

## Q&A at the ESG Briefing Session

Reference: ESG Briefing Session on November 18, 2024

Note:

PAI = Patent Asset Index (PAIT™).

The total value of competitive impacts (an indicator of competitiveness and the quality of a patent family) based on PatentSight® provided by LexisNexis Intellectual Property Solutions.

This is an index based on patent value, which represents current and future visibility in the market, and the number of patents held.

### ■Q&A Session

Q.

Your explanation of your CO2 emission reduction initiatives, which included new topics, was very easy to understand. Regarding the topic of stopping the production of calcium sulfate, if this initiative results in cost increases, how will you pass them onto product prices?

A.

Regarding passing costs onto product prices, in the case of copper foil, we have increased copper foil prices in line with rising electricity costs. However, our main concern is bullion due to its high CO2 emissions. If we obtain green metal certificates, we anticipate they will add value for us. Some of the large steel companies are adopting strategies to pass costs onto prices by securing green steel certificates. In this global context, we will consider how to expand our business going forward while recognizing that we are the No.1 company in zinc.

Q.

If you stop production of calcium sulfate, will you promote the sales of sulfuric acid instead?

A.

Yes, we will promote the sales of sulfuric acid after stopping the production of calcium sulfate. In the past, the sulfuric acid market was very weak, and we expected calcium sulfate to be more profitable. That is not necessarily the case now, and stopping the production of calcium sulfate may lead to higher profits in some cases, although sulfuric acid prices are, of course, subject to change. From the perspective of CO2 emission reduction, stopping production of calcium sulfate is expected to be quite effective.

Q.

Regarding human capital, you said that the number of mid-career hires has increased significantly. Are there any examples of synergy effects or organizational revitalization resulting from this? It would be particularly interesting if these examples are tied to financial results. Have any of the changes brought about by these reforms been monetized in some way? Looking from the outside, we've noticed a sense of openness in your business operations after reducing the floor space of your head office by one floor. If there are any specific examples, please share them.

A.

The percentage of mid-career hires currently exceeds that of new graduates, with most mid-career hires joining development and research departments. As a result, the atmosphere within the company has changed considerably. We have also abolished management by recruitment categories from this fiscal year. While the starting line for new employees varies depending on their academic background—such as bachelor's degree, high school diploma,

vocational school certification, or master's degree—promotions and other considerations have now shifted to being performance-based. In this situation, as mid-career hires increase, our human resources system has transitioned to performance-based in the truest sense of the term.

Q.

Regarding governance, can you provide examples of management reform measures, if any?

A.

The ratio of outside directors and inside directors is currently 5:5, with the Board of Directors chaired by an outside director. In addition, both the Nominating Committee and the Remuneration Committee are also chaired by outside directors. Therefore, our outside directors have been informed that they can replace anybody on the executive side anytime if he or she is not suited to the management of the company, which has heightened their sense of responsibility. As a result, discussions at board meetings have recently become more active. However, a current challenge is that the number of agenda items at board meetings is still high, which sometimes leads to insufficient time for thorough discussions. Therefore, I believe we need to narrow down the topics further.

Q.

During your explanation about initiatives for environmental issues, you said that you have been receiving inquiries from various customers. To what extent does this have a realistic impact on their supplier choices, or what do you think it will be advantageous for you in the future?

A.

As shown on page 32 of the briefing material, while we receive a considerable number of questions, requests, and inquiries concerning CSR, ESG, and sustainability from our customers every year, there have been no instances so far in which we have been excluded as a supplier due to their evaluations. Meanwhile, as part of our supply chain management, we request various information from suppliers, such as SAQs, but there have been no cases in which we have discontinued transactions with a particular supplier as a result of these requests. However, as we have just explained regarding trends in Europe, we expect this issue to become more critical going forward. We are making steady progress in our preparations so that we will be not be in trouble once these trends have become fully established.

Q.

On page 44 of the briefing material, it appears that the linkage between the purpose and benefits of the transition to a company with an Audit and Supervisory Committee is still unclear. What is your view on the transition?

A.

The reason for transitioning to a company with an Audit and Supervisory Committee is that, from the perspective of leveraging the wisdom of outside directors, we determined the need to simplify our decision-making and discussion mechanisms a little more. We concluded that having an Audit and Supervisory Committee consisting of outside directors with voting rights is the appropriate approach for our company. This structure allows us to clearly distinguish between matters that should be delegated to the executive team for execution and those that require more extensive discussion by the Board of Directors.

Q.

I have a question about your explanation of the TCFD transition scenarios. Could you please explain why some items are in opposite directions under the 4°C scenario and the 1.5°C

scenario for metals, as presented in your integrated report, and why do you expect profits to increase even though increases in energy and raw material prices generally have a negative impact on profits?

A.

The reason why the 1.5°C scenario has a positive impact on profit for some items is that demand—for example, for our copper business—may increase due to the growing interest in the CO<sub>2</sub> issue. We also expect our green metal initiatives to provide higher added value, which will produce a positive impact on profit. On the other hand, in the 4°C scenario, we do not expect that customer interest is very strong, and we assume that demand growth is small.

Q.

You mentioned that you're preparing Scope 3 data for future disclosure. Once you start disclosing Scope 3 data and reduction targets in addition to Scopes 1 and 2, the importance of environmentally friendly products is expected to grow. Since you've indicated your intention to accelerate initiatives to increase the percentage of these products as part of your Vision for 2030, it would be helpful if you could share your ideas of how to actually define and quantify their reduction contribution. In addition, I think it would be better to share milestones if possible, your long-term plan through 2030, specifically how you plan to increase these products' contribution to sales and profits, and along what curve. Could you also share what kind of picture your next Medium-Term Business Plan is likely to envision?

