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3 BUSINESS STRATEGY



Chief Strategy Officer's message

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

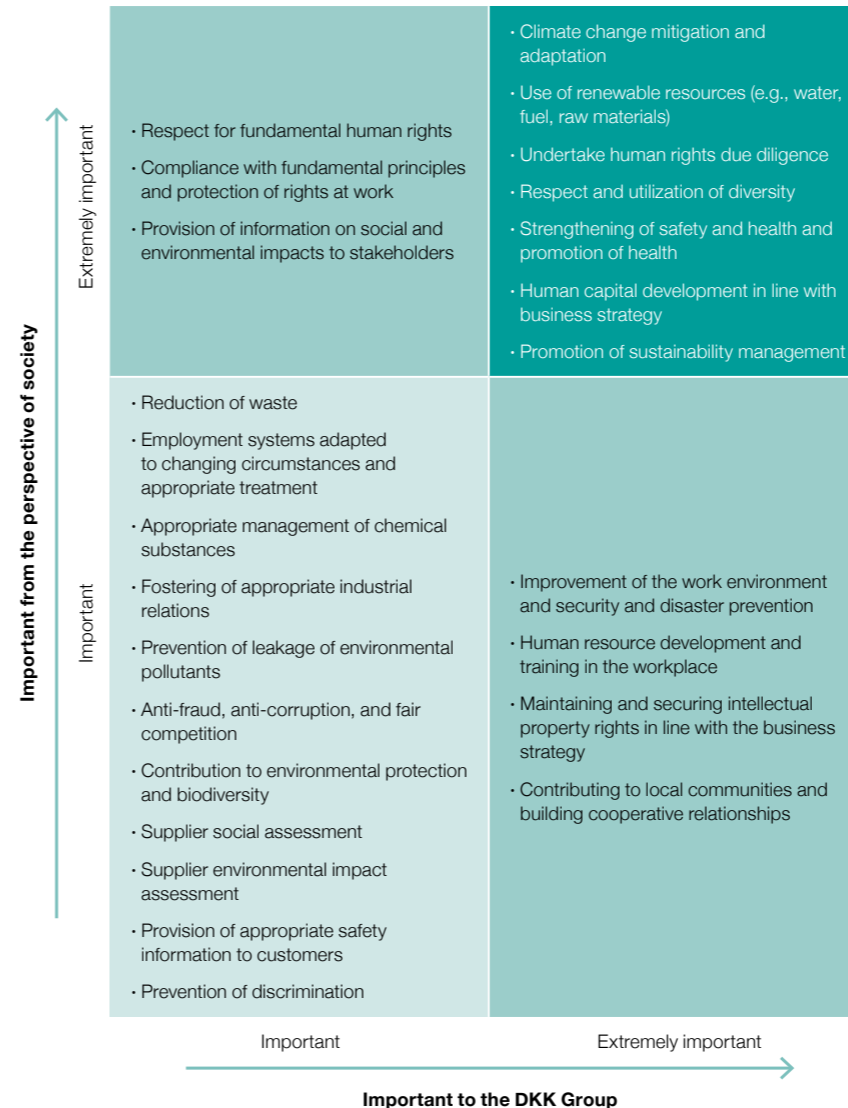
Issues and materialities related to sustainability issues

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		
	Human rights	Compliance with fundamental principles and protection of rights at work	Communication	Maintaining and securing intellectual property rights in line with the business strategy	
				Promotion of sustainability management	
				Providing information on social and environmental impacts to stakeholders	
		Respect and utilization of diversity		Providing appropriate safety information to customers	
		Prevention of discrimination		Prevention of discrimination	Contributing to local communities and building cooperative relationships
					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

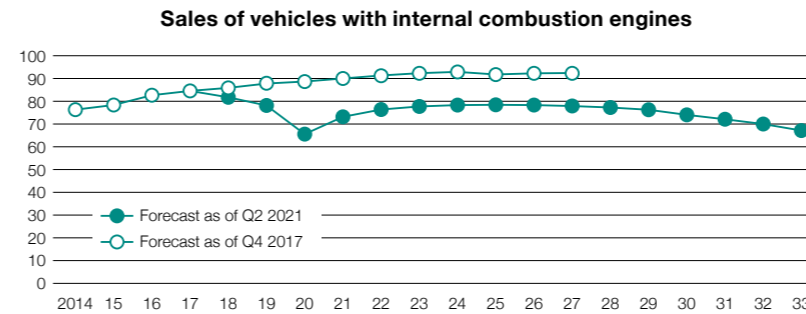
Since its foundation, the DKK Group has worked to solve social issues through the development and supply of zirconium compounds under a management philosophy based on the ‘Three Values.’ The business of Automotive Catalyst is symbolic of these efforts.

