Consolidated Financial Results for the Six Months Ended September 30, 2019 (Japanese Accounting Standards)

November 7, 2019

Name of Listed Company: Mitsubishi Materials Corporation   Listing: Tokyo Stock Exchange
Stock Code: 5711   URL: http://www.mmc.co.jp/
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Scheduled filing date of Quarterly Report: November 7, 2019
Scheduled date of start of dividend payment: December 3, 2019
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 first six months ended September 30, 2019 (From April 1, 2019 to September 30, 2019)

(1) Consolidated Results of Operations (cumulative)

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

	Net sales		Operating profit		Ordinary income		Net income attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
First six months ended September 30, 2019	748,400	-12.5	16,978	-38.5	27,242	-17.6	4,511	-69.6
First six months ended September 30, 2018	855,268	17.9	27,594	-24.4	33,067	-16.4	14,849	-26.3

(Note) Comprehensive income: The first six months ended September 30, 2019: -9,715 million yen (–%)
The first six months ended September 30, 2018: 6,648 million yen (-78.2%)

	Net income per share	Diluted net income per share
	Yen	Yen
First six months ended September 30, 2019	34.46	–
First six months ended September 30, 2018	113.39	–

(2) Consolidated Financial Position

	Total assets	Net assets	Shareholders' equity ratio
	Million yen	Million yen	%
As of September 30, 2019	1,944,479	699,590	31.8
As of March 31, 2019	1,938,270	723,337	32.7

(Reference) Shareholders' Equity: As of September 30, 2019: 617,796 million yen   As of March 31, 2019: 633,582 million yen

2. Dividend Payments

	Dividends per share				
(Record date)	First quarter	Second quarter	Third quarter	Year-end	Annual
	Yen	Yen	Yen	Yen	Yen
Year ended March 31, 2019	–	40.00	–	40.00	80.00
Year ending March 31, 2020	–	40.00			
Year ending March 31, 2020 (Forecast)			–	40.00	80.00

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

3. Consolidated Earnings Forecast (From April 1, 2019 to March 31, 2020)

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

	Net sales		Operating profit		Ordinary income		Net income attributable to owners of parent		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Year ending March 31, 2020	1,530,000	-8.0	31,000	-15.9	42,000	-17.1	10,000	669.9	76.37

(Note) Revision to forecast published most recently: Yes

* Notes

(1) Significant changes of subsidiaries during the term under review (changes in specific subsidiaries accompanied by a change in the scope of consolidation): None

(2) Application of specific accounting treatment: Yes

(Note) For details, please see “(4) Notes to consolidated quarterly financial statements (Application of special accounting treatment in the preparation of the quarterly consolidated financial statements)” under “2. Consolidated Financial Statements and Key Notes” on page 13.

(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 terms (including treasury shares):

Six months ended September 30, 2019:	131,489,535 shares
Year ended March 31, 2019:	131,489,535 shares

(ii) Numbers of treasury shares at end of terms:

Six months ended September 30, 2019:	543,818 shares
Year ended March 31, 2019:	538,493 shares

(iii) Average number of shares issued during terms (quarterly cumulative period):

Six months ended September 30, 2019:	130,948,499 shares
Six months ended September 30, 2018:	130,959,327 shares

* This quarterly financial summaries 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” of “1. Qualitative Information on Financial Results for the Six Months Ended September 30, 2019” on page 4 for the assumptions about consolidated earnings forecasts.

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

Mitsubishi Materials Corporation plans to hold a quarterly financial briefing for institutional investors on Thursday, November 7, 2019. 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 Six Months Ended September 30, 2019

(1) Details of operating results

1) Overview of operating results

During the first half of the consolidated fiscal year under review, in the Asia region, economic slowdown continued in China and a tendency toward economic deceleration was also seen in Thailand. However, economy showed signs of a modest recovery in Indonesia. In the United States, the economy continued to improve steadily.

In Japan, employment and income conditions were on the road to recovery. However, exports and industrial production appeared to slow down.

Regarding the business environment for the Mitsubishi Materials Group, declining demand in automobile and semiconductor-related sectors and falling copper prices and weaker domestic demand for cement had a negative impact.

