Q&A Session Minutes on Corporate Strategy Briefing held in Nov. 2024

Time: 13:00 to 14:30, Monday, November 18, 2024
Place: The conference room of head office (Chiyoda-ku, Tokyo) with live internet streaming.
Briefers: SEKIGUCHI Akira, President and Representative Director
HOSONO Hiroyuki, Director
OKASHITA Osamu, General Manager of Accounting Dept.
OSHIKA Yoshikazu, Deputy General Manager of Corporate Strategy Dept. and Manager of Sustainability Sec.

■ Establishment of sustainability promotion framework

Q. In regard to sustainability initiatives, are there any points to be worked through in order to achieve integration across the Group, including overseas Group companies?

(President)

Our ability to monitor overseas operations from Japan used to be lacking. Now we have introduced new systems and sought to strengthen support and controls. In addition, we have created opportunities for officers at overseas locations to regularly get together and exchange information. We have systemized operational training at overseas sites for young employees who wish to be assigned overseas. As a next step, we need to develop a framework for nurturing managers among local employees.

■ Responding to climate change

Q. What social systems, if any, are necessary to achieve both decarbonization and resource recycling?

(President)

By gaining widespread recognition in society for the contribution we make to society through our main business, we aim to tap into environmental business opportunities such as potential metal recycling needs. On the policy front, we intend to actively make appeals to ensure that when carbon pricing is introduced in the future, contribution to reduction of CO_2 emissions throughout the product lifecycle is assessed and not just simple CO_2 emissions.

Q. What is the actual policy on reducing CO_2 emissions in the Nonferrous Metals business?

(President)

For Nonferrous Metals business, decarbonization of electricity is the biggest issue that needs to be addressed. Our current processes are mature, and it is difficult to achieve dramatic improvement in efficiency. Accordingly, when carbon pricing is introduced, we will need to consider cost pass-through. However, I think it is unlikely that decarbonization costs will be reflected in LME prices and the way in which decarbonization costs are borne and society's way of thinking will need to be readjusted. I also think that to ensure the sustainability of the zinc smelting business, we must focus on increasing the use of recycled materials and the recovery of rare metals and build our overall strength.

Q. Are you achieving both decarbonization and improvement in profitability? And how are you striking a balance between the two? In recent years, your ROE has been falling due to delays investment recovery. However, partly because profit is better than expected due to market prices, evaluation based on your financial results alone is difficult.

(President)

Achieving both decarbonization and improvement in profitability is very tough. If we are slow in responding to decarbonization, we might be rejected by the market and unable to do business and so, in the businesses that are already stable, we must steadily implement decarbonization while balancing this with profitability. Especially in the businesses where we have succeeded in differentiating ourselves from our competitors in terms of technologies and quality, we must consider measures to improve profitability such as the pass-through of decarbonization costs. I believe that, in businesses such as waste treatment and material recycling, ideally, costs should be borne as the costs of society as a whole. This is not something that can be achieved overnight but we will steadily push for this. I also think that it is important to continuously invest in and develop new businesses that are both environmentally friendly and improve profitability such as Bio-coke.

Q. Have stakeholders made any demands regarding achieving both decarbonization and resource recycling? And how serious are you about sustainability initiatives? Also, how are you trying to strike a balance between sustainability initiatives and improvement of profitability?

(President)

When we explain our approach and initiatives to stakeholders, we do not receive much opposition and, as I understand it, we have gained some level of understanding. Achieving decarbonization, resource recycling and improvement in profitability is a challenge faced not only by us but society as a whole. Regarding resource recycling, there are cases where customers consult us about initiatives, and I recognize that there is room for us to use such opportunities to strengthen our main business and at the same time reduce environmental impacts.

Q. What definition do you use when selecting DGA (DOWA Green Action) products and services? Also, please specify the functions and premiums provided to society through expansion of DGA.

(President and Manager OSHIKA)

We have identified 21 DGA products and services. The majority of our sales target is expansion in the volume of recycled metals. Going forward, we intend to carry out a review of the targets we set under the next midterm plan to ensure that we can clearly demonstrate our social contribution. Our FY2030 target of 1.6 times increase in sales of DGA products and services is our indicator at the start of the plan, and, in view of the increase in business opportunities related to decarbonization, we intend to increase sales beyond the 1.6 times target. Similarly in the metal recycling business, we will not only expand collections of raw materials but also strive to improve the recovery rate through the development of technologies.