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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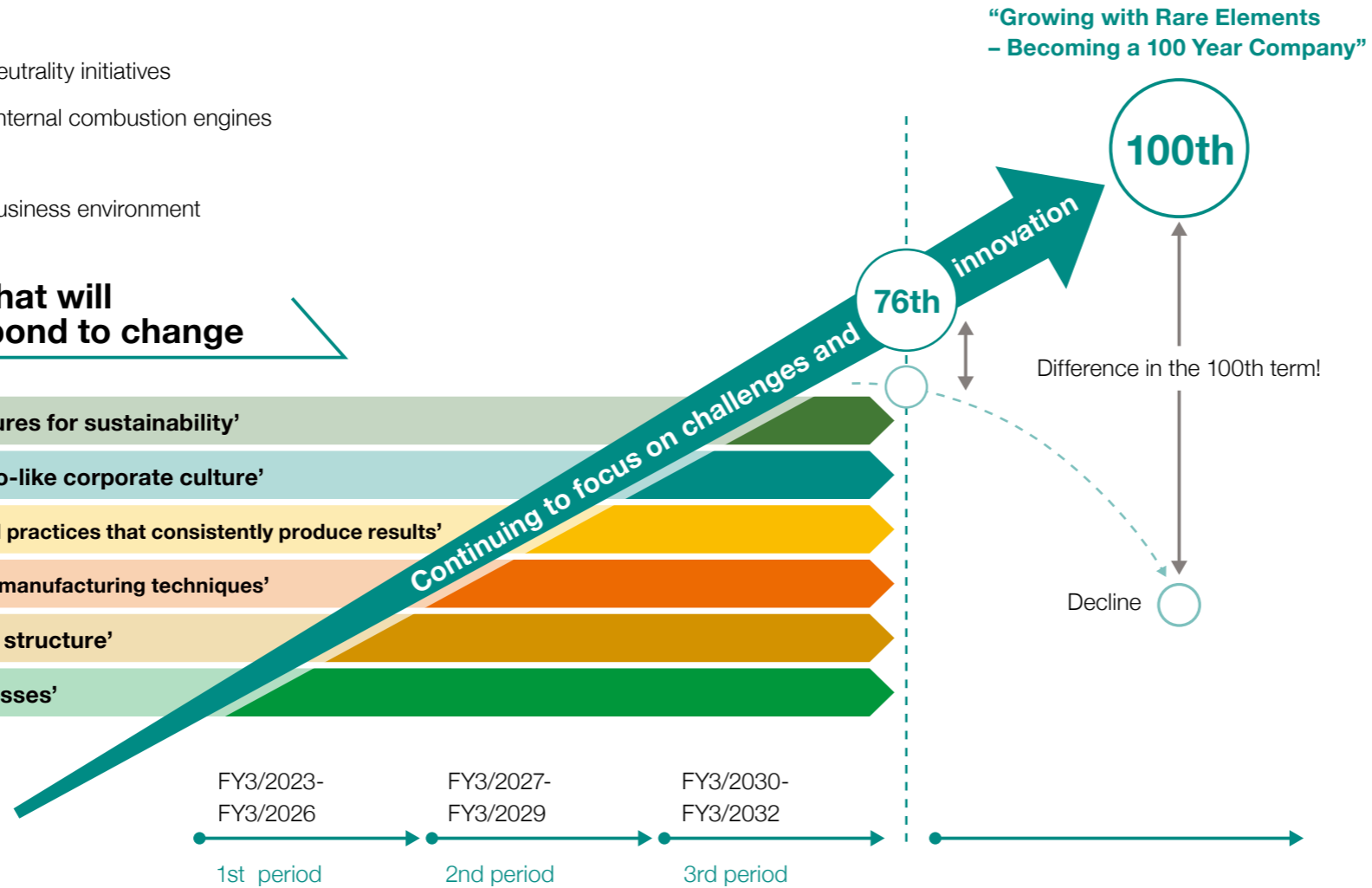
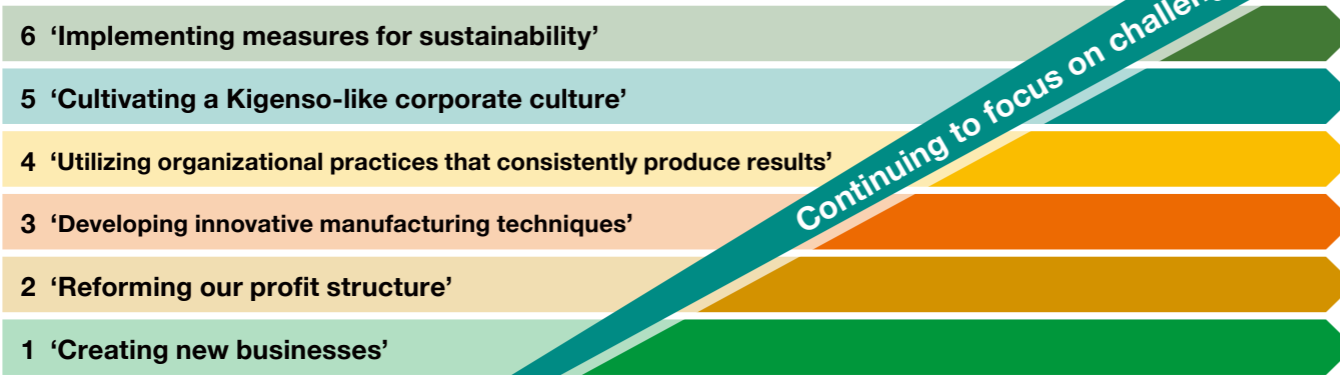
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Medium-term management plan 'DK-One Next'

