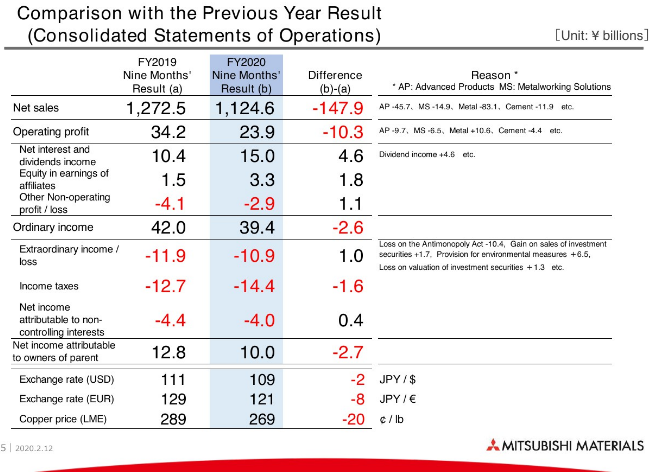
Investor Conference Call for the Consolidated Financial Results for the Nine Months Ended December 31, 2019

My name is Shibata, Managing Executive Officer of Mitsubishi Materials Corporation. Thank you very much for attending the conference call out of your busy schedule today.
I would like to express my sincere gratitude for your continuing interest in our company.
From now, I will explain the overview of the financial results for the nine months ended December 31, 2019, and the forecast for the full-year results.
Please look at page 2.

This shows the contents like “Comparison with the previous year result”, “FY2020 performance forecast” and so on.
I will skip the explanation for “Performance overview” on pages 3 and 4.
I will start from “Comparison with the previous year result” on page 5 and onwards.

Comparison with the Previous Year Result (Consolidated Statements of Operations)



Comparison with the Previous Year Result (Consolidated Statements of Operations)

［Unit: ¥ billions］

	FY2019 Nine Months' Result (a)	FY2020 Nine Months' Result (b)	Difference (b)-(a)	Reason * * AP: Advanced Products MS: Metalworking Solutions
Net sales	1,272.5	1,124.6	-147.9	AP -45.7、MS -14.9、Metal -83.1、Cement -11.9 etc.
Operating profit	34.2	23.9	-10.3	AP -9.7、MS -6.5、Metal +10.6、Cement -4.4 etc.
Net interest and dividends income	10.4	15.0	4.6	Dividend income +4.6 etc.
Equity in earnings of affiliates	1.5	3.3	1.8	
Other Non-operating profit / loss	-4.1	-2.9	1.1	
Ordinary income	42.0	39.4	-2.6	
Extraordinary income / loss	-11.9	-10.9	1.0	Loss on the Antimonopoly Act -10.4, Gain on sales of investment securities +1.7, Provision for environmental measures +6.5, Loss on valuation of investment securities +1.3 etc.
Income taxes	-12.7	-14.4	-1.6	
Net income attributable to non-controlling interests	-4.4	-4.0	0.4	
Net income attributable to owners of parent	12.8	10.0	-2.7	
Exchange rate (USD)	111	109	-2	JPY / $
Exchange rate (EUR)	129	121	-8	JPY / €
Copper price (LME)	289	269	-20	¢ / lb

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First, assumptions for key metrics are shown in the bottom section. The US dollar and Euro were weak against the yen, and copper prices fell 20 cents per pound.

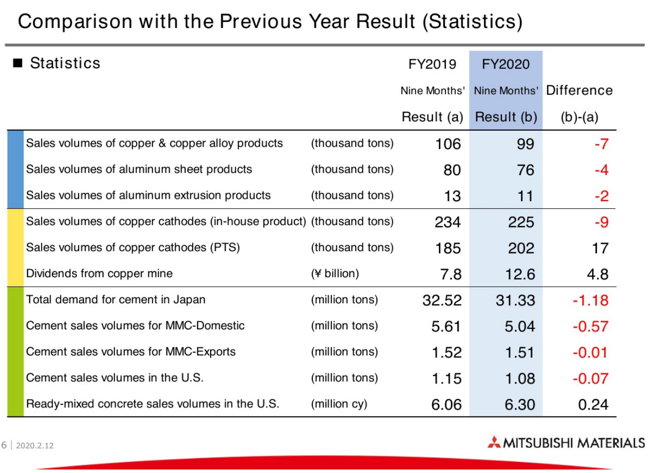
Returning to the upper section, net sales declined significantly mainly due to the decreased production volume of gold that resulted from a fall in the amount contained in raw materials and also a drop of copper prices in the Metals Business. In addition, slowdown of both the automotive and semiconductor market caused weak sales in the Advanced Products Business and the Metalworking Solutions Business. Net sales of the Cement Business also declined due to a decrease in domestic demand for cement.

Operating profit declined mainly due to lower sales in the Advanced Products Business, the Metalworking Solutions Business and the Cement Business, despite a profit increase in the Metals Business thanks to the reduced cost of smelting.

Ordinary income declined mainly due to a decrease in operating profit, while dividends income from the Los Pelambres mine and equity in earnings of affiliates increased.

Extraordinary income and losses remained the same level year on year, because Universal Can Corporation recorded a loss on the Antimonopoly Act in this fiscal year was almost equal to the provision of environmental measures for closed mines recorded in the 3rd quarter of last year. As a result, quarterly net income attributable to owners of the parent decreased mainly due to a decrease in ordinary income.
Next, I will explain each figure on page 6.

