the recording of a gain of JPY5.6 billion from the realization of foreign currency translation adjustments, etc. following the completion of the transfer of shares in Mitsubishi Chemical Indonesia, which operated the terephthalic acid business, and the recording of a gain of JPY5.5 billion from the transfer of Tianjin Tanabe Seiyaku Co., Ltd.

On the other hand, impairment losses totaled JPY27.6 billion. In Industrial Gases, an impairment loss of JPY10.8 billion was recorded following the decision to suspend the construction plan for a hydrogen production facility that Matheson Tri-Gas, Inc. in the United States had been developing.

In Carbon Products, an impairment loss of JPY7.0 billion was recorded following the decision to downscale the coke production facilities at the Kagawa Plant. Other temporary losses were also recorded, primarily related to the closure of unprofitable sites. Special retirement expenses totaled negative JPY17.9 billion, including the impact of the voluntary retirement program implemented by Mitsubishi Tanabe Pharma Corporation.

Consolidated Cash Flows

Consolidated Cash Flows

MITSUBISHI CHEMICAL GROUP

(Billions of Yen)

	FY2023 1H	FY2024 1H
Net cash provided by (used in) operating activities	**195.7**	**275.1**
Income before taxes	130.2	106.1
Depreciation and amortization	135.6	139.2
Change in operating receivables/payables	(7.3)	33.3
Change in Inventories	0.3	(42.4)
Others	(63.1)	38.9
Net cash provided by (used in) investment activities	**(115.6)**	**(145.3)**
Capital expenditure	(126.3)	(172.0)
Sale of assets	27.0	24.3
Investment and loans receivable, etc.	(16.3)	2.4
Free cash flow	**80.1**	**129.8**

	FY2023 1H	FY2024 1H
Net cash provided by (used in) financing activities	**6.5**	**(124.0)**
Interest bearing debts	35.5	(92.7)
Dividends, etc.	(29.0)	(31.3)
Net increase (decrease) in cash and cash equivalents	**86.6**	**5.8**
Effect of exchange rate changes and changes in scope of consolidation	15.0	(3.2)
Total	**101.6**	**2.6**

Now I will explain the cash flow situation. Net cash provided by operating activities was JPY275.1 billion. Net cash provided by operating receivables or payables was JPY33.3 billion, net cash used in inventories was JPY42.4 billion, and total working capital used was JPY9.1 billion.

This was primarily due to increased inventory levels for certain items in Pharma to meet strong demand. We will continue to focus on proper management of working capital in each business segment.

Net cash used in investing activities was JPY145.3 billion. Net cash used in capital expenditure was JPY172.0 billion, which included growth investments in Industrial Gases and Specialty Materials, as well as maintenance and renewal investments in Basic Materials & Polymers, associated with the periodic repairs in Ibaraki.

Net cash provided by sale of assets was JPY24.3 billion, including proceeds from the sale of shares in affiliates, as well as disposal of cross shareholdings and non-essential assets as part of our business portfolio review. As a result, free cash flow totaled an inflow of JPY129.8 billion, and net cash used in financing activities was JPY124.0 billion.

Consolidated Statements of Financial Positions

Consolidated Statements of Financial Positions

MITSUBISHI CHEMICAL GROUP

(Billions of Yen)

	Mar.31.2024	Sep.30.2024	Difference
Cash & cash equivalents	294.9	297.5	2.6
Trade receivables	852.4	761.1	(91.3)
Inventories	799.2	808.8	9.6
Others	245.1	284.9	39.8
Current assets	**2,191.6**	**2,152.3**	**(39.3)**
Fixed assets	2,524.4	2,434.0	(90.4)
Goodwill	832.9	815.9	(17.0)
Investments & Other	555.6	543.0	(12.6)
Non-current assets	**3,912.9**	**3,792.9**	**(120.0)**
Total assets	**6,104.5**	**5,945.2**	**(159.3)**

(Billions of Yen)

	Mar.31.2024	Sep.30.2024	Difference
Interest-bearing debt	2,338.2	2,225.7	(112.5)
Trade payables	501.5	424.6	(76.9)
Others	989.3	1,036.9	47.6
Liabilities	**3,829.0**	**3,687.2**	**(141.8)**
Share capitals, Retained earnings, etc,.	1,502.9	1,521.7	18.8
Other components of equity	260.6	217.2	(43.4)
Equity attributable to owners of the parent	**1,763.5**	**1,738.9**	**(24.6)**
Non-controlling interests	512.0	519.1	7.1
Equity	**2,275.5**	**2,258.0**	**(17.5)**
Total liabilities & equity	**6,104.5**	**5,945.2**	**(159.3)**
Net Interest-bearing debt *1	2,043.3	1,928.1	(115.2)
Net D/E ratio	1.16	1.11	(0.05)
ROE *2	7.2%	-	-

*1 Net interest-bearing debt (End of Sep.30, 2024)
= interest-bearing debt (2,225.7billion yen)
- {cash and cash equivalents (297.5billion yen) + investments of surplus funds-}
Note : Interest-bearing debt includes lease obligations.
*2 Ratio of net income attributable to owners of the parent.

Here is the consolidated statement of financial position. Total assets were JPY5,945.2 billion, a decrease of JPY159.3 from the end of FY2023. The main factor was the impact of foreign exchange rates, with the yen appreciating against major currencies compared to the end of FY2023, resulting in a reduction of JPY103.0 billion. Additionally, the previous fiscal year-end being a holiday contributed to a further reduction of approximately JPY47.0 billion.

