

Message from the CFO

Message

Rimiru Hayashida

Director, Senior Managing
Executive Officer
Chief Financial Officer (CFO)

Phase 2 of our Management Plan "Mission 2030," centered on rebuilding earning power and strengthening the foundation for a new growth stage, began in FY2026. As financial KPIs, we aim to achieve record-high operating income and ROE of 8.0% by FY2028.

We will concentrate investments in strategic expansion areas and strengthen the competitiveness of growth businesses, while increasing our cash generation capabilities through structural reforms aimed at accelerating portfolio transformation and improving profitability.

Review of FY2025—The Final Year of "Mission 2030" Phase 1 (FY2023–FY2025)—

In Phase 1, we made upfront investments in growth areas centered on ICT & Energy and rebuilt our business foundation, while restructuring low-profit businesses through measures such as withdrawing from the cement business and indefinitely suspending operations of the U.S. chloroprene rubber business. These initiatives placed a significant burden on our performance and finances, and in FY2024 we reported a net loss for the first time in 23 years. However, we believe that these were necessary steps toward stable growth over the medium- to long-term.

In FY2025, we aimed to return to our original growth trajectory under the theme of "revival." Structural reforms removed impediments to our core businesses, and against the backdrop of increasing demand for AI and power infrastructure, Electronics & Innovative Products began in earnest to reap the benefits of forward-looking investments. As a result, our business performance improved and we were able to establish a foothold for Phase 2. Nevertheless, we have not yet reached the level of performance we have been aiming for, and we recognize the need to further enhance our earnings power.

FY2026—The First Year of "Mission 2030" Phase 2 (FY2026–FY2028)—

In FY2026, we will advance the "rebuilding of earning power." We will concentrate management resources in ICT & Energy, centered on AI and power infrastructure, and in Healthcare, while strengthening cash generation in other business domains through portfolio transformation and structural reforms. In our company-wide cost reduction initiative entering its final year, the Best Practice Project, we will steadily achieve the benefits of our measures. We will not hesitate to make strategic investments needed for the future or invest in promising new businesses, all while maintaining financial discipline.

The business environment is changing at an unprecedented pace amid geopolitical risks, advances in AI, exchange-rate fluctuations, inflation, and the return of a "world with interest rates." Under such circumstances, we believe flexible financial management, rather than a rigid approach, is essential. Returning to the basic principle of "strengthening our defenses while attacking where we should," we will fulfill our role in maintaining a balance between offense and defense.

Rising Capital Costs and Target Profitability Levels

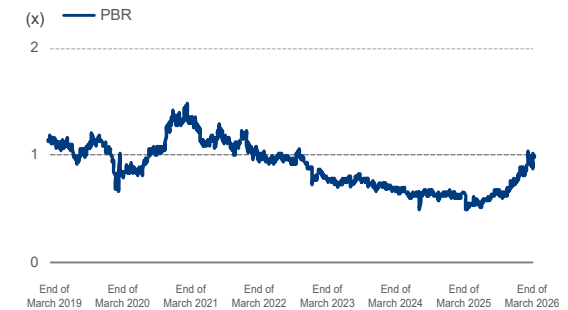
With the recent changes in the financial environment, we have entered a phase where rising interest rates are pushing up the capital costs. At Denka, we recognize that the cost of equity has increased to around 8–9% and WACC (weighted average cost of capital) to around 6–7%, while the level of returns expected by investors and shareholders is also rising. In light of these changes, we have reviewed our management decision-making criteria and raised the hurdle rates used for investments and business portfolio transformation. Going forward, we will rigorously pursue management that emphasizes capital efficiency under stricter investment discipline, optimize the allocation of management resources from the perspectives of profitability and growth potential, and work to achieve earnings power above the capital costs and enhance corporate value.

