

## FY2020 3Q Financial Results Presentation Summary

(Presented at a teleconference held on February 5, 2021)

### (1) Overview of FY2020 3Q Financial Results (year-on-year changes)

(Billions of yen)

① Net sales:	262.0	(-26.7):	Decrease in sales volume (-7.0) Differences in sales prices (-19.7)
② Operating income:	28.0	(+4.0)	
Changes in sales volume	(+5.0):		Impact of the novel coronavirus pandemic (-12.4) Other (EV-related products, semiconductor-related products, novel coronavirus antigen rapid diagnostic testing kit, etc.) (+17.4)
Effect of spread	(-3.9):		Decreases in sales prices (-17.8) Decreases in raw material prices, etc. (+13.9)
Effect of foreign exchange	(-0.5):		Sales prices (-1.8) Raw material prices, etc. (+1.3)
Other changes	(+3.5):		Other administrative and manufacturing costs, etc.
		(+4.0)	Net increase due to the factors listed above

- ① **Net sales** decreased despite signs of recovery from the first-half decline in demand due to the fallout from the novel coronavirus pandemic, reflecting the impact of downward revisions in styrene-based products' sales prices in step with plunges in raw material prices.
- ② **Operating income** increased, as the positive effects of higher sales of EV-related products, semiconductor-related products and a novel coronavirus antigen rapid diagnostic testing kit (QuickNavi™-COVID19 Ag) were well in excess of the pandemic's fallout.

### (2) Forecasts for Full-Year Operating Results for FY2020

Denka has not revised its full-year operating results forecasts announced in November 2020.

#### Operating results forecasts as of November 2020

- In November 2020, the Company upwardly revised its forecast for operating income from ¥31.0 billion (announced at the beginning of the fiscal year) to ¥33.0 billion after factoring in expected sales of QuickNavi™-COVID19 Ag and other items.

#### Possible variables that may alter assumptions used to formulate the November 2020 forecasts

- Greater-than-expected recovery in demand for chloroprene rubber (CR)
- Growth in demand in the environment and energy field (due to the accelerated popularization of EVs, a surge in semiconductor demand and the widespread use of 5G communications devices)
- An increase in the shipment volume of QuickNavi™-COVID19 Ag

Despite the robust possibility of achieving operating income in excess of the forecast, in light of the current resurgence of the virus and resulting uncertainty in future outlook, Denka decided not to revise its operating income forecast of ¥33.0 billion.

### (3) Denka's Approach to Environmental Management (initiatives to achieve carbon-neutral status)

As we aim to fulfill our social responsibilities in terms of addressing environmental issues that global society is now confronting, we have updated our conventional reduction targets for greenhouse gas (GHG) emissions, setting the more ambitious target of achieving carbon-neutral status in 2050.

To achieve this, we are taking a comprehensive approach that addresses all life cycle aspects of our products and accelerating the initiatives described below.

- (i) Promote the use of clean energy while introducing high-efficiency gas turbine generators
  - To date, Denka has employed 15 hydroelectric power plants, the output of which has accounted for approximately 40% of its overall energy consumption.
  - The New Omigawa Power Plant recently initiated operations, bringing the total number of hydroelectric power plants to 16.

- The New Himekawa Power Plant No. 6, currently being constructed by Kurobegawa Electric Power Company, is expected to become the 17th hydroelectric power plant supporting Denka's operations.
- (ii) Create and commercialize technologies supporting Carbon Dioxide Capture, Utilization and Storage (CCUS)
- (iii) Develop and deliver eco-friendly products and environmental load reduction technologies
- Promote our EV-related products while popularizing solutions for absorbing CO<sub>2</sub> in the course of concrete hardening (LEAF carbonization agent)
- (iv) Commercialize chemical recycling technologies
- Commercialize the chemical recycling of polystyrene (PS) resin
  - Construct the first domestic facility for the verification testing of PS chemical recycling, with operational kickoff scheduled for the end of fiscal 2022
- (v) Push ahead with the business portfolio shift (restructuring of commodity businesses)

#### Supplementary Information

In addition to declaring its support of the Task Force on Climate-related Financial Disclosures (TCFD), Denka was granted "A-" and "B" ratings in terms of climate change response and water security, respectively, under the CDP2020 scoring program.

With the United Nations Sustainable Development Goals (SDGs) in position as a compass, the Denka Group will continue to promote a variety of initiatives to preserve the environment in line with its aim of helping realize a sustainable society. In this way, we will become a company that is genuinely needed by society.

