

Consolidated Financial Results for the Nine Months Ended December 31, 2022 (Japanese Accounting Standards)

February 10, 2023

Name of Listed Company: Mitsubishi Materials Corporation
Stock Code: 5711

Listing: Tokyo Stock Exchange
URL: <https://www.mmc.co.jp/>

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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 one million yen are omitted.)

1. Results of the Nine Months Ended December 31, 2022 (From April 1, 2022 to December 31, 2022)

(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	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
The nine months ended December 31, 2022	1,243,565	-5.4	37,975	-3.4	24,962	-59.2	1,110	-98.2
The nine months ended December 31, 2021	1,314,025	21.7	39,319	152.1	61,206	91.2	61,472	458.2

(Note) Comprehensive income:

The nine months ended December 31, 2022: ¥23,130 million (-63.3%)

The nine months ended December 31, 2021: ¥62,964 million (+207.9%)

	Profit per share	Diluted profit per share
	Yen	Yen
The nine months ended December 31, 2022	8.50	—
The nine months ended December 31, 2021	470.52	—

(2) Consolidated Financial Position

	Total assets	Total net assets	Shareholders' equity ratio
	Millions of yen	Millions of yen	%
As of December 31, 2022	1,964,246	617,029	29.5
As of March 31, 2022	2,125,032	655,752	27.5

(Reference) Shareholders' Equity:

As of December 31, 2022: ¥578,509 million As of March 31, 2022: ¥584,817 million

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, 2022	—	40.00	—	50.00	90.00
Year ending March 31, 2023	—	25.00	—	—	—
Year ending March 31, 2023 (Forecast)	—	—	—	25.00	50.00

(Note1) Revision of dividend forecast published most recently: None

(Note2) The interim dividend per share for the year ended March 31, 2022 consists of ¥25.00 ordinary dividend and ¥15.00 special dividend. The year-end dividend per share for the year ended March 31, 2022 consists of ¥35.00 ordinary dividend and ¥15.00 special dividend.

3. Consolidated Earnings Forecast (From April 1, 2022 to March 31, 2023)

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

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Profit per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Year ending March 31, 2023	1,680,000	-7.3	43,000	-18.4	15,000	-80.3	6,000	-86.7	45.92

(Note) Revision to forecast published most recently: Yes

* Notes

- (1) Significant changes of subsidiaries during the term (changes in specified subsidiaries accompanied by a change in the scope of consolidation): Yes
New: -, Exempt: 1 (MCC Development Corporation)
(Note) For details, please see “(3) Key notes on consolidated quarterly financial statements,” under “2. Consolidated Financial Statements and Key Notes” on page 12.
- (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: | None |
| (ii) Other changes in accounting policies: | None |
| (iii) Changes in accounting estimates: | None |
| (iv) Restatements: | None |
- (4) Numbers of outstanding shares (common stock)
- | | |
|---|--------------------|
| (i) Numbers of outstanding shares at end of period (including treasury shares): | |
| Nine months ended December 31, 2022: | 131,489,535 shares |
| Year ended March 31, 2022: | 131,489,535 shares |
| (ii) Numbers of treasury shares at end of period: | |
| Nine months ended December 31, 2022: | 816,313 shares |
| Year ended March 31, 2022: | 848,433 shares |
| (iii) Average number of outstanding shares during period (quarterly cumulative period): | |
| Nine months ended December 31, 2022: | 130,665,136 shares |
| Nine months ended December 31, 2021: | 130,647,945 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 forecast and other special notes

(Notes concerning forward-looking statements, etc.)

The operating results forecast 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 forecast due to a variety of factors.

Please see “(3) Information on the consolidated earnings forecast and other future ” under “1. Qualitative Information on Financial Results for the Nine Months Ended December 31, 2022” on page 6 or the assumptions about consolidated earnings forecast.

(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, February 10, 2023. 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.

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1. Qualitative Information on Financial Results for the Nine Months Ended December 31, 2022

(1) Details of operating results

1) Overview of operating results

During the nine months ended December 31, 2022, the global economy saw a surge in price of goods, services and energy, and instability in metal prices resulting from the situation in Ukraine, along with a weakening of the yen due to a rise in interest rates mainly in developed countries. Against this backdrop, although economic activities in China were affected by the prolonged city lockdowns as a countermeasure against COVID-19, etc., the economy in other regions showed signs of recovery.

