OFFERING CIRCULAR

DAIO PAPER CORPORATION

(incorporated in Japan with limited liability under the laws of Japan)

¥30,000,000,000
Zero Coupon Convertible Bonds due 2020
OFFER PRICE: 103.0 PER CENT.

The ¥30,000,000,000 Zero Coupon Convertible Bonds due 2020 (bonds with stock acquisition rights, *tenkanshasaigata shinkabu yoyakuken-tsuki shasai*) (the "Bonds") of Daio Paper Corporation (the "Company") will be issued in registered form in the denomination of ¥10,000,000 each with a stock acquisition right (*shinkabu yoyakuken*) (the "Stock Acquisition Rights") exercisable from, and including, 1st October, 2015 to, and including, 3rd September, 2020, unless previously redeemed or purchased and cancelled or become due and repayable, entitling the Bondholder (as defined in the terms and conditions of the Bonds (the "Conditions")) to acquire fully-paid and non-assessable shares of common stock of the Company (the "Shares") at an initial Conversion Price (as defined in the Conditions), subject to adjustment in certain events as set out herein, of ¥1,443 per Share. The Closing Price (as defined in the Conditions) of the Shares as reported on the Tokyo Stock Exchange, Inc. (the "Tokyo Stock Exchange") on 1st September, 2015, was ¥1,429 per Share.

Unless previously redeemed or purchased and cancelled, or become due and repayable, and unless the Stock Acquisition Rights incorporated therein have previously been exercised, the Bonds will be redeemed at 100 per cent. of their principal amount on 17th September, 2020. On or after 15th September, 2017, and prior to maturity, the Bonds may be redeemed in whole but not in part at their principal amount at the option of the Company as set out herein, provided that no such redemption may be made unless the Closing Price of the Shares for each of the 20 consecutive Trading Days (as defined in the Conditions), the last of which occurs not more than 30 days prior to the day upon which the notice of redemption is first published, is at least 130 per cent. of the Conversion Price in effect on each such Trading Day. On or after 14th September, 2018, and prior to maturity, the Company may redeem all the Bonds, in whole but not in part, at 100 per cent. of their principal amount. The Company may also redeem all the Bonds, in whole but not in part, at 100 per cent. of their principal amount if Japanese withholding taxes are imposed on payments in respect of the Bonds, as set out in the Conditions. Further, if, at any time prior to the date of the giving of the notice of redemption, the outstanding principal amount of the Bonds is less than 10 per cent. of the aggregate principal amount of the Bonds as at the date of issue thereof, the Bonds may be redeemed in whole but not in part at 100 per cent. of their principal amount, at the option of the Company as set out in the Conditions. The Bonds may also be redeemed by the Company in whole but not in part in certain other limited events (including Corporate Events (as defined in the Conditions)), at the percentage of their principal amount specified in the Conditions, as set out in the Conditions.

Payments of principal, premium (if any) and any other amount due in respect of the Bonds will be made without withholding or deduction for or on account of Japanese taxes to the extent set out herein (see "Taxation — Japan" and Condition 9).

Approval in-principle has been received for the listing of the Bonds on the Singapore Exchange Securities Trading Limited (the "SGX-ST"). The SGX-ST assumes no responsibility for the correctness of any of the statements made or opinions or reports contained in this Offering Circular. Admission of the Bonds to the official list of the SGX-ST is not to be taken as an indication of the merits of the Company or the Bonds.

See "Investment Considerations" for a discussion of certain factors that should be considered in connection with an investment in the Bonds.

The Bonds will be represented by a global certificate (the "Global Certificate") evidencing the Bonds in registered form, which is expected to be deposited with and registered in the name of, or a nominee for, a common depositary for each of Euroclear Bank S.A./N.V. ("Euroclear") and Clearstream Banking, *société anonyme* ("Clearstream, Luxembourg") on or about 17th September, 2015 (the "Closing Date") for the accounts of their respective accountholders. The Joint Lead Managers (as defined in "Subscription and Sale") expect to deliver the Bonds through the facilities of Euroclear and Clearstream, Luxembourg on or about the Closing Date.

This Offering Circular does not constitute an offer of, or the solicitation of an offer to buy or subscribe for the Bonds or the Shares issuable upon exercise of the Stock Acquisition Rights in any jurisdiction in which such offer or solicitation is unlawful. In particular, the Bonds and the Shares issuable upon exercise of the Stock Acquisition Rights have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "Securities Act") and, subject to certain exceptions, may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S of the Securities Act ("Regulation S")). For a summary of certain restrictions on offers and sales of Bonds and Shares issuable upon exercise of the Stock Acquisition Rights, see "Subscription and Sale".

Joint Bookrunners and Joint Lead Managers

Daiwa Capital Markets Europe **Morgan Stanley**

Dated 1st September, 2015.

