

* Notes

(1) Significant changes of subsidiaries during the term (changes in specific subsidiaries accompanied by a change in the scope of consolidation): Yes

New: - (Company name: -), Exempt: 1 Company (Company name: Mitsubishi Shindoh CO., LTD)

(Note) For details, please see “(3) Notes on quarterly consolidated financial statements (Changes of significant subsidiaries during the nine months ended December 31, 2020)” 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) Notes on quarterly consolidated financial statements (Application of special accounting treatment in the preparation of quarterly consolidated financial statements)” under “2. Consolidated Financial Statements and Key Notes” on page 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 issued shares (common stock)

- | | |
|--|--------------------|
| (i) Numbers of issued shares at end of period (including treasury shares): | |
| Nine months ended December 31, 2020: | 131,489,535 shares |
| Year ended March 31, 2020: | 131,489,535 shares |
| (ii) Numbers of treasury shares at end of period: | |
| Nine months ended December 31, 2020: | 831,056 shares |
| Year ended March 31, 2020: | 550,160 shares |
| (iii) Average number of shares issued during period (quarterly cumulative period): | |
| Nine months ended December 31, 2020: | 130,744,368 shares |
| Nine months ended December 31, 2019: | 130,947,062 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 Nine Months Ended December 31, 2020” on page 6 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, February 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.

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1. Qualitative Information on Financial Results for the Nine Months Ended December 31, 2020

(1) Details of operating results

1) Overview of operating results

During the nine months of the consolidated fiscal year, the global economy was in considerable constraints on its economic activities due to the global spread of COVID-19. Although, in China, the economy appeared to be recovering, but in Thailand and Indonesia, economic downturn continued. In Europe, the economic downturn continued as well, while it saw signs of a recovery in the U.S.

In Japan, due to COVID-19, the employment and income environment continued to struggle. However, exports and industrial production showed signs of recovery.

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

Under these circumstances, net sales for the nine months of the fiscal year under review totaled ¥1,079,885 million, down by 4.0% year-on-year. Operating profit decreased by 34.9% year-on-year to ¥15,595 million, and ordinary profit fell by 18.8% year-on-year to ¥32,019 million. The Company recorded the extraordinary loss of ¥22,370 million as loss on business restructuring and the extraordinary income of ¥20,085 million as gain on sales of investment securities. As a result, profit (loss) attributable to owners of parent increased by 9.5% year-on-year to ¥11,012 million.

2) Overview by segments

From the first quarter of this fiscal year, the Company have changed the reporting segments. The details are set forth in “2. (3) Notes on Consolidated Quarterly Financial Statements (Segment Information).” In this regard, the following year-on-year comparisons are based on the figures for the same quarter of the previous year reclassified into the new categories.

(Advanced Products)

(Billion yen)

	FY 2020 Q1-Q3	FY 2021 Q1-Q3	Increase / Decrease (%)	
Net sales	285.2	251.4	-33.8	(-11.9%)
Operating profit (loss)	2.3	-0.6	-2.9	(-%)
Ordinary profit (loss)	3.4	1.9	-1.4	(-42.3%)

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

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

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

(Metalworking Solutions Business)

(Billion yen)

	FY 2020 Q1-Q3	FY 2021 Q1-Q3	Increase / Decrease (%)	
Net sales	115.0	88.5	-26.5	(-23.0%)
Operating profit (loss)	6.6	-3.4	-10.0	(-%)
Ordinary profit (loss)	5.6	-3.1	-8.8	(-%)

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

In the Sintered products, etc. business, losses increased due to decreased sales of sintered parts, which are the business's major products, in major overseas countries excluding China, because of the global spread of COVID-19 and other factors. Also, on December 4, 2020, as the Company transferred all shares of Diamet Corporation, Diamet Corporation, PM Techno Corporation, Diamet Klang(Malaysia)Sdn. Bhd., and Guangdong Diamet Powder Metallurgy Co., Ltd. are no longer in the scope of consolidation effective from December, 2020.