The Japanese economy remained on a recovery track as socio-economic activities continued to normalize.

The business environment surrounding the Mitsubishi Materials' Group (hereinafter referred to as the "Group"), there was a slowdown in demand in the automotive and semiconductor sectors respectively. In addition, there was an impact of a depreciation trend of the yen, as well as a decline in palladium prices and a rise in energy prices.

Under these circumstances, for the nine months ended December 31, 2022, operating profit of the Advanced products business was decreased from the same period of the previous consolidated fiscal year, but operating profit of the Metalworking solutions business, the Metals business and the Environment & energy business was increased from the same period of the previous consolidated fiscal year.

As a result, consolidated net sales and operating profit for the nine months ended December 31, 2022 decreased only slightly year-on-year, despite the impact of the Cement business and the Aluminum business being removed from the scope of consolidation. Net sales were ¥1,243,565million (down 5.4% year-on-year), operating profit was ¥37,975 million (down 3.4% year-on-year). Ordinary profit was ¥24,962 million (down 59.2% year-on-year), mainly due to recorded non-operating expenses of ¥13,739 million as share of loss of entities accounted for using equity method and a decrease in dividend income. Quarterly profit attributable to owners of parent was ¥1,110 million (down 98.2% year-on-year), mainly due to record an extraordinary loss of ¥35,847 million as provision for loss on business restructuring, despite recorded an extraordinary income of ¥11,007 million as gain on change in equity.

2) Overview by segments

Effective from the first quarter of the current consolidated fiscal year, the Company has changed its reporting segments, etc. For details, please refer to (3) Key notes on consolidated quarterly financial statements (Segment Information, etc.)" under "2. Consolidated Financial Statements and Key Notes". The following year-on-year comparisons are calculated based on the figures for the same period of the previous year, restated according to the new classification.

(Advanced Products Business)

(Billions of yen)

	Nine Months Ended December 31, 2021	Nine Months Ended December 31, 2022	Increase / Decrease (%)	
Net sales	356.8	397.1	+40.3	(+11.3%)
Operating profit	9.8	7.5	-2.3	(-23.8%)
Ordinary profit	11.6	7.4	-4.2	(-36.5%)

In the Copper & copper alloy products business, net sales increased but operating profit decreased year-on-year mainly due to higher energy costs, etc., despite the impact of the yen's depreciation and an increase in sales, mainly in the U.S. and Europe.

In the Electronic materials & components business, net sales increased year-on-year mainly due to the impact of the yen's depreciation on the Polycrystalline silicon business. However, operating profit decreased year-on-year, mainly due to a decrease in sales of semiconductor-related products and an increase in energy costs, etc.

As a result, net sales for the entire Advanced products business increased year-on-year, while operating profit decreased. Ordinary profit decreased mainly due to a decrease in gain on valuation of derivatives, in addition to the decrease in operating profit.

(Metalworking Solutions Business)

(Billions of yen)

	Nine Months Ended December 31, 2021	Nine Months Ended December 31, 2022	Increase / Decrease (%)
Net sales	98.9	107.2	+8.3 (+8.4%)
Operating profit	10.1	11.3	+1.2 (+12.3%)
Ordinary profit	10.0	11.7	+1.7 (+17.3%)

For cemented carbide products, a major product category, both net sales and operating profit increased year-on-year mainly due to an increase in sales in North America and the impact of the yen's depreciation, despite decrease in sales in China caused by the prolonged city lockdowns, etc.

As a result, net sales and operating profit for the entire Metalworking solutions business increased year-on-year. Ordinary profit increased mainly due to an increase in foreign exchange gains, in addition to an increase in operating profit.

(Metals Business)

(Billions of yen)

	Nine Months Ended December 31, 2021	Nine Months Ended December 31, 2022	Increase / Decrease (%)
Net sales	711.9	836.5	+124.5 (+17.5%)
Operating profit	16.9	18.4	+1.5 (+9.2%)
Ordinary profit	39.9	20.1	-19.7 (-49.4%)

In the Copper business, net sales increased but operating profit decreased year-on-year mainly due to an increase in energy costs, etc., despite an increase in production volume compared with the same period of the previous consolidated fiscal year.

In the Gold and other valuable metals business, net sales and operating profit increased year-on-year mainly due to an increase in gold sales volume, despite decline in the price of palladium year-on-year.

