Consolidated Financial Results for the Nine Months Ended December 31, 2017 (Japanese Accounting Standards)

February 13, 2018

Name of Listed Company: Mitsubishi Materials Corporation   Listing: Tokyo Stock Exchange
Stock Code: 5711   URL: http://www.mmc.co.jp/
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Scheduled filing date of Quarterly Report: February 13, 2018
Scheduled date of start of dividend payment: —
Supplementary materials for the quarterly financial results: Yes
Investor conference for the quarterly financial results: Yes (For Institutional Investors)

(Amounts of less than million yen are omitted.)

1. Results of the first nine months ended December 31, 2017 (From April 1, 2017 to December 31, 2017)

(1) Consolidated Results of Operations (cumulative)

(Figures in percentages denote the year-on-year change.)

	Net sales		Operating profit		Ordinary income		Net income attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
First nine months ended December 31, 2017	1,147,047	19.9	54,988	25.3	68,581	29.5	43,734	-11.5
First nine months ended December 31, 2016	956,344	-9.4	43,892	-15.9	52,977	-4.5	49,393	-12.7

(Note) Comprehensive income: Nine months ended December 31, 2017: 105,073 million yen (124.6%)
Nine months ended December 31, 2016: 46,787 million yen (-3.9%)

	Net income per share	Diluted net income per share
	Yen	Yen
First nine months ended December 31, 2017	333.91	–
First nine months ended December 31, 2016	377.06	–

* 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) Consolidated Financial Position

	Total assets	Net assets	Shareholders' equity ratio
	Million yen	Million yen	%
As of December 31, 2017	2,121,073	796,767	33.2
As of March 31, 2017	1,896,939	710,195	32.8

(Reference) Shareholders' Equity: As of December 31, 2017: 704,849 million yen   As of March 31, 2017: 621,281 million yen

2. Dividend Payments

	Dividends per share				
(Record date)	First quarter	Second quarter	Third quarter	Year-end	Annual
	Yen	Yen	Yen	Yen	Yen
Year ended March 31, 2017	–	2.00	–	40.00	–
Year ending March 31, 2018	–	30.00	–		
Year ending March 31, 2018 (Forecast)				50.00	80.00

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

* The Company consolidated its shares at a 10:1 ratio of its common stock, with an effective date of October 1, 2016. For the amount of dividends at the end of the second quarter of the fiscal year ended March 31, 2017, the amount prior to the consolidation of shares is stated because the dividends were paid based on the number of shares before the consolidation of shares.
For the year-end dividend per share in the fiscal year ended March 31, 2017, the amount after the consolidation of shares is stated and a hyphen is written for the annual dividend because it cannot be simply combined.

3. Consolidated earnings forecast (From April 1, 2017 to March 31, 2018)

(Figures in percentages denote the year-on-year change.)

	Net sales		Operating profit		Ordinary income		Net income attributable to owners of parent		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Year ending March 31, 2018	1,580,000	21.2	70,000	17.1	78,000	22.0	35,000	23.4	267.23

(Note) Revision to forecast published most recently: Yes

* Notes

(1) Significant changes of subsidiaries during the term under review (changes in specific subsidiaries accompanied by a change in the scope of consolidation): None

(2) Application of specific accounting treatment: Yes

(Note) For details, please see "(3) Notes to consolidated quarterly financial statements (Application of special accounting treatment in the preparation of the quarterly consolidated financial statements)" under "2. Consolidated Financial Statements and Keynotes" on page 11.

(3) Changes in accounting policies, changes of accounting estimates and restatement

(i) Changes in accounting policies due to amendments to accounting standards: None
(ii) Other changes in accounting policies: Yes
(iii) Changes in accounting estimates: None
(iv) Restatements: None

(Note) For details, please see "(3) Notes to consolidated quarterly financial statements (Changes in accounting policies)" under "2. Consolidated Financial Statements and Keynotes" on page 11.

