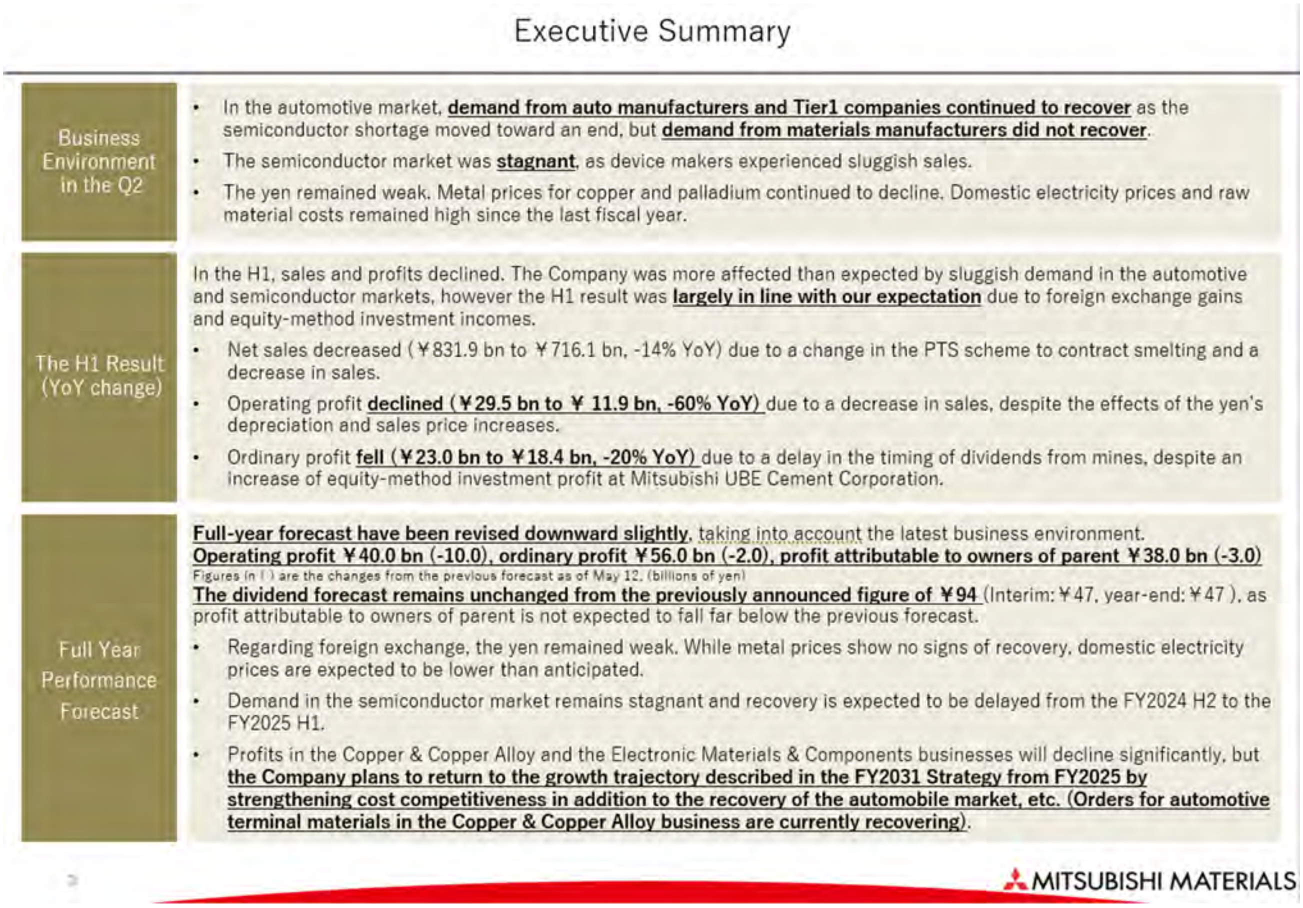
[Title]
1.Mitsubishi Materials' operating profit for the Q2 increased by ¥4.4 billion from the Q1, mainly due to a recording of profit by improving metal recoveries in the Metals business

[Lead]
This is a transcript of Mitsubishi Materials Corporation's second quarter financial results for the fiscal year ending March 2024 announced on November 9, 2023.

[Speaker]
Naoki Ono (hereafter “Ono”), Chief Executive Officer, Mitsubishi Materials Corporation

[Body]

Presentation



Ono: I am Naoki Ono, CEO of Mitsubishi Materials. Thank you very much for attending today’s briefing.

Let’s quickly go over the Q2 earnings overview and the full-year performance outlook.

Please turn to page three of the material, the executive summary, for an explanation of the Q2 business environment and future outlook.

For Q2, the business environment in the automotive market saw a continuation of demand recovery trends as the semiconductor shortage began to resolve. However, our recovery in demand has not materialized due to existing inventory in distribution. The semiconductor market's device manufacturer sales have bottomed out, but demand remains in a trough phase. Exchange rates have shown a trend toward a weaker yen, while metal prices for copper and palladium are on a declining trend, and the high cost of domestic electricity and raw materials continues.

In this context, H1's performance was below the previous year's due to lower demand in the automotive and semiconductor markets, but progress was largely as expected due to foreign exchange gains and an increase in equity method investment earnings.

Net sales decreased due to a shift to contract smelting under the P.T. Smelting's scheme and a decline in sales. Operating profit saw some benefits from the weakening of the yen and price increases; however, a significant drop in sales led to a decrease in profit. Ordinary profit included an increase in equity earnings from Mitsubishi UBE Cement, but overall decreased due to factors such as a shift in the timing of mine dividends that were expected in H1.

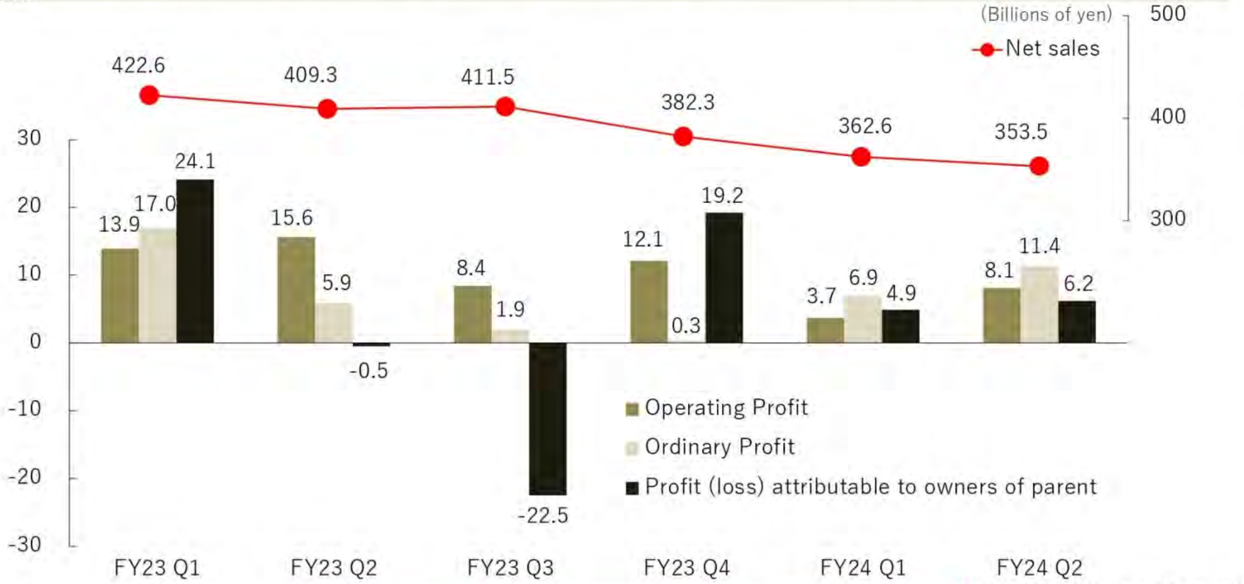
Our full-year performance forecast has been slightly revised downward, taking into account the current business environment. We anticipate operating profit at ¥40 billion, ordinary profit at ¥56 billion, and profit attributable to owners of parent for the current period at ¥38 billion. These figures represent a decrease from our previous forecast by ¥10 billion, ¥2 billion, and ¥3 billion, respectively. Our dividend forecast remains unchanged from the previous announcement, standing at ¥94.