As a result, net sales and operating profit for the entire Metals business increased year-on-year. Ordinary profit decreased year-on-year mainly due to a decrease in dividend income.

(Environment & Energy Business)

(Billions of yen)

	Nine Months Ended December 31, 2021	Nine Months Ended December 31, 2022	Increase / Decrease (%)
Net sales	13.2	13.0	-0.1 (-1.3%)
Operating profit	1.0	1.6	+0.6 (+60.8%)
Ordinary profit	2.2	3.1	+0.8 (+40.1%)

In the Energy-related business, both net sales and operating profit increased year-on-year mainly due to higher sales in nuclear-energy-related services.

In the Environmental recycling business, despite higher unit prices for the sale of valuable materials, net sales increased but operating profit decreased year-on-year mainly due to a decrease in the volume of recycled home appliances and an increase in selling, general and administrative expenses.

In addition to the above, due to the impact of the removal of DIA CONSULTANTS CO., Ltd. from the scope of consolidation in July 2021, net sales for the entire Environment & energy business decreased year-on-year, while operating profit increased. 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)

(Billions of yen)

	Nine Months Ended December 31, 2021	Nine Months Ended December 31, 2022	Increase / Decrease (%)
Net sales	335.5	116.0	-219.5 (-65.4%)
Operating profit	8.5	4.4	-4.1 (-48.4%)
Ordinary profit (loss)	6.3	-12.2	-18.5 (—%)

In the Other businesses, both net sales and operating profit decreased year-on-year mainly due to the impact of the Cement business and the Aluminum business being removed from the scope of consolidation.

As a result, net sales and operating profit for the Other businesses decreased year-on-year. Ordinary profit decreased due to a decrease in operating profit and the recorded share of loss of entities accounted for using equity method related to Mitsubishi UBE Cement Corporation (hereinafter referred to as “MUCC”, an equity-method affiliate company of the Company).

MUCC recorded an extraordinary loss due to the rationalization of its production system and was impacted by an increase in energy costs.

(2) Details of financial position

Total assets at the end of the nine months of the current consolidated fiscal year stood at ¥1,964.2 billion, decreased by ¥160.7 billion from the end of the previous consolidated fiscal year. This was mainly due to a decrease in property, plant and equipment resulting from the deconsolidation of the Cement business and its related businesses in the first quarter of the current consolidated fiscal year.

Total liabilities amounted to ¥1,347.2 billion, a decrease of ¥122.0 billion from the end of the previous consolidated fiscal year. This was mainly due to a decrease in borrowings and other current liabilities, mainly reflecting the impact of the exclusion of the Cement business and its related businesses from the scope of consolidation in the first quarter of the current consolidated fiscal year.

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

With regard to the consolidated earnings forecast for the fiscal year ending March 31, 2023, net sales and operating profit are expected to be approximately the same as the previous forecast due to increase sales in Metals Business despite the yen's appreciation and lower sales in Advanced Products Business and Metalworking Solutions Business. Ordinary profit is expected to decrease from the previous forecast, due to increase foreign exchange losses and share of loss of entities accounted for using equity method related to MUCC. Profit attributable to owners of parent is expected to increase compared to the previous forecast due to a decrease in tax expenses, etc.

Revisions to Consolidated Earnings Forecast for the fiscal year ending March 31, 2023 (from April 1, 2022 to March 31, 2023)

(Billions of yen)

	Previous forecast	Current forecast	Change (%)
Net sales	1,690.0	1,680.0	(0.6)
Operating profit	44.0	43.0	(2.3)
Ordinary profit	18.0	15.0	(16.7)
Profit attributable to owners of parent	3.0	6.0	100.0

(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 sheet

(Millions of yen)

	As of March 31, 2022	As of December 31, 2022
Assets		
Current assets		
Cash and deposits	159,221	137,537
Notes receivable - trade	30,302	35,426
Accounts receivable - trade	219,543	167,928
Merchandise and finished goods	133,600	154,095
Work in process	159,508	155,840
Raw materials and supplies	161,487	164,279
Leased gold bullion	195,379	216,366
Other	182,280	168,299
Allowance for doubtful accounts	(2,390)	(442)
Total current assets	1,238,932	1,199,331
Non-current assets		
Property, plant and equipment		
Machinery and equipment, net	209,924	149,965
Land, net	194,039	91,229
Other, net	225,235	176,333
Total property, plant and equipment, net	629,199	417,528
Intangible assets		
Goodwill	29,371	9,448
Other	19,184	19,020
Total intangible assets	48,556	28,469
Investments and other assets		
Investment securities	165,232	274,902
Other	47,579	49,259
Allowance for doubtful accounts	(4,468)	(5,245)
Total investments and other assets	208,343	318,916
Total non-current assets	886,099	764,914
Total assets	2,125,032	1,964,246