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

(Metals Business)

(Billion yen)

	FY 2020 Q1-Q3	FY 2021 Q1-Q3	Increase / Decrease (%)	
Net sales	481.4	521.8	40.4	(8.4%)
Operating profit (loss)	8.9	10.6	1.7	(19.9%)
Ordinary profit (loss)	20.2	22.5	2.3	(11.6%)

In the Copper business, net sales increased but operating profit decreased mainly due to regular furnace repairs at PT. Smelting in Indonesia, as well as deterioration in purchasing conditions of concentrates while production volume increased year-on-year.

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

Consequently, net sales and operating profit for the entire Metals Business increased year-on-year. Ordinary profit increased due to the increase in operating profit.

(Cement Business)

(Billion yen)

	FY 2020 Q1-Q3	FY 2021 Q1-Q3	Increase / Decrease (%)	
Net sales	187.6	158.7	-28.8	(-15.4%)
Operating profit (loss)	9.6	6.5	-3.1	(-32.3%)
Ordinary profit (loss)	12.4	7.4	-4.9	(-39.8%)

In Japan, net sales decreased but operating profit increased mainly due to lowered energy costs, despite the impact from the suspension and delay of construction work in the Tokyo metropolitan and other areas following the spread of COVID-19, as well as a decreased demand for disaster recovery works in the Tohoku and Kyushu regions.

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

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

(Environment & Energy Business)

(Billion yen)

	FY 2020 Q1-Q3	FY 2021 Q1-Q3	Increase / Decrease (%)	
Net sales	16.6	15.7	-0.8	(-5.2%)
Operating profit (loss)	0.4	0.2	-0.2	(-50.0%)
Ordinary profit (loss)	1.5	1.1	-0.3	(-23.7%)

In the Energy-related business, both net sales and operating profit decreased due to declined sales in the Nuclear-energy-related services business.

In the Environmental and recycling-related business, though net sales increased due to the increase in home appliance recycling and incineration ash processing volume, operating loss increased mainly due to the increase in the costs accompanied with the launch of a new business and selling, general and administrative expenses.

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

(Other Businesses)

(Billion yen)

	FY 2020 Q1-Q3	FY 2021 Q1-Q3	Increase / Decrease (%)	
Net sales	209.9	196.1	-13.8	(-6.6%)
Operating profit (loss)	0.6	5.2	4.6	(755.8%)
Ordinary profit (loss)	0.5	5.0	4.5	(831.3%)

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

In the Aluminum rolled and processed products business, net sales decreased while operating profit increased mainly due to decreased depreciation expenses resulting from impairment loss on fixed assets by Mitsubishi Aluminum Co., Ltd. in the previous fiscal year, as well as effects of cost reduction and other factors, despite decreased sales of mainly automotive products which were affected by the global spread of COVID-19 and other related factors.

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

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 third quarter of the consolidated fiscal year under review stood at ¥1,950.1 billion, up by ¥46.1 billion from the end of the previous consolidated fiscal year.

This was mainly due to an increase in inventories.

Total liabilities were ¥1,378.3 billion, an increase by ¥60.2 billion from the end of the previous consolidated fiscal year. This was mainly due to an increase in borrowings.

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

The Company has revised the consolidated earnings forecast for the full fiscal year ending March 31, 2021 from the previous forecast announced on December 16, 2020:

Net sales, operating profit (loss), ordinary profit (loss), and profit (loss) attributable to owners of parent are expected to increase compared to the previous forecast mainly due to increase in sales of the Copper & copper alloy products and the Electronic materials & components in the Advanced Products Business, the Cemented carbide products in the Metalworking Solutions Business as well as a hike in metal prices and increases in dividend income from mining companies in the Metal Business, among others.