The Company accepts responsibility for the information contained in this Offering Circular. To the best of the knowledge and belief of the Company (the Company having taken all reasonable care to ensure that such is the case), the information contained in this Offering Circular is in accordance with the facts and does not omit anything likely to affect the import of such information.

The Company, having made all reasonable enquiries, confirms that this Offering Circular contains all information with respect to the Company, the Group (as defined below), the Bonds and the Shares which is material in the context of the issue and offering of the Bonds, the statements contained herein relating to the Company and the Group are in every material particular true and accurate and not misleading, the opinions and intentions expressed in this Offering Circular with regard to the Company and the Group are honestly held, have been reached after considering all relevant circumstances and are based on reasonable assumptions, there are no other facts in relation to the Company, the Group, the Bonds or the Shares the omission of which would, in the context of the issue and offering of the Bonds, make any statement in this Offering Circular misleading in any material respect and all reasonable enquiries have been made by the Company to ascertain such facts and to verify the accuracy of all such information and statements.

In this Offering Circular, unless otherwise specified or the context otherwise required, references to the "Group" are to the Company and its subsidiaries taken as a whole.

No person is authorised to give any information or to make any representation not contained in this Offering Circular and any information or representation not contained in this Offering Circular must not be relied upon as having been authorised by the Company or the Joint Lead Managers. Neither the delivery of this Offering Circular nor any sale made in connection herewith at any time implies that the information contained herein is correct as of any time subsequent to the date hereof, nor does it imply that there has been no change in the affairs or the financial position of the Group since the date hereof.

This Offering Circular does not constitute an offer of, or an invitation by or on behalf of the Company or any of the Joint Lead Managers to subscribe for, or purchase, any of the Bonds or the Shares issuable upon exercise of the Stock Acquisition Rights. The distribution of this Offering Circular and the offering of the Bonds and the Shares issuable upon exercise of the Stock Acquisition Rights in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Company and the Joint Lead Managers to inform themselves about and to observe any such restrictions. For a description of certain further restrictions on offers and sales of Bonds and the Shares issuable upon exercise of the Stock Acquisition Rights and distribution of this Offering Circular, see "Subscription and Sale".

To the fullest extent permitted by law, none of the Joint Lead Managers, the Trustee, the Custodian, the Registrar, the Agents or the Custodian's Agent (each as defined in "Summary Information — The Bonds") accept any responsibility whatsoever for the contents of this Offering Circular or for any other statement, made or purported to be made by a Joint Lead Manager or on its behalf in connection with the Company, the Group or the issue and offering of the Bonds. Each of the Joint Lead Managers, the Trustee, the Custodian, the Registrar, the Agents and the Custodian's Agent accordingly disclaims all and any liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of this Offering Circular or any such statement.

No action is being taken to permit a public offering of the Bonds or the Shares issuable upon exercise of the Stock Acquisition Rights or the distribution of this Offering Circular (in preliminary or final form) in any jurisdiction where action would be required for such purposes. There are restrictions on the offer and sale of the Bonds and the Shares issuable upon exercise of the Stock Acquisition Rights and the circulation of documents relating thereto, in jurisdictions including the United States, Japan, the European Economic Area (including the United Kingdom), Singapore, Hong Kong and to persons connected therewith. See "Subscription and Sale".

The Bonds and the Shares issuable upon exercise of the Stock Acquisition Rights have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended) (the "FIEA"). Each Joint Lead Manager has represented and agreed that it has not, directly or indirectly, offered or sold, and shall not offer or sell, any Bonds in Japan or to, or for the account or benefit of, any resident of Japan, except pursuant to an exemption available from the registration requirements of, and otherwise in compliance with, the FIEA and other applicable Japanese laws, regulations and governmental guidelines in Japan. As used in this paragraph, "resident of Japan" means any person residing in Japan, including any corporation or other entity organised under the laws of Japan.

The Bonds and the Shares issuable upon exercise of the Stock Acquisition Rights have not been and will not be registered under the Securities Act. Subject to certain exceptions, the Bonds and the Shares issuable upon exercise of the Stock Acquisition Rights may not be offered, sold or delivered within the United States or to U.S. persons. See “Subscription and Sale”.

There are restrictions on the offer and sale of the Bonds and the Shares issuable upon exercise of the Stock Acquisition Rights in the United Kingdom. All applicable provisions of the Financial Services and Markets Act 2000 (“FSMA”) with respect to anything done by any person in relation to the Bonds in, from or otherwise involving the United Kingdom must be complied with. See “Subscription and Sale”.

