Consolidated Financial Results for the Three Months Ended June 30, 2021 (Japanese Accounting Standards)

August 6, 2021

Name of Listed Company: Mitsubishi Materials Corporation Listing: Tokyo Stock Exchange
Stock Code: 5711 URL: https://www.mmc.co.jp/
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Scheduled filing date of Quarterly Report: August 6, 2021
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, 2021 (From April 1, 2021 to June 30, 2021)

(1) Consolidated Results of Operations (cumulative) (Figures in percentages denote the year-on-year change.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
The three months ended June 30, 2021	427,685	24.2	14,859	492.7	25,124	705.6	16,913	–
The three months ended June 30, 2020	344,363	-6.0	2,506	-72.1	3,118	-83.7	442	-81.7

(Note) Comprehensive income: The three months ended June 30, 2021: 31,163 million yen (191.5%)
The three months ended June 30, 2020, 10,689 million yen (–%)

	Profit per share	Diluted profit per share
	Yen	Yen
The three months ended June 30, 2021	129.46	–
The three months ended June 30, 2020	3.38	–

(2) Consolidated Financial Position

	Total assets	Total net assets	Shareholders' equity ratio
	Million yen	Million yen	%
As of June 30, 2021	2,126,367	639,650	26.7
As of March 31, 2021	2,035,546	614,394	26.8

(Reference) Shareholders' Equity: As of June 30, 2021: 567,124 million yen As of March 31, 2021: 545,233 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, 2021	–	0.00	–	50.00	50.00
Year ending March 31, 2022	–				
Year ending March 31, 2022 (Forecast)		25.00	–	25.00	50.00

(Note) Revision of dividend forecast published most recently: No

3. Consolidated Earnings Forecast (From April 1, 2021 to March 31, 2022)

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

	Net sales		Operating profit		Ordinary income		Profit attributable to owners of parent		Profit per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
The six months ending September 30, 2021	880,000	21.3	26,000	277.3	34,000	106.6	23,000	–	176.04
Year ending March 31, 2022	1,760,000	18.5	47,000	76.9	56,000	25.8	37,000	51.6	283.20

(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): None
New: - (Company name: -), Exempt: - (Company name: -)

(2) Application of special accounting treatment in the preparation of the quarterly consolidated financial statements: Yes
(Note) For details, please see“(3) Key notes on consolidated quarterly 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 12.

(3) Changes in accounting policies, changes of accounting estimates and restatement

(i)	Changes in accounting policies due to amendments to accounting standards:	Yes
(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, 2021: 131,489,535 shares
Year ended March 31, 2021: 131,489,535 shares

(ii) Numbers of treasury shares at end of period:
Three months ended June 30, 2021: 839,702 shares
Year ended March 31, 2021: 836,604 shares

(iii) Average number of shares issued during period (quarterly cumulative period):
Three months ended June 30, 2021: 130,651,493 shares
Three months ended June 30, 2020: 130,870,276 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 Mitsubishi Materials Corporation (hereinafter referred to as “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, 2021” on page 5 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 Friday, August 6, 2021. 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, 2021
(1) Details of operating results
1) Overview of operating results

During the first quarter of the current consolidated fiscal year, the economy in China and the United States continued to show a gradual recovery from the downturn caused by the global spread of COVID-19, while the economy remained sluggish in Thailand, Indonesia, and Europe due to the re-emergence of COVID-19 infection and other factors.
In Japan, due to COVID-19, personal consumption, employment and income environment remained weak. However, exports and industrial production continuously showed signs of recovery.
Regarding the business environment for the Mitsubishi Materials Group (hereinafter referred to as "the Group"), metal prices remained robust, and demands for semiconductor-related and automobile-related products also remained strong. On the other hand, domestic demand for cement has declined.
Under these circumstances, consolidated net sales for the first quarter of the current fiscal year under review were ¥427,685 million (up 24.2% year-on-year), operating profit was ¥14,859 million (up 492.7%), and ordinary profit was ¥25,124 million (up 705.6%). As a result, profit attributable to owners of the parent amounted to ¥16,913 million (¥442 million in the same period of the previous fiscal year).