Comparison with the Previous Year Result (Statistics)



Comparison with the Previous Year Result (Statistics)

■ Statistics		FY2019 Nine Months' Result (a)	FY2020 Nine Months' Result (b)	Difference (b)-(a)
Sales volumes of copper & copper alloy products	(thousand tons)	106	99	-7
Sales volumes of aluminum sheet products	(thousand tons)	80	76	-4
Sales volumes of aluminum extrusion products	(thousand tons)	13	11	-2
Sales volumes of copper cathodes (in-house product)	(thousand tons)	234	225	-9
Sales volumes of copper cathodes (PTS)	(thousand tons)	185	202	17
Dividends from copper mine	(¥ billion)	7.8	12.6	4.8
Total demand for cement in Japan	(million tons)	32.52	31.33	-1.18
Cement sales volumes for MMC-Domestic	(million tons)	5.61	5.04	-0.57
Cement sales volumes for MMC-Exports	(million tons)	1.52	1.51	-0.01
Cement sales volumes in the U.S.	(million tons)	1.15	1.08	-0.07
Ready-mixed concrete sales volumes in the U.S.	(million cy)	6.06	6.30	0.24

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Sales volumes of copper & copper alloy products declined mainly in the rolled and processed products for automobiles and semiconductors.
Sales volumes of aluminum sheet products and extruded products declined due to a

decrease in demand for extrusion products and heat exchange sheet materials for automobiles.

Sales volumes of copper cathodes (in-house products) declined due to reduced production as a result of the equipment failure at the Onahama Smelting and Refining Co., Ltd. occurred in March 2019.

Sales volumes of copper cathodes in PT. Smelting increased in reaction to regular furnace repairs conducted in the previous fiscal year.

Dividends from copper mines increased mainly thanks to increased dividends from Los Pelambres mine.

Total demand for cement in Japan decreased due to the near completion demand for construction works of facilities related to the Tokyo Olympic and Paralympic Games in the Tokyo metropolitan area and road construction work related to the Shin-Meishin Expressway in the Tokai area.

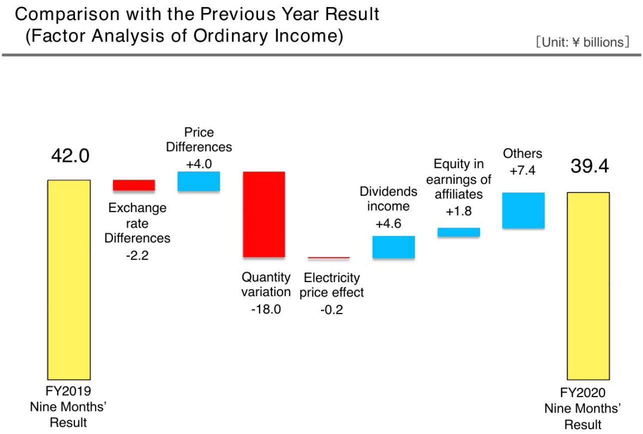
Cement sales volumes for MMC-Domestic decreased due to lower domestic demand and the equipment failure.

Cement sales volumes in the U.S. declined due to unsettled weather in Southern California during the current quarter, in addition to equipment failure in the first half of this fiscal year.

Sales volumes of ready-mixed concrete in the U.S. increased in reaction to unsettled weather caused by the record heavy rainfall in the fourth quarter of the previous fiscal year.

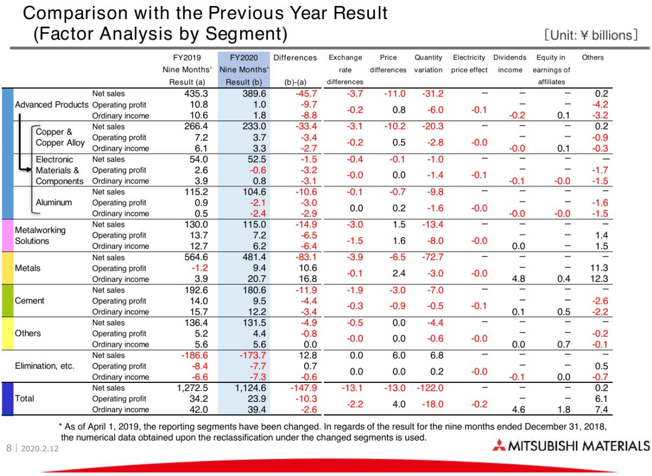
Next, I will explain “Comparison with the previous year result (factor analysis of ordinary income)”on page 7.

Comparison with the Previous Year Result (Factor Analysis of Ordinary Income)



The bar on the right shows the cumulative ordinary income of ¥ 39.4 billion for the nine months result ended December 31, 2019, a decrease of ¥ 2.6 billion year on year. Dividends income and equity in earnings of affiliates increased. And a decrease in smelting costs in the Metals Business included in “Other” contributed to a profit increase. However, Quantity variation decreased significantly due to sales decrease in the Advanced Products Business, the Metalworking Solutions Business and the Metals Business, leading to a considerable decline in ordinary income.
I will explain the breakdown “Factor analysis by segment” on the next page (page 8).