(Millions of yen)

	As of March 31, 2022	As of December 31, 2022
Liabilities		
Current liabilities		
Notes and accounts payable - trade	158,534	125,888
Short-term borrowings	171,304	184,362
Current portion of bonds payable	10,000	—
Commercial papers	30,000	50,000
Income taxes payable	12,523	1,129
Provision for loss on business restructuring	—	35,847
Other provisions	12,914	8,383
Deposited gold bullion	392,364	407,221
Other	139,052	102,017
Total current liabilities	926,693	914,849
Non-current liabilities		
Bonds payable	70,000	70,000
Long-term borrowings	327,405	267,026
Provision for environmental measures	18,762	14,228
Other provisions	2,136	1,781
Retirement benefit liability	35,228	25,769
Other	89,052	53,560
Total non-current liabilities	542,586	432,366
Total liabilities	1,469,280	1,347,216
Net assets		
Shareholders' equity		
Share capital	119,457	119,457
Capital surplus	79,407	79,427
Retained earnings	328,864	320,016
Treasury shares	(2,892)	(2,809)
Total shareholders' equity	524,837	516,092
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	26,110	3,672
Deferred gains or losses on hedges	(5,328)	5,779
Revaluation reserve for land	26,369	16,333
Foreign currency translation adjustment	18,832	40,075
Remeasurements of defined benefit plans	(6,003)	(3,443)
Total accumulated other comprehensive income	59,979	62,417
Non-controlling interests	70,935	38,520
Total net assets	655,752	617,029
Total liabilities and net assets	2,125,032	1,964,246

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

(Millions of yen)

	Nine Months Ended December 31, 2021 (Apr. 1, 2021 – Dec. 31, 2021)	Nine Months Ended December 31, 2022 (Apr. 1, 2022 – Dec. 31, 2022)
Net sales	1,314,025	1,243,565
Cost of sales	1,159,599	1,112,300
Gross profit	154,426	131,265
Selling, general and administrative expenses	115,106	93,290
Operating profit	39,319	37,975
Non-operating income		
Interest income	414	853
Dividend income	24,522	8,901
Rental income from non-current assets	3,784	3,117
Share of profit of entities accounted for using equity method	3,117	—
Other	3,572	1,933
Total non-operating income	35,411	14,806
Non-operating expenses		
Interest expenses	4,136	4,447
Share of loss of entities accounted for using equity method	—	13,739
Expense for the maintenance and management of abandoned mines	2,877	3,025
Other	6,510	6,607
Total non-operating expenses	13,523	27,819
Ordinary profit	61,206	24,962
Extraordinary income		
Gain on sales of investment securities	33,210	11,099
Gain on change in equity	—	11,007
Other	3,059	265
Total extraordinary income	36,270	22,371
Extraordinary losses		
Provision for loss on business restructuring	—	35,847
Extra retirement payments	1,743	—
Other	1,933	2,774
Total extraordinary losses	3,677	38,621
Profit before income taxes	93,799	8,713
Income taxes	25,191	5,016
Profit	68,608	3,697
Profit attributable to non-controlling interests	7,135	2,586
Profit attributable to owners of parent	61,472	1,110

Consolidated statement of comprehensive income

(Millions of yen)

	Nine Months Ended December 31, 2021 (Apr. 1, 2021 – Dec. 31, 2021)	Nine Months Ended December 31, 2022 (Apr. 1, 2022 – Dec. 31, 2022)
Profit	68,608	3,697
Other comprehensive income		
Valuation difference on available-for-sale securities	(16,687)	(17,049)
Deferred gains or losses on hedges	(900)	6,091
Foreign currency translation adjustment	11,122	11,013
Remeasurements of defined benefit plans	1,525	477
Share of other comprehensive income of entities accounted for using equity method	(704)	18,899
Total other comprehensive income	(5,644)	19,433
Comprehensive income	62,964	23,130
(Breakdown)		
Comprehensive income attributable to owners of parent	53,644	18,321
Comprehensive income attributable to non-controlling interests	9,319	4,808

(3) Key notes on consolidated quarterly financial statements

Notes on going concern assumption

N/A

Segment Information, etc.