(4) Numbers of issued shares (common stock)

(i) Numbers of issued shares at end of terms (including treasury shares):
Nine months ended December 31, 2017: 131,489,535 shares
Year ended March 31, 2017: 131,489,535 shares

(ii) Numbers of treasury shares at end of terms:
Nine months ended December 31, 2017: 523,092 shares
Year ended March 31, 2017: 507,863 shares

(iii) Average number of shares issued during terms (quarterly cumulative period):
Nine months ended December 31, 2017: 130,975,076 shares
Nine months ended December 31, 2016: 130,995,924 shares

* The Company consolidated its shares at a rate of one share for every 10 shares of its common stock, with October 1, 2016 as the effective date. Subsequently, the average number of shares issued during terms are calculated based on the assumption that the consolidation of shares was conducted at the beginning of the previous consolidated fiscal year.

* This quarterly financial summaries is not subject to a quarterly review.

* Explanation about the proper use of financial forecasts and other special notes

(Notes concerning forward-looking statements, etc.)

The operating results forecasts and other forward-looking statements contained in this report are based on information currently available to the Company, as well as certain assumptions that the Company has judged to be reasonable. As such, they do not constitute an assurance that the Company promises to achieve these projected results. Therefore, readers are advised to note that the actual results may vary materially from the forecasts due to a variety of factors.

Please see "(3) Information on the consolidated earnings forecasts and other future forecasts" of "1. Qualitative Information on Financial Results for the Nine Months Ended December 31, 2017" on page 5 for the assumptions about consolidated earnings forecasts.

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

Mitsubishi Materials Corporation plans to hold a quarterly financial briefing for institutional investors on Tuesday, February 13, 2018. The materials used at this briefing are disclosed on the TDnet and the Company's web page at the time that the quarterly financial results are announced.

Contents

1. Qualitative Information on Financial Results for the Nine Months Ended December 31, 2017

(1) Details of operating results

1) Overview of operating results

During the first nine months of 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 consumer spending and capital expenditure showed signs of improvement.

Regarding the business environment for the Mitsubishi Materials Group, the energy prices rose but the copper prices increased, the yen remained weak, and demand for products used in the automotive and electronics industry remained strong.

Under these circumstances, consolidated net sales for the first nine months of the year under review totaled ¥1,147,047 million, up 19.9% year on year. Operating profit increased 25.3% year on year, to ¥54,988 million, and ordinary income rose 29.5%, to ¥68,581 million. Net income attributable to owners of parent was ¥43,734 million, down 11.5% year on year.*

* The decrease in net income attributable to owners of parent in the first nine months of the fiscal year under review was caused by a decline in gain on sales of non-current assets.

Recently, Mitsubishi Materials Corporation (the “Company”) discovered sequentially that the Company’s consolidated subsidiaries Mitsubishi Cable Industries, Ltd., Mitsubishi Shindoh Co., Ltd., Mitsubishi Aluminum Co., Ltd., Tachibana Metal Manufacturing Co., Ltd., and Diamet Corporation had delivered products, etc. that deviated from customer standards or internal company specifications due to misconduct, including the rewriting of inspection records data and the insufficient testing concerning some of the products manufactured and sold in the past (the “Incident”). The Company sincerely apologizes to its customers, shareholders, and all other parties affected by the Incident for any and all inconvenience. The effect of the Incident on the consolidated financial results for the first nine months of the year under review is insignificant.

2) Overview by segments

(Cement)

(Billion yen)

	FY 2017 Q1-Q3	FY 2018 Q1-Q3	Increase / Decrease (%)
Net sales	132.3	146.0	13.7 (10.4%)
Operating profit	16.4	16.9	0.5 (3.4%)
Ordinary income	16.3	18.3	1.9 (12.0%)

Sales volumes rose in Japan due to the firm performance of construction work of facilities related to the Tokyo Olympic and Paralympic Games in the Tokyo metropolitan area, as well as disaster restoration work and road-related work in Kyushu, which also remained solid. However, mainly rising energy costs resulted in a decline in operating profit, even as net sales increased.

In the United States, the sales volumes of ready-mixed concrete increased thanks to strong private-sector demand related to housing and commercial facilities in Southern California. In addition, selling price of cement grew year on year. As a result, both net sales and operating profit increased.