Comparison with the Previous Year Result (Factor Analysis by Segment)



Comparison with the Previous Year Result
(Factor Analysis by Segment)

［Unit: ¥ billions］

		FY2019 Nine Months' Result (a)	FY2020 Nine Months' Result (b)	Differences (b)-(a)	Exchange rate differences	Price differences	Quantity variation	Electricity price effect	Dividends income	Equity in earnings of affiliates	Others
Advanced Products	Net sales	435.3	389.6	-45.7	-3.7	-11.0	-31.2	–	–	–	0.2
	Operating profit	10.8	1.0	-9.7	-0.2	0.8	-6.0	-0.1	–	–	-4.2
	Ordinary income	10.6	1.8	-8.8					-0.2	0.1	-3.2
Copper & Copper Alloy	Net sales	266.4	233.0	-33.4	-3.1	-10.2	-20.3	–	–	–	0.2
	Operating profit	7.2	3.7	-3.4	-0.2	0.5	-2.8	-0.0	–	–	-0.9
	Ordinary income	6.1	3.3	-2.7					-0.0	0.1	-0.3
Electronic Materials & Components	Net sales	54.0	52.5	-1.5	-0.4	-0.1	-1.0	–	–	–	–
	Operating profit	2.6	-0.6	-3.2	-0.0	0.0	-1.4	-0.1	–	–	-1.7
	Ordinary income	3.9	0.8	-3.1					-0.1	-0.0	-1.5
Aluminum	Net sales	115.2	104.6	-10.6	-0.1	-0.7	-9.8	–	–	–	–
	Operating profit	0.9	-2.1	-3.0	0.0	0.2	-1.6	-0.0	–	–	-1.6
	Ordinary income	0.5	-2.4	-2.9					-0.0	-0.0	-1.5
Metalworking Solutions	Net sales	130.0	115.0	-14.9	-3.0	1.5	-13.4	–	–	–	–
	Operating profit	13.7	7.2	-6.5	-1.5	1.6	-8.0	-0.0	–	–	1.4
	Ordinary income	12.7	6.2	-6.4					0.0	–	1.5
Metals	Net sales	564.6	481.4	-83.1	-3.9	-6.5	-72.7	–	–	–	–
	Operating profit	-1.2	9.4	10.6	-0.1	2.4	-3.0	-0.0	–	–	11.3
	Ordinary income	3.9	20.7	16.8					4.8	0.4	12.3
Cement	Net sales	192.6	180.6	-11.9	-1.9	-3.0	-7.0	–	–	–	–
	Operating profit	14.0	9.5	-4.4	-0.3	-0.9	-0.5	-0.1	–	–	-2.6
	Ordinary income	15.7	12.2	-3.4					0.1	0.5	-2.2
Others	Net sales	136.4	131.5	-4.9	-0.5	0.0	-4.4	–	–	–	–
	Operating profit	5.2	4.4	-0.8	-0.0	0.0	-0.6	-0.0	–	–	-0.2
	Ordinary income	5.6	5.6	0.0					0.0	0.7	-0.1
Elimination, etc.	Net sales	-186.6	-173.7	12.8	0.0	6.0	6.8	–	–	–	–
	Operating profit	-8.4	-7.7	0.7	0.0	0.0	0.2	-0.0	–	–	0.5
	Ordinary income	-6.6	-7.3	-0.6					-0.1	0.0	-0.7
Total	Net sales	1,272.5	1,124.6	-147.9	-13.1	-13.0	-122.0	–	–	–	0.2
	Operating profit	34.2	23.9	-10.3	-2.2	4.0	-18.0	-0.2	–	–	6.1
	Ordinary income	42.0	39.4	-2.6					4.6	1.8	7.4

* As of April 1, 2019, the reporting segments have been changed. In regards of the result for the nine months ended December 31, 2018, the numerical data obtained upon the reclassification under the changed segments is used.

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In the Advanced Products, net sales and profits declined in all businesses, which are copper & copper alloy, electronic materials & components, and aluminum businesses. The details are as follows:
In the copper & copper alloy business, profits declined mainly due to a decrease in sales volumes as a result of slowing demand in the automotive and semiconductor markets.
In the electronic materials & components business, profits shrank due to lower sales of components for semiconductor manufacturing equipment and a sales decrease for electronic components products for the Chinese market, as well as an increase in manufacturing costs at Mitsubishi Polycrystalline Silicon America Corporation in the

U.S.

In the aluminum products business, a weak demand for heat exchange sheet materials for automobiles resulted in lower sales. In addition, in aluminum can business, response to multi-product production of regular cans, a fall in demand due to a cool summer, and an increase in factory operation costs also contributed to lower profits.

In the Metalworking Solutions Business, there was some cost improvement for sintering parts, etc. business included in “Others”. However, sales of cemented carbide products business declined in each region, mainly in China, largely due to the slowdown of the automotive market. As a result, profits fell mainly due to a decrease in quantity variation.

In the Metals Business, net sales declined mainly due to the decreased production volume of gold bullion that resulted from a fall in the amount contained in raw materials and sales volumes decrease of copper cathodes at Naoshima Smelter and Refinery. However, improvements in recovery rate at Naoshima and lower smelting costs at PT Smelting contributed to an increase in operating profit.

Ordinary income also increased mainly due to dividends income from the Los Pelambres mine.

In the Cement Business, sales and profit for domestic business declined due to lower sales as a result of weak demand and the equipment failure as well as a fall in revenue from waste treatment.

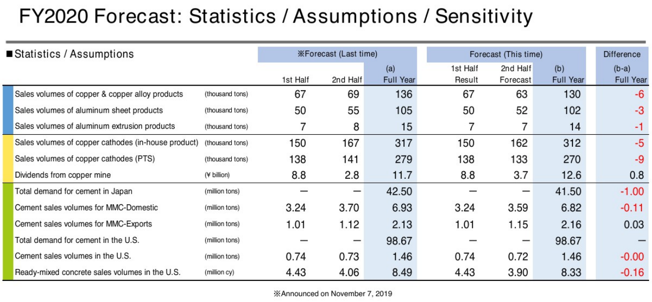
In the U.S., higher sales volume of the ready-mixed concrete business contributed to profit, but a rise in raw material costs and transportation costs resulted in lower operating profit.

