

Record of Telephone Conference Concerning FY2021 Q3 Results

Reference: FY2021 Q3 Results & FY2021 Forecast

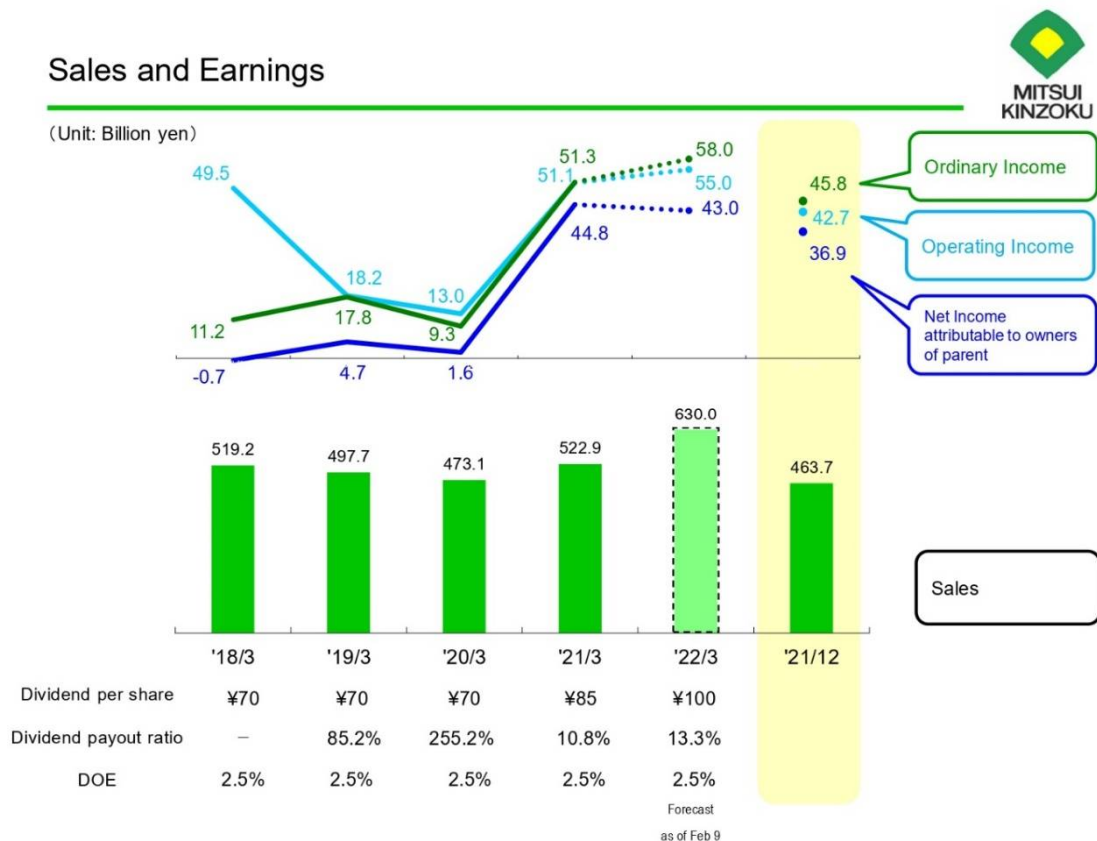
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Note:

PKG = Package substrate

HDI = High density interconnect

■ Explanation



1

Please refer to page 1 about Sales and Earnings.

In the cumulative Q3 of the fiscal year, net sales were JPY463.7 billion, operating income was JPY42.7 billion, ordinary income was JPY45.8 billion, and net income attributable to owners of parent was JPY36.9 billion.

For the fiscal year ending March 2022, we forecast net sales of JPY630.0 billion, operating income of JPY55.0 billion, ordinary income of JPY58.0 billion, and net income attributable to owners of parent of JPY43.0 billion.