2) Overview by segments

(Advanced Products)

(Billion yen)

	FY2021 Q1	FY2022 Q1	Increase / Decrease (%)	
Net sales	79.9	115.7	35.7	(44.8%)
Operating profit (loss)	(0.1)	3.2	3.4	(- %)
Ordinary profit (loss)	(0.7)	4.2	4.9	(- %)

In the Copper & copper alloy products business, both net sales and operating profit increased due to higher sales, mainly of products for the automobile industry.
In the Electronic materials & components business, net sales decreased due to the application of the "Accounting Standard for Revenue Recognition" and other standards, despite the increases in sales of products for the automobile and semiconductors industries. As a result, net sales decreased but operating profit increased.
As a result, net sales and operating profit for the entire Advanced Products Business increased year-on-year. Ordinary profit increased due to gains on valuation of derivatives, etc. in addition to the increase in operating profit.

(Metalworking Solutions Business)

(Billion yen)

	FY2021 Q1	FY2022 Q1	Increase / Decrease (%)	
Net sales	27.9	33.4	5.4	(19.5%)
Operating profit (loss)	(1.2)	2.1	3.3	(- %)
Ordinary profit (loss)	(1.3)	2.1	3.5	(- %)

Both net sales and operating profits increased due to additional demand for cemented carbide products in Japan and major overseas countries as well as the impact of the removal from the scope of consolidation in December 2020 of Diamet Corporation and its three subsidiaries, which had been recording operating losses on a continuous basis.
As a result of the above, net sales and operating profit for the entire Metalworking Solutions Business increased year-on-year. Ordinary profit increased due to the increase in operating profit.

(Metals Business)

(Billion yen)

	FY2021 Q1	FY2022 Q1	Increase / Decrease (%)	
Net sales	157.8	237.1	79.3	(50.3%)
Operating profit	1.5	7.1	5.5	(358.3%)
Ordinary profit	1.6	16.6	14.9	(887.5%)

Net sales and operating profit in the Copper business increased mainly as a result of the rise of the cooper price, despite a decrease in production volume compared with the same period of the previous fiscal year.
In the Gold and other valuable metals business, both net sales and operating profit increased mainly due to a hike in gold and palladium prices.
As a result of the above, net sales and operating profit for the entire Metals Business increased year-on-year. Ordinary profit increased because of the increase in dividend income in addition to the increase in operating profit.

(Cement Business)

(Billion yen)

	FY2021 Q1	FY2022 Q1	Increase / Decrease (%)	
Net sales	51.2	50.4	-0.7	(-1.5%)
Operating profit	1.9	1.9	-0.0	(-0.5%)
Ordinary profit	2.5	1.9	-0.6	(-26.3%)

In Japan, despite the resumption of redevelopment work in the Tokyo metropolitan area and an increase in exports, net sales declined due to the decrease in demand for disaster recovery work in the Tohoku and Kyushu regions and the application of the “Accounting Standard for Revenue Recognition” and other standards. In addition, there was an increase in energy costs and other factors. As a result, both net sales and operating profits decreased.
For overseas business, although the sales volume of ready-mixed concrete in the United States decreased due to shortage of drivers against the backdrop of tight supply and demand in the labor market, both net sales and operating profit increased mainly due to a rise in the sales prices of ready-mixed concrete.
As a result, net sales and operating profit for the entire Cement Business decreased year-on-year. Ordinary profit decreased due to the decline in profit of entities accounted for using equity method in addition to the decrease in operating profit.

(Environment & Energy Business)

(Billion yen)

	FY2021 Q1	FY2022 Q1	Increase / Decrease (%)	
Net sales	4.6	5.5	0.9	(19.4%)
Operating profit (loss)	(0.0)	0.2	0.3	(-%)
Ordinary profit	0.2	0.5	0.3	(145.2%)

In the Energy-related business, both net sales and operating profit decreased due to declined sales in the nuclear-energy-related services.
In the Environmental and recycling-related business, both net sales and operating profit increased due to a rise in the unit price of valuable resources sold in addition to an increase in the processing volume of home appliance recycling and other products.
As a result, net sales and operating profit for the entire Environment & Energy Business increased year-on-year. Ordinary profit increased due to the increase in operating profit.

(Other Businesses)

(Billion yen)

	FY2021 Q1	FY2022 Q1	Increase / Decrease (%)
Net sales	61.9	59.2	-2.7 (-4.4%)
Operating profit	0.8	1.7	0.9 (119.4%)
Ordinary profit	0.7	1.5	0.7 (104.0%)

In the Aluminum beverage cans business, both net sales and operating profit decreased due to a decline in sales of regular cans and an increase in raw material costs, despite an increase in sales of bottle cans.
The Aluminum rolled and processed products business has seen decrease in net sales due to the application of the "Accounting Standard for Revenue Recognition" and other standards, despite the increase in sales mainly on automobile products and the effect of cost reductions, etc. As a result, net sales decreased but operating profit increased.
In the businesses other than the Aluminum beverage cans business and the Aluminum rolled and processed products business, in aggregate, both net sales and operating profit decreased.
As a result, 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 stood at ¥2,126.3 billion, increased by ¥90.8 billion from the end of the previous fiscal year. This was mainly due to an increase in inventories during the first quarter of the consolidated fiscal year.
Total liabilities amounted to ¥1,486.7 billion, an increase of ¥65.5 billion from the end of the previous fiscal year. This was mainly due to an increase in bonds and borrowings during the first quarter of the consolidated fiscal year.

