Briefing Materials on the Medium-Term Management Strategy FY2031

Mitsubishi Materials Announces New Medium-Term Management Strategy: Further Growth through Expansion of Resource Circulation and Enhancement of Supply of Advanced Materials and Products

【Speakers】

Naoki Ono, Director, Chief Executive Officer, Mitsubishi Materials Corporation
Nobuhiro Takayanagi, Director, Managing Executive Officer, Mitsubishi Materials Corporation

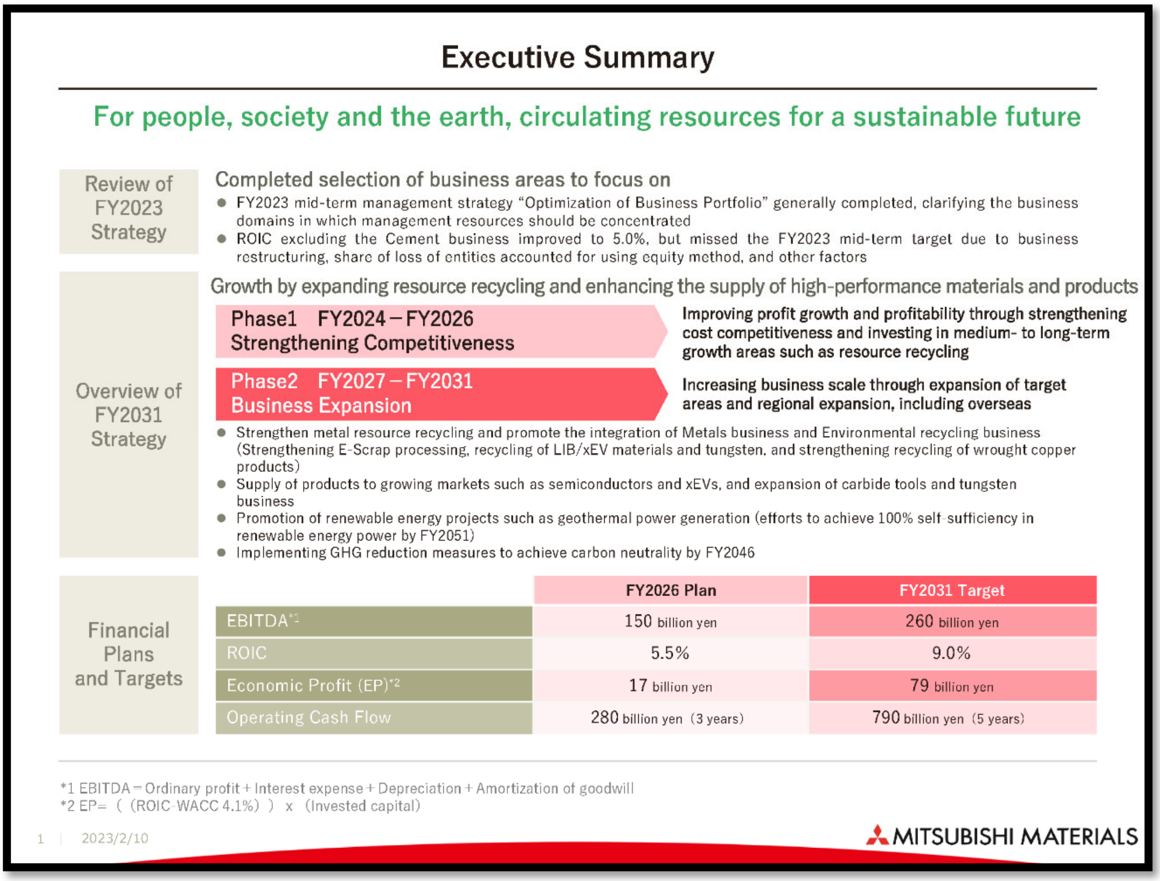
This is a transcript of the briefing on Mitsubishi Materials Corporation's Medium-Term Management Strategy 2031 held on February 16, 2023.

Mr. Naoki Ono

Ladies and gentlemen, I would like to thank you all once again for taking time out of your busy schedule to join us. Today, I would like to explain our “Medium-Term Management Strategy 2031” along with the presentation slides.

We have set "For people, society and the earth, circulating resources for a sustainable future" as our goal, and summarized our strategy on the path we should take toward this goal.

<Executive Summary>



We have compiled the executive summary on a single slide. In the top row, we review the FY2023 mid-term management strategy.

The optimization of the business portfolio has been largely completed, and the business domains where management resources should be concentrated have been clarified. With regards to financial targets, the ROIC excluding the cement business is expected to improve to 5%, surpassing WACC, but the mid-term target for the entire company will not be met due to business restructuring and equity method investment losses.

The outline of Medium-Term Management Strategy 2031, shown in the middle of the slide, is to aim for growth by expanding resource circulation and enhancing the supply of advanced materials and products. Of the period through FY2031, the first three years will be designated as Phase 1 and the latter five years as Phase 2, with the aim of strengthening competitiveness in Phase 1 and expanding business in Phase 2.

In Phase 1, we will strive to grow profits and improve profitability by strengthening cost competitiveness, while investing in medium to long-term growth areas such as resource recycling. In Phase 2, we will expand the scope of resource recycling and expand the scale of operations through regional expansion, including overseas.

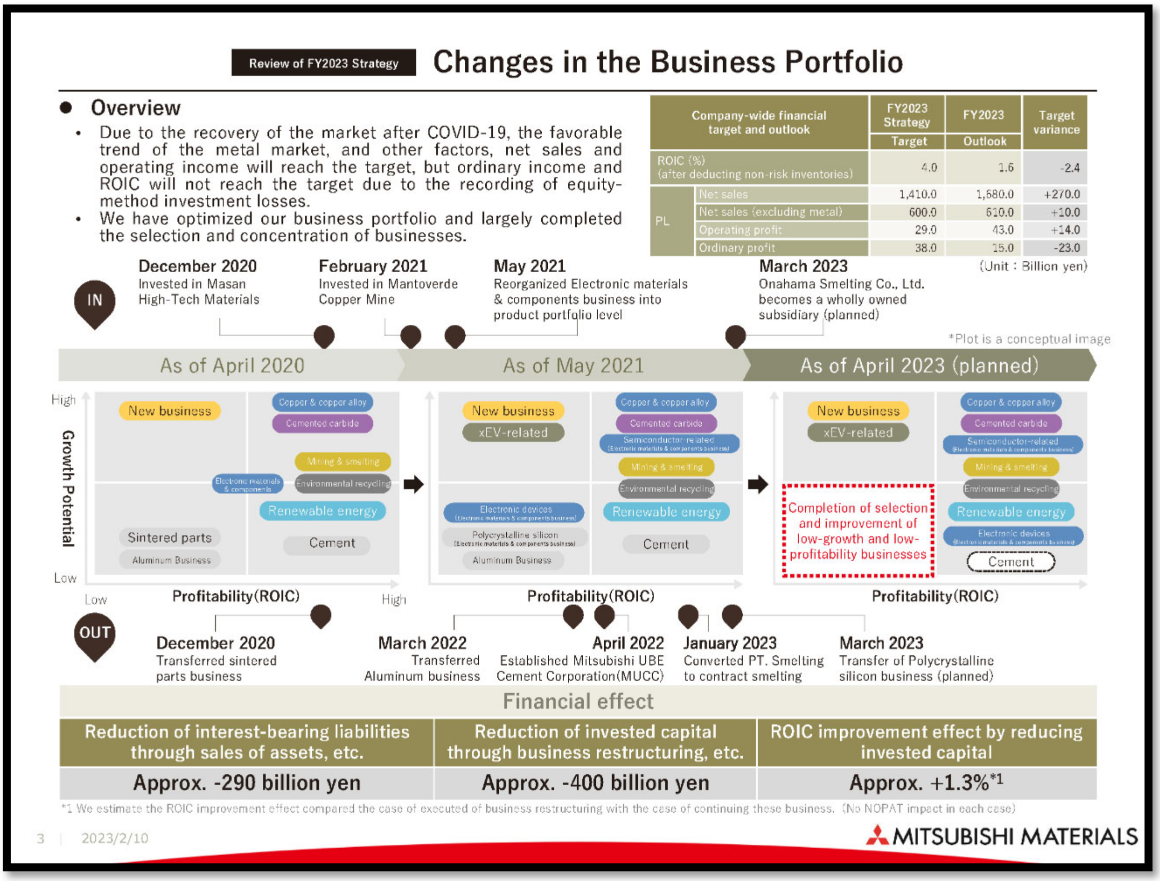
Specifically, we will enhance the circulation of metal resources such as E-Scrap, LIB, xEVs, tungsten, and wrought copper products. In addition, we will supply products for growth markets such as semiconductors and xEVs, and expand our carbide tools and tungsten business.

In addition, we will promote the renewable energy businesses, such as geothermal power generation, and aim to become 100% self-sufficient in renewable energy power by FY2051. Including these initiatives, we aim to achieve carbon neutrality in FY2046.

The lower part of the slide outlines our financial plans and targets. We aim for EBITDA of 150 billion yen at the end of Phase 1 and 260 billion yen at the end of Phase 2. ROIC is estimated at 5.5% in Phase 1 and expected to grow 1.6 times to 9.0% in Phase 2.

In addition, we aim to increase the economic profit (EP), which is calculated by multiplying the ROIC spread, a measure of corporate value creation, by invested capital, from 17 billion yen in Phase 1 to 79 billion yen at the end of Phase 2, a 4.6-fold increase. Our target operating cash flow is 280 billion yen for the three years during Phase 1 and 790 billion yen for the five years during Phase 2.

