Record of Telephone Conference Concerning FY2023 Q1 Results

Reference: FY2023 Q1 Results & FY2023 Forecast
https://www.mitsui-kinzoku.com/LinkClick.aspx?fileticket=TiH3b1OXs0s%3d&tabid=204&mid=824&TabModule903=0
Note:
PKG = Package substrate
HDI = High density interconnect
real profit = ordinary income excluding the inventory factors and the PGM price difference in Catalysts

■Explanation

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

Results of FY2023 Q1

- FY2023 Q1 YoY: Sales decreased due to lower sales volumes in the Engineered Materials segment, such as MicroThin™, and lower metal and precious metal prices.
  In addition to the above, higher energy costs and inventory factors associated with lower metal and precious metal prices led to a decrease in profit.
- As for the FY2023 forecast, sales are expected to be lower than the previous forecast due to a decrease in sales volume of major products in the Engineered Materials segment and lower-than-expected prices of metals and precious metals.
  In addition to the above, operating income is expected to decrease from the previous forecast due to inventory factors resulting from the decline in metal and precious metal prices, etc. However, ordinary income is expected to be the same amount as the previous forecast due to an increase in non-operating income such as dividend income.

(Unit: Billion yen)	Q1 Results			Forecast		
	2023 Results	2022 Results	Difference (23-22)	2023 Forecast (Aug 8)	2023 Forecast (May 10)	Difference
Net Sales	147.5	165.1	-17.6 *-10.6%*	605.0	645.0	-40.0 *-6.2%*
Operating Income	-5.5	18.2	-23.7 -	11.0	20.0	-9.0 *-45.0%*
Ordinary Income	5.1	25.4	-20.4 *-80.0%*	20.0	20.0	0.0 *0.0%*
Net income attributable to owners of parent	2.5	21.7	-19.2 *-88.3%*	9.5	10.0	-0.5 *-5.0%*

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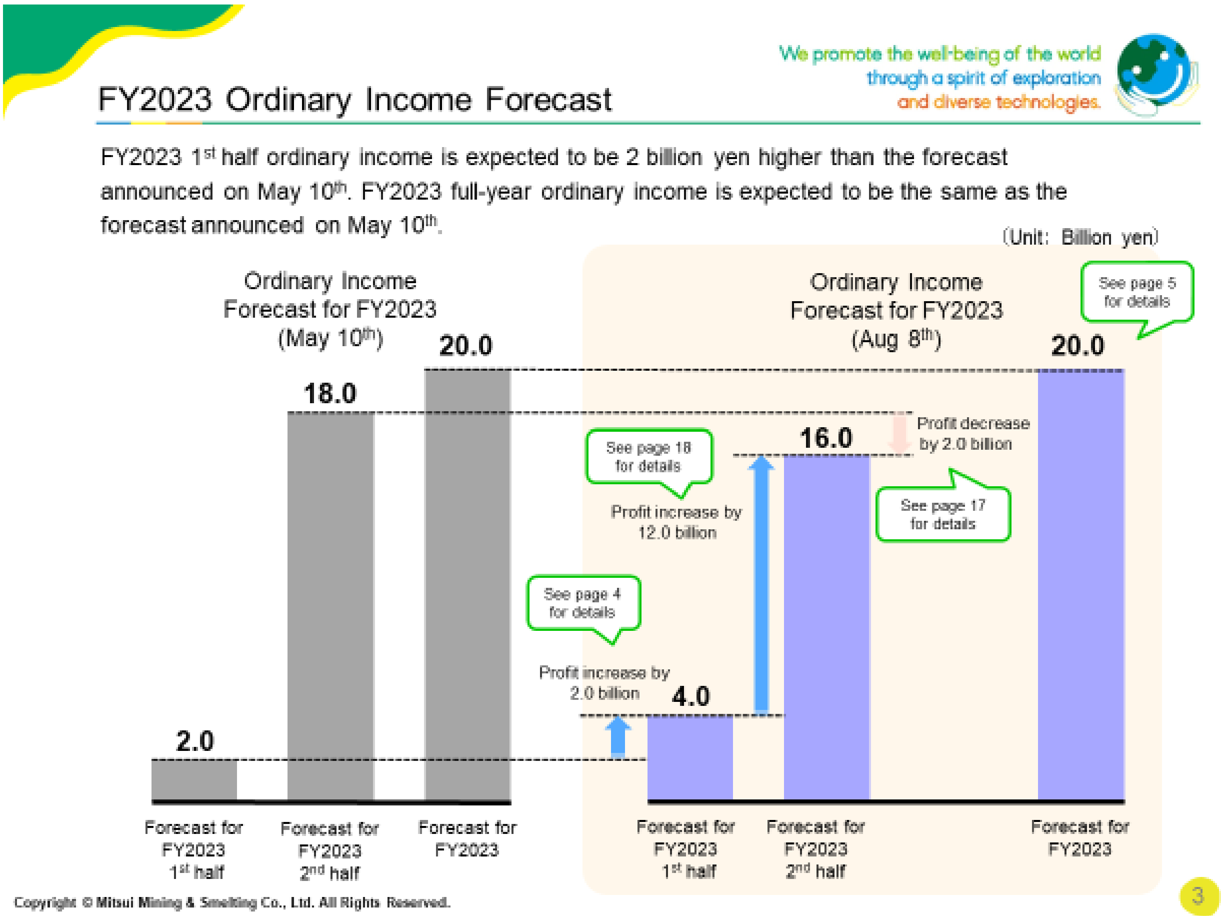
Please see page one of the financial results material.

