



December 28, 2017

To: All

Company Mitsubishi Materials Corporation
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Progress on Addressing Non-Conforming Products at MMC Subsidiaries ③

Mitsubishi Materials Corporation (“MMC”) sincerely apologizes for the difficulties that we have caused to all concerned parties, including our customers and shareholders, in connection with Mitsubishi Cable Industries, Ltd.’s (“MCI”) and Mitsubishi Shindoh Co., Ltd.’s (“MSC”) delivery of products that deviated from customer or internal specifications (“Non-Conforming Products”) due to misconduct, including the rewriting of data. MCI and MSC are consolidated subsidiaries of MMC.

We would like to report today on the progress that has been made to date in addressing these issues.

In addition, we would like to report on the restructuring of the governance framework for quality control within our group.

1. Safety Confirmation

1) MCI

With respect to seal products, we were evaluating the safety of the Non-Conforming Products with the cooperation of the 229 customers initially identified as of November 23 as potentially receiving Non-Conforming Products during the two and a half year period from April 1, 2015 to September 30, 2017. However, because we later learned that there may have been more customers who received Non-Conforming Products than initially identified due to insufficient testing (“Partial Non-Testing”), we conducted a review to identify any additional Non-Conforming Products and the customers that may have received such products, which was completed on December 27.

Although we had previously identified 229 customers to which MCI may have shipped Non-Conforming Products as of November 23, upon further review, the number was reduced to 204 customers. We initially identified approximately 230 customers to which MCI shipped Non-Conforming Products due to Partial Non-Testing, but upon further review, we determined that the number is, in fact, 107 customers. Accounting for the overlap in customers to which MCI shipped Non-Conforming Products due

to misconduct and Partial Non-Testing, MCI has determined that it delivered Non-Conforming Products to a total of 218 customers (the total number of Non-Conforming Products shipped was approximately 180 million and sales were approximately 4.2 billion yen, which constituted approximately 14% of total sales of seal products for the applicable review period).

We have restarted notifying customers as well as evaluating the safety of the affected products with the cooperation of customers.

We have completed our notification to all customers that received non-conforming rectangular magnet wires (MCI Product Name: “MEXCEL”) and, with their cooperation, we are currently evaluating the safety of those products.

As of December 27, 2017, MCI’s progress^(Note) is set forth below.

| Product | Number of Customers | A | B | C | D |
|---------------|---------------------|---|---|---|-----|
| Seal products | 218 | 0 | 8 | 4 | 174 |
| MEXCEL | 5 | 0 | 3 | 2 | 0 |

(Note) The above categories, reflecting the status of MCI’s progress in evaluating the safety of affected products, are as follows:

- A. The customer has completed its confirmation that there are no safety concerns.
- B. The customer has determined that there are no immediate safety concerns, but is conducting further review.
- C. MCI has communicated to the customer its opinion that, from a technical perspective, there is a high probability that the affected products can be assumed to be safe.
- D. MCI has provided notification that Non-Conforming Products were delivered to the customer.

2) MSC

On December 20, 2017, after receiving a new report of suspected rewriting of data, we conducted a review of copper-strip products shipped from the Wakamatsu Plant during the one-year period of October 18, 2016 through October 17, 2017. As a result of the review, we discovered that two customers received certain products (totaling 71 tons and sales of 74 million yen, which constituted approximately 0.14% of the Wakamatsu Plant’s total sales for the applicable review period) where the customer’s specification was set narrower than MSC’s internal specifications and for which data relating to the composition of ingredients were rewritten. We have already notified these customers and, with their cooperation, are evaluating the safety of the products.

As of December 27, 2017, MSC’s progress in evaluating the safety of the affected products, including the products which we have previously reported, is set forth below.

| Product | Number of Customers | A | B | C | D |
|---------------------------------------|---------------------|---|----|---|---|
| Brass-strip and copper-strip products | 30 | 7 | 20 | 0 | 3 |

(Note 1) The above categories are the same as in the MCI table above at 1), with the exception that “MCI” should be replaced with “MSC” in categories C and D.

(Note 2) We have included the two customers identified above that received Non-Conforming Products, one of which overlapped with the previously identified customers. Therefore, the number of total customers has increased by one since our prior press releases.

2. Restructuring of the Governance Framework for Quality Control in Our Group

In light of the recent quality issues, we have formulated measures to restructure our group’s governance framework with respect to quality control. An outline is set forth below.

We will consider these specific measures promptly and implement them. The Special Investigation Committee established by MMC has also expressed the opinion that these restructuring measures are appropriate.

In addition to considering quality control, we are also considering our group’s governance framework, which entails considering how to “promote communication within the group,” “improve the escalation of issues within the group,” “foster senior manager candidates” and other items.

