



## **Mitsubishi Materials Corporation**

Financial Results Briefing for the Fiscal Year Ended March 2024

May 14, 2024

## Question & Answer

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**Participant [Q]:** My first question is about the Metals business in the just-ended period. Does it fall a little short of the plan? Can you give us some background about this?

Secondly, regarding Copper & Copper Alloy business, you are forecasting a considerable increase in profit for the current fiscal year, mainly due to volume factors, but what kind of market environment, such as automobile production, do you expect, and how will your company perform in such a market environment? That is all.

**Takayanagi [A]:** Is the underachievement in Metals business that you are talking about the operating profit part?

**Participant [Q]:** Yes, operating profit.

**Takayanagi [A]:** Regarding operating profit, one factor was the impact of some minor problems at the Onahama Smelter & Refinery, and a big factor was that the prices of sulfuric acid and palladium were much lower than we had initially expected. In addition to the small trouble at the Onahama Smelter & Refinery, we import precious metal slime from PT Smelting, smelt it, and sell it as gold, silver, and other metals. But there was a problem with the Indonesian government's permission, and for a while we were not able to send the slime here. That also had an effect.

The impact of the operation trouble and the suspension of slime shipments was approximately more than ¥2 billion, and the negative impact on the metal recoveries in actual production related to this matter was quite large, amounting to ¥9 billion. Also, the impact of sulfuric acid prices was quite significant. I think it is safe to think of a large portion of the remainder as a minus from sulfuric acid. This is my answer to your first question, but is it sufficient?

**Participant [Q]:** Yes. Does the ¥9 billion figure mean that your company's metal recoveries in actual production declined by that amount compared to your plan?

**Takayanagi [A]:** That's what it means.

**Participant [M]:** I understand.

**Takayanagi [A]:** Regarding your second question, about Copper & Copper Alloy business, as you said, basically, there will be greater increase to the degree of recovery in terms of volume. Copper & Copper Alloy business itself has also raised its prices quite a bit, but in order to reap the full benefits of the price increase, the effect will not be felt unless the volume of copper processed is increased. Perhaps it is strange to call it a double effect, but considerably amplifying the effect is one of the first issues.

In addition, as I mentioned earlier, we have been reducing costs considerably, and we would like to fully enjoy the benefits of this cost reduction this fiscal year. That is all.

**Participant [Q]:** I understand the cost part, but what do you think about the volume? For example, looking at the automobile market like this, and how it compares to that, I think the volume will increase by about 20%, but can you tell us about the environment and what you are thinking about it?

**Takayanagi [A]:** We expect automotive-related demand to recover from Q2 onward. I think that electronic materials will also start rising in H2, albeit gradually. In H2 of this fiscal year, including electric materials,

Advanced Products business expects that sales volume will return to the level originally projected in our Medium-term Management Strategy in H2 of this fiscal year. That is all.

**Participant [M]:** I understand. Thank you very much.

**Participant [Q]:** I'm afraid I'm asking the same kind of question. The first question is operating profit and the second question is non-operating profit, but with operating profit, for example, if you look at Copper & Copper Alloy business and the like, there is only about ¥800 million in operating profit, and if you multiply it by four, it is still billions of yen. It gives a forecast in the triple digits.

Looking back historically, profits in this segment were in the triple digits in FY ended March 2019 and other times when the global economy was booming, so at first glance, profits in the Copper & Copper Alloy and Electronic Materials & Components businesses seem to be somewhat out of reach for FY ended March 2025.

In addition, you are consistently generating operating profit of about ¥3 billion for the Metalworking Solutions business, which is ¥2.6 billion now, but in order to achieve the budget, you need to generate around ¥4 billion quarterly. Amid a poor background, I think that in addition to prior investment, the Chinese market may also have an effect.

The economic environment in the past was quite good when the profits you are aiming for were generated, so as far as I can see, operating profit may not reach that level this year. I also get the feeling that there is probably a considerable difference between H1 and H2. Sorry, but could you tell me one more time what you think of the image of operating profit being roughly flat during the current H1 and rising sharply in the second? That includes Metalworking Solutions business. I'm a little unsure about Metals business.

Regarding non-operating profit, it feels conservative. One reason is that copper prices are very high right now, and of course, in the case of your company, the price of copper is 400 cents per pound, but it has been exceeding that. If that were to happen, would there be any change in the Los Pelambres dividend?