Net interest-bearing debt decreased by JPY115.2 billion from the end of FY2023. The net debt-to-equity (D/E) ratio improved by 0.05 points to 1.11x from 1.16x at the end of FY2023.

Sales Revenue and Core Operating Income by Business Segment [Quarterly Data]

Sales Revenue and Core Operating Income by Business Segment [Quarterly Data]

(Billions of Yen)

Segment		FY2023 1Q	FY2023 2Q	FY2023 3Q	FY2023 4Q	FY2023 Total	FY2024 1Q	FY2024 2Q	FY2024 Total
Total Consolidated	Sales Revenue	1,061.2	1,088.7	1,095.2	1,142.1	4,387.2	1,129.4	1,112.7	2,242.1
	Core Operating Income	50.8	68.8	64.3	24.2	208.1	82.6	89.8	172.4
Specialty Materials	Sales Revenue	262.6	257.6	256.7	266.9	1,043.8	276.9	265.9	542.8
	Core Operating Income	9.9	8.9	0.6	(12.0)	7.4	11.5	13.0	24.5
Advanced Films & Polymers	Sales Revenue	118.1	115.8	113.6	111.6	459.1	120.4	118.8	239.2
	Core Operating Income	8.6	8.0	4.2	(2.5)	18.3	9.2	10.3	19.5
Advanced Solutions	Sales Revenue	88.7	88.8	92.6	92.8	362.9	88.3	86.9	175.2
	Core Operating Income	0.5	2.3	0.4	(2.6)	0.6	3.1	4.1	7.2
Advanced Composites & Shapes	Sales Revenue	55.8	53.0	50.5	62.5	221.8	68.2	60.2	128.4
	Core Operating Income	0.8	(1.4)	(4.0)	(6.9)	(11.5)	(0.8)	(1.4)	(2.2)
Industrial Gases	Sales Revenue	306.8	301.4	314.2	324.5	1,246.9	327.5	311.9	639.4
	Core Operating Income	40.1	40.2	42.2	40.5	163.0	47.4	44.5	91.9
Pharma	Sales Revenue	101.9	117.4	118.6	99.3	437.2	112.5	120.0	232.5
	Core Operating Income	10.0	22.4	23.0	0.9	56.3	18.5	22.9	41.4
MMA & Derivatives	Sales Revenue	90.1	91.2	90.8	96.3	368.4	114.8	112.6	227.4
	Core Operating Income	(0.7)	2.9	(1.6)	1.5	2.1	10.5	15.4	25.9
MMA	Sales Revenue	69.0	69.4	68.7	74.5	281.6	91.0	89.2	180.2
	Core Operating Income	(0.9)	2.5	(1.9)	1.0	0.7	9.4	14.5	23.9
Coating & Additives	Sales Revenue	21.1	21.8	22.1	21.8	86.8	23.8	23.4	47.2
	Core Operating Income	0.2	0.4	0.3	0.5	1.4	1.1	0.9	2.0
Basic Materials & Polymers	Sales Revenue	259.2	269.5	278.1	279.3	1,086.1	261.7	259.5	521.2
	Core Operating Income	(8.8)	(5.9)	1.8	(9.1)	(22.0)	(6.8)	(3.7)	(10.5)
Materials & Polymers	Sales Revenue	174.0	198.1	206.7	203.6	782.4	186.7	192.4	379.1
	Core Operating Income	(5.2)	0.6	4.2	(2.2)	(2.6)	1.5	4.3	5.8
Carbon Products	Sales Revenue	85.2	71.4	71.4	75.7	303.7	75.0	67.1	142.1
	Core Operating Income	(3.6)	(6.5)	(2.4)	(6.9)	(19.4)	(8.3)	(8.0)	(16.3)
Others	Sales Revenue	40.6	51.6	36.8	75.8	204.8	36.0	42.8	78.8
	Core Operating Income	0.3	0.3	(1.7)	2.4	1.3	1.5	(2.3)	(0.8)

- From Q1 FY2024, the current financial reporting segments has been reclassified into Specialty Materials, Industrial Gases, Pharma, MMA & Derivatives, Basic Materials & Polymers, and Others. In addition, the company is reclassifying the managing segments for some of its businesses. Accordingly, for purposes of comparison, we are restated the results for FY2023.
- Breakdown figures of segment are approximation for reference purpose only.
- Based on careful examination of results for FY2023 of new business segment basis, the figures has been changed partially from those announced on May 15,2024.

I will now provide supplemental information on the trend of core operating income from 1Q to 2Q FY2024.

Core operating income for 1H FY2024 increased JPY7.2 billion to JPY89.8 billion.

Specialty Materials posted a JPY13.0 billion profit in 2Q, a JPY1.5 billion improvement from a JPY11.5 billion profit in 1Q. Demand for Soarnol, used in barrier packaging applications, had been sluggish due to inflationary pressures and other factors last year, but bottomed out by the end of the previous fiscal year and has been gradually recovering. This recovery, along with increased sales volumes, contributed to higher profits from 1Q to 2Q.

Additionally, in the water treatment equipment business for electronic devices, sales of relatively large orders were recorded in this 2Q, which also contributed to increased profits.

