

Record of Telephone Conference Concerning FY2023 Q2 Results

Reference: FY2023 Q2 Results & FY2023 Forecast

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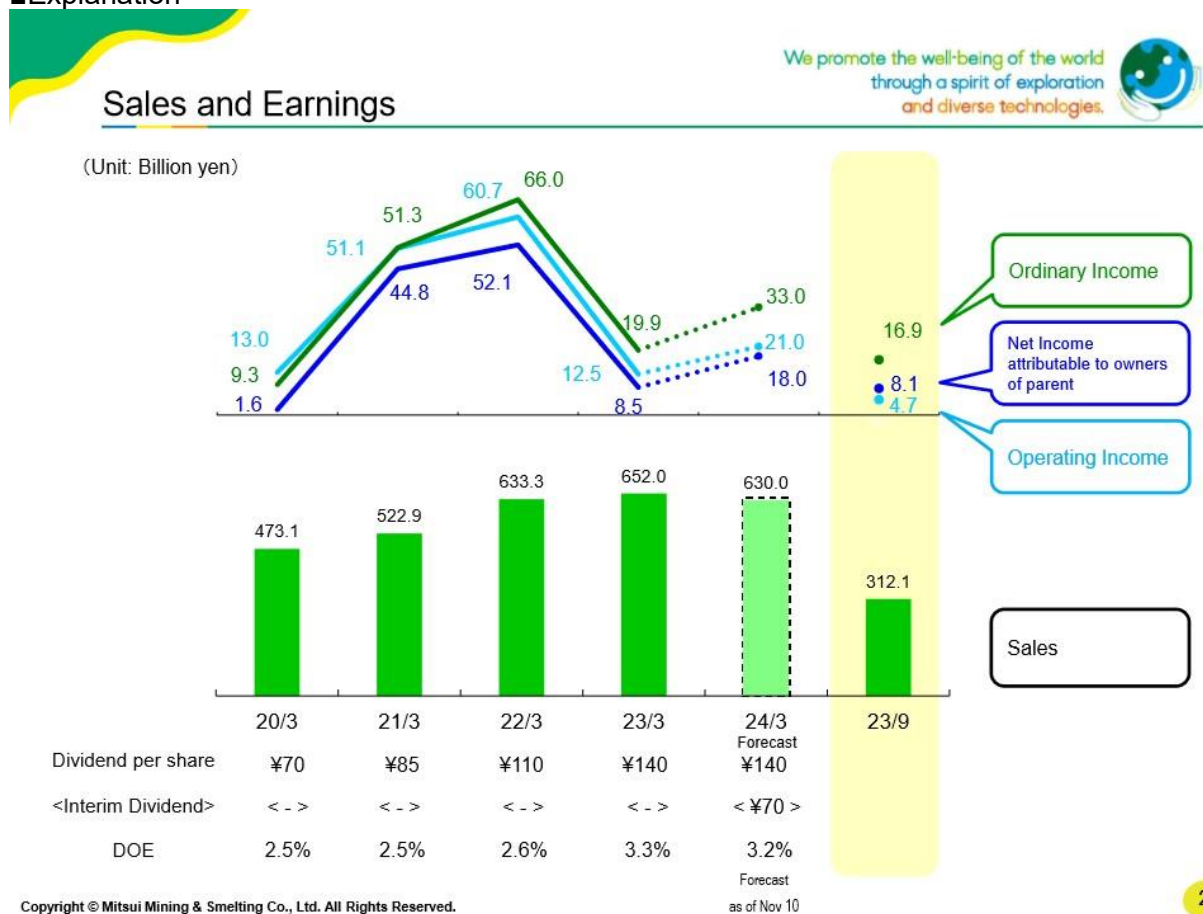
Note:

PKG = Package substrate

HDI = High density interconnect

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

Explanation



Please refer to page two of the financial results presentation.

For the first two quarters of the fiscal year, net sales were JPY312.1 billion, operating income was JPY4.7 billion, ordinary income was JPY16.9 billion, and net income attributable to owners of the parent was JPY8.1 billion. For the fiscal year ending March 2024, we forecast consolidated net sales of JPY630 billion, operating income of JPY21 billion, ordinary income of JPY33 billion, and net income of JPY18 billion.

