

Consolidated Financial Results for the Three Months Ended June 30, 2020 (Japanese Accounting Standards)

August 6, 2020

Name of Listed Company: Mitsubishi Materials Corporation Listing: Tokyo Stock Exchange
 Stock Code: 5711 URL: <https://www.mmc.co.jp/>
 Representative: Naoki Ono, Chief Executive Officer
 Contact: Yuji Omura, General Manager, Corporate Communications Dept. Tel: +81-3-5252-5206
 Scheduled filing date of Quarterly Report: August 6, 2020
 Scheduled date of start of dividend payment: —
 Supplementary materials for the quarterly financial results: Yes
 Investor conference for the quarterly financial results: Yes (For Institutional Investors)

(Amounts of less than million yen are omitted.)

1. Results of the three months ended June 30, 2020 (From April 1, 2020 to June 30, 2020)

(1) Consolidated Results of Operations (cumulative)

(Figures in percentages denote the year-on-year change.)

	Net sales		Operating profit		Ordinary profit		Profit (loss) attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
The three months ended June 30, 2020	344,363	-6.0	2,506	-72.1	3,118	-83.7	442	-81.7
The three months ended June 30, 2019	366,256	-12.8	8,992	-46.8	19,191	6.2	2,411	-75.6

(Note) Comprehensive income: The three months ended June 30, 2020: 10,689 million yen (—%)
 The three months ended June 30, 2019: -14,800 million yen (—%)

	Profit (loss) per share	Diluted net income per share
	Yen	Yen
The three months ended June 30, 2020	3.38	—
The three months ended June 30, 2019	18.41	—

(2) Consolidated Financial Position

	Total assets	Total net assets	Shareholders' equity ratio
	Million yen	Million yen	%
As of June 30, 2020	1,929,513	565,359	25.8
As of March 31, 2020	1,904,050	586,034	26.6

(Reference) Shareholders' Equity: As of June 30, 2020: 497,993 million yen As of March 31, 2020: 506,781 million yen

2. Dividend Payments

	Dividend per share				
(Record date)	First quarter	Second quarter	Third quarter	Year-end	Annual
	Yen	Yen	Yen	Yen	Yen
Year ended March 31, 2020	—	40.00	—	40.00	80.00
Year ending March 31, 2021	—				
Year ending March 31, 2021 (Forecast)		0.00	—	40.00	40.00

(Note) Revision of dividend forecast published most recently: Yes

3. Consolidated Earnings Forecast (From April 1, 2020 to March 31, 2021)

(Figures in percentages denote the year-on-year change.)

	Net sales		Operating profit		Ordinary income		Profit (loss) attributable to owners of parent		Profit (loss) per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Six months ending September 30, 2020	720,000	-3.8	-2,000	—	0	-100.0	-5,000	—	-38.23
Year ending March 31, 2021	1,410,000	-7.0	-5,000	—	0	-100.0	-10,000	—	-76.50

(Note) Revision to forecast published most recently: Yes

* Notes

- (1) Significant changes of subsidiaries during the term (changes in specific subsidiaries accompanied by a change in the scope of consolidation): Yes
New: - (Company name: -), Exempt: 1 Company (Company name: Mitsubishi Shindoh CO., LTD)
(Note) For details, please see “(3) Notes on quarterly consolidated financial statements Changes of significant subsidiaries during the three months ended June 30, 2020” under “2. Consolidated Financial Statements and Key Notes” on page 11.
- (2) Application of special accounting treatment in the preparation of the quarterly consolidated financial statements: Yes
(Note) For details, please see “(3) Notes on quarterly consolidated financial statements Application of special accounting treatment in the preparation of quarterly consolidated financial statements” under “2. Consolidated Financial Statements and Key Notes” on page 11.
- (3) Changes in accounting policies, changes of accounting estimates and restatement
- | | |
|---|------|
| (i) Changes in accounting policies due to amendments to accounting standards: | None |
| (ii) Other changes in accounting policies: | None |
| (iii) Changes in accounting estimates: | None |
| (iv) Restatements: | None |
- (4) Numbers of issued shares (common stock)
- | | |
|--|--------------------|
| (i) Numbers of issued shares at end of period (including treasury shares): | |
| Three months ended June 30, 2020: | 131,489,535 shares |
| Year ended March 31, 2020: | 131,489,535 shares |
| (ii) Numbers of treasury shares at end of period: | |
| Three months ended June 30, 2020: | 826,001 shares |
| Year ended March 31, 2020: | 550,160 shares |
| (iii) Average number of shares issued during period (quarterly cumulative period): | |
| Three months ended June 30, 2020: | 130,870,276 shares |
| Three months ended June 30, 2019: | 130,949,845 shares |

* This quarterly financial summary is not subject to a quarterly review by certified public accountants or audit firms.