The Company's Q1 results for FY2023 show net sales of JPY147.5 billion, operating income of JPY5.5 billion, ordinary income of JPY5.1 billion, and net income attributable to owners of the parent of JPY2.5 billion. Despite positive factors such as the weak yen, sales volumes of key products in the engineered materials segment, including MicroThin™, declined, and prices of metals and precious metals continued to fall YoY. This resulted in a decline in sales of more than 10%. In addition to the impact of lower sales, the profit significantly declined due to higher energy costs and inventory factors associated with lower prices of metals and precious metals.

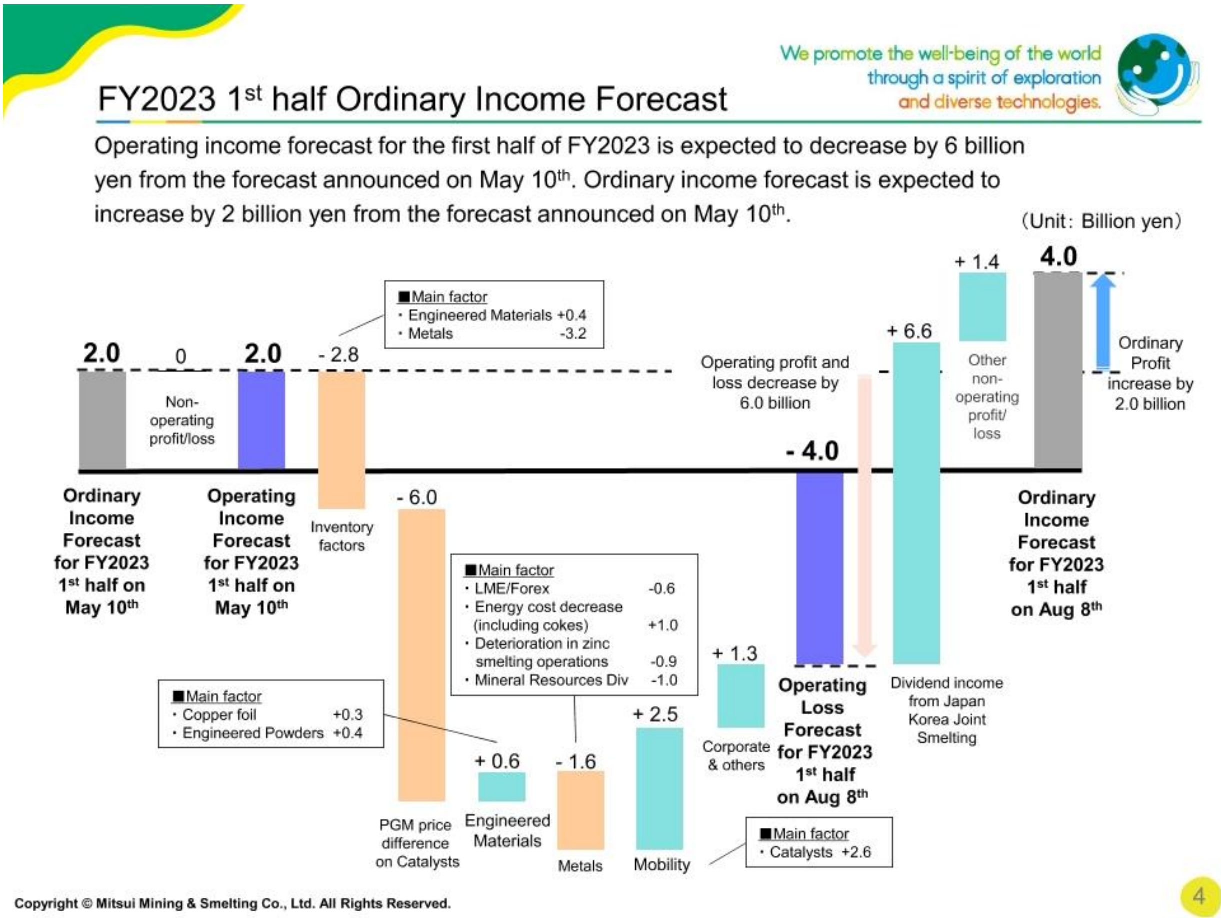
In light of these current conditions, we have revised our consolidated forecasts for the fiscal year ending March 2024. As a result, as shown in the lower right corner of the page, we project net sales of JPY605 billion, operating income of JPY11 billion, ordinary income of JPY20 billion, and net income attributable to owners of the parent of JPY9.5 billion.

