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4 INTANGIBLE ASSETS

Manufacturing Capital

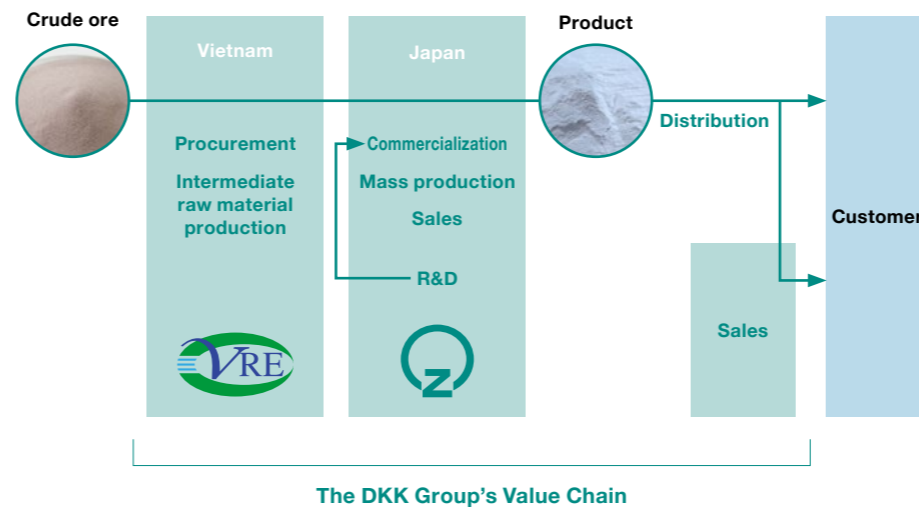
The DKK Group applies originality and ingenuity to customize zirconium compounds to meet the needs of customers in a variety of fields and provide the world with materials with diverse properties. As a result, we have developed unique, versatile, and highly productive manufacturing technology that can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

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

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

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

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



[To the value chain flowchart](#)

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Manufacturing Capital

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

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

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

Vietnamese subsidiary starts operations at new plant

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

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

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



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

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

Policy on research and development activities

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

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

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

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

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

Functions and role of the R&D Center

Strengthening R&D capabilities for Strategic Areas

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

Evolution into an innovation hub

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

Process design with consideration for swift mass production and environmental responses

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

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R&D policy by area

Strategic Areas

Semiconductor/Electronics

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

Energy

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

Healthcare

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

Automotive Catalyst Area

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

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

Basic Areas

Thermal barrier coatings

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

Aluminum brazing applications

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

Industrial catalyst applications

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

Research and Development System

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

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

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

Main research and development activities

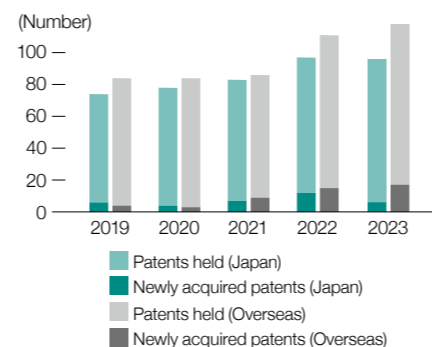
R&D themes	Content	Outcomes
Basic research on zirconium compounds	Joint research with universities and public research institutions	Research on dry reforming catalysts and self-healing ceramics published in scientific journals
Expansion of applications for zirconium compounds	Expansion of applications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

Securing of intellectual property

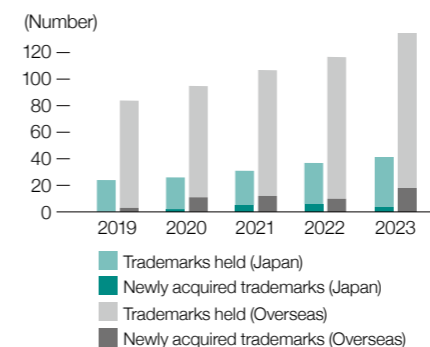
The Research & Development Division and the Intellectual Property Division work closely to early discover intellectual property arising in associated companies or from collaboration with external research laboratories. When intellectual property is discovered, the Intellectual Property Division and the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

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

Changes in the numbers of patents we hold



Changes in the numbers of trademarks we hold

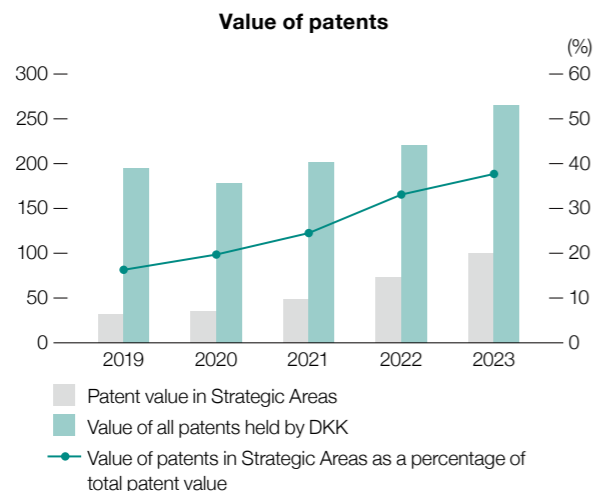


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*The Patent Asset Index is calculated using LexisNexis' PatentSight® patent analysis tool.