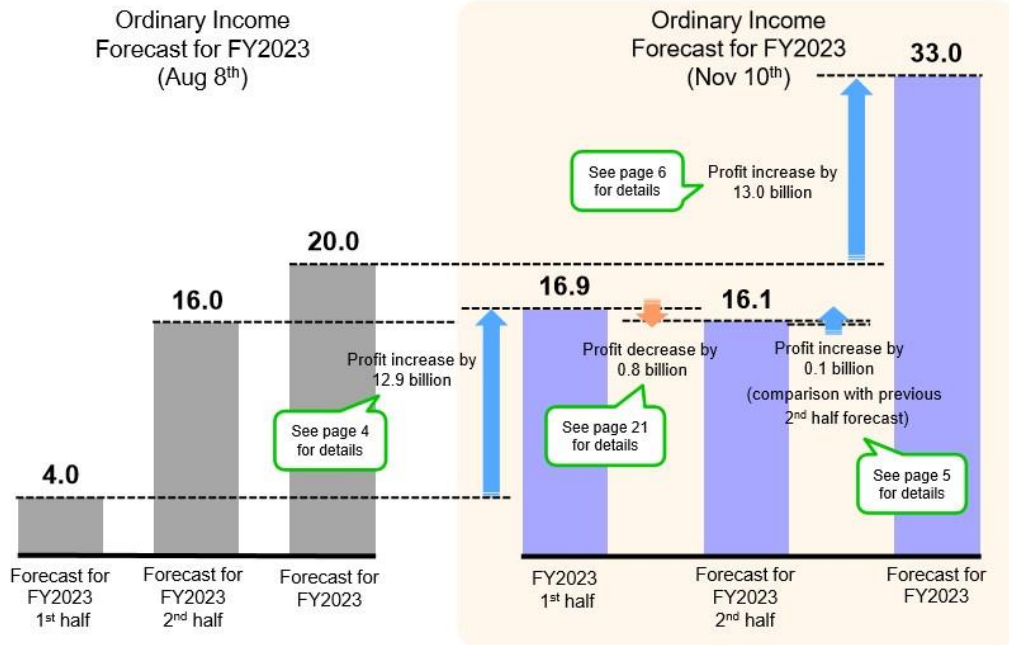
As for dividends, we expect to pay an interim dividend of JPY70 per share and a year-end dividend of JPY70 per share, for a total annual dividend of JPY140 per share, as previously forecasted.



FY2023 Ordinary Income Forecast

Ordinary income forecast for FY2023 is 33.0 billion, by 13.0 billion better than the forecast for FY2023 announced on August 8th.

(Unit: Billion yen)



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Now, please look at the ordinary income for FY2023 on page three.

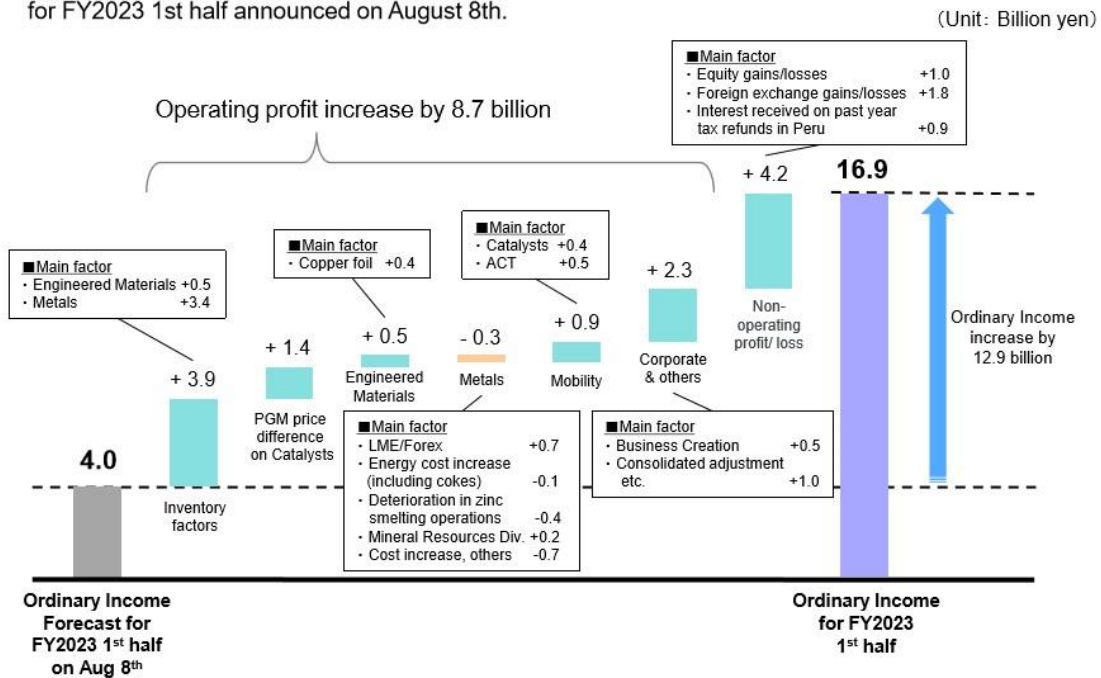
Ordinary income for the first two quarters of the fiscal year increased by JPY12.9 billion from JPY4 billion disclosed on August 8 to JPY16.9 billion. On the other hand, the forecast for H2 is JPY16.1 billion, an increase of JPY0.1 billion from the previous forecast. For the full year, we are projecting an increase of JPY13 billion to JPY33 billion from the JPY20 billion disclosed on August 8.

Each factor will be explained in the following pages.



FY2023 1st half Ordinary Income

Ordinary income for FY2023 1st half is 16.9 billion, by 12.9 billion better than the forecast for FY2023 1st half announced on August 8th.