[Segment Information]

I. For the nine months ended December 31, 2021 (from April 1, 2021 to December 31, 2021)

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

(Millions of yen)

	Reporting Segment				Other Businesses	Total	Adjustments amount	Amount in quarterly consolidated statement of profit or loss
	Advanced Products Business	Metalworking Solutions Business	Metals Business	Environment & Energy Business				
Net sales								
(1) Outside Customers	344,446	95,611	549,292	12,569	312,105	1,314,025	—	1,314,025
(2) Within consolidated group	12,380	3,302	162,665	651	23,473	202,473	(202,473)	—
Total	356,826	98,913	711,957	13,221	335,579	1,516,499	(202,473)	1,314,025
Segment income	11,682	10,010	39,900	2,233	6,315	70,141	(8,935)	61,206

(Note 1) “Other Businesses” include cement-related business, aluminum-related business, and engineering-related services, etc.

(Note 2) “Adjustment amount” in segment income of ¥(8,935) million includes the amount of elimination of intersegment transactions of ¥(287) million and corporate expenses of ¥(8,648) 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.

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

II. For the nine months ended December 31, 2022 (from April 1, 2022 to December 31, 2022)

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

(Millions of yen)

	Reporting Segment				Other Businesses	Total	Adjustments amount	Amount in quarterly consolidated statement of profit or loss
	Advanced Products Business	Metalworking Solutions Business	Metals Business	Environment & Energy Business				
Net sales								
(1) Outside Customers	382,455	103,305	659,400	12,405	85,997	1,243,565	—	1,243,565
(2) Within consolidated group	14,687	3,944	177,145	643	30,020	226,441	(226,441)	—
Total	397,143	107,250	836,546	13,049	116,017	1,470,007	(226,441)	1,243,565
Segment income (loss)	7,417	11,744	20,196	3,129	(12,207)	30,280	(5,318)	24,962

(Note 1) “Other Businesses” include cement-related business and engineering-related services, etc.

(Note 2) “Adjustment amount” in segment income (loss) of ¥(5,318) million includes the amount of elimination of intersegment transactions of ¥(132) million and corporate expenses of ¥(5,185) 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.

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

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

The Company has changed the cement business and its related businesses, formerly included in the “Cement Business” to be included in the “Other Businesses” segment, in line with the actual situation such as decisions on allocation of management resources, etc., following the integration of the cement business and its related businesses implemented on April 1, 2022.

The segment information for the first nine months of the previous consolidated fiscal year is shown here based on the new reporting segment classification and calculation method.

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

N/A

Changes of significant subsidiaries during the nine months ended December 31, 2022

In the first quarter of the current consolidated fiscal year, MCC Development Corporation, a specified subsidiary of the Company, ceased to be a specified subsidiary of the Company due to the absorption-type demerger of the Company's cement business and its related businesses (including shares of subsidiaries, etc. engaged in the subject businesses) with MUCC as the successor company.

As a result, MCC Development is excluded from the scope of consolidation effective from the first quarter of the current consolidated fiscal year.

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 nine months of the current consolidated fiscal year, and multiplying profit before income taxes by the estimated effective tax rate.

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 (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.

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 ¥589 million and 236 thousand shares at the end of the first nine months of the current consolidated 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 first nine months 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.

(Application of the “Practical Solution on the Accounting and Disclosure Under the Group Tax Sharing System”)

Effective from the first quarter of the current consolidated fiscal year, the Company and some of its domestic consolidated subsidiaries have shifted from a stand-alone taxation system to a Japanese Group Relief System. Accordingly, the accounting treatment and disclosure of corporate and local income taxes and tax effect accounting are based on the “Practical Solution on the Accounting and Disclosure under the Group Tax Sharing System” (ASBJ PITF No. 42, August 12, 2021).

(The share of loss of entities accounted for using equity method)

At the board of directors of MUCC held on September 26, 2022, MUCC resolved to rationalize its production system (hereinafter referred to as the “Initiatives”), as part of its business restructuring efforts, by suspending operations of its Aomori Plant and reducing production capacity of the Isa Cement Plant (halting operation of Kiln No.1).

