

# Investor Conference Call for the Consolidated Financial Results for the Fiscal Year Ended March 31, 2020

**Mr. Makoto Shibata (hereinafter “Shibata”):** My name is Shibata, Managing Executive Officer of Mitsubishi Materials Corporation. Thank you all for joining the conference call today.

First of all, I would like to express my deepest sympathies to all those affected by COVID-19 and their families. In addition, I would like to express our utmost respect and gratitude to the medical staff and to all the people who support the health and livelihood of the people.

Now, I will explain the overview of the financial results for the fiscal year ended March 31, 2020 (hereinafter “FY2020”) and the impact of COVID-19 on the Group.

Today’s agenda is as described as page 2. I will omit the explanation of performance overview on pages 3 and 4, and I will explain comparisons with the previous year’s results on pages 5 and thereafter.

## Comparison with the Previous Year Result (Consolidated Statements of Operations)

### Comparison with the Previous Year Result (Consolidated Statements of Operations)

[Unit: billion yen]

	FY2019 Result(a)	FY2020 Result(b)	Difference (b)-(a)	Reason*
Net sales	1,662.9	1,516.1	-146.8	AP -59.0, MS -21.2, Metals -55.0, Cement -15.4, etc.
Operating profit	36.8	37.9	1.0	AP -10.7, MS -8.2, Metals +26.4, Cement -4.6, etc.
Net interest and dividend income	15.9	14.8	-1.1	Dividend income -1.1, etc.
Share of profit (loss) of entities accounted for using equity method	3.5	3.5	-0.0	
Non-operating income (loss)	-5.7	-6.7	-0.9	
Ordinary profit	50.6	49.6	-1.0	
Extraordinary income (loss)	-14.3	-90.1	-75.7	Impairment loss -46.6, Provision for loss on business restructuring -30.2, Loss on the Antimonopoly Act -10.4, Gain on sales of investment securities +12.9, etc.
Income taxes	-28.7	-28.8	-0.0	
Profit (loss) attributable to non-controlling interests	-6.3	-3.5	2.7	
Profit (loss) attributable to owners of parent	1.2	-72.8	-74.1	
Exchange rate (USD)	111	109	-2	JPY / \$
Exchange rate (EUR)	128	121	-8	JPY / €
Copper price (LME)	288	266	-22	¢ / lb
Dividend per share (yen)	80	80	-	

\*AP: Advanced Products  
MS: Metalworking Solutions

First of all, assumptions are shown in the bottom section. The yen is stronger than both the US dollar and the euro. Copper price fell 22 cents per pound.

Going back to the upper section, although price of palladium and gold grew in the Metals Business, net sales fell sharply due to a decline in sales of gold bullion because of a decline in gold grade and a drop in copper prices. Regarding the Advanced Products and the Metalworking Solutions Business, net sales declined significantly due to the slowdown in the semiconductors and the automobile market conditions. In addition, regarding the Cement Business, net sales decreased due to the decline in domestic demand of cement.

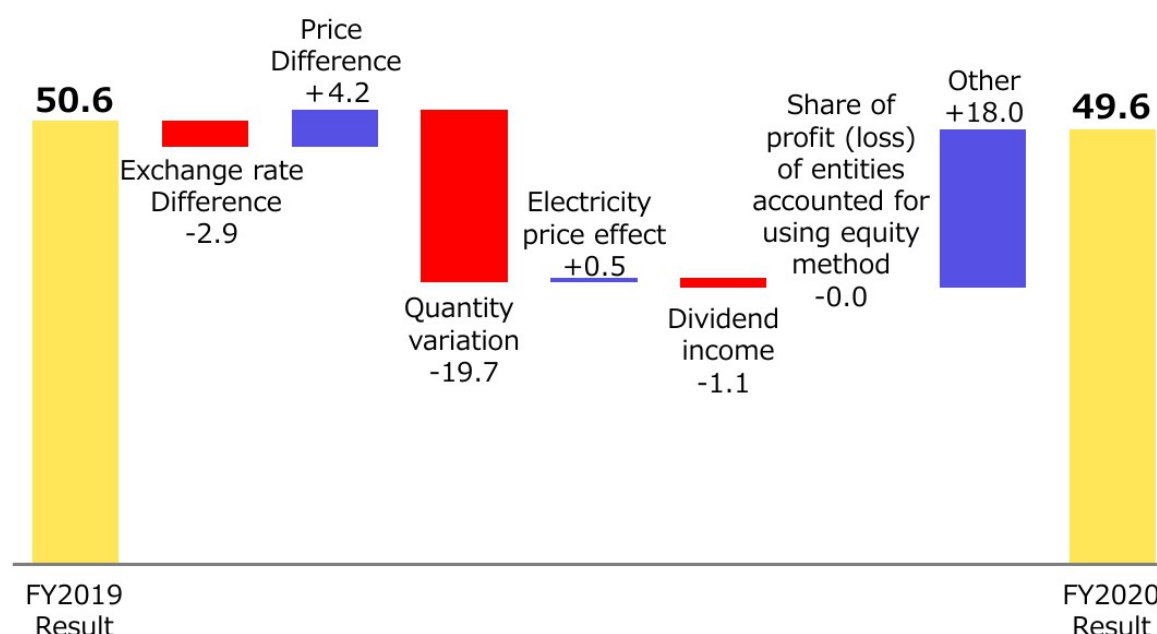
Operating profit increased mainly due to improvements of the recovery rate in the Metals Business although sales in the Advanced Products and the Metalworking Solutions Business fell. On the other hand, ordinary profit decreased mainly due to a decrease in dividend income and foreign exchange losses.

In addition, regarding extraordinary profit and loss, despite the gain on sales of investment securities due to selling strategic holdings, loss attributable to owners of parent in FY2020 amounted to 72.8 billion yen due to loss on the Antimonopoly Act at Universal Can Corporation, impairment losses at Mitsubishi Materials Corporation (hereinafter “MMC”) and Mitsubishi Aluminum Co., Ltd. etc. and provision for loss on business restructuring in the Sintered parts business.

## Comparison with the Previous Year Result (Factor Analysis of Ordinary profit)

### Comparison with the Previous Year Result (Factor Analysis of Ordinary profit)

[Unit: billion yen]



I will explain the comparison with the previous year result regarding increase and decrease of ordinary profit on page 6.

Ordinary profit of FY2020 was 49.6 billion yen, a decrease of one billion yen year-on-year. Regarding “Other” in

the graph on page 6, ordinary profit decreased due to a decline in sales volume in the Advanced Products and the Metalworking Solutions Business and decrease in dividend income despite improvements of recovery rate in the Metals Business.