<Review of FY2023 Strategy - Changes in Business Portfolio>

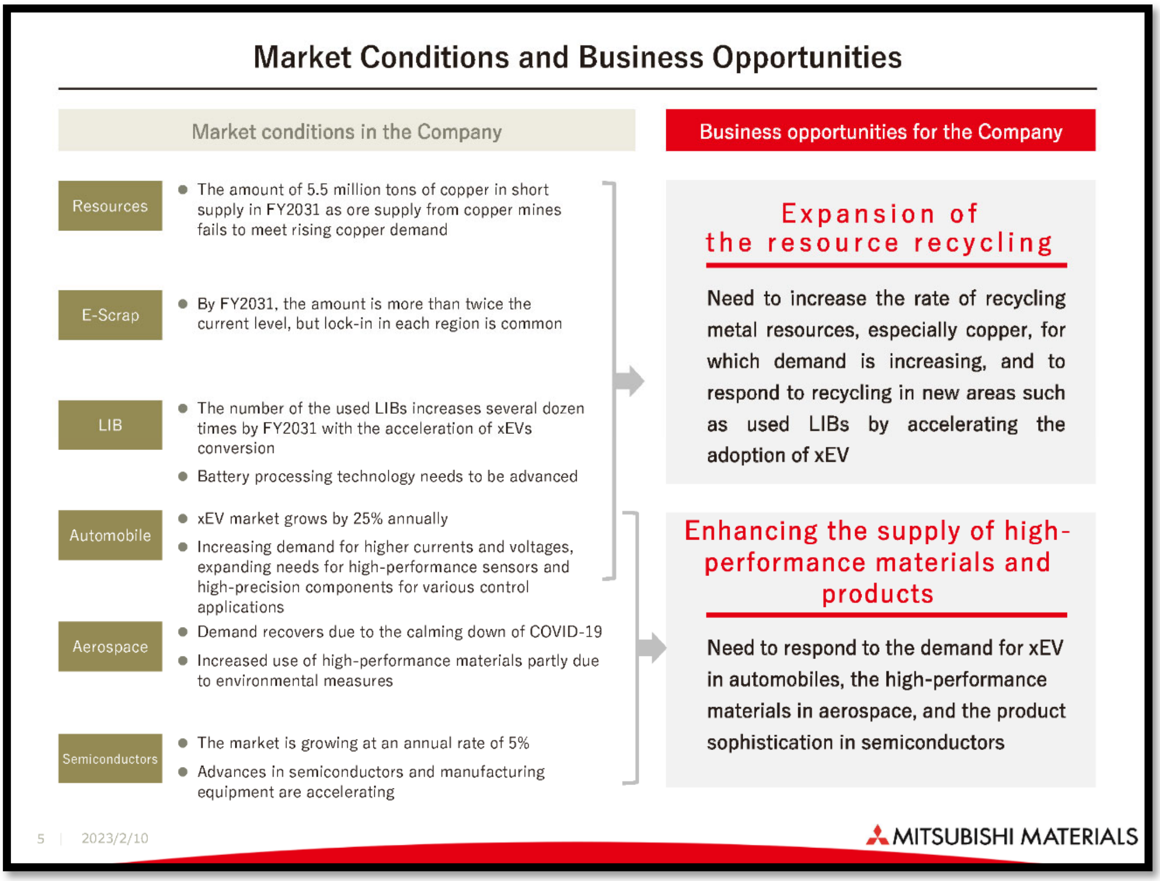


I would like to touch on the evolution of our business portfolio for a moment. As shown in the table at the top right of the slide, we expect to miss our financial targets for the FY2023 mid-term management strategy for ordinary profit and overall ROIC mainly due to equity method investment losses.

For the business portfolio, the middle part of the slide shows the projection as of April 2023, starting in April 2020 through 2021. The top and bottom of the figure show businesses that were added to or excluded from the portfolio.

Sintered parts, aluminum and polycrystalline silicon businesses have been transferred to different owners, the cement business has been integrated with other company, and the PTS business has undergone structural reforms in the form of contract smelting. Such structural reforms have been implemented and we have generally completed the streamlining and improvements in the so-called low-growth and low-profit businesses. The financial effects of these business restructuring measures include a reduction in interest-bearing debt of approximately 290 billion yen and a reduction in invested capital of approximately 400 billion yen. The estimated contribution of this reduction in invested capital corresponds to an improvement in ROIC of approximately 1.3%.

<Market Conditions and Business Opportunities>

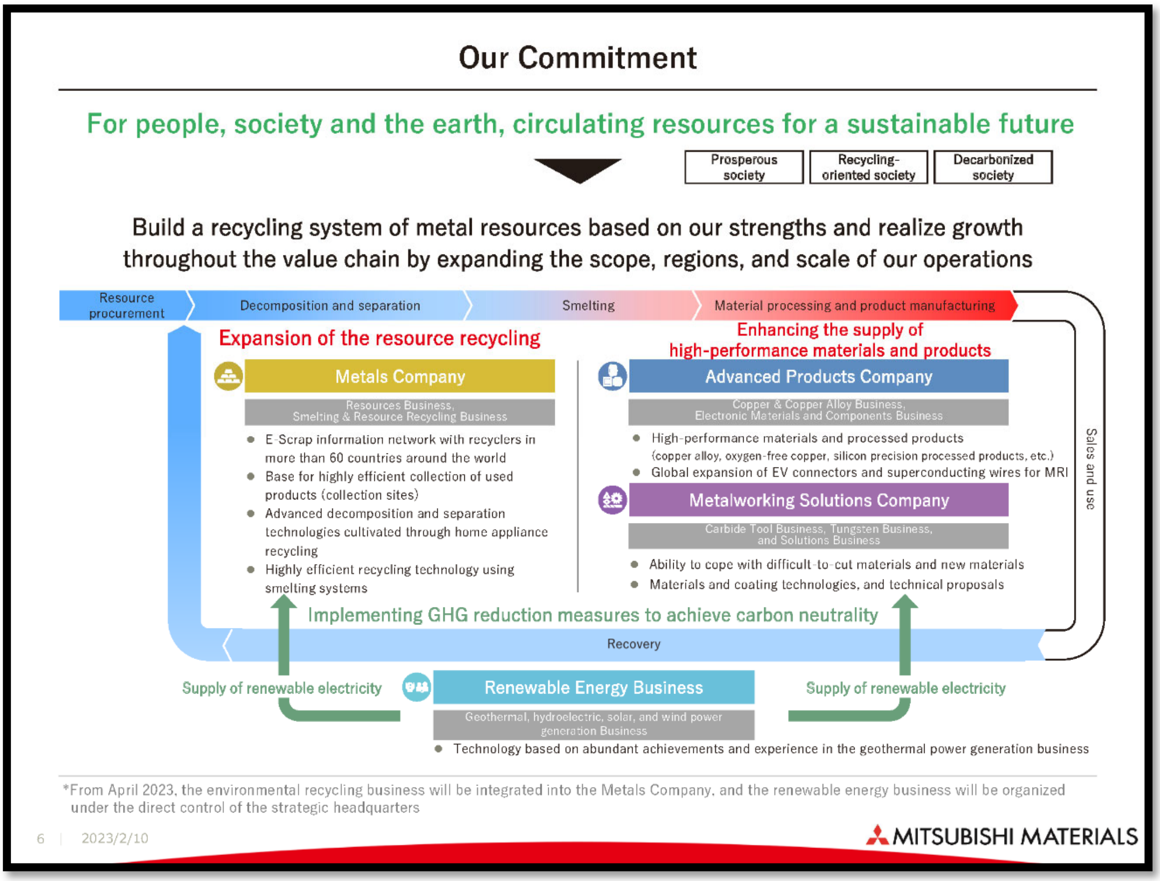


From here, I will explain our commitment. In terms of the market conditions and business opportunities surrounding us, market conditions closely related to our company’s business are shown on the left side of the slide.

Copper resources are expected to be in short supply in the future. Although E-Scrap generation is expected to increase, competition to lock them in is expected to intensify in each region. While LIBs and xEVs are expected to increase, the technology is required to be more advanced. We expect the performance and sophistication of components and products required by the aerospace and semiconductor industries, including the automotive industry, to continue advancing.

In light of these market conditions, we see business opportunities for our company in expanding resource recycling and enhancing the supply of high-performance materials and products.

<Our Commitment>



Our corporate philosophy, vision, and mission are summarized in a single sentence, representing our commitment. That is shown on the upper part of the slide, "For people, society and the earth, circulating resources for a sustainable future.” A sustainable society is defined as a prosperous society, a recycling-oriented society, and a decarbonized society.

Toward this goal, we will build a recycling system of metal resources based on our strengths and realize growth throughout the value chain by expanding the scope, regions, and scale of our operations. As shown in the figure on the slide, we collect used or discarded products, decompose and separate them, put them through smelting and other processes to extract useful metallic elements, and then process them into advanced materials and manufacture advanced products to supply to the market.

As for the expansion of resource recycling, which is one of the business opportunities for our company, it can be described as a venous function. On the other hand, the arterial function is to supply advanced materials and products. We design and build the resource recycling itself, and at the same time, we will also practice the construction of circulation in a larger sense, from veins to arteries, and then back to veins through the market.

In expanding resource recycling, we will utilize the advanced decomposition and separation technologies that the current Environment and Energy Business Company has developed in its home appliance recycling business, as well as the smelting and other recycling technologies of the Metals Company. Furthermore, we will maximize earnings by integrating all management resources, including human resources and overseas networks, into a coherent business model, with a view to overseas expansion.

The arterial function will be handled by the Advanced Products Company and the Metalworking Solutions Company. The Renewable Energy Business will supply the renewable energy power generated for these businesses as a whole and implement GHG reductions to achieve carbon neutrality.

As part of the structure to promote these initiatives, the Environmental Recycling Business of the Environment and Energy Business Company will be integrated into the newly established Resource Recycling Business within the Metals Company from April 2023. Since the Renewable Energy Business will play the role of supplying renewable electricity to the entire company, this business will be organized under the direct control of Strategic Headquarters.

<Strategic Roadmap>

Strategic Roadmap

- Phase1 Improving profit growth and profitability by strengthening cost competitiveness and investing in medium- to long-term growth areas centered on resource recycling
- Phase2 Expansion of business scale through regional development including overseas, in addition to expansion of target business areas

	FY2024 - FY2026 Phase1 Strengthening Competitiveness	FY2027 - FY2031 Phase2 Business Expansion
Expanding the resource recycling	Investment: 110 billion yen (3 years) ● Start LIB recycling ● Expansion of the Tungsten business	Investment: 140 billion yen (5 years) ● New copper mine investment ● Capacity expansion of copper smelters
Enhancing the supply of high-performance materials and products	Investment: 70 billion yen (3 years) ● Strategic investment in semiconductor manufacturing equipment area ● Improving supply chain efficiency	Investment: 110 billion yen (5 years) ● Expanding the scale of carbide tools ● Expanding the supply of xEVs materials
Investment in renewable energy	Investment: 5 billion yen (3 years)	Investment: 25 billion yen (5 years)
Strengthening cost competitiveness	Ratio of improvement in ordinary profit to net sales:+5.4%*1	Ratio of improvement in ordinary profit to net sales: +4.9%
Operating Cash Flow	280 billion yen (3 years)	790 billion yen (5 years)
EBITDA*2growth rate (CAGR)	16.5%*3	11.5%

*1 Range of improvement in the ratio of ordinary profit to net sales. Net sales excluding metal.
*2 EBITDA=Ordinary profit+Interest expense+Depreciation+Amortization of goodwill (same as below)
*3 Cement business loss in FY2023 excluded

