

INTEGRATED REPORT 2024

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Disclaimer for this material

Forecasts and forward-looking statements in this document are based on currently available information and assumptions about economic conditions in Japan and other countries, industry trends related to our business, and other factors that may affect our performance. These factors are subject to a number of uncertainties, including market conditions, competitive conditions, and the availability of our new products. Therefore, please be aware that actual results may differ significantly from these forecasts.

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ABOUT DKK

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Vision and Business Characteristics



VISION

“Growing with Rare Elements – Becoming a 100 Year Company”

DAIICHI KIGENSO KAGAKU KOGYO CO., LTD. (DKK) is a materials manufacturer involved in the development, production, and sale of functional materials such as zirconium compounds. At the time DKK was founded in 1956, zirconium was not a well understood element and had limited applications. Our young founders saw the potential of zirconium and took on the task of bringing out its possibilities. Under the motto “Because no one has done it, we will do it,” they founded DKK with a spirit of undertaking challenges. Since then, DKK has been steadily moving forward by dedicating ourselves to our customers’ needs and requests while discovering new properties and uncovering the mysteries of that once poorly understood element.

Zirconium is an element which exhibits many unique properties. As a leading manufacturer of zirconium, DKK will draw out the infinite possibilities of this extraordinary element and continue to make DKK vital for the world.



Corporate Introduction Video
Play time: 7 minutes 47 seconds

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Vision and Business Characteristics

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About zirconium

A rare element with diverse properties

Zirconium is a rare element that exhibits different properties depending on the manufacturing process, the substance to which it is bound, and its crystalline structure. We produce and sell materials with properties customized in numerous ways to meet the requirements of our customers, and our products are used in various forms throughout society, from the industrial sector to household products. Zirconium is now an indispensable part of society's development and a driving force behind the creation of technologies and materials for a new era.

Zirconium is used throughout society

- PCs/smartphones
- Electronic components
- Electric vehicles
- Fuel cells/
Water electrolysis cells
- Biomaterials
- Automotive catalysts

Atomic number
40

Zr

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Vision and Business Characteristics

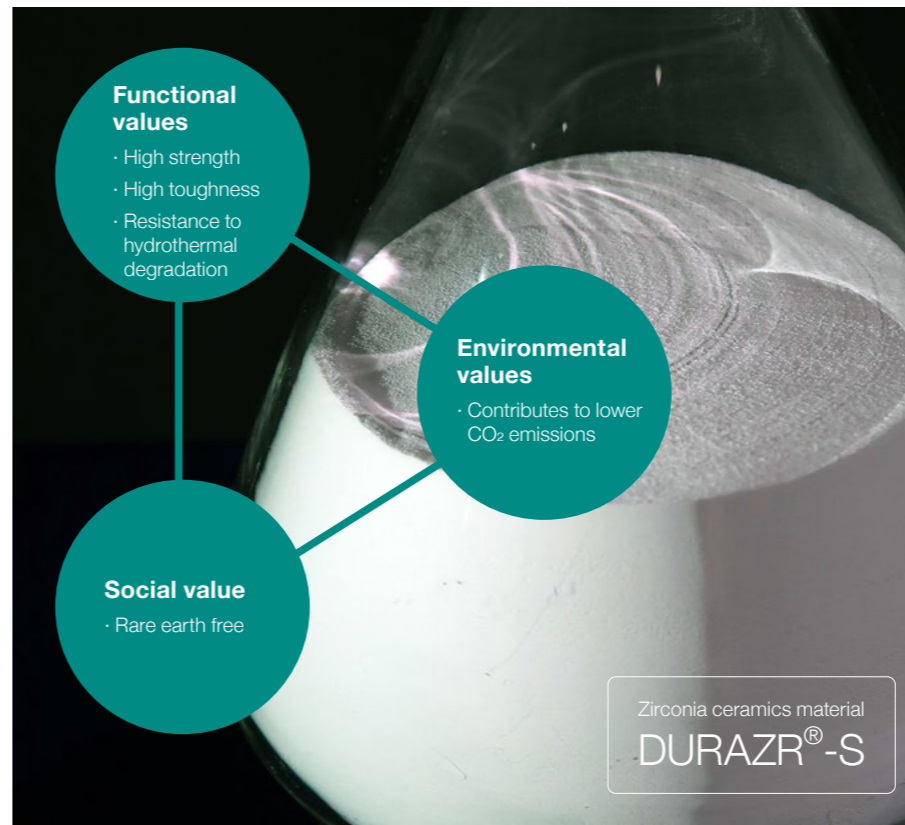
The technical prowess to create ‘Valuable Products’

The DKK Group contributes to a sustainable society through the supply of ‘Valuable Products.’ The “value” of ‘Valuable Products’ is not limited to their functionality. DKK’s zirconia-based ceramic materials have a variety of functional values, such as resistance to hydrothermal degradation, high toughness, aesthetics, and antimicrobial functions. However, they also have environmental value, as they can be sintered at low temperatures, leading to energy savings and reduced CO₂ emissions for customers, and social value, as they do not contain rare earth elements, whose production is limited to a few countries, making them a true wonder material.

Receipt of The Ceramic Society of Japan’s award for industrial ceramic technology

DKK received The Ceramic Society of Japan’s award for achievements in industrial ceramic technology in FY2023 for its development of the DURAZR®-S Series of zirconia ceramics. These awards are presented in recognition of contributions to the progress and growth of the ceramics industry, science, and technology, and of an exceptional record in academic research and technology. DKK was acknowledged for developing a product that maintains the same strength as conventional zirconia ceramics while increasing the value of ceramics.

Award	The Ceramic Society of Japan’s FY2023 award for achievements in industrial ceramic technology
Achievement area	Development of zirconia ceramics with ultra-high toughness and resistance to low-temperature degradation
Award recipient	DAIICHI KIGENSO KAGAKU KOGYO CO., LTD. Masayuki Takai, Research & Development Division, R&D Unit



Related Information

· December 22, 2023
 Notice that DKK’s employee has been awarded The Ceramic Society of Japan’s FY2023 award for achievements in industrial ceramic technology
https://www.ceramic.or.jp/en/act_e/kyoukaisho_list-en.html



· January 23, 2023
 Achieved approximately three times the toughness of conventional zirconia ceramics
 Notice of the development of new zirconia ceramics materials
https://ssl4.eir-parts.net/doc/4082/ir_material3/199761/00.pdf



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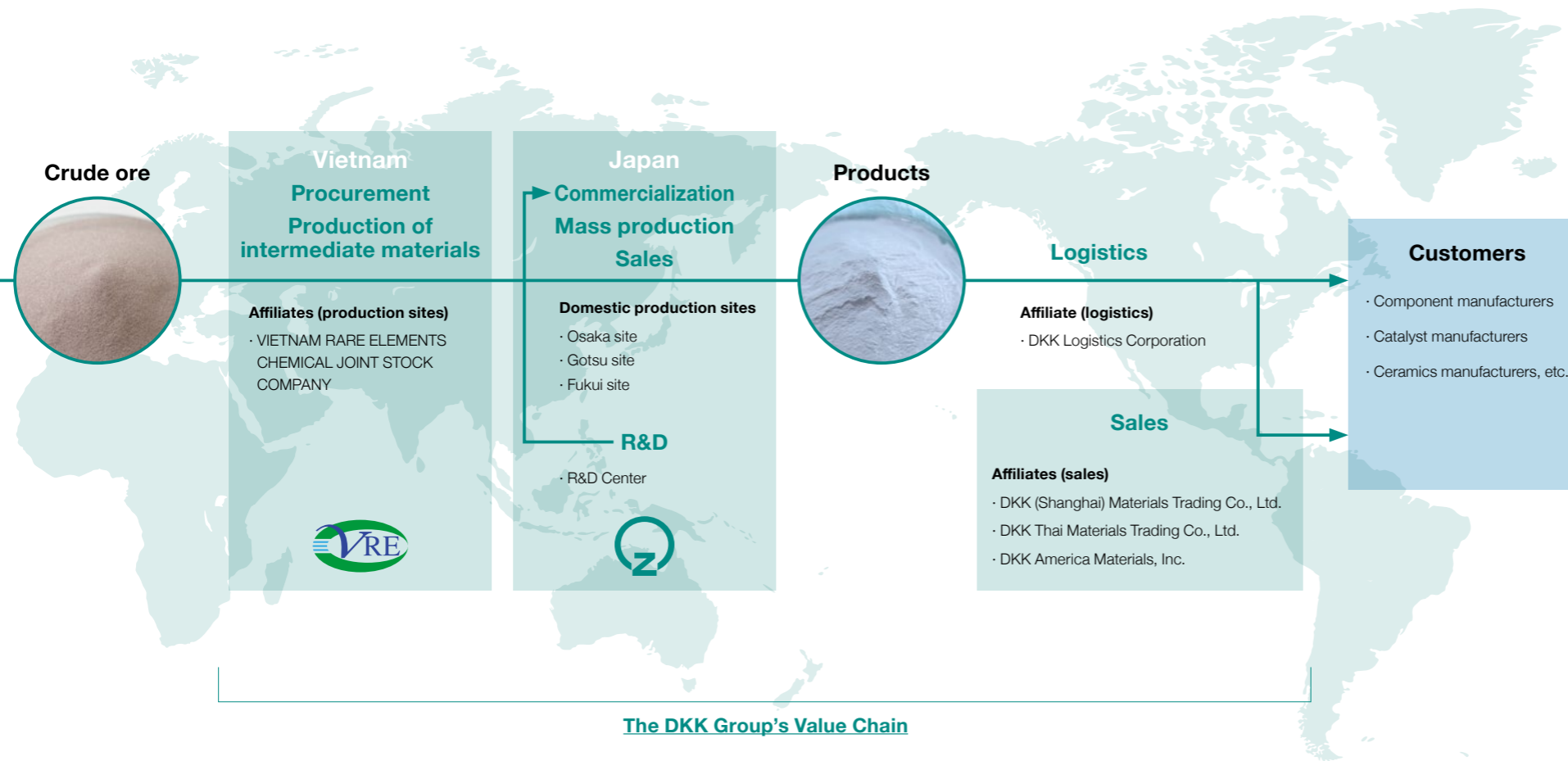
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Vision and Business Characteristics

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The only integrated value chain in the world

The DKK Group is the only organization in the world capable of integrated production of zirconium from crude zirconium ore to finished products within the Group. With its head office and R&D Center in Japan, and manufacturing sites in Japan and Vietnam, the Group has secured its own raw material procurement routes, thereby diversifying its supply chain and ensuring a stable supply of products.



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Management Philosophy

経営理念
 世に価値あるものを供給
 し続けるには価値ある人生を
 送るもの手によらねばならぬ
 価値ある人生を送るためには
 その大半を過ごす職場を
 価値あるものに創り上げて
 いかねばならず、

Management Philosophy

To pursue a continuous supply of ‘Valuable Products’ for society, we need to utilize the hands of individuals who live a ‘Fulfilling Life.’ In order to live a ‘Fulfilling Life,’ we need to create a ‘Rewarding Workplace’ – a place where we spend a significant part of our lives.

- ‘Valuable Products’** Original and high value-added products that contribute to solving a range of social problems
- ‘Fulfilling Life’** A satisfying way of life in both public and private spaces that encourages the realization of one’s own dreams and ideals
- ‘Rewarding Workplace’** A workplace where we can pride ourselves at being a top zirconium producer

 A place where we and our colleagues can embody the company’s ideals of Kigenso-like

Kigenso-like refers to a corporate culture that welcomes a challenge, supports staff who are undertaking these challenges while also respecting diverse work styles and values.

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Corporate History

DKK was founded in 1956

At that time, zirconium was not a well understood element and had limited applications. Our young founders saw the potential of zirconium and took on the task of bringing out its possibilities. "Because no one has done it, we will do it." They founded DKK with a spirit of undertaking challenges.



Establishment – 1970s

- 1956** DAIICHI KIGENSO KAGAKU KOGYO CO., LTD. established
- 1959** Opened the Osaka Sales Office in Higashi-ku, Osaka
- 1960** Opened the Yodogawa Plant No. 1 in Higashiyodogawa-ku, Osaka
- 1961** Started sale of optical zirconia
- 1966** Opened the Yodogawa Plant No. 2
- 1967** Opened the Itami Plant in Itami, Hyogo
- 1968** Started the sale of zirconia for electronic materials and flame retardants for resins
- 1969** Opened the Tokyo Office (now Tokyo Sales Office) in Kita-ku, Tokyo
Started the full-scale sale of zirconia for refractories
- 1972** Started the sale of zirconia for brakes
- 1976** Started the sale of cesium nitrate for optical lenses
Started the sale of zirconia for oxygen sensors
- 1979** Established a new site on the premises of the Head Office (now R&D Center) in Suminoe, Osaka and integrated the three existing plants into it

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Corporate History

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1980 – 1990s

- 1980** Started the full-scale sale of electromelting zirconia for continuous casting of steel
- 1981** Started the sale of zirconia for fine ceramics
- 1983** Relocated the Tokyo Sales Office to Minato-ku, Tokyo
- 1984** Established affiliated company, NewTechs Co., Ltd.
- 1990** Started the sale of ceria-zirconia composite oxides for automotive catalyst applications
- 1993** Established I.D.U. Co., Ltd. (now a non-equity method affiliate) in Kochi
- 1996** Obtained ISO-9001 certification
Established the Gotsu Site in Gotsu, Shimane

2000 – present

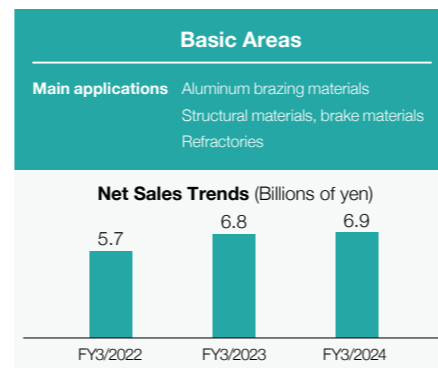
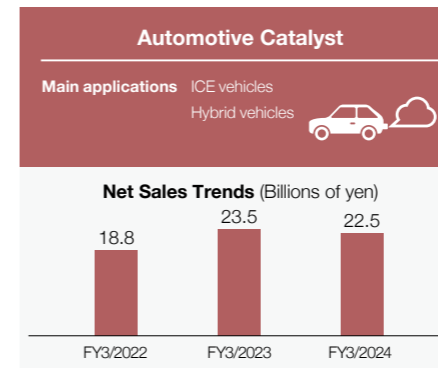
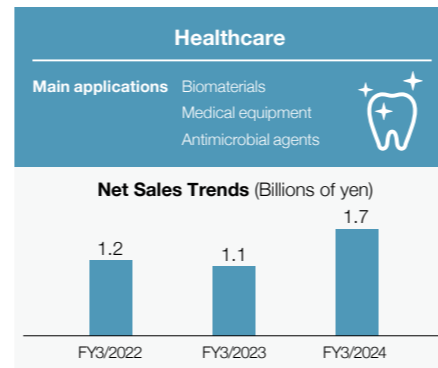
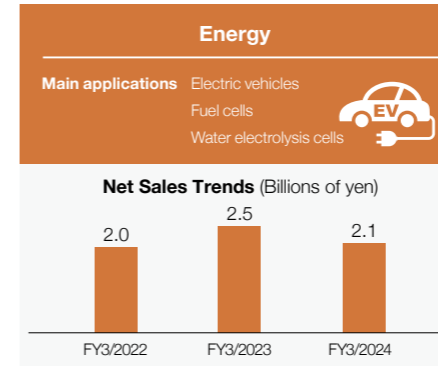
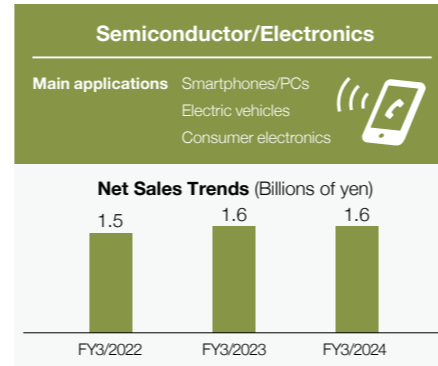
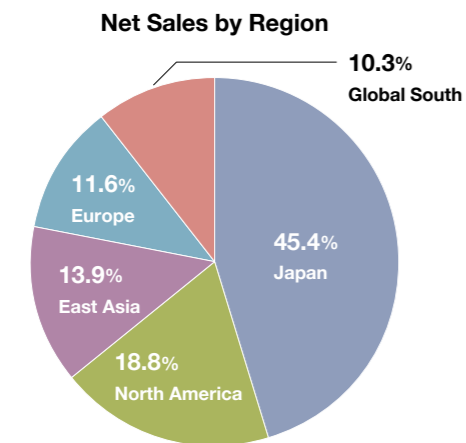
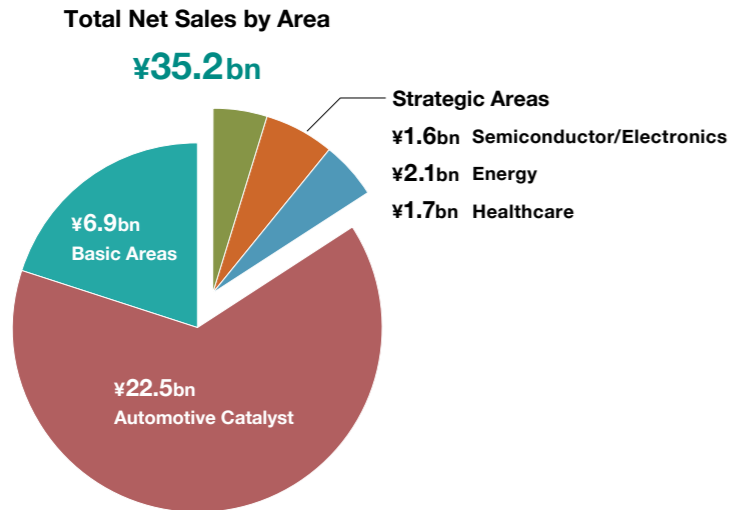
- 2001** Obtained ISO-14001 certification.
- 2002** Relocated the Osaka Sales Office to Chuo-ku, Osaka
Absorbed affiliate New Techs Co., Ltd.
- 2004** Listed on the Second Section of the Tokyo Stock Exchange
- 2006** Established the Fukui Site in Fukui
- 2012** Established VIETNAM RARE ELEMENTS CHEMICAL JOINT STOCK COMPANY (now a consolidated subsidiary) in Ba Ria Vung Tau Province, Socialist Republic of Vietnam

- 2013** Established subsidiary Suihua Shanghai Trading Company Limited (now consolidated subsidiary DKK (Shanghai) Materials Trading Co., Ltd.) in Shanghai, China
- 2014** Established equity-method affiliates Shandong Guangyin DKK New Materials Co., Ltd. and Shandong Guangyin DKK Environment Technology Co., Ltd, in Shandong Province, China
- 2017** Established DKK Logistics Corporation (now a consolidated subsidiary)
- 2018** Established DKK Thai Materials Trading Co., Ltd. (now a consolidated subsidiary) in Bangkok, Thailand
Listed on the First Section of the Tokyo Stock Exchange
- 2019** Relocated the Head Office to Chuo-ku, Osaka
Established subsidiary, DKK America Materials, Inc. (now a consolidated subsidiary) in Michigan, USA
- 2021** Relocated the Tokyo Sales Office to Chiyoda-ku, Tokyo
- 2022** Transitioned to the Prime Market of the Tokyo Stock Exchange
Stated medium-term management plan 'DK-One Next'
- 2023** Established an R&D Center in Suminoe-ku, Osaka

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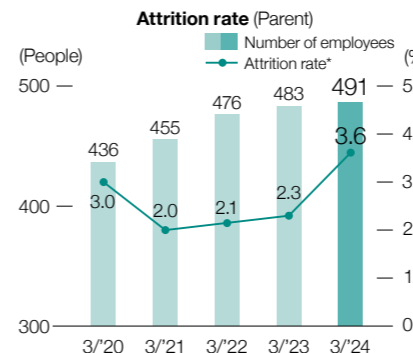
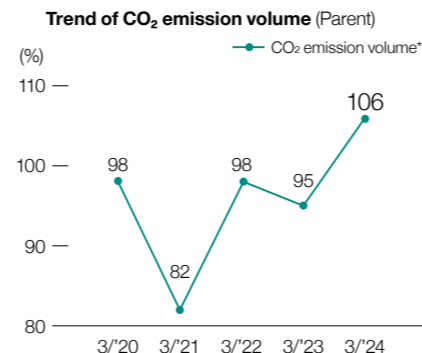
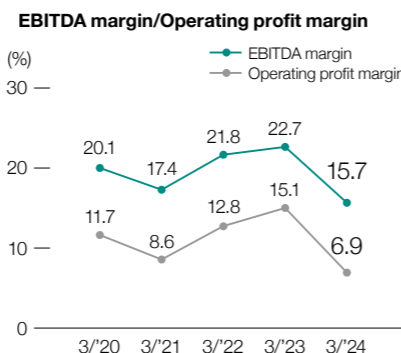
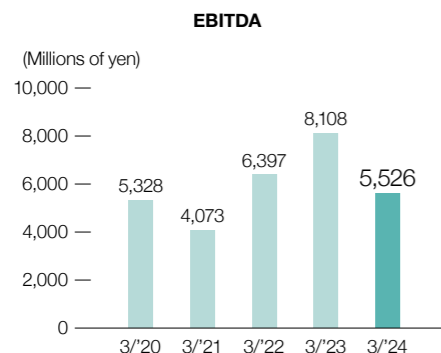
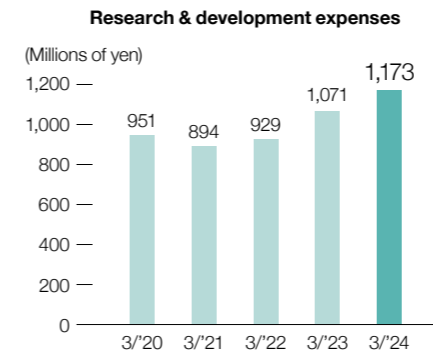
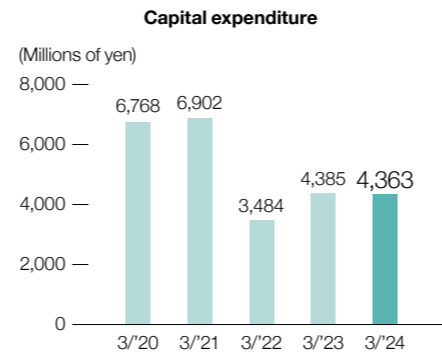
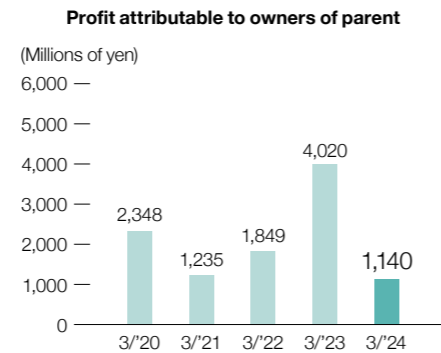
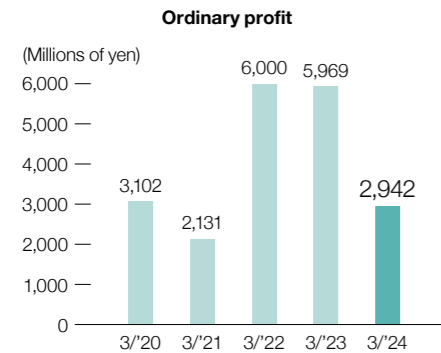
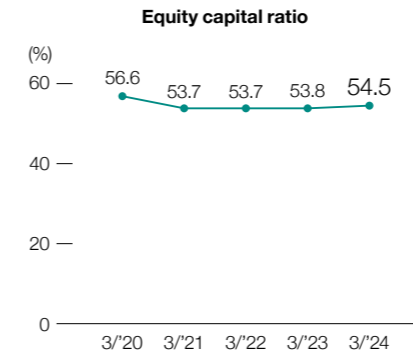
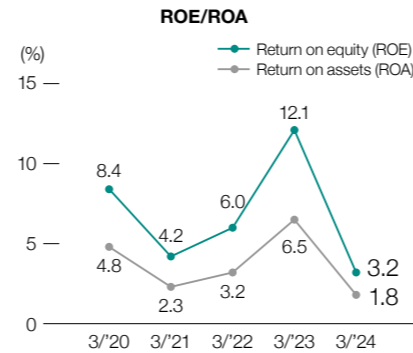
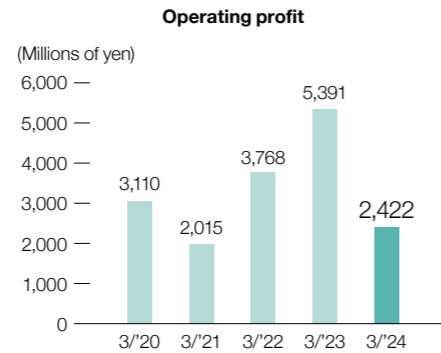
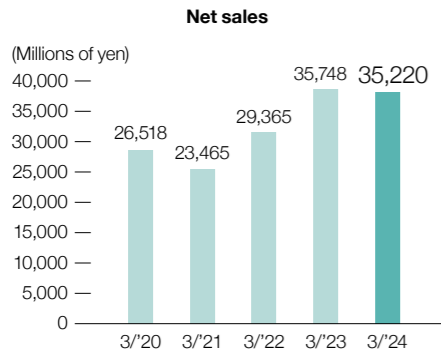
Earnings Breakdown



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Financial and Non-financial Highlights



*EBITDA = Operating profit + Depreciation

*EBITDA margin = EBITDA ÷ Net sales

*Five-year trend presented as a percentage based on FY3/2018.

*Ratio of employees who resigned during the fiscal year out of employees at the beginning of the fiscal year

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2 VALUE CREATION

Chief Executive Officer’s message

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“Growing with Rare Elements – Becoming a 100 Year Company”

Chairman of the Board, Chief Executive Officer
Hiroshi Kokubu

Future vision for DKK

DKK is currently in the third year of its 10-year medium-term management plan, ‘DK-One Next,’ which is based on the vision of “Growing with Rare Elements - Becoming a 100 Year Company.” Our ultimate goal for the final year of the plan is to reach a position where new ‘Valuable Products’ and businesses are constantly being created by employees who live a ‘Fulfilling Life’ and in which we have a solid business foundation to continue growing without being affected by trends in specific fields or slight changes in the environment. To this end, my primary focus is on creating an even more ‘Rewarding Workplace.’ This is the very embodiment of DKK’s management philosophy.

The element zirconium may be unfamiliar to many people, but it is utilized in a wide range of industries and fields and still has potential for further applications. I myself am very happy to have come across zirconium and am always excited by the fact that it is a really interesting element. I feel nothing but gratitude for the founder’s focus on zirconium and the tireless efforts of my predecessors

to develop its potential.

Zirconium is a fascinating element that has contributed to solving a wide range of social issues of our times. DKK is the world’s leading manufacturer of zirconium compounds. We have been fortunate to be able to establish a unique industry position as the niche nature of the market is a barrier to full entry by integrated chemical companies. At the same time, we have benefitted from our involvement as a materials manufacturer in a range of industries and from the wealth of know-how we have accumulated by continuing to respond earnestly to customer requests. However, we are continuing to make every effort to strengthen this position.

Moreover, one of DKK’s strengths is its production technology, which can turn out products for multiple fields on the same line. Even in the current rapidly changing environment of the shift to electronic vehicles, we are able to make effective use of this manufacturing capital and flexibly change our production portfolio in order to improve investment efficiency and develop our business in Strategic Areas and in the Automotive Catalyst Area. In doing so, we are also balancing the growth prospects



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Chief Executive Officer's message

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and stability of our business.

Another strength is that since its foundation, DKK has held firm to the belief that people are the key to supplying the world with 'Valuable Products,' and that strong bonds between executives and employees can have a very significant impact. We actively provide opportunities to support this interaction, such as birthday parties, anniversary events with family members, and club activities. We are proud of this good corporate culture, which is not easily imitated by other companies.

On the other hand, as we have grown as a company, the demands of our customers have become increasingly sophisticated and diverse, and we have become preoccupied with everyday tasks. This has resulted in a low priority being given to initiatives to strengthen the organization and an increase in negative aspects such as the personalization of know-how and rigidity in the organization. The fundamental issue is that we have a system based around the attractive element of zirconium combined with a good culture, but we have not been able to turn these into a source of sustainable growth yet.