## Comparison with the Previous Year Result (Factor Analysis by Segment)

### Comparison with the Previous Year Result (Factor Analysis by Segment)

[Unit: billion yen]

		FY2019 Result(a)	FY2020 Result(b)	Difference (b)-(a)	Exchange rate difference	Price difference	Quantity variation	Electricity price effect	Dividend income	Share of profit (loss) of entities accounted for using equity method	Other
Advanced Products	Net sales	570.9	511.9	-59.0	-4.6	-18.5	-36.2	-	-	-	0.3
	Operating profit	11.9	1.2	-10.7	-	-	-	-	-	-	-3.9
	Ordinary profit	13.2	1.4	-11.7	-0.3	1.2	-7.9	0.2	-1.1	-0.8	-3.0
	Copper & copper alloy	Net sales	349.8	305.6	-44.1	-3.8	-17.3	-23.3	-	-	0.3
		Operating profit	9.4	4.6	-4.7	-	-	-	-	-	-0.3
		Ordinary profit	8.3	3.8	-4.4	-0.2	0.3	-4.5	0.0	-0.7	0.7
	Electronic materials & components	Net sales	72.1	70.2	-1.8	-0.6	-0.3	-0.9	-	-	-
		Operating profit	3.1	-0.3	-3.5	-0.1	-0.1	-1.6	0.0	-	-1.7
		Ordinary profit	5.8	1.5	-4.2	-	-	-	-1.0	-0.0	-1.4
	Aluminum	Net sales	149.5	136.7	-12.7	-0.2	-0.8	-11.7	-	-	-
		Operating profit	-0.7	-3.1	-2.4	-	-	-	-	-	-1.8
		Ordinary profit	-0.9	-3.9	-3.0	0.0	1.0	-1.7	0.1	-0.0	-2.4
Metalworking Solutions	Net sales	171.5	150.2	-21.2	-3.7	1.4	-18.9	-	-	-	-
	Operating profit	16.7	8.5	-8.2	-	-	-	-	-	-	2.9
	Ordinary profit	15.6	6.9	-8.6	-1.8	1.6	-11.0	0.1	0.0	-	2.5
Metals	Net sales	720.0	665.0	-55.0	-7.9	0.0	-47.1	-	-	-	-
	Operating profit	-7.1	19.2	26.4	-	-	-	-	-	-	23.9
	Ordinary profit	2.3	28.0	25.7	-0.4	2.6	0.2	0.1	-0.1	0.7	22.6
Cement	Net sales	253.6	238.2	-15.4	-2.2	-4.4	-8.8	-	-	-	-
	Operating profit	16.6	11.9	-4.6	-	-	-	-	-	-	-3.4
	Ordinary profit	19.7	14.9	-4.7	-0.3	-1.2	0.2	0.1	0.1	-0.9	-2.7
Others	Net sales	194.7	187.3	-7.4	-0.6	0.0	-6.8	-	-	-	-
	Operating profit	10.0	8.3	-1.6	-	-	-	-	-	-	-0.3
	Ordinary profit	10.3	9.8	-0.5	-0.0	0.0	-1.3	0.0	0.0	1.0	-0.2
Elimination, etc.	Net sales	-248.0	-236.7	11.3	0.0	8.8	2.5	-	-	-	-
	Operating profit	-11.3	-11.3	-0.0	0.0	0.0	0.1	0.0	-0.1	0.0	-0.1
	Ordinary profit	-10.5	-11.7	-1.1	0.0	0.0	0.1	0.0	-0.1	0.0	-1.1
Total	Net sales	1,662.9	1,516.1	-146.8	-19.2	-12.7	-115.2	-	-	-	0.3
	Operating profit	36.8	37.9	1.0	-29.0	42.0	-19.7	0.5	-	-	18.9
	Ordinary profit	50.6	49.6	-1.0	-	-	-	-	-1.1	-0.0	18.0

\*As of April 1, 2019 the coal-related business in the "Others business" changed to the "Cement Business". In regards of the FY2019 Result, the numerical data obtained upon the reclassification under the changed segments is used.

7 | 2020.5.27

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For an overview of each business, I will explain "Factor analysis by Segment" on page 7.

First of all, operating profit of the Copper & copper alloy business in the Advanced Products declined due to a decrease in sales for slow demand in the automobile and semiconductors markets.

In the Electronic materials & components business, operating profit decreased due to shrinking sales of products for semiconductor manufacturing equipment and an increase in production costs at Mitsubishi Polycrystalline Silicon America Corporation.

In the Aluminum business, operating profit decreased due to shrinking sales as a result of decrease in demand for heat exchange sheet materials and extruded products for automobiles, also due to production of multiple types of regular cans in the Aluminum can business and an increase in operating expenses.

In the Metalworking Solutions Business, although there was a cost improvement effect in the Sintered parts business, operating profit decreased due to shrinking sales in the Cemented carbide business in each region, mainly in China, as a result of a slowdown in the automobile market.

In the Metals Business, sales declined due to a decrease in sales of gold bullion with a decline in gold grade and a drop in copper price. However, operating profit increased significantly due to a rise in the price of palladium, improvement of recovery rate at the Naoshima Smelter & Refinery, and a decrease in smelting costs at PT Smelting.

In the Cement Business, operating profit decreased mainly due to a sales decrease with demand decline in the domestic business and a decrease in environmental income due to a decrease in production.

In the U.S. business, operating profit fell due to a rise in raw materials and transportation costs, although sales volume of ready-mixed concrete increased in the U. S.

## Comparison with the Previous Forecast Announced on February 12, 2020 (Consolidated Statements of Operations)

Comparison with the Previous Forecast Announced on February 12, 2020  
(Consolidated Statements of Operations)

[Unit: billion yen]

	FY2020 Previous forecast (a)	FY2020 Result (b)	Difference (b-a)	
Net sales	1,520.0	1,516.1	-3.9	
Operating profit	27.0	37.9	10.9	
Net interest and dividend income	14.5	14.8	0.3	
Share of profit (loss) of entities accounted for using equity method	3.7	3.5	-0.2	
Non-operating income (loss)	-5.2	-6.7	-1.5	
Ordinary profit	40.0	49.6	9.6	
Extraordinary income (loss)	-70.0	-90.1	-20.1	
Income taxes	-21.0	-28.8	-7.8	
Profit (loss) attributable to non-controlling interests	-6.0	-3.5	2.5	
Profit (loss) attributable to owners of parent	-57.0	-72.8	-15.8	
Exchange rate (USD)	109	109	0	JPY / \$
Exchange rate (EUR)	121	121	0	JPY / €
Copper price (LME)	268	266	-2	¢ / lb
Dividend per share (yen)	80	80		

On page 8, I will explain the comparison with the previous forecast announced on February 12, 2020. As stated in the assumptions in the bottom, net sales fell mainly due to a drop in copper price. Operating profit and ordinary profit increased mainly due to more than expected decrease in smelting costs at PT smelting in addition to the improvement of the recovery rate at the Naoshima Smelter & Refinery and higher prices of palladium in the Metals Business.

On the other hand, extraordinary losses increased because the estimates of provision for business restructuring, impairment loss increased due to reflecting that the future market environment might become worse than expected when MMC estimated in the previous forecast on February 12, 2020, and recording loss

on valuation of investment securities due to other market decline, etc.

In addition, regarding tax expenses, loss attributable to owners of parent worsened from the previous forecast due to the increase of reversal of deferred tax assets on a non-consolidated basis. The impact of COVID-19 was minimal on the consolidated financial results for FY2020.

## Consolidated Balance Sheet

### Consolidated Balance Sheet

[Unit: billion yen]

	End of Mar. 2019(a)	End of Mar. 2020(b)	Difference (b)-(a)		End of Mar. 2019(a)	End of Mar. 2020(b)	Difference (b)-(a)
Assets				Liabilities			
Cash and deposits	108.6	134.4	25.7	Notes and accounts payable - trade	147.5	113.1	-34.4
Notes and accounts receivable - trade	248.2	217.2	-30.9	Borrowings, bonds payable and commercial papers	494.7 <sup>26%</sup>	547.6 <sup>29%</sup>	52.8
Inventories	335.5	352.2	16.6	Other liabilities	572.6	657.2	84.6
Other	217.2	251.5	34.3	Total liabilities	<b>1,214.9</b>	<b>1,318.0</b>	<b>103.0</b>
Total current assets	<b>909.6</b>	<b>955.4</b>	<b>45.8</b>	Net assets			
Property, plant and equipment and intangible assets	746.1	710.7	-35.3	Share capital	119.4	119.4	-
Investments and other assets	282.4	237.7	-44.7	Capital surplus and treasury shares	90.2	90.2	-0.0
Total non-current assets	<b>1,028.6</b>	<b>948.5</b>	<b>-80.0</b>	Retained earnings	352.9	274.7	-78.2
Total assets	1,938.2	1,904.0	-34.2	Accumulated other comprehensive income (loss)	70.9	22.3	-48.5
				Non-Controlling interests	89.7	79.2	-10.5
				Total net assets	<b>723.3<sup>37%</sup></b>	<b>586.0<sup>31%</sup></b>	<b>-137.3</b>
				Total liabilities and net assets	1,938.2	1,904.0	-34.2
				Shareholders' equity ratio	33%	27%	
				Net D/E ratio	0.6 <sup>times</sup>	0.8 <sup>times</sup>	

I will explain the status of the balance sheet on page 9. First, regarding the status of assets, current assets saw some growth mainly due to an increase in cash and deposits and inventories. The increase in cash and deposits was due to securing liquidity at hand by issuing commercial papers in consideration of the deteriorating business environment associated with COVID-19.

