

Consolidated Financial Results for the Six Months Ended September 30, 2018 (Japanese Accounting Standards)

November 6, 2018

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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 million yen are omitted.)

1. Results of the first six months ended September 30, 2018 (From April 1, 2018 to September 30, 2018)

(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, 2018	855,268	17.9	27,594	-24.4	33,067	-16.4	14,849	-26.3
First six months ended September 30, 2017	725,450	20.3	36,479	33.5	39,530	51.9	20,148	-31.8

(Note) Comprehensive income: The first six months ended September 30, 2018: 6,648 million yen (-78.2%)
 The first six months ended September 30, 2017: 30,532 million yen (-%)

	Net income per share	Diluted net income per share
	Yen	Yen
First six months ended September 30, 2018	113.39	—
First six months ended September 30, 2017	153.83	—

(2) Consolidated Financial Position

	Total assets	Net assets	Shareholders' equity ratio
	Million yen	Million yen	%
As of September 30, 2018	2,007,706	770,049	33.7
As of March 31, 2018	2,011,067	768,495	33.9

(Reference) Shareholders' Equity: As of September 30, 2018: 675,990 million yen As of March 31, 2018: 682,471 million yen

(Note) The Company has been applying "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28 on February 16, 2018) from the beginning of the first three months ended June 30, 2018. Individual figures related to the period ended March 31, 2018 have had the accounting standards applied retroactively.

2. Dividend Payments

(Record date)	Dividends per share				
	First quarter	Second quarter	Third quarter	Year-end	Annual
	Yen	Yen	Yen	Yen	Yen
Year ended March 31, 2018	—	30.00	—	50.00	80.00
Year ending March 31, 2019	—	40.00			
Year ending March 31, 2019 (Forecast)			—	40.00	80.00

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

3. Consolidated Earnings Forecast (From April 1, 2018 to March 31, 2019)

(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, 2019	1,660,000	3.8	53,000	-27.2	64,000	-19.6	25,000	-27.7	190.90

(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: 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 terms (including treasury shares):
Six months ended September 30, 2018: 131,489,535 shares
Year ended March 31, 2018: 131,489,535 shares
 - (ii) Numbers of treasury shares at end of terms:
Six months ended September 30, 2018: 533,898 shares
Year ended March 31, 2018: 527,089 shares
 - (iii) Average number of shares issued during terms (quarterly cumulative period):
Six months ended September 30, 2018: 130,959,327 shares
Six months ended September 30, 2017: 130,977,833 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, 2018” on page 5 for the assumptions about consolidated earnings forecasts.

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

Mitsubishi Materials Corporation plans to hold a quarterly financial briefing for institutional investors on Tuesday, November 6, 2018. 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, 2018

(1) Details of operating results

1) Overview of operating results

During the first half of the consolidated fiscal year under review, although signs of economic slowdown were seen in China, moderate recovery was seen in the Asian economies of Thailand and Indonesia. In the United States, the economy continued to recover steadily.

In Japan, corporate earnings and employment and income conditions were on the road to recovery, and consumer spending and capital expenditure showed signs of improvement.

Regarding the business environment for the Mitsubishi Materials Group, copper prices increased, and energy prices rose.

Under these circumstances, consolidated net sales for the first half of the year under review totaled ¥855,268 million, up 17.9% year on year. Operating profit decreased 24.4% year on year, to ¥27,594 million, and ordinary income fell 16.4%, to ¥33,067 million. Net income attributable to owners of parent was ¥14,849 million, down 26.3% year on year.

2) Overview by segments

(Cement)

(Billion yen)

	FY 2018 Q1-Q2	FY 2019 Q1-Q2	Increase / Decrease (%)
Net sales	95.6	98.5	2.9 (3.0%)
Operating profit	10.6	6.9	-3.7 (-35.1%)
Ordinary income	11.0	7.1	-3.9 (-35.4%)

Despite the firm performance of construction work of facilities related to the Tokyo Olympic and Paralympic Games in the Tokyo metropolitan area, as well as the extension work of the Hokuriku Shinkansen in the Hokuriku area in Japan, mainly rising energy costs resulted in a decline in operating profit, even as net sales increased.

In the United States, although the sales price of ready-mixed concrete rose, given an increase in fuel and other costs, net sales increased and operating profit decreased.

Consequently, net sales for the entire Cement business increased year on year, but operating profit decreased. Ordinary income declined mainly due to the decrease in operating profit.

