

Record of Telephone Conference Concerning FY2021 Q2 Results

Reference: FY2021 Q2 Results & FY2021 Forecast

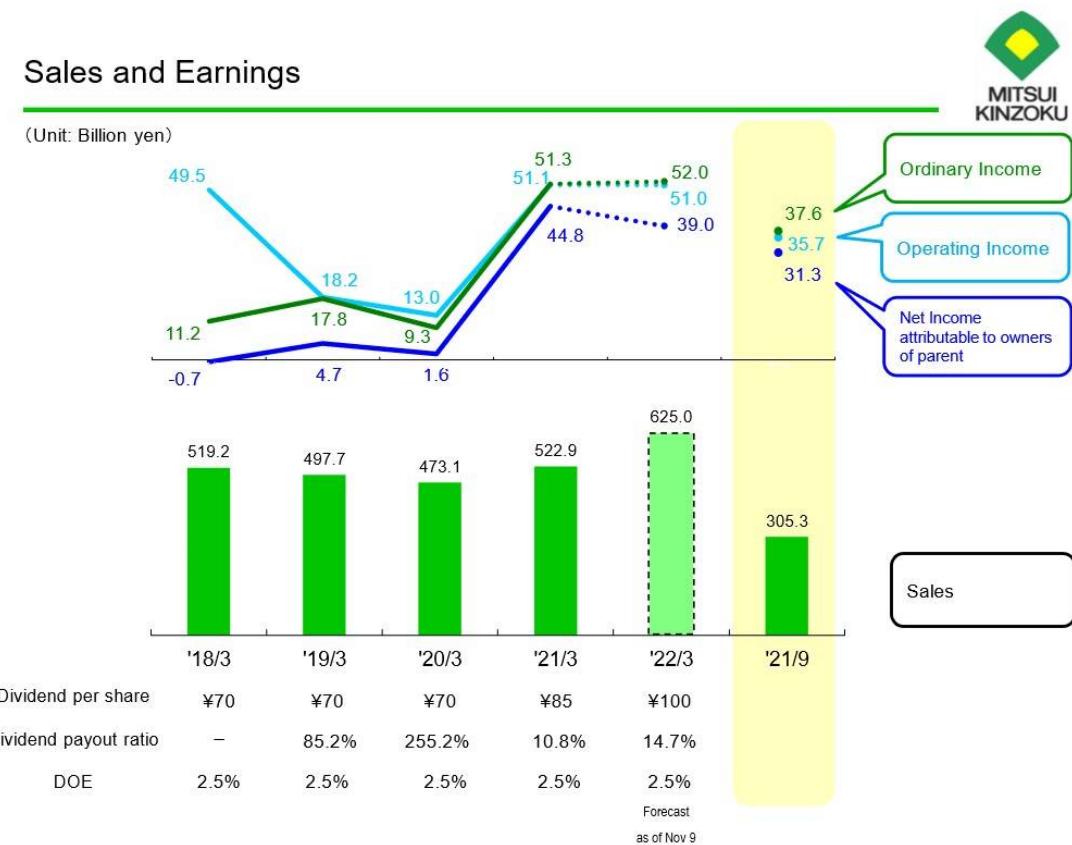
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Note:

PKG = Package substrate

HDI = High density interconnect

■Explanation



1

Please refer to page 1 about Sales and Earnings.

In the first half of the fiscal year, sales were JPY305.3 billion, operating income was JPY35.7 billion, ordinary income was JPY37.6 billion, and net income attributable to owners of parent was JPY31.3 billion

For the fiscal year ending March 2022, we forecast sales of JPY625.0 billion, operating income of JPY51.0 billion, ordinary income of JPY52.0 billion, and net income attributable to owners of parent of JPY39.0 billion.

We have decided to raise the dividend by JPY15 per share to JPY100 per share from JPY85 per share.