- 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



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Medium-term management plan ‘DK-One Next’

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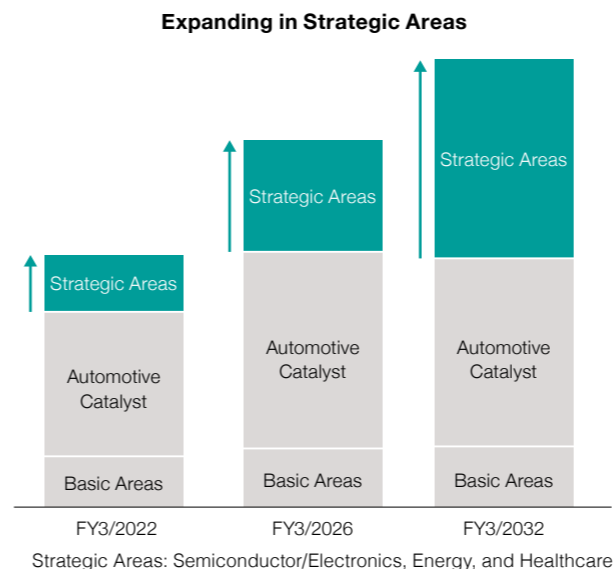
“Growing with Rare Elements – Becoming a 100 Year Company”

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.



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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’

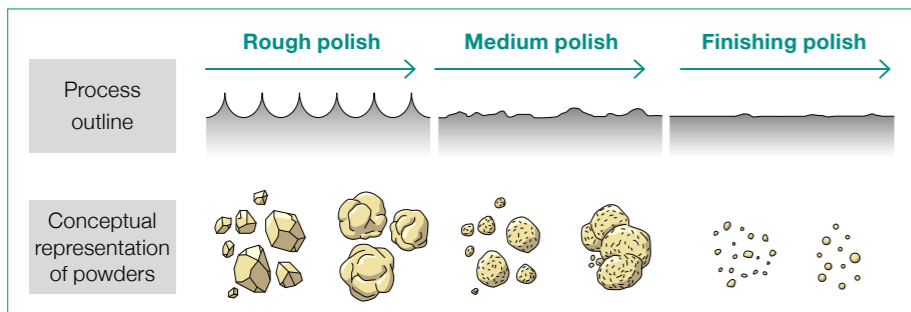
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Expanding sales into new applications, semiconductor materials

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.