That is why we now need to create an even more 'Rewarding Workplace' with a sustainable structure, where the combined power of employees is more than the sum of its parts. I believe this is the very foundation we need to build towards "Becoming a 100 Year Company."

'DK-One Next' is a medium-term management plan that I worked on when I was Managing Executive Officer. In formulating this new medium-term management plan, we first reviewed the interpretation of our management philosophy and added the words "a corporate culture

that welcomes a challenge" and "respecting diverse work styles and values" to the interpretation of 'Rewarding Workplace.' This is because for DKK, which began with the founding spirit of "Because no one else has done it, we will do it" and aims to continue to grow through the major changes in the business environment that lie ahead, it is important to welcome a challenge without fear of short-term failure and create a workplace that accepts diversity. I knew that it was also important that we put these ideas into practice in the medium-term plan formulation process, and the 'DK-One Next' plan was created through exhaustive discussions by a diverse team of managers who will take DKK into the next generation.

Under 'DK-One Next,' we are making steady progress in transforming our organizational structure and systems. Firstly, we believe that a change in awareness throughout the organization will lead to a change in behavior. In the first year of the plan we formulated the Kigenso Way, a set of seven things we want our executives and employees to be mindful of, and we are working to spread these as common values throughout the Group. Through my own dialogue with employees at domestic and overseas sites, I have noticed everyone has an increased awareness of these seven things.

Current initiatives

We have a clear set of materialities for consolidating our foundations as a 100 Year Company. We call them the 'six pillars,' and we have assigned an Executive Officer to each to ensure they are achieved during the life of the



plan. Here, I would like to share my thoughts particularly on two of the pillars: 'Creating new businesses' and 'Implementing measures for sustainability.'

First, let's talk about 'Creating new businesses.' DKK relies on the Automotive Catalyst Area, i.e. the use of catalysts in vehicles with internal combustion engines (ICE vehicles), for more than 60% of its net sales. In January this year, Toyota Motor Corporation Chairman Akio Toyoda delivered a very encouraging and powerful message to companies involved in ICE, noting that: "There is still a significant role for engines as a practical means of achieving carbon neutrality! So, let's refine engine technology! Let's start such a project!" As this message shows, the internal combustion engine is not inherently evil and will not disappear completely. DKK is committed to communicating with all customers in the sectors in which we have established relationships and to providing new value by addressing issues such as fuel switching, improving energy efficiency, and reducing greenhouse

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Chief Executive Officer's message

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gas emissions over the entire lifecycle. At the same time, it is natural to assume that the electrification of vehicles, which has temporarily plateaued, will accelerate again in the near future given its compatibility with autonomous driving. Crucially, our business model assumes a certain amount of time is required from the adoption of a new product or application to its implementation in society. That is why we consider the creation of new businesses to be a top priority that should be consistently pursued. As I mentioned in the previous section, the number of new applications for zirconium is still growing. We are focusing our resources particularly on applications that we have positioned as Strategic Areas, in which significant growth is expected. In addition, we have begun to look at the entire value chain and to work towards early commercialization while also considering collaboration with other companies. We are also building a system that will enable us to communicate these initiatives in a timely manner.



Furthermore, amid accelerating changes in the global business environment, a passive attitude risks missing the wave of market expansion for zirconium compounds. DKK will therefore actively utilize its sales bases in China, Thailand, and the US to meet the needs of industries in the respective regions, leading to creation of new businesses and business expansion. We have already achieved significant results in the Semiconductor area in the US and have high expectations for Thailand as a major base in the Global South, which is experiencing remarkable economic development.

Next, I would like to talk about 'Implementing measures for sustainability.' Businesses are public institutions of society and sustainability initiatives are therefore essential. In our view, however, seeing sustainability as an obligation and reluctantly paying the costs involved is a missed opportunity. We believe that DKK can promote sustainability management and provide new value to the world precisely because we are tackling major environmental changes in order to contribute toward carbon neutrality, and because we have an uncommonly strong commitment to the sustainable use of the natural resource zirconium and have invested resources in it for many years.

The Vietnamese business is essential to “Becoming a 100 Year Company”

Crude zirconium ore ranks 15th among metallic elements in terms of reserves, being found in countries such as Australia, South Africa, the US, and Brazil, meaning it is not especially rare. However, almost 100% of the refining

process to create zirconium oxychloride, an intermediate raw material source for high-performance materials, was concentrated in China. At the same time, nimble Chinese zirconium oxychloride suppliers vertically integrated their operations and started supplying downstream high-performance materials. This meant that DKK was dependent on its competitors for its most important raw material. Were this business environment to persist, it could hinder growth in terms of both stable procurement and profitability. In 2010 we were confronted with the rare earth shock, and as I was then the Director of the Procurement Division, I realized first-hand the dangers of a particular country controlling the supply chain. Two years later, in 2012, DKK decided to set up a business in Vietnam to produce and supply zirconium oxychloride from crude zirconium ore.

As a consequence of trying to pursue efficient use of chemicals and energy and to securely dispose of waste, our investment costs grew to a scale that was not commensurate with the company's size. In addition, to ensure the stable and inexpensive procurement of raw ore, we invested in corporate groups with plans to hold mining rights. However, we were unable to fulfil our original goals and were forced to write down large impairment losses and we are still trying to recover receivables. Furthermore, in August 2023, we began production of zirconium oxychloride at a new full-scale plant, which had been a long-held dream, but during the course of continuous production suffered several equipment problems. The plant is currently operating at a reduced capacity utilization rate in order to verify and resolve these problems.

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Chief Executive Officer's message

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The production of zirconium oxychloride is an essential capability to bolster DKK's strengths and become a 100 Year Company with the rare element zirconium. Of course, we do not intend to accept low returns on investment indefinitely. We will make effective use of all resources, chemicals, energy, and even the valuable elements contained in waste. Furthermore, in addition to conventional functional value, we will also work to increase value added so that the environmental value and social value created by our business is properly evaluated. From a long-term perspective, these efforts will not only curb the outflow of funds, but at the same time bolster DKK's upstream supply chain and sustainability, thereby strengthening our business foundations.

Amid the increasing importance of economic security, there is a high level of interest in DKK. This interest is not only from domestic and international customers, but also from government agencies, as we are the only entity outside China to produce zirconium oxychloride on a large scale. As an example, in 2019 the Vietnamese business received investment from the Japan Bank for International Cooperation as part of its efforts in supporting overseas business expansion. In order to continue supplying 'Valuable Products' to the world, the Group is committed to achieving full operation and profitability of the Vietnamese business as soon as possible.

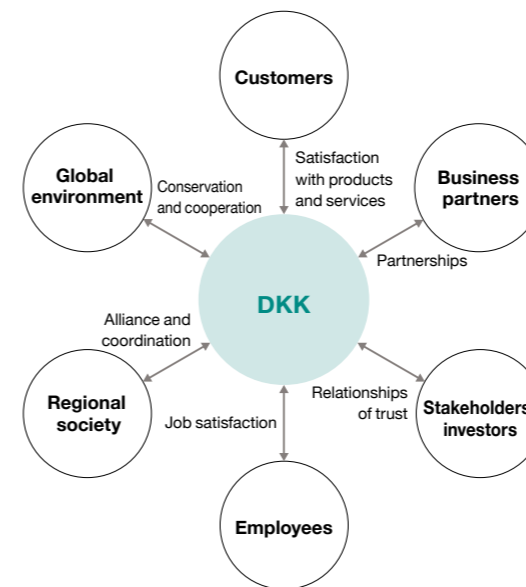
FY3/2024 review

In order to become a 100 Year Company, it is also important to have a strong level of earnings to provide the

resources for this success. However, FY3/2024 was a very difficult year in that regard. The main factors for earnings change were fluctuations in materials prices and foreign exchange rates, and we believe these factors will be resolved in the future by the stable operation of our Vietnamese business, which will limit fluctuation in materials prices, and by the impact of our foreign exchange hedging efforts.

Our initial profit targets were missed mainly because of lower than expected sales volume. Net sales in the Automotive Catalyst Area grew from summer 2023 onwards, driven by steady increase in automobile production, but demand declined sharply from the beginning of 2024 as some customers shifted to quality-focused production systems. In addition, demand for secondary batteries materials, expected to increase due to the electrification of vehicles, was affected by slowdown in electrification momentum in the European and US markets, and this was the biggest reason for target undershoot in Strategic Areas. However, our activities to date are producing steady results, including significant growth in the Semiconductor and Healthcare areas.

Looking at the balance sheet, as well as the new plant in Vietnam mentioned in the previous section, the scale of non-current assets has been increased by the construction of a new R&D Center, an indispensable asset for a technology-driven company. In addition, our business model of procuring resources from overseas, producing multiple products on the same line, and selling inventories at overseas sites, makes a certain level of inventory assets inevitable. These factors have lowered the Com-



Relationships with Stakeholders

pany's asset efficiency. However, in order to consistently book a steady return on invested capital (ROIC) that exceeds the weighted average cost of capital (WACC), we will continue to work to reduce inventories.

Our determination to become a 100 Year Company

At the beginning of this message, I stated that we are aware that DKK is in a fortunate position in industry terms. However, we have not been able to reflect this advantage in our share price. We believe that this is due to stock market concerns about decline in ICE vehicles,

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Chief Executive Officer's message

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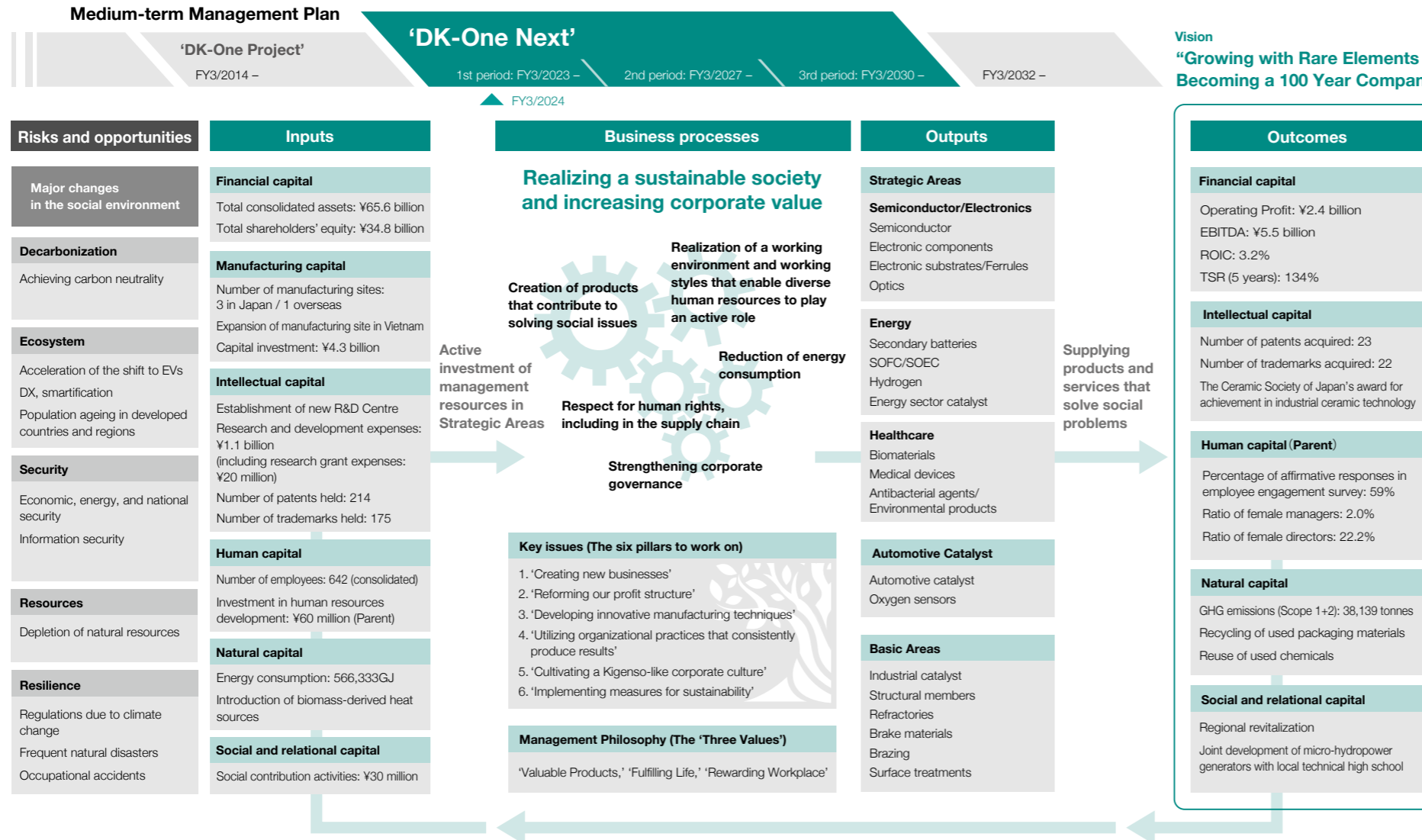
fluctuation in our earnings due to changes in materials prices, and a fall in asset efficiency due to large-scale investments. We feel that another factor is that, as a BtoB enterprise, it is difficult to provide specific examples of projects we are working on with customers, making it tough for the financial markets to understand our growth potential. Therefore, in this integrated report, we have tried to present the Group's strengths and the direction in which we are moving as clearly as possible. We hope that it gives you a better understanding of DKK. We are confident that by communicating the content of our initiatives in a timely manner and by continuing to enhance the content of our integrated report, all of our stakeholders will recognize DKK as an indispensable presence in the world. We hope to live up to your expectations as we consolidate our foundations to become a 100 Year Company. We appreciate your continued understanding and support.

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Process of Value Creation

We believe that creation of value in the DKK Group rests on using the rare element zirconium to continue to provide products and services that contribute to solving social issues, with the ultimate goal of creating an environmentally friendly and comfortable society. By implementing our medium-term management plan, 'DK-One Next,' we aim to realize a sustainable society and further enhance our corporate value through co-creation of value with our stakeholders, including proactive investment of management resources in Strategic Areas.



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Engagement with Stakeholders

The DKK Group values dialogue with all stakeholders – customers, suppliers, shareholders/investors, employees, regional communities, and the global community – and is committed to disclosing sufficient information to them all. We think carefully about all the opinions received through the dialogue process and aim to reflect them in our management and business activities to continue to provide value to our stakeholders.

	Engagement with stakeholders	Main responsibilities	Measures	Responsible divisions
Customers	The Group is committed to building long-term relationships of trust with its customers by continuing to dedicate itself to customers' requests while discovering new properties and uncovering the mysteries of the once poorly understood element of zirconium.	Supply 'Valuable Products' / Supply reliable products / Provide appropriate product information / Respond appropriately to customers / Explore technology	Sales activities/ Website/ Exhibitions and events/ Joint development/ Quality assurance/ Customer satisfaction surveys	<ul style="list-style-type: none"> • Sales and Marketing Division • Supply Chain Management Division • Research & Development Division • Manufacturing Technology Division • Quality Assurance Division • Sustainability Division
Business partners	The Group strives to build better partnerships, deepen mutual understanding, and maintain and improve cooperative relationships with all its business partners through fair, equitable, and free competition regardless of location.	Build partnerships / Comply with laws, regulations and social norms / Conduct fair and equitable trade / Respect human rights / Reduce its environmental impact / Manage trade secrets / Conduct responsible mineral procurement / Prevent corruption and the improper provision and receipt of benefits /	Declaration of partnership building / Procurement activities / Procurement guidelines / Support for quality improvement and environmental conservation / Sharing of environmental information / Briefings / On-site audits / Questionnaires	<ul style="list-style-type: none"> • Procurement Division • Supply Chain Management Division • Manufacturing Technology Division • Each business site • Environment and Safety Management Division • Sustainability Division
Shareholders, investors, securities analysts, creditors	By continuing to create new businesses and building the foundations for becoming a 100 Year Company, DKK aims to overcome major changes in the business environment and grow sustainably. DKK's approach to profit allocation is to continue stable dividend while securing retained earnings necessary to develop future businesses and strengthen the management practices. We will actively return profits to shareholders, based on a payout ratio of 30%, while comprehensively considering performance and investment promotion in Strategic Areas.	Ensure timely and appropriate information disclosure / Distribute profit appropriately / Maintain and enhance corporate value / Maintain constructive dialogue / Reflect shareholders' and investors' viewpoints in management	Annual general meetings of shareholders / Company briefings / Results briefings / Individual meetings with institutional investors / Integrated reports / Business reports / Website	<ul style="list-style-type: none"> • General Affairs & Human Resources Division (PR/SR) • Corporate Planning Division (IR) • Sustainability Division • Finance & Accounting Division
Employees	DKK's management philosophy states that in order to develop and supply 'Valuable Products' that contribute to the development of society, we need to utilize the hands of individuals who live a 'Fulfilling Life' and to create a 'Rewarding Workplace' to enable this. We believe that enjoying working at a company and experiencing personal growth equates to a 'Fulfilling Life,' and we are putting in place conditions and initiatives to support this.	Enable career development / Ensure fair evaluation and treatment / Actively use human resources / Respect human rights and diversity / Support diverse working styles / Pay attention to occupational health and safety	Support for balancing work with study or reskilling / Dialogue with board members / Individual interviews / Company newsletter and internal portal site / On-site inspection by top management / Internal reporting system / Birthday parties / Anniversary events / Training for employees / Employee engagement / Health lectures / Club activities	<ul style="list-style-type: none"> • General Affairs & Human Resources Division (General Affairs/ Personnel) • Environment and Safety Management Division • Sustainability Division
Local community/ governmental/ industry organizations	To fulfil its role as a responsible corporate citizen, the Group actively participates in social contribution activities to promote the development of society, placing importance on activities such as cooperation with local communities and volunteer activities.	Respect culture and customs / Contribute to society and the economy / Prevent workplace accidents and disasters	Dialogue with local governments, etc. / Volunteer activities / Social studies support and plant tours / Information exchange meetings with neighboring companies / Participation in and sponsorship of local government and community organization events	<ul style="list-style-type: none"> • Each business site • General Affairs & Human Resources Division (General Affairs/PR) • Environment and Safety Management Division • Sustainability Division
Global environment, NGOs/NPOs	The Group is committed to tackling the various global environment issues, such as global warming, pollution by hazardous chemicals, and the depletion of natural resources, and continuously works to reduce the environmental impact arising from its business activities. Furthermore, it contributes to the realization of a sustainable society by actively developing products that aid environmental protection and providing highly functional, high-quality materials.	Respond to climate change / Prevent pollution / Effectively use resources / Dispose of waste appropriately / Provide environmentally friendly products	Thorough management of chemical substances / Disclosure of appropriate chemical substance information / Compliance with environmental laws and regulations / Reduction of resource and energy usage/ Development of environmentally friendly products	<ul style="list-style-type: none"> • Manufacturing Technology Division • Each business site • Research & Development Division • Environment and Safety Management Division • Sustainability Division

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3 BUSINESS STRATEGY

Chief Strategy Officer's message

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Continuing to deliver results through the implementation of our strategies

Member of the Board, Managing Executive Officer, Director, Strategy Unit

Masayuki Itahashi

New responsibilities and roles as Chief Strategy Officer

In April 2024, I was appointed Chief Strategy Officer. This added areas such as ICT and sustainability to my previous role focusing on business strategy, which includes the formulation of medium-term and annual business plans and the startup of the Vietnamese subsidiary. The Strategy Unit is responsible for developing strategies to create new businesses, grow net sales in Strategic Areas, swiftly monetize the Vietnamese business, and shrink operating assets. It also works to maximize corporate value by strengthening organizational capital through the promotion of ICT-based DX and of sustainability to improve employee engagement and realize carbon neutrality. Furthermore, in recent years, the focus of corporate management has been gradually expanding to add non-financial factors to existing financial factors, and we believe it is important to enhance information disclosure and dialogue with all stakeholders. In these areas too, I will guide the unification of Strategy Unit functions in order to contribute to the co-creation of value with our stakeholders.

Securing resources for strategy implementation

The DKK Group provides the world with various compounds, mainly based on the element zirconium, but also rare earth elements, cesium, and others. As stated in the Chief Executive Officer's Message, zirconium is a rare element used in a truly wide range of applications. Starting with water repellent applications in the early years of DKK's existence, it is now used in a variety of ways, including as a catalyst for synthesizing sustainable fuels and an electrolyte for solid oxide fuel cells. While DKK's products serve a wide range of applications, a significant portion of revenues are currently generated by automotive catalyst uses. In the long term, revenues from automotive catalysts will decline as the automotive market shifts from vehicles with internal combustion engines to electric vehicles. However, this shift to electric vehicles will not happen overnight. Demand for automotive catalysts is expected to remain firm for some time, although it is unlikely to increase significantly in the future. In addition, DKK's Basic Areas comprise long-selling prod-



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Chief Strategy Officer's message

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ucts such as brake materials, structural materials such as industrial parts and knives, refractories such as fire bricks for steel production, and welding materials for aluminum pipes. DKK aims to increase its competitiveness by rationalizing its product lineup to raise production and management efficiency, optimizing net sales prices, consolidating production sites, and streamlining production processes and saving labor through the use of DX. We believe these efforts will enable us to tap into robust demand in the Automotive Catalyst and Basic Areas to secure solid earnings.

Net sales growth in Strategic Areas

We target expansion in net sales in Strategic Areas with the aim of achieving sustainable growth, while at the same time offsetting the anticipated decline in revenues from automotive catalysts. We have already begun to see results in net sales of biomaterials, which contribute to improved quality of life (QOL). In addition, it is increasingly likely that products that utilize technology to control the size, shape, and surface properties of zirconium compounds particles will be adopted in the semiconductor manufacturing processes. Moreover, building on its use as an electrolyte in solid oxide fuel cells more than 20 years ago, zirconium has recently attracted many enquiries for applications related to green energy, such as a cathode additive in lithium-ion batteries, a hydrogen generator using water electrolysis cells, and a catalyst for the synthesis of sustainable fuels. With the aim of accelerating development in these Strategic Areas, including Semiconductor/Electronics, Energy, and Health-

care, we established a new R&D Center and commenced operations there in September 2023.



DKK's manufacturing capital is characterized by production technology that can turn out products for multiple fields on the same line. Over the years, this has helped the Group to accumulate know-how, reduce new capital investment, and increase production efficiency, thus making a significant contribution to the Group's profits. However, it has also had the adverse effect of biasing the development process towards a design philosophy based on existing equipment. In order to expand Strategic Areas, we are working to ease these restrictions, further develop our free and open culture, and give full rein to our engineers' abilities. Furthermore, by strengthening cooperation between technical development and business divisions and actively utilizing external resources, we aim to increase net sales in Strategic Areas to ¥9 billion, or approximately 23% of total sales, by the end of FY3/2026, and to a level equivalent to that of Automotive Catalyst by the end of FY3/2032.

Swift monetization of the Vietnamese business

Around 2000, China began to supply large quantities of zirconium oxychloride, an intermediate raw material source for zirconium compounds, at low cost. The DKK Group had previously produced high-purity zirconium compounds from crude zirconium ore, but switched to zirconium oxychloride produced in China for use in all but a few of its products. However, DKK came to believe that there was a significant risk in relying on a specific country as the main raw material source for the zirconium compounds it produced, and taking into account the natural environment and operating environment, from around 2005 began to consider the in-house mass production of zirconium oxychloride. To that end, it established a local subsidiary in Vietnam in 2012. The subsidiary then started operations at a pilot plant at the Cai Mep Industrial Park in Ba Ria - Vung Tau Province, and having identified issues in the Vietnam business and a route to solving these issues, decided to build a new mass production plant at the Phu My 3 Specialized Industrial Estate in the same province in 2018, with production activities commencing in August 2023. During the course of continuous production activities, several equipment problems emerged. Currently, the plant is running at a reduced capacity utilization rate, with priority being given to measures to eliminate the problems. Full operation is planned from June 2025, following implementation and verification of the countermeasures. Although zirconium oxychloride production in Vietnam is a project that we

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originally started with a large investment as a solution to business continuity risks, it is now attracting attention from a range of industries as a new supply route for zirconium compounds. We aim to provide new brand value in order to meet these rising expectations and to swiftly achieve profitability.



Shrinking of operating assets

The Bank of Japan's March 2024 announcement of a shift in monetary policy required the Company to establish and implement financial strategy based on a different way of thinking from that under the long-standing zero interest policy. The Group's interest-bearing debt has increased as a result of investments in the Vietnamese business and the building at the R&D Center. We also have more inventories as a result of initiatives to shorten delivery lead times to customers' business locations for better service. To control this buildup, we have been im-

plementing various measures such as reducing product inventories by raising the accuracy of demand forecasts and centrally managing logistics and inventories, as well as cutting work-in-progress inventories via more efficient production. These plans have not brought results yet, but we intend to follow a disciplined financial approach with the aim of reducing the interest-bearing debt ratio and appropriately controlling assets (balancing the sum of investment cash flow and dividends with operating cash flow over the four-year period from FY3/2023 to FY3/2026) while continuing to shrink operating assets by reducing inventories and disposing of assets that are not being utilized effectively.

Growth and sustainability strategy

With net sales in the Automotive Catalyst Area expected to decline in the long term, our basic growth strategy is to strengthen profitability and improve productivity to enable greater investment in Strategic Areas, thereby building a profit structure that is not biased towards any particular industry. Through this growth strategy, our target is to achieve ROIC of 6.0% by the end of FY3/2026 and 10% by the end of FY3/2032, creating a balance between investment and profit.

Our sustainability strategy is to increase corporate value by investing in human capital and improving employee engagement, and by conducting appropriate information disclosure on areas such as reduction in greenhouse gas emissions and our growth strategy. As it is the organization that implements the growth strategy and people who

make up the organization, it is important that the measures we take are focused on people. To that end, we reformed our remuneration system in FY3/2024. Our aim is to recognize the diverse working styles of individual employees and to assess them appropriately according to their contribution to DKK. Although our human resources system has been revised, many issues remain in terms of its implementation. By tackling these issues, we aim to create a workplace environment where employees can work with peace of mind and where they can feel free and rewarded.

DKK also provides materials that are effective in creating clean energy and preventing air pollution from exhaust gases, thereby contributing to society by providing better materials.

DKK's vision of "Growing with Rare Elements – Becoming a 100 Year Company" has two meanings: "a company that will celebrate its 100th year of existence in FY3/2056" and "a company that will continue to grow and develop permanently." To achieve both of these, we will develop our human resources, create an organization in which a diverse range of people can play an active role, and continue to deliver results through the implementation of our strategies.

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Materiality

In order to achieve its medium-term management plan, 'DK-One Next,' the Group has identified six pillars of 'Materiality' to realize a sustainable society and enhance corporate value: 1) 'creating new businesses'; 2) 'reforming our profit structure'; 3) 'developing innovative manufacturing techniques'; 4) 'implementing measures for sustainability'; 5) 'utilizing organizational practices that consistently produce results'; and 6) 'cultivating a Kigenso-like corporate culture.' For each pillar, we have set indicators and targets under activity themes. By achieving these through our business activities, we aim to realize our medium-term management policy, contribute to solving social issues, and become a 100 Year Company.

The Group's 'Materiality*1'

The Group has identified six pillars to work on, as set out in its medium-term management plan 'DK-One Next': 1) 'Creating new businesses,' 2) 'Reforming our profit structure,' 3) 'Developing innovative manufacturing techniques,' 4) 'Implementing measures for sustainability,' 5) 'Utilizing organizational practices that consistently produce results,' and 6) 'Cultivating a Kigenso-like corporate culture.' We have identified these activity themes as 'Materiality.'

*'Materiality' means "what a company is committed to as important items for its own sustainable development."

Process of Identifying 'Materiality'

Issues and 'Materiality' relating to the Group's business continuity and development

Based on the current business environment and the Group's management situation, 10 issues related to business continuity and development were identified and shown in relation to the six pillars. We have also set activity themes based on subitems for the announced six pillars (Table 1).

