Consolidated Financial Results for the Nine Months Ended December 31, 2019 (Japanese Accounting Standards)

February 12, 2020

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 12, 2020
Scheduled date of start of dividends 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 nine months ended December 31, 2019 (From April 1, 2019 to December 31, 2019)

(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	%
The nine months ended December 31, 2019	1,124,608	-11.6	23,937	-30.1	39,426	-6.3	10,058	-21.6
The nine months ended December 31, 2018	1,272,555	10.9	34,248	-37.7	42,067	-38.7	12,831	-70.7

(Note) Comprehensive income: The nine months ended December 31, 2019: 15,326 million yen (–%)
The nine months ended December 31, 2018: -17,631 million yen (–%)

	Net income per share	Diluted net income per share
	Yen	Yen
The nine months ended December 31, 2019	76.81	–
The nine months ended December 31, 2018	97.98	–

(2) Consolidated Financial Position

	Total assets	Net assets	Shareholders' equity ratio
	Million yen	Million yen	%
As of December 31, 2019	1,991,434	718,039	31.9
As of March 31, 2019	1,938,270	723,337	32.7

(Reference) Shareholders' Equity: As of December 31, 2019: 634,974 million yen　As of March 31, 2019: 633,582 million yen

2. Dividends Payments

	Dividends per share				
(Record date)	First quarter	Second quarter	Third quarter	Year-end	Annual
	Yen	Yen	Yen	Yen	Yen
Year ended March 31, 2019	–	40.00	–	40.00	80.00
Year ending March 31, 2020	–	40.00	–		
Year ending March 31, 2020 (Forecast)				40.00	80.00

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

3. Consolidated Earnings Forecast (From April 1, 2019 to March 31, 2020)

(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, 2020	1,520,000	-8.6	27,000	-26.8	40,000	-21.1	-57,000	–	-435.29

(Note) Revision to forecast published most recently: Yes

* Notes

(1) Significant changes of subsidiaries during the term (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 on consolidated quarterly financial statements (Application of special accounting treatment in the preparation of the quarterly consolidated financial statements)" under "2. Consolidated Financial Statements and Key Notes" on page 10.

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

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

(4) Numbers of issued shares (common stock)

- (i) Numbers of issued shares at end of terms (including treasury shares):
  - Nine months ended December 31, 2019: 131,489,535 shares
  - Year ended March 31, 2019: 131,489,535 shares
- (ii) Numbers of treasury shares at end of terms:
  - Nine months ended December 31, 2019: 547,384 shares
  - Year ended March 31, 2019: 538,493 shares
- (iii) Average number of shares issued during terms (quarterly cumulative period):
  - Nine months ended December 31, 2019: 130,947,062 shares
  - Nine months ended December 31, 2018: 130,957,722 shares

* This quarterly financial summary is not subject to a quarterly review by certified public accountants or audit firms.

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

(Notes concerning forward-looking statements, etc.)

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

Please see "(3) Information on the consolidated earnings forecasts and other future forecasts" of "1. Qualitative Information on Financial Results for the Nine Months Ended December 31, 2019" on page 4 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 Wednesday, February 12, 2020. The materials used at this briefing are disclosed on the TDnet and the Company's web page at the time that the quarterly financial results are announced.

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1. Qualitative Information on Financial Results for the Nine Months Ended December 31, 2019

(1) Details of operating results

1) Overview of operating results

During the nine months of the consolidated fiscal year, in the Asia region, economic slowdown continued in China and a deceleration in economic growth was also seen in Thailand and Indonesia. In the United States, the economy continued to improve steadily.

In Japan, employment and income conditions were on the road to recovery. However, exports and industrial production appeared to slow down. Regarding the business environment for the Mitsubishi Materials Group, declining demand in automotive and semiconductor-related sectors, falling copper prices, and weaker domestic demand for cement had a negative impact.

Under these circumstances, consolidated net sales for the nine months of the year totaled ¥1,124,608 million, down 11.6% year on year. Operating profit decreased 30.1% year on year, to ¥23,937 million, and ordinary income fell 6.3%, to ¥39,426 million. As a result, net income attributable to owners of parent fell 21.6%, to ¥10,058 million. Meanwhile, in the second quarter, Universal Can Corporation, a consolidated subsidiary of the Company, recorded an extraordinary loss of 10,423 million yen as a loss on the Antimonopoly Act.