Measures to Achieve Management Conscious of Capital Cost and Stock Price

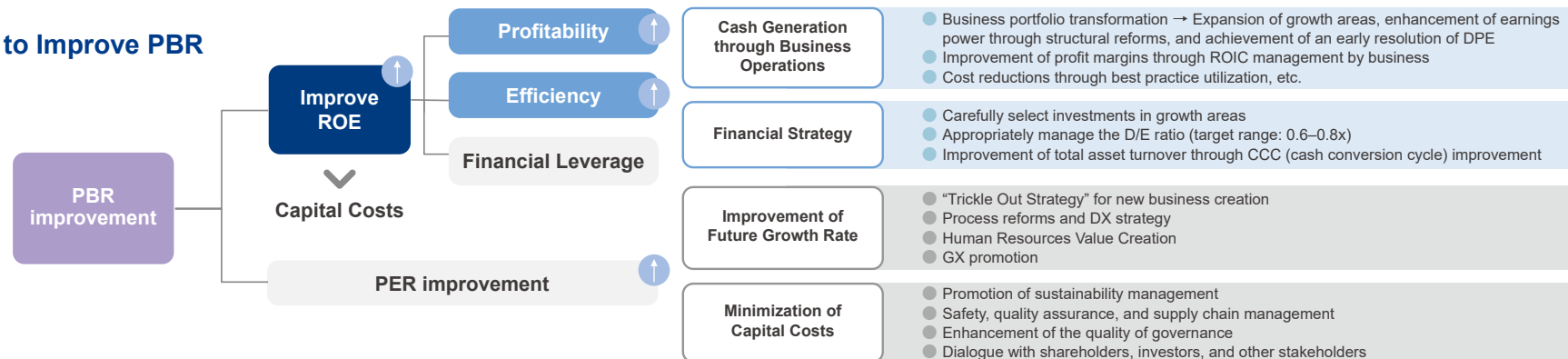
PBR: Our Assessment and Challenges

As of the end of March 2026, our PBR had recovered to approximately 1.0x, indicating a certain degree of improvement in market evaluation. However, ROE, the profitability indicator underpinning this evaluation, has still not reached a sufficient level, and further improvement is essential in order to earn ongoing recognition from the market. Going forward, we will make achieving ROE above our cost of capital a key priority. By steadily strengthening the earnings power of existing businesses and implementing our growth strategy, we are aiming to raise ROE to the 8.0% level by FY2028 and further improve PBR while restoring and strengthening market confidence.

PBR trend



Initiatives to Improve PBR

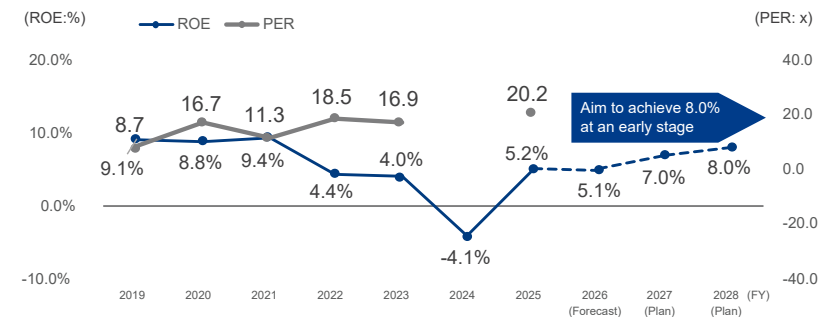


Initiatives to Improve ROE

To achieve an ROE of 8.0% at an early stage, we are strengthening earnings power and fundamentally reviewing our business portfolio. In particular, we believe that increasing operating income is essential to improving ROE. We will concentrate management resources in growth areas such as AI and power infrastructure and aim to expand high-value-added businesses and achieve sustainable profit growth. At the same time, we will fully implement ROIC management to improve profitability and asset efficiency.

Business portfolio transformation entails certain costs, but we will manage the bottom line (profit attributable to owners of parent) in an appropriate manner, while also utilizing asset sales and other measures. We also plan to offset costs related to fundamental measures concerning the U.S. chloroprene rubber business through asset sales and other measures. We aim to reach an early resolution through discussions with stakeholders, including the relevant authorities.

Trends in Return on Equity (ROE) and Price-Earnings Ratio (PER)



Ongoing Initiatives to Improve ROIC

While ROIC improved year on year in FY2025, it has still not reached a sufficient level. We will continue to rebuild earning power and thoroughly pursue management with an awareness of the capital costs, working as one company to improve ROIC. To achieve this, each business segment is steadily transforming its business structure and strengthening earnings power.