I will skip the explanation of the balance sheet on page 9.

On page 10, I will explain the revised forecasts compared with the last forecasts announced previously on November 7, last year.

The risk of coronavirus outbreak is not included because it is difficult to estimate the impact on business results at this time.

FY2020 Forecast: Statistics / Assumptions / Sensitivity

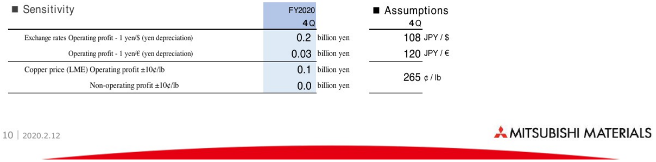


FY2020 Forecast: Statistics / Assumptions / Sensitivity

■Statistics / Assumptions

		※Forecast (Last time)			Forecast (This time)			Difference
		1st Half	2nd Half	(a) Full Year	1st Half Result	2nd Half Forecast	(b) Full Year	(b-a) Full Year
Sales volumes of copper & copper alloy products	(thousand tons)	67	69	136	67	63	130	-6
Sales volumes of aluminum sheet products	(thousand tons)	50	55	105	50	52	102	-3
Sales volumes of aluminum extrusion products	(thousand tons)	7	8	15	7	7	14	-1
Sales volumes of copper cathodes (in-house product)	(thousand tons)	150	167	317	150	162	312	-5
Sales volumes of copper cathodes (PTS)	(thousand tons)	138	141	279	138	133	270	-9
Dividends from copper mine	(¥ billion)	8.8	2.8	11.7	8.8	3.7	12.6	0.8
Total demand for cement in Japan	(million tons)	—	—	42.50	—	—	41.50	-1.00
Cement sales volumes for MMC-Domestic	(million tons)	3.24	3.70	6.93	3.24	3.59	6.82	-0.11
Cement sales volumes for MMC-Exports	(million tons)	1.01	1.12	2.13	1.01	1.15	2.16	0.03
Total demand for cement in the U.S.	(million tons)	—	—	98.67	—	—	98.67	—
Cement sales volumes in the U.S.	(million tons)	0.74	0.73	1.46	0.74	0.72	1.46	-0.00
Ready-mixed concrete sales volumes in the U.S.	(million cy)	4.43	4.06	8.49	4.43	3.90	8.33	-0.16

※Announced on November 7, 2019



■ Sensitivity

		FY2020 4Q	
Exchange rates	Operating profit - 1 yen/$ (yen depreciation)	0.2	billion yen
	Operating profit - 1 yen/€ (yen depreciation)	0.03	billion yen
Copper price (LME)	Operating profit ±10¢/lb	0.1	billion yen
	Non-operating profit ±10¢/lb	0.0	billion yen

■ Assumptions

4Q	
108	JPY / $
120	JPY / €
265	¢ / lb

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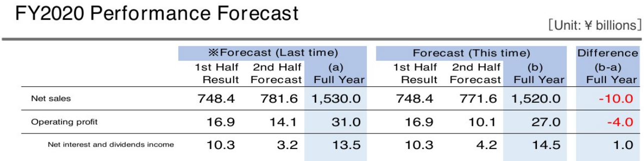
First, I will explain each figure.
Sales volumes of copper & copper alloy products is expected to decrease compared with last forecast due to softening demand for terminal connector materials and electronic materials.
Sales volumes of aluminum sheet products and extruded products is expected to decrease due to a fall in demand, extrusion products and heat exchange sheet materials for automotive products.
Sales volumes of copper cathodes is expected to decrease due to a slowdown in demand for copper & copper alloy products.
PT Smelting's sales volumes of copper cathodes is expected to decrease due to a decline in copper quality in ore.
Judging from the results for the nine months ended December 31, 2019, dividends from copper mine is expected to exceed the last forecast.
The demand for cement in Japan is expected to decrease to 41.5 million tons from 42.5 million tons, due to the near completion of construction work related to the Tokyo Olympic and Paralympic Games and the reconstruction work following the Great East Japan Earthquake, as well as the postponement of redevelopment work in the Tokyo metropolitan area and large-scale disasters such as torrential downpours.

Cement sales Volumes for MMC-Domestic are expected to decrease due to a decrease in domestic demand.

Ready-mixed concrete sales volumes in the U.S. is expected to decrease due to unsettled weather in the third quarter ending March 31, 2020.

The bottom section shows the sensitivity for the exchange rate and copper price in the fourth quarter ending March 31, 2020.
Please move on to page 11.

