Consolidated Financial Results for the Six Months Ended September 30, 2021 (Japanese Accounting Standards)

November 9, 2021

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
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Scheduled filing date of Quarterly Report: November 9, 2021
Scheduled date of start of dividend payment: December 10, 2021
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 six months ended September 30, 2021 (From April 1, 2021 to September 30, 2021)

(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 six months ended September 30, 2021	860,026	18.5	29,038	321.4	38,220	132.2	38,181	–
The six months ended September 30, 2020	725,568	-3.1	6,890	-59.4	16,457	-39.6	(19,150)	–

(Note) Comprehensive income: The six months ended September 30, 2021: 34,368 million yen (–%)
The six months ended September 30, 2020: -12,574 million yen (–%)

	Profit (loss) per share	Diluted net income per share
	Yen	Yen
The six months ended September 30, 2021	292.24	–
The six months ended September 30, 2020	(146.43)	–

(2) Consolidated Financial Position

	Total assets	Total net assets	Shareholders' equity ratio
	Million yen	Million yen	%
As of September 30, 2021	2,042,428	639,610	27.8
As of March 31, 2021	2,035,546	614,394	26.8

(Reference) Shareholders' Equity: As of September 30, 2021: 568,531 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	–	40.00			
Year ending March 31, 2022 (Forecast)			–	40.00	80.00

(Note 1) Revision of dividend forecast published most recently: Yes
(Note 2)
The interim dividend per share for the year ending March 31, 2022 consists of 25.00 yen for ordinary dividend and 15.00 yen for special dividend.
The year-end dividend per share for the year ending March 31, 2022 (Forecast) consists of 25.00 yen for ordinary dividend and 15.00 yen for special dividend.

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
Year ending March 31, 2022	1,760,000	18.5	42,000	58.1	59,000	32.5	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“(4) 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 15.

(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):	
	Six months ended September 30, 2021:	131,489,535 shares
	Year ended March 31, 2021:	131,489,535 shares
(ii)	Numbers of treasury shares at end of period:	
	Six months ended September 30, 2021:	843,584 shares
	Year ended March 31, 2021:	836,604 shares
(iii)	Average number of shares issued during period (quarterly cumulative period):	
	Six months ended September 30, 2021:	130,649,525 shares
	Six months ended September 30, 2020:	130,780,804 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 Six Months Ended September 30, 2021” on page 7 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 Tuesday, November 9, 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 Six Months Ended September 30, 2021

(1) Details of operating results

1) Overview of operating results

During the first six months 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, and the economy in Europe shows movement towards recovery. In Thailand and Indonesia, the economy remained sluggish 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 steady. On the other hand, domestic demand for cement has declined.

Under these circumstances, consolidated net sales for the first six months of the current fiscal year were ¥860,026 million (up 18.5% year-on-year), operating profit was ¥29,038 million (up 321.4%), and ordinary profit was ¥38,220 million (up 132.2%). In addition, ¥19,425 million of extraordinary income was recorded as a gain on sales of investment securities. As a result, profit attributable to owners of the parent amounted to ¥38,181 million (net loss of ¥19,150 million in the same period of the previous fiscal year).

2) Overview by segments

(Advanced Products)

(Billion yen)

	FY2021 Q1-Q2	FY2022 Q1-Q2	Increase / Decrease (%)	
Net sales	156.0	230.5	74.5	(47.7%)
Operating profit (loss)	(1.7)	5.8	7.6	(-%)
Ordinary profit	0.0	7.2	7.2	(-%)

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, despite the decrease of net sales due to the application of the "Accounting Standard for Revenue Recognition," both net sales and operating profit increased as a result of higher sales, mainly of products for the semiconductors industries.

As a result, net sales and operating profit for the entire Advanced Products Business increased year-on-year. Ordinary profit increased due to the increase in operating profit.