(Metals)

(Billion yen)

	FY 2018 Q1-Q2	FY 2019 Q1-Q2	Increase / Decrease (%)
Net sales	374.5	480.8	106.3 (28.4%)
Operating profit	10.8	8.9	-1.9 (-17.6%)
Ordinary income	14.2	12.2	-1.9 (-13.7%)

In the copper business, net sales increased and operating profit decreased, mainly attributable to increased costs for smelting, despite the higher production volume at Naoshima Smelter & Refinery due to the absence of periodic furnace repairs and higher copper prices.

In the gold and other valuable metals business, both net sales and operating profit grew, mainly due to increased production as a result of a rise in the amount of gold and other valuable metals contained in raw materials.

In the copper and copper alloy products business, net sales increased and operating profit decreased as a

result of an increase in copper prices and a drop in sales of products for electronic materials.

As a result, overall the Metal business posted year-on-year increase in net sales, but operating profit declined. Ordinary income decreased due to the decrease in operating profit.

(Advanced Materials & Tools)

(Billion yen)

	FY 2018 Q1-Q2	FY 2019 Q1-Q2	Increase / Decrease (%)
Net sales	78.3	87.2	8.9 (11.4%)
Operating profit	8.6	9.9	1.2 (14.6%)
Ordinary income	8.1	9.3	1.2 (15.2%)

In the cemented carbide products business, net sales and operating profit increased as a result of strong demand mainly in Japan, Europe, United States, China and Southeast Asia.

In the high-performance alloy products business, net sales increased due to growth in demand for mainstay sintering parts in Japan and North America. However, the operating loss expanded due to the increased costs associated with quality inspection and shipments.

As a result, overall the Advanced Materials & Tools business recorded year-on-year increases in net sales and operating profit. Ordinary income also rose due to the higher operating profit.

(Electronic Materials & Components)

(Billion yen)

	FY 2018 Q1-Q2	FY 2019 Q1-Q2	Increase / Decrease (%)
Net sales	34.0	36.1	2.1 (6.4%)
Operating profit	1.8	1.6	-0.1 (-9.7%)
Ordinary income	2.3	3.0	0.7 (32.7%)

In the advanced materials and chemical products business, net sales and operating profit increased, reflecting a rise in sales of products related to semiconductor manufacturing equipment and other products.

In the electronic components business, net sales increased while operating profit declined due to the effect of falling sales prices of products for optical communication related equipment, although the sales of products for home appliances and products for automobiles increased.

The polycrystalline silicon business recorded decreases in both net sales and operating profit due to a fall in sales prices, in addition to a decrease in sales volume mainly due to the impact of postponement of sales to some customers to the second half or thereafter.

As a result, the entire Electronics Materials & Components business registered a year-on-year increase in net sales but a year-on-year decline in operating profit. Ordinary income increased as a result of the higher dividend income despite the decrease in operating profit.

(Aluminum)

(Billion yen)

	FY 2018 Q1-Q2	FY 2019 Q1-Q2	Increase / Decrease (%)
Net sales	77.5	77.0	-0.5 (-0.7%)
Operating profit	3.9	1.3	-2.6 (-67.1%)
Ordinary income	3.7	1.1	-2.6 (-70.5%)

In the aluminum beverage can business, net sales and operating profit declined due to a fall in sales of bottle cans and rising costs of raw materials and energy, despite an increase in sales of regular cans.

In the rolled aluminum and processed aluminum products business, although sales of can materials and plate products for litho sheets declined, aluminum prices rose and sales of heat exchanger sheet materials for automobiles increased. Energy costs also rose. As a result of these developments, net sales increased, but operating profit declined.

As a result, the entire Aluminum business posted year-on-year decreases in net sales and operating profit. Ordinary income also declined due to the fall in operating profit.

(Others)

(Billion yen)

	FY 2018 Q1-Q2	FY 2019 Q1-Q2	Increase / Decrease (%)
Net sales	106.4	113.3	6.8 (6.5%)
Operating profit	3.9	3.8	-0.0 (-0.7%)
Ordinary income	4.4	4.7	0.3 (8.6%)

In the energy-related business, although sales volume of coal decreased, due to a rise in sales prices of coal, both net sales and operating profit increased.

In the environmental recycling business, both net sales and operating profit increased with a rise in the recycling unit price of valuables, in addition to an increase in recycling volumes.

Although total net sales in the Others business excluding the energy-related business and the environmental recycling business increased, operating profit decreased.

In the overall Others business, net sales increased from a year earlier, while operating profit decreased. Ordinary income increased mainly due to a rise in dividend income, despite the fall in operating profit.