(Table 1) Issues related to business continuity and development and issues/activity themes for 'Materiality'

Issues related to business continuity and development	Materiality	
	Items	Activity Themes
(1) Creating new businesses that contribute to solving social issues (2) A balanced profit structure with no bias towards specific areas (3) Acquisition of intellectual property to strengthen competitiveness	'Creating new businesses'	· Pursue development of zirconium compounds, mainly in Semiconductor/ Electronics, Energy and Healthcare areas, and build a profit structure with no bias towards specific areas
(4) Maintenance and improvement in profitability (5) Continuous efforts to improve productivity	'Reforming our profit structure'	· Promote awareness and behavioral change in the organization to facilitate profit structure reform
(6) Creation of innovative technologies (7) Labor saving and energy saving in the production system	'Developing innovative manufacturing techniques'	· Reform product development processes · Reform productivity (use of DX, etc.)
(8) Sustainable and stable procurement of raw materials	'Implementing measures for sustainability'	· Procurement of raw materials that do not depend on specific countries or suppliers. · Research and use of new alternative raw materials
(9) Human resource development for business succession and development	'Utilizing organizational practices that consistently produce results'	· Reform of organizational structures and systems to support sustainable growth
(10) Fostering of an organizational culture for continued growth	'Cultivating a Kigenso-like corporate culture'	· Spread the spirit of challenge throughout the DKK Group

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Materiality

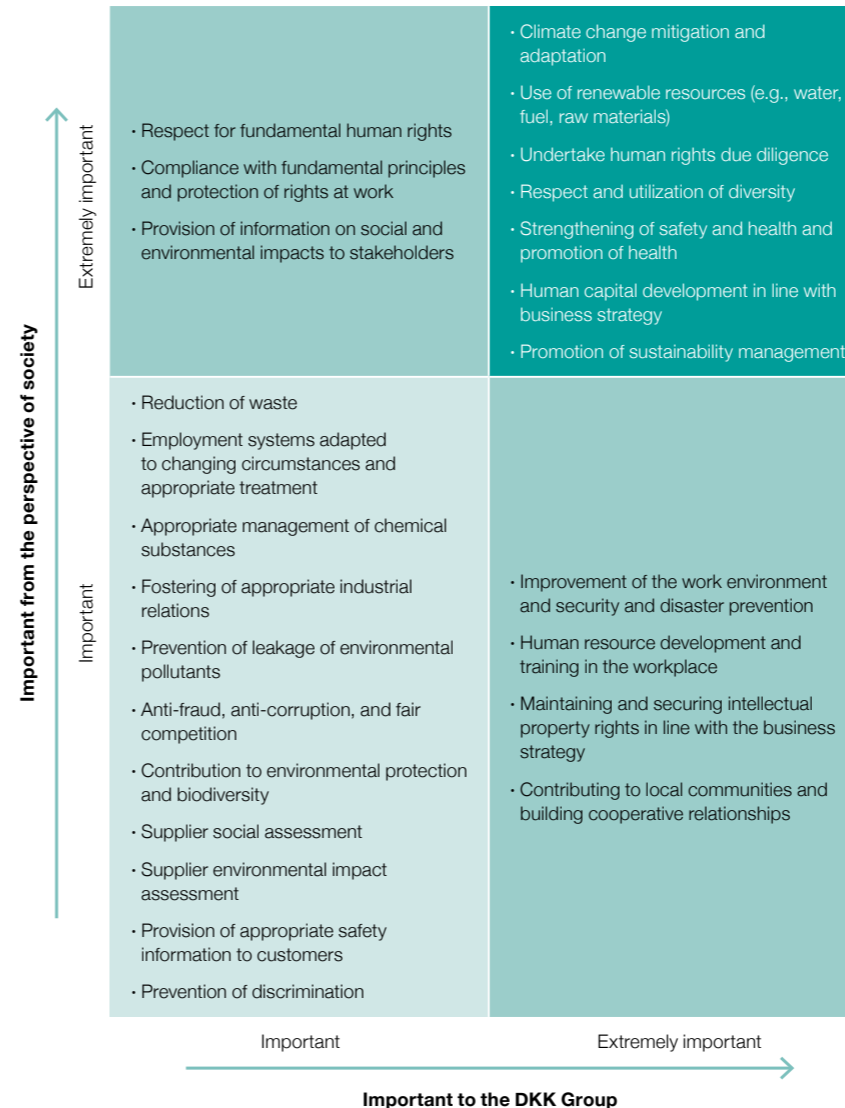
Issues and materialities related to sustainability issues

Using the GRI Standard published by the Global Reporting Initiative (GRI), ISO 26000 (an international standard for social responsibility) and MSCI ESG Research published by Morgan Stanley Capital International, Inc., issues were identified and developed into a list of sustainability issues (Table 2). The 25 issues in the list were assessed in terms of ‘Materiality’ (Table 3), and the issues that were rated as ‘extremely important’ in terms of both ‘important to the DKK Group’ and ‘important from the perspective of society’ were linked to the six pillars. We have also set activity themes based on subitems for the announced six pillars (Table 4).

(Table 2) Listing of sustainability issues

Category	Issue	Category	Issue	
Environment	Climate change mitigation and adaptation	Labor practices	Employment systems adapted to changing circumstances and appropriate treatment	
	Use of renewable resources (e.g., water, fuel, raw materials)		Fostering of appropriate industrial relations	
	Waste reduction		Strengthening of safety and health and promotion of health	
	Appropriate management of chemical substances		Improvement of the work environment and security and disaster prevention	
	Prevention of leakage of environmental pollutants		Human resource development and training in the workplace	
	Contribution to environmental protection and biodiversity		Human resource development and training in the workplace	
Human rights	Supplier environmental impact assessment	Governance to strengthen management foundations	Anti-fraud, anti-corruption, and fair competition	
	Respect for fundamental human rights		Supplier social assessment	
	Undertaking human rights due diligence		Human capital development in line with business strategy	
	Compliance with fundamental principles and protection of rights at work		Maintaining and securing intellectual property rights in line with the business strategy	
	Human rights	Prevention of discrimination	Communication	Promotion of sustainability management
				Providing information on social and environmental impacts to stakeholders
				Providing appropriate safety information to customers
				Contributing to local communities and building cooperative relationships

(Table 3) Assessment of importance of sustainability issues



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Materiality

(Table 4) Sustainability issues of high importance and 'Materiality'

Sustainability issues of high importance	Materiality	
	Items	Activity Themes
(1) Climate change mitigation and adaptation (2) Use of renewable resources (e.g., water, fuel, raw materials) (3) Undertake human rights due diligence (4) Respect and utilization of diversity (5) Promotion of sustainability management	'Implementing measures for sustainability'	<ul style="list-style-type: none"> Reduction of greenhouse gases Effective use of resources Promotion of internationalization and diversity of human resources Undertake human rights due diligence
(6) Human capital development in line with business strategy	'Utilizing organizational practices that consistently produce results'	<ul style="list-style-type: none"> Reform of organizational structures and systems to support sustainable growth
(7) Strengthening of safety and health and promotion of health	'Cultivating a Kigenso-like corporate culture'	<ul style="list-style-type: none"> Creating a workplace that is safe and healthy, both mentally and physically

Summary of 'Materiality,' indicators and targets

The materialities identified were summarized and indicators and targets were set for them.

Items	Activity Themes	Indicators and targets
'Creating new businesses'	<ul style="list-style-type: none"> Pursue development of zirconium compounds, mainly in Semiconductor/ Electronics, Energy and Healthcare areas, and build a profit structure with no bias towards specific areas 	<ul style="list-style-type: none"> Net Sales from Strategic Areas ¥7.3 billion (FY3/2025)
'Reforming our profit structure'	<ul style="list-style-type: none"> Promote awareness and behavioral change in the organization to facilitate profit structure reform 	<ul style="list-style-type: none"> ROIC of 6% or more
'Developing innovative manufacturing techniques'	<ul style="list-style-type: none"> Reform product development processes Reform productivity (use of DX, etc.) 	<ul style="list-style-type: none"> Productivity improvement Production volume per unit of time 20% improvement compared to FY3/2017 (FY3/2025)
'Implementing measures for sustainability'	<ul style="list-style-type: none"> Reduction of greenhouse gases Procurement of raw materials that do not depend on specific countries or suppliers Research and use of new alternative raw materials Effective use of resources Promotion of internationalization and diversity of human resources Undertake human rights due diligence 	<ul style="list-style-type: none"> Reduce Scope 1 and 2 CO₂ emissions by 20 % (FY3/2030) Achieve a ratio of female managers of 10% (FY3/2029) Undertake human rights due diligence (FY3/2024)
'Utilizing organizational practices that consistently produce results'	<ul style="list-style-type: none"> Reform of organizational structures and systems to support sustainable growth 	<ul style="list-style-type: none"> Revise personnel systems (FY3/2025)
'Cultivating a Kigenso-like corporate culture'	<ul style="list-style-type: none"> Spread the spirit of challenge throughout the DKK Group Create a workplace that is safe and healthy, both mentally and physically 	<ul style="list-style-type: none"> Further cultivation of the Kigenso Way (FY3/2024) Achieve zero occupational accidents

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Medium-term management plan ‘DK-One Next’

Since its establishment, the DKK Group has been working to solve social issues through the development and supply of zirconium compounds based on its management philosophy rooted in the ‘Three Values.’ Under the previous medium-term management plan, ‘DK-One Project,’ we considered contributing to global environmental protection through our business activities itself to be an important mission and worked on various strategies to strengthen our business foundation as a leading zirconium company. The current medium-term management plan, ‘DK-One Next,’ is positioned as a 10-year project that will serve as a stepping stone toward the realization of our vision. Under the policies of this plan, we will push forward with efforts aimed at “establishing the foundation of a 100 Year Company” and “expanding business areas and revenues” to respond to changes in the business environment and strengthen the company’s structure.

Tackling the changes in the business environment and creating new businesses

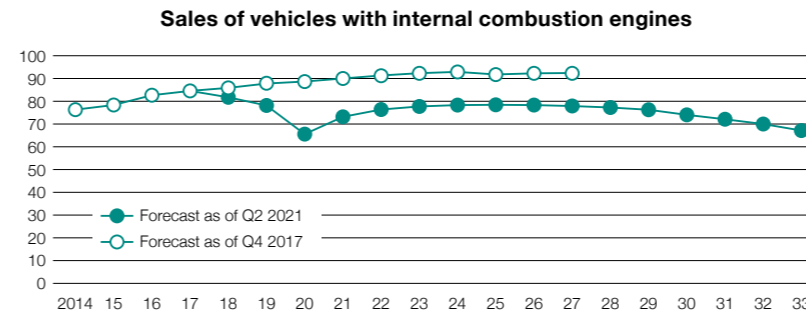
Since its foundation, the DKK Group has worked to solve social issues through the development and supply of zirconium compounds under a management philosophy based on the ‘Three Values.’ The business of Automotive Catalyst is symbolic of these efforts.

However, the current vehicle sales forecast is significantly lower than the forecast before the spread of COVID-19. In addition, the Group’s business environment is changing dramatically, as the automotive industry is stepping up its efforts to achieve carbon neutrality and, as a result, the electrification of vehicles is accelerating.

Against this backdrop, the Group has launched its medium-term management plan ‘DK-One Next,’ which covers the period from FY3/2023 to FY3/2032, in order to secure resources for growth in the mainstay business of materials for automotive catalyst and allocate management resources to the Strategic Areas that will become the pillars of its next-generation business at an early stage. We have ended the previous medium-term management plan, ‘DK-One Project,’ one year ahead of schedule.

Carbon Neutrality Targets			
Japan	2050 Prime Minister’s Speech (Oct. 2020)	UK	2050 Long-term strategy announcement (Dec. 2020)
USA	2050 Mr. Biden’s pledge (Jul. 2020)	China	2060 General discussion United Nations General Assembly (Sep. 2020)
EU	2050 Long term strategy announcement (Mar. 2020)	ROK	2050 Long term strategy announcement (Dec. 2020)

Source: DKK based on data from METI’s website



Source: DKK based on LMCA report

In formulating ‘DK-One Next,’ the Company reaffirmed the concepts of its management philosophy - ‘Valuable Products,’ ‘Fulfilling Life,’ and ‘Rewarding Workplace’ - and determined a medium-term management policy to ‘remain committed to creating new businesses and tackling the major changes that are set to occur in the business environment over the next 10 years.’

Under this medium-term management policy, the period covered is divided into the first period (FY3/2023 to FY3/2026), the second period (FY3/2027 to FY3/2029) and the third period (FY3/2030 to FY3/2032), with the aims of ‘expanding business areas and revenues’ and ‘establishing the foundations of a 100 Year Company.’

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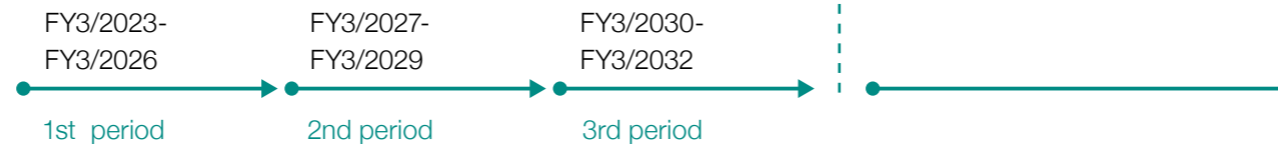
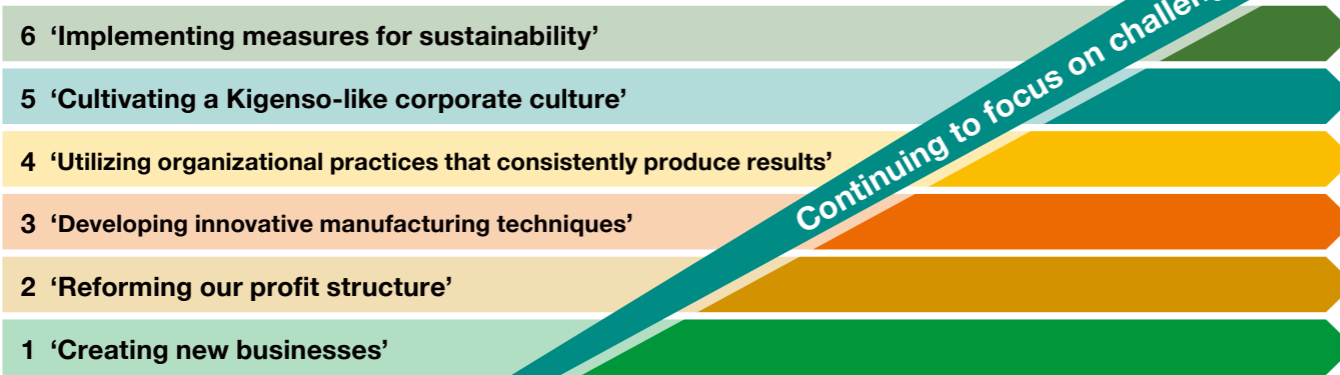
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Medium-term management plan 'DK-One Next'

- Acceleration in carbon neutrality initiatives
- Decline in vehicles with internal combustion engines

Major changes in our business environment

The six pillars that will allow us to respond to change



“Growing with Rare Elements – Becoming a 100 Year Company”

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“Growing with Rare Elements – Becoming a 100 Year Company”

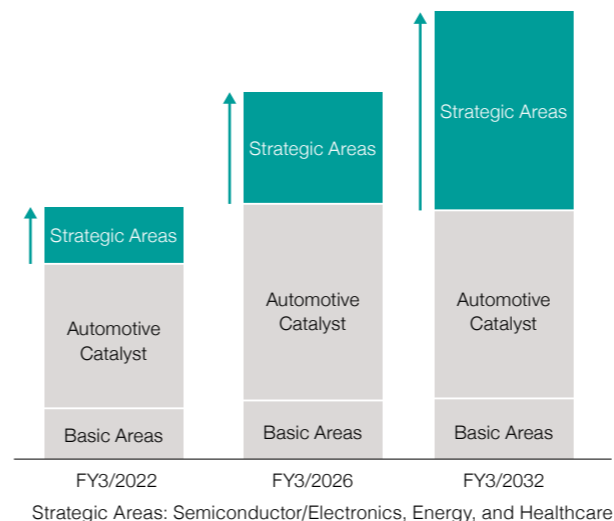
The vision of the medium-term management plan ‘DK-One Next’

Under ‘expanding business areas and revenues,’ DKK has identified Semiconductor/ Electronics, Energy, and Healthcare as Strategic Areas and is focusing resources on them. In addition, we will gradually increase the proportion of Strategic Areas in our business portfolio in order to overcome changes in the business environment.

In Strategic Areas, items such as the expansion of carbon neutrality and energy savings, digital transformation (DX), progress in smartification, the spread of IoT, population ageing in developed countries and regions, and the increase in battery-powered vehicles, including hybrid vehicles, are regarded as megatrends. These megatrends are expected to create needs for a wide variety of functional materials.

Under the ‘establishment of the foundations of a 100 Year Company,’ the six pillars are ‘creating new businesses,’ ‘reforming our profit structure,’ and ‘developing innovative manufacturing techniques’ as the growth aims, and ‘Utilizing organizational practices that consistently produce results,’ ‘cultivating a Kigenso-like corporate culture,’ and ‘implementing measures for sustainability’ as the sustainability aims. DKK will promote these six pillars, with growth and sustainability as the twin overall themes, in order to allow us to respond to changes in the business environment and strengthen the company’s structure.

Expanding in Strategic Areas



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Medium-term management plan ‘DK-One Next’

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Promoting the six pillars with growth and sustainability as the twin overall themes

Concept of the medium-term management plan ‘DK-One Next.’

‘Reforming our profit structure’

Under ‘reforming our profit structure,’ the Group aims to achieve a ROIC of 6.0% or higher by FY3/2026 and will promote changes in organizational awareness and behavior to instill profit structure reform.

‘Developing innovative manufacturing techniques’

‘Developing innovative manufacturing techniques’ aims to bring products to market faster and add value by transforming the product development process. We will also increase productivity by leveraging digital transformation (DX), and other measures to enable labor savings and automation.

‘Cultivating a Kigenso-like corporate culture’

In ‘cultivating a Kigenso-like corporate culture,’ we will instill throughout the Group the spirit of undertaking challenge espoused by our founder, who said: “Because no one has done it, we will do it.” Kigenso-like refers to a corporate culture that welcomes a challenge, supports staff who are undertaking these challenges while also respecting diverse work styles and values.



‘Creating new businesses’

Under ‘creating new businesses,’ the Group will develop and market zirconium compounds, particularly in the Semiconductor/Electronics, Energy, and Healthcare areas, and build an earnings base that is not dependent on specific industries.

‘Implementing measures for sustainability’

As part of our sustainability initiatives, we will not only supply products and services that address social issues, but also tackle global environment and societal issues head on by reducing greenhouse gases, making effective use of resources, and pursuing the internationalization and diversification of our workforce.

‘Utilizing organizational practices that consistently produce results’

Under ‘utilizing organizational practices that consistently produce results,’ we will promote the transformation of organizational structures and systems to support sustainable growth. Led by a new business creation team which reports directly to the CEO, we will speedily monetize new businesses without being bound by conventional methods. In addition, a department overseeing sustainability will be established to ensure both the sustainable growth of the Group and the realization of a sustainable global environment and society.

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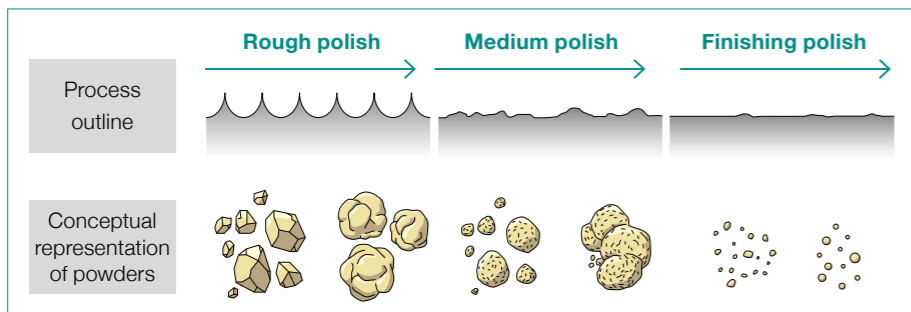
Medium-term management plan ‘DK-One Next’

Expanding sales into new applications, semiconductor materials

Semiconductor/Electronics

The global semiconductor market is one of the fastest growing sectors. In addition, as electronic components become smaller and more powerful, semiconductors need to be even more highly integrated and miniaturized. High-precision polishing and planarization are some of the technologies that will be essential to achieve this. DKK has applied its core technology of refining and processing zirconium compounds to develop products with differing physical and chemical properties, including different particle shapes, sizes, and crystalline structures. By proposing materials from this product lineup that are tailored to the semiconductor industry, the Group provides solutions to the challenges in the semiconductor manufacturing process.

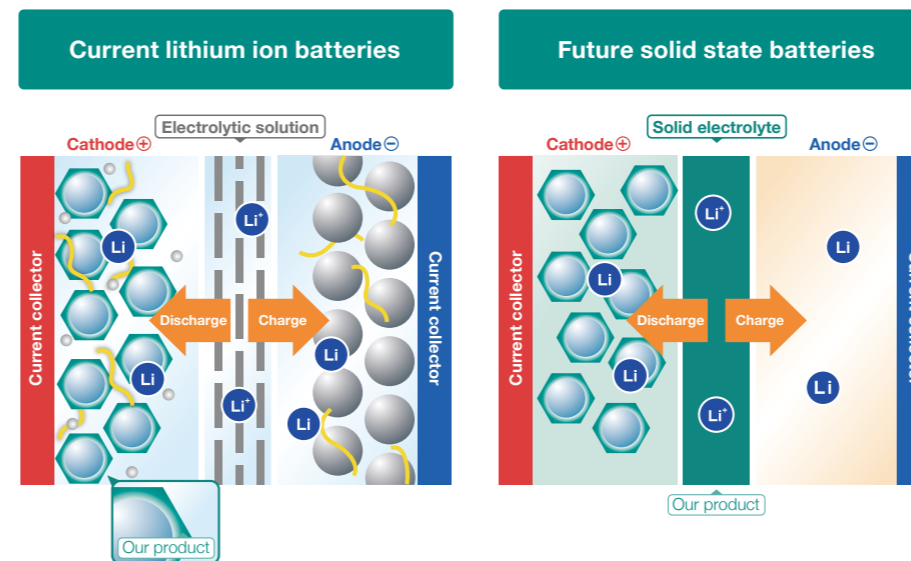
Application to general polishing



Demand for secondary batteries materials expected to increase with the shift to EVs

Energy

The electrification of vehicles is also a positive environmental change for DKK. Zirconium compounds contribute to improved battery safety and longer battery life as cathode additives for automotive lithium-ion batteries.



Cathode material types for automotive lithium-ion batteries are becoming polarized to ‘LFP’ (lithium ferrophosphate) and ‘NCM’ (nickel cobalt manganese). LFPs, which contain lithium, iron, and phosphorus, are mainly used in small EVs and are taking hold mainly in East Asian markets, where there are strong needs for low prices. NCMs, on the other hand, contain nickel, cobalt, and manganese are mainly used in mid-sized EVs and above that require a longer cruising range, which are becoming popular particularly in the US and European markets. The Group’s zirconium compounds are used

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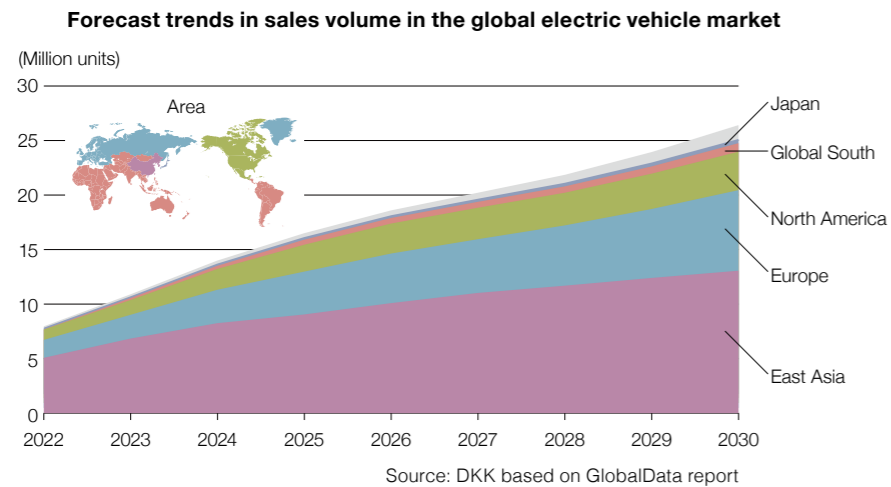
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Medium-term management plan ‘DK-One Next’

as cathode additives in NCMs. As solid-state batteries become more widespread in the future, demand is expected to grow sharply as zirconium compounds have the potential to be used as solid electrolytes in oxide-based solid state batteries as well as for conventional cathode additive applications.

*LFP = lithium ferrophosphate

**NCM = nickel cobalt manganese



Biomaterials that contribute to solving social problems

The Ceramic Society of Japan’s award for achievement in industrial ceramic technology

We also expect steady demand for zirconium compounds in the healthcare area, such as for use in biomaterials, medical devices, and antimicrobial agents. A particular area of attention is the use of zirconia ceramics. Zirconia ceramics are resistant to hydrothermal and thermal degradation and are also ductile.

These characteristics enable them to be used as biomaterials for teeth and artificial

bones, and the market is expanding not only in Europe and the US, but also in East Asia. Zirconia ceramic dental materials are highly aesthetic due to their coloring, which is close to that of natural teeth, and contribute to improved quality of life.

DKK has developed the DURAZR®-S Series, which are approximately three times as tough and resistant to hydrothermal degradation as conventional yttria-stabilized zirconia ceramics while maintaining the same strength. The key aspects of this technological innovation were recognized with the receipt of The Ceramic Society of Japan’s award for achievement in industrial ceramic technology in FY2023. In addition, this product has a low geopolitical supply risk as it does not use rare earth elements from the limited number of producing countries, while the sintering temperature in the forming process is approximately 200°C lower than that of our conventional products, contributing to reduced greenhouse gas emissions.

DURAZR®-S Series HSY-0480

Rare Earth Free*1

Does not include rare earth elements whose producing countries are limited

*1) Calcia-stabilized zirconia

Resistance to hydrothermal Degradation*2

*2) Ease of degradation due to hot water and heat in the operating environment



High Toughness*

Contributes to smaller and thinner structures, while maintaining breakage resistance

Lowers CO₂ Emissions*3

*3) Produced at a sintering temperature about 200°C lower than our conventional products

*Compared to our conventional products

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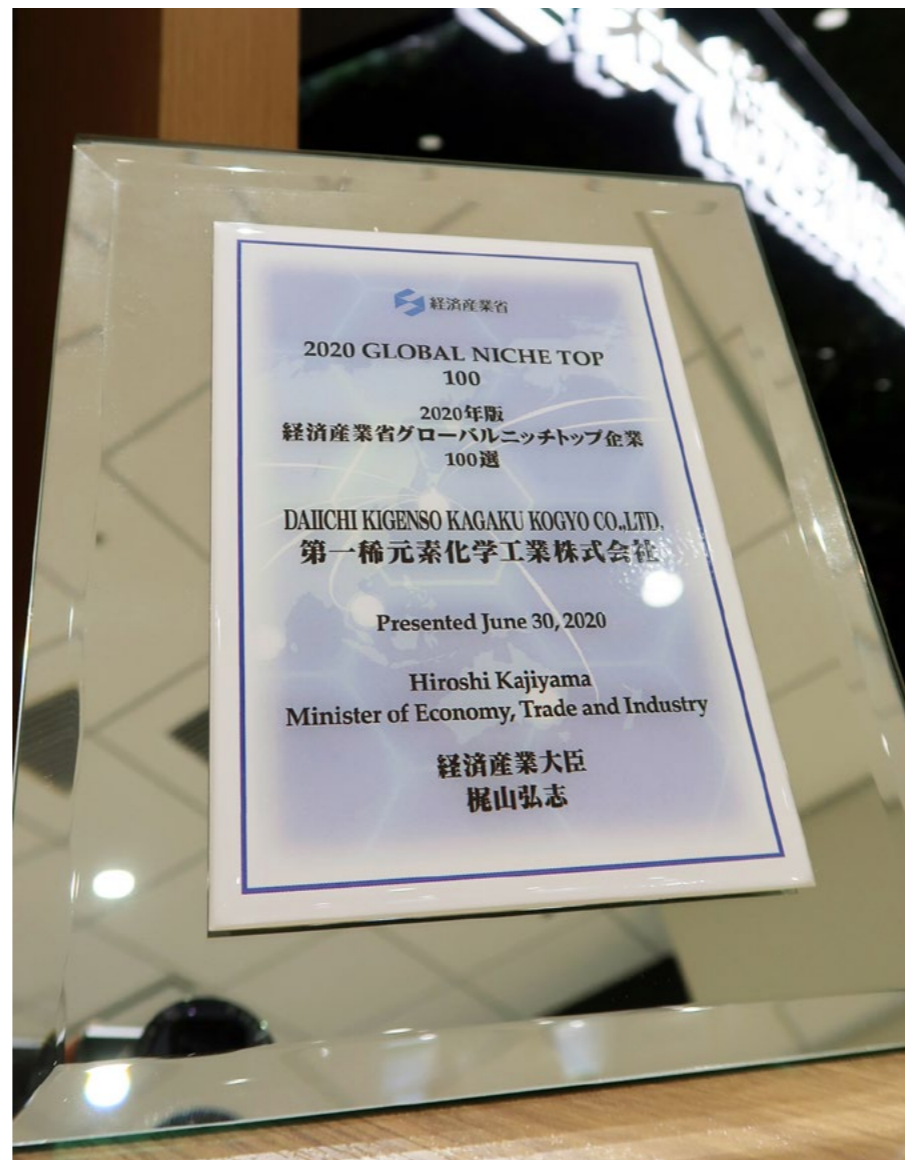
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Materials for automotive catalyst to provide resources for growth

Selected as one of the 'Global Niche Top 100' companies

The current mainstay Automotive Catalyst Area accounts for approximately 60% of DKK's consolidated net sales. The Group boasts the world's top share in this field at around 40% (our estimate) and in 2020 was selected as one of the 'Global Niche Top 100' companies by the Ministry of Economy, Trade and Industry. The Group's high global market share is underpinned by its strong technological capabilities, including its core technologies, and its ability to comply with exhaust gas regulations that are becoming more stringent each year.