Looking ahead to H2 of the fiscal year, the yen is expected to continue its weak trend, and while there are no signs of recovery in metal prices, domestic electricity rates are forecasted to settle below our expectations.

The semiconductor market is still experiencing low demand, and recovery is not expected until H1 of FY March 2025. This year, the Copper & Copper Alloy and Electronic Materials & Components businesses will see a significant decrease in profit. However, as the automotive business for Copper & Copper Alloy business is showing signs of recovery, we expect to return to the growth trajectory outlined in the Medium-term Management Strategy FY2031, driven by the recovery in the automotive market and enhanced cost competitiveness.

Quarterly Performance

- Net sales of the Q2 were **¥353.5 bn, down ¥9.1 bn from the Q1**, mainly due to a decline in sales volume in the Metals business.
- **Compared to the Q1, operating profit increased ¥4.4 bn to ¥8.1 bn, and ordinary profit increased ¥4.5 bn to ¥11.4 bn.** This was because operating profit recorded a profit due to an improvement in metal recoveries at the Metals business, and ordinary profit posted an increase in equity-method investment gain of Mitsubishi UBE Cement Corporation.
- Profit attributable to owners of parent was ¥6.2 bn, **up ¥1.2 bn from the Q1**, mainly due to an increase in ordinary profit, etc.



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Please refer to page four for the quarterly trends.

For Q2 of the fiscal year ending March 2024, due to a decrease in sales in the Metals business, sales were ¥353.5 billion, down ¥9.1 billion from the previous quarter. Operating profit increased by ¥4.4 billion from the previous quarter to ¥8.1 billion, due to an improvement in metal recoveries in the Metals business.

Ordinary profit was ¥11.4 billion, up ¥4.5 billion from the previous quarter, thanks to the increased equity in earnings of Mitsubishi UBE Cement. Net profit was ¥6.2 billion, up ¥1.2 billion from the previous quarter, reflecting the increase in ordinary profit.

Year-on-Year Comparison (Consolidated PL, Foreign Exchange and Copper Price)

(Billions of yen)

	FY March 2023 H1 Results (a)	FY March 2024 H1 Results (b)	Change (b-a)
Net Sales	831.9	716.1	-115.7
Operating profit	29.5	11.9	-17.6
Dividend income	6.7	1.1	-5.5
Other financial income and expenses	-2.3	-1.6	+0.7
Share of profit (loss) of entities accounted for using equity method	-9.7	4.5	+14.3
Non-operating income (loss)	-1.1	2.4	+3.5
Ordinary profit	23.0	18.4	-4.6
Extraordinary income (loss)	11.6	-0.0	-11.7
Income taxes	-8.0	-6.2	+1.7
Profit (loss) attributable to non-controlling interests	-3.0	-0.9	+2.1
Profit attributable to owners of parent	23.6	11.1	-12.5
Dollar exchange rate (yen/$)	134	141	+7
Euro exchange rate (yen/€)	139	153	+15
Copper Price (LME) (cents/lb)	392	382	-10

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Moving on to page five, here we compare the performance of H1 of the last fiscal year with that of the current fiscal year.

For the current fiscal year’s H1, we experienced a decrease in sales and profit compared to the same period last year. Although there was an increase in sales of about ¥35 billion due to the weakening of the yen, this was offset by a decrease in sales in the Metals business due to changes in the P.T. Smelting’s scheme, the transfer of the polysilicon business, a fall in copper prices, and decreases in sales of Advanced Products and Metalworking Solutions businesses, leading to a total decrease in sales of ¥115.7 billion.

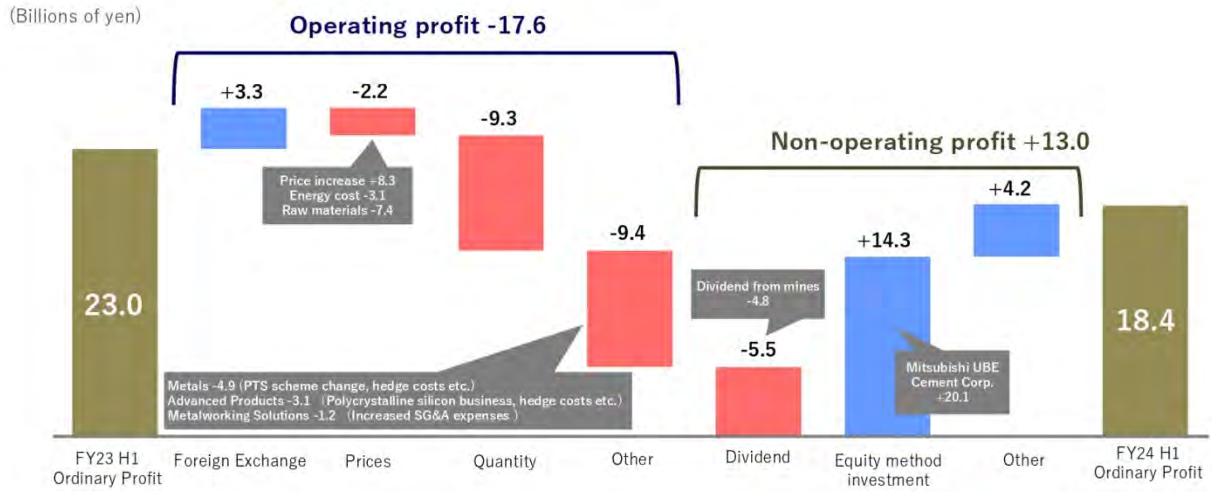
Details regarding the increase or decrease in operating profit and ordinary profit will be explained on the next page.

Profit attributable to owners of parent decreased by ¥12.5 billion, due to the decrease in ordinary profit and a reduction in special profit.

Year-on-Year Comparison (Breakdown of Ordinary Profit Factors)

Both operating profit and ordinary profit decreased

- Operating profit was ¥11.9 bn (down ¥17.6 bn YoY). There were negative factors such as increased energy costs, sluggish demand from the automotive market, and reduced sales in the Advanced Products and the Metalworking Solutions businesses due to deteriorating semiconductor market conditions, despite the yen's depreciation and price increases in the Copper & Copper Alloy and the Metalworking Solutions businesses.
- Ordinary profit was ¥18.4 bn (down ¥4.6 bn YoY). There were a decrease of operating profit and no dividend from Los Pelambres Mine, despite an improvement in equity method investment profit at Mitsubishi UBE Cement Corporation.