Revisions to Consolidated Earnings Forecasts for the fiscal year ending March 31, 2020
(from April 1, 2020 to March 31, 2021)

(Billion yen)

	Previous forecast	Current forecast	Change (%)	
Net sales	1,450.0	1,460.0	0.7%	
Operating profit	8.0	15.0	87.5%	
Ordinary profit	20.0	32.0	60.0%	
Profit (loss) attributable to owners of parent	0	10.0	— %	

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

2. Consolidated Financial Statements and Key Notes

(1) Consolidated balance sheets

(Million yen)

	As of March 31, 2020	As of December 31, 2020
Assets		
Current assets		
Cash and deposits	134,444	131,434
Notes and accounts receivable - trade	217,259	205,419
Merchandise and finished goods	111,409	123,248
Work in process	112,908	118,601
Raw materials and supplies	127,908	133,322
Other	254,001	295,440
Allowance for doubtful accounts	(2,470)	(2,707)
Total current assets	955,462	1,004,758
Non-current assets		
Property, plant and equipment		
Machinery and equipment, net	218,923	216,300
Land, net	216,487	207,485
Other, net	223,888	226,493
Total property, plant and equipment, net	659,298	650,278
Intangible assets		
Goodwill	35,586	31,350
Other	15,906	14,589
Total intangible assets	51,492	45,939
Investments and other assets		
Investment securities	183,043	190,268
Other	58,866	63,135
Allowance for doubtful accounts	(4,112)	(4,208)
Total investments and other assets	237,796	249,195
Total non-current assets	948,588	945,413
Total assets	1,904,050	1,950,171

(Million yen)

	As of March 31, 2020	As of December 31, 2020
Liabilities		
Current liabilities		
Notes and accounts payable - trade	113,148	124,780
Short-term borrowings	191,038	207,397
Current portion of bonds payable	—	20,000
Commercial papers	50,000	80,000
Income taxes payable	10,221	4,566
Provisions	14,424	7,755
Deposited gold bullion	294,312	329,325
Other	124,746	112,595
Total current liabilities	797,892	886,421
Non-current liabilities		
Bonds payable	60,000	40,000
Long-term borrowings	246,578	272,362
Provision for loss on business restructuring	30,272	—
Provision for environmental measures	32,581	28,631
Other provisions	6,117	4,486
Retirement benefit liability	56,312	51,822
Other	88,261	94,587
Total non-current liabilities	520,123	491,889
Total liabilities	1,318,016	1,378,311
Net assets		
Shareholders' equity		
Share capital	119,457	119,457
Capital surplus	92,393	79,234
Retained earnings	274,723	281,410
Treasury shares	(2,157)	(2,855)
Total shareholders' equity	484,416	477,247
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	22,806	37,520
Deferred gains or losses on hedges	708	(2,577)
Revaluation reserve for land	28,059	27,107
Foreign currency translation adjustment	(12,212)	(18,565)
Remeasurements of defined benefit plans	(16,997)	(14,528)
Total accumulated other comprehensive income	22,364	28,955
Non-controlling interests	79,252	65,657
Total net assets	586,034	571,860
Total liabilities and net assets	1,904,050	1,950,171

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

(Million yen)

	Nine Months Ended December 31, 2019 (April 1, 2019 - Dec 31, 2019)	Nine Months Ended December 31, 2020 (April 1, 2020 - Dec 31, 2020)
Net sales	1,124,608	1,079,885
Cost of sales	986,362	956,764
Gross profit	138,246	123,120
Selling, general and administrative expenses	114,308	107,525
Operating profit	23,937	15,595
Non-operating income		
Interest income	915	620
Dividend income	17,841	15,687
Rental income on non-current assets	3,795	3,796
Share of profit of entities accounted for using equity method	3,383	3,001
Other	2,047	5,746
Total non-operating income	27,983	28,853
Non-operating expenses		
Interest expenses	3,699	3,194
Expense for the maintenance and management of abandoned mines	2,964	2,619
Other	5,830	6,614
Total non-operating expenses	12,495	12,428
Ordinary profit	39,426	32,019
Extraordinary income		
Gain on sales of investment securities	2,054	20,085
Gain from transfer of business	705	199
Other	220	132
Total extraordinary income	2,980	20,417
Extraordinary losses		
Loss on business restructuring	—	22,370
Loss on the Antimonopoly Act	10,423	—
Other	3,469	2,730
Total extraordinary losses	13,892	25,101
Profit (loss) before income taxes	28,514	27,336
Income taxes	14,434	11,519
Profit (loss)	14,080	15,816
Profit (loss) attributable to non-controlling interests	4,021	4,803
Profit (loss) attributable to owners of parent	10,058	11,012