IN CONNECTION WITH THE ISSUE OF THE BONDS, DAIWA CAPITAL MARKETS EUROPE LIMITED (THE “STABILISING MANAGER”) (OR PERSONS ACTING ON BEHALF OF THE STABILISING MANAGER) MAY OVER-ALLOT BONDS OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE BONDS AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT THE STABILISING MANAGER (OR PERSONS ACTING ON BEHALF OF THE STABILISING MANAGER) WILL UNDERTAKE STABILISATION ACTION. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE FINAL TERMS OF THE OFFER OF THE BONDS IS MADE AND, IF BEGUN, MAY BE ENDED AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE BONDS AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE BONDS. ANY STABILISATION ACTION OR OVER-ALLOTMENT MUST BE CONDUCTED BY THE STABILISING MANAGER (OR PERSONS ACTING ON BEHALF OF THE STABILISING MANAGER) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Unless otherwise stated, references in this Offering Circular to "U.S. dollars", "U.S.$" and "$" are to United States dollars and references to "yen" and "¥" are to Japanese yen.

In this Offering Circular, where financial information is presented in millions of yen, amounts of less than one million have been rounded to the nearest one million (with half a million being rounded up). Accordingly, the total figure of each column may not be equal to the total of the individual items. All other figures and percentages, including operating data, have been rounded up or down (in the case of percentages, to the nearest 0.1 per cent. or to the nearest 0.01 per cent.), unless otherwise specified; however, certain percentages in tables may have been rounded otherwise than to the nearest 0.1 per cent. or 0.01 per cent., as the case may be, to make the total of the relevant column equal to 100 per cent.

The Company's consolidated financial statements are prepared in accordance with generally accepted accounting principles in Japan ("Japanese GAAP"), which differ in certain material respects from generally accepted accounting principles in certain other countries. Potential investors should consult their own professional advisers for an understanding of the difference between Japanese GAAP and International Financial Reporting Standards ("IFRS"), or generally accepted accounting principles in other jurisdictions and an understanding of how those differences might affect the financial information contained herein. See "Investment Considerations — Considerations Relating to the Consolidated Group's Financial Statements — Differences in Generally Accepted Accounting Principles".

The Company's fiscal year end is 31st March. This Offering Circular contains the audited consolidated financial statements of the Company, prepared and presented in accordance with Japanese GAAP, as at and for the fiscal years ended 31st March, 2013, 2014 and 2015, as indicated in the audit report with respect thereto included herein at page F-3.

This Offering Circular also contains the unaudited quarterly consolidated balance sheet of the Company as at 30th June, 2015 (together with a consolidated balance sheet of the Company as at 31st March, 2015), and the unaudited quarterly consolidated statements of income and the unaudited quarterly consolidated statements of comprehensive income for each of the three-month periods ended 30th June, 2014 and 2015. The unaudited quarterly consolidated financial statements of the Company as at 30th June, 2015 and for the three-month periods ended 30th June, 2014 and 2015 have been reviewed by the Company's independent auditor in accordance with the quarterly review standards generally accepted in Japan, as indicated in the quarterly review report with respect thereto included herein at page Q-3.

Presentation of Segment Income by Reportable Segment

For the three fiscal years ended 31st March, 2015, the Group, in presenting its segment income by reportable segment, recorded "corporate expenses" (general and administrative expenses which are not attributable to any reportable segment) as an item separate from the segment income of each reportable segment.

From the three-month period ended 30th June, 2015, the Group, with the objective of monitoring the operating performance of each business segment more appropriately, decided to allocate corporate expenses to each relevant reportable segment. The segment income for the three-month period ended 30th June, 2014 has been presented by reflecting such change in calculating segment income. As such, the segment income by reportable segment for the three-month periods ended 30th June, 2014 and 2015 are not comparable with the segment income by reportable segment for the fiscal years ended 31st March, 2013, 2014 and 2015 contained in this Offering Circular.

Construction of Certain References

Under the Companies Act of Japan (Act No. 86 of 2005, as amended) (the "Companies Act"), the Company may issue new Shares to a Bondholder and/or transfer Shares that it holds as treasury stock to a Bondholder, in each case upon exercise of a Stock Acquisition Right. Accordingly, unless otherwise specified or the context requires, references in this Offering Circular to the issuance of Shares shall be read as including both the issuance of new Shares and the transfer of Shares held by the Company as treasury stock and the words "issue", "issued", "issuance" and "issuable" shall be construed accordingly. In addition, references to the word "acquired" used in conjunction with the Shares shall be read as including both the words "issued" and "transferred", and the word "acquisition" shall be construed accordingly.

FORWARD-LOOKING STATEMENTS

Many of the statements included in this Offering Circular contain forward-looking statements and information identified by the use of terminology such as "may", "might", "will", "expect", "intend", "plan", "estimate", "anticipate", "project", "believe" or similar phrases. The Company bases these statements on beliefs as well as assumptions made using information currently available to the Company. As these statements reflect the Company's current views concerning future events, these statements involve risks, uncertainties and assumptions. The Company's or the Group's actual future performance could differ materially from these forward-looking statements. Important factors that could cause actual results to differ from the Company's expectations include those risks identified in "Investment Considerations" and the factors discussed in "Recent Business" and "Business", as well as other matters not yet known to the Company or not currently considered material to the Group by the Company. The Company does not undertake to review or revise this Offering Circular or any forward-looking statements contained in this Offering Circular to reflect future events or circumstances. The Company cautions prospective investors in the offering not to place undue reliance on these forward-looking statements. All written and oral forward-looking statements attributable to the Company or persons acting on the Company's behalf are qualified in their entirety by these cautionary statements.

