

Consolidated Financial Results for the Six Months Ended September 30, 2022 (Japanese Accounting Standards)

November 10, 2022

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

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

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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 Six Months Ended September 30, 2022 (From April 1, 2022 to September 30, 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	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
The six months ended September 30, 2022	831,981	-3.3	29,560	1.8	23,025	-39.8	23,624	-38.1
The six months ended September 30, 2021	860,026	18.5	29,038	321.4	38,220	132.2	38,181	—

(Note) Comprehensive income: The six months ended September 30, 2022: 60,608 million yen (+76.3%)

The six months ended September 30, 2021, 34,368 million yen (—%)

	Profit per share	Diluted profit per share
	Yen	Yen
The six months ended September 30, 2022	180.80	—
The six months ended September 30, 2021	292.24	—

(2) Consolidated Financial Position

	Total assets	Total net assets	Shareholders' equity ratio
	Million yen	Million yen	%
As of September 30, 2022	1,991,610	658,100	30.9
As of March 31, 2022	2,125,032	655,752	27.5

(Reference) Shareholders' Equity: As of September 30, 2022: 615,971 million yen As of March 31, 2022: 584,817 million yen

2. Dividend Payments

	Dividend per share				
(Record date)	First quarter	Second quarter	Third quarter	Year-end	Annual
	Yen	Yen	Yen	Yen	Yen
Year ended March 31, 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 yen ordinary dividend and 15.00 yen special dividend.

The year-end dividend per share for the year ended March 31, 2022 consists of 35.00 yen ordinary dividend and 15.00 yen 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
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Year ending March 31, 2023	1,649,000	-6.7	44,000	-16.5	18,000	-76.3	3,000	-93.3	22.96

(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 “(4) Key notes on consolidated quarterly financial statements, Changes of significant subsidiaries during the six months ended September 30, 2022” under “2. Consolidated Financial Statements and Key Notes” on page 15.
- (2) Application of special accounting treatment in the preparation of the quarterly consolidated financial statements: Yes
(Note) For details, please see “(4) Key notes on consolidated quarterly financial statements, Application of special accounting treatment in the preparation of quarterly consolidated financial statements” under “2. Consolidated Financial Statements and Key Notes” on page 15.
- (3) Changes in accounting policies, changes of accounting estimates and restatement
- | | |
|---|------|
| (i) Changes in accounting policies due to amendments to accounting standards: | 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): | |
| Six months ended September 30, 2022: | 131,489,535 shares |
| Year ended March 31, 2022: | 131,489,535 shares |
| (ii) Numbers of treasury shares at end of period: | |
| Six months ended September 30, 2022: | 813,714 shares |
| Year ended March 31, 2022: | 848,433 shares |
| (iii) Average number of outstanding shares during period (quarterly cumulative period): | |
| Six months ended September 30, 2022: | 130,661,264 shares |
| Six months ended September 30, 2021: | 130,649,525 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 forecast” under “1. Qualitative Information on Financial Results for the Six Months Ended September 30, 2022” on page 7 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 Thursday, November 10, 2022. 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 Six Months Ended September 30, 2022

(1) Details of operating results

1) Overview of operating results

During the first half of the current fiscal year ended September 30, 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, the economy in other regions showed signs of recovery.

The Japanese economy remained on a recovery track as economic and social activities moved toward normalization.

The business environment surrounding the Mitsubishi Materials' Group (hereinafter referred to as the "Group") saw the automobile-related demand remained uncertain due to the impact of semiconductor shortages, and semiconductor-related demand seemed to be slowing down, but both remained steady. 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 first half of the current fiscal year, sales and operating profit of Advanced Products Business, Metalworking Solutions Business, Metals Business and Environment & Energy Business all increased compared with the same period of the previous fiscal year.

As a result, consolidated net sales and operating profit for the first half of the current fiscal year were approximately the same year-on-year, despite the impact of Cement Business and Aluminum Business being removed from the scope of consolidation. Net sales were ¥831,981 million (down 3.3% year-on-year), operating profit was ¥29,560 million (up 1.8% year-on-year). Ordinary profit was ¥23,025 million (down 39.8% year-on-year), due to recorded non-operating expenses of ¥9,793 million as share of loss of entities accounted for using equity method and a decrease in dividend income. In addition, the Company recorded an extraordinary income of ¥11,007 million as gain on change in equity. Consequently, quarterly profit attributable to owners of parent was ¥23,624 million (down 38.1% year-on-year).