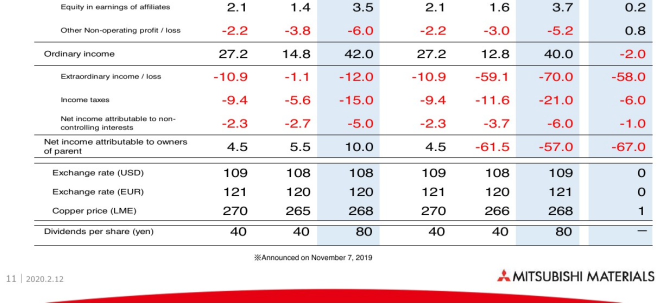
FY2020 Performance Forecast



FY2020 Performance Forecast

[Unit: ¥ billions]

	※Forecast (Last time)			Forecast (This time)			Difference
	1st Half Result	2nd Half Forecast	(a) Full Year	1st Half Result	2nd Half Forecast	(b) Full Year	(b-a) Full Year
Net sales	748.4	781.6	1,530.0	748.4	771.6	1,520.0	-10.0
Operating profit	16.9	14.1	31.0	16.9	10.1	27.0	-4.0
Net interest and dividends income	10.3	3.2	13.5	10.3	4.2	14.5	1.0



Equity in earnings of affiliates	2.1	1.4	3.5	2.1	1.6	3.7	0.2
Other Non-operating profit / loss	-2.2	-3.8	-6.0	-2.2	-3.0	-5.2	0.8
Ordinary income	27.2	14.8	42.0	27.2	12.8	40.0	-2.0
Extraordinary income / loss	-10.9	-1.1	-12.0	-10.9	-59.1	-70.0	-58.0
Income taxes	-9.4	-5.6	-15.0	-9.4	-11.6	-21.0	-6.0
Net income attributable to non-controlling interests	-2.3	-2.7	-5.0	-2.3	-3.7	-6.0	-1.0
Net income attributable to owners of parent	4.5	5.5	10.0	4.5	-61.5	-57.0	-67.0
Exchange rate (USD)	109	108	108	109	108	109	0
Exchange rate (EUR)	121	120	120	121	120	121	0
Copper price (LME)	270	265	268	270	266	268	1
Dividends per share (yen)	40	40	80	40	40	80	—

※Announced on November 7, 2019

Assumptions for US dollar, Euro, and copper prices are almost same with the last forecast as shown below.

Based on these, please take a look at the PL comparison in the upper section.

In the Advanced Products Business, demand is decreasing for copper & copper alloy products for automobile and semiconductor as well as aluminum products, and in the Cement Business, ready-mixed concrete sales in the U.S. is expected to fall below plan mainly due to unsettled weather. As a result, net sales, operating profit, and ordinary income for the revised consolidated earnings forecast for the fiscal year ending March 31, 2020 are lowered from the previous forecast.

Net income attributable to owners of the parent is expected to be a net loss of ¥ 57 billion loss. It is mainly due to lower ordinary income and extraordinary losses including impairment loss in the Advanced Products Business and the Metalworking Solutions Business, which are expected to arise from business structure improvement expenses and so on.

However, there is no change in dividends per share based on the capital strategy in the medium-term management strategy.

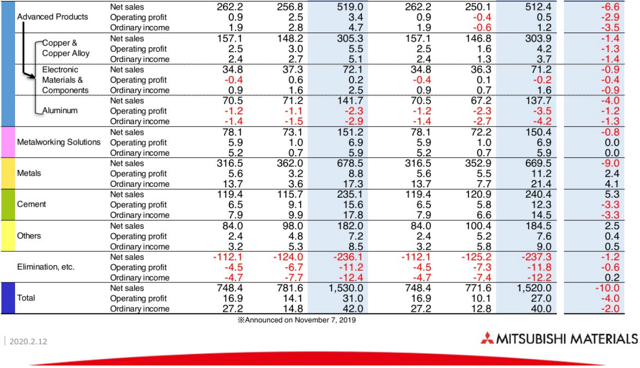
Please see page 12 for details of “FY2020 performance forecast by segment”.

FY2020 Performance Forecast by Segment

FY2020 Performance Forecast by Segment

[Unit: ¥ billions]

	※Forecast (Last time)			Forecast (This time)			Difference
			(a)	1st Half	2nd Half	(b)	(b-a)
	1st Half	2nd Half	Full Year	Result	Forecast	Full Year	Full Year



Advanced Products	Net sales	262.2	256.8	519.0	262.2	250.1	512.4	-6.6
	Operating profit	0.9	2.5	3.4	0.9	-0.4	0.5	-2.9
	Ordinary income	1.9	2.8	4.7	1.9	-0.6	1.2	-3.5
Copper & Copper Alloy	Net sales	157.1	148.2	305.3	157.1	146.8	303.9	-1.4
	Operating profit	2.5	3.0	5.5	2.5	1.6	4.2	-1.3
	Ordinary income	2.4	2.7	5.1	2.4	1.3	3.7	-1.4
Electronic Materials & Components	Net sales	34.8	37.3	72.1	34.8	36.3	71.2	-0.9
	Operating profit	-0.4	0.6	0.2	-0.4	0.1	-0.2	-0.4
	Ordinary income	0.9	1.6	2.5	0.9	0.7	1.6	-0.9
Aluminum	Net sales	70.5	71.2	141.7	70.5	67.2	137.7	-4.0
	Operating profit	-1.2	-1.1	-2.3	-1.2	-2.3	-3.5	-1.2
	Ordinary income	-1.4	-1.5	-2.9	-1.4	-2.7	-4.2	-1.3
Metalworking Solutions	Net sales	78.1	73.1	151.2	78.1	72.2	150.4	-0.8
	Operating profit	5.9	1.0	6.9	5.9	1.0	6.9	0.0
	Ordinary income	5.2	0.7	5.9	5.2	0.7	5.9	0.0
Metals	Net sales	316.5	362.0	678.5	316.5	352.9	669.5	-9.0
	Operating profit	5.6	3.2	8.8	5.6	5.5	11.2	2.4
	Ordinary income	13.7	3.6	17.3	13.7	7.7	21.4	4.1
Cement	Net sales	119.4	115.7	235.1	119.4	120.9	240.4	5.3
	Operating profit	6.5	9.1	15.6	6.5	5.8	12.3	-3.3
	Ordinary income	7.9	9.9	17.8	7.9	6.6	14.5	-3.3
Others	Net sales	84.0	98.0	182.0	84.0	100.4	184.5	2.5
	Operating profit	2.4	4.8	7.2	2.4	5.2	7.6	0.4
	Ordinary income	3.2	5.3	8.5	3.2	5.8	9.0	0.5
Elimination, etc.	Net sales	-112.1	-124.0	-236.1	-112.1	-125.2	-237.3	-1.2
	Operating profit	-4.5	-6.7	-11.2	-4.5	-7.3	-11.8	-0.6
	Ordinary income	-4.7	-7.7	-12.4	-4.7	-7.4	-12.2	0.2
Total	Net sales	748.4	781.6	1,530.0	748.4	771.6	1,520.0	-10.0
	Operating profit	16.9	14.1	31.0	16.9	10.1	27.0	-4.0
	Ordinary income	27.2	14.8	42.0	27.2	12.8	40.0	-2.0

