

Q&A Session Minutes on FY2018 Financial Results Briefing

Q1: What opportunities will contribute to the expected profit growth in the Environmental Management & Recycling segment this year?

A1: To achieve the expected growth in Southeast Asia, we will expand the waste treatment business in Thailand. On the domestic front, we expect that a new plant established in Fukushima Prefecture for melting and recycling will contribute to the profit in this segment.

Q2: What contribution do you expect to be made to revenue and profit from the growth in the Environmental Management & Recycling segment in Southeast Asia?

A2: We expect that the initiatives currently underway in Thailand and Indonesia that are aimed at increasing the waste treatment capacity will pay off and create a stable source of income for us in the future, with support provided by the local governments. The specific contributions to be made by the efforts in terms of revenue and profit will be reflected in the next Midterm Plan covering the period of FY2021 and beyond, when the initiatives are expected to start paying off.

Q3: Historically, you have experienced process delays when acquiring local governments' authorization for business expansion in Southeast Asia. Do you expect a similar risk to occur?

A3: As far as the hazardous waste treatment operations in Thailand are concerned, we expect to acquire administrative authorization no later than the first half of FY2019.

Q4: What is the level of revenue and profit for the melting and recycling business? Do you expect to have an opportunity to expand this business in Japan going forward?

A4: The new plant in Fukushima Prefecture will not contribute a great deal to revenue and profit during the current fiscal year, but it will start making an incremental contribution in FY2020 or FY2021. We expect that the existing plant in Tochigi Prefecture will start to benefit from its greater treatment capacity in the current fiscal year. We are focusing our priorities on ensuring that the new plant achieves stable operation as soon as possible this fiscal year.

It looks quite likely that the melting and recycling business will grow on the domestic front. We will leverage opportunities to grow the business by enhancing pretreatment facilities rather than relying on the establishment of the new plant, because we are aware that the enhancement of the pretreatment process for incinerated ash as a raw material will help to increase the processing capacity of the existing plant.

Q5: Do you foresee any impact on the Company's business performance from the intensifying environmental protection regulations regarding plastic waste worldwide?

A5: The surging environmentalism has already affected the Company's business noticeably since FY2018. The collection volume has exceeded the treatment capacity of the existing plants, and some prices are rising. It is expected that this business environment will remain unchanged during the course of FY2019. Given this situation, we will remain committed to expanding the business through the further enhancement of the operation rate for the existing facilities.

Q6: What contribution do you expect the Los Gatos mine to make to revenue and profit for the Nonferrous Metals segment?

A6: We pay close attention to the processing recovery rate as a yardstick for measuring the profitability of the Los Gatos mine. We have reached the vein in Los Gatos, and we expect to commence mining with the project as planned. Meanwhile, we are about to embark on the processing plant. Our challenge will be to achieve the same recovery rate at the full-scale production plants as those produced by the pilot plants.

If operations go well, the Los Gatos mine is expected to achieve comparable revenue and profit to the Tizapa mine.

Q7: You have taken steps to enhance the PGM business. Have your efforts paid off with successful results?

A7: As far as the PGM business is concerned, we are engaged in a six-year project to increase the amount of spent automotive exhaust gas purification catalysts collected as raw material, while expanding the process capacity. During the period of the previous Midterm Plan (FY2015-FY2017), we succeeded in achieving the vertical start-up of the plant soon after the capacity expansion was completed. The remaining issue that we need to address is how we will collect raw materials in amounts that suit our process capacity.

We have taken steps to increase the amount of materials collected in Europe, North America and Asia since the last fiscal year. Consequently, the amount of materials collected in Europe has exceeded our treatment capacity. Likewise, the materials collected have seen growth in terms of amount in Southeast Asia and China as well. In North America, we have been successful in achieving consistent growth in the volume of materials collected.

Accordingly, it appears that it will be possible for us to achieve the amount of materials collected and processed targeted in the Midterm Plan 2020 (FY2018-FY2020).

Q8: What do you expect the new LEDs in the Electronics Materials segment to contribute in terms of revenue and profit for the period of FY2021 and beyond?

A8: Short Wave Infrared LEDs are ready for customer approval as components for Moisture measurement sensor or healthcare sensors, and they are expected to start making contributions to revenue and profit by FY2020.

We are seeing an increase in specific demands for deep ultraviolet LEDs, specifically from manufacturers of small home electrical appliances. Accordingly, we are remaining focused on making further developments in response to the expanding applications of the product. We expect that the deep ultraviolet LEDs will start contributing to revenue and profit from FY2021.

It looks quite likely that both types of LEDs will capture demand, because they have been seeing consistent expansion in their new applications.

Q9: You expect that the revenue of new products will increase in the Electronics Materials segment in FY2019. For which products do you expect revenue growth?

A9: We expect to commence the mass production of conductive atomized powder in FY2019, and we will continue to increase its production volume. Likewise, we will start producing silver nano powder in large quantities in FY2019, with further expansion expected in the production volume, beginning in the latter half of the year. We expect both types of new products to generate revenues exceeding their R&D expenses during FY2020.

Q10: Do you think that the existing products in the Electronics Materials segment have potential for further growth in the coming years?

A10: The major product lines in the Electronics Materials segment include LEDs, silver powder and magnetic powder for data archive tapes. The lifecycle of products for proximity sensors used in smartphones has ended sooner than expected because they are not used in new models. We will secure new revenue opportunities by introducing new products to the market without delay, as planned.

The rapid growth of the market for silver powder had helped our business until last year, when the Chinese government implemented a change to its subsidy policy for solar panels, which resulted in a fall in demand. While it is expected that the number of solar panels installed will grow gradually in the years to come, there has been a shift in market demand toward higher performance silver powder. We aim to maintain a high market share for this product as a stable source of income while responding to new developments in the market.

We have completed the development of magnetic powder for next-generation data archive tapes. Given the competition between magnetic tapes and HDDs as data storage media, we are attempting to identify the best opportunities for launching higher performance materials onto the market.

All the existing products in the Electronics Materials segment have the chance to make a comeback in terms of revenue, followed by new products in the pipeline. We will develop a new market for each product in partnership with our business customers.

Q11: Do you believe that the Heat Treatment business will grow in terms of revenue in FY2019?

A11: The heat treatment business will see revenue growth with the contribution of the two new factories that were established in India last year. However, their contributions will be limited in terms of profit because of heavy depreciation expenses. We aim to grow the revenue mainly in the industrial furnace business by executing the backlog of orders received during the last fiscal year.

Q12: You have implemented a significant change to your policy regarding shareholder returns. Please tell us about the background leading up to the policy change. I would also like to know whether the change will be effective from the current fiscal year.

A12: Actually, no change has ever been made to our policy regarding shareholder returns. We clarified the policy and announced it publicly to ensure that the investors would have a greater understanding of it. The policy's disclosure was discussed by the board of directors, who approved it unanimously. The dividends for the current fiscal year are subject to discussions at the board of directors' meeting. For this reason, I cannot go into any detail about the dividends to be paid, but the matter should be discussed in view of the ideas presented today.