2) Overview by segments

Effective from the first quarter of the current fiscal year, the Company has changed its reporting segments, etc. For details, please refer to (4) 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)

(Billion yen)

	FY2022 Q1-Q2	FY2023 Q1-Q2	Increase / Decrease (%)	
Net sales	230.5	260.3	29.7	(12.9%)
Operating profit	5.8	6.1	2	(5.0%)
Ordinary profit	7.2	6.1	-1.1	(-15.9%)

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

In the Electronic materials & components business, net sales increased year-on-year mainly due to the impact of the yen's depreciation on polycrystalline silicon products. 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 and operating profit for the entire Advanced Products Business increased year-on-year. Ordinary profit decreased mainly due to a decrease in gain on valuation of derivatives, despite an increase in operating profit.

(Metalworking Solutions Business)

(Billion yen)

	FY2022 Q1-Q2	FY2023 Q1-Q2	Increase / Decrease (%)	
Net sales	65.4	71.8	6.4	(9.8%)
Operating profit	5.8	7.8	2.0	(35.0%)
Ordinary profit	5.7	8.8	3.0	(52.0%)

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

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)

(Billion yen)

	FY2022 Q1-Q2	FY2023 Q1-Q2	Increase / Decrease (%)	
Net sales	469.4	565.5	96.0	(20.5%)
Operating profit	14.8	15.9	1.1	(7.5%)
Ordinary profit	24.9	20.1	-4.8	(-19.3%)

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

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

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

(Environment & Energy Business)

(Billion yen)

	FY2022 Q1-Q2	FY2023 Q1-Q2	Increase / Decrease (%)	
Net sales	9.1	10.2	1.0	(11.1%)
Operating profit	0.7	1.5	0.8	(124.0%)
Ordinary profit	1.4	2.5	1.1	(77.1%)

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.

As a result, net sales and operating profit for the entire Environment & Energy Business increased year-on-year. Ordinary profit increased due to the increase in operating profit and an increase in share of profit of entities accounted for using equity method.

(Other Businesses)

(Billion yen)

	FY2022 Q1-Q2	FY2023 Q1-Q2	Increase / Decrease (%)
Net sales	218.6	72.9	-145.7 (-66.6%)
Operating profit	6.1	2.4	-3.6 (-59.9%)
Ordinary profit (loss)	4.9	(10.8)	-15.7 (—)

In the Other Businesses, both net sales and operating profit decreased year-on-year mainly due to the impact of the Cement Business and 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.

Mitsubishi UBE Cement Corporation 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 second quarter of the current fiscal year stood at ¥1,991.6 billion, decreased by ¥133.4 billion from the end of the previous 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 fiscal year.

Total liabilities amounted to ¥1,333.5 billion, a decrease of ¥135.7 billion from the end of the previous fiscal year. This was mainly due to a decrease in notes and accounts payable - trade and other non-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 fiscal year.

The status of cash flow and factors contributing to these amounts in each category for the first half of the current fiscal year are as follows.

(Cash flows from operating activities)

Net cash used in operating activities during the first half of the current fiscal year was ¥29.0 billion (increased by ¥13.2 billion year-on-year) mainly due to a decrease in notes and accounts payable - trade, despite the recording of quarterly profit before income taxes.

(Cash flows from investing activities)

Net cash used in investing activities during the first half of the current fiscal year was 23.5 billion yen (increased by ¥32.2 billion year-on-year) mainly due to the payment for purchase of property, plant and equipment.

(Cash flows from financing activities)

Net cash provided by financing activities during the first half of the current fiscal year was ¥60.0 billion (increased by ¥59.0 billion year-on-year) mainly due to borrowings and proceeds from commercial paper.

