Progress of Medium-term Management Plan (MTMP)

“DK-One Next”

— Review of the First Period and Initiatives for the Second Period —

Click here for the progress of the medium-term management plan (MTMP) “DK-One Next” announced in FY2025.

I. Assessment of current status
- Current Status of “DK-One Next”
- Trends in PBR / ROE / PER
- Estimated Cost of Capital

II. Review of the First Period (FY3/2023 – FY3/2026)
- FY3/2026 Results (MTMP 1st Period) and 2nd/3rd Period Targets
- Progress in the Strategic Areas and Our initiatives
- Progress in the Automotive Catalyst Area and Our initiatives
- Progress in CAPEX

III. Key points for the second period (FY3/2027 – FY3/2029)
- Cash Allocation
- Key Initiatives to Enhance Corporate Value
- Specific Actions under Key Initiatives
- Business Portfolio Reform Plan

Current Status of "DK-One Next"

Vision

Growing with Rare Elements ― Becoming a 100-Year Company

Medium-term Management Policy

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.

Challenge & Innovation through the Six Pillar Initiatives

Where we stand

67th

70th

73rd

76th

100th

2nd Period

Toward the 73rd Fiscal Year, the Midpoint of Business Portfolio Reform

Six Pillars (Materiality)

(1) Creating new businesses
(2) Reforming our profit structure
(3) Developing innovative manufacturing techniques
(4) Utilizing organizational practices that consistently produce results
(5) Cultivating a Kigenso-like corporate culture
(6) Implementing measures for sustainability

1st Period	2nd Period	3rd Period	
FY3/2023–FY3/2026	**FY3/2027–FY3/2029**	FY3/2030–FY3/2032	–FY3/2056

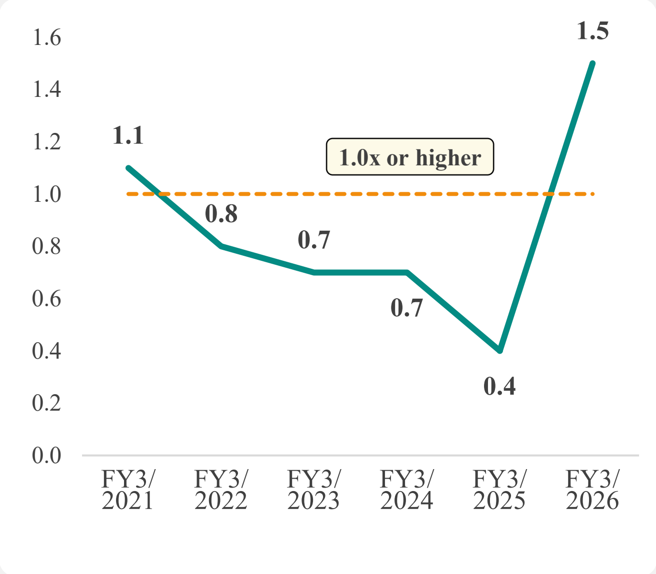
← 10-year Medium-term Management Plan under "DK One Next" →

Trends in PBR / ROE / PER

- ✓ PBR rose above 1.0x for the first time in five years, indicating steadily rising expectations for business growth potential and outlook.
- ✓ ROE improving toward FY3/2026; focus now on strengthening profitability above the cost of capital and enhancing corporate value over the medium to long term

Trends in PBR

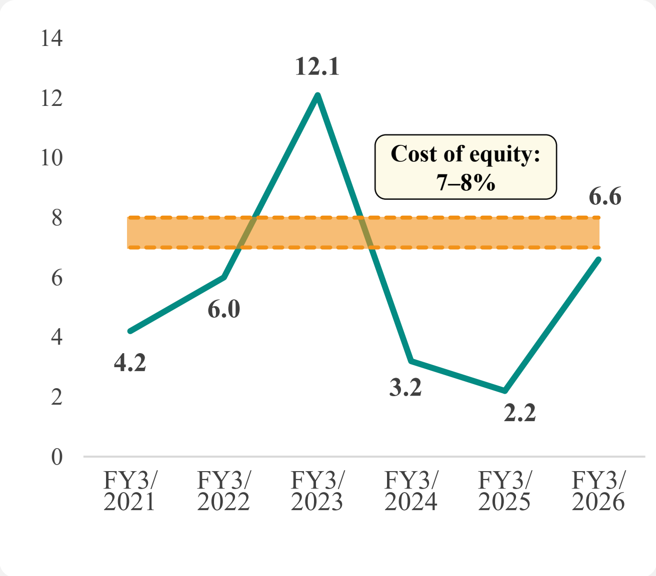
(x)



PBR below 1.0x since FY3/2022; recovered to 1.0x or higher as the Company gained greater presence as a rare-earth-related stock amid heightened geopolitical focus.

