MITSUBISHI MATERIALS

Financial Section 2018

MITSUBISHI MATERIALS CORPORATION

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Management's Discussion and Analysis

Overview

Economic and Business Environment

During the consolidated fiscal year under review, signs of recovery were seen in the Asian economies of China, Thailand and Indonesia. In the United States, the economy remained on a moderate recovery track.

In Japan, corporate earnings, employment, and income conditions were on the road to recovery and capital expenditure and industrial production also increased modestly during the consolidated fiscal year under review.

Regarding the business environment for the Mitsubishi Materials Group, although energy prices rose, copper prices increased and demand in cement-related business in the United States and demand for products used in the automotive and electronics industries remained strong.

Business Performance Summary

Under these circumstances, the Company formulated a Long-Term Management Policy for the next 10 years and a Medium-Term Management Strategy (FY2018-2020) that focuses on the planning and implementation of growth strategies, and we implemented various measures as a theme of "Transformation for Growth" to achieve group-wide policies for the enhancement of corporate value, namely "optimization of business portfolio," "comprehensive efforts to increase business competitiveness," and "creation of new products and businesses."

As a result, consolidated net sales for the fiscal year under review totaled ¥1,599,533 million, up 22.7% year on year. Operating profit rose 21.9% year on year, to ¥72,819 million, and ordinary income climbed 24.6%, to ¥79,621 million. Net income attributable to owners of parent was ¥34,595 million, up 22.0% year on year.

Financial Position and Liquidity

As of March 31, 2018, total assets amounted to ¥2,015.0 billion, up ¥118.1 billion, or 6.2%, from a year earlier. Total current assets increased ¥86.6 billion, or 10.0%, to ¥954.1 billion mainly due to an increase in inventories. Total non-current assets increased ¥31.4 billion, or 3.1%, to ¥1,060.9 billion, largely as a result of an increase in investment securities.

Total liabilities increased ¥59.8 billion, or 5.0%, year-on-year to ¥1,246.5 billion. Total current liabilities rise ¥70.4 billion, or 10.0%, to ¥777.0 billion due primarily to a rise in notes and accounts payable-trade. Total non-current liabilities fall ¥10.5 billion, or 2.2%, to ¥469.5 billion, reflecting the fall in bonds payable, loans payable, and other factors.

The balance of interest-bearing debt, which adds bonds payable to loans payable, came to ¥521.4 billion, down ¥6.7 billion, or 1.3%, from the previous fiscal year.

Total net assets amounted to ¥768.4 billion, up ¥58.3 billion, or 8.2%, due mainly to an increase in retained earnings following the recording of net income attributable to owners of parent in the fiscal year under review.

As a result, the consolidated shareholders' equity ratio increased from 32.8% at the previous fiscal year-end to 33.9%, and net assets per share, based on the total number of shares outstanding as of March 31, 2018, grew to ¥5,211.20, compared with ¥4,743.27 a year earlier.

Cash Flows

The cash flows during the consolidated fiscal year under review and their causes are as follows.

(Cash flow from operating activities)

Net cash provided by operating activities amounted to ¥50.7 billion (a decrease in net cash provided of ¥64.8 billion). This fall was primarily due to an increase in inventories despite strong business results.

(Cash flow from investing activities)

Net cash used in investing activities totaled ¥83.9 billion (an increase in net cash used of ¥57.4 billion from the previous fiscal year). This cash was primarily used for outlays related to capital expenditure.

(Cash flow from financing activities)

Together operating and investing activities produced a net outflow of ¥33.2 billion and the Company raised these funds through borrowing and the issuance of bonds but also applied some funds to the repayment of long-term loans payable. Accordingly, net cash used in financing activities was ¥11.0 billion (a decrease in net cash used of ¥4.6 billion).

As a result of the above, as well as effect of exchange rate change and other factors, the balance of cash and cash equivalents at March 31, 2018 stood at ¥87.3 billion, down ¥45.2 billion from March 31, 2017.

Forecast for Fiscal Year 2019

Although the U.S. economy is expected to grow steadily, the future of the global economy is uncertain, reflecting concern over the political situation in the Korean Peninsula, a downturn in the Chinese economy, and the political trends in Europe and the United States.

We believe the Japanese economy will continue its modest recovery, buoyed by improvements in the employment and income conditions, but recognize that there may be a downside risk due to overseas political and economic trends.

Turning to the Group's operating environment, the Japanese economy appears to be recovering on the back of growth in exports, etc. However, the recent yen appreciation, rising energy prices and worsening labor shortages give cause for concern.

Against this backdrop, the Group will strive to achieve "We will become the leading business group committed to creating a sustainable world through materials innovation, with use of our unique and distinctive technologies, for People, Society and the Earth." based on a corporate philosophy of "for People, Society and the Earth." as well as we will improve its corporate value by implementing the measures such as to strengthen the group governance framework, including quality control.

For the fiscal year ending March 31, 2019, our consolidated operating performance forecasts predict net sales of ¥1,660.0 billion, operating profit of ¥67.0 billion, ordinary income of ¥79.0 billion and net income attributable to owners of parent of ¥35.0 billion on the assumption of average exchange rates of ¥107/USD and ¥130/EUR and a copper price of 310¢/lb.

The above forecasts are calculated based on information available as of May 10, 2018. Accordingly, actual performance may differ due to a variety of factors.

Overview by segment

	Millions of yen				Thousands of U.S. dollars (Note 1)	
For the years ended March 31		2018		2017		2018
Cement						
Net sales	¥	192,378	¥	177,566	$	1,810,790
Operating profit		19,428		20,923		182,878
Operating margin		10.1%		11.8%		
Metals						
Net sales	¥	862,759	¥	629,470	$	8,120,857
Operating profit		24,059		17,372		226,464
Operating margin		2.8%		2.8%		
Advanced Materials & Tools						
Net sales	¥	161,177	¥	143,415	$	1,517,103
Operating profit		18,566		11,774		174,762
Operating margin		11.5%		8.2%		
Electronic Materials & Components						
Net sales	¥	73,462	¥	63,087	$	691,475
Operating profit		3,401		2,454		32,015
Operating margin		4.6%		3.9%		
Aluminum						
Net sales	¥	148,588	¥	155,962	$	1,398,612
Operating profit		3,777		7,886		35,557
Operating margin		2.5%		5.1%		
Others						
Net sales	¥	249,503	¥	218,246	$	2,348,491
Operating profit		13,187		10,127		124,127
Operating margin		5.3%		4.6%		
Elimination, etc.						
Net sales	¥	(88,337)	¥	(83,680)	$	(831,485)
Operating profit		(9,601)		(10,778)		(90,377)
Total						
Net sales	¥	1,599,533	¥	1,304,068	$	15,055,845
Operating profit		72,819		59,761		685,428
Operating margin		4.6%		4.6%		

Capital Expenditures

Capital expenditures undertaken by the Group are tempered by efforts to reduce interest-bearing debt, and the content of spending plans will therefore be determined through careful selection of projects in business areas which present high profit and growth potential.

In fiscal 2018, capital expenditures amounted to ¥76,231 million, reflecting maintenance and repairs at existing facilities in each business segment, as well as expansion, rationalization and renovation at certain production facilities.

Cement business

The Company allocated funds to expansion works of industrial waste processing facilities in Japan as well as maintenance and repair of existing facilities mainly in Japan and the United States. Capital expenditures in this segment decreased ¥3,699 million, or 18.0%, compared with ¥20,517 million recorded in the previous fiscal year to ¥16,818 million.

Metals business

The Company allocated funds for the maintenance and repair of copper smelters and domestic copper-processing facilities. Capital expenditures in this segment rise ¥2,697 million, or 13.9%, compared with ¥19,339 million recorded in the previous fiscal year to ¥22,037 million.

Advanced Materials & Tools business

Funds were mainly allocated for the expansion and rationalization of facilities to respond to increased production in the overall business, and the maintenance and repair of existing facilities. Capital expenditures in this segment increased ¥1,796 million, or 12.2%, compared with ¥14,719 million recorded in the previous fiscal year to ¥16.516 million.

Electronic Materials & Components business

The Company directed funds into the maintenance and repair of existing facilities in the overall business as well as the expansion of production facilities that produce products mainly for semiconductor manufacturing equipment-related products. Capital expenditures in this segment rise ¥1,179 million, or 40.0%, compared with ¥2,946 million recorded in the previous fiscal year to ¥4,125 million.

Aluminum business

Funds were allocated to the maintenance and repair of existing facilities. Capital expenditures in this segment decreased ¥1,315 million, or 15.2%, compared with ¥8,658 million recorded in the previous fiscal year to ¥7,343 million.

Others business

The Company allocated funds to the maintenance and repair of existing facilities. Capital expenditures in this segment decreased ¥113 million, or 1.2%, compared with ¥9,503 million recorded in the previous fiscal year to ¥9,389 million.

Consolidated Balance Sheets

Mitsubishi Materials Corporation and Consolidated Subsidiaries
March 31, 2018 and 2017

ASSETS	Millions of yen 2018	Millions of yen 2017	Thousands of U.S. dollars (Note 1) 2018
Current assets:			
Cash and time deposits (Notes 5,16 and 21)	¥ 93,389	¥ 141,264	$ 879,043
Notes and accounts receivable (Notes 5,11 and 16):			
Trade	249,380	201,013	2,347,331
Unconsolidated subsidiaries and affiliates	19,600	16,998	184,489
Other	7,764	6,870	73,084
Inventories (Notes 3 and 5)	366,092	288,279	3,445,896
Deferred tax assets (Note 10)	9,068	9,375	85,356
Leased gold bullion	88,862	110,458	836,429
Other current assets (Note 17)	122,506	95,746	1,153,114
Allowance for doubtful accounts	(2,518)	(2,537)	(23,702)
Total current assets	954,146	867,469	8,981,043
Property, plant and equipment (Notes 4 and 5):			
Land (Note 20)	¥ 251,926	¥ 276,216	$ 2,371,295
Buildings and structures	459,134	467,426	4,321,672
Machinery and equipment	1,226,374	1,248,749	11,543,432
Construction in progress	23,105	23,091	217,487
Less accumulated depreciation	(1,314,981)	(1,349,258)	(12,377,464)
Net property, plant and equipment	645,559	666,226	6,076,422
Investments and long-term receivables:			
Investments in securities (Notes 5,15 and 16)	¥ 248,722	¥ 189,432	$ 2,341,134
Net asset for retirement benefits (Note 6)	449	393	4,230
Unconsolidated subsidiaries and affiliates (Note 16)	72,396	67,005	681,447
Long-term receivables	59	889	564
Other	14,138	24,833	133,081
Allowance for doubtful accounts	(4,297)	(5,549)	(40,452)
Total investments and long-term receivables	331,469	277,005	3,120,004
Other assets:			
Deferred tax assets (Note 10)	¥ 17,914	¥ 26,425	$ 168,620
Goodwill	44,636	43,436	420,148
Other (Notes 5 and 17)	21,358	16,377	201,044
Total other assets	83,909	86,239	789,813
Total assets	¥ 2,015,084	¥ 1,896,939	$ 18,967,284

The accompanying notes are an integral part of these statements.

LIABILITIES	Millions of yen 2018	Millions of yen 2017	Thousands of U.S. dollars (Note 1) 2018
Current liabilities:			
Short-term bank loans (Notes 5 and 16)	¥ 154,413	¥ 152,668	$ 1,453,442
Current portion of long-term debt (Notes 5 and 16)	76,728	66,150	722,221
Notes and accounts payable (Note 16):			
Trade	153,415	106,060	1,444,045
Unconsolidated subsidiaries and affiliates	4,129	6,824	38,873
Other	24,753	19,242	232,996
Income taxes payable	9,151	16,154	86,139
Deferred tax liabilities (Note 10)	79	352	750
Accrued expenses	55,218	50,859	519,751
Provision for bonuses	13,228	12,880	124,519
Deposited gold bullion	246,227	241,406	2,317,657
Reserve for loss on disposal of inventories	783	637	7,371
Other current liabilities (Notes 7 and 17)	38,949	33,426	366,621
Total current liabilities	777,080	706,665	7,314,389
Long-term liabilities			
Long-term debt (Notes 5 and 16)	¥ 290,292	¥ 309,411	$ 2,732,420
Accrual for officers' lump-sum severance benefits	1,384	1,365	13,031
Reserve for loss on unconsolidated subsidiaries and affiliates	986	4,137	9,280
Reserve for environmental measures	37,833	32,568	356,114
Net defined benefit liability (Note 6)	51,647	56,037	486,137
Deferred tax liabilities (Note 10)	40,039	23,526	376,879
Deferred tax liabilities for land revaluation (Notes 10 and 20)	24,162	25,590	227,437
Other (Notes 7 and 17)	23,162	27,443	218,016
Total long-term liabilities	469,508	480,079	4,419,317
Contingent Liabilities and Commitments (Note 11)			
NET ASSETS (Notes 9 and 26)			
Shareholders' equity			
Common stock			
Authorized 340,000,000 shares			
Issued 131,489,535 shares	¥ 119,457	¥ 119,457	$ 1,124,415
Capital surplus	92,422	92,422	869,942
Retained earnings	361,430	333,526	3,402,022
Treasury stock, at cost	(2,089)	(2,017)	(19,665)
Total shareholders' equity	571,222	543,390	5,376,714
Accumulated other comprehensive income			
Valuation difference on available-for-sale securities	95,487	55,226	898,789
Deffered gains or losses on hedges (Note 17)	1,068	888	10,061
Revaluation reserve for land (Note 20)	33,071	34,930	311,293
Foreign currency translation adjustments	(10,312)	(1,418)	(97,072)
Accumulated adjustments for retirement benefits	(8,066)	(11,735)	(75,923)
Total accumulated other comprehensive income	111,249	77,891	1,047,149
Non-controlling interests	86,023	88,913	809,713
Total net assets	768,495	710,195	7,233,577
Total liabilities and net assets	¥ 2,015,084	¥ 1,896,939	$ 18,967,284

The accompanying notes are an integral part of these statements.

Consolidated Statements of Income

Mitsubishi Materials Corporation and Consolidated Subsidiaries
Years ended March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Net sales (Note 19)	¥ 1,599,533	¥ 1,304,068	$ 15,055,845
Cost of sales	1,379,877	1,104,402	12,988,307
Gross profit	219,655	199,665	2,067,538
Selling, general and administrative expenses (Note 13)	146,835	139,904	1,382,109
Operating profit	72,819	59,761	685,428
Other income (expenses):			
Interest and dividend income	20,260	15,279	190,705
Interest expenses (Note 5)	(5,058)	(4,922)	(47,618)
Income from leased property	4,866	4,863	45,802
Expense for leased property	(2,867)	(3,061)	(26,990)
Expense for the maintenance and management of abandoned mines	(4,098)	(3,565)	(38,573)
Loss on valuation of investment securities (Note 15)	(400)	(5,049)	(3,769)
Insurance income	—	2,400	—
Gain on net sales of investments in securities	5,667	19,072	53,344
Gain on sales of property, plant and equipment	6,760	16,545	63,630
Loss on disposal and sales of property, plant and equipment	(4,958)	(4,292)	(46,669)
Loss on impairment of fixed assets (Note 24)	(11,035)	(9,977)	(103,876)
Reserve for environmental measures	(9,092)	(23,912)	(85,584)
Foreign exchange losses, net	(1,805)	(1,347)	(16,997)
Loss on non-conforming products (Note 25)	(3,202)	—	(30,144)
Equity in loses (earnings) of affiliates	(1,336)	1	(12,575)
Other, net	1,259	(2,212)	11,856
	(5,042)	(176)	(47,460)
Income before income taxes	67,777	59,584	637,967
Income Taxes (Note 10)	23,639	24,011	222,512
Net income	¥ 44,137	¥ 35,573	$ 415,455
Net income attributable to:			
Non-controlling interests	¥ 9,542	¥ 7,220	$ 89,817
Owners of parent	34,595	28,352	325,638

	yen		U.S. dollars (Note 1)
Amounts per share			
Basic net income (Note 22)	¥ 264	¥ 216	$ 2.48
Cash dividends applicable to the year (Note 26)	80	60	0.75

The accompanying notes are an integral part of these statements.