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

With regard to the consolidated earnings forecasts for the first six months of the fiscal year ending March 31, 2022 (from April 1, 2021 to September 30, 2021), net sales, operating profit, ordinary profit and profit attributable to owners of parent are expected to increase compared to the previous forecasts (announced on May 14, 2021) mainly due to the increase in sales of automotive and semiconductor-related products and the rise in metal prices leading to increased net income, as well as the fact that a portion of dividend income from mines, which was expected to be recorded in the second half of the fiscal year, has been brought forward to the first quarter. Accordingly, net sales, operating profit, ordinary profit and profit attributable to owners of parent for the full-term of the fiscal year ending March 31, 2022 are expected to increase compared to the previous forecasts.

Revisions to consolidated earnings forecasts for the first six months of the fiscal year ending March 31, 2022
(from April 1, 2021 to September 30, 2022)

(Billion yen)

	Previous forecast	Current forecast	Change (%)
Net sales	810.0	880.0	8.6%
Operating profit	13.0	26.0	100.0%
Ordinary profit	10.0	34.0	240.0%
Profit attributable to owners of parent	5.0	23.0	360.0%

Revisions to consolidated earnings forecasts for the fiscal year ending March 31, 2022
(from April 1, 2021 to March 31, 2022)

(Billion yen)

	Previous forecast	Current forecast	Change (%)
Net sales	1,620.0	1,760.0	8.6%
Operating profit	35.0	47.0	34.3%
Ordinary profit	37.0	56.0	51.4%
Profit attributable to owners of parent	20.0	37.0	85.0%

(Note) The forecast above is based on the economic environment, market conditions and other factors that can be presumed as of the date of this announcement; hence the actual result may differ from such forecast due to various factors arising in the future.

2. Consolidated Financial Statements and Key Notes

(1) Consolidated balance sheets

(Million yen)

	As of March 31, 2021	As of June 30, 2021
Assets		
Current assets		
Cash and deposits	153,086	168,477
Notes and accounts receivable - trade	220,522	238,794
Merchandise and finished goods	117,498	127,147
Work in process	126,357	150,150
Raw materials and supplies	136,019	137,012
Other	289,513	320,847
Allowance for doubtful accounts	(3,103)	(3,153)
Total current assets	1,039,894	1,139,277
Non-current assets		
Property, plant and equipment		
Machinery, equipment and vehicles, net	227,111	223,178
Land, net	209,707	209,435
Other, net	228,582	231,823
Total property, plant and equipment, net	665,402	664,436
Intangible assets		
Goodwill	31,670	30,632
Other	14,760	14,600
Total intangible assets	46,431	45,232
Investments and other assets		
Investment securities	217,477	225,809
Other	70,732	56,073
Allowance for doubtful accounts	(4,392)	(4,462)
Total investments and other assets	283,818	277,421
Total non-current assets	995,651	987,090
Total assets	2,035,546	2,126,367

(Million yen)

	As of March 31, 2021	As of June 30, 2021
Liabilities		
Current liabilities		
Notes and accounts payable - trade	153,603	158,327
Short-term borrowings	175,686	164,015
Current portion of bonds payable	20,000	20,000
Commercial papers	40,000	50,000
Income taxes payable	6,781	4,855
Other provisions	14,187	7,983
Deposited gold bullion	323,505	332,960
Other	125,072	122,101
Total current liabilities	858,838	860,243
Non-current liabilities		
Bonds payable	40,000	80,000
Long-term borrowings	353,795	376,449
Provision for environmental measures	26,555	24,767
Other provisions	4,423	2,088
Retirement benefit liability	42,249	45,763
Other	95,289	97,405
Total non-current liabilities	562,313	626,474
Total liabilities	1,421,151	1,486,717
Net assets		
Shareholders' equity		
Share capital	119,457	119,457
Capital surplus	79,439	79,461
Retained earnings	294,814	306,054
Treasury shares	(2,868)	(2,875)
Total shareholders' equity	490,843	502,098
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	42,940	46,283
Deferred gains or losses on hedges	(1,119)	1,986
Revaluation reserve for land	27,097	27,041
Foreign currency translation adjustment	(8,057)	(4,203)
Remeasurements of defined benefit plans	(6,470)	(6,083)
Total accumulated other comprehensive income	54,390	65,025
Non-controlling interests	69,161	72,526
Total net assets	614,394	639,650
Total liabilities and net assets	2,035,546	2,126,367