(2) Details of financial position

Total assets at the end of the second quarter of the consolidated fiscal year under review stood at ¥2,007.7 billion, down ¥3.3 billion from the end of the previous consolidated fiscal year. This result was mainly due to a decrease in investment securities despite increase in inventories.

Total liabilities were ¥1,237.6 billion, a decrease of ¥4.9 billion from the end of the previous consolidated fiscal year. This decrease was chiefly attributable to a fall in accounts payable.

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 ¥13.1 billion (an increase of ¥8.7 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 ¥34.9 billion (a decrease of ¥43.2 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 ¥19.6 billion (a decrease of ¥0.1 billion from the first half of the previous fiscal year) mainly as a result of raising the ¥21.8 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 ¥92.2 billion (up ¥4.8 billion from the end of the previous fiscal year).

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

In our consolidated earnings forecasts for the full year of the fiscal year ending March 31, 2019, we have revised the previous forecasts (announced on August 7, 2018) as shown below, considering the strong sales of the Advanced Materials & Tools Business, a fall in metal prices and an increase in costs for smelting in the Metals business, as well as a fall in the sales of the Cement business below the estimate, among other factors.

Revisions to Consolidated Earnings Forecasts for the Fiscal Year Ending March 31, 2019
(from April 1, 2018 to March 31, 2019)

	Previous forecast	Current forecast	Increase / Decrease (%)
Net sales	1,660.0	1,660.0	—
Operating profit	67.0	53.0	-20.9
Ordinary income	79.0	64.0	-19.0
Net income attributable to owners of parent	35.0	25.0	-28.6

(Note) The above forecast has been prepared on assumed economic conditions, market trends, and other factors foreseeable 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, 2018	As of September 30, 2018
Assets		
Current assets		
Cash and deposits	93,389	97,178
Notes and accounts receivable-trade	260,427	259,678
Merchandise and finished goods	91,772	90,011
Work in process	132,043	160,294
Raw materials and supplies	142,275	148,111
Others	227,686	224,912
Allowance for doubtful accounts	(2,518)	(2,854)
Total current assets	<u>945,077</u>	<u>977,333</u>
Non-current assets		
Property, plant and equipment		
Machinery and equipment, net	204,513	204,086
Land, net	236,709	238,356
Other, net	204,336	213,899
Total property, plant and equipment	<u>645,559</u>	<u>656,343</u>
Intangible assets		
Goodwill	44,636	43,774
Other	19,938	18,678
Total intangible assets	<u>64,574</u>	<u>62,452</u>
Investments and other assets		
Investment securities	303,924	264,299
Others	56,228	51,254
Allowance for doubtful accounts	(4,297)	(3,975)
Total investments and other assets	<u>355,855</u>	<u>311,577</u>
Total non-current assets	<u>1,065,989</u>	<u>1,030,373</u>
Total assets	<u>2,011,067</u>	<u>2,007,706</u>

(Million yen)

	As of March 31, 2018	As of September 30, 2018
Liabilities		
Current liabilities		
Notes and accounts payable-trade	158,369	145,137
Short-term loans payable	206,142	221,217
Current portion of bonds payable	25,000	–
Commercial papers	–	50,000
Income taxes payable	9,151	8,135
Provision	13,228	12,351
Gold payable	246,227	240,453
Other	118,880	117,293
Total current liabilities	777,001	794,590
Non-current liabilities		
Bonds payable	50,000	50,000
Long-term loans payable	240,292	232,950
Provision for environmental measures	37,833	36,431
Other provision	2,370	2,731
Net defined benefit liability	51,647	49,754
Other	83,427	71,199
Total non-current liabilities	465,570	443,067
Total liabilities	1,242,571	1,237,657
Net assets		
Shareholders' equity		
Capital stock	119,457	119,457
Capital surplus	92,422	92,422
Retained earnings	361,430	371,744
Treasury stock	(2,089)	(2,110)
Total shareholders' equity	571,222	581,515
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	95,487	71,788
Deferred gains or losses on hedges	1,068	(1,262)
Revaluation reserve for land	33,071	33,000
Foreign currency translation adjustment	(10,312)	(1,853)
Remeasurements of defined benefit plans	(8,066)	(7,196)
Total accumulated other comprehensive income	111,249	94,475
Non-controlling interests	86,023	94,058
Total net assets	768,495	770,049
Total liabilities and net assets	2,011,067	2,007,706