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Continuing to page six, please look at the waterfall chart. This is an analysis of the increase or decrease in ordinary profit for H1 of the current fiscal year compared to H1 of the previous year.

Operating profit decreased by ¥17.6 billion, while non-operating profit improved by ¥13 billion, resulting in an ordinary profit of ¥18.4 billion. Operating profit saw the benefits of a weaker yen and price increases in the Copper & Copper Alloy and Metalworking Solutions businesses. However, there was a significant decrease due to rising energy costs, sluggish demand for automobiles, and a decline in sales of Advanced Products and Metalworking Solutions businesses due to the deterioration of semiconductor market conditions.

Ordinary profit was positively impacted by an improvement in the equity method earnings of Mitsubishi UBE Cement, but this was offset by a decrease in operating profit and the deferral of dividend income from the Los Pelambres copper mine from H1 to H2 of the fiscal year, leading to a decrease in profit by ¥4.6 billion YoY, resulting in ¥18.4 billion.

Consolidated Balance Sheet

(Billions of yen)

Item	End of March 2023 (a)	End of September 2023 (b)	Change (b-a)
Cash and deposits	142.1	95.2	-46.9
Notes and accounts Receivable – trade	188.4	200.0	+11.5
Inventories	377.6	444.2	+66.6
Other	407.7	400.5	-7.1
Total current assets	**1,116.0**	**1,140.0**	**+24.0**
Property, plant and equipment and intangible assets	454.9	487.3	+32.3
Investments and other assets	320.7	357.5	+36.8
Total non – current assets	**775.7**	**844.9**	**+69.2**
Total assets	**1,891.7**	**1,985.0**	**+93.2**
Shareholders' equity ratio	31 %	32 %	
Net D/E ratio	0.7 times	0.8 times	

Item	End of March 2023 (a)	End of September 2023 (b)	Change (b-a)
Notes and accounts playable - trade	85.2	85.3	+0.1
Borrowings, bonds payable and commercial papers	533.5	575.9	+42.4
Other liabilities	644.1	664.9	+20.8
Total liabilities	**1,262.9**	**1,326.3**	**+63.4**
Share capital	119.4	119.4	–
Capital surplus and treasury shares	79.0	79.0	+0.0
Retained earnings	338.8	346.7	+7.8
Accumulated other comprehensive income	55.9	80.9	+24.9
Non-Controlling interests	35.5	32.5	-3.0
Total net assets	**628.8**	**658.6**	**+29.7**
Total liabilities and net assets	**1,891.7**	**1,985.0**	**+93.2**

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Moving on to page seven, this page presents the consolidated balance sheet as of the end of September 2023.

The balance amounted to ¥1,985 billion, which is an increase of ¥93.2 billion from the end of March 2023. Inventory assets had decreased at the end of March 2023 due to the impact of the furnace maintenance at the Naoshima Smelter & Refinery implemented in Q4 of the previous fiscal year, but they have increased now as that impact has ceased.

Furthermore, the balance increased due to the addition of fixed assets resulting from the expansion construction of the P.T. Smelting and an increase in loans for operating capital to the Mantoverde copper mine, an equity method affiliate.

Full Year Forecasts for FY March 2024

- While the semiconductor market remains weak, orders in the Copper & Copper Alloy business are currently recovering in the automotive market.
- The yen continues to depreciate and metal prices show no signs of recovery, while domestic electricity prices are expected to be lower than anticipated.
- The full-year forecast has been revised downward slightly, taking into account the latest business environment.
- The dividend forecast remains unchanged from the previous announcement at ¥94 (interim ¥47, year-end ¥47).

(Billions of yen)

P/L	Previous Forecast (a)	Current Forecast (b)	Change (b-a)
Net sales	1,670.0	1,660.0	-10.0
Operating profit	50.0	40.0	-10.0
Ordinary profit	58.0	56.0	-2.0
Profit attributable to owners of parent	41.0	38.0	-3.0

(Yen)

Dividend per share	interim	47	47	–
	year-end	47	47	–

Foreign Exchange /Copper Price		Previous Forecast (a)	Current Forecast (b)	Change (b-a)
Dollar-Yen Rate	¥/$	135	145	+10
Euro-Yen Rate	¥/€	145	154	+9
Copper price (LME)	¢/lb	390	373	-17

(Billions of yen)

Sensitivity			Impact on H2
Foreign Exchange	Operating profit	¥/$	+0.45
	Operating profit	¥/€	+0.09
Copper price (LME)	Operating profit (a)	10¢/lb	+0.32
	Non-Operating profit (b)	10¢/lb	+0.10
	Ordinary profit (a+b)	10¢/lb	+0.42

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Please turn to page eight, where we present the full-year forecast for the fiscal year ending March 2024.

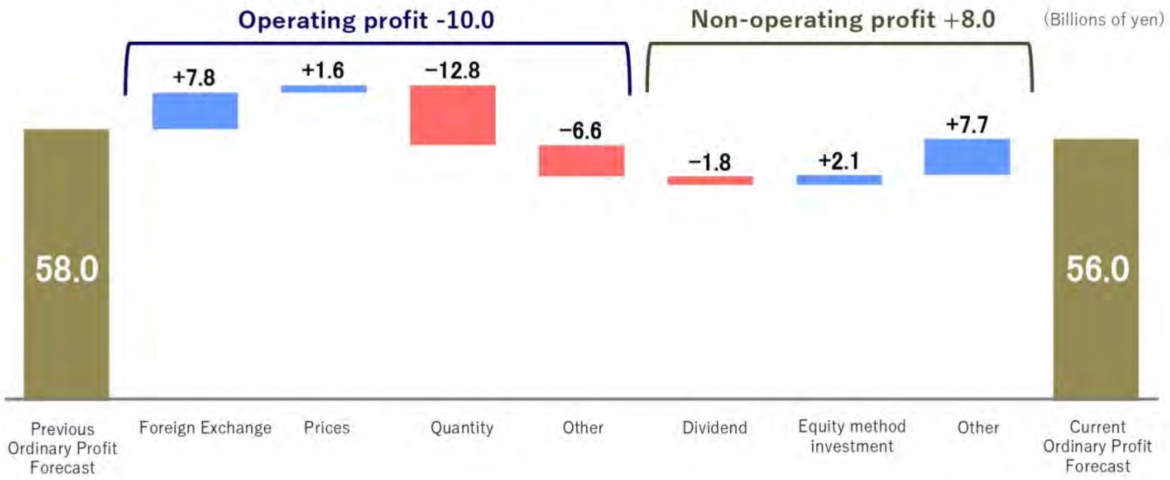
The full-year performance forecast incorporates the current business environment and has been slightly revised downward. I would like to explain the details on the following page.

Please note that the dividend forecast remains unchanged from the previously announced figures.

Full-Year Forecast for FY March 2024 (Difference from Previous Forecast)

<u>Both operating profit and ordinary profit were revised downward due to a decrease in sales volume, despite the depreciation of the yen and an improvement in equity-method investment gain.</u>

- Operating profit is expected to be ￥40.0 bn (down ￥10.0 bn from the previous forecast) due to a decline in sales driven by the deterioration of the semiconductor market, despite a decrease of energy costs and the yen's depreciation.
- Ordinary profit is expected to be ￥56.0 bn (down ￥2.0 bn from the previous forecast) due to an increase in foreign exchange gains in addition to an improvement in equity-method investment profit in Mitsubishi UBE Cement Corporation.



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Let's move on to page nine, which presents a variance analysis of the current fiscal year's ordinary profit forecast compared with the previous forecast.

