



Q&A Concerning New Medium Term Business Plan

Reference: 2022-2024 New Medium Term Business Plan

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Note:

PKG = Package substrate

HDI = High density interconnect—a printed circuit board with a high wiring density that serves as a motherboard.

real profit = ordinary income excluding the inventory factors and the PGM price difference in Catalysts

Q.

The profits of Mitsui Kinzoku ACT in the automotive parts and components business are stagnant, and copper powders have yet to achieve results after the last medium-term business plan progress announcement. Ordinary income from metal smelting is expected to increase although the market conditions have been forecast to deteriorate. Please explain the basis for each business's increase in ordinary income.

A.

It is true that Mitsui Kinzoku ACT is currently engaging in a very difficult struggle. Although the company used to achieve a stable profit of ¥4 to ¥5 billion with sales of ¥100 billion until several years ago, we believe the company's current environment is extremely poor due to various reasons, including the U.S.-China trade friction. Therefore, I expect the company to recover up to the previous profit level if its main customers adopt the next generation of system products, which have high margins. The company has been steadily engaged in the development of new products and personnel development, and it is investing in automation and other areas. Considering this situation, the company is thoroughly prepared for when market conditions are restored, and I am not so pessimistic about the company's current situation. However, we are considering M&A for the situation in which it is difficult for our company to respond to further advancements in electrification of system products on its own. If this does not turn out to be the case, we may consider another solution.

Regarding copper powders, we were investing in two locations to beef up production, but investment in Kamioka is now complete. Our investment in Hikoshima is only in the physical building, and this investment has been postponed. Since there is no doubt demand for multi-layer ceramic capacitors (MLCC) will increase, we are focusing on development for customers' next generations of products. We expect our production there will increase if the customers adopt our products that are being developed.

Our metal smelting is facing an extremely difficult situation given the present increases in energy costs. In addition, when CO₂ comes to be considered a cost, the situation facing our metal smelting will become even more severe. However, we do not regard this as too big of a problem for metal smelting given the current situation in which the LME prices for copper and zinc are hovering at high levels. Thus, instead of expanding the scale of our metal smelting, our network of seven smelters will work together to efficiently collect valuable metals that we are not yet able to treat

Q.

I expect that there will be little growth in sales of MicroThin™ for HDI, while that of MicroThin™ for PKG will grow. What is your forecast for the market of MicroThin™ for HDI?

A.

We consider the sales of MicroThin™ for HDI in fiscal 2021 to be beyond our expectations, partly due to strong sales to North American smartphone manufacturers and the additional release of a popular model. Therefore, we anticipate the sales volume for fiscal 2022 and fiscal 2024 to be slightly below the level of fiscal 2021. However, we have been able to take measures that will bring our current market share of around 80% to nearly 100%. Sales of MicroThin™ for HDI will not grow significantly, but neither will they drop substantially. Meanwhile, two Chinese smartphone manufacturers are considering the adoption of MicroThin™ for HDI for foldable smartphones. If sales of such smartphones and other factors change in the future, our current situation of having only one North American smartphone manufacturer as our main customer may change.

Q.

You explained your awareness of the issue of high volatility in profits. What kind of measures does the medium-term business plan include for this issue?

A.

For metals, one measure is not to increase the volume at a minimum. Another measure, which is already in place, is to conduct hedging at appropriate times to suppress fluctuations in profits. Along with these measures, we think it is necessary to grow and create stable businesses with less fluctuations in market prices during the medium-term business plan period.

Q.

To what extent has the commercialization and monetization of all-solid state battery (ASSB) and HRDP® been incorporated into the plan?

A.

Some of the costs for the Business Creation Sector for fiscal 2022, which total ¥9.2 billion as shown on page 50 of the information material, are used by divisions which create new businesses, such as ASSB and HRDP®. Sales of samples by such divisions will be ¥0.6 billion. You may assume most of such samples are ASSB and HRDP®, sales of which will be ¥7.5 billion in fiscal 2024, which is a little less than the costs. In fiscal 2030, the growth in sales will far exceed that of the costs, and sales of ASSB and HRDP® will be approximately ¥5 to ¥6 billion higher than the costs.

Q.

You just said that sales of ASSB and HRDP® will be approximately ¥5 to ¥6 billion higher than their costs. Does this range indicate the amount for each or the sum?

A.

The range is the sum.

Q.

Regarding GHG reduction, what reduction measures are being considered particularly in the metals business, where coal and other resources are used for smelting?

A.

The top issue for scope 1 is some of the zinc smelting that uses coke. Although we have been engaging in initiatives to lower the energy consumption to reduce CO2 emissions, as of now we do not have a next step to take. In iron and steel companies, we hear the means will be incorporated into hydrogen reduction, but that does not match our case and it will not actually be done in the near future. For this matter, we will introduce internal carbon pricing (ICP) and make investments to reduce CO2 emissions. If such an initiative is not feasible, we think it will

be necessary to review the metals business.

Q.

You explained that things are proceeding smoothly in order for the market share of MicroThin™ for HDI to reach 100%. What exactly is going smoothly? In addition, MicroThin™ for PKG will grow by about 15% from fiscal 2022 to fiscal 2024 according to your forecast. What exactly will grow?