(Metalworking Solutions Business)

(Billion yen)

	FY2021 Q1-Q2	FY2022 Q1-Q2	Increase / Decrease (%)	
Net sales	56.6	65.4	8.7	(15.5%)
Operating profit (loss)	(3.0)	5.8	8.9	(-%)
Ordinary profit (loss)	(2.8)	5.7	8.6	(-%)

Both net sales and operating profits increased due to additional demand for cemented carbide products in Japan and major overseas countries and 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, 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-Q2	FY2022 Q1-Q2	Increase / Decrease (%)	
Net sales	358.3	469.4	111.1	(31.0%)
Operating profit	7.4	14.8	7.3	(99.2%)
Ordinary profit	15.4	24.9	9.4	(61.2%)

In the Copper business, net sales and operating profit 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, net sales increased but operating profit decreased mainly due to a decline in sales of palladium, despite a hike in palladium prices.
As a result, net sales and operating profit for the entire Metals Business increased year-on-year. Ordinary profit increased due to the increase in operating profit, as well as an increase in share of profit of entities accounted for using equity method.

(Cement Business)

(Billion yen)

	FY2021 Q1-Q2	FY2022 Q1-Q2	Increase / Decrease (%)	
Net sales	105.7	101.0	-4.7	(-4.5%)
Operating profit	4.1	2.3	-1.8	(-43.7%)
Ordinary profit	3.8	1.5	-2.3	(-60.5%)

In Japan, despite the resumption of redevelopment work in the Tokyo metropolitan area, net sales declined due to the decrease in demand for disaster recovery work in the Tohoku and Chugoku regions and the application of the “Accounting Standard for Revenue Recognition.” In addition, there was an increase in energy costs. As a result, net sales decreased and losses increased.
For overseas business, in the United States, although the sales prices of ready-mixed concrete increased, the sales volume of ready-mixed concrete and cement decreased due to shortage of drivers against the backdrop of tight supply and demand in the labor market, and operating expenses such as electricity costs increased. Additionally, in the Coal business in Australia, the sales price of coal business increased. Consequently, sales increased but operating profit decreased.
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 share of profit of entities accounted for using equity method in addition to the decrease in operating profit.

(Environment & Energy Business)

(Billion yen)

	FY2021 Q1-Q2	FY2022 Q1-Q2	Increase / Decrease (%)	
Net sales	9.6	9.1	-0.4	(-4.9%)
Operating profit (loss)	(0.0)	0.7	0.7	(-%)
Ordinary profit	0.4	1.4	1.0	(232.5%)

In the Energy-related business, both net sales and operating profit increased due to higher sales in the nuclear-energy-related services.
In the Environmental and recycling-related business, both net sales and operating profit increased due to an increase in the processing volume of home appliance recycling and other products, and a rise in the unit price of valuable resources sold in addition to.
In addition to the above, operating profit for the entire Environment & Energy Business increased year-on-year, although net sales decreased, due to the transfer of all shares of DIA CONSULTANTS CO., Ltd. in July 2021.

Ordinary profit increased due to the increase in operating profit and an increase in share of profit of entities accounted for using equity method.

(Other Businesses)

(Billion yen)

	FY2021 Q1-Q2	FY2022 Q1-Q2	Increase / Decrease (%)	
Net sales	127.3	119.4	-7.8	(-6.2%)
Operating profit	2.5	3.8	1.3	(54.6%)
Ordinary profit	2.2	3.3	1.1	(52.2%)

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 a decrease in net sales due to the application of the "Accounting Standard for Revenue Recognition," 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.
Net sales and operating profits of businesses other than beverage aluminum cans and rolled and fabricated aluminum products decreased in total.
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 second quarter of the consolidated fiscal year stood at ¥2,042.4 billion, increased by ¥6.8 billion from the end of the previous fiscal year. This was mainly due to an increase in inventories.
Total liabilities amounted to ¥1,402.8 billion, a decrease by ¥18.3 billion from the end of the previous fiscal year. This was mainly due to a decrease in commercial papers.
The status of cash flow and factors contributing to these amounts in each category for the second half of the fiscal year under review are as follows:

(Cash flows from operating activities)
Net cash used in operating activities during the first six months of the year under review was -¥15.8 billion (decreased by ¥62.1 billion year-on-year) mainly due to an increase in inventories, despite recording of profit before income taxes.

