

Message from the President

Aiming to Make the World a Better Place as Specialists in Chemistry, Guided by the Core Values of “Initiative”, “Integrity”, and “Empathy”

Returning to Core Values and Renewing Awareness of Safety and Trust

First, I would like to report on the fatal accident that occurred at our Omi Plant in fiscal 2023, and the inappropriate conduct in relation to UL certification at both our company and affiliated companies, as well as our subsequent responses.

Regarding the pipe burst accident at the chloroprene monomer production facility at the Omi Plant last year, we are working on the measures [▶ P51](#) based on the final report of the accident investigative committee and I, as president, will take a proactive role in addressing safety issues moving forward. For Denka today, I believe the most important thing is to protect the physical and mental safety of each other, including our partner companies, as colleagues working together in the same workplace. To foster this awareness, it is essential to think, understand, and act from the perspective of others, and I believe that empathy is the most important quality to achieve this. Denka has three core values, one of which is “Empathy”. We are returning to this core value as we work to create a safe workplace where colleagues protect each other’s mental and physical well-being. While establishing a safe production system in terms of hardware, such as machinery and equipment, we will also enhance our sense of “Empathy”, ensuring safety through both approaches.

Also, regarding the inappropriate UL certification practices conducted by our company and our affiliated company, Toyo Styrene, we will thoroughly implement measures to prevent recurrence based on the external investigation committee’s report. At the same time, we will also re-engage with our core value of “Integrity”. “Integrity” begins with keeping promises, and in business, it means strictly adhering to agreements with customers. However, I believe that failing to uphold that standard is at the core of this incident. The investigation report pointed out that a skewed power balance and an overly rigid hierarchy were barriers to communication and highlighted the need to transform the corporate culture into one where voices can be raised and voices are valued. In order to demonstrate “Integrity”, which is part of Denka’s DNA, we will foster relationships that cultivate empathy, enabling individuals to put themselves in the shoes of others—whether between superiors and subordinates, or among different organizations. Additionally, one point that we are taking as a lesson from this issue is



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the weakness in our group governance. Going forward, we will focus on strengthening governance and promoting the importance of quality. We will also continue to engage in dialogue with employees on the front lines.

Looking back on these two incidents, we are working to build a more robust human resource framework within the company while communicating the importance and necessity of returning to the core values of “Empathy” and “Integrity” in daily work to all employees. As president, when visiting factories, branches, and overseas subsidiaries, I always directly convey two key points. The first point is regarding safety. No matter how outstanding the performance or product, it must not come at the cost of a precious life. The second point is regarding quality. I emphasize that continuing inherited practices without thorough verification is unacceptable, and I expect managers on the front lines to take responsibility for ensuring this verification is carried out. I also believe that this will serve as an opportunity for employees to deepen their understanding of how the core values are directly connected to their work and serve as daily guiding principles for their actions.

Viewing the Current Crisis as a Turning Point for FY2024

First, let me talk about the current economic environment and the state of our company's business situation. In FY2023, the classification of COVID-19 in Japan was downgraded to Category 5, leading to a gradual recovery in the economy, with improvements in consumer spending and capital investment. However, on the global stage, the economy remains in a highly uncertain state due to ongoing challenges, including unresolved issues like the Israel-Palestine conflict, the prolonged Russia-Ukraine conflict, weak consumer spending and exports in China, high inflation and tightening monetary policies in the U.S. and Europe, along with frequent natural disasters driven by global climate change.

Amid such economic conditions, FY2023, which marked the beginning of Denka's new management plan, “Mission 2030,” turned out to be an extremely challenging year. There are three main factors behind the downturn in performance, which can be described as a crisis. The first factor is the decline in revenue from the Electronics & Innovative Products Division, which had been driving our operating results, due to the global drop in demand for semiconductors. However, the semiconductor market is expected to recover in the second half of FY2024, and we anticipate an improvement in the profitability of this division. The second factor is the decline in demand for chloroprene rubber, coupled with increased repair and labor costs at Denka Performance Elastomer LLC, U.S. In Japan, the facility shutdowns at the Omi Plant caused by the accident and the Noto Peninsula earthquake have also negatively impacted our financial performance.