CONTENTS

SUMMARY INFORMATION

The following summary does not purport to be complete and is qualified in its entirety by, and is subject to, the more detailed information and financial statements and the notes thereto contained elsewhere in this Offering Circular. For a discussion of certain factors that should be considered by prospective investors in connection with an investment in the Bonds, see "Investment Considerations".

DAIO PAPER CORPORATION

The Group is one of the leading paper manufacturers in Japan, being one of the only three full-range paper manufacturers in Japan involved in the manufacture and sale of a wide variety of paper and paperboard, as well as certain home and personal care products. The Group engages in all of the processes of paper-making, from the manufacturing of pulp to the manufacturing and sale of the final paper products. Leveraging on its strengths as an integrated and full-range paper manufacturer with the ability to offer a wide variety of products, the Group is able to adapt flexibly to changing market needs to compete effectively primarily in the Japanese paper market.

The Group's operations are divided into the following two segments for financial reporting purposes:

- *Paper and paperboard*, engaged in the manufacture and sale of paper and paperboard products such as newsprint, coated paper, uncoated wood-free paper, publication paper, plain paper copier ("PPC") paper, carbonless paper, adhesive printing paper, wrapping paper, functional specialty paper, kraft linerboard and corrugating medium, and various types of pulp. Customers for these products include newspaper publishers, printing companies, paper processing companies and corrugated container manufacturers. In the fiscal year ended 31st March, 2015, net sales to outside customers from this segment comprised 64.4 per cent. of total consolidated net sales of the Group.
- *Home and personal care*, engaged in the manufacture and sale of household paper products such as facial tissue, toilet tissue, kitchen towels, baby and adult disposable diapers, light incontinence products and feminine hygiene products, marketed under brands such as *Elleair*, *GOO.N*, *Attento*, *Natura* and *elis*. Customers for these products are general consumers, as well as nursing homes, hospitals, hotels and restaurants. In the fiscal year ended 31st March, 2015, net sales to outside customers from this segment comprised 32.6 per cent. of total consolidated net sales of the Group.

In addition, businesses which do not qualify as a reportable segment, such as the Group's woodchip, forestry, machinery, logistics, electricity sales and the golf club businesses, are categorised as "Other".

As at 30th June, 2015, the Company had 29 consolidated subsidiaries. The Company's consolidated net sales, operating income, ordinary income and net income for the fiscal year ended 31st March, 2015 amounted to ¥450,239 million, ¥21,796 million, ¥21,784 million and ¥13,209 million, respectively. The Company's consolidated net sales, operating income, ordinary income and net income for the three-month period ended 30th June, 2015 amounted to ¥112,957 million, ¥4,610 million, ¥4,413 million and ¥1,896 million, respectively.

The Company is incorporated under Japanese law with limited liability as a joint stock corporation (*kabushiki kaisha*). The registered head office of the Company is at 2-60, Mishima Kamiya-cho, Shikokuchuo-shi, Ehime 799-0492, Japan, and its Tokyo Headquarters is currently located at Yaesu Mitsui Building, 7-2, Yaesu 2-chome, Chuo-ku, Tokyo 104-8468, Japan (the Tokyo Headquarters is due to move to Iidabashi Grand Bloom, 10-2, Fujimi 2-chome, Chiyoda-ku, Tokyo 102-0071, Japan on or around 24th September, 2015).

The Shares are listed on the First Section of the Tokyo Stock Exchange. The market capitalisation of the Company based on the closing price of the Shares on the Tokyo Stock Exchange on 1st September, 2015 was approximately ¥213,419 million.