Also, I see on page 25 that Mantoverde and Copper Mountain will improve greatly this time around, and I was wondering if you could give me some background on this improvement.

Finally, in non-operating profit, you have Mitsubishi UBE Cement. UBE also said that they would not discuss this much, but other cement companies are doing very well in their financial results released today. I understand that it is coal, but I have the impression that this is also conservative. Could you please explain this a little?

**Takayanagi [A]:** Let's start with operating profit, as you said, I can see that it may be tough if we look at the FY ended March 2024 results or the Q4 FY ended March 2024 figures. However, from our point of view, the recent financial results of OEMs show that they are all doing well, and Toyota, for example, has not changed its automobile sales volume significantly between last year and this fiscal year.

Our thinking is that the inventory that was overstocked in H1 has now been cleared, and we expect it to rise in stages in Q1 and Q2, and in H2, in Q3 and Q4. If that view is correct, I believe we will probably come up with these numbers.

The reason for this is that we believe we are doing what we should be doing, such as narrowing down costs, as I mentioned earlier. So, in that sense, it may be better to say that we do not think the figure is unreachable. We have made some upfront investments in the Metalworking Solutions business as well, so there are some areas that are becoming heavier, but we would like to focus a little more on sales in the Metalworking

Solutions business this year. In particular, we feel that the domestic market is a little weak, so we would like to focus a little more on this area to drive sales.

As for non-operating profit, we are currently looking at the copper price at 400 cents, so it would be better to look at the sensitivity of the copper price, and if the price were to go up to 450 cents or even higher, for example. It would be better to consider the sensitivity of the copper price.

As for the copper price increase, we have budgeted 400 cents for each mine in our current budget, so we believe that a copper price increase in these areas would be a positive factor that has a clear effect. And as for Mantoverde and Copper Mountain, Mantoverde is in the process of starting commercial operations this month, in May, so once this is up and running, it will be a positive factor in our profits.

As for Copper Mountain, our partner has changed to Hudbay, and Hudbay is also working to optimize its operations over the medium to long term, and we believe that this will gradually begin to show in the current fiscal year, which is why we are raising the figures here. In particular, in the case of the previous fiscal year, we recorded a negative valuation on the so-called Mine Plan or Ore Reserve, which is similar to a valuation loss, after the change to Hudbay. But this year we do not expect to record such a negative valuation, so I think it will have a positive effect in that sense as well.

As for UBE, what I mentioned earlier is the most realistic outcome, but as for Japan, cement consumption is still in the 35-million-ton range, and I think it is difficult to expect a large increase at this point. This is not easy, as this year there is also the lifting of the special exception to the so-called 36 agreement in the construction industry.

We have an engineering company; Mitsubishi Materials Techno and it is taking this into consideration to some extent by now taking actions such as not accepting all orders. I think that the situation in Japan will not improve easily. At the same time, however, we cannot afford to make the profit and loss any worse, so I think it is important that we manage to maintain it.

And as for overseas, we are still forced to look at some cost increases this fiscal year, so we have included some of that. I think there is a difference of opinion as to whether this is considered conservative or not. Also, in terms of how we view other overseas businesses, as I mentioned earlier, the Australian coal business is negative in terms of both price and volume. This is not too conservative since the figures are pretty much in line with our fairly realistic current plan. I think it is not too conservative, but it is a subtle point.

**Participant [M]:** I understand. Q4 was pretty upbeat, so I had to ask a few questions.

**Takayanagi [M]:** Yes, of course.

**Participant [M]:** Thank you.

**Participant [Q]:** My first question is that you mentioned earlier that the operating profit of the Metals business fell short of the plan, probably by a little more than ¥6 billion. In your explanation earlier, it seemed like there was a very large negative impact from something and that the calculation did not add up. What is the reason for this ¥7 billion downward swing, and what is the background to the decline in the copper smelter's metal recoveries in actual production, and will it be dragged on into the current fiscal year and beyond?

My second question is, what would do about dividends if profits were to fall short of your plan for the current fiscal year? These are my two questions.

**Takayanagi [A]:** What is easy to understand is the waterfall graph comparing the previously announced ordinary profit and the actual results for the fiscal year that ended March 31, 2024, which you can see on page eight.

The price difference here is minus ¥1 billion for concentrated sulfuric acid, minus ¥300 million for palladium, minus ¥1 billion for Metals business in terms of quantity, and minus ¥2.5 billion for other differences in metal recoveries, and minus ¥3.6 billion for Onahama's holding volume. This is a rough breakdown of the figures I just mentioned.