Consolidated statement of comprehensive income

(Million yen)

	Nine Months Ended December 31, 2019 (April 1, 2019 - Dec 31, 2019)	Nine Months Ended December 31, 2020 (April 1, 2020 - Dec 31, 2020)
Profit (loss)	14,080	15,816
Other comprehensive income		
Valuation difference on available-for-sale securities	4,268	14,222
Deferred gains or losses on hedges	(180)	(4,077)
Foreign currency translation adjustment	(3,590)	(8,380)
Remeasurements of defined benefit plans	633	2,405
Share of other comprehensive income of entities accounted for using equity method	115	465
Total other comprehensive income	1,245	4,635
Comprehensive income	15,326	20,452
(Breakdown)		
Comprehensive income attributable to owners of parent	12,116	18,484
Comprehensive income attributable to non-controlling interests	3,209	1,968

(3) Notes on quarterly consolidated financial statements

Notes on going concern assumption

N/A

Segment information

[Segment Information]

I. For the nine months ended December 31, 2019 (from April 1, 2019 to December 31, 2019)

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

	Advanced Products	Metalworking Solutions Business	Metals Business	Cement Business	Environment & Energy Business	Other Businesses	Total	Adjustment amount	Amount indicated in the quarterly consolidated statements of profit and loss
Net sales									
(1) Outside customers	276,428	106,008	360,829	185,117	16,229	179,994	1,124,608	—	1,124,608
(2) Within consolidated group	8,798	9,074	120,633	2,497	401	29,986	171,392	(171,392)	—
Total	285,227	115,083	481,463	187,614	16,631	209,981	1,296,001	(171,392)	1,124,608
Segment income (loss)	3,405	5,673	20,250	12,453	1,548	541	43,873	(4,447)	39,426

(Notes)

1. “Other Businesses” include aluminum-related business and engineering-related services.
2. “Adjustment amount” of segment income (loss) of -¥4,447 million includes the elimination of intersegment transactions of -¥36 million and corporate expenses of -¥4,410 million which are not distributed to the reporting segments. Corporate expenses consist mainly of general and administrative expenses that do not belong to the reporting segments, basic experiment and research expenses, and financial income and expenses.
3. Segment income (loss) has been adjusted together with ordinary profit on the consolidated statements of profit or loss.

II. For the nine months ended December 31, 2020 (from April 1, 2020 to December 31, 2020)

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

	Advanced Products	Metalworking Solutions Business	Metals Business	Cement Business	Environment & Energy Business	Other Businesses	Total	Adjustment amount	Amount indicated in the quarterly consolidated statements of profit and loss
Net sales									
(1) Outside customers	242,387	81,990	418,631	156,801	15,335	164,739	1,079,885	—	1,079,885
(2) Within consolidated group	9,037	6,571	103,260	1,915	431	31,416	152,633	(152,633)	—
Total	251,424	88,561	521,892	158,716	15,766	196,155	1,232,518	(152,633)	1,079,885
Segment income (loss)	1,965	(3,163)	22,595	7,499	1,182	5,041	35,120	(3,100)	32,019

(Notes)

1. “Other Businesses” include aluminum-related business and engineering-related services.
2. “Adjustment amount” of segment income (loss) of -¥3,100 million includes the elimination of intersegment transactions of ¥8 million and corporate expenses of -¥3,108 million which are not allocated to the reporting segments. Corporate expenses consist mainly of general and administrative expenses that do not belong to the reporting segments, basic experiment and research expenses, and financial income and expenses.
3. Segment income (loss) has been adjusted together with ordinary profit on the consolidated statements of profit or loss.