As a result of adding an effect of exchange rate changes on cash and cash equivalents, etc., to the above, cash and cash equivalents at the end of the second quarter of the current consolidated fiscal year amounted to ¥152.3 billion (decreased by ¥1.2 billion year-on-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 (announced on August 9, 2022) due to the impact of rising energy prices, etc., despite the continued depreciation trend of the yen. Ordinary profit is expected to decrease compared to the previous forecast, mainly due to the increase of share of loss of entities accounted for using equity method related to Mitsubishi UBE Cement Corporation (hereinafter referred to as “MUCC”). As stated in the “Notice Regarding Recording of Share of Loss of Entities Accounted for Using Equity Method (Non-Operating Expenses)” announced on September 26, 2022, MUCC expects recording of an extraordinary loss due to the rationalization of its production system. Profit attributable to owners of parent is expected to decrease significantly compared to the previous forecast, despite the anticipated sale of certain assets, due to factors such as a decrease in ordinary profit and the expected recording of an extraordinary loss related to the transfer of polycrystalline silicon business as stated in the “Notice Regarding Company Split (Simplified Absorption-type Company Split), Transfer of Shares of Newly Established Company, and Changes in Consolidated Subsidiary (Specified Subsidiary)” announced on October 28, 2022. There is no revision to the dividend forecast in accordance with the revision of this earnings forecast.

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

(Billion yen)

	Previous forecast	Current forecast	Change (%)
Net sales	1,640.0	1,690.0	3.0
Operating profit	45.0	44.0	(2.2)
Ordinary profit	32.0	18.0	(43.8)
Profit attributable to owners of parent	20.0	3.0	(85.0)

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

2. Consolidated Financial Statements and Key Notes

(1) Consolidated balance sheet

(Million yen)

	As of March 31, 2022	As of September 30, 2022
Assets		
Current assets		
Cash and deposits	159,221	156,058
Notes receivable - trade	30,302	29,166
Accounts receivable - trade	219,543	159,701
Merchandise and finished goods	133,600	144,891
Work in process	159,508	162,834
Raw materials and supplies	161,487	154,221
Leased gold bullion	195,379	205,437
Other	182,280	194,725
Allowance for doubtful accounts	(2,390)	(1,412)
Total current assets	1,238,932	1,205,624
Non-current assets		
Property, plant and equipment		
Machinery and equipment, net	209,924	151,069
Land, net	194,039	91,397
Other, net	225,235	171,408
Total property, plant and equipment, net	629,199	413,875
Intangible assets		
Goodwill	29,371	9,953
Other	19,184	19,279
Total intangible assets	48,556	29,232
Investments and other assets		
Investment securities	165,232	301,924
Other	47,579	45,343
Allowance for doubtful accounts	(4,468)	(4,390)
Total investments and other assets	208,343	342,877
Total non-current assets	886,099	785,986
Total assets	2,125,032	1,991,610

(Million yen)

	As of March 31, 2022	As of September 30, 2022
Liabilities		
Current liabilities		
Notes and accounts payable - trade	158,534	112,937
Short-term borrowings	171,304	194,284
Current portion of bonds payable	10,000	—
Commercial papers	30,000	60,000
Income taxes payable	12,523	7,479
Provisions	12,914	12,764
Deposited gold bullion	392,364	402,781
Other	139,052	112,712
Total current liabilities	926,693	902,960
Non-current liabilities		
Bonds payable	70,000	70,000
Long-term borrowings	327,405	260,837
Provision for environmental measures	18,762	16,728
Other provisions	2,136	1,813
Retirement benefit liability	35,228	26,225
Other	89,052	54,944
Total non-current liabilities	542,586	430,549
Total liabilities	1,469,280	1,333,510
Net assets		
Shareholders' equity		
Share capital	119,457	119,457
Capital surplus	79,407	79,406
Retained earnings	328,864	345,912
Treasury shares	(2,892)	(2,803)
Total shareholders' equity	524,837	541,973
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	26,110	11,889
Deferred gains or losses on hedges	(5,328)	(4,387)
Revaluation reserve for land	26,369	16,224
Foreign currency translation adjustment	18,832	53,853
Remeasurements of defined benefit plans	(6,003)	(3,580)
Total accumulated other comprehensive income	59,979	73,998
Non-controlling interests	70,935	42,128
Total net assets	655,752	658,100
Total liabilities and net assets	2,125,032	1,991,610

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

(Million yen)