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First of all, I would like to explain the factors behind the upturn in H1. Please turn to page four.

The most significant impact of the turnaround was the effect of the yen's depreciation on the exchange rate. The total effects of inventory factors, second from the left in the graph; non-operating income, second from the right); and favorable factors in the metals segment, among others, is approximately JPY6 billion of favorable factors. In addition, the impact of precious metal prices in the catalyst business was a favorable factor of JPY1.4 billion.

In each business, sales volume of MicroThin™ for various applications in the engineered materials segment exceeded expectations. Sales of electro-deposited copper foil were also firm. As a result, the copper foil business posted an increase of JPY0.4 billion, and the segment as a whole posted an increase of JPY0.5 million.

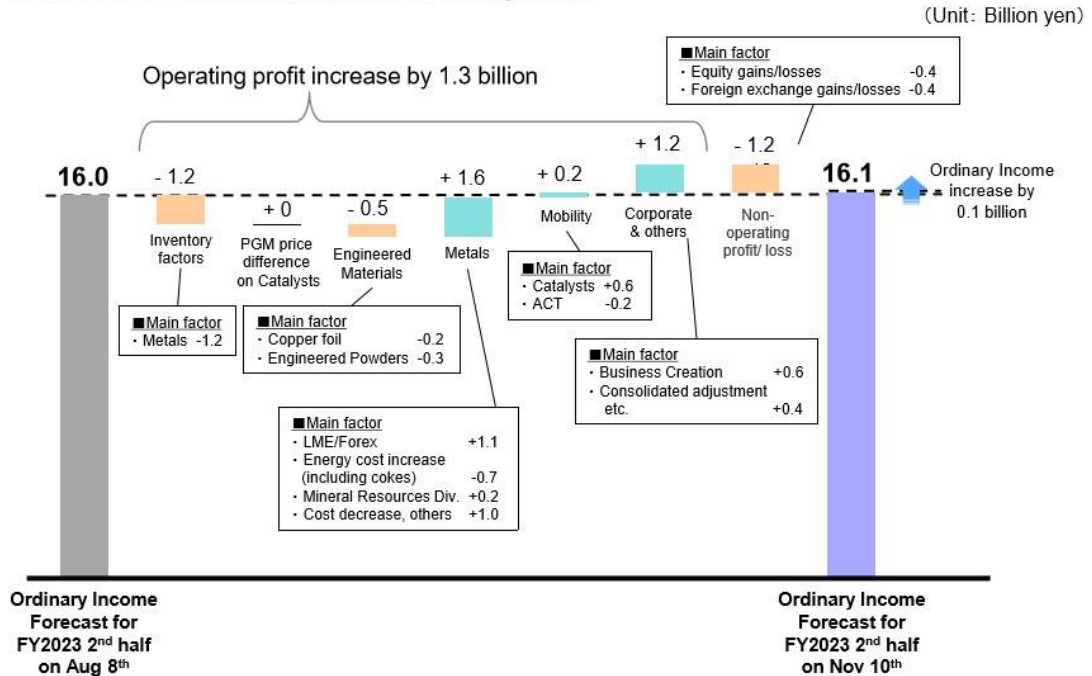
In the mobility segment, the sales volume of catalyst business was slightly higher than expected for both application of motorcycles and automobiles. Sales in North America and Japan increased at Mitsui Kinzoku ACT Corporation. As a result, the overall segment profit increased by JPY0.9 billion.

In addition, in Peru, when we appealed a case that was denied for taxation about 20 years ago, our claim was accepted and the taxes we had paid were refunded. The interest portion of the gain, approximately JPY0.9 billion, was recorded as non-operating income, resulting in a large increase of JPY12.9 billion compared to the previous forecast.



FY2023 2nd half Ordinary Income Forecast

Ordinary income forecast for FY2023 2nd half is 16.1 billion, by 0.1 billion better than the forecast for FY2023 2nd half announced on August 8th.



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Next, I will explain the changes in the H2 earnings forecast. Please turn to page five.

We expect JPY16.1 billion, almost in line with our previous forecast.

In the engineered materials segment, MicroThin™ for package applications is on a recovery trend, but the degree of recovery is not expected to be as strong as previously assumed. Thus, the electro-deposited copper foil business, which reduced its sales volume by approximately 5% from the previous period and was expected to recover from the beginning of the year, is not expected to recover as much as the original assumption, and profit is expected to decrease due to a 12% reduction in sales volume. On the other hand, we forecast a decrease of JPY0.2 billion for the copper foil business, partly due to an upturn in electro-deposited copper foil due to an improved product mix.

Other favorable factors include the metals segment's expected increase of JPY1.6 billion, mainly due to the weaker yen, and the business creation division's expenses, which are expected to be lower than expected. These factors are expected to be offset by inventory factors and deteriorating factors due to the impact of non-operating income/loss, resulting in an increase of JPY0.1 billion from the previous forecast.

This is all from me.

Statements of income

We promote the well-being of the world
through a spirit of exploration
and diverse technologies.