* Explanation about the proper use of financial forecasts and other special notes

(Notes concerning forward-looking statements, etc.)

The operating results forecasts and other forward-looking statements contained in this report are based on information currently available to the Company, as well as certain assumptions that the Company has judged to be reasonable. As such, they do not constitute an assurance that the Company promises to achieve these projected results. Therefore, readers are advised to note that the actual results may vary materially from the forecasts due to a variety of factors.

Please see “(3) Information on the consolidated earnings forecasts and other future forecasts” under “1. Qualitative Information on Financial Results for the First Three Months Ended June 30, 2020” on page 2 for the assumptions about consolidated earnings forecasts.

(Procedure for obtaining supplementary information on quarterly financial results and quarterly financial briefing)

Mitsubishi Materials Corporation plans to hold a quarterly financial briefing for institutional investors on Thursday, August 6, 2020. The materials used at this briefing are disclosed on the TDnet and the Company’s web page at the time that the quarterly financial results are announced.

Contents

1. Qualitative Information on Financial Results for the First Three Months Ended June 30, 2020.....	2
(1) Details of operating results	2
(2) Details of financial position.....	4
(3) Information on the consolidated earnings forecasts and other future forecasts	4
2. Consolidated Financial Statements and Key Notes.....	5
(1) Consolidated balance sheets	5
(2) Consolidated statements of profit or loss and consolidated statements of comprehensive income	7
Consolidated statements of profit or loss.....	7
Consolidated statements of comprehensive income.....	8
(3) Notes on quarterly consolidated financial statements.....	9
Notes on going concern assumption	9
Segment information	9
Notes on significant changes in the amount of shareholders' equity, if any	11
Changes of significant subsidiaries during the three months ended June 30, 2020.....	11
Application of special accounting treatment in the preparation of quarterly consolidated financial statements	11
Additional information	11
Business combinations and other relationships.....	12
Contingent liabilities.....	14
Related to consolidated statement of income.....	16

1. Qualitative Information on Financial Results for the First Three Months Ended June 30, 2020

(1) Details of operating results

1) Overview of operating results

During the first quarter of the consolidated fiscal year, the global economy was in considerable constraints on its economic activities due to the global spread of COVID-19. In China, the economy appeared to be recovering, but in Thailand and Indonesia, economic growth abruptly decelerated. In Europe and the United States, economic slowdown was also intensified.

In Japan, due to COVID-19, the employment and income conditions deteriorated and exports and industrial production showed an abrupt decline.

Regarding the business environment for the Mitsubishi Materials Group (hereinafter referred to as “the Group”), the Group was affected by the global spread of COVID-19. Demand in semiconductor-related sectors remained favorable, while demand in automobile-related sectors substantially declined. In addition, copper prices fell and domestic demand for cement declined.

Under these circumstances, consolidated net sales for the first three months of the year under review totaled ¥344,363 million, down 6.0% year-on-year. Operating profit decreased 72.1% year-on-year to ¥2,506 million, and ordinary profit fell 83.7% year-on-year to ¥3,118 million. As a result, profit (loss) attributable to owners of parent fell 81.7% year-on-year to ¥442 million.

2) Overview by segments

From the first quarter of the fiscal year, the reporting segments have been changed. The details are set forth in “2. (3) Notes on consolidated quarterly financial statements (segment information).” In this regard, the following year-on-year comparisons are based on the figures for the same quarter of the previous year reclassified into the new categories.

(Advanced Products)

(Billion yen)

	FY 2020 Q1	FY 2021 Q1	Increase / Decrease (%)	
Net sales	97.6	79.9	-17.7	(-18.1%)
Operating profit (loss)	1.2	-0.1	-1.3	(-%)
Ordinary profit (loss)	1.6	-0.7	-2.3	(-%)

In the Copper & copper alloy products business, both net sales and operating profit declined due to decreased sales for automotive products, mainly affected by the global spread of COVID-19.

In the Electronics materials & components business, while sales of automotive products declined due to the global spread of COVID-19, among others, sales of semiconductor-related products increased. In addition, production costs of polycrystalline silicon also decreased. As a result, net sales decreased but operating profit increased.

Consequently, net sales and operating profit for the entire Advanced Products decreased year-on-year. Ordinary profit declined due to the decrease in operating profit.