As a result, net sales and operating profit increased year on year for the entire Cement business. Ordinary income also rose chiefly due to the increase in operating profit and increase in equity in earnings of affiliates.

(Metals)

(Billion yen)

	FY 2017 Q1-Q3	FY 2018 Q1-Q3	Increase / Decrease (%)
Net sales	459.6	607.9	148.2 (32.3%)
Operating profit	12.4	17.0	4.5 (36.8%)
Ordinary income	22.9	30.5	7.5 (33.1%)

In the copper business, both net sales and operating profit rose, reflecting increase in the copper prices and a rise in the amount contracted by Onahama Smelting and Refining Co., Ltd. despite periodic furnace repairs conducted at Noshima Smelter & Refinery.

In the gold and other valuable metals business, net sales increased while operating profit decreased due to growing costs despite a production hike reflecting, in particular, a rise in the amount of gold and other valuable metals contained in the raw material ore.

In the copper and copper alloy products business, net sales and operating profit were up chiefly due to an increase in sales of products for automobiles and the inclusion of the business results of MMC Copper Products OY in the consolidated quarterly statements of income since the second quarter of the fiscal year.

As a result, the overall Metals business posted a year-on-year increase in net sales and operating profit. Ordinary income increased due to a rise in operating profit and dividend income.

(Advanced Materials & Tools)

(Billion yen)

	FY 2017 Q1-Q3	FY 2018 Q1-Q3	Increase / Decrease (%)
Net sales	106.1	119.6	13.5 (12.8%)
Operating profit	8.2	13.8	5.6 (67.8%)
Ordinary income	7.2	13.0	5.7 (79.6%)

In the cemented carbide products business, net sales and operating profit increased as a result of aggressive efforts for sales promotion, in addition to higher demand in Japan, Europe, United States, and Southeast Asia.

In the high-performance alloy products business, sales of our mainstay sintering parts increased in Japan, Europe, and the United States following the launch of new products in addition to growth in demand. As a result, both net sales and operating profit increased.

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

(Electronic Materials & Components)

(Billion yen)

	FY 2017 Q1-Q3	FY 2018 Q1-Q3	Increase / Decrease (%)
Net sales	46.4	52.5	6.1 (13.2%)
Operating profit	1.3	2.6	1.3 (98.1%)
Ordinary income	1.4	3.1	1.7 (117.6%)

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

In the electronic components business, both net sales and operating profit also increased thanks to a higher volume of sales of products for home appliances and other products.

The polycrystalline silicon business recorded an increase in net sales and a decrease in operating profit, due to a fall in selling prices, despite an increase in sales volume based primarily on higher demand backed by the strong semiconductor market.

As a result, the entire Electronics Materials & Components business registered year-on-year increases in net sales and operating profit. Ordinary income rose as a result of higher operating profit and dividend income.

(Aluminum)

(Billion yen)

	FY 2017 Q1-Q3	FY 2018 Q1-Q3	Increase / Decrease (%)
Net sales	120.4	114.9	-5.4 (-4.5%)
Operating profit	7.6	4.4	-3.2 (-42.5%)
Ordinary income	7.6	4.0	-3.5 (-46.4%)

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

In the rolled aluminum and processed aluminum products business, net sales and operating profit fell as a result of lower sales, principally of can materials and plate products for Litho sheets, and a rise in energy costs.

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

(Others)

(Billion yen)

	FY 2017 Q1-Q3	FY 2018 Q1-Q3	Increase / Decrease (%)
Net sales	148.7	170.2	21.5 (14.5%)
Operating profit	4.8	6.2	1.4 (30.3%)
Ordinary income	4.6	6.1	1.5 (32.5%)

In the energy-related business, net sales and operating profit increased due to a sales increase of coal thanks to an improvement in the market condition.

In the “E-waste” (used electronics and electrical products) recycling business, both net sales and operating profit increased with a rise in the recycling unit cost of valuables, in addition to continued firmness in recycling volumes.

Total net sales and operating profit in the overall Others business excluding the energy-related business and the “E-waste” (used electronics and electrical products) recycling business increased.