※Announced on November 7, 2019

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The Advanced Products Business is expected to decrease in operating profit due to lower sales of copper & copper alloy products and aluminum products for automobiles and semiconductors.

The Metalworking Solutions Business is expected to be in line with the last forecast.

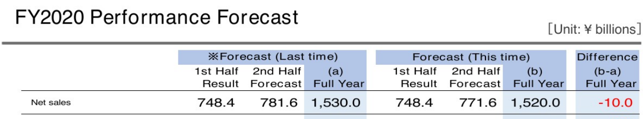
In Metals Business, both Naoshima and PT Smelting expect a decrease in sales of copper cathodes, but operating profit is expected to increase thanks to a decrease in smelting costs at PT Smelting.

In the Cement Business, operating profits are expected to decline in the domestic cement business due to a decrease in domestic demand, and profits in the U.S. business are also expected to fall due to unsettled weather in the third quarter ending March 31, 2020.

The next medium-term management strategy will be announced on March 25, 2020 and we will have an explanatory meeting of this strategy for the investors on March 27, 2020.
This is the end of the presentation.

Q&A: Impact of Integration of Cement Business

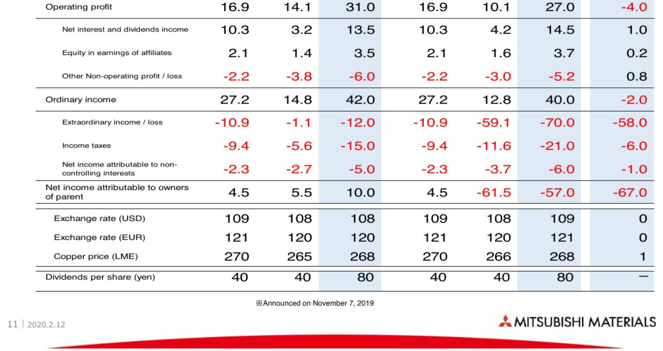
Questioner 1 I would like to ask two questions. The Company announced a press release about the integration of the Cement Business. Though I have not read through it yet, could you explain the impact of this integration?



FY2020 Performance Forecast

[Unit: ¥ billions]

	※Forecast (Last time)			Forecast (This time)			Difference
	1st Half Result	2nd Half Forecast	(a) Full Year	1st Half Result	2nd Half Forecast	(b) Full Year	(b-a) Full Year
Net sales	748.4	781.6	1,530.0	748.4	771.6	1,520.0	-10.0



Operating profit	16.9	14.1	31.0	16.9	10.1	27.0	-4.0
Net interest and dividends income	10.3	3.2	13.5	10.3	4.2	14.5	1.0
Equity in earnings of affiliates	2.1	1.4	3.5	2.1	1.6	3.7	0.2
Other Non-operating profit / loss	-2.2	-3.8	-6.0	-2.2	-3.0	-5.2	0.8
Ordinary income	27.2	14.8	42.0	27.2	12.8	40.0	-2.0
Extraordinary income / loss	-10.9	-1.1	-12.0	-10.9	-59.1	-70.0	-58.0
Income taxes	-9.4	-5.6	-15.0	-9.4	-11.6	-21.0	-6.0
Net income attributable to non-controlling interests	-2.3	-2.7	-5.0	-2.3	-3.7	-6.0	-1.0
Net income attributable to owners of parent	4.5	5.5	10.0	4.5	-61.5	-57.0	-67.0
Exchange rate (USD)	109	108	108	109	108	109	0
Exchange rate (EUR)	121	120	120	121	120	121	0
Copper price (LME)	270	265	268	270	266	268	1
Dividends per share (yen)	40	40	80	40	40	80	—

※Announced on November 7, 2019

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Also, the impairment loss was announced at this time. Could you tell us what this impairment loss is about? I assume that depreciation will decrease in the next fiscal year accordingly, and I would like to know the extent of the impairment effect. Please explain these two points: the impairment loss and the integration of the Cement Business.

Shibata First, I will explain the impact of the integration of the Cement Business. As stated in the press release, the Company has signed a letter of intent to start specific discussions and a study on the integration at present, and we plan to sign a definitive agreement in September 2020. After that the actual integration is planned to be implemented in April 2022, so the integration will not have any impact for the first two years of the next three-year medium-term management strategy period.

In the final year of the next medium-term management strategy period, the merger may bring a certain synergy effect, if there is any, as a return on our investment. Currently, we are having a conversation about it with Ube Industries in our integration discussions.