2) Overview by segment

From the first quarter of the fiscal year, the reporting segments have been changed. The details are set forth in “2. (3) Notes on consolidated quarterly financial statements (segment information).” In this regard, the financial data for the same quarter of the previous year in comparison charts shown below have been reclassified accordingly.

(Advanced Products)

(Billion yen)

	FY 2019 Q1-Q3	FY 2020 Q1-Q3	Increase / Decrease (%)
Net sales	435.3	389.6	-45.7 (-10.5%)
Operating profit	10.8	1.0	-9.7 (-90.3%)
Ordinary income	10.6	1.8	-8.8 (-82.9%)

In the copper and copper alloy products business, both net sales and operating profit decreased as a result of a fall in sales of automotive and semiconductor-related products.

In the electronics materials & components business, both net sales and operating profit decreased, reflecting a decline in sales of products such as advanced materials and electronic components and an increase in the production costs of polycrystalline silicon products.

In the aluminum products business, both net sales and operating profit fell due to a decrease in sales of regular cans and bottle cans for beverages, and rolled and processed products such as extruded products for automobiles and heat exchange sheet materials.

Consequently, net sales and operating profit for the entire Advanced Products Business decreased year on year. Ordinary income declined due to the decrease in operating profit.

(Metalworking Solutions Business)

(Billion yen)

	FY 2019 Q1-Q3	FY 2020 Q1-Q3	Increase / Decrease (%)
Net sales	130.0	115.0	-14.9 (-11.5%)
Operating profit	13.7	7.2	-6.5 (-47.3%)
Ordinary income	12.7	6.2	-6.4 (-50.6%)

In the cemented carbide products business, both net sales and operating profit decreased as a result of a decline in sales mainly in the Asia region, especially China.
In the sintering parts, etc., business, operating loss was reduced due to a decrease in shipping expenses despite a fall in sales of mainstay sintering parts.
Consequently, net sales and operating profit for the entire Metalworking Solutions Business decreased year on year. Ordinary income declined due to the decrease in operating profit.

(Metals Business)

(Billion yen)

	FY 2019 Q1-Q3	FY 2020 Q1-Q3	Increase / Decrease (%)
Net sales	564.6	481.4	-83.1 (-14.7%)
Operating profit(loss)	-1.2	9.4	10.6 (-%)
Ordinary income	3.9	20.7	16.8 (427.0%)

In the copper business, net sales fell but operating profit rose, mainly thanks to the reduced cost of smelting despite falling copper prices.
In the gold and other valuable metals business, net sales declined due to the decreased production volume of gold and other valuable metals that resulted from a fall in the amount contained in raw materials, but operating income rose thanks to an increase in the price of palladium.
As a result, overall the Metals Business posted a year-on-year increase in operating profit despite a decline in net sales. Ordinary income increased due to higher operating profit and dividends income.

(Cement Business)

(Billion yen)

	FY 2019 Q1-Q3	FY 2020 Q1-Q3	Increase / Decrease (%)
Net sales	192.6	180.6	-11.9 (-6.2%)
Operating profit	14.0	9.5	-4.4 (-32.1%)
Ordinary income	15.7	12.2	-3.4 (-22.1%)

In Japan, both net sales and operating profit decreased, reflecting lower sales volumes mainly due to the decline in demand for construction work of facilities related to the Tokyo Olympic and Paralympic Games in the Tokyo metropolitan area, road construction work related to Shin-Meishin Expressway in the Tokai area, and various construction works related to the recovery from the Great East Japan Earthquake in the Tohoku area respectively. Overseas, the cost of raw materials and operation expenses such as personnel expenses increased despite a rise in the volume of ready-mixed concrete sold in the United States. In Australia, coal sales prices fell. As a result, operating profit decreased while net sales increased.
Consequently, both net sales and operating profit for the entire Cement Business decreased year on year. Ordinary income declined mainly due to the decrease in operating profit.