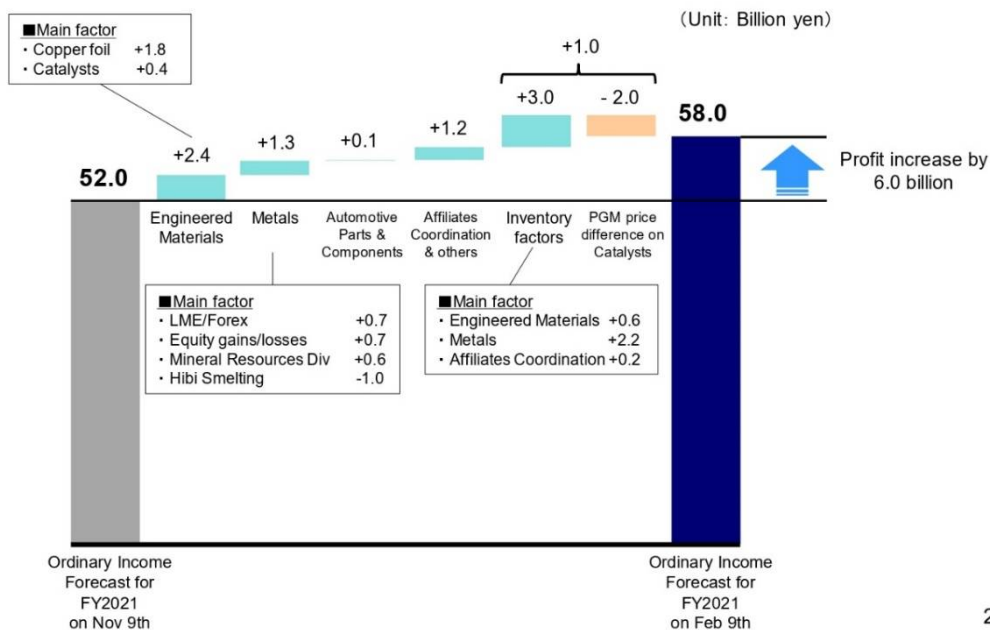
For the period from January to March, we are assuming an LME zinc price of 3,550\$/t, an LME lead price of 2,300\$/t, an LME copper price of 420 ¢ /lb, and an exchange rate of 114yen/\$.

The dividend will be JPY100 per share, and no revision has been made to the previously announced dividend forecast.

FY2021 Ordinary Income Forecast



Ordinary income for FY2021 is 58.0 billion, by 6.0 billion better than forecast for FY2021 announced on November 9th.



2

I would like to continue with the explanation of the forecast for the full fiscal year, comparing it with the forecast announced on November 9. Please see FY2021 ordinary income on page 2.

The ordinary income forecast announced on November 9 was JPY52.0 billion, but we have revised it upward by JPY6.0 billion to JPY58.0 billion. Looking at the breakdown, the third factor from the right on the graph is inventory, which has improved by JPY3.0 billion. On the right, the impact of the decline in PGM prices in the Catalyst business was a negative JPY2.0 billion.

Excluding these factors, looking at the results by segment, the Engineered Materials segment saw an upward revision of JPY2.4 billion. The Copper Foil business revised upward by JPY1.8 billion due to higher than previously forecasted sales volume of MicroThin™ for HDI in particular. The upward revision of JPY0.4 billion was mainly due to increased sales of catalysts for motorcycles and sales mix difference in the Catalyst business.

In the Metals segment, the upward revision was JPY1.3 billion, mainly due to higher market prices.

In the Automotive Parts & Components segment, sales are expected to be almost the same as the previous forecast.

In the Affiliates Coordination & others, there was an upturn of JPY1.2 billion, mainly due to the impact of the weaker yen.