1) Implementation of a Front Loading System for Receipt of Orders

We will aim to further expand implementing on a group-wide basis a process (a Front Loading System) for making decisions on specifications and accepting orders at the time such orders are made after having the various departments within the business, including development and design, manufacturing, inspections and sales, consider whether the order can be accepted, taking into account manufacturing capability.

The primary purpose of the Front Loading System is to prevent accepting difficult orders that exceed the company’s manufacturing capabilities. By further implementing this process, the following measures will also be necessary:

- ① Promoting communications among the departments;
- ② Understanding the imbalances of capabilities among the departments and resolving such imbalances; and
- ③ Improving imbalances in authority among the departments.

The following are examples of specific actions that we will take to promote this initiative and increase its effectiveness on an on-going basis:

- ① Regularly review production capabilities (including processes, inspections, shipping and other capabilities);
- ② Based on the results of ①, develop appropriate maintenance plans and upgrade and install new facilities and equipment; and
- ③ Assign the appropriate personnel and provide training to resolve insufficiencies in employees' skill sets.

2) Strengthening the Framework and Authority of the Quality Control Department

With the Technology Division's Quality Control Department taking the lead, we will establish a framework aimed at improving quality control for our entire group and will restructure the required quality control function for each business and product. In order for our group to conduct quality control in a unified and consistent manner, we are considering the following measures:

- ① Redefining the allocation of responsibility for quality control functions within each business and reflecting those changes in internal rules and regulations;
- ② Based on the above-mentioned allocation of responsibility, making organizational changes among the corporate departments, companies, business establishments and subsidiaries, as necessary;
- ③ Granting authority to the quality control departments of each business so that they can conduct appropriate inspections and quality assurance reviews;
- ④ Ensuring that the quality control departments are independent from the manufacturing departments; and
- ⑤ Establishing a system to train personnel to become experts in quality control, and actively assigning potential candidates for senior management from each company and department to the quality control departments.

3) Expansion of Quality Training

We will aim to have our group employees at all levels (from the manufacturing line to management) and all areas (including manufacturing, inspection and sales) understand the importance of quality and what

must be done to maintain and enhance quality. We will conduct training sessions on quality awareness, including complying with customer contracts, the importance of providing quality products to our customers, the need to structure the manufacturing process so as to promote quality, pride as a manufacturing company and fastidiousness about quality (we will use the current issues as examples in these trainings).

Additionally, in order to conduct quality training throughout our entire group, MMC will formulate guidelines on the training that should be conducted for each employee level and incorporate these guidelines into the training programs conducted for each employee level at all group companies. In doing so, we will have consistency within our group and establish a practical training system corresponding to each group company's business.

4) Promoting Automated Inspection Equipment

For all inspection data, from when it is obtained during the manufacturing process through the final inspections, by promoting the initiatives set forth below, we will aim to establish a system that will prevent misconduct, including the rewriting of data, and will establish a system that allows for more accurate and prompt confirmation that inspection data is consistent with customer specifications by:

- ① Automating acquisition of inspection data;
- ② Uploading inspection data into manufacturing control systems; and
- ③ Confirming that the inspection data is consistent with the applicable specifications.

These initiatives are expected to take time and will be costly to review and develop. To implement these initiatives, MMC will be required to confirm the feasibility both of automating the acquisition of inspection data from each testing device and of linking order-receiving systems with production systems so that customer specifications can be uploaded into the manufacturing control systems. We will begin implementing certain action items, on a group-wide basis, relating to these initiatives where it is feasible to do so. We will also allocate the necessary budget to implement the initiatives.

5) Enhancement of Quality Audits

With the Technology Division's Quality Control Department and the General Administration Division's Internal Audit Department taking the lead, we aim to establish more robust quality audits by considering and executing the measures set forth below:

- ① Improving the independence of our group's internal audit departments and strengthening their authority;
- ② Increasing internal audit staff and increasing the frequency of quality audits;
- ③ Training personnel to become experts in quality audits;

- ④ Applying audit methods for the prevention of misconduct;
- ⑤ Enhancing coordination among MMC's Internal Audit Department and the internal audit departments of our affiliates; and
- ⑥ Improving internal audit operations with the use of IT.

6) Engagement of Outside Consultant

In order to receive a third-party perspective on quality control, we will engage an outside consultant on an on-going basis specializing in quality control matters. The outside consultant will regularly visit business locations of MMC and its subsidiaries, and will provide guidance and advice on our group's quality control and quality assurance operations. We will avoid our group's quality control operations from becoming complacent and establish effective quality control operations.

3. Outlook on Financial Results

The impact of this matter on MMC's financial results is currently unknown. We plan to make a separate announcement when the extent of the impact is known.

END

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