A.

Please understand that our MicroThin™ for HDI is stronger than our competitor's product, as you may expect. Customers are using our products in lieu of the other company's products, and our market share will return to nearly 100% no later than within this fiscal year according to information from customers. It has been almost 15 years since we launched MicroThin™, and we believe the current situation indicates the fact that our product is superior to that of our competitor in all aspects, including quality, cost, and delivery.

MicroThin™ for PKG used to be driven by smartphones, but now uses for purposes beyond smartphones are growing even more. It is used for solid state drive (SSD) packages for servers and wireless modules in particular, and wireless modules are used for various devices, including tablets, PCs, games, and TVs. Applications for purposes that are difficult to identify, unlike previous clear purposes such as GPUs and smartphones, are growing, and applications are expanding across a wider range.

Q.

Is my understanding correct that the forecast for changes in the sales volume of MicroThin™ on page 39 of the information material does not include the recapture of market share of MicroThin™ for HDI?

A.

The forecast includes the recapture of market share. Although the market share was not 100% in fiscal 2021, the sales volume for that year was beyond our expectations as previously explained. It is possible that the results may exceed the forecast depending on smartphone sales, but the number of smartphones for fiscal 2022 is based on a slightly conservative assumption.

Q.

According to the plan, real profit of the Mobility Sector will grow significantly from fiscal 2022 to fiscal 2024. Please tell us the details of the plan, including the concept of the business environment and products for which sales are expected to grow.

A.

Ordinary income of Mitsui Kinzoku ACT is planned to be ¥3.6 billion in fiscal 2024. The sales volume of Catalysts will grow toward fiscal 2024. One reason is that production of Catalysts for GPF will start to increase around fiscal 2024. Due to this and other factors, real profit of the Mobility Sector will reach ¥12.2 billion in fiscal 2024.

Q.

I believe you suggested that since your sense of direction is to develop businesses that can grow steadily while reducing volatility, the plans for businesses differ even if their profits are the same. Is my understanding correct that you will reduce volatility as a specific action plan to improve your corporate value?

A.

Please understand that our strong will to reduce volatility is represented by the difference in the breakdown of ¥60 billion for fiscal 2024 with that for fiscal 2021. After all, it is best to increase cash from businesses in which we have the advantage to reduce volatility, and I believe that doing so will lead to growth in copper foil and engineered powders in the Engineered Materials Sector. As for long-term goals, currently they are visible in research and development and new businesses. However, goals for three to five years hence are not visible by extending the current businesses, so we will consider M&A. In M&A, we will choose companies with less volatility that can achieve synergy with us in order to stabilize profits.

Q.

I think that future fluctuations in cash inflow will have an impact on CAPEX and dividends, but I also believe its allocation will change depending on the priority order of management resource allocation and on which commitments you decide to fulfill. How will you respond to fluctuations in cash inflow?

A.

In the event of a fluctuation in cash inflow, we will allocate management resources as follows. Since we have promised our shareholders that we will maintain a dividend on equity ratio of 3.0%, we will prioritize the return to shareholders. Next, we will slow down the reduction of debt with interest and make careful investment choices. Among the four business domains I just mentioned, we will actively invest in those shown in the upper right for which we have strong expectations and slow down planned investment in the others.

Q.

Regarding solid electrolyte for ASSB, what do you consider to be the milestones for adoption for in-vehicle use?

A.

Some percentage of the sales in fiscal 2024 and fiscal 2030 on page 50 of the information material corresponds to solid electrolyte. For products up to fiscal 2024, our equipment will be sufficient, and we can sustain production until fiscal 2030. If we have become a main supplier of ASSB at a larger scale than that of fiscal 2030, we believe that operating alone will incur too much risk, so we will seek to supply it jointly with other companies. Thus, we consider our business strategy in the case of steady progress with solid electrolyte to be an important theme. We have currently been receiving active responses from companies in and outside Japan, and as a result, the volume of samples that will lead to sales for fiscal 2024 is growing. We will consider the next step while examining global trends.

Q.

Regarding MicroThin™ for PKG, you stated that you will explore new applications of circuit board materials. What kinds of businesses are you targeting specifically?

A.

There is a type of high-end package that cannot be produced by employing a method that does not use MicroThin™. This is due to restrictions in the capacity of the material used for such a method. And a customer wants to produce such a high-end package with MicroThin™. The type of this package differs from the conventional one that was already explained, and we will promote sales of this new application.

Q.

You stated that there will be assignments to bases in South China and Taiwan. Does this suggest that new marketing bases will be established? In such a case, what will be the investment amount?

A.

We have bases in both South China and Taiwan, and we will be assigning persons responsible for marketing there. As such, there will be no new investment.

Q.

According to your explanation, apparatus for development and prototyping will be installed. What kind of apparatus is that specifically?

A.

It is an apparatus used in the copper foil business to make development easy. It is similar to but different from an apparatus for mass production. Please imagine it as an apparatus that uses half of a whole apparatus for mass production. Products tested using this apparatus can be produced immediately by an apparatus for mass production. We will make a ¥100-to-¥500-million investment during this fiscal year to accelerate the development of copper foil products.