Statements of income



(Unit : Billion yen)	Results			Forecast				
	'21/Q1-3	'20/Q1-3	Difference	2021 Forecast	2020	Difference	2021 Forecast	Difference
							as of Nov 9	
Net Sales	463.7	361.8	101.9 28.1%	630.0	522.9	107.1 20.5%	625.0	5.0 0.8%
Cost of sales	375.7	293.2	82.5 28.2%	-	-	-	-	-
Gross Profit	88.0	68.7	19.3 28.1%	-	-	-	-	-
SG&A expenses	45.3	38.4	6.9 18.1%	-	-	-	-	-
Operating Income	42.7	30.3	12.4 40.9%	55.0	51.1	3.9 7.6%	51.0	4.0 7.8%
Non-operating income/expenses -net	3.1	-2.8	5.8 66.2%	3.0	0.1	2.9 13.1%	1.0	2.0 11.5%
Ordinary Income	45.8	27.5	18.2 66.2%	58.0	51.3	6.7 13.1%	52.0	6.0 11.5%
Extraordinary profit/losses-net	0.0	-8.8	8.8	-1.0	3.4	-4.5	0.2	-1.2
Net Income before income taxes	45.8	18.7	27.1 144.5%	57.0	54.7	2.3 4.1%	52.2	4.8 9.1%
Income taxes & minority interests	8.9	4.7	4.3	14.0	9.9	4.0	13.2	0.8
Net income attributable to owners of parent	36.9	14.1	22.8 162.0%	43.0	44.8	-1.8 -4.0%	39.0	4.0 10.3%

4

I will explain the results for the cumulative Q3 of the fiscal year and the outlook for the full fiscal year. Please see Statements of income on page 4.

For the cumulative Q3, net sales increased by JPY101.9 billion or 28.1% YoY, to JPY463.7 billion, mainly due to higher prices of metals including precious metals and increased sales volume of MicroThin™.

Operating income improved by JPY12.4 billion, or 40.9% YoY, to JPY42.7 billion due to strong sales of MicroThin™ and higher non-ferrous metal prices, despite a large decrease in profit in the Catalysts business due to the downward trend in palladium and rhodium prices this quarter. Ordinary income improved by JPY18.2 billion, or 66.2%, to JPY45.8 billion. Net income improved by JPY22.8 billion to JPY36.9 billion, partly due to the fact that a loss on the sale of interests in the Caserones copper mine was recorded in the previous fiscal year.

I will explain the full-year forecast for each segment later.






Performance by Segment – Engineered Materials



(Unit : Billion yen)

	FY2021 Q1-3	FY2020 Q1-3	Diff.	FY2021 Forecast	FY2020	Diff.	FY2021 Forecast as of Nov 9th	Diff.
■ Sales	191.4	139.5	51.8	253.0	207.8	45.2	248.0	5.0
■ Operating income	19.4	16.7	2.7	25.5	26.5	-1.0	25.0	0.5
■ Ordinary income	19.2	15.4	3.9	25.0	26.5	-1.5	24.0	1.0
※ Real Income	22.2	13.8	8.5	27.9	21.5	6.4	25.5	2.4

※Real income : Ordinary income excluding inventory factors and PGM price difference on Catalysts.

(Engineered Material Products)	(Main Applications)
Battery Materials	 <ul style="list-style-type: none"> • Nickel-hydrogen batteries for hybrid cars • Lithium-ion batteries
Engineered Powers	 <ul style="list-style-type: none"> • Wide range of electronic components • Abrasive for glass
Catalysts	 <ul style="list-style-type: none"> • Motorcycles • Automobiles
Copper Foil	 <ul style="list-style-type: none"> • High-Density Packaging • Printed circuit board
PVD Materials (Sputtering target)	 <ul style="list-style-type: none"> • Flat panel displays

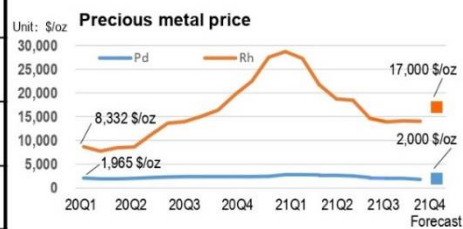
Difference Analysis of Ordinary income

['FY2020 Q1-3 → 'FY2021 Q1-3 + 3.9]

Copper foil +5.7
(MicroThin™ volume of sales increases, others)
Catalysts -5.4
(Precious metal price difference, others)
PVD Materials +2.4
(Inventory factors, Unit selling price increase, others)

['FY2020 → 'FY2021 Forecast - 1.5]

Catalysts -9.7
(Precious metal price difference, others)
Copper foil +5.3
(MicroThin™ volume of sales increases, others)
PVD Materials +2.0
(Inventory factors, Unit selling price increase, others)



13

We will explain the situation in each segment.