#### (4) Summary of Q&A Session

##### (i) Content of organizational revision (consolidation into four business divisions)

In conjunction with the disclosure of its FY2020 3Q financial results, Denka announced changes in its Representative Director & President and other directors as well as in its organizational structure. These changes are scheduled to go into effect on April 1, 2021.

Reference: Press release dated February 5, 2021 "Notice Regarding Personnel Changes in Representative Directors and Executive Officers"

[https://www.denka.co.jp/eng/storage/news/pdf/329/20210205\\_denka\\_yakuin\\_en.pdf](https://www.denka.co.jp/eng/storage/news/pdf/329/20210205_denka_yakuin_en.pdf)

- The Elastomers Dept., which is currently a business unit under the Elastomers & Performance Plastics Division, will be integrated with the Infrastructure & Social Solutions Division to promote the overall optimization of the Omi Plant's operations related to limestone and calcium carbide chains. The latter division will be renamed the Elastomers & Infrastructure Solutions Division.
- The performance plastics business, which is currently handled by the Elastomers & Performance Plastics Division, will be taken over by the Living & Environment Products Division to promote the overall optimization of supply chains associated with resin-related operations that range from monomer production to material recycling. The latter division will be renamed the Polymer Solutions Division.
- The Advanced Tape Dept., which is currently a component of the Living & Environment Products Division, will be merged into the Electronics & Innovative Products Division to facilitate the future expansion of the insulation tape business in the automotive field.
- After reorganization, the entire calcium carbide chain will be supervised by one division. Likewise, the entire styrene chain will be managed by one division. As we aim to promote the specialization of our operations while pursuing carbon-neutral status, we will push ahead with the optimization of our business portfolio along with the assessment of possibilities for the continuation and restructuring of commodity businesses. We will promote these endeavors at an even faster pace over the course of the remaining two years of the Denka Value-Up management plan period.

##### (ii) Demand situation associated with the chloroprene rubber business and its recent operating results

- The shipment volume of chloroprene rubber (CR) has been on a recovery track from stagnation attributable to the influence of the novel coronavirus pandemic, with shipments in the 3rd quarter (Oct.—Dec. 2020) in excess of the levels recorded in the same period of the previous year. Similarly, shipments in the 4th quarter are expected to rise year on year. Moreover, demand for CR for use in medical rubber gloves is expanding.
- Our policy of maintaining CR sales prices stands unchanged. There has been only minimal reduction in CR sales prices, even in the face of a decline in demand.
- In the 3rd quarter, earnings from CR were down compared with the 2nd quarter due mainly to the effects of periodic shutdown maintenance, which represents a major seasonal factor, and higher costs associated with inventory adjustment.

(iii) Demand situation associated with Electronics & Innovative Products and their future outlook

- Demand for semiconductor-related products is expected to remain firm, as in the 3rd quarter. Therefore, we anticipate consistently robust shipments in the 4th quarter. Amid a surge in demand for semiconductors used in smartphones, laptops, home gaming devices, data centers and other applications, the resumption of automobile production has caused semiconductor demand to critically exceed supply.
- Although automakers are being forced to reduce production due to semiconductor shortages, the types of vehicles affected by this move are mostly gasoline powered, rather than electric vehicles (EVs). Accordingly, we expect demand for EV-related products to expand at an ever-faster pace.

(iv) Outlook for the Life Innovation Division

- We have accumulated sufficient stockpiles of our novel coronavirus antigen rapid diagnostic testing kit (QuickNavi™-COVID19 Ag) to help secure preparedness to meet growing needs in upcoming influenza season. Most of the stockpiles were shipped to distributors by the end of 2020.
- In Japan, authorities issued an administrative notice to the entire nation, urging people to actively use antigen qualitative testing to control the spread of infection. To fulfill our social responsibility as a top-notch domestic diagnostic testing kit maker, we will strive to popularize antigen testing.
- We have secured our ability to fully meet domestic demand for QuickNavi™-COVID19 Ag and, further, to allocate surplus production for shipment to overseas customers. Taking this into account, we are considering the launch of full-scale overseas marketing as a globally leading manufacturer.
- With regard to the G47Δ oncolytic virus, DAIICHI SANKYO COMPANY, LIMITED filed a request for ministerial approval of its manufacture and sale in December 2020. If the approval process goes smoothly, the marketing of this offering will start in FY2021, but we do not expect it to significantly contribute to operating results for that year. Currently, we are not positioned to present future projections on this product, including any approximate estimate regarding sales.