Under these circumstances, consolidated net sales for the first half of the year under review totaled ¥748,400 million, down 12.5% year on year. Operating profit decreased 38.5% year on year, to ¥16,978 million, and ordinary income fell 17.6%, to ¥27,242 million. Meanwhile, Universal Can Corporation, which is a consolidated subsidiary of the Company, recorded an extraordinary loss of ¥10,423 million as a loss on the Antimonopoly Act. As a result, net income attributable to owners of parent fell 69.6%, to ¥4,511 million.

2) Overview by segments

From the first quarter of the fiscal year, the reporting segments have been changed. The details are set forth in “2. (4) Notes to consolidated quarterly financial statements (segment information).” In this regard, in comparison with the data of the same quarter of the previous year below, the numerical data obtained upon the reclassification for the same quarter of the previous year under the changed segments is used.

(Advanced Products)

(Billion yen)

	FY 2019 Q1-Q2	FY 2020 Q1-Q2	Increase / Decrease (%)
Net sales	290.5	262.2	-28.2 (-9.7%)
Operating profit	7.6	0.9	-6.6 (-87.5%)
Ordinary income	8.1	1.9	-6.2 (-76.4%)

In the copper and copper alloy products business, both net sales and operating profit decreased as a result of a fall in sales of automotive and semiconductor-related products.

In the electronics materials & components business, both net sales and operating profit decreased, reflecting decline in sales of products such as advanced materials and electronic components and an increase in the production costs of polycrystalline silicon products.

In the aluminum products business, both net sales and operating profit fell due to a decrease in sales of regular cans and bottle cans for beverages and rolled and processed products such as extruded products for automobiles and heat exchange sheet materials.

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

(Metalworking Solutions Business)

(Billion yen)

	FY 2019 Q1-Q2	FY 2020 Q1-Q2	Increase / Decrease (%)
Net sales	87.2	78.1	-9.0 (-10.4%)
Operating profit	9.9	5.9	-3.9 (-39.9%)
Ordinary income	9.3	5.2	-4.1 (-44.5%)

In the cemented carbide products business, both net sales and operating profit decreased as a result of decline in sales in the Asia region, especially China.
In the sintering parts, etc. business, operating loss was reduced due to a decrease in shipping expenses despite a fall in sales of mainstay sintering parts.
Consequently, both net sales and operating profit for the entire Metalworking Solutions business fell year on year. Ordinary income declined due to decrease in operating profit.

(Metals Business)

(Billion yen)

	FY 2019 Q1-Q2	FY 2020 Q1-Q2	Increase / Decrease (%)
Net sales	386.9	316.5	-70.3 (-18.2%)
Operating profit	4.1	5.6	1.4 (35.6%)
Ordinary income	8.1	13.7	5.5 (67.8%)

In the copper business, net sales fell but operating profit rose, mainly thanks to reduced cost of smelting despite decreased production volume due to a decline in copper quality in raw ores in addition to falling copper prices.
In the gold and other valuable metals business, both net sales and operating profit declined due to decreased production volume of gold and other valuable metals as a result of a fall in the amount contained in raw materials.
As a result, overall the Metal business posted year-on-year increase in operating profit despite a decline in net sales. Ordinary income increased due to higher operating profit and dividend income.

(Cement Business)

(Billion yen)

	FY 2019 Q1-Q2	FY 2020 Q1-Q2	Increase / Decrease (%)
Net sales	123.4	119.4	-3.9 (-3.2%)
Operating profit	8.2	6.5	-1.6 (-20.5%)
Ordinary income	9.0	7.9	-1.0 (-12.1%)

In Japan, both net sales and operating profit decreased, reflecting lower sales volumes mainly due to decline in demand both for construction work of facilities related to the Tokyo Olympic and Paralympic Games in the Tokyo metropolitan area as well as the road construction work related to Shin-Meishin Expressway in the Tokai area.
Overseas, the cost of raw materials and operation expenses such as personnel expenses increased despite a rise in the volume of ready-mixed concrete sold in the United States. In Australia, both the volume and sales price of coal fell. As a result, operating profit decreased while net sales increased.
Consequently, net sales and operating profit for the entire Cement business decreased year on year. Ordinary income declined mainly due to decrease in operating profit.

(Others Business) (Billion yen)

	FY 2019 Q1-Q2	FY 2020 Q1-Q2	Increase / Decrease (%)
Net sales	85.3	84.0	-1.2 (-1.5%)
Operating profit	2.6	2.4	-0.2 (-8.4%)
Ordinary income	2.8	3.2	0.3 (11.9%)

In the energy-related business, net sales and operating profit increased, reflecting higher sales in nuclear energy-related business.