Trends in ROE

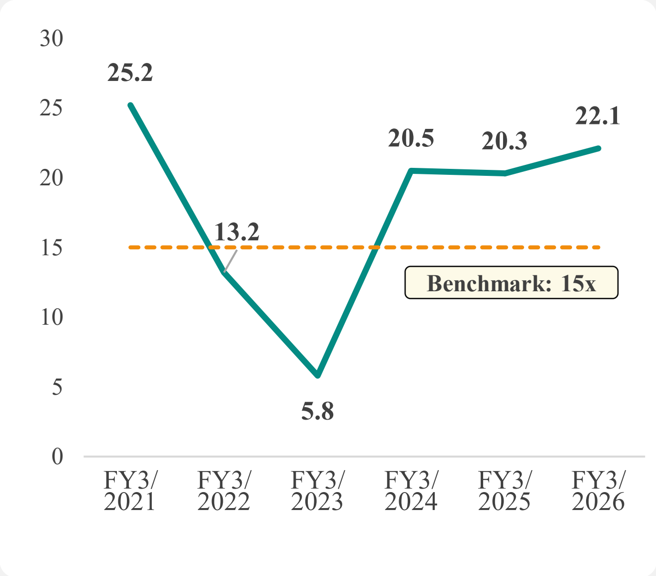
(%)



ROE remaining below the cost of equity; reforming the profit structure recognized as essential.

Trends in PER

(x)



PER rising on recent ROE improvement, interpreted as evidence of heightened market expectations. Going forward, accelerating profit growth will be key to turning these expectations into actual results.

Estimated Cost of Capital

- ✓ Cost of equity based on CAPM estimated at 7–8%; weighted average cost of capital (WACC) at approx. 5–6%.
- ✓ With these costs of capital set as clear evaluation benchmarks, we will progressively improve capital efficiency and establish a profit structure in which ROE and ROIC exceed the cost of capital by FY3/2032.

Cost of equity (CAPM-based)

Cost of equity estimated at 7–8%

▼

ROE target **11%** for FY3/2032

Weighted average cost of capital (WACC)

WACC estimated at 5–6%

▼

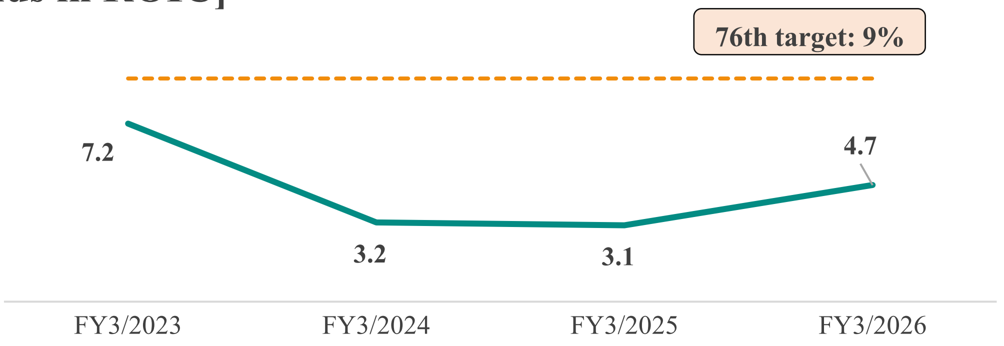
ROIC target **9%** for FY3/2032

[Cost of equity formula]

Five-year daily trend: 1.1
Chemical industry avg.: 1.0

Risk-free rate	+	β	×	Equity risk premium	=	Cost of equity
1.5–2.5% based on 10-year JGB yield		1.0–1.1		Around 5.0%		**7–8%**

[Trends in ROIC]



FY3/2026 Results (MTMP 1st Period) and 2nd/3rd Period Targets

- ✓ FY3/2026, the final year of the 1st Period, secured a certain level of growth despite changes in the external environment, but fell short of targets due to delays in ramping up the Strategic Areas and other factors.
- ✓ Against this backdrop, the Vietnam business is delivering results earlier than the 2nd Period targets set in 2025, with profit contribution expected by FY3/2029.
- ✓ For the 2nd Period, targets updated to reflect this progress; positioned as a critical phase for both profitability improvement and business portfolio reform, leading into the challenges and reforms of the 3rd Period.