(Other Businesses)

(Billion yen)

	FY 2019 Q1-Q3	FY 2020 Q1-Q3	Increase / Decrease (%)
Net sales	136.4	131.5	-4.9 (-3.7%)
Operating profit	5.2	4.4	-0.8 (-16.8%)
Ordinary income	5.6	5.6	0 (0.3%)

In the energy-related business, net sales and operating profit increased, reflecting higher sales in nuclear-energy-related business.

In the environmental and recycling-related business, net sales increased but operating profit decreased, reflecting higher operational costs in addition to a decline in the unit sales price of valuables, which offset increased sales due to higher volumes of "E-waste" (used electronics and electrical products) and incineration ash processing. In other businesses, excluding the energy-related business and the environmental recycling business, net sales and operating profit decreased.

In Other Businesses overall, both net sales and operating profit decreased year on year. Ordinary income rose, reflecting an increase in the share of profit of entities accounted for using equity method.

(2) Details of financial position

Total assets at the end of the third quarter of the consolidated fiscal year stood at ¥1,991.4 billion, up ¥53.1 billion from the end of the previous consolidated fiscal year. This was mainly due to an increase in inventories. Total liabilities were ¥1,273.3 billion, an increase of ¥58.4 billion from the end of the previous consolidated fiscal year. This was mainly due to an increase in commercial papers.

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

Consolidated earnings forecast for the fiscal year ending March 31, 2020, announced on November 7, 2019 is revised as below.

In the Advanced Products business, demand is decreasing for copper & copper alloy products for automobile and semiconductor as well as aluminum products for automobile, and in the Cement Business, ready-mixed concrete business 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 are lowered from the previous forecast.

Net income attributable to owners of parent is expected to decrease from the previous forecast. 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.

Revisions to Consolidated Earnings Forecasts for the fiscal year ending March 31, 2020
(from April 1, 2019 to March 31, 2020)

(Billion yen)

	Previous forecast	Current forecast	Increase / Decrease (%)
Net sales	1,530.0	1,520.0	-0.7%
Operating profit	31.0	27.0	-12.9%
Ordinary income	42.0	40.0	-4.8%
Net income attributable to owners of parent	10.0	-57.0	—%

(Note) The above forecast has been prepared on assumed economic conditions, market trends, and other factors foreseeable as of the date of this announcement, and the results may differ from the forecasts due to various factors arising in the future.

2. Consolidated Financial Statements and Key Notes

(1) Consolidated balance sheet

(Million yen)

	As of March 31, 2019	As of December 31, 2019
Assets		
Current assets		
Cash and deposits	108,648	73,538
Notes and accounts receivable-trade	248,220	238,525
Merchandise and finished goods	92,452	120,094
Work in process	108,293	126,841
Raw materials and supplies	134,825	128,525
Others	220,108	263,683
Allowance for doubtful accounts	(2,900)	(2,596)
Total current assets	909,647	948,612
Non-current assets		
Property, plant and equipment		
Machinery and equipment, net	229,123	233,996
Land, net	235,664	234,236
Other, net	222,627	234,380
Total property, plant and equipment	687,415	702,613
Intangible assets		,
Goodwill	40,816	36,593
Other	17,924	15,920
Total intangible assets	58,740	52,514
Investments and other assets		
Investment securities	236,572	243,318
Others	49,983	48,572
Allowance for doubtful accounts	(4,088)	(4,196)
Total investments and other assets	282,467	287,694
Total non-current assets	1,028,622	1,042,822
Total assets	1,938,270	1,991,434

(Million yen)