Consolidated Statements of Comprehensive Income

Mitsubishi Materials Corporation and Consolidated Subsidiaries
Years ended March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Net income	¥ 44,137	¥ 35,573	$ 415,455
Other comprehensive income (Note 14):			
Valuation difference on available-for-sale securities	40,535	33,676	381,548
Deferred gains or losses on hedges	490	635	4,620
Revaluation reserve for land	(147)	—	(1,384)
Foreign currency translation adjustments	(9,165)	(6,009)	(86,273)
Remeasurements of defined benefit plans	3,578	4,758	33,686
Share of other comprehensive income of affiliates accounted for using the equity method	637	88	6,001
Total other comprehensive income	35,930	33,150	338,198
Comprehensive income	¥ 80,068	¥ 68,723	$ 753,653
Comprehensive income attributable to			
Owners of parent	¥ 73,000	¥ 62,777	$ 687,130
Non-controlling interests	7,067	5,946	66,523

The accompanying notes are an integral part of these statements.

Consolidated Statements of Changes in Net Assets (Note 26)

Mitsubishi Materials Corporation and Consolidated Subsidiaries
Years ended March 31, 2018 and 2017

	Millions of yen				
	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity
Balance at April 1, 2016	¥ 119,457	¥ 92,266	¥ 303,026	¥ (1,953)	¥ 512,797
Dividends			(9,170)		(9,170)
Net income attributable to owners of parent			28,352		28,352
Increase due to reversal of revaluation reserve for land			(1,165)		(1,165)
Increase in cash and cash equivalents resulting from change of accounting period of consolidated subsidiaries					
Increase resulting from increase in the number of consolidated subsidiaries			127		127
Increase due to decrease in affiliates			12,355		12,355
Acquisition of treasury stock				(65)	(65)
Sales of treasury stock		(0)		2	1
Change in treasury shares of parent arising from transactions with non-controlling shareholders		157			157
Net change other than shareholders' equity					
Balance at March 31, 2017	¥ 119,457	¥ 92,422	¥ 333,526	¥ (2,017)	¥ 543,390
Dividends			(9,168)		(9,168)
Net income attributable to owners of parent			34,595		34,595
Increase due to reversal of revaluation reserve for land			1,711		1,711
Increase in cash and cash equivalents resulting from change of accounting period of consolidated subsidiaries			83		83
Increase resulting from increase in the number of consolidated subsidiaries			681		681
Increase due to decrease in affiliates					
Acquisition of treasury stock				(72)	(72)
Sales of treasury stock		(0)		0	0
Change in treasury shares of parent arising from transactions with non-controlling shareholders		(0)			(0)
Net change other than shareholders' equity					
Balance at March 31, 2018	¥ 119,457	¥ 92,422	¥ 361,430	¥ (2,089)	¥ 571,222

	Millions of yen							
	Accumulated other comprehensive income							
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land (Note 20):	Foreign currency translation adjustments	Accumulated adjustments for retirement benefits	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
Balance at April 1, 2016	¥ 21,645	¥ (199)	¥ 34,282	¥ 3,647	¥ (16,946)	¥ 42,430	¥ 89,789	¥ 645,017
Dividends								(9,170)
Net income attributable to owners of parent								28,352
Increase due to reversal of revaluation reserve for land								(1,165)
Increase in cash and cash equivalents resulting from change of accounting period of consolidated subsidiaries								
Increase resulting from increase in the number of consolidated subsidiaries								127
Increase due to decrease in affiliates								12,355
Acquisition of treasury stock								(65)
Sales of treasury stock								1
Change in treasury shares of parent arising from transactions with non-controlling shareholders								157
Net change other than shareholders' equity	33,581	1,087	647	(5,066)	5,211	35,460	(876)	34,584
Balance at March 31, 2017	¥ 55,226	¥ 888	¥ 34,930	¥ (1,418)	¥ (11,735)	¥ 77,891	¥ 88,913	¥ 710,195
Dividends								(9,168)
Net income attributable to owners of parent								34,595
Increase due to reversal of revaluation reserve for land								1,711
Increase in cash and cash equivalents resulting from change of accounting period of consolidated subsidiaries								83
Increase resulting from increase in the number of consolidated subsidiaries								681
Increase due to decrease in affiliates								
Acquisition of treasury stock								(72)
Sales of treasury stock								0
Change in treasury shares of parent arising from transactions with non-controlling shareholders								(0)
Net change other than shareholders' equity	40,260	180	(1,858)	(8,894)	3,669	33,358	(2,889)	30,468
Balance at March 31, 2018	¥ 95,487	¥ 1,068	¥ 33,071	¥ (10,312)	¥ (8,066)	¥ 111,249	¥ 86,023	¥ 768,495

The accompanying notes are an integral part of these statements.

	Thousands of U.S. dollars (Note 1)				
	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity
Balance at April 1, 2017	$ 1,124,415	$ 869,944	$ 3,139,372	$ (18,988)	$ 5,114,743
Dividends			(86,301)		(86,301)
Net income attributable to owners of parent			325,638		325,638
Increase due to reversal of revaluation reserve for land			16,109		16,109
Increase in cash and cash equivalents resulting from change of accounting period of consolidated subsidiaries			783		783
Increase resulting from increase in the number of consolidated subsidiaries			6,419		6,419
Increase due to decrease in affiliates					
Acquisition of treasury stock				(681)	(681)
Sales of treasury stock		(0)		3	3
Change in treasury shares of parent arising from transactions with non-controlling shareholders		(1)			(1)
Net change other than shareholders' equity					
Balance at March 31, 2018	$ 1,124,415	$ 869,942	$ 3,402,022	$ (19,665)	$ 5,376,714

	Thousands of U.S. dollars (Note 1)							
	Accumulated other comprehensive income							
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land (Note 20):	Foreign currency translation adjustments	Accumulated adjustments for retirement benefits	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
Balance at April 1, 2017	$ 519,828	$ 8,364	$ 328,788	$ (13,354)	$ (110,464)	$ 733,161	$ 836,912	$ 6,684,817
Dividends								(86,301)
Net income attributable to owners of parent								325,638
Increase due to reversal of revaluation reserve for land								16,109
Increase in cash and cash equivalents resulting from change of accounting period of consolidated subsidiaries								783
Increase resulting from increase in the number of consolidated subsidiaries								6,419
Increase due to decrease in affiliates								
Acquisition of treasury stock								(681)
Sales of treasury stock								3
Change in treasury shares of parent arising from transactions with non-controlling shareholders								(1)
Net change other than shareholders' equity	378,961	1,697	(17,494)	(83,718)	34,541	313,988	(27,199)	286,789
Balance at March 31, 2018	$ 898,789	$ 10,061	$ 311,293	$ (97,072)	$ (75,923)	$ 1,047,149	$ 809,713	$ 7,233,577

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

Mitsubishi Materials Corporation and Consolidated Subsidiaries
Years ended March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	**2018**
Cash flows from operating activities:			
Income before income taxes	¥ 67,777	¥ 59,584	$ 637,967
Adjustments to reconcile income before income taxes to net cash provided by operating activities:			
Depreciation	57,025	56,748	536,757
Amortization of goodwill	4,395	4,048	41,376
Decrease in allowance for doubtful accounts	(187)	(173)	(1,764)
Increase in reserve for loss on unconsolidated subsidiaries and affiliates	23	3,021	216
Increase in reserve for environmental measures	5,265	19,210	49,560
Decrease in net liability for retirement benefits and directors' retirement benefits	(1,548)	(761)	(14,576)
Interest and dividend income	(20,260)	(15,279)	(190,705)
Interest expense	5,058	4,922	47,618
Gain on sales of property, plant and equipment	(6,368)	(16,431)	(59,948)
Loss on disposal of property, plant and equipment	4,494	4,076	42,302
Loss on impairment of fixed assets	11,035	9,977	103,876
Loss on non-conforming products (Note 25)	3,202	—	30,144
Gain on sales of investments in securities	(5,064)	(19,014)	(47,668)
Loss (gain) on valuation of investment securities	(736)	5,049	(6,935)
Decrease (Inrease) in notes and accounts receivable	(39,764)	20,046	(374,293)
Decrease in inventories	(65,635)	(32,982)	(617,806)
Proceeds from sales of gold bullion deposited from customers under consuming bailment My Gold Partner	119,985	79,991	1,129,385
Payment for purchases of gold bullion from market for customers under My Gold Partner	(99,460)	(79,599)	(936,187)
Decrease (Increase) in other current assets	(20,182)	9,374	(189,973)
Increase in notes and accounts payable	36,095	6,418	339,753
Increase (decrease) in accrued expense	3,201	(2,435)	30,136
Equity in losses (earnings) of affiliates	1,336	(1)	12,575
Other, net	3,124	4,614	29,407
Sub-total	62,811	120,406	591,219
Interest and dividend received	22,043	16,426	207,489
Interest paid	(5,057)	(4,962)	(47,604)
Income taxes (paid) refund	(27,365)	(16,317)	(257,582)
Loss on non-conforming products paid	(1,716)	—	(16,155)
Net cash provided by operating activities	¥ 50,715	¥ 115,552	$ 477,365
Cash flows from investing activities:			
Payments for purchases of property, plant and equipment	¥ (71,494)	¥ (76,838)	$ (672,950)
Proceeds from sales of property, plant and equipment	10,048	24,359	94,578
Payments for purchases of intangible fixed assets	(1,431)	(1,283)	(13,476)
Payments for purchases of investments in securities	(757)	(494)	(7,133)
Proceeds from sales of investments in securities	7,168	32,915	67,476
Payments for additional acquisition of subsidiaries' shares	(863)	(2,224)	(8,130)
Proceeds from sales of shares of subsidiaries	0	0	—
Payment for purchase of investments in subsidiaries resulting in change in scope of consolidation	(38,829)	—	(365,489)
Proceeds from purchase of subsidiaries' shares resulting in change in scope of consolidation	273	—	2,573
Proceeds from sales of subsidiaries' shares resulting in change in scope of consolidation	14,903	2,157	140,281
Payments for transfer of business	(1,541)	—	(14,506)
Proceeds from transfer of business	—	2,176	—
Disbursement of loan receivables	(6,202)	(2,253)	(58,385)
Proceeds from collection of loan receivables	4,615	128	43,444
Other, net	154	(5,199)	1,457
Net cash used in investing activities	(83,957)	(26,557)	(790,261)
Cash flows from financing activities:			
Increase in short-term bank loans, net	20,981	11,155	197,487
Proceeds from long-term debt	47,358	42,066	445,769
Repayments of long-term debt	(66,251)	(54,488)	(623,605)
Proceeds from issuance of bonds	20,000	30,000	188,253
Payments for redemption of bonds	(15,000)	(25,100)	(141,189)
Payments for purchase of treasury stock	(72)	(65)	(683)
Cash dividends paid	(9,168)	(9,170)	(86,301)
Cash dividends paid to non-controlling shareholders	(6,546)	(6,201)	(61,618)
Other, net	(2,334)	(3,899)	(21,975)
Net cash used in financing activities	¥ (11,034)	¥ (15,703)	$ (103,864)
Effect of exchange rate fluctuation on cash and cash equivalents	¥ (2,927)	¥ (55)	$ (27,558)
Net decrease (increase) in cash and cash equivalents	(47,204)	73,237	(444,318)
Cash and cash equivalents at beginning of year	132,616	58,482	1,248,273
Effect of changes in consolidated subsidiaries	714	896	6,725
Increase in cash and cash equivalents resulting from change of accounting period of consolidated subsidiaries	1,228	—	11,564
Cash and cash equivalents at end of year (Note 22)	¥ 87,355	¥ 132,616	$ 822,244

The accompanying notes are an integral part of these statements.

Notes to Consolidated Financial Statements

Mitsubishi Materials Corporation and Consolidated Subsidiaries
March 31, 2018 and 2017

Note 1 Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements of Mitsubishi Materials Corporation (the "Company") and its consolidated subsidiaries have been prepared in accordance with the provisions set forth in the Financial Instruments and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards.

The accompanying consolidated financial statements have been reformatted and translated into English from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Law. Certain supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The translations of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2018, which was ¥106.24 to U.S.$1. The convenience translation should not be construed as representation that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

Fractions less than one million yen (one tenth yen in respect to per share amount) have been omitted. As a result, the total amounts in Japanese yen and translated U.S. dollars shown in the consolidated financial statements and notes to the consolidated financial statements do not necessarily agree with the sum of the individual amounts.

Note 2 Summary of Significant Accounting Policies

(a) Consolidation

The accompanying consolidated financial statements include the accounts of the Company and significant companies which the Company controls through majority voting right or existence of certain conditions. All significant intercompany balances and transactions have been eliminated in consolidation. Investments in affiliates of which the Company has the ability to exercise significant influence over operating and financial policies, except for insignificant companies, are accounted for by the equity method, and accordingly, stated at cost adjusted for the earnings and losses after elimination of unrealized intercompany profits from the date of acquisition.

As discussed in Note 2 (q) and (r), the accounts of consolidated overseas subsidiaries and affiliates accounted for by the equity method are prepared in accordance with either International Financial Reporting Standards or U.S. Generally Accepted Accounting Principles, with adjustments for the specified four items as applicable.

Investments in unconsolidated subsidiaries and affiliates not accounted for by the equity method are carried at cost, adjusted for any substantial and non-recoverable decline in value.

In the elimination of investments in subsidiaries, assets and liabilities of the subsidiaries, including the portion attributable to minority shareholders, are evaluated based on their fair values at the time the Company acquired control of the respective subsidiaries.

The method and period of amortization for goodwill are determined on an individual basis and goodwill is amortized by the straight-line method over a period not exceeding 20 years. However, goodwill with immaterial value is fully amortized as incurred.

(b) Translation of Foreign Currencies

Receivables and payables denominated in foreign currencies are translated into Japanese yen at the year-end rates. Gains or losses resulting from foreign currency transactions are credited or charged to other income as incurred.

The financial statements of consolidated foreign subsidiaries and affiliates are translated into Japanese yen amounts at the current rate except for net assets, which is translated at historical rates. The difference resulting from translation adjustments is reported as a separate component of net assets.

(c) Allowance for Doubtful Accounts

Allowance for doubtful accounts is provided in an amount sufficient to cover probable losses on collection. It consists of individually estimated uncollectible amounts, and an amount calculated using the past rate of actual losses on collection.

(d) Inventories

The amounts of inventories are stated primarily at acquisition cost modified by writing down cost to net selling value. Nonferrous metals are stated primarily at the first-in, first-out (FIFO) method. Other inventories are primarily stated at average cost method.

(e) Derivative Transactions and Hedge Accounting

Derivative financial instruments are stated at fair value. Gains or losses resulting from changes in fair value are recognized in income except for the derivative financial instruments to which hedge accounting is applied.

If derivative financial instruments are used as hedges and meet certain hedging criteria, the Company defers recognition of gains or losses resulting from changes in fair value of derivative financial instruments until the related losses or gains on the hedged items are recognized.

However, in cases where forward foreign exchange contracts are used as hedges and meet certain hedging criteria, forward foreign exchange contracts and hedged items are accounted for in the following manner:

1. If a forward foreign exchange contract is executed to hedge an existing foreign currency receivable or payable,
(1) the difference, if any, between the Japanese yen amount of the hedged foreign currency receivable or payable translated at the spot rate as of the inception date of the contract and the carrying amount of the receivable or payable is recognized in the consolidated statements of income in the period which includes the inception date, and
(2) the discount or premium on the contract (that is, the difference between the Japanese yen amount of the contract translated at the contracted forward rate and that translated at the spot rate as of the inception date of the contract) is recognized in income over the term of the contract.
2. If a forward foreign exchange contract is executed to hedge a future forecasted transaction denominated in foreign currency, the future transaction will be recorded at the contracted forward rate, and no gains or losses on the forward foreign exchange contract are recognized.

Also, if interest rate swap contracts are used as hedges and meet certain hedging criteria, the net amount to be paid or received under the contract is added to or deducted from the interest on the assets or liabilities for which the swap contract was executed.