In Advanced Composites & Shapes segment, which has continued to post a deficit, demand for high-performance engineering plastics for use in semiconductor manufacturing equipment and other applications is on a recovery trend. However, the segment posted a slightly larger deficit in 2Q due to seasonal factors in Europe and the United States.

In Industrial Gases, while performance remains strong, core operating income decreased by JPY2.9 billion from 1Q to 2Q, impacted by the yen appreciation in foreign exchange and increased fixed costs.

In Pharma, core operating income increased by JPY4.4 billion, from JPY18.5 billion in 1Q to JPY22.9 billion in 2Q. Despite the impact of a decline in sales of long-listed drugs in domestic ethical drugs, there was a growth in sales of Mounjaro and a contribution to profits from influenza vaccines. In addition, in the overseas ethical drugs, sales of RADICAVA in North America continued to be strong, and this, including the impact of foreign exchange rates, contributed to increased profits.

In MMA & Derivatives, core operating income grew from JPY10.5 billion in 1Q to JPY15.4 billion in 2Q, an increase of JPY4.9 billion. For MMA monomers, the supply-demand balance in Asia remained tight throughout 1H due to supply-side factors, leading to an increase in market prices from 1Q to 2Q. The improvement in price gaps contributed to increased profits.

Basic Materials & Polymers narrowed its deficit by JPY3.1 billion, from a negative JPY6.8 billion in 1Q to a negative JPY3.7 billion in 2Q. In Materials & Polymers, while inventory valuation gains and losses worsened due to a decline in the domestic naphtha benchmark price as an ingredient from 1Q to 2Q, improvements in price gaps of polyolefins and other products, along with a reduced impact from periodic repairs, contributed to increased profits.

In Carbon Products, while price gaps for coke improved due to a decline in raw coal prices, the worsening of inventory valuation gains and losses resulted in performance remaining on par with 1Q.

Consolidated Statements of Operations

Consolidated Statements of Operations

MITSUBISHI CHEMICAL GROUP

	1H (Actual)	2H (Forecast)	FY2024 Forecast	FY2024 Forecast (Announced on May 15)	Difference	%	<Reference> FY2023 Actual	%
Exchange Rate (¥/$)	152.5	145.0	148.8	150.0	(1.3)		145.3	
Naphtha Price (¥/kl)	77,900	72,000	74,950	75,000	(50)		69,100	
					(Billions of Yen)			
Sales Revenue	2,242.1	2,227.9	**4,470.0**	4,623.0	**(153.0)**	(3%)	4,387.2	2%
Core Operating Income	172.4	117.6	**290.0**	250.0	**40.0**	16%	208.1	39%
Special Items	(35.7)	(36.3)	**(72.0)**	(40.0)	**(32.0)**		53.7	
Operating Income	136.7	81.3	**218.0**	210.0	**8.0**	4%	261.8	(17%)
Financial Income/Expenses	(30.6)	(21.4)	**(52.0)**	(39.0)	**(13.0)**		(21.3)	
Income before Taxes	106.1	59.9	**166.0**	171.0	**(5.0)**		240.5	
Income Taxes	(34.9)	(19.1)	**(54.0)**	(55.0)	**1.0**		(62.1)	
Net Income	71.2	40.8	**112.0**	116.0	**(4.0)**		178.4	
Net Income Attributable to Owners of the Parent	40.9	11.1	**52.0**	52.0	**0.0**	-	119.6	(57%)
Net Income Attributable to Non-Controlling Interests	30.3	29.7	**60.0**	64.0	**(4.0)**		58.8	

Now I will explain the revisions to the full-year performance forecast for FY2024.

For 2H, the assumptions are an exchange rate of JPY145 to the US dollar and the unit price of naphtha at JPY72,000. Full-year sales revenue is expected to be JPY4,470.0 billion, a 3% decrease compared to the initial forecast. However, core operating income has been revised upward to JPY290.0 billion, a 16% increase compared to the initial forecast.

For special items, losses associated with business structure reforms are expected in 2H. The full-year forecast for losses has been revised from the initial estimate of negative JPY40.0 billion to a new forecast of negative JPY72.0 billion. As a result, we expect operating income of JPY218.0 billion and will leave unchanged the forecast of bottom line, or profit attributable to owners of the parent, at JPY52.0 billion.

Performance Forecast: Sales Revenue and Core Operating Income by Business Segment

Sales Revenue and Core Operating Income by Business Segment

(Billions of Yen)