(Unit : Billion yen)	1st half Results			2nd half			FY		
	2023 Results	2022 Results	Difference (23-22)	2023 Forecast	2022 Results	Difference (23-22)	2023 Forecast	2022 Results	Difference (23-22)
Net Sales	312.1	342.4	-30.3 -8.8%	317.9	309.6	8.3 2.7%	630.0	652.0	-22.0 -3.4%
Cost of sales	273.9	286.5	-12.6 -4.4%	-	-	-	-	-	-
Gross Profit	38.2	55.9	-17.7 -31.6%	-	-	-	-	-	-
SG&A expenses	33.6	32.6	1.0 3.0%	-	-	-	-	-	-
Operating Income	4.7	23.3	-18.6 -80.0%	16.3	-10.8	27.1	21.0	12.5	8.5 67.6%
Non-operating income/expenses -net	12.2	10.7	1.5	-0.2	-3.4	3.1	12.0	7.4	4.6
Ordinary Income	16.9	34.0	-17.1 -50.4%	16.1	-14.1	30.2	33.0	19.9	13.1 65.9%
Extraordinary profit/losses-net	-5.5	-0.6	-4.9	-1.5	-4.1	2.6	-7.0	-4.7	-2.3
Net income before income taxes	11.4	33.4	-22.0 -65.9%	14.6	-18.2	32.8	26.0	15.2	10.8 71.3%
Income taxes & minority interests	3.2	5.5	-2.2	4.8	1.2	3.6	8.0	6.7	1.3
Net income attributable to owners of parent	8.1	27.9	-19.8 -70.8%	9.9	-19.4	29.3	18.0	8.5	9.5 111.5%

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I will continue to explain the results for the first two quarters of the fiscal year and the outlook for the full fiscal year. Please see the income statement on page seven.

In the first two quarters of the fiscal year, sales decreased by JPY30.3 billion to JPY312.1 billion due to the significant impact of lower zinc prices, despite the weaker yen compared to the same period last year. On the other hand, operating income decreased by JPY18.6 billion to JPY4.7 billion, ordinary income decreased by JPY17.1 billion to JPY16.9 billion, and net income attributable to owners of the parent deteriorated by JPY19.8 billion to JPY8.1 billion due to the impact of rising energy costs, in addition to a decrease in sales volume in the engineered materials segment.

For the full year, we forecast ordinary income of JPY33 billion based on the market price of zinc at USD2,400/ton and the exchange rate of JPY145 to USD1 for Q3 onward.




Performance by Segment – Engineered Materials

(Unit : Billion yen)

	23/1H Results	22/1H Results	Diff. (23-22)	23/2H Forecast	22/2H Results	Diff. (23-22)	FY2023 Forecast	FY2022 Results	Diff. (23-22)
■ Sales	59.7	65.7	-6.0	65.3	46.8	18.4	125.0	112.5	12.5
■ Operating income	6.5	10.9	-4.4	8.0	-1.0	9.0	14.5	9.9	4.6
■ Ordinary income	7.4	12.4	-5.0	7.6	-1.7	9.3	15.0	10.7	4.3
※ Ordinary income	6.5	11.8	-5.3	7.6	-0.8	8.4	14.1	11.0	3.1

※ Ordinary income : Ordinary income excluding inventory factors.

(Engineered Material Products)	(Main Applications)
Battery Materials	 <ul style="list-style-type: none"> • Nickel-hydrogen batteries for hybrid cars • Lithium-ion batteries
Engineered Powders	 <ul style="list-style-type: none"> • Wide range of electronic components • Abrasive for glass
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

[FY2022 1st Half→FY2023 1st Half - 5.0]

Copper foil -3.5
(Electro-deposited Copper foil and MicroThin™ volume of sales decreases, others)
Engineered Powders -0.5
(Volume of sales decreases, others)
Battery Materials -0.3
(Volume of sales decreases, others)

[FY2022→FY2023 Forecast + 4.3]

Copper foil +4.3
(Electro-deposited Copper foil and MicroThin™ volume of sales increases, others)

Next, I'd like to explain the situation by segment. First is the engineered materials segment. Please turn to page 13.

Ordinary income in H1 decreased by JPY5 billion YoY to JPY7.4 billion. In the copper foil business, the sales volume for electro-deposited copper foil increased in this Q2 by approximately 20% YoY, while the sales volume for MicroThin™ was flat. On the other hand, comparing the first two quarters, the previous year had very strong sales; the sales decline in both MicroThin™ and electro-deposited copper foil had a significant impact, resulting in a decrease in profit of JPY3.5 billion for the copper foil business. In the engineered powders business, although the sales volume of copper powder was on a par with the previous year, sales of abrasives and other products declined, resulting in a decrease in profit of JPY0.5 billion. The main reason for the decrease in segment income was that battery materials also saw a decrease in income by JPY0.3 billion, mainly due to the impact of lower sales.

For the full year, we forecast an increase of JPY4.3 billion to JPY15 billion, compared to the same period last year. In particular, this is mainly due to the expected recovery in sales volume of copper foil, which was very severe in H2 of the previous fiscal year.