	As of March 31, 2019	As of December 31, 2019
Liabilities		
Current liabilities		
Notes and accounts payable-trade	147,566	121,130
Short-term loans payable	180,100	194,300
Commercial papers	5,000	60,000
Income taxes payable	7,869	6,823
Provision	14,931	8,534
Gold payable	253,918	286,960
Others	118,623	120,620
Total current liabilities	728,011	798,370
Non-current liabilities		
Bonds payable	50,000	60,000
Long-term loans payable	259,667	235,429
Provision for environmental measures	40,427	35,418
Other provisions	3,468	3,088
Net defined benefit liability	50,003	49,213
Others	83,353	91,874
Total non-current liabilities	486,921	475,024
Total liabilities	1,214,933	1,273,394
Net assets		
Shareholders' equity		
Capital stock	119,457	119,457
Capital surplus	92,393	92,393
Retained earnings	352,932	352,724
Treasury stock	(2,123)	(2,150)
Total shareholders' equity	562,659	562,425
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	51,220	55,600
Deferred gains or losses on hedges	124	(440)
Revaluation reserve for land	33,023	32,966
Foreign currency translation adjustment	(5,828)	(8,635)
Remeasurements of defined benefit plans	(7,617)	(6,943)
Total accumulated other comprehensive income	70,922	72,548
Non-controlling interests	89,754	83,065
Total net assets	723,337	718,039
Total liabilities and net assets	1,938,270	1,991,434

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

(Million yen)

	Nine Months Ended December 31, 2018 (Apr. 1, 2018–Dec. 31, 2018)	Nine Months Ended December 31, 2019 (Apr. 1, 2019–Dec. 31, 2019)
Net sales	1,272,555	1,124,608
Cost of sales	1,121,653	986,362
Gross profit	150,901	138,246
Selling, general and administrative expenses	116,653	114,308
Operating profit	34,248	23,937
Non-operating profit		
Interest income	820	915
Dividends income	13,169	17,841
Share of profit of entities accounted for using equity method	1,525	3,383
Rent income on non-current assets	3,746	3,795
Others	1,913	2,047
Total non-operating profit	21,175	27,983
Non-operating expenses		
Interest expenses	3,579	3,699
Settlement expenses of remaining business in mines	2,132	2,964
Others	7,644	5,830
Total non-operating expenses	13,356	12,495
Ordinary income	42,067	39,426
Extraordinary income		
Gain on sales of investment securities	269	2,054
Gain on transfer of businesses	–	705
Gain on sales of non-current assets	462	217
Gain on liquidation of subsidiaries and associates	506	0
Others	170	3
Total extraordinary income	1,409	2,980
Extraordinary losses		
Loss on the Antimonopoly Act	–	10,423
Impairment loss	3,868	1,741
Loss on valuation of investment securities	2,779	1,388
Provision for environmental measures	6,530	–
Others	220	339
Total extraordinary losses	13,398	13,892
Income before income taxes	30,077	28,514
Income taxes	12,785	14,434
Net income	17,291	14,080
Net income attributable to non-controlling interests	4,460	4,021
Net income attributable to owners of parent	12,831	10,058

Consolidated statements of comprehensive income

(Million yen)

	Nine Months Ended December 31, 2018 (Apr. 1, 2018–Dec. 31, 2018)	Nine Months Ended December 31, 2019 (Apr. 1, 2019–Dec. 31, 2019)
Net income	17,291	14,080
Other comprehensive income		
Valuation difference on available-for-sale securities	(44,444)	4,268
Deferred gains or losses on hedges	1,224	(180)
Foreign currency translation adjustment	7,625	(3,590)
Remeasurements of defined benefit plans	1,188	633
Share of other comprehensive income of entities accounted for using equity method	(518)	115
Total other comprehensive income	(34,923)	1,245
Comprehensive income	(17,631)	15,326
(Breakdown)		
Comprehensive income attributable to owners of parent	(24,223)	12,166
Comprehensive income attributable to non-controlling interests	6,592	3,209

(3) Notes on consolidated quarterly financial statements

Notes on going concern assumption

N/A

Segment information

[Segment Information]

I. For the nine months ended on December 31, 2018 (from April 1, 2018 to December 31, 2018)

Information on sales and income by reporting segment

(Million yen)

	Advanced Products	Metalworking Solutions Business	Metals Business	Cement Business	Other Businesses	Total	Adjustment amount	Amount indicated in the consolidated quarterly statements of income
Net sales								
(1) Outside customers	424,925	120,900	432,163	189,589	104,975	1,272,555	–	1,272,555
(2) Within consolidated group	10,471	9,105	132,490	3,020	31,513	186,600	(186,600)	–
Total	435,397	130,005	564,653	192,610	136,488	1,459,155	(186,600)	1,272,555
Segment income	10,691	12,751	3,936	15,723	5,636	48,739	(6,672)	42,067

Notes: 1. "Other Businesses" include nuclear-energy-related services, environmental and recycling-related business, real estate business, and engineering-related services.