Please see page 16 for the assumptions such as prices of metals and exchange rates.



For details on the full-year forecast, please refer to the FY2023 ordinary income forecast on page three.

Again, we have revised our first half of the fiscal year and full-year forecasts in light of current market conditions, the metals segment, and foreign exchange rates. Ordinary income for the first half of the fiscal year is now JPY4 billion, JPY2 billion higher than the previous forecast. On the other hand, we expect a JPY2 billion decrease in profit in H2. As a result, ordinary income for the full year is expected to be JPY20 billion, as previously forecasted. Details are explained on the following pages and beyond.



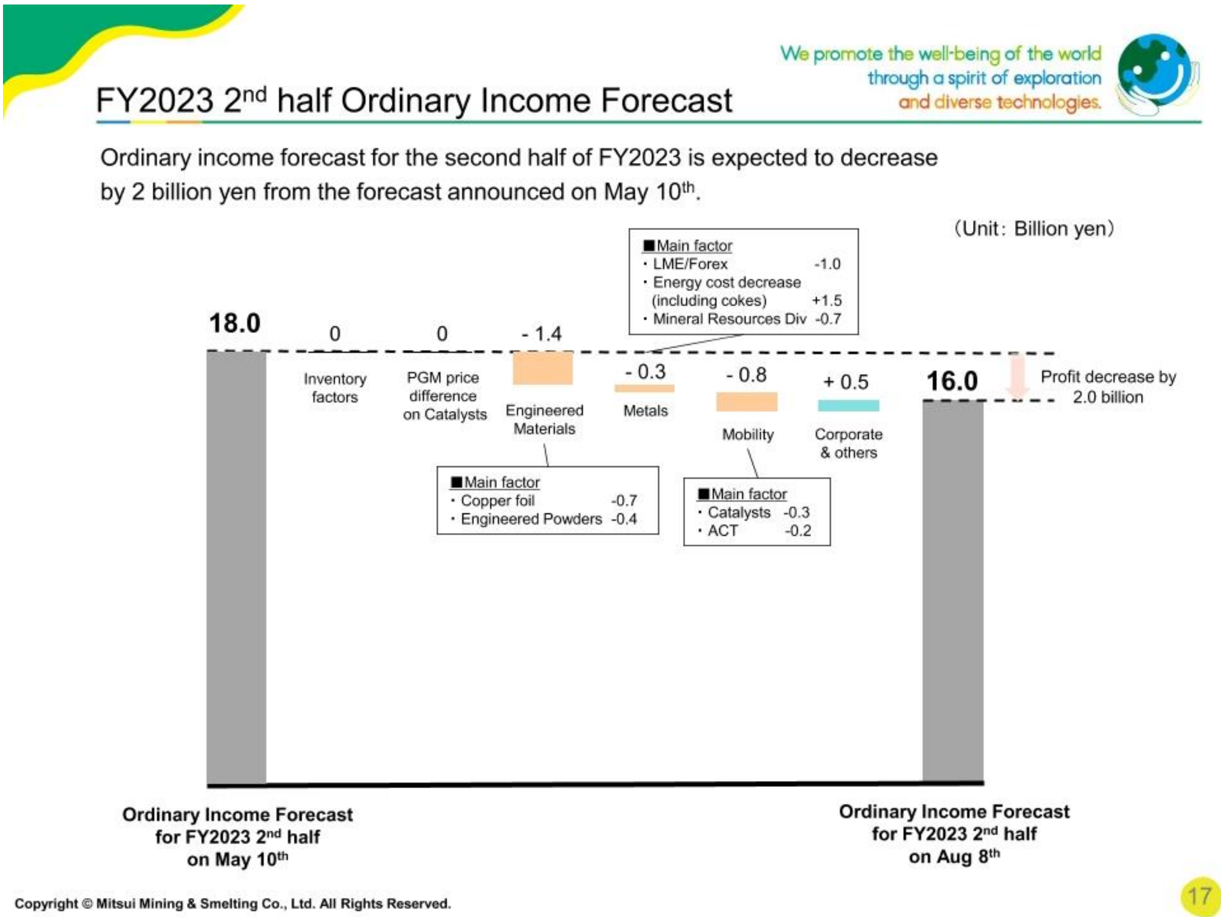
First, I would like to explain the contents of the first half of the fiscal year forecast. Please turn to page four.