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

COLUMN

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

Action guidelines on intellectual property

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

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

Action guidelines

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

Respect for and management of intellectual property

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

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

Incentive systems and education on intellectual property

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

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TOPICS

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

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

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

Inventor: Hiroshi Kodama

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Human Capital

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

Initiatives to increase engagement

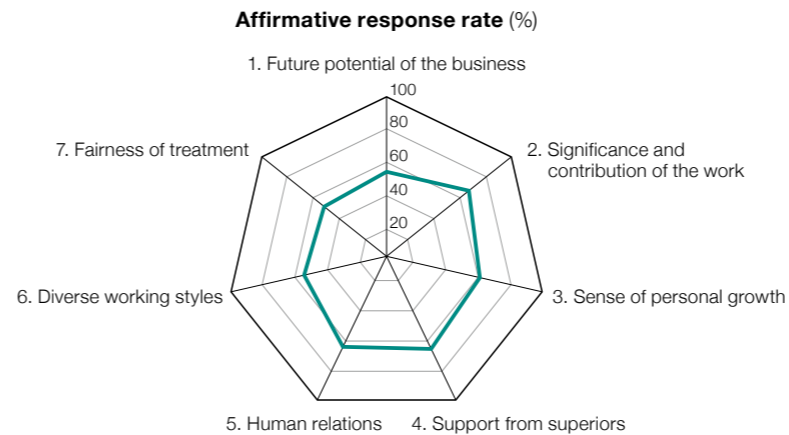
The Group is working to increase the value of human capital in accordance with its human capital policy. We believe that improving work engagement is vital for each and every employee to grow, continue to take on challenges, and demonstrate results, and from FY3/2024 we began conducting an annual engagement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

Engagement survey results

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

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

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



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

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Human Capital

Junior employee comments

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

Research & Development Division, R&D Unit



Y.Y. Joined DKK in 2020

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

Deciding factor in joining DKK

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



How my work is rewarding

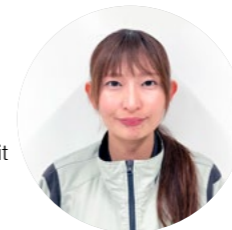
The work is hard because the scale is much larger than university experiments, but it is worth it for the great sense of achievement you get when the finished product ships. I also find it rewarding making various discoveries during the development process, and even if I fail, a different approach may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

Moments when you realize the possibilities

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

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

Manufacturing Technology Division, Production & Engineering Unit



C.T. Joined DKK in 2019

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

Deciding factor in joining DKK

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



How my work is rewarding

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

Moments when you realize the possibilities

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

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Senior and supervisory staff with a lot of personality

Production Section No.2, Gotsu Site

T.I. Joined DKK in 2021



Deciding factor in joining DKK

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



Moments when you realize the possibilities

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

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Employee interviews

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

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

T.W. Obtaining an MBA in 2021

Why I took up the challenge of an MBA

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

Obtaining an MBA

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

Subsequent career development

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



I want to build friendly relationships through language skills

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

M.A. 2015–2016 Language study abroad

Why I took up the challenge of language study

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

Studying language abroad

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

Subsequent career development

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



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

Manager, Research & Development Division, R&D Unit

Y.H. Ph.D. in 2018

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

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

Doctoral degree

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

Subsequent career development

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



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

COLUMN

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

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

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



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Natural Capital

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

Environmental policy

Basic policies

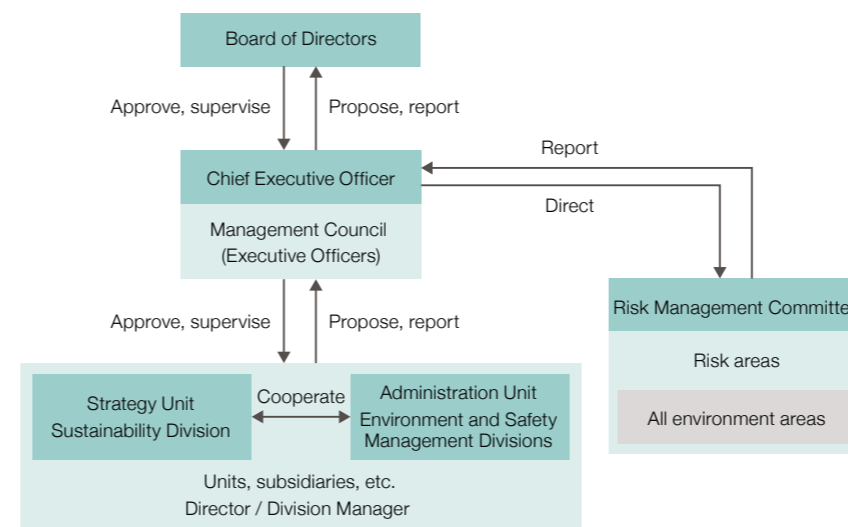
The DKK Group takes global environmental issues such as global warming, pollution by harmful chemical substances, and depletion of natural resources seriously and works constantly to reduce the environmental burdens of its business activities. We contribute to the realization of a sustainable society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