The third factor is the increase in fixed costs. Compared to FY2021, when we recorded our highest profits, increase in labor and repair costs, as well as upfront investments, have resulted in an approximately 15 billion yen increase in costs. To overcome this situation, we have launched the “Best Practice Project” (described later).

Strengthening the Foundation for a Return to Growth and Higher Medium and Long-Term Corporate Value

●Building the Foundation for a Return to the Growth

To overcome the extremely severe situation we are currently facing, Denka will implement the following measures in FY2024. By pushing forward with these measures, we will return to the growth trajectory envisioned in our management plan “Mission 2030” and establish a foundation that will enable us to once again aim for record profits in FY2025.

[Portfolio Transformation for Business Value Creation]

In our management plan “Mission 2030”, we have set the mission of focusing on business value creation that incorporates the three elements of Specialty, Megatrends, and Sustainability while enhancing both human resources and management value by 2030, within the framework of our growth strategy. One essential initiative for achieving this goal is the transformation of our business portfolio. We classify businesses that incorporate the three elements of Specialty, Megatrends, and Sustainability as “Three-Star Businesses.” Our plan is to selectively focus on our existing businesses, aiming to turn all of them into “Three-Star Businesses” by 2030. We plan to decide on a course of action by FY2024 for businesses that are rated as One-Star and are currently unprofitable. Out of these businesses, six of them are scheduled to implement final measures within a set timeframe. (The two businesses, “Toyokalon business” and “Y film and Caralyan business” have been announced.) Among them, the highest priority will be given to fundamental solutions for the chloroprene rubber business, with a decision made by the end of FY2024. In addition to these six businesses, we will also optimize the sales and production systems for styrene resin products in line with the restructuring of the petrochemical business, aiming to quickly enhance our competitiveness in the market.

[Selection and Refinement of Investment Plans]

In May 2024, we announced a revision of our investment plans. Since the profits for FY2023 did not reach the levels targeted in the management plan “Mission 2030”, we revised the eight-year investment cash flow plan from the initial 570 billion yen to 470 billion yen. By clarifying the prioritization of investment projects, further refining our investment plans, and revising schedules for non-urgent projects, we aim to control cash outflow for investments and achieve a reduction of 100 billion yen.

Meanwhile, we will proceed with important investments in areas crucial for Denka's growth—namely, our focus sectors of “ICT & Energy”, “Healthcare”, and “Sustainable Living”—as planned, ensuring that our business development effectively captures expanding market opportunities. For example, in the “ICT & Energy” sector, products that utilize Denka's proprietary technology, capable of handling the high frequency and heat are demanded by the market driven by the spread of 5G, 6G, and generative AI, and some of the products are already being well-received and evaluated by users. As a result, we plan to release the low-dielectric organic insulating material SNECTON in the second half of FY2024, the highly heat-resistant temporary bonding material TBM during FY2024, and the liquid crystal polymer film LCP during FY2025. We aim to firmly capture the expanding market and grow these into new pillars of our business.

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[Best Practice Project: Tackling Cost Reduction and Operational Efficiency with a New Approach]