Segment		1H (Actual)	2H (Forecast)	FY2024 Forecast	FY2024 Forecast (Announced on May 15)	Difference	<Reference> FY2023 Actual
Total Consolidated	Sales Revenue	2,242.1	2,227.9	**4,470.0**	4,623.0	(153.0)	4,387.2
	Core Operating Income	**172.4**	**117.6**	**290.0**	**250.0**	**40.0**	**208.1**
Specialty Materials	Sales Revenue	542.8	550.2	**1,093.0**	1,129.0	(36.0)	1,043.8
	Core Operating Income	**24.5**	**9.5**	**34.0**	**24.0**	**10.0**	**7.4**
Advanced Films & Polymers	Sales Revenue	239.2	240.8	**480.0**	488.0	(8.0)	459.1
	Core Operating Income	**19.5**	**10.5**	**30.0**	**20.0**	**10.0**	**18.3**
Advanced Solutions	Sales Revenue	175.2	176.8	**352.0**	372.0	(20.0)	362.9
	Core Operating Income	**7.2**	**0.8**	**8.0**	**4.0**	**4.0**	**0.6**
Advanced Composites & Shapes	Sales Revenue	128.4	132.6	**261.0**	269.0	(8.0)	221.8
	Core Operating Income	**(2.2)**	**(1.8)**	**(4.0)**	**0.0**	**(4.0)**	**(11.5)**
Industrial Gases	Sales Revenue	639.4	652.6	**1,292.0**	1,292.0	0.0	1,246.9
	Core Operating Income	**91.9**	**82.1**	**174.0**	**174.0**	**0.0**	**163.0**
Pharma	Sales Revenue	232.5	232.5	**465.0**	449.0	16.0	437.2
	Core Operating Income	**41.4**	**19.6**	**61.0**	**42.0**	**19.0**	**56.3**
MMA & Derivatives	Sales Revenue	216.6	200.4	**417.0**	386.0	31.0	348.0
	Core Operating Income	**26.7**	**18.3**	**45.0**	**16.0**	**29.0**	**5.5**
MMA	Sales Revenue	169.4	155.6	**325.0**	294.0	31.0	261.2
	Core Operating Income	**24.7**	**18.3**	**43.0**	**14.0**	**29.0**	**4.1**
Coating & Additives	Sales Revenue	47.2	44.8	**92.0**	92.0	0.0	86.8
	Core Operating Income	**2.0**	**0.0**	**2.0**	**2.0**	**0.0**	**1.4**
Basic Materials & Polymers	Sales Revenue	532.0	482.0	**1,014.0**	1,173.0	(159.0)	1,106.5
	Core Operating Income	**(11.3)**	**(9.7)**	**(21.0)**	**(4.0)**	**(17.0)**	**(25.4)**
Materials & Polymers	Sales Revenue	389.9	417.1	**807.0**	831.0	(24.0)	802.8
	Core Operating Income	**5.0**	**(1.0)**	**4.0**	**9.0**	**(5.0)**	**(6.0)**
Carbon Products	Sales Revenue	142.1	64.9	**207.0**	342.0	(135.0)	303.7
	Core Operating Income	**(16.3)**	**(8.7)**	**(25.0)**	**(13.0)**	**(12.0)**	**(19.4)**
Others	Sales Revenue	78.8	110.2	**189.0**	194.0	(5.0)	204.8
	Core Operating Income	**(0.8)**	**(2.2)**	**(3.0)**	**(2.0)**	**(1.0)**	**1.3**

- From 2H of FY2024, the managing segments for some businesses have been reclassified, and the figures shown are after reclassification.

I will now explain the transition in core operating income from 1H actual result of JPY172.4 billion to 2H forecast of JPY117.6 billion, broken down by business segment.

In Specialty Materials, core operating profit is expected to decline by JPY15.0 billion, from JPY24.5 billion in 1H to JPY9.5 billion in 2H. The display market, after experiencing high capacity utilization rates among panel manufacturers in 1H, is now entering a period of adjustment.

The latest forecast for 2H reflects the expected impact of reduced sales volumes for display-related products, such as our polyester films and OPL films. Additionally, based on the current trends in EV demand in Europe and the United States, a decline in battery materials sales has also been factored into the forecast.

Regarding the semiconductor market, while the initial forecast anticipated a demand recovery in 2H, demand for consumer applications excluding AI, and automotive applications remains sluggish, and we expect this trend to continue in 2H. Sales of semiconductor-related materials and precision cleaning services are projected to remain at similar levels to 1H.

Additionally, we expect profits to decrease from 1H to 2H, taking into account the concentration of expenses in 2H, including the delay from 1H, and the impact of scheduled repairs in each business.

In Industrial Gases, we have factored in the impact of decreased profits due to factors such as foreign exchange rates and seasonal factors in 2H.

In Pharma, core operating income is expected to be reduced by JPY21.8 billion, from JPY41.4 billion in 1H to JPY19.6 billion in 2H. Of this, approximately JPY16.0 billion is due to an increase in expenses as a result of SG&A expenses and R&D expenses being concentrated in 2H.

While sales of RADICAVA remain strong, a decrease in profits is expected in 2H due to the impact of foreign exchange rates and other factors.

In MMA & Derivatives, core operating income is expected to decline by JPY8.4 billion from JPY26.7 billion in 1H to JPY18.3 billion in 2H. In October, the capacity utilization rates of other companies’ MMA monomer plants increased in China, leading to a decline in the market price of MMA monomer in Asia.

While some adjustments to capacity utilization rates are being made in response to the market price decline, and a gradual recovery in market conditions is expected toward the end of FY2024, profits for 2H are forecasted to decline compared to 1H.

