

Q&A Session Minutes on FY2019 H1 Financial Results Briefing

Q1: Will the waste treatment business be able to remain strong while the domestic manufacturing industry is slowing down somewhat? Is the business affected by the environmental regulations in Japan and abroad?

A1: Overseas regulations such as those on the import of metal scrap are indirectly having a positive effect on the domestic waste treatment business. We are able to enjoy positive market conditions, including our sales efforts. We consider that our current challenge is to maintain the capacity utilization of the waste treatment facilities at a high level, and we will work to continue operating at a high level while ensuring periodic and systematic maintenance.

Q2: What are the prospects of the low-contaminated PCB waste treatment business?

A2: While new entries to the market have been decreasing recently, the environment for collection continues to be challenging. Although the degree of the fall is decreasing, the treatment unit price has also been declining. While we do not expect that the profit will rebound to the previous level, it is still a lucrative business and is therefore beginning to be positioned as a stable income source.

Q3: In the soil remediation business, will the high-profit projects undertaken in the second half of the fiscal year continue to decrease?

A3: In the soil remediation business, there is no more demand for conventional remediation that is performed by carrying soil out of the sites, but the business is shifting to onsite remediation treatment. Competition for onsite treatment is intense, and the high profitability we enjoyed in the past cannot be expected. Although we expected a large onsite treatment project in the current fiscal year, it has been postponed due to the customer's schedule. We expect that this situation will continue for some time.

Q4: Profitability in the Environmental Management & Recycling segment is gradually falling. How to do plan to increase it going forward?

A4: We will expand the business in Southeast Asia, which offers a promising market. In Southeast Asia, demand not only for reclamation but also for incineration and other treatment methods is emerging due to the development of laws and a rise in environmental awareness, and we are expanding our services using our high-quality management technology. We intend to increase the profitability of the entire business by offering a range of services equivalent to what we provide in Japan. We expect that about half of our current activities will contribute to profit in the period of the next Midterm Plan, which will be from fiscal 2020. Meanwhile, we must make the current investments profitable and, at the same time, make new investments for the future in order to respond to changes in the market. To this end, we will aim to gradually grow profit in our business in Southeast Asia.

Q5: Do you plan to continue funding the mine development project?

A5: The contribution of funding for the mine development project ended with that conducted during the first half of the current fiscal year. The construction of the Los Gatos Mine has been completed, and the startup has been going well. We are planning the first shipment in late December and the mine will start making a profit, so we are not planning to provide any more funding. In addition, the Los Gatos Mine does not rely solely on profit from zinc, but profit from lead and silver is also expected. We are not concerned about its profitability given the recent market prices.

Q6: Have you passed the peak of investment?

A6: Because investments such as the development of the Los Gatos Mine and facility enhancement in the Metal Processing segment have mostly come to an end for now during the current fiscal year, we expect that the total investment will peak out. Our mine investment includes a prospecting project in Alaska, and the prospecting activities will continue for a few years from now. If the progress is steady, we may invest in a mine after four or five years.

Q7: Can we expect an increase in profit from the PGM business due to growth in the amount collected during and after the next fiscal year?

A7: While the environment of the PGM business changes in a short cycle and it is difficult to predict the future, the recent positive collection results have continued for two to three years, and we may be able to expect an equivalent contribution of the business to profit in the next fiscal year as well. Rather than excessively pursuing quantities, we will continue to grow based on businesses that are capable of ensuring profitability.

Q8: Please describe specifically what you are doing to increase collection in the PGM business.

A8: Automobiles from the era when emissions control was tightened in Europe are now being scrapped, and the amount of used automotive exhaust gas purification catalysts has also been increasing. In view of this, we increased the treatment capacity under the previous Midterm Plan (FY2015 to FY2017) and are expanding our overseas collection facilities under the current Midterm Plan (FY2018 to FY2020).

In addition to the collection facilities in the US and the Czech Republic that are currently in full operation, we are increasing collection from Southeast Asia by using the facilities of the Environmental Management & Recycling business. Through this, we have been able to achieve the collection and treatment of 1,000 tons per month as targeted in the current Midterm Plan ahead of schedule. We are currently considering increasing collection from Europe, with the aim of achieving further growth.

Q9: New activities are being carried out in the Environmental Management & Recycling segment and the Electronics Materials segment. To what extent do you expect that they will contribute to profit in the future?

A9: We evaluate the business potential of each new project and, in general, we implement those from which we can recover our investment in about five to seven years. In the Electronics Materials

segment, however, new uses are developing in addition to the demand that we initially assumed, and it is difficult to clearly show the profit scale of the new projects right now. We plan to present the specific amounts and timing of profit contributed by the projects in the next Midterm Plan.

Q10: Please describe the new products in the Electronics Materials segment, Metal Processing segment, and Heat Treatment segment.

A10: The silver nano powder in the Electronics Materials segment is used for electromagnetic wave shields. Demand for the powder used for extremely small electronic components has been growing in recent years. While a sputtering device is used in general, a spray type is also emerging to be used for components with a complex structure. We now have prospects for the use of the nano-size silver powder as a material for this.

The strength of the cooling fin integrated substrates in the Metal Processing segment is cost reduction achieved by omitting the user process. Amid the growing trend of the weight reduction of automobiles, weight reduction was achieved by directly joining the aluminum with a substrate without using a conventionally used copper base plate in between. This is used increasingly for electric vehicles overseas.

The Cell Type Vacuum Carburizing Furnaces in the Heat Treatment segment target the replacement needs of customers. We are promoting the product to auto makers and parts manufacturers in response to the news that facilities with high production efficiency, which are adaptive to the environment, are in demand amid an increase in overseas component production.

Q11: How do you plan to provide returns to shareholders? Your ROE has tended to decrease in recent years. What are your views regarding this?

A11: We plan to provide shareholder returns in line with our basic policy. Our total assets have been increasing due to a large number of investments made in the last several years. Although loans receivable for the construction expenses in the mine development project have been growing, they will be repaid according to agreements. Because such temporary increases are included, we do not plan to directly connect indicators based on the balance sheet and dividend amounts, but will return profit while balancing the profit level in each fiscal year and maximizing dividends.