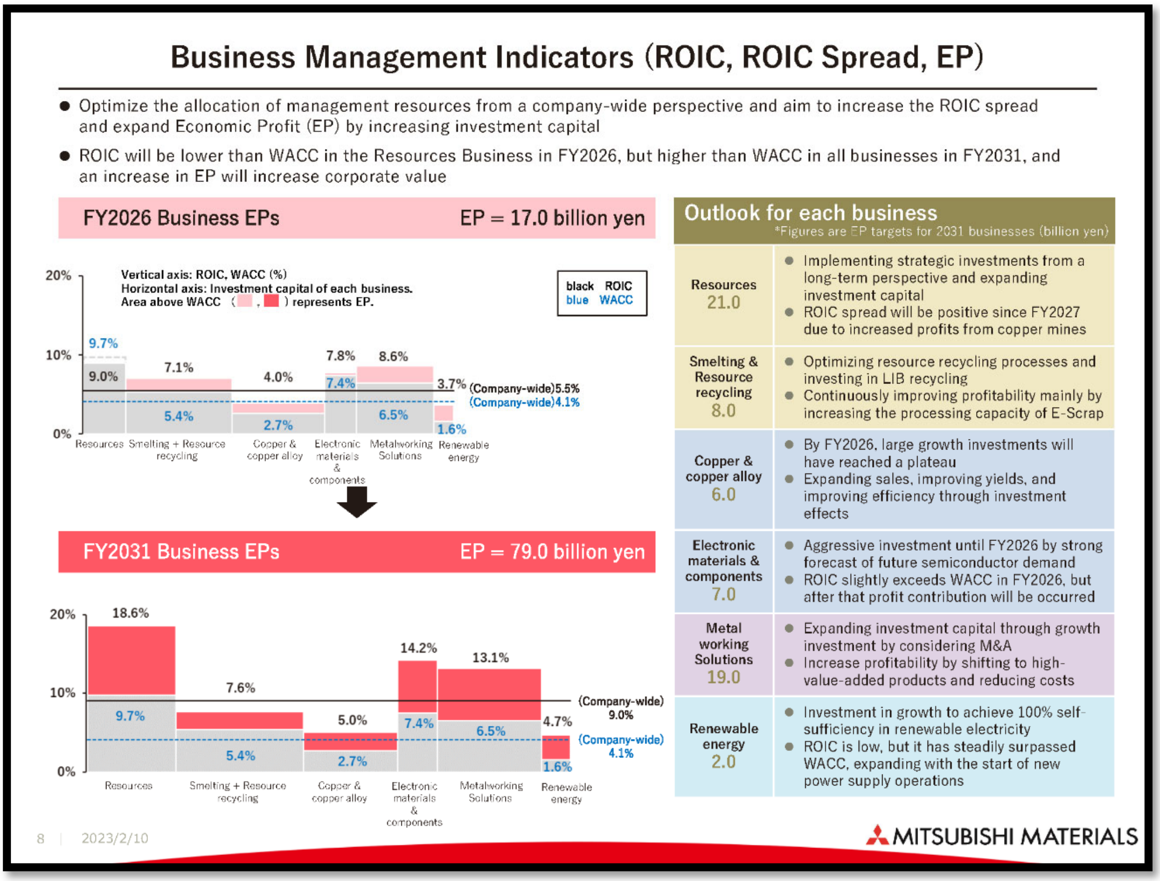
7 | 2023/2/10 MITSUBISHI MATERIALS

Measures taken in Phase 1 and Phase 2 are shown in terms of investment amount and other information. In Phase 1, 110 billion yen will be invested in LIB recycling and expansion of the tungsten business to enhance resource recycling. In Phase 2, we plan to invest 140 billion yen to expand resource circulation by investing in new copper mines and increasing smelter capacity.

Meanwhile, in the area of advanced materials and products, we plan to invest 70 billion yen in the field of semiconductor manufacturing equipment in Phase 1, and 110 billion yen to expand the scale of carbide tools and other products in Phase 2. We plan to invest 5 billion yen in renewable energy in Phase 1 and 25 billion yen in Phase 2.

As a goal of enhancing cost competitiveness, we plan to improve the ratio of ordinary profit to net sales by around 5% through Phase 1 and Phase 2. The planned and targeted EBITDA growth rate is 16.5% for Phase 1 and 11.5% for Phase 2.

<Business Management Indicators (ROIC, ROIC Spread, EP)>



The ROIC, ROIC spread and economic profit for each business are shown on the left side of the slide. Economic profit is the part shown in dark pink or red. These are shown separately for FY2026 and FY2031.

In terms of ROIC, the Resources Business is expected to fall below WACC in FY2026, but in FY2031 we plan to exceed WACC in all businesses and increase corporate value by increasing economic profit.

The outlook for each business is shown on the right side of the slide, but the Resources Business requires a long-term view and ROIC spread is expected to be positive after FY2027. The Smelting and Resource Recycling Business will strive to improve profitability on an ongoing basis. In the Copper and Copper Alloy Business, we will utilize the investment effects through FY2026 to improve earnings in subsequent years.

In the Electronic Materials and Components Business, we plan to reap the benefits of aggressive investment through FY2026 in Phase 2. We expect sustained growth in the Metalworking Solutions Business, including through M&A. While the Renewable Energy Business will play a role in the self-sufficiency of renewable electricity, it will also contribute to a certain extent to the improvement of corporate value by consistently exceeding WACC, although ROIC is low.

<Financial Plans and Targets>

Financial Plans and Targets

		FY2023 Forecast	FY2026 Plan	FY2031 Target
Net sales (Net sales excluding metal)	billion yen	1,680 (610)	1,940 (690)	2,000 (850)
Operating profit	billion yen	43	70	130
Ordinary profit	billion yen	15	87	180
ROIC ※1 (before deducting non-risk inventories)	%	0.6%	5.5%	9.0%
ROE	%	1.1%	10.0%	13.6%
EBITDA	billion yen	66	150	260
Net D/E ratio	times	0.7	0.7	less than 0.5
Net interest-bearing debt /EBITDA ratio	times	6.1	3.5	less than 2.0

Assumptions for FY2024 and beyond: Exchange rates: 135 Yen/ $, 135 Yen/€ , Copper price: 360 ¢/lb

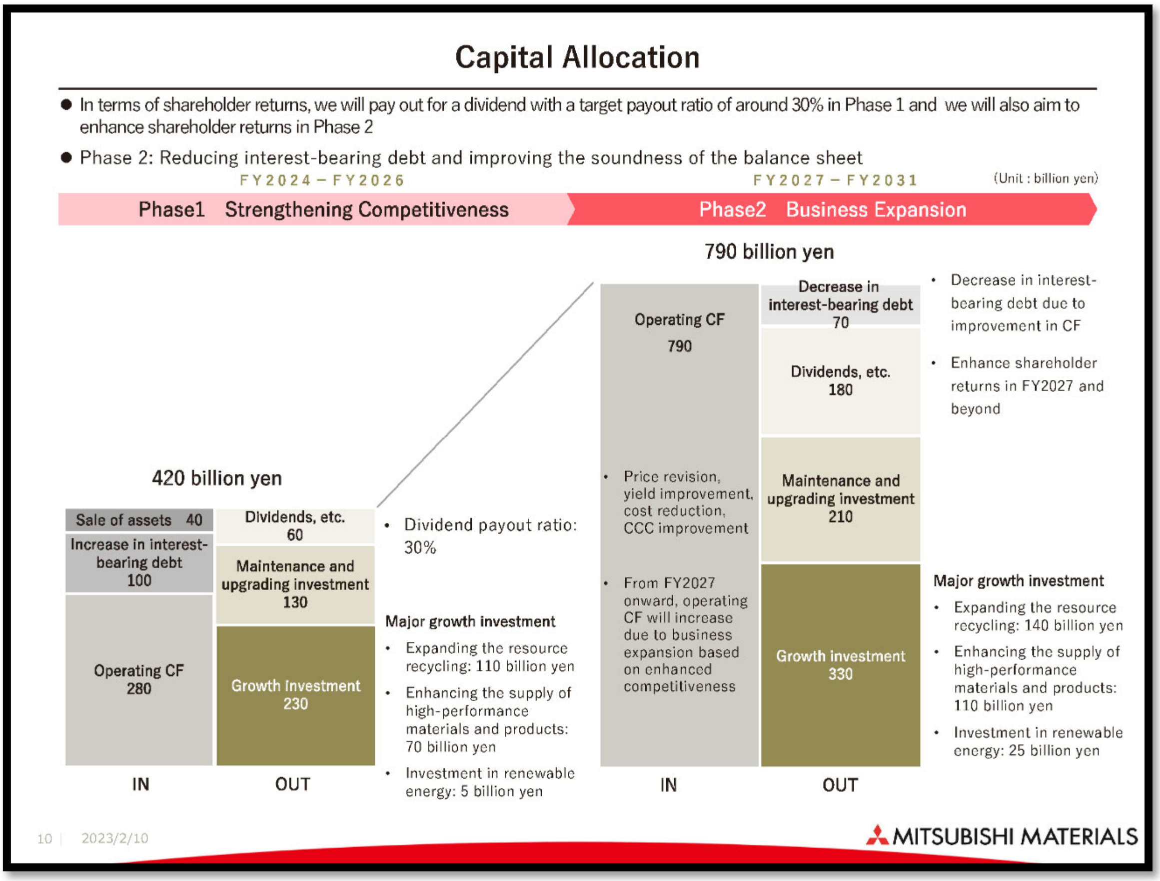
*1 Calculate ROIC by deducting the amount of inventories (non-risk inventories) that were previously risk-free due to price hedged from invested capital
From the FY2031 Strategy, the calculation method will be changed prior to the non-risk inventory deduction mainly due to the shift to management based on the ROIC spread based on the WACC of each business

9 | 2023/2/10 MITSUBISHI MATERIALS

This table shows our financial plans and targets for FY2026 and FY2031. We plan to generate operating profit of 70 billion yen in FY2026 and 130 billion yen in FY2031, and ordinary profit of 87 billion yen in FY2026 and 180 billion yen in FY2031. ROE is expected to exceed approximately 10% throughout this medium-term management strategy period.

The net D/E ratio will be 0.7x in FY2026, when investments are slightly ahead of schedule, but we aim to keep it 0.5x or below in FY2031. We plan to improve our net interest-bearing debt and EBITDA multiples to 3.5x in FY2026 and 2.0x or below in FY2031.

<Capital Allocation>

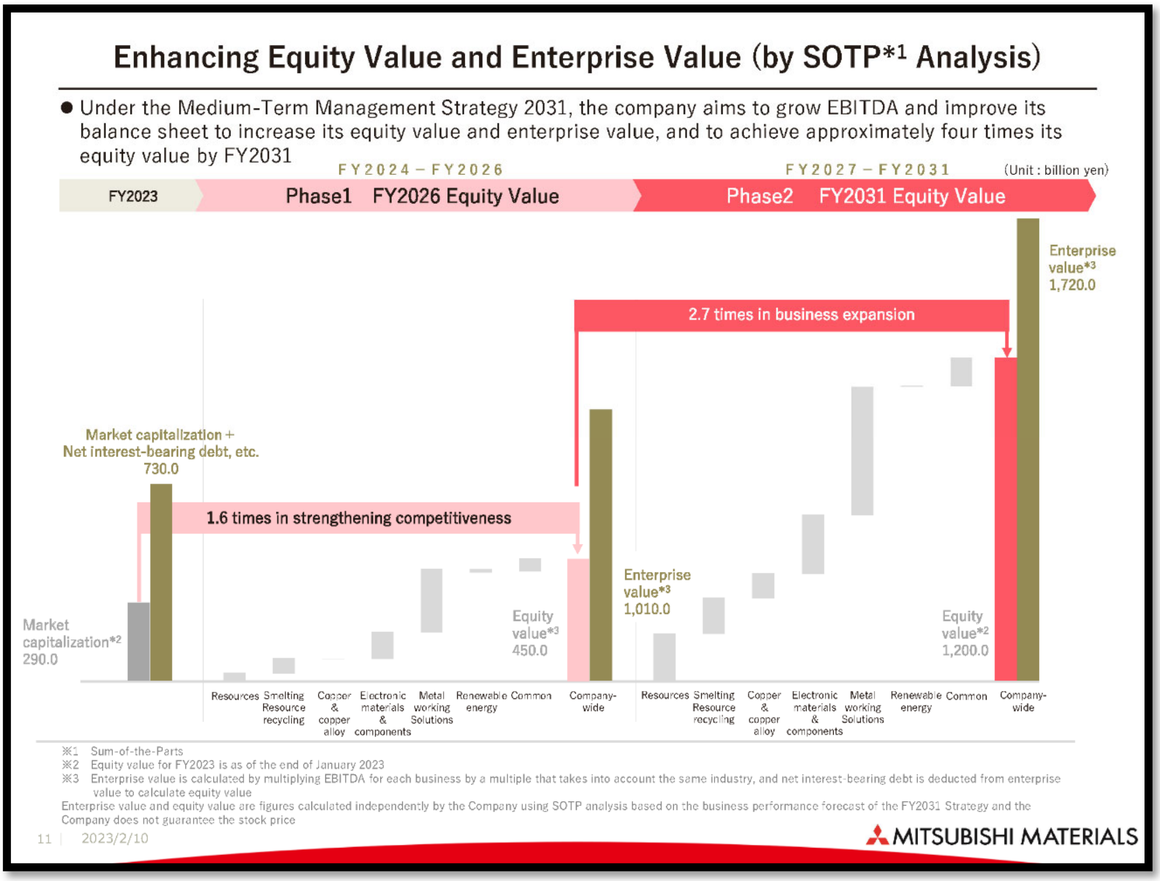


Next is capital allocation. The left side of the slide shows three years of Phase 1 and the right side shows five years of Phase 2.