THE OFFERING

Issuer	Daio Paper Corporation
Securities Offered	¥30,000,000,000 in aggregate principal amount of Zero Coupon Convertible Bonds due 2020 (bonds with stock acquisition rights, *tenkanshasaigata shinkabu yoyakuken-tsuki shasai*).
Issue Price	100.5 per cent.
Offer Price	103.0 per cent.
Closing Date	On or about 17th September, 2015.
Delivery	It is expected that the Global Certificate will be deposited with, and registered in the name of, or a nominee for, a common depositary for Euroclear and Clearstream, Luxembourg on or about the Closing Date.
Form	In registered form, evidenced by a Global Certificate. Definitive Certificates will only be available in certain limited circumstances. See "Summary of Provisions Relating to the Bonds While in Global Form".
Listing	Approval in-principle has been received for the listing of the Bonds on the SGX-ST. The Bonds will be traded on the SGX-ST in a minimum board lot size of ¥200,000 with a minimum of 100 lots to be traded in a single transaction for so long as such Bonds are listed on the SGX-ST.
Lock-up	In connection with the issue and offering of the Bonds, the Company has agreed that it will not, and will procure that none of its directors or officers or any person acting on the direction of or with the consent of the Company will, for a period beginning on the date of the Subscription Agreement (as defined in "Subscription and Sale") and ending on the date 180 calendar days after the Closing Date: (a) issue, offer, pledge, lend, sell, contract to sell, sell or grant any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant (including stock acquisition rights) to purchase, make any short sale or otherwise transfer or dispose of, directly or indirectly, any Shares or any other capital stock of the Company or any securities convertible into or exercisable or exchangeable for, or that constitutes the right to receive, Shares or any other capital stock of the Company or any securities convertible into or exercisable or exchangeable for Shares; (b) enter into a transaction (including a derivative transaction) that transfers, in whole or in part, directly or indirectly, ownership (or any economic consequences thereof) of Shares or any other capital stock of the Company, or that has an effect on the market in the Shares similar to that of a sale; (c) deposit any Shares (or any securities convertible into or exercisable or exchangeable for Shares or any other capital stock of the Company or which carry rights to subscribe or purchase Shares or any other capital stock of the Company) in any depositary receipt facility; or

(d) publicly announce any intention to do any of the above,

without the prior written consent of the Joint Lead Managers, other than:

(i) the issue and sale by the Company of the Bonds or the issue or transfer of Shares upon exercise of the Stock Acquisition Rights;

(ii) the grant of stock options or stock acquisition rights to directors, corporate auditors, executive officers and employees of the Company and directors and employees of the Company's affiliates pursuant to its stock option plans (if any);

(iii) the issue of Shares by the Company as a result of any stock split or the pro rata allocation of Shares or stock acquisition rights to holders of Shares without any consideration; and

(iv) any other issue or sale of Shares required by the Japanese laws and regulations.

See "Subscription and Sale".

Use of Proceeds .. .. The net proceeds from the issue of the Bonds are estimated to amount to approximately ¥30 billion, and are expected to be used primarily as follows:

(i) approximately ¥7 billion in total (approximately ¥4 billion by the end of March 2016 and approximately ¥3 billion by the end of February 2017), for capital expenditures in the home and personal care business (being the Group's growth business) for the purposes of, among other things, expanding the manufacturing facilities and building and/or expanding warehousing facilities of the Group including at the Company's Kani Mill (in Gifu prefecture), and at the Mishima Factory (in Ehime prefecture) and the Iwaki Factory (in Fukushima prefecture) of Elleair Product Co., Ltd. ("Elleair Product"), a consolidated subsidiary of the Company;

(ii) approximately ¥7 billion in total (approximately ¥2 billion by the end of March 2016, approximately ¥3 billion by the end of March 2017 and approximately ¥2 billion by the end of November 2017), for capital expenditures (through Daio Package Corporation ("Daio Package"), a consolidated subsidiary of the Company) in the corrugated container business (being one of the Group's strategic focal businesses for strengthening under the Group's medium-term business plan) for the purposes of reinforcing and renewing the manufacturing facilities at each of the Group's corrugated container manufacturing locations with the aim of strengthening competitiveness in the business;

(iii) approximately ¥9 billion in total (approximately ¥6 billion by the end of March 2017 and approximately ¥3 billion by the end of March 2018), for part of the funds required for building a black liquor power generation plant aimed at utilising the feed-in tariff ("FIT") system for renewable energy, at the Company's Mishima Mill (in Ehime prefecture);

(iv) approximately ¥2 billion in total (approximately ¥1 billion by the end of March 2016 and approximately ¥1 billion by the end of March 2017), with the aim of strengthening the competitiveness of the paper and paperboard business, for capital expenditures for the renewal of facilities at the Mishima Mill (in Ehime prefecture) and Kani Mill (in Gifu prefecture), the Group's principal manufacturing facilities; and

(v) the balance (being approximately ¥5 billion) for repayment of the Company's Series 16 unsecured straight bonds which are due to be redeemed at maturity on 17 December 2015.

Capital expenditures by the Company's subsidiaries mentioned above will be funded by way of an intra-group loan from the Company.