First, Engineered Materials segment. Please see page 13.

Ordinary income for the cumulative Q3 was JPY19.2 billion, an increase of JPY3.9 billion from the same period last year. The main factor was a JPY5.7 billion increase in profit in the Copper Foil business, mainly due to strong sales of MicroThin™. In the PVD Materials business, there was a significant increase in profit of JPY2.4 billion due to an upturn in inventory factors of JPY1.5 billion caused by the rise in indium prices and an upturn in unit sales prices. However, in the Catalyst business, PGM prices, which had been on an upward trend in the previous fiscal year, were on a downward trend in the current fiscal year, resulting in a negative impact of JPY4.8 billion for the current fiscal year instead of a positive impact of JPY1.3 billion in the previous fiscal year by QP difference. The difference of JPY6.1 billion from the previous year had a significant negative impact, resulting in a JPY5.4 billion decrease in income from catalysts, which offset the increase in income from copper foil.

The forecast for ordinary income is JPY25.0 billion, an improvement of JPY1.0 billion from the forecast announced on November 9. This was mainly due to the strong sales of MicroThin™ for HDI in particular.

Performance by Segment – Metals



(Unit: Billion yen)

	FY2021 Q1-3	FY2020 Q1-3	Diff.	FY2021 Forecast	FY2020	Diff.	FY2021 Forecast as of Nov.9th	Diff.
■ Sales	167.8	135.9	31.9	233.0	193.6	39.4	231.0	2.0
■ Operating income	23.1	14.7	8.4	29.0	23.7	5.3	26.5	2.5
■ Ordinary income	24.4	13.7	10.8	30.5	22.8	7.7	27.0	3.5
※ Real Income	16.6	9.0	7.7	21.5	15.7	5.8	20.2	1.3

※ Real income : Ordinary income excluding inventory factors.

Metal Prices and FOREX

		'20/Q1	Q2	Q3	Q4	'21/Q1	Q2	Q3	Q4 Forecast
Zinc	\$/t	1,959	2,340	2,631	2,748	2,916	2,991	3,385	3,550
Zinc (Actual)	\$/t	2,113	2,404	2,624	2,705	2,845	2,893	3,147	3,267
Lead	\$/t	1,670	1,876	1,903	2,020	2,127	2,341	2,331	2,300
Copper	¢/lb	242	296	325	385	440	425	440	420
Yen/US\$	yen/\$	107.6	106.2	104.5	105.9	109.5	110.1	113.7	114.0
Yen/US\$ (Actual)	yen/\$	107.8	106.7	105.0	106.2	109.6	110.2	112.8	113.0

Sensitivity to ordinary income (for FY2021)

(Unit : Billion yen)

Full open basis Including forward contract

		Full open basis	Including forward contract
Zinc	± 100\$/t	1.2	0.8
Lead	± 100\$/t	0.3	0.3
US\$(yen/\$)	± 1yen/\$	0.5	0.4

Ordinary Income	20Q1-3	FY2020
Difference Analysis	→21Q1-3	→FY2021 Forecast
LME/Forex	5.8	7.7
T/C	-3.0	-4.0
Inventory Factors	3.1	1.9
Equity profit/loss	4.5	4.7
Cokes	-0.5	-1.7
Dividends	-1.9	-1.9
Others	2.8	1.0
Total	10.8	7.7