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

Consolidated statement of profit or loss

(Million yen)

	Three Months Ended June 30, 2020 (Apr. 1, 2020 – June 30, 2020)	Three Months Ended June 30, 2021 (Apr. 1, 2021 – June 30, 2021)
Net sales	344,363	427,685
Cost of sales	306,025	373,957
Gross profit	38,337	53,728
Selling, general and administrative expenses	35,830	38,868
Operating profit	2,506	14,859
Non-operating income		
Interest income	225	184
Dividend income	2,268	9,983
Rental income from non-current assets	1,206	1,268
Share of profit of entities accounted for using equity method	–	1,650
Other	1,451	1,235
Total non-operating income	5,151	14,322
Non-operating expenses		
Interest expenses	1,053	1,313
Expense for the maintenance and management of abandoned mines	741	639
Share of loss of entities accounted for using equity method	159	–
Other	2,585	2,105
Total non-operating expenses	4,539	4,058
Ordinary profit	3,118	25,124
Extraordinary income		
Gain on sales of investment securities	21	1,051
Reversal of provision for loss on business restructuring	1,584	–
Other	135	128
Total extraordinary income	1,741	1,179
Extraordinary losses		
Litigation expenses	–	144
Impairment loss	286	0
Other	7	12
Total extraordinary losses	293	158
Profit before income taxes	4,566	26,145
Income taxes	3,285	5,654
Profit	1,280	20,491
Profit attributable to non-controlling interests	838	3,577
Profit attributable to owners of parent	442	16,913

Consolidated statement of comprehensive income

(Million yen)

	Three Months Ended June 30, 2020 (Apr. 1, 2020 – June 30, 2020)	Three Months Ended June 30, 2021 (Apr. 1, 2021 – June 30, 2021)
Profit	1,280	20,491
Other comprehensive income		
Valuation difference on available-for-sale securities	10,830	3,365
Deferred gains or losses on hedges	(2,587)	3,514
Foreign currency translation adjustment	(801)	1,553
Remeasurements of defined benefit plans	1,787	410
Share of other comprehensive income of entities accounted for using equity method	181	1,827
Total other comprehensive income	9,409	10,672
Comprehensive income	10,689	31,163
(Breakdown)		
Comprehensive income attributable to owners of parent	10,335	27,588
Comprehensive income attributable to non-controlling interests	353	3,574

(3) Key notes on consolidated quarterly financial statements

Notes on going concern assumption

N/A

Segment Information, etc.

[Segment Information]

I. For the first quarter 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 in 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) Among 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" include aluminum-related business and engineering-related services.
2. "Adjustment amount" in segment income (loss) of -¥38 million includes the amount of elimination of intersegment transactions of -¥37 million and corporate expenses of -¥0 million which are not allocated to the reporting segments. Corporate expenses consist mainly of general and administrative expenses, basic experiment and research expenses, and financial income and expenses that do not belong to the reporting segments.
3. Segment income (loss) has been adjusted with ordinary profit on the consolidated statements of profit.

II. For the first quarter ended June 30, 2021 (from April 1, 2021 to June 30, 2021)

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 in quarterly consolidated statements of profit and loss
Net sales									
(1) Outside customers	111,637	32,350	175,994	50,148	5,368	52,187	427,685	―	427,685
(2) Among consolidated group	4,086	1,074	61,153	269	182	7,055	73,821	(73,821)	―
Total	115,723	33,424	237,148	50,417	5,550	59,242	501,507	(73,821)	427,685
Segment income	4,269	2,161	16,655	1,906	544	1,543	27,081	(1,957)	25,124

Notes:

1. "Other Businesses" include aluminum-related business and engineering-related services.
2. "Adjustment amount" in segment income of -¥1,957 million includes the amount of elimination of intersegment transactions of -¥147 million and corporate expenses of -¥1,809 million which are not allocated to the reporting segments. Corporate expenses consist mainly of general and administrative expenses, basic experiment and research expenses, and financial income and expenses that do not belong to the reporting segments.
3. Segment income has been adjusted with ordinary profit on the consolidated statements of profit.