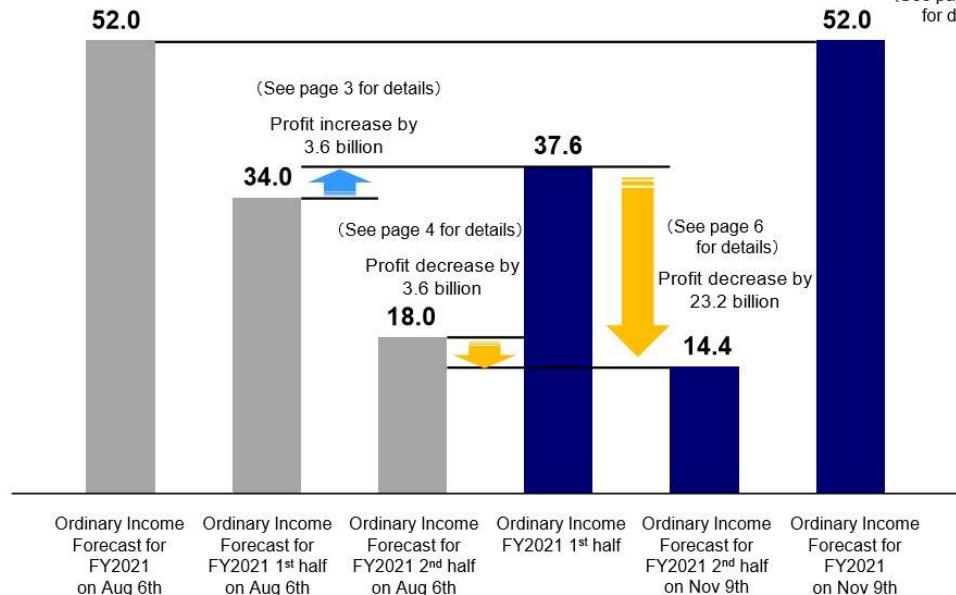
FY2021 Ordinary Income



The ordinary income forecast for FY2021 is same as forecast for FY2021 announced on August 6th.

(Unit: Billion yen)

(See page 5
for details)



2

Please see FY2021 ordinary income on page 2.

Ordinary income for the first half of the fiscal year was JPY37.6 billion, an increase of JPY3.6 billion from the JPY34.0 billion announced on August 6th.

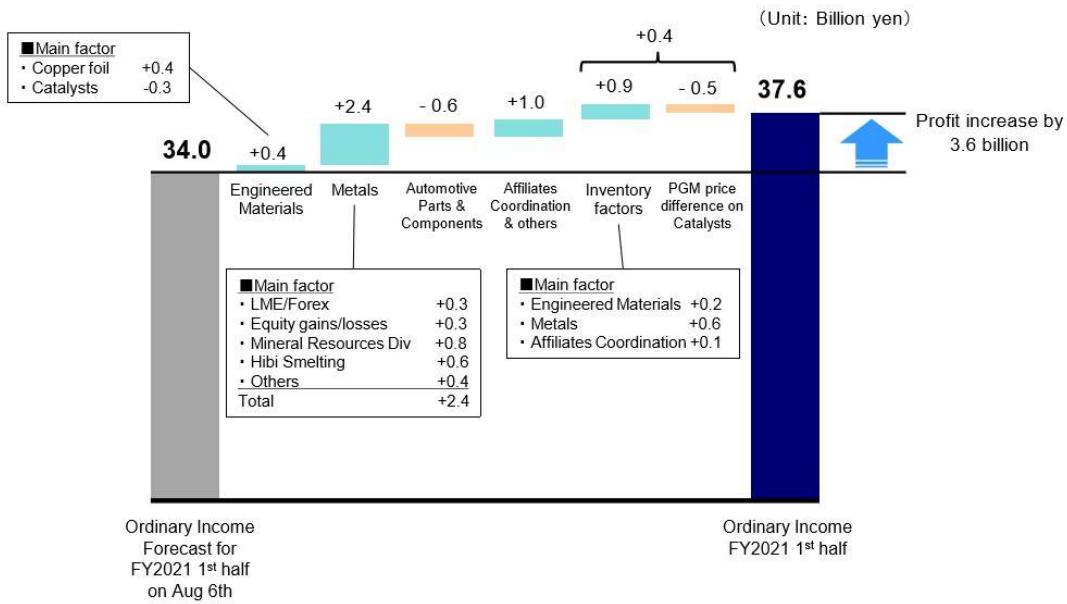
On the other hand, the forecast for the second half of the fiscal year is JPY14.4 billion, a JPY23.2 billion decrease from the first half. The forecast for the full year remains unchanged at JPY52.0 billion.

Each factor will be explained in the following pages.

FY2021 1st half Ordinary Income



Ordinary income for FY2021 1st half is 37.6 billion, by 3.6 billion better than forecast for FY2021 1st half announced on August 6th.



3

First, I would like to explain the factors behind the upturn in the first half. Please see page 3.

Of the upturn, the Metal segment had the largest impact. This upturn of JPY2.4 billion was mainly due to higher-than-expected market prices.