Details of Others

- ['FY2020 Q1-3→'FY2021 Q1-3 + 2.8]
- Large scale maintenance for zinc smelting in 20Q1 + 1.4
- Mineral Resources Division + 2.4
- Improving productivity in zinc smelting + 1.1
- Energy cost increase - 1.1
- PGM recycling - 1.4
- Others + 0.4
- ['FY2020→'FY2021 Forecast + 1.0]
- Large scale maintenance for zinc smelting in 20Q1 + 1.4
- Mineral Resources Division + 2.8
- Improving productivity in zinc smelting + 1.3
- Energy cost increase - 1.8
- PGM recycling - 1.9
- Others - 0.8

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Metal segment. Please refer to page 14.

Ordinary income for the cumulative Q3 was JPY24.4 billion, an increase of JPY10.8 billion from the same period last year. Of this total, JPY5.8 billion was due to favorable trends in nonferrous metal prices and foreign exchange rates, of which JPY4.6 billion was due to market fluctuations. In addition, equity in earnings of affiliates improved by JPY4.5 billion, but the main reason for this is that the negative impact of JPY3.1 billion from Caserones in the previous fiscal year has disappeared.


The forecast for ordinary income is JPY30.5 billion, an improvement of JPY3.5 billion from the forecast announced on November 9. The breakdown is as shown on page 2, and the main reason is the increase in profit due to the rise in market prices, including inventory factors.

Performance by Segment – Automotive Parts & Components



(Unit : Billion yen)

	FY2021 Q1-3	FY2020 Q1-3	Diff.	FY2021 Forecast	FY2020	Diff.	FY2021 Forecast as of Nov9th	Diff.
■ Sales	58.2	58.8	-0.6	81.0	81.1	-0.1	79.0	2.0
■ Operating income	-0.1	0.9	-1.0	0.4	1.4	-1.0	0.3	0.1
■ Ordinary income	0.7	1.3	-0.6	1.0	1.9	-0.9	0.9	0.1

[Mitsui Kinzoku ACT]	(Main Applications)
Automotive Parts & Components	 ・Door locks for automobiles

Difference Analysis of Ordinary income

	20Q1-3 →21Q1-3	FY2020 →FY2021 Forecast
Sales Volume	0.0	0.0
Cost down	0.8	1.7
Others※	-1.4	-2.6
Total	-0.6	-0.9

※Details of Others

[FY2020 Q1-3→FY2021 Q1-3 -1.4]	
・Rising steel material and resin prices	-1.2
Forex exchange +0.7, Furlough subsidy, etc.	-0.6
Freight Charge	-0.7
[FY2020→FY2021 Forecast -2.6]	
・Rising steel material and resin prices	-1.6
Forex exchange +0.7, Furlough subsidy, etc.	-0.6
Freight Charge	-0.5

15

Automotive Parts & Components. Please refer to page 15.

Ordinary income for the cumulative Q3 was JPY0.7 billion, a decrease of JPY0.6 billion from the same period last year. Although cost reductions are progressing, profits decreased compared to the previous fiscal year due to the significant impact of rising steel and resin prices as well as transportation costs.

The forecast for ordinary income is JPY1.0 billion, which is almost the same as the forecast announced on November 9, due to the rise in transportation and other costs, despite the improved sales volume outlook.

We also released the Group's purpose and corporate vision as well as organizational restructuring today. We are currently formulating our next medium-term management plan, the 22 Medium-Term Management Plan, which includes the contents of today's release, and will explain the details when we announce the 22 Medium-Term Management Plan in May.

■Q&A Session

Engineered Materials Segment

Q.

Please explain why the profit fluctuates significantly from 2Q to 3Q in the Engineered Materials segment.

A.

In Q3, the impact of PGM price difference on Catalysts was minus JPY8.8 billion, and that is the main reason. Of that amount, minus JPY4.2 billion is the write-down due to the lower-of-cost-or-market method. By applying it, we think that the impact of high book value inventories has been eliminated.

Q.