Achieving the Best Mix of Business Areas with Different Growth Trends and Turning Core Businesses into Cash Cows

Growth
Driver

Best Mix

Stable
Growth

In Electronics & Innovative Products, we have made concentrated upfront investments since Phase 1 of the Management Plan "Mission 2030." First, to steadily realize the benefits of these investments, we will improve productivity and fixed-asset efficiency by effectively utilizing existing equipment for new products and applications. We will also further concentrate management resources in growth areas such as AI and power infrastructure to strengthen the earnings base of the business.

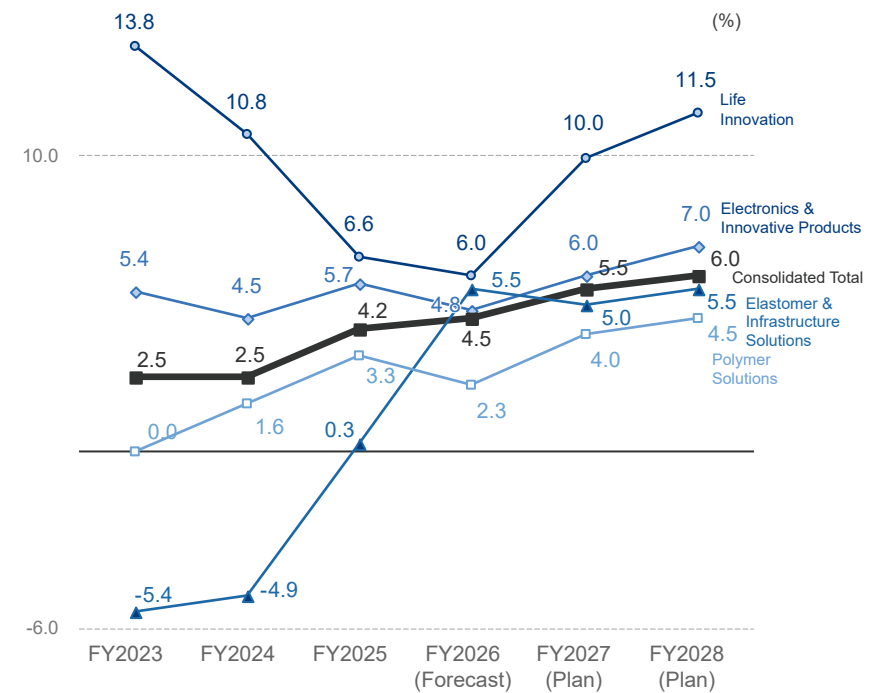
Life Innovation has a growth trajectory that is less susceptible to economic cycles than our other business domains. Drawing on a foundation of stable growth in diagnostics, we will expand the business through M&A and alliances and further strengthen its role as a growth driver.

Cash Cow

In Elastomer & Infrastructure Solutions, we have carried out fundamental structural reforms in the cement business and the U.S. chloroprene rubber business. Going forward, we will further examine ways to optimize the entire carbide chain.

In Polymer Solutions, we will advance structural reforms including the spin-off of the styrene chain and steadily improve business profitability, in addition to individual optimization measures such as consolidating the Toyokalon business in Singapore.

ROIC trend (by segment)



At the same time, we will continue working to improve the cash conversion cycle through measures such as optimizing inventories and accelerating the collection of receivables, thereby improving the efficiency of our capital utilization. To make ROIC management more effective, we will manage performance thoroughly using ROIC trees by segment, business, and product. Through continuous education and awareness-building, we will also incorporate "ROIC education" into our human resources development plan and instill across frontline operations an awareness of "earning more efficiently."

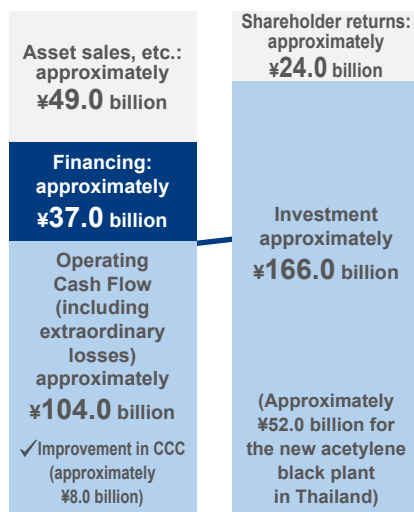
Capital Allocation

The Management Plan "Mission 2030," launched in FY2023, is centered on a growth strategy of making strategic investments in business areas aligned with megatrends. Accordingly, from the outset we have been active in making strategic investments while appropriately utilizing our financial leverage, thereby building a path to growth. However, because business performance fell below our initial expectations, we took steps at an early stage in FY2023 to maintain financial discipline by carefully selecting and postponing investments. Under Phase 2 of "Mission 2030," strategic investments, including the new Acetylene Black plant in Thailand, are expected to peak. We will improve financial soundness by expanding operating cash flow through higher profits and carefully selecting investments.