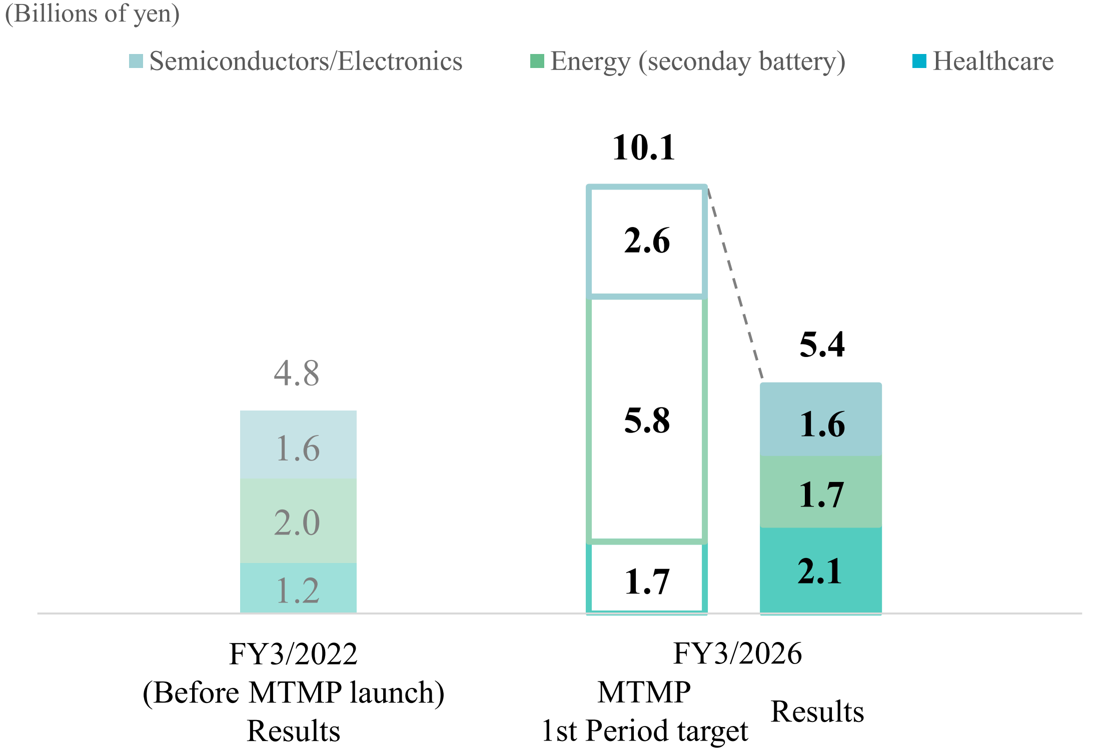
(Billions of yen, unless otherwise stated)

			FY3/2022 (Before MTMP launch)	FY3/2026		**FY3/2029**	**FY3/2032**
			Results	1st Period target (Set in 2022)	Results	**2nd Period target** (Updated in 2026) *Figures in parentheses: Set in 2025	**3rd Period target** (Set in 2025)
Operating results		Net sales	29.4	40.0	35.8	**41.0**	**50.0 or more**
Operating results		Operating profit	3.8	4.0	3.5	**4.0 (3.0)**	**7.5 or more**
Metrics	Profitability	EBITDA	6.4	9.0	6.8	**7.5 (7.0)**	**10.5 or more**
Metrics	Capital efficiency	ROIC	6.2%	6.0%	4.7%	**5% (4%)**	**9 % or more**
Metrics	Capital efficiency	ROE	6.0%	–	6.6%	**6% (5%)**	**11 % or more**
Metrics	Dividend	DOE	–	–	1.9%	**1.8% or more**	**1.8 % or more**
Metrics	Dividend	Payout ratio	30.2%	30%	27.0%	**30%**	**30 %**

Progress in the Strategic Areas and Our Initiatives

- ✓ Strategic Areas fell short of plan mainly due to delayed response to structural changes in the secondary battery market.
- ✓ Plan assumed NCM-based cathode material expansion; however, rise of lithium ferrophosphate (LFP) prevented us from capturing expected demand growth.
- ✓ Going forward, we will expand demand areas and customer base through material proposals leveraging in-house battery performance evaluation technologies.