2. Matters regarding the change in the reporting segments, etc.

As stated in the "Changes in accounting policies" section of this report, from the beginning of the first quarter of the FY2022, the Company has applied the "Accounting Standard for Revenue Recognition" and other standards and changed

its accounting method for revenue recognition, and as a result, the measurement of income in the reporting segments has been changed in the same way.
As a result, net sales from external customers in the first quarter decreased by ¥744 million in the Advanced Products Business, ¥2,140 million in the Cement Business, and ¥3,241 million in the Other Businesses, respectively. The impact of this change on segment income was immaterial.

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

N/A

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 profit before income taxes for the consolidated fiscal year, including the first quarter, and multiplying profit before income taxes for the first quarter by the estimated effective tax rate.

Changes in accounting policies

(Application of accounting standard for revenue recognition, etc.)

The Company has adopted the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020), etc. from the beginning of the first quarter of the current fiscal year and recognized revenue as the amount expected to be received in exchange for promised goods or services at the time the control of such goods or services is transferred to the customer.
In line with this change, transactions in which the Group is deemed to have been involved as an agent are presented on a net basis.
Regarding the application of the Accounting Standard for Revenue Recognition, etc., the Company follows the transitional treatment stipulated in the proviso of Article 84 of the Accounting Standard for Revenue Recognition. The cumulative effect of retrospectively adopting the new accounting policy to the periods prior to the beginning of the first quarter of the current fiscal year is reflected in the balance of retained earnings at the beginning of the first quarter of the current fiscal year, and the Company has adopted the new accounting policy from the beginning of the current period. However, the Company has also adopted the method stipulated in Article 86 of the Accounting Standard for Revenue Recognition and has not retrospectively applied the new accounting policy to the contracts in which almost all the revenue amounts were recognized in accordance with the previous treatment prior to the beginning of the first quarter of the current fiscal year.
As a result, net sales for the first quarter decreased by ¥6,126 million, but the impact on operating profit, ordinary profit , and profit before income taxes was immaterial. Also, the effect of this change on the balance of retained earnings at the beginning of the current fiscal year was minor.
In accordance with the transitional treatment stipulated in Article 28-15 of the "Accounting Standard for Quarterly Financial Reporting" (ASBJ Statement No. 12, March 31, 2020), the Company has not provided information on the breakdown of revenues arising from contracts with customers for the first quarter of the previous fiscal year.

(Application of accounting standard for fair value measurement, etc.)

The Company has adopted "Accounting Standard for Fair Value Measurement" (ASBJ Statement No. 30, July 4, 2019), etc. from the beginning of the first quarter of the current consolidated fiscal year, and has decided to continue to apply accounting policies stipulated in the Accounting Standards for Fair Value Measurement and other standards in the future in accordance with transitional treatment set forth in Article 19 of the Accounting Standards for Fair Value Measurement and Article 44-2 of "Accounting Standard for Financial Instruments" (ASBJ Statement No. 10, July 4, 2019).
Available-for-sale securities with market quotations were previously stated using the mark-to-market method based on the average market price, etc. over a one-month period prior to the end of the fiscal year. However, due to this change, from the first quarter of the current fiscal year, the market value method based on market prices, etc. as of the end of the fiscal year has been applied.
Accordingly, the impact of this change on the quarterly consolidated financial statements for the first quarter was immaterial.

Additional information

(Stock-based compensation system)

1. Overview of the transactions

The Company 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”).
The System adopts a structure called Board Incentive Plan Trust (hereinafter referred to as the “BIP Trust”). The System provides Officers with the shares of the Company and cash equal to the amount of the Company’s shares converted into cash, according to the Officers’ positions etc.

2. The Company’s shares remaining in the BIP Trust
The Company's shares remaining in the BIP Trust are recorded as treasury shares in the net assets section based on the book value in the BIP Trust (excluding the amount of incidental expenses). The book value and the number of the Company’s treasury shares were ¥684 million and 274 thousand shares at the end of the previous consolidated fiscal year and ¥684 million and 274 thousand shares at the end of the first quarter of the current fiscal year, respectively.

(Accounting estimates associated with the spread of COVID-19)
As a result of reviews based on third-party information, etc. available as of the end of the first quarter of the current consolidated fiscal year, no material change has been made in the assumptions regarding the spread of COVID-19 in the future and the timing of the return to normal, etc., described in “Additional information”, “Accounting estimates associated with the spread of COVID-19” of the Annual Securities Report for the previous consolidated fiscal year.