(Metalworking Solutions Business)

(Billion yen)

	FY 2020 Q1	FY 2021 Q1	Increase / Decrease (%)	
Net sales	40.4	27.9	-12.4	(-30.9%)
Operating profit (loss)	3.4	-1.2	-4.6	(-%)
Ordinary profit (loss)	3.0	-1.3	-4.4	(-%)

In the Cemented carbide products business, both net sales and operating profit declined, due to decreased sales mainly of automotive products in Japan and overseas major countries, mainly affected by the global spread of COVID-19.

In the Sintered products, etc. business, losses increased due to decreased sales of sintered parts, which are major products in Japan and major countries overseas, affected by the global spread of COVID-19, among others.

Consequently, net sales and operating profit for the entire Metalworking Solution Business decreased year-on-year.

Ordinary profit declined due to the decrease in operating profit.

(Metals Business)

(Billion yen)

	FY 2020 Q1	FY 2021 Q1	Increase / Decrease (%)	
Net sales	151.9	157.8	5.9	(3.9%)
Operating profit	1.2	1.5	0.3	(28.7%)
Ordinary profit	9.7	1.6	-8.0	(-82.7%)

In the Copper business, both net sales and operating profit decreased due mainly to a decline in copper prices while production increased year-on-year.

In the Gold and other valuable metals business, both net sales and operating profit increased due mainly to a hike in palladium prices.

Consequently, net sales and operating profit for the entire Metals Business increased year-on-year. Ordinary profit declined due to a decrease in dividend income.

(Cement Business)

(Billion yen)

	FY 2020 Q1	FY 2021 Q1	Increase / Decrease (%)	
Net sales	60.6	51.2	-9.3	(-15.5%)
Operating profit	4.2	1.9	-2.2	(-53.0%)
Ordinary profit	5.0	2.5	-2.5	(-49.2%)

In Japan, both net sales and operating profit decreased, reflecting lower sales volumes as a result of the suspension of construction work in the Tokyo metropolitan and other areas following the spread of COVID-19, as well as increased repair expenses as a result of moving up the schedule of plant shut downs in anticipation of demand decline.

Overseas, in the United States, sales volume of ready-mixed concrete decreased and operating expenses, including such as raw materials costs, also increased. In addition, in the Coal business in Australia, coal sales prices fell. As a result, both net sales and operating profit decreased.

Consequently, net sales and operating profit for the entire Cement Business decreased year-on-year. Ordinary profit declined due to the decrease in operating profit.

(Environment & Energy Business)

(Billion yen)

	FY 2020 Q1	FY 2021 Q1	Increase / Decrease (%)	
Net sales	4.4	4.6	0.1	(4.3%)
Operating profit (loss)	0.0	-0.0	-0.1	(-%)
Ordinary profit	0.3	0.2	-0.0	(-30.2%)

In the Energy-related business, net sales and operating profit increased due to increased sales in the Nuclear-energy-related services business, etc.

In the Environmental and recycling-related business, losses expanded, reflecting increased selling, general and administrative expenses in addition to decreased net sales due to a decline in the unit sales prices of valuables.

Consequently, net sales for the entire Environment & Energy Business increased year-on-year, but operating profit decreased. Ordinary profit declined due to the decrease in operating profit.

(Other Businesses)

(Billion yen)

	FY 2020 Q1	FY 2021 Q1	Increase / Decrease (%)
Net sales	66.8	61.9	-4.8 (-7.3%)
Operating profit (loss)	-0.3	0.8	1.1 (-%)
Ordinary profit (loss)	-0.2	0.7	1.0 (-%)

In the Aluminum beverage cans business, sales of regular cans increased due mainly to an increase in demand for drinking at home following the spread of COVID-19. Raw materials costs and energy costs also declined. As a result, both net sales and operating profit increased.

In the Aluminum rolled and processed products business, losses were reduced due to decreased depreciation resulting from the recording of impairment loss on fixed assets by Mitsubishi Aluminum Co., Ltd. in the previous fiscal year, as well as effects of cost reduction and others, in spite of a decrease in sales for mainly automotive products, affected by the global spread of COVID-19 principally.

In the businesses other than the Aluminum beverage cans business and the Aluminum rolled and processed products business, both net sales and operating profit in the aggregate decreased.

Consequently, net sales for the entire Other Businesses decreased year-on-year, but operating profit increased.

Ordinary profit increased due to the increase in operating profit.

(2) Details of financial position

Total assets at the end of the first quarter of the consolidated fiscal year under review stood at ¥1,929.5 billion, up ¥25.4 billion from the end of the previous consolidated fiscal year. This was due mainly to an increase in investment securities during the first quarter.