**Participant [Q]:** Did you say that palladium was minus ¥1.3 billion? I'm sorry, can I ask you to repeat that?

**Takayanagi [A]:** It says the deterioration of sulfuric acid trading conditions and the drop in palladium prices, but it is about ¥1 billion in the area of concentrated sulfuric acid and sulfuric acid prices. ¥300 million in the palladium price area, and of the ¥1.6 billion in volume difference, Metals business makes up ¥1 billion. This is a transitory factor, and the rest is about ¥6 billion related to difference in actual production of metal. This is a negative factor included in the other category.

**Participant [Q]:** I understand. What is the background to the slight downturn in actual metal recoveries and whether or not it will continue into the new fiscal year and beyond?

**Takayanagi [A]:** As for the drop in actual metal recoveries, one factor that I mentioned earlier, which is true for copper and gold, but particularly for gold, is that the slime from PT Smelting was not coming in steadily. That has been resolved, so as to whether that will continue to be the case this fiscal year, we believe that the impact of that will probably be less when it comes to this fiscal year.

**Participant [Q]:** I understand. Also, could you tell us what your plans are for dividends in the unlikely event of a downturn in earnings?

**Takayanagi [A]:** Basically, our policy on shareholder returns is to aim for a dividend payout ratio of 30%, so of course there is some allowance for this, but unless there is some special factor that causes a significant downturn in performance, we would like to basically stick to our policy.

**Participant [Q]:** I understand. If you can stay within a slight allowance, you hope to maintain, to some extent, the plan set at the beginning of the period.

**Takayanagi [A]:** Yes, that's right. Basically, I believe that the best scenario is to adhere to the profit plan set at the beginning of the fiscal year and pay out dividends accordingly.

**Participant [M]:** I understand. Thank you very much.

**Participant [Q]:** I have two questions; one is about Metals business and the other is about Metalworking Solutions business. I am sorry for the repetition about Metals business, but as you mentioned in your explanation of the swing in results, going forward, PT Smelting will become an equity-method affiliate.

In your explanation earlier, I think you said that shipments of precious metal slime were temporarily halted. After the equity method is adopted, do you think it will be possible to continue to bring in such precious metal slime in the future, or is it necessary to separate that? I would like to confirm one point about the changes that will result from this change in equity.

In your explanation of the cash flow for the just-ended fiscal year, you explained the cash outflow of investment in capacity expansion. I'd like to confirm the manner of that investment burden going forward. Does it mean both sides of the equity, or does it mean that such a thing will not occur in the future?

I am afraid that I have asked this question many times, but I would appreciate it if you could explain to me again how the change in the various structures due to this change in equity is not only accounted for in P&L, but also how it will change in actual business.

Also, in terms of changes in the Metals business, recently there was some explanation of the effects of E-Scrap, but this time there was nothing in particular. I believe you are working on it as part of the current Medium-term Management Strategy and that real change will take a few years from now, but please explain what kind of impact there was from it, or not. That is about the Metals business.

In the Metalworking Solutions business, you mentioned earlier the change in volume for Copper & Copper Alloy business, and I think you have indicated that the increase in volume is the main factor for profit increase in the Metalworking Solutions business in the current fiscal year.

The past quarterly performance trend has not necessarily shown a clean bottoming out and steady growth, and the automobile industry does not necessarily show an upward trend in production volume, so I am looking at the progress of inventory adjustment in this area and the background of the increase in volume.

My second question is that I would like to ask you to explain how you see this area, or how certain you are about it. Thank you.

**Takayanagi [A]:** I will start with the first question. Even if PT Smelting becomes an equity-method holding, basically the precious metal slime will be brought to us for the time being. Regarding this, there are no metal refining facilities in Indonesia, and based on the partnership with PT Freeport to date, it is fine to understand that the project will continue.

As for the investment burden, we have made a major investment in the expansion of copper processing, so there will be no major investment in the foreseeable future. However, PT Freeport will start to build a new copper smelter in Indonesia this year. So, I suspect PT Freeport will concentrate on that. In this case, I do not think there will be a major investment in PT Smelting in the immediate future, so I do not think there will be much time to think about whether or not we will bear the equity-method portion.

However, basically, our smelting business in Indonesia is based on the business model of generating stable income through operations and maintenance. From this perspective, we do not expect to be burdened with a large new investment. This answers the first question.