In the overall Others business, net sales and operating profit increased from a year earlier. Ordinary income rose due to the rise in operating profit, in addition to an increase in dividend income.

(2) Details of financial position

Total assets at the end of the third quarter of the consolidated fiscal year under review stood at ¥2,121.0 billion, up ¥224.1 billion from the end of the previous consolidated fiscal year. This result was mainly due to an increase in inventories.

Total liabilities were ¥1,324.3 billion, an increase of ¥137.5 billion from the end of the previous consolidated fiscal year. This was principally a result of an increase in short-term loans payable.

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

In our consolidated earnings forecast for the full year of the fiscal year ending March 31, 2018, we have revised the previous forecasts for net sales, operating profit, and ordinary income (announced on November 8, 2017) as shown below. The revised forecasts chiefly reflect that sales of cement in the United States and aluminum cans lower than planned despite increase in sales of cemented carbide products and dividend income. In addition, the revised forecasts are also based on certain assumptions at the present time and take into consideration the impact of the issue of non-conforming products at consolidated subsidiaries of the Company. The forecast for net income attributable to owners of parent is unchanged from the previously announced forecast because improvement in extraordinary income and loss is expected.

Revised Consolidated Earnings Forecasts for the Fiscal Year Ending March 31, 2018
(from April 1, 2017 to March 31, 2018)

(Billion yen)

	Previous forecast	Current forecast	Increase / Decrease (%)
Net sales	1,600.0	1,580.0	-1.3%
Operating profit	75.0	70.0	-6.7%
Ordinary income	80.0	78.0	-2.5%
Net income attributable to owners of parent	35.0	35.0	-

2. Consolidated Financial Statements and Keynotes

(1) Consolidated balance sheet

(Million yen)

	As of March 31, 2017	As of December 31, 2017
Assets		
Current assets		
Cash and deposits	141,264	102,518
Notes and accounts receivable - trade	213,343	254,116
Merchandise and finished goods	85,878	101,952
Work in process	101,643	166,507
Raw materials and supplies	100,757	134,468
Others	227,119	239,848
Allowance for doubtful accounts	(2,537)	(2,598)
Total current assets	867,469	996,814
Non-current assets		
Property, plant and equipment		
Machinery and equipment, net	199,758	202,229
Land, net	260,805	258,934
Other, net	205,661	219,469
Total property, plant and equipment	666,226	680,633
Intangible assets		
Goodwill	43,436	47,404
Other	15,138	20,938
Total intangible assets	58,574	68,342
Investments and other assets		
Investment securities	252,067	318,618
Others	58,151	60,916
Allowance for doubtful accounts	(5,549)	(4,252)
Total investments and other assets	304,669	375,282
Total non-current assets	1,029,470	1,124,258
Total assets	1,896,939	2,121,073

(Million yen)

	As of March 31, 2017	As of December 31, 2017
Liabilities		
Current liabilities		
Notes and accounts payable - trade	114,502	156,997
Short-term loans payable	203,819	262,072
Current portion of bonds payable	15,000	25,000
Income taxes payable	16,154	10,412
Provision	13,518	7,871
Gold payable	241,406	255,195
Other	102,262	116,861
Total current liabilities	706,665	834,411
Non-current liabilities		
Bonds payable	55,000	50,000
Long-term loans payable	254,411	251,925
Provision for environmental measures	32,568	31,395
Other provision	5,502	2,523
Net defined benefit liability	56,037	56,946
Other	76,560	97,102
Total non-current liabilities	480,079	489,894
Total liabilities	1,186,744	1,324,306
Net assets		
Shareholders' equity		
Capital stock	119,457	119,457
Capital surplus	92,422	92,422
Retained earnings	333,526	368,863
Treasury stock	(2,017)	(2,074)
Total shareholders' equity	543,390	578,669
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	55,226	102,607
Deferred gains or losses on hedges	888	(1,516)
Revaluation reserve for land	34,930	34,924
Foreign currency translation adjustment	(1,418)	(252)
Remeasurements of defined benefit plans	(11,735)	(9,584)
Total accumulated other comprehensive income	77,891	126,179
Non-controlling interests	88,913	91,918
Total net assets	710,195	796,767
Total liabilities and net assets	1,896,939	2,121,073