(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, 2017 (Apr. 1, 2017–Sep. 30, 2017)	Six Months Ended September 30, 2018 (Apr. 1, 2018–Sep. 30, 2018)
Net sales	725,450	855,268
Cost of sales	616,750	750,493
Gross profit	108,700	104,775
Selling, general and administrative expenses	72,220	77,180
Operating profit	36,479	27,594
Non-operating profit		
Interest income	362	514
Dividend income	6,729	9,660
Share of profit of entities accounted for using equity method	1,694	757
Rent income on non-current assets	2,406	2,536
Other	2,204	1,480
Total non-operating profit	13,396	14,950
Non-operating expenses		
Interest expenses	2,532	2,378
Settlement expenses of remaining business in mines	2,348	1,604
Other	5,465	5,495
Total non-operating expenses	10,345	9,477
Ordinary income	39,530	33,067
Extraordinary income		
Gain on liquidation of subsidiaries and associates	–	506
Gain on sales of non-current assets	33	328
Gain on sales of investment securities	165	170
Other	6	–
Total extraordinary income	204	1,005
Extraordinary losses		
Loss on valuation of investment securities	–	2,779
Impairment loss	41	1,539
Loss on sales of non-current assets	280	40
Loss on sales of investment securities	490	–
Other	122	19
Total extraordinary losses	934	4,378
Income before income taxes	38,800	29,693
Income taxes	13,807	9,948
Net income	24,993	19,744
Net income attributable to non-controlling interests	4,844	4,895
Net income attributable to owners of parent	20,148	14,849

Consolidated statements of comprehensive income

Consolidated first six months

(Million yen)

	Six Months Ended September 30, 2017 (Apr. 1, 2017–Sep. 30, 2017)	Six Months Ended September 30, 2018 (Apr. 1, 2018–Sep. 30, 2018)
Net income	24,993	19,744
Other comprehensive income		
Valuation difference on available-for-sale securities	3,202	(23,951)
Deferred gains or losses on hedges	(2,122)	(2,316)
Foreign currency translation adjustment	2,746	12,901
Remeasurements of defined benefit plans	1,412	875
Share of other comprehensive income of entities accounted for using equity method	300	(604)
Total other comprehensive income	5,539	(13,096)
Comprehensive income	30,532	6,648
(Breakdown)		
Comprehensive income attributable to owners of parent	25,054	(1,959)
Comprehensive income attributable to non-controlling interests	5,477	8,607

(3) Consolidated statement of cash flows

(Million yen)

	Six Months Ended September 30, 2017 (Apr. 1, 2017–Sep. 30, 2017)	Six Months Ended September 30, 2018 (Apr. 1, 2018–Sep. 30, 2018)
Cash flows from operating activities		
Income before income taxes	38,800	29,693
Depreciation	27,776	29,531
Increase (decrease) in provision for environmental measures	(1,057)	(1,401)
Increase (decrease) in provision	(1,069)	(259)
Increase (decrease) in net defined benefit liability	891	(766)
Interest and dividend income	(7,091)	(10,175)
Interest expenses	2,532	2,378
Share of (profit) loss of entities accounted for using equity method	(1,694)	(757)
Loss (gain) on sales of property, plant and equipment	297	(287)
Loss (gain) on sales of investment securities	324	(171)
Loss (gain) on valuation of investment securities	–	2,779
Decrease (increase) in notes and accounts receivable-trade	(24,903)	4,265
Decrease (increase) in inventories	(71,558)	(27,111)
Proceeds from sales of gold bullion	72,398	52,405
Purchase of gold bullion	(52,123)	(52,230)
Increase (decrease) in notes and accounts payable-trade	35,883	(17,520)
Other	(3,244)	7,979
Subtotal	16,163	18,352
Interest and dividend income received	8,443	11,462
Interest expenses paid	(2,531)	(2,356)
Income taxes (paid) refund	(17,696)	(12,926)
Loss on non-conforming products paid	–	(1,430)
Net cash provided by operating activities	4,379	13,101
Cash flows from investing activities		
Purchase of property, plant and equipment	(34,541)	(36,980)
Proceeds from sales of property, plant and equipment	144	618
Purchase of investment securities	(1,251)	(1,416)
Proceeds from sales of investment securities	209	344
Proceeds from liquidation of subsidiaries and associates	–	2,160
Proceeds from purchase of shares of subsidiaries resulting in change in scope of consolidation	273	–
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(38,496)	–
Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation	185	–
Payments for sales of shares of subsidiaries resulting in change in scope of consolidation	(901)	–
Payments of loans receivable	(2,999)	(1,339)
Collection of loans receivable	4,363	572
Payments for transfer of business	(1,475)	–
Other	(3,679)	1,106
Net cash provided by investing activities	(78,170)	(34,935)