You say that sales of MicroThin™ for HDI are very strong, is it doing well because North American smartphone manufacturers are selling well? Tell us what's happening with MicroThin™ now, both for PKG and for HDI, including any new customer expansion and so on.

A.

For HDI, the quantity usually drops in Q4. But in the current fiscal year, sales of North American smartphone manufacturers are strong, and it is expected that new model will be manufactured in addition to the annual model, so Q4 is expected to have the same level of sales volume as Q3. Demand for PKG continues to be at a high level as expected in November last time. Especially in Q3 and Q4, the number of non-smartphone memory such as server memory is increasing. As for new customer trends, two Chinese smartphone manufacturers are considering adopting the MicroThin™ for HDI. However, as of now, they are not yet decided.

Q.

It is explained that two Chinese smartphone manufacturers are considering it, but in the explanation in November, it was one. Is it okay to understand that the number has increased?

A.

Yes, one company has increased. We haven't heard the decision yet, but we think that things are moving forward.

Q.

If the two Chinese smartphone manufacturers were to adopt it, please let us know if we can expect a certain amount of sales volume or not.

A.

It is the same situation that MicroThin™ has been adopted in a small way by non-North American smartphone manufacturers so far, and it seems to be adopted only for a few high-end models. Therefore, we do not currently expect that the adoption of MicroThin™ for HDI by the two Chinese smartphone manufacturers will result in a significant increase in sales.

Q.

Please tell us about the situation of electro-deposited copper foil for FPC and for communications infrastructure.

A.

For FPC, the level has remained almost the same as in 2Q due to the sluggishness of for smartphones in 3Q and 4Q. As for communications infrastructure, inventory adjustment will be made in Q4 for servers, which were relatively strong. The decrease for servers is the main reason for the decrease in the quantity of electro-deposited copper foil from Q3 to Q4.

Q.

The profit of copper foil has been revised upward. Is it correct that MicroThin™ has been revised upward, and other electro-deposited copper foil has been revised downward?

A.

Yes.

Q.

Regarding MicroThin™ for PKG, it has been explained from this year that the amount used per unit may be increasing with 5G smartphones, but please tell us if there is any update in your analysis.

A.

Of course, it will increase with the parts newly installed in 5G, but it is clear that the impact of increasing due to higher performance of parts is significant. Therefore, Micro Thin™ for PKG is increasing due to the higher performance of smartphones in addition to 5G. It is expected that the amount of MicroThin™ used per unit will continue to increase as the number of millimeter-wave models increases, and also continue to increase due to higher performance of parts other than 5G. However, at the moment, I cannot give you an answer as to what percentage is due to 5G, or what percentage is due to higher performance.