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

The Company has changed its reporting segments as a result of the organizational restructuring made on April 1, 2020. Consequently, the business related to energy and environmental and recycling-related businesses included in the “Other Businesses” is now classified as the “Environment & Energy Business” and the business related to aluminum included in the “Advanced Products” is sectionalized into the “Other Businesses”.

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

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

For this reason, the segment information for the nine months of the previous consolidated fiscal year is disclosed herein according to the changed segmentation and calculation methods of the reporting segments.

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

N/A

Changes of significant subsidiaries during the nine months ended December 31, 2020

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

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

The Company calculates tax expenses by rationally assuming an effective tax rate after applying tax effect accounting to net income before income taxes for the consolidated fiscal year, including the third quarter, and multiplying net income before income taxes for the nine months 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, operating officers and fellows (excluding non-domestic residents, hereinafter referred to as the “Officers”) since May 2020.

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 and the like.

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

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

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

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

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

Business combinations and other relationships

(Sales of shares in subsidiary companies)

The Company has adopted a formal resolution at the meeting of its Board of Directors held on November 25, 2020, to transfer (hereinafter referred to as “the Transfer”) the entire shares of Diamet Corporation (hereinafter referred to as “Diamet”), which is a consolidated subsidiary of the Company, to Endeavor II United Investment Limited Partnership (hereinafter referred to as “Partnership”) for which Endeavor United Co., Ltd. (hereinafter referred to as “Endeavor”) serves as a unlimited liability partner, and executed the definitive agreement with Partnership on the same date and carried out the Transfer on December 4, 2020.

Accordingly, PM Techno Corporation, Diamet Klang(Malaysia)Sdn. Bhd., and Guangdong Diamet Powder Metallurgy Co., Ltd., which are the subsidiaries of Diamet and also the consolidated subsidiaries of the Company, have been excluded from the scope of consolidation.

1. Overview of business divestiture

(1) Tradename of successor enterprise

Endeavor II United Investment Limited Partnership

(2) Description of divested business

Diamet Corporation

Consolidated subsidiary Diamet Corporation
PM Techno Corporation
Diamet Klang(Malaysia)Sdn.Bhd.
Guangdong Diamet Powder Metallurgy Co., Ltd.

description of business: Production, R&D and Sales for sintered mechanical parts, Oilless Bearings, Other powder metallurgy parts

(3) Main reason for carrying out business divestiture

Due to deteriorating earnings from the Sintered parts business (hereinafter referred to as the “Sintered parts business”) of the Group in which Diamet and its subsidiaries and affiliated companies have engaged, the Company has provided financial support to Diamet, which leads the Sintered parts business, including the underwriting of capital increase and direct loans. However, as it had been revealed that such support alone is unlikely to be sufficient to improve revenue of the Sintered parts business, the Company had been discussing plans for the Sintered parts business, including transferring to third parties. From these circumstances, the Company has reached an agreement with Endeavour to transfer the business to Partnership aiming at restructuring the business under Endeavour’s leadership, and executed the transfer. Endeavour is a Japanese investment fund which has extensive experience in business revitalization. The Company believes that a business restructuring led by Endeavour is the best way to revitalize and stabilize the Sintered parts business.