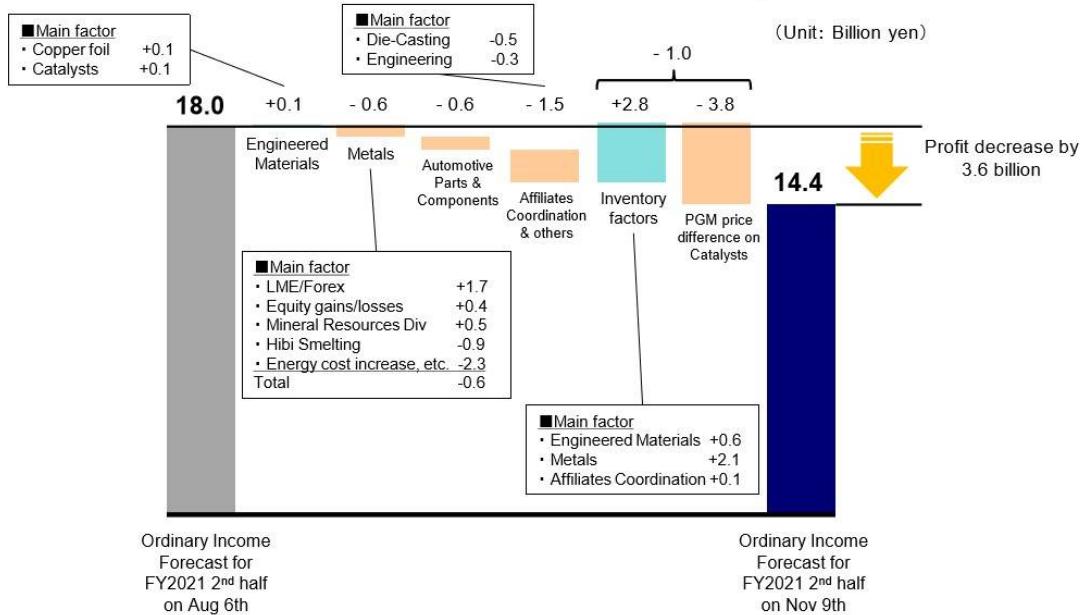
In the Automotive Parts & Components segment, profits decreased by JPY0.6 billion due to the significant impact of lower sales resulting from a decline in automobile sales volume caused by a shortage of semiconductors.

Overall, in addition to the above factors, an upturn in inventory factors and other factors, resulting in upturn of JPY3.6 billion.

FY2021 2nd half Ordinary Income



Ordinary income forecast for FY2021 2nd half is 14.4 billion, by 3.6 billion less than forecast for FY2021 2nd half announced on August 6th.



4

Next, I would like to explain the factors behind the downward revision of the ordinary income forecast for second half. Please see page 4.

This is a decrease of JPY3.6 billion from the previous forecast. We had expected an upturn of JPY2.8 billion due to inventory factors associated with higher metal prices, but on the other hand, we now expect a decrease of JPY3.8 billion due to significant drops in the price of rhodium and other precious metals used in catalysts.

In the Metals segment, despite the impact of rising metal prices, we forecast a decrease of JPY0.6 billion due to the significant impact of cost increases caused by rising energy costs.

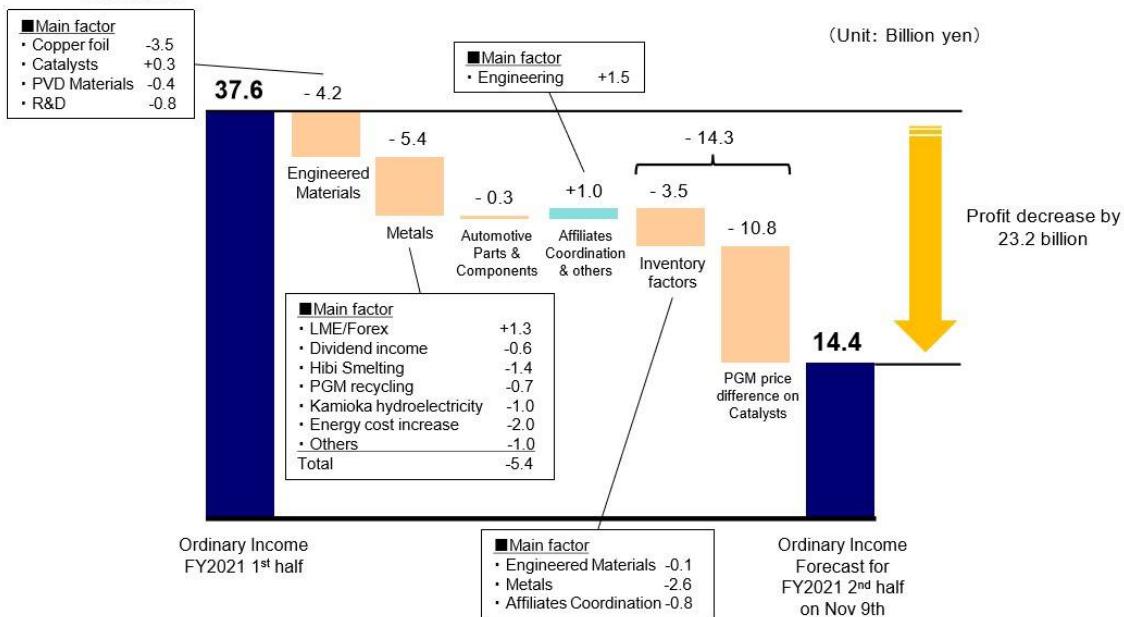
In the Automotive Parts & Components segment, as in the first half of the fiscal year, our forecast was revised downward by JPY0.6 billion due to a decrease in sales caused by the shortage of semiconductors.

For the Affiliates Coordination and others, we forecast a decline due to impacts of profit deterioration in the Die-Casting business and such. As a result, the profit increase in the first half of the fiscal year will be offset by the decrease in the second half.

FY2021 2nd half Ordinary Income Forecast

Ordinary income forecast for FY2021 2nd half is 14.4 billion, by 23.2 billion less than FY2021 1st half.