We position shareholder returns as one of our highest management priorities, and we will continue our shareholder return policy of "maintaining and increasing dividends per share, aiming for a total shareholder return ratio of 50% over the eight-year management plan." Since the start of the management plan, we have controlled the D/E ratio at around 0.6 to 0.8 times, and will continue to promote our growth strategy while maintaining financial discipline and striving to enhance corporate value.

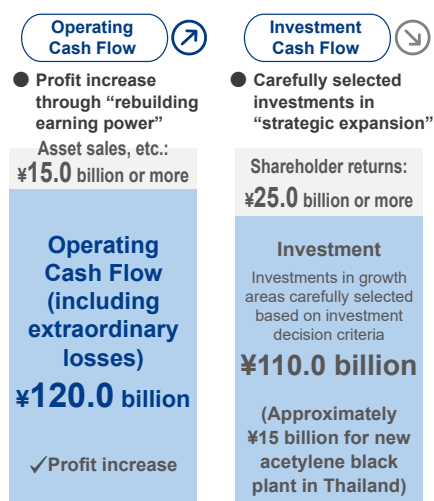
Phase 1 (FY2023–FY2025)

D/E Ratio **0.71**



Phase 2 (FY2026–FY2028)

Reduce D/E Ratio to **0.7 or below**



Approach to Capital Investment

In making capital investment decisions, we are clearly aware of the cost of capital and evaluate investments based on WACC (weighted average cost of capital). We also adopt the internal rate of return (IRR) and ROIC as investment criteria for strategic and growth investments to carefully select investment projects. In response to the recent rise in the cost of capital, we have also revised our investment decision criteria and further strengthened the screening of investment projects.

● Strategic investment

Investments that contribute to growth in key areas
Investments that contribute to process reform (production, research, operations)
Investments primarily aimed at energy saving and carbon neutrality, etc.

● Growth investment

Investments to increase profit, excluding strategic investments

IRR15%≤

* IRR is set as pre-tax internal rate of return

Strategic investment	Growth investment
Investable	Investable
Determined strategically	In principle, difficult to invest
In principle, not feasible to invest	

Dialogue with Capital Markets

We position dialogue with shareholders and investors as a key management initiative, with the aim of reducing capital costs and sustainably enhancing corporate value. We strive to disclose information on our business strategies, financial strategy, portfolio transformation, and initiatives to strengthen our management foundation in a timely and easy-to-understand manner, thereby deepening mutual understanding with the market.

Expand opportunities for dialogue

● Management presentations

Medium- to long-term management policy
Growth story

● Small meetings

Direct dialogue between management and shareholders/investors

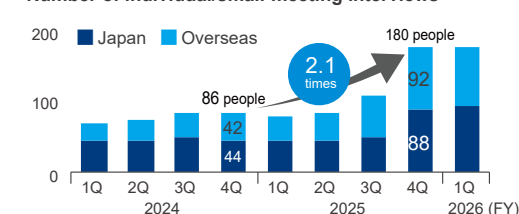
● Financial results presentations

Progress of structural reforms
Direction for the revision of the management plan
Status of AI-related products

● Overseas roadshows

For the purpose of expanding opportunities for dialogue
Expand the areas and regions covered

Number of individual/small-meeting interviews



Number of overseas roadshow meetings and areas/regions

FY2024 **17 people**
Europe and Asia:
3 cities in total

FY2025 **21 people** ①
Europe, Asia, and Australia:
6 cities in total ①

We also share opinions and recommendations obtained through dialogue with management and relevant divisions and use them to improve management. Going forward, we will continue working to both improve earnings power and create social value through constructive dialogue with investors in Japan and overseas, thereby sustainably enhancing corporate value.