(2) Consolidated statement of income and consolidated statements of comprehensive income

Consolidated statement of income

Consolidated first nine months (Million yen)

	Nine Months Ended December 31, 2016 (Apr. 1, 2016– Dec 31, 2016)	Nine Months Ended December 31, 2017 (Apr. 1, 2017– Dec 31, 2017)
Net sales	956,344	1,147,047
Cost of sales	807,859	981,607
Gross profit	148,484	165,440
Selling, general and administrative expenses	104,591	110,451
Operating profit	43,892	54,988
Non-operating profit		
Interest income	405	579
Dividend income	14,368	18,252
Equity in earnings of affiliates	1,867	2,267
Rent income on non-current assets	3,661	3,595
Other	1,577	2,081
Total non-operating profit	21,879	26,776
Non-operating expenses		
Interest expenses	3,812	3,788
Settlement expenses of remaining business in mines	2,439	3,029
Loss on retirement of non-current assets	2,374	2,710
Other	4,167	3,655
Total non-operating expenses	12,793	13,184
Ordinary income	52,977	68,581
Extraordinary income		
Gain on sales of non-current assets	16,039	2,365
Gain on reversal of loss on valuation of investment securities	–	1,145
Gain on sales of investment securities	3,169	981
Other	470	6
Total extraordinary income	19,680	4,499
Extraordinary losses		
Loss on sales of investment securities	–	490
Loss on sales of non-current assets	73	283
Subsidiary transfer cost	107	40
Loss on valuation of investment securities	109	–
Other	222	136
Total extraordinary losses	512	952
Income before income taxes	72,145	72,128
Income taxes	17,454	19,746
Net income	54,690	52,381
Net income attributable to non-controlling interests	5,296	8,646
Net income attributable to owners of parent	49,393	43,734

Consolidated statements of comprehensive income

Consolidated first nine months (Million yen)

	Nine Months Ended December 31, 2016 (Apr. 1, 2016– Dec 31, 2016)	Nine Months Ended December 31, 2017 (Apr. 1, 2017– Dec 31, 2017)
Net income	54,690	52,381
Other comprehensive income		
Valuation difference on available-for-sale securities	13,472	47,519
Deferred gains or losses on hedges	(4,941)	(2,521)
Foreign currency translation adjustment	(15,752)	4,595
Remeasurements of defined benefit plans	2,618	2,104
Equity in earnings of affiliates	(3,299)	993
Total other comprehensive income	(7,902)	52,691
Comprehensive income	46,787	105,073
(Breakdown)		
Comprehensive income attributable to owners of parent	46,191	95,360
Comprehensive income attributable to non-controlling interests	596	9,712

(3) Notes to consolidated quarterly financial statements

Notes on assumptions for a going concern

N/A

Segment information

[Segment Information]

I. For the nine months ended December 31, 2016 (from April 1, 2016 to December 31, 2016)

Sales and income of reporting segments

(Million yen)

	Cement	Metals	Advanced Materials & Tools	Electronic Materials & Components	Aluminum	Others	Total	Adjustment amount	Amount indicated in the consolidated quarterly statements of income
Net sales									
(1) Outside customers	129,989	453,958	94,395	41,727	118,805	117,467	956,344	–	956,344
(2) Within consolidated group	2,334	5,695	11,747	4,673	1,621	31,242	57,315	(57,315)	–
Total	132,323	459,654	106,143	46,400	120,427	148,709	1,013,659	(57,315)	956,344
Segment income	16,380	22,938	7,259	1,459	7,619	4,674	60,332	(7,354)	52,977

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

2. “Adjustment amount” of segment income of -¥7,354 million includes the elimination of intersegment transactions of ¥21 million and corporate expenses of -¥7,376 million which are not distributed to the reporting segments. Corporate expenses consist mainly of general and administrative expenses that do not belong to the reporting segments, basic experiment and research expenses, and financial revenue and expenses.