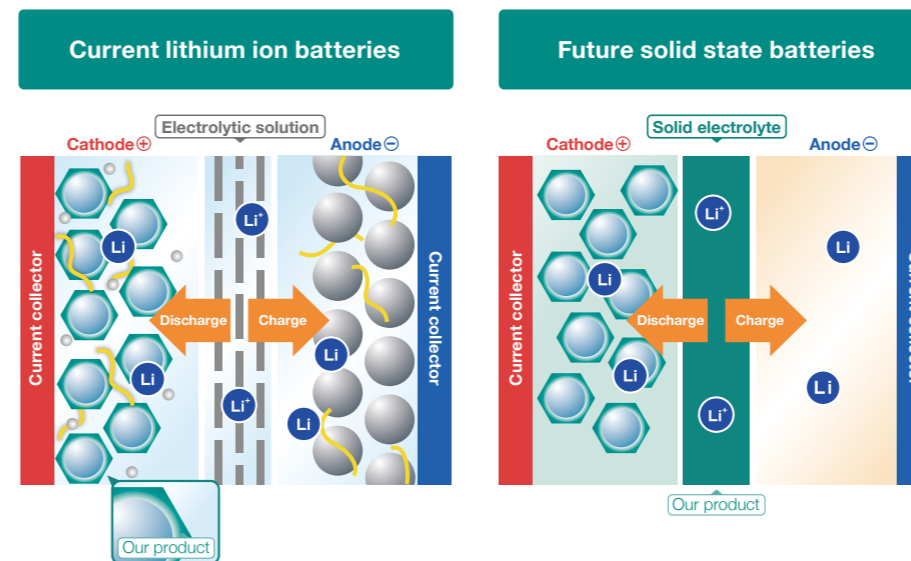
Application to general polishing



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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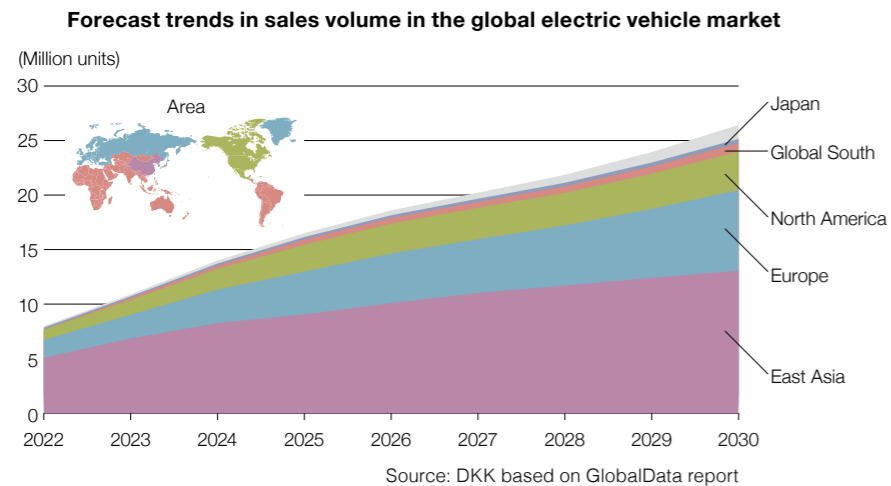
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Medium-term management plan ‘DK-One Next’

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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Medium-term management plan ‘DK-One Next’

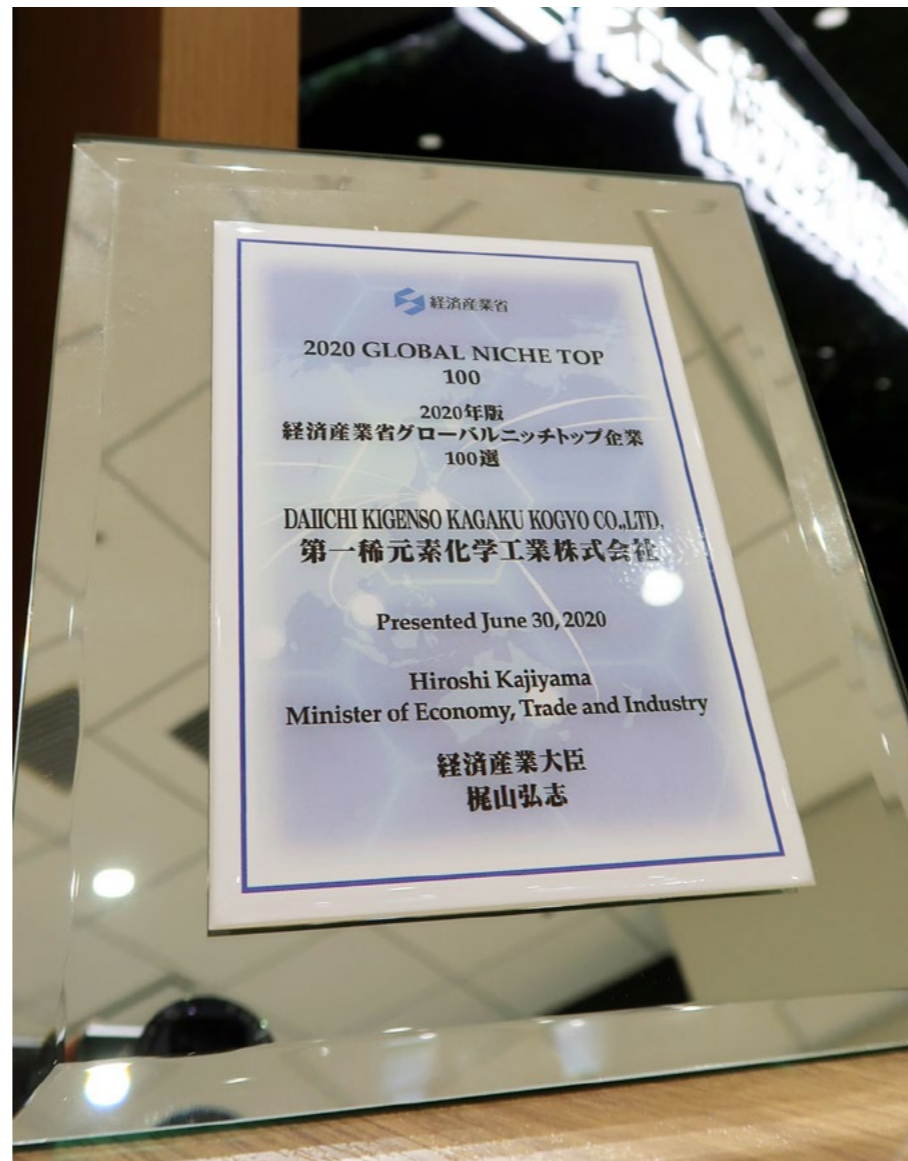
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Materials for automotive catalyst to provide resources for growth