Net sales in the Strategic Areas



Shortfall factors and future responses: Secondary batteries

Factors

(i) Incorrect assumptions about demand structure

- Plan assumed zirconia demand growth driven by wider adoption of lithium-ion battery cathode materials composed mainly of nickel, cobalt, and manganese (NCM). However, while NCM demand continued to grow, the shift toward LFP as the market mainstream was not fully anticipated, causing demand assumptions to diverge significantly from actual market conditions.

(ii) Limited expansion of customer base

- Although we worked to develop customers beyond existing Japanese cell manufacturers, new customer acquisition remained limited, causing customer base expansion to fall short of plan.

Responses

Based on changes in the secondary battery market, expand demand areas and customer base.

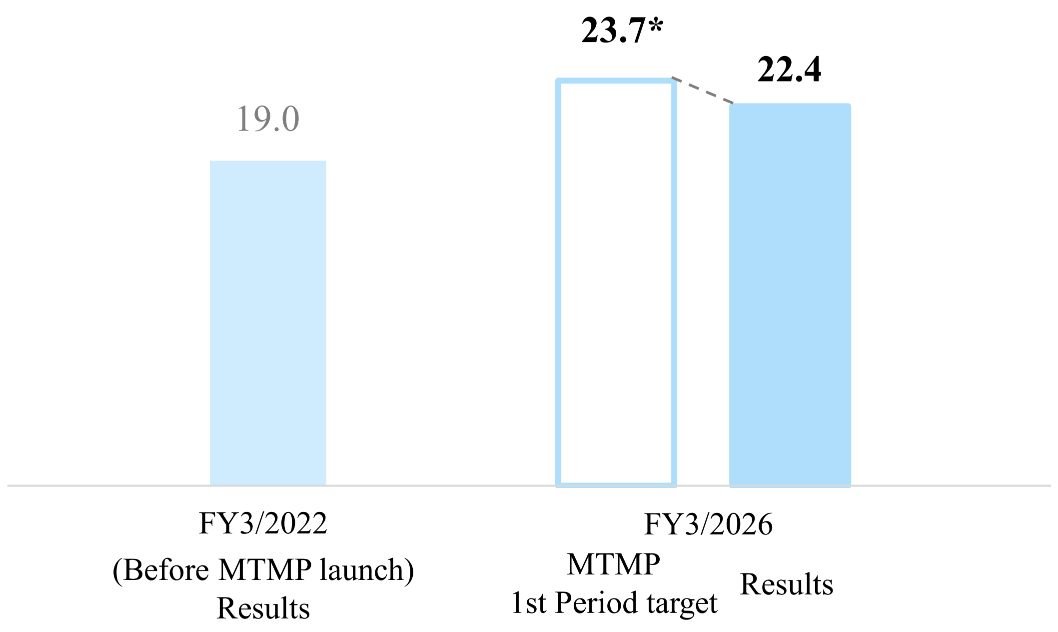
- Beyond deeper initiatives in NCM-based materials, expand from cathode materials into anode materials and LFP areas, leveraging battery performance evaluation technologies that have confirmed the advantages of our materials.
- Broaden application areas through proactive technical proposals extending to battery performance evaluation—not materials alone—and establish a customer base not dependent on Japanese cell manufacturers.
- Transform into a business structure capable of flexibly responding to demand structure changes, including the NCM-to-LFP shift, and broadly capturing growth in the secondary battery market.

Progress in the Automotive Catalyst Area and Our Initiatives

- ✓ Automotive Catalyst Area fell short of plan due to divergence between initial MTMP assumptions and actual market conditions.
- ✓ However, vehicles with internal combustion engines (ICE vehicles) market contraction slower than expected; actual results achieved a certain level of growth.
- ✓ Going forward, maintain and strengthen profit base by updating market view and enhancing access to growth markets.

Net sales in the Automotive Catalyst Area

(Billions of yen)



* The MTMP figure revised from ¥22.0bn to ¥23.7bn due to a change in aggregation method.