Although total sales of ICE vehicles, including hybrid vehicles, are expected to peak out in the medium to long term, demand growth likely to continue for some time, particularly in the Global South market, centered on hybrid vehicles. In the Automotive Catalyst Area, we aim to further expand our market share by taking advantage of stricter automobile exhaust gas emission regulations and the increase in hybrid vehicles, and we intend to secure earnings that will provide resources for growth.



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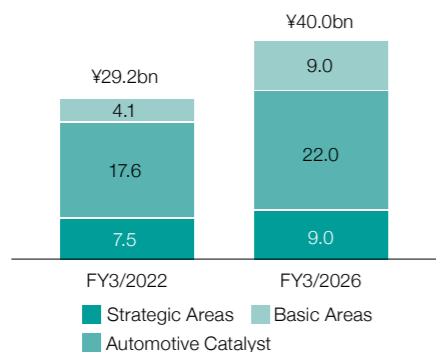
Key Management Figures and Policies

Management targets

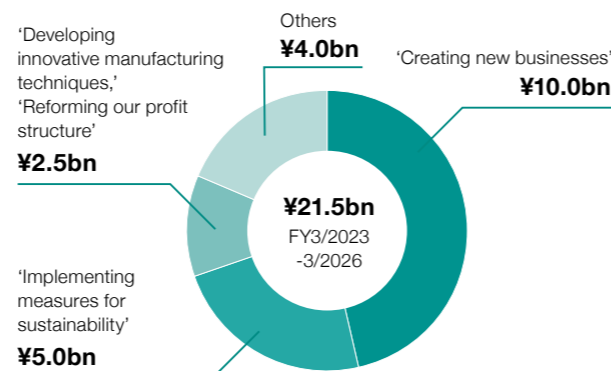
	FY3/2022 Forecasts as of October 2021	FY3/2026 Targets
Net Sales	¥29.2bn	¥40.0bn
Operating Profit	¥3.0bn	¥4.0bn
EBITDA	¥5.6bn	¥9.0bn
ROIC	4.9%	6.0% or higher

Based on raw material prices and exchange rates as of September 2021

Breakdown of Net Sales



Breakdown of Investments



Cash Flow Plan

To keep the total of investment cash flows and dividends within operating cash flows for the four-year period

Shareholders return policy

DKK’s approach to profit allocation is to continue stable dividend while securing retained earnings necessary to develop future businesses and strengthen the management practices. We will actively return profits to shareholders, based on a payout ratio of 30%, while comprehensively considering performance and investment promotion in Strategic Areas.

Major Investments (FY3/2023 to FY3/2026)

Breakdown	Purposes and Initiatives	Estimated investment
‘Creating new businesses’	Increasing production and promoting innovation in Strategic Areas <ul style="list-style-type: none"> R&D and supply for the Semiconductor/Electronics, Energy, and Healthcare areas Retooling the Osaka Site as an R&D Center for the concentration and distribution of the Company’s knowledge and technologies Installing state-of-the-art evaluation equipment for new applications and products 	¥10.0bn
‘Implementing measures for sustainability’	Targeting a sustainable supply chain and carbon neutrality <ul style="list-style-type: none"> Manufacturing raw material zirconium intermediate materials in Vietnam, an ore-producing country Introducing environmental friendly process design and equipment Reducing CO₂ emissions through reuse of waste heat, etc. 	¥5.0bn
‘Developing innovative manufacturing techniques’ ‘Reforming our profit structure’	Improving productivity and operational efficiency <ul style="list-style-type: none"> Conducting a fundamental review of production processes to improve production throughput Using digital transformation (DX) to save manpower and increase productivity 	¥2.5bn
Others	<ul style="list-style-type: none"> Strengthening sales, logistics, and production bases Renovating production facilities Developing IT infrastructure 	¥4.0bn

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Sustainability policy and strategy

The DKK Group has positioned Group-wide sustainability issues as one of its most important management challenges and implements initiatives to address these issues in its medium-term management plan, 'DK-One Next.' Based on its management philosophy, it aims to achieve a sustainable society and increase its corporate value through the five practices of: using innovation to create products that contribute to solving social problems; reducing energy consumption through environmentally friendly product design and efficient use of resources; promoting respect for human rights; establishing a working environment and working systems that enable a diverse workforce to flourish; and further strengthening corporate governance in order to remain a company trusted by society. The Sustainability Division draws up sustainability initiatives and monitors progress, while the Risk Management Committee reexamines and evaluates risk items, with both reporting directly to the Board of Directors. The Group recognizes that responding to climate change is an important corporate social issue, and although there are risks for the business, the emergence of new needs in society is also an opportunity to create new value for the Group. It also believes developing personnel who will take on challenges to expand the business is crucial to become a 100 Year Company.

Sustainability policy

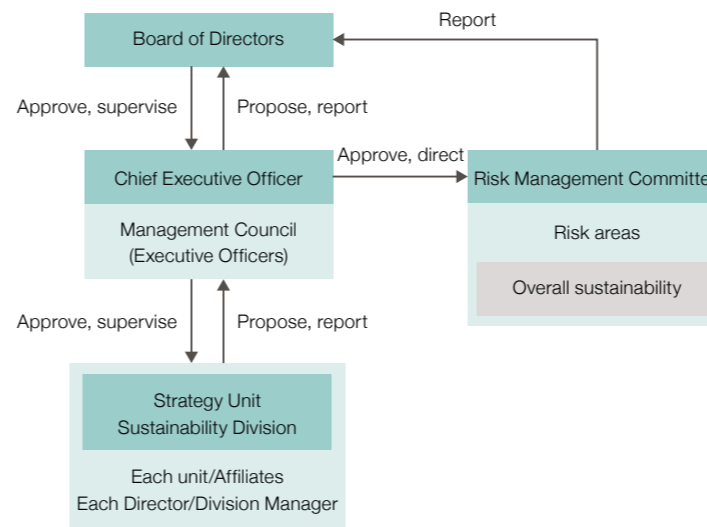
Basic policies

Based on its management philosophy, the Group aims to achieve a sustainable society and increase its corporate value through the following five practices.

- 1 Use innovation to create products that contribute to solving social problems.
- 2 Reduce energy consumption through environmentally friendly product design and efficient use of resources.
- 3 Promote respect for human rights, including in the supply chain.
- 4 Establish a working environment and working systems that enable a diverse workforce to flourish.
- 5 Further strengthen corporate governance in order to remain a company trusted by society.

Governance

The Group's Sustainability Division, under the control of the specific director in charge, draws up plans for sustainability initiatives, which are then discussed by the Management Council and decided by the Board of Directors. It also provides regular progress reports to the Board of Directors and confirms the status of achievement. While monitoring the progress of each department, it discusses issues and problems with the relevant parties to enable them to proceed with activities.



Strategy

The Group has positioned company-wide key items (issues) related to sustainability as one of its most important management challenges. Among these, areas of particular focus are identified in the six pillars of the 'DK-One Next' medium-term management plan: 'utilizing organizational practices that consistently produce results,' 'Cultivating a Kigenso-like corporate culture' and 'Implementing measures for sustainability.'

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Sustainability policy and strategy

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Risk management

The Sustainability Division comprehensively identifies and evaluates risk items across the Group and selects the most critical items. It checks the status of response to these key items and instructs the department in charge to implement new countermeasures when necessary. The results of the Sustainability Division's findings are reported to the Management Council. The Risk Management Committee, which reports directly to the Chief Executive Officer and is headed by the director in charge of risk management, regularly reexamines and evaluates risk items across the Group each fiscal year and reports to the Board of Directors on the examination of the selected key items as well as business risks and issues that need to be addressed.

Indicators and targets

The Group is implementing initiatives to address sustainability issues in its medium-term management plan, 'DK-One Next.'

Sustainability strategy

Response to climate change

The Group recognizes that responding to climate change is an important corporate social issue and is actively working to reduce its greenhouse gas emissions, in particular carbon dioxide (CO₂) emissions.

Climate change carries a number of risks for the business, such as the introduction of carbon taxes and other measures to regulate carbon dioxide emissions, higher costs for the procurement of raw materials and the supply of products, and interruptions in production activities. On the other hand, we believe the emergence of new needs in society is also an opportunity to create new value for the Group. DKK therefore sees this as an opportunity to create innovative technologies and solutions and expand its business into new areas, while working to mitigate risks by improving energy efficiency

in production activities, examining production methods that have lower environmental impact, and reducing emissions throughout the supply chain.

Below we explain the risks and opportunities posed by climate change and the steps we are taking to address each of them, utilizing the framework recommended by the Task Force on Climate-related Financial Disclosures (TCFD).

Governance

Governance in relation to climate change is part of the governance of the Basic Policies on Sustainability. See [the Governance section on p.36](#) for more information.

Strategy

Assumptions for the Group's future business conditions use a scenario analysis based on several scientific climate change scenarios, including the UN Intergovernmental Panel on Climate Change's (IPCC) SSP2-4.5 (AR6), RCP4.5, and RCP6.0/RCP8.5 (AR5), the International Energy Agency's (IEA) NZE (Net Zero Emissions by 2050 Scenario) and STEPS (Stated Policies Scenario), and the Japanese Ministry of the Environment/Japan Meteorological Agency's RCP2.6 for Japanese climate at the end of the 21st century. The Group has developed countermeasures based on an impact analysis of both risks and opportunities.

In the 1.5°C scenario, where social changes due to decarbonization will affect the Group's business, we think business opportunities will expand as zirconium will be needed in industries where demand increases in line with the transition to a decarbonized economy. However, the process of decarbonization may lead to stricter environmental compliance, such as reduced demand for automotive catalysts and oxygen sensors due to lower production of vehicles with internal combustion engines, as well as the introduction and strengthening of carbon pricing systems by governments and local authorities in various countries, and tighter export regulations due to increased demand for raw materials. The Group is considering measures to deal with these risks.

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Sustainability policy and strategy

1.5°C scenario

Item	Change in business environment	Expected scenario	Main countermeasures
Transition risks	Reduced demand for automotive catalysts due to lower production of vehicles with internal combustion engines	<ul style="list-style-type: none"> The possibility of reduced demand for automotive catalysts and oxygen sensors, the main applications for zirconium, due to lower production of vehicles with internal combustion engines leading to decline in sales. 	<ul style="list-style-type: none"> Consider establishing a supply system for battery materials, hydrogen-related materials, and other materials related to electric vehicles that will replace vehicles powered by internal combustion engines.
	Higher cost due to introduction of carbon pricing systems	<ul style="list-style-type: none"> The possibility of increased costs due to the introduction and strengthening of carbon pricing systems by governments and local authorities in various countries. 	<ul style="list-style-type: none"> Identify CO₂ emissions (Scope 1 and Scope 2) and develop plans to meet reduction targets. Collect information on environmental regulations in each country and consider countermeasures.
Physical risks	Increased loss of sales opportunities due to flooding or destruction of production sites caused by torrential rain, high tides, or strong winds, or to supply chain disruptions and production stoppages caused by flooding	<ul style="list-style-type: none"> The possibility of production stoppages and other impacts due to flooding or destruction of production sites caused by torrential rain, high tides, or strong winds, or to supply chain disruptions and production stoppages caused by flooding. The possibility of loss of sales opportunities arising from the inability to deliver products to customers due to production stoppages caused by damage to assets such as shipping vessels, external warehouses, and production sites, or the inability of employees to come to work. 	<ul style="list-style-type: none"> Re-establish and periodically review the business continuity plan (BCP) in consideration of climate change.
Business opportunities	Increased demand for electric vehicles and low-carbon and decarbonization-related products	<ul style="list-style-type: none"> The possibility of higher sales as zirconium will be needed in industries where demand increases in line with the transition to a decarbonized economy. 	<ul style="list-style-type: none"> Consider R&D investments in decarbonization technologies such as electric vehicles and hydrogen-related technologies.
	Greater efficiency for resources	<ul style="list-style-type: none"> The possibility of lower costs from more efficient energy usage. 	<ul style="list-style-type: none"> Assess energy consumption and develop plans for energy conservation.

In the 4°C scenario, where natural disasters due to climate change will become more severe and affect the Group, we believe business opportunities will increase due to increased demand for materials for fuel cells and next-generation secondary batteries as independent electrical energy supply and demand systems are reviewed. However, there is a possibility of production stoppages and other impacts due to flooding or destruction of production sites caused by torrential rain, high tides, or strong winds, or to supply chain disruptions and production stoppages caused by flooding. Measures to deal with these risks will be considered as part of the business continuity plan (BCP) for each production site.

4°C scenario

Item	Change in business environment	Expected scenario	Main countermeasures
Transitions risks	Higher costs from introduction of carbon pricing systems	<ul style="list-style-type: none"> The possibility of increased costs due to the introduction and strengthening of carbon pricing systems by governments and local authorities in various countries. 	<ul style="list-style-type: none"> Collect information on environmental regulations in each country and consider countermeasures.
Physical risks	The possibility of increased loss of sales opportunities owing to production stoppages and other impacts due to flooding or destruction of production sites caused by torrential rain, high tides, or strong winds, or to supply chain disruptions and production stoppages caused by flooding	<ul style="list-style-type: none"> The possibility of production stoppages and other impacts due to flooding or destruction of production sites caused by torrential rain, high tides, or strong winds, or to supply chain disruptions and production stoppages caused by flooding. The possibility of loss of sales opportunities arising from the inability to deliver products to customers due to production stoppages caused by damage to assets such as shipping vessels, external warehouses, and production sites, or the inability of employees to come to work. 	<ul style="list-style-type: none"> Re-establish and periodically review the business continuity plan (BCP) in consideration of climate change.
Business opportunities	Opportunities from rise in power generation and storage demand	<ul style="list-style-type: none"> The possibility of higher sales due to increased demand for materials for fuel cells and next-generation secondary batteries as independent electrical energy supply and demand systems are reviewed in the event of increase in the frequency or scale of natural disasters caused by abnormal weather. 	<ul style="list-style-type: none"> Determine market needs for zirconium compounds and consider R&D investment.

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Sustainability policy and strategy

Risk management

Risk management in relation to climate change is part of the risk management of the Basic Policies on Sustainability. See [the Risk management section on p.37](#) for more information.

Indicators and targets

We aim to reduce our CO₂ emissions (Scope 1+2)* by at least 20% by 2030 compared with FY3/2018, in order to achieve a 'decarbonized society' in which CO₂ emissions are effectively zero (carbon neutrality) by 2050.

Reduction measures include continuous on-site improvement activities, as well as reducing emissions from the Group's business activities such as via greater energy efficiency from manufacturing reforms and energy creation using solar power. Where necessary, the Group will also utilize renewable energy and procure carbon credits.

	Present	FY3/2031 (75th)*	FY3/2041 (85th)	FY3/2051 (95th)**
Reduce emissions associated with our business activities		Improve energy consumption and efficiency via energy-saving business activities / Replace energy-saving equipment at existing facilities		
		Improve energy consumption and efficiency via innovative manufacturing techniques		
		'Energy creation' to reduce CO ₂ emissions by generating electricity using solar power / solid oxide fuel cells (SOFC)		
Reduce external energy procurement		Consider and implement procurement of reusable energy		
		Consider and implement procurement of carbon credits		

*Reduce Scope 1+2 emissions by at least 20% by 2030 compared to FY3/2018

** Achieving carbon neutrality in 2050.

Sustainable use of resources

At each of the Group's production sites, the principles of reduce, reuse, and recycle are applied to key raw materials, chemicals, and energy and consumables, and manufacturing is practiced with respect for the natural environment.

Reduce

Reducing consumption of fossil fuels by using biomass-derived heat sources.

Reuse

Recovering used chemicals and reusing them after purification, enabling external release of safe water. Reusing heat produced for the manufacturing process.

Recycle

Recycling of used packaging and pallets.



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Sustainability policy and strategy



Joint development of micro-hydroelectric generators

In addition to subsidizing research costs and providing technical support for the research and development of micro-hydropower generators at Shimane Prefectural Gotsu Technical High School, the Group provides fieldwork opportunities at its sites.



Fieldwork at the Gotsu site by students at Shimane Prefectural Gotsu Technical High School

Adoption of heat sources using rice husks as fuel

At the production site in Vietnam, the steam used in the manufacturing process is produced in a boiler that uses rice husks as fuel. The Group is actively involved in the practical application of renewable energy at its production sites.

Human capital initiatives

To realize its management philosophy, the Group has defined six pillars in its medium-term management plan, 'DK-One Next,' with a view to continuing to create new businesses and to overcome major changes in its business environment. Among these are 'utilizing organizational practices that consistently produce results,' 'cultivating a Kigenso-like corporate culture,' and 'implementing measures for sustainability,' which act as guidelines on human capital. In line with these guidelines, it promotes initiatives to increase the value of human capital based on the following policies.

Basic policies

- Strategically train personnel for succession. In particular, systematically promote the training of successors at management level.
- Implement a role- and performance-based remuneration system to motivate and reward employees.
- Raise awareness of reform and behavior modification at the individual and organizational level.
- Instill a spirit of challenge throughout the Group.
- Promote the utilization of diverse human resources.
- Operate a workplace that respects diverse working styles and values.
- Operate a healthy and safe workplace, both physically and mentally.

Governance

Governance in relation to human capital is part of the governance of the Basic Policies on Sustainability. See [the Governance section on p.36](#) for more information.

Strategy

In order to become a 100 Year Company, the Group believes that it is crucial to have personnel who will boldly take on challenges to expand the business and those who are ready take over as the next generation, and we will actively invest in the development of these personnel.

One positive aspect of the Group's corporate culture is that it promotes flat relation-

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Sustainability policy and strategy

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ships that allow people to talk honestly. On the other hand, the pursuit of accountability in relation to required roles and targets tends to be lacking, and there is a tendency towards simply going with the flow. The Group believes it needs to create a culture that encourages employees to take the initiative and attempt new challenges. In the area of personnel evaluation, for example, the difference in compensation and treatment for individual performance is small, and as a result some aspects of performance and processes are not properly evaluated. We are therefore working to establish a system and operational rules that more accurately reflect roles and results in compensation and treatment.

With regard to diversity in human resources, we will promote the advancement of women's participation in the workplace and enhance support systems for balancing work with childcare and nursing care. In addition, as the proportion of employees aged 60 and over increases in the future, it will be important for both the company and the individual to know how they can contribute, so we will work on revising the current system to create a system that allows employees to choose a variety of working styles.

We believe that creating a healthy and safe environment, both physically and mentally, is important for our employees and leads to increased productivity. To prevent occupational accidents, the Group is committed to raising the safety awareness of all executives and employees. Furthermore, as absence from work due to mental health problems is a significant burden on the individual and the workplace, the Group will raise the mental health awareness of all executives and employees and focus on the prevention of mental health problems.

In order to face these challenges and become a 100 Year Company, the Group will continue to implement human capital-based management as one of its key sustainability strategies.

Risk management

Risk management in relation to human capital is part of the risk management of the Basic Policies on Sustainability. See [the Risk management section on p.37](#) for more information

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Sustainability policy and strategy

Indicators and targets

Policy related to human capital	The Six Pillars of the Medium-Term Business Plan	Vision	Indicators and targets (FY3/2025)
Promote participation of diverse human resources	'Implementing measures for sustainability'	<ul style="list-style-type: none"> • Create organizational dynamism, innovation, and competitiveness through the use of human resources with different career backgrounds and cultures 	<ul style="list-style-type: none"> • Implement training for female employees and managers (ratio of female managers: 10% or more by FY3/2029)
Create a workplace that respects diverse working styles and values		<ul style="list-style-type: none"> • Have a comprehensive understanding of human rights and put them into practice. 	<ul style="list-style-type: none"> • Average score for the test of human rights comprehension: 70 or higher • Investigation of human rights risks to business partners: more than 10 companies
Develop human resources for succession. In particular, systematically promote the training of successors at management level.	'Utilizing organizational practices that consistently produce results'	<ul style="list-style-type: none"> • Systematically develop and assign candidates for future directors, executive officers, and department heads 	<ul style="list-style-type: none"> • Execute at least 90% of the human resources development plan based on the definition of requirement for human resources succession.
Operate a compensation system based on roles and achievements to motivate employees and link them to results.		<ul style="list-style-type: none"> • Have strong teams that do not depend on the abilities of individuals • Establish a flexible employment system to accommodate each employee's situation. 	<ul style="list-style-type: none"> • Reduce effective overtime to zero for employees in back-office divisions • Create a reemployment system for retirees that reflects the individual's working style and their contribution to DKK.
Create a workplace that is healthy and safe both mentally and physically.		<ul style="list-style-type: none"> • Have zero occupational injuries. • Have zero work absences due to mental health issues. • Create and maintain a safe workplace for all executives and employees and establish a state of safety awareness. 	<ul style="list-style-type: none"> • Number of workdays lost due to injuries of 2 days or more: Zero • Number of mental health problems caused by workplace: Zero • Reach dependency (3rd of 4 levels) in the results of the safety culture survey.
Reform individual and organizational awareness and behavior (reform the corporate culture).	'Cultivating a Kigenso-like corporate culture'	<ul style="list-style-type: none"> • Raise the number of employee with a positive opinions about challenges, increasing the value of the workplace. 	<ul style="list-style-type: none"> • Use employee engagement survey results as an indicator
Instill the spirit of challenge throughout the Group.			

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4 INTANGIBLE ASSETS

Manufacturing Capital

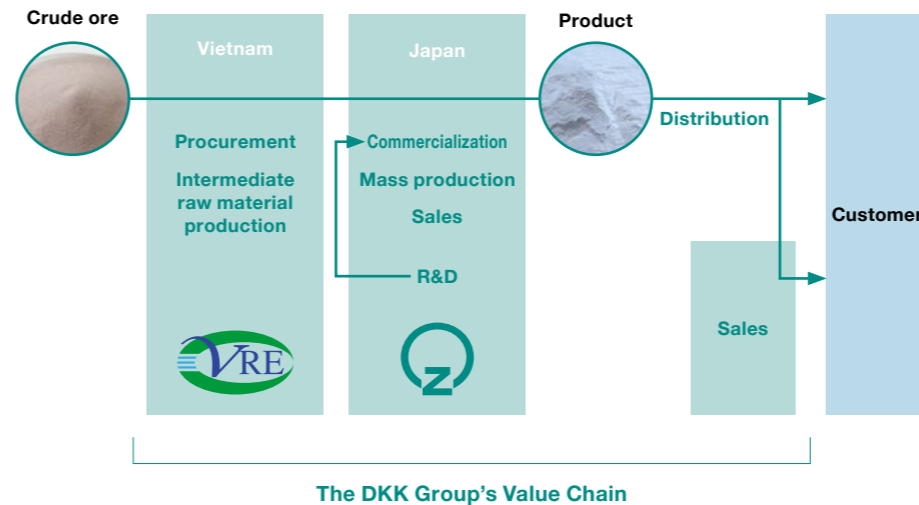
The DKK Group applies originality and ingenuity to customize zirconium compounds to meet the needs of customers in a variety of fields and provide the world with materials with diverse properties. As a result, we have developed unique, versatile, and highly productive manufacturing technology that can turn out products for multiple fields on the same line. We are able to make effective use of this manufacturing capital and flexibly change our production portfolio to improve investment efficiency and develop business in Strategic Areas and the Automotive Catalyst Area. We also aim to use DX to improve coordination between our supply chain and production management to further increase capital efficiency. DKK is the only group of companies in the world involved in the whole production process for zirconium compounds, from decomposition and refining of zirconium ores to manufacturing, supply, and distribution of high-performance materials, and our subsidiary VIETNAM RARE ELEMENTS CHEMICAL JOINT STOCK COMPANY is the only company outside China to produce and sell zirconium oxychloride, giving us supply resilience for the main intermediate material source for these compounds. This subsidiary commenced production activity at a new plant in August 2023 and full operation is planned from June 2025.

Further improving capital efficiency by balancing the “growth prospects and stability” of the business

Since its establishment, the Group has customized zirconium compounds to meet the needs of customers in a variety of fields and has provided the world with materials with diverse properties. The Group has applied originality and ingenuity to continue refining its ability to provide such customization, and as a result has developed unique, versatile, and highly productive production technology that can turn out products for multiple fields on the same line. Even in the current rapidly changing environment of the automotive industry’s shift to EVs and the increasing sophistication and value diversification of electronic devices, we are able to make effective use of this manufacturing capital and flexibly change our production portfolio in order to improve investment efficiency and develop our business in Strategic Areas and the Automotive Catalyst Area. In doing so, we are also balancing the “growth prospects and stability” of our business. We also aim to use DX to improve coordination between our supply chain and production management, thereby further increasing capital efficiency.

The world’s only group to handle everything from ore decomposition to the distribution of zirconium compounds

Zirconium oxychloride is the main intermediate material in zirconium compounds sold as high-performance materials, and more than 90% of the industry’s supply comes from China. In order to reduce risk from this dependency, in March 2012 the Company established a subsidiary in Vietnam, a zircon sand producing country. VIETNAM RARE ELEMENTS CHEMICAL JOINT STOCK COMPANY (hereafter the Vietnamese subsidiary) produces and sells zirconium oxychloride and is the only company outside China to do so. This makes DKK the only group of companies in the world that is involved in the whole production process, from decomposition and refining of zirconium ores to manufacturing, supply, and distribution of high-performance materials.



[To the value chain flowchart](#)

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Manufacturing Capital

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Building a sustainable and resilient supply chain using Vietnamese zircon sand as a starting material

Following China’s implementation of export restrictions on rare earth materials (the “rare earth shock”) triggered by a Chinese fishing boat collision incident off the Senkaku Islands in 2010, DKK faced difficulties in procuring materials for use with zirconium oxychloride and price hikes. It began stockpiling rare earth raw materials to fulfil its supply responsibilities to customers, but market prices subsequently plummeted after a ruling that China’s export restrictions violated WTO agreements, and DKK’s high-cost surplus inventory meant it had to record huge inventory write-downs in FY3/2012 and FY3/2013, leading to consecutive losses.

Applying the lessons learned from the rare earth shock, the Group has been working to build a sustainable and robust supply chain for zirconium compounds, using Vietnamese zircon sands as the starting material, so that supply is not dependent on any particular country. The Vietnamese subsidiary refines zircon sands procured within Vietnam, thus making possible a reduction in the carbon dioxide emissions from the transportation of raw materials compared to Chinese suppliers, who procure zircon sands from Australia, South Africa, and other countries for refining in China. In addition, the residues generated during the refining stage are properly treated in Vietnam as part of the Company’s efforts to reduce its environmental impact.

Vietnamese subsidiary starts operations at new plant

The Vietnamese subsidiary initially began operations at a pilot plant, and having identified issues in the Vietnam business and a route to solving these issues, decided to build a new plant in February 2018. Production activity commenced in August 2023, with full operation planned from June 2025.

The new plant uses zirconium ore mined in Vietnam as its main material and features an environmentally friendly manufacturing process and equipment that include the use of biomass-derived heat sources and reuse of auxiliary raw materials. In addition to supplying around 50% of the Group’s annual zirconium oxychloride requirements, it will also manufacture other zirconium compounds.

The DKK Group intends to effectively utilize the new plant to supply products and services that meet the needs of its customers, while also expanding its business in Strategic Areas (Semiconductor and Electronics, Energy, and Healthcare), where demand is expected to increase going forward.