In the environment recycling business, net sales increased but operating profit decreased, reflecting higher operational costs in addition to decline in the unit sales price of valuables, which offset increased sales due to higher volumes of "E-waste" (used electronics and electrical products) and incineration ash processing.

In the Others business, excluding the energy-related business and the environmental recycling business, net sales and operating profit decreased.

In the Others business overall, both net sales and operating profit decreased year on year. Ordinary income rose, reflecting an increase in share of profit entities accounted for using equity method.

(2) Details of financial position

Total assets at the end of the second quarter of the consolidated fiscal year under review stood at ¥1,944.4 billion, up ¥6.2 billion from the end of the previous consolidated fiscal year. This result was mainly due to an increase in inventories, which more than offset a decrease in cash and deposits.

Total liabilities were ¥1,244.8 billion, an increase of ¥29.9 billion from the end of the previous consolidated fiscal year. This was mainly due to an increase in commercial papers.

The status of cash flow and factors contributing to these amounts in each category for the first six months of the fiscal year under review are as follows:

(Cash Flow from Operating Activities)

Net cash provided by operating activities totaled ¥9.6 billion (a decrease of ¥3.4 billion from the first half of the previous fiscal year) mainly because of the posting of income before income taxes.

(Cash Flow from Investing Activities)

Net cash used in investing activities totaled ¥46.3 billion (an increase of ¥11.4 billion from the first half of the previous fiscal year) chiefly attributable to purchase of property, plant and equipment.

(Cash Flow from Financing Activities)

Net cash provided by financing activities totaled ¥22.3 billion (an increase of ¥2.7 billion from the first half of the previous fiscal year) mainly as a result of raising the ¥36.6 billion cash used by operating activities and investing activities through commercial paper.

As a result of adding a net increase (decrease) in cash and cash equivalents mainly due to the effect of the exchange rate changes to the above, cash and cash equivalents at the end of the second quarter under review stood at ¥83.1 billion (down ¥16.4 billion from the end of the previous fiscal year).

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

In the business of the Advanced Products and Metalworking Solutions businesses, demand is decreasing for the copper & copper alloy, electronic materials & components, aluminum products, and cemented carbide products mainly due to the slowdown in the growth of the Chinese economy caused by the U.S.-China trade friction. As a result, sales are expected to decline from the previous forecast. Therefore, the consolidated earnings forecast for the fiscal year ending March 31, 2020, has been revised from the forecast announced on August 7, 2019 as below.

Revisions to Consolidated Earnings Forecasts for the fiscal year ending March 31, 2020
(from April 1, 2019 to March 31, 2020)

(Billion yen)

	Previous forecast	Current forecast	Increase / Decrease (%)
Net sales	1,700.0	1,530.0	-10.0%
Operating profit	51.0	31.0	-39.2%
Ordinary income	62.0	42.0	-32.3%
Net income attributable to owners of parent	30.0	10.0	-66.7%

(Note) The above forecast has been prepared on assumed economic conditions, market trends, and other factors as of the date of this announcement, and the results may differ from the forecasts due to various factors arising in the future.

2. Consolidated Financial Statements and Key Notes

(1) Consolidated balance sheet

(Million yen)

	As of March 31, 2019	As of September 30, 2019
Assets		
Current assets		
Cash and deposits	108,648	91,415
Notes and accounts receivable-trade	248,220	234,001
Merchandise and finished goods	92,452	101,386
Work in process	108,293	128,980
Raw materials and supplies	134,825	129,902
Others	220,108	241,884
Allowance for doubtful accounts	(2,900)	(2,758)
Total current assets	909,647	924,811
Non-current assets		
Property, plant and equipment		
Machinery and equipment, net	229,123	232,439
Land, net	235,664	233,827
Other, net	222,627	232,292
Total property, plant and equipment	687,415	698,559
Intangible assets		
Goodwill	40,816	37,611
Other	17,924	16,395
Total intangible assets	58,740	54,006
Investments and other assets		
Investment securities	236,572	222,780
Others	49,983	48,520
Allowance for doubtful accounts	(4,088)	(4,198)
Total investments and other assets	282,467	267,101
Total non-current assets	1,028,622	1,019,668
Total assets	1,938,270	1,944,479

(Million yen)