(Cash flows from investing activities)
Net cash provided by investing activities during the first six months of the year under review was ¥8.6 billion (increased by ¥43.6 billion year-on-year) mainly due to proceeds from sales of investment securities, etc.

(Cash flows from financing activities)
Net cash provided by financing activities during the first six months of the fiscal year under review was ¥0.9 billion (decreased by ¥3.0 billion year-on-year) due to cash from borrowings and bonds payable, despite the repayment of commercial papers and other payments.

As a result of the above, adding a net increase (decrease) in cash and cash equivalents mainly due to the effect of the exchange rate fluctuations, cash and cash equivalents at the end of the second quarter of the consolidated fiscal year amounted to ¥141.1 billion (decreased by ¥6.3 billion year-on-year).

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

The consolidated earnings forecast for the fiscal year ending March 31, 2022 has been revised from the previous forecast (announced on August 6, 2021) as follows.

Despite the increase in profits in the first half of the current fiscal year, operating income is expected to decrease compared to the previous forecast, and ordinary income is expected to increase compared to the previous forecast, mainly due to an increase in dividends received from copper mines, despite the impact of falling palladium prices. In addition, profit attributable to owners of the parent is expected to be on par with the previous forecast, due to the reduction of strategic-holding stocks and the progress of business restructuring.

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	1,760.0	1,760.0	—
Operating profit	47.0	42.0	- 10.6%
Ordinary profit	56.0	59.0	5.4%
Profit attributable to owners of parent	37.0	37.0	—

In addition, the dividend forecast for the fiscal year ending March 31, 2022 has been revised from the previous forecast (announced on May 14, 2021) as follows.

Mitsubishi Materials Corporation (hereinafter referred to as “the Company”) has set a minimum payment of annual dividend of 50 yen per share for the period of the Medium-term Management Strategy, which covers the period from the fiscal year ended March 31, 2021 (hereinafter referred to as “FY2021) to FY2023, and aims to return shareholders as the same amount as the total dividend initially expected for the same period by accelerating the sale of assets and flexibly implementing share buybacks and additional dividends.

In accordance with this policy, the Company has decided to pay 40 yen per share for interim dividend and expects to pay 40 yen per share for year-end dividend for the fiscal year ending March 31, 2022, consisting of an ordinary dividend of 25 yen per share, and a special dividend of 15 yen per as shareholder return corresponding to temporary earnings gained from selling investment securities, etc. As a result, the annual dividend forecast will be 80 yen per share.

	Dividend per share (Yen)		
	End of 2nd quarter	Term-end	Total dividend payment
Previous forecast	25.00 yen	25.00 yen	50.00 yen
Current forecast	—	40.00 yen (Ordinary dividend: 25.00 yen) (Special dividend: 15.00 yen)	80.00 yen (Ordinary dividend: 50.00 yen) (Special dividend: 30.00 yen)
Actual	40.00 yen (Ordinary dividend: 25.00 yen) (Special dividend: 15.00 yen)	—	—
Previous fiscal year (FY2021)	0.00 yen	50.00 yen	50.00 yen

(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 September 30, 2021
Assets		
Current assets		
Cash and deposits	153,086	147,084
Notes and accounts receivable - trade	220,522	224,358
Merchandise and finished goods	117,498	133,734
Work in process	126,357	141,074
Raw materials and supplies	136,019	162,645
Other	289,513	296,221
Allowance for doubtful accounts	(3,103)	(2,384)
Total current assets	1,039,894	1,102,735
Non-current assets		
Property, plant and equipment		
Machinery and equipment, net	227,111	222,758
Land, net	209,707	208,872
Other, net	228,582	232,731
Total property, plant and equipment, net	665,402	664,361
Intangible assets		
Goodwill	31,670	29,392
Other	14,760	14,379
Total intangible assets	46,431	43,771
Investments and other assets		
Investment securities	217,477	185,044
Other	70,732	51,033
Allowance for doubtful accounts	(4,392)	(4,518)
Total investments and other assets	283,818	231,559
Total non-current assets	995,651	939,693
Total assets	2,035,546	2,042,428