Operating profit is expected to decrease by ¥10 billion, while non-operating profit and loss are expected to improve by ¥8 billion, resulting in an ordinary profit forecast of ¥56 billion, a decrease of ¥2 billion.

Operating profit is expected to fall short of the previous forecast by ¥10 billion, despite the beneficial effects of a weaker yen and lower-than-expected energy costs, such as electricity. This is largely due to the impact of reduced sales in the Copper & Copper Alloy and Electronic Materials & Components businesses.

For ordinary profit, we expect an increase from foreign exchange gains on foreign currency-denominated receivables and payables, and higher equity method investment earnings from Mitsubishi UBE Cement. However, these are not sufficient to offset the decrease in operating profit, and we have revised the forecast down to ¥56 billion.

Metals Business

Metals Company

- In the H1, ordinary profit was ¥8.4 bn (down ¥12.7 bn YoY), mainly due to a decline in palladium price, an increase in energy costs and foreign exchange hedging costs, and a decrease in dividends from mines and equity-method investment gain.
- In the full-year forecast, ordinary profit is expected to be ¥35.0 bn (up ¥0.4 bn from the previous forecast) due to the yen's depreciation and reduced energy costs, despite a decrease in dividends from mines and equity-method investment gain.

(Billions of yen)

Item	FY March 2023 H1 Result (a)	FY March 2024 H1 Result (b)	Change (b-a)	Previous Full-Year Forecast (c)	Current Full-Year Forecast (d)	Change (d-c)
Net sales	567.3	476.8	-90.4	1,071.7	1,110.6	+38.9
Operating profit	16.4	7.1	-9.2	21.9	22.3	+0.4
Ordinary profit	21.2	8.4	-12.7	34.5	35.0	+0.4
Sales volume of electrolytic copper (in-house product)	162 thousand tons	186 thousand tons	+24 thousand tons	399 thousand tons	400 thousand tons	+1 thousand tons
Dividend from copper mine	5.7	0.9	-4.8	15.8	14.8	-0.9

Details of Ordinary Profit Decrease

FY March 2023 H1 Result (a)	21.2
Foreign Exchange	+1.5
Prices	-5.4
Quantity	-0.4
Dividend	-4.8
Equity method investment	-4.3
Other	+0.7
FY March 2024 H1 Result (b)	8.4

Details of Ordinary Profit Increase

Previous Full-Year Forecast (c)	34.5
Foreign Exchange	+5.3
Prices	-0.6
Quantity	-0.2
Dividend	-0.8
Equity method investment	-2.8
Other	-0.5
Current Full-Year Forecast (d)	35.0

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MITSUBISHI MATERIALS

Let's turn to page 10, where we have the segment-specific details.

Starting with the metals business, for H1 of the fiscal year, we saw a decrease in ordinary profit by ¥12.7 billion YoY. The main factors contributing to this decline were the falling prices of sulfuric acid and palladium, increased energy costs, the absence of dividend income from the Los Pelambres copper mine, and a decrease in equity method investment earnings.

Regarding the full-year forecast, we anticipate ordinary profit to be about ¥35 billion, consistent with our previous forecast. This takes into account the expected offset of the negative impact from the decreased ore grades, etc. at the Copper Mountain mine by the favorable foreign exchange gains.

Advanced Products Business (Copper & Copper Alloy)

Advanced Products Company

- In the H1, ordinary profit was ¥-0.2 bn (down ¥1.4 bn YoY) due to a decrease in sales mainly of automotive products and an increase in hedging costs, despite the effects of the price revision and the yen's depreciation.
- In the full-year forecast, sales of wrought copper products are expected to partially recover in the H2 but will not make up for the decline in the H1 and are anticipated to decrease for the full-year, while energy costs are expected to fall. Ordinary profit is expected to be ¥1.8 bn (down ¥5.0 bn from the previous forecast) by implementing measures to expand sales of rolled products, etc. as well as cost reduction initiatives such as improving yield rates at Sakai, Wakamatsu and Sambo Plants.

(Billions of yen)

Item	FY March 2023 H1 Result (a)	FY March 2024 H1 Result (b)	Change (b-a)	Previous Full-Year Forecast (c)	Current Full-Year Forecast (d)	Change (d-c)
Net sales	200.1	204.3	+4.2	464.0	427.4	-36.6
Operating profit	2.4	1.0	-1.3	9.7	4.6	-5.2
Ordinary profit	1.2	-0.2	-1.4	6.7	1.8	-5.0
Sales volume of copper & copper alloy products	66 thousand tons	61 thousand tons	-6 thousand tons	148 thousand tons	126 thousand tons	-22 thousand tons

Details of Ordinary Profit Decrease

FY March 2023 H1 Result (a)	1.2
Foreign Exchange	+0.1
Prices	+2.0
Quantity	-1.5
Other	-2.0
FY March 2024 H1 Result (b)	-0.2

Details of Ordinary Profit Decrease

Previous Full-Year Forecast (c)	6.7
Foreign Exchange	+0.2
Prices	+1.4
Quantity	-6.1
Other	-0.5
Current Full-Year Forecast (d)	1.8

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Moving on to page 11, let's focus on the Copper & Copper Alloy business within the Advanced Products Company.

For H1, ordinary profit decreased by ¥1.4 billion YoY. The decline was primarily due to reduced sales, especially of products for the automotive sector, and an increase in hedge costs.

For the full-year forecast, ordinary profit has been revised down by ¥5 billion from our previous forecast to ¥1.8 billion. Currently, orders for automotive terminal materials are showing signs of recovery, and we expect an improvement in H2 of the fiscal year. However, this recovery is not projected to fully offset the downturn experienced in H1, leading us to revise our forecast downward.

Advanced Products Business (Electronic Materials & Components)

Advanced Products Company

- In the H1, ordinary profit was ¥0.6 bn (down ¥4.3 bn YoY) due to a decrease in sales of semiconductor-related products caused by the deterioration of the semiconductor market.
- The Company expects recovery in the semiconductor market to be delayed from the FY2024 H2 to the FY2025 H1, and ordinary profit of ¥2.7 bn (down ¥3.6 bn from the previous forecast), taking into account the sales expansion of chemical products and various cost-cutting measures.

(Billions of yen)

Item	FY March 2023 H1 Result (a)	FY March 2024 H1 Result (b)	Change (b-a)	Previous Full-Year Forecast (c)	Current Full-Year Forecast (d)	Change (d-c)
Net sales	60.4	38.8	-21.5	84.9	82.6	-2.4
Operating profit	3.8	0.0	-3.8	6.1	2.1	-4.1
Ordinary profit	5.0	0.6	-4.3	6.3	2.7	-3.6

Details of Ordinary Profit Decrease

FY March 2023 H1 Result (a)	5.0
Foreign Exchange	+0.0
Prices	+0.0
Quantity	-3.0
Dividend	-0.3
Equity method investment	-0.0
Other	-1.0
FY March 2024 H1 Result (b)	0.6

Details of Ordinary Profit Decrease

Previous Full-Year Forecast (c)	6.3
Foreign Exchange	+0.4
Prices	+0.2
Quantity	-2.4
Dividend	+0.0
Equity method investment	+0.3
Other	-2.1
Current Full-Year Forecast (d)	2.7

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Please turn to page 12, where we'll look at the Electronic Materials & Components business of the Advanced Products Company.