New factory of Vietnamese subsidiary in Ba Ria Vung Tau Province, Socialist Republic of Vietnam

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Intellectual Capital

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Inheriting our founders' spirit of undertaking challenges, embodied by the slogan "Because no one has done it, we will do it," the DKK Group has grown by developing new functions and expanding applications for zirconium compounds, as well as conducting research and surveys on new materials. As a result, zirconium compound refining and zirconium oxide agglomeration control have become our core technologies. We have also been able to acquire a variety of intellectual property rights and now hold 96 domestic patents and 118 overseas patents, and we expect them to contribute significantly to our competitiveness in Strategic Areas. In FY3/2024, the Group commenced activities at a new R&D Center in Osaka together with an updated pilot plant. We intend to strengthen R&D for Strategic Areas, evolve the center into an innovation hub, and use process design to shorten time to mass production and promote environmental technologies. The goal is to create a new business base by establishing an R&D structure that can respond flexibly to changes in the business environment. We continue to aim for co-creation of value with all stakeholders through development activities based on our R&D policy and intellectual property activities based on our intellectual property strategy.

Policy on research and development activities

DKK has been working to develop new functionality and applications for zirconium compounds by combining its core technologies in zirconium compound refining and zirconium oxide agglomeration control with technologies for compounding zirconium with other elements.

In the future, we will position the Semiconductor/Electronics, Energy, and Healthcare fields as Strategic Areas and continue enacting our basic policy to work continuously to develop zirconium products that meet increasingly diverse and sophisticated customers' needs and further expand the applications of zirconium.

In addition, as the new materials developed are original and of high added value, intellectual property rights will in principle be acquired and utilized in the Group's business areas.

In FY3/2024, the Group commenced research and development activities at its new R&D Center (Total investment approximately ¥5 billion) with the aim of creating a new business base by establishing a research and development structure that can respond

flexibly to changes in the business environment. The R&D Center is housed in a newly constructed research building together with an updated pilot plant. In accelerating the development of new products and applications and promoting the development of technologies related to resource recycling and the move to carbon neutrality, DKK intends to maximize utilization of the new R&D Center to step up its efforts to provide products, technologies, and services that resolve social issues.

Functions and role of the R&D Center

Strengthening R&D capabilities for Strategic Areas

In addition to existing analytical and evaluation equipment, the center features new equipment to evaluate current products and the new properties and functionality of development products. The aim is to accelerate development of new products and applications in fields positioned as Strategic Areas (Semiconductor/Electronics, Energy, and Healthcare) in DKK's medium-term management plan 'DK-One Next.'

Evolution into an innovation hub

The combination of open experimental space and working space and the increased opportunities for communication with executives and staff involved in R&D and beyond specialist fields promotes the creation of new value and transition to next-generation technologies.

Process design with consideration for swift mass production and environmental responses

Together with a pilot plant updated at the same time as the opening of the new center, DKK aims to shorten the time to mass production and rapidly implement a mass production process that has a low environmental footprint by promoting the development of technologies related to resource recycling and the move to carbon neutrality.

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Intellectual Capital

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R&D policy by area

Strategic Areas

Semiconductor/Electronics

- We aim to develop high-purity, high-performance zirconium-based materials to support the miniaturization and increased functionality of electronic components such as piezoelectric elements and capacitors, and the greater integration and miniaturization of semiconductors.

Energy

- In addition to improving the durability of lithium-ion batteries with NMC-based cathode materials, we aim to develop high-purity, high-performance secondary batteries materials that contribute to the early commercialization of solid-state oxide batteries.
- We aim to develop and propose electrolyte and electrode materials that can solve technical problems to accelerate the commercialization of solid oxide fuel cells (SOFC) and solid oxide electrolysis cells (SOEC).
- We aim to accelerate research and development related to the utilization and reduction of CO₂ emissions towards carbon neutrality, as well as the development of commercialized technologies.

Healthcare

- We aim to develop zirconia ceramic materials for dental materials and other applications with new functions in addition to strength, toughness, and aesthetics.

Automotive Catalyst Area

Although the electrification of vehicles is progressing, the use of conventional internal combustion engines (ICE) will remain the mainstream for the foreseeable future. In particular, as ICE vehicles, including hybrid vehicles, will continue to be the norm in the global south markets of India and Southeast Asia, we aim to develop more advanced catalyst materials as auxiliary catalysts in response to tightening automotive catalysts regulations. The development of our auxiliary catalysts will also lead to a reduction in

the volume of precious metals used in catalyst, contributing significantly to resource conservation and reducing environmental impact.

Basic Areas

Thermal barrier coatings

- We aim to develop zirconium-based materials with heat-resistant properties for applications such as improving energy efficiency in gas turbines for power generation and in aircraft.

Aluminum brazing applications

- We aim to develop cesium flux and flux cored wire that contribute to energy savings and simplification in customer production processes in aluminum brazing applications such as heat exchangers for auto production and household air-conditioners.

Industrial catalyst applications

- We aim to develop materials with catalyst functionality for the purification of hazardous substances emitted from thermal power plants and factories and for the highly efficient synthesis of chemical products.

Research and Development System

In our research and development activities, the Creation Science Division works to find new functions of zirconium compounds and develop their new applications and studies new materials from a medium- and long-perspective, and the Research & Development Division conducts improvement and development of materials in existing applications and development of new applications of existing materials. The Manufacturing Technology Division designs mass production processes, as well as developing technologies and equipment design related to resource recycling and carbon neutrality. In addition, operations related to intellectual property rights are undertaken by Intellectual Property Division. In FY3/2024, 11 domestic patents were filed (36 including overseas patents). The number of domestic patents currently held is 96 (214 including overseas patents).

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Intellectual Capital

This breaks down by business area to 27 in Strategic Areas, 19 in other new business areas, 35 in Automotive Catalyst, and 15 in Basic Areas. We will continue to carry out research and development activities while enhancing the expertise of and collaboration between each divisional function. In addition, we operate a research grant system for universities and research institutions working on creative research and original and innovative uses of zirconium, hafnium, and cesium compounds. By supporting research activity on materials containing these compounds, we hope to expand new possibilities in these areas, including areas we are not involved in. In FY3/2023, 38 applications were received and 20 were selected for funding.

[Research and development expenditure](#) for FY3/2024 totaled ¥1,173 million.

Main research and development activities

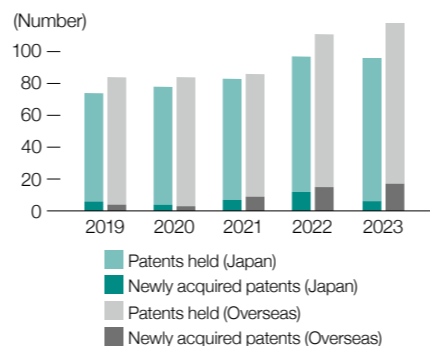
R&D themes	Content	Outcomes
Basic research on zirconium compounds	Joint research with universities and public research institutions	Research on dry reforming catalysts and self-healing ceramics published in scientific journals
Expansion of applications for zirconium compounds	Expansion of applications in the semiconductor field	Acquisition of intellectual property rights
Development of secondary batteries materials	Improvement of battery performance, durability, and processability	Expansion of the use of Cathode coating materials
Development of functional structural materials	Application of low-temperature sintering technology Improvement of esthetics, ceramic strength, and toughness	Acquisition of intellectual property rights Publication of newly developed antimicrobial ceramics in industry publications Receipt of the Ceramic Society of Japan's award for achievement in industrial ceramic technology
Development of automotive catalyst materials	Improvement of purification performance and processability	Expansion of applications in next-generation catalysts
Development of aluminum brazing materials	Improvement of processability	Expansion of applications in household appliances and BEVs
Development of production technologies towards carbon neutrality	Introduction of biomass-derived heat sources Research and development of micro-hydropower generators and equipment design through industry-academia collaboration	Use of production plant powered by renewable energy Start of equipment design by Gotsu Technical High School

Securing of intellectual property

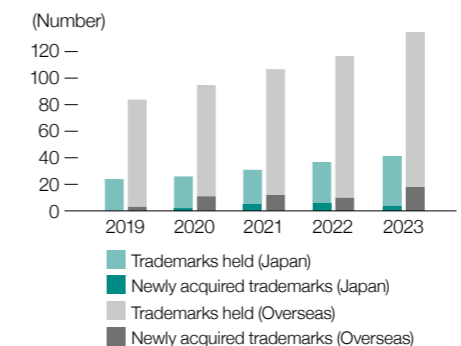
The Research & Development Division and the Intellectual Property Division work closely to early discover intellectual property arising in associated companies or from collaboration with external research laboratories. When intellectual property is discovered, the Intellectual Property Division and the Research & Development Division work together to develop intellectual property strategies to acquire intellectual property rights in a way to maximize its added value.

As most of the Group's businesses are conducted globally, we work actively to acquire intellectual property rights not only in Japan but also overseas.

Changes in the numbers of patents we hold



Changes in the numbers of trademarks we hold

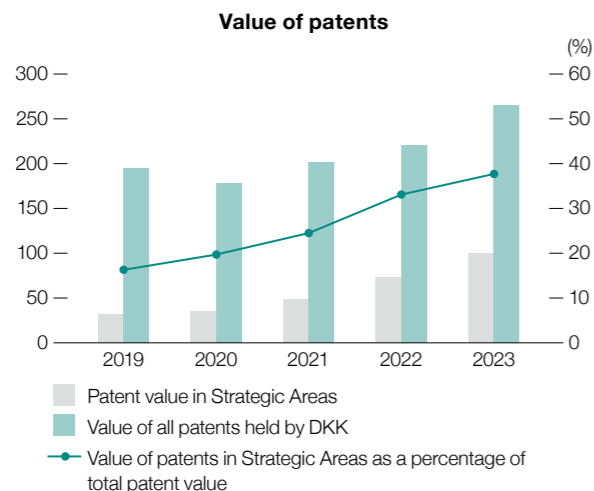


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Intellectual Capital

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*The Patent Asset Index is calculated using LexisNexis' PatentSight® patent analysis tool.

As a result of our R&D activities, the overall value of the patents we hold is on an increasing trend, as shown in the Patent Asset Index* figure below. In addition, the value of patents in Strategic Areas as a percentage of the total value of patents we hold is also rising. We expect these patents to make a significant contribution to our competitiveness in Strategic Areas in the future.

COLUMN

The Japan Patent Office's [2023 project to examine and analyze intellectual property support measures for small and medium-sized enterprises](#) (study on the disclosure of information regarding intellectual property and intangible asset initiatives) featured DKK as a good example of the construction and disclosure of investment and utilization strategies for intellectual property and intangible assets at a listed company.

Action guidelines on intellectual property

We understand that intellectual property is an important corporate asset that supports long-term, stable business continuity, and the Intellectual Property Division manages all intellectual property rights (patents, trademarks, etc.) including those of associated companies.

The Intellectual Property Division works to revitalize and encourage creative work based on the following action guidelines:

Action guidelines

- Build creative, and high-value added intellectual property
- Make active use of intellectual property
- Protect business from other companies' intellectual property

Respect for and management of intellectual property

We respect third parties' intellectual property. The Research & Development Division and the Intellectual Property Division work closely to conduct close surveys on and analyses of third parties' intellectual property in order that our products do not infringe it. At the same time, we take stern countermeasures against imitations of our products or infringements of our intellectual property.

We periodically analyze intellectual property that we hold and manage it so that a proper intellectual property portfolio is maintained.

Incentive systems and education on intellectual property

In order to encourage creation of creative and high value added intellectual property, we have established various incentive systems (for inventions, registration, and performance). In addition, experienced staff members of the Intellectual Property Division periodically provide education on intellectual property in order to enhance each employee's intellectual property-related skills.

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Intellectual Capital

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TOPICS

Patent No. 5744274 we hold for an invention won the Ministry of Education, Culture, Sports, Science and Technology Award in [the Kinki Local Commendation for Invention in 2022](#) (hosted by the Japan Institute of Invention and Innovation).

This invention significantly contributes to the improvement in the heat resistance of our automobile catalyst products.

Title of invention: Zirconia-based porous body having high heat resistance for automobile catalyst

Inventor: Hiroshi Kodama

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Human Capital

Since its establishment, the DKK Group has held the belief that “people” are the most important factor in supplying ‘Valuable Products’ for society, and that the effect of a strong bond between executives and employees is very significant. The Group’s human capital is the foundation of its beliefs and is considered one of the most important forms of management capital. We aim to maximize the value of human capital by creating a safe and comfortable work environment for employees by addressing issues such as human resource development, diverse work styles, mental health care, and employee engagement. The Group believes it needs to create a corporate culture that encourages employees to grow, continue to take on challenges, and demonstrate results. To that end, it promotes flat relationships that allow people to talk honestly and supports employees in furthering their education and using their experience throughout the DKK Group.

Initiatives to increase engagement

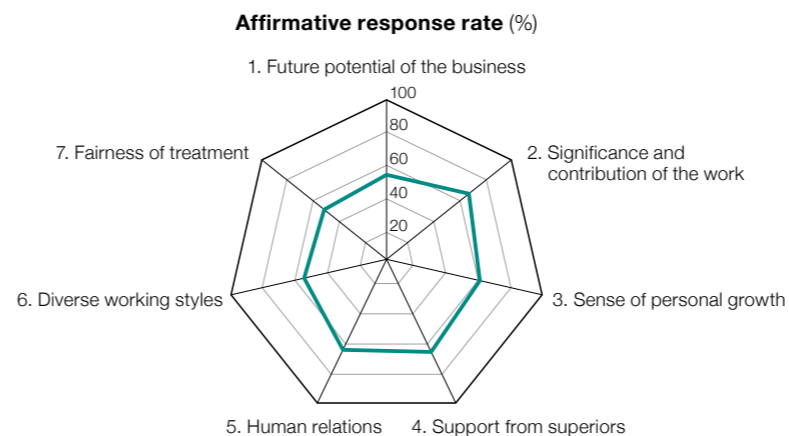
The Group is working to increase the value of human capital in accordance with its human capital policy. We believe that improving work engagement is vital for each and every employee to grow, continue to take on challenges, and demonstrate results, and from FY3/2024 we began conducting an annual engagement survey of all employees. In order to understand the current situation and analyze issues while working on continuous improvement, the survey is conducted from various perspectives, including business prospects, work awareness and contribution, sense of personal growth, support from superiors, human relations, diverse working styles, and sense of fairness in treatment.

Engagement survey results

	Number of people surveyed	Number of respondents	Response rate (%)	Affirmative response rate (%)	Negative response rate (%)
FY3/2024	504	488	97	59	20

	1. Future potential of the business	2. Significance and contribution of the work	3. Sense of personal growth	4. Support from superiors	5. Human relations	6. Diverse working styles	7. Fairness of treatment
Affirmative response rate (%)	53	66	60	64	63	53	50
Negative response rate (%)	22	13	19	17	21	26	24

*Covering all domestic employees. From FY3/2025 the survey will be positioned as a management indicator.



The response rate for the engagement survey in FY3/2024 was 97%, with 59% of those responding giving an affirmative response and 20% a negative response.

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Human Capital

Junior employee comments

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The corporate culture is attractive because it allows us to challenge ourselves and ‘feel free to try things.’

Research & Development Division, R&D Unit



Y.Y. Joined DKK in 2020

My main role is to propose and create catalyst materials that satisfy the performance requirements of automakers while supporting senior staff. I am also engaged in the search for new materials that can meet the needs of the next few years.

Deciding factor in joining DKK

Among the many jobs available, I was attracted to positions involving research of new products and methods. I decided to join DKK because I thought that the research was more varied than at other companies, including providing explanations to customers and working in the field.



How my work is rewarding

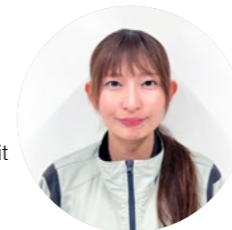
The work is hard because the scale is much larger than university experiments, but it is worth it for the great sense of achievement you get when the finished product ships. I also find it rewarding making various discoveries during the development process, and even if I fail, a different approach may lead to the development of a new material.

Moments when you realize the possibilities

Even in my first year with DKK, I actively spoke up during technical discussions and my opinion was taken on board, and I was told to "feel free to try things." A corporate culture in which even junior employees are entrusted with work in this way is attractive. Zirconium is a material that still has a lot of potential, so I want to develop new applications for it that spread around the world. I would also like to make a contribution, however small, to growing DKK's visibility and scale.

Breakthroughs in problem solving can come from anyone, whether you are a veteran or a junior employee

Manufacturing Technology Division, Production & Engineering Unit



C.T. Joined DKK in 2019

The role of my division is to design and improve mass production processes from a chemical perspective. I belong to the automotive catalyst team and conduct and witness lab-scale tests and mass production tests.

Deciding factor in joining DKK

I had always enjoyed experimentation since I was a student and wanted to work in research, but one day I heard an explanation about the production engineering position at DKK and got interested. The reason I decided to join DKK was that I could gain a variety of experiences that cannot be summed up as 'chemistry,' such as expanding from laboratory scale to mass production scale and setting up a plant.



How my work is rewarding

It doesn't matter whether you are a veteran or a junior employee, the key is can you come up with a breakthrough for a problem on a mass production scale or not. It is rewarding that good ideas are adopted even if they come from junior employees. I am also attracted to the fact that the scale of the projects we tackle is so large that the results directly link to the company's profits.

Moments when you realize the possibilities

I can be involved in various projects, from lab-scale to mass production, based on the processes I have devised. There is a lot to learn, and it is hard work, but I am really happy when something successfully reaches mass production and improves quality and the production environment. I am still inexperienced, but I like production and engineering work very much and I want to continue to challenge myself and expand my potential in this job for the next five or ten years.

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Human Capital

Junior employee comments

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Senior and supervisory staff with a lot of personality

Production Section No.2, Gotsu Site

T.I. Joined DKK in 2021



Deciding factor in joining DKK

DKK was recommended by my school and acquaintances, but what really made me want to join was the clear explanations given by many of the senior staff when I came on a company tour. Many of the senior and supervisory staff have lots of personality, and they inspire me both inside and outside work.



Moments when you realize the possibilities

I feel that I am growing as a person because I have a good welfare package and DKK fully supports me in obtaining qualifications.

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Human Capital

Employee interviews

I want to make extensive use of my experience in the career development of employees

Director of the General Affairs & Human Resources Division and Deputy Director of the Administration Unit

T.W. Obtaining an MBA in 2021

Why I took up the challenge of an MBA

After many years in a technical field, I reached a turning point when I was transferred to the General Affairs and Human Resources Division. The division has a wide range of general affairs functions, including legal affairs, internal and external public relations, stock management, risk management, welfare, facilities management, executive secretarial and general affairs. In addition, its human resources functions include recruitment, training, labor relations, payroll and social insurance. I was unsure how I could contribute based on my experience, and a colleague suggested that I could better understand the division's work by studying general management at a business school for working adults. There was a graduate school with a campus right between my office and home, and I decided to prepare for the entrance examination. DKK encouraged me to take the exam.

Obtaining an MBA

My research topic was 'Corporate Growth at Top Global Niche Companies.' I decided to use DKK as a subject to explore the drivers of growth, and DKK promised to provide me with all the information I needed on management. I had classes for two years, after work on weekdays and seminars on Saturdays, with homework on Sundays. It was a hectic time, switching to online classes before and after the pandemic, but I still keep in touch with my classmates and am inspired by their enterprising activities. Through my research, I also became well aware that a wide range of management functions, not just technologies, are necessary for top niche companies.



Subsequent career development

I also obtained a Ph.D. in engineering in my tenth year with DKK and added the title of MBA to my business card. One of my roles now is expanding human capital in DKK, and I hope to make extensive use of my experience in supporting the various career development paths of our employees.

I want to build friendly relationships through language skills

Chief Executive Officer, DKK Shanghai Materials Trading CO., LTD.

M.A. 2015–2016 Language study abroad

Why I took up the challenge of language study

I was transferred from the Gotsu site to the Procurement Division in 2013. It was just at the time when we were about to start direct transactions with local suppliers for the procurement of raw materials from China. I went to China and attended rare earth conferences and other events to find suppliers with whom I could sign contracts. I was frustrated that I couldn't even crack a joke in Chinese during negotiations with an interpreter, so I decided to learn Chinese.

Studying language abroad

I travelled to China with a single suitcase in March 2015. I lived in a dormitory and began a language learning program at a university in Beijing. I was already over 40 and did not want to disappoint DKK when studying at their expense, so I avoided hanging out with local Japanese people and spent every day immersed in Chinese. During my two-month summer holiday, I was involved in the launch of a joint venture company in China and also took on the challenge of interpreting. Having originally been in production, I found it challenging to convey the purpose of the work in Chinese.

Subsequent career development

I finished my studies and returned to Japan in January 2016, but DKK offered me a secondment at the joint venture company, so I went back to China, where I have been for almost nine years now. I now feel that the speed of decision-making abroad suits me. My language skills are an asset in my career, in that I no longer have problems with daily life and have built friendly and close relationships with the locals.



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Human Capital

Employee interviews

I want to support junior employees who aspire to get a Ph.D.

Manager, Research & Development Division, R&D Unit

Y.H. Ph.D. in 2018

Why I took up the challenge of getting a Ph.D.

During my master's course at graduate school, I was researching new mechanisms related to photocatalysis of titanium dioxide, and as no one else was pursuing the same topic I felt it would be a waste not to dig deeper. The fact that I was allowed to continue my doctoral studies while working led me to join DKK in 2009. Fortunately, or unfortunately, the timing was just after the global financial crisis, so I was able to use the furlough system and devote myself to research for a year. Even so, after that it was very difficult to carry out research and write a thesis while working, and although I got all my credits, I was unable to obtain a doctorate after five years and withdrew from the doctoral program.

Doctoral degree

Although I had left the university, I continued to correspond with my lab teacher and was still writing and submitting peer-reviewed papers to academic journals. After encouragement from my lab teacher, I decided to try again to get my doctoral thesis. I wrote my thesis during my holidays, and after a review process, received my Ph.D. degree in 2018.

Subsequent career development

I feel that my knowledge and experience, as well as my logical thinking skills, have deepened since I completed my master's degree. I have been involved in a lot of joint-research projects with companies and universities on behalf of DKK, and being a Ph.D. allows me to participate in in-depth conversations, which motivates me in my work. We have also begun joint research with the laboratory I belonged to, and



I have started talking to students as part of recruitment activities. My own career as a working Ph.D. is partly to act as a role model for DKK. I hope to use my experiences to support junior employees who want to pursue a Ph.D.

COLUMN

We are preparing a training program in Japan for staff of our overseas affiliates

Japanese language classes from beginner to advanced level are always available at our Vietnamese subsidiary, and the number of employees passing the Japanese Language Proficiency Test is increasing. We have also heard funny episodes of employees from the classes studying at home and their children picking up some Japanese.

The photograph below was taken during a 2019 on-site training program at the Fukui site for 14 employees from the Vietnamese subsidiary (nine from production operations, three from inspection, and two from maintenance). They returned home having learnt many things, such as the PDCA (plan-do-check-act) cycle, the concept of everyone building value through every part of the product cycle, improvement activities in Japan, inspection and analysis work, and equipment maintenance methods, which they are now utilizing in the subsidiary's plant operations. The Japanese employees who took charge of the program also absorbed a great deal from their Vietnamese counterparts by learning about each other's language and culture and communicating with each other.



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Natural Capital

The DKK Group takes global environmental issues seriously and works constantly to reduce the environmental burdens of its business activities. We also contribute to the realization of a sustainable society by actively developing products that aid environmental preservation and providing highly functional and quality materials. Through our environmental action plan, we strive to reduce burdens at every stage of a product's lifecycle, promote resource and energy saving and effectively reuse waste, actively develop products that preserve the global environment, and ensure the safe handling of and proper disclosure on chemical substances. We comply with all relevant environmental laws, regulations, and agreements, strictly implement and continuously improve our environmental management system, set environmental objectives based on our management and environmental policies, and ensure everyone at the company is familiar with these policies. Our environmental promotion structure, headed by the Board of Directors, oversees initiatives such as the management and reporting of chemical substance usage in line with international laws and industry standards, the protection of river systems that supply the Fukui and Gotsu sites, and the introduction of a fuel cell-based electricity generation system at the Fukui site.

Environmental policy

Basic policies

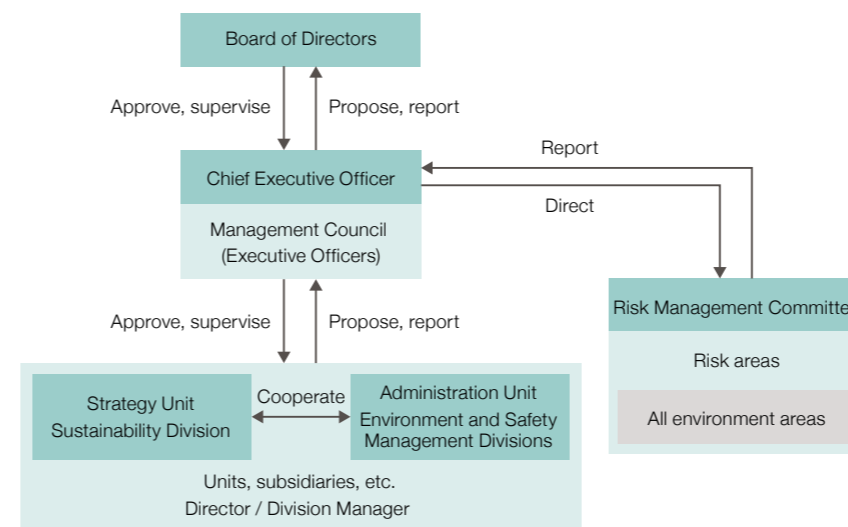
The DKK Group takes global environmental issues such as global warming, pollution by harmful chemical substances, and depletion of natural resources seriously and works constantly to reduce the environmental burdens of its business activities. We contribute to the realization of a sustainable society by actively developing products that aid environmental preservation and providing highly functional and quality materials.

Action plan

- 1 In the pursuit of these basic policies, we make the utmost efforts to:
 - (1) reduce environmental burdens in all at every stage of business activity in view of a product's lifecycle, from development through to disposal,
 - (2) promote resource and energy saving, and reduce and effectively reuse waste materials,

- (3) actively develop products that aid the preservation of the global environment, and
- (4) ensure the safe handling of chemical substances and the proper disclosure of information on such substances.

- 2 We comply with all environmental laws, regulations, and agreements relevant to our business activities and provision of products and services.
- 3 We strictly implement an environmental management system and work to make continuous improvements to it by periodically evaluating its effectiveness.
- 4 We set environmental objectives based on our management and environmental policies and conduct improvement activities to preserve the environment.
- 5 We ensure everyone working at the company is familiar with these environmental policies and promote action throughout the company via the environmental management system.



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Initiatives for water risks

In recent years, in addition to the prevention of water and other types of environmental pollution, various water issues such as shortages and flooding have become more serious, heightening the need for initiatives to address these risks. The Group has therefore begun to put countermeasures in place.

Management of chemical substances

International laws and regulations on chemical substances, various industry standards, and standards required by customers are becoming stricter year by year, further increasing the requirements for the management of chemical substances in products. Under the leadership of the Environment and Safety Management Division, the Group has established a system for the management of chemical substances in products as part of its environmental management system. This includes formulating management standards for environmentally controlled substances after collecting and organizing the latest information on relevant laws and regulations, relevant industry standards, and customer standards, and compiling a list of chemical substances controlled in products. In addition, the Group's Sales and Marketing Division acts as a contact point when receiving order contracts and survey requests and responds to questions about the chemical substances contained in individual products.

Examples of survey responses

- Non-use certificates for substances banned by the RoHS Directive
- Certificate of non-use of SVHC under the REACH regulation
- Use of the chemSHERPA database

Examples of initiatives

Preserving the abundant water environment and limited resources

The manufacture of zirconium compounds requires an abundance of water, and the Fukui Site and the Gotsu Site receive their supplies of industrial water from the Kuzuryu River system and the Gonokawa River system respectively. In order to protect the environment and to continue to be a company that exists and prospers together with the local community, the Group rigorously processes the water used in manufacturing.

An ammonia stripping device is a piece of water treatment equipment that eliminates ammonia (the water-soluble nitrogen compound) that causes red tide. The Group runs its drainage water through this device to remove any dissolved ammonia, so that any water that leaves its facilities is safe. The ammonia itself is a valuable resource, so it is recovered and refined for reuse in the manufacturing process.