(Million yen)

	As of March 31, 2021	As of September 30, 2021
Liabilities		
Current liabilities		
Notes and accounts payable - trade	153,603	136,342
Short-term borrowings	175,686	167,011
Current portion of bonds payable	20,000	30,000
Commercial papers	40,000	—
Income taxes payable	6,781	13,764
Provisions	14,187	13,689
Deposited gold bullion	323,505	333,227
Other	125,072	108,146
Total current liabilities	858,838	802,182
Non-current liabilities		
Bonds payable	40,000	70,000
Long-term borrowings	353,795	371,448
Provision for environmental measures	26,555	23,215
Other provisions	4,423	1,866
Retirement benefit liability	42,249	44,773
Other	95,289	89,331
Total non-current liabilities	562,313	600,636
Total liabilities	1,421,151	1,402,818
Net assets		
Shareholders' equity		
Share capital	119,457	119,457
Capital surplus	79,439	79,408
Retained earnings	294,814	327,330
Treasury shares	(2,868)	(2,883)
Total shareholders' equity	490,843	523,313
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	42,940	30,355
Deferred gains or losses on hedges	(1,119)	(3,541)
Revaluation reserve for land	27,097	27,033
Foreign currency translation adjustment	(8,057)	(3,244)
Remeasurements of defined benefit plans	(6,470)	(5,384)
Total accumulated other comprehensive income	54,390	45,217
Non-controlling interests	69,161	71,079
Total net assets	614,394	639,610
Total liabilities and net assets	2,035,546	2,042,428

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

Consolidated statement of profit or loss

(Million yen)

	Six Months Ended September 30, 2020 (Apr 1, 2020 - Sep 30, 2020)	Six Months Ended September 30, 2021 (Apr 1, 2021 - Sep 30, 2021)
Net sales	725,568	860,026
Cost of sales	647,158	754,384
Gross profit	78,410	105,641
Selling, general and administrative expenses	71,519	76,603
Operating profit	6,890	29,038
Non-operating income		
Interest income	442	316
Dividend income	11,138	10,531
Rental income from non-current assets	2,574	2,573
Share of profit of entities accounted for using equity method	851	2,929
Other	3,551	1,978
Total non-operating income	18,558	18,329
Non-operating expenses		
Interest expenses	2,136	2,744
Expense for the maintenance and management of abandoned mines	1,907	2,207
Other	4,947	4,195
Total non-operating expenses	8,991	9,148
Ordinary profit	16,457	38,220
Extraordinary income		
Gain on sales of investment securities	465	19,425
Gain on transfer of business	199	—
Other	75	815
Total extraordinary income	740	20,241
Extraordinary losses		
Loss on sale of fixed assets	11	161
Litigation expenses	—	145
Impairment loss	579	35
Provision for loss on business restructuring	21,980	—
Other	1,194	131
Total extraordinary losses	23,765	474
Profit (loss) before income taxes	(6,568)	57,987
Income taxes	8,675	15,291
Profit (loss)	(15,243)	42,695
Profit attributable to non-controlling interests	3,906	4,514
Profit (loss) attributable to owners of parent	(19,150)	38,181

Consolidated statements of comprehensive income

(Million yen)