Regarding the second question, about E-Scrap, for collection volumes both last year and this year, we are trying to collect the maximum amount of E-Scrap that can be processed at this time. As to whether the processing volume of E-Scrap is increasing, we are now in the final stages of considering how to increase the processing volume of E-Scrap by installing the necessary equipment. Since we are about to make an investment in this area, we expect to start seeing the effects of this investment at the end of Phase I or in the year following Phase I. This answers the first question about the Metals Company.

**Participant [Q]:** I'm sorry, but just to confirm, the precious metals will continue to be processed as before, with the slime coming in. Is it just a matter of understanding that the share will be reduced commensurate with the equity?

**Takayanagi [A]:** No, I think it is safe to say that 100% of it will come.

**Participant [M]:** I understand.

**Takayanagi [A]:** Regarding Metalworking Solutions business, our analysis shows that, to be honest, to repeat what I said earlier, we think that sales in Japan are a little weak, so we are planning to conduct activities to capture market share rather than to increase the overall pie. This is what we are incorporating into the business plan of this forecast here.

As for the automobile industry, just like the Copper & Copper Alloy business mentioned earlier, it is difficult to say how much our cemented carbide products are actually being used for automobile demand. There is some concern at the moment that we have accumulated quite a bit of intermediate inventory, just as we touched on earlier with Copper & Copper Alloy business, and we expect that this will be resolved in H1 or Q1 of this year, and sales will gradually increase.

With these two factors, we now expect that sales and profits at the Metalworking Solutions Company will increase this fiscal year. That is all.

**Participant [Q]:** Do you have any quantitative information, like what percentage increase you are seeing in specific volume changes?

**Takayanagi [A]:** We are also selling worldwide, and we expect an increase of between 10% and 15% in sales worldwide. Japan is, for the most part, almost entirely in line. If anything, I would say that we are going to further increase sales in the Asian region.

**Participant [Q]:** Thank you. Is it correct that this is an instant quantity?

**Takayanagi [A]:** Yes, that's right. Look at it in the context of cutting tools.

**Participant [M]:** Thank you.

**Participant [Q]:** I would like to ask two questions. The first question is to confirm some numbers, on page 12, and then on page 15. In the analysis of profit increase and decrease from the just-ended fiscal year to the current one in the Metals business and the Metalworking Solutions business, you have large figures for the other category, of minus ¥5 billion and minus ¥7.6 billion. Can you please give us a breakdown of these other categories from the results for the period through March 2024 to the forecast for that through March 2025? That is my first question.

I also have a second question regarding investments. Phase I of the Medium-term Management Strategy calls for ¥230 billion in growth investment, of which ¥110 billion is for resource recycling and ¥70 billion is for enhancing the supply of high-performance materials and products.

Now, in the second year, Mr. Takayanagi mentioned earlier that some of the investments in Electronic Materials & Components business have been reviewed a little. I would like to know how the ¥230 billion in growth investments over the three years of the Medium-term Management Strategy could be changed, how the investments have been made, and how they will be reaped. These are my two questions. Thank you.

**Takayanagi [A]:** I understand. The ¥4 billion under the equity-method holding of PTS is the largest negative figure in operating profit. In the non-operating section, there was originally a foreign exchange gain of more than ¥3 billion, which is included in the other section because of the sharp depreciation of the yen at the end of the previous year.

That is not the case this fiscal year, and since we do not see the yen moving particularly weak as an exchange rate, there is not plus there, and that is the main reason for the minus ¥5 billion in the Metals business.

As for Metalworking Solutions business, one major inventory adjustment was made in the previous fiscal year, FY ended March 2024, when orders fell considerably, and inventory increased because production adjustments could not keep pace with the drop. The cost of inventory adjustment will be more than ¥2.5 billion to eliminate the increased inventory in the current fiscal year.

Also including in other was an increase in labor costs of about ¥1.5 billion, and a non-operating loss of about ¥1.5 billion in foreign exchange gains and financial income and expenses, for a total loss of about ¥7 billion. This answers the first question.

**Participant [M]:** Yes, I understand.

**Takayanagi [A]:** And investment is the second question, right? As for the investment part, we are looking at ¥230 billion in Phase I. Of that, based on the FY ended March 2024 actual results and the current year's forecasts, growth investment is roughly ¥50 billion to ¥60 billion for each fiscal year, which is a negative ¥100 billion or more compared to the ¥230 billion, and we are wondering if this will reach ¥230 billion in FY ending March 2026.