THE BONDS

Form and Denomination	The Bonds are issued in registered form in the denomination of ¥10,000,000 each.
Initial Conversion Price	¥1,443 per Share, subject to adjustment in certain events. See Condition 5.
Coupon	Zero.
Exercise of Stock Acquisition Rights	Subject to and upon compliance with the provisions of Condition 5, any holder of a Bond may exercise the Stock Acquisition Right, at any time on and after 1st October, 2015 up to, and including, the close of business (at the place where the Stock Acquisition Right is to be exercised) on 3rd September, 2020 (but in no event thereafter), to acquire fully-paid and non-assessable Shares. See Condition 5. The Conditions provide, among others, that the Stock Acquisition Right may not be exercised during such period whereby the relevant Stock Acquisition Date (as defined in Condition 5.9.4) (or, if the Stock Acquisition Date would not be a Tokyo Business Day (as defined in Condition 5.1.4), the immediately following Tokyo Business Day) would fall on a date falling within any Shareholder Determination Date Restriction Period (as defined in Condition 5.1.4).
Status	The obligations of the Company in respect of the Bonds constitute direct, unconditional, unsubordinated and (subject to the provisions of Condition 2) unsecured obligations of the Company, ranking *pari passu* and rateably without any preference among themselves, and, except for the provisions of Condition 2 and with the exception of obligations in respect of national and local taxes and certain other statutory exceptions, equally with all other present and future unsecured obligations (other than subordinated obligations, if any) of the Company from time to time outstanding.
Negative Pledge	So long as any of the Bonds remain outstanding, the Company will not, and will procure that none of its Principal Subsidiaries (as defined in Condition 3.1) will, create or permit to subsist any mortgage, charge, pledge or other security interest for the benefit of the holders of any Relevant Debt (as defined in Condition 2) unless the same security or such other security or guarantee as provided in Condition 2 is accorded to the Bonds. See Condition 2.
Redemption at Maturity	Unless the Bonds have previously been redeemed or purchased and cancelled or become due and repayable, and unless the Stock Acquisition Rights incorporated therein have previously been exercised, the Company will redeem the Bonds at 100 per cent. of their principal amount on 17th September, 2020.
Early Redemption — Redemption at the Option of the Company upon Increased Share Prices	The Company may, on or after 15th September, 2017, having given not less than 30 nor more than 60 days' prior notice to the Trustee in writing and to the Bondholders in accordance with Condition 19 (which notice shall be irrevocable), redeem all, but not some only, of the Bonds then outstanding at 100 per cent. of their principal amount, provided, however, that no such redemption may be made unless the Closing Price (as defined in Condition 3.1) of the Shares for each of the

	20 consecutive Trading Days (as defined in Condition 3.1), the last of which occurs not more than 30 days prior to the date upon which the notice is first published, is at least 130 per cent. of the Conversion Price in effect on each such Trading Day. See Condition 7.2.
Early Redemption — Redemption at the Option of the Company	The Company may, on or after 14th September, 2018 and prior to maturity, having given not less than 30 nor more than 60 days' prior notice to the Bondholders in accordance with Condition 19 (which notice shall be irrevocable), redeem all, but not some only, of the Bonds then outstanding at 100 per cent. of their principal amount. See Condition 7.3.
Early Redemption — Reduced Outstanding Amounts	The Company may, having given not less than 30 nor more than 60 days' prior irrevocable notice of redemption to the Bondholders in accordance with Condition 19, redeem all, but not some only, of the Bonds then outstanding at 100 per cent. of their principal amount if, at any time prior to the date of giving that notice, the outstanding principal amount of the Bonds is less than 10 per cent. of the aggregate principal amount of the Bonds as of the date of issue thereof. See Condition 7.4.
Early Redemption —Taxation Reasons	If the Company satisfies the Trustee, immediately prior to giving the notice to the Bondholders, that (i) the Company has or will become obliged to pay any Additional Amounts (as defined in Condition 9) in accordance with Condition 9 as a result of any change in, or amendment to, the laws or regulations of Japan or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after 1st September, 2015, and (ii) the Company is unable to avoid such obligation by taking reasonable measures available to it, the Company may, but shall not be bound to, having given not less than 30 nor more than 60 days' prior irrevocable notice to the Bondholders in accordance with Condition 19, redeem all, but not some only, of the Bonds then outstanding at 100 per cent. of their principal amount. If, however, the outstanding principal amount of the Bonds at the time of such notice of redemption is 10 per cent. or more of the aggregate principal amount of the Bonds as of the date of issue thereof, each holders of the Bonds will have the right to elect that its Bonds should not be redeemed and that, in respect of payments on the Bonds to be made after that date, payments will be made subject to the withholding of, or deduction for or on account of, Japanese taxes, duties, assessments and governmental charges. See Condition 7.5.
Early Redemption — Corporate Events	In the case of a Corporate Event, the Company shall give notice to the Trustee in writing and to the Bondholders in accordance with Condition 19 of such Corporate Event and the anticipated effective date of such transaction and the provisions set out in Condition 6 shall apply. See Condition 6. Upon or following the occurrence of a Corporate Event, the Company shall give not less than 14 Tokyo Business Days' prior notice to the