	Six Months Ended September 30, 2020 (Apr 1, 2020 - Sep 30, 2020)	Six Months Ended September 30, 2021 (Apr 1, 2021 - Sep 30, 2021)
Profit (loss)	(15,243)	42,695
Other comprehensive income		
Valuation difference on available-for-sale securities	6,386	(12,602)
Deferred gains or losses on hedges	(1,535)	1,367
Revaluation reserve for land	(1)	-
Foreign currency translation adjustment	(4,976)	3,299
Remeasurements of defined benefit plans	2,224	1,262
Share of other comprehensive income of entities accounted for using equity method	571	(1,652)
Total other comprehensive income	2,669	(8,326)
Comprehensive income	(12,574)	34,368
(Breakdown)		
Comprehensive income attributable to owners of parent	(14,957)	29,233
Comprehensive income attributable to non-controlling interests	2,382	5,134

(3) Consolidated statements of cash flows

(Million yen)

	Six Months Ended September 30, 2020 (Apr 1, 2020 - Sep 30, 2020)	Six Months Ended September 30, 2021 (Apr 1, 2021 - Sep 30, 2021)
Cash flows from operating activities		
Profit (loss) before income taxes	(6,568)	57,987
Depreciation	30,676	31,454
Increase (decrease) in provision for environmental measures	(3,507)	(3,339)
Increase (decrease) in provision for loss on business restructuring	21,980	—
Increase (decrease) of provision	(2,089)	(1,566)
Increase (decrease) of retirement benefit liability	(579)	395
Interest and dividend income	(11,580)	(10,847)
Interest expenses	2,136	2,744
Share of loss (profit) of entities accounted for using equity method	(851)	(2,929)
Loss (gain) on sales of property, plant and equipment	(65)	(147)
Loss (gain) on sales of investment securities	275	(19,344)
Loss (gain) on valuation of investment securities	4	9
Decrease (increase) in notes and accounts receivable - trade	19,992	(2,455)
Decrease (increase) in inventories	(17,728)	(55,617)
Proceeds from sales of gold bullion	52,403	58,899
Payment for purchase of gold bullion	(52,263)	(58,870)
Increase (decrease) in notes and accounts payable - trade	25,813	(19,745)
Other	(2,489)	7,323
Sub-total	55,558	(16,051)
Interest and dividend received	13,388	13,454
Interest paid	(2,138)	(2,785)
Income taxes (paid) refund	(10,010)	(10,423)
Loss on the Antimonopoly Act	(10,423)	—
Net cash provided by (used in) operating activities	46,375	(15,805)
Cash flows from investing activities		
Payment for purchase of property, plant and equipment	(36,823)	(36,421)
Proceeds from sales of property, plant and equipment	406	1,819
Payment for purchase of investment securities	(2,538)	(770)
Proceeds from sales of investment securities	3,971	30,927
Proceeds from sales of subsidiaries' shares resulting in change in scope of consolidation	161	579
Proceeds from transfer of businesses	536	—
Payment for loans	(1,962)	(1,520)
Proceeds from collection of loans	181	14,451
Other	1,070	(376)
Net cash provided by (used in) investing activities	(34,995)	8,688

(Million yen)

	Six Months Ended September 30, 2020 (Apr 1, 2020 - Sep 30, 2020)	Six Months Ended September 30, 2021 (Apr 1, 2021 - Sep 30, 2021)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	14,042	(3,487)
Proceeds from long-term borrowings	37,131	19,899
Repayment of long-term borrowings	(22,091)	(5,075)
Proceeds from issuance of bonds	—	40,000
Net increase (decrease) in commercial papers	8,000	(40,000)
Payment for purchase of treasury shares	(694)	(17)
Cash dividends paid	(5,237)	(6,546)
Cash dividends paid to non-controlling interests	(1,045)	(2,584)
Payment for purchase of subsidiaries' shares not-resulting in change in scope of consolidation	(24,925)	—
Other	(1,167)	(1,190)
Net cash provided by (used in) financing activities	4,010	997
Effect of exchange rate changes on cash and cash equivalents	(1,062)	396
Increase (decrease) in cash and cash equivalents	14,328	(5,723)
Cash and cash equivalents at beginning of period	127,284	147,533
Increase (decrease) in cash and cash equivalents resulting from change in scope of consolidation	1,045	—
Increase (decrease) in cash and cash equivalents resulting from change of consolidated subsidiaries’ accounting period	—	(618)
Cash and cash equivalents at end of period	142,658	141,191

(4) Key notes on consolidated quarterly financial statements

Notes on going concern assumption

N/A

Segment Information, etc.