First, let us discuss the difference in operating income. The third blue bar graph from the left shows the previous operating income forecast, and the fourth blue bar graph from the right shows the revised figures. The forecast was revised downward by JPY6 billion, from JPY2 billion to negative JPY4 billion. Although the yen has weakened more than expected, the zinc price, which was expected at USD3,000, is now in the USD2,400 range, not reaching our expectations. Reflecting this situation, we expect a JPY2.8 billion decrease in profit due to inventory factors. In particular, the rhodium price has fallen to half the expected level. As a result, due to the impact of the precious metal price of catalysts, negative JPY6 billion is expected. These one-time factors that reduce profits by nearly JPY9 billion are the main reason for the large decrease in profits.

Excluding these, by segment, we expect an increase of JPY0.6 billion in profit in the engineered materials segment. As for the sales volume of the copper foil business, sales of MicroThin™ for package applications did not reach the forecast, but those for HDI exceeded the forecast. As for MicroThin™, we expect sales to be almost in line with expectations. On the cost front, however, we expect an increase in profit for the copper foil business, as energy costs were lower than expected.

The metals segment is expected to see a decrease of JPY1.6 billion. This was due to a decline in profits caused by falling market prices and a delay in the recovery of full operations at the Huanzala Mine from April to June. The mobility segment is expected to see an increase of JPY2.5 billion, mainly due to strong sales volume in the catalyst business for both motorcycles and automobiles.
In addition, we expect an increase of JPY1.3 billion for the corporate segment, etc., resulting in an operating loss of JPY4 billion for the first half of the fiscal year.

As for non-operating income, as disclosed on June 29, dividend income of JPY6.6 billion from the Japan Korea Joint Smelting was recorded in Q1. Together with the non-operating income/loss, we expect ordinary income of JPY4 billion in the first half of the fiscal year.



Next, I will explain the details of H2 forecast. Please turn to page 17.

In our earnings forecast announced in May, we projected ordinary income of JPY18 billion for H2, but we have now revised our forecast downward by JPY2 billion to JPY16 billion.

The breakdown by segment is as stated. Overall, our May forecast assumed that the market would recover significantly in H2, but given the current situation, it is difficult to expect a recovery to that level. This downward revision is mainly due to revised sales volumes in the engineered materials segment and the mobility segment.

Combining this with the first half of the fiscal year forecast explained earlier, we project ordinary income of JPY20 billion for the full year of FY2023, as shown on page five.

The dividend forecast remains unchanged at JPY140 per share, consisting of an interim dividend of JPY70 per share and a year-end dividend of JPY70 per share.

Segment Information by Business Unit

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(Unit: Billion yen)

■Sales	Q1Results 2023 Results	Q1Results 2022 Results	Q1Results Difference (23-22)	1st half 2023 Forecast	1st half 2022 Results	1st half Difference (23-22)	FY 2023 Forecast	FY 2022 Results	FY Difference (23-22)
Engineered Materials	28.7	36.6	-7.9 -21.5%	58.0	65.7	-7.7 -11.7%	127.0	112.5	14.5 12.9%
Metals	52.4	63.7	-11.3 -17.7%	117.0	134.8	-17.8 -13.2%	243.0	256.4	-13.4 -5.2%
Mobility	55.4	49.8	5.5 11.1%	103.0	109.2	-6.2 -5.6%	190.0	216.5	-26.5 -12.2%
Corporate	26.9	30.2	-3.3 -11.1%	53.0	63.7	-10.7 -16.8%	117.0	128.1	-11.1 -8.7%
Adjustment	-15.9	-15.3	-0.6	-36.0	-31.0	-5.0	-72.0	-61.5	-10.5
Consolidated	147.5	165.1	-17.6 -10.6%	295.0	342.4	-47.4 -13.8%	605.0	652.0	-47.0 -7.2%
■Ordinary Income									
Engineered Materials	3.2	9.1	-5.9 -64.5%	5.4	12.4	-7.0 -56.3%	13.5	10.7	2.8 26.1%
Metals	1.6	13.0	-11.3 -87.4%	2.0	13.3	-11.3 -85.0%	9.0	9.1	-0.1 -0.9%
Mobility	0.9	2.2	-1.2 -55.9%	0.8	7.5	-6.7 -89.4%	5.0	3.2	1.8 56.3%
Corporate	0.4	0.4	0.0 0.0%	0.0	0.2	-0.2 -100.0%	1.8	0.7	1.1 144.6%
Business Creation	-1.6	-1.5	-0.1	-3.6	-3.2	-0.4	-7.9	-6.6	-1.3
Adjustment	0.5	2.3	-1.8	-0.6	3.7	-4.4	-1.4	2.8	-4.2
Consolidated	5.1	25.4	-20.4 -80.0%	4.0	34.0	-30.0 -88.2%	20.0	19.9	0.1 0.6%

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I will explain the performance of our strategic businesses. Please look at the breakdown by business segment on page seven.