A.

Exactly as you have pointed out, increasing attention to Scope 3 means more attention is paid to environmentally friendly products. Customer interest currently varies by sector and product. Many customers in the Engineered Materials Sector are already keenly interested in CO<sub>2</sub> emissions and recycling issues. We intend to make more than 70% of the products launched by FY2030 environmentally friendly, with the sales ratio also exceeding 50%, and we will work toward achieving these targets. As carbon pricing is trending, we expect interest in green products to also grow in other sectors going forward.

Q.

Regarding human capital and initiatives for job satisfaction reforms, you said that you plan to increase your engagement score to 70 in the long run. Could you indicate specific milestones during the period of your Medium-Term Business Plan to transform your vision into an action plan? While you've outlined a rough timeline for the changes scheduled as tools for achieving this, we would appreciate it if you could indicate the milestones.

A.

As for our job satisfaction reform milestones and action plan for human capital, the briefing material includes an excerpt from the outline of measures, with specific details to be discussed in the 25-27 MTP. We aim to build an effective promotion structure by FY2026. Achieving an engagement score of 70% by 2030 is a fairly ambitious goal, while the Diversity, Equity and Inclusion Committee, chaired by the President, has set KPIs for FY2025 and beyond and is currently finalizing specific measures and other details.

Q.

Regarding the management items (PAI) for sustainability management skills shown on page 41 of the briefing material, could you share with the market in the future milestones, targets, and numerical management?

A.

For the treatment of the PAI as part of intellectual property management, since we believe it is important to set and disclose PAI targets—including their correlation with sales, if possible—we will consider handling them in that direction.

Q.

As with ROIC-oriented management, I feel that your key role going forward is to incorporate various sustainability-related indicators into your action plan, rather than treating them as mere slogans. It is important to find appropriate ways to measure progress. Can we expect you to take a step forward from what you have done in the past and make a commitment in your Medium-Term Business Plan?

A.

We plan to include ROIC and the engagement score (the percentage of *iki-iki* active engagement) as indicators for executive compensation. In order to include these, we need to clarify the measures and decide how much we can disclose. We will formulate the 25-27 MTP, including yearly targets, and will work to ensure that the results will continue to improve leading to the next MTP. At a minimum, we intend to clearly determine the measures in the MTP and disclose our targets.

Q.

Page 9 of the briefing material introduces various initiatives from the Business Creation Sector, including its contribution income target of 10 billion yen or more for 2030, which is a fairly long time frame. Looking from the outside, it is not clear how management resources will be used in the meantime. Please tell us how you plan to manage ROIC over this extended time span.

A.

We have been allocating more and more management resources to the Business Creation Sector, and considerable progress has been made in the commercialization of solid electrolytes and HRDP®. As a result, we are reaching levels at which we should clarify the company's overall direction by incorporating ROIC targets into the next MTP during the period of the 25-27 MTP. There are several CO2-related themes, and their impact will likely become much clearer during this period, at which point we will determine how they will affect our future ROIC. We evaluate each theme through the phase gate process, and the concept of ROIC is not appropriate for themes in earlier stages. Therefore, we will consider ROIC targets for those themes that are sufficiently close to commercialization.

Q.

Regarding human capital, your integrated report shows that while the percentage of women in management positions has been rising over the last five years, the overall percentage of women among total employees has been declining for the last four years, from over 30% in FY2019 to 27.4% in FY2023. Do you see this as an issue? Furthermore, what measures do you plan to take going forward, and what is your specific action plan?

A.

We believe that there are two main reasons why the percentage of women among total employees has not been rising. First, while the percentage of mid-career hires is higher than that of new graduates, the percentage of women among mid-career hires is much lower compared to new graduates. Second, as the length of service among female employees is short, causing high turnover among relatively younger employees, the percentage of women among total employees is declining. In order to raise the percentage of women among total mid-career hires, we should take a more persistent and granular approach by conducting

interviews with female employees on an individual basis and addressing their concerns one by one to encourage them to stay with the company.

Q.

Regarding your plan to reduce CO<sub>2</sub> emissions in the Metals segment, as shown on page 18 of the briefing material, you have identified the non-achievement of CO<sub>2</sub> emission factor targets and delays in technology development as risks. How much can they actually be delayed? Please explain the specific issues and your response measures.

A.

As for the CO<sub>2</sub> emission factor, there is a difference between the non-binding targets presented by the government in its 6th Basic Energy Plan and the levels actually required of electric power companies in a quasi-regulatory manner. In short, it depends on whether nuclear power generation will actually be operated as scheduled, which is uncertain. Needless to say, we would like to reduce the CO<sub>2</sub> emission factor to meet the levels of non-binding targets, but we cannot specify exact percentages. Next, regarding delays in technology development, although we have explained that we will introduce biomass fuels, among other measures, we are not completely sure whether we can do so according to schedule, as they are still in the testing stage. In addition, biomass fuels are more expensive than ordinary coal and coke. Therefore, we plan to do what we can for CO<sub>2</sub> reduction efforts without significantly impacting profits. It is almost unthinkable that we will fail to achieve all technology projects for our 2030 targets (-126 thousand t-CO<sub>2</sub>/year). We have chosen to present our plan in this manner to indicate that, if we should fail to achieve all targets, we would need to procure carbon-free electric power to the required extent and purchase non-fossil certificates accordingly. This is written in order to highlight why we need to accelerate technology development and if we fail to develop technologies, our smelting business will not be viable unless we pass the additional costs onto prices.