Ordinary profit for H1 has decreased by ¥4.3 billion YoY. The primary cause of this decline was a reduction in sales of semiconductor-related products due to worsening semiconductor market conditions.

Regarding the full-year forecast, ordinary profit has been revised down by ¥3.6 billion from our previous forecast, to ¥2.7 billion. While we initially anticipated that the semiconductor market would recover during H2 of this fiscal year, current conditions suggest that the recovery will likely be delayed until the next fiscal year or later. Despite our efforts to expand the sales of relatively stable chemical products and implement various cost reductions, we find ourselves in a situation where we must revise our forecast downward.

Metalworking Solutions Business

Metalworking Solutions Company

- In the H1, ordinary profit was ¥6.3 bn (down ¥2.4 bn YoY) due to a decrease in sales in Japan and China and an increase in SG&A expenses, despite the yen's depreciation and sales price increases.
- The full-year forecast for ordinary profit is ¥15.6 bn (up ¥0.4 bn from the previous forecast). The Company expects a decrease in energy costs and an increase in inventory as well as the weak yen, although a decline in sales volume and a decrease in dividends are expected.

(Billions of yen)

Item	FY March 2023 H1 Result (a)	FY March 2024 H1 Result (b)	Change (b-a)	Previous Full-Year Forecast (c)	Current Full-Year Forecast (d)	Change (d-c)
Net sales	71.8	69.8	-2.0	153.9	154.8	+0.8
Operating profit	7.8	5.2	-2.6	14.3	14.7	+0.3
Ordinary profit	8.8	6.3	-2.4	15.2	15.6	+0.4

Details of Ordinary Profit Decrease

FY March 2023 H1 Result (a)	8.8
Foreign Exchange	+1.6
Prices	+0.7
Quantity	-3.7
Dividend	-0.0
Equity method investment	-1.0
FY March 2024 H1 Result (b)	6.3

Details of Ordinary Profit Increase

Previous Full-Year Forecast (c)	15.2
Foreign Exchange	+1.8
Prices	+0.8
Quantity	-4.7
Dividend	-0.8
Equity method investment	+3.3
Current Full-Year Forecast (d)	15.6

Now, please look at page 13, which covers the Metalworking Solutions business.

Ordinary profit for H1 experienced a decrease of ¥2.4 billion YoY. The main factors were a decline in sales in both Japan and China. Although there were positive effects from price increases in carbide tools and the depreciation of the yen, the decrease in sales led to a greater overall reduction in profit.

For the full-year forecast, we expect ordinary profit to remain at ¥15.6 billion, in line with our previous prediction. Sales in Japan and China are recovering more slowly than expected, but this is anticipated to be offset by the benefits of the weaker yen, gains from foreign currency-denominated assets and liabilities, and increased inventories to ensure appropriate stock levels.

Mitsubishi UBE Cement Corporation (MUCC)

■**Consolidated P/L of MUCC** (Billions of yen)

		FY March 2023 H1 Result	FY March 2024 H1 Result	FY March 2024 Forecast
Net sales		281.3	298.9	600.0 (670.0)
	Overseas business only	65.9	92.7	185.0 (–)
Operating profit		-20.0	21.5	33.0 (25.0)
	Overseas business only	3.1	18.0	24.0 (–)
Ordinary profit		-18.6	22.4	33.5 (25.5)
Profit (loss) attributable to owners of parent		-26.3	13.0	19.0 (14.5)

( ) forecast released on May 12, 2023

■**Equity method profit (loss) for Mitsubishi Materials**

Share of profit (loss) of entities accounted for using equity method	-13.4	6.7	9.4 (5.9)

- In the domestic cement business, measures such as completion of a ¥5,000 price hike, improvement of the business structure, and expansion of use of cheap thermal energy were promoted. On the other hand, MUCC is still in a difficult situation, such as a decrease in sales volume due to a decline in domestic demand and a rise in costs due to the weak yen. MUCC aims to achieve a surplus this fiscal year through further measures.
- The environment and energy business and domestic group companies performed well.
- In the U.S. business, net sales increased significantly from the previous year, as sales volume of ready-mixed concrete in the H1 increased due to the resumption of construction work that had been delayed due to the unfavorable weather of the previous year, and as a result of the early penetration of price increases. On the other hand, in the H2, net sales are expected to decrease due to a decrease in ready-mixed concrete sales and cost increases, but due to the effect of price increases, full-year net sales are expected to increase significantly from the previous year.

■**Details of MUCC**

		FY March 2023 H1 Result	FY March 2024 H1 Result	FY March 2024 Forecast
Demand for cement in Japan	(million t)	18.60	17.39	36.00 (38.00)
Cement sales in Japan	(million t)	4.57	4.15	8.65 (9.28)
Cement sales in the U.S.	(million st)	0.92	0.93	1.80 (1.69)
Ready-mixed concrete sales in the U.S.	(million cy)	3.68	3.81	7.00 (7.48)
Coal Price	($/ t)	398	154	177 (370)
Exchange Rate	(￥/$)	134	141	145 (130)

*The above coal price is a reference index and differs from the actual procurement price.

(Reference) Consolidated balance sheet as of September 30, 2023 (Billions of yen)

Total assets	784.1	Interest-bearing debt	203.3	Shareholders' equity	345.7
Shareholders' equity ratio	44.1%	Net D/E ratio	0.44 times		

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MITSUBISHI MATERIALS

Please turn to page 14, where we discuss our equity-method affiliate, Mitsubishi UBE Cement.

For H1, there was an improvement in ordinary profit by ¥41 billion YoY. Despite successfully implementing a ¥5,000 per ton price increase in our domestic cement business, promoting business structure improvements, and expanding the use of low-cost thermal energy, the ongoing challenges include a decrease in sales volume due to reduced domestic demand and increased costs due to the weaker yen. We continue to aim for a return to profitability this fiscal year through further revenue enhancement measures.

The environment and energy business and domestic group companies are performing steadily. In the US, H1 saw an increase in ready-mix concrete sales volume, as construction projects delayed by the previous year's adverse weather were resumed, and price increases were rapidly adopted, resulting in a significant profit increase YoY.

As for the full-year forecast, we have revised the ordinary profit upwards by ¥8 billion from our previous forecast to ¥33.5 billion. However, for H2 of the fiscal year, we do not anticipate an increase in ready-mix concrete sales in the US business like the one that resulted from weather-related project carryovers from the previous year. We also expect an increase in costs for raw materials and personnel. Consequently, we are forecasting a decrease in profit compared to H1 of the fiscal year.

Furthermore, Mitsubishi UBE Cement plans to hold its Q2 earnings call on November 22. We will provide more details at that time.

Strengthening cost competitiveness

- As part of the measures under the FY2031 Strategy, the Company will implement cost reduction plans totaling approx. ¥9.0 bn by FY2026 and approx. ¥24.0 bn by FY2031.
- In this fiscal year, considering the difficult business environment, we expect to achieve a total cost reduction of ¥7.2 bn, ahead of next year's plan of ¥4.4 bn, by taking additional measures besides the initial plan.
- However, in this fiscal year, the Advanced Products business will not achieve the expected cost reduction plan due to lower sales.