Shortfall factors and future responses

Factors

(i) Rise of Chinese automakers not factored into plan assumptions

- At the time of plan formulation, Chinese automakers were viewed mainly as BEV-focused players. The plan did not anticipate their expansion of global share by rolling out ICE vehicles centered on PHEVs into markets outside China.
- As a result, changes in the player mix within the ICE vehicle market were not fully reflected, undermining the plan assumption of demand growth led by Japanese automakers.

(ii) Incorrect material demand outlook based on environmental regulations

- At the time of plan formulation, DKK expected tighter environmental regulations to drive higher catalyst loading per vehicle and demand spillover into related materials originating from catalyst applications.
- However, assumptions on the timing and scale of such demand materialization were insufficient, resulting in divergence between demand levels factored into the plan and actual market conditions.

Responses

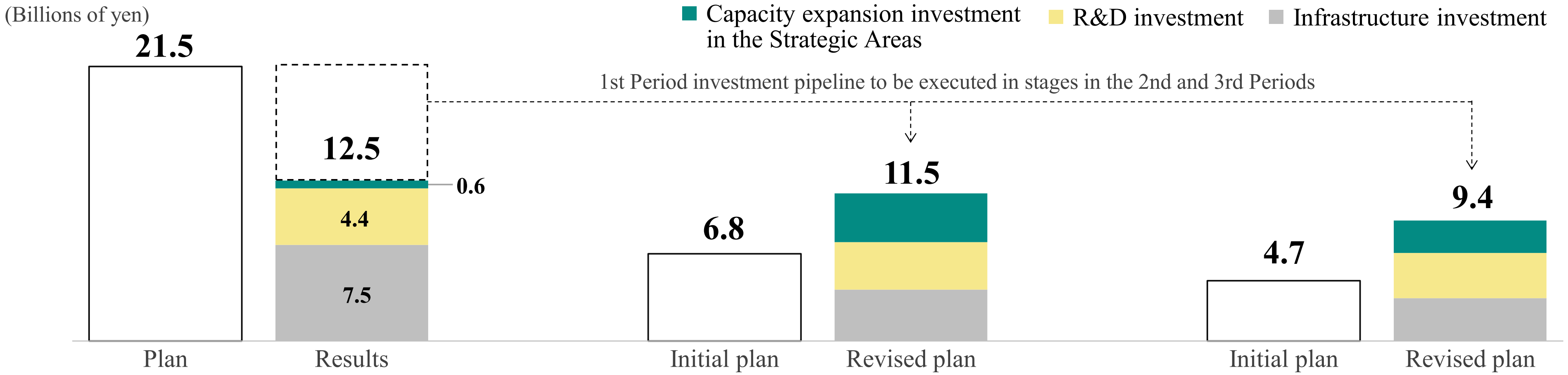
Update market view of ICE vehicles and strengthen access to growth markets

- Reorganize view of the ICE vehicle market, moving beyond conventional region- and vehicle-type-based segmentation to an application-based framework covering both four-wheel and two-wheel vehicles, focused on demand DKK can actually access.
- Based on this updated view, strengthen access in markets where ICE vehicle demand is expected to grow or remain resilient, including India, by reviewing sales channels and expanding customer touchpoints.

Progress in CAPEX

- ✓ In the 1st Period, priority placed on the Vietnam business and R&D; capacity expansion investments in the Strategic Areas executed selectively based on demand trends, project progress, and priority, after careful review of timing. (Major projects to enter full swing from the 2nd Period onward.)
- ✓ From the 2nd Period, investment management to be strengthened from an overall optimization perspective through the Investment Committee, steadily promoting investments aligned with the growth strategy.

Investment results and plans



	1st Period (FY3/2023–FY3/2026)	2nd Period (FY3/2027–FY3/2029)	3rd Period (FY3/2030–FY3/2032)
Theme	**Establishing R&D and business foundations**	**Expanding top-line growth in the Strategic Areas**	**Driving challenges and reforms toward becoming a 100-year company**
Initiatives / Targets	■ Launching the Vietnam business: ¥4.7bn ■ Redeveloping the Osaka site: ¥3.0bn	■ Investing in capacity expansion in the Strategic Areas (growth areas such as semiconductors and new businesses) ■ Stabilizing and streamlining the Vietnam business	■ Achieving ROIC of 9% or more ■ Laying the groundwork for FY3/2032 and beyond