[Segment Information]

I. For the second quarter ended September 30, 2020 (from April 1, 2020 to September 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	150,320	52,263	300,829	104,625	9,384	108,144	725,568	―	725,568
(2) Within consolidated group	5,766	4,422	57,502	1,165	266	19,206	88,330	(88,330)	―
Total	156,086	56,686	358,332	105,791	9,651	127,350	813,899	(88,330)	725,568
Segment income (loss)	53	(2,843)	15,476	3,864	431	2,226	19,209	(2,751)	16,457

Notes:

1.“Other Businesses” include aluminum-related business and engineering-related services etc.

2. “Adjustment amount” in segment income (loss) of -¥2,751 million includes the amount of elimination of intersegment transactions of ¥2 million and corporate expenses of -¥2,754 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 or loss.

II. For the second quarter ended September 30, 2021 (from April 1, 2021 to September 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	222,539	63,458	360,395	100,250	8,768	104,613	860,026	―	860,026
(2) Within consolidated group	8,056	1,987	109,054	769	411	14,850	135,129	(135,129)	―
Total	230,595	65,446	469,450	101,019	9,179	119,464	995,155	(135,129)	860,026
Segment income	7,275	5,790	24,945	1,524	1,436	3,388	44,361	(6,141)	38,220

Notes:

1.“Other Businesses” include aluminum-related business and engineering-related services etc.

2. “Adjustment amount” in segment income of -¥6,141 million includes the amount of elimination of intersegment transactions of -¥223 million and corporate expenses of -¥5,917 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 or loss.

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” ,etc. and changed its accounting method for revenue recognition, and the measurement of income in the reporting segments has been changed in the same

way.
As a result, net sales to outside customers in the second quarter decreased by ¥1,470 million in the Advanced Products Business, ¥6,784 million in the Cement Business, and ¥6,136 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 second quarter of FY2022, and multiplying profit before income taxes for the second 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) (hereinafter referred to as "Accounting Standard for Revenue Recognition), from the beginning of the first quarter of the current fiscal year and decided to recognize revenue as the amount expected to be received in exchange for the 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 the 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 six months of the current fiscal year decreased by ¥14,390 million, but the impacts 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 six months 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. Hereinafter "Accounting Standard for Fair Value Measurement"), 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 Standard for Fair Value Measurement and other standards in the future in accordance with transitional treatment set forth in Article 19 of the Accounting Standard for Fair Value Measurement and Article 44-2 of "Accounting Standard for Financial Instruments" (ASBJ Statement No. 10, July 4, 2019).
Stocks with market value in available-for-sale securities 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.
As a result, the impact of this change on the quarterly consolidated financial statements for the first six months of the current fiscal year 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 second quarter of the current fiscal year, respectively.

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

As a result of reviews based on external information, etc. available as of the end of the second quarter of the current consolidated fiscal year, no significant change has been made to 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.

・Second quarter of the current fiscal year (As of September 30, 2021)
PT. Smelting in Indonesia, a consolidated subsidiary of the Company (hereinafter referred to as “PTS”) received notices of reassessment from the Indonesian National Tax Authority covering five fiscal years of PTS (for the fiscal years ended on December 31, 2011, 2012, 2014, 2016 and 2018 respectively).
The Indonesian tax authorities have been unilaterally denying some of PTS's agent fees. As both the Company and PTS cannot accept this correction, PTS has been asserting its legitimacy through objections to the Indonesian tax authorities and tax court cases.
At the end of the second quarter of the current consolidated fiscal year, the total amount of additional charges, which PTS currently disputes, was US$30 million (¥3,458 million at the end of the second quarter of the current fiscal year). There are some cases in which surcharges may be imposed depending on the outcome of formal objections or tax trial results.