Total liabilities were ¥1,364.1 billion, an increase of ¥46.1 billion from the end of the previous consolidated fiscal year. This was due mainly to an increase in borrowings during the first quarter under review.

(3) Information on the consolidated earnings forecasts and other future forecasts

With regard to the consolidated earnings forecasts and dividend forecasts for the fiscal year ending March 31, 2021, which were undetermined, the Company has announced the consolidated earnings forecasts and dividend forecasts for fiscal year ending March 31, 2021. For further details, please refer to the “Notice Regarding the Consolidated Earnings Forecasts, Dividend Forecasts and Non-Consolidated Earnings Forecasts” separately announced today.

2. Consolidated Financial Statements and Key Notes

(1) Consolidated balance sheets

(Million yen)

	As of March 31, 2020	As of June 30, 2020
Assets		
Current assets		
Cash and deposits	134,444	142,742
Notes and accounts receivable - trade	217,259	194,237
Merchandise and finished goods	111,409	120,061
Work in process	112,908	106,812
Raw materials and supplies	127,908	133,089
Other	254,001	271,835
Allowance for doubtful accounts	(2,470)	(2,529)
Total current assets	955,462	966,249
Non-current assets		
Property, plant and equipment		
Machinery and equipment, net	218,923	215,619
Land, net	216,487	214,578
Other, net	223,888	225,689
Total property, plant and equipment, net	659,298	655,886
Intangible assets		
Goodwill	35,586	34,095
Other	15,906	15,272
Total intangible assets	51,492	49,368
Investments and other assets		
Investment securities	183,043	199,437
Other	58,866	62,679
Allowance for doubtful accounts	(4,112)	(4,108)
Total investments and other assets	237,796	258,009
Total non-current assets	948,588	963,263
Total assets	1,904,050	1,929,513

(Million yen)

	As of March 31, 2020	As of June 30, 2020
Liabilities		
Current liabilities		
Notes and accounts payable - trade	113,148	118,200
Short-term borrowings	191,038	202,860
Commercial papers	50,000	58,000
Income taxes payable	10,221	5,856
Other provisions	14,424	7,972
Deposited gold bullion	294,312	318,686
Other	124,746	113,311
Total current liabilities	797,892	824,888
Non-current liabilities		
Bonds payable	60,000	60,000
Long-term borrowings	246,578	269,024
Provision for environmental measures	32,581	30,217
Provision for loss on business restructuring	30,272	28,687
Other provisions	6,117	4,535
Retirement benefit liability	56,312	54,026
Other	88,261	92,774
Total non-current liabilities	520,123	539,264
Total liabilities	1,318,016	1,364,153
Net assets		
Shareholders' equity		
Share capital	119,457	119,457
Capital surplus	92,393	79,234
Retained earnings	274,723	269,886
Treasury shares	(2,157)	(2,844)
Total shareholders' equity	484,416	465,734
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	22,806	33,694
Deferred gains or losses on hedges	708	(1,312)
Revaluation reserve for land	28,059	28,059
Foreign currency translation adjustment	(12,212)	(12,990)
Remeasurements of defined benefit plans	(16,997)	(15,192)
Total accumulated other comprehensive income	22,364	32,258
Non-controlling interests	79,252	67,366
Total net assets	586,034	565,359
Total liabilities and net assets	1,904,050	1,929,513

(2) Consolidated statements of profit or loss and consolidated statements of comprehensive income

Consolidated statements of profit or loss

(Million yen)

	Three Months Ended June 30, 2019 (April 1, 2019-June 30, 2019)	Three Months Ended June 30, 2020 (April 1, 2020-June 30, 2020)
Net sales	366,256	344,363
Cost of sales	319,134	306,025
Gross profit	47,122	38,337
Selling, general and administrative expenses	38,130	35,830
Operating profit	8,992	2,506
Non-operating income		
Interest income	346	225
Dividend income	11,074	2,268
Rental income on non-current assets	1,268	1,206
Share of profit of entities accounted for using equity method	765	—
Other	1,205	1,451
Total non-operating income	14,660	5,151
Non-operating expenses		
Interest expenses	1,263	1,053
Expense for the maintenance and management of abandoned mines	948	741
Share of loss of entities accounted for using equity method	—	159
Other	2,249	2,585
Total non-operating expenses	4,461	4,539
Ordinary profit	19,191	3,118
Extraordinary income		
Reversal of provision for loss on business restructuring	—	1,584
Gain on sales of investment securities	1,070	21
Other	53	135
Total extraordinary income	1,123	1,741
Extraordinary losses		
Impairment loss	478	286
Provision for loss on the Antimonopoly Act	10,423	—
Other	27	7
Total extraordinary losses	10,928	293
Profit (loss) before income taxes	9,386	4,566
Income taxes	5,655	3,285
Profit (loss)	3,730	1,280
Profit (loss) attributable to non-controlling interests	1,319	838
Profit (loss) attributable to owners of parent	2,411	442