(4) Date of business divestiture

December 4, 2020

(5) Other matters concerning overviews of transaction including legal form

Share transfer in which the consideration received is only cash and other assets

2. Overview of implemented accounting procedures

(1) Amount of gain or loss on transfer

Loss on business restructuring 22,370 million yen

(2) Fair book values of assets and liabilities of transferred business, and major breakdown thereof

Current assets 13,501 million yen

Non-current assets 8,247

Total assets 21,748

Current liabilities 39,244

Non-current liabilities 601

Total liabilities 39,845

(3) Accounting procedures

The Company recorded in the extraordinary losses as loss on business restructuring the amount of the difference between the book value of Diamet Corporation stated in the consolidated financial statements and its sale value, less the amount of provision for loss on business restructuring which was recorded at the end of the previous fiscal year.

3. Reporting segment to which the transferred business of subsidiary company belonged

Metalworking Solutions Business

4. Estimated amount of profit or loss pertaining to the divested business, which is reported on the consolidated statement

of profit and loss for the nine months of the consolidated fiscal year

Net sales	10,950 million yen
Operating loss	2,277

Contingent liabilities

(Matters concerning taxation in Indonesia)

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

On December 30, 2014, PT. Smelting in Indonesia, a consolidated subsidiary of the Company (hereinafter referred to as the "PTS") received a notice of reassessment in an amount of US\$47 million (¥5,209 million based on the exchange rate at the end of the previous consolidated fiscal year) from the Indonesian National Tax Authority, regarding the sales transaction pricing of PTS for the year ended December 31, 2009. On January 28, 2015, the PTS made a provisional deposit of US\$14 million (¥1,523 million) as part of the additional collection.

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

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

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

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

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

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

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

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

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

Third quarter of the current consolidated fiscal year (As of December 31, 2020)

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 (¥4,954 million based on the exchange rate at the end of the third quarter of the consolidated fiscal year) from the Indonesian National Tax Authority, regarding the sales transaction pricing of the PTS for the year ended December 31, 2009. On January 28, 2015, the PTS made a provisional deposit of US\$14 million (¥1,449 million) as part of the additional collection.

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

The written objection submitted by the PTS on March 25, 2015 was dismissed by the Indonesian National Tax Authority on March 16, 2016. Therefore, the PTS filed a complaint to the tax court on June 6, 2016 to present its fairness of the view of the Company and the PTS. However, it was dismissed on January 30, 2020. Along with this, the PTS paid the underpayment amount of deposit of US\$33 million (¥3,505 million) on March 23, 2020, and paid a surcharge of US\$33 million (¥3,505 million) on April 24, 2020, respectively. However, the court decision ruled by the tax court was unacceptable to the Company and the PTS, and the PTS appealed to the Supreme Court on June 8, 2020 to present the fairness of the view of the Company and the PTS.

On November 29, 2017, the PTS also received a notice of reassessment in an amount of US\$22 million (¥2,362 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 (¥651 million) as part of the additional collection.

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

The written objection submitted by the PTS on February 27, 2018 was dismissed by the Indonesian National Tax Authority on February 25, 2019. Therefore, on May 17, 2019, the PTS filed a complaint to the tax court in Indonesia to present the fairness of the view of the Company and the PTS. On December 16, 2020, regarding the complaint filed by the PTS, the tax court found the provisional deposit of US\$14 million (¥1,495 million) as reasonable. For US\$7 million (¥814 million) and a surcharge (¥213 million), for which the suit was dismissed, the PTS has decided to appeal to the Supreme Court in Indonesia.

On December 5, 2018, the PTS also received a notice of reassessment in an amount of US\$15 million (¥1,574 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 (¥607 million) as part of the additional collection.

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

On January 20, 2020, the PTS received a notice from the Indonesian National Tax Authority regarding the written objection submitted by the PTS on February 27, 2019, and the written objection of the PTS was accepted for US\$9 million (¥970 million). For US\$4 million (¥490 million), for which the written objection was dismissed, the PTS filed a complaint to the tax court in Indonesia on July 7, 2020 to present the fairness of the view of the Company and the PTS.

