KURARAY CO., LTD., Summary of Q&A Session for FY2023 Earning Announcement

[Time & Date] From 16:00pm to 17:05pm, February 8, 2024

[Place] Kuraray Head Office *Hybrid conference

[Speakers]

Hitoshi Kawahara	President and Representative Director
Keiji Taga	Representative Director and Senior Managing Executive Officer Officer Responsible for Corporate Management Planning Office
Tomoyuki Watanabe	Managing Executive Officer President of Vinyl Acetate Resin Company and President of Vinyl Acetate Film Company Officer Responsible for Electronics Materials Promotion Division
Shinichi Takizawa	Senior Manager, Corporate Communications Department

1. **Volume growth rates of main products**

	1H FY2023 actual → 2H FY2023 actual	FY2023 actual →FY2024 forecast
Optical-use poval film	less than +15%	about +5%
Water-soluble PVOH film	more than +15%	slightly positive
PVB	about -10%	about +5%
EVAL™	about -10%	more than +10%
PVOH resin	about +5%	slightly positive
Elastomer	flat	about +20%
GENESTAR™	less than -5%	about +20%
Activated carbon	slightly positive	less than +15%
KURALON™	about -15%	about +10%

2. Q&As

Q1: Regarding the difference between the previous forecast and the actual results for FY2023.

A1: In the Vinyl Acetate segment, PVB's profits increased. In the Isoprene segment, the major factors contributing to the decline in profits were lower than expected shipments and higher than expected loss from Lower-of-Cost-or-Market method of GENESTAR™.

Q2: Regarding the risk factors for the Vinyl Acetate segment in 1H FY2024.

A2: As for EVAL™, customers temporarily built up inventory last year, but demand is starting to return. There are signs that the economy is returning, although it varies from place to place. Although there might be further geopolitical risks in the future, in our case, we have plants all over the world, and I think this is having a rather positive effect.

Q3: Regarding the volume trends of mainstay products.

A3: Volume for optical-use poval film is expected to decline from 4Q FY2023 to 1Q FY2024. We expect that there will be a certain degree of adjustment in 1Q FY2024. However, the medium- to long-term trend of a recovery within the larger trend has not changed. Volume trends in half-yearly units, including other products, are as follows.

	2H FY2023 actual → 1H FY2024 plan	1H FY2024 plan → 2H 2024 plan
Optical-use poval film	more than -5%	more than +10%
Water-soluble PVOH film	more than -10%	more than +15%
PVB	about +15%	about -15%
EVAL™	more than +10%	about +10%
PVOH resin	slightly positive	less than -5%
Elastomer	about +15%	less than +10%
GENESTAR™	about +15%	more than +10%
Activated carbon	less than +10%	about +10%
KURALON™	more than +15%	less than +5%

Q4: Regarding the structural reforms and enhancement of shareholder returns.

A4: In five-year medium-term management plan, PASSION 2026, we plan to upgrade our business portfolio by applying economic value and Portfolio Sustainability Assessment (PSA) to social and environmental value. Over the past two years, we have been making a firm assessment of businesses, including quantitative evaluation, those that actively promote growth by investing management resources and those that belong to the group of businesses that are downsized or withdrawn because further cash generation or growth cannot be expected. On January 1,2024, a Portfolio Strategy Department was newly established within the Corporate Management Planning Office to advance specific measures. Over the three-year period from 2024 to 2026, the second half of the medium-term management plan, the Company will invest in growth fields, including M&A, and promote measures such as shrinking or withdrawal.

With regard to shareholder returns, the Company currently plans to pay a dividend of ¥50 for FY2024, but we would like to consider additional measures with a view to returning profits to shareholders in the middle of the 40% to 40% range, which is the total return ratio for FY2022 and FY2023. In addition to upgrading the business portfolio, the Company intends to raise capital efficiency.

Q5: Regarding the background of profit decrease in Vinyl Acetate segment for FY2024 forecast.
A5: EVAL™ has been in a tight supply-demand situation for the past year and a half. In addition, raw material and fuel prices were on the rise, and we have been requesting price revisions against this background, but as the raw material and fuel price situation is changing, we have partially factored in price adjustments into our FY2024 forecast. Furthermore, the price revisions are not just for EVAL™, but also for PVB and PVOH resin.

Q6: Regarding the situation of the new Thai plant in the Isoprene segment, such as prolonged shutdown maintenance and defects.
A6: In FY2023, the new Thai plant of Isoprene had some defects in the facilities at the time of its start-up, and the shutdown maintenance was extended by about one month, and the countermeasure was carried out. At present, those defects have been resolved, and we are ready for stable production. However, in order to achieve full production, some equipment still needs to be modified, which will be addressed during shutdown maintenance in 2Q FY2024.

Q7: Regarding the background of the decrease in inventory.
A7: We have reduced inventory company-wide. The impact of lower operating rates due to reduced production is normally carried over to the next fiscal year under the first-in, first-out method, but as for PVOH resin, the reduction in production this time was large, so its impact was treated as an abnormal cost as an expense for 4Q FY2023.

Q8: Regarding the outlook for activated carbon business.
A8: The new facility in the U.S. started operation in this February 2024. Regarding overall demand trends, we see a 10% increase in volume in FY2024 plan. We have both virgin carbon and reactivated carbon, and the volume of both is roughly 50-50. Of the 25,000 tons of newly installed U.S. capacity, more than 10,000 tons will contribute to FY2024. By application, particularly in drinking water applications and industrial applications where removing poly- and perfluoroalkyl substances (PFAS) is a concern, we are seeing a volume increase of more than 20%. Demand related to PFAS may expand even more in the future, but even if regulations start, there will be a grace period of several years, so we will carefully assess the situation.

Q9: Regarding the factors that will lead to increased profits in the functional materials segment in FY2024 forecast.
A9: The Company plans to increase profits by approximately ¥3 billion compared to the previous year, and expects profits to increase in all three businesses: methacrylate, medical, and environmental solution.

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(Cautionary Statement)

Please note that this document does not transcribe everything that was said at the briefing, but is a basic summary whose content was determined by Kuraray to make it easier to understand.
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