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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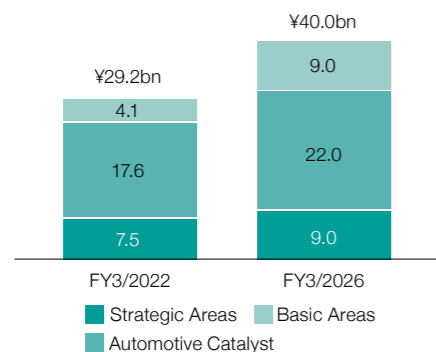
Key Management Figures and Policies

Management targets

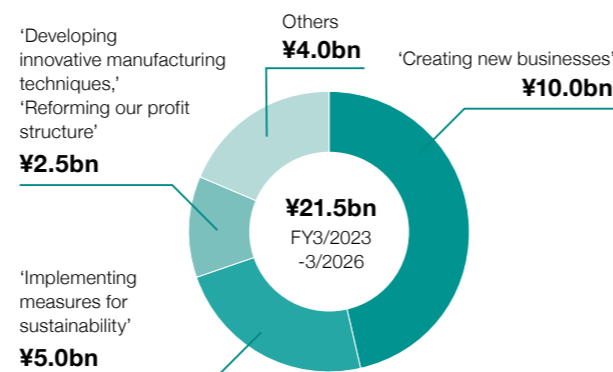
	FY3/2022 Forecasts as of October 2021	FY3/2026 Targets
Net Sales	¥29.2bn	¥40.0bn
Operating Profit	¥3.0bn	¥4.0bn
EBITDA	¥5.6bn	¥9.0bn
ROIC	4.9%	6.0% or higher

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

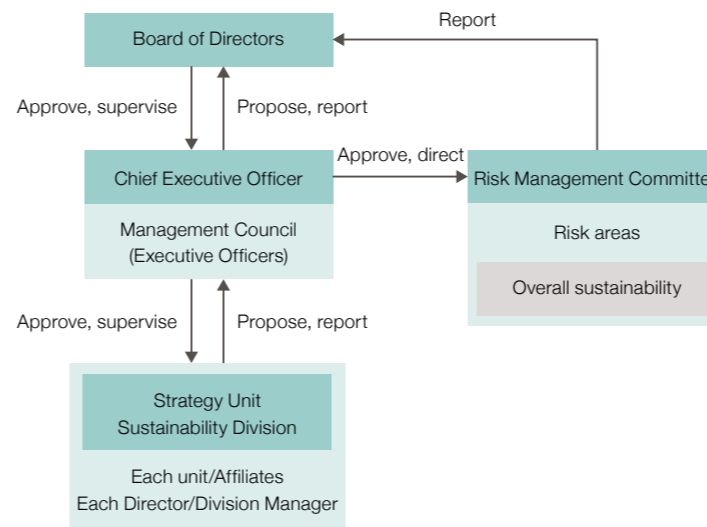
Basic policies

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

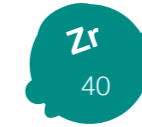
Recycling of used packaging and pallets.



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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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