3. Segment income has been adjusted together with ordinary income on the consolidated quarterly statements of income.

II. For the nine months ended December 31, 2017 (from April 1, 2017 to December 31, 2017)

1. Sales and income of reporting segments

(Million yen)

	Cement	Metals	Advanced Materials & Tools	Electronic Materials & Components	Aluminum	Others	Total	Adjustment amount	Amount indicated in the consolidated quarterly statements of income
Net sales									
(1) Outside customers	143,337	600,864	110,954	45,824	114,343	131,722	1,147,047	–	1,147,047
(2) Within consolidated group	2,706	7,074	8,739	6,709	632	38,512	64,375	(64,375)	–
Total	146,044	607,939	119,693	52,533	114,975	170,235	1,211,422	(64,375)	1,147,047
Segment income	18,340	30,536	13,036	3,176	4,086	6,195	75,371	(6,789)	68,581

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

2. “Adjustment amount” of segment income of -¥6,789 million includes the elimination of intersegment transactions of ¥74 million and corporate expenses of -¥6,864 million which are not distributed to the reporting segments. Corporate expenses consist mainly of general and administrative expenses that do not belong to the reporting segments, basic experiment and research expenses, and financial revenue and expenses.

3. Segment income has been adjusted together with ordinary income on the consolidated quarterly statements of income.

2. Matters relating to the change in the reporting segments, etc.

(Changes in the depreciation method of property, plant and equipment)

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 from the first quarter of the current consolidated fiscal year.

As a result of changing the depreciation method, segment income has increased ¥219 million in the first nine months of the current consolidated fiscal year, compared with the case in which the past method is used.

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

N/A

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

The Company calculates tax expenses by rationally assuming an effective tax rate after applying tax effect accounting to income before income taxes for the consolidated fiscal year, including the third quarter under review, and multiplying income before income taxes for the first nine months by the estimated effective tax rate.

Changes in accounting policies

(Changes in the depreciation method of property, plant and equipment)

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 from the first quarter of the current consolidated fiscal year. 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 ¥219 million, respectively, in the first nine months of the current consolidated fiscal year, compared with the case in which the past method is used.

Additional information

(Provision for environmental measures)

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

Contingent liabilities

(Matters concerning taxation in Indonesia)

Previous consolidated fiscal year (As of March 31, 2017)

On December 30, 2014, PT. Smelting in Indonesia, a consolidated subsidiary of the Company (hereinafter the “Consolidated Subsidiary”) 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 the Consolidated Subsidiary for the year ended December 2009. On January 28, 2015, the Consolidated Subsidiary made a provisional deposit of US$14 million (¥1,570 million) as a part of the additional collection.
However, the Consolidated Subsidiary submitted a written objection to the Indonesian National Tax Authority on March 25, 2015, because this assessment, which claimed there was a sales shortage on the part of the Consolidated Subsidiary based on a comparison of the profit margin ratio with other companies selected by the Indonesian National Tax Authority, was highly unreasonable and found to be unacceptable by the Company and the Consolidated Subsidiary.
The written objection submitted by the Consolidated Subsidiary on March 25, 2015 was dismissed by the Indonesian National Tax Authority on March 16, 2016. Therefore, the Consolidated Subsidiary filed a complaint to the Tax Court in Indonesia on June 6, 2016 to present the fairness of the view of the Company and the Consolidated Subsidiary.
On December 22, 2016, the Consolidated Subsidiary 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, the Consolidated Subsidiary submitted a written objection to the Indonesian National Tax Authority on March 20, 2017, because this assessment was a view that unilaterally negated the basis for recording raw materials costs, etc. of the Consolidated Subsidiary and found to be unacceptable by the Company and the Consolidated Subsidiary.