2. "Adjustment amount" of segment income of -¥6,672 million includes the elimination of intersegment transactions of -¥89 million and corporate expenses of -¥6,583 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 revenues and expenses.

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

II. For the nine months ended on December 31, 2019 (from April 1, 2019 to December 31, 2019)

1. Information on sales and income by reporting segment

(Million yen)

	Advanced Products	Metalworking Solutions Business	Metals Business	Cement Business	Other Businesses	Total	Adjustment amount	Amount indicated in the consolidated quarterly statements of income
Net sales								
(1) Outside customers	380,436	106,008	360,829	178,124	99,209	1,124,608	–	1,124608
(2) Within consolidated group	9,247	9,074	120,633	2,490	32,292	173,739	(173,739)	–
Total	389,684	115,083	481,463	180,614	131,502	1,298,348	(173,739)	1,124,608
Segment income	1,825	6,298	20,746	12,245	5,654	46,768	(7,342)	39,426

Notes: 1. "Other Businesses" includes nuclear-energy-related services, environmental and recycling-related business, and engineering-related services.

2. "Adjustment amount" of segment income of -¥7,342 million includes the elimination of intersegment transactions of -¥46 million and corporate expenses of -¥7,296 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 revenues and expenses.

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

2. Matters regarding the change of the reporting segments, among other changes

At the meeting of the Board of Directors held on February 12, 2019, the Company resolved to partially change the organization of the business division. This change became effective on April 1, 2019.

The coal-related business in the “Other businesses” was transferred to the “Cement Business,” in which coal is used as thermal energy, to achieve more efficient business management.

In this regard, the segment information for the nine months of the previous consolidated fiscal year that is disclosed herein is based on the new segmentation.

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, and multiplying income before income taxes for the nine months by the estimated effective tax rate.

Changes in accounting policies

(Application of IFRS 16 “Leases”)

Foreign subsidiaries that adopt IFRS standard started to apply IFRS 16 “Leases” from the first quarter of the consolidated fiscal year. The impact of the application of this accounting standard on the consolidated financial statements for the nine months of the fiscal year was insignificant.

Additional information

(Absorption-type merger of the consolidated subsidiary)

The Company resolved at a meeting of its Board of Directors held on July 31, 2019 to conduct an absorption-type merger of Mitsubishi Shindoh Co., Ltd., a consolidated subsidiary of the Company with April 1, 2020 as the effective date and concluded a merger agreement on July 31, 2019.

1. Overview of transaction

(1) Name and business of acquired enterprise

Name of acquired enterprise:	Mitsubishi Shindoh Co., Ltd.
Business of acquired enterprise:	Rolling, extruding and casting of copper and copper alloys and the processing and sales thereof

(2) Date of business combination

April 1, 2020 (Plan)

(3) Legal form of business combination

Absorption-type merger in which the Company shall be the surviving company and Mitsubishi Shindoh Co., Ltd. shall be dissolved.

(4) Name of the companies after the business combination

Mitsubishi Materials Corporation

(5) Purpose of business combination

The purpose of the merger is to cooperatively operate the Group’s management resources in the Copper & Copper Alloy business in order to invest more actively and flexibly and to develop products promptly that meet market needs and to improve and enhance the production and sales systems in Japan as well as overseas.

2. Overview of accounting procedures to implement
The Company plans to treat the merger as a transaction under common control in accordance with the Accounting Standard for Business Combinations (ASBJ Statement No. 21, January 16, 2019) and Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures (ASBJ Guidance No. 10, January 16, 2019).