	As of March 31, 2019	As of September 30, 2019
Liabilities		
Current liabilities		
Notes and accounts payable-trade	147,566	125,694
Short-term loans payable	180,100	175,375
Commercial papers	5,000	50,000
Income taxes payable	7,869	7,641
Provision	14,931	13,841
Gold payable	253,918	280,137
Other	118,623	111,039
Total current liabilities	728,011	763,729
Non-current liabilities		
Bonds payable	50,000	60,000
Long-term loans payable	259,667	244,797
Provision for environmental measures	40,427	37,337
Other provisions	3,468	3,099
Net defined benefit liability	50,003	49,335
Other	83,353	86,588
Total non-current liabilities	486,921	481,159
Total liabilities	1,214,933	1,244,888
Net assets		
Shareholders' equity		
Capital stock	119,457	119,457
Capital surplus	92,393	92,393
Retained earnings	352,932	352,421
Treasury stock	(2,123)	(2,139)
Total shareholders' equity	562,659	562,133
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	51,220	42,234
Deferred gains or losses on hedges	124	327
Revaluation reserve for land	33,023	32,961
Foreign currency translation adjustment	(5,828)	(12,614)
Remeasurements of defined benefit plans	(7,617)	(7,246)
Total accumulated other comprehensive income	70,922	55,662
Non-controlling interests	89,754	81,794
Total net assets	723,337	699,590
Total liabilities and net assets	1,938,270	1,944,479

(2) Consolidated statement of income and consolidated statements of comprehensive income

Consolidated statement of income

Consolidated first six months (Million yen)

	Six Months Ended September 30, 2018 (Apr. 1, 2018–Sep. 30, 2018)	Six Months Ended September 30, 2019 (Apr. 1, 2019–Sep. 30, 2019)
Net sales	855,268	748,400
Cost of sales	750,493	655,585
Gross profit	104,775	92,814
Selling, general and administrative expenses	77,180	75,835
Operating profit	27,594	16,978
Non-operating profit		
Interest income	514	644
Dividend income	9,660	12,169
Share of profit of entities accounted for using equity method	757	2,163
Rent income on non-current assets	2,536	2,594
Other	1,480	1,582
Total non-operating profit	14,950	19,155
Non-operating expenses		
Interest expenses	2,378	2,498
Settlement expenses of remaining business in mines	1,604	1,942
Other	5,495	4,450
Total non-operating expenses	9,477	8,891
Ordinary income	33,067	27,242
Extraordinary income		
Gain on sales of investment securities	170	1,878
Gain on sales of non-current assets	328	97
Gain on liquidation of subsidiaries and associates	506	0
Other	–	0
Total extraordinary income	1,005	1,976
Extraordinary losses		
Loss on the Antimonopoly Act	–	10,423
Loss on valuation of investment securities	2,779	1,405
Impairment loss	1,539	1,067
Other	59	51
Total extraordinary losses	4,378	12,948
Income before income taxes	29,693	16,270
Income taxes	9,948	9,417
Net income	19,744	6,853
Net income attributable to non-controlling interests	4,895	2,341
Net income attributable to owners of parent	14,849	4,511

Consolidated statements of comprehensive income

Consolidated first six months

(Million yen)

	Six Months Ended September 30, 2018 (Apr. 1, 2018–Sep. 30, 2018)	Six Months Ended September 30, 2019 (Apr. 1, 2019–Sep. 30, 2019)
Net income	19,744	6,853
Other comprehensive income		
Valuation difference on available-for-sale securities	(23,951)	(9,019)
Deferred gains or losses on hedges	(2,316)	1,021
Foreign currency translation adjustment	12,901	(8,388)
Remeasurements of defined benefit plans	875	343
Share of other comprehensive income of entities accounted for using equity method	(604)	(525)
Total other comprehensive income	(13,096)	(16,568)
Comprehensive income	6,648	(9,715)
(Breakdown)		
Comprehensive income attributable to owners of parent	(1,959)	(10,275)
Comprehensive income attributable to non-controlling interests	8,607	559

(3) Consolidated statement of cash flows

(Million yen)