	Bondholders in accordance with Condition 19 to redeem all, but not some only, of the Bonds then outstanding at a redemption price (expressed as a percentage of the principal amount of the Bonds) determined by reference to the table set out in Condition 7.6 and in accordance with the provisions of Condition 7.6 on the Corporate Event Redemption Date (as defined in Condition 7.6) specified in such notice (such Corporate Event Redemption Date shall be a date falling on or prior to the relevant Corporate Event Effective Date (as defined in Condition 6.3) or, if such Corporate Event Effective Date occurs earlier than the 14th Tokyo Business Day from the date of occurrence of the Corporate Event, such Corporate Event Redemption Date shall be the 14th Tokyo Business Day from the date of the notice of such redemption, which notice shall be given as soon as practicable after the date of occurrence of the Corporate Event) if any of the following conditions is satisfied: (i) it is not legally possible under the then applicable laws (taking into account the then official or judicial interpretation of such laws) to effect a scheme provided for by Condition 6.4.1; or (ii) it is legally possible as aforesaid but, despite the Company using its best endeavours, the Company cannot effect such a scheme in compliance with Condition 6.4.1; or (iii) despite the Company using its best endeavours pursuant to Condition 6.4.2, on (a) the date of occurrence of the relevant Corporate Event or (b) the 25th day prior to the relevant Corporate Event Effective Date, whichever occurs later, (x) no Listing (as defined in Condition 6.4.2) has been obtained for the shares of common stock of the New Obligor (as defined in Condition 6.1) and (y) no confirmation has been obtained by the New Obligor from any stock exchange in Japan or the governing body of any securities market in Japan that such Listing will be obtained on or prior to such Corporate Event Effective Date; or (iv) the Company has delivered to the Trustee, on or prior to the date of occurrence of the relevant Corporate Event, a certificate signed by a Representative Director or an Authorised Officer (as defined in Condition 3.1) stating that the Company does not currently anticipate that a Listing will be obtained or maintained for the shares of common stock of the New Obligor on the relevant Corporate Event Effective Date for any reason stated in such certificate. See Condition 7.6.
Early Redemption — Delisting of the Shares	In certain circumstances where a tender offer is made to holders of Shares of the Company by an Offeror (as defined in Condition 7.7.1) where, *inter alia*, the Company expresses its opinion to support such offer, the Company or the Offeror publicly announces or admits that the Shares may cease to be listed, quoted or dealt in on the Relevant Stock Exchange (as defined in Condition 3.1), and the Offeror acquires any Shares pursuant to the offer, then the Company shall redeem all, but not some only, of the Bonds then outstanding at the redemption price each calculated in the same manner as referred to in Condition 7.6, subject to the provisions of Condition 7.7. See Condition 7.7.

Early Redemption — Squeezeout Event	Upon the occurrence of a Squeezeout Event (as defined in Condition 7.8.1), the Company shall redeem all, but not some only, of the Bonds then outstanding at the redemption price calculated in the same manner as referred to in Condition 7.6, subject to the provisions of Condition 7.8. See Condition 7.8.
Cross Default	The Bonds are subject to a cross default in respect of indebtedness for borrowed money or any guarantee and/or indemnity thereof of the Company or of any Principal Subsidiary in respect of amounts of at least ¥1,000,000,000 (or its equivalent in any other currency or currencies). See Conditions 10.3 and 10.4.
Taxation	All payments by the Company in respect of the Bonds will be made without any deduction for withholding taxes of Japan, except to the extent described in Condition 9.
Governing Law	English law.
Jurisdiction	English courts.
International Securities Identification Number ("ISIN")	XS1284548705.
Common Code	128454870.
Trustee, Custodian and Registrar	MUFG Union Bank, N.A.
Principal Agent	The Bank of Tokyo-Mitsubishi UFJ, Ltd., London Branch.
Custodian's Agent in Japan	The Bank of Tokyo-Mitsubishi UFJ, Ltd.

INVESTMENT CONSIDERATIONS

Prior to making an investment decision, prospective investors should carefully consider, along with the other information set forth in this Offering Circular, the following considerations. All of these factors are contingencies which may or may not occur and the Company is not in a position to express a view on the likelihood of any such contingency occurring.

Considerations Relating to the Group and its Business

Adverse developments in demand for paper and paperboard products

Demand for products in the Group's paper and paperboard segment, the net sales in respect of which comprised 64.4 per cent. of consolidated net sales of the Group for the fiscal year ended 31st March, 2015, has been materially affected by changes in consumer behaviour, with the demand for paper generally seeing a declining trend. According to the statistics of the Japan Paper Association ("JPA"), the demand for newsprint and printing and communication paper in Japan declined from 3,349 thousand tonnes and 9,949 thousand tonnes, respectively, in calendar year 2010 to an estimated 3,175 thousand tonnes and 9,222 thousand tonnes, respectively, in calendar year 2014, and the declining trend is expected to continue for the time being. Some of the more significant changes in such consumer behaviour include the increased usage of electronic media in place of print media, in line with increased use of mobile devices such as smartphones and tablets, as well as increased social interest in environmental conservation and the declining and ageing population in Japan, the Group's principal market for paper and paperboard products. While the volume of demand for containerboard in Japan has been relatively steady over the last few years (increasing from 8,728 thousand tonnes in calendar year 2010 to an estimated 8,880 thousand tonnes in calendar year 2014 according to the statistics of JPA), there is a general trend towards usage of thinner and lighter containerboards which may eventually lead to a decline in the volume of total demand. Demand for containerboard is also affected by seasonal factors and weather conditions, which affect the demand for products which are packaged with corrugated containers (for example, an unseasonably cold summer may reduce demand for cold drink cans and bottles, and bad weather may reduce supply of fruits and vegetables, each of which are often transported in corrugated containers). The Group therefore needs to anticipate demand levels and respond quickly to changes in demand through careful capacity management in order to meet shifts in customer needs and changes in consumer and industry behaviour. Declines in demand for paper and paperboard products, whether in general or due to temporary factors, may materially adversely affect the Group's business, results of operations and financial condition.