In the first nine months of the current consolidated fiscal year, the Company recorded non-operating expenses of ¥1,780 million as share of loss of entities accounted for using equity method that expected to occur related to the Initiatives.

(Conclusion of the Transfer agreement of the Polycrystalline silicon business)

At a meeting of the Board of Directors held on October 28, 2022, the Company resolved to transfer (hereinafter referred to as the “Transfer”) all the shares of the newly established company (hereinafter referred to as the “New Company”) to SUMCO Corporation (hereinafter referred to as “SUMCO”) after having the Company’s polycrystalline silicon business (hereinafter referred to as the “Business”, including the shares of Mitsubishi Polycrystalline Silicon America Corporation, a consolidated subsidiary of the Company, and the shares of NIPPON AEROSIL CO., LTD., an equity-method affiliated company of the Company) succeeded to the New Company through an absorption-type company split (hereinafter referred to as the “Split”, and the “Transaction” together with the Transfer), and contracted the Transfer agreement with SUMCO on the same date.

Pursuant to the above, the Company established High-Purity Silicon Corporation as the New Company on December 5, 2022, and at a meeting of the Board of Directors held on December 27, 2022, the Company resolved to contract the Split agreement, and contracted the Split agreement with High-Purity Silicon Corporation on the same date.

1. Purpose of the Transaction

The Company entered the silicon business for semiconductors in 1959 and have been manufacturing polycrystalline silicon mainly for supplying raw materials for silicon wafers for semiconductors. As the Business is susceptible to changes in the market of semiconductors and silicon wafers, its business environment remains severe for the Business, and the Company has recorded impairment loss of non-current assets in recent years.

In the medium-term management strategy, the Company has been promoting its optimization of the business portfolio. As a result of discussions with SUMCO, which specializes in the silicon wafer business, regarding the Business, the Company has decided to execute this Transaction because it believes that operating the business through vertical integration under SUMCO will contribute to increasing the value of the Business, and that it is the best for the Company and the Business.

2. Acquisition of polycrystalline silicon business through an absorption-type company split

(1) Method of the Split

The Split uses the method of an absorption-type company split with the Company as splitting company and High-Purity Silicon Corporation as the successor company.

(2) Description of the business to be split

Manufacturing and sales of polycrystalline silicon for semiconductor, silicon tetrachloride, trichlorosilane, dichlorosilane, and other affiliated products (including shares of Mitsubishi Polycrystalline Silicon America Corporation (a consolidated subsidiary of the Company) and NIPPON AEROSIL CO., LTD. (an equity-method affiliated company of the Company)).

(3) Overview of the New Company

Name: High-Purity Silicon Corporation

Description of business: Manufacture and sales of polycrystalline silicon for semiconductors, silicon tetrachloride, trichlorosilane, dichlorosilane, and other affiliated products

Date of establishment: December 5, 2022

(4) Name of the reporting segment that includes the business to be split

Advanced Products Business

3. Transfer of the shares of the newly established company

(1) Overview of the transferee

Name: SUMCO Corporation

Description of business: Manufacture and sales of silicon wafers for semiconductor industry

(2) Overview of the New Company be transferred

Please see “(3) Overview of the New Company” under “2. Acquisition of polycrystalline silicon business through an absorption-type company split”.

(3) Number of shares transferred and shareholding before and after the Transfer

Number of shares held before the Transfer: 2 shares (Ratio of voting rights: 100.0%)

Number of shares to be transferred: 2 shares (Ratio of issued share: 100.0%)

Number of shares held after the Transfer: 0 shares (Ratio of voting rights: 0.0%)

(4) Impact on consolidated profit and loss

Due to the Transfer, the Company recorded an extraordinary loss of ¥35,847 million in the first nine months of the current consolidated fiscal year, as provision for loss on business restructuring.

4. Timeline of the Transaction

October 28, 2022: Date of conclusion of the Transfer agreement

December 27, 2022: Date of conclusion of the Split agreement

March 31, 2023(scheduled): Effective date of the Transaction

Contingent liabilities

(Matters concerning taxation in Indonesia)

• Previous consolidated fiscal year (As of March 31, 2022)

The consolidated subsidiary of the Company, PT. Smelting (hereinafter referred to as “PTS”), has received a notice of reassessment from Indonesian Tax Authority covering the company's four fiscal years ended December 31, 2012, December 31, 2014, December 31, 2016 and December 31, 2018.