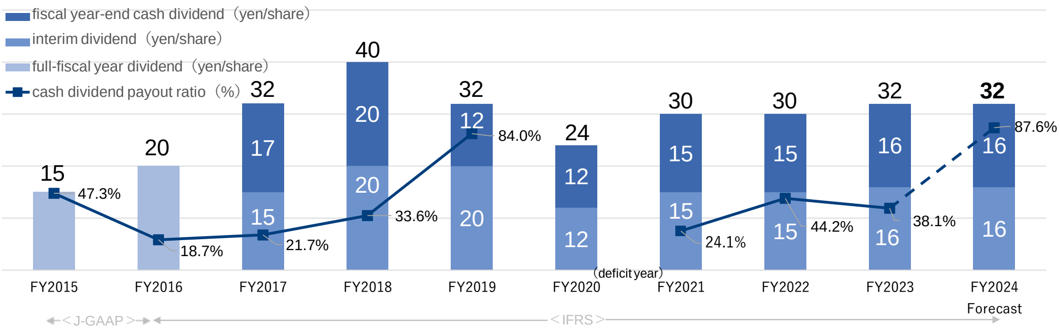
Basic Materials & Polymers is expected to narrow its deficit by JPY1.6 billion, from negative JPY11.3 billion in 1H to negative JPY9.7 billion in 2H. Although the impact of the periodic repairs in Ibaraki will be reduced, Materials & Polymers is expected to post a deficit in 2H, due to a deterioration in inventory valuation gains or losses accompanying the decline in the domestic naphtha benchmark price and a concentration of expenses.

In Carbon Products, an improvement in inventory valuation gains or losses such as price gaps is expected due to the stabilization of coking coal prices. Despite this, the segment is still forecasted to remain in deficit in 2H, and we will continue to promote self-help efforts such as cost reductions.

Dividend Forecast

Dividend Forecast

- MCG's basic policy of returning profits to shareholders emphasizes enhancement of shareholder value by increasing the value of the company.
- While keeping an eye to increasing retained earnings that will fund its future business activities, MCG will aim for y-o-y dividend growth and payout ratio 35% in FY2025 in the action plan based on the management policy "Forging the future" for the period to FY2025.
- MCG decided at its Board of Directors meeting held on November 1 to set its interim dividend for FY2024 at 16 yen, the same as the previously announced forecast.
- And the year-end dividend forecast is 16 yen, the same as the previously announced forecast. Accordingly, the expected full-fiscal year dividend for FY2024 is 32 yen.
- Future dividend policy will be announced at the management policy briefing to be held on November 13 based on the new growth strategy and capital allocation policy.



This is regarding dividends. The Board of Directors meeting held on November 1 resolved to set the interim dividend for FY2024 at JPY16 per share, in line with the previous forecast. Similarly, the forecast for the year-end dividend remains unchanged at JPY16 per share.

As a result, the annual dividend per share for FY2024 is expected to be JPY32 per share. Our dividend policy going forward will be announced at the corporate strategy meeting to be held on November 13, based on the new growth strategy and capital allocation policy.

Q&A: Changes since the Launch of the New Management Structure

Questioner: Since the new management structure was launched in April, what changes have occurred? Please explain both the positive and negative aspects. Also, is everything ready for the November 13 event? Can we expect a sufficient program?

Chikumoto: Preparations are progressing steadily, and we are still working out the details.

The biggest change is that, while there is often a perception that companies with many meetings are not profitable, we are getting through a lot of things quickly. While there have been significant losses in special items, these reflect the progress we are making, as evident in numbers. We aim to continue making swift decisions moving forward.

Q&A: Carbon Products Business

Topics for FY2024

MITSUBISHI CHEMICAL GROUP

Pharma

- In March 2024, the United States Food and Drug Administration (FDA) recognized seven years of orphan-drug exclusive approval for RADICAVA ORS® (edaravone) for treatment of amyotrophic lateral sclerosis (ALS). The period of exclusive approval is seven years from May 12, 2022, the date of approval of New Drug Application (NDA).
- In July 2024, Mitsubishi Tanabe Pharma Corporation announced that it will implement a voluntary retirement program To accelerate the review of its human resource portfolio towards developing personnel with the capabilities required to its growth strategies and realizing an organization where highly specialized and diverse human resources can thrive with the aim for growth in the global market.

Basic Materials & Polymers

- It has been decided to perform a joint feasibility study with Asahi Kasei Corp. and Mitsui Chemicals, Inc on feedstock and fuel conversion etc. at the three companies' ethylene production facilities in western Japan in order to advance carbon neutrality and lead the decarbonization of society.
- In August 2024, it was decided to reduce the number of coke ovens owned by Kagawa Plant from 250 to 150. It is scheduled to discontinue production through the targeted 100 ovens by the end of March 2025. Furthermore, it is planned to review the domestic and overseas sales portfolios and implement additional streamlining measures to transform its coal business structure into one that is not affected by market fluctuations. Along with this structural reform, MCG's aim is to make its coal business profitable from the fiscal year ending March 31, 2026. It will continue to be reviewed the mid- to long-term positioning of the coal business in the business portfolio of the entire MCG Group while steadily promoting this structural reform.
- In September 2024, it was decided to transfer all shares held by the MCG Group of Kansai Coke and Chemicals Company, Limited, which engages in the production and sale of coke and its byproducts to Kobe Steel, Ltd. as part of the business portfolio reform. The share transfer was completed in October 2024.

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Questioner: While many businesses are seeing a decline in profitability from 1H to 2H, Carbon Products is projected to halve the deficit.

Earlier, you mentioned improvements in spreads and inventory valuation gains or losses. Beyond there, is there an effect of reduced depreciation expenses due to the impairment losses recorded in 1H?

Additionally, sales revenue is expected to drop to less than half from 1H to 2H. You previously mentioned plans to shut down 100 coke ovens by the end of FY2024. Has this process already started in 2H, and will it lead to an actual reduction in sales volume?