The increase in inventories was mainly due to the reaction against lower gold inventory at the end of March 2019 mainly as a result of furnace repairs at Naoshima Smelter & Refinery in March 2019. In non-current assets, property, plant and equipment and intangible assets fell due to the recording of impairment loss. Investments and other assets also fell due to the sale of strategic holdings. As a result, current assets grew and non-current assets fell.

Regarding liabilities, interest-bearing debt increased mainly due to the issuance of commercial papers, with other liabilities increasing because of recording provision for loss on business restructuring in the Sintered parts business, etc.

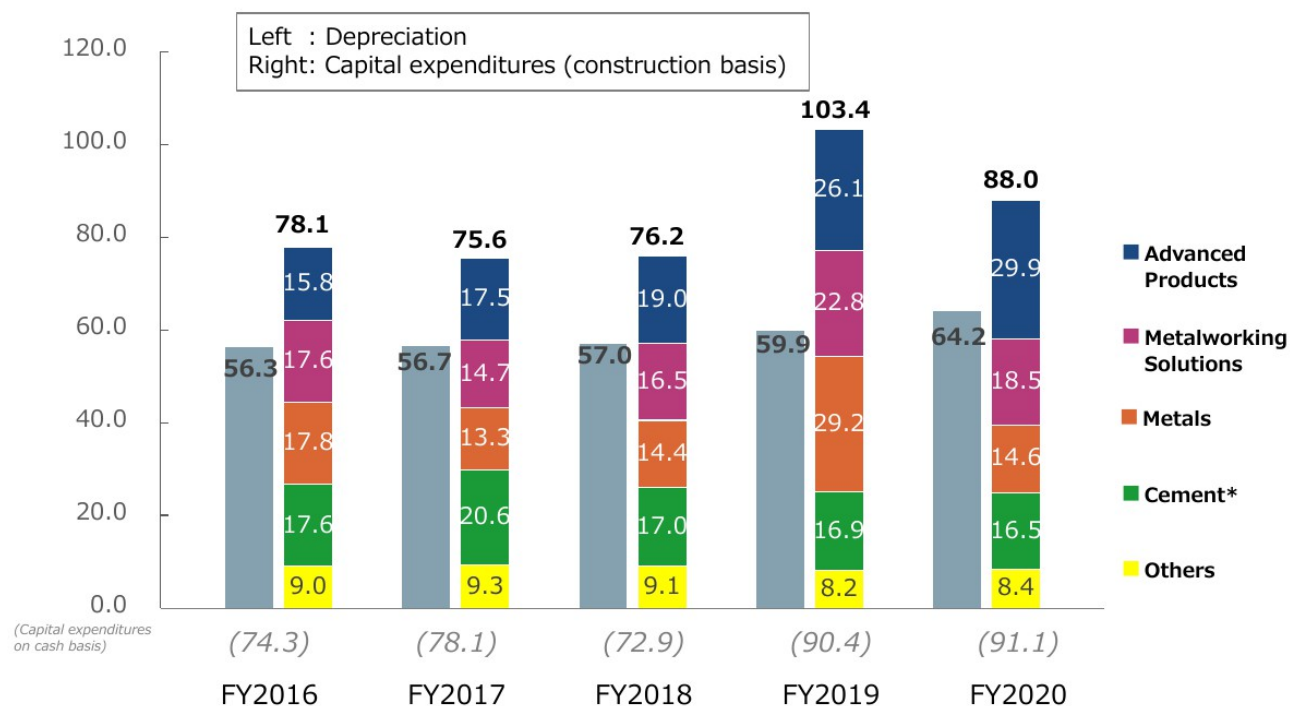


Net assets decreased due to other comprehensive income declined with the sale of investment securities and a decrease in retained earnings with net loss, etc. As a result, shareholders' equity ratio decreased and net D/E ratio increased.

## Depreciation & Capital Expenditures

### Depreciation & Capital Expenditures

[Unit: billion yen]



\*As of April 1, 2019 the coal-related business in the "Others business" changed to the "Cement Business". Accordingly, the amount of capital expenditures in the "Cement Business" indicates figures after the change of segmentation.

On page 10, I will explain depreciation and capital expenditures.

Capital expenditure for FY2020 was planned to be 95 billion yen at the beginning of the FY2020, but the results were 88 billion yen due to partial postponing of capital expenditures to extend duration of use, etc.

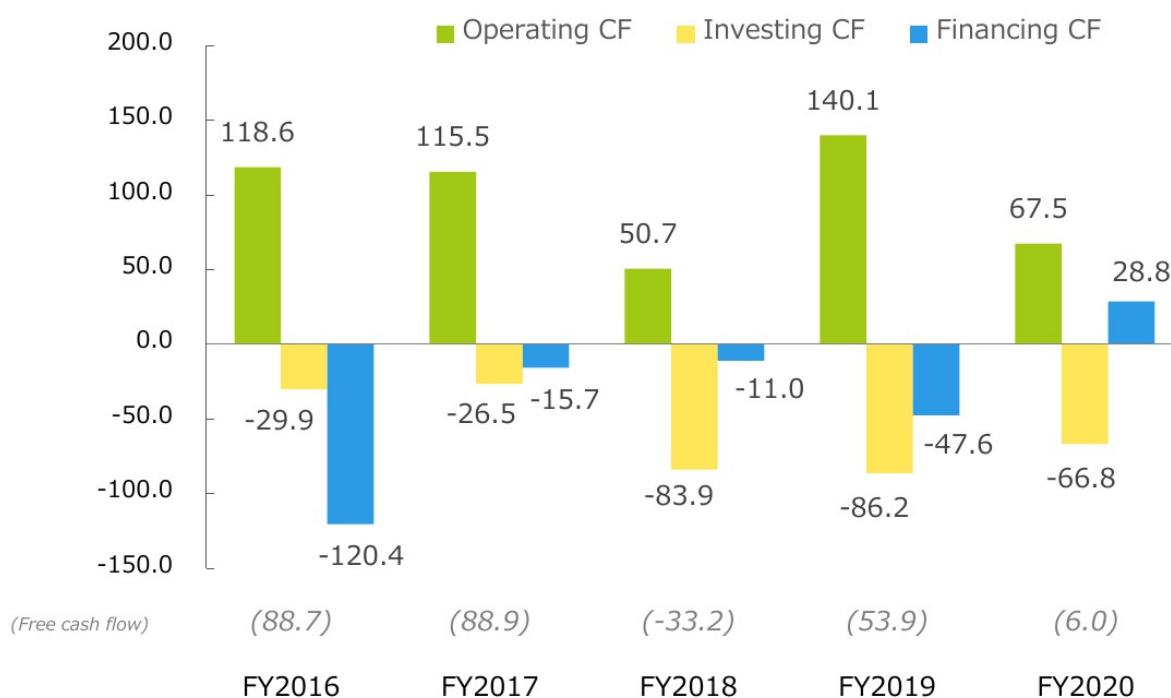
Depreciation increased due to factors such as an increase in capital expenditures including FY2019.