(Billions of yen)

Cost reduction plan, progress, and additional measures for FY2024		Total cost reduction and ratio to operating profit					
		FY2024 Plan	FY2024 Initial Plan	FY2024 Additional Measures	FY2024 Total Cost Reduction	FY2025 Plan	FY2026 Plan
Metals	<Plans and Progress> Plan to reduce costs by increasing the processing capacity of copper concentrate in Naoshima, but the effect is expected to start in FY2026. <Additional> Energy and slag cost reduction, etc.	0.0	0.0	3.6	3.6	0.01	2.6
Advanced Products	<Plan> Improvement of yield rates, marginal profit, etc. <Progress> Expected to fall short due to a decrease in lower sales <Additional> Outsourcing and labor cost reduction	1.7	1.0	0.4	1.4	2.4	3.2
Metalworking Solutions	<Plan>Cost reduction by the development of smart factories <Progress>Generally on par with the plan <Additional>Accumulation of cost reductions for non-consolidated and subsidiaries	0.9	0.9	1.2	2.2	1.9	3.0
Renewable Energy	<Plans and Progress>Preparations are underway to improve operational efficiency through automated operation <Additional>Reduction of power plant operating expenses, etc.	0.0	0.0	0.03	0.03	0.02	0.02
Total		**2.6**	**2.0**	**5.2**	**7.2**	**4.4**	**8.8**

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MITSUBISHI MATERIALS

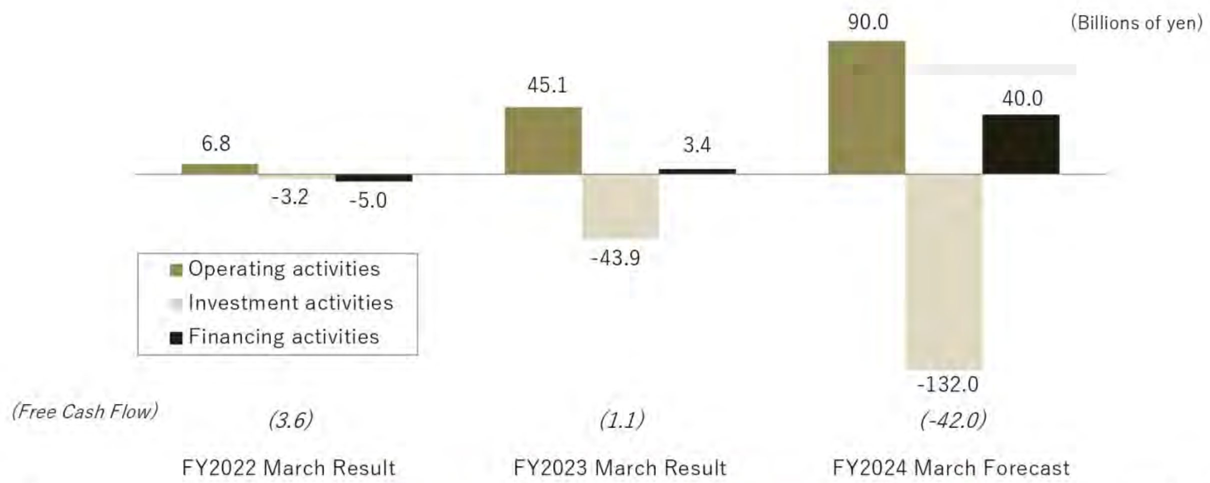
Please take a look at page 15, which presents the cost reduction plans and progress for each Company for FY2024.

We had initially projected a cost reduction of ¥2.6 billion for the year. However, as the situation has developed, we anticipate that we will only achieve around ¥2 billion, as shown in the progress forecast column. In response to this shortfall, we have implemented additional measures. Including these efforts in H2 of the year, we are projecting a total cost reduction of ¥7.2 billion for FY2024.

Given the particularly challenging business environment for both the automotive and semiconductor sectors this year, the Advanced Products business will not be able to achieve the expected cost reductions due to a decrease in quantity. Although we will fall short of our target for this term, as I mentioned, we have put in place additional measures to reach a total cost reduction of ¥7.2 billion.

Cash Flow Forecast

- In the H1, cash inflows declined due to a decrease in operating profit caused by weak demand and an increase in inventories, etc.
- We plan to launch projects to improve cash flow and promote company-wide initiatives.
- Operating CF for the full-year is expected to be in line with the initial plan, and FCF is expected to be ¥-42.0 bn (improved from the initial plan of ¥-50.0 bn) driven by measures such as inventory reduction through appropriate inventory control and early collection of accounts receivable.



16 MITSUBISHI MATERIALS

Please refer to page 16, where we outline our forecast for the full-year cash flow.

Initially, we projected the free cash flow to be negative ¥50 billion. Due to an increase in inventory assets and a decrease in operating profit caused by sluggish demand, cash inflows also decreased. To address this, we have launched a cash flow improvement project that the entire Company is currently working on.

Specifically, by implementing policies such as reducing inventory assets and accelerating the collection of accounts receivable, we expect the operating cash flow for the full year to be in line with the initial plan, which is projected to be ¥90 billion, as shown in the graph here. As for the free cash flow, due to the relationship with investment cash flow, we see a slight improvement and are planning for negative ¥42 billion.

That concludes my explanation for now.

Question & Answer

Participant [Q]: I'm currently looking at the waterfall chart on the page 9 for the full-year performance forecast for FY2024. I see there's a positive impact of ¥7.7 billion from "Other" contributing to the non-operating profit, which seems quite significant. I'm wondering what constitutes the ¥7.7 billion. Could you elaborate on that? That's my first question.

On the page 10, for my second question, focusing on the Smelting business, I am looking at the operating profit. From your earlier explanation, are we to understand that the expected turnaround in H2 of the year is solely due to foreign exchange rates? Could you please provide more details on the expected improvement in the Metals business from H1 to H2?

Also, regarding the dividends received, which have been slightly revised downwards, can you clarify if we can expect a significant rebound in H2, and if this is a high-visibility matter? Those are my two questions.

Ono [A]: Regarding the first one, to break it down by business segment, about ¥4 billion of this ¥7.7 billion is from the Metals business. This includes ¥1.4 billion from financial income and expenses and around ¥2 billion from foreign exchange gains. Another large portion, which doesn't fall under any specific business segment, relates to the overall improvement in financial income and expenses, and as I mentioned earlier, the impact of foreign exchange on foreign currency-denominated receivables and payables, which collectively contribute to this total amount.

Regarding your second question about the operating profit variance in the Smelting business in H1 versus H2, of course, the current weakening of the yen is having an effect. In addition to this, we are anticipating an increase in sales volumes of electrolytic copper, palladium, and gold, as well as an improvement in the price of sulfuric acid we receive. We are also expecting improvements in actual metal recoveries. Combining all these factors, we are projecting an increase in operating profit of about ¥8 billion.

Participant [Q]: The dividends from the Los Pelambres mine are highly visible, aren't they?

Ono [A]: Indeed, we have a subsidiary in Chile and are in frequent communication with their management team. While there isn't any written documentation, we consider the projections for dividends to be highly reliable.

Participant [Q]: Operations have already improved, though I assume there's been some variability month by month. Can we expect full blast operations next year, with the capacity enhancements fully kicking in?

Ono [A]: There are two main points to consider there. One is the desalination of seawater, which is already having an effect. The expansion works are progressing, albeit with some delays. Assuming there are no significant issues during startup, we can certainly expect full-scale operations next year.

Participant [Q]: My first question is about Copper and Copper Alloy business. Referring to the material on page 11, the sales volume for wrought copper products is 61,000 tons for H1, and I'm assuming around 55,000 to 65,000 tons for H2. It doesn't seem like there's a significant increase in volume for H2, yet the profit seems to increase considerably. What is the reasoning behind this?