Consolidated statements of comprehensive income

(Million yen)

	Three Months Ended June 30, 2019 (April 1, 2019-June 30, 2019)	Three Months Ended June 30, 2020 (April 1, 2020- June 30, 2020)
Profit (loss)	3,730	1,280
Other comprehensive income		
Valuation difference on available-for-sale securities	(12,970)	10,830
Deferred gains or losses on hedges	1,881	(2,587)
Foreign currency translation adjustment	(6,808)	(801)
Remeasurements of defined benefit plans	(393)	1,787
Share of other comprehensive income of entities accounted for using equity method	(240)	181
Total other comprehensive income	(18,531)	9,409
Comprehensive income	(14,800)	10,689
(Break down)		
Comprehensive income attributable to		
Owners of parent	(14,325)	10,335
Non-controlling interests	(474)	353

(3) Notes on quarterly consolidated financial statements

Notes on going concern assumption

N/A

Segment information

[Segment Information]

I. For the three months ended June 30, 2019 (from April 1, 2019 to June 30, 2019)

1. Information on net sales and income of each reporting segment

(Million yen)

	Advanced Products	Metalworking Solutions Business	Metals Business	Cement Business	Environment & Energy Business	Other Businesses	Total	Adjustment amount	Amount indicated in the quarterly consolidated statements of profit and loss
Net sales									
(1) Outside customers	95,153	37,455	110,877	59,885	4,328	58,556	366,256	—	366,256
(2) Within consolidated group	2,494	2,993	41,049	717	126	8,317	55,698	(55,698)	—
Total	97,647	40,449	151,926	60,602	4,455	66,873	421,955	(55,698)	366,256
Segment income (loss)	1,630	3,066	9,767	5,085	318	(299)	19,568	(376)	19,191

Notes:

1. “Other Businesses” includes aluminum-related business and engineering-related services.
2. “Adjustment amount” of segment income (loss) of -¥376 million includes the elimination of intersegment transactions of -¥36 million and corporate expenses of -¥340 million which are not distributed to the reporting segments. Corporate expenses consist mainly of general and administrative expenses that do not belong to the reporting segments, basic experiment and research expenses, and financial income and expenses.
3. Segment income (loss) has been adjusted together with ordinary profit on the consolidated statements of profit or loss.

II. For the three months ended June 30, 2020 (from April 1, 2020 to June 30, 2020)

1. Information on net sales and income of each reporting segment

(Million yen)

	Advanced Products	Metalworking Solutions Business	Metals Business	Cement Business	Environment & Energy Business	Other Businesses	Total	Adjustment amount	Amount indicated in the quarterly consolidated statements of profit and loss
Net sales									
(1) Outside customers	77,127	25,864	132,266	50,732	4,545	53,826	344,363	—	344,363
(2) Within consolidated group	2,810	2,097	25,563	473	102	8,158	39,206	(39,206)	—
Total	79,937	27,961	157,829	51,206	4,648	61,985	383,569	(39,206)	344,363
Segment income (loss)	(714)	(1,379)	1,686	2,584	222	756	3,157	(38)	3,118

Notes:

1. “Other Businesses” includes aluminum-related business and engineering-related services.
2. “Adjustment amount” of segment income (loss) of -¥38 million includes the elimination of intersegment transactions of -¥37 million and corporate expenses of -¥0 million which are not distributed to the reporting segments. Corporate expenses consist mainly of general and administrative expenses that do not belong to the reporting segments, basic experiment and research

expenses, and financial income and expenses.

3. Segment income (loss) has been adjusted together with ordinary profit on the consolidated statements of profit or loss.

2. Matters regarding the change of the reporting segments, among other changes

Mitsubishi Materials Corporation (hereinafter referred to as “the Company”) has changed its reporting segments as a result of the organizational restructuring made on April 1, 2020.

Consequently, the business related to energy and environmental and recycling-related businesses included in the “Other Businesses” is sectionalized into the “Environment & Energy Business” and the business related to aluminum included in the “Advanced Products” are sectionalized into the “Other Businesses”.

Further, the business related to cement sales included in the “Other Businesses” has been transferred to the “Cement Business”.

In addition, to more properly assess and manage the performance by each reporting segment, the Company has reviewed the method of allocating common costs of the Company and changed the method of calculating the profits or losses of the reporting segments.

