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# 2 VALUE CREATION

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## Chief Executive Officer’s message

### “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 predeces-

sors 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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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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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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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.

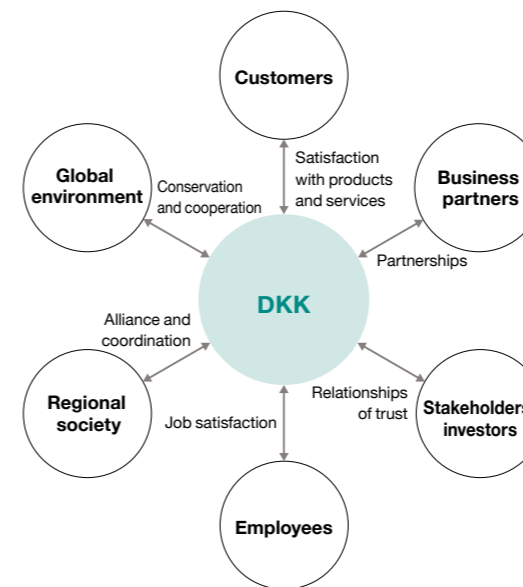
### FY3/2024 review

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-



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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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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.

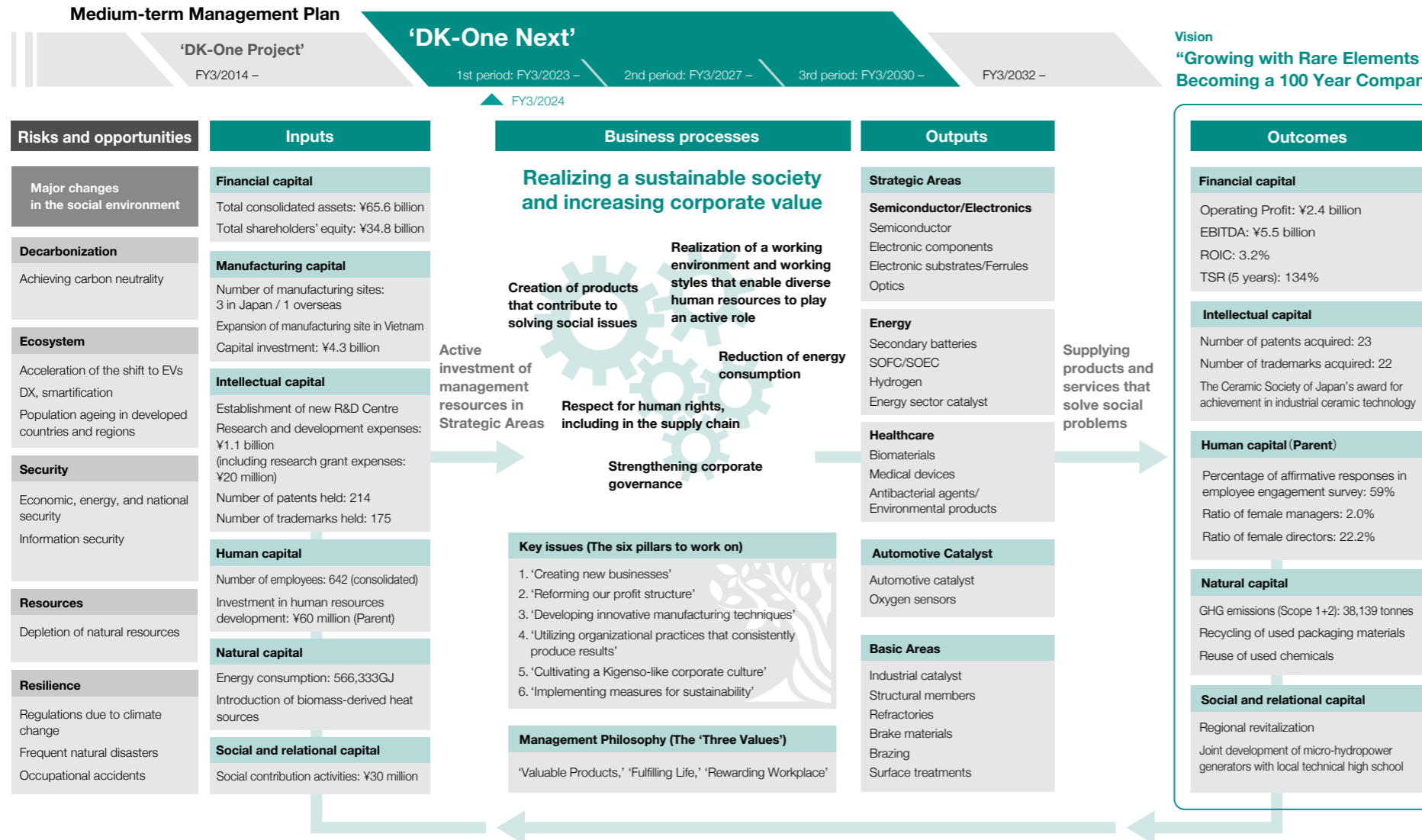
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# Process of Value Creation

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"> <li>• Sales and Marketing Division</li> <li>• Supply Chain Management Division</li> <li>• Research &amp; Development Division</li> <li>• Manufacturing Technology Division</li> <li>• Quality Assurance Division</li> <li>• Sustainability Division</li> </ul>
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"> <li>• Procurement Division</li> <li>• Supply Chain Management Division</li> <li>• Manufacturing Technology Division</li> <li>• Each business site</li> <li>• Environment and Safety Management Division</li> <li>• Sustainability Division</li> </ul>
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"> <li>• General Affairs &amp; Human Resources Division (PR/SR)</li> <li>• Corporate Planning Division (IR)</li> <li>• Sustainability Division</li> <li>• Finance &amp; Accounting Division</li> </ul>
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"> <li>• General Affairs &amp; Human Resources Division (General Affairs/ Personnel)</li> <li>• Environment and Safety Management Division</li> <li>• Sustainability Division</li> </ul>
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"> <li>• Each business site</li> <li>• General Affairs &amp; Human Resources Division (General Affairs/PR)</li> <li>• Environment and Safety Management Division</li> <li>• Sustainability Division</li> </ul>
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"> <li>• Manufacturing Technology Division</li> <li>• Each business site</li> <li>• Research &amp; Development Division</li> <li>• Environment and Safety Management Division</li> <li>• Sustainability Division</li> </ul>

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