Kida: Unfortunately, 1H ended with a wider deficit compared to the previous fiscal year. Let me explain how we plan to address this in 2H.

In 1H, we were significantly impacted by inventory valuation losses. Carbon Products has longer transaction cycles. For example, pricing is determined three months before materials arrive, and once they do, they will be burned into coke before being shipped. As a result, the effects of decisions made months earlier are felt later.

We have also learned that there is considerable room for improvement in operations. In addition to the improvement in spreads, we intend to make adjustments to address these issues moving forward.

Regarding the reduction in coke ovens, as you correctly pointed out, we are still producing coke for the time being. Production is expected to cease by the end of FY2024. As for the significant decrease in sales revenue, we recently announced the transfer of shares in Kansai Coke and Chemicals Company, Limited, a joint venture with Kobe Steel, Ltd., to Kobe Steel, Ltd.

Since Kansai Coke and Chemicals Company, Limited contributed approximately JPY70.0 billion in our consolidated sales revenue in 1H, the removal of this contribution is the largest factor behind the projected decline in sales revenue.

Questioner: When you say, "toward the next fiscal year," does that imply that with the reduction in coke ovens taking effect, we can expect another level of improvement from the current deficit level in 2H, potentially moving toward profitability?

Kida: Yes, that's a fair assumption. That is the outlook we have as well.

Q&A: MMA Market Conditions and Capacity Utilization
Questioner: I would like to ask about MMA. Earlier, you shared some comments on the outlook for market conditions, but what do you think is happening behind the scenes to cause the significant drop in MMA market over the past month and a half?

Additionally, you mentioned expecting a gradual recovery in market conditions toward the end of FY2024. Which areas of demand do you see as promising? Could you also provide an update on the status of your North American investments?

Regarding capacity utilization, it was mentioned that capacity utilization rates were around 70% in 1Q and could reach 80% or so in 2Q and beyond. What are the expected actual capacity utilization rates for 2Q, 3Q, and 4Q respectively? Could you elaborate further on the current situation with MMA?

Kida: Let me share the latest update on the current situation with MMA. In 1H, ICIS market prices remained at a relatively high level, ranging between $2,000 and $2,100.

The background to this was a significant tightening of supply in China. One of the main reasons was a decline in nitrile production, which reduced the availability of raw materials.

That said, production continued to some extent. However, ahead of the China National Day holiday, there were reports that storage tanks were nearing capacity. This led to a shift in the supply-demand balance. As tanks approached overflow, accelerated shipments caused prices to drop further.

Essentially, the sharp decline in China's market benchmarks has been the primary driver pulling ICIS market prices down in tandem.

As prices fell, some manufacturers using C4 methods attempted to restart operations. However, with further price declines making sustained operations unfeasible, one production line was shut down. When prices fall to this level, deficits can no longer be tolerated, and we anticipate further adjustments on the supply side.

We expect 2H to follow this trend, with these supply adjustments continuing further.

Regarding demand, the current outlook does not suggest a significant increase in 2H. In particular, homopolymers, as materials for injection molding or for sheet applications, are expected to remain in somewhat sluggish state for some time, both in Japan and Southeast Asia.

As for capacity utilization, our average utilization rate from July to September was 89%, maintaining around 90%. From October onward, we expect to maintain utilization rates at approximately 80%, and our operations are aligned with this outlook. While we anticipate a slight decline in profits for MMA compared to 1H, we do not foresee a significant deterioration.

Q&A: Acetone Price Decline
Questioner: Acetone price declined temporarily. Has the resolution of the acetone shortage also contributed to the deterioration of the supply-demand balance for MMA? If so, would the drop in acetone prices lead to lower raw material costs for your ACH process, thereby mitigating the impact of the market price decline on your margins?

Kida: As you pointed out, the situation with acetone has shifted somewhat. Previously, the poor state of polycarbonate market led to reduced phenol production, resulting in a tighter supply of acetone. However, this has now eased, and the supply of acetone has increased.

That said, the impact of acetone is less significant compared to the influence of byproduct hydrocyanic acid from acrylonitrile production, particularly among our ACH process competitors in China. Nitrile prices are still hovering in the $1,200 range, remaining at low levels.

Looking at the nitrile market, neither NBR, ABS, nor acrylic fiber is showing signs of strong demand. While acetone may have some impact, we consider the effect of hydrocyanic acid to be much more substantial.

Q&A: Investments for Capacity Expansion
Questioner: Please provide an update on the new plant in the United States related to investments for capacity expansion.

Kida: We are engaged in various negotiations and expect to make a decision on the course of action soon. We are steadily negotiating contract terms with potential customers.

Q&A: R&D Expenses and Application Status of Prescription Drugs in Pharma Segment
Questioner: Please tell us about Pharma. Typically, R&D expenses increase during even-numbered quarters due to seasonal trends. This time, profits rose in an even-numbered quarter, and R&D expenses did not increase. Please explain the background behind this break in seasonality, aside from the rebound from restrained purchasing.

Also, while costs are expected to decline in 2H, you are projecting a significant drop in profits from 1H to 2H. Are there any temporary factors contributing to this?

Additionally, regarding the timing of new product launches, ND0612 and CANALIA combination OD tablets are planned for FY2025. As these are already in the application phase, there should be a fair level of confidence in their approval prospects. Could you update us on the status?