Regarding the capital expenditures plan in FY2021, it is undetermined at this time.

## Cash Flows

### Cash Flows

[Unit: billion yen]



11 | 2020.5.27

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Cash flow will be explained on page 11.

Operating cash flow for FY2020 fell from last year's levels due to factors explained as I described on the balance sheet section, such as an increase in inventories as a result of the decline in gold stock levels at the end of March, 2019.

Regarding investment cash flow, 91.1 billion yen was spent for capital expenditures, but strategic holdings were sold actively.

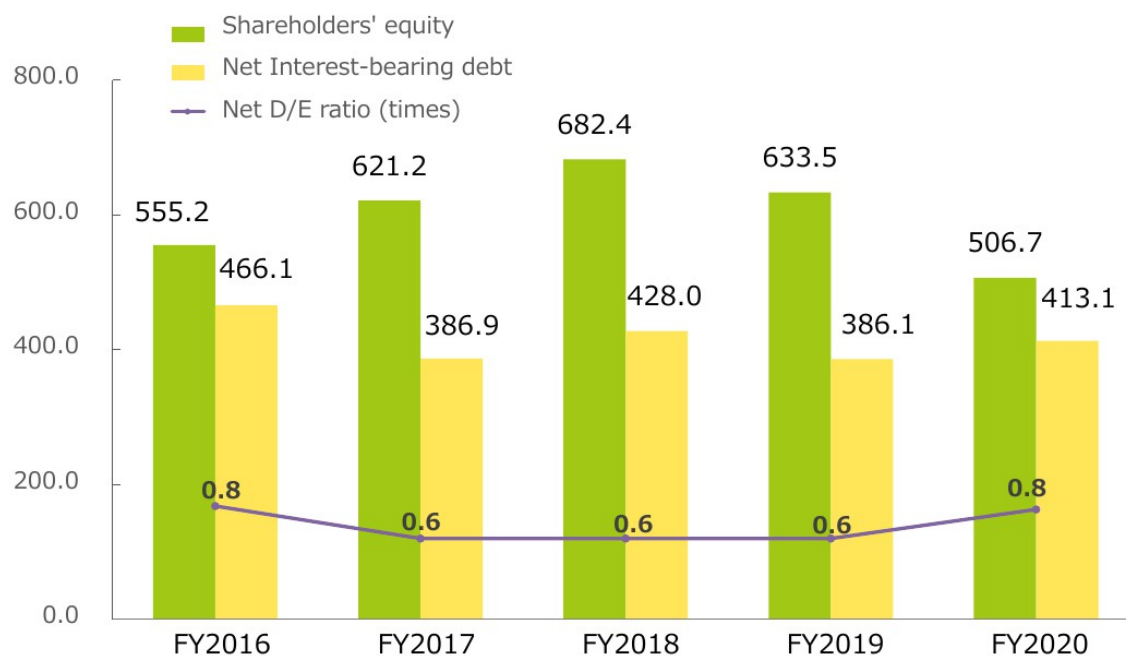
As a result, free cash flow in FY2020 was plus 0.6 billion yen.

Increase of the financial cash flow was a result of increased liquidity at hand by issuing commercial papers, based on the assumption that the business environment would worsen due to COVID-19.

## Net Interest-Bearing Debt and Net D/E Ratio

### Net Interest-Bearing Debt and Net D/E Ratio

[Unit: billion yen]



As a result, as shown on page 12, the net D/E ratio increased mainly due to a decrease in shareholders' equity in FY2020.



# Impact of COVID-19

## Impact of COVID-19

Overview of  
fiscal year  
ended March  
31, 2020

### Impact of COVID-19 and measures to prevent the spread of infection

- ✓ (Overseas) Operation stopped in some sites due to lockdown, etc.
- ✓ (Domestic) Almost no impact

There was no  
major impact on  
business  
performance

On the other hand, the economic downturn may become serious as economic activities will be severely constrained until the global spread of COVID-19 subsides.

Demand for automobiles, semiconductors, construction, etc. related deeply to the Group business in Japan and overseas is decreasing and MMC concerns that the impact on the Group's business may expand.

Segment	Major risk that may occur as a consequence of the COVID-19
Advanced Products	Decrease in demand for automobile and semiconductors related products, etc.
Metalworking Solutions Business	Demand decline due to economic slowdown in Japan and major countries in overseas, raw material procurement risk, stagnation of customer production activity, etc.
Metals Business	Raw material procurement risk due to a decline in the operating rate of overseas copper mines, a reduction in the collection of recycled raw materials, a drop in copper price, a decrease in copper demand, etc.
Cement Business	Reduction in cement shipment due to the construction delay, etc.
Environment & Energy Business	Delay for renewable energy related construction etc.
Aluminum	Stagnation in production activities of major customers

**Uncertain impact on future performance**

13 | 2020.5.27

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I will explain the impact and countermeasures of COVID-19 on the Group, on the next page 13 and the following pages.

First, as shown in the upper part of the overview of FY2020, although operation in certain overseas sites were temporarily suspended due to lockdown or other factors, there had been no significant impact on the Group's sales and production activities in the Group's major domestic and overseas business locations as of March 2020. In addition, the supply chain such as procurement of copper concentrate and raw materials, manufacturing and shipment of products, and distribution also had not suffered any significant impact as of March 2020.

However, regarding future forecasts, demand is decreasing in the domestic and overseas markets which are closely related to the Group's business such as automobiles, semiconductors, and construction market, in addition, as it is shown in the bottom, various risks are expected in each business. However, it is difficult to predict whether the second and third waves of COVID-19 may occur, and the depth and duration of the impact on social life, including economic activities when the situation is over.

Under these circumstances, the impact on the Group's future business performance is unclear, and the Group will continue to conduct business operations while closely monitoring the situation.

### Response to COVID-19

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- Establishment of the MMC Novel Coronavirus Response Headquarters (January 2020)
  - ✓ Formulation of the Group policy and preventive measures
  - ✓ Centrally manage information such as infection status and impact on business, and implement various measures by swift examination of countermeasures and decision making
- Policy
  - ✓ Give top priority to the health and safety of employees and make every effort to prevent infection and spread
  - ✓ Respond to requests of society and customer by continuing production and supply of products and recycling business that support social infrastructure
- Countermeasures
  - <Production bases>
    - ✓ Restrict commuting by public transport, staggered commuting and working shift
    - ✓ Build a business continuity system that responds to multiple scenarios due to operational restrictions
  - <Offices in metropolitan areas>
    - ✓ In principle, work from home since early March, 2020
    - ✓ Headquarters (Tokyo) function moved to Saitama office in early April, 2020  
(Only minimum BCP personnel come into office)

Next, on page 14, I will explain the Group's response to COVID-19.

The Group established a "MMC Novel Coronavirus Response Headquarters" (hereinafter "Response Headquarters") in January 2020. This Response Headquarters centrally collects and monitors information on the health conditions employees in the Group's domestic and overseas business locations, and information on the situations, policies, regulations of each country and region, the impact on the business locations and the supply chain, etc. The Group is advancing responses to prevent COVID-19 in accordance with the policies set by each government, etc.