Of the 23.2 billion decrease in profits, Inventory factors and PGM price difference on Catalysts are 14.3 billion.



6

Next, I will explain the decrease in profit from the first half to the second half. Please see page 6.

We forecast a decrease of JPY23.2 billion in ordinary income from JPY37.6 billion in the first half to JPY14.4 billion in the second half. The most significant factor is the decline in the prices of precious metals used in catalysts. This would result in a significant decrease in profit of JPY10.8 billion.

In addition, the inventory factor, which was recorded as positive JPY6.3 billion in the first half of the fiscal year, is expected to be JPY2.8 billion in the second half, a negative factor of JPY3.5 billion.

For other factors, in the Engineered Materials segment, mainly the seasonal factors turn to be negative by JPY4.2 billion compared to the first half. Despite upturns in market prices in the Metals segment, we forecast a decrease of JPY5.4 billion due to higher energy costs and seasonal factors of Kamioka hydroelectricity.

Due to these factors, we expect a significant decrease in profit from the first half to the second half of the fiscal year.



Statements of income

(Unit : Billion yen)	1st half			2nd half			FY		
	2021	2020	Difference	2021 Forecast	2020	Difference	2021 Forecast	2020	Difference
Net Sales	305.3	224.6	80.6 35.9%	319.7	298.3	21.4 7.2%	625.0	522.9	102.1 19.5%
Cost of sales	239.5	183.6	55.9 30.4%	-	-	-	-	-	-
Gross Profit	65.7	41.0	24.7 60.4%	-	-	-	-	-	-
SG&A expenses	30.0	25.1	4.9 19.4%	-	-	-	-	-	-
Operating Income	35.7	15.9	19.9 125.1%	15.3	35.3	-20.0 -56.7%	51.0	51.1	-0.1 -0.2%
Non-operating income/expenses -net	1.9	-1.8	3.6	-0.9	1.9	-2.8	1.0	0.1	0.9
Ordinary Income	37.6	14.1	23.5 166.8%	14.4	37.2	-22.8 -61.2%	52.0	51.3	0.7 1.4%
Extraordinary profit/losses-net	0.9	13.1	-12.2	-0.7	-9.7	8.9	0.2	3.4	-3.3
Net Income before income taxes	38.5	27.2	11.3 41.7%	13.7	27.5	-13.8 -50.3%	52.2	54.7	-2.5 -4.6%
Income taxes & minority interests	7.2	3.3	3.9	6.0	6.6	-0.6	13.2	9.9	3.2
Net income attributable to owners of parent	31.3	23.9	7.5 31.2%	7.7	20.9	-13.2 -63.3%	39.0	44.8	-5.8 -12.9%

7

I would like to explain the results for the first half of the fiscal year and the outlook for the full fiscal year. Please see the Statements of income on page 7.

Net sales in the first half increased by JPY80.6 billion or 35.9% to JPY305.3 billion YoY, mainly due to higher metal prices. Similarly, operating income improved by JPY19.9 billion, or 125%, to JPY35.7 billion. Ordinary income improved by JPY23.5 billion, or 166%, to JPY37.6 billion. Net income attributable to owners of parent improved by JPY7.5 billion to JPY31.3 billion.

For the full year, we expect ordinary income of JPY52.0 billion, based on the zinc market price of 3,300\$/t and 112yen/\$ from the third quarter onward.

Performance by Segment – Engineered Materials



(Unit : Billion yen)

	FY2021 1st Half	FY2020 1st Half	Diff.	FY2021 2nd Half Forecast	FY2020 2nd Half	Diff.	FY2021 Forecast	FY2020	Diff.
■ Sales	131.2	86.0	45.2	116.8	121.7	-4.9	248.0	207.8	40.2
■ Operating income	20.0	9.2	10.9	5.0	17.3	-12.4	25.0	26.5	-1.5
■ Ordinary income	19.6	8.3	11.2	4.4	18.2	-13.7	24.0	26.5	-2.5
※Real Income	18.9	8.5	10.3	3.8	17.1	-13.2	22.7	25.6	-2.9

※Real 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 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)		Flat panel displays

Difference Analysis of Ordinary income

[FY2020 1st Half→FY2021 1st Half + 11.2]

Catalysts +4.7

(Precious metal price difference, others)

Copper foil +4.0

(MicroThin™ volume of sales increases, others)

PVD Materials +1.7

(Inventory factors, Unit selling price increase, others)

[FY2020→FY2021 Forecast - 2.5]

Catalysts -8.1

(Precious metal price difference, others)

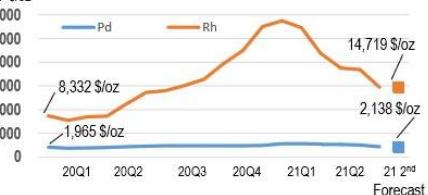
Copper foil +3.5

(MicroThin™ volume of sales increases, others)

PVD Materials +1.2

(Inventory factors, Unit selling price increase, others)

Precious metal price



16

We will explain the situation in each segment.

First, Engineered Materials segment. Please see page 16.