	Six Months Ended September 30, 2021 (Apr. 1, 2021 – Sept. 30, 2021)	Six Months Ended September 30, 2022 (Apr. 1, 2022 – Sept. 30, 2022)
Net sales	860,026	831,981
Cost of sales	754,384	741,587
Gross profit	105,641	90,394
Selling, general and administrative expenses	76,603	60,834
Operating profit	29,038	29,560
Non-operating income		
Interest income	316	391
Dividend income	10,531	6,754
Foreign exchange gains	257	2,702
Rental income from non-current assets	2,573	2,144
Share of profit of entities accounted for using equity method	2,929	—
Other	1,720	961
Total non-operating income	18,329	12,954
Non-operating expenses		
Interest expenses	2,744	2,786
Share of loss of entities accounted for using equity method	—	9,793
Expense for the maintenance and management of abandoned mines	2,207	1,988
Other	4,195	4,921
Total non-operating expenses	9,148	19,489
Ordinary profit	38,220	23,025
Extraordinary income		
Gain on change in equity	—	11,007
Gain on sales of investment securities	19,425	1,331
Other	815	242
Total extraordinary income	20,241	12,581
Extraordinary losses		
Loss on change in equity	18	640
Loss on sales of non-current assets	161	25
Litigation expenses	145	5
Other	148	229
Total extraordinary losses	474	901
Profit before income taxes	57,987	34,705
Income taxes	15,291	8,004
Profit	42,695	26,700
Profit attributable to non-controlling interests	4,514	3,076
Profit attributable to owners of parent	38,181	23,624

Consolidated statement of comprehensive income

(Million yen)

	Six Months Ended September 30, 2021 (Apr. 1, 2021 – Sept. 30, 2021)	Six Months Ended September 30, 2022 (Apr. 1, 2022 – Sept. 30, 2022)
Profit	42,695	26,700
Other comprehensive income		
Valuation difference on available-for-sale securities	(12,602)	(8,667)
Deferred gains or losses on hedges	1,367	(2,308)
Foreign currency translation adjustment	3,299	26,061
Remeasurements of defined benefit plans	1,262	316
Share of other comprehensive income of entities accounted for using equity method	(1,652)	18,505
Total other comprehensive income	(8,326)	33,907
Comprehensive income	34,368	60,608
(Breakdown)		
Comprehensive income attributable to owners of parent	29,233	52,525
Comprehensive income attributable to non-controlling interests	5,134	8,082

(3) Consolidated statement of cash flows

(Million yen)

	Six Months Ended September 30, 2021 (Apr. 1, 2021 – Sept. 30, 2021)	Six Months Ended September 30, 2022 (Apr. 1, 2022 – Sept. 30, 2022)
Cash flows from operating activities		
Profit before income taxes	57,987	34,705
Depreciation	31,454	22,102
Increase (decrease) in provision for environmental measures	(3,339)	(2,033)
Increase (decrease) of provision	(1,566)	(270)
Increase (decrease) of retirement benefit liability	395	368
Interest and dividend income	(10,847)	(7,145)
Interest expenses	2,744	2,786
Share of loss (profit) of entities accounted for using equity method	(2,929)	9,793
Loss (gain) on change in equity	18	(10,366)
Loss (gain) on sales of property, plant and equipment	(147)	(83)
Loss (gain) on sales of investment securities	(19,344)	(1,319)
Loss (gain) on valuation of investment securities	9	48
Decrease (increase) in notes and accounts receivable - trade	(2,455)	17,729
Decrease (increase) in inventories	(55,617)	(12,220)
Proceeds from sales of gold bullion	58,899	52,382
Payment for purchase of gold bullion	(58,870)	(52,363)
Decrease (increase) in other current assets	3,238	(24,365)
Increase (decrease) in notes and accounts payable - trade	(19,745)	(43,178)
Other	4,065	(11,401)
Sub-total	(16,051)	(24,832)
Interest and dividend received	13,454	10,947
Interest paid	(2,785)	(2,695)
Income taxes (paid) refund	(10,423)	(12,431)
Net cash provided by (used in) operating activities	(15,805)	(29,011)
Cash flows from investing activities		
Payment for purchase of property, plant and equipment	(36,421)	(28,906)
Proceeds from sales of property, plant and equipment	1,819	218
Payment for purchase of investment securities	(770)	(565)
Proceeds from sales of investment securities	30,927	2,555
Proceeds from sales of subsidiaries' shares resulting in change in scope of consolidation	579	—
Payment for loans	(1,520)	(3,694)
Proceeds from collection of loans	14,451	8,365
Other	(376)	(1,531)
Net cash provided by (used in) investing activities	8,688	(23,558)

(Million yen)