Q1 sales decreased 10.6% YoY to JPY147.5 billion. At Mitsui Kinzoku ACT, sales had declined in the previous fiscal year due largely to the semiconductor shortage and China lockdown, were recovered. These factors led to an increase in sales in the mobility segment, but it was significantly affected by a sharp decline in prices of metals. As a result, sales in the metals segment declined sharply by JPY11.3 billion or 17.7%. In addition, the engineered materials segment also saw a sharp decline of JPY7.9 billion or 21.5% in sales, mainly because sales volume of the copper foil business, which was strong in Q1 of the previous fiscal year, is still recovering for both the electro-deposited copper foil and MicroThin™.

I would like to look at ordinary income in Q1 by segment.

First is the engineered materials segment. In the copper foil business, MicroThin™ sales volume declined approximately 24% YoY. In addition, the PVD materials business was affected by lower sales volume. As a result, ordinary income in this segment decreased by 64.5% YoY to JPY3.2 billion.

The metals segment saw lower earnings due to lower prices of metals, despite JPY6.6 billion in dividend income from the Japan Korea Joint Smelting and the effects of yen depreciation. In addition, inventory factors had a negative impact of JPY11.5 billion. As a result, overall segment income declined by 87.4% YoY to JPY1.6 billion.

In the mobility segment, Mitsui Kinzoku ACT had a recovery in sales, which had declined in the previous year due largely to the semiconductor shortage and the China lockdown. Although these factors led to an increase of JPY0.8 billion in profit, the profit decreased by JPY3 billion due to the impact of precious metal price in the catalysts business caused by the declined of previous metal prices. As a result, ordinary income decreased JPY1.2 billion YoY to JPY0.9 billion.

Variance analysis of ordinary income

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(Unit Billion yen)

	Ordinary Income			Details					
	23Q1	22Q1	Diff.	Volume	LME/Forex	Inventory Factor	Margin/ Cost	Equity gain or loss	Total
Engineered materials	3.2	9.1	-5.9	-3.3	-0.1	-	-2.5	-	-5.9
Metals	1.6	13.0	-11.3	0.4	-1.4	-11.5	1.5	-0.3	-11.3
Mobility	0.9	2.2	-1.2	1.3	-4.1	-	1.6	-	-1.2
Corporate	0.4	0.4	-0.0	0.2	0.1	-	0.0	-0.3	-0.0
Business Creation	-1.6	-1.5	-0.1	-	-	-	-0.1	-	-0.1
Adjustment	0.5	2.3	-1.8	-	-0.7	-	-1.1	-	-1.8
Total	5.1	25.4	-20.4	-1.4	-6.2	-11.5	-0.7	-0.6	-20.4

Please refer to the matrix on page eight for an analysis of the difference in ordinary income for each segment by factor.

Performance by Segment – Engineered Materials

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（Unit : Billion yen）

	23/Q1 Results	22/Q1 Results	Diff. (23-22)	23/1H Forecast	22/1H Results	Diff. (23-22)	FY2023 Forecast	FY2022 Results	Diff. (23-22)
■Sales	28.7	36.6	-7.9	58.0	65.7	-7.7	127.0	112.5	14.5
■Operating income	2.7	8.0	-5.3	5.5	10.9	-5.4	14.0	9.9	4.1
■Ordinary income	3.2	9.1	-5.9	5.4	12.4	-7.0	13.5	10.7	2.8
※Ordinary income	2.8	8.7	-5.9	5.0	11.8	-6.8	13.1	11.0	2.1

※Ordinary income : Ordinary income excluding inventory factors.

(Engineered Material Products)		(Main Applications)
Battery Materials		・Nickel-hydrogen batteries for hybrid cars ・Lithium-ion batteries
Engineered Powders		・Wide range of electronic components ・Abrasive for glass
Copper Foil		・High-Density Packaging ・Printed circuit board
PVD Materials (Sputtering target)		・Flat panel displays

Difference Analysis of Ordinary income

[FY2022 1st Half→FY2023 1st Half Forecast - 7.0]
Copper foil -4.8
(Electro-deposited Copper foil and MicroThin™ volume of sales decreases, others)
Engineered Powders -0.8
(Volume of sales decreases, others)
PVD Materials -0.6
(Inventory factors, others)

[FY2022→FY2023 Forecast + 2.8]
Copper foil +3.3
(Electro-deposited Copper foil and MicroThin™ volume of sales increases, others)

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Next, the outlook for the first half of the fiscal year and the full year is as Yamashita explained earlier, and I will explain a little more about those by segment.
First, let's look at the engineered materials segment, see Performance by Segment — Engineered Materials on page 12.

Ordinary income for the first half of the fiscal year is expected to be JPY5.4 billion, a decrease of JPY7 billion YoY. As explained in the bottom right, the copper foil business saw a decrease of JPY4.8 billion in profit, mainly because the sales volume of the electro-deposited copper foil and MicroThin™ did not reach the level of the previous year. The engineered powders business saw a decline of JPY0.8 billion due to the slow recovery of the electronic materials market and lower sales of various products. The PVD materials business saw a JPY0.6 billion decrease in profit due to lower sales and worsening inventory factors. These are the main factors.