Indonesian Tax Authority has unilaterally disallowed certain agent fees, etc. of PTS for some time, and since these corrections are not acceptable for the Company and PTS, PTS is asserting the legitimacy of the Company and PTS to Indonesian Tax Authority, through tax trials, objections, and other means.

As of the end of the previous consolidated fiscal year, the additional amount disputed by PTS totaled US\$19 million (¥2,363 million at the exchange rate as of the end of the previous consolidated fiscal year).

On June 9, 2022, the PTS also received a notice of reassessment in an amount of US\$4 million (¥580 million) from the Indonesian National Tax Authority for the fiscal year ended December 31, 2017.

There are some cases that surcharges may be imposed due to formal objections or tax trial results.

• The first nine months of the current consolidated fiscal year (As of December 31, 2022)

The consolidated subsidiary of the Company, PT. Smelting (hereinafter referred to as “PTS”), has received a notice of reassessment from Indonesian Tax Authority covering the company's five fiscal years ended December 31, 2012, December 31, 2014, December 31, 2016, December 31, 2017 and December 31, 2018.

Indonesian Tax Authority has unilaterally disallowed certain agent fees, etc. of PTS for some time, and since these corrections are not acceptable for the Company and PTS, PTS is asserting the legitimacy of the Company and PTS to Indonesian Tax Authority, through tax trials, objections, and other means.

As of the end of the first nine months of the current consolidated fiscal year, the additional amount disputed by PTS totaled US\$24 million (¥3,284 million at the exchange rate as of the end of the nine months of the current consolidated fiscal year).

There are some cases that surcharges may be imposed due to formal objections or tax trial results.

Notes on quarterly consolidated statement of comprehensive income

(Provision for loss on business restructuring)

• The first nine months of the current consolidated fiscal year (from April 1, 2022 to December 31, 2022)

To provide against losses for the transfer of the Company's polycrystalline silicon business (including the shares of Mitsubishi Polycrystalline Silicon America Corporation, a consolidated subsidiary of the Company, and the shares of NIPPON AEROSIL CO., LTD., an equity-method affiliated company of the Company), the Company recorded an estimated loss of ¥35,847 million as extraordinary losses in the first nine months of the current consolidated fiscal year amount such losses.

Important subsequent events

(Absorption-type merger of consolidated subsidiary)

At a meeting of the Board of Directors held on September 28, 2022, the Company resolved to merge with its consolidated subsidiary Materials' Finance Co., Ltd. (hereinafter referred to as "MFC") and merged with MFC as of January 1, 2023.

1. Overview of transaction

(1) Name and business of acquired enterprise

Name of acquired enterprise: Materials' Finance Co., Ltd.

Business of acquired enterprise: Financial operations for the Company and its affiliated companies

(2) Date of business combination

January 1, 2023

(3) Legal form of business combination

The Merger used the method of an absorption-type of merger with the Company as surviving absorption-type merger, and MFC dissolved.

(4) Name of the companies after the business combination

Mitsubishi Materials Corporation

(5) Purpose of business combination

The purpose of the merger is to improve efficiency of the Group's financial operations, etc.

2. Overview of accounting procedures to implement

In accordance with the "Accounting Standard for Business Combinations" (ASBJ Statement No. 21, January 16, 2019) and the "Implementation Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10, January 16, 2019), the Company accounted for as a transaction under common control.

(Change in segment classification)

At a meeting of the Board of Directors held on 10 February 2023, the Company resolved the medium-term management strategy FY2031, which covers the period from FY2024 to FY2031. The Company's group has newly set out "Our Commitment" of "For people, society and the earth, circulating resources for a sustainable future", and will build a recycling system of metal resources based on our strengths and realize growth throughout the value chain by expanding the scope, regions, and scale of our operations.

Based on the medium-term management strategy FY2031, the company will reorganize its structure to strengthen its resource recycling business and renewable energy business on April 1, 2023.

In connection with the above, the Company's reporting segment classification will be changed from "Advanced products business", "Metalworking solutions business", "Metals business" and "Environment & energy business" to "Metals business", "Advanced products business", "Metalworking solutions business" and "Renewable energy business". The impact of the new segment classification is currently being calculated.