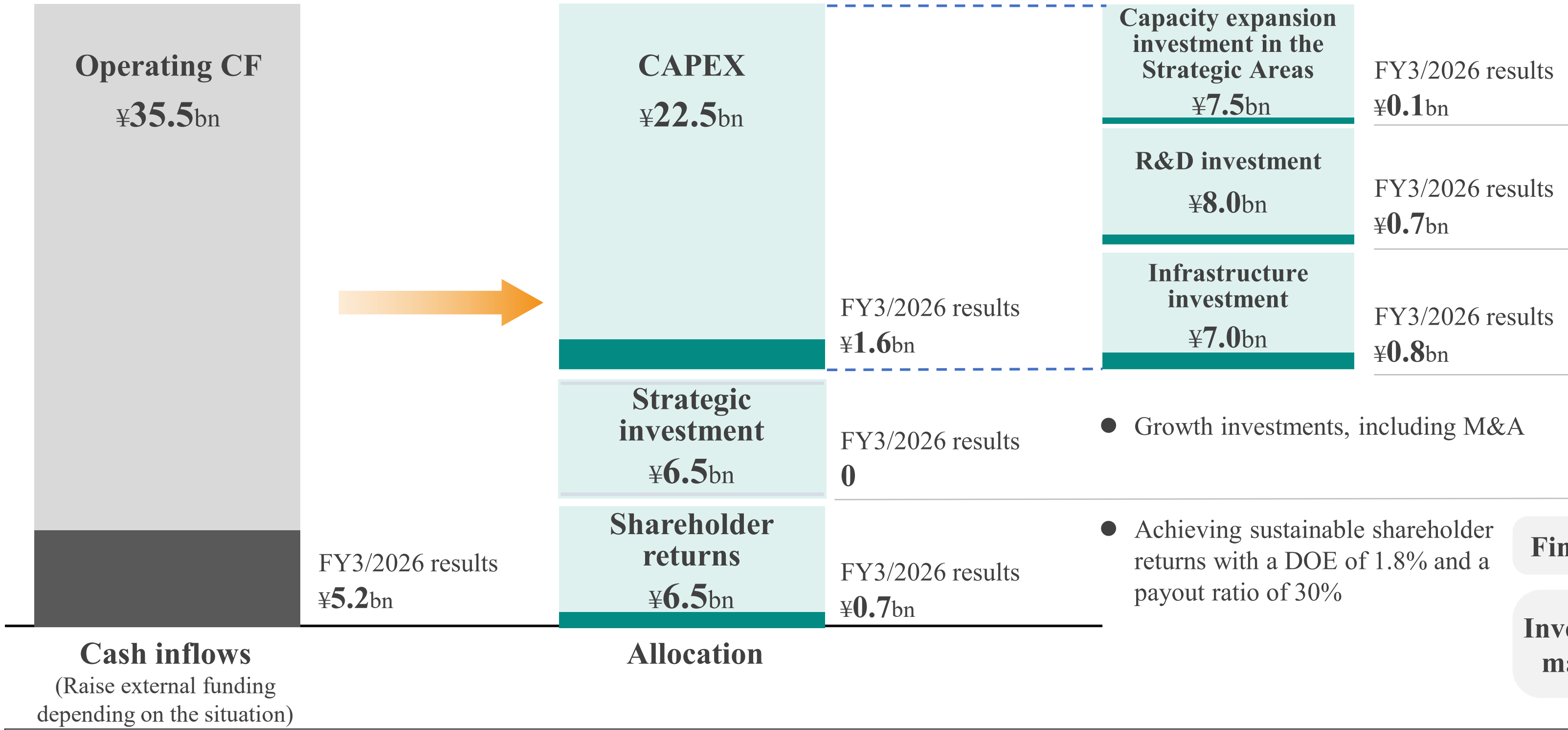
Cash allocation planning period
As of the end of FY3/2025, the cash allocation plan was newly formulated and disclosed covering FY3/2026 to FY3/2032.

See next page for details.

Cash Allocation

- ✓ FY3/2026, the final year of the 1st Period, progressed largely in line with plan.
- ✓ From the 2nd Period onward, execute investments in stages based on concrete projects, promoting capital-efficient allocation.