(f) Securities

Based on the intent of holding, securities are classified as (a) securities held for trading purposes, (b) debt securities intended to be held to maturity (hereafter, "held-to-maturity debt securities"), (c) equity securities issued by unconsolidated subsidiaries and affiliates (hereafter, "equity securities") and (d) all other securities that are not classified in any of the above categories (hereafter, "available-for-sale securities").

Held-to-maturity debt securities are stated at amortized cost. Equity securities, which are not accounted for by the equity method, are stated at moving-average cost. Available-for-sale securities with available fair value are stated at fair market value. Valuation difference on these securities is reported, net of applicable income taxes, as a separate component of net assets. Gains and losses on the sale of such securities are calculated with the moving-average cost. Available-for-sale securities with no available fair market value are stated at moving-average cost. There are no securities held for trading purposes.

If the market value of held-to-maturity debt securities, equity securities, and available-for-sale securities declines significantly, such securities are stated at fair value and the difference between the fair value and the carrying amount is recognized as losses in the period of decline. If the fair market value of these securities is not readily available, such securities are written down to net asset value with corresponding charge in the consolidated statement of income, in the event that net asset value declines significantly. In these cases, such fair value or net asset value will become the carrying amount of the securities at the beginning of the next year.

The fair value is determined based on the average market price during one month before the balance sheet date.

(g) Property, Plant and Equipment and Depreciation (except for the leased assets of which the ownership is not transferred to the lessee)

Property, plant and equipment are stated at cost, except for certain revalued land as explained in Note 19. Depreciation is calculated primarily using the declining-balance method at rates based on the estimated useful lives of depreciable assets. The straight-line method is applied to certain plant facilities based on the estimated useful lives of those depreciable assets.

Cost and accumulated depreciation applicable to assets retired or otherwise disposed of are eliminated from the related accounts, and gain on sale or loss on disposal is credited or charged to income. Expenditures for new facilities and those which substantially increase the useful lives of existing property, plant, and equipment are capitalized. Maintenance, repair and minor renewals are charged to income as incurred.

(h) Reserve for bonuses

Reserve for bonuses is provided for future payments of bonuses to employees based on the amount to be attributed to the current fiscal year.

(i) Reserve for Loss on Disposal of Inventories

Reserve for loss on disposal of inventories is provided for future payments for disposal of inventories based on the management estimation.

(j) Reserve for Loss on Unconsolidated Subsidiaries and Affiliates

Reserve for loss on unconsolidated subsidiaries and affiliates are provided based on the estimated loss which will exceed the amount of equity investments and loans receivable made by the Company and its consolidated subsidiaries.

(k) Reserve for Environmental Measures

Reserve for environmental measures is provided for future payments for waste disposal and removal of soil contamination at Kazuno (Akita Prefecture) area, based on management estimation. In addition, costs related to a particular countermeasure work to prevent the pollution of a mine which was suspended or abandoned by the Company group as well as costs related to the stabilization of storage space are recorded as Reserve for environmental measures, when the nature of the countermeasure is fixed and the costs becomes estimable.

Costs related to a particular countermeasure for suspended or abandoned mines are required for implementing countermeasures for stabilizing large-scale storage space and harm countermeasures associated with the amendment of technical guidelines of the Mine Safety Act, in addition to drastic mine pollution prevention countermeasures for prevention of discharge of untreated water to reinforce water treatment capacities to meet the recent natural environmental changes.

Stabilization of large-scale storage space requires specific constrcution works. However, there are certain constrcution works in which costs cannot be reasonably estimated because the most appropriate constrcution works corresponding to the landform are not determined and as a result, the specific details of the construction work cannot be fixed.

(l) Severance and Pension Benefits

1. For employees

The Group provide two types of post-employment benefit plans, an unfunded lump-sum severance payment plan, and a funded defined benefit pension plan, under which all eligible employees are entitled to benefits based on the level of wages and salaries at the time of retirement or abolishment, the length of service, and certain other factors.

Net liability for retirement benefits is provided based on the estimated amounts of projected benefit obligations that were actuarially calculated on certain assumptions and the fair value of plan assets at balance sheet dates, as adjusted for unrecognized actuarial gains and losses and unrecognized past service costs. Projected benefit obligations are attributed to periods on a benefit formula basis in determining retirement benefit obligations.

Past service costs are amortized by the straight-line method over a certain period (10 years) which falls within the average remaining years of service of the employees when incurred. Actuarial gains and losses are amortized in the following years after incurred by the straight-line method over a certain period (10 years) which falls within the average remaining years of service of the employees.

2. For officers

Officers (directors and corporate auditors) are entitled to lump-sum severance payments based on the length of service and certain other factors. Some consolidated subsidiaries accrue a liability for lump-sum severance payments equal to 100% of the amounts required, had all officers voluntarily retired at the balance sheet dates.

(m) Income Taxes

The Company provides for income taxes on the basis of current tax liabilities and reflects the tax effects of the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases.

(n) Net Income per Share

Basic net income per share is calculated based upon the weighted-average number of shares of common stock outstanding during each period.

(o) Cash and Cash Equivalents

Cash and cash equivalents include all highly liquid investments with maturity of three months or less at the time of purchase.

(p) Accounting Standard for Lease Transactions as Lessee

Finance lease transactions are capitalized to recognize lease assets and lease obligations in the balance sheet. Such lease assets are depreciated over the lease terms without residual values on a straight-line method. All other leases are accounted for as operating leases.

Finance leases other than those that transfer ownership of the leased assets to the lessees, entered into on or before March 31, 2008, are treated in the same way as ordinary operating leases for accounting purpose.

(q) Application of the "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements"

Under Accounting Standards Board of Japan (ASBJ) Practical Issues Task Force No. 18 "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" ("PITF No. 18") issued on March 29, 2017, accounting policies and procedures applied by the Company and its subsidiaries to similar transactions and events under similar circumstances are in principle unified for the preparation of the consolidated financial statements. PITF No. 18, however, as a tentative measure, allows a parent company to prepare consolidated financial statements using foreign subsidiaries' financial statements prepared in accordance with either International Financial Reporting Standards or U.S. Generally Accepted Accounting Principles. In this case, adjustments for the following four items in accordance with Japanese GAAP are required in the consolidation process unless the impact is not material.

(a) Goodwill not subject to amortization
(b) Actuarial gains and losses of defined benefit plans recognized as outside profit or loss
(c) Capitalized expenditures for research and development activities
(d) Fair value measurement of investment properties, and revaluation of property, plant and equipment, and intangible assets

(r) Unification of Accounting Policies Applied to Foreign Affiliates for the Equity Method

Under ASBJ Statement No. 16, "Accounting Standard for Equity Method of Accounting for Investments" and Practical Issue Task force (PITF) No. 24, "Practical Solution on Unification of Accounting Policies Applied to Associates Accounted for Using the Equity Method" issued on March 29, 2017, the adjustments are made to conform the affiliate's accounting policies for similar transactions and events under similar circumstances to those of the Company when the affiliate's financial statements are used in applying the equity method unless it is impracticable to determine adjustments. In addition, financial statements prepared by foreign affiliates in accordance with either International Financial Reporting Standards or the generally accepted accounting principles in the United States tentatively may be used in applying the equity method. In this case, same adjustments as those for foreign subsidiaries are required in the consolidation process unless the impact is not material.

(s) Changes in accounting policies

As the deprecation method applied to production facilities for electronic materials and components of the Company and its consolidated subsidiaries in Japan, the declining-balance method was mainly used, but the method has been changed to the straight-line method for the year ended March 31, 2018. This change has been made based on our judgment that the straight-line method is more reasonable, given that production facilities are expected to operate stably over a long period of time and that the investment effect is expected to emerge evenly, as a result of examining the depreciation method in the wake of the formulation of the Medium-Term Management Strategy (FY2018 to FY2020).

As a result of changing the depreciation method, operating profit, ordinary income and income before income taxes have increased ¥ 331 million ($3,123 thousand), respectively, in the year of the current consolidated fiscal year, compared with the case in which the past method is used.

(t) Reclassification

Certain prior year amounts have been reclassified to conform to the current year presentation. These reclassifications and rearrangements had no impact on previously reported results of operations.

(u) New Accounting Standard not Adopted as Yet

("Application guidelines for accounting standard for tax effect accounting" etc.)

– "Implementation Guidance on Tax Effect Accounting" (ASBJ Guidance No. 28, February 16, 2018 (hereinafter, "Guidance No.28"))
– "Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26 (revised 2018), February 16, 2018 (hereinafter, "Guidance No.26"))

(1) Overview

The above guidance was revised in regard to the treatments for taxable temporary differences for investments in subsidiaries within the context of non-consolidated financial statements, and to clarify the treatments in determining recoverability of deferred tax assets in a company which was categorized as 'Type1' according to the guidance.

(2) Scheduled date of applying the new guidance

Effective from the beginning of the fiscal year ending March 31, 2019.

(3) The effects by the application of the new guidance, etc

The Company and its consolidated domestic subsidiaries are currently in the process of determining the effects of these new standards on the consolidated financial statements.

("Accounting Standard for Revenue Recognition" etc.)

- "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 30, 2018 (hereinafter, "Statement No.29"))
- "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30, March 30, 2018 (hereinafter, "Guidance No.30"))

(1) Overview

The International Accounting Standards Board (IASB) and the U.S. Financial Accounting Standards Board (FASB) collaborated on a project to develop a single, comprehensive revenue recognition model and jointly issued new revenue recognition standards "Revenue from Contracts with Customers" (IFRS 15 published by IASB, Topic 606 published by FASB) in May 2014. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018 and Topic 606 is effective for annual reporting periods beginning after December 15, 2017.

Considering the above circumstances, the Accounting Standard Board of Japan (ASBJ) also developed a new revenue recognition standards and issued Statement No.29 together with Guidance No.30.

ASBJ's basic policy in developing the new revenue recognition standards is to first incorporate the core principle of IFRS 15 in the light of improving the international comparability of financial statements and then add additional alternative treatments to the extent that international comparability would not be significantly impaired where any business practices operated in Japan need to be considered.

(2) Scheduled date of applying the new guidance

Effective from the beginning of the fiscal year ending March 31, 2022.

(3) The effects by the application of the new guidance, etc.

The Company and its consolidated domestic subsidiaries are currently in the process of determining the effects of these new standards on the consolidated financial statements.

Note 3 Inventories

Inventories as of March 31, 2018 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Merchandise and finished goods	¥ 91,772	¥ 85,878	$ 863,826
Work in process	132,043	101,643	1,242,811
Raw materials and supplies	142,275	100,757	1,339,188
Total	¥ 366,092	¥ 288,279	$ 3,445,896

Note 4 Investment and Rental Property

Information about fair value of investment and rental property included in the consolidated financial statements at March 31, 2018 and 2017 was as follows:

Millions of yen			
Carrying amount			Fair value
April 1, 2017	Increase/(Decrease)	March 31, 2018	March 31, 2018
¥ 76,583	¥ (23,687)	¥ 52,896	¥ 51,853

Millions of yen			
Carrying amount			Fair value
April 1, 2016	Increase/(Decrease)	March 31, 2017	March 31, 2017
¥ 76,963	¥ (379)	¥ 76,583	¥ 70,215

Thousands of U.S. dollars			
Carrying amount			Fair value
April 1, 2017	Increase/(Decrease)	March 31, 2018	March 31, 2018
$ 720,857	$ (222,959)	$ 497,898	$ 488,079

Notes:
1. Carrying amount is net of accumulated depreciation and accumulated impairment loss.
2. The decrease in the current consolidated fiscal year is mainly due to the impact of the transfer of shares of Mitsubishi Materials Real Estate Corporation
3. Fair values of significant properties as of March 31, 2018 and 2017 are based on appraisal by external or internal real estate appraisers. Fair value of other properties is calculated based on the reasonable indices reflecting market prices such as posted prices or property tax valuation, etc.

Operating performances of the investment and rental properties for the fiscal years ended March 31, 2018 and 2017 were as follows:

Millions of yen			
Year ended March 31, 2018			
Rental income	Rental expenses	Profit	Impairment loss
¥ 6,052	¥ 3,758	¥ 2,294	¥ 293

Millions of yen			
Year ended March 31, 2017			
Rental income	Rental expenses	Profit	Impairment loss
¥ 6,499	¥ 3,877	¥ 2,621	¥ 1,229

Thousands of U.S. dollars			
Year ended March 31, 2018			
Rental income	Rental expenses	Profit	Impairment loss
$ 56,971	$ 35,376	$ 21,594	$ 2,759

Note:
Rental expenses include costs related to depreciation, maintenance and repairs, insurance premiums, taxes and dues and others.

Note 5 Short-Term Bank Loans and Long-Term Debt

Short-term bank loans outstanding as of March 31, 2018 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Unsecured	¥ 119,993	¥ 116,678	$ 1,129,451
Secured	34,420	35,990	323,991
Total	¥ 154,413	¥ 152,668	$ 1,453,442

The average interest rate per annum for short-term bank loans outstanding at March 31, 2018 and 2017 was 1.1% and 0.9%, respectively.

Long-term debt as of March 31, 2018 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Banks, insurance companies and other financial institutions, maturing serially until 2032 with an average rate of 0.7% per annum as of March 31, 2018:			
Unsecured	¥ 287,132	¥ 294,726	$ 2,702,669
Secured	4,889	10,835	46,023
1.160% unsecured yen bonds, due 2018	10,000	10,000	94,126
0.790% unsecured yen bonds, due 2017	—	15,000	—
0.780% unsecured yen bonds, due 2018	15,000	15,000	141,189
0.200% unsecured yen bonds, due 2021	20,000	20,000	188,253
0.470% unsecured yen bonds, due 2026	10,000	10,000	94,126
0.160% unsecured yen bonds, due 2022	10,000	—	94,126
0.380% unsecured yen bonds, due 2027	10,000	—	94,126
	367,021	375,561	3,454,641
Less current portion	(76,728)	(66,150)	(722,221)
Total	¥ 290,292	¥ 309,411	$ 2,732,420

The aggregate annual maturities of long-term debt as of March 31, 2018 were as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2019	¥ 76,728	$ 722,221
2020	40,656	382,689
2021	40,825	384,273
2022	46,263	435,458
2023	28,881	271,851
2024 and thereafter	133,665	1,258,146
Total	¥ 367,021	$ 3,454,641

Assets pledged as collateral for short-term bank loans and long-term debt as of March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Cash and time deposits	¥ 20,108	¥ 27,061	$ 189,272
Notes and accounts receivable	18,493	7,321	174,070
Inventories	38,708	24,744	364,345
Investments:			
Investments in securities	6,611	6,534	62,233
Property, plant and equipment, at net book value	42,094	48,851	396,222
Other assets	5	1	47
Total	¥ 126,021	¥ 114,516	$ 1,186,192

Note 6 Employees' Severance and Pension Benefits

1. Retirement benefit plans
The Company and its consolidated subsidiaries have funded and unfunded defined benefit pension plans and defined contribution plans, which cover the benefits payable for all employees under these plans. Under the funded defined benefit pension plan, benefits are calculated based on the job qualifications and length of service of the employee, and are paid at a lump-sum or in annuities. Under the unfunded defined pension plans (they are principally unfunded plans, however some plans are funded by a retirement benefit trust), benefits are calculated based on the job qualifications and length of service of the employees, and are paid at a lump-sum.

Certain consolidated subsidiaries calculate their retirement benefits and retirement benefit costs based on the "simplified method" allowed under Japanese GAAP.