At the end of the third quarter of the current consolidated fiscal year, the total amount of additional charges, which PTS currently disputes, was US\$113 million (¥11,712 million). It includes amounts for all fiscal years described above, as well as amounts for the fiscal year ended December 31, 2011, the fiscal year ended December 31, 2016, the fiscal year ended December 31, 2016 and the fiscal year ended December 31, 2018. There are some cases that surcharges may be imposed depending on the outcome of formal objections or tax trial results.

Related to consolidated statement of income

*Losses on business restructuring

For the nine months ended December 31, 2020 (April 1, 2020-December 31, 2020)

The loss on business restructuring of ¥22,370 million consists of loss on sales of investment securities, loss on transfer of claims and other items associated with the transfer on December 4, 2020 of share and claims of Diamant Corporation, a consolidated subsidiary of the Company which operates the Sintered parts business, to Endeavor II United Investment Limited Partnership.

Important subsequent events

The Company entered into an agreement concerning financing of ¥100 billion through subordinated loan (hereinafter referred to as “the Loan”) on February 2, 2021 and implemented it on February 5, 2021.

1. Purpose of financing through the Subordinated Loan

The Company has examined means for raising funds necessary for aggressively developing growth strategies and making investments on a continuous basis. The Company decided to implement financing through the Loan since the Loan is enable the Company to effectively strengthen its financial structure without diluting any of its equity.

2. Features of the Loan

The Loan has an intermediate nature between equity and liabilities. While it is debt financing which does not cause dilution of stock value per share, it has similar nature and characteristics to those of equity including optional deferral of interest payments, ultra-long-term repayment term and subordination nature in liquidation and bankruptcy proceedings. The Company, therefore, expects each of an equity content of 50% of the amount of financing by each of Rating and Investment Information, Inc. and Japan Credit Rating Agency, Ltd.

3. Outline of the Subordinated Loan

- | | |
|---|--|
| (1) Amount of financing | JPY 100 billion |
| (2) Date of agreement | February 2, 2021 |
| (3) Date of loan execution | February 5, 2021 |
| (4) Final repayment date | February 5, 2056 |
| | However, the Company may repay before the due date all or part of the principal on each interest payment date on or after February 5, 2026. |
| (5) Applicable interest rate | For the first five years from the loan execution date, fixed interest rate which is the base fixed interest rate plus the initial spread and from the sixth year and onward, floating interest rate which is the base floating interest rate plus the spread that is 1.00% step up from the initial spread. |
| (6) Replacement restrictions | In the event of a prepayment of the Loan before the due date, the Company intends to raise funds through issuance of common shares or subordinated loan or other means within 12 months prior to the prepayment date such that the amount of capitalization which is recognized as having an equity content, is equal to or greater than the recognized equity content of the principal amount to be repaid. Provided, however, that where the most recent consolidated net D/E ratio is 1.0 times or less at the time of prepayment, the Company may deduct the amount of an increase in consolidated shareholders' equity since the end of September 2020 multiplied by 50%, from the principal amount which is recognized as equity content of the principal amount to be repaid. |
| (7) Constraint on interest payments | The Company may defer payment of all or part of interest on the Loan at its discretion, except when the Company distributes dividends on its common shares. |
| (8) Subordination clause | In the event that liquidation, bankruptcy, corporate reorganization, or civil rehabilitation proceedings are commenced against the Company, the lenders of the Loan shall have the right to receive payment after all claims other than subordinated claims (which refer to claims under the Loan and claims which have the terms and conditions substantially same as the claims of the Loan; the same applies hereinafter) are repaid in full. No provision of the agreement concerning the Loan may be amended in any way that is disadvantageous to creditors other than the creditors of subordinated claims. |
| (9) Equity credit rating by rating agencies | Rating and Investment Information, Inc.: Class 3, 50%
Japan Credit Rating Agency, Ltd.: Equity content: Middle Level, 50% |
| (10) Lenders | MUFG Bank, Ltd., Development Bank of Japan Inc.
Mizuho Bank, Ltd., the Norinchukin Bank |