One of the reasons for the worsening balance sheet in FY2023 is that the assumptions made when formulating the management plan changed, and despite an increase in fixed costs due to actively promoted strategic investments, including increased depreciation and labor costs, we were unable to achieve a corresponding increase in sales volume to offset the rise in fixed costs. To address this, we launched the Best Practice Project in FY2024, focusing on cost reductions through a different approach than before. We are aiming to achieve company-wide results of 1 billion yen in FY2024, 5 billion yen annually in FY2025, and over 10 billion yen in FY2026. The key difference from previous cost-reduction efforts is that we are now leveraging the insights of external consultants to approach cost reduction through the introduction of cost benchmarks and best practices. By utilizing external expertise, we aim to clearly identify cost-related issues within the company and address them through the most optimal methods, focusing on targeted solutions. We have also paid close attention to developing structures and systems to ensure that the Best Practice Project stands out as a proactive and forward-looking initiative, distinct from the routine cost-cutting measures that manufacturers commonly carry out. To advance the Project, we established a dedicated organization called the Best Practice Promoting Department, with myself as the leader. Each initiative has an executive in charge as its leader, ensuring accountability, and we are actively creating opportunities for dialogue between management and employees to drive the project forward. Additionally, a portion of the cost reduction results will be returned to employees as incentives. The Best Practice Project not only aims for numerical results, but also intends to foster employee growth by learning best practices, which contributes to increased engagement. All employees, across various departments, are encouraged to rethink their work methods and align themselves with our core values, taking a leading role in driving transformative change.

[Proactive Shareholder Returns]

For shareholder returns, we remain confident in the recovery of our results starting from FY2025 and will continue to provide stable dividends. There is no change in our policy to aim for a total shareholder return ratio of 50% level over eight years, as outlined in our management plan “Mission 2030”. Based on this, considering future cash flows and other factors, we will implement proactive shareholder returns, aiming to maintain or increase dividends.

●Aiming for Medium- to Long-Term Growth in Corporate Value

Denka is committed to enhancing corporate value over the medium to long term by promoting three key growth strategies—“Business Value Creation”, “Human Resources Value Creation”, and “Management Value Creation”—as part of the management plan “Mission 2030”, while continuing to embody our core value of “initiative”.

[Environmental Initiatives in Business Value Creation]

Denka recognizes that the pursuit of sustainability in its business operations is essential for continued growth and has positioned it as one of the pillars of “Business Value Creation” in its management plan “Mission 2030”. We will not ease up on the investments necessary to achieve business sustainability.

The chemical recycling plant for polystyrene, which began operations at our Chiba plant in March 2024, marks a critical first step in achieving one of the KPIs outlined in our management plan “Mission 2030”—the establishment of a consortium for social implementation of chemical recycling. This facility is part of a circular economy by collecting used polystyrene products, such as scraps generated from the plants of our business partners, and food trays, chemically breaking them down, and recycling them into raw materials for plastic products. More than 60% of polystyrene is used in food packaging, but conventional recycling methods face many restrictions in reusing it for food-contact purposes due to concerns about quality and safety. Polystyrene chemical recycling is the solution to overcoming these restrictions. Looking ahead, we aim to establish a stable resource recovery system by collaborating not only with local governments but also with our business partners and industry peers, working toward the social implementation of this process. We hope that through the recycling of waste plastics, we can build a decarbonized, recycling oriented society and contribute to the reduction of greenhouse gases, and we hope to meet society’s expectations with this effort.

To achieve carbon neutrality, we are developing a technology called “Methane-to -Acetylene”, which will significantly reduce CO₂ emissions. For Denka to reduce CO₂ emissions, it is crucial to cut emissions during the production process of acetylene, which is a raw material for chloroprene and acetylene black. By replacing the conventional method using carbide with a process that produces acetylene by ionizing methane, we aim to significantly reduce CO₂ emissions. We are moving forward with plans to introduce demonstration facilities at the Omuta Plant and will consider actual implementation.

One product contributing to carbon neutrality is the concrete admixture “LEAF®”, which absorbs CO₂. It is estimated that during the hardening process, this product can absorb and store approximately half the LEAF’s weight in CO₂, which helps offset the CO₂ emissions from the manufacturing process, and also has an effect of increasing the strength of the concrete.