I can't go into too much detail, but there are some areas, such as mining investment, which is a very large amount of money, but in that sense, these areas have been pushed back a little due to the course of negotiations. So, in that sense, there are some areas that have fallen a little behind.

For the others, which are Copper & Copper Alloy, Electronic Materials & Components, and Metalworking Solutions businesses, we are going to make the investments that we had generally anticipated. However, for silicon precision parts for electronic materials, for example, whose sales environment has changed significantly, we are currently considering putting that money into other products, and we are still undecided on this point.

And as for Metals business, as you all know, the treatment charge (TC) and refining charge (RC) are very bad at the moment. On the other hand, the price of sulfuric acid, which is a byproduct, has not been rising, so we had originally planned to increase ore production and process E-Scrap.

We are now discussing whether or not it is really appropriate to continue to increase the amount of ore we process, and we are considering what kind of investment we should make in Metals business. Of course, there is no change to the basic policy of increasing E-Scrap processing. We are also considering what we should do in terms of methodology.

Therefore, although the cash inflow in Phase I itself will decrease overall, there is some debate as to whether or not we will be able to meet the full amount of the ¥230 billion in growth investments that we believe are necessary. However, I hope you understand that we will steadily make growth investments to implement the necessary measures. That is all.

**Participant [Q] :** I understand. Regarding the second point, especially Metals business, I know that the TC/RC is getting so bad that the Chinese spot is negative. Your company is taking a two-year average of Japanese smelters using the brick method, and although the spots are indeed bad, I was not really aware that the current environment had deteriorated that much. In light of the current environment, is it necessary to consider even the methodology?

I thought the point of processing E-Scrap was the gist of your company's growth story and circular business, so I was wondering if the story would be quite different if that were changed. That is why I asked this question.

**Takayanagi [A]:** What I just mentioned is that for the current fiscal year, the procurement of ore is almost already solidified, so we are hardly affected by the current poor spot situation and such. This is the first point.

However, we are not sure how long this situation will continue, and even if it recovers, it is quite possible that the spot market for TC/RC will remain at a very low level. If we make a bold investment decision to increase the amount of ore processed, since we are an equipment-heavy industry, we will not be able to go back, so we need to consider various measures. But that does not mean, as I said, that we give up on increasing the processing volume of E-Scrap. So, we are now thinking about how to improve the situation.

**Participant [M]:** I understand. Thank you very much.

**Participant [Q]:** Could you please tell me two things in a quick check of the numbers? The first question is about Mitsubishi UBE Cement on page 16. I have a feeling that the market for general coal is currently lower than this company plan, so I was wondering if you could tell us again what the impact would be on your business performance if a downturn were to occur. This is the first question.

Also, I was looking at the profit by segment on page 21, and the renewable energy section seems to jump this fiscal year, but I was wondering if there are any major projects or if it is based on organic growth. That is all.

**Takayanagi [A]:** Thank you for your questions. The first point is the price of general coal at Mitsubishi UBE Cement. I mentioned earlier that we use low-cost thermal raw materials, but we are currently operating with low-cost thermal calorie coal, so the downward swing in general coal prices does not directly affect that. It is not the case that there is no link between the price of general coal and the price of such low-calorie coal, but there is no sensitive link. So, I hope you will understand that there will be no direct effect from the downswing in general coal.

And as for renewable energy, since the operation of the Appi Geothermal Power Plant started this fiscal year, the profits from that have come on board all at once, so we are seeing a bounce. That is all.

**Participant [Q]:** Thank you. If the Appi Geothermal Power Plant has started to move, the profit of this term will act as an indication for next term and thereafter. Is that how we should look at it?

**Takayanagi [A]:** Yes, that's right.

**Participant [M]:** I understand. That is all, thank you.

**Takayanagi [M]:** Thank you all very much for your active questions during this lengthy session. I would also like to take this opportunity to thank you for your valuable time.

As this is the second year of the Medium-term Management Strategy FY2031, we have learned a great deal from our performance in FY ended March 2024, and we will put all our energy into achieving or exceeding the forecast for FY ending March 2025 that we presented today. I would like to ask for your continued guidance and encouragement. Thank you very much for your time today.

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#### **Document Notes**

1. *Speaker speech is classified based on whether it [Q] asks a question to the Company, [A] provides an answer from the Company.*