	Six Months Ended September 30, 2018 (Apr. 1, 2018–Sep. 30, 2018)	Six Months Ended September 30, 2019 (Apr. 1, 2019–Sep. 30, 2019)
Cash flows from operating activities		
Income before income taxes	29,693	16,270
Depreciation	29,531	31,980
Increase (decrease) in provision for environmental measures	(1,401)	(3,090)
Increase (decrease) in provision	(259)	(1,590)
Increase (decrease) in net defined benefit liability	(766)	(951)
Interest and dividend income	(10,175)	(12,814)
Interest expenses	2,378	2,498
Share of (profit) loss of entities accounted for using equity method	(757)	(2,163)
Loss (gain) on sales of property, plant and equipment	(287)	(103)
Loss on the Antimonopoly Act	–	10,423
Loss (gain) on sales of investment securities	(171)	(1,857)
Loss (gain) on valuation of investment securities	2,779	1,405
Decrease (increase) in notes and accounts receivable-trade	4,265	12,129
Decrease (increase) in inventories	(27,111)	(27,632)
Proceeds from sales of gold bullion	52,405	52,400
Purchase of gold bullion	(52,230)	(52,286)
Increase (decrease) in notes and accounts payable-trade	(17,520)	(18,589)
Other	7,979	705
Subtotal	18,352	6,735
Interest and dividend income received	11,462	14,617
Interest expenses paid	(2,356)	(2,483)
Income taxes (paid) refund	(12,926)	(9,203)
Loss on non-conforming products paid	(1,430)	–
Net cash provided by (used in) operating activities	13,101	9,665
Cash flows from investing activities		
Purchase of property, plant and equipment	(36,980)	(47,575)
Proceeds from sales of property, plant and equipment	618	435
Purchase of investment securities	(1,416)	(1,576)
Proceeds from sales of investment securities	344	3,299
Proceeds from liquidation of subsidiaries and associates	2,160	0
Payments of loans receivable	(1,339)	(2,147)
Collection of loans receivable	572	176
Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation	–	68
Other	1,106	966
Net cash provided by (used in) investing activities	(34,935)	(46,352)

(Million yen)

	Six Months Ended September 30, 2018 (Apr. 1, 2018–Sep. 30, 2018)	Six Months Ended September 30, 2019 (Apr. 1, 2019–Sep. 30, 2019)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	(2,591)	8,458
Proceeds from long-term loans payable	26,254	7,750
Repayments of long-term loans payable	(20,141)	(33,973)
Proceeds from issuance of bonds	–	10,000
Redemption of bonds	(25,000)	–
Increase (decrease) in commercial papers	50,000	45,000
Purchase of treasury shares	(21)	(15)
Cash dividends paid	(6,548)	(5,238)
Dividends paid to non-controlling interests	(1,259)	(8,753)
Other	(1,089)	(849)
Net cash provided by (used in) financing activities	19,602	22,379
Effect of exchange rate change on cash and cash equivalents	2,459	(2,223)
Net increase (decrease) in cash and cash equivalents	228	(16,530)
Cash and cash equivalents at the beginning of period	87,355	99,672
Increase (decrease) in cash and cash equivalents resulting from change of scope of consolidation	4,624	52
Cash and cash equivalents at the end of period	92,208	83,193

(4) Notes to consolidated quarterly financial statements

Notes on assumptions for a going concern

N/A

Segment information

[Segment Information]

I. For the six months ended September 30, 2018 (from April 1, 2018 to September 30, 2018)

Sales and income of reporting segments

(Million yen)

	Advanced Products	Metalworking Solutions Business	Metals Business	Cement Business	Others Business	Total	Adjustment amount	Amount indicated in the consolidated quarterly statements of income
Net sales								
(1) Outside customers	283,386	81,199	300,990	121,655	68,036	855,268	–	855,268
(2) Within consolidated group	7,140	6,075	85,923	1,746	17,330	118,216	(118,216)	–
Total	290,527	87,274	386,914	123,401	85,366	973,485	(118,216)	855,268
Segment income	8,174	9,378	8,173	9,033	2,885	37,645	(4,578)	33,067

Notes: 1. “Others business” includes nuclear energy-related services, environmental and recycling-related business, real estate business, and engineering-related services.

2. “Adjustment amount” of segment income of -¥4,578 million includes the elimination of intersegment transactions of ¥89 million and corporate expenses of -¥4,667 million which are not distributed to the reporting segments. Corporate expenses consist mainly of general and administrative expenses that do not belong to the reporting segments, basic experiment and research expenses, and financial revenue and expenses.