Trends of products



		2019					2020					2021 Forecast (Feb 9)						2021 Forecast (Nov 9)	
		Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4 Forecast	2nd Half Forecast	Year Forecast	2nd Half	Year
MH alloy	Volume of Sales Index	100	103	106	110	105	76	102	104	111	98	68	94	120	123	121	101	125	103
Catalysts for motorcycle	Volume of Sales Index	100	103	104	109	104	49	128	128	121	107	94	110	114	122	118	110	115	108
India	Volume of Sales Index	(100)	(102)	(94)	(123)	(105)	(40)	(176)	(164)	(143)	(131)	(90)	(130)	(117)	(129)	(123)	(117)	(137)	(124)
Indonesia	Volume of Sales Index	(100)	(110)	(119)	(116)	(111)	(40)	(71)	(65)	(98)	(68)	(90)	(94)	(106)	(128)	(117)	(104)	(92)	(92)
Others	Volume of Sales Index	(100)	(102)	(112)	(88)	(101)	(63)	(88)	(105)	(101)	(89)	(100)	(90)	(114)	(110)	(112)	(104)	(95)	(95)
Catalysts for automobile	Volume of Sales Index	100	104	98	102	101	61	123	130	117	108	112	111	119	136	128	120	142	127
Copper foil	Volume of Sales t / Month	2,320	2,520	2,530	2,250	2,400	1,860	1,960	1,780	2,460	2,010	2,260	2,180	2,160	1,960	2,060	2,140	2,140	2,180
MicroThin™ Total (a+b)	Volume of Sales Index	100	139	121	116	119	142	153	149	135	145	188	196	171	173	172	182	163	177
MicroThin™ for HDI (a)	Volume of Sales	24	34	18	16	23	20	49	40	13	31	35	59	33	31	32	39	24	36
MicroThin™ for PKG (b)	Volume of Sales	76	105	103	100	96	122	104	109	122	114	153	137	138	142	140	143	139	141
ITO Target	Volume of Sales Index	100	111	112	109	108	103	91	107	95	99	99	95	93	87	90	93	90	93
Zinc	Volume of Production kt	56	56	56	52	219	43	56	58	58	215	56	51	52	60	112	219	113	220
Side door Latches	Volume of Sales Index	100	99	97	82	95	59	96	112	102	93	94	83	100	111	106	97	107	98
Japan	Volume of Sales Index	(100)	(105)	(98)	(118)	(106)	(65)	(108)	(124)	(112)	(102)	(94)	(80)	(99)	(122)	(110)	(99)	(115)	(101)
China	Volume of Sales Index	(100)	(101)	(109)	(43)	(89)	(102)	(109)	(124)	(102)	(109)	(104)	(101)	(125)	(125)	(125)	(114)	(125)	(114)
Other Asia	Volume of Sales Index	(100)	(99)	(93)	(86)	(95)	(25)	(70)	(93)	(95)	(70)	(83)	(81)	(99)	(100)	(100)	(91)	(92)	(87)
America & Europe	Volume of Sales Index	(100)	(92)	(89)	(86)	(92)	(31)	(87)	(100)	(97)	(79)	(90)	(70)	(80)	(91)	(86)	(83)	(92)	(86)

※ Index : The sales volume in 2019 Q1 scaled at 100 (except Copper Foil and Zinc)

11

Q.

Regarding the trend of catalysts for motorcycle on page 11, the annual cumulative total is at a level of 4 to 5% higher than the previous year, but India and other countries are still at a lower level than the previous year. Let me confirm the impact of COVID-19 in India and Indonesia.

A.

Demand has recovered in India compared to Q1 where there was a lockdown, but it has not recovered as expected. Inflation has progressed in India and the sales volume has not increased more than expected due to the impact of rising motorcycle prices. I think that the impact of COVID-19 may have some aspects of economic deterioration, but there is no direct impact such as suspension of operations or disrupting the supply chain. On the other hand, Indonesia is recovering more than expected, and we don't feel the influence of COVID-19 very much.

Metals Segment

Q.

Please tell us about the current hedging situation.

A.

Forward contract of zinc is FY2022: about 35% at about 2,980\$/t, FY2023: about 7% at 2,900\$/t, and FY2024: about 6% at 2,800\$/t. Forward exchange contract is FY2022: about 25% at 110.4 yen/\$, FY2023: about 15% at about 110.5 yen/\$, and FY2024: about 5% at about 110 yen/\$.