Ordinary income for the full year is projected at JPY13.5 billion, up JPY2.8 billion YoY. The main reason for this is that we expect an increase of JPY3.3 billion in the copper foil business as we expect the electro-deposited copper foil and MicroThin™ markets to return to normal.

Performance by Segment – Metals

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(Unit : Billion yen)

	23/Q1 Results	22/Q1 Results	Diff. (23-22)	23/1H Forecast	22/1H Results	Diff. (23-22)	FY2023 Forecast	FY2022 Results	Diff. (23-22)
■Sales	52.4	63.7	-11.3	117.0	134.8	-17.8	243.0	256.4	-13.4
■Operating income	-6.1	10.7	-16.8	-5.0	9.3	-14.3	1.0	4.1	-3.1
■Ordinary income	1.6	13.0	-11.3	2.0	13.3	-11.3	9.0	9.1	-0.1
※Ordinary income	7.0	6.9	0.2	7.7	12.3	-4.6	14.7	12.8	1.9

※Ordinary income : Ordinary income excluding inventory factors.

Ordinary Income Difference Analysis

	FY2022 1H→ FY2023 1H Forecast	FY2022→ FY2023 Forecast
LME/Forex	-2.4	-3.8
T/C	1.1	1.6
Inventory Factors	-6.7	-2.0
Equity profit/loss	-1.9	-2.4
Energy cost (Cokes,included in the number above)	-2.9 (+1.4)	-0.3 (+2.6)
Dividends	6.0	6.0
Others※	-4.5	0.8
Total	-11.3	-0.1

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 $/t	・+6% for over 3,000$/t

※Detail of Others

FY2022 1H→ FY2023 1H Forecast	Fixed cost increase in Lead & Zinc Div. (Large scale maintenance, others) -2.3, Mineral Resources Div. -1.3, PGM recycling -0.8
FY2022→ FY2023 Forecast	Fixed cost increase in Lead & Zinc Div. (Large scale maintenance, others) -2.9, Raw material cost of lead increase -0.5, Improvement in copper smelting operations +3.5, Fixed cost decrease in Copper & Precious Metals Div. (Large scale maintenance, others) +2.6, Mineral Resources Div. -1.5

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For more information on the metals segment, see Performance by Segment — Metals on page 13.

Ordinary income for the first half of the fiscal year is expected to be JPY2 billion, a decrease of JPY11.3 billion YoY. As shown in the factors of increase/decrease on the lower left, JPY6 billion is added by dividend income, including JPY6.6 billion from the Japan Korea Joint Smelting. On the other hand, it is deteriorated by JPY6.7 billion due to inventory factors associated with the decline of metal prices, and energy costs are increasing when compared with the first half of the fiscal year. As a result, we expect a large decrease in profits for the segment as a whole.

Ordinary income for the full year is expected to be JPY9 billion, almost the same level as the previous year. It is described that it is deteriorated by JPY3.8 billion due to the market and exchange rates. Although the yen's depreciation is a favorable factor of JPY3.7 billion, the decline in metal prices is a major negative factor of JPY7.5 billion. On the other hand, we expect profits to be at the same level as the previous year, as dividend income will offset the negative factors.

Performance by Segment – Mobility

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(Unit : Billion yen)

	23/Q1 Results	22/Q1 Results	Diff. (23-22)	23/1H Forecast	22/1H Results	Diff. (23-22)	FY2023 Forecast	FY2022 Results	Diff. (23-22)
■Sales	55.4	49.8	5.5	103.0	109.2	-6.2	190.0	216.5	-26.5
(Mitsui Kinzoku ACT)	(23.2)	(18.8)	(4.4)	(47.4)	(41.8)	(5.6)	(95.9)	(86.0)	(9.9)
■Operating income	-0.2	-0.5	0.2	0.5	3.8	-3.3	5.5	3.4	2.1
(Mitsui Kinzoku ACT)	(-0.0)	(-1.1)	(1.1)	(-0.2)	(-1.1)	(1.0)	(1.0)	(-1.4)	(2.4)
■Ordinary income	0.9	2.2	-1.2	0.8	7.5	-6.7	5.0	3.2	1.8
(Mitsui Kinzoku ACT)	(0.3)	(-0.5)	(0.8)	(0.1)	(-0.4)	(0.5)	(1.1)	(-0.6)	(1.7)
※Ordinary income	4.9	3.2	1.8	6.8	6.7	0.1	11.0	6.3	4.7

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

Difference Analysis of Ordinary income

[FY2022 1st Half→FY2023 1st Half Forecast - 6.7]
Catalysts -7.7 (Precious metal price difference, others)
ACT +0.5 (Cost down, others)
Die-Casting +0.6 (Improved yield, others)