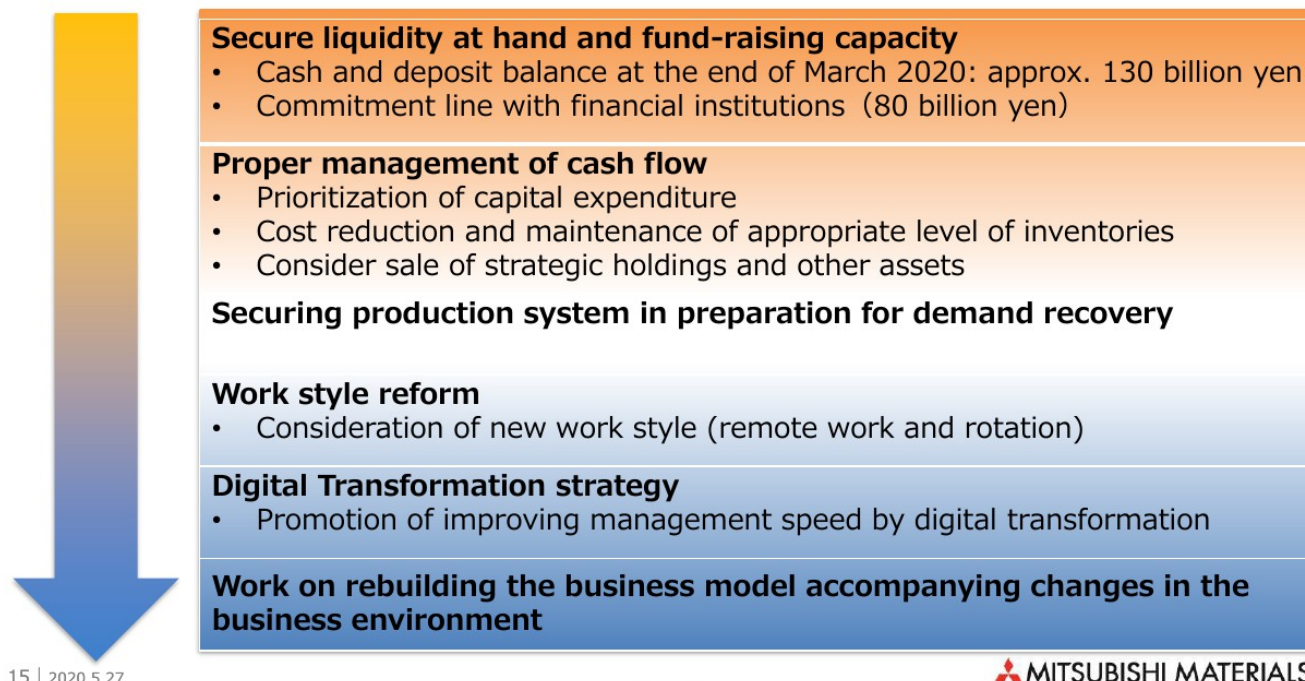
The countermeasures taken so far are as shown in the bottom. At production sites, commuting restrictions, changes in work shifts, or a business continuity system are established in order to respond to multiple scenarios.

For offices in metropolitan areas, work from home was introduced in early March, and the headquarters function was moved to the Saitama office in early April, 2020. Business continuity plan responding to changing conditions will be implemented in the future.

## Response to risks

### Response to risks

In order to keep the impact on the Group's business results to a minimum, MMC will reconstruct business models to adapt the change of business environment along with working out various measures such as strengthen of cash management.



Response to risks is shown on page 15.

As for MMC, in order to keep the impact on the Group's business results to a minimum in the future, MMC will strengthen cash management, including securing liquidity at hand, and secure production system to prepare for demand recovery after COVID-19 subsides.

Furthermore, in anticipation of a change of business environment, the Group will consider and implement a new work style through remote work and rotation work system etc., and promote measures such as improving of management speed by digital transformation.

In addition, business environment is expected to change significantly due to the global spread of COVID-19, therefore MMC has recognized rebuilding of the business model to respond to such changes as an important management issue.

Regarding the business forecast, it is undetermined at this point since it is difficult to reasonably estimate the impact of the COVID-19 on business results. We will announce it as soon as we are able to reasonably estimate.

In addition, MMC will carefully examine the Medium-term Management Strategy including the financial plan with the shareholder return policy based on further changes in the business environment caused by COVID-19 and its impact on the medium- to long-term business outlook. MMC will promptly announce any changes in its content if it is deemed necessary.

The forecast for the FY2021 has not been determined at this point since it is difficult to reasonably estimate the impact of the COVID-19 on business results as stated on page 16. MMC will announce it as soon as MMC is able to reasonably estimate.

In addition, MMC will carefully examine the Medium-term Management Strategy including the financial plan with the shareholder return policy based on further changes in the business environment caused by COVID-19 and its impact on the medium- to long-term business outlook. MMC will promptly announce any changes in its content if it is deemed necessary.

This is end of the presentation. Thank you for listening.



## Q&A: The major difference between the previous forecast and the results for FY2020

**Questioner 1:** I think the actual results were quite different from the previous forecast. Comparing the previous forecast and actual results, the Metals Business results differed from the previous forecast especially and there were a few differences from previous forecast in the segments. Could you please clarify these reasons?

### Comparison with the Previous Forecast Announced on February 12, 2020 (Consolidated Statements of Operations)

[Unit: billion yen]

	FY2020 Previous forecast (a)	FY2020 Result (b)	Difference (b-a)	
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Operating profit	27.0	37.9	10.9	
Net interest and dividend income	14.5	14.8	0.3	
Share of profit (loss) of entities accounted for using equity method	3.7	3.5	-0.2	
Non-operating income (loss)	-5.2	-6.7	-1.5	
Ordinary profit	40.0	49.6	9.6	
Extraordinary income (loss)	-70.0	-90.1	-20.1	
Income taxes	-21.0	-28.8	-7.8	
Profit (loss) attributable to non-controlling interests	-6.0	-3.5	2.5	
Profit (loss) attributable to owners of parent	-57.0	-72.8	-15.8	
Exchange rate (USD)	109	109	0	JPY / \$
Exchange rate (EUR)	121	121	0	JPY / €
Copper price (LME)	268	266	-2	¢ / lb
Dividend per share (yen)	80	80		

In the Metals Business, I learned three factors contributed to the ordinary profit growth. There were a rise in the price of palladium, an improvement in recovery rate in the Naoshima Smelter & Refinery, and reduced cost of smelting in PT Smelting. Would you please also explain the ratio of those three factors in terms of contribution to the ordinary profit growth? In other words, I would like to ask whether the boost in ordinary profit was mainly due to a rise of palladium market conditions or it was caused by the “combination” of those three factors.

Next, please give me a qualitative explanation of the current situation, such as the huge drop in the Cemented carbide products business or the delay in the Cement Business, though I think it can't be helped that there is no guidance at this moment.

**Shibata:** First of all, I would like to give a brief explanation for the second question. As you can see, the situation remains difficult. Since around March 2020, the volume of orders has decreased due to major restrictions on our production activities as well as on the customer side. On the other hand, the Mining & smelting business in the Metals Business has not been affected so much under these situations. In the Aluminum can business, shipment has increased due to demand in at-home-drinking compared to the same

month of the previous year.

Regarding the Electronic materials & components business, data centers are likely to be further strengthened by the promotion of remote work, and in response to such demands, sales of some products are steady.

Some of the other businesses in the Advanced Products except that I mentioned above decrease in volume by from around 10% to 20% year-on-year in the Copper & copper alloy business and in the Electronic materials & components business, although the impact of depth depends on the business segments. This is current situation.

Regarding the first question, do you mean what kind of factors contributed to the difference from the previous forecast announced on February 12, 2020?