Best Practice Project

Targets

- Achieve ¥10 billion in total cost-reduction impact in FY2026
- Enhance human capital value through greater operational efficiency and the growth of each employee



CFO Comment

The Best Practice Project is a project launched in FY2024. While we have previously pursued cost reductions using knowledge from within the Company, this project makes full use of external expertise, including "cost benchmarks" and "optimal cost-reduction methods," and pursues thorough cost reduction under the direct leadership of the President.

Through the implementation of this project, we achieved an annual total impact of 5.5 billion yen by FY2025. In FY2026, to achieve an annual impact of at least 10 billion yen, we will instill the knowledge and methods accumulated through the project throughout the company and advance them into autonomous improvement activities. In addition to this, we will enhance human capital value by improving operational efficiency and supporting the growth of each employee.

How the Project has Changed Denka

① Change in Awareness ⇒ Making Costs "Our Own Responsibility"

- Repeatedly communicate messages from top management
- Engage a large number of employees in cost-reduction activities
- The practice of **considering the necessity and appropriateness of costs** has become widespread

② Mastering the Basics ⇒ Understanding the "Keys" to Operational Efficiency

- Share an operational-efficiency checklist throughout the company
- **Autonomous operational improvements** are progressing at each workplace
 - Is this task really necessary in the first place?
 - Are the processes, services, or deliverables excessive?
 - Are any functions or roles duplicated?
 - Is there potential for automation, standardization, or outsourcing?

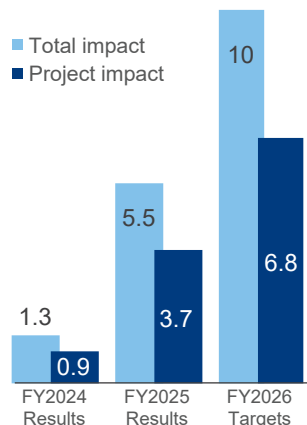
③ Becoming data-driven ⇒ Establishing "Fact-Based Thinking"

Thorough visualization of cost structures across a broad range of expense categories
Experience/intuition-based → More active discussions based on data and facts

- Previously "**untouched**" costs are being optimized, enabling reviews of "**wasteful** spending," "**excess** inventory," and other areas

Results/Targets

■ Total impact
■ Project impact



■ Total impact: Total impact calculated based on the measurement criteria established for the project
■ Project impact: Direct impact on profit or loss, excluding reductions in work hours (effective avoidance of additional hiring), mitigation of purchase price increases, avoidance of additional investment costs, and similar effects

	Total impact target	Project impact FY2026	Overview of initiatives
Cost reduction	¥4.5 billion	¥3.5 billion	<ul style="list-style-type: none"> ● Consolidated purchasing, multiple sourcing, and component standardization ● Improvement of yields through investments in process reforms
Supply chain reform	¥1.0 billion	¥1.0 billion	<ul style="list-style-type: none"> ● Optimization of logistics networks (including consolidated shipments) ● Review of ocean shipping routes
Reduction of selling expenses	¥1.5 billion	¥1.5 billion	<ul style="list-style-type: none"> ● Introduction of tenders (competitive bidding) ● Optimization of usage volumes by reviewing company-wide rules
Improvement of labor productivity	¥1.0 billion	—	<ul style="list-style-type: none"> ● Inventory operations → Eliminate / integrate / simplify / automate ● Improvement of per-person productivity through automation investments
Optimization of investment costs	¥1.5 billion	—	<ul style="list-style-type: none"> ● Introduction of a mechanism for reviewing necessity (DX Investment Guidelines, project screening)
Deployment to group companies	¥1.5 billion	¥0.8 billion	<ul style="list-style-type: none"> ● Roll out parent-company measures across the entire Group

¥10 billion ¥6.8 billion



President's Comment

The Best Practice Project is not simply an exercise in generating cost-reduction figures; it is an initiative to change the way we approach our work. Over the past two years, an attitude of (1) Questioning the status quo, (2) Considering better ways of doing things, and (3) Taking swift action has taken root throughout the organization. Specifically, we are working company-wide to improve the efficiency of R&D and sales activities, carefully assess the necessity of costs and operations, and eliminate duplication in functions and roles. We have also established systems for quantitative evaluations and benchmark comparisons and put them into practice to make data-driven decision-making a regular practice. Through these efforts, we aim to become a stronger organization in which every employee treats costs and operational efficiency as matters of personal responsibility and proactively pursues improvements.