	Six Months Ended September 30, 2017 (Apr. 1, 2017–Sep. 30, 2017)	Six Months Ended September 30, 2018 (Apr. 1, 2018–Sep. 30, 2018)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	2,810	(2,591)
Proceeds from long-term loans payable	33,206	26,254
Repayments of long-term loans payable	(32,498)	(20,141)
Proceeds from issuance of bonds	20,000	–
Redemption of bonds	(15,000)	(25,000)
Increase (decrease) in commercial papers	20,000	50,000
Purchase of treasury shares	(28)	(21)
Cash dividends paid	(5,239)	(6,548)
Dividends paid to non-controlling interests	(2,247)	(1,259)
Other	(1,217)	(1,089)
Net cash provided by financing activities	19,785	19,602
Effect of exchange rate change on cash and cash equivalents	484	2,459
Net increase (decrease) in cash and cash equivalents	(53,520)	228
Cash and cash equivalents at the beginning of period	132,616	87,355
Increase (decrease) in cash and cash equivalents resulting from change of scope of consolidation	714	4,624
Increase (decrease) in cash and cash equivalents resulting from change of accounting period of consolidated subsidiary	1,228	–
Cash and cash equivalents at the end of period	81,039	92,208

(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, 2017 (from April 1, 2017 to September 30, 2017)

Sales and income of reporting segments

(Million yen)

	Cement	Metals	Advanced Materials & Tools	Electronic Materials & Components	Aluminum	Others	Total	Adjustment amount	Amount indicated in the consolidated quarterly statements of income
Net sales									
(1) Outside customers	94,003	370,151	72,523	29,592	77,153	82,025	725,450	–	725,450
(2) Within consolidated group	1,681	4,370	5,787	4,416	427	24,392	41,076	(41,076)	–
Total	95,685	374,522	78,310	34,009	77,580	106,418	766,527	(41,076)	725,450
Segment income	11,042	14,211	8,139	2,311	3,758	4,401	43,863	(4,332)	39,530

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

2. “Adjustment amount” of segment income of -¥4,332 million includes the elimination of intersegment transactions of -¥7 million and corporate expenses of -¥4,324 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, 2018 (from April 1, 2018 to September 30, 2018)

Sales and income of reporting segments

(Million yen)

	Cement	Metals	Advanced Materials & Tools	Electronic Materials & Components	Aluminum	Others	Total	Adjustment amount	Amount indicated in the consolidated quarterly statements of income
Net sales									
(1) Outside customers	97,123	476,066	81,199	31,646	76,665	92,568	855,268	–	855,268
(2) Within consolidated group	1,471	4,787	6,075	4,528	409	20,746	38,018	(38,018)	–
Total	98,595	480,854	87,274	36,174	77,074	113,314	893,287	(38,018)	855,268
Segment income	7,138	12,264	9,378	3,067	1,106	4,780	37,735	(4,668)	33,067

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

2. “Adjustment amount” of segment income of -¥4,668 million includes the elimination of intersegment transactions of -¥0 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.

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.

Additional information

(Provision for environmental measures)

In regards to expenses for specific countermeasure work to prevent mining-induced pollution and expenses for countermeasure work to stabilize collection sites in abandoned mines managed by the Group, we have recorded a provision for expenses whose estimated amount has been fixed because the details of the construction work have been determined. However, regarding countermeasure work to stabilize large-scale collection sites, there are some forms of countermeasure work for which the amount cannot be calculated reasonably because the details of construction work are undecided due to the fact that the most appropriate construction method for the landscape and existing equipment have yet to be selected, even though specific countermeasure work is necessary.

(Adoption of the "Partial Amendments to Accounting Standard for Tax Effect Accounting," etc.)

The Company has adopted the "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28 on February 16, 2018), etc. from the beginning of the first quarter of the fiscal year. As a result, deferred tax assets are presented in investments and other assets, and deferred tax liabilities are presented in non-current liabilities.

Contingent liabilities

(Matters concerning taxation in Indonesia)

Previous consolidated fiscal year (As of March 31, 2018)

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 (¥5,085 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 (¥1,487 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 December 22, 2016, the PTS received a notice of reassessment in an amount of US\$34 million (¥3,637 million) from the Indonesian National Tax Authority, regarding its posting of raw material costs, etc. for the fiscal year ended December 31, 2011.