In this regard, the segment information for the first quarter of the previous consolidated fiscal year is disclosed herein according to the changed segmentation and calculation methods of the reporting segments.

Notes on significant changes in the amount of shareholders' equity, if any

N/A

Changes of significant subsidiaries during the three months ended June 30, 2020

For the first three months ended June 30, 2020, the Group excluded Mitsubishi Shindoh Co., Ltd. which was the Company's specified subsidiary company, from the scope of consolidation since it dissolved due to an absorption-type merger in which the Company was the surviving company.

Application of special accounting treatment in the preparation of quarterly consolidated financial statements

The Company calculates tax expenses by rationally assuming an effective tax rate after applying tax effect accounting to net income before income taxes for the consolidated fiscal year, including the first quarter, and multiplying net income before income taxes for the three months by the estimated effective tax rate.

Additional information

Stock-based compensation system

1. Overview of transaction

The Company have introduced a stock-based compensation system (hereinafter referred to as the "System") for its executive officers, operating officers and fellows (excluding non-domestic residents, hereinafter referred to as the "Officers") from May 2020.

The System adopts a structure called Board Incentive Plan Trust (hereinafter referred to as the "BIP Trust"). The System is to issue and grant to the Officers the Company's shares and cash equal to the amount of the Company's shares to be converted into cash, according to the Officers' positions or the like.

2. The Company's shares remaining in the BIP Trust

The Company recorded the Company's shares remaining in the BIP Trust in the net assets as the treasury shares in an amount of their book value in the BIP Trust (excluding the amount of ancillary expenses). The book value and the number of the Company's treasury shares are ¥684 million and 274 thousand shares respectively at the end of the first quarter of the current consolidated fiscal year.

(Accounting estimates associated with the spread of COVID-19)

Due to the global spread of COVID-19, the Group's major business locations in Japan and overseas have been affected by decreased demand mainly for automotive products.

However, as a result of examinations based on third-party information and others available as of the end of the first quarter of the current consolidated fiscal year, no material change has been made in the assumptions, including the spread in the future and winding-down timing of COVID-19, described in the Annual Securities Report (Additional information) (Accounting estimates associated with the spread of COVID-19) for the previous consolidated fiscal year.

Business combinations and other relationships

(Additional purchase of subsidiaries' shares)

The Company entered into a share purchase agreement with Hitachi Metals, Ltd. On March 2, 2020 under which the Company acquires the shares in Mitsubishi Hitachi Tool Engineering, Ltd. which is a subsidiary of MMC, and has acquired such shares on April 1, 2020.

1. Overview of transaction

(1) Name and business of acquired enterprise

Name of acquired enterprise: Mitsubishi Hitachi Tool Engineering, Ltd.

Description of business: Manufacturing and sales of cemented carbide tools.

(2) Date of business combination

April 1, 2020

(3) Legal form of business combination

Purchase of shares from non-controlling shareholders whose consideration is cash.

(4) Name of the company after the business combination

MOLDINO Tool Engineering Ltd.

(5) Other matters concerning overviews of transaction

The Company additionally acquired 49% of the voting rights of Mitsubishi Hitachi Tool Engineering, Ltd. resulting in the Company holding 100% of the voting rights. The purpose of the additional acquisition is to cope with rapidly changing market needs and to realize more flexible operation.

2. Overview of implemented accounting procedures

The Company has made account processing for the merger as a transaction conducted with non-controlling shareholders under common control in accordance with the Accounting Standard for Business Combinations (Accounting Standards Board of Japan (hereinafter "ASBJ") Statement No. 21, January 16, 2019) and Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures (ASBJ Guidance No. 10, January 16, 2019).

3. Matters to be provided upon additional purchase of subsidiaries' share

Cost of acquisition and breakdown of considerations by kind

Consideration for acquisition (million yen)	Cash and deposits	24,920
Acquisition cost (million yen)		24,920

4. Matters concerning changes in the Company's interest due to transactions with non-controlling shareholders

(1) Major factors affecting capital surplus

Additional purchase of subsidiaries' shares

(2) Amount of capital surplus decreased by transactions with non-controlling shareholders

¥13,009 million

(Absorption-type merger of consolidated subsidiary)

The Company resolved at a meeting of its Board of Directors held on July 31, 2019 to conduct an absorption-type merger of Mitsubishi Shindoh Co., Ltd., a consolidated subsidiary of the Company and conducted such absorption-type merger as of April 1, 2020.

1. Overview of the transaction

(1) Name and business of the acquired enterprise:

Name of the acquired enterprise: Mitsubishi Shindoh Co., Ltd.