Ammonia stripping device at the Fukui site

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Natural Capital

Introduction of a fuel cell-based electricity generation system

At its Fukui Site, the Group has installed solid oxide fuel cells equipped with zirconia-based materials produced in-house. A fuel cell is an electricity generation system that extracts the electricity generated by the chemical reaction of hydrogen and oxygen, and has the advantage of allowing the continued generation of electrical energy even if the supply of grid power is disrupted due to a natural disaster or other factors.

The hydrogen needed for power generation is produced by running the liquefied natural gas (LNG) stored in the tanks at the site through a vaporizer and reformer. This hydrogen then reacts with oxygen from the atmosphere to generate electricity. The only by-product of the generation process in fuel cells is water vapor, making it an extremely clean system for electricity generation. In addition, priority is given to delivering the electricity thus generated to the equipment that protects the safety of the manufacturing process and the natural environment, and fuel cells therefore also fulfill the important role of serving as an emergency power source.



Solid oxide fuel cells at the Fukui site

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Social and Relational Capital

The DKK Group acknowledges that its activities may impact on the human rights of everyone associated with the business and that respect for human rights is essential for the development of a sustainable society and for the implementation of its management philosophy: ‘Valuable Products,’ ‘Fulfilling Life,’ and ‘Rewarding Workplace.’ Based on this philosophy, the Group conducts its business with a view to building sound relationships with all its diverse stakeholders.

We must remain socially useful and essential to continue growing and developing and are committed to procurement activities based on mutual understanding and trustful relationships with suppliers. Across our supply chains, we conduct risk self-assessments and due diligence to ensure respect for human rights, comply with international standards on responsible procurement, and adhere to safety and health laws to build safe and sound work environments and reduce risks. We also place great importance on coexistence with local communities and conduct a range of social contribution and revitalization activities while working to protect the environment. Internally, we implement initiatives to foster a sense of unity in the organization and provide spaces for employees to express their opinions and ideas, regardless of their position or length of service.

Respect for human rights of all stakeholders

Human rights policy

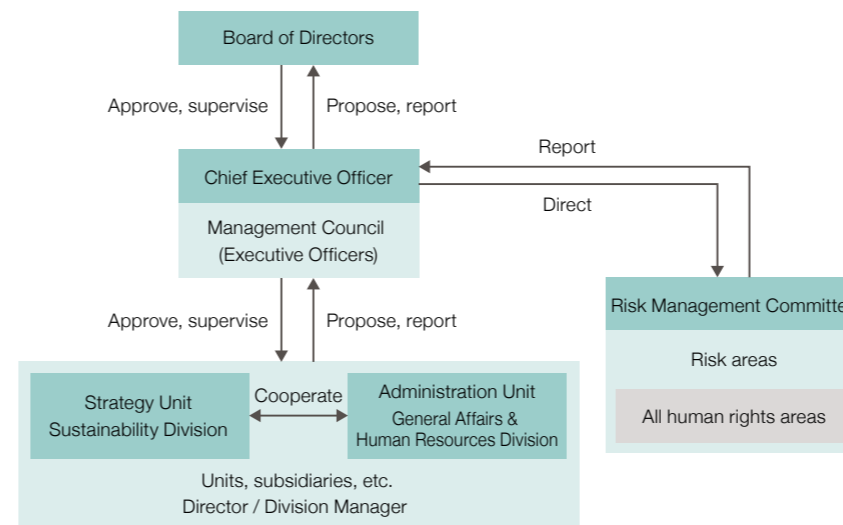
The DKK Group acknowledges that in all processes associated with our business it is possible we will – directly or indirectly – have an impact on human rights. In order to respect the human rights of all people associated with our business and to contribute to the development of a sustainable society, the Group has determined its Human Rights Policy

Respect for human rights is essential if the Group is to put into practice its management philosophy: ‘Valuable Products,’ ‘Fulfilling Life,’ and ‘Rewarding Workplace.’ The directors and employees who work for the Group promote respect for human rights to ensure that we do not impact negatively on them.

We implement human rights due diligence to identify the impacts from the Group’s business activities on human rights, including from the supply chain, and strive to reduce and improve the risks identified. We are currently conducting self-assessment risk

analyses for our key suppliers. Internally, we also distributed a questionnaire on ‘Business and Human Rights’ to our employees to ascertain their level of understanding of human rights. Based on the results, we will continue to promote human rights education for employees.

If a human rights issue arises within the Group, we take appropriate action based on the principle of victim protection, report, and discuss the issue at Board of Directors and Management Council meetings, and implement measures to prevent recurrence.



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Procurement policy

Based on its management philosophy that prioritizes ‘Valuable Products,’ ‘Fulfilling Life,’ and ‘Rewarding Workplace,’ the Group conducts its business activities with a view to building sound relationships with all of its diverse stakeholders. DKK believes it must remain useful and essential to society, as those are the necessary conditions of its continuous growth and development.

DKK is committed to conducting its procurement activities with all its suppliers, based on mutual understanding and trustful relationships with them as good business partners, to ensure that DKK’s supply chain as a whole fulfills its social responsibilities.

Risk assessment

For risk assessment of business partners, a self-assessment is conducted in accordance with the Guidelines on Respecting Human Rights in Responsible Supply Chains. In FY3/2024, 10 companies cooperated in this self-assessment and no business partners required improvement.

Responsible mineral sourcing

There is a concern that some of the minerals (tantalum, tin, tungsten, gold, cobalt, mica, etc.) produced in the Democratic Republic of the Congo, its neighboring countries, and other conflict-affected and high-risk areas (CAHRAs) are serving as the sources of funds for the armed insurgents that have been committing serious human rights violations and environmental destruction in the mining process.

The Group complies with the framework as set forth in the Organisation for Economic Co-operation and Development (OECD) Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas and implements initiatives to avoid use of these minerals, or, any materials that contain them, in order to fulfill its corporate social responsibility.

The DKK Group also actively cooperates with its customers in their investigation of responsible minerals sourcing, including conflict minerals, and conducts its procurement activities in a responsible manner.

In accordance with this responsible policy, we monitor the presence or absence of Annex II risks in CAHRAs for the target minerals contained in our products. We conduct surveys in accordance with the industry standard Responsible Minerals Assurance Process (RMAP) to identify smelters and refiners in our supply chain and assess them according to our internal criteria. Where high-risk smelters and refiners are used, the risks are communicated, and appropriate action is taken to improve the situation. In response to requests from suppliers regarding the provision of supply chain information, in addition to the Conflict Minerals Reporting Template (CMRT) published by the Responsible Minerals Initiative (RMI) based on survey results, we utilize the Extended Minerals Reporting Template (EMRT) based on the results of surveys.

The Conflict Minerals Survey for FY3/2024 covered three major suppliers handling 3TG (tin, tantalum, tungsten and gold) and one similar supplier handling cobalt, and we received a 100% response from each. The survey confirmed that all suppliers are RMAP-compliant smelters.

Health and safety activities

In order to maintain the safety and health of all stakeholders, the Group has set the following basic policies and promotes occupational safety and health activities and continuous improvements to build a ‘Rewarding Workplace’

Basic policies

1. We comply with safety and health related laws and regulations and other requirements to which the Group agrees.
2. We work to build a safe and sound work environment and reduce safety and health risks.
3. We keep all the employees informed about these policies and work to increase their awareness of safety and health.
4. We make these policies public as needed.

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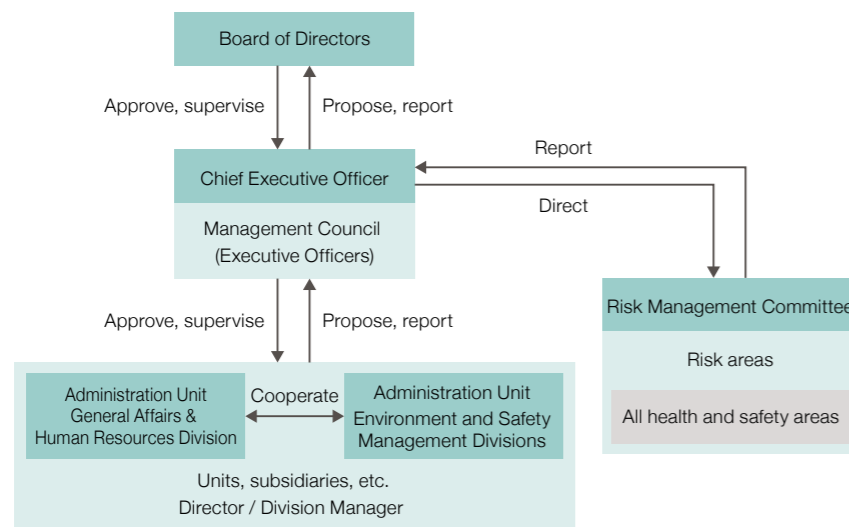
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System and persons in charge

We have assigned a general safety and health manager, a safety supervisor, a health supervisor, and an industrial physician at each site as those responsible for safety and health and formed a safety and health committee comprised of these and other employees selected as committee members. This committee examines, discusses, and gathers opinions about safety and health issues and works to make improvements.



Health and safety objectives

In addition to developing different safety and health education programs for different divisions and different learning levels, the entire Group is committed to improving the workplace and raising awareness to ensure and promote the safety and health of employees.

The health and safety targets for FY3/2025 are as follows.

- The Group aims to reduce the amount of time lost to accidents to zero.
- The Group aims to reduce the number of employees requiring re-examination for health check-ups to 80% of those in FY3/2022.

Status of safety initiatives

With regard to safety, risk assessments of workplaces are carried out by the Health and Safety Committee and by management patrols of workplaces. Efforts are being made to reduce risks by improving unsafe behaviors and unsafe conditions identified as risks. In addition, in FY3/2024, the standards for the wearing of protective equipment were reviewed and the absolute necessity of wearing of protective equipment was reiterated. Given DKK's relatively high level of occupational accident rates compared to the standards for the manufacturing and chemical industries in FY3/2024 according to figures published by the Ministry of Health, Labour and Welfare, we will ensure that all efforts are made to prevent occupational accidents. However, the rate of severe occupational accidents remains low, indicating there are few major accidents. In order to make the workplace environment safer and more comfortable to work in, a third-party survey will be carried out to improve safety culture.

Industrial accidents frequency rate: the number of casualties in industrial accidents per 1 million total hours actually worked (does not include accidents without lost time)

Year		2019	2020	2021	2022	2023
100 or more employees	Manufacturing	1.20	1.21	1.31	1.25	1.29
500 to 999 employees	Manufacturing	1.00	0.75	0.73	0.85	0.75
100 or more employees	Manufacture of chemical and allied products	0.94	0.93	1.07	1.16	1.04
500 to 999 employees	Manufacture of chemical and allied products	0.57	0.52	0.54	0.75	0.64
DKK (Parent)		0.00	2.38	0.00	4.64	5.51

Source: survey on industrial accidents (Ministry of Health, Labour and Welfare)

Industrial accidents severity rate: the number of working days lost per 1,000 total actual working hours

Year		2019	2020	2021	2022	2023
100 or more employees	Manufacturing	0.100	0.070	0.060	0.080	0.080
500 to 999 employees	Manufacturing	0.000	0.040	0.060	0.110	0.060
100 or more employees	Manufacture of chemical and allied products	0.020	0.030	0.020	0.060	0.030
500 to 999 employees	Manufacture of chemical and allied products	0.010	0.050	0.010	0.010	0.030
DKK (Parent)		0.000	0.019	0.000	0.014	0.005

Source: survey on industrial accidents (Ministry of Health, Labour and Welfare)

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With regard to initiatives related to hygiene activities in FY3/2024, the Group is promoting the creation of a workplace where each and every employee can work in a healthy, energetic, and rewarding manner, based on the recognition that the maintenance and promotion of employee health is essential for sustainable growth.

Examples of health care initiatives

1. Deployment of medical staff such as public health nurses and nurses
 Qualified staff such as public health nurses and nurses are assigned to each site and are responsible for maintaining and improving the health of employees. The main activities are encouraging employees who need to be re-examined in health check-ups to keep appointments, raising awareness internally through health-related postings and lectures, and providing individual health consultations. As a result, the consultation rate for those who need to undergo a re-examination, an area which requires special attention, is almost 100%, and employees' health awareness has increased.
2. Introduction of a health management system
 The system centrally manages employee health information, including management of health check-up results, automatic identification of high-stress individuals through stress checks, recommendations for interviews with industrial physicians, and automated risk visualisation through group analysis.

Hazard simulation training

We have added hands-on training to our safety training, which used to focus on classroom learning. We use VR safety simulation equipment and have employees actually operate it to experience the dangers. Groups of employees also attend hazard simulation seminars held at external training facilities, where they can experience suspension from a body harness and simulated entanglement in the harness, which improves their attentiveness and helps them avoid hazards during their actual work.



Promoting social contribution activities

The Group places great importance on coexistence with local communities and society and carries out a wide variety of social contribution activities on an ongoing basis. The Group works together on a wide range of activities in order to preserve limited resources for future generations, enrich the hearts and minds of those involved, and continue to be a company that grows together with them.

Environmental protection and community contribution activities

DKK promotes improvement in employee's awareness and environmental protection through clean-up activities in the vicinity of its sites. The Fukui Site regularly carries out clean-up activities at Technoport Fukui, one of the largest industrial parks in the Kinki and Chubu areas, where the works are located. As part of its contribution to the local community, the Gotsu Site also hosts social studies tours for local elementary and junior high schools. Through tours of the manufacturing process, the site provides an opportunity for children to develop an interest in chemistry.

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Social and Relational Capital



Left: Social studies tour at the Gotsu site / Right: Clean-up activities at the Fukui site



Left: Sponsorship of the Mikuni Festival / Right: XXXXXXXXXX

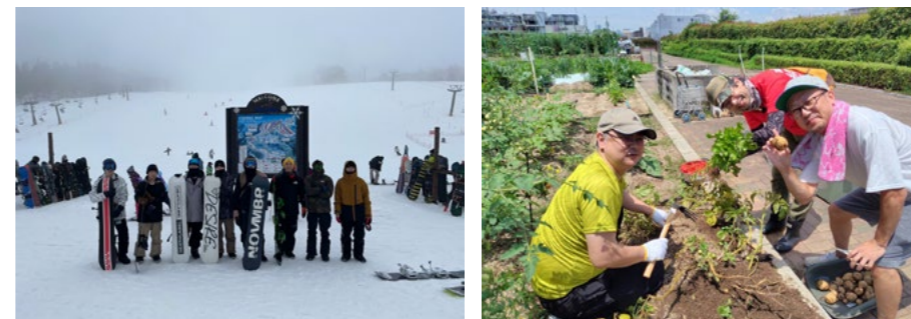
Community revitalization activities

DKK is involved in various activities for regional revitalisation. It made a donation to the ‘Gotsu, Town, People and Work Revitalization Promotion Plan’ formulated by Gotsu, Shimane, utilizing the Regional Revitalization Support Tax System (a corporate version of furusato nozei, which is a system of remitting local taxes to regional municipalities of the remitters’ choice). It is important that the government of Gotsu maintains a stable level of convenience in social life, and we will continue to support the city. Furthermore, DKK is also working to revitalise the local community in Fukui, where its Fukui Site is located. We support the preservation of local history through our sponsorship of the Mikuni Festival, which is designated as an intangible cultural property by Fukui.

In-house social activities

Club activities

DKK places great importance on building relationships with local communities and among employees and has a number of in-house club activities. In particular, the Agriculture, Forestry and Fisheries Club works towards the realization of sustainable local communities. In addition to organising farming experiences, fruit cultivation, and fruit processing on cultivated land in the Gotsu and Fukui sites, we also focus on ‘slope greening,’ where sloping surfaces are covered with vegetation.



Left: Snowboard Club / Right: Agriculture, Forestry and Fisheries Club

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Birthday parties

DKK holds a monthly birthday party as an initiative to foster a sense of unity in the organisation. All employees, from directors to general employees, who were born in the relevant month get together and interact with each other, regardless of their position or department.

Web-based exchange meetings

The Group uses Microsoft Teams to provide a place where all executives and employees can speak freely. A corporate culture that allows employees to freely express their opinions and ideas, regardless of their position or length of service, is a source of organizational vitality.

Anniversary celebrations

The Group holds an anniversary event every five years to which employees and their families are invited. Events have included an overseas trip, a one-day cruise on the Nippon Maru and a party at Universal Studios Japan. By organising events that can be enjoyed not only by employees but also by their families, we are fostering a sense of unity in the company.

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5 CORPORATE GOVERNANCE



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Corporate Governance Structure

Basic idea

We understand that in order for us, as a group, to prove ourselves to society and continue to grow, we must comply with ethical rules and laws and regulations and earn trust from all internal and external stakeholders. We believe that increasing the soundness and transparency of management, making proper management decisions and disclosing information properly based on this understanding are the fundamental principles of corporate governance.

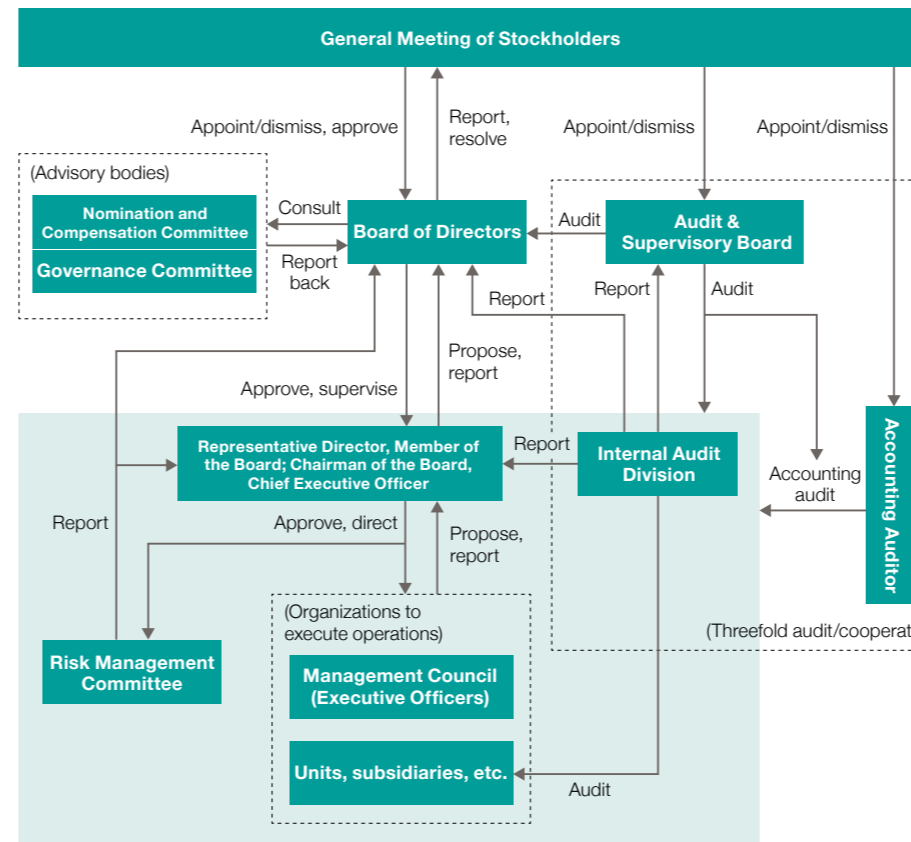
Corporate Governance Structure

Outline of corporate governance structure

The Company has adopted an audit & supervisory board structure and as of the date of submission of its securities report, the Board of Directors consists of six directors (including three outside directors) and three auditors (including three outside auditors). The Board of Directors meets regularly once a month in the presence of the auditors, and also holds extraordinary meetings as required. The members of the Board of Directors are listed [p.72](#) under List of Directors and Officers. Furthermore, the Management Council (in principle held once a month), which is composed of executive officers and Directors, deliberates on matters to be discussed at Board of Directors meetings, general executive policies for company operations, and important management matters. By holding Management Council meetings, the transparency of the process leading to final decisions is increased, enabling accurate and speedy decision-making and efficient company management. The majority of auditors are from outside the company, and regular meetings of the Audit & Supervisory Board are held once a month to discuss whether there are any problems in the company's business execution and compliance, and whether there are any matters that need to be pointed out to the Board of Directors.

In addition to the above-mentioned bodies, in order to further strengthen the functions of corporate governance, the Company has been nominating candidates for directors and auditors, determining director compensation and continuously improving corporate

governance since FY3/2020. The Nomination Committee, Compensation Committee, and Governance Committee have been established with the main aim of enhancing the objectivity, transparency, and fairness of the Board of Directors, and deliberate mainly on the appropriateness of candidates, the policy for determining director compensation, and the ideal form of corporate governance, and report to the Board of Directors. The Nomination Committee and Compensation Committee were integrated as the Nomination and Compensation Committee in FY3/2024.



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In addition, the Company has introduced an executive officer system in order to clarify the responsibilities of business execution, execute delegated authority, improve the efficiency of business execution and speed up the decision-making process. The nomination of and compensation for executive officers is discussed by the Nomination and Compensation Committee and its proposals are submitted to the Board of Directors.

Monitoring of the corporate governance structure

The Company has an audit system of three outside auditors, which we consider to be a well-functioning management monitoring system.

Basic idea on the internal control system and the state of its development

The Company has an audit system of three outside auditors, which we consider to be a well-functioning management monitoring system.

The Company's Board of Directors decided the basic policy for the development of an internal control system based on the Companies Act at a meeting in April 2006 (last revised in April 2023), and the Company is continuing to develop its internal control system based on this policy. In addition, the Internal Audit Division is also assessing the maintenance and operation of the internal control system for financial reporting.

The Company has established the Action Guidelines of DKK in order to gain the trust of all stakeholders by complying with laws and regulations and establishing corporate ethics. Based on these guidelines, appropriate audits are carried out by the auditors and the Internal Audit Division, and specific systems have been established by setting out various regulations, enabling comprehensive monitoring by the permanent Risk Management Committee and strengthening the functions of the internal reporting system to enable swift identification of improprieties. For outside audits, the company regularly undergoes accounting audits by an accounting auditor and ISO audits (for quality and environment) by the Japan Quality Assurance Organization.

Status of the risk management structure

For the company-wide risk management structure, a Risk Management Committee has been established, chaired by the executive officer in charge of risk management and

comprising deputy directors and appointed divisional managers. The committee identifies risks that could have a significant impact on management, deliberates, and decides on countermeasures and policies, and confirms the status of implementation of these measures. The proceedings are reported to the Board of Directors, which confirms and debates the various issues. In addition, the company has established Rules for Crisis Management and, in the event that a crisis occurs, an emergency review committee or an emergency task force is set up depending on the extent of the crisis, and a company-wide response is put in place.

The Quality Assurance Division and the Environment and Safety Management Division play central roles in product quality risks and environmental regulation risks, respectively, to ensure that they are constantly monitored and any issues discovered are resolved as soon as possible.

For compliance with laws and regulations, the Company has established compliance procedures and the General Affairs & Human Resources Division serves as the secretariat for monitoring and raising awareness of compliance, while internal audits also place the highest priority on compliance and a structure is in place to promptly report any issues to the Chief Executive Officer. In addition, to prevent the leakage of important information, confidentiality management rules and insider trading prevention rules have been established and an information management officer has been appointed to ensure a system of responsibility and the management of important information. Furthermore, an internal reporting system has been established to monitor these systems.

Ensuring appropriate operations in the whole Group, consisting of the Company and its subsidiaries and affiliates

- DKK strives to foster a sound corporate culture at all Group companies by having its subsidiaries and affiliates establish guidelines that are equivalent to the Company's Action Guidelines.
- Under its organizational regulations, the Company has designated a division to be in charge of each subsidiary and affiliate. In addition, the Company has established Rules for Management of Affiliated Companies to ensure appropriate management

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control of Group companies.

- In accordance with the Rules for Management of Affiliated Companies, the Company's directors provide guidance and advice in close cooperation between the Company and Group companies, while conducting monitoring in cooperation with the accounting auditor when necessary.
- Directors are required to report to the Audit & Supervisory Board any violations of laws and regulations or other important compliance-related matters that they discover at subsidiaries and affiliates. The Audit & Supervisory Board may express their opinions to the Board of Directors and request the formulation of remedial measures.
- In accordance with the Rules for Management of Affiliated Companies, directors of subsidiaries and affiliated companies dispatched by the Company are required to confirm the Company's intentions and follow the instructions of the Company prior to making important decisions. In addition, management information and matters that may have a significant impact on management shall be reported to the responsible division of the Company on a regular basis and as appropriate.

Evaluation of the effectiveness of the Board of Directors

In line with the Corporate Governance Code stipulated by the Tokyo Stock Exchange, the Company regularly evaluates the effectiveness of its Board of Directors. A summary of the evaluation conducted in FY3/2024 is shown below.

Summary of the evaluation process

The company evaluates the effectiveness of its Board of Directors annually as part of its efforts to improve effectiveness. A survey is sent to all directors and auditors to conduct a self-evaluation. The results of the survey are compiled by the Governance Committee and reported to the Board of Directors.

Main survey evaluation items

- (a) Composition of the Board of Directors
- (b) Operation of the Board of Directors
- (c) Deliberations of the Board of Directors
- (d) Succession planning
- (e) Specific issues
- (f) Information disclosure

Summary of results and measures for improvement

- (a) Based on the results of the survey, the following items were evaluated as being effectively realized.
 - The members of the Board of Directors provide a good overall balance of knowledge, experience, and ability to effectively fulfill their roles and responsibilities, and the diversity and number of members are appropriate.
 - There is an atmosphere in which outside directors, internal directors, and corporate auditors can speak freely during board discussions.
 - There is appropriate involvement and advice from the independent Nomination and Compensation Committee, including perspectives on gender and other diversity and skills, when considering the nomination and compensation of directors and corporate auditors.
- (b) The following items were identified as areas for improvement, and efforts are being made to improve them.
 - For the medium-term plan and annual management plans, the Board of Directors should discuss the policies and strategies, including opinions from diverse viewpoints, from the formulation stage of these plans. For the six pillars necessary for the Company's sustainable growth, the Board of Directors should discuss and supervise progress toward reaching these goals in greater depth. To that end, quantitative indicators and targets for each of the key measures should be made more specific, and there should be discussion of these actions.
 - The Board of Directors should promote discussion on policies related to earn-

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ings targets with an awareness of the cost of capital and to capital efficiency as well as the realization of these policies, and explain them to shareholders in an easy-to-understand manner. To that end, the Board of Directors should hold discussions on specific initiatives to improve ROIC and on the format of future dialogue with shareholders.

Executive compensation

The Company regards the executive compensation system as one of the key pillars of corporate governance. To ensure that the executive compensation system leads to a continuous increase in corporate value, the Nomination and Compensation Committee, chaired by an outside director, formulates a policy on executive compensation which is then decided on by the Board of Directors, with a view to limiting any bias towards short-term orientation and adopting an objective perspective.

An overview of the content of the policy is as follows.

- a The policy should be designed to reflect the Group’s medium- and long-term business strategy and at the same time strongly motivate medium- and long-term growth.
- b The compensation level and design should enable the Group to secure excellent human resources on a global basis, motivate the next generation of management personnel to grow, and improve the vitality of the organization.
- c The system should reflect company and individual performance directly or quantitatively in compensation in order to strengthen the link with business performance and increase incentives.

Compensation for internal (full-time) directors comprises fixed, variable, and share-based compensation, with variable compensation further comprising performance-linked compensation based on the achievement of net sales and ordinary profit

targets, and individual assessment compensation based on individual evaluation. The ratio of performance-linked compensation is set at a higher level in line with the seniority of each director, and is set in proportion to management responsibility. In addition, the Nomination and Compensation Committee continuously deliberates and monitors the appropriateness of the compensation level and composition of compensation for directors and corporate auditors, as well as the appropriateness of the compensation decision process. The Board of Directors deliberated on the amounts of individual compensation for the current fiscal year based on a report from the Nomination and Compensation Committee, and as a result, the Board of Directors has determined that the amounts are in line with the relevant policy.

Outside directors are paid only a fixed compensation, as it is necessary to ensure their independence in order for them to play their respective roles appropriately. Compensation for auditors is also fixed from the perspective of emphasizing their independence and objectivity with regard to management. The compensation of the auditors is determined through discussions by the Audit & Supervisory Board.

The amount of monetary compensation for Directors of the Company was approved at the 47th Annual General Meeting of Shareholders held on May 14, 2003 to be no more than ¥500 million per year. There were six directors as of the close of that meeting. Further, at the 63rd Annual General Meeting of Shareholders held on June 25, 2019, a resolution was passed for compensation by granting restricted stock of up to ¥100 million per year to Directors (excluding Outside Directors), separately from the aforementioned ¥500 million compensation limit. There were six directors (excluding Outside Directors) as of the close of that meeting.