**Questioner 1:** For example, 4.2 billion yen was planned in operating profit in the Copper & copper alloy business, but the results was 4.6 billion yen. In addition, I think that the major factors behind the strong outperformance in the Metals Business were higher price of palladium, improvement in recovery rate, and reduced cost of smelting in PT Smelting. Please tell us which impact was the biggest.

**Shibata:** The ratio of these impacts was almost same. In the Metals Business, factors were improvement of recovery rate on non-consolidated basis and impact of palladium, including both quantity and price. Although the reduced cost of smelting in PT Smelting was similar in scale with the improvement of recovery rate in Naoshima Smelter & Refinery, if anything, the improvement of recovery rate in Naoshima Smelter & Refinery was greater impact than the reduced cost of smelting in PT Smelting.

Roughly speaking, the ratio of improvement of recovery rate in Naoshima Smelter & Refinery, impact of palladium and reduced cost of smelting in PT Smelting is about 3 to 2 to 2. The breakdown of the differences were such ratio and I believe you can roughly understand the impact.

**Questioner 1:** That is to say, if the recovery rate continues to be improved, does that mean the earning structure is becoming sustainable? It means that the Metals Business structure has become able to generate a certain amount of profit continuously rather than a temporary increase in profit due to the rise in the price of palladium, correct?

**Shibata:** Exactly. That is correct. Although it depends on the amount and quality of the copper concentrate to be processed, there is a small concern in the future is how much E-Scrap can be collected where distribution is disrupted in Europe and other places.

It also depends on how well these can be processed. Although there was a decrease due to a major trouble in 2018, both Naoshima Smelter & Refinery and PT Smelting have been stable due to capital expenditures or improvement in operation, and hence, it is fine to understand that those related to copper, arising from copper concentrates and gold taken from E-Scraps have been stable.



As for palladium and others, it is not clear how much MMC can expect of them in the future because it depends on the price and quality of them.

## **Q&A: About the difference from the forecast announced on February 12, 2020, in the Advanced Products and the Metalworking Solutions Business**

**Questioner 2:** There was a detail explanation of the Metals Business about the difference from the forecast announced in February 2020. Other than that, for example, I think that there was not much difference in the Cement Business, please explain the factors that led to slightly better results in the Advanced Products and in the Metalworking Solutions Business. In addition, I think that there was a provision for loss on business restructuring in the Sintered parts business regarding extraordinary losses through your explanation. What is included in this large amount of 30 billion yen? Also, please tell us what kind of impact it will have on the earning forecast in the future.

**Shibata:** One of the factors contributing to improvement of the operating profit in the Advanced Products and the Metalworking Solutions compared with the previous forecast announced on February 12, 2020 was a drop in the price of raw materials for aluminum etc. that was cost reduction, in the Advanced Products.

There was also a factor where the sales, especially in March, did not drop as much as MMC made prediction as of February 12, 2020, the same goes for the Copper & copper alloy business and others. COVID-19 had affected some negative impact on operations, but it was a minor impact.

Actually, the sales in March 2020 was relatively steady because some customers were worried about the subsequent disruption of the supply chain, so some of them took action such as increasing their inventory. That caused to beat the forecast slightly in the Advanced Products and in the Metalworking Solutions Business.

Next, the detail of provision for loss on business restructuring in the Sintered parts business can't be informed. However, MMC considers that there may be various cases in the future for this business. MMC is conducting business structural reforms to reduce losses, and is considering various cases including the alliance and business withdrawal shown in the Medium-term Management Strategy.

Please understand that as a provision for FY2020, MMC estimated a certain amount which would occur in all considerable cases. It increased from the forecast announced on February 12, 2020, but in a sense, the forecast as of February was insufficient to a certain degree.

Specifically, as of February 2020, a certain loss was estimated for Diamet Corporation on non-consolidated basis, which is engaged in the Sintered parts business and estimation of the loss became a little bit larger when it was calculated as the whole Diamet Group. Considering the impact of COVID-19, various events and circumstances occurred in terms of periodic profit and loss, and the loss became larger as a result of reviewing provision.

## **Q&A: Possibility of cash out related to extraordinary losses**

**Questioner 2:** At the moment, I don't think cash out related to extraordinary losses will be realized as it is estimated as provision for loss. However, if the loss is to be realized, will there cash out occur, or would it be a non-cash loss such as an impairment loss? Do you have any ideas in this regard?

**Shibata:** Since whether additional cash out will actually come out or not will depend on future situations and there is possibility that the actual amount of loss may differ from what was predicted as for provision for loss, it is possible that difference happens.

## **Q&A: About the Cement Business in North America and the Cemented carbide products business**

**Questioner 3:** The first question is about the Cement Business trends in North America. I understand that there was an impact of the lockdowns and so on, but please tell us about the current situation of demand, operation of production, and prices and costs.

The second question is about the Cemented carbide products business. How was the growth rate in the Fourth Quarter and FY2020 year-on-year? Also, I think you are making considerations to focus on automobile and aerospace-related products, and I would like to ask you to explain about the demand situation by those products industries.

**Shibata:** First, I will explain about situation of the Cement related business in North America. Regarding the lockdowns, cement and ready-mixed concrete are categorized as an essential products, and since it is not subject to business suspension, its operation still continues. Since there is a risk of infection, while MMC mainly tries to keep the number of employees as small as possible, and both cement plants and ready-mixed concrete plants continue to operate at normal levels for the most part.

As for prices and production, of course, there has been impacts on various business activities, so sales volume didn't increased in March and April, 2020. In addition, rather than the impact of COVID-19 as it's been like this since before, competitors are trying to accept orders at a considerably low price in order not to lose in the Southern California area. Although Robertson's Ready Mix, Ltd. has been raising their price little by little, they haven't been able to do so as much as they expected.

On the other hand, cost of aggregate resources and transportation had partially raised up. Transportation costs raised even before. Now it became difficult for people to move around due to the impact of COVID-19, and logistics did not functioning well. Therefore it seemed that costs are rising.

I can't inform you quantitative details at this moment because I haven't fully grasped the details for situation in April, 2020. Operation in a manner is close to normal situation, but various restrictions prevent Robertson's Ready Mix, Ltd. from raising the price, and the cost seems rising.

Next, regarding the sales amount of cemented carbide cutting tools by region, when looking at the rate of Increase / Decrease (%) in the Fourth Quarter and the full year on a year-on-year basis, as for Fourth Quarter, the sales in Japan decreased year-on-year about 30%. In addition, there were the sales decline about 20% in China, about 20% in Asia, over 10% in Europe, about 5% in North America, and about 10% in Latin America.

The sales of full year on a year-on-year basis decreased about 15% in Japan, about 30% in China, about 20% in Asia, about 15% in Europe, and about 5% in North America, as for decline in North America was not too major. These are the year-on-year changes in the sales amount of shipments of cemented carbide cutting tools.

Regarding automobile and aerospace-related products, automobile had already been experienced a delay in recovery and fell considerably due to the impact of COVID-19. However, as I mentioned earlier, considering the current situations in April and May, 2020, OEM automobile manufacturers' plants announced that they shut down for one to two weeks, while Tier1 and Tier2 customers said that "They don't want to cause troubles for OEM by closing their factory due to COVID-19 infection" and took action to increase their inventories.

The situation has been like this since March 2020, but it dropped as much as expected in April 2020. Of course, there is a drop, but it is not as bad as expected it to be. However, MMC considers that this is not the hardest part, as MMC expects that the First Quarter and the beginning of the Second Quarter of the upcoming FY2021 may be quite tough. After that, as I mentioned in the "Supplementary Explanation for the fiscal year ended March 31, 2020", it is hard to foresee future forecast because it is difficult to predict whether the second and third waves of COVID-19 may occur.