2. Movement in retirement benefit obligations for the years ended March 31, 2018 and 2017, was as follows (excluding plans to which a simplified method is applied):

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Balance at beginning of year	¥ 143,242	¥ 146,514	$ 1,348,293
Service costs	6,941	6,953	65,333
Interest costs	299	300	2,819
Actuarial gains and losses	360	256	3,395
Benefits paid	(8,986)	(9,137)	(84,585)
Past service costs	555	(651)	5,227
Reduction associated with transition to defined contribution plans	(532)	—	(5,010)
Increase due to business combination	5,548	—	52,227
Other	69	(993)	661
Balance at end of year	¥ 147,499	¥ 143,242	$ 1,388,360

3. Movement in plan assets for the years ended March 31, 2018 and 2017, was as follows (excluding plans to which a simplified method is applied):

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Balance at beginning of year	¥ 89,950	¥ 85,583	$ 846,675
Expected return on plan assets	1,522	1,434	14,328
Actuarial gains and losses	1,600	2,413	15,069
Contributions paid by the employer	5,283	5,310	49,727
Benefits paid	(3,943)	(4,321)	(37,116)
Increase due to business combination	3,701	—	34,843
Other	557	(470)	5,244
Balance at end of year	¥ 98,672	¥ 89,950	$ 928,772

4. Movement in net liability for retirement benefits under the plans to which a simplified method is applied for the years ended March 31, 2018 and 2017, was as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Balance at beginning of year	¥ 2,351	¥ 2,271	$ 22,136
Retirement benefit costs	302	291	2,847
Benefits paid	(228)	(167)	(2,152)
Contributions to the plans	(67)	(69)	(636)
Other	13	25	124
Balance at end of year	¥ 2,371	¥ 2,351	$ 22,318

5. Reconciliation between net liability or asset for retirement benefits recorded in the consolidated balance sheets and the balances of retirement benefit obligations and plan assets

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Funded retirement benefit obligations	¥ 137,150	¥ 131,704	$ 1,290,950
Plan assets	(99,017)	(90,275)	(932,018)
	38,132	41,428	358,932
Unfunded retirement benefit obligations	13,064	14,215	122,974
Net liability recorded in the consolidated balance sheets	¥ 51,197	¥ 55,643	$ 481,907

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Net liability for retirement benefits	¥ 51,647	¥ 56,037	$ 486,137
Net asset for retirement benefits	(449)	(393)	(4,230)
Net liability recorded in the consolidated balance sheets	¥ 51,197	¥ 55,643	$ 481,907

6. The components of retirement benefit costs for the years ended March 31, 2018 and 2017, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Service costs	¥ 7,244	¥ 7,245	$ 68,181
Interest costs	299	300	2,819
Expected return on plan assets	(1,522)	(1,434)	(14,328)
Amortization of actuarial gains and losses	4,002	3,901	37,676
Amortization of past service costs	(849)	(304)	(7,991)
Retirement benefit costs on defined benefit plans	¥ 9,175	¥ 9,708	$ 86,356
Gains and losses associated with the transition to the defined contribution plan	532	—	5,010

Notes:
1. Retirement benefit costs under the plans to which a simplified method is applied are included in "Service costs."
2. Gains and losses associated with the transition to the defined contribution plan are included in "Other, net ."

7. Adjustments for retirement benefits
Components of adjustments for retirement benefits (before adjusting for tax effects) for the years ended March 31, 2018 and 2017, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Past service costs	¥ (339)	¥ 450	$ (3,197)
Actuarial gains and losses	5,242	6,101	49,350
Total	¥ 4,903	¥ 6,552	$ 46,152

8. Accumulated adjustments for retirement benefits
Components of accumulated adjustments for retirement benefits (before adjusting for tax effects) as of March 31, 2018 and 2017, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Unrecognized past service costs	¥ (854)	¥ (1,193)	$ (8,039)
Unrecognized actuarial gains and losses	11,808	17,051	111,153
Total	¥ 10,954	¥ 15,858	$ 103,113

9. Plan assets
(1) Components of plan assets
Plan assets consisted of the followings:

	2018	2017
Bonds	35%	34%
Equity securities	47	48
Insurance assets (general account)	11	11
Cash and deposits	6	6
Other	1	1
Total	100%	100%

Note: Total plan assets include retirement benefit trust established on lump-sum severance payment plans or corporate pension plans by 26% and 27% at March 31, 2018 and 2017, respectively.

(2) Method of determining the long-term expected rate of return on plan assets
The long-term expected rate of return on plan assets is determined by considering the allocation of plan assets which are expected currently and in the future and long-term rates of return which are expected currently and in the future from the various components of the plan assets.

10. The principal assumptions used for the years ended March 31, 2018 and 2017, were set forth as follows:

	2018	2017
Discount rate	Mainly 0.05%	Mainly 0.05%
Long-term expected rate of return on plan assets	Mainly 2.0%	Mainly 2.0%

11. Defined contribution plans
The amount of the required contribution to the defined contribution plans of the consolidated subsidiaries was ¥816 million ($7,683 thousand) and ¥753 million for the years ended March 31, 2018 and 2017, respectively.

Note 7 Asset Retirement Obligations

The asset retirement obligations are based on the reasonably estimated amount for the obligation regarding treatment of hazardous substances such as asbestos and PCB as prescribed by the various laws and ordinances, and greening obligation for mine closure of coal and limestone.

In computing the amount of asset retirement obligations, the Group estimates the expected terms until expenditure (maximum 68 years) and applies discount rates ranging from 0.1% to 2.7%.

The changes in asset retirement obligations for the fiscal years ended March 31, 2018 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars
Year ended March 31,	2018	2017	2018
Beginning balance	¥ 3,493	¥ 3,592	$ 32,887
Increase associated with acquisitions of tangible fixed assets	112	70	1,063
Reconciliation associated with passage of time	23	24	220
Reduction associated with settlement of asset retirement obligations	(68)	(58)	(647)
Decrease due to changes in estimates	612	(19)	5,760
Foreign currency translation adjustments	(161)	(72)	(1,522)
Other, net	(201)	(43)	(1,891)
Ending balance	¥ 3,811	¥ 3,493	$ 35,875

Note 8 Notes Receivable and Notes Payable

The balance sheet date for the years ended March 31, 2018 fell on a bank holiday. Consequently, notes receivable of ¥2,785 million ($26,214 thousand) and notes payable of ¥2,675 million ($25,185 thousand) with the due date of March 31, 2018 is included in the consolidated balance sheets and were settled on the next business day.

Note 9 Net Assets

Under the Japanese Corporate Law (“the Law”) and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one-half of the price of the new shares as additional paid-in-capital, which is included in capital surplus.

Under the Law, in cases where a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in-capital and legal earnings reserve must be set aside as additional paid-in-capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

Under the Law, both elimination and capitalization related to legal earnings reserve and additional paid-in capital generally require a resolution of the shareholders’ meeting.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. Under the Law, all additional paid-in capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with the laws and regulations.

Note 10 Income Taxes

The income taxes reflected in the accompanying consolidated statements of income for the fiscal years ended March 31, 2018 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Current	¥ 18,941	¥ 24,594	$ 178,290
Deferred	4,698	(583)	44,221
Total	¥ 23,639	¥ 24,011	$ 222,512

The following table summarizes the significant differences between the statutory income tax rate and the effective income tax rate for the fiscal years ended March 31, 2018 and 2017:

	2018	2017
Statutory income tax rate	30.9%	30.9%
Nondeductible expenses	1.0	0.3
Temporary differences for which tax effect cannot be recognized	1.5	6.2
Differences in statutory tax rates of consolidated subsidiaries	(0.4)	0.1
Equity in earnings of affiliates	0.6	(0.0)
Nontaxable dividends received	(7.1)	(3.5)
Nondeductible foreign withholding taxes	3.2	3.8
Amortization of goodwill	2.0	2.1
Impact of U.S. tax reform	3.3	—
Other	(0.1)	0.4
Effective tax rate	34.9%	40.3%

Significant components of deferred tax assets and liabilities as of March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
Year ended March 31,	2018	2017	2018
Deferred tax assets:			
Net operating loss carried forward	¥ 18,607	¥ 16,055	$ 175,141
Loss on write-down of securities	16,202	16,343	152,504
Net liability for retirement benefits	16,057	17,668	151,145
Nondeductible loss on impairment of fixed assets	15,888	15,929	149,551
Reserve for environmental measures	11,584	9,983	109,042
Retirement benefit trust asset	7,591	7,113	71,458
Intercompany profits	4,941	4,824	46,513
Loss on write-down of buildings	4,222	4,348	39,742
Accrued employees’ bonuses	4,059	3,783	38,210
Allowance for doubtful accounts	1,982	2,166	18,660
Depreciation	1,851	1,775	17,427
Loss on write-down of inventories	1,821	1,950	17,143
Temporary difference related to the goodwill on overseas consolidated subsidiaries	—	1,779	—
Other	14,345	21,232	135,073
Subtotal	119,160	124,955	1,121,616
Valuation allowance	(64,813)	(63,246)	(610,071)
Total deferred tax assets	¥ 54,346	¥ 61,709	$ 511,545

Year ended March 31,	Millions of yen 2018		Millions of yen 2017		Thousands of U.S. dollars 2018	
Deferred tax liabilities:						
Valuation difference on available-for-sale securities	¥	(40,913)	¥	(22,723)	$	(385,101)
Excess of fair value over the book value of the assets and liabilities of the consolidated subsidiaries and affiliates at the acquisition date		(10,237)		(8,577)		(96,359)
Gain on contribution of securities to retirement benefit trust		(3,603)		(3,810)		(33,920)
Deferred gain on sale of property, plant and equipment		(3,382)		(3,200)		(31,842)
Accelerated depreciation of property, plant and equipment		(1,937)		(3,338)		(18,238)
Retained earnings of overseas consolidated subsidiaries		(1,915)		(1,810)		(18,025)
Revaluation of land, as a result of the merger		(1,502)		(1,502)		(14,141)
Deferred gains or losses on hedges		(818)		(724)		(7,700)
Temporary difference related to the goodwill on overseas consolidated subsidiaries		(764)		—		(7,196)
Reserve for special account for advanced depreciation of fixed assets		(290)		(65)		(2,739)
Reserve for mining exploration		(10)		(0)		(100)
Reserve for loss on particular business reorganization		—		(1,198)		—
Other		(2,106)		(2,834)		(19,830)
Total deferred tax liabilities		(67,483)		(49,787)		(635,197)
Net deferred tax assets	¥	(13,136)	¥	11,921	$	(123,652)
Net deferred tax liabilities for land revaluation	¥	(24,162)	¥	(25,590)	$	(227,437)

Adjustments to deferred tax assets and liabilities due to the change in income tax rates
The U.S. tax reform act, "Tax Cuts and Jobs Act of 2017", was enacted on December 22, 2017and the federal corporate income tax rate in the U.S. was reduced from 35% to 21% from the year beginning January 1, 2018.

As a result, deferred tax assets, net of deferred tax liabilities, decreased by ¥1,234 million ($11,618 thousand), income taxes-deferred increased by ¥1,194 million ($11,245 thousand) and foreign currency translation adjustments decreased by ¥39 million ($ 372 thousand), respectively.

Note 11 Contingent Liabilities

1. Contingent liabilities regarding notes and loans guaranteed:
Contingent liabilities for notes receivable discounted with banks, notes receivable endorsed with recourse, notes and accounts receivable securitized with recourse, and loans guaranteed by the Group primarily on behalf of unconsolidated subsidiaries and affiliates, including employees' housing loans from banks, as of March 31, 2018 and 2017 were as follows:

	Millions of yen 2018		Millions of yen 2017		Thousands of U.S. dollars 2018	
Notes receivable discounted	¥	275	¥	300	$	2,589
Notes receivable endorsed		0		14		7
Notes and accounts receivable securitized with recourse		4,169		3,522		39,243
Loans guaranteed		21,043		28,845		198,075
Total	¥	25,488	¥	32,682	$	239,914

2. Contingent liabilities regarding the consolidated subsidiary:
(Matters concerning Taxation in Indonesia)
March 31, 2017
On December 30, 2014, PT. Smelting in Indonesia, a consolidated subsidiary of the Company received a notice of reassessment in an amount of US$47 million (¥5,370 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 PT. Smelting for the year ended December 2009.

On January 28, 2015, PT. Smelting made a provisional deposit of US$14 million (¥1,570 million) as a part of the additional collection.

However, PT. Smelting 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 PT. Smelting 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 PT. Smelting.

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

On December 22, 2016, PT. Smelting received a notice of reassessment in an amount of US$34 million (¥3,841 million) from the Indonesian National Tax Authority, regarding its posting of raw material costs for the fiscal year ended December 2011.

However, PT. Smelting 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 PT. Smelting and found to be unacceptable by the Company and PT. Smelting.

March 31, 2018
In response to the opposition filed by PT. Smelting on March 20, 2017, PT. Smelting received a notice of determination from the Indonesian National Tax Authority on February 28, 2018 and an objection of PT. Smelting has been granted in amounts of US$28 million (¥3,012 million).

Regarding US$5 million (¥625 million) which was rejected an objection of PT. Smelting, PT. Smelting filed a complaint to the Tax Court in Indonesia on May 22, 2018 to present the fairness of the view of the Company and PT. Smelting.

On November 29, 2017, PT. Smelting 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 or losses on hedging for the fiscal year ended December 2012. On December 27, 2017, PT. Smelting made a provisional deposit of US$6 million (¥668 million) as part of the additional collection.

However, PT. Smelting submitted a written objection to the Indonesian National Tax Authority, because this assessment was a view that unilaterally negated the act of recording gains or losses on hedges, etc. of PT. Smelting and was found to be unacceptable by the Company and PT. Smelting.

(Matters concerning Non-Conforming Products)
March 31, 2018
With regard to certain products produced and sold in the past, Mitsubishi Cable Industries, Ltd., Mitsubishi Shindoh Co., Ltd., Mitsubishi Aluminum Co., Ltd., Tachibana Metal Mfg. Co., Ltd. and Diamet Corporation, which are all consolidated subsidiaries of Mitsubishi Materials Corporation (MMC), were found to have delivered products, etc. 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 MMC's Naoshima copper smelter and refinery, MMC 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 MMC's Naoshima copper smelter and 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.

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

Depending on the future progress of the inspection, there is a possibility that our consolidated business results may be affected. However since it is difficult to reasonably estimate the impact of this incident at present,it is not reflected in the consolidated financial statements.

Note 12 Lease Transactions

In relation to Note 2 (p) "Accounting Standard for Lease Transactions as Lessee" , pro-forma information of finance leases that do not transfer ownership of leased assets to the lessee commenced prior to April 1, 2008, the first year of implementation of the new accounting standard, which are accounted for as operating leases, was as follows:

1. Noncancelable operating lease commitments as lessee were as follows:

	Millions of yen 2018		Millions of yen 2017		Thousands of U.S. dollars 2018	
Due within one year	¥	2,719	¥	2,307	$	25,599
Due after one year		6,641		6,535		62,514
Total	¥	9,361	¥	8,842	$	88,114

2. Noncancelable operating lease commitments as lessor were as follows:

	Millions of yen 2018		Millions of yen 2017		Thousands of U.S. dollars 2018	
Due within one year	¥	752	¥	920	$	7,078
Due after one year		1,394		5,427		13,122
Total	¥	2,146	¥	6,348	$	20,201

Note 13 Research and Development Expenses

Research and development expenses for the fiscal years ended March 31, 2018 and 2017 were ¥11,614 million ($109,323 thousand) and ¥11,344 million, respectively, and were included in selling, general and administrative expenses.