The amount of monetary compensation for Audit & Supervisory Board Members was approved at the 47th Annual General Meeting of Shareholders held on May 14, 2003 to be no more than ¥100 million per year. There was one Audit & Supervisory Board member as of the close of that meeting. The number of Audit & Supervisory Board members was increased to three at an Extraordinary Meeting of Shareholders on November 7, 2003.

Variable compensation for internal (full-time) Directors is paid based on company performance and individual evaluation. Both company performance indicators are used

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on a consolidated basis. Net sales and ordinary profit, which are direct indicators of company performance, are used as indicators for performance-linked indicators. The amount of compensation is determined based on the degree of achievement of the net sales and ordinary profit forecasts disclosed at the beginning of the fiscal year, designated as the net sales Standard and ordinary profit Standard. The Sales Standard and ordinary profit Standard for FY3/2025 are ¥38,000 million and ¥2,200 million, respectively. The calculation method is based on the amount of compensation for 100% achievement of the standard as the “Compensation Standard Amount” with the amount of compensation for the net sales portion determined by a formula (Formula 1 below) in which a ±2.5% change in performance from the net sales Standard results in a ±10% increase or decrease in the Compensation Standard Amount. The amount of compensation for the ordinary profit portion is determined by a formula (Formula 2 below) in which a ±5% change in performance from the ordinary profit Standard results in ±10% increase or decrease in the Compensation Standard Amount. The maximum amount of compensation is fixed at 200% of the Compensation Standard Amount for the both the net sales portion and the ordinary profit portion.

Regarding individual evaluation-based compensation, the Chairman of the Board, Chief Executive Officer evaluates the degree to which each Director (excluding the Chief Executive Officer) achieved his or her goals for the fiscal year under review and the state of their efforts toward them. After the Nomination and Compensation Committee has confirmed the validity of those evaluations, the compensation amounts are decided at the Board of Directors. In the event that the consolidated net profit margin (see Formula 3 on p.71) falls significantly, restrictions on the payment of variable compensation may be established at a level appropriate to the net profit margin (please refer to the “Net profit margin and Variable Compensation Support System” on p.71). The final compensation amount is rounded up to the nearest thousand yen.

Variable compensation based on results of the fiscal year is paid as bonuses for the fiscal year under review. With regard to variable compensation based on the actual results of the current financial year, the compensation linked to the Company’s performance was calculated from the respective achievement of 88% and 109% against the net sales Standard (¥40,000 million) and ordinary profit Standard (¥2,700 million) of the earnings

forecasts. Furthermore, the Nomination and Compensation Committee confirmed the appropriateness of the individual assessments and the variable compensation amounts before the Board of Directors made a decision.

In an effort to further share value with shareholders, internal (full-time) Directors are granted share-based compensation (restricted share-based compensation). Shares corresponding to a fixed amount according to job responsibilities, to a total annual amount of no more than ¥100 million per year, are allocated.

Compensation Standard Amount

Executive officer type	Compensation standard amount for net sales	Compensation standard amount for ordinary profit
Chairman of the Board, Chief Executive Officer	¥15mn	¥15mn
Member of the Board, Managing Executive Officer	¥5mn	¥5mn
Executive Officer	¥3mn	¥3mn

Formula 1

Compensation amount =
 Compensation standard amount x (1+10/2.5x (net sales / net sales standard amount – 1))

Formular 2

Compensation amount =
 Compensation standard amount x (1+10/5x (net sales / ordinary profit standard amount – 1))

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Maximum Amount of Compensation

Executive officer type	Maximum amount of compensation for net sales	Maximum amount of compensation for ordinary profit
Chief Executive Officer	¥30mn	¥30mn
Managing Executive Officer	¥10mn	¥10mn
Executive Officer	¥6mn	¥6mn

Formula 3

Net profit margin = Profit attributable to owners of parent/ net sales x 100

Net Profit margin and Variable Compensation Support System

Net profit margin (%)	Variable Compensation Support System
In the case of 0%	No support payment
In the case of more than 0% but less than 4%	Support payment of 40% of determined amount
In the case of more than 4% but less than 8%	Support payment of 80% of determined amount

Total Compensation for Each Type of Executive Officer, Total Amount by Compensation Type, and Number of Executive Officers Eligible

Compensation for FY3/2024

Executive officer type	Total compensation	Total compensation by type			Number of executive officers eligible
		Fixed compensation	Performance-linked compensation	Non-financial compensation	
Directors (including Outside Directors)	¥147mn (¥32mn)	¥89mn (¥32mn)	¥37mn (-)	¥19mn (-)	7 (4)
Auditor & Supervisory Board Members (including Outside Auditor & Supervisory Board Members)	¥29mn (¥29mn)	¥29mn (¥29mn)	- (-)	- (-)	4 (4)

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Directors' skills matrix

The Company implements the basic policy of nominating candidates for Director mainly considering the balance of credentials and experience, diversity, etc. In addition to the procedure, this is set forth in "Rules for Officers." To achieve sustainable growth and enhance corporate value toward becoming a 100 Year Company and to prepare for changes in the business environment, we have identified the six pillars to work on (new business creation, earnings structure reform, innovative manufacturing, results-oriented organization, corporate culture advancement, and sustainability initiatives) under the new medium-term management plan, 'DK-One Next.' In order to achieve this, we believe that it is important for the Board of Directors to be comprised of members who have the knowledge, experience, and abilities listed in the skill matrix below, and we have selected candidates after considering the balance and diversity of these skills. If all the candidates described in this convocation notice are elected as proposed, the expertise and experience of each Director will be as follows.

Position	Chairman of the Board, Chief Executive Officer	Director, Member of the Board; Managing Executive Officer	Director, Strategy Unit, Managing Executive Officer, Member of the Board	Outside Director, Member of the Board Independent Director	Outside Director, Member of the Board	Outside Director, Member of the Board
Independent				●	●	●
Name	Hiroshi Kokubu	Kimio Ouchi	Masayuki Itahashi	Toshiyuki Umehara	Junichi Tanaka	Naomi Tobita
Business, Management	○	○	○	○	○	○
Sales, Marketing	○	○	○			○
Research, Development		○		○		
Production, Technology		○		○		
Global Business	○	○	○	○	○	
Finance, Accounting			○		○	
Law, Risk Management		○			○	
Organizations, Human Resources Development						○
Environment, Energy		○		○		
DX			○	○		

- (Notes) 1. The system is after the resolution of the 68th Annual General Meeting of Shareholders and the Board of Directors meeting held on the same day.
 2. The knowledge and experience listed above show only a representative sample of each Director's skills.

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Directors



Chairman of the Board, Chief Executive Officer
Member of the Nomination and Compensation Committee

Hiroshi Kokubu

Date of birth: February 26, 1972

Hiroshi Kokubu was elected as Director in June 2013 and has been serving as Representative Director, Member of the Board; President, Executive Officer since June 2022. Previously, he was responsible for the sales and procurement divisions and was widely involved in the management of overseas subsidiaries, and has contributed to the development of the Group's global management. As Representative Director, Member of the Board; President, Executive Officer, he is harnessing the power of the Executive Officers and energetically promoting the 'six pillars' that are the core measures in the current medium-term management plan, 'DK-One Next.'

- Apr. 1995 Joined the Sanwa Bank, Ltd. (currently the MUFG Bank, Ltd.)
- Oct. 2004 Joined DKK
- Jun. 2009 Branch Manager (Tokyo Sales Office), Sales and Marketing Division
- Mar. 2011 General Manager, Procurement Division
- Jun. 2013 Director, Member of the Board; General Manager, Procurement Division
- Jul. 2014 Vice President, Shandong Guangyin DKK New Materials Co., Ltd.
- Jul. 2014 Vice President, Shandong Guangyin DKK Environment Technology Co., Ltd.
- Apr. 2016 Director, I.D.U. Co., Ltd.
- Apr. 2016 Director, Member of the Board; General Manager, Sales and Marketing Division and Responsible for Procurement Division, the Company
- Dec. 2017 President, DKK (Shanghai) Materials Trading Co., Ltd.
- Apr. 2019 Director, Member of the Board; General Manager, Operational Unit, the Company
- Apr. 2020 Managing Director, Member of the Board; General Manager, Operational Unit
- Jun. 2020 Director, Member of the Board; Managing Executive Officer, General Manager, Operational Unit
- Apr. 2022 Director, Member of the Board; Managing Executive Officer
- Jun. 2022 Representative Director, Member of the Board; President, Executive Officer (current position)

Directors



Member of the Board, Managing Executive Officer
Member of the Risk Management Committee member (Chairman)

Kimio Ouchi

Date of birth: July 1, 1967

Kimio Ouchi was elected as Director in June 2008, and became Managing Director in 2016, and Director, Member of the Board; Managing Executive Officer in 2020 with the introduction of the executive officer system. He has been supervising the technology and marketing divisions for many years, laid the foundations for the catalyst area, and made efforts in the establishment of a logistics subsidiary in response to global logistics issues. In the current medium-term management plan, 'DK-One Next,' he is playing a key role in improving human capital and organizational capabilities, and as Director he is promoting the strengthening of risk management for the entire Group.

- Apr. 1992 Joined DKK
- Sep. 2006 Branch Manager (Osaka Sales Office), Sales and Marketing Division
- Apr. 2008 Director, Member of the Board, I.D.U. Co., Ltd.
- Jun. 2008 Director, Member of the Board; General Manager, Sales and Marketing Division
- Apr. 2011 Representative Director, Member of the Board, I.D.U. Co., Ltd.
- Apr. 2013 Managing Director, Member of the Board; Responsible for Sales and Marketing Division, Technology Division, and Corporate Planning Division
- Sep. 2013 Director, Member of the Board, Suihua Shanghai Trading Co., Ltd. (currently DKK (Shanghai) Materials Trading Co., Ltd.)
- Apr. 2016 Managing Director, Member of the Board; General Manager, Research and Development Office; General Manager, Intellectual Property Management Office; Responsible for Technology Division and Corporate Planning Division
- Jul. 2017 Representative Director, Member of the Board, DKK Logistics Corporation
- Apr. 2018 Managing Director, Member of the Board; Responsible for Research and Development Office, Intellectual Property Management Office, and Technology Division, the Company
- Apr. 2019 Managing Director, Member of the Board; Responsible for R&D Unit
- Jun. 2020 Director, Member of the Board; Managing Executive Officer
- Apr. 2024 Director, Member of the Board; Managing Executive Officer; General Manager, Administration Unit (current position)

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Directors



Member of the Board, Managing Executive Officer

Masayuki Itahashi

Date of birth: December 22, 1966

- Apr. 1993 Joined DKK
- Apr. 2013 General Manager, Planning Division
- Jun. 2017 Director, Member of the Board; General Manager, Planning Division and Responsible for Finance Division
- Jun. 2018 Director, VIETNAM RARE ELEMENTS CHEMICAL JOINT STOCK COMPANY (current position)
- Apr. 2019 Director, Member of the Board; General Manager, Corporate Planning Division
- Jun. 2019 Senior Executive Officer; General Manager, Corporate Planning Division
- Apr. 2024 Senior Executive Officer; General Manager, Strategy Unit (current position)

Concurrent positions in the Group
 Director, VIETNAM RARE ELEMENTS CHEMICAL JOINT STOCK COMPANY

Masayuki Itahashi has been at the core of the Group's management for many years, including by being involved in formulating medium-term and annual management plans as General Manager, Corporate Planning Division and as Senior Executive Officer, and by contributing to the development of VREC, DKK's Vietnamese subsidiary, as its Director.
 As General Manager, Strategy Unit, he is playing a key role in achieving the goals of the current medium-term management plan, 'DK-One Next.'

Directors



Outside Director, Member of the Board Independent Director

Member of the Nomination and Compensation Committee (Chairman),
 Member of the Governance Committee

Toshiyuki Umehara

Date of birth: September 3, 1957

- Apr. 1984 Joined Nitto Denko Corporation
- Jun. 2010 Vice President
- Jun. 2015 Board Member, Executive Vice President, General Manager of Automotive Products Sector
- Apr. 2018 Board Member, Senior Executive Vice President, CTO, CIO, General Manager of Corporate Technology Sector
- Jun. 2019 Representative Director, Senior Executive Vice President, CTO, General Manager of Corporate Technology Sector
- Jun. 2021 Outside Director, Fuji Oil Holdings Inc. (current position)
- Jun. 2022 Outside Director, Member of the Board, the Company (current position)
 Outside Director, ShinMaywa Industries, Ltd. (current position)
- Apr. 2023 Representative Director, JCCL, Inc. (current position)

Concurrent positions in the Group
 Outside Director, Fuji Oil Holdings Inc.
 Outside Director, ShinMaywa Industries, Ltd.
 Representative Director, JCCL, Inc.

In addition to working for many years as an engineer and as a business director at a listed company, contributing to the promotion of that company's business, Toshiyuki Umehara promoted the implementation of technology-oriented management, which is a strength of that company, as CTO and promoted the strengthening of the information area as CIO.
 He also provides suggestions and advice for the Group from a variety of perspectives, including the global development of new business, the enhancement of quality and safety awareness, and investment decisions and their verification, and plays a key role in the enhancement of the Company's corporate value.

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Directors



**Outside Director, Member of the Board
Independent Director**
Member of the Nomination and Compensation
Committee,
Member of the Governance Committee
(Chairman)

Junichi Tanaka

Date of birth: January 2, 1957

- Apr. 1979 Joined Fukui Murata Manufacturing Co., Ltd.
- Jan. 2008 General Manager of Finance Department,
Murata Manufacturing Co., Ltd.
- Jun. 2013 Standing Statutory Auditor
- Jun. 2016 Director, Audit and Supervisory Committee
Member (Full-time, Chief of the Committee)
- Jun. 2022 Outside Director, Member of the Board, the
Company (current position)

Junichi Tanaka was engaged in accounting, finance, and other areas for many years at a listed company and its European and Asian Group companies, and has abundant operational experience, mainly in the finance field, including serving as General Manager of the Finance Department of that listed company. Also, as a standing statutory auditor and as a director and audit and supervisory committee member, he worked on the strengthening of that company's audit structure. He also provides vigorous suggestions and advice for the Group on business development, taking into account country risk, financial analysis, and improving the effectiveness of the Board of Directors, and plays a key role in the enhancement of the Company's corporate value.

Directors



**Outside Director, Member of the Board
Independent Director**
Member of the Nomination and Compensation
Committee,
Member of the Governance Committee

Naomi Tobita

Date of birth: July 3, 1962

- Apr. 1986 Joined BANDAI CO., LTD.
- Aug. 2009 Executive Officer, General Manager, Girls Toy
Division, BANDAI CO., LTD.
- Apr. 2012 Director; General Manager, Play Toy Division;
Chief Tamagotchi Officer (CTO), BANDAI CO.,
LTD.
- Apr. 2018 Managing Director, Bandai Namco Business
Arc Inc.
Deputy Division General Manager,
Administrative Headquarters, Bandai Namco
Holdings Inc.
- Sep. 2022 Outside Director of Information Technology
Development Co. (current position)
- Jun. 2023 Outside Director, Member of the Board, the
Company (current position)

Concurrent positions in the Group
Outside Director of Information Technology
Development Co.

Naomi Tobita served as a manager of development division and a business division at a listed company and as a director of the company and its affiliated companies. While involved in business operations and corporate management, she promoted the vitalization of the organization and the development of human resources. She provides vigorous suggestions and advice on the development of human resources, fostering corporate culture, and vitalizing organizations, and plays a key role in the enhancement of the Company's corporate value.

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Board Members

Audit & Supervisory Board Members



**Standing Audit & Supervisory Board Member (outside)
Independent Director**
Member of the Governance Committee

Hiroshi Kawaguchi

Date of birth: December 17, 1955

Hiroshi Kawaguchi has a wealth of knowledge of not only financial affairs and accounting but also corporate management in general, having had many years of experience in financial and administration divisions at a listed company and having served as director and auditor.

- Jan. 1979 Joined Watabe Ishoten K.K. (currently WATABE Wedding Corporation)
- May. 1995 General Manager, Accounting Department, Administration Division, Watabe Wedding Corporation
- Dec. 2000 General Manager, Finance Department, Administration Division, Watabe Wedding Co.
- Jun. 2002 Full-time Corporate Auditor, Watabe Wedding Corporation
- Jun. 2005 Director & Director of Executive Office, Watabe Wedding Corporation
- Jun. 2011 Standing Auditor, SHINOBU FOODS PRODUCTS CO., LTD.
- Jun. 2019 Standing Audit & Supervisory Board Member, the Company (current position)

Audit & Supervisory Board Members



**Audit & Supervisory Board Member (outside)
Independent Director**
Member of the Governance Committee

Yoshinori Tsuda

Date of birth: August 18, 1972

Concurrent positions in the Group
Representative Director and Partner, ASUKA Consulting INC. (current position)
Representative, Yoshinori Tsuda CPA Office (current position)
Outside Director (Audit and Supervisory Committee Member), YAMAZEN CORPORATION

Yoshinori Tsuda has advanced accounting, tax, and financial knowledge and experience, having served as a Certified Public Accountant, and is playing an active role as a representative director of a consulting firm in the field of accounting.

- Apr. 1995 Joined Chuo Audit Corporation
- Apr. 1998 Registered as Certified Public Accountant
- Aug. 2007 Representative Director and Partner, ASUKA Consulting INC. (current position)
- Aug. 2007 Established Yoshinori Tsuda CPA Office (current position)
- Jun. 2011 Audit & Supervisory Board Member, the Company (current position)
- Jun. 2013 Outside Audit & Supervisory Board Member, YAMAZEN CORPORATION
- Jun. 2016 Outside Director (Audit and Supervisory Committee Member), YAMAZEN CORPORATION (current position)

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Board Members

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Audit & Supervisory Board Members



**Audit & Supervisory Board Member (outside)
Independent Director**
Member of the Governance Committee

Ayako Oura

Date of birth: July 4, 1979

Concurrent positions in the Group
Partner, Noguchi & Partners

Reason for appointment and expected role
Ayako Oura is an attorney-at-law, and we believe that she will be able to conduct audits by utilizing her sophisticated legal expertise concerning the legal compliance of the decision-making process of the Company's Board of Directors and the execution of duties by Directors and others. She also specializes in labor law and has experience as an in-house lawyer.

- Oct. 2004 Registered as attorney-at-law (Osaka Bar Association)
- Oct. 2004 Attorney-at-law, Amano Law Offices
- May. 2010 Graduated with an LLM degree from Boston University School of Law
- Sep. 2010 In-house counsel at a foreign company
- Apr. 2011 Admitted to the New York State Bar Association
- Aug. 2012 Partner, Noguchi & Partners (current position)
- Jun. 2023 Audit & Supervisory Board Member of the Company (current position)

Executive Officers

Position	Name	Responsibility
Chief Executive Officer	Hiroshi Kokubu *1	
Managing Executive Officer	Kimio Ouchi *1	Director, Administration Unit
Managing Executive Officer	Masayuki Itahashi *1	Director, Strategy Unit
Managing Executive Officer	Isao Okazaki	Director, Operational Unit
Executive Officer	Hiroshi Okamoto	Director, R&D Unit
Executive Officer	Keita Kodama	Executive Officer, VIETNAM RARE ELEMENTS CHEMICAL JOINT STOCK COMPANY

*1 is concurrently serving as a director.

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Message from Outside Directors

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The ‘Three Values’ at the heart of DKK’s management philosophy are ‘Valuable Products,’ ‘Fulfilling Life,’ and ‘Rewarding Workplace,’ and in this section DKK’s Outside Directors Toshiyuki Umehara, Junichi Tanaka, and Naomi Tobita participated in a wide-ranging discussion to present an objective view on areas such as ‘Valuable Products’ that contribute to solving social issues, and DKK’s compliance and governance stances and its diversity initiatives in relation to being a ‘Rewarding Workplace.’



– First of all, could the three of you clearly state how you hope to contribute to DKK as outside directors, taking into account your past experience and other factors?

Toshiyuki Umehara: I have been fortunate to have gained a wide variety of experience at an intermediate materials manufacturer, including 15 years as an engineer, 15 years in the business division (manufacturing/management) and six years at the head office (technology/human resources). I try to make use of these experiences and actively speak up at board meetings if I have any concerns to ensure a high quality discussion. My main wish for the Board of Directors is that it systematically creates opportunities for a full discussion of the Group’s materiality issues. I hope I can make a small contribution to the Group’s ability to grow and become a high-quality company by setting the priority of issues and gradually talking through them.

Naomi Tobita: I was originally in the entertainment industry and was asked to take up this position because I could view DKK from the perspective of a completely different industry. In part because of my background, I try to speak up as much as I can at board meetings about anything that seems slight “off.” I have some experience in human resources development, and it is a field I am personally interested in, so I am particularly keen to exchange opinions on the Group’s human resources development and have the management review its approach.

From left: Naomi Tobita, Junichi Tanaka, Toshiyuki Umehara

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Message from Outside Directors

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Junichi Tanaka: Having worked in finance and accounting at listed companies for a long time, I would like the Group to increase its statistical sensitivity and analysis, and I have asked the Board of Directors to provide more data-based documentation. For important decisions, I try to ensure that the process leading to the decision and the assessment of the executives are appropriate. The Group has a family-like corporate culture and a sense of cohesiveness, but I want to fulfil my supervisory responsibilities as an outside director by ensuring this does not cloud our judgement.

– ‘Valuable Products,’ meaning products that contribute to solving social problems, is one of the ‘Three Values’ in DKK’s management philosophy. What do you think of the current situation for such ‘Valuable Products’ and what challenges do you see for the future?

Umehara: The Group boasts a global share of approximately 40% for zirconium products in the field of automotive catalysts. In this sense, we are contributing greatly to solving worldwide social issues such as air pollution and global warming, but at the same time, it is also important to ensure the commercialization of ‘Valuable Products’ in new business fields while also bolstering our management strength. For example, countries around the world have set targets for reducing CO₂ emissions with the aim of achieving decarbonization, but the curbing of these emissions is not going as well as expected. In Japan, around 60% of small and medium-sized enterprises

(SMEs) have not yet started decarbonization initiatives, and even in the US, disclosure up to Scope 3, which is CO₂ emissions in the supply chain, has not progressed. Against this backdrop, there is a growing focus on the capture and reuse of CO₂ emitted by companies, and there is ample scope for the Group’s technologies and products to contribute to this, including the associated reduction of electricity consumption.

Tanaka: Since the company was founded in 1956, we have been committed to the management philosophy of providing ‘Valuable Products,’ and it is wonderful to see that this DNA has been passed on to our executives and employees to this day. In the medium-term management plan ‘DK-One Next,’ a new mechanism was set out to focus on the three Strategic Areas of Semiconductor/Electronics, Energy, and Healthcare. I hope that the word ‘strategic’ will soon not be needed to describe these areas, because I believe that only when the three areas are integrated into the core segments and they begin to provide new value will they lead to further corporate growth.

Tobita: It was only when I became involved with the group, that I understood that zirconium, a rare metal, is literally rare and valuable. To my untrained eye, I feel that there are a lot more fields in which zirconium can be used. We are currently exploring new possibilities for zirconium through various new businesses, and I expect us to take on even more aggressive challenges as we move towards becoming a 100 Year Company.



Naomi Tobita

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Message from Outside Directors

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– Next, I would like to focus on another of the ‘Three Values,’ a ‘Rewarding Workplace.’ What is your overall impression of compliance and governance at DKK?

Tanaka: Through the reports of the Board of Directors, at least, I have never had the impression that ‘common sense at DKK is at odds with that in the wider world.’ I think this is proof that compliance is understood correctly within DKK. However, what is required of a company is not mere compliance with laws and regulations, but for it to act in an ethically and morally correct manner, and

the foundation for this is the corporate culture. The Group has an open, flat, and very family-like corporate culture. For example, birthday parties are held every month, and everyone from board members to ordinary employees participates, with no barriers between positions. I feel that a good corporate culture is fostered by the Company valuing its employees and employees being always conscious of providing a ‘Rewarding Workplace.’

Tobita: Looking at the employees in our Group, I get the impression that everyone works with their feet firmly planted on the ground. This may be due to the openness

of the Group. However, the way companies are organized changes with the times. The Group needs to constantly check whether its current flat communication structure is functioning properly for management.

Umehara: Since the foundations as a ‘Rewarding Workplace’ are solid, it will be important to enhance human resources training and secure human resources at all levels. I believe that by systematically establishing a setup in which people can acquire necessary skills and rotate between positions, the human resource base will become wider and eventually lead to a corporate structure that allows management to choose from a large number of candidates.

– I heard that you all toured the manufacturing site, what struck you about the workplace?

Umehara: My impression was that there appear to be key employees at the plant and that a safe and vibrant manufacturing system has been established around them. Executives in our Group frequently visit plants and my sense is that management is keen to really look at frontline work sites.

Tanaka: Perhaps it is part of the corporate culture, but I got the impression that visits by executives are not regarded as anything special. By being shown the plant as is, including issues and problems, without being treated as a customer, I really sensed the positive, flat relationship that is maintained between the head office and the plant on a daily basis.



Junichi Tanaka

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Message from Outside Directors

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– Finally, I would like to ask you a question in relation to the remaining one of the ‘Three Values,’ ‘Fulfilling Life.’ What is your impression of diversity at DKK, i.e. diversity in terms of human resources and working styles?

Tobita: I strongly feel that everyone at DKK, including management and the General Affairs and Human Resources Division, wants to incorporate diversity in a meaningful way. The first step towards diversity is ‘the participation of women in the workplace,’ and I have had the opportunity to speak with all 50 or so female employees in FY3/2024. Although the ratio of female employees is still low, everyone has a clear view of the work they are supposed to do, and my honest opinion is that we have assembled an excellent team of people. On the other hand, I sense that many of them are unclear about their future career plans. We may need to support them in communicating more closely with their superiors, for example, about how they want to grow within DKK. DKK is already working on reviewing its personnel system and salary structure to reflect career plans and intends to increase the ratio of female managers in FY3/2025.

Umehara: Diversity is now important not only in terms of nationality and gender, but also in terms of life values. Employees have an increasing desire to enrich their lives through the company in a way that fits with their own individual values, so it is important to create personnel and education systems that are compatible with this. For example, when they have a child, employees can choose

a working style and personnel evaluation that focuses on the family. Then when the child requires less of their time, they can switch gears more to the company and aim for their own personal growth. It is very important for the diversity of the Group to have a personnel system that allows employees to choose working styles in accordance with their own life plans.

Tanaka: As I mentioned earlier about birthday parties, DKK newsletter carries a photo of each of the people celebrating their birthday that month, along with their comments. Most of the comments are about family and hobbies, and it is possible to discern the values of each individual and to understand that there are many different types of people in DKK, which is to say it is a true window on diversity. I believe that knowing about such differences is what makes diversity take root in the company.

Tobita: When people think their existence is truly valued, they feel rewarded and work hard. The management philosophy and medium-term management plan ‘DK-One Next’ talk about a corporate culture in which everyone supports staff who are undertaking challenges. Failure is an unavoidable part of any challenge, but if we can successfully foster a corporate culture that recognizes failure, employees will feel empowered to take on more challenges, which will in turn lead to new businesses.

– Thank you very much for your time today.



Toshiyuki Umehara

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Risk Management

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Business Continuity Plan (BCP)

We supply products to customers not only in Japan but also around the world. Thus, if a large earthquake, fire, or another serious disaster prevents us from supplying products, that may affect society. In case of such disasters, we have developed BCPs as shown below in the head office and each site. In the event of an emergency, we establish emergency headquarters for smooth emergency response and recovery work.

Basic policies

If a large-scale disaster occurs, we work to minimize its impact on customers (interruption of the product supply). Based on the following three priority policies, we carry out risk management according to the situation.

1. Respect and place maximum priority on human life.

Human life refers to the lives of employees, their families, temporary employees, visitors, and local residents.

2. Keep business running (fulfill our responsibility to deliver products ordered).

We restore the head office functions necessary to continue business within one week after the occurrence of a disaster. We move and restore the production functions within three months after the occurrence of a disaster.

3. Work to secure the safety of the entire region.

We prevent fires, explosions, and the blowout or leakage of toxic gases or chemical solutions and prevent the disaster from spreading over the region. To do that, we work to cooperate with the local communities.

Information security

The DKK Group recognizes that high-level awareness of information security and protection of information assets are important management issues in order that the Group is to continue to grow with our stakeholders and to contribute to society. Thus, we herein establish our policy on information security and commit the Group to safe and appropriate management and use of information assets and to earning society's trust by ensuring information security.