In Phase 1, we plan to cover the necessary growth investments and maintenance and upgrading investments with debt capacity to enhance competitiveness and cash from asset sales. In Phase 2, as operating cash flow increases, we aim to improve our financial position by covering necessary investments.

In terms of shareholder returns, we aim for a payout ratio of 30% in Phase 1, and in Phase 2, we seek to enhance shareholder returns based on the status of capital allocation.

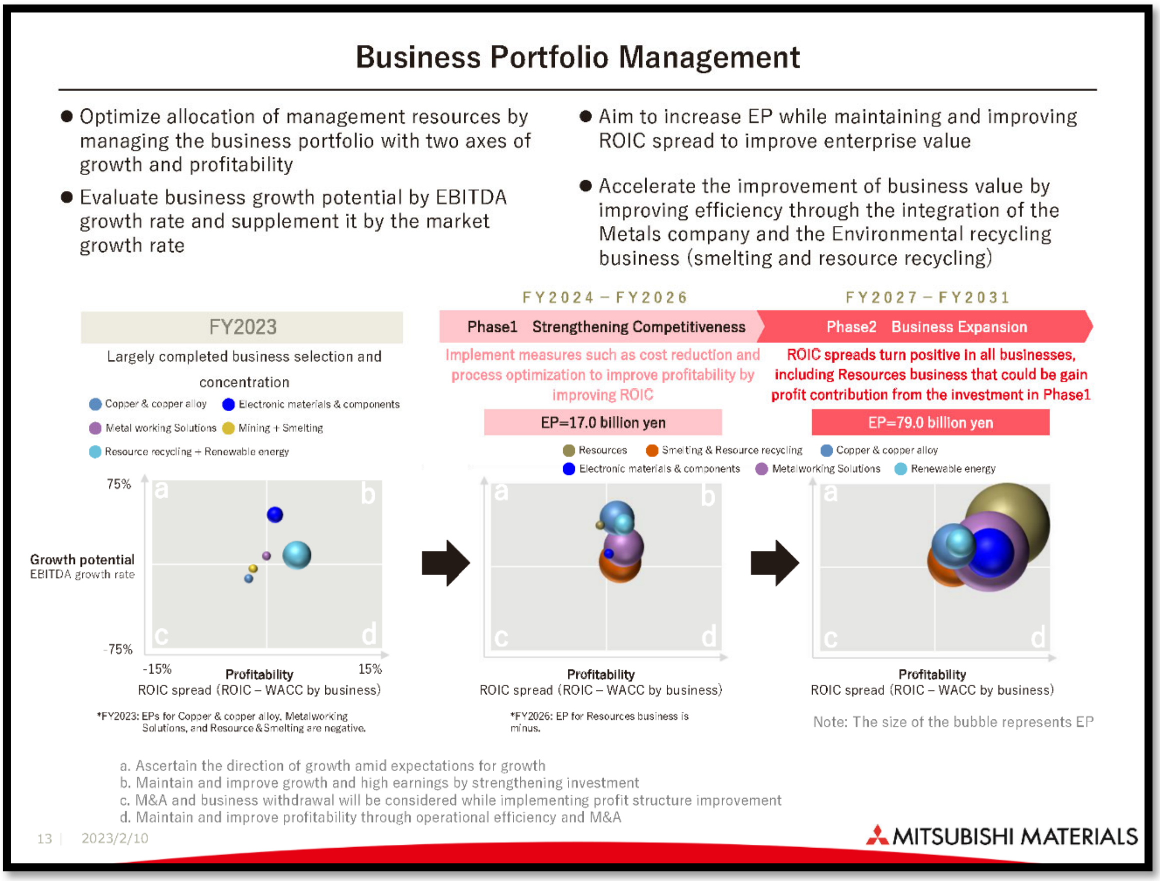
<Enhancing Equity Value and Enterprise Value (by SOTP analysis)>



This chart shows the results of our estimates of enterprise value and equity value based on EBITDA growth and balance sheet improvement over the entire period of the Medium-Term Management Strategy 2031. EBITDA is calculated for each business, multiplied by an EBITDA multiple that takes into account the peer group for each business, and then aggregated to arrive at the enterprise value, upon which equity value is derived by deducting planned net interest-bearing debt and other items.

We aim to increase equity value by 1.6 times the current level by strengthening competitiveness in Phase 1, and by another 2.7 times from there through business expansion in Phase 2, for a total increase in equity value of about 4 times the current level.

<Business Portfolio Management>

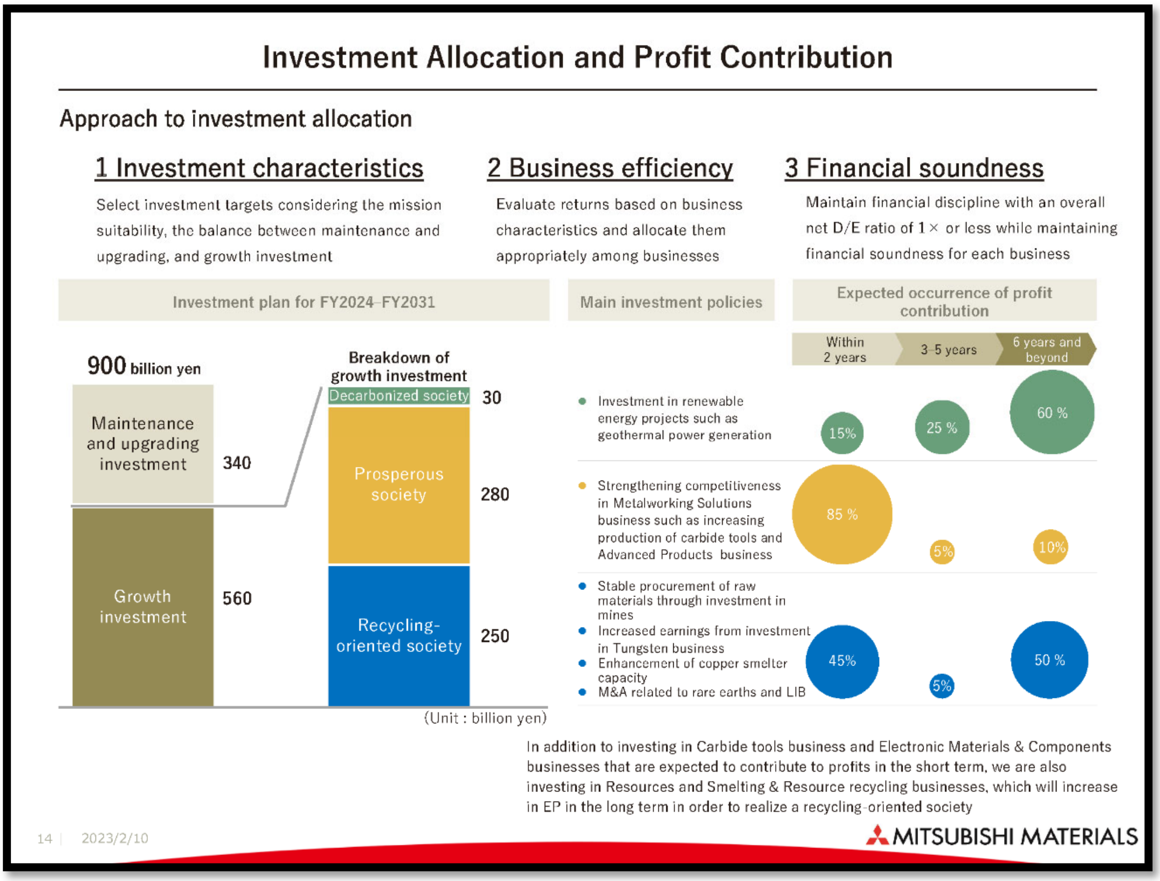


Please allow me to explain some of our initiatives to enhance enterprise value. First, from the perspective of business portfolio management.

As in the past, we will continue to manage our business portfolio based on the two axes of growth and profitability. We aim to increase our economic profit while maintaining and improving ROIC spreads in order to increase enterprise value.

Our financial plans and targets are represented as a diagram of the portfolio in Phase 1 and Phase 2, as shown on the slide. Here, the size of the bubble indicates the amount of economic profit.

<Investment Allocation and Profit Contribution>



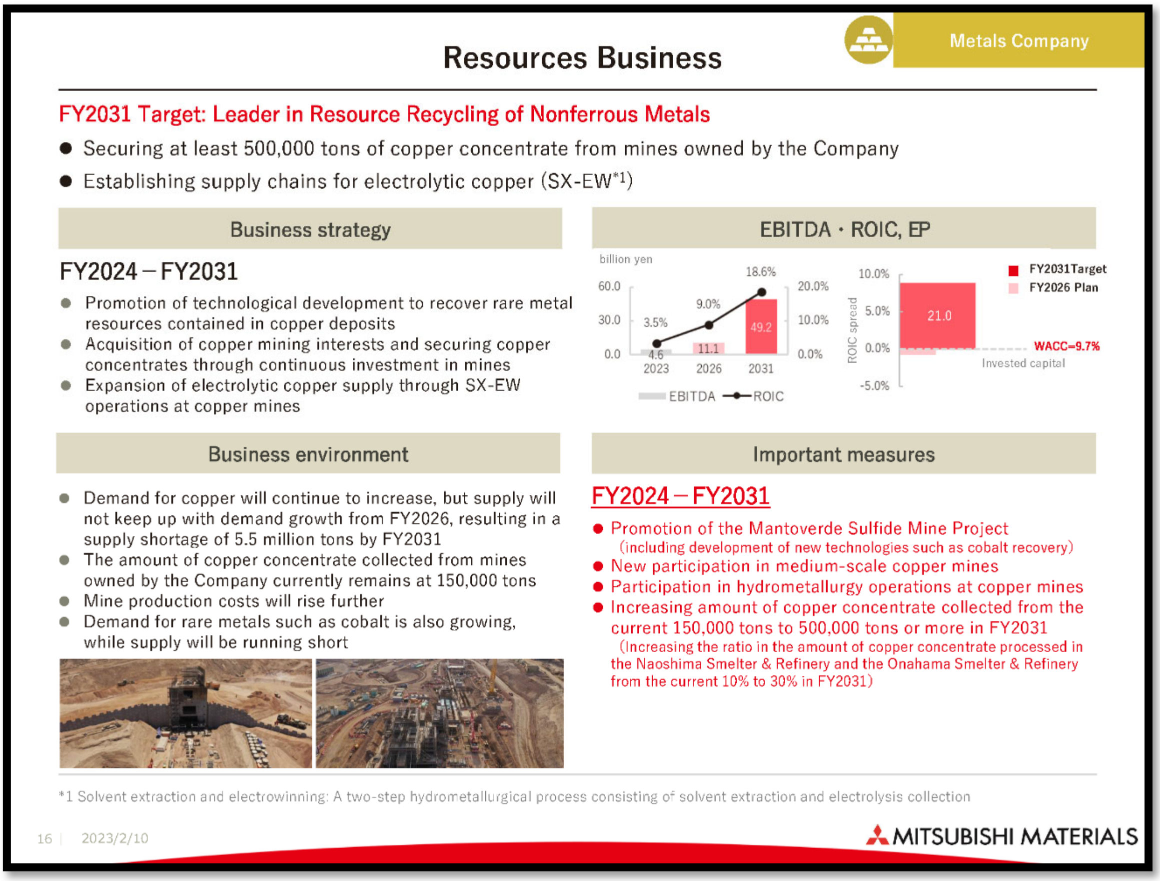
This section summarizes investment allocation and profit contribution. In terms of investment allocation, we plan to allocate 560 billion yen for growth investments and 340 billion yen for maintenance and upgrading investments by FY2031, taking into account the balance between growth investments and maintenance and upgrading investments in line with our mission, as well as business characteristics, financial soundness, and other factors.