[FY2022→FY2023 Forecast + 1.8]
Catalysts -0.6 (Volume of sales increase, Precious metal price difference, others)
ACT +1.7 (Volume of sales increase, Cost down, others)
Die-Casting +1.0 (Volume of sales increase, Improved yield, others)

(Mobility Sector)		(Main Applications)
Catalysts		・Motorcycles ・Automobiles
Mitsui Kinzoku ACT		・Door locks for automobiles
Mitsui Kinzoku Die-Casting		・Die-Casting products

ACT : Difference Analysis of Ordinary income

	FY2022 1H→ FY2023 1H Forecast	FY2022→ FY2023 Forecast
Sales Volume	-0.4	1.2
Cost down	0.9	0.5
Others※	-	-
Total	0.5	1.7

※Detail of Others	FY2022 1H→ FY2023 1H Forecast	FY2022→ FY2023 Forecast
Rising material prices such as steel material	-0.2	-0.2
Forex exchange	-0.2	0.1
Freight Charge	0.7	0.7

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For more information about the mobility segment, please look at page 14, Performance by Segment — Mobility.

Ordinary income for the first half of the fiscal year is expected to be JPY0.8 billion, a JPY6.7 billion decrease YoY. As explained in the explanation of increase/decrease in the lower right-hand corner, in the catalyst business, sales volume for both motorcycles and automobiles increased. On the other hand, the impact of metal prices will be a negative factor of JPY6.8 billion, from positive JPY0.8 billion in the previous fiscal year to negative JPY6 billion in the current fiscal year. As a result, we expect a JPY7.7 billion decrease in profit in this segment. For Mitsui Kinzoku ACT, we forecast an increase of JPY0.5 billion, mainly due to the impact of cost improvements.

Ordinary income for the full year is expected to be JPY5 billion, up JPY1.8 billion YoY. Although the catalysts business is expected to see a JPY0.6 billion decrease in profit mainly due to the impact of the precious metals, Mitsui Kinzoku ACT and the die-casting business are expected to increase their profits mainly due to increased sales and cost improvement, respectively.

■Q&A Session

Total
Q.
Incomes excluding transient factors (inventory factors, PGM price difference on catalysts, and dividend income) in the current full-year forecast appear to remain almost unchanged from the previous forecast. How do you evaluate these financial results?

A.
When looking at the operating income of each business, the Engineered Materials segment will

remain almost within the expected levels despite the revision of copper foils in the second half. The Metals segment shows a decline due to the delayed transition to normal operations of mineral resources (Huanzala Mine) and a weak market, but it is recovering due to the turnaround of the Mobility business. Corporate & Others is expected to increase due to a cost reduction in the Business Creation Sector and a favorable turnaround in sample income. As a result, we assume that the actual business performance will not change significantly from the previous forecast in May.

Q.
Please provide additional information on changes in ordinary income from Q1 to Q2 for the Engineered Materials, Metals, and Mobility segments.

A.
Regarding changes from Q1 to Q2, page 21 of the document provides incomes excluding inventory factors and precious metal price difference. Ordinary income includes non-operating foreign exchange gains and losses, so operating income on the above line more accurately represents the real value.
In the Engineered Materials segment, the discharge of inventory items with high book values had an impact of approximately 1 to 1.5 billion yen on the cost calculation of copper foils in Q1, which leads to higher operating income in Q2 than in Q1. However, because the sales volume of MicroThin™ decreased from Q1 to Q2, real profit excluding the impact of the cost calculation, decreased from Q1 to Q2.
In the Metals segment, energy costs are expected to decrease by approximately 1 billion yen from Q1 to Q2 due to electricity fuel adjustments. In addition, since there was a large-scale maintenance for zinc smelting of 1.5 billion yen in Q1, operating income is expected to turn around from Q1 to Q2.
In the Mobility segment, development-related costs in the catalyst business that were expected to be incurred in Q1 have been extended to Q2, and an increase in development-related fixed costs of Mitsui Kinzoku ACT has also been factored in. As a result, operating income is expected to decrease from Q1 to Q2 mainly due to cost increases.

Q.
I*s it correct to understand that other non-operating income on page 5 of the document as foreign exchange gains, etc.?*

A.
Exactly. Foreign exchange gains account for approximately half of it.

Engineered Materials Segment
Q.
In the Engineered Materials segment, according to page 10 of the document, the number of items whose sales volume exceeded the planned volume is limited, however, the first half ordinary income forecast has been revised upward. Please tell us the reason.

A.
The upward revision of income is basically due to cost reductions, for example, a reduction in energy costs, etc. in the copper foil business. In the engineered powder business, a major factor is an increase in the sales volume of products that are not included in the document.