Third quarter of the consolidated fiscal year under review (As of December 31, 2017)
On December 30, 2014, PT. Smelting in Indonesia, a consolidated subsidiary of the Company (hereinafter the "Consolidated Subsidiary") received a notice of reassessment in an amount of US$47 million (¥5,409 million based on the exchange rate at the end of the third quarter of the consolidated fiscal year under review) from the Indonesian National Tax Authority, regarding the sales transaction pricing of the Consolidated Subsidiary for the year ended December 2009. On January 28, 2015, the Consolidated Subsidiary made a provisional deposit of US$14 million (¥1,582 million) as a part of the additional collection.
However, the Consolidated Subsidiary submitted a written objection to the Indonesian National Tax Authority on March 25, 2015, because this assessment, which claimed there was a sales shortage on the part of the Consolidated Subsidiary based on a comparison of the profit margin ratio with other companies selected by the Indonesian National Tax Authority, was highly unreasonable and found to be unacceptable by the Company and the Consolidated Subsidiary.
The written objection submitted by the Consolidated Subsidiary on March 25, 2015 was dismissed by the Indonesian National Tax Authority on March 16, 2016. Therefore, the Consolidated Subsidiary filed a complaint to the Tax Court in Indonesia on June 6, 2016 to present the fairness of the view of the Company and the Consolidated Subsidiary.
On December 22, 2016, the Consolidated Subsidiary received a notice of reassessment in an amount of US$34 million (¥3,869 million) from the Indonesian National Tax Authority, regarding its posting of raw material costs for the fiscal year ended December 2011.
However, the Consolidated Subsidiary submitted a written objection to the Indonesian National Tax Authority on March 20, 2017, because this assessment was a view that unilaterally negated the basis for recording raw materials costs, etc. of the Consolidated Subsidiary and found to be unacceptable by the Company and the Consolidated Subsidiary.
On November 29, 2017, the Consolidated Subsidiary received a notice of reassessment in an amount of US$22 million (¥2,579 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, the Consolidated Subsidiary made a provisional deposit of US$6 million (¥711 million) as part of the additional collection.
However, the Consolidated Subsidiary plans to submit 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 the Consolidated Subsidiary and was found to be unacceptable by the Company and the Consolidated Subsidiary.

(Matters concerning Non-Conforming Products)
Third quarter of the consolidated fiscal year under review (As of December 31, 2017)
Mitsubishi Materials Corporation discovered sequentially that the Company's consolidated subsidiaries Mitsubishi Cable Industries, Ltd., Mitsubishi Shindoh Co., Ltd., Mitsubishi Aluminum Co., Ltd., Tachibana Metal Manufacturing Co., Ltd., and Diamet Corporation had delivered products, etc. that deviated from customer standards or internal company specifications due to misconduct, including the rewriting of inspection records data and the insufficient testing concerning some of the products manufactured and sold in the past (the "Incident"). We are currently proceeding with explanation and confirmation of safety to customers.
Mitsubishi Cable Industries, Ltd. had its ISO 9001 and JIS Q 9100 certifications revoked, Mitsubishi Shindoh Co., Ltd. had its ISO9001 certification partially revoked and temporarily suspended, and its JIS certification temporarily suspended, and Mitsubishi Aluminum Co., Ltd. had its ISO 9001 certification temporarily suspended and its JIS certifications revoked by each of the accrediting agencies respectively.
On December 1, 2017, the Company established a Special Investigation Committee to grant this committee the authority, among other things, to conduct an investigation into the facts, causes and effects of this matter and formulate measures for the Mitsubishi Materials Group. The Company received an interim report from the Special Investigation Committee dated December 28, 2017.
The subsequent progress of the Incident may affect the Company's consolidated financial results if the Company pays compensation cost to customers or other affected parties or otherwise incurs a loss, since it is difficult to rationally estimate the impact amount at the present time, it is not reflected in the quarterly consolidated financial statements.

Significant subsequent events

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 signed a share sale and purchase agreement on the same day. The shares are scheduled to be transferred on February 28, 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 (incorporation-type company split)

(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

This is a split-off type of incorporation-type company split, in which all shares of the New Company are allotted to the Company on the effective date of the split. The purpose is to retain part of MMRE's real estate business in the Mitsubishi Materials Group 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 the "Implementation Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures."

(Additional information)

Business divestitures (sales of shares of a subsidiary (plan))

(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 28, 2018 (plan)

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) Reporting segment in which the divested business was included

Others business

3. Others

(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.