Cash Allocation Policy: FY3/2026 to FY3/2032



- Execute capacity expansion investments for semiconductors and new businesses sequentially in line with demand ramp-up, while partially reviewing implementation timing.
- Efficiently execute R&D investments by selecting and focusing themes for new material and application development, mainly in the Strategic Areas, while also looking ahead to future business creation.
- Strengthen stable supply system and improve asset efficiency through production facility upgrades and labor-saving/automation investments.
- Growth investments, including M&A
- Specify investment themes by FY3/2029 and sequentially shift to the execution phase.
- Achieving sustainable shareholder returns with a DOE of 1.8% and a payout ratio of 30%

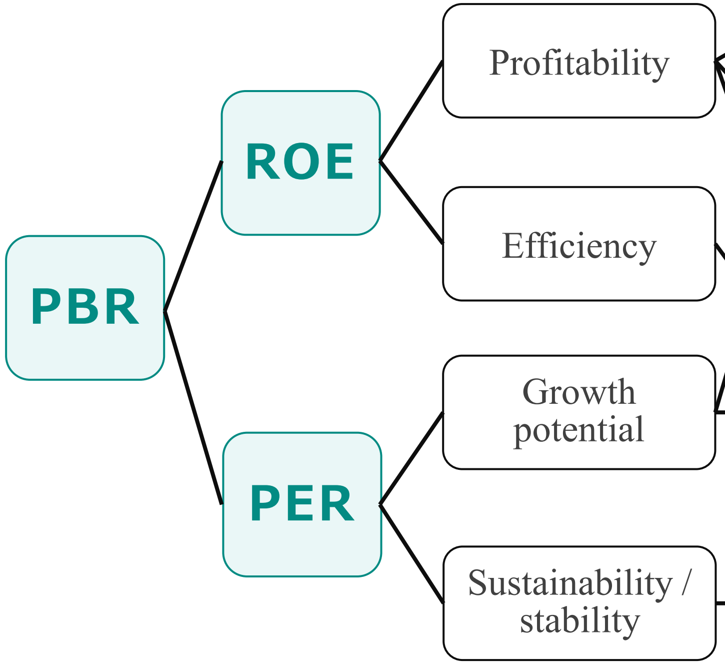
Financial discipline	Equity ratio: 40–60%
Investment decision-making discipline	Set an appropriate hurdle rate and execute investments while maintaining the financial discipline.

Difference in period from the investment plan

The cash allocation plan was newly formulated and disclosed as of the end of FY3/2025, during the 1st Period of the Medium-term Management Plan “DK-One Next.” As a result, the cash allocation plan covers the period from FY3/2026 to FY3/2032, creating a difference in period from the investment plan, which was established from the first year of the Medium-term Management Plan.

Key Initiatives for Enhancing Corporate Value

✓ Key initiatives for enhancing corporate value in the 2nd Period, organized around the key drivers of PBR improvement based on progress in the Six Pillars under our Materiality framework and business portfolio reform.



Key initiatives and background for the 2nd Period (FY3/2027–FY3/2029)

1. **Expanding the Strategic Areas** — With the automotive catalyst market expected to contract over the medium to long term, reform the business portfolio by capturing growth areas and highly profitable businesses.
2. **Reforming the profit structure of the Vietnam business** — In light of cost increases associated with building the supply system, steadily generate profits by improving the profit structure.
3. **Enhancing ROIC management** — As investment decisions and resource allocation based on capital efficiency become increasingly important, enhance management practices, including management of invested capital.
4. **Strengthening the management foundation** — Further enhance management practices based on the cost of capital and embed them across the organization, thereby strengthening management control and execution capabilities.

Specific Actions under Key Initiatives

1. Expanding the Strategic Areas

Profitability | Growth potential

- Promoting application expansion in growth markets by leveraging existing technologies
  Drive application expansion in growth markets, including semiconductors, centered on secondary batteries, the core of the Energy area.
- Entering growth domains and expanding business fields
  Penetrate new growth domains through new business creation, external collaboration, and M&A.

⇨ See the next page for details on specific measures.

2. Reforming the profit structure of the Vietnam business

Profitability

- Cost reduction
  Profit contribution of ¥0.5–1.0bn expected in FY3/2029 versus FY3/2026, driven by further stable operations and productivity improvement.
- Promoting price pass-through
  Set and implement premium pricing above market prices by communicating the sustainable value of the Vietnam business.

3. Enhancing ROIC management

Profitability | Efficiency | Growth potential

- Optimizing resource allocation through application-based ROIC management
  Reallocate cash generated in the Automotive Catalyst Area to the Strategic Areas and optimize resource allocation through investment decisions based on ROIC and hurdle rates.
- Improving asset efficiency by optimizing invested capital
  Optimize invested capital and improve asset efficiency by securing appropriate raw material inventory levels, reducing work-in-process and finished goods inventories, utilizing facilities efficiently, and optimizing receivables and payables.

