

Q&A Concerning ESG Briefing

Reference: ESG Briefing Session - Efforts towards sustainability

Note:

ICP = internal carbon pricing

CCS = Carbon dioxide Capture and Storage

Q.

I would like to ask about your CO2 reduction efforts at Hachinohe Smelting Co., Ltd. In the steel industry, for example, I know that efforts to eliminate carbon emissions have been made by using hydrogen as a reductant, but this is considered a very difficult task. Please tell us about your technology roadmap and research to become carbon neutral by 2050, if any.

A.

As for carbon neutrality efforts in metal smelting, we believe that we will have to rely on new technologies, just as the steel industry has. We will keep a close eye on new technologies and introduce them at the right time. Also, there are a number of initiatives we can take on at this point, such as the partial replacement of coke with natural gas as a fuel, which emits less CO2. In this way, we will steadily work on what we can do.

The Company's sites worldwide emit a total of 1.81 million tons of CO2, with Japan accounting for about 80% or 1.45 million tons, of which Scope 1 emissions account for about 44%. As you pointed out, we are aware that what measures we will take at Hachinohe are important, as coke is used there. On the other hand, zinc prevents iron from rusting and thus plays a role in extending its service life, so it is not appropriate to judge its business as harmful just because its operations emit a large amount of CO2. We will adopt ICP so that we can swiftly introduce new technologies when they become available. In this way, we will work toward carbon neutrality while expanding our awareness with the view that CO2 reduction comes at a cost. We are considering how we can contribute to the world with new technologies while keeping costs in mind. One such technology is CCS, which is expected to be in practical use after 2030. We are afraid, however, that we have no concrete solution at this point.

Q.

The Corporate Governance Report shows a connection between ordinary income and Directors' compensation. Please tell us about the incentives you intend to use for business enhancement, such as incorporating capital efficiency as an incentive to optimize your business portfolio, or non-financial indicators.

A.

The inclusion of non-financial indicators in the compensation scheme for Directors is currently being considered by the Compensation Committee and has been strongly requested by the executives. By selecting items from each ESG category and reflecting them in the Directors' compensation at a certain ratio, it will show how committed we are to those outside the Company, as well as how motivated officers are to those inside the Company. We have some idea of appropriate items for E and S, but items for G are difficult to decide, and we are still in the selection process. We plan to include non-financial indicators in the next fiscal year's compensation scheme (to be reflected in compensation for the year after next) at the latest. The Compensation Committee has not discussed capital efficiency as an indicator. Currently we use ROIC as a criterion of judgment when managing our business portfolio, and we regard it necessary to draw up a more clear company policy regarding overall capital efficiency. Though we have not yet reached the point of discussing overall capital efficiency with outside committee members and thus not yet advanced to discussions for including it in the compensation scheme, we are strongly conscious of capital efficiency.

Q.

Some companies have committed to using 100% renewable electricity. What is your company's view on using renewable energy for electricity used in the copper foil business?

A.

At the Ageo Plant, 30% of its electricity is sourced from renewable energy and we are considering increasing this ratio further, including for our overseas bases.

Q.

I would like to know how ESG-oriented management will impact future management policies and investment decisions. For example, I would like to know how the incorporation of ESG opportunities and risks in evaluation of business growth prospects and the use of ICP in investment decisions will change future investment plans and management policies, including their impact on the metal smelting and catalyst businesses in particular.

A.

Given that the government plans to secure 20 trillion yen for green transformation (GX) with GX Economy Transition Bonds, and that these bonds will be redeemed using the carbon pricing system, we believe that carbon pricing will be introduced in the near future. We thus will consider the cost of CO2 emissions when making investment decisions going forward, which is not limited to the metals and catalyst businesses. A view in the ICP also suggests that reducing CO2 emissions will lead to cost reduction, so we will consider both CO2 emissions and reducing CO2 emissions in making decisions. As another business evaluation factor, we measure ESG opportunities and risks by five criteria: environmental impact, social capital, human capital, business model and innovation, and leadership and governance, as listed on page 15. Taking human capital as an example, the ability to invest more human capital is one of the criteria for future risks, including ESG risks. As with this example of human capital, there are various criteria for each of the five ESG opportunities and risks, which are also factored in deciding business sustainability.

Q.

Regarding copper foil, you explained that 30% of electricity used in the domestic copper foil business is sourced from renewable energy. In steel and other sectors, the construction and manufacturing industries are increasingly seeking low-CO2 emission steel and CO2-free steel. Please tell us if such signs are already appearing in the copper foil sector or other sectors, or if there are any areas that are likely to see such movement in the next two to three years.

A.

As you know, there is a strong demand for low-CO2 or CO2-free products from North American smartphone makers, a demand which we are meeting. We also assume that we will see renewable energy procurement projects planned in various sections in the Company in the process of compiling a company-wide roadmap for carbon neutrality, and intend to solidify a company-wide policy accordingly. Recently, Mitsui Kinzoku ACT Corporation has been receiving frequent requests for carbon footprint data from customers, and such pressure is mounting in the automotive parts industry. Preparations are underway to respond to this situation.

Q.

You explained that you will promote workplace diversity and utilize it to enhance competitiveness. I agree that respecting diversity and increasing the ratio of female managers are very important, but I would like to ask how these efforts will lead to enhanced competitiveness, or company profitability, and how you will measure the effects of these

efforts.

A.

Let me explain from personal experience. I served as the president of Mitsui Copper Foil (Malaysia) Sdn. Bhd. for three years, and 30% of the executives were women. From my experience, discussions in meetings with such members were diverse and proceeded in ways that were not possible if only men had been present. Because of this experience, I, as president, am taking the lead in promoting diversity. With Ms. Sugimoto now being an executive officer, discussions among executives are now held in a different way than in the past. The conventional membership-based seniority system has sometimes made it difficult for younger people to speak out. I believe that such a culture will change as diversity becomes more prevalent. It is very difficult to quantify the changes, but as shown in the chart on page 40, we are convinced that these efforts will lead to an innovative workplace and an increase in productivity through greater workplace engagement, then to higher earnings over the medium to long term, and ultimately to an increase in our corporate value.