Also, regarding Metalworking Solutions business, if we look at the operating profit, it's about ¥2 billion for Q2, I believe. From that level, it seems like there will be a considerable recovery in H2. Could you share your thoughts on this, please?

Ono [A]: Regarding the sales volume for copper and copper alloy products, H1 was 61,000 tons and H2 is projected to be 126,000 tons, which refers to the total sales volume of copper products. Profitability of copper alloy materials used in automotive connectors, our key products, particularly varies and we've already started receiving orders at this point. We expect these to contribute to an increase in profits.

The sales volume of copper and copper alloy products includes extrusion business and wire products, so while the total volume doesn't seem to increase much, the mix of product types plays a significant role in contributing to profitability. That's the first point.

For the second point, concerning the Metalworking Solutions business in H2, we have been working from the start to achieve our initial forecasts. We've implemented various campaigns and built up detailed sales strategies, which we expect to bear fruit in H2. We believe that these will contribute to the results we are forecasting. Of course, some of this is also positively affected by currency exchange gains. There's a good probability that the outcomes will reflect our plans.

Additionally, there is a portion, about ¥2 billion, which comes from inventory adjustment gains included in these figures. That concludes my explanation.

Participant [Q]: Regarding Metalworking Solutions business, how do you view the market environment in Japan and China for H2?

Ono [A]: In Japan, we haven't seen a significant recovery yet, but we expect it to improve slightly compared to H1. This is partly due to the overall automotive industry showing some positive signs. However, the overall sentiment in China feels quite subdued. Some of our Japanese customers also cater to the Chinese market, so when taking that into account, a major recovery in China seems unlikely.

Looking at the performance, for instance, in H1, the Japanese market has decreased by about 20% compared to the same period last year. Although there's been talk of a downturn in China, it's actually about a 3% decrease. This is based on sales revenue, so that's the comparison with the previous year.

Furthermore, compared to last year, Europe has grown by about 12%, and North America by about 8% in H1. Considering that Japan, Europe, and North America together account for about 70% of our total business, the trends in these regions have a significant impact on our overall earnings. That's all.

Participant [Q]: My first question is about the information on page 14. For Mitsubishi UBE Cement, the operating profit for H1 is ¥21.5 billion, with a full-year forecast of ¥33 billion, indicating an expected decrease in H2. Could you explain the background of this?

Additionally, you mentioned the successful implementation of a ¥5,000 per ton price increase. Could you provide more details on the timing of this achievement?

My second question is about the earlier mention of an increase in inventory for the Metalworking Solutions business in H2. Could you elaborate on what changes in the supply chain have prompted this? And one last thing for confirmation, the growth rates you mentioned earlier, are they 8% for North America and 18% for Europe?

Ono [A]: Let me first address the figures for the Metalworking Solutions business. The growth rates for H1, compared to the same period last year, are 12% for Europe and 8% for North America. Conversely, I believe I said that Japan has seen a decrease of about 20%.

Now, regarding your first question about cement, the expected decrease in profits for H2 is due to a couple of factors. Domestically, we don't foresee a significant increase in sales volume for the full year, so despite the price increase, H2 is expected to be weaker.

Internationally, we are projecting similar sales volumes in H2 as in H1, but we are also anticipating various cost increases. In the US, we are facing rapid cost increases, including energy and labor costs, which we have factored into our projections. These considerations are behind the differences in profit expectations between H1 and H2.

Furthermore, although our overseas business appears to be performing well in H1, part of this is due to the fact that in the previous fiscal year, specifically from January to March 2023, California experienced heavy rainfall, which slowed construction. That work resumed in April and beyond, which led to a significant uptick in business. This rebound is one of the reasons behind the expected decrease in profits for H2.

Regarding the price increase, as of now, we have almost fully achieved the ¥5,000 increase. We expect to see the effects of this in H2. However, as I mentioned earlier, the volume is weaker than initially anticipated, so the increase may not be as impactful as we had hoped.

As for the supply chain changes related to the increase in inventory of Metalworking Solutions business, it's more about our past experiences rather than changes in the supply chain.

For instance, during the Lehman crisis, we significantly reduced our inventory in response to demand, but when the market recovered after the crisis, we experienced opportunity losses due to insufficient inventory. Based on these past experiences, we believe it's better management practice to maintain a higher inventory level as a precaution for the future. That is the main reason for our approach. That concludes my response.

Participant [Q]: Firstly, regarding the Electronic Materials & Components business, when we look at Q2 alone, there was an operating loss, but for H2 of the year, there is an aim for a turnaround of ¥2.1 billion. On page 12, it mentions expanding sales of chemical products and implementing various cost reduction measures. Could you provide more details on the specific reasons for this expected improvement from H1 to H2 of the fiscal year?

Secondly, on page 15, regarding enhancing cost competitiveness, I would like to know how much of the ¥7.2 billion cost reduction for the current fiscal year was realized in H1 and what is expected for H2. Also, could you explain the certainty and reliability of these projections? Those are my two questions.

Ono [A]: Starting with the Electronic Materials & Components business, we're anticipating an increase of about ¥2 billion, which includes various profit improvement measures, such as cost reductions, contributing around ¥0.6 billion.

Mitsubishi Materials Electronic Chemicals is expected to contribute about ¥0.4 billion in increased profits from chemical products. Additionally, there are profits from fine chemicals and non-woven fabrics, which are expected to bring in just under ¥0.3 billion.

Another subsidiary, Mitsubishi Cable Industries, primarily deals with seal products, some of which are used in semiconductor manufacturing equipment. Sales in this area are trending upward, and we're forecasting an increase of about ¥0.8 billion. That summarizes the situation for Electronic Materials & Components business.

Regarding cost reductions, we have a total target of ¥7.2 billion, with about ¥3 billion realized in H1 and ¥4.2 billion expected in H2. In terms of confidence, we are committed to this target as it's essential to achieve our forecast for the full fiscal year.

The probability is high because this is not just a number—we have detailed build-ups behind these figures. Even though we have not provided every detail in the documentation, I personally believe the likelihood of reaching our goal is quite high.

Participant [Q]: I understand. The significant variance between H1 and H2 made me wonder if there would be more cost reductions going forward.

Regarding my first question on the chemical products at Mitsubishi Materials Electronic Chemicals, you mentioned increased sales of chemical products, fine chemicals, and non-woven fabrics. Has the business environment for these products improved in the latter half of Q2 compared to H1?

Ono [A]: For chemical products, we have actually been on a steady course since the beginning of the fiscal year. Unfortunately, H1 ended up at zero, mainly due to the drag from silicon precision machining and columnar crystal silicon-related products, which are materials for semiconductor manufacturing equipment and have seen extremely low orders.

So, when we talk about increased profits from chemical products, it's not that we're expecting a huge jump from there, but rather, we've been moving steadily and can expect some additional gains on top of that.

Participant [Q]: I see. So, while the semiconductor-related sectors continue to face challenging conditions, the other areas are performing well, and this is expected to further improve in H2. Is that correct?

Ono [A]: Yes, that's correct.

Participant [Q]: My question is related to the earlier ones, but I'd like to inquire about where the cost reduction measures fit into the waterfall chart explained earlier. While the ¥7.7 billion in "Other" was primarily attributed to financial income and exchange gains, I'd like to confirm whether these cost reductions are included in the quantity effect or how they contribute to the ¥5.6 billion figure as net gains.