Regarding aerospace, it seems to be in a very difficult situation whereas MMC doesn't know if the performance is in line with the whole situation since MMC doesn't have a large market share. In the first place, airlines are in a difficult situation and additional orders and existing orders are starting to get cancelled. In addition, the Boeing had a problem from before, so their situation is getting worse. Thus, MMC considers that aerospace will continue to be in a very difficult situation.

However, regarding cutting tools, it may not be too big impact for us thanks to our small market share. Because of our small market share, MMC considers it possible to expand sales by selling the products our customers want, and MMC would like to focus on such business from now on.

## **Q&A: Regarding the demand for cement and ready-mixed concrete in North America**

**Questioner 3:** Please let me confirm what is the demand environment for cement and ready-mixed concrete in North America like? Please explain whether construction activities are proceeding without any problems.

In addition, could you give us the overall figures for the Fourth Quarter and annual growth for cutting tools? You've mentioned the figures for each region, so please tell us the growth rate for all of them combined, too.

**Shibata:** The growth rate of cutting tools in all region was about 20% decrease in the Fourth Quarter and about

15% decrease in the full year on a year-on-year basis.

Demand for cement in North America fell compared with the same period of the previous year. It was also affected by the weather. It fell a little due to bad weather in March 2020, and it has remained low. It was unclear if it was due to the impact of COVID-19.

**Questioner 3:** So is it correct to understand that the construction activities have not stopped rapidly?

**Shibata:** I have no impression that construction projects have stopped altogether. This kind of work is not subject to lockdown. I think it has been slightly affected, but I have not heard that it has fallen significantly.

## **Q&A: The future of new projects and reviewing of Medium-term Management Strategy**

**Questioner 4:** First question. As you mentioned earlier, there has been no significant impact on the operations of the domestic and overseas in the Metals Business. I think there are projects such as the Mantoverde copper mine to which the existing business contributes partially as shares of profit of entities accounted for using equity method during the period.

Though MMC did not announce the guidance for FY2021, may I recognize that there is no change such new projects? Please let me confirm the way of thinking about the new projects towards 2023.

Second question. Please excuse my talks about an impairment loss, but MMC accounted an impairment loss due to business structural reforms as MMC recorded extraordinary losses. As a result, are there any cases that a decrease in fixed cost or positive effect can be expected after FY2021 for cash flow?

I also asked this question on the conference call at the Third Quarter, and your answer was that "the details of impairment loss have not been decided yet" at that time. Now that you have closed your financial statements of FY2020, I would like you to tell us about the positive side of the effect of impairment or what you are considering improving.

The third question is, in your explanation earlier, you mentioned that you would look at the future situation and would review the quantitative target of the Medium-term Management Strategy if it is necessary. Since it was issued at the end of March 2020 and it was just before this term began, I believe that there may be factors that became worse in the short term. So which is quantitative targets possibility to be changed?

Regarding capital expenditures planning, shareholder return policy, or cash flows as examples, I think some of them could be the key words. Among them, which part you can commit and which parts have a possibility to be changed in the future? Please let me hear your comments about them at this time as far as you can.

**Shibata:** Firstly, I would like to answer the first question related to overseas mines. As MMC announced about the Mantoverde copper mine, MMC is proceeding with various negotiations toward its closing scheduled by

October 2020. At the moment, MMC does not intend to change this schedule, but unfortunately due to the impact of COVID-19, there are restrictions on activities such as conducting due diligence. Hence it is unclear if closing will be done by October 2020.

MMC does not think that the value of the mine itself is decreasing. MMC's willingness to participate in the expansion project in particular has not been changed. The intention has not changed though it may be delayed.

As for other new projects, copper prices are currently falling. It is recovering a little now, but it was slightly lower a while ago. This caused a problem for profitability and people who own share of copper mines think that "it does not make sense to sell it now as its price is low", so it seems that movements in the copper market have stopped.

However, since China is on the recovery curve from the impact of COVID-19, MMC considers that copper prices will recover if China's activity exceeds a certain level, and new projects will start moving forward again and return to a normal level.

In any case, for example, the infection is spreading explosively in Brazil, the mines operating in Chile are currently operating very carefully with the minimum number of personnel. They operate in a fairly severe situation. Personally, I feel that new projects will not progress if these situations do not get better.

Regarding the second question to the effect of extraordinary losses on cash flows, for the most part, there will be a decrease in depreciation of fixed assets because of impairment loss. In total, MMC expects depreciation to decrease by about 5 billion yen annually.

And now, about "what MMC should do", Mitsubishi Aluminum Co., Ltd. has three business domains: the Extruded products business, the Roll and processed business, and the Foil products business. In particular, regarding the Extruded products business, the use of heat exchangers sheet materials has changed considerably among customers. As a result, MMC recognizes that it is becoming structurally difficult to operate the business as now, so MMC must proceed with reorganization not only in domestic sites but also in overseas sites.

In the Roll and processed business, MMC would like to strengthen the profitability by improving productivity, etc. and draw a path for future growth.

In addition, the Sintered parts business has continued making losses. Although the deficit is shrinking, it is still in the red. So MMC will shrink down the products and then focusing on improving profitability.

As for the third question of what is going to change from the targets disclosed in the Medium-term Management Strategy, it is still not determined whether the target for the final fiscal year of the Medium-term Management Strategy will be really changed yet. The consideration as to whether it really needs to be changed itself remains. It is not considerable unless it is clear whether recovery from the impact of COVID-19 will take place this fiscal year or the next fiscal year.

If it can be foreseen that the impact of COVID-19 will end this fiscal year, and EV will go back to normal trends from the next fiscal year to the year after the next, it is quite possible that MMC will not change the target for the final fiscal year of the Medium-term Management Strategy. However, this will be determined after “taking a closer look”.

In addition, investment and dividends are directly connected to our current management. Considering terms of 3 or 5 years, the investment policy will “not be changed, and stay the same”. Although MMC will do what needs to be done, and MMC will continue to invest for growth, given the declining demand at the moment, it is necessary to consider the scale of production increase in line with trends of customers’ demand.

Regarding other countermeasures against deterioration, MMC originally thought of that in a state of full operation. However, since there is a possibility that the operation rate may drop to the current level, it is necessary to take a good look at the cash out portion of this fiscal year’s investment, including assessment of whether MMC needs to take countermeasures for places. There is a possibility that the number of investment may change.

Given the Group’s business scale, the Group definitely would like to continue to pay dividends of 80 yen per year if the Group could proceed at its normal operating speed. However, no commitment can be made regarding 80 yen dividends under situations where cash in is clearly decreasing and the amount of the decrease is unknown.