Performance by Segment – Metals

(Unit : Billion yen)

	23/1H Results	22/1H Results	Diff. (23-22)	23/2H Forecast	22/2H Results	Diff. (23-22)	FY2023 Forecast	FY2022 Results	Diff. (23-22)
■ Sales	114.7	134.8	-20.2	130.3	121.6	8.8	245.0	256.4	-11.4
■ Operating income	-1.9	9.3	-11.2	6.4	-5.2	11.6	4.5	4.1	0.4
■ Ordinary income	7.3	13.3	-6.0	6.7	-4.3	10.9	14.0	9.1	4.9
※ Ordinary income	9.6	12.3	-2.7	7.9	0.5	7.4	17.5	12.8	4.7

※ Ordinary income : Ordinary income excluding inventory factors.

Ordinary Income Difference Analysis

	FY2022 1H→ FY2023 1H	FY2022→ FY2023 Forecast
LME/Forex	-1.7	-2.0
T/C	1.1	1.6
Inventory Factors	-3.3	0.2
Equity profit/loss	-1.3	-2.3
Energy cost (Cokes, included in the number above)	-2.9 (+1.4)	-1.1 (+1.5)
Dividends	6.0	6.0
Others※	-3.9	2.5
Total	-6.0	4.9

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Sensitivity to ordinary income(for FY2023)

(Unit: Billion yen)

		Full open basis	Including forward contract
Zinc	±100\$/t	1.4	1.3
Lead	±100\$/t	0.7	0.7
US\$(yen/\$)	±1yen/\$	0.7	0.6

Zinc TC

	FY2022	230 \$/t
	FY2023	274 \$/t

※Detail of Others

FY2022 1H→ FY2023 1H	Deterioration in zinc smelting operations -1.8, Fixed cost increase in Lead & Zinc Div. (including large scale maintenance -1.5) -2.1, Mineral Resources Div. +0.2, PGM recycling -0.5
FY2022→ FY2023 Forecast	Fixed cost increase in Lead & Zinc Div. (including large scale maintenance -1.5) -2.7, Raw material cost of lead increase -0.7, Improvement in copper smelting operations +3.3, Large scale maintenance in Copper & Precious Metals Div. +2.5, Mineral Resources Div. +0.2, PGM recycling +0.4

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Next is the metals segment. Please turn to page 14.

Ordinary income in H1 decreased by JPY6 billion YoY to JPY7.3 billion. Despite positive factors such as a one-time dividend of JPY6.6 billion from the Japan-Korea joint smelting project, inventory factors resulted in a negative figure of JPY3.3 billion due to a decline in the zinc market. Similarly, the same is stated as the effect of market price and exchange rate. Of the negative JPY1.7 billion, if only the market price is taken, it was a factor in the decrease in profit of JPY4.2 billion. The deterioration in energy costs, including coke, resulted in a decrease of JPY2.9 billion. Hachinohe Seiren underwent the large-scale periodic repairs this year. As a result of the above, income decreased.

As for the full-year forecast, we expect an increase of JPY4.2 billion YoY. We estimate that the decline in the zinc market will also be a factor in the decline in profits by JPY7.3 billion, and with the positive side of JPY5.3 billion due to the weaker yen, profits will decline by JPY2 billion including both the market price and foreign exchange rates. On the positive side, the segment is expected to see an increase in profit this fiscal year due to the absence of large-scale periodic repairs at the copper smelting and, as in H1, the impact of the dividend from the Japan-Korea joint smelting project.



Performance by Segment – Mobility

(Unit : Billion yen)

	23/1H Results	22/1H Results	Diff. (23-22)	23/2H Forecast	22/2H Results	Diff. (23-22)	FY2023 Forecast	FY2022 Results	Diff. (23-22)
■ Sales	112.7	109.2	3.5	92.3	107.3	-15.0	205.0	216.5	-11.5
(Mitsui Kinzoku ACT)	(48.4)	(41.8)	(6.6)	(50.6)	(44.2)	(6.4)	(99.0)	(86.0)	(13.0)
■ Operating income	2.8	3.8	-1.0	5.2	-0.4	5.6	8.0	3.4	4.6
(Mitsui Kinzoku ACT)	(0.4)	(-1.1)	(1.5)	(1.1)	(-0.2)	(1.3)	(1.4)	(-1.4)	(2.8)
■ Ordinary income	3.8	7.5	-3.7	4.2	-4.3	8.5	8.0	3.2	4.8
(Mitsui Kinzoku ACT)	(0.6)	(-0.4)	(1.0)	(0.9)	(-0.2)	(1.1)	(1.5)	(-0.6)	(2.1)
※ Ordinary income	8.4	6.7	1.7	4.2	-0.4	4.6	12.6	6.3	6.3

※ Ordinary income : Ordinary income excluding PGM price difference on Catalysts.