Description of business: Rolling, extruding and casting of copper and copper alloys and the processing and sales, etc., thereof.

(2) Date of business combination

April 1, 2020

(3) Legal form of business combination

Absorption-type merger in which the Company shall be the surviving company and Mitsubishi Shindoh Co., Ltd. shall be dissolved.

(4) Name of the company after the business combination

(5) Other matters concerning overview of transaction

The purpose of the merger is to integrally operate the Group's management resources in the Copper & Copper Alloy Business in order to invest more actively and flexibly, to develop products promptly that meet market needs and to improve and enhance the production and sales systems in Japan and overseas.

2. Overview of implemented accounting procedures

The Company has made account processing for the merger as a transaction under common control in accordance with the Accounting Standard for Business Combinations (ASBJ Statement No. 21, January 16, 2019) and the Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures (ASBJ Guidance No. 10, January 16, 2019).

Contingent liabilities

(Matters concerning taxation in Indonesia)

Previous consolidated fiscal year (As of March 31, 2020)

On December 30, 2014, PT. Smelting in Indonesia, a consolidated subsidiary of the Company (hereinafter referred to as “the PTS”) received a notice of reassessment in an amount of US\$47 million (¥5,209 million based on the exchange rate at the end of the previous consolidated fiscal year) from the Indonesian National Tax Authority, regarding the sales transaction pricing of PTS for the year ended December 31, 2009. On January 28, 2015, PTS made a provisional deposit of US\$14 million (¥1,523 million) as a part of the additional collection. However, the PTS submitted a written objection to the Indonesian National Tax Authority on March 25, 2015, because this assessment, which claimed there was a sales shortage on the part of the PTS based on a comparison of the profit margin ratio with other companies selected by the Indonesian National Tax Authority, was highly unreasonable and found to be unacceptable by the Company and the PTS.

The written objection submitted by the PTS on March 25, 2015 was dismissed by the Indonesian National Tax Authority on March 16, 2016. Therefore, the PTS filed a complaint to the tax court on June 6, 2016 to present its fairness of the view of the Company and the PTS but the complaint was dismissed on January 30, 2020. Along with this, the PTS paid the shorted amount of deposit of US\$33 million (¥3,685 million) on March 23, 2020 and paid the same amount of surcharge on April 24, 2020 respectively. However, the court decision ruled by the tax court was unacceptable for the Company and the PTS, and the PTS appealed to the Supreme Court on June 8, 2020 to present the fairness of the view of the Company and the PTS.

On November 29, 2017, the PTS also received a notice of reassessment in an amount of US\$ 22 million (¥2,484 million) from the Indonesian National Tax Authority, primarily regarding its posting of gains and losses on hedging for the fiscal year ended December 31, 2012. On December 27, 2017, the PTS made a provisional deposit of US\$6 million (¥685 million) as part of the additional collection.

However, the PTS submitted a written objection to the Indonesian National Tax Authority on February 27, 2018, because this assessment was from a point of view that unilaterally negated the basis for recording gains and losses on hedging, etc. of the PTS and found to be unacceptable by the Company and the PTS.

The written objection submitted by the PTS on February 27, 2018 was dismissed by the Indonesian National Tax Authority on February 25, 2019. Therefore, on May 17, 2019 the PTS filed a complaint to the tax court in Indonesia to present the fairness of the view of the Company and the PTS.

On December 5, 2018, the PTS also received a notice of reassessment in an amount of US\$15 million (¥1,655 million) from the Indonesian National Tax Authority, primarily regarding its posting of gains and losses on hedging for the fiscal year ended December 31, 2014. On December 27, 2018, the PTS made a provisional deposit of US\$5 million (¥638 million) as part of the additional collection.

However, the PTS submitted a written objection to the Indonesian National Tax Authority on February 27, 2019, because this assessment was from a view that unilaterally negated the basis for recording gains and losses on hedging, etc. of the PTS and found to be unacceptable by the Company and the PTS.

On January 20, 2020, the PTS received a notice from the Indonesian National Tax Authority regarding the written objection submitted by the PTS on February 27, 2019, and the written objection of the PTS was accepted for US\$9 million (¥1,020 million). For US\$4 million (¥515 million), for which the written objection was dismissed, the PTS has decided to file a complaint to the tax court in Indonesia.

In the previous consolidated fiscal year, the total amount for additional collection being disputed by the PTS, including amounts for the fiscal year described above as well as amounts for the fiscal year ended December 31, 2011, the fiscal year ended December 31, 2013, the fiscal year ended December 31, 2015, the fiscal year ended December 31, 2016 and the fiscal year ended December 31, 2018, is US\$125 million (¥13,669 million). There are some cases that a surcharge may be imposed due to the objections or the results of tax trials.