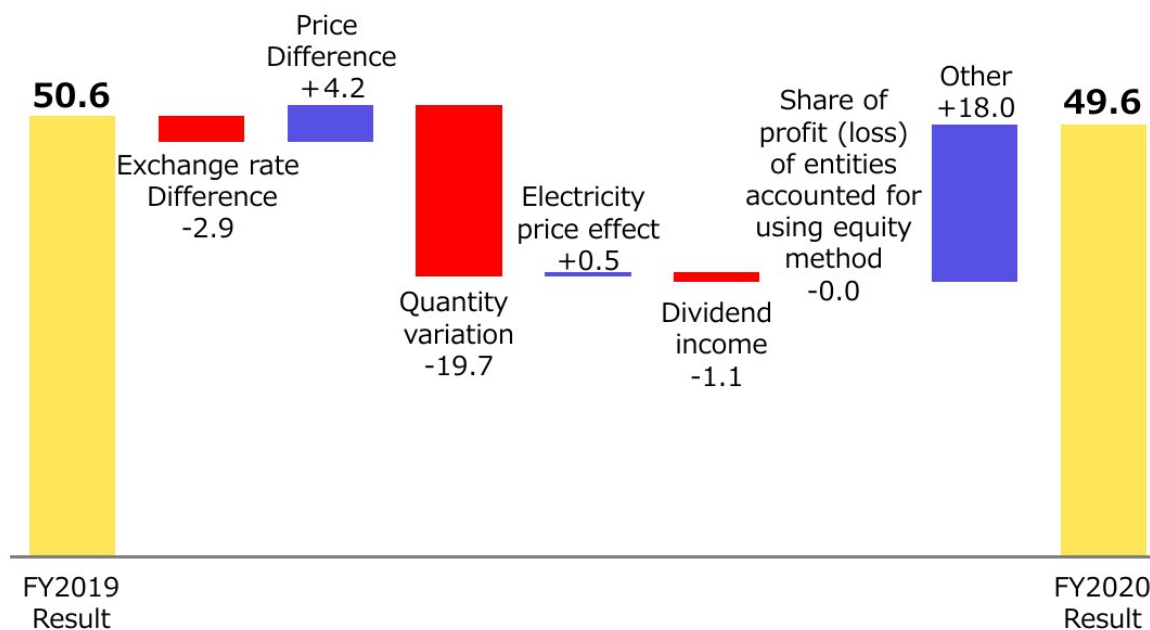
Therefore, firstly MMC has to consider "What should MMC do this year?" Then, in the next year and the year after the next, it is necessary to consider whether the items promised in the Medium-term Management Strategy will be maintained or need to be reviewed, taking into the account the whole cash management. This is what MMC is considering at the moment.



## Q&A: Breakdown of 18 billion yen for "Others" in Comparison with the Previous Year Results

### Comparison with the Previous Year Result (Factor Analysis of Ordinary profit)

[Unit: billion yen]



**Questioner 5:** First of all, I would like you to summarize again the explanation given so far. I think that there is an improvement factor of 18 billion yen in "Others" in a year-on-year comparison of results on page 6. Please explain its breakdown.

My next question is about impairment loss. I think you mentioned that you would proceed with business structural reforms including the withdrawal of business in the Aluminum business, etc. as the impairment losses were recorded for equipment this time, is it correct to understand that there will be no more extraordinary losses to occur upon disposal of equipment as a result of withdrawal from the business, for example?

**Shibata:** First, there will be extraordinary losses in the future whether or not. MMC believes that there will not be a big change, though it depends on the difference between the current estimates and the future results. However, when asked if there would be no extraordinary losses, it depends on future situations.

Next, for the first question, as I understood, you want a breakdown of year-on-year changes of 18 billion yen in "Others" in the waterfall chart on page 6. In FY2019, there were improvements of 20 billion yen or more due to factors such as the improvement of recovery rate at the Naoshima Smelter & Refinery and reduced cost of smelting in PT Smelting. Other than that, depreciation increased by about 4 billion yen and the amount ended up with 18 billion yen. It is mostly due to the improvement of the recovery rate and reduced cost of smelting.

**Questioner 5:** Does it mean that we should apply the "3 to 2 to 2" that was explained earlier to the "20 billion yen" you just mentioned?

**Shibata:** "3 to 2 to 2" that I mentioned was about the changes from the forecast announced on February 12, 2020. When comparing FY2019 with FY2020, it is better to consider that the improvement in recovery rate is the major factor.

## Q&A: Shareholder return policy and decrease in total net assets

**Questioner 6:** My first question is about dividends. The Medium-term Management Strategy was announced around the end of March 2020, and I think that the COVID-19 already had an impact at that time. Almost two months have passed since then and there was a comment that the shareholders return policy also should be reviewed. Please tell us which part of it has significantly changed in the slightly less than two month.

### Consolidated Balance Sheet

[Unit: billion yen]

	End of Mar. 2019(a)	End of Mar. 2020(b)	Difference (b)-(a)		End of Mar. 2019(a)	End of Mar. 2020(b)	Difference (b)-(a)
Assets				Liabilities			
Cash and deposits	108.6	134.4	25.7	Notes and accounts payable - trade	147.5	113.1	-34.4
Notes and accounts receivable - trade	248.2	217.2	-30.9	Borrowings, bonds payable and commercial papers	494.7 <sup>26%</sup>	547.6 <sup>29%</sup>	52.8
Inventories	335.5	352.2	16.6	Other liabilities	572.6	657.2	84.6
Other	217.2	251.5	34.3	Total liabilities	<b>1,214.9</b>	<b>1,318.0</b>	<b>103.0</b>
Total current assets	<b>909.6</b>	<b>955.4</b>	<b>45.8</b>	Net assets			
Property, plant and equipment and intangible assets	746.1	710.7	-35.3	Share capital	119.4	119.4	-
Investments and other assets	282.4	237.7	-44.7	Capital surplus and treasury shares	90.2	90.2	-0.0
Total non-current assets	<b>1,028.6</b>	<b>948.5</b>	<b>-80.0</b>	Retained earnings	352.9	274.7	-78.2
Total assets	1,938.2	1,904.0	-34.2	Accumulated other comprehensive income (loss)	70.9	22.3	-48.5
				Non-Controlling interests	89.7	79.2	-10.5
				Total net assets	<b>723.3<sup>37%</sup></b>	<b>586.0<sup>31%</sup></b>	<b>-137.3</b>
				Total liabilities and net assets	1,938.2	1,904.0	-34.2
				Shareholders' equity ratio	33%	27%	
				Net D/E ratio	0.6 <sup>times</sup>	0.8 <sup>times</sup>	

My second question is that I feel that the decrease in net assets was significant. I can see the details by looking at a summary of financial statements, but what is the factor that caused the decrease in each item? For example, there are various items such as valuation difference on available-for-sale securities, foreign currency translation adjustment, and remeasurements of defined benefit plans. Please tell us exactly how the total net assets decreased.

**Shibata:** Regarding the point why shareholder return policy had changed so much in just these two months, first of all, preparations for the Medium-term Management Strategy began last year and almost finalized in

February 2020, and it was announced in March 2020. As you mentioned, COVID-19 already had a considerable impact as of March 2020, and of course it had been discussed internally. However, since it was not possible to foresee how much impact it would have, MMC did not choose to “announce the Medium-term Management Strategy with shareholder return policy being undetermined”.

MMC made the Medium-term Management Strategy without taking the impacts of COVID-19. It was released with the understanding that further announcements might be made as required. In addition, at this point, it is not possible to announce that “the dividend will be the same among others”, as MMC is under the situation where even actual results for FY2021 cannot be released

As a result, MMC can't promise at this moment if dividends will be 80 yen or possibly fall below that. I would like to ask for your understanding that it is not possible to tell you whether the dividends will remain the same, unless earnings forecast can be released.

Regarding the second question about decreasing items in total net assets, the decrease in retained earnings was 78.2 billion yen overall, with a net loss of 72.8 billion yen and dividends of 10.4 billion yen. Valuation difference on available-for-sale securities decreased by 28.4 billion yen due to the sale of strategic holdings such as shares in New Hope Group. There was a decrease in the foreign currency translation adjustment by 6.3 billion yen due to appreciation of the yen against the US Dollar and Euro. These were the major parts of the breakdown.

## Greetings

**Shibata:** Thank you all for joining us in the conference call today. As I mentioned earlier, MMC is operating under an extremely uncertain business environment.

I would like to inform you of our business earnings forecasts, dividend forecasts, and, if necessary, revisions to our financial plans in the Medium-term Management Strategy. We appreciate for your support. Thank you for listening.