

**SHIKOKU CHEMICALS CORPORATION Q&A Session on Results Briefing
for the 2nd Quarter of Fiscal Year Ending December 2022
(November 1, 2022)**

Q1. What will the president plan to realize in the transition of a new management structure from January 2023? Additionally, please tell us about your expectations, such as how to proceed with the business and changes in employees' mindsets.

A. The Company has been affected by various factors, such as prolonged supply restrictions, including semiconductors and chronic soaring of energy and resource prices, due to the prolonged Russian invasion of Ukraine, disruption of global distribution networks, steep sea freight, and depreciation of the yen. Under such fast-changing circumstances, we need prompt decision-making, but it is difficult under the current organizational system. Therefore, we decided to transfer to a holding company structure so that each business could handle the situation without missing the opportunity.

As the chemicals and housing materials businesses have entirely different business forms and profitability, there is a limit on managing them as one company. We decided to establish a management structure under which each business can make management decisions in line with its business characteristics.

In addition, the current head office function has a strong supportive nature to respond to requests from each business. However, to achieve the long-term vision of "Challenge 1000," each business must actively participate in the management. For example, we considered it necessary to strengthen a structure in which we feedback investigation contents such as M&A projects to each business so that they consider how to use it for the development of the Company.

Q2. Please tell us the impact of a hike in crude oil prices and the weak yen on the financial results. What is the degree of foreign exchange sensitivity?

A. The weak yen had a positive impact of about two billion yen on sales and one billion yen on operating profit, half of the sales.

For foreign exchange sensitivity, if the yen weakens one yen against the U.S. dollar, sales will increase by about 100 million yen, and profits will grow by half of such sales impact.

Regarding the significant cost increase in this first half, raw materials and fuel costs soared by approximately 1.3 billion yen from the previous year. Of which, the chemicals business suffered an increase in oil and sulfur prices of approximately one billion yen, and the housing materials business bore the rise of the aluminum price of about 300 million yen. Distribution costs increased by approximately 1.2 billion yen, consisting of about 1.1 billion yen in the chemicals business and 100 million yen in the housing materials business. The chemicals business was affected by a surge in container prices, especially in North America. In the future, we expect to relax the steep rise in marine transport and reduce its impact.

Q3. Technologies such as 5G (5th generation mobile communication system) and 6G are progressing. Please tell us about how your fine chemical products have been adopted for these technologies.

A. Our newly developed fine chemicals are contributing to the development of 5G and Beyond 5G. In this meeting, I will explain GliCAP, which is expected to grow in the future. GliCAP is a surface treatment agent used in printed wiring boards that handle the 5th generation of mobile communication systems. Printed wiring boards constitute multi-layers of copper and resin. The current technology etches (roughens) copper to make it bumpy on the surface and then crimps the resin to secure the adhesion of both layers. The 5G is a very high-frequency electrical signal, and the more the electrical signals become high, the more the signals will flow through the surface of the copper. For this reason, loss of electric signals occurs when high-frequency waves flow through etched copper surfaces. GliCAP, our self-developed product, combines resin and copper chemically without etching copper, resulting in a treatment system that prevents the loss of electric signals. Currently, GliCAP is being adopted and evaluated for two main applications. The first is a server board application, which is a multilayer board used for communication equipment, base station, and data center. Several manufacturers have already approved this application and started commercialization. We are now working on sales expansion to increase this application further. It continues to be evaluated by domestic and overseas manufacturers. The other is a semiconductor package substrate application. This is a substrate that electrically connects semiconductors and printed wiring boards. It can bring out further high performance by packaging technology corresponding to the development of the high performance of semiconductors. Semiconductor package board applications also require an unetched treatment for further fining, and GliCAP is very advantageous in this respect. We are in the process of overcoming technical issues with several customers and material manufacturers to adopt GliCAP in the next-generation model semiconductor.

Q4. Please tell us about the concept of active investment, such as capital investment and M&A.

A. I cannot specifically comment on M&A, but we always consider it. Annual sales of the housing materials business are approximately 18 billion yen, and we believe that we need sales of about 30 to 35 billion yen for investments in rationalization and improvement of profitability. To this end, we will consider M&A that does not adhere to the present domains, aiming to increase sales in the first place.

In the chemicals business, we have made necessary capital investment one after another and are considering M&A. The chemicals business has covered mostly business-to-business so far. Currently, we are working on expanding the business to the downstream area, e.g., the expansion of washing tub cleaner “WASHMANIA” brand that has been introduced this time.

We have set an active investment target of 50 billion yen over ten years. This figure was calculated during the development of the long-term vision. If the performance proceeds as planned in the long-term vision, we can invest more than this plan. We will proactively invest in the necessary investments that contribute to the development of the Group.

We had planned to complete the significant investments in the chemicals business by “TAP-4” and “NEO 2022” in “STAGE1.” However, we decided to make additional investments in the existing production facilities to increase the production volume in line with the increasing demand for

chlorinated isocyanurates. In addition, we determined that it was necessary to invest in new facilities for insoluble sulfur to secure our competitive advantage in response to the increasing need for high-quality products.

Q5. You have explained chemical adhesion in GliCAP. I heard that other companies have made similar efforts. What is your advantage?

A. We have the knowledge and technology of “Gliccoat-SMD” (an anti-corrosion agent to cover the copper circuit surface of printed wiring boards with organic compounds) and applied it to develop GliCAP. Our advantages include our knowledge about the affinity of copper and organic compounds and our skills in designing a structure of effective organic compounds internally. We also have a lineup of soft etching agents. When developing these products, we assumed a potential need for adhesion without etching and developed products before such a need would emerge. This is also our advantage.

Q6. You explained that sales for automobiles and smartphones would slow down. When do you expect demand for Gliccoat-SMD to recover?

A. It is difficult to indicate recovery timing in an unstable economic situation. In the fine chemicals business, however, we are working on efforts for onboard products and state-of-the-art electronic devices and developing high-value-added products, including Gliccoat-SMD, to expand actual achievements. As further growth in these fields is expected, we have put into place a system to cover them even if the demand for the current products is stagnant.

A shortage of semiconductors has become a bottleneck in recovering demand. However, it is difficult to see the outlook of various raw materials, not only semiconductors, due to Russia’s invasion of Ukraine and other factors. However, the semiconductor market is expected to recover and grow.

Q7. In this first half, the Company recognized an exchange gain of 826 million yen. Can we see that such exchange gain will be posted in the full-year period? Do you expect any extraordinary profit or loss in the full-year period?

A. If the current level of yen depreciation is maintained, we expect to recognize such an amount of exchange gain in the full-year period.

Currently, we do not expect any extraordinary profit or loss in the full-year period.