Mr. Akihiro Tsujimura (hereinafter, Tsujimura): First, regarding the question about R&D expenses. Typically, various expenses are recorded in 2H, resulting in higher R&D spending in 2H compared to 1H. This was the case in both FY2023 and FY2024.

As announced on November 1, 2H will see additional trials for NeuroDerm’s ND0612, and as a result, R&D expenses in 2H are expected to exceed those in 1H.

Regarding the second question about the approval prospects for CANALIA combination OD tablets and ND0612, I cannot comment on the likelihood of approval in percentage terms. However, we are committed to continuing development to ensure their approval.

Questioner: Is the increase in costs for ND0612 expected to put pressure on profits in 2H?

Tsujimura: That is correct, but there are also several projects entering clinical phases in 2H. The increase in R&D expenses for 2H is not solely due to ND0612.

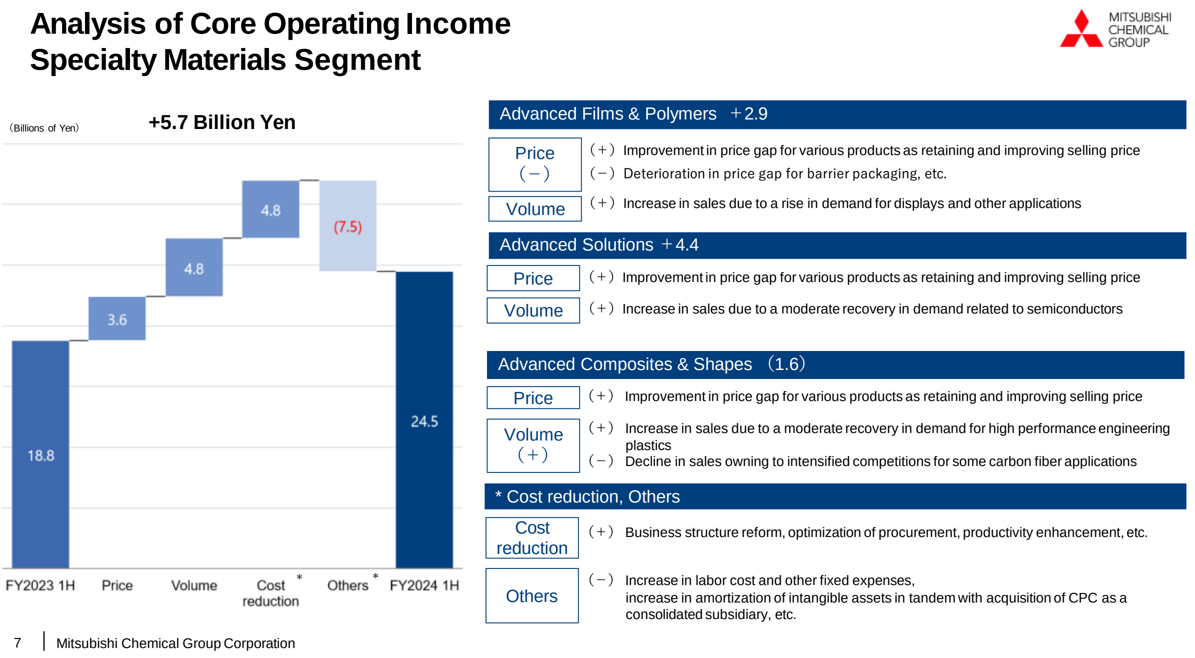
Questioner: There do not seem to be many items in the pipeline transitioning from Phase 2 to Phase 3. Are there any projects moving from preclinical to clinical phases?

Tsujimura: Yes, there are several such projects.

Questioner: Can we understand that the driver is not rebound from restrained purchasing but the release of the influenza vaccine and the steady growth of Mounjaro despite its low profit margin?

Tsujimura: Yes, that is correct. Mounjaro has been growing steadily and is on track with the plan. Additionally, influenza vaccine shipments have exceeded expectations, partly due to Daiichi Sankyo withdrawing the business of injectable influenza vaccines and MSD discontinuing the sale in Japan.

Q&A: Demand Trend of Specialty Materials in 1H



Questioner: I have a question regarding the volume effect in Specialty Materials. Looking at page 7 of the materials, the sales volume for 1H had a positive impact of JPY4.8 billion. However, comparing this to the JPY42.7 billion figure from the FY2023 materials, the situation still appears to be quite challenging when measured against 1H of FY2022.

Please explain which products in 1H FY2024 are significantly falling short of your ideal volume trends and capacity utilization levels. What areas do you see as challenges?

Kida: I understand your question as focusing on the differences in volume gaps across years. From my perspective, evaluating these differences in volume gaps may not provide the most accurate picture. You pointed out that our current levels have not fully reached those of FY2022. However, while there are variations depending on the product, I do not believe that we have completely fallen short.

On the contrary, there were certain products in 1H FY2024 that exceeded FY2022 levels. In particular, the display-related products experienced a boom that could be described as a bubble.

As mentioned earlier regarding Soarnol, while it has not yet reached FY2022 levels, it has recovered significantly from the poor state in FY2023.

One area where we have not yet reached FY2022 levels is high-performance engineering plastics. These are broadly developed under Mitsubishi Chemical Advanced Materials. Semiconductor-related products have recovered substantially, and we have seen significant improvement in comparison to FY2023. However, when compared to FY2022, we have not fully returned to these levels, since some products such as for automotive applications are still sluggish.