Contingent liabilities

(Matters concerning taxation in Indonesia)
Previous consolidated fiscal year (As of March 31, 2019)
On December 30, 2014, PT. Smelting in Indonesia, a consolidated subsidiary of the Company (hereinafter the "PTS") received a notice of reassessment in an amount of US$47 million (¥5,312 million based on the exchange rate at the end of the previous consolidated fiscal year) from the Indonesian National Tax Authority, regarding the sales transaction pricing of the PTS for the year ended on December 31, 2009. On January 28, 2015, the PTS made a provisional deposit of US$14 million (¥1,553 million) as a part of the additional collection.
However, the PTS submitted a written objection to the Indonesian National Tax Authority on March 25, 2015, because this assessment, which claimed there was a sales shortage on the part of the PTS based on a comparison of the profit margin ratio with other companies selected by the Indonesian National Tax Authority, was highly unreasonable and found to be unacceptable by the Company and the PTS.
The written objection submitted by the PTS on March 25, 2015 was dismissed by the Indonesian National Tax Authority on March 16, 2016. Therefore, the PTS filed a complaint to the Tax Court in Indonesia on June 6, 2016 to present the fairness of the view of the Company and the PTS.
On November 29, 2017, the PTS also received a notice of reassessment in an amount of US$22 million (¥2,533 million) from the Indonesian National Tax Authority, primarily regarding its posting of gains and losses on hedging for the fiscal year ended on December 31, 2012. On December 27, 2017, the PTS made a provisional deposit of US$6 million (¥698 million) as part of the additional collection.
However, the PTS submitted a written objection to the Indonesian National Tax Authority on February 27, 2018, because this assessment was a view that unilaterally negated the basis for recording gains and losses on hedging, etc. of the PTS and found to be unacceptable by the Company and the PTS.
The written objection submitted by the PTS on February 27, 2018 was dismissed by the Indonesian National Tax Authority on February 25, 2019. Therefore, the PTS filed a complaint to the Tax Court in Indonesia on May 17, 2019 to present the fairness of the view of the Company and the PTS.
On December 5, 2018, the PTS also received a notice of reassessment in an amount of US$15 million (¥1,688 million) from the Indonesian National Tax Authority, primarily regarding its posting of gains and losses on hedging for the fiscal year ended on December 31, 2014. On December 27, 2018, the PTS made a provisional deposit of US$5 million (¥651 million) as part of the additional collection.
However, the PTS submitted a written objection to the Indonesian National Tax Authority on February 27, 2019, because this assessment was a view that unilaterally negated the basis for recording gains and losses on hedging, etc. of the PTS and found to be unacceptable by the Company and the PTS.
The total amount for additional collection being disputed by the PTS, including amounts for the fiscal years described above as well as amounts for the fiscal year ended on December 31, 2010, the fiscal year ended on December 31, 2011, the fiscal year ended on December 31, 2013 and the fiscal year ended on December 31, 2015, is US$101 million (¥11,309 million).

Third quarter of the consolidated fiscal year (As of December 31, 2019)
On December 30, 2014, PT. Smelting in Indonesia, a consolidated subsidiary of the Company (hereinafter the "PTS") received a notice of reassessment in an amount of US$47 million (¥5,244 million based on the exchange

rate at the end of the third quarter of the consolidated fiscal year) from the Indonesian National Tax Authority, regarding the sales transaction pricing of the PTS for the year ended on December 31, 2009. On January 28, 2015, the PTS made a provisional deposit of US$14 million (¥1,533 million) as a part of the additional collection.

However, the PTS submitted a written objection to the Indonesian National Tax Authority on March 25, 2015, because this assessment, which claimed there was a sales shortage on the part of the PTS based on a comparison of the profit margin ratio with other companies selected by the Indonesian National Tax Authority, was highly unreasonable and found to be unacceptable by the Company and the PTS.

The written objection submitted by the PTS on March 25, 2015 was dismissed by the Indonesian National Tax Authority on March 16, 2016. The PTS filed a complaint to the Tax Court in Indonesia on June 6, 2016 to present the fairness of the view of the Company and the PTS, however it was dismissed by ruling on January 30, 2020. Therefore, the PTS plans to appeal to the Supreme Court to further maintain the fairness of the view of the Company and the PTS.

On November 29, 2017, the PTS also received a notice of reassessment in an amount of US$22 million (¥2,501 million) from the Indonesian National Tax Authority, primarily regarding its posting of gains and losses on hedging for the fiscal year ended on December 31, 2012. On December 27, 2017, the PTS made a provisional deposit of US$6 million (¥689 million) as part of the additional collection.