The breakdown of this 560 billion yen growth investment is shown in the bar graph near the center of the slide, which breaks down into three categories: a recycling-oriented society, a prosperous society, and a decarbonized society. To achieve a recycling-oriented society, we will invest in mines to secure stable procurement of raw materials and increase copper smelter capacity, which will contribute to an increase in the circulation of metal resources such as E-Scrap at smelters. In addition, we will consider investments in the tungsten business, rare earths, and LIB recycling-related M&A.

The circles on the right side of the slide indicate when the investment will contribute to profit. In the category of investment in a recycling-oriented society, the results show that half of the investments will contribute to profit within two years and the other half after six years or later.

In order to realize a prosperous society, investments will be made mainly in the Metalworking Solutions Business and the Advanced Products Business, including increased production of carbide tools, and many of these investments are expected to contribute to profits within the next two years. Since investments aimed at realizing a decarbonized society will mainly be focused on the Renewable Energy Business, we expect to see the emergence of profit contributions over the long term.

<Resources Business>



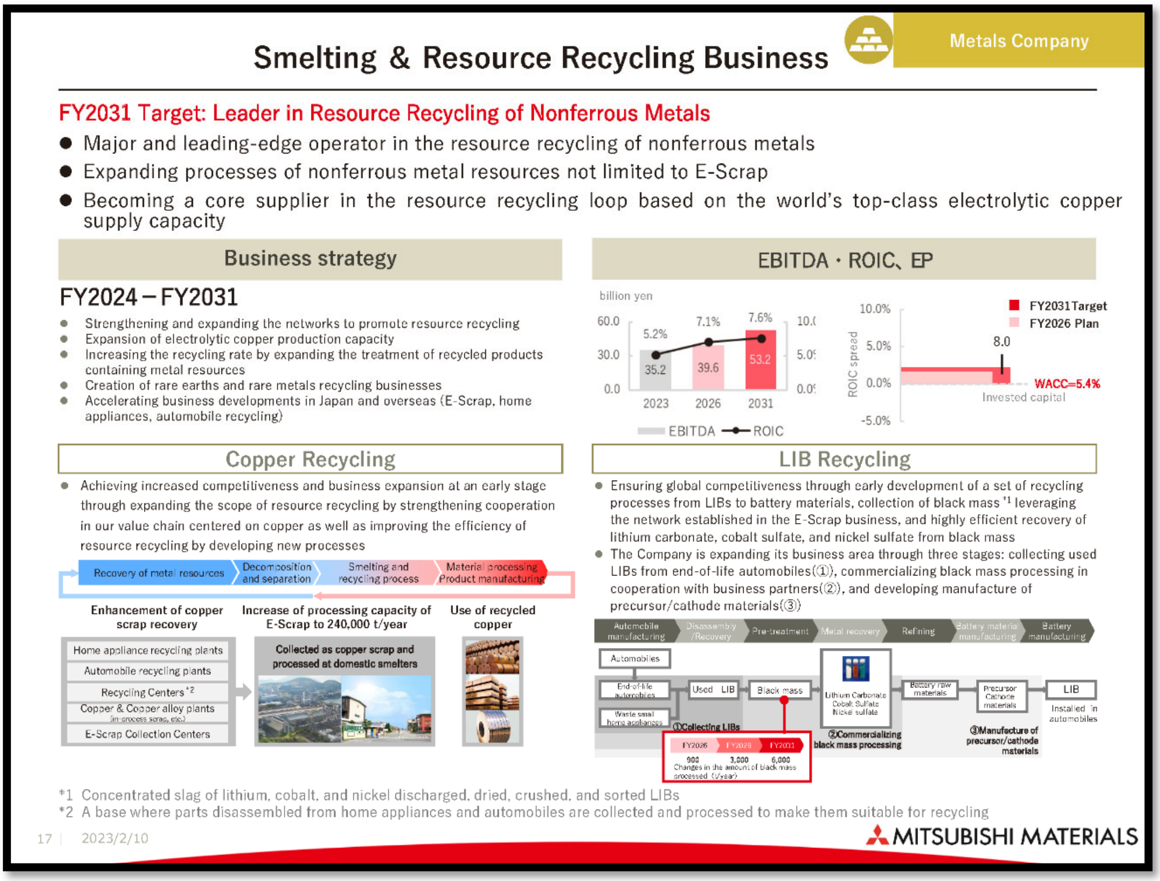
I would now like to briefly touch on each business strategy. First, I would like to talk about the resources business conducted within the Metals Company.

The Metals Company as a whole will strive to become a leader in the recycling of nonferrous metals. To this end, we aim to secure 500,000 tons or more of copper concentrate from the mines in which we hold interests, or to establish a supply system that includes electrolytic copper and SX-EW in light of various future environmental considerations.

As mentioned in the Business Strategy section, copper deposits contain a variety of rare resources, and we will promote the development of technologies to ensure the recovery of such resources. We also intend to secure a stable supply of copper concentrates through continuous investment in mines, and to expand our copper supply through SX-EW operations and other processes.

And, as mentioned in the Key Measures section, we will promote the Mantoverde copper mine project in Chile, which we have already undertaken. This includes the development of new technologies for cobalt recovery at the mine site. In addition, we intend to achieve growth in EBITDA and economic profit, as shown in the upper right of the slide, by participating in new medium-scale copper mines.

<Smelting and Resource Recycling Business>



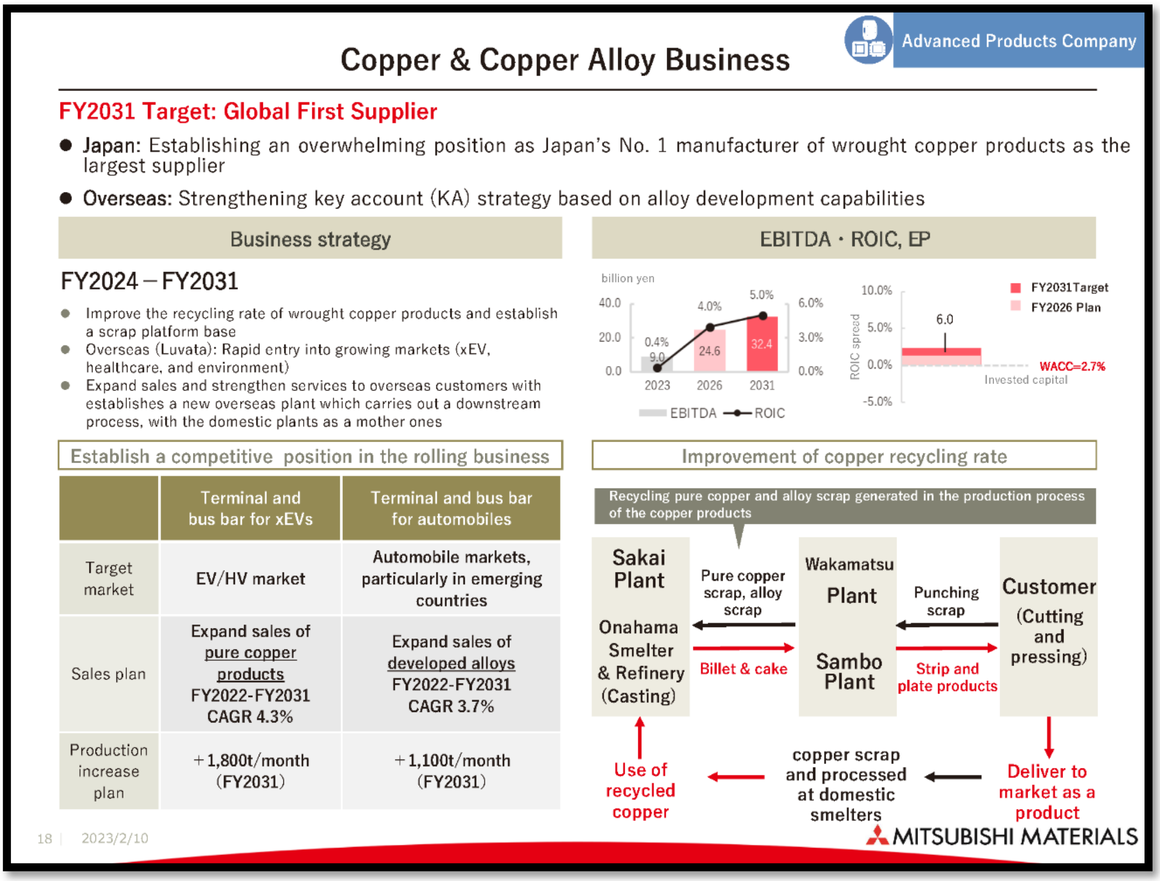
Next is regarding the Smelting and Resource Recycling Business. To become a leader in the recycling of nonferrous metal resources, we aim to expand the processing of recycled products including nonferrous metal resources, not limiting to E-Scrap.

As stated in our business strategy, to promote resource recycling, we will strengthen and expand our network, expand the production capacity of electrolytic copper, which is the base for this, increase the recycling rate by expanding the processing of E-scrap, and create rare earth and rare metal recycling businesses. We also aim to accelerate overseas expansion in E-Scrap, or home appliance and automobile recycling, as well as in Japan .

The bottom left of the slide summarizes the state of recycling with a focus on copper. Copper scrap is generated at recycling plants for home appliances and automobiles, at recycling centers that perform secondary processing from within these plants, and within copper processing operations. In addition, copper and associated metals will be recovered from E-Scrap and other materials that are collected.