We have not estimated the amount of profit increase that may be brought from the synergies at this point. Therefore, I would like to refrain from explaining it further.

Also, regarding impairment loss, we included it in the revised forecast because there is a high possibility of it during this fiscal year. The posting of impairment loss this year will decrease the burden of depreciation in the next year and onwards, as you asked.

I would like to explain the impact of it when we announce the forecast for the next fiscal year. In any case, the major part of this impairment loss is attributed to Mitsubishi Aluminum Co., Ltd. and Diamet Corporation.

Questioner 1 I understand that the profitability is significantly declining mainly due to Mitsubishi Aluminum Co., Ltd. and Diamet Corporation.

I asked the question about the Cement Business assuming there is not yet a concrete

answer.
I think there is an excess capacity as well as fierce competition, including a sales battle. I wondered if you could give us your opinion on them, anyway. Good luck with the integration.

Q&A: Amount of Impairment loss to be posted in the fourth quarter

Questioner 2 First, regarding business structure improvement expenses including impairment loss, how much amount do you expect in the fourth quarter? In addition, I would like to confirm whether other businesses besides Mitsubishi Aluminum Co., Ltd. and Diamet Corporation will be subjected to the loss.

The second question, According to my calculations, little or no ordinary income, as well as lower operating profit, is expected in the fourth quarter. Could you tell us the reason for this?

Third question is about the integration of the Cement Business. Is the scope of the integration of the Cement business limited to Japan? Please also tell us about the coal business.

Shibata I would like to answer the questions randomly.

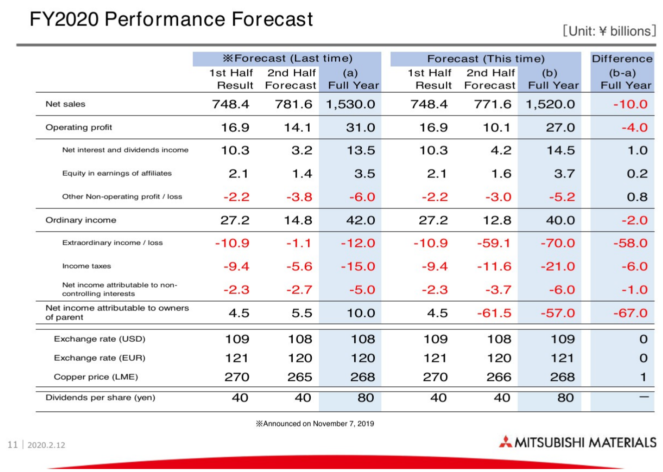
First of all, the scale of business structure improvement expenses, including impairment loss, can be assumed roughly as the amount of extraordinary loss, and the amount of impairment of Mitsubishi Aluminum Co., Ltd. and Diamet Corporation is about the same.

Regarding your question about other businesses which may be subjected to impairment besides Mitsubishi Aluminum Co., Ltd. and Diamet Corporation, we need to review other businesses of the Advanced Products Business and the Metalworking Solutions Business as well, taking into account the forecast for the next fiscal year and other factors.

Also, the scope of the integration of the Cement Business is not limited to Japan. We basically consider the scope for integration as the businesses that belong to Mitsubishi Materials' Cement Company in Mitsubishi Materials Corporation.

Details may change as discussions with Ube Industries continue, however, overall the Cement Business will basically shift to a new company.

Next, as for the negative factors in the fourth quarter, as I explained at the beginning, the deterioration of market conditions has a larger impact on the financial results. The forecast has been reviewed across businesses, mainly focusing on the downturn in the semiconductor or automotive market in the Copper & Copper Alloy Business and the Metalworking Solutions Business.



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Questioner 2 For the scope of Cement Business, do you plan to integrate all companies of the Cement Business, including the US?

Shibata We are now discussing to bring all businesses that belong to the Cement Company into a new company.

Q&A: The reduced cost of smelting in the Metals Business and Trends in demand for cemented carbide tools in the Metalworking Solutions Business

Questioner 3 First question is about business structure improvement expenses, including impairment loss.
What kind of business restructuring expenses are expected besides impairment loss? Do you plan to work on personnel, for example?

The second question is about reducing smelting costs at PT Smelting in the Metals Business as you explained. Please provide the background of it.

The third question is about the trends of demand for cemented carbide tools in the Metalworking Solutions Business. Could you explain the year-on-year comparison or the trends by region?

Shibata First, regarding the impairment loss, we expect to have other expenses to some extent besides impairment loss in the business structure improvement expenses. So, it has been described as a part of the impairment loss in the supplementary explanation material. However, we are still considering various plans at this stage. As I mentioned earlier, there may be high possibility of arising more costs besides impairment loss, therefore we have included them in the forecast.

Next, as for the smelting cost of PT. For smelting, in this fiscal year, the recovery rate is enhanced due to various improvements, such as an improvement in the so-called loss of copper slug, and this is described as reducing smelting costs overall.

Also, demand in the Metalworking Solutions Business has fallen as a whole. As explained in the previous conference call, signs of a slowdown are widespread, and it will not hit the bottom in the third quarter. In the fourth quarter, there appears to be an overall decrease more than the effects of long vacations such as the Chinese New Year.

As for cutting tools, a year on year regional analysis, Sales in China have the largest decline up to the third quarter, down approximately 30 percent.

Sales in both Asia and Europe declined approximately 20% and Japan is down about 10%.

Though there was not much of an impact in North America, recent analysis shows a few percentage points decline year on year, and consequently, around 15% decline overall.