Note 14 Other Comprehensive Income

The components of other comprehensive income for the years ended March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Valuation difference on available-for-sale securities:			
Gains (losses) incurred during the year	¥ 59,057	¥ 49,289	$ 555,888
Reclassification adjustment to net income	(332)	(1,572)	(3,125)
Amount before tax effect	58,725	47,717	552,763
Tax effect	(18,189)	(14,041)	(171,214)
Valuation difference on available-for-sale securities	40,535	33,676	381,549
Deferred gains or losses on hedges:			
Gains incurred during the year	7,026	7,057	66,139
Reclassification adjustment to net income	(6,301)	(6,245)	(59,310)
Amount before tax effect	725	811	6,830
Tax effect	(234)	(176)	(2,210)
Deferred gains or losses on hedges	490	635	4,620
Revaluation reserve for land			
Tax effect	(147)	—	(1,384)
Foreign currency translation adjustments:			
Gains incurred during the year	(8,719)	(6,009)	(82,069)
Reclassification adjustment to net income	(446)	—	(4,205)
Amount before tax effect	(9,165)	(6,009)	(86,274)
Tax effect	—	—	—
Foreign currency translation adjustments	(9,165)	(6,009)	(86,274)
Remeasurements of defined benefit plans:			
Gains incurred during the year	1,217	2,955	11,457
Reclassification adjustment to net income	3,686	3,597	34,695
Amount before tax effect	4,903	6,552	46,153
Tax effect	(1,324)	(1,793)	(12,467)
Remeasurements of defined benefit plans	3,578	¥ 4,758	33,686

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Share of other comprehensive income of affiliates accounted for using the equity method:			
Gains incurred during the year	831	83	7,822
Reclassification adjustment to net income	(193)	5	(1,820)
Share of other comprehensive income of affiliates accounted for using the equity method	637	88	6,002
Total other comprehensive income(loss)	¥ 35,930	¥ 33,150	$ 338,198

Note 15 Securities

1. The following tables summarize carrying amounts and acquisition costs of securities with available fair values as of March 31, 2018:

Available-for-sale securities
(1) Securities with carrying amount exceeding acquisition cost
At March 31, 2018

	Millions of yen			Thousands of U.S. dollars		
Type	Carrying amount	Acquisition cost	Difference	Carrying amount	Acquisition cost	Difference
Equity securities	¥ 230,397	¥ 90,789	¥ 139,608	$ 2,168,655	$ 854,573	$ 1,314,082
Bonds	—	—	—	—	—	—
Total	¥ 230,397	¥ 90,789	¥ 139,608	$ 2,168,655	$ 884,573	$ 1,314,082

(2) Securities with carrying amount not exceeding acquisition cost
At March 31, 2018

	Millions of yen			Thousands of U.S. dollars		
Type	Carrying amount	Acquisition cost	Difference	Carrying amount	Acquisition cost	Difference
Equity securities	¥ 11,073	¥ 12,537	¥ (1,464)	$ 104,231	$ 118,013	$ (13,782)
Bonds	—	—	—	—	—	—
Total	¥ 11,073	¥ 12,537	¥ (1,464)	$ 104,231	$ 118,013	$ (13,782)

Note:
Unlisted equity securities of which carrying amount is ¥7,250 million ($68,247 thousand) are not included in the above table, because there is no market price and it is extremely difficult to recognize their fair values.

2.The following tables summarize carrying amounts and acquisition costs of securities with available fair values as of March 31, 2017:

Available-for-sale securities
(1) Securities with carrying amount exceeding acquisition cost
At March 31, 2017

	Millions of yen		
Type	Carrying amount	Acquisition cost	Difference
Equity securities	¥ 172,994	¥ 91,749	¥ 81,245
Bonds	—	—	—
Total	¥ 172,994	¥ 91,749	¥ 81,245

(2) Securities with carrying amount not exceeding acquisition cost
At March 31, 2017

	Millions of yen		
Type	Carrying amount	Acquisition cost	Difference
Equity securities	¥ 9,805	¥ 11,685	¥ (1,879)
Bonds	—	—	—
Total	¥ 9,805	¥ 11,685	¥ (1,879)

Note:
Unlisted equity securities of which carrying amount is ¥6,631 million are not included in the above table, because there is no market price and it is extremely difficult to recognize their fair values.

3.The Group did not hold any available-for-sale securities with maturity, and held-to-maturity debt securities as of March 31, 2018 and 2017.

4. Total amounts of available-for-sale securities sold, and the resulting gains and losses, for the fiscal years ended March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Sales amount	¥ 705	¥ 4,930	$ 6,639
Gains	471	1,716	4,442
Losses	(—)	(—)	(—)

5. The amounts of write-down of investments in securities for the years ended March 31, 2018 and 2017 were ¥400 million ($3,769 thousand) and ¥5,049 million, respectively.

When the fair value of each issue of securities declined more than 50% of the acquisition cost, losses on write-down were recognized. When the fair value declined between 30% and 50% of the acquisition cost, the write-down amount was determined by considering the recoverability, etc. by each issue.

Note 16 Financial Instruments

Information on financial instruments for the fiscal years ended March 31, 2018 and 2017 was as follows.

1. Qualitative information on financial instruments

(1) Policies for using financial instruments

The Group raises the necessary funds for its capital investment plans to conduct its business mainly by bank loans or issuance of bonds. The Group invests temporary cash surpluses in highly secured financial instruments and raises short-term working funds by bank loans. The Group follows the policy of using derivatives not for speculative purposes, but for managing financial risks as described later.

(2) Details of financial instruments used and the exposures to risk and how they arise

Notes and accounts receivable are exposed to customer's credit risk. As trade receivables denominated in foreign currencies arising from the development of global business are exposed to foreign currency exchange fluctuation risk, they are principally hedged using forward foreign exchange contracts. Investment securities, mainly consisting of equity securities related to customers and suppliers in relation to business or capital alliances, are exposed to the risk of market price fluctuations.

Payment terms of notes and accounts payable are less than one year. As certain payables in foreign currencies arising from the import transactions of raw materials are exposed to foreign currency exchange fluctuation risk, they are principally hedged using forward foreign exchange contracts. Short-term bank loans are used for raising funds related to operating transactions.

Long-term debt including corporate bonds is used mainly for raising the necessary funds related to capital investments. The longest maturity of long-term debt including corporate bonds is 2026. As some of them with floating interest rates are exposed to interest rate fluctuation risk, they are hedged using derivatives.

Derivative transactions mainly include forward foreign currency contracts and currency swap contracts for the purpose of hedging foreign currency exchange fluctuation risk on trade receivables and payables denominated in foreign currencies, forward commodity contracts and commodity price swap contracts for the purpose of hedging commodity price fluctuation risk on nonferrous metal and interest rate swaps for the purpose of hedging interest rate fluctuation risk on debt and reducing fund raising costs. Interest rate swaps which convert fixed interest rates into floating rates are exposed to market interest rate fluctuation. Hedging instruments and hedged items, hedge policy, assessment method for hedge effectiveness and others related to hedge accounting, are described in Note 2. (e) "Derivative Transactions and Hedge Accounting" and Note 17 "Derivative Transactions."

(3) Policies and processes for managing the risk

a. Credit Risk Management (customers' default risk)

The Company manages and mitigates customers' credit risk on trade receivables in accordance with the Credit Control Policy, which includes monitoring of payment term and balances of customers by each responsible department of each company to recognize the customers' default risk at an early stage. Consolidated subsidiaries also manage and mitigate the risk in accordance with a similar credit control policy based on the Group Accounting Policy and Manual. The Company deals with highly creditworthy foreign or domestic financial institutions or trading firms only to mitigate the default risk.

b. Market Risk Management (foreign currency exchange and interest rate fluctuation risks)

The Company and its certain consolidated subsidiaries use principally forward foreign exchange contracts to hedge foreign currency exchange fluctuation risk identified by currency and monthly basis for trade receivables and payables denominated in foreign currencies. In addition, interest rate swap contracts are used to manage interest rate fluctuation risk on debt.

With respect to investment securities, the Company identifies and monitors fair values and financial positions of the issuers on a regular basis and continuously reviews its status of these securities considering the relationships with the issuers.

With respect to derivative transactions, the Company has "Rules on Utilizing Derivative Transactions" in its "Operation Standards" applicable to the whole Company. In addition, there are specific rules and standards for derivative transactions provided for each business unit based on the type of business. In accordance with the authority and limits provided in these rules and standards, forward foreign currency contracts are utilized and controlled by the Finance Department and other responsible departments; interest rate swap contracts are utilized and controlled by the Finance Department; and forward commodity contracts are utilized and controlled by each responsible department. Furthermore, departments utilizing derivative transactions are required to report the status and results of derivative transactions to the Management Audit Department for financial transaction at each annual and semi-annual year-end. Consolidated subsidiaries utilizing derivative transactions have provided the operational standards individually, according to the purpose of derivative transactions.

c. Liquidity Risk Management on Fund Raising

The Group manages its liquidity risk by preparing and updating cash flow plans on a timely basis at each company.

(4) Supplemental information on fair values

Fair values of financial instruments include market prices and values calculated reasonably when there is no market price. Since variable factors are incorporated in calculating the relevant fair values, the fair values may change depending on the different assumptions. The contract amounts described in Note 17 "Derivative Transactions" do not indicate the amounts of market risk or credit risk related to derivative transactions.

2. Fair values of financial instruments

Carrying amounts, fair value of the financial instruments and the difference between them as of March 31, 2018 and 2017 were as follows (Financial instruments whose fair values are not readily determinable are excluded from the following table):

	Millions of yen		
March 31, 2018	Carrying amount	Fair value	Difference
(1) Cash and time deposits	¥ 93,389	¥ 93,389	¥ —
(2) Notes and accounts receivable	260,427	260,427	—
(3) Investment securities:			
Shares in affiliates	8,571	19,129	10,558
Available-for-sale securities	241,471	241,471	—
Total assets	¥ 603,859	¥ 614,417	¥ 10,558
(1) Notes and accounts payable	¥ 158,369	¥ 158,369	¥ —
(2) Short-term bank loans	206,142	206,142	—
(3) Current portion of bonds	25,000	25,025	25
(4) Bonds	50,000	48,757	(1,243)
(5) Long-term loans payable	240,292	242,110	1,817
Total liabilities	¥ 679,804	¥ 680,404	¥ 599
Derivative transactions (*)			
a. Derivatives to which hedge accounting is not applied	¥ (171)	¥ (171)	¥ —
b. Derivatives to which hedge accounting is applied	1,069	(378)	(1,448)
Total derivative transactions	¥ 898	¥ (550)	¥ (1,448)

	Millions of yen		
March 31, 2017	Carrying amount	Fair value	Difference
(1) Cash and time deposits	¥ 141,264	¥ 141,264	¥ —
(2) Notes and accounts receivable	213,343	213,343	—
(3) Investment securities:			
Shares in affiliates	13,813	15,517	1,703
Available-for-sale securities	182,800	182,800	—
Total assets	¥ 551,222	¥ 552,925	¥ 1,703
(1) Notes and accounts payable	¥ 114,502	¥ 114,502	¥ —
(2) Short-term bank loans	203,819	203,819	—
(3) Current portion of bonds	15,000	15,016	16
(4) Bonds	55,000	55,221	221
(5) Long-term loans payable	254,411	254,311	(99)
Total liabilities	¥ 642,733	¥ 642,870	¥ 137
Derivative transactions (*)			
a. Derivatives to which hedge accounting is not applied	¥ 1,794	¥ 1,794	¥ —
b. Derivatives to which hedge accounting is applied	(328)	(2,684)	(2,356)
Total derivative transactions	¥ 1,465	¥ (890)	¥ (2,356)

(*) Receivables and payables arising from derivative transactions are presented in net. Net payables are presented in parenthesis.

March 31, 2018	Thousands of U.S. dollars Carrying amount	Fair value	Difference
(1) Cash and time deposits	$ 879,043	$ 879,043	$ —
(2) Notes and accounts receivable	2,451,311	2,451,311	—
(3) Investment securities:			
Shares in affiliates	80,677	180,057	99,379
Available-for-sale securities	2,272,886	2,272,886	—
Total assets	$ 5,683,919	$ 5,783,299	$ 99,379
(1) Notes and accounts payable	$ 1,490,680	$ 1,490,680	$ —
(2) Short-term bank loans	1,940,347	1,940,347	—
(3) Current portion of bonds	235,316	235,551	235
(4) Bonds	470,632	458,932	(11,699)
(5) Long-term loans payable	2,261,787	2,278,897	17,110
Total liabilities	$ 6,398,764	$ 6,404,410	$ 5,645
Derivative transactions (*)			
a. Derivatives to which hedge accounting is not applied	$ (1,616)	$ (1,616)	$ —
b. Derivatives to which hedge accounting is applied	10,069	(3,563)	(13,632)
Total derivative transactions	$ 8,453	$ (5,179)	$ (13,632)

(*) Receivables and payables arising from derivative transactions are presented in net. Net payables are presented in parenthesis.

Notes:
1. Calculation method of fair values of financial instruments as well as securities and derivative transactions are as follows:
Assets:
(1) Cash and time deposits and (2) Notes and accounts receivable
The fair values approximate book values because of their short-term maturities. Therefore, the fair values are recognized using book values.
(3) Investment securities (Shares in affiliates and available-for-sale securities)
The fair values of equity securities are determined based on the market price. The information of securities categorized by holding purposes is described in Note 15 "Securities."
Liabilities:
(1) Notes and accounts payable and (2) Short-term bank loans
The fair values approximate book values because of their short-term maturities. Therefore, the fair values are recognized using book values.
(3) Current portion of bonds and (4) Bonds
The fair values of these liabilities are determined based on the market price.
(5) Long-term loans payable
The fair values of long-term loans payable are determined by discounting the aggregated values of the principal and interest using an assumed interest rate if the same type of loans were newly made.

Derivative financial instruments:
The information on derivative transactions is described in Note 17 "Derivative Transactions."
2. Financial instruments that fair values are extremely difficult to calculate

	Carrying amount		
	Millions of yen		Thousands of U.S. dollars
Category	2018	2017	2018
Shares in affiliates (unlisted equity securities)	¥ 46,631	¥ 48,821	$ 438,922
Available-for-sale securities (unlisted equity securities)	7,250	6,631	68,247

It is extremely difficult to calculate their fair values because there is no market price. Therefore, these items are not included in "(3) Investment securities."

3. Redemption schedule of monetary assets with contractual maturities as of March 31, 2018 and 2017

March 31, 2018 (Millions of yen)	Within 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	More than 5 years
Cash and time deposits	¥ 93,389	¥ —	¥ —	¥ —	¥ —	¥ —
Notes and accounts receivable	260,427	—	—	—	—	—
Total	¥ 353,816	¥ —	¥ —	¥ —	¥ —	¥ —

March 31, 2017 (Millions of yen)	Within 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	More than 5 years
Cash and time deposits	¥ 141,264	¥ —	¥ —	¥ —	¥ —	¥ —
Notes and accounts receivable	213,343	—	—	—	—	—
Total	¥ 354,608	¥ —	¥ —	¥ —	¥ —	¥ —

March 31, 2018 (Thousands of U.S. dollars)	Within 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	More than 5 years
Cash and time deposits	$ 879,043	$ —	$ —	$ —	$ —	$ —
Notes and accounts receivable	2,451,311	—	—	—	—	—
Total	$ 3,330,354	$ —	$ —	$ —	$ —	$ —

4. Repayment schedule of short-term bank loans, bonds and long-term loans payable as of March 31, 2018 and 2017

March 31, 2018 (Millions of yen)	Within 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	More than 5 years
Short-term bank loans	¥ 206,142	¥ —	¥ —	¥ —	¥ —	¥ —
Bonds	25,000	—	—	20,000	10,000	20,000
Long-term loans payable	—	40,656	40,825	26,263	18,881	113,665
Total	¥ 231,142	¥ 40,656	¥ 40,825	¥ 46,263	¥ 28,881	¥ 133,665

March 31, 2017 (Millions of yen)	Within 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	More than 5 years
Short-term bank loans	¥ 203,819	¥ —	¥ —	¥ —	¥ —	¥ —
Bonds	15,000	25,000	—	—	20,000	10,000
Long-term loans payable	—	51,734	41,481	37,418	18,730	105,045
Total	¥ 218,819	¥ 76,734	¥ 41,481	¥ 37,418	¥ 38,730	¥ 115,045

March 31, 2018 (Thousands of U.S. dollars)	Within 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	More than 5 years
Short-term bank loans	$ 1,940,347	$ —	$ —	$ —	$ —	$ —
Bonds	235,316	—	—	188,253	94,126	188,253
Long-term loans payable	—	382,689	384,273	247,205	177,725	1,069,893
Total	$ 2,175,663	$ 382,689	$ 384,273	$ 435,458	$ 271,851	$ 1,258,146

Note 17 Derivative Transactions

Derivative financial instruments currently utilized by the Group include forward foreign currency contracts, interest rate swap contracts, currency swap contracts, forward commodity contracts and commodity price swap contracts.

The Company utilizes forward foreign currency contracts to hedge the impact of foreign exchange fluctuations on receivables and payables, and on advance payments for purchase of ores.

The Company enters into interest rate swap contracts to reduce exposure to adverse movements in interest rates, and to lower finance costs on debts.

The Company also utilizes forward commodity contracts to hedge the impact of future price fluctuations of nonferrous metal inventories and sold gold bullion deposited from customers under consuming bailment named "My Gold Partner."