However, the PTS submitted a written objection to the Indonesian National Tax Authority on February 27, 2018, because this assessment was a view that unilaterally negated the basis for recording gains and losses on hedging, etc. of the PTS and found to be unacceptable by the Company and the PTS.

The written objection submitted by the PTS on February 27, 2018 was dismissed by the Indonesian National Tax Authority on February 25, 2019. Therefore, the PTS filed a complaint to the Tax Court in Indonesia on May 17, 2019 to present the fairness of the view of the Company and the PTS.

On December 5, 2018, the PTS also received a notice of reassessment in an amount of US$15 million (¥1,666 million) from the Indonesian National Tax Authority, primarily regarding its posting of gains and losses on hedging for the fiscal year ended on December 31, 2014. On December 27, 2018, the PTS made a provisional deposit of US$5 million (¥643 million) as part of the additional collection.

However, the PTS submitted a written objection to the Indonesian National Tax Authority on February 27, 2019, because this assessment was a view that unilaterally negated the basis for recording gains and losses on hedging, etc. of the PTS and found to be unacceptable by the Company and the PTS.

On January 20, 2020, the PTS received a notice from the Indonesian National Tax Authority regarding the written objection submitted by the PTS on February 27, 2019, and the written objection of the PTS was accepted for US$9 million (¥1,027 million). For US$5 million (¥639 million), for which the written objection was dismissed, the PTS has decided to file a complaint to the Tax Court in Indonesia.

The total amount for additional collection being disputed by the PTS, including amounts for the fiscal years described above as well as amounts for the fiscal year ended on December 31, 2011, the fiscal year ended on December 31 2013, the fiscal year ended on December 31, 2015 and the fiscal year ended on December 31, 2016 is US$89 million (¥9,844 million). Surcharge may be partially imposed depending on the outcome of complaint filing and Tax Court ruling.

(Matters concerning Non-Conforming Products)

Previous consolidated fiscal year (As of March 31, 2019)

The Company discovered that its consolidated subsidiaries had delivered products, etc. that deviated from customer standards or internal company specifications due to misconduct, including the rewriting of inspection records data and 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.
Depending on the progress of the above mentioned issues, the Company's consolidated business results may be affected, due to compensation of customers and other losses. However, such amounts which are currently difficult to estimate are not reflected in the consolidated financial statements.

Third quarter of the consolidated fiscal year (As of December 31, 2019)
The Company discovered that its consolidated subsidiaries had delivered products, etc. that deviated from customer standards or internal company specifications due to misconduct, including the rewriting of inspection records data and the insufficient testing, concerning some of the products manufactured and sold in the past. Based on the above fact, some of the aforementioned subsidiaries received notification of revocation of their JIS certification and ISO certifications from the accrediting agencies.
Depending on the progress of the above mentioned issues, the Company's consolidated business results may be affected, due to compensation of customers and other losses. However, such amounts which are currently difficult to estimate are not reflected in the quarterly consolidated financial statements.

Important subsequent events

(Signing of the definitive agreements for acquisition of a minority stake in the Mantoverde copper mine)

The Company has reached an agreement to acquire a 30% stake in the Mantoverde copper mine located in the Atacama region in northern Chile from Mantos Copper Holding SpA (hereinafter "Mantos Copper") and participate in the Mantoverde Development Project ("MVDP"), thereby resolving to sign the definitive agreements including share subscription agreement and shareholders agreement on February 7, 2020. The share subscription agreement was signed on the same day.

1. Transaction Overview
(1) The Company will acquire a 30% stake in the Mantoverde copper mine by undertaking newly issued shares of Mantoverde S.A.("MV"). In consideration for the 30% stake, the Company will contribute US$263 million at closing, comprising a US$184 million earn-in contribution and a US$79 million matching capital contribution. The investment by the Company will be used to partially fund MVDP. Additionally, as there are potentially vast amounts of copper resources beyond the current development scope of MVDP, an additional cash payment of US$20 million will be made in the event that MV receives all permits necessary to expand the capacity of tailings storage facility significantly beyond the currently permitted capacity.
(2) The Company will receive offtake rights for 30% of copper produced, proportionate to its ownership stake, and will receive the produced materials in the form of copper concentrate.
(3) The closing of the transaction, which is currently expected by the end of October 2020, is subject to obtaining necessary approvals and the satisfaction of other customary conditions, as well as the successful execution of a complete financing package for MVDP. The signing of the definitive agreements is expected after the closing.