Ordinary income for the first half of the fiscal year was JPY19.6 billion, an increase of JPY11.2 billion YoY. In the Catalysts business, profit increased by JPY4.7 billion due to a significant increase in sales volume of catalysts for motorcycles and higher prices of precious metals.

In the Copper Foil business, profit increased by JPY4.0 billion, mainly due to an approximately 30% increase in the sales volume of MicroThin™. In addition, the impact of inventory factors for PVD Materials improved by JPY0.9 billion, from negative JPY0.2 billion to positive JPY0.7 billion.

The full-year forecast is JPY24.0 billion, a decrease of JPY2.5 billion YoY. The largest negative impact is expected to be in the Catalyst business, where we expect a decrease of JPY8.1 billion in profit. This is mainly due to the impact of declines in the precious metals prices.

On the other hand, the Copper Foil business is expected to see a YoY increase in profit of JPY3.5 billion, mainly due to an expected 22% YoY increase in sales volume of MicroThin™.



Performance by Segment – Metals

(Unit: Billion yen)

	FY2021 1st Half	FY2020 1st Half	Diff.	FY2021 2nd Half Forecast	FY2020 2nd Half	Diff.	FY2021 Forecast	FY2020	Diff.
■ Sales	109.9	88.0	21.9	121.1	105.6	15.5	231.0	193.6	37.4
■ Operating income	16.6	9.0	7.6	9.9	14.7	-4.8	26.5	23.7	2.8
■ Ordinary income	17.5	8.1	9.4	9.5	14.7	-5.2	27.0	22.8	4.2
※Real Income	12.8	5.7	7.1	7.4	10.0	-2.6	20.2	15.7	4.5

※Real income : Ordinary income excluding inventory factors.

Metal Prices and FOREX

	'20/Q1	Q2	Q3	Q4	'21/Q1	Q2	'21 2nd Half Forecast	
Zinc	\$/t	1,959	2,340	2,631	2,748	2,916	2,991	3,300
Zinc (Actual)	\$/t	2,113	2,404	2,624	2,705	2,845	2,893	3,104
Lead	\$/t	1,670	1,876	1,903	2,020	2,127	2,341	2,300
Copper (Q1:Jan-Mar)	¢/lb	256	242	296	325	385	440	423
Copper (Q1:Apr-Jun)	¢/lb	242	296	325	385	440	425	420
Yen/US\$	yen/\$	107.6	106.2	104.5	105.9	109.5	110.1	112.0
Yen/US\$ (Actual)	yen/\$	107.8	106.7	105.0	106.2	109.6	110.2	111.5

Sensitivity to ordinary income (for FY2021)

(Unit : Billion yen)
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	FY2020 1st Half	FY2020
Difference Analysis	→FY2021 1st Half →FY2021 Forecast	
LME/Forex	3.7	7.0
T/C	-1.7	-3.9
Inventory Factors	2.3	-0.3
Equity profit/loss	3.4	4.0
Cokes	0.0	-1.4
Dividends	-1.5	-1.9
Others	3.2	0.7
Total	9.4	4.2

Details of Others

- [FY2020 1st Half → FY2021 1st Half + 3.2]
 - Large scale maintenance for zinc smelting in 20Q1 + 1.4
 - Mineral Resources Division + 1.2
 - Improving productivity in zinc smelting + 1.1
 - Hibi Smelting - 0.6
- [FY2020 → FY2021 Forecast + 0.7]
 - Large scale maintenance for zinc smelting in 20Q1 + 1.4
 - PGM recycling - 1.7
 - Mineral Resources Division + 2.2
 - Improving productivity in zinc smelting + 1.2
 - Energy cost increase - 2.1

17

Metal segment. Please refer to page 17.

Ordinary income for the first half of the fiscal year was JPY17.5 billion, an increase of JPY9.4 billion YoY. The first major factor for the increase in profit was the impact of higher metal prices and a weaker Japanese yen, which added JPY3.7 billion. The breakdown is JPY3.2 billion due to rising metal prices and JPY0.5 billion due to the weaker Japanese yen. In addition, there was a JPY3.4 billion turnaround in equity gains. The main reason is that the impact of Caserones copper mine, which was a negative factor of JPY2.5 billion in the previous fiscal year, has disappeared. In addition, the inventory factor, which was JPY2.3 billion higher than the previous fiscal year, was also a major factor in the increase.

As for the full-year forecast, we expect an increase of JPY4.2 billion YoY. We expect an increase of JPY7.0 billion also due to higher metal prices and the weaker Japanese yen. The breakdown is JPY5.4 billion due to the rise in metal prices and JPY1.6 billion due to the weaker Japanese yen. Negative factors include worsening conditions for the purchase of ore. Due to this impact, we expect a YoY decrease of JPY3.9 billion.