My second question is about how we should view the breakeven point. In the FY2031 Strategy, it's positioned as a period of proactive investment over the next three years. This was also reflected in the earlier explanation of the cash flow, as I understand it.

Given that an impact is anticipated if the volumes decrease due to these investments, should we expect a lower marginal profit rate going into the next fiscal year, considering the complete inventory adjustments and the return to normal volumes? Or, taking into account the results of these cost reduction efforts, can we maintain the same marginal profit rate? I would like confirmation on the direction of the breakeven point.

Ono [A]: First, regarding the impact of cost reductions, we've factored it into the price variance and volume variance. However, price variance includes both the effects of price increases and cost reductions. I should clarify that this is not entirely the case. For instance, in the earlier explanation of the ¥7.7 billion, about ¥3.7 billion from the Metals business was related to efforts to reduce hedge costs, which was included in Other. So, I apologize and would like to make that correction.

I apologize for the earlier statement, as not all cost reductions are incorporated in the price variance. I'd like to correct that.

Participant [Q]: So, you're not talking about external numbers?

Ono [A]: No, it's not the external numbers. It's internal, as I understand it.

Participant [Q]: I see. So, it's not meant as an additional buffer in a separate category?

Ono [A]: It might be an issue of phrasing, but if we extract the effort from the cost reduction, it is reflected in the earlier figures I mentioned.

Participant : Understood. That's clear enough. Thank you.

Ono [A]: Next, concerning the break-even point, we are always managing by tracking the growth of marginal profit against the increase or decrease in fixed costs, ensuring that fixed costs don't just rise unchecked.

We are still in the middle stages, but in conjunction with that, particularly in the Copper & Copper Alloy business, we're not looking at the business as a whole but at specific production sites like our main Wakamatsu Plant or Sambo Plant. We're constantly monitoring and analyzing how the break-even point is improving, even with fewer orders.

At least up to the end of H1, although the order environment has been quite challenging, we have managed to somewhat contain fixed costs and slightly improve the margin of profit. That's the situation we are in.

Participant [Q]: In that sense, since we're looking at investments that significantly exceed depreciation, can we understand that combined with cost reductions, we can calculate for a recovery in volume from the next quarter onward without worsening the margin of profit rate?

Ono [A]: That's correct; we are proceeding with that in mind. In terms of cash flow management, we first focus on how our cash inflows will perform, and then we consider our investments. Initially, we thought that operating cash flow might significantly decrease in H1, but with various cost improvements, it has somewhat rebounded. Now, we expect that for the full year, the operating cash flow will not differ much from what it was.

As for investments, given the situation in H1, we have managed by postponing non-essential expenditures where possible. As a result, our forecast for the full-year cash flow, which I explained today, suggests that while we may see a slight negative free cash flow, the direction is towards improvement.

Participant [Q]: The first one is a clarification on a point that overlaps with the previous question. Regarding the mining dividends, should we interpret the fact that they haven't been included in H1 simply as a timing issue? Or is there a downside risk that the actual amounts might decrease moving forward? I believe there has been a downward revision of about ¥1 billion compared to the previous forecast. I assume this includes assumptions on copper prices and such, so I would like to understand the background and thought process behind this.

If it is purely a timing issue, I would like to know the current situation. Previously, I believe it was expected that the mining dividends would be received in two installments in Q2 and Q3. What is the situation now?

For my second point, I would like to inquire about dividends. The full-year forecast has been revised downward, but the dividend has been maintained. Should we assume that the intention is to maintain the dividend at ¥94 even if there is a slight risk in H2 and there's a need for a downward revision? I understand that your company does not have a policy like a minimum dividend, but could you explain the background of the decision to maintain the dividend?

Ono [A]: Regarding the dividends from the copper mines, the Company receives dividends mainly from two mines: the Los Pelambres and the Escondida mines. For the Los Pelambres, we expect to receive roughly the same amount as we initially anticipated, although the timing of the receipt will be delayed.

On the other hand, for the Escondida mine, I have heard they are experiencing drought conditions which have led to reduced operations. Therefore, we foresee that the dividend from there will be less than planned, and this is the reason for the overall decrease in the dividend amount.

As for the timing of the Los Pelambres dividend, as I mentioned earlier, we are in close communication with the local management and are adequately aware of their cash management situation, so we believe that it is just a matter of timing.

As for the second point regarding the Company's dividends, we have made a slight revision to the bottom line in our full-year outlook. Given our policy of a 30% dividend payout ratio, the revised bottom line results in a dividend payout ratio of about 32%. We judged this deviation to be very small and thus did not consider it necessary to revise the dividend per share.

Regarding the future, which I believe was the crux of your question, there is no fixed response to how we would handle a significant fluctuation. It's difficult to speculate without knowing the extent of the variation. However, if the dividend payout ratio fluctuates by about 2% as it currently does, then there should be no misunderstanding that we aim to maintain the dividend per share to a certain extent.

As for what we would do if there were more significant changes, that would be a matter for the Board of Directors, and it's not something I can give a definitive answer to at this time. Our management policy is to achieve what we forecasted at the beginning of the period. Therefore, our goal is to maintain the dividend per share as it is, which is the answer I can provide at this moment.

Participant [Q]: First, please update us on the current situation with Luvata.

Second, with the platinum group metals (PGM) market experiencing a downturn and now stabilizing, could you explain the impact this had in H1 and what your expectations are for H2?

Ono [A]: Regarding Luvata, we handle a variety of copper products, such as welding electrodes and superconducting wires for medical use, and recently, we've been focusing on connectors for EVs.

For welding electrodes, we are progressing smoothly everywhere except China. In the US, there was some impact due to strikes, but that's expected to be resolved, and we anticipate stable progress. In Europe, on the other hand, we expect a bit of an economic downturn, considering the region's previously strong performance.

Furthermore, with Europe, given that it has been performing well so far, we are somewhat concerned that the economy might experience a downturn going forward.

Regarding the superconducting wires, there was actually a lot of demand, but we faced some production issues on the Luvata side, which prevented us from meeting the demand adequately in H1. Therefore, we expect an upward trend in H2 as we aim to eliminate these production shortfalls.

Looking ahead, we are focusing on expanding sales of connectors for electric vehicles, particularly for charging purposes, as we anticipate a rise in demand for these products.

However, on the other hand, we have been investing in extrusion machines and increasing production in the US and Europe. The rising interest rates on these investment funds do pose a drag on our progress. Therefore, excluding the burden of interest expenses, I would say that the business has been showing relatively solid growth since the latter half of the last fiscal year.

The challenge we face lies in the non-operating expenses, which have slightly increased when looking at ordinary profit.

Regarding the platinum group metals, the price of palladium has been much weaker than initially anticipated and doesn't seem likely to turn significantly upward in H2.

The impact on our performance is predominantly due to palladium, which is significantly more influential than platinum. So, while platinum is of interest, it will not substantially affect financial result, and we do not foresee a bullish outlook for it. That is our current view.

Moderator : If there are no further questions, as we are nearing the end of our allotted time, we will conclude the Q&A session here.

To close, I would like to invite Mr. Ono to give some final remarks.

Ono : Thank you for your participation over this extended period today, and for all your questions. I have tried to answer with sincerity based on the information available to me, but should there be any points that remain unclear, please feel free to direct further inquiries to our team.

We also have an Investor Conference scheduled for next week, where we plan to provide an update on the FY2031 Strategy's progress. I would appreciate your participation in that as well.

Thank you very much for today.

[END]