■ **Increasing organizational power**

Q. In regard to increasing organizational power, you have mentioned strengthening employee engagement. What do you currently recognize as issues to be addressed and how will you address them?

(President)

In the days when the mining business was our core business, faithful adherence to managers' instructions to ensure safety in the mine was important. But in recent years, I feel values are changing, with people aiming to live a full life instead of just working. We are responding to this change in values and recognize that we need to offer a work environment that makes employees satisfied to be working for us and proud of their surroundings, and we will consider specific measures accordingly.

Q. Am I right in understanding this as an awareness of wellbeing management?

(President)

I think wellbeing management is something that cannot be avoided and we need to engage with.

Q. What kind of changes have occurred as a result of the increase in ratio of female employees?

(President)

To increase the ratio of female employees, we set a numerical target for the percentage of female university graduate hires of 30%, and we have mostly achieved this in the past few years. However, the ratio of female managers is low due to legal constraints on our business in the past, and we are promoting the appointment of women to managerial positions. We are also implementing initiatives for the active participation and career advancement of female employees including encouraging female employees to take maternity leave and child care leave and developing welfare facilities. I feel these initiatives have gradually made us stronger though this is not something that can be shown in figures.

■ **Driving DX (data utilization)**

Q. The examples you highlighted for DX initiatives appear to be limited to initiatives to increase business efficiency. What does DOWA aim to achieve through DX in terms of business innovation.?

(President)

Our aim is that DX initiatives will lead to business transformation. One example is making it easier for elderly employees and female employees to work at production sites to secure human resources. By using AI in supervision operations at production sites, we aim to achieve full automation or save labor. The resources freed up through labor-saving will be allocated to new business. In addition, we could also potentially review our organizational structure through the use of information technologies. We intend to consider various possibilities.

■ **Biodiversity**

Q. Regarding biodiversity initiatives, environmental issues such as climate change and biodiversity are interconnected, and cross-disciplinary initiatives are required. What are your thoughts on biodiversity at present?

(President)

Regarding biodiversity, we have selected three key themes, mines, water and forests, and are at the stage of preparing specific initiatives. Regarding mines, issues include the ageing of employees involved in the management of closed or inactive mines and the management of closed and inactive mines in remote locations. Going forward, we will seek more efficient, sophisticated management of closed and inactive mines through the use of AI and robots, and we will also consider projects in cooperation with national governments. Regarding water, we promote the treatment of hazardous waste that has enormous impacts on the environment in our waste treatment business and believe that there is a strong affinity between our business and the water quality preservation. Our theme in relation to forests is the utilization of forested mountains and fields that were mining business sites. We are currently steadily implementing initiatives such as restoring vegetation.

■ **Initiatives to achieve management that is conscious of the cost of capital and share prices**

Q. The build-up of net worth over the past 10 years has led to decline in ROE. What are the issues that need to be addressed in terms of capital policy?

(President)

In the next midterm plan, we intend to set out our capital policy once again, taking decarbonization investment into consideration. Details will be announced in the next midterm plan.

■ **Developing the next midterm plan**

Q. Have you decided on any measures in the next midterm plan to salvage the downward trend in profitability?

(President)

In the past few years, depreciation has increased due to large-scale investment. However, we plan to continue making necessary capital investments going forward and do not intend for this to be the peak. More specifically, we are carefully considering measures for the next midterm plan, but will work with a sense of urgency to ensure the sustainability of our businesses.

Q. What is the direction of the "large-scale investment" planned under the next midterm plan? Are you strong enough to achieve both decarbonization and investment-driven profit?

(President)

We will make investments on the assumption that they will strengthen our business and not for the purpose of decarbonization alone. The change is that, to ensure business continuity, when making decisions on investments to strengthen our business, we will attach more importance to the judgment criteria of decarbonization and improvement of the work environment. In addition, we are reviewing our business portfolio, and under the next midterm plan, we intend to make a start on investment for business portfolio optimization.

- **Others**

Regarding explanations of climate change initiatives, in the next midterm plan, I would like you to use specific, easy-to-understand expressions, for example, set out your approach to reducing CO_2 emissions in items with high emissions and your reduction targets and at the same time give estimates of the contribution you make to reducing society's CO_2 emissions through your business activities. When introducing examples, I would like you to change presentation materials to make specific strengths and details clearer.