The lower right of the slide shows an extract of the LIB recycling process. There are three main stages here. The first is to safely remove the LIB itself from the car and process it to produce black mass, and the second is to extract metallic elements such as lithium, cobalt and nickel from the black mass. The third is to combine or refine them to produce cathode materials that can be used in batteries. As previously announced, our company will collaborate with other companies to commercialize our second black mass processing business by FY2026.

<Copper & Copper Alloy Business>



	Terminal and bus bar for xEVs	Terminal and bus bar for automobiles
Target market	EV/HV market	Automobile markets, particularly in emerging countries
Sales plan	Expand sales of pure copper products FY2022-FY2031 CAGR 4.3%	Expand sales of developed alloys FY2022-FY2031 CAGR 3.7%
Production increase plan	＋1,800t/month (FY2031)	＋1,100t/month (FY2031)

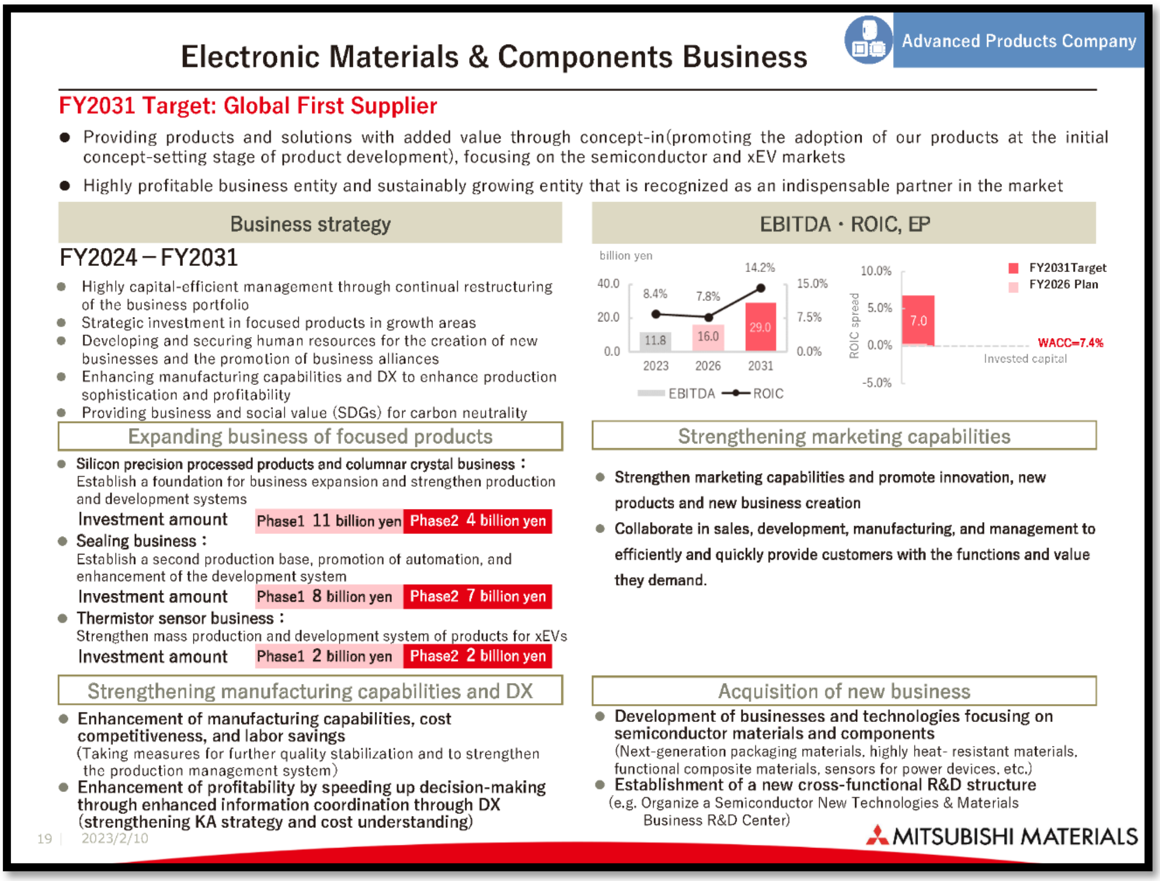
Next is the Copper & Copper Alloy Business. This is an area in which we have been actively investing in, and we are looking to complete in Phase 1. Through these efforts, we will establish ourselves as the No. 1 wrought copper product manufacturer in Japan and strengthen our product supply overseas based on our ability to develop alloys, led by Luvata.

As stated in the Business Strategy section, we will increase our cost competitiveness by improving the recycling rate of wrought copper products. Overseas, we will further promote entry into the xEV, medical, and environmental fields, which we view as growth markets.

The bottom left of the slide shows the prospects for sales expansion of pure copper and copper alloys, which are the hallmarks of our company in the rolling business. The bottom right shows the improvement in the copper recycling rate for copper wrought products. We will strengthen our efforts to increase cost competitiveness by handling various scrap generated within the wrought copper processing stage within the company, rather than taking them out.

By doing so, as shown in the upper right corner of the slide, we intend to increase our economic profit between FY2026 to FY2031, although the growth of invested capital is not significant.

<Electronic Materials and Components Business>



Next is the Electronic Materials and Components Business. With the goal of becoming a Global First Supplier, we will supply components especially for semiconductor manufacturing equipment and products targeting the xEV market. While the Electronic Materials and Components Business has been managed with high capital efficiency, we will continue to manage the business portfolio or product portfolio in this area.

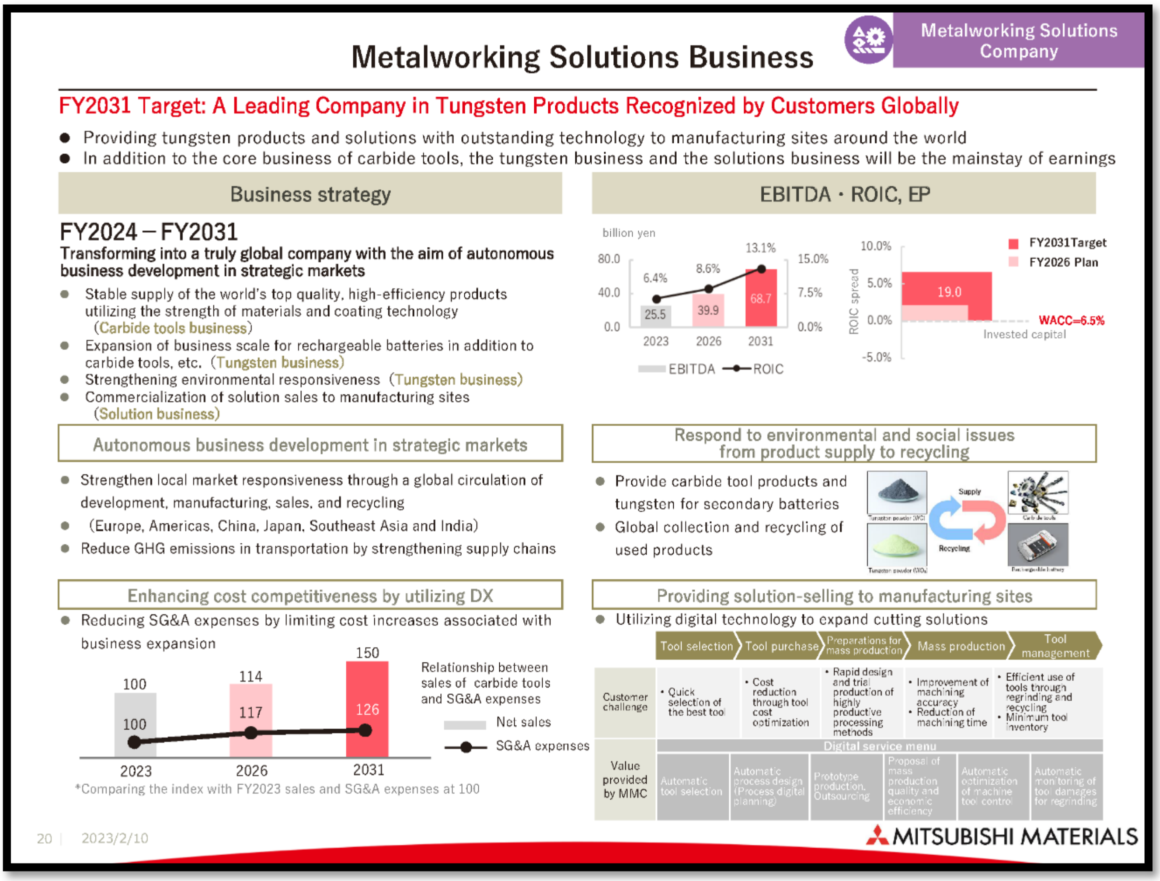
Three examples of business expansion for focused products are shown in the lower left of the slide. It also shows the amount of investment in Phase 1 and Phase 2.

First is the precision silicon products and columnar crystal business, which amounts to 11 billion yen in Phase 1 and 4 billion yen in Phase 2. Second is the sealing business, which is also linked to semiconductor manufacturing equipment, and is approximately 8 billion yen for both Phase 1 and Phase 2. Third is the thermistor sensor business, which is also shown on the slide.

As shown in the upper right graph, ROIC will temporarily decline as investments are slightly ahead of schedule in Phase 1, but we expect to reap significant benefits from the investments in FY2031.

In addition, we will continue to strengthen our product supply by enhancing our marketing and manufacturing capabilities.

<Metalworking Solutions Business>



Next is the Metalworking Solutions Business. With the goal of becoming “A Leading Company in Tungsten Products Recognized by Customers Globally,” we are promoting not only the distribution of tungsten-based products, commodities and conventional carbide tools, but also the commercialization of solutions.

In carbide tools, we will continue to develop products that take advantage of our strengths in materials and coating technologies, while expanding the supply of tungsten powder for rechargeable batteries in addition to carbide tools in our tungsten business.