Some consolidated subsidiaries utilize forward foreign currency contracts and interest swap contracts to hedge the impact of foreign currency fluctuations on foreign currency receivables and payables, and forward commodity contracts and commodity price swap contracts to hedge the impact of price fluctuations of nonferrous metal inventories.

The Company evaluates hedge effectiveness by comparing the cumulative changes in cash flows or the changes in fair value of the hedged items with the corresponding changes in the hedging derivative instruments. Furthermore, the Company periodically controls the transaction volume of forward commodity contracts in order to balance them with hedged nonferrous metal inventories and to evaluate their hedge effectiveness at each annual and semi-annual year-end.

As of March 31, 2018 and 2017, the Group had outstanding derivative transactions as follows:

1. Derivative transactions to which hedge accounting is not applied at March 31, 2018 and 2017

(1) Currency related derivatives

	Millions of yen			
March 31, 2018	Contract amount	Contract amount due after one year	Fair value	Gain (Loss)
Transactions other than market transactions				
Forward foreign exchange contracts:				
Sell U.S. dollars	¥ 6,967	¥ —	¥ 99	¥ 99
Other	830	—	10	10
Buy U.S. dollars	2,850	—	(30)	(30)
Other	628	—	13	13
Currency swaps:				
Pay Japanese yen / Receive U.S. dollars	5,288	—	6	6
Total	¥ —	¥ —	¥ —	¥ 99

	Millions of yen			
March 31, 2017	Contract amount	Contract amount due after one year	Fair value	Gain (Loss)
Transactions other than market transactions				
Forward foreign exchange contracts:				
Sell U.S. dollars	¥ 2,455	¥ —	¥ 36	¥ 36
Other	—	—	—	—
Buy U.S. dollars	—	—	—	—
Other	492	—	2	2
Currency swaps:				
Pay Japanese yen / Receive U.S. dollars	6,264	—	(99)	(99)
Total	¥ —	¥ —	¥ —	¥ (59)

	Thousands of U.S. dollars			
March 31, 2018	Contract amount	Contract amount due after one year	Fair value	Gain (Loss)
Transactions other than market transactions				
Forward foreign exchange contracts:				
Sell U.S. dollars	$ 65,580	$ —	$ 933	$ 933
Other	7,818	—	99	99
Buy U.S. dollars	26,834	—	(286)	(286)
Other	5,916	—	130	130
Currency swaps:				
Pay Japanese yen / Receive U.S. dollars	49,774	—	60	60
Total	$ —	$ —	$ —	$ 938

Note:
Fair value is determined based on the price obtained from financial institutions.

(2) Interest rate related derivatives
Not applicable

(3) Interest rate and currency swaps

	Millions of yen			
March 31, 2018	Contract amount	Contract amount due after one year	Fair value	Gain (Loss)
Transactions other than market transactions				
Interest rate currency swap:				
Euro pay fixed / U.S.dollars receive floating	¥ 4,657	¥ 4,657	¥ (414)	¥ (414)
Total	¥ —	¥ —	¥ —	¥ (414)

	Millions of yen			
March 31, 2017	Contract amount	Contract amount due after one year	Fair value	Gain (Loss)
Transactions other than market transactions				
Interest rate currency swap:				
Euro pay fixed / U.S.dollars receive floating	¥ 4,487	¥ 4,487	¥ 202	¥ 202
Indian rupee pay fixed / Japanese yen receive floating	692	692	(49)	(49)
Total	¥ —	¥ —	¥ —	¥ 153

	Thousands of U.S. dollars			
March 31, 2018	Contract amount	Contract amount due after one year	Fair value	Gain (Loss)
Transactions other than market transactions				
Interest rate currency swap:				
Euro pay fixed / U.S.dollars receive floating	$ 43,837	$ 43,837	$ (3,903)	$ (3,903)
Total	$ —	$ —	$ —	$ (3,903)

Note:
Fair value is determined based on the price obtained from financial institutions.

(4) Commodity related derivatives

	Millions of yen			
March 31, 2018	Contract amount	Contract amount due after one year	Fair value	Gain (Loss)
Transactions other than market transactions				
Nonferrous metals forward:				
Sell	¥ 68,381	¥ —	¥ 296	¥ 296
Buy	144,937	—	(153)	(153)
Total	¥ —	¥ —	¥ —	¥ 143

	Millions of yen			
March 31, 2017	Contract amount	Contract amount due after one year	Fair value	Gain (Loss)
Transactions other than market transactions				
Nonferrous metals forward:				
Sell	¥ 33,497	¥ —	¥ (606)	¥ (606)
Buy	85,948	—	2,256	2,256
Total	¥ —	¥ —	¥ —	¥ 1,650

	Thousands of U.S. dollars			
March 31, 2018	Contract amount	Contract amount due after one year	Fair value	Gain (Loss)
Transactions other than market transactions				
Nonferrous metals forward:				
Sell	$ 643,650	$ —	$ 2,794	$ 2,794
Buy	1,364,248	—	(1,446)	(1,446)
Total	$ —	$ —	$ —	$ 1,348

Note:
Fair value is determined based on the price obtained from financial institutions.

2. Derivative transactions to which hedge accounting is applied at March 31, 2018 and 2017

(1) Currency related derivatives

March 31, 2018

Hedge accounting method	Transaction type	Major hedged items	Contract amount (Millions of yen)	Contract amount due after one year (Millions of yen)	Fair value (Millions of yen)
Principle method	Forward foreign exchange contracts:	Accounts receivable, accounts payable			
	Sell U.S. dollars		¥ 77,713	¥ —	¥ 1,006
	Other		1,576	—	1
	Buy U.S. dollars		1,984	—	17
	Other		267	82	(3)
Hedged items are translated using forward contract rates	Forward foreign exchange contracts:	Accounts receivable, accounts payable			Note 2
	Sell U.S. dollars		¥ 12,052	¥ —	
	Other		4,929	—	
	Buy U.S. dollars		824	—	
	Other		0	—	
Hedged items are translated using currency swaps	Currency swaps: Pay Japanese yen / Receive U.S. dollars	Long-term debt	¥ 7,300	¥ 7,000	

March 31, 2017

Hedge accounting method	Transaction type	Major hedged items	Contract amount (Millions of yen)	Contract amount due after one year (Millions of yen)	Fair value (Millions of yen)
Principle method	Forward foreign exchange contracts:	Accounts receivable, accounts payable			
	Sell U.S. dollars		¥ 42,620	¥ —	¥ 137
	Other		7,104	2,310	11
	Buy U.S. dollars		861	—	11
	Other		18,973	—	82
Hedged items are translated using forward contract rates	Forward foreign exchange contracts:	Accounts receivable, accounts payable			Note 2
	Sell U.S. dollars		¥ 10,598	¥ —	
	Other		4,571	—	
	Buy U.S. dollars		1,906	—	
	Other		582	—	
Hedged items are translated using currency swaps	Currency swaps: Pay Japanese yen / Receive U.S. dollars	Long-term debt	¥ 11,800	¥ 7,300	

March 31, 2018

Hedge accounting method	Transaction type	Major hedged items	Contract amount (Thousands of U.S. dollars)	Contract amount due after one year (Thousands of U.S. dollars)	Fair value (Thousands of U.S. dollars)
Principle method	Forward foreign exchange contracts:	Accounts receivable, accounts payable			
	Sell U.S. dollars		$ 731,489	$ —	$ 9,474
	Other		14,839	—	16
	Buy U.S. dollars		18,677	—	161
	Other		2,516	772	(33)
Hedged items are translated using forward contract rates	Forward foreign exchange contracts:	Accounts receivable, accounts payable			Note 2
	Sell U.S. dollars		$ 113,447	$ —	
	Other		46,396	—	
	Buy U.S. dollars		7,763	—	
	Other		7	—	
Hedged items are translated using currency swaps	Currency swaps: Pay Japanese yen / Receive U.S. dollars	Long-term debt	$ 68,712	$ 65,888	

Notes:

1. Fair value is determined based on the price obtained from financial institutions.
2. Fair value of derivatives is included in the fair values of the related accounts receivable, accounts payable and long-term debt, since accounts receivable, accounts payable and long-term debt in foreign currencies as hedged items are translated into Japanese yen using the forward contract rates, etc.

(2) Interest rate related derivatives

March 31, 2018

Hedge accounting method	Transaction type	Major hedged items	Contract amount (Millions of yen)	Contract amount due after one year (Millions of yen)	Fair value (Millions of yen)
Interest income or expense on the hedged items reflects net amount to be paid or received under the derivatives	Interest rate swap contracts: Pay fixed rate, receive floating rate	Long-term debt	¥ 66,866	¥ 51,023	¥ (1,449)

March 31, 2017

Hedge accounting method	Transaction type	Major hedged items	Contract amount (Millions of yen)	Contract amount due after one year (Millions of yen)	Fair value (Millions of yen)
Interest income or expense on the hedged items reflects net amount to be paid or received under the derivatives	Interest rate swap contracts: Pay fixed rate, receive floating rate	Long-term debt	¥ 70,193	¥ 63,238	¥ (2,104)

March 31, 2018

Hedge accounting method	Transaction type	Major hedged items	Contract amount (Thousands of U.S. dollars)	Contract amount due after one year (Thousands of U.S. dollars)	Fair value (Thousands of U.S. dollars)
Interest income or expense on the hedged items reflects net amount to be paid or received under the derivatives	Interest rate swap contracts: Pay fixed rate, receive floating rate	Long-term debt	$ 629,391	$ 480,261	$ (13,646)

Note:

Fair value is determined based on the price obtained from financial institutions.

(3) Interest rate and currency swaps

March 31, 2018

Hedge accounting method	Transaction type	Major hedged items	Contract amount (Millions of yen)	Contract amount due after one year (Millions of yen)	Fair value (Millions of yen)
Principle method	Interest rate currency swap: Indonesian rupiah pay fixed / U.S. dollars receive floating	Long-term debt	¥ 1,199	¥ 976	¥ 65

March 31, 2017

Hedge accounting method	Transaction type	Major hedged items	Contract amount (Millions of yen)	Contract amount due after one year (Millions of yen)	Fair value (Millions of yen)
Principle method	Interest rate currency swap: Indonesian rupiah pay fixed / U.S. dollars receive floating	Long-term debt	¥ 1,458	¥ 1,278	¥ 111

March 31, 2018

Hedge accounting method	Transaction type	Major hedged items	Contract amount (Thousands of U.S. dollars)	Contract amount due after one year (Thousands of U.S. dollars)	Fair value (Thousands of U.S. dollars)
Principle method	Interest rate currency swap: Indonesian rupiah pay fixed / U.S. dollars receive floating	Long-term debt	$ 11,290	¥ 9,192	¥ 613

Note:

Fair value is determined based on the price obtained from financial institutions.

(4) Commodity related derivatives

March 31, 2018

Hedge accounting method	Transaction type	Major hedged items	Contract amount (Millions of yen)	Contract amount due after one year (Millions of yen)	Fair value (Millions of yen)
Principle method	Nonferrous metals forward:	Accounts receivable, accounts payable			
	Sell		¥ 46,637	¥ 20,455	¥ 2,096
	Buy		36,397	14,865	(2,113)

March 31, 2017

Hedge accounting method	Transaction type	Major hedged items	Contract amount (Millions of yen)	Contract amount due after one year (Millions of yen)	Fair value (Millions of yen)
Principle method	Nonferrous metals forward:	Accounts receivable, accounts payable			
	Sell		¥ 37,374	¥ 14,336	¥ (1,343)
	Buy		21,070	7,855	743

March 31, 2018

Hedge accounting method	Transaction type	Major hedged items	Contract amount (Thousands of U.S. dollars)	Contract amount due after one year (Thousands of U.S. dollars)	Fair value (Thousands of U.S. dollars)
Principle method	Nonferrous metals forward:	Accounts receivable, accounts payable			
	Sell		$ 438,985	$ 192,541	$ 19,736
	Buy		342,598	139,924	(19,890)

Note:
Fair value is determined based on the price obtained from financial institutions.

Note 18 Business Combinations

(Business Combinations by Acquisition Method)
1. Overview of the Business Combination
(1) The acquired company and the description
i. Stock acquisition
Acquired companies: Luvata Pori Oy
Luvata Wolverhampton Ltd.
Luvata Malaysia Sdn Bhd
Luvata Appleton LLC
Luvata Ohio Inc.
Luvata Welwyn Garden Ltd.
Luvata Sao Paulo
ZAO Luvata St.Petersburg
Luvata Waterbury Inc.
Luvata Superconductors (Zhongshan) Limited
Accurate Wire Inc.
Luvata Fabrication North America
Luvata Kenosha Inc.
Type of the business: Manufacture and sale of copper processed products
ii. Transfer of business
Name of company transferring business: Luvata Suzhou Ltd.
Type of the business: Manufacture and sale of copper processed products
MM Metal Products (Suzhou) Co., Ltd. received the business from Luvata Suzhou Ltd.
(2) Main reason for the business combination
The purpose of the business combination is to accelerate the global expansion of the Copper & Copper Alloy Products business of the Company by pursuing various synergies though the business and customer bases of the Special Products Division of Luvata and to lead it to the establishment of a high-profitable business structure.
(3) Date of the business combination
May 2, 2017
(4) Legal form of the business combination
Acquisition of shares and business transfer
(5) Name of the companies after the business combination
No change
(6) Percentage of voting rights acquired
100%
(7) Main grounds for deciding on the acquisition of the companies
The Company came to practically control the acquired companies.

2. Period of the operating results of the acquired company included in the accompanying consolidated financial statements
From May 2, 2017, through December 31, 2017

3. Acquisition Cost and Breakdown
Consideration transferred for acquisition: cash and deposits of ¥43,859 million ($412,829 thousand)
Acquisition cost: ¥43,859 million ($412,829 thousand)

4. Major acquisition-related costs and nature
Advisory fees and charges: ¥1,187 million ($11,180 thousand)

5. Amount, cause, amortization method and amortization period of the goodwill generated
(1) Amount of goodwill: ¥8,057 million ($75,846 thousand)
(2) Cause of the generation of goodwill: As the cost exceeded the net of assets acquired and liabilities assumed, the difference was recognized as goodwill.
(3) Amortization method and period: Straight-line basis over 20 years.

6. Major assets acquired and liabilities assumed on the date of business combination:

Assets;	Millions of yen	Thousands of U.S,dollars
Current assets	¥ 34,996	$ 329,412
Fixed assets	23,998	225,892
Total	¥ 58,995	$ 555,305
Liabilities		
Current liabilities	¥ 18,530	$ 174,422
Non-current liabilities	4,663	43,899
Total	¥ 23,194	$ 218,321

(Sales of shares of a subsidiary)
At the meeting of the Board of Directors held on November 29, 2017, the Company passed a resolution to sell all shares of Mitsubishi Materials Real Estate Corporation ("MMRE"), a consolidated subsidiary of the Company, to Fortress Value Properties Holdings GK ("Fortress"), and transferred all shares on February 26, 2018.

Ahead of the share transfer, the Company passed a resolution at the Board of Directors' meeting held on November 29, 2017 to have MMRE take over part of the Company's real estate business through an absorption-type company split, and conducted such company split on February 1, 2018.

MMRE passed a resolution at the Board of Directors' meeting held on November 29, 2017 to transfer part of its real estate business to Materials Real Estate Corporation (the "New Company"), a company incorporated through a split-off type of incorporation-type company split, and carried out the incorporation-type company split on February 1, 2018.

1. Transactions, etc. under common control (absorption-type company split)
(1) Overview of transaction
i. Name and details of the applicable business
Name of the business: Part of the Company's real estate business
Type of the business: Sales and leasing of real estate, etc.
ii. Date of the business combination
February 1, 2018
iii. Legal form of the business combination
Simple absorption-type company split in which the Company is split through an absorption-type company split and MMRE is the successor company
iv. Name of the company after the business combination
Mitsubishi Materials Real Estate Corporation
v. Other matters concerning the overview of transaction
The purpose of this company split is to transfer part of the Company's real estate business to MMRE ahead of the transfer of all shares of MMRE to Fortress based on the agreement with Fortress.