Performance by Segment – Automotive Parts & Components

(Unit : Billion yen)

	FY2021 1st Half	FY2020 1st Half	Diff.	FY2021 2nd Half Forecast	FY2020 2nd Half	Diff.	FY2021 Forecast	FY2020	Diff.
■ Sales	37.8	34.2	3.6	41.2	46.9	-5.7	79.0	81.1	-2.1
■ Operating income	0.0	-1.2	1.2	0.3	2.6	-2.3	0.3	1.4	-1.1
■ Ordinary income	0.6	-0.8	1.4	0.3	2.7	-2.4	0.9	1.9	-1.0

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

Difference Analysis of Ordinary income

	FY2020 1st Half →FY2021 1st Half	FY2020 →FY2021 Forecast
Sales Volume	1.4	-0.5
Cost down	0.6	1.7
Others※	-0.6	-2.2
Total	1.4	-1.0

※Details of Others

[FY2020 1st Half→FY2021 1st Half - 0.6]
• Rising steel material and resin prices - 0.5
Forex exchange + 0.5 , Furlough subsidy, etc. - 0.5
Freight Charge - 0.4
[FY2020→FY2021 Forecast - 2.2]
• Rising steel material and resin prices - 1.8
Forex exchange + 0.8 , Furlough subsidy, etc. - 0.7
Freight Charge - 0.3

18

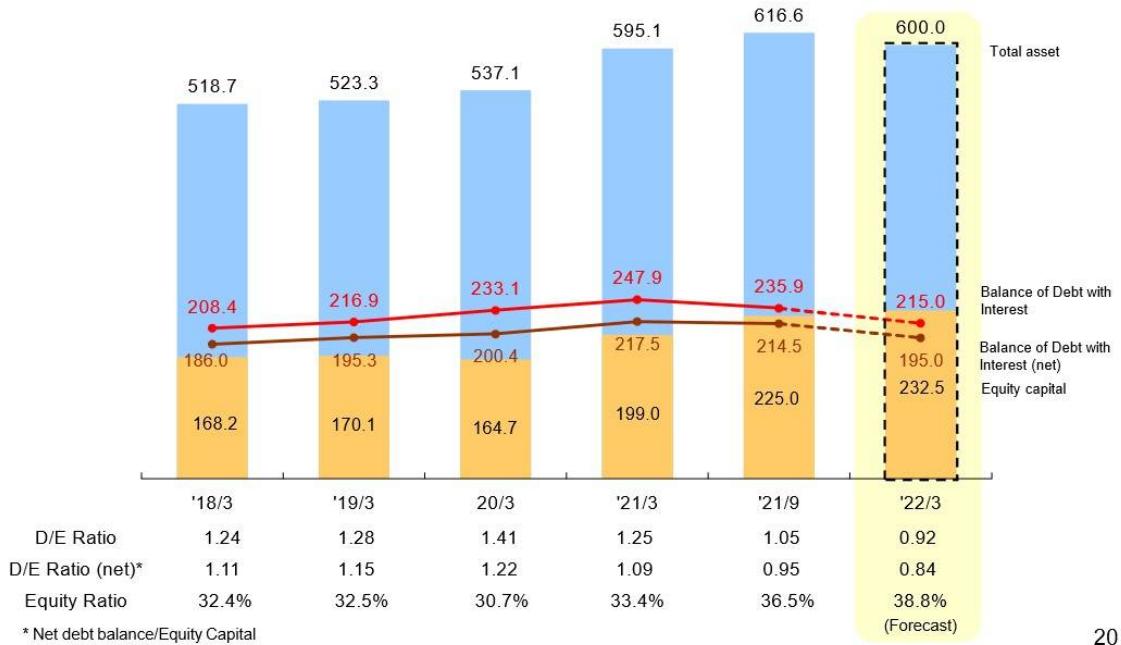
Automotive parts & Components. Please refer to page 18.

In the first half of the fiscal year, sales volume increased by JPY1.4 billion over the previous year to JPY0.6 billion due to the recovery from the drop in the first quarter of the previous fiscal year caused by the spread of COVID-19.

For the full year, we forecast a decrease of JPY1.0 billion YoY to JPY0.9 billion due to the impact of lower sales caused by the shortage of semiconductors and the rise in steel and resin prices.

Financial Position at Term End

(Unit : Billion yen)



20

Last, I would like to briefly explain our financial position. Please refer to page 20.

The equity ratio at the end of the fiscal year was 38.8%, factoring in the forecast for the second half. The net D/E ratio is expected to be 0.84.

■Q&A Session

Total

Q.

What is your image of actual profit and loss in the second half? Is it correct to assume that the profit excluding inventory factors and PGM price difference on Catalysts from the forecast of JPY14.4 billion for the second half as the actual profit and loss in the second half? I think that if the metal market changes, the actual profit and loss will change, but I would like to get some clues on forecasting business results for the next fiscal year and beyond.

A.

One of guide is JPY18.4 billion, which is obtained by excluding the inventory factor of JPY2.8 billion on page 15 and the negative JPY6.8 billion of PGM price difference on Catalysts described on page 24 from the forecast of JPY14.4 billion in the second half.

Q.