Denka has established a Sustainability Committee to ensure the effective management of ESG (Environmental, Social, and Governance) practices. The non-financial KPI targets set in the management plan “Mission 2030” are reflected in the goals of both individual employees and every department. The Sustainability Committee receives reports on the progress of non-financial goals from each business division, reviews the associated ESG risks and business opportunities, and reports this information to the Board of Directors. Through this framework, we strive to provide value to society and our stakeholders while ensuring the sustainability of our business.

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[Human Resources Value Creation]

Denka aims to be a company where each employee feels a sense of personal growth. This means the company should not only be a place to earn a living but also provide employees with a sense of hope and purpose as they engage in their daily work and grow. Since the beginning of 2024, I've hosted lunch meetings with employees at our head office, during which I have spoken with over 200 staff members. Through these interactions, I've come to a renewed understanding of how important it is for each individual to have a platform to express their own opinions. I believe that revitalizing internal communication, which was significantly hindered during the COVID-19 pandemic, is of utmost importance. Currently, we have adopted a framework called the "Company-Wide Reform Campaign", which provides a platform for all employees, regardless of position, to submit proposals. For ideas that can be acted upon immediately, we have also established a system that allows for swift implementation. In addition, I also plan to create opportunities for dialogue between myself, as president, and the employees on the front lines, and we are conducting town hall meetings that allow sufficient time for meaningful conversations. Through these initiatives, we aim to foster a corporate culture where employees feel free to express their opinions, and we want to create a company environment where employees feel that their voices are



Lunch Meeting

being heard by the top management and where their contributions are driving meaningful change within the company. In June 2024, we welcomed Rumiko Nakata, who has extensive experience in the field of human resource management, as an outside director. Since FY2022, She has supported Denka as an advisor, providing external perspectives on human resources. Moving forward, she will contribute to one of our key growth strategies, "Human Resources Value Creation", by strategically driving investment in human resources and systematic reforms.



Denka Innovation Day

[Management Value Creation]

To further advance ESG management, Denka has identified Management Value Creation as one of its growth strategies and is working to strengthen its management foundation. One of these efforts is process reform. In addition to transforming our business models and organizational structure, we are working to improve productivity and enhance our competitiveness, with digital transformation (DX) being the driving force behind these efforts. To drive DX, we need talented people who not only have the skills to utilize digital technologies and data but also possess the mindset to embrace change without fear. So we

will hire experienced professionals with these digital skills and mindset, and at the same time we have launched a program to develop our existing employees. Our goal is to train and place a Digital Pilot (DP) in each department. DPs will help employees tackle the challenges they face by acting as a bridge to help find solutions. By positioning DPs at the forefront of the workplace, DPs will drive the initiative, enabling the organization to implement DX with contributions from all employees. Furthermore, digital talent is also a key focus within our growth strategy of "Human Resources Value Creation". By offering incentives to employees who become DPs and their respective organizations, we aim to boost motivation within the company and foster a culture that is more receptive to change.

Making Denka an Even Better Company by Surviving the Harsh Winter with Core Values

Denka is currently facing a very challenging situation, but I was deeply inspired by the words of Jack Ma, the founder of Alibaba, who said, "Every great company is born in winter". This past year has been the most challenging year for Denka in its 109-year history, for me personally as someone who has worked here for many years, and for many of my colleagues—it truly felt like a "winter year". However, I have come to recognize once again that the strength exhibited in overcoming such crises is what makes a company stronger, and we will take this difficult situation as an opportunity to move forward. I am confident that there is a future for Denka beyond this winter that we will reach together.

At Denka, I believe that by having each executive and employee face challenges with the shared language of our core values—"Initiative", "Integrity", and "Empathy"—we can overcome this harsh winter. I have always worked with the desire to leave something valuable for the next generation and to pass on a better Denka. It is precisely because of this harsh winter that the challenges we face have become clear, and by overcoming them with the strength of our core values, we will fulfill our mission to make the world a better place as specialists in chemistry. This is our promise to our stakeholders. We sincerely ask for your continued support of the Denka Group.