Q&A: Outlook for cemented carbide tools business and impact of coronavirus outbreak

Questioner 4 First of all, please explain the current performance of the cemented carbide tools business. Is the overall decline of 15% only for the third quarter? If you have an outlook for the fourth quarter, please present the figures. Specifically, please provide the background of the performance of the cemented carbide tools business which causes the loss for the Metalworking Solutions Business.

The second question is about the impact of the coronavirus outbreak. Where do you operate in China and how have they been impacted? I guess a lot of things are happening, for example, the partial suspension of factory operations or the effects on customers of cemented carbide tools, etc. Please describe the current situation, whether things are still slow or gradually recovering.

Shibata Let me give you the third quarter performance and the fourth quarter outlook for the cemented carbide tools business on a year-on-year basis. The biggest factor in the third quarter was China, sales of which decreased of 25% year on year. Sales in Europe also had the same level of decline. Sales in Asia, excluding Japan and China, experienced a fall of around 20%. Sales in North America was also down approximately 10%.

For the outlook for the fourth quarter, the same trend is basically expected to continue, although we may see a slight recovery. In other words, we expect the same level as the third quarter.

Concerning the coronavirus outbreak, we have about 50 expats in various locations and around 1,000 local employees in China. Operations have been resumed in some locations. Among those locations where the operations are still suspended, some will restart during this week or early next week, but others may not be able to reopen until the end of this month.

Regarding the financial impact on Mitsubishi Materials Group, the proportion of business in China is not significant to our entire business, as you can guess from the number of employees I just mentioned. Therefore, we are concerned about the indirect impact of the outbreak than the impact of the delay of the restart or a fall in the amount of shipping and production. It is extremely hard to predict.

In case that Tier1 manufactures and finished product manufacturers slows down their operations due to the delay in the delivery of parts from China, we are very concerned that shipment from our operations that are not affected directly by the outbreak may decrease as well.

In addition, we sell our electronics materials products to Chinese customers, although they are not manufactured in China. We have no clear prospects as to what will happen to these products.

Questioner 4 Please provide the proportion of the sales decline for cemented carbide tools to the total reduced sales rate for the third quarter.

Shibata It's a fall of around 20%.

Q&A: Impact of troubles that occurred in the first half

Questioner 5 First, I remember there were many troubles in the first half. There were troubles in a cement factory, Naoshima Smelter & Refinery, Onahama Smelting and Refining, and a factory for electronic materials & components. Were there impacts of troubles in the third quarter results? Please provide quantitative information, if there is any.

Please allow me to ask about the impairment loss again, just for confirmation. Please let me confirm that you intend to continue these businesses, after taking the impairment loss, in the coming years, rather than withdrawing.

Shibata The impact of these considerable troubles was almost none for the third quarter.
Meanwhile, a certain trouble happened in the Cement Business in the second half. The trouble is related to an inverter, which is an electrical system, and not the trouble of the equipment itself.

We were also trying to minimize the impact of the inverter trouble on the entire Business by carrying out regular repairs, which were scheduled in the fourth quarter, ahead of schedule during the period of production suspension caused by the trouble.

As I explained, you will see that the decrease in production in the third quarter due to equipment trouble was insignificant.

Regarding impairment loss, we are currently considering various options for the use of business structure improvement expenses other than the impairment loss of non-current assets. Therefore, I would like to refrain from providing specific answers at this stage.

Q&A: Investment in Mantoverde Copper Mine and Integration of Cement Business

Questioner 6 This is a question about the investment in the Mantoverde copper mine announced last week. My basic understanding is that this is an investment in a project to develop a new capacity for the company. In the case of a direct investment in an existing company, and business performance may be affected by copper cathodes using SX-EW. Please explain the whole scheme.

The investment amount as a part of the total project cost was announced as 28.9 billion yen. Please provide me the schedule of cash out for the first year, the second year, and the third year. If you have only qualitative information, that is also fine.

The second question is about the Cement Business. It takes about two years for the integration to be completed, which gives me the impression that the project will take a long time. It is inevitable to assume that there will be a slimming-down of operations.

Please explain the risks involved, including the business structure improvement expenses.

Shibata As for the Mantoverde copper mine, as you mentioned, they were looking for a partner willing to share the cost burden of new development, and we will join in. The press release says that we have agreed to participate in the Mantoverde development project. In fact, we will acquire 30% stake of the interests of the entire Mantoverde copper mine. In that sense, there is no doubt that the shipment of copper cathodes manufactured using conventional SX-EW will be affected. However, we believe that this is not a significant issue and decided to move on with a partnership.

Regarding the schedule of cash-out, we will pay it when we acquire a minority stake.

For the Cement Business, I don’t deny that two years is long. However, sufficient time will be required to complete the process and so on. That’s why we need two years for the integration.

You pointed out that various structural reforms will be inevitable to slim down the operation after the integration, especially in Japan. As a general discussion, you are correct. However, we will have to decide on measures to be introduced and the timeline to follow through discussions with Ube Industries.

Even if costs happen by slimming down, we will implement it only because there will be an improvement effect exceeding them. We don't need to pay attention to the downside at this stage.

Questioner 6 There is one point I'd like to confirm regarding my first question, which is that the closing is most likely to be scheduled for October.

For the results of FY2021, the profit and loss of the existing project will be contained under the share of profit of entities accounted for using equity method from their final quarter (October to December), and contribution from the entire project is expected to be realized further ahead, perhaps after 2023, because of the launch timing.

Until that time, the share of profit and loss accounted for using an equity method will be reflected in the consolidated statement. Is this correct?

Shibata Well, it is under consideration in detail.