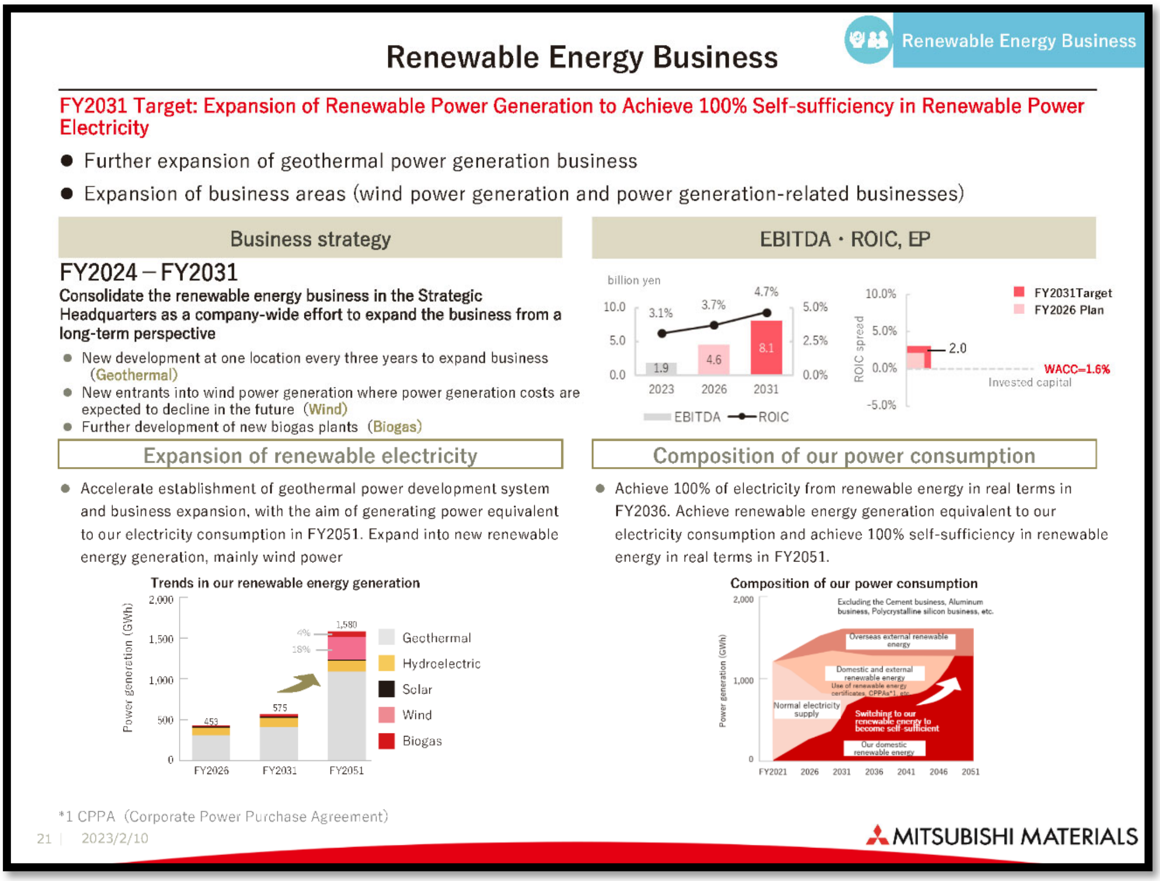
In the Metalworking Solutions Business, we have already expanded our business globally, and we will continue to strengthen our market responsiveness in each region, taking recycling into consideration going forward. In other words, we will manufacture and sell products in Europe, the Americas, China, Japan/Southeast Asia, India, and other countries, to create a global circulation of tungsten.

The diagram at the center right of the slide shows the cycle in which tungsten supplied to carbide tools and rechargeable batteries is collected, recycled, and used again as raw material.

The bottom left of the slide shows our active efforts to enhance cost competitiveness by utilizing DX. This graph shows that while sales increased, SG&A expenses were reduced with DX.

The bottom right shows how we provide solutions to solve customers' issues and we do so as a business.

<Renewable Energy Business>



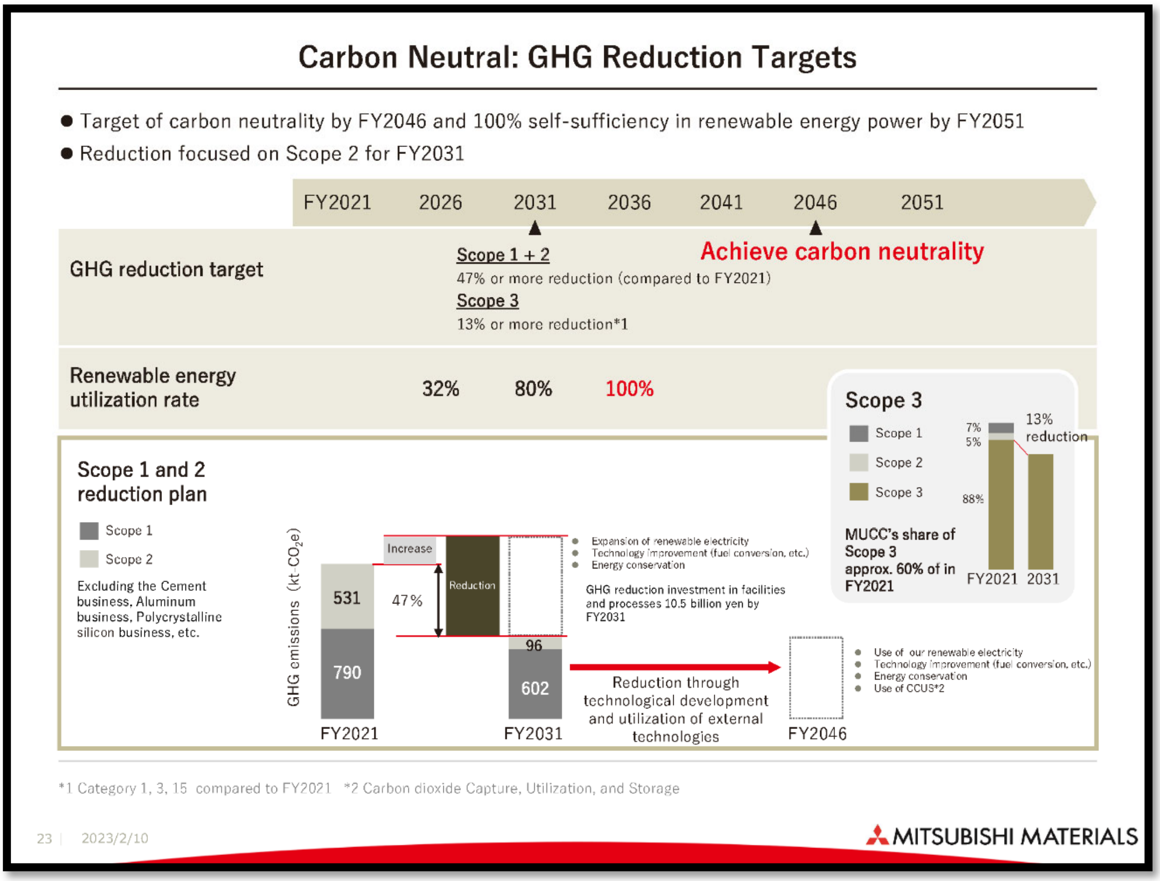
Next is the Renewable Energy Business. We will expand renewable power generation to achieve 100% self-sufficiency in renewable power electricity, with the geothermal power generation business playing a central role in this effort in the future. This means expanding what we have been working on.

As the graph on the lower left of the slide shows, the major growth between FY2031 and FY2051 will come from geothermal power generation. We are also looking at expanding wind power or even biogas, although we have not started fully working on these areas yet.

The graph at the bottom right shows how renewable energy is applied to our company's electricity needs. Overall, although we expect our electricity consumption to increase as we expand our business, we aim to achieve 100% self-sufficiency in renewable energy by FY2036.

At this point, however, we are also making partial use of renewable energy procured from outside sources, so our goal is to cover all of our electricity needs with renewable energy we generate ourselves by FY2051, or in other words, achieve 100% self-sufficiency in renewable energy.

<Carbon Neutral: GHG Reduction Targets>

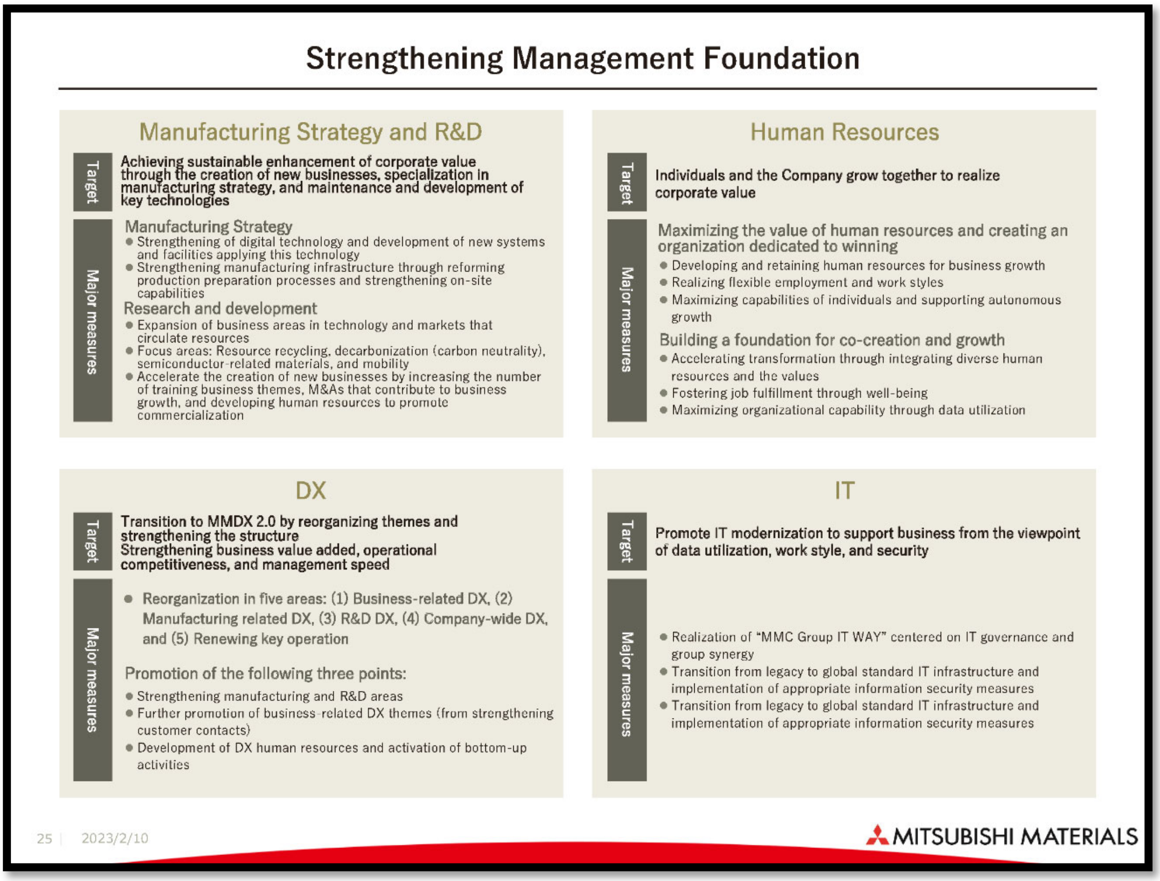


Next, I will talk about carbon neutrality. As shown in the graph on the bottom of the slide, we are targeting a 47% reduction in Scope 1 and Scope 2 combined by FY2031 compared to FY2021.

Furthermore, as we move toward carbon neutrality in FY2046, we hope to achieve this goal by using renewable electricity, switching fuels, and utilizing CCUS.

Scope 3 is shown as a separate graph, extracted on the middle right-hand side. We are looking at a reduction of 13% by FY2031. It should be noted that MUCC's cement operations account for 60% of the GHG emissions in Scope 3 for FY2021.

<Strengthening Management Foundation>



Next is about strengthening our management foundation. The various perspectives are grouped into four categories: Manufacturing Strategy and R&D, Human Resources, DX, and IT.

As for "Manufacturing Strategy," we will continue to make strong progress, including human resource development, to strengthen our manufacturing capabilities, as we have in the past. In terms of "R&D," we will focus on R&D themes that are consistent with the direction of the Medium-Term Management Strategy 2031. This means focusing on resource recycling, decarbonization, carbon neutrality, semiconductor-related materials, and mobility.

In terms of "human resources," we aim to maximize the value of human resources and create an organization dedicated to winning, developing human resources, and realizing flexible work styles.