If that is the case, there are seasonal factors such as copper foil in the first half and the second half, so if there is a difference of about JPY2.0 billion to JPY3.0 billion, is it correct to assume that the actual profit and loss in the half year is JPY18.4 billion plus about JPY3.0 billion?

A.

Yes.

Q.

It was mentioned that the actual profit for the second half would be JPY18.4 billion, excluding inventory factors and transient factors. Copper production of JPY1.0 billion described on page 24 is not included. Is this not seen as a transient factor?

A.

I see it as a transient factor. The base is JPY18.4 billion, and if seasonal factors are added to it, such factors will also be included.

Q.

The plan shows a significant difference in cash flow between the first and second half. While profit itself will be much lower in the second half, operating cash flow will be higher in the second half. I would like to ask you to explain about how we should view the difference of cashflow and profit between the first and second half?

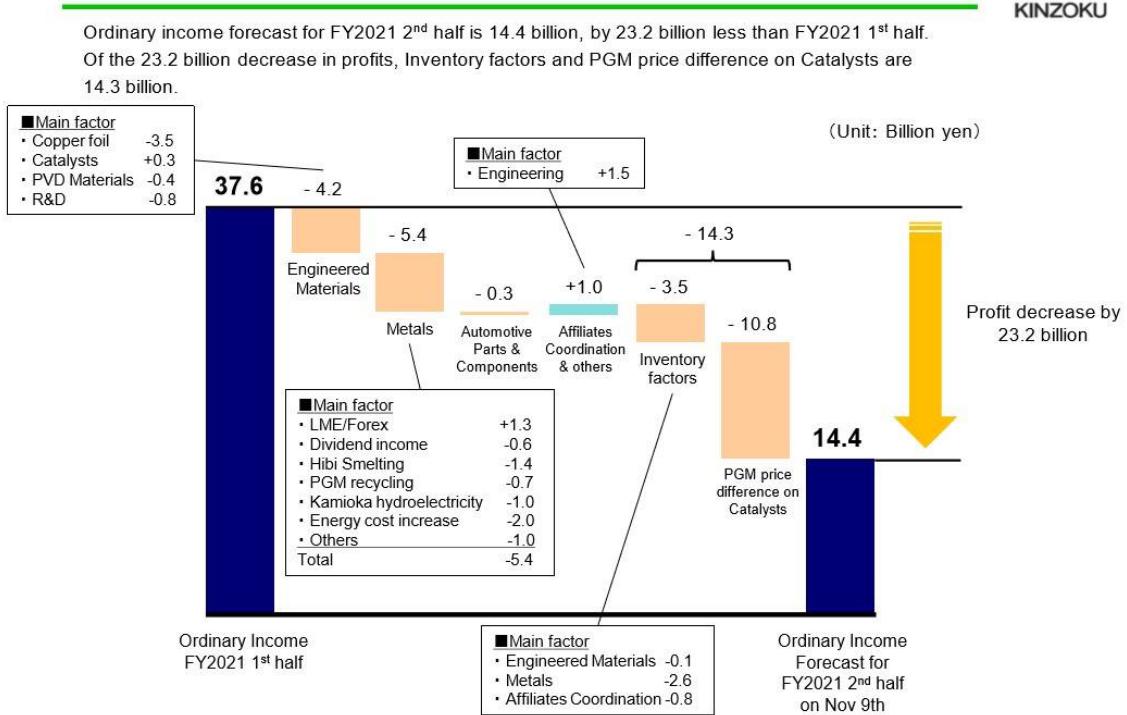
A.

In the first half of the year, working capital such as so-called accounts receivable and inventories increased due to the rise in metal prices and other factors. Therefore, the figures show that cash flow is tight. In the second half of the fiscal year, however, we expect metal prices and other factors to remain constant. Operating cash flow is expected to improve because of accounts receivable and inventories would not increase. As a result, we are planning to be significantly cash-in for the full year.

Engineered Materials Segment



FY2021 2nd half Ordinary Income Forecast



Q.

Regarding the movement of the Engineered Materials from the first half to the second half, it is planned that the real income will deteriorate by JPY15.1 billion from JPY18.9 billion to JPY3.8 billion. Of that amount, JPY10.8 billion is due to PGM price difference on Catalysts, but what is the background behind the deterioration than that? Similarly, in the metal business, it is planned that the real income will deteriorate by more than JPY5.0 billion from the first half to the second half. Please tell us about this background.

A.

On page 6, you will find the segment changes excluding inventory factors and PGM price difference on Catalysts. I think we can say that this is the actual profit and loss changes.

It also describes the breakdown of the changes. The one with the largest effect on Copper foil is MicroThin™, and the one for HDI has a large difference between the first and second half. Electro-deposited copper foil also decreased communications infrastructure-related, and the impact of the decrease in sales accounted for the majority of the deterioration of JPY3.5 billion. R&D expenses are also planned to increase by JPY0.8 billion, PVD Materials (ITO target materials) will decrease from the first half to the second half as the demand for LCD panels would shrink in the second half.