Additionally, regarding carbon fibers mentioned earlier, pressure vessels unfortunately have not recovered to FY2022 levels, not due to market conditions but due to intensified competition.

Overall, while we have not yet fully reached FY2022 levels, our perception, including subjective factors, is that we are not significantly far off.

Questioner: To confirm, Soarnol and display-related products surpassed FY2022 levels in 1H FY2024. Do you mean that Soarnol has not yet fully recovered?

Kida: I believe display-related products have surpassed FY2022 levels, but Soarnol has not yet fully returned to those levels. However, it has been gradually recovering through 1H and 2H, and I expect it to catch up before long.

Q&A: Capacity Utilization Rates and Restructuring in the Petrochemical Business

Questioner: Please explain how the current capacity utilization rates in the petrochemical business have been trending. From July to September, the industry as a whole maintained at an 80% rate, despite one unit shut down due to an issue at another company. How does your company compare to the overall industry? While I believe the Ibaraki Plant is performing relatively well, how is the Okayama Plant operating?

When adding up ethylene production volume from January to September, the production pace appears to be significantly lower than FY2023. At the current pace from July to September, production volume for FY2024 could fall below 5 million tons. There are concerns that ongoing discussions among three companies in the Setouchi area and talks of shutting down one or two facilities in the Chiba area may not be sufficient to address oversupply in Japan. Please provide an update on your current capacity utilization and your view on future restructuring in the petrochemical industry.

Kida: I appreciate your concern, but I cannot comment on the details of other companies' situations. For us, from July to September, our capacity utilization rate exceeded 90%, which is a relatively high level.

Although there are some details that are difficult to share, in Ibaraki, the capacity utilization rate is well above 90%. In Okayama, while the rate is slightly below 90%, it remains in the high 80% range, very close to 90%.

Regarding the future restructuring of the petrochemical business, it may be better for Chikumoto to provide an update. Recently there has also been news about Maruzen Petrochemical Co, Ltd. in Chiba. We have been in discussion with Mitsui Chemicals, Inc. and Asahi Kasei Corporation since the beginning of the year, and we expect to present a more concrete plan to you within FY2024.

Questioner: Can we expect the high capacity utilization rate in Okayama not to decline and to continue in 2H, even if operations at other companies resume?

Chikumoto: In 2H, the capacity utilization rate may decline, as overall demand has not yet recovered. Customer applications differ between the eastern and western regions, and I believe your observation about the overall trends in Japan is correct.

Q&A: Trends in Specialty Materials from 1H to 2H

Questioner: I have a question regarding the outlook for Specialty Materials from 1H to 2H. You mentioned displays earlier, and looking at 2Q, it seems to have performed better, compared to the tone three months ago. Was there a frontloading of demand in 1H? Also, is it possible that market uncertainty has led to a conservative outlook?

Additionally, regarding the structural reforms in Specialty Materials, compared to Mr. Chikumoto's passionate comments three months ago, I felt that there has been little progress in the last three months. I also felt that carbon fibers and electronic materials mentioned earlier also have structural challenges. While these may be addressed on November 13, please share your initiatives for the past three months toward the structural reforms in Specialty Materials.

Kida: As Specialty Materials cover a wide range of products, it is difficult to make a blanket statement. Regarding displays, as has been explained, 1H was a situation that could be described as a bubble, and we expect it to enter a period of adjustment starting in 3Q.

For EV applications, we anticipate continued uncertainty. Electrolytes and battery materials are expected to be sluggish toward 2H.

Let me address semiconductors, as an area of significant interest to you all. While there is a view about growth in the semiconductor market, this primarily concerns high-value applications such as generative AI. In terms of volume, demand has not yet recovered.

Among semiconductors, our service-oriented offerings or products that are closer to service-based sales are expected to remain relatively stable from 1H to 2H. On the other hand, for example, material-based sales in areas like photoresists, which are heavily dependent on volume, were initially expected to see a recovery during 2H. However, we now anticipate this recovery to take more time, taking a more conservative outlook.

For carbon fiber composites, particularly Advanced Composites & Shapes, we anticipate relatively stable volume performance, especially in semiconductor-related areas. Additionally, CPC's intangible asset amortization was quite significant in 1H, including one time amortization. As a result, amortization expenses will significantly decrease in 2H, which should have a positive effect on profits.

Taking these factors into account, the difference compared to 1H may appear substantial, but this forms the basis for our current projections. We believe our outlook for 2H is relatively conservative.

We are accelerating the pace of structural reforms. For example, while the semiconductor cleaning business is performing exceptionally well overall, on a micro level, there are some unprofitable sites. This fiscal year, we made decisions to close several sites in the United States, and some losses related to these closures were recorded in 1H.

Please understand that we are working harder than ever to identify and address these issues quickly in our structural reforms.

Greetings from Mr. Kida

Kida: Thank you all for taking the time to attend our financial results briefing today. I am pleased to report that we achieved results in 1H that exceeded the initial forecast we set as a must-achieve target in May.

For 2H, we will make every effort to ensure that we meet the latest forecast announced on November 1. We remain committed to achieving the implementation of measures to improve capital efficiency and profitability across the Group, striving to meet the expectations of all our stakeholders. We sincerely appreciate your continued support. Thank you very much.