2. Project Overview

Total Copper Production:	1,700 kt over mine life
Project CAPEX:	US$731 million
Start-up of MVDP:	2023

3. Overview of Mantos Copper Holdings SpA

Shareholders: Orion Mine Finance, Audley Mining Advisors Limited
Business Overview: Operation of Mantoverde copper mine and Mantos Blancos copper mine in Chile
Headquarters: Santiago, Chile
Executive Chairman: John MacKenzie

(Signing of letter of intent for integration of Cement business)
The Company and Ube Industries, based on a resolution of the companies' respective Board of Directors meetings held today, have signed a letter of intent to start specific discussions and study on the integration of their respective cement businesses and related businesses. The details of the integration, which is to be implemented around April 2022, are given below.

Moving forward, the Company and Ube Industries will engage in specific discussions and study on the integration, and they plan to sign a definitive agreement for the integration in or around late September 2020.

1 Purpose of the integration
In 1998, the Company and Ube Industries established Ube-Mitsubishi Cement Corporation as an equally-owned joint venture. Under the joint venture, the companies integrated their respective standalone cement sales and logistics functions, realizing a certain degree of benefit including reductions in logistics costs as well as back office expenses.
While the business situations surrounding the cement business in Japan are currently undergoing significant changes, including slowing demand and increased costs due to higher energy prices, it is necessary for the Company and Ube Industries to establish a new framework for their cement businesses that builds upon the existing relationship including the joint venture, in order to realize the future growth of their cement businesses.
In response, the Company and Ube Industries have decided to start specific discussions and study on the integration of the overall cement business and their respective related businesses. Under the integration, the Company and Ube Industries will direct cash flows generated from the cement business in Japan toward concentrated investment in businesses that are anticipated to generate growth in and outside of Japan. Through these efforts, the Company and Ube Industries will endeavor to realize sustainable growth as corporations that are contributing to the development of social infrastructure and advancement of a recycling-oriented society, and to establish an optimal operational framework for both companies.

2. Overview of the Integration
The scope of the integration is expected to encompass the cement and ready-mixed concrete businesses, limestone resources businesses, energy and environmental-related businesses, construction material businesses, and other related businesses of the Company and Ube Industries, both in and outside of Japan.
The Company and Ube Industries plan to implement the integration (1) by establishing a new equally-owned joint venture (2) that will assume the respective businesses (including shares of subsidiaries engaged in the businesses) by a company split method, and (3) via an absorption-type merger, with the new joint venture being the surviving company, and Ube-Mitsubishi Cement being absorbed.
The Company and Ube Industries will engage in discussions and conduct study about investment ratio of the new integrated joint venture under the basic premise that each company will own a 50% stake in the new joint venture after adjusting for the value of the businesses to be assumed by the new joint

venture.
The Company and Ube Industries will mutually discuss and decide on the terms of the integration including the aforementioned matters, by the time of signing the definitive agreement.

3. Schedule of Integration

February 12, 2020	Signing of letter of intent
September 2020 (may be subject to change)	Signing of definitive agreement
June 2021 (may be subject to change)	Obtaining approval for integration at the ordinary general shareholders' meetings of Mitsubishi Materials and Ube Industries
April 2022 (may be subject to change)	Effective date of integration

Note: Implementation of the integration is subject to completing the necessary filings for integration with relevant agencies in and outside of Japan including the Japan Fair Trade Commission, and being granted approval. Furthermore, it is subject to approval at the general shareholders' meetings of both companies (except where the integration clearly satisfies the requirements for a simplified absorption-type company split as stipulated in Article 784, paragraph (2) of the Companies Act of Japan), and subject to circumstances or events not arising or coming to light that make it difficult to implement the integration. The integration schedule is provisional at this time and subject to change based on discussions between the companies, because of approvals and other related procedures or other reasons having to do with fulfilling necessary procedures.