Regarding Metals, the LME/Forex will exceed the first half. However, with Hibi Smelting, a copper smelter that became a group company in April last year, Copper production would decrease in the second half. About negative JPY1.0 billion out of negative JPY1.4 billion is due to Copper production. Kamioka hydroelectricity is negative JPY1.0 billion because the amount of power generation in the first half is larger than that in the second half. Negative JPY2.0 billion from increased energy costs. In addition, there are other factors such as the difference in the composition of raw materials, which is a worse in the second half compared to the first half. The above is the main breakdown of total negative JPY5.4 billion.

Q.

Regarding the Engineered materials segment, I think one of the themes of the July to September financial results this time is the cost increase due to the rise in various prices and the cost push due to the higher cost of energy. Were there an impact of cost increases due to rising prices, or is there a risk that it will become apparent in the second half of the year? Also, is it safe to say that there is no problem there as the sales price will be reflected?

A.

Regarding the cost increases due to price hikes, we did not see any significant price hikes in Engineered materials, especially from July to September. On the other hand, in Automotive parts & components affiliates, the price of steel materials continues to be high in Q2, which is a major factor that is putting pressure on the profitability of this segment. The price is expected to rise further in the second half, and unfortunately it is difficult to reflect it in the sales price.

The price increases that are concerned in the area of Engineered materials are the cost of electricity for Copper foil. We factor in that as cost for the second half. Regarding Copper foil, we have not passed on the rise in electricity costs to the price, but if we can no longer make a reasonable margin, we will ask for a price increase. The impact of steel prices on Engineered materials is minor. The chance of the price going up significantly is not zero, but I think it is safe to say that there will not be much impact.

Q.

The full-year sales volume of MicroThin™ has been revised downward from the previous forecast, please tell us about the current situation and future prospects for HDI and PKG.

A.

For HDI, the overall figures increased in the first half compared to the number in the previous forecast. The second half is expected to see a slight decrease compared to the previous forecast, but the total figure for the year is expected to increase slightly. We believe that the factor is the impact of the increase in smartphone production.

For PKG, it has decreased slightly from the previous forecast. In the first half, in Malaysia, where we manufacture MicroThin™ for HDI, the workforce had to be reduced by 60% due to COVID-19, and as a result of backing up from the Ageo factory in Japan, the sales for PKG in Q2 decreased slightly. Since this decrease was delayed in the second half, the actual Q2 is a little higher. In the second half, there is a sense of slowdown in both for smartphones and for non-smartphones compared to the previous forecast, but looking at the index, the second half of the year is expected to remain very high at 139.

Q.

For PKG, it was explained that there is a sense of slowdown in both for smartphones and for non-smartphones compared to the previous forecast, but it is not much different from the previous forecast in the second half index. Please tell us a little more about the sense of slowdown.

A.

There is certainly not much change in terms of numbers compared to the previous forecast, but as I explained earlier, as a result of backing up for HDI, PKG is decreasing in Q2 and increasing in the second half. On an index basis, the impact is about 7. Since the index in the second half is 139, the actual level is about 132, which is a little less than 10% less than the previous forecast. However, business situation is still good. If you compare these figures with last year, we believe that the level of orders received is still high.

Q.

Please tell us the reason why the profit was higher than the previous forecast even though it had such an impact in the first half.

A.

Because there was a cost reduction more than the effect of the volume reduction.

Q.

Regarding the influence of COVID-19 in Malaysia, I think that not only MicroThin™ but also electro-deposited copper foil had an influence, but please tell me how much it had an influence.

A.

Since July, Malaysia has been shut down for a week due to the influence of COVID-19, and the quantity of electro-deposited copper foil for FPC, which is the main product of the Malaysian plant, has also decreased by about 15% from the previous forecast. The direct impact is that much. As we are currently back to normal operations from the middle of August, we do not expect any impact for the second half onward.

Q.

Please let us know if there are any updates regarding the status of sample shipments and inquiries regarding MicroThin™ for HDI for sales expansion other than North American smartphone manufacturers.

A.

Regarding new sales expansion other than North American smartphone manufacturers, one of the Chinese smartphone manufacturers is currently considering using our product, but they have not made a decision to adopt.

Q.

Regarding the PGM price difference on Catalysts, the premise values for rhodium, etc. in the second half are stated on page 16. If this price remains flat until the end of the fiscal year, is it correct to say that the impact of 6.8 billion yen in the second half will disappear for the next fiscal year? I would like to confirm the impact of next year if this price level continues in the future.

A.

In the second half, we assumed palladium at 2,138 \$/oz and rhodium at 14,719 \$/oz, and estimating the impact if the price continues in the second half. The result is negative JPY6.8 billion. We believe that this is largely due to the fact that the inventory of high book value products accumulated because the sales volume of catalysts in the first half fell significantly from the plan while the price of precious metals fell from the first half. Please understand that this effect will disappear if prices remain constant for the next fiscal year.

Q.

PGM price difference on Catalysts for the year including both the first and second half was negative JPY2.8 billion. If the precious metal price is flat, is it correct to understand that negative JPY2.8 billion will simply be zero when considering the next fiscal year?

A.

Yes.