Basic policies

- 1 We shall comply with applicable laws, governmental guidance, and other social norms related to information security.
- 2 We shall define our responsibility for information security and put in place a system for implementing measures to address information security.
- 3 We shall implement organizational, human, physical, and technological measures to counter information security risks.
- 4 We shall continuously conduct education and awareness raising in relation to information security.
- 5 We shall maintain our management systems and initiatives related to information security and endeavor to continuously improve these systems and initiatives.

All Group directors and personnel shall refer to this Information Security Policy and to guidelines established in associated internal rules as their guidance for day-to-day handling of information assets, and as members of the Group and of society, shall engage in commonsensical and responsible behavior.

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Compliance

Basic idea

We position compliance as one of our priority issues in performing corporate activities, set basic rules on compliance and a system for promoting compliance, and promote compliance on a routine basis. We have set the Action Guidelines that Officers and Employees are expected to follow. We encourage employees to behave in a sensible and responsible manner based on the guidelines in conducting daily business.

Promotion of compliance

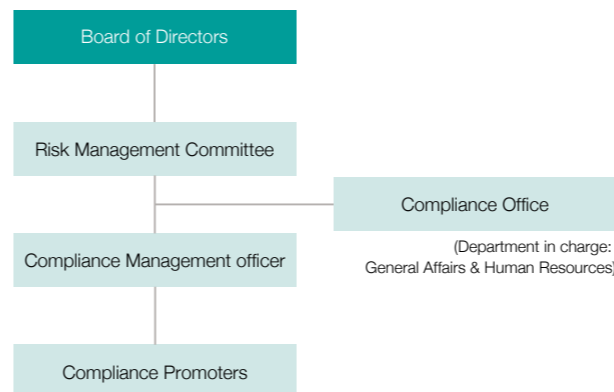
We have established a Risk Management Committee, under which compliance promoters in different divisions lead compliance activities and education programs. We have also established a Compliance Office, which develops various in-house training programs intended to allow employees to gain knowledge about laws or concepts necessary to ensure compliance.

Internal control system

The development of an internal control system was resolved by the Board of Directors in April 2006 (last revised in March 2022) based on the recognition that it is fundamental to strengthening and improving the corporate governance structure and increasing corporate value.

System to ensure directors and employees of the Group perform their duties in accordance with laws and the Articles of Incorporation

1. The Group will make the Action Guidelines of DKK specific rules for management to fulfill its social responsibilities, well known to its directors and employees to ensure their legal compliance.
2. The Group will establish internal and external whistle-blowing contact points for the purpose of discovering and correcting legal violations and instances of unfair practices within the Group. In addition, the Group will not treat whistleblowers unfavorably.



3. The Group will establish the Internal Audit Division controlled directly by the Chief Executive Officer to audit the appropriateness of the operations of the Group.
4. Our policy for elimination of anti-social forces is declared in the Action Guidelines of DKK and provided in the Rules for Banning Relations with Anti-Social Forces. Also, efforts will be put into collecting relevant information in cooperation with the relevant police authority.

System concerning the storage and management of information on the performance of duties by directors

Documents relevant to the performance of duties by directors such as minutes of board meetings and requests for managerial decisions will be stored and managed appropriately in accordance with laws and regulations as well as internal rules.

Rules and other systems for the management of the risk of loss by the Group

1. The Group will establish the Risk Management Committee, collect and analyze risk information, and take preventive measures against risks which may have grave consequences in order to continue its business and fulfill its social responsibilities.
2. In the event that a crisis occurs, responses will be made in accordance with the crisis management system as set forth in the Rules for Crisis Management.

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Compliance

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System to ensure the Group directors perform their duties effectively

1. The Board of Directors will make decisions on the performance of the important duties based on the Rules for the Board of Directors, and serve a supervising function while receiving reports from each director regarding the Company's and its subsidiaries' performance of operations based on the medium-term management plan.
2. The Group will establish the Management Council consisting of the Board of Directors and Unit Directors, etc. to discuss from multiple perspectives and make decisions on the performance of important duties within the authority of the Chief Executive Officer.

System to report to the Company on the performance of the duties of directors of the Group companies

The Company will receive timely reports on business performance, management challenges, and other important information of subsidiaries and affiliated companies based on the Rules for Management of Affiliated Companies.

System for employees who are assigned to assist duties of auditors and matters concerning securing of the independence of such employees from directors and the effectiveness of instructions to such employees

The Company, placing no employee to assist with the duties of auditors at present, will assign assistants if requested by auditors, securing their independence.

System for directors and employees of the Group to report to auditors, other systems for reporting to auditors, and system to ensure auditors conduct effective audits

1. Directors and employees will report the performance of their duties through the attendance of auditors at meetings of the Board of Directors and the Management Council. Auditors may request that directors and employees report to them as necessary, in addition to the above.
2. Directors and employees of the Group or any person reported to by them will report

to auditors immediately if they discover any grave legal violation or fact which may cause substantial damage to the Company or their companies.

3. The Company will not treat those who report to auditors unfavorably for reason of such reporting.
4. If auditors make a request for expenses relevant to the performance of their duties, it will be processed appropriately in accordance with Article 388 of the Companies Act.

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FINANCIAL AND NON-FINANCIAL SUMMARY

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Financial highlights

	FY3/2015	FY3/2016	FY3/2017	FY3/2018	FY3/2019	FY3/2020	FY3/2021	FY3/2022	FY3/2023	FY3/2024
(Millions of yen)										
Net sales	23,159	23,295	23,399	25,537	27,483	26,518	23,465	29,365	35,748	35,220
Cost of sales	16,390	15,853	14,972	17,039	19,114	19,014	17,113	21,176	25,140	26,907
Gross profit	6,768	7,442	8,426	8,498	8,369	7,504	6,352	8,189	10,607	8,313
Selling, general and administrative expenses	2,770	3,117	3,356	3,865	4,151	4,393	4,336	4,420	5,216	5,890
Operating profit	3,998	4,324	5,069	4,632	4,218	3,110	2,015	3,768	5,391	2,422
Ordinary profit	4,454	3,982	5,021	4,355	4,311	3,102	2,131	6,000	5,969	2,942
Profit attributable to owners of parent*1	3,178	2,782	3,732	2,971	3,093	2,348	1,235	1,849	4,020	1,140
Cash and deposits	4,336	4,434	5,594	4,247	7,215	8,488	9,576	8,840	10,750	8,289
Inventories	5,725	5,196	5,553	8,478	11,093	10,725	8,493	11,815	14,440	14,319
Current assets	16,694	15,818	18,664	21,229	26,103	27,018	27,529	28,502	33,987	32,523
Non-current assets	9,776	10,302	12,025	14,317	19,665	24,183	28,726	29,540	32,016	33,081
Total assets	26,471	26,121	30,690	35,546	45,768	51,201	56,256	58,043	66,004	65,605
Current liabilities	6,938	5,399	5,442	6,771	9,329	7,601	8,590	10,210	10,036	9,915
Non-current liabilities	2,923	1,824	3,270	4,077	9,174	14,068	16,882	16,106	19,816	19,373
Total liabilities	9,862	7,224	8,713	10,849	18,503	21,670	25,472	26,227	29,853	29,288
Capital stock	787	787	787	787	787	787	787	787	787	787
Equity capital	16,230	18,595	21,929	24,641	27,211	28,995	30,206	31,195	35,522	35,725
Total shareholders' equity	15,712	18,276	21,623	24,232	26,936	28,853	29,679	31,004	34,374	34,864
Non-controlling interests	379	302	47	56	54	57	57	620	629	591
Total net assets	16,608	18,897	21,977	24,697	27,265	29,531	30,784	31,816	36,151	36,316
Total liabilities and net assets	26,471	26,121	30,690	35,546	45,768	51,201	56,256	58,043	66,004	65,605
Interest-bearing debt	6,421	3,681	4,545	6,112	12,448	18,314	21,222	21,941	25,229	24,184
Debt-to-equity ratio (times)	0.2	0.2	0.2	0.2	0.5	0.6	0.7	0.7	0.7	0.7
Net interest income and expenses	-22	2	12	24	47	49	29	-24	-194	-395
Basic earnings per share (Yen)*2	131.47	115.07	154.37	122.93	127.90	96.90	50.91	76.15	165.40	46.87
Net assets per share (Yen)*2	671.31	769.14	907.08	1,019.23	1,123.89	1,195.97	1,244.13	1,284.24	1,460.81	1,467.26
Dividend per share (Yen)*2	8.00	9.00	12.00	16.00	19.00	20.00	18.00	23.00	34.00	26.00
Payout ratio (%)	6.1	7.8	7.8	13.0	14.9	20.6	35.4	30.2	20.6	55.5
Dividend on equity (%)	1.3	1.2	1.4	1.7	1.8	1.7	1.5	1.8	2.5	1.8
Cash flows from operating activities	3,359	4,290	4,252	774	2,641	4,288	5,658	3,231	3,893	5,310
Cash flows from investing activities	-1,872	-1,508	-2,492	-3,425	-6,389	-9,135	-6,448	-4,219	-4,423	-3,447
Cash flows from financing activities	-4,738	-2,949	337	1,213	5,908	5,877	2,485	-8	2,454	-2,444
Free cash flow	1,486	2,782	1,760	-2,651	-3,747	-4,947	-790	-987	-530	1,863
Capital expenditure	1,938	1,630	2,646	3,153	4,691	6,768	6,902	3,484	4,385	4,363
Depreciation	1,068	1,015	1,344	1,966	2,181	2,217	2,057	2,628	2,717	3,104
Research and development expenses	806	901	809	1,061	933	951	894	929	1,071	1,173
Net profit margin	13.7	11.9	15.9	11.6	11.3	8.9	5.3	6.3	11.2	3.2
Equity capital ratio	61.3	71.2	71.5	69.3	59.5	56.6	53.7	53.7	53.8	54.5
ROIC	14.6	15.7	16.0	11.8	8.3	5.5	3.4	5.6	7.1	3.2
WACC	-	-	-	-	-	3.1	5.9	5.1	4.3	4.2
ROA	12.1	10.6	13.1	9.0	7.6	4.8	2.3	3.2	6.5	1.8
ROE	21.9	16.0	18.4	12.8	11.9	8.4	4.2	6.0	12.1	3.2

*1 The Company has applied the "Accounting Standard for Business Combinations" etc. from the fiscal year March 2016 and the account title "Net income" has been changed to "Profit attributable to owners of parent". Net income for the previous fiscal years also reflect this change.

*2 The Company has conducted a share split of common share at a ratio of 5 for 1 with an effective date of April 22, 2017. Per share information is calculated as if such share split was conducted at the beginning of the fiscal year ended March 31, 2014.

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FINANCIAL AND NON-FINANCIAL SUMMARY

Profitability indicators

	FY3/2020	FY3/2021	FY3/2022	FY3/2023	FY3/2024
Sales growth rate	-3.5	-11.5	25.1	21.7	-1.5
Operating profit growth rate	-26.2	-35.2	87.0	43.0	-55.1
Net profit growth rate	-24.1	-47.4	49.7	117.4	-71.6
Gross profit margin	28.3	27.1	27.9	29.7	23.6
Operating profit margin	11.7	8.6	12.8	15.1	6.9
Ordinary profit margin	11.7	9.1	20.4	16.7	8.4
Net profit margin	8.9	5.3	6.3	11.2	3.2
Cost of sales ratio	71.7	72.9	72.1	70.3	76.4
SGA ratio	16.6	18.5	15.1	14.6	16.7
EBITDA (Millions of yen)	5,328	4,073	6,397	8,108	5,526
EBITDA margin	20.1	17.4	21.8	22.7	15.7

Gross profit margin = Gross profit ÷ Net sales

Operating profit margin = Operating profit ÷ Net sales

Ordinary profit margin = Ordinary profit ÷ Net sales

Net profit margin = Profit attributable to owners of parent ÷ Net sales

Cost of sales ratio = Cost of sales ÷ Net sales

SGA ratio = Selling, general and administrative expenses ÷ Net sales

EBITDA = Operating profit + Depreciation

EBITDA margin = EBITDA ÷ Net sales

Efficiency indicators, stability indicators

	FY3/2020	FY3/2021	FY3/2022	FY3/2023	FY3/2024
Asset turnover	0.5	0.4	0.5	0.6	0.5
Fixed assets turnover	1.2	0.9	1.0	1.2	1.1
Accounts receivable turnover	5.2	4.1	4.8	5.7	4.8
Accounts payable turnover	21.2	14.8	19.4	38.6	28.7
Inventory turnover	2.4	2.4	2.9	2.7	2.4

Asset turnover =

Net sales ÷ Total assets (avg. of FY start and end)

Fixed assets turnover =

Net sales ÷ Non-current assets (avg. of FY start and end)

Accounts receivable turnover =

Net sales ÷ Accounts receivable (avg. of FY start and end)

Accounts payable turnover =

Net sales ÷ Accounts payable (avg. of FY start and end)

Inventory turnover =

Net sales ÷ Inventories (avg. of FY start and end)

	FY3/2020	FY3/2021	FY3/2022	FY3/2023	FY3/2024
Equity capital ratio	56.6	53.7	53.7	53.8	54.5
Current ratio	355.4	320.5	281.6	388.6	328.0
Fixed ratio	83.4	95.1	94.7	90.1	92.6
Financial leverage (times)	1.7	1.8	1.9	1.9	1.8
Debt ratio	35.8	37.7	37.8	38.2	36.9
Interest coverage ratio (times)	77.5	39.0	46.1	19.3	4.7

Equity capital ratio = Equity capital ÷ Total assets

Current ratio = Current assets ÷ Current liabilities

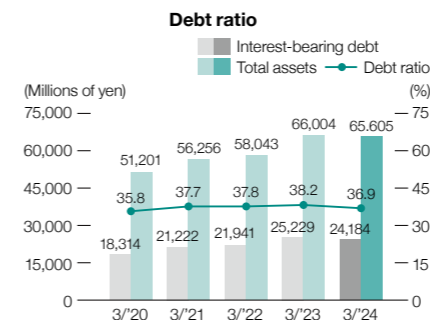
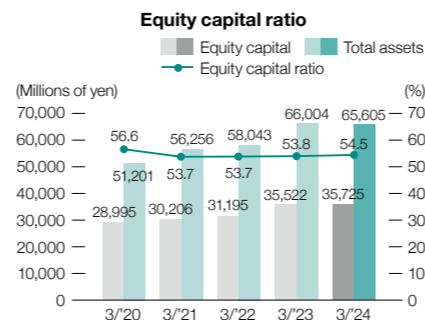
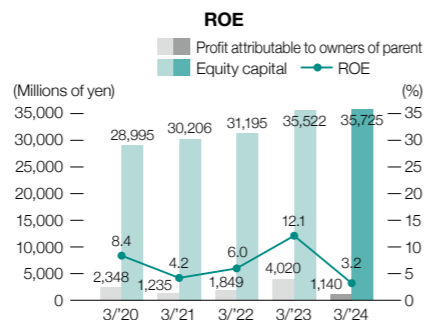
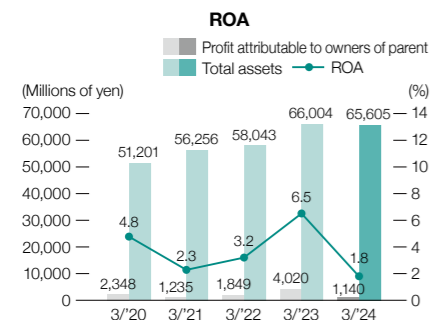
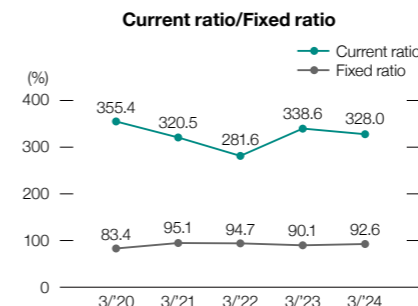
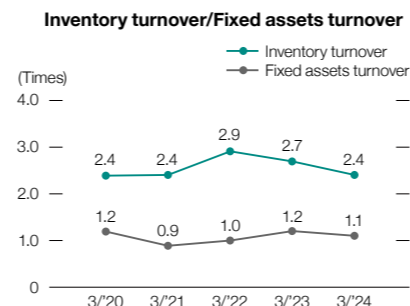
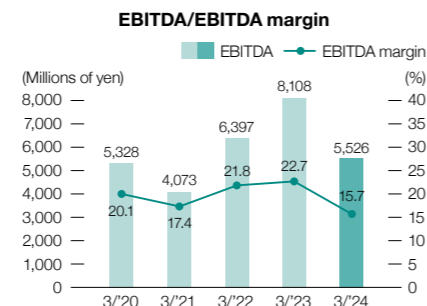
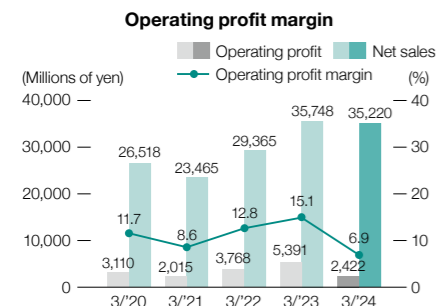
Fixed ratio = Non-current assets ÷ Equity capital

Financial leverage = Total assets ÷ Equity capital

Debt ratio = Interest-bearing debt ÷ Total assets

Interest coverage ratio =

(Operating profit + Financial revenue) ÷ Interest expense



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FINANCIAL AND NON-FINANCIAL SUMMARY

ESG data (Parent)

E (Environment)

	FY3/2020	FY3/2021	FY3/2022	FY3/2023	FY3/2024
CO ₂ emission volume (Scope 1)(t-CO ₂)	26,781	22,476	28,204	26,547	30,020
CO ₂ emission volume (Scope 2)(t-CO ₂)	8,560	7,032	7,007	7,800	8,119
CO ₂ emission volume (Scope 1+2)(t-CO ₂)	35,340	29,508	35,211	34,347	38,139
CO ₂ emission volume (%) ^{*1}	98	82	98	95	106

*1 Trend shown as a percentage, with the base year as 100.

S (Social)

	FY3/2020	FY3/2021	FY3/2022	FY3/2023	FY3/2024
Number of employees ^{*2}	436	455	476	483	491
Percentage of female employees in total employees (%) ^{*3}	14.0	13.8	13.4	14.5	15.1
Percentage of full-time female employees in total full-time employees (%) ^{*3}	9.3	10.0	10.1	11.5	12.6
Percentage of female managers in total managers (%) ^{*3}	0.0	0.0	2.0	2.0	2.0
Percentage of female employees in the rank of section manager (%) ^{*3}	4.1	4.3	5.5	7.9	10.5
Percentage of female employees among hired full-time employees (%) ^{*3}	7.9	4.2	10.7	24.0	25.9
Ratio of males to females in terms of competitiveness in the hiring of full-time employees ^{*3}	145.5	99.2	26.5	55.4	41.0
Wage differential between male and female employees (%) ^{*3}	66.7	70.9	70.7	71.1	69.9
Percentage of male employees who have taken childcare leave (%) ^{*3}	22.2	15.4	33.3	41.7	81.3
Percentage of female employees who have taken childcare leave (%) ^{*3}	100.0	100.0	100.0	100.0	100.0
Percentage of employees who have utilized their full allotment of annual paid leave (%) ^{*3}	71.5	61.7	58.2	64.4	72.9
Attrition rate (%) ^{*4}	3.0	2.0	2.1	2.3	3.6

*2 Number of employees = (full-time employees + contract employees + part-time employees)

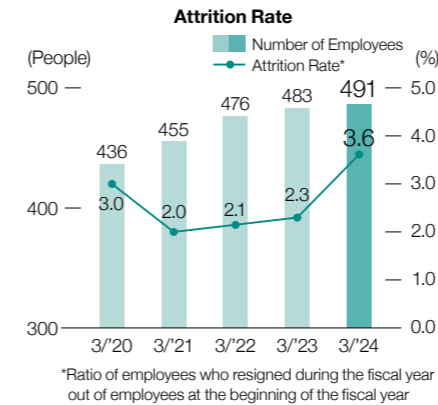
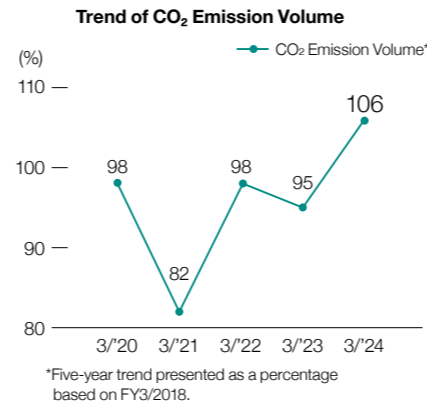
*3 Conforms to the item definitions for information disclosure based on the Act on Promotion of Women's Participation and Advancement in the Workplace.

*4 Number of employees who retired during the period as a percentage of the number of employees at the beginning of the period.

G (Governance)

	FY3/2020	FY3/2021	FY3/2022	FY3/2023	FY3/2024
Number of Directors, Board Members	8	6	6	6	6
Of which, internal directors	6	3	3	3	3
Of which, outside directors	2	3	3	3	3
Percentage of outside directors (%)	25.0	50.0	50.0	50.0	50.0
Number of Audit & Supervisory Board Members	3	3	3	3	3
Of which, internal Audit & Supervisory Board Members	0	0	0	0	0
Of which, outside Audit & Supervisory Board Members	3	3	3	3	3
Percentage of outside Audit & Supervisory Board Members (%)	100.0	100.0	100.0	100.0	100.0
Percentage of female Board Members in total Board Members (%) ^{*5}	0.0	0.0	0.0	0.0	22.2

*5 Board Members = Directors + Audit & Supervisory Board Members



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COMPANY PROFILE AND STOCK INFORMATION

(as of March 31, 2024)

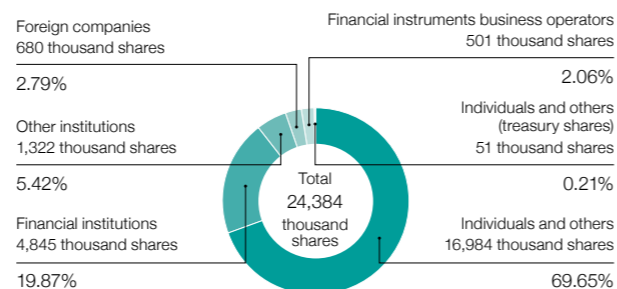
Corporate Profile

Company name	DAIICHI KIGENSO KAGAKU KOGYO CO., LTD.
Establishment	May 21, 1956
Capital	787.1 million yen
Number of employees	642 (consolidated)
Head office	4-4-9, Kitahama, Chuo-ku, Osaka-shi, Osaka 541-0041, Japan

Shares of the Company

Total number of shares authorized to be issued	97,600,000 shares
Total number of shares outstanding	24,400,000 shares
Number of shareholders	13,316 persons

Shareholder Composition



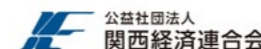
(Note) Distribution ratio has been calculated after exclusion of shares less than one unit (15 thousand shares) and rounded to two decimal places.

Major Shareholders (top10 shareholders)

Shareholder's name	Number of shares held (thousand shares)	Shareholding ratio (%)
The Master Trust Bank of Japan, Ltd. (Trust account)	2,511	10.31
Custody Bank of Japan, Ltd. (Trust account)	1,279	5.26
Katsuhiko Kokubu	1,210	4.97
Daiichi Kigenso Kagaku Kogyo Co., Ltd. Employees Stock Ownership Plan	1,186	4.87
Iwatani Corporation	861	3.54
Tsuyoshi Inoue	810	3.33
Junko Inoue	810	3.33
Tomoyuki Kokubu	687	2.82
Tadashi Terada	387	1.59
Koji Nakamura	340	1.40

(Note) Shareholding ratio has been calculated after exclusion of treasury shares (51 thousand shares) and rounded to two decimal places.

Initiatives



関西SDGsプラットフォーム



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COMPANY PROFILE AND STOCK INFORMATION

Network

Name	Address
Head Office	Chuo-ku, Osaka
R&D Center	Chuo-ku, Osaka

Sales

Name	Address
Tokyo Office	Chiyoda-ku, Tokyo
DKK (Shanghai) Materials Trading Co., Ltd.	Shanghai, China
DKK Thai Materials Trading Co., Ltd.	Bangrak, Thailand
DKK America Materials, Inc.	Michigan USA

Logistics

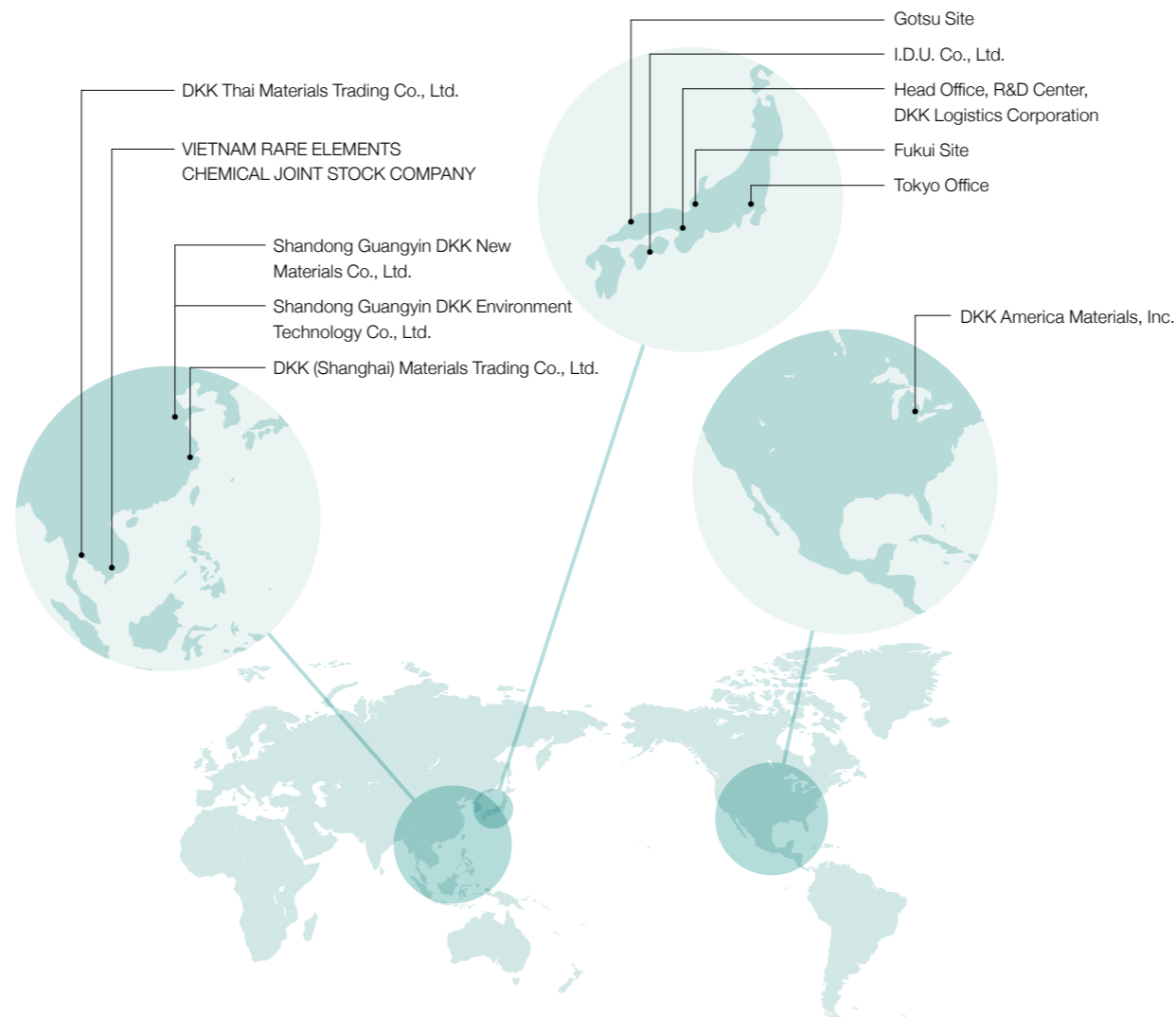
Name	Address
DKK Logistics Corporation	Chuo-ku, Osaka

Production

Name	Address
Gotsu Site	Gotsu-shi, Shimane
Fukui Site	Fukui-shi, Fukui
VIETNAM RARE ELEMENTS CHEMICAL JOINT STOCK COMPANY	Ba Ria – Vung Tau Province, Vietnam

Associated Companies

Name	Address
I.D.U. Co., Ltd.	Kochi-shi, Kochi
Shandong Guangyin DKK New Materials Co., Ltd.	Shandong, China
Shandong Guangyin DKK Environment Technology Co., Ltd.	Shandong, China



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