Q.
Please tell us about the current order status and forecasts for MicroThin™ for HDI and PKG, respectively.

A.
Orders for HDI in Q1 exceeded the previous May forecast, so we expect the number of units sold mainly to smartphone manufacturers in North America in and after Q2 and the second half

to exceed fiscal 2022 levels.
We received many orders for PKG in Q1, including those from inventory demand, as a reaction to customers' excessive inventory reduction in Q4 of the previous year. As a result, orders for PKG will decrease from Q1 to Q2, but it is attributable to a decrease in inventory demand, and we assume that the Q2 level more accurately represents the actual demand. We expect that orders will continue on a recovery trend mainly in memory-related products in the second half for both smartphones and non-smartphones. In our previous forecast in May, full recovery is expected in the second half, but we have changed our view that a full-fledged recovery will start after the beginning of the year, so the full-year sales volume is expected to decline.

Q.
What applications of MicroThin™ for PKG will have a big impact on demand recovery from now to the second half: smartphones, non-smartphones, or some other applications?

A.
At present, demand is expected to recover basically for both of smartphones and non-smartphones. Demand for smartphone applications will increase in communication modules and that for non-smartphone applications will increase in server memory, etc. In addition, there is a large inventory demand in Q1.
We assume that both smartphone and non-smartphone applications will have an impact on demand recovery toward the second half. At the same time, attention should also be paid to the recovery status of Chinese smartphones. We have higher expectations for non-smartphone applications such as server memory.

Q.
Please provide additional information on the MicroThin™ profit that exceeded the plan due to a cost reduction. Could you also explain if there are any extra cost increases due to the sudden change in the volume and possible changes in margins?

A.
The figure for MicroThin™ factors in the lower-than-expected electricity prices and the effects of some price increases from April. Therefore, it is possible for MicroThin™ to recover its previous levels of marginal profit.
Regarding extra cost increases, due to the recent sudden change in quantity, the Q4 production of copper foils was extremely low, and accordingly, the cost per unit and inventory valuation became extremely high. As there has been the discharge of inventory items with high book values from Q1 onward in this fiscal year, the cost has increased by slightly more than 1 billion yen in Q1, but this will last only a short while, and if production and sales continue at a normal pace, the inventory valuation and cost will be naturally leveled out.

Q.
Regarding electro-deposited copper foil, I would like to confirm the future growth potential of new applications, areas where demand recovery is delayed, and other changes due to structural factors.

A.
We assume that electro-deposited copper foil will recover in the second half of the year, however, recovery of electro-deposited copper foil for communication infrastructure, such as low-end and mid-range servers, mobile base stations, and data centers, in particular, will recover only slightly for the time being. Regarding electro-deposited copper foil for communication infrastructure, we have high expectations that VSP (very smooth profile), a high-end ED copper foil, is likely to be adopted for AI servers and other equipment.

Q.
How will AI server-related inquiries for VSP electro-deposited copper foil affect the sales volume and profit/loss status?

A.
We are already receiving inquiries, but have not accurately estimated the sales volume, so those inquiries have not yet been significantly factored into the current forecasts. We intend to closely monitor future demand and other trends.

Metals Segment
Q.
According to page 13 of the document, real profit in the Metals segment will improve in the second half, excluding dividends in the first half of the year. Is this largely due to cost factors, such as energy costs?

A.
The factors of profit increase, excluding dividends in the first and second half of the year, are described on page 18 of the document. The major factors are a decrease in energy costs of 2.6 billion yen, non-occurrence of a large-scale maintenance for zinc smelting that took place in Q1 at a cost of 1.5 billion yen, and a profitability increase of 1.5 billion yen due to the difference in raw material composition and lower fixed costs.

Q.
In the Metals segment, is the improvement in the raw materials composition difference due to the upturn in Zinc TC?

A.
As the ratio of recycled raw materials remained high, it contributed to the improvement in the raw materials composition difference in the second half of the year.

Mobility Segment
Q.
While the catalyst business remains favorable in the first half, it is forecasted to decline in the second half. Could you tell us the reason for the decline?

A.
We expect sales volume of catalysts to drop from the first half to the second half of the year. This is due to a seasonal factor in India, which is a big sales season called Diwali in October. We focus on production in the first half to prepare for the Diwali season, which will slow down in the second half in reaction to the first-half boost.
As for catalysts for automobiles, our previous May forecast factored in the risk of decline in automobile catalyst sales in China due to its shift to EVs, but so far the sales decline is limited and we assume higher-than-expected sales in the first half. In the second half, however, we will continue to factor in the risks observed in May.

Q.
In the Mobility segment, the full-year profit forecast has been revised downward by 3.5 billion yen, while the impact of the PGM price difference on catalysts is 6 billion yen as a negative factor. Is it correct to understand that, excluding the impact of the price difference, profit has improved from the previous May forecast and what are the underlying factors?

A.
In the Mobility segment, real profit is improving, excluding the impact of the PGM price difference on catalysts, and more than half of the profit increase is attributable to higher sales.