Kuraray Co., Ltd., Summary of Q&A session for 2Q FY2023 Earning announcement

[Time & Date] From 15:00pm to 16:10pm, August 9, 2023

[Place] Kuraray Head Office *Hybrid conference

[Speakers]

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Keiji Taga	Director and Managing Executive Officer Responsible for Corporate Management Planning Office
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1. **Volume growth rates of main products**

	1H FY2022 actual → 2H FY2023 actual	FY2022 actual →FY2023 forecast
Optical-use poval film	about -15%	more than +10%
Water-soluble PVOH film	more than -10%	more than - 5%
PVB	flat	flat
EVAL	flat	slightly positive
PVOH resin	about -30%	less than -15%
Elastomer	flat	over +10%
GENESTAR	slightly negative	less than +5%
Activated carbon	slightly negative	flat

2. Q&As

Q1: Regarding the status of main products in the Vinyl Acetate segment from 1Q to 2Q in 2023 and factors behind the increase in profits.

A1: For optical-use poval film, there was a positive trend in terms of volume, so both sales and income increased. In 1H, the results were higher than the previous forecast, but the forecast for the full year remains unchanged, as we consider that some orders shifted from 2H. As for PVOH resin, sales and income decreased due to the recent weak demand and decreased sales volumes, as well as declining market conditions. As for PVB film, although the volume was flat, both sales and income slightly increased. As for EVAL™, the volume was slightly on the increasing trend, so both sales and income increased. As for water-soluble PVOH film, while the volume has decreased a little, sales increased slightly due to the sales mix, price revisions, etc. and income remained flat.

Q2: Regarding the increase of production capacity at EVAL™ in the U.S. and Europe, and consideration of establishment of a new production base in Asia.

A2: We will increase production capacity of existing facilities in phases from 2024 to 2026 by debottlenecking. By doing this, we can increase total capacity by about 10,000 tons. The construction of a new plant in Asia, which is under consideration, is scheduled to be decided as soon as possible next year, and if its construction is completed, production capacity will increase by tens of thousands of tons.

Q3: Regarding the trends in the main products of the Vinyl Acetate segment in the 2H 2023.

A3: In comparison between 1H and 2H of the year, sales are expected to increase in almost all businesses, as the volume is expected to be flattish only in PVB and the others are expected to increase. As for PVOH resins, operating income will be slightly negative due to a decline in the market, despite an increase in the volume. In PVB film, sales and operating income are expected to be flat. Profits for optical-use poval film and water-soluble PVOH film are expected to increase slightly. The volume of optical-use poval film is expected to increase by less than 10% from the 1H to the 2H. As for the water-soluble PVOH film, it is expected to recover slightly, but still on the way to recovery from last year.

Q4: Reasons for the Isoprene segment's 2H 2023 plan to decline compared to 1H results.

A4: The new Thai plant has begun operations, but is struggling due to several factors. In the isoprene chemical business, products used as raw materials for polyurethane and for construction applications in China are struggling, although they seem to be temporary. As for GENESTAR™, although this situation is transient, but the demand for electrical and electronic application is deteriorated. In the elastomer business, in addition to the decline in demand, the competition is getting intensified. We believe that drastic measures will also be necessary, and we are taking a tough look at the 2H. In fact, in 2H, depreciation costs for the new plant in Thailand will increase.

Q5: Regarding the effects of trade terms, such as sales prices, and inventory valuation differences in the 2H 2023 plan.

A5: In general, we still face a difficult environment, so we cannot expect much in the way of volume increase. As for sales prices, although adjustments will be necessary in some areas in line with raw material and fuel prices, we continue to shift to higher-value-added products.

In terms of inventory valuation differences in 2H 2023, it depends on how the inventory is held. Those that carried over from 2022 should have been realized in 1H 2023, but because sales fell, the inventory was not fully reduced. Some of these are carried over to 2H. There are also the affects from recent fall in raw material and fuel prices. In the Isoprene segment, in addition to the toughness in volume due to the decline in demand, the production at the new plant in Thailand is not as smooth as the production in Japan, so high-cost inventory is generated. Overall, there are some inventory valuation differences carried over from the 1H to the 2H.

Q6: Regarding the current demand environment for activated carbon, the status of the operation of the new facility, and any inquiries on applications for removing poly- and perfluoroalkyl substances (PFAS).

A6: The new facility for activated carbon is scheduled to start operation from this September to October. The construction is almost finished, and a trial run is carried out from this point to check for any defects.

As for demand, there have been ups and downs in various products, but global demand for water and air purification has been steadily growing and is firm.

As for PFAS, regulations are expected to be strengthened in Europe and the US. In fact, we have already seen some demand for this upfront from users. In terms of removing the PFAS, our strengths are exhibited in the removal function of a particular substance or application. In the efforts we have been making with our customers, regarding PFAS removers for specific water purification, food applications, and plant wastewater, the way the activated carbon is manufactured

and the way the holes are made will affect the way it is perceived and removed. Our production technology is a bit ahead of our competitors.
We are unique in that our scale of production and sales of reactivated carbon is far greater than that of other companies. Right now, the ratio of production capacity is about half virgin carbon and half reactivated carbon.

Q7: Regarding the approach to shareholder returns, business selection and concentration.
A7: Regarding shareholder returns, the total return ratio, including share buybacks, promised in the medium-term management plan, is set at 35% or more. Last year we repurchased approximately 9.4 million shares at a cost of JPY10 billion, but this year we have not done so because the timing was not right for 1H of the year. Going forward, if deemed necessary, it will be implemented. In this context, basically, we will expand profits and income, and then return those profits to shareholders through dividends. This policy remains unchanged.
As for PBR, we are not satisfied with the current level of 0.7 times, and we naturally aim at more than one times. The most important thing is to have shareholders and investors have high expectations for the Kuraray's future. In this 1Q, the US lawsuit was finally over; one major downside concern has been resolved. In addition, for our future growth, we will accelerate the pace of the creation of new businesses and products that the Innovation Networking Center is working on, as well as upgrade our business portfolio.

Q8: Regarding the changes in adjustments amount to operating income.
A8: As an example, adjustments include expenses that are not allocated to each segment but concentrated in the corporate sector, such as differences between the planned and actual utility cost of domestic facilities. Corporate SG&A expenses are also included in adjustments. These are fluctuating, but there is nothing extraordinarily large.

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(Cautionary Statement)

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