As for "DX," it will be in full operation In Phase 1. Then in Phase 2, we will make it even more effective and will strive to maintain and improve it. As announced last fall, we are in the process of changing our approach to focus on manufacturing by transitioning to "MMDX 2.0."

With respect to "IT," governance and security are becoming increasingly important, and from this perspective, we will set out a direction that incorporates both IT governance and group synergy in a balanced manner.

Some of the systems that we have utilized have become legacy in some areas, so we will be moving forward with the transition to global standards. That includes the implementation of ERP.

That is all from me.

Question and Answer Session

< Q&A (Summary): Breakdown of Investment Amount>
Q: I would like to know how to read the figures for the investment amounts on pages 7, 10, and 14 of the presentation material, respectively.

Please explain the gap between the 900 billion yen investment amount shown on page 14 of the presentation, the amount of maintenance and upgrading investment and growth investment on page 10, and the investment amount on page 7 of the presentation.

A: First, of the 900 billion yen in investments on page 14 of the presentation, 560 billion yen is for growth investments, which are divided among recycling-oriented society, prosperous society, and decarbonized society. Growth investments shown on page 7 of the presentation cover the expansion of the resource recycling, enhancing the supply of high-performance materials and products, and renewable energy, and is divided into Phase 1 and Phase 2. As growth investments not included in the strategic roadmap on page 7 of the document, we are planning to invest in the implementation of ERP and in common infrastructure other than ERP in DX, and please consider that this is the reason for the difference.

< Q&A (Summary): Ratio of Improvement in Ordinary Profit to Net Sales>
Q: Regarding the ratio of improvement in ordinary profit to net sales described on page 7 of the presentation, please explain why Phase 2 is lower than Phase 1.

A: The ratio of improvement in ordinary profit shown here is a ratio of how much cost reductions contribute to the improvement in ordinary profit to net sales. Please understand that what is being shown here is the impact of cost reduction targets aimed to increase cost competitiveness on the ordinary profit to net sales ratio.

< Q&A (Summary): Market Outlook in Making Investment Decisions>
Q: How do you view the market conditions for each of your businesses in this Medium-Term Management Strategy? Please tell us how you viewed the market conditions and how you planned and decided on these investments.

A: As for copper, the gap between future copper consumption and the supply of copper as a natural resource is expected to widen in the future.
We think we need to consider the possibility that it will be difficult to secure tungsten because it is unevenly distributed in China.
In addition, economic security has also served as an opportunity to expand resource circulation.

Although there is the question of how to calculate the carbon footprint, we also thought about environmental considerations and with our eyes set on 2030, decided that shifting our focus to the expansion of resource circulation would be appropriate for our company.

< Q&A (Summary): Breakdown of Invested Capital by Business>
Q: The capital investment for each business is shown for FY2026 and FY2031, but we would like to know what the changes will be in FY2023 and from FY2023 to FY2026 for each business.

A: Excluding investments in renewable energy, I would say that 30% to 40% of our investments are in the Metals Business, and the remainder is about 50-50 in the Advanced Products Business and Metalworking Solutions Business. As a result, invested capital will increase.

< Q&A (Summary): EBITDA Trends in Copper & Copper Alloy Business>
Q: Looking at EBITDA trends, it seems that the company expects an increase in the Copper and Copper Alloy Business from FY2023 to FY2026. Could you tell us what is driving this increase?

A: The increase in EBITDA figures for the Copper and Copper Alloy Business from FY2023 to FY2026 is based on the assumption that EBITDA will increase due to the effect of the increased production start-up, which we launched under the Medium-Term Management Strategy 2023.

< Q&A (Summary): Breakdown of Financial Plans and Targets by Business>
Q: Please provide a segmental breakdown of the financial plans and target figures for FY2026 and FY2031 on page 9 of the presentation.

A: Taking ordinary profit of 87 billion yen in FY2026 as an example, the Metals Business accounts for more than 40%, Advanced Products about 25%, and Metalworking Solutions Business about 30%. The rest is Renewable Energy Business.

< Q&A (Summary): Expansion of Renewable Power Generation>
Q: On page 21 of the presentation, there is a description of the expansion of renewable power generation. I would like to know more about your company's strengths in this business, how much room there is for expansion in Japan, and whether this is really feasible.

A: The business started with the development of mines, and now we have geological engineers working on geothermal development. Our company's strength in geothermal power generation is in discovering and excavating underground reservoirs from various sources, screening promising areas, and evaluating the reservoirs by adding well drilling data or material survey data.

How to identify suitable sites for geothermal power generation is a very important point. I think the most important thing is that we have the accumulated knowledge and experience in this area.

Geothermal power generation requires lead time for development.

Of course, we have not yet identified the locations of geothermal power up to FY2051. However, at least we have the next region that we are currently considering, and we have a good idea of which regions are likely to be candidates for the next and even next or so.

In addition, wind power generation is also under consideration. Wind conditions are important for wind power generation, and it is said that the area between Tohoku and Hokkaido is suitable for wind power generation in Japan.

Our company holds a large amount of land in those areas and we see more than enough potential for utilization.

< Q&A (Summary): Creating an Organization Dedicated to Winning>

Q: In the Management Foundation portion on page 25 of the presentation, there was reference to creating an organization dedicated to winning. I would like to know your thinking on the current situation, including what issues you are aware of, what direction you would like to change as an organization, and whether you would change the incentive structure for employee evaluation.

A: The reason for including the phrase "dedicated to winning" is because our company's business performance fluctuates greatly depending on the external environment, and it should not always be the only reason why we do not reach our goals. I believe we need to change our mindset about how to reach our stated goals through what we can do ourselves.

We will continue to establish the job-based personnel system introduced in April, and in addition, we believe it is necessary to change the mindset toward building a winning organization by effectively utilizing human capital, for example, through the pension system, the use of remote work, or the acquisition of human resources.

< Q&A (Summary): Price Increases in Improving Profitability>

Q: I believe the overall direction is to improve profitability, but are you looking at some initiatives to raise prices?

A: We cannot give you a figure for how much we expect to raise prices by 2030, for example, but we have incorporated cost reductions into this plan as a part of our own self-help effort. On the other hand, it is only natural that we should consider passing on price increases caused by the current inflation to sales prices.

As we continue to conduct our business in the context of expanding resource circulation, we believe it is necessary to aim for a position that allows us to take the initiative with respect to prices.

< Q&A (Summary): Breakdown of Ordinary Profit of Advanced Products Business by Segment>

Q: You mentioned that the Advanced Products Business is expected to account for 25% of ordinary profit in FY2026, but I would like to know the breakdown of Copper & Copper Alloy Business Unit and Electronic Materials and Components Division.

A: To break down the Advanced Products Business, 13 to 14% consists of Copper & Copper Alloy, and the rest is Electronic Materials and Components.

< Q&A (Summary): Cash Flow Allocation Priorities>

Q: Regarding "Capital Allocation" on page 10 of the presentation, the plan is to keep the net D/E ratio at 0.7 times for three years until 2025.

As your company's operating cash flow fluctuates greatly due to external factors such as market conditions and foreign exchange rates, we understand that the capital allocation plan reflects such factors.

What are your priorities for allocation taking into account fluctuations in operating cash flow?

The dividend payout ratio was set at 30%, but I would like to know if this amount will vary significantly depending on performance, or if there will be flexibility in the growth investment area, or whether there will be pockets in case of asset sales, etc. There are many ways to think about this, so I would like to know the balance in this area.

A: First of all, as for shareholder returns, we are aiming for a dividend payout ratio of 30%, which will vary depending on our business performance.
On the other hand, operating cash flow fluctuates greatly depending on external factors such as copper prices, so we will need to manage cash flow by combining growth investments and maintenance and upgrading investments to absorb these fluctuations.

While maintenance and upgrading investments are important, growth investments in Phase 1 are necessary for business expansion in Phase 2 and beyond. Although investments have been very selective at this point, we may need to further prioritize and stagger the timing as well.

< Q&A (summary): Strategy for the Resources Business, Smelting and Resource Recycling Business>

Q: Regarding strategies for the Resources Business and the Smelting and Resource Recycling Business, while the Smelting and Resource Recycling Business actively incorporates new initiatives such as increasing the recycling rate, "expanding electrolytic copper production capacity" is also part of the business strategy. In the Resources Business, the target is to increase copper concentrate collection from the current 150,000 tons to 500,000 tons by FY2031.

I would like to ask you to describe this strategy in terms of investments and consistency with other strategies.

A: Increasing the amount of copper concentrate processed at smelters is also necessary to increase the amount of E-Scrap processed, which contributes to resource circulation. As a result, the production of electrolytic copper will also increase.

In terms of GHG reduction, E-Scrap contains plastics, which would lead to a reduction of coal as a source of calories if they are put into the furnace.

Therefore, we believe that increasing the amount of E-Scrap can contribute to the reduction of GHG at the smelters.

When it comes to investing capital in the Resources Business, Chile's Mantoverde project, which is already in the construction phase, is at the top of the list. The next obvious target is Zafranal in Peru.

In terms of how these mine investments relate to GHG reductions, copper concentrates from mine investments are included in our GHG count in Scope 3.

In the mining industry, the movement toward greener mining is accelerating, with a focus on the electrification of heavy machinery.

Moreover, instead of transporting copper concentrates to Japan, which would consume a considerable amount of energy, we will adopt methods such as the SX-EW method, which enables the production of electrolytic copper at the mine site, to reduce the amount of material to be transported, which will also lead to GHG reductions.

We do not think of each portion separately, but rather as a whole, and we are putting together our strategies and plans while keeping an eye on the whole.

< Q&A (Summary): Business Strategy of Metalworking Solutions Business>

Q: Regarding the Metalworking Solutions Business on page 20 of the presentation, the EBITDA and ROIC targets for FY2026 are set to be the second highest after the Resources Business.

In addition, as the business is assumed to account for close to half of the company's market capitalization on page 11 of the presentation, we understand that it is a key business.

The business strategy indicates that the business will grow by providing high-efficiency products of high quality, and by commercializing solution sales to manufacturing sites. In what areas and by how much will the Company increase the sales volume of carbide tools, and do you plan to increase its market share as well? What and how will the strategy change? Please highlight and explain the differences from previous plans.

A: In order to increase sales, we would like to expand to markets we have not been able to enter, such as aircraft and medical.

Another part of the growth in the Metalworking Solutions Business is the expansion of entry into the tungsten business. I apologize for not being able to elaborate at this point, but both of these are what we are considering as our business strategy for this business.

< Q&A (Summary): Calculation of Equity Value>

Q: I believe that factoring enterprise value, market capitalization and economic profit into the Medium-Term Management Strategy is an advanced medium-term management strategy for the nonferrous industry, or even for the steel business.

Since the equity value on page 11 of the presentation is 290 billion yen compared to the 68 billion yen EBITDA for FY2023 on page 9 of the presentation, we can calculate that the EBITDA multiple is 4.4x. With an EBITDA of 150 billion yen in FY2026 and equity value of 450 billion yen, the multiple will be 3x.

Please explain what you are trying to say and what you want to promote as changes from FY2023 to FY2026.

A: Some multiples are set by looking at industry peers, and we basically use a multiple of 7x on average. Equity value is calculated by multiplying EBITDA by the multiple and then subtracting the net debt assumed at that point in time. So, as financial strength improves and net debt decreases, equity value will increase.