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FY2025 1Q Financial Results Presentation
Summary of Q&A Session
(August 7, 2025)

Fundamental Measures in the Chloroprene Rubber Business

Q1: Please update us on the status of chloroprene rubber manufacturing facilities in place at DPE* since the May 13, 2025 announcement regarding the production suspension.

* Denka Performance Elastomer LLC, a U.S. chloroprene rubber manufacturing subsidiary

A1: To fully bringing down the manufacturing facilities and equipment into a safe status, DPE is removing and disposing of hazardous materials, including raw materials and intermediates remaining in the equipment.

Electronics & Innovative Products

Q2: Looking at page 10 of the presentation material, flat arrows are attached to the sales volumes of most products. Could you describe sales trends in terms of applications, such as AI and xEV, as well as the outlook for the second quarter?

A2: In Europe, the United States and elsewhere, demand for xEV-related products has decreased considerably, which negatively affected the sales of such products as acetylene black, silicon nitride powder, and spherical alumina.

On the other hand, AI-related demand for spherical fused silica and spherical alumina has grown stronger. Furthermore, demand for acetylene black for use in high-voltage cables remains strong. Reflecting these factors, overall sales volumes of spherical alumina and acetylene black remained virtually unchanged year on year, while robust sales of AI-related products led to an increase in the sales volume of spherical fused silica. As for the second quarter, we expect higher earnings compared with the first quarter considering growing demand in AI-related fields as well as modest recovery in demand in other fields.

Q3: Please elaborate on the breakdown of “Costs” (totaling ¥1 billion) shown in the operating income variance graph in the left side of page 10 of the presentation material.

A3: This includes a roughly ¥0.3 billion increase in depreciation costs as preparatory measures have been under way to develop our production structure in anticipation of future market expansion in areas related to AI, EV and so forth. In addition, variable costs have grown due to the increased representation of high-value-added products, such as those used for AI-related applications, in our lineup. However, the pricing of these high-value-added products reflects their quality, which is also able to cover the growth in costs.

Life Innovation

Q4: In the first quarter of fiscal 2025, operating income was ¥0.2 billion, which is a decrease of ¥1.5 billion, compared with ¥1.7 billion recorded in the same period of the previous fiscal year due to decreases in sales of IVD reagents and rapid antigen test kits. What are your plans to secure an improvement in operating income from the second quarter onward?

A4: Regarding IVD reagents, we have not lost our market share, and changes in sales simply reflect changes in market conditions in certain countries overseas. We expect sales to take a while to fully recover. Amid this situation, our operating income improvement initiatives include striving to acquire new examination items in a way that accommodates customer needs. Looking ahead, we anticipate a constant level of demand for rapid antigen test kits due in part to distributors' needs to secure stockpiles. Therefore, we anticipate that sales of these products will rise compared with the first quarter. That being said, their sales may fall short of our forecasts at the beginning of the fiscal year as infectious diseases have not been as widespread as initially estimated.

Until the end of fiscal 2024, we had to limit shipment volumes because, due to supply capacity shortfalls, we were unable to meet demand. However, the recent launch of a new factory and resulting expansion in our production capacity has enabled us to resume sales to customers we had not been able to furnish with sufficient supplies. This, in turn, led to ongoing expansion in our market share. We have also secured the ability to swiftly supply the necessary volumes of products that would be required if infectious diseases were to spread.

Elastomers & Infrastructure Solutions

Q5: The presentation material illustrates how fundamental measures undertaken in the chloroprene rubber business yielded a positive impact of ¥0.9 billion. However, quarterly operating loss for this segment was 1.4 billion, which is an increase of ¥1.2 billion compared to ¥0.2 billion in the same period. What factors contributed to this increase in loss?

A5: At the end of fiscal 2023, we recorded valuation losses on inventories totaling ¥2.1 billion in connection with the chloroprene rubber business. On the other hand, in the first quarter of fiscal 2024 we recorded a ¥2.1 billion reversal in said valuation losses based on calculations using an evaluation method called the reversal method. This served as a profit contributor. With the absence of this profit contributor, year-on-year comparisons between the first quarter of fiscal 2024 and the first quarter of fiscal 2025 resulted in the ¥1.2 billion increase in operating loss, albeit partially offset by the ¥0.9 billion positive impact of fundamental measures in the chloroprene rubber business.

Q6: Please share the status of the production switchover for chloroprene rubber items to the Omi Plant, corresponding to the production suspension of DPE's manufacturing facilities.

A6: In step with this switchover, the certification process undertaken by users is progressing smoothly. Users who have completed the certification process are switching to Denka's Omi Plant products. The entire DPE inventory is scheduled to be shipped during the first half of the fiscal year, and we expect a majority of users to be ready to transition to Omi Plant products.

Polymer Solutions

Q7: Segment operating income in the first quarter of fiscal 2025 totaled ¥0.4 billion, an increase from ¥0.3 billion in the same period of the previous fiscal year. However, considering the types of finished products in which Polymer Solutions are used, this increase can be considered a result of customers seeking to avoid the negative impact of U.S. tariffs placing their orders ahead of schedule. What are your forecasts for the second quarter and later?

A7: China-bound products account for a fairly large proportion of Polymer Solutions sales. This is why our initial forecasts factored in the negative impact of tariffs, including an indirect impact. However, thus far the actual impact of tariffs has been insignificant. Going forward, we will continue to pay close attention to relevant developments.