Difference Analysis of Ordinary income

[FY2022 1st Half→FY2023 1st Half - 3.7]

Catalysts -5.2 (Precious metal price difference, Foreign exchange gains/losses, others)

ACT +1.0 (Cost down, others)

Die-Casting +0.6 (Improved yield, others)

[FY2022→FY2023 Forecast + 4.8]

Catalysts +2.3 (Volume of sales increase, Precious metal price difference, Foreign exchange gains/losses, others)

ACT +2.1 (Volume of sales increase, Cost down, others)

Die-Casting +1.0 (Volume of sales increase, Improved yield, others)

(Mobility Sector)	(Main Applications)
Catalysts	<ul style="list-style-type: none"> Motorcycles Automobiles
Mitsui Kinzoku ACT	<ul style="list-style-type: none"> Door locks for automobiles
Mitsui Kinzoku Die-Casting	<ul style="list-style-type: none"> Die-Casting products

ACT: Difference Analysis of Ordinary income

	FY2022 1H→ FY2023 1H	FY2022→ FY2023 Forecast	※Detail of Others	FY2022 1H→ FY2023 1H	FY2022→ FY2023 Forecast
Sales Volume	0.4	1.6	Rising material prices such as steel material	0.0	-0.2
Cost down	0.8	0.5	Forex exchange	-0.1	-0.1
Others※	-0.2	-	Projected Benefit Obligation	-0.1	-0.4
Total	1.0	2.1	Freight Charge	0.4	0.5
			Subsidy income	-0.2	0.0

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Next is the mobility segment. Please turn to page 15.

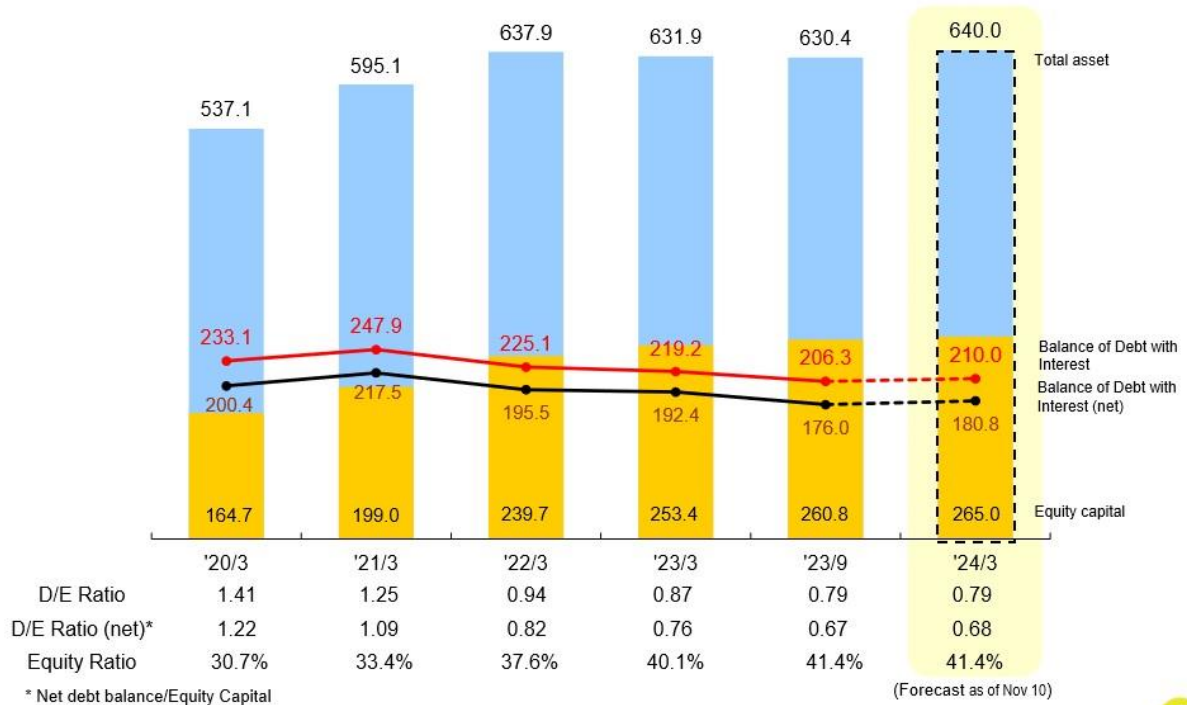
H1 posted a decrease of JPY3.7 billion from the previous year to JPY3.8 billion. On the plus side, for Mitsui Kinzoku ACT Corporation, the cost reduction and sales growth in North America and Japan contributed to an increase of JPY1 billion. The positive impact of improved yield in the die-casting business and other factors resulted in a positive JPY0.6 billion. On the negative side, the impact of precious metal prices for catalysts resulted in a large decrease in profit to JPY5.4 billion. As a result, total segment income decreased.

As for the full-year forecast, we expect an increase of JPY4.2 billion YoY. Increase of JPY2.3 billion in the catalysts business due to sales increase of catalysts, positive effect of non-operating exchange rate and less impact of precious metal prices. We expect an increase in profits in Mitsui Kinzoku ACT and die-castings due to increased sales and cost reductions, resulting in an overall increase in profits for the segment.