First quarter of the consolidated fiscal year under review (As of June 30, 2020)

On December 30, 2014, PT. Smelting in Indonesia, a consolidated subsidiary of the Company (hereinafter referred to as “the PTS”) received a notice of reassessment in an amount of US\$47 million (¥5,157 million based on the exchange rate at the end of the first quarter of the consolidated fiscal year) from the Indonesian National Tax Authority, regarding the sales transaction pricing of the PTS for the year ended December 31, 2009. On January 28, 2015, the PTS made a provisional deposit of US\$14 million (¥1,508 million) as a part of the additional collection.

However, the PTS submitted a written objection to the Indonesian National Tax Authority on March 25, 2015, because this assessment , which claimed there was a sales shortage on the part of the PTS based on a comparison of the profit margin ratio with other companies selected by the Indonesian National Tax Authority, was highly unreasonable and found to be unacceptable by the Company and the PTS.

The written objection submitted by the PTS on March 25, 2015 was dismissed by the Indonesian National Tax Authority on March 16, 2016. The PTS filed a complaint to the tax court on June 6, 2016 to present its fairness of the view of the Company and the PTS, however it was dismissed on January 30, 2020. Along with this, the PTS paid the shorted amount of deposit of US\$33 million (¥3,648 million) on March 23, 2020, and paid a surcharge of US\$33 million (¥3,648 million) on April 24, 2020 respectively. However, the court decision ruled by the tax court was unacceptable for the Company and the PTS, and the PTS appealed to the Supreme Court on June 8, 2020 to present the fairness of the view of the Company and the PTS.

On November 29, 2017, the PTS also received a notice of reassessment in an amount of US\$22 million (¥2,459 million) from the Indonesian National Tax Authority, primarily regarding its posting of gains and losses on hedging for the fiscal year ended December 31, 2012. On December 27, 2017, the PTS made a provisional deposit of US\$6 million (¥678 million) as part of the additional collection.

However, the PTS submitted a written objection to the Indonesian National Tax Authority on February 27, 2018, because this assessment was from a point of view that unilaterally negated the basis for recording gains and losses on hedging, etc. of the PTS and found to be unacceptable by the Company and the PTS.

The written objection submitted by the PTS on February 27, 2018 was dismissed by the Indonesian National Tax Authority on February 25, 2019. Therefore, on May 17, 2019 the PTS filed a complaint to the tax court in Indonesia to present the fairness of the view of the Company and the PTS.

On December 5, 2018, the PTS also received a notice of reassessment in an amount of US\$15 million (¥1,639 million) from the Indonesian National Tax Authority, primarily regarding its posting of gains and losses on hedging for the fiscal year ended December 31, 2014. On December 27, 2018, the PTS made a provisional deposit of US\$5 million (¥632 million) as part of the additional collection.

However, the PTS submitted a written objection to the Indonesian National Tax Authority on February 27, 2019, because this assessment was from a view that unilaterally negated the basis for recording gains and losses on hedging, etc. of the PTS and found to be unacceptable by the Company and the PTS.

On January 20, 2020, the PTS received a notice from the Indonesian National Tax Authority regarding the written objection submitted by the PTS on February 27, 2019, and the written objection of the PTS was accepted for US\$9 million (¥1,010 million). For US\$4 million (¥510 million), for which the written objection was dismissed, the PTS filed a complaint to the tax court in Indonesia on July 7, 2020 to present the fairness of the view of the Company and the PTS.

At the end of the first quarter of the consolidated fiscal year, the total amount for additional collection being disputed by the PTS, including amounts for the fiscal years described above as well as amounts for the fiscal year ended December 31, 2011, the fiscal year ended December 31, 2013, the fiscal year ended December 31 2015, the fiscal year ended December 31, 2016 and the fiscal year ended December 31, 2018, is US\$125 million (¥13,533 million). There are some cases that a surcharge may be imposed due to the objections or the results of tax trials.

Related to consolidated statement of income

* Reversal of provision for loss on business restructuring

For the three months ended June 30, 2020 (April. 1, 2020-June 30, 2020)

The Company has reported as reversal of the provision for loss on business restructuring under the item of extraordinary income, the loss incurred from the business restructuring by the affiliated company engaging in the Sintered parts business for the three months ended June 30, 2020 by reversing the provision for loss on business restructuring accounted for to prepare for any loss on business restructuring expected to be incurred by the affiliated company engaging in the Sintered parts business.