Zeon Corporation

Third Quarter of FY2024

Q&A from Results Briefing for Analysts

Date and time: January 31, 2025 (Friday) 17:00-18:00

Participant: Director & Senior Corporate Officer

Elastomers and Chemicals Business / Kazuyoshi MATSUURA

Administration / Yoshiyuki SONE

Specialty Business / Yuichiro KONISHI

[Overview]

Q: In response to the action to implement management that is conscious of cost of capital and stock price, what considerations or measures are being examined to improve the EVA spread?

A: To improve ROIC, we are conducting a comprehensive review of both invested capital and costs. With respect to invested capital, we are working to optimize the level of our Cash Conversion Cycle (CCC) and to examine our investments. On the cost front, we are undertaking a reassessment of fixed manufacturing costs and selling, general, and administrative (hereinafter “SG&A”) expenses.

As this review is being carried out without any exceptions or “sacred cows,” it requires a certain amount of time to disclose an outcome. We intend to provide a detailed explanation of it at the time of the Phase 3 announcement of our Medium-Term Business Plan, scheduled for June 2025.

Q: It has been announced that the investment plan for lithium-ion battery binder production facilities in the United States will be frozen for approximately two years. In light of this change, please explain an approach to cash flow allocation.

A: Our approach to cash flow allocation remains consistent with what was announced in Phase 2 of our Medium-Term Business Plan. With regard to new investments, we will assess the overall projected use of funds through Phase 2 as of the end of the fiscal year 2025. Should we conclude that there are surplus funds, we will consider to return them to shareholders accordingly.

[Specialty Materials business]

Q: How do you anticipate the impact of subsidies provided by the Chinese government?

A: TVs were included in the scope of home appliances eligible for Chinese government subsidies, which supported our steady shipments of large-sized films in the third quarter. As the government decided to continue providing subsidies for TVs beyond 2025, and to newly extend subsidies to mobile devices starting in 2025, we intend to carefully assess the potential impact on Cyclo Olefin Polymer (hereinafter “COP”) for optical use and small- to medium-sized films. These factors will be taken into account as we formulate our performance forecast for the fiscal year 2025.

Q: How do you anticipate demand trends of specialty plastics, excluding the impact of Chinese government subsidies?
A: The trend toward larger screen sizes in TVs continues to advance, and demand for our large-sized films remains steady. Similarly, demand for our COP used in semiconductor use is also robust, supported by the ongoing miniaturization of semiconductor wiring widths.

Q: Please explain the factors behind the upward revision of the fiscal year 2024 performance forecast.
A: The primary factors were optical films and COP. Shipments of optical films for large-sized TVs remained steady, supported by the Chinese government's subsidy policies. Demand for COP, both for optical and semiconductor use, also remained robust, leading to expectations that performance will exceed the previously announced forecast for the fiscal year 2024.

Q: The performance forecast for the fiscal year 2024 anticipates a decline in operating income from the third to the fourth quarter. Please explain the reason.
A: There are three main reasons.
1. Increase in inventory storage costs, etc.
One of the four COP production lines that had an issue was suspended from October to early December 2024. As a result, inventory levels have declined. In anticipation of rebuilding inventory ahead of regular maintenance at the Mizushima Plant in the fiscal year 2025, storage and related costs, etc. are expected to increase.
2. Decrease in shipments of small-to-medium-sized films
A decline in shipments is expected due to the transition to new models. This trend is consistent with seasonal patterns observed in previous years.
3. Increase in SG&A expenses toward fiscal year end
SG&A expenses, including indirect department expenses, typically increase toward the end of fiscal year.

Q: Shipments of COP for medical use, etc. declined in the third quarter, and it is expected to recover in the fourth quarter. Please explain the reason for this outlook.
A: The decline in shipments during the third quarter was due to inventory adjustments by some customers and is a temporary factor.

Q: Has the loss associated with the suspension of one production line at the Mizushima Plant been recorded within operating income, or as a non-operating expense or an extraordinary loss?
A: It has been recorded within operating income.

[Elastomer business]
Q: The performance forecast for the fiscal year 2024 anticipates a decline in operating income from the third to the fourth quarter. Please explain the reason.
A: In addition to the demand slowdown in the Asian region due to the impact of the Chinese New Year, there has been

a trend, particularly overseas, toward inventory adjustments as the year-end approaches. This trend is consistent with seasonal patterns observed in previous years.

Q: Asian butadiene prices had been declining in the third quarter. Please explain the reason for the progress in the sales price adjustment of synthetic rubber compared to the second quarter.
A: Sales prices are reflected in the third quarter based on Asian butadiene prices in the second quarter.

-END-