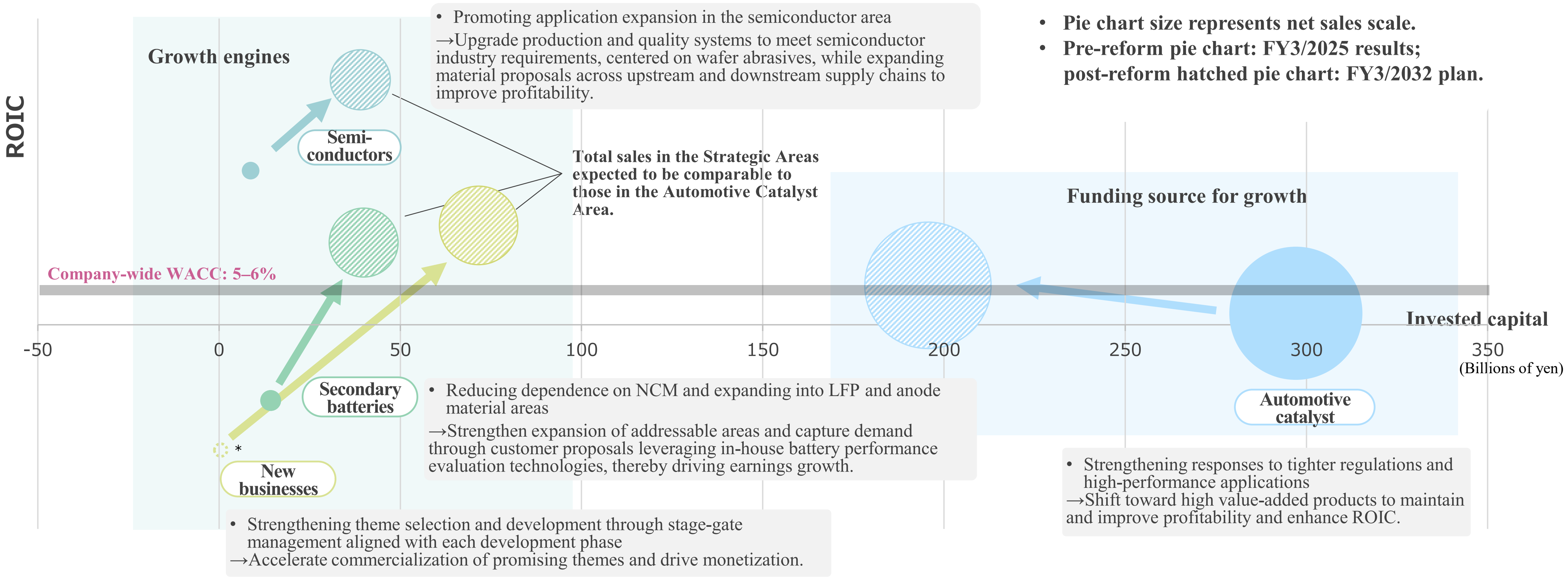
4. Strengthening the management foundation

Sustainability / Stability

- Maximizing corporate value by embedding cost-of-capital management
  Further upgrade management practices conscious of the cost of capital and embed them across the organization through study sessions and other initiatives.
- Monitoring through KGI/KPI scoreboards
  Visualize progress according to each department's role, ensure thorough implementation of improvement actions, and review metrics and measures as needed.

Business Portfolio Reform Plan

- ✓ Invest profits generated in the Automotive Catalyst Area into the Strategic Areas, aiming to establish highly profitable and capital-efficient businesses.
- ✓ Set hurdle rates by business, expand the net sales weighting of the Strategic Areas—especially semiconductors, secondary batteries, and new businesses—and shift to a business structure with higher profitability and capital efficiency.



* New businesses are shown within dotted circles because their net sales scale is extremely small.
(The size of the circles does not represent net sales scale.)

Note regarding this document

The earnings forecasts and forward-looking statements in this document are based on judgments made by the Company using currently available information and involve risks and uncertainties. Actual results may differ materially due to changes in economic conditions and market environments. Accordingly, the Company does not guarantee the achievement of these forecasts.

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