Action plan

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

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

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



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Initiatives for water risks

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

Management of chemical substances

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

Examples of survey responses

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

Examples of initiatives

Preserving the abundant water environment and limited resources

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

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



Ammonia stripping device at the Fukui site

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Natural Capital

Introduction of a fuel cell-based electricity generation system

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

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



Solid oxide fuel cells at the Fukui site

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Social and Relational Capital

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

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

Respect for human rights of all stakeholders

Human rights policy

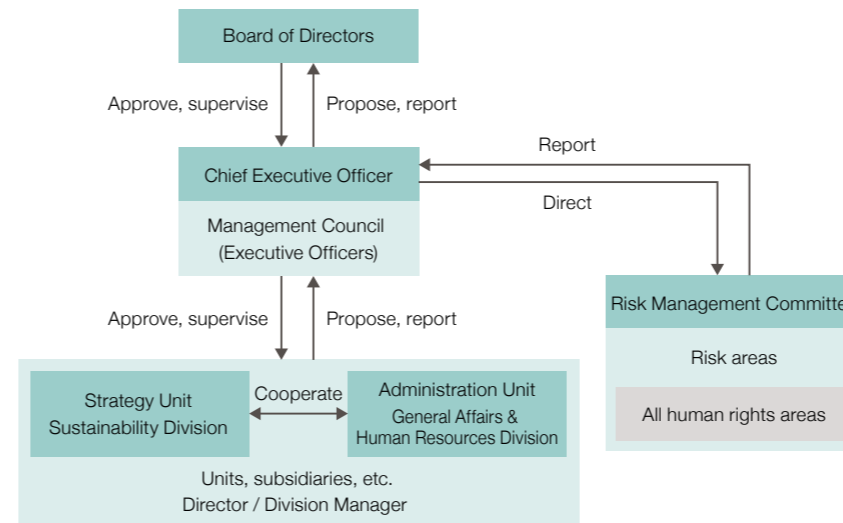
The DKK Group acknowledges that in all processes associated with our business it is possible we will – directly or indirectly – have an impact on human rights. In order to respect the human rights of all people associated with our business and to contribute to the development of a sustainable society,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

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

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

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

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



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Procurement policy

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

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

Risk assessment

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

Responsible mineral sourcing

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

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

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

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

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

Health and safety activities

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

Basic policies

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

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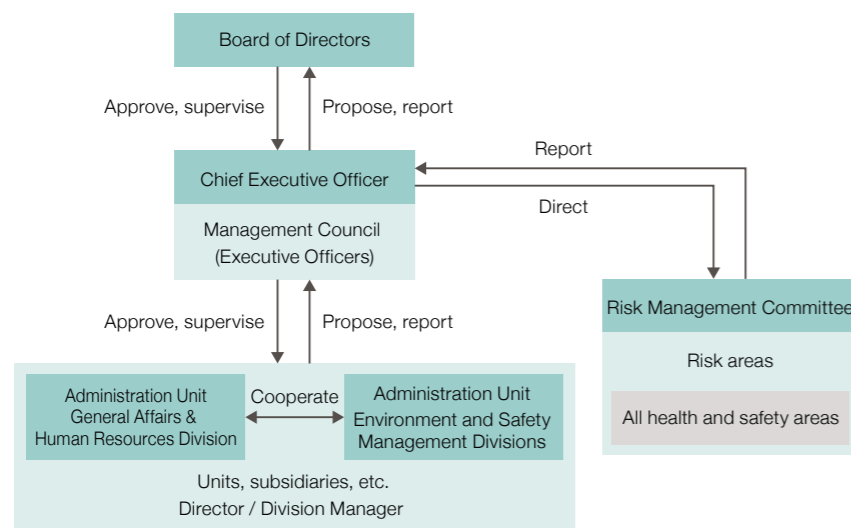
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System and persons in charge

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



Health and safety objectives

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

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

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

Status of safety initiatives

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

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

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

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

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

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

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

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

Examples of health care initiatives

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

Hazard simulation training

We have added hands-on training to our safety training, which used to focus on classroom learning. We use VR safety simulation equipment and have employees actually operate it to experience the dangers.

Groups of employees also attend hazard simulation seminars held at external training facilities, where they can experience suspension from a body harness and simulated entanglement in the harness, which improves their attentiveness and helps them avoid hazards during their actual work.



Promoting social contribution activities

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

Environmental protection and community contribution activities

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

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



Left: Sponsorship of the Mikuni Festival / Right: XXXXXXXXXX

Community revitalization activities

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

In-house social activities

Club activities

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



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

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Birthday parties

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

Web-based exchange meetings

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

Anniversary celebrations

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

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