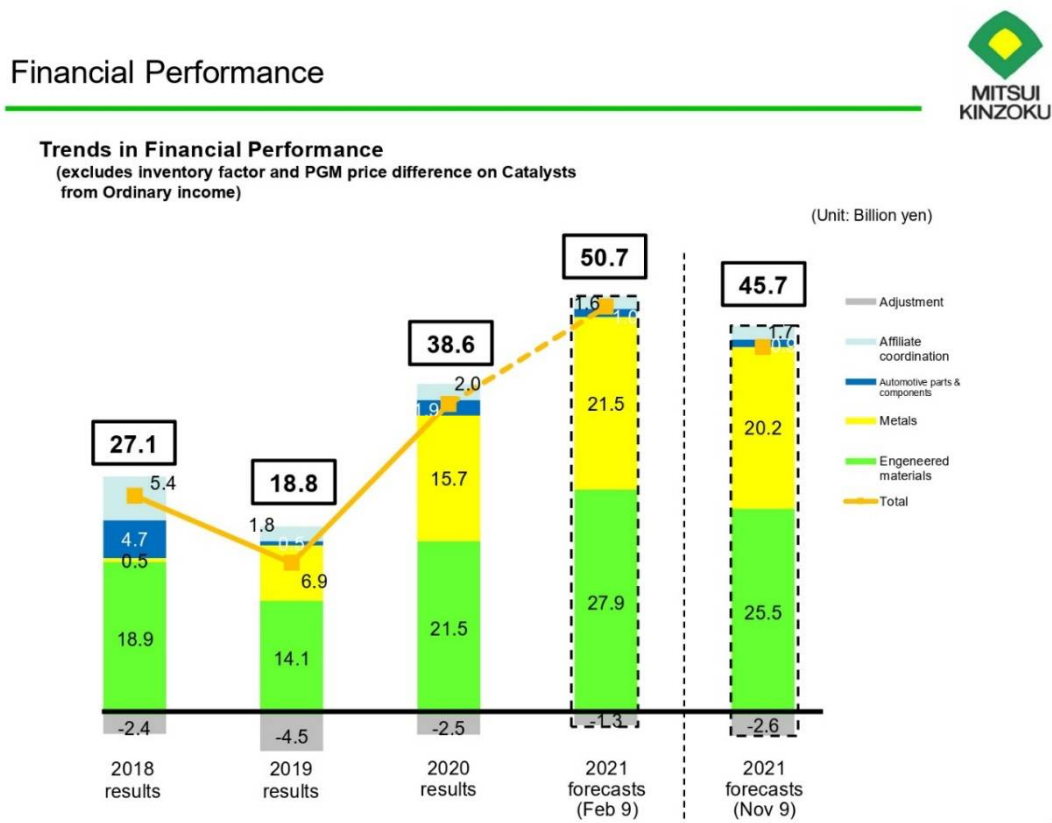
Q.

What is the impact of rising energy costs such as coke and crude oil compared to the previous forecast? Also, please comment on whether the time lag will affect the cost increase factors over the next fiscal year.

A.

Regarding energy costs, considering coke and other electricity prices, LNG, etc., there is almost no effect compared to the previous forecast, but the cost has increased by about JPY3.0 billion compared to the previous year in the second half of FY2021. If the current energy prices continue, we think that there will be an impact of a cost increase of about JPY3.0 billion on the business results for the next fiscal year.

Total



19

Q.

Is it correct to understand that the profit and loss transition of page 19 is a combination of the inventory factor of JPY12.1 billion on page 12 and the transient factor of minus JPY4.9 billion on page 18?

A.

The graph on page 19 shows the profit and loss excluding the total of the inventory factor of page 12 and PGM price difference on Catalysts of page 12 from the ordinary income.

Q.

With the reorganization from April 1st, Mobility Segment will be established, and the Catalyst business will be included in this segment. Please tell us what kind of synergies do you anticipate as a result of this reorganization, as far as you can tell. In addition, I would like to ask you to comment on whether all-solid state batteries will belong to the Mobility Segment.

A.

Up until now, each business segment has proceeded with what it thinks is best, but we are now feeling our limits. As a result of discussing which segments we should focus on in the future, we decided as "Engineered Materials", "Metal", and "Mobility". As a result of internal discussion of what kind of organization has the potential for further growth, including new synergies between each segment and what we can do by taking advantage of our strengths, we decided on these categories. It is difficult to show synergies now, but I will be able to explain a little more about what we are aiming for when we announce the next medium-term management plan. Since catalyst is a business that is firmly in the field of mobility, we thought it would be better to reorganize it into Mobility to expand its possibilities. Please understand that all-solid state batteries will not be included in Mobility as they will be handled by the Business Creation Sector for a while.