(2) Overview of accounting procedures to implement
The procedures will be treated as transactions under common control based on the "Accounting Standard for Business Combinations" and "Implementation Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures."

2. Transactions, etc. under common control (Newly established division)
(1) Overview of transaction
i. Name and details of the applicable business
Name of the business: Part of MMRE's real estate business
Type of the business: Contract management of real estate, forests, etc.
ii. Date of the business combination
February 1, 2018
iii. Legal form of the business combination
Simple incorporation-type company split in which MMRE is split through an incorporation-type company split and the New Company is the successor company.
iv. Name of the company after the business combination
Materials Real Estate Corporation
v. Other matters concerning the overview of transaction
The company split is an incorporation-type of a company split where all dividends related to the newly incorporated company's shares are paid upon the effective date of the company split. The purpose of this company split is to retain a portion of MMRE's real estate business to the Mitsubishi Materials Group prior to the transfer of all shares of MMRE to Fortress, based on the agreement with Fortress.

(2) Overview of accounting procedures to implement
The procedures will be treated as transactions under common control based on the "Accounting Standard for Business Combinations" and "Implementation Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures."

3.Business divestitures (sales of shares of a subsidiary)
(1) Overview of business divestitures
i. Name of the buyer
Fortress Value Properties Holdings GK
ii. Details of divested business
Mitsubishi Materials Real Estate Corporation (details of business: real estate lease and sports facility operation)
iii. Main reason for the business divestitures
The Company has established group-wide policy of "optimization of business portfolio," "Comprehensive Efforts to Increase Business Competitiveness," and "creation of new products and business" in its Medium-Term Management Strategy (the "Mid-term Strategy") for the period between FY2018 and FY2020.
Regarding the"optimization of business portfolio," the Company plans to determine the appropriate direction for business characteristics and define issues before implementing business selection and concentration to improve its capital efficiency.
MMRE primarily operates the real estate lease business as the core real estate company in the Mitsubishi Materials Group. The Company, however, has concluded that transferring

MMRE operating a lease business to Fortress, which has considerable expertise in real estate management, will be the optimal strategy for achieving the Group's Mid-term Strategy and for the future development of MMRE. The Company has implemented the share transfer for this reason.

iv. Date of the business divestitures
February 26, 2018

v. Other matters concerning the overview of transaction including legal form
Share transfer in which only cash and other assets are received as compensation received.

(2) Overview of accounting procedures to implement

i. Amount of gain on net sales of investments in securities
Gain on net sales of investments in securities: ¥4,560 million ($42,925 thousand)

ii. Appropriate book value of assets and liabilities transferred

	Millions of yen	Thousands of U.S.dollars
Assets;		
Current assets	¥ 1,820	$ 17,132
Fixed assets	26,044	245,146
Total	¥ 27,864	$ 262,278
Liabilities		
Current liabilities	¥ 15,769	$ 148,430
Non-current liabilities	3,169	29,830
Total	¥ 18,938	$ 178,260

iii. Accounting treatment
The difference between the carrying value and selling price of Mitsubishi Materials Real Estate Corporation is recorded as "Gain on net sales of investments in securities" in "Other income (expenses)".

(3) Reporting segment in which the divested business was included
Others

(4) Approximate operating performance of divested business included in the consolidated statements of income for the fiscal year ended March 31, 2018
Net sales: ¥2,953 million ($27,795 thousand)
Operating profit: ¥1,192 million ($11,222 thousand)

Note 19 Segment Information

(a) General information about reportable segments
The Company's reportable segments are composed of those individual business units for which separate financial information is available, about which the Board of Directors makes decisions regarding the allocation of management resources and for which operating performance can be evaluated.

The Company operates a system of in-house companies. Each in-house company and business department formulates comprehensive domestic and overseas strategies for its own products and services and advances its business accordingly. Consequently, the in-house companies are classified into segments along these in-house companies' product and service lines. There are five segments: Cement, Metals, Advanced Materials & Tools, and Electronic Materials & Components, as well as Aluminum which has high performance within the Company's business departments.

Primary products and services included in each segment are as follows:
Cement: Cement, cement-related products, ready-mixed concrete and aggregate
Metals: Copper smelting (copper, gold, silver, sulfuric acid, etc.) and copper alloy products
Advanced Materials & Tools: Cemented carbide products, high-performance alloy products
Electronic Materials & Components: Advanced materials, electronic components, polycrystalline silicon and chemical products
Aluminum: Aluminum cans, rolled aluminum products and processed aluminum products

(b) Basis of measurement of reported segment profit or loss, segment assets, segment liabilities and other material items
The accounting method for business segments reported in this note is consistent with those stated in Note 2 "Summary of Significant Accounting Policies." Segment profit or loss is based on the figures of ordinary income or loss. Intersegment sales are based on the market prices.

As stated in "Changes in accounting policies", as the deprecation method applied to production facilities for electronic materials and components of the Company and its consolidated subsidiaries in Japan, the declining-balance method was mainly used, but the method has been changed to the straight-line method for the year ended March 31, 2018.

As a result of changing the depreciation method, segment income has increased ¥331 million ($3,123 thousand), respectively, in the year of the current consolidated fiscal year, compared with the case in which the past method is used.

(c) Information about reportable segment profit or loss, segment assets, segment liabilities and other material items.

(1) Segment information as of and for the fiscal year ended March 31, 2018 is as follows:

	Millions of yen								
March 31, 2018	Cement	Metals	Advanced materials & tools	Electronic materials & components	Aluminum	Others	Total	Adjustment	Consolidated
Sales:									
External customers	¥ 188,612	¥ 853,615	¥ 149,635	¥ 64,535	¥ 147,753	¥ 195,381	¥1,599,533	¥ —	¥1,599,533
Intersegment	3,766	9,144	11,542	8,927	834	54,122	88,337	(88,337)	—
Total	¥ 192,378	¥ 862,759	¥ 161,177	¥ 73,462	¥ 148,588	¥ 249,503	¥1,687,870	¥ (88,337)	¥1,599,533
Segment profit	¥ 21,044	¥ 36,263	¥ 16,808	¥ 4,595	¥ 3,025	¥ 8,312	¥ 90,049	¥ (10,428)	¥ 79,621
Segment assets	323,857	835,532	217,735	179,701	155,074	163,442	1,875,342	139,741	2,015,084
Segment liabilities	150,384	652,683	118,773	101,859	113,318	106,939	1,243,959	2,629	1,246,589
Other items:									
Depreciation	¥ 11,533	¥ 17,420	¥ 11,227	¥ 2,646	¥ 7,401	¥ 3,663	¥ 53,893	¥ 3,131	¥ 57,025
Amortization of goodwill	2,873	288	1,230	—	—	2	4,395	—	4,395
Interest income	80	540	41	245	16	329	1,253	(441)	812
Interest expense	1,233	2,525	892	543	568	513	6,277	(1,218)	5,058
Equity in earnings of affiliates	1,891	2,242	43	409	8	(5,940)	(1,343)	7	(1,336)
Investments in affiliates accounted for by the equity method	21,569	13,421	—	1,786	869	4,948	42,594	(150)	42,444
Increase in tangible and intangible fixed assets	16,818	22,037	16,516	4,125	7,343	5,106	71,948	4,283	76,231

	Thousands of U.S. dollars								
March 31, 2018	Cement	Metals	Advanced materials & tools	Electronic materials & components	Aluminum	Others	Total	Adjustment	Consolidated
Sales:									
External customers	$ 1,775,341	$ 8,034,784	$1,408,462	$ 607,446	$ 1,390,755	$ 1,839,055	$15,055,845	$ —	$15,055,845
Intersegment	35,448	86,072	108,641	84,029	7,857	509,436	831,485	(831,485)	—
Total	$ 1,810,790	$ 8,120,857	$ 1,517,103	$ 691,475	$ 1,398,612	$ 2,348,491	$15,887,330	$ (831,485)	$15,055,845
Segment profit	$ 198,085	$ 341,334	$ 158,215	$ 43,254	$ 28,474	$ 78,240	$ 847,605	$ (98,158)	$ 749,447
Segment assets	3,048,356	7,864,571	2,049,466	1,691,465	1,459,658	1,538,429	17,651,946	1,315,337	18,967,284
Segment liabilities	1,415,517	6,143,482	1,117,973	958,769	1,066,624	1,006,588	11,708,955	24,751	11,733,706
Other items:									
Depreciation	$ 108,560	$ 163,969	$ 105,683	$ 24,912	$ 69,667	$ 34,483	$ 507,277	$ 29,479	$ 536,757
Amortization of goodwill	27,051	2,716	11,580	—	—	27	41,376	—	41,376
Interest income	756	5,085	387	2,312	157	3,100	11,801	(4,152)	7,649
Interest expense	11,609	23,768	8,400	5,119	5,354	4,837	59,089	(11,471)	47,618
Equity in earnings of affiliates	17,808	21,107	412	3,855	83	(55,911)	(12,644)	69	(12,575)
Investments in affiliates accounted for by the equity method	203,030	126,327	—	16,816	8,180	46,576	400,930	(1,419)	399,510
Increase in tangible and intangible fixed assets	158,306	207,432	155,464	38,834	69,119	48,068	677,226	40,315	717,541

Notes:
1. "Others" includes nuclear energy-related services, environmental and recycling-related business, real estate business and engineering-related services.
2. Included in "Adjustment" of "Segment profit" in an amount of ¥(10,428) million ($(98,158) thousand) are intersegment transaction elimination in an amount of ¥2 million ($26 thousand) and corporate expenses that cannot be allocated to each reportable segment in an amount of ¥(10,431) million ($(98,185) thousand). Corporate expenses consist mainly of general and administrative expenses, basic research and development expenses and financial income or expenses which are not attributable to any reportable segment.
3. "Adjustment" of "Segment assets" in an amount of ¥139,741 million ($1,315,337 thousand) includes intersegment transaction elimination of ¥(32,459) million ($(305,525) thousand) and corporate assets that are not allocated to each reportable segment in an amount of ¥172,200 million ($1,620,863 thousand). Corporate assets are mainly assets related to administrative departments which do not belong to any reportable segment and assets related to basic research and development.
4. "Adjustment" of "Segment liabilities" in an amount of ¥2,629 million ($24,751 thousand) includes intersegment transaction elimination of ¥(31,417) million ($(295,722) thousand) and corporate liabilities that are not allocated to each reportable segment in an amount of ¥34,047 million ($320,473 thousand). Corporate liabilities are mainly liabilities related to administrative departments which do not belong to any reportable segments and liabilities related to basic research and development.
5. "Adjustment" of "Increase in tangible and intangible fixed assets" in an amount of ¥4,283 million ($40,315 thousand) mainly refers to capital expenditures related to the Central Research Institute.
6. "Segment profit" is reconciled with ordinary income. Ordinary income is calculated by adding "Interest and dividend income," "Income from leased property," " Equity in earnings of affiliates," etc. and deducting "Interest expense," "Expense for leased property," "Loss on disposal and sales of property, plant and equipment," etc. from operating profit or loss.

(2) Segment information as of and for the fiscal year ended March 31, 2017 is as follows:

March 31, 2017	Cement	Metals	Advanced materials & tools	Electronic materials & components	Aluminum	Others	Total	Adjustment	Consolidated
	Millions of yen								
Sales:									
External customers	¥ 174,361	¥ 621,313	¥ 126,834	¥ 56,472	¥ 154,017	¥ 171,069	¥1,304,068	¥ —	¥1,304,068
Intersegment	3,205	8,157	16,581	6,614	1,944	47,177	83,680	(83,680)	—
Total	¥ 177,566	¥ 629,470	¥ 143,415	¥ 63,087	¥ 155,962	¥ 218,246	¥1,387,748	¥ (83,680)	¥1,304,068
Segment profit	¥ 20,520	¥ 27,513	¥ 9,913	¥ 2,802	¥ 7,480	¥ 7,177	¥ 75,407	¥ (11,481)	¥ 63,925
Segment assets	345,604	685,941	212,347	134,817	150,770	183,453	1,712,934	184,005	1,896,939
Segment liabilities	168,274	520,075	120,358	85,767	111,069	133,179	1,138,725	48,018	1,186,744
Other items:									
Depreciation	¥ 11,463	¥ 16,041	¥ 11,873	¥ 3,442	¥ 7,323	¥ 3,706	¥ 53,851	¥ 2,896	¥ 56,748
Amortization of goodwill	2,798	—	1,243	—	—	6	4,048	—	4,048
Interest income	93	340	21	163	13	323	956	(369)	587
Interest expense	1,513	1,686	934	840	672	744	6,391	(1,469)	4,922
Equity in earnings of affiliates	914	357	158	1,293	118	(2,878)	(35)	36	1
Investments in affiliates accounted for by the equity method	20,653	14,143	5,922	1,768	840	10,949	54,277	(155)	54,122
Increase in tangible and intangible fixed assets	20,517	19,339	14,719	2,946	8,658	4,185	70,367	5,318	75,685

(d) Related information

1. Information about products and services

This information is omitted because the same information is disclosed above.

2. Information about geographic areas

March 31, 2018	Japan	U.S.A.	Europe	Asia	Others	Total
	Millions of yen					
Net sales	¥ 865,373	¥ 144,243	¥ 52,315	¥ 520,350	¥ 17,250	¥ 1,599,533
Tangible fixed assets	523,681	80,496	5,383	34,254	1,742	645,559

March 31, 2017	Japan	U.S.A.	Europe	Asia	Others	Total
	Millions of yen					
Net sales	¥ 752,169	¥ 133,646	¥ 37,851	¥ 366,916	¥ 13,484	¥ 1,304,068
Tangible fixed assets	538,516	86,544	1,982	37,525	1,656	666,226

March 31, 2018	Japan	U.S.A.	Europe	Asia	Others	Total
	Thousands of U.S. dollars					
Net sales	$ 8,145,459	$ 1,357,711	$ 492,425	$ 4,897,881	$ 162,368	$15,055,845
Tangible fixed assets	4,929,232	757,686	50,671	322,428	16,403	6,076,422

Notes:

1. Countries or regions have been classified in terms of their geographic proximity.
2. Main countries or regions that belong to the geographic segments other than Japan and the United States are as follows:
   (1) Europe: Germany, United Kingdom, Spain, France, Finland
   (2) Asia: Indonesia, South Korea, Malaysia, Singapore, China, Taiwan, Hong Kong, Thailand
   (3) Others: Australia, Canada, Brazil
3. Information about major customers

This information is omitted because the Company does not have any major customers that account for 10% or more of net sales in the consolidated statements of income.

(e) Information about loss on impairment of fixed assets by reportable segments

March 31, 2018	Cement	Metals	Advanced materials & tools	Electronic materials & components	Aluminum	Others	Total	Elimination and corporate assets or expenses	Consolidated
	Millions of yen								
Loss on impairment	¥ 31	¥ 171	¥ 4,785	¥ 5,875	¥ —	¥ 165	¥ 11,029	¥ 6	¥ 11,035

March 31, 2017	Cement	Metals	Advanced materials & tools	Electronic materials & components	Aluminum	Others	Total	Elimination and corporate assets or expenses	Consolidated
	Millions of yen								
Loss on impairment	¥ 36	¥ 183	¥ 7,045	¥ 1,699	¥ —	¥ 519	¥ 9,484	¥ 493	¥ 9,977

March 31, 2018	Cement	Metals	Advanced materials & tools	Electronic materials & components	Aluminum	Others	Total	Elimination and corporate assets or expenses	Consolidated
	Thousands of U.S. dollars								
Loss on impairment	$ 295	$ 1,615	$ 45,040	$ 55,304	$ —	$ 1,559	$ 103,816	$ 60	$ 103,876

Note:

"Elimination and corporate assets or expenses" of "Loss on impairment" for the fiscal year ended March 31, 2018 in an amount of ¥6 million ($60 thousand) mainly refers to loss on impairment of idle assets

"Elimination and corporate assets or expenses" of "Loss on impairment" for the fiscal year ended March 31, 2017 in an amount of ¥493 million mainly refers to loss on impairment of rental property.