	Six Months Ended September 30, 2021 (Apr. 1, 2021 – Sept. 30, 2021)	Six Months Ended September 30, 2022 (Apr. 1, 2022 – Sept. 30, 2022)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	(3,487)	40,431
Proceeds from long-term borrowings	19,899	12,928
Repayment of long-term borrowings	(5,075)	(3,737)
Proceeds from issuance of bonds	40,000	—
Payment for redemption of bonds	—	(10,000)
Net increase (decrease) in commercial papers	(40,000)	30,000
Payment for purchase of treasury shares	(17)	(8)
Cash dividends paid	(6,546)	(6,545)
Cash dividends paid to non-controlling interests	(2,584)	(1,764)
Other	(1,190)	(1,221)
Net cash provided by (used in) financing activities	997	60,083
Effect of exchange rate changes on cash and cash equivalents	396	14,239
Increase (decrease) in cash and cash equivalents	(5,723)	21,753
Cash and cash equivalents at beginning of period	147,533	153,640
Increase (decrease) in cash and cash equivalents resulting from change of consolidated subsidiaries' accounting period	(618)	—
Decrease in cash and cash equivalents resulting from company split	—	(23,025)
Cash and cash equivalents at end of period	141,191	152,368

(4) Key notes on consolidated quarterly financial statements

Notes on going concern assumption

N/A

Segment Information, etc.

[Segment Information]

I. For the first six months ended September 30, 2021 (from April 1, 2021 to September 30, 2021)

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

(Million yen)

	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	222,539	63,458	360,395	8,768	204,863	860,026	—	860,026
(2) Within consolidated group	8,056	1,987	109,054	411	13,833	133,342	(133,342)	—
Total	230,595	65,446	469,450	9,179	218,696	993,369	(133,342)	860,026
Segment income	7,275	5,790	24,945	1,436	4,908	44,356	(6,136)	38,220

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

(Note 2) “Adjustment amount” in segment income of ¥(6,136) million includes the amount of elimination of intersegment transactions of ¥(218) million and corporate expenses of ¥(5,917) million which are not allocated to the reporting segments. Corporate expenses consist mainly of general and administrative expenses, basic experiment and research expenses, and financial income and expenses that do not belong to the reporting segments.

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

II. For the first six months ended September 30, 2022 (from April 1, 2022 to September 30, 2022)

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

(Million 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	250,661	69,099	447,806	9,763	54,650	831,981	—	831,981
(2) Within consolidated group	9,646	2,778	117,710	437	18,325	148,898	(148,898)	—
Total	260,308	71,878	565,516	10,200	72,976	980,879	(148,898)	831,981
Segment income (loss)	6,117	8,802	20,129	2,544	(10,828)	26,765	(3,740)	23,025

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

(Note 2) “Adjustment amount” in segment income (loss) of ¥(3,740) million includes the amount of elimination of intersegment transactions of ¥(198) million and corporate expenses of ¥(3541) 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 half of the previous 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 six months ended September 30, 2022

In the first quarter of the current 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 Mitsubishi UBE Cement Corporation as the successor company.

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

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

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

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

Effective from the first quarter of the current 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 Mitsubishi UBE Cement Corporation (hereinafter referred to as “MUCC”, an equity-method affiliate company of the Company) 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 half of the current fiscal year, the Company recorded non-operating expenses of ¥1,745 million as share of loss of entities accounted for using equity method that expected to occur related to the Initiatives.

(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”), effective January 1, 2023, and entered into the merger agreement with MFC on the same date.

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 (scheduled)

(3) Legal form of business combination

An Absorption-type merger in which the Company shall be the surviving company and MFC 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 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 plans to account for as a transaction under common control.

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 half of the current fiscal year (As of September 30, 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 second quarter of the current 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 second quarter of the current fiscal year).

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

Important subsequent events

(An absorption-type company split of the polycrystalline silicon business, and the transfer shares of the newly established company)

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 entered into the Transfer agreement (hereinafter referred to as the “Agreement”) with SUMCO 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 Polycrystalline Silicon 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 a simplified absorption-type company split with the Company as splitting company and the New Company 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: To be decided

(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 to 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 expects to record an extraordinary loss of approximately ¥36 billion by the fourth quarter of the fiscal year ending March 31, 2023, as loss on business restructuring.

4. Timeline of the Transaction

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

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