Contingent liabilities

(Matters concerning taxation in Indonesia)
・Previous consolidated fiscal year (As of March 31, 2021)
On December 30, 2014, PT. Smelting in Indonesia, a consolidated subsidiary of the Company (hereinafter referred to as “PTS”) received a notice of reassessment in an amount of US$47 million (¥5,299 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, etc. of PTS for the fiscal year ended December 31, 2009. On January 28, 2015, PTS made a provisional deposit of US$14 million (¥1,549 million) as part of the additional collection.
However, PTS submitted a written objection to the Indonesian National Tax Authority on March 25, 2015, because this assessment, which claimed they found an underreporting of sales on the part of PTS based on a comparison of the margin with other companies selected by the Indonesian National Tax Authority, was highly unreasonable and found to be unacceptable by the Company and PTS.
The written objection submitted by PTS on March 25, 2015 was dismissed by the Indonesian National Tax Authority on March 16, 2016. Therefore, PTS filed a complaint to the tax court on June 6, 2016 to present its validity of view of the Company and PTS. However, it was dismissed on January 30, 2020. Along with this, PTS paid the shortfall of US$33 million (¥3,749 million) on March 23, 2020 and paid a surcharge of US$33 million (¥3,749 million) on April 24, 2020, respectively. However, the court’s decision ruled by the tax court was unacceptable to the Company and PTS, and PTS appealed to the Supreme Court on June 8, 2020 and asserting the validity of the Company's and PTS's views. The Supreme Court decided to rescind the decision by the tax court on February 17, 2021. As a result, PTS received a notice of determination to rescind the reassessed tax amount from the tax court on April 16, 2021. PTS will commence the procedures to claim a refund for the taxes, etc. that have been paid.
On November 29, 2017, PTS also received a notice of reassessment in an amount of US$22 million (¥2,527 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, PTS made a provisional deposit of US$6 million (¥697 million) as part of the additional collection.
However, 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 PTS and found to be unacceptable by the Company and PTS.
The written objection submitted by PTS on February 27, 2018 was dismissed by the Indonesian National Tax Authority on February 25, 2019. Therefore, on May 17, 2019, PTS filed a complaint to the tax court in Indonesia to assert the validity of the Company's and PTS's views. On December 16, 2020, regarding the complaint filed by PTS, the tax court found the additional correction of US$14 million (¥1,599 million) as unreasonable. With respect to the US$7 million (¥871 million) and a surcharge US$2 million (¥228 million), that was dismissed, PTS filed an appeal to the Supreme Court in Indonesia to present the legitimacy of the view of the Company and PTS on March 18, 2021.
On December 5, 2018, PTS also received a notice of reassessment in an amount of US$15 million (¥1,684 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, PTS made a provisional deposit of US$5 million (¥649 million) as part of the additional collection.
However, 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 PTS and found to be unacceptable by the Company and PTS.
On January 20, 2020, PTS received a notice from the Indonesian National Tax Authority regarding the written objection submitted by PTS on February 27, 2019, and the objection of PTS was accepted for US$9 million (¥1,038 million). In regards to the US$4 million (¥524 million), for which the objection was dismissed, PTS filed a complaint to the tax court in Indonesia on July 7, 2020 to present the legitimacy of the view of the Company and PTS.
At the end of the previous consolidated fiscal year, the total amount for additional collection, which PTS currently disputes, 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, 2016 and the fiscal year ended December 31, 2018, was US$30 million (¥3,421 million).
There are some cases in which surcharges may be imposed depending on the outcome of formal objections or tax trial results.

・First quarter of the current fiscal year (As of June 30, 2021)
PT. Smelting in Indonesia, a consolidated subsidiary of the Company (hereinafter referred to as “PTS”) received a notice of reassessment from the Indonesian National Tax Authority regarding five fiscal years of PTS (ended on December 31 of each year).
The Indonesian tax authorities unilaterally rejected PTS's accounting for gains and losses on hedging transactions, and the Company and PTS cannot accept this reassessment. PTS has submitted a written objection to the Indonesian tax authorities and filed a complaint with the tax court, asserting the legitimacy of the Company and PTS.
At the end of the first quarter of the current consolidated fiscal year, the total amount of additional charges, which PTS currently disputes, was US$30 million (¥3,417 million).
There are some cases in which surcharges may be imposed depending on the outcome of formal objections or tax trial results.