3. Segment income has been adjusted together with ordinary income on the consolidated quarterly statements of income.

II. For the six months ended September 30, 2019 (from April 1, 2019 to September 30, 2019)

1. Sales and income of reporting segments

(Million yen)

	Advanced Products	Metalworking Solutions Business	Metals Business	Cement Business	Others Business	Total	Adjustment amount	Amount indicated in the consolidated quarterly statements of income
Net sales								
(1) Outside customers	256,701	72,276	239,560	117,915	61,947	748,400	–	748,400
(2) Within consolidated group	5,546	5,904	77,027	1,559	22,143	112,180	(112,180)	–
Total	262,247	78,180	316,588	119,474	84,090	860,580	(112,180)	748,400
Segment income	1,931	5,208	13,716	7,938	3,230	32,025	(4,782)	27,242

Notes: 1. “Others business” includes nuclear energy-related services, environmental and recycling-related business, and engineering-related services.

2. “Adjustment amount” of segment income of -¥4,782 million includes the elimination of intersegment transactions of -¥3 million and corporate expenses of -¥4,779 million which are not distributed to the reporting segments. Corporate expenses consist mainly of general and administrative expenses that do not belong to the reporting segments, basic experiment and research expenses, and financial revenue and expenses.

3. Segment income has been adjusted together with ordinary income on the consolidated quarterly statements of income.

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

At the meeting of the Board of Directors held on February 12, 2019, the Company resolved to partially change the organization of business divisions. This change was made on April 1, 2019.

The coal-related business in the “Others business” has changed to the “Cement Business,” in which coal is used as thermal energy, to achieve more efficient business management.

In this regard, the segment information for the six months of the previous consolidated fiscal year that is disclosed herein is made according to the changed method of segmentation.

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

N/A

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

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

Changes in accounting policies

(Application of IFRS 16 “Leases”)

Foreign subsidiaries that apply IFRS started applying IFRS 16 “Leases” from the first quarter of the consolidated fiscal year under review. The impact of the application of this accounting standard on the consolidated financial statements for the first six months of the fiscal year under review was insignificant.

Additional information

(Absorption-type merger of the consolidated subsidiary)

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

1. Overview of transaction

(1) Name and business of acquired enterprise

Name of acquired enterprise:	Mitsubishi Shindoh Co., Ltd.
Business of acquired enterprise:	Rolling, extruding and casting of copper and copper alloys and the processing and sales thereof

(2) Date of business combination

April 1, 2020 (Plan)

(3) Legal form of business combination

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

(4) Name of the companies after the business combination

Mitsubishi Materials Corporation

(5) Purpose of business combination

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

2. Overview of accounting procedures to implement
The Company plans to account processing for the merger as a transaction under common control in accordance with the Accounting Standard for Business Combinations (ASBJ Statement No. 21, January 16, 2019) and Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures (ASBJ Guidance No. 10, January 16, 2019).

Contingent liabilities

(Matters concerning taxation in Indonesia)
Previous consolidated fiscal year (As of March 31, 2019)
On December 30, 2014, PT. Smelting in Indonesia, a consolidated subsidiary of the Company (hereinafter the "PTS") received a notice of reassessment in an amount of US$47 million (¥5,312 million based on the exchange rate at the end of the previous consolidated fiscal year) from the Indonesian National Tax Authority, regarding the sales transaction pricing of the PTS for the year ended December 31, 2009. On January 28, 2015, the PTS made a provisional deposit of US$14 million (¥1,553 million) as a part of the additional collection.
However, the PTS submitted a written objection to the Indonesian National Tax Authority on March 25, 2015, because this assessment, which claimed there was a sales shortage on the part of the PTS based on a comparison of the profit margin ratio with other companies selected by the Indonesian National Tax Authority, was highly unreasonable and found to be unacceptable by the Company and the PTS.
The written objection submitted by the PTS on March 25, 2015 was dismissed by the Indonesian National Tax Authority on March 16, 2016. Therefore, the PTS filed a complaint to the Tax Court in Indonesia on June 6, 2016 to present the fairness of the view of the Company and the PTS.
On November 29, 2017, the PTS also received a notice of reassessment in an amount of US$22 million (¥2,533 million) from the Indonesian National Tax Authority, primarily regarding its posting of gains and losses on hedging for the fiscal year ended December 31, 2012. On December 27, 2017, the PTS made a provisional deposit of US$6 million (¥698 million) as part of the additional collection.
However, the PTS submitted a written objection to the Indonesian National Tax Authority on February 27, 2018, because this assessment was a view that unilaterally negated the basis for recording gains and losses on hedging, etc. of the PTS and found to be unacceptable by the Company and the PTS.
The written objection submitted by the PTS on February 27, 2018 was dismissed by the Indonesian National Tax Authority on February 25, 2019. Therefore, the PTS filed a complaint to the Tax Court in Indonesia on May 17, 2019 to present the fairness of the view of the Company and the PTS.
On December 5, 2018, the PTS also received a notice of reassessment in an amount of US$15 million (¥1,688 million) from the Indonesian National Tax Authority, primarily regarding its posting of gains and losses on hedging for the fiscal year ended December 31, 2014. On December 27, 2018, the PTS made a provisional deposit of US$5 million (¥651 million) as part of the additional collection.
However, the PTS submitted a written objection to the Indonesian National Tax Authority on February 27, 2019, because this assessment was a view that unilaterally negated the basis for recording gains and losses on hedging, etc. of the PTS and found to be unacceptable by the Company and the PTS.
The total amount for additional collection being disputed by the PTS, including amounts for the fiscal years described above as well as amounts for the fiscal year ended December 31, 2010, the fiscal year ended December 31 2011, the fiscal year ended December 31, 2013 and the fiscal year ended December 31, 2015 is US$101 million (¥11,309 million).

