

Q&A Session Minutes on Corporate Strategy Briefing held in May 2022

Time: 10:00 to 11:50, Thursday, May 19, 2022

Place: The conference room of head office (Chiyoda-ku, Tokyo) with live internet streaming.

Briefer: SEKIGUCHI Akira, President and Representative Director

■ All segments

Q: How do you view the factors for the increase or decrease of profit by segments between the FY2021 results and the targets set in the Midterm Plan 2024?

(President)

In the Environmental Management & Recycling Segment, we take the view that the volume of waste treated in Japan and the volume of recycled used home appliances in Japan will remain virtually unchanged. Meanwhile, the production of high-unit-price PCB waste reaching their treatment deadline in 2027 will fall gradually. Nor can we expect PCB waste that meet the new standard to appear in large volume, and the volume of the waste is likely to decline. There is also an increase in depreciation expenses that resulted from investments in growth executed to this point. In addition, there were factors for temporary gains in fiscal 2021, including the sale of metal scrap in stock at the end of fiscal 2020. Income declined slightly as a result. However, we don't take the view that the segment's earning potential declined.

PGM market fluctuations were a major factor in the Nonferrous Metals Segment. Market levels for PGMs were extremely high in the first half of fiscal 2021, and collection and treatment were strong. Income posted rose substantially for those reasons. Meanwhile, we performed a collection-control operation in the second half to reduce inventories. Contributions to earnings appear small in fiscal 2024, for which prices close to the fiscal 2021 average are assumed, because we achieved substantial income in the first half of the fiscal 2021 when market quotations soared. Cost burden increases due to rises in the cost of energy centered on electricity and material costs also produced significant effects.

In the Electronic Materials Segment, earnings are expected to expand substantially, supported by the contributions expected from new products, such as short-wavelength-infrared LEDs and PDs for next-generation devices, and fuel cell materials. We think income expansion is highly feasible if individual markets take off according to our expectations.

In the Metal Processing segment, we will raise the productivity of thinner and better-

performing copper rolled products and expand their sales by stepping up production as we have been working under the Midterm Plan 2020. In addition, we think contributions from new products can increase income from electroplating. We took steep rises in material and auxiliary material costs into consideration in the Metal Processing segment, too. However, their effects will not be as significant compared with those on the Nonferrous Metals Segment. We take the view that sales expansion will have greater effects on the segment.

We plan to expand income for the Heat Treatment Segment, as well. Returns on capacity-enhancing investments overseas have been especially delayed among our past initiatives. We expect to enter a return phase with the normalization of overseas economies.

Q: The analysis of rises and falls in ordinary income presented in the Midterm Plan 2024 takes the form of countering a fixed cost increase with effects generated by sales expansion and measures. How great is the scope for cost-cutting and efficiency-enhancing initiatives you can take as measures to cope with growing costs? Does the Plan take those initiatives into account?

(President)

In the melting and recycling business, we are already advancing test operations using alternative fuels because rises in the prices of coke have grown serious. We are planning to spend the next 1 year gathering information about the maximum ratio of alternative fuels using actual equipment. Therefore, we may be able to counteract the cost increase assumed in the Midterm Plan 2024 to a certain extent. However, we do not include the effects of measures under study in the Plan at the present time.

We took a somewhat conservative view on costs, but that does not mean we are simply accepting this cost increase. We are working to reduce costs by stepping up day-to-day initiatives at our manufacturing sites. We are instructing respective segments to clearly state targets and measures for cost reduction at the point of annual budget preparation and we are checking progress on a monthly basis. We will continue to control the pace of cost reduction and managing the progress of measures taken by sharing information.

There is also an aspect to cost reduction that becomes visible in the course of reviews after account settlement. For example, we were able to end fiscal 2020 in the black for the Heat Treatment Segment even though demand for heat treatment almost disappeared in the first half of the fiscal year. We were also able to increase income for the segment in fiscal 2021. We can mention the proper function of cost control in the Heat Treatment Segment

as a major factor in the results, in addition to a recovery in demand. Business segments tend to set figures conservatively. However, the reality is that all our segments have been advancing the cost reduction activities.

■ Environmental Management & Recycling

Q: How much income growth do you expect as a result of the expansion of the Southeast Asian business?

(President)

Regarding the Southeast Asian business, we have few plans to start new initiative in the period under the Midterm Plan 2024. The most important theme for us in this business is to set on the right track a new treatment facility (landfill) and a hazardous waste detoxification incinerator in Indonesia, a hazardous waste treatment plant in Thailand in which we invested under the Midterm Plan 2020 and to get them contributing to income.

(General manager of corporate strategy dept.)

We aim to double ordinary income in fiscal 2024 and quadruple the income in fiscal 2030, adopting the fiscal 2021 figure as the benchmark.

■ Nonferrous Metals

Q: How much will you expand collection and treatment volumes with greater investment in the PGM recycling business?

