

Sumitomo Bakelite Co., Ltd.

**The briefing on 1st Quarter Financial Results for the Fiscal Year Ending March 31, 2023,
Main Q&A Session Minutes**

Date: August 8, 2022 (Monday) 3:00 p.m. - 4:00 p.m.

Presenter: Takashi Nakamura, Director and Senior Managing Executive Officer

[Questions about company-wide matters]

Q: Although the full-year forecast remains unchanged, how do the company evaluate the first quarter results?

A: There are some unevenness in each business segment, but overall, we can say that the first quarter is off to a good start. In our full-year forecast, we had assumed that the impact of raw material prices hike would first appear, and that the selling price revisions would catch up from the second quarter onward. The key points for this fiscal year will be raw material prices and recovery of automobiles, electronic components, etc. As for the sharp rise in raw material prices, we will make sure to pass to selling prices.

Q: What is the reason for the increase in inventories?

A: Since revenue is increasing, there has been a corresponding increase in products and raw materials. In addition, on a consolidated basis, inventories have increased in terms of foreign currency translation due to the weaker yen. It does not mean that inventories are stagnant.

[Questions about Semiconductor Materials segment]

Q: What was the situation surrounding semiconductor encapsulation materials in the first quarter?

A: On the production side, we mentioned that there were problems with raw material procurement, etc. in the previous quarter, but these problems have been resolved to some extent. On the sales side, in addition to the impact of the Shanghai lockdown, demand for consumer applications, mainly in China, is entering a phase of stagnation due to inventory adjustments, and the recovery of the automobile industry is also behind schedule, so demand for encapsulation materials has become stabled. Sales volume was almost flat compared to the last 4th quarter, but increased compared to the same period last year.

Q: Is there any change in the composition ratio of semiconductor encapsulation materials by application?

A: There is no change in the composition, which is 50-55% for telecommunications, 20-25%

for automobiles, 10% for home appliances, and 10% for industrial machinery and others.

Q: Is there any concern about stagnant inventory of semiconductor encapsulation materials at customer side?

A: Since encapsulation materials require temperature control, it is difficult to imagine inventories being held back. However, there may be excess inventory of semiconductor somewhere.

[Questions about the High Performance Plastics Segment]

Q: First-quarter results were more difficult than in the same period of the previous year, but since the terms of trade between raw materials and selling prices are positive, does this mean that the biggest problem is a decline in sales volume?

A: We are making price revisions to cope with soaring raw material prices, albeit with some delay. The biggest problem at the moment is the decline in overall demand and volume, not only for automotive applications, which account for half of our sales, but also for other consumer applications.

Q: The problems may differ by region, but what are the issues at each location? Also, in which regions are profits falling?

A: Overall, the volume of automobile production is not growing as expected, and it is common that the volume is declining, especially in China. In the U.S., labor costs are increasing. In Europe, labor costs are increasing as well, and there is an impact of geopolitical factors. In terms of profit, China, where volume has fallen sharply, has had a large impact.

[Questions about Quality of Life Products Segment]

Q: What are the company's expectations in this business segment for the current fiscal year?

A: Overseas sales of healthcare-related products are increasing. In addition, there is a possibility of a slight recovery in sales of industrial functional materials, which have been sluggish, and selling price revisions, which have been delayed in response to soaring raw material prices, will catch up. In summary, we expect overall sales to increase and business profit to improve.

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