However, the PTS submitted a written objection to the Indonesian National Tax Authority on March 20, 2017, because this assessment was a view that unilaterally negated the basis for recording raw materials costs, etc. of the PTS and found to be unacceptable by the Company and the PTS.

On February 28, 2018, the PTS received a notice from the Indonesian National Tax Authority regarding the written objection submitted by the PTS on March 20, 2017, and the written objection of the PTS was accepted for US\$28 million (¥3,012 million). For US\$5 million (¥625 million), for which the written objection was dismissed, the PTS has decided to file a complaint to the Tax Court in Indonesia.

On November 29, 2017, the PTS also received a notice of reassessment in an amount of US\$22 million (¥2,425 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 (¥668 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.

Second quarter of the consolidated fiscal year under review (As of September 30, 2018)

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 (¥5,436 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 (¥1,589 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 (¥2,592 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 (¥715 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.

(Matters concerning Non-Conforming Products)

Previous consolidated fiscal year (As of March 31, 2018)

Mitsubishi Materials Corporation discovered that the Company's consolidated subsidiaries Mitsubishi Cable Industries, Ltd., Mitsubishi Shindoh Co., Ltd., Mitsubishi Aluminum Co., Ltd., Tachibana Metal Manufacturing Co., Ltd. and Diamet Corporation 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.

Since quality control related problems were also discovered with respect to the copper slag products manufactured at the Company's Naoshima Smelter & Refinery, the Company reported the fact to the Japan Quality Assurance organization (JQA) and a special inspection was conducted. As a result, JQA revoked the JIS

certification for copper slag products manufactured at the Company's Naoshima Smelter & Refinery.

Depending on the progress of the above mentioned issues, the Company's consolidated business results may be affected, due to costs incurred to compensate customers and other parties 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, 2018)

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.

In addition, in relation to this misconduct, the Company's consolidated subsidiaries: Mitsubishi Cable Industries, Ltd., Mitsubishi Aluminum Co., Ltd. and Diamet Corporation and the former officers of Mitsubishi Cable Industries, Ltd. and Diamet Corporation were indicted on a charge of violation of the Unfair Competition Prevention Act in September 2018.

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

(On-site inspection by the Japan Fair Trade Commission)

Previous consolidated fiscal year (As of March 31, 2018)

Universal Can Corporation, a consolidated subsidiary of the Company, was on-site inspected by the Japan Fair Trade Commission on February 6, 2018, due to suspected of violating the Antimonopoly Act concerning the transaction of empty cans for beverages.

The subsequent progress of this matter may affect the Company's consolidated financial results, since it is difficult to rationally estimate the impact amount at the present time, it is not reflected in the consolidated financial statements.

Second quarter of the consolidated fiscal year under review (As of September 30, 2018)

Universal Can Corporation, a consolidated subsidiary of the Company, was on-site inspected by the Japan Fair Trade Commission on February 6, 2018, due to suspected of violating the Antimonopoly Act concerning the transaction of empty cans for beverages.

The subsequent progress of this matter may affect the Company's consolidated financial results, since it is difficult to rationally estimate the impact amount at the present time, it is not reflected in the quarterly consolidated financial statements.

Important subsequent events

(Change the method of business segmentation)

At the meeting of the Board of Directors held on August 7, 2018, the Company resolved to partially change the organization of business division. This change was made on October 1, 2018.

The Copper & Copper Alloy Products in the Metals Company, the Electronic Materials & Components Company and the Aluminum Div. are integrated to “Advanced Products Company” as a single in-house company, it aims to strengthen its product planning, marketing and proposal capabilities for key areas and main customers in a cross-functional manner.

Associated with this, the Company has decided to change the method of business segmentation from the “Cement Business”, “Metals Business”, “Advanced Materials & Tools Business”, “Electronic Materials & Components Business”, “Aluminum Business” and “Others business” to the “Advanced Products”, “Metalworking Solutions Business”, “Metals Business”, “Cement Business” and “Others business”.

Information on net sales and profits for each reporting segment for the first half of the consolidated fiscal year under review based on the business segments after the change is as provided below.

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	97,123	92,568	855,268	–	855,268
(2) Within consolidated group	7,140	6,075	85,923	1,471	20,746	121,357	(121,357)	–
Total	290,527	87,274	386,914	98,595	113,314	976,626	(121,357)	855,268
Segment income	8,174	9,378	8,173	7,138	4,780	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.