(President)

The inventory of materials will end up growing with the current treatment capacity in the PGM recycling business in cases where the collection volume remains at its level in the first half of fiscal 2021. For treatment capacity, we must also take into consideration the capacity of Tanaka Kikinzoku Kogyo K. K. in the downstream refinement process, in addition to our own capacity. In the period under the Midterm Plan 2024, we will expand our treatment capacity to a level where we can smoothly deal with the volume collected in the first half of fiscal 2021, because Tanaka Kikinzoku Kogyo is also pursuing aggressive initiatives to expand its refinement capacity.

Expanding collection bases will be essential, too. We now have collection bases in the United States, the Czech Republic, Spain and South Korea. In Southeast Asia, we are advancing collection, making the most of our facilities in the Environmental Management & Recycling Segment. In North America, we are thinking about expanding capacity because

our operations there have outgrown the eastern facilities. We are planning to have highly transparent sampling facilities able to demonstrate fair sampling because transparent sampling is the key to our businesses.

Regarding the expansion of our collection area, we think setting our new facilities in South Korea and Spain on the right track is important because we have not conducted sufficient global market research yet.

■ Electronic Materials

Q: The Company are planning to continue the approach under the previous Midterm Plan and advance the launch of new products for the Electronic Materials Segment under the Midterm Plan 2024. Making those products profitable from points immediately after their launch seems difficult. How reliable are they in terms of profitability? Which products do you expect to generate profits in particular?

(President)

We think stationary fuel cell materials for home and industrial use are very likely to generate profits. We launched them in fiscal 2021 and are still in the stage of finding customers in fiscal 2022. However, we have received inquiries about them from several companies already. Whether or not fuel cell materials will produce profits according to our plan is still unclear. However, we think they will be a highly reliable business in terms of quantities.

There is high public interest in solid electrolyte powder for all-solid-state batteries. The powder belongs to the category of new products under development. For this product, we are in the stage of advancing joint research with our customers. We seek improvements in performance and quality in the product. The extent to which our technological development will progress by fiscal 2023 and the extent to which customers accept the product will be the keys.

Q: Some people expect magnetic tapes to achieve carbon neutral status in the development of next-generation recording materials. Is the number of inquiries increasing? Do you think research and development for increasing capacity will be necessary to respond to customer inquiries? How do you view the product's potential for commercialization and monetization?

(President)

Unfortunately, demand for an archive application beyond our customers called cold storage has been taking longer to actualize than our initial projection under the adverse effects of a semiconductors shortage. We think potential demand is strong, and expect the product to start making contributions to our net sales with the resolution of logistics disruptions.

At the beginning, we also predicted that sales of new recording materials would expand from the second half of fiscal 2021. Their sales increase is taking an additional year or so to materialize. The sales increase may take even longer to realize in some cases. We consider these delays to be temporary. We will advance the development of high-performance next-generation recording materials based on our original timetable, instead of slowing their development based on the delays, because the development of high-capacity magnetic recording tapes is also planned in a few years.

■ Sustainability Management

Q: How do you plan specific measures for reducing CO₂ emissions in the period through 2030?

(General manager of corporate strategy dept.)

As things stand at this point, we emitted approximately 1.6 million tons of CO₂ in fiscal 2020, a reduction of 11% compared to the fiscal 2016 level. Looking at their breakdown, the effects generated by our energy-saving initiatives accounted for a large part of the emissions reduction. As a future initiative, we plan to replace one of the six hydroelectric power plants we operate at present. In the category of greenhouse gas emissions reduction, we are destroying chlorofluorocarbons at three domestic locations, too. We will continue these initiatives under the Midterm Plan 2024.

Regarding our initiatives for the next three years, we will be examining major projects from now. We are also advancing our studies from the perspective of developing products that will contribute to reducing CO₂ emissions, instead of the perspective of simply lowering emissions. For example, we will finish developing low CO₂-emission furnaces in the Heat Treatment Segment and introduce them to the market in the period under the Midterm Plan 2024. We hope to step up our efforts in the development of solid electrolyte powder for all-solid-state batteries, as well. We will focus on our current initiatives concerning the disclosure of information related to TCFD. We are going to disclose this information on our website within

a few months.

(President)

There are many themes for us, including fuel source changes at waste incineration facilities, the practical use of ammonia gas in heat treatment furnaces, and the fuel application of waste plastics at Kosaka Smelting & Refining. All present high technological hurdles. We are at the stage of launching our examinations now. We would like to make announcements when it becomes possible to put our ideas in concrete form. As a time frame, we are thinking about accumulating technological information during the period under the Midterm Plan 2024 and announcing specific measures in the period under or beyond the next Midterm Plan.

Q: What do you plan as specific activities by the Sustainability Committee?

(General manager of corporate strategy dept.)

We positioned the Sustainability Subcommittee under the Sustainability Committee. The Sustainability Subcommittee discusses individual subjects and measures for nine material issues under the leadership of DOWA Holdings departments, reports the details of the discussions to the Sustainability Committee, and receives advice and instructions. In addition, the Sustainability Committee advances its initiatives by reporting particularly important matters to the Board of Directors.