Financial Position at Term End

(Unit : Billion yen)



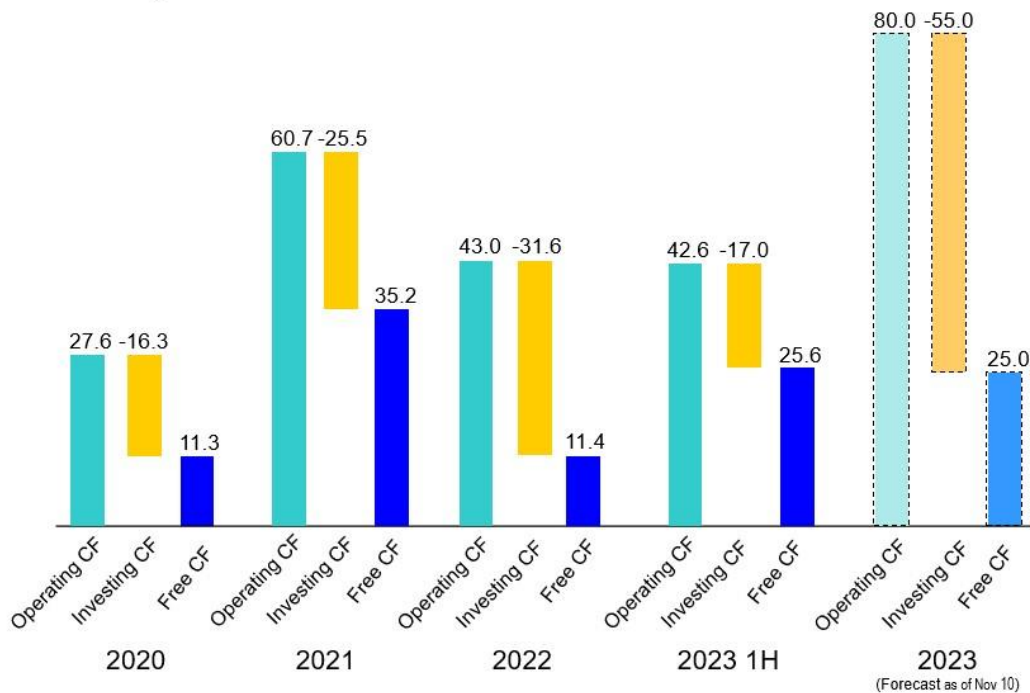
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Lastly, I would like to briefly explain our financial status. Please turn to page 17.

The consolidated equity ratio at the end of the fiscal year, incorporating the H2 forecast, is expected to be 41.4% and the net D/E ratio 0.68. We expect a favorable turnaround from the original plan.

(Unit : Billion yen)



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For cash flow, please turn to page 18.

This fiscal year, we expect free cash flow of JPY25 billion, exceeding our original plan by JPY25 billion, due to improved operating cash flow.

■Q&A Session

Engineered Materials Segment

Q.

Regarding copper foil, please tell us the reason why MicroThin™ sales were slightly higher than planned in the first half of the year, and the reason for the slight reduction in the second half compared to the previous plan. Also, please let us know if there has been any change in the new adoption of MicroThin™ for HDI.

A.

Regarding the reason for the increase in the first half compared to the previous plan, as for MicroThin™ for PKG, we expected when the previous financial results were announced that sales would decrease in Q2 due to a reaction to the large amount of inventory demand from customers in Q1. Although there was a decrease in Q2 as expected, it was suppressed by strong actual demand and sales exceeded the previous plan. Regarding the second half, when the previous financial results were announced, we expected a full-fledged recovery of MicroThin™ for PKG from the beginning (January to March) of the year; however, in our current plan, we are not expecting a full-fledged recovery at the beginning of the year, and based on the current situation, customer feedback, etc., we have slightly lowered our plans. Although the recovery trend from the first to the second half remains the same, the level of recovery is slightly lower than the previous plan.

Regarding the new adoption of MicroThin™ for HDI, there is no change in the situation where

it has been adopted by three Chinese smartphone manufacturers. Although one of the companies is aiming to expand the number of models that adopt it, we do not expect much of an impact in the short term.

Q.

Please tell us the reason why sales of electro-deposited copper foils were slightly higher than planned in the first half of the year, and the reason for the slight reduction in the second half compared to the previous plan.

A.

As for electro-deposited copper foils for flexible printed circuits (FPC) used mainly for smartphones, the reason for the increase in the first half compared to the previous plan is better-than-expected performance of Korean smartphones and the high volume of spot orders. Sales of another type of copper foils for communication infrastructure (including those for AI servers) have also increased from the previous plan.

For the second half, as with MicroThin™, we expect a delayed recovery in electro-deposited copper foils, which will result in a decrease from the previous plan. Among products for communication infrastructure, there was an increase in sales of so-called high-end VSP foils, which are also used for AI servers, while the recovery of low-end VSP and midrange VSP used for servers and data centers will be much slower than expected. Due to the low recovery level, sales figures are considerably lower than the previous second half.

Q.