(f) Information about amortization and unamortized balance of goodwill by reportable segments

March 31, 2018	Cement	Metals	Advanced materials & tools	Electronic materials & components	Aluminum	Others	Total	Elimination and corporate assets or expenses	Consolidated
	Millions of yen								
Amortization	¥ 2,873	¥ 288	¥ 1,230	¥ —	¥ —	¥ 2	¥ 4,395	¥ —	¥ 4,395
Unamortized balance	27,405	8,697	8,525	—	—	7	44,636	—	44,636

March 31, 2017	Cement	Metals	Advanced materials & tools	Electronic materials & components	Aluminum	Others	Total	Elimination and corporate assets or expenses	Consolidated
	Millions of yen								
Amortization	¥ 2,798	¥ —	¥ 1,243	¥ —	¥ —	¥ 6	¥ 4,048	¥ —	¥ 4,048
Unamortized balance	33,676	—	9,756	—	—	2	43,436	—	43,436

March 31, 2018	Cement	Metals	Advanced materials & tools	Electronic materials & components	Aluminum	Others	Total	Elimination and corporate assets or expenses	Consolidated
	Thousands of U.S. dollars								
Amortization	$ 27,051	$ 2,716	$ 11,580	$ —	$ —	$ 27	$ 41,376	$ —	$ 41,376
Unamortized balance	257,957	81,866	80,250	—	—	74	420,148	—	420,148

Amortization and unamortized balance of negative goodwill incurred from business combinations that were conducted prior to April 1, 2010 are as follows:

March 31, 2018	Cement	Metals	Advanced materials & tools	Electronic materials & components	Aluminum	Others	Total	Elimination and corporate assets or expenses	Consolidated
	Millions of yen								
Amortization	¥ —	¥ —	¥ —	¥ —	¥ —	¥ —	¥ —	¥ —	¥ —
Unamortized balance	—	2,221	—	—	—	—	2,221	—	2,221

March 31, 2017	Cement	Metals	Advanced materials & tools	Electronic materials & components	Aluminum	Others	Total	Elimination and corporate assets or expenses	Consolidated
	Millions of yen								
Amortization	¥ —	¥ —	¥ —	¥ —	¥ —	¥ —	¥ —	¥ —	¥ —
Unamortized balance	—	2,221	—	—	—	—	2,221	—	2,221

	Thousands of U.S. dollars								
March 31, 2018	Cement	Metals	Advanced materials & tools	Electronic materials & components	Aluminum	Others	Total	Elimination and corporate assets or expenses	Consolidated
Amortization	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Unamortized balance	—	20,908	—	—	—	—	20,908	—	20,908

(g) Gain from negative goodwill by reportable segment
Fiscal years ended March 31, 2018 and 2017
Not applicable

Note 20 Revaluation Reserve for Land

Pursuant to Article 2, Paragraphs 3, 4 and 5 of the Enforcement Ordinance for the Law concerning Revaluation Reserve for Land (the "Revaluation Law"), effective on March 31, 1998, and to the partial revision to this law on March 31, 2001, the Company and its certain consolidated subsidiaries revalued their own lands for business at fair value. The related unrealized gain, net of income taxes and non-controlling interests, was directly credited to "Revaluation reserve for land" in net assets in the consolidated balance sheets, and the applicable income tax effect was recorded as "Deferred tax liabilities for land revaluation" in liabilities in the consolidated balance sheets. When such land is sold, the revaluation reserve for land is reversed and credited to the retained earnings.

According to the Revaluation Law, the Group is not permitted to revalue the land at any time even if fair value of the land declines. Such unrecorded revaluation losses at March 31, 2018 and 2017 amounted to ¥42,193 million ($ 397,151 thousand) and ¥44,503 million, respectively.

Note 21 Notes to the Consolidated Statements of Cash Flows

Reconciliation between cash and cash equivalents in the consolidated statements of cash flows and the year-end balance of the consolidated balance sheets is as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Cash and deposits	¥ 93,389	¥ 141,264	$ 879,043
Less time deposits with original maturities greater than three months	(5,850)	(8,516)	(55,065)
Less restricted cash	(184)	(131)	(1,732)
Cash and cash equivalents	¥ 87,355	¥ 132,616	$ 822,244

Major assets acquired and liabilities assumed of the companies which newly became consolidated subsidiaries through acquisitions during the year ended March 31, 2018

Information about assets acquired, liabilities assumed, acquisition cost and payment for purchase as of the date of consolidation, in regards to the consolidations of Luvata Pori and 13 other newly acquired companies, is as follows:

	Millions of yen	Thousands of U.S. dollars
Current assets	¥ 34,996	$ 329,412
Fixed assets	23,998	225,892
Goodwill	8,057	75,846
Current liabilities	(18,530)	(174,422)
Non-current liabilities	(4,663)	(43,899)
Acquisition cost of shares	43,859	412,829
Foreign exchange losses, etc	1,562	14,710
Cash and cash equivalents	(5,051)	(47,544)
Payment for purchase of investments in subsidiaries resulting in change in the scope of consolidation	¥ 38,829	$ 365,489
Payments for the transfer of business	¥ 1,541	$ 14,506

Major assets and liabilities transferred of a company which is no longer a consolidated subsidiary due to the sale of shares during the year ended March 31, 2018

Information about assets and liabilities transferred, sales price and proceeds from sales of shares as of the date of deconsolidation, in regards to the sales of Mitsubishi Materials Real Estate Corporation, is as follows:

	Millions of yen	Thousands of U.S. dollars
Current assets	¥ 1,820	$ 17,132
Fixed assets	26,044	245,146
Current liabilities	(15,769)	(148,430)
Non-current liabilities	(3,169)	(29,830)
Other	1,325	12,479
Gain on net sales of investments in securities	4,560	42,925
Sales price of shares	14,812	139,422
Cash and cash equivalents	¥ (160)	$ (1512)
Proceeds from sales of subsidiaries' shares resulting in change in scope of consolidation	¥ 14,651	$ 137,909

Note 22 Net Income per Share of Common Stock

Reconciliation of the numbers and amounts used in the basic net income per share of common stock computation for the fiscal years ended March 31, 2018 and 2017 is as follows:

	Millions of yen	Thousands	Yen	U.S. dollars
Year ended March 31, 2018	Net income	Weighted average shares	Net income per share	Net income per share
Basic net income per share:				
Net income attributable to owners of parent	¥ 34,595			
Net income attributable to common Shareholders of parent	34,595	130,972	¥ 264.15	$ 2.49

	Millions of yen	Thousands	Yen
Year ended March 31, 2017	Net income	Weighted average shares	Net income per share
Basic net income per share:			
Net income attributable to owners of parent	¥ 28,352		
Net income attributable to common Shareholders of parent	28,352	130,993	¥ 216.44

Notes:
1. The Company consolidated its shares at a 10:1 ratio of its common stock, with an effective date of October 1, 2016.Accordingly, net income per share is calculated on the assumption that the consolidation of its shares was conducted at the beginning of the previous consolidated fiscal year.
2. Diluted net income per share has not been disclosed since there were no dilutive securities for the fiscal years ended March 31, 2018 and 2017.

Note 23 Related party Information

1. Transactions with related parties
Transactions by consolidated subsidiaries of the Company with non-consolidated subsidiaries and affiliated companies of the Company

The information for the fiscal year ended March 31, 2018 and 2017 was omitted because there were no significant transactions with related parties for the fiscal year ended March 31, 2018 and 2017.

2. There was no applicable information about a significant affiliate for the fiscal years ended March 31, 2018 and 2017.

Note 24 Loss on Impairment of Fixed Assets

In reviewing fixed assets for impairment, the Group categorizes their operating assets mainly by product group within the reportable segments, and idle assets by asset unit.

For the fiscal years ended March 31, 2018 and 2017, the Company and the domestic consolidated subsidiaries recognized the loss on impairment of fixed assets amounting to ¥11,035 million ($103,876 thousand) and ¥9,977 million, respectively, as other expenses in the consolidated statements of income by devaluating the carrying amount of each fixed asset to its recoverable amount. The devalued assets were in operating asset groups whose profitability has significantly deteriorated due to the decline in market value of products or others and also were idle assets whose recoverable amounts were lower than their carrying amounts due to the decline in market value of each asset, etc.

The details for the fiscal year ended March 31, 2018 were as follows:

			Loss on impairment			
Asset group	Location	Asset type	Millions of yen		Thousands of U.S. dollars	
Cement	Onojo, Fukuoka prefecture, etc.	Tools, instruments, etc.	¥	0	$	0
Advanced materials & tools	Niigata, Niigata prefecture, etc.	Machinery and equipment, tools, instruments, etc.		4,785		45,040
Electronic materials & components	Mobile in Alabama, America	Machinery and equipment, buildings, etc.		5,875		55,304
Others	Chuo-ku, Tokyo prefecture, etc.	Software, buildings, etc		81		771
Rental property	Osaka, Osaka prefecture, etc.	Land		1		9
Idle assets	Sakai, Osaka prefecture, etc.	Land, buildings, etc.		292		2,749
Total			¥	11,035	$	103,876

*Details of loss on impairment by account
Buildings ¥896 million ($8,437 thousand), Machinery and equipment ¥7,267 million ($68,403 thousand), Land ¥313 million ($2,950 thousand) and Others ¥2,558 million ($24,085 thousand).

The details for the fiscal year ended March 31, 2017 were as follows:

			Loss on impairment	
Asset group	Location	Asset type	Millions of yen	
Cement	Onojo, Fukuoka prefecture, etc.	Machinery and equipment, etc.	¥	3
Advanced materials & tools	Niigata, Niigata prefecture, etc.	Machinery and equipment, buildings, etc.		7,045
Electronic materials & components	Sunto-gun, Shizuoka prefecture, etc	Machinery and equipment, buildings, etc.		1,699
Rental property	Osaka, Osaka prefecture, etc.	Land, buildings, etc.		1,003
Idle assets	Sakai, Osaka prefecture, etc.	Land, buildings, etc.		226
Total			¥	9,977

*Details of loss on impairment by account
Buildings ¥1,987 million, Machinery and equipment ¥4,337 million, Land ¥1,030 million and Others ¥2,623 million.

Note 25 Loss on Non-Conforming products

This expense was temporarily incurred for an investigation into the revealed fact that some of the products that the Group manufactured and sold in the past deviated from customer standards or internal company specifications as a result of misconduct, including the rewriting of inspection records data and the insufficient testing.

Note 26 Information on Net Assets

(a) Type and Number of Shares Issued and Treasury Stock
For the fiscal years ended March 31, 2018 and 2017, information on shares issued and treasury stock is presented as follows:

	Type of shares issued	Type of treasury stock
	Common stock	Common stock *1,2,3,4,5
Number of shares as of March 31, 2016	1,314,895,351	4,886,174
Increase during the fiscal year ended March 31, 2017	—	71,937
Decrease during the fiscal year ended March 31, 2017	1,183,405,816	4,450,248
Number of shares as of March 31, 2017	131,489,535	507,863
Increase during the fiscal year ended March 31, 2018	—	19,324
Decrease during the fiscal year ended March 31, 2018	—	98
Number of shares as of March 31, 2018	131,489,535	527,089

*1. Decrease in the number of shares issued during the fiscal year ended March 31, 2017
Decrease due to stock consolidation 1,183,405,816 shares
*2. Increase in the number of treasury shares during the fiscal year ended March 31, 2017
Purchase of less-than-one-unit shares 71,937 shares
*3. Decrease in the number of treasury shares during the fiscal year ended March 31, 2017
Decrease due to stock consolidation 4,447,865 shares
Sales of less-than-one-unit shares 2,388 shares
*4. Decrease in the number of shares issued during the fiscal year ended March 31, 2018
Decrease due to stock consolidation 98 shares
*5. Increase in the number of treasury shares during the fiscal year ended March 31, 2018
Purchase of less-than-one-unit shares 19,324 shares

(b) Dividends
1. Dividend payment
Approvals by the Board of Directors' meeting held on May 11, 2017 are as follows:

Type of shares:	Common stock
Total amount of dividends:	¥5,239 million ($49,316 thousand)
Dividends per share:	¥40.00 ($0.38)
Record date:	March 31, 2017
Effective date:	June 1, 2017

Approvals by the Board of Directors' meeting held on November 8, 2017 are as follows:

Type of shares:	Common stock
Total amount of dividends:	¥3,929 million ($36,984 thousand)
Dividends per share:	¥30.00 ($0.28)
Record date:	September 30, 2017
Effective date:	December 4, 2017

2. Dividends whose record date is attributable to the fiscal year ended March 31, 2018, but to be effective in the following fiscal year.
Approvals by the Board of Directors' meeting held on May 10, 2018 are as follows:

Type of shares:	Common stock
Total amount of dividends:	¥6,548 million ($61,636 thousand)
Source:	Retained earnings
Dividends per share:	¥50.00 ($0.47)
Record date:	March 31, 2018
Effective date:	June 1, 2018

Note 27 Subsequent Events

Not applicable

Independent Auditor's Report

To the Board of Directors of Mitsubishi Materials Corporation:

Independent Auditor's Report

To the Board of Directors of Mitsubishi Materials Corporation:

We have audited the accompanying consolidated financial statements of Mitsubishi Materials Corporation and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2018 and 2017, and the consolidated statements of income and comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Mitsubishi Materials Corporation and its consolidated subsidiaries as at March 31, 2018 and 2017, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2018 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA LLC

KPMG AZSA LLC
July 5, 2018
Tokyo, Japan

Main Consolidated Subsidiaries and Affiliates (As of March 31, 2018)

Main Consolidated Subsidiaries

	Line of Business	Percentage of Ownership (including indirect ownership)
Cement		
MCC Development Corp.	Investment in ready-mixed concrete businesses in the U.S.	70.0%
Mitsubishi Cement Corp.	Production and sales of cement in the south-west area of the U.S.	67.0%
Robertson's Ready Mix, Ltd.	Production and sales of ready-mixed concrete and aggregate in the south-west area of the U.S.	100.0%
Metals		
Mitsubishi Cable Industries, Ltd.	Production and sales of sealing products	100.0%
Materials Eco-Refining Co., Ltd.	Smelting, processing and recycling of non-ferrous metals	100.0%
Mitsubishi Shindoh Co., Ltd.	Production and sales of processed copper products and processed copper alloy products	100.0%
MMC Copper Products Oy	Business administration of subsidiaries that produce and sell processed copper products	100.0%
Onahama Smelting & Refining Co., Ltd.	Smelting on consignment of copper concentrate	55.7%
PT. Smelting	Production and sales of copper cathode in Indonesia	60.5%
Sambo Metals Corp.	Sales of rolled copper products and electric wires	100.0%
Advanced Materials & Tools		
Diamet Corp.	Production and sales of sintering parts	100.0%
Mitsubishi Hitachi Tool Engineering, Ltd.	Production and sales of cemented carbide tools	51.0%
Electronic Materials & Components		
Mitsubishi Polycrystalline Silicon America Corp.	Production and sales of polycrystalline silicon for semiconductor in the U.S.	100.0%
Aluminum		
Mitsubishi Aluminum Co., Ltd.	Production and sales of rolled and processed aluminum products	90.4%
Universal Can Corp.	Production and sales of aluminum beverage cans	80.0%
Others		
Materials' Finance Co., Ltd.	Financing the Company and its affiliates	100.0%
Mitsubishi Materials Techno Corp.	Technical construction and civil engineering; production and sales of industrial machinery	100.0%
Mitsubishi Materials Trading Corp.	Sales of the Company's products and other non-ferrous metal products	100.0%

Main Affiliates

	Line of Business	Percentage of Ownership (including indirect ownership)
Cement		
NM Cement Co., Ltd.	Investment in Nghi Son Cement Corp. (Vietnam)	30.0%
P.S. Mitsubishi Construction Co., Ltd.	Pre-stressed concrete works, civil engineering and sales of concrete products	33.9%
Ube-Mitsubishi Cement Corp.	Sales of cement and cement-related products	50.0%
Metals		
Kobelco & Materials Copper Tube Co., Ltd.	Production and sales of copper tubes and fabricated copper tubes	45.0%
Others		
LM Sun Power Co., Ltd.	Operation of solar power generation	50.0%
Japan Drilling Co., Ltd.	Offshore drilling for oil and gas exploration and development, construction and other work	20.05%