Second quarter of the consolidated fiscal year under review (As of September 30, 2019)
On December 30, 2014, PT. Smelting in Indonesia, a consolidated subsidiary of the Company (hereinafter the "PTS") received a notice of reassessment in an amount of US$47 million (¥5,165 million based on the exchange

rate at the end of the second quarter of the consolidated fiscal year under review) from the Indonesian National Tax Authority, regarding the sales transaction pricing of the PTS for the year ended December 31, 2009. On January 28, 2015, the PTS made a provisional deposit of US$14 million (¥1,510 million) as a part of the additional collection.

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

The written objection submitted by the PTS on March 25, 2015 was dismissed by the Indonesian National Tax Authority on March 16, 2016. Therefore, the PTS filed a complaint to the Tax Court in Indonesia on June 6, 2016 to present the fairness of the view of the Company and the PTS.

On November 29, 2017, the PTS also received a notice of reassessment in an amount of US$22 million (¥2,463 million) from the Indonesian National Tax Authority, primarily regarding its posting of gains and losses on hedging for the fiscal year ended December 31, 2012. On December 27, 2017, the PTS made a provisional deposit of US$6 million (¥679 million) as part of the additional collection.

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

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

On December 5, 2018, the PTS also received a notice of reassessment in an amount of US$15 million (¥1,641 million) from the Indonesian National Tax Authority, primarily regarding its posting of gains and losses on hedging for the fiscal year ended December 31, 2014. On December 27, 2018, the PTS made a provisional deposit of US$5 million (¥633 million) as part of the additional collection.

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

The total amount for additional collection being disputed by the PTS, including amounts for the fiscal years described above as well as amounts for the fiscal year ended December 31, 2010, the fiscal year ended December 31 2011, the fiscal year ended December 31, 2013 and the fiscal year ended December 31, 2015 is US$101 million (¥10,996 million).

(Matters concerning Non-Conforming Products)

Previous consolidated fiscal year (As of March 31, 2019)

Mitsubishi Materials Corporation discovered that the Company’s consolidated subsidiaries had delivered products, etc. that deviated from customer standards or internal company specifications due to misconduct, including the rewriting of inspection records data and the insufficient testing, concerning some of the products manufactured and sold in the past.

Based on the above fact, some of the aforementioned subsidiaries received notification of revocation of their JIS certification and ISO certifications from the accrediting agencies.

Depending on the progress of the above mentioned issues, the Company’s consolidated business results may be affected, due to compensate customers and other losses. However, such amounts which are currently difficult to estimate are not reflected in the consolidated financial statements.

Second quarter of the consolidated fiscal year under review (As of September 30, 2019)

Mitsubishi Materials Corporation discovered that the Company’s consolidated subsidiaries had delivered products, etc. that deviated from customer standards or internal company specifications due to misconduct, including the rewriting of inspection records data and the insufficient testing, concerning some of the products manufactured and sold in the past.
Based on the above fact, some of the aforementioned subsidiaries received notification of revocation of their JIS certification and ISO certifications from the accrediting agencies.
Depending on the progress of the above mentioned issues, the Company’s consolidated business results may be affected, due to compensate customers and other losses. However, such amounts which are currently difficult to estimate are not reflected in the quarterly consolidated financial statements.