I understand that the slowdown in the recovery of MicroThin™ and electro-deposited copper foil has been factored in, based on customer feedback, please explain what changes in the business environment have slowed the pace of recovery and when that recovery is likely to occur.

A.

We judged that the recovery of products for Chinese smartphone applications and the recovery of products for non-smartphone memory applications would probably fall a little short of the full-fledged recovery expected in the previous plan. The timing of recovery is currently under scrutiny, and we believe that the recovery will probably start from the next fiscal year, but we cannot give a definite answer yet.

Q.

Regarding copper foils, when the previous Q1 financial results were announced, there was an explanation about the impact of fixed expenses during the previous January-March period when the volume was extremely low and margin-related factors such as the price increase from April. Please explain what changes are expected in the margin-related aspects in this forecast.

A.

Regarding margins, the discharge of products with high book values in the previous Q1 financial results had an impact. In Q2, there are still some high book value products. Profit margins have improved from Q1, but have not yet returned to normal levels in Q2. Price increases were also implemented for MicroThin™ and some electro-deposited copper foils but have not been sufficient to cover the increase in energy costs. Therefore, margins have remained low for some time.

Q.

Regarding copper foils, in the lower right of the Engineered Materials segment on page 13 of the document, the FY2023 forecast for copper foils shows "+4.3 billion yen" compared to FY2022, an increase of approximately 1 billion yen from the previous Q1 financial results document. While planning a slight reduction in the sales volume of MicroThin™ and electro-deposited copper foils, please explain the reason for this 1-billion-yen increase in ordinary income.

A.

The increase in ordinary income compared to the previous forecast was largely due to the impact of foreign exchange rates. Margins improved due to the mixed impact of foreign exchange rates on margins in operating income and increased sales of VSP foils products for AI servers in electro-deposited copper foils. Ordinary income is forecast to increase mainly due to these two factors.

Q.

How do you see the volume of VSP foils? Please provide us with the first-half figure compared to the previous year and the full-year forecast figure compared to the previous year.

A.

Regarding VSP foils as a whole, rather than only those for AI servers, the volume has increased approximately 10% in the first half compared to the previous year and will increase approximately 30% to nearly 35% in the current full-year forecast.

Mobility Segment

Q.

The real profit of Mitsui Kinzoku ACT appears to be improving a bit. Could you tell us the background to this?

A.

One of the factors contributing to Mitsui Kinzoku ACT's improvement is the steady increase in sales. As the impact of the semiconductor shortage has been eased, the increase in sales of automotive parts is having a positive effect on profits. Another factor is that Mitsui Kinzoku ACT is carrying out structural reforms at its bases in Japan and China, and the effects of the cost reductions are gradually emerging.

Q.

Under the scenario of a moderate recovery in automobile production going forward, please tell us about your outlook for future profits based on the effects of the improvement measures you have taken so far.

A.

Mitsui Kinzoku ACT is currently working to expand the sales of products for electric sliding doors. These products have already been adopted, and although sales expansion is still some time away because it depends on the timing of model changes, we expect that sales will steadily increase in the future as more types of automobiles are using these products. As part of our efforts to build a system for this purpose, we are implementing structural reforms in Japan and China, and we expect sales and profits to increase for door locks from the next fiscal year onwards.

Q.

Will the recording of extraordinary losses related to the U.S. die-casting subsidiary affect gains and losses in cash flow in the future?

A.

Since an extraordinary loss was recorded on this occasion, the impact is completely temporary.

Business Creation Sector

Q.

On page 4 of the document, the Business Creation Sector shows an upturn of 500 million yen, but I would like to ask about the background to this improvement. Is this due to, for example, increased sample shipments of solid electrolytes and HRDP® (High Resolution De-bondable Panel) or is it due to changes in costs recorded?

A.

The upturn in the Business Creation Sector is mainly due to lower-than-expected expenses, in addition to an increase in sample revenues by about 100 million yen. Similarly, expenses are expected to remain low in the second half.

Total

Q.

On page 6 of the document, profit for the three main business segments increased by 2.4 billion yen, while the increases in profits for all other segments appear to be transitory. When looking at pages 13 to 15, real profit for the three segments combined has improved by 5.4 billion compared to the previous financial results document. I understand that real profit means ordinary income excluding inventory factors and PGM price difference on Catalysts. Could you explain the difference between these numbers?

A.

Real profit by segment also includes large items such as non-operating foreign exchange gains and dividend income. In the graphs on pages 4 to 6 of the document, the total non-operating income/expenses is shown in the second bar from the right, and the increase/decrease for the three segments is based on operating income excluding inventory factors, etc. Therefore, the difference in question is whether non-operating income/expenses is included or not.

Q.

On pages 4 to 6 of the document, the turnaround in "Corporate & others" is significant. Please provide us with any supplementary information you have to the main factors listed in the graph.

A.

On page 4 of the document, other than those listed as main factors, MESCO made a positive contribution of about 400 million yen, but there were no other major factors. On page 6 of the document, Corporate-related expenses made some positive contribution.