Intense competition for sales of the Group's products

The Japanese paper and paperboard market in which the Group operates is mature, capital intensive and highly competitive. The Group has, from time to time, experienced pricing pressure due to competition in many of its paper and paperboard product lines. The Group's principal competitors include several large Japanese paper companies (with two such competitor companies, Oji Holdings Corporation and Nippon Paper Industries Co., Ltd., particularly holding leading market shares (and in aggregate holding a majority market share in some products)) and, in addition, the Group faces competition from other regional and more specialised competitors as well as, to a certain extent, imports into Japan. The Group expects price competition to become increasingly severe in the paper and paperboard market, and in addition, any increases in production capacity by, or any mergers and acquisitions ("M&A") and alliance activities among, its competitors, may also increase the competition with regard to the Group's paper and paperboard business.

In the home and personal care business, the Group operates in highly competitive markets in Japan as well as in certain other countries (such as China, Thailand, South Korea and Indonesia, as well as other Asian countries and Russia) where the Group's products are sold, against well-known manufacturers and branded products as well as lower-price or private label products. The Group's competitors in the home and personal care business include global, regional and local manufacturers, including private label manufacturers, as well as specialised manufacturers such as Unicharm Corporation (principally specialising in home and personal care products such as diapers, feminine hygiene products and incontinence products) which hold high market shares in Japan and certain overseas countries, and Nippon Paper Crecia Co., Ltd. which holds a relatively high market share in the facial tissue and toilet tissue market in Japan. The Group anticipates both product and price competition to become increasingly severe in the home and personal care markets in which it operates, and while the Group has a leading market share in certain categories of home and personal care products in Japan, there can be no assurance that the Group will always be able to maintain its competitive position. Given the nature of consumer products, the Group's home and personal care products are frequently exposed to fierce price competition and successive new product releases by competitors. The selling environment is also heavily affected by the Group's marketing efforts and activities as well as those of its competitors. Increasing competition may make it necessary for the Group to lower prices on its products and/or increase spending on sales promotions and advertising, which may adversely affect the Group's profitability.

Some of the Group's competitors in either the paper and paperboard business or the home and personal care business may have certain competitive advantages over the Group, including more substantial financial, human and other resources, greater access to low cost capital, greater ability to fund research and development ("R&D") activities and develop new and attractive products, stronger customer relationships and distribution networks and better market penetration and higher market recognition for their products. There can be no assurance that the Group will always be able to compete successfully in the future. A failure to do so could have a material adverse effect on the Group's business, results of operations and financial condition.

Effect of economic conditions

The Group's business currently principally comprise sales in the Japanese market, with net sales to customers in Japan comprising over 90 per cent. of the Group's consolidated net sales for the fiscal year ended 31st March, 2015. As such, the Group is particularly affected by economic conditions in Japan. Demand for the Group's paper and paperboard products is primarily driven by demand for its customers' end-products such as newspapers, magazines, leaflets and flyers for advertisement, printing products and industrial and consumer packaging, while demand for the Group's home and personal care products are directly affected by consumer spending patterns. The Japanese economy has recently been showing signs of a recovery, with equity prices rising, the Japanese yen depreciating against most major currencies (which is often (though not always) a favourable factor for Japanese businesses), improving corporate performance, increased capital expenditures, improving employment conditions and a general increase in demand brought on by the Japanese government's monetary easing, fiscal stimulus and structural reform such as deregulation for private growth. However, uncertainty of future economic prospects remains, with fears of a slower growth in the global economy (particularly in Europe and also in some Asian countries (including China which recently experienced a turmoil in its stock market)) which may adversely affect the Japanese economy, and there can be no assurance that the economic conditions in Japan will not worsen again. Further, Japan's consumption tax rate is expected to increase from 8 per cent. to 10 per cent. in April 2017, and while there may be a temporary increase in demand prior to such tax rate increase, such tax rate increase may ultimately adversely affect the Japanese economy by, among other things, reducing consumer spending (both as a reaction to such temporary increase in spending as well as in general). Economic downturns characterised by declines in consumer and government spending, advertising, business investment or construction activity typically result in decreased demand for the Group's paper and paperboard products. Although a significant proportion of the Group's home and personal care products are daily essentials which generally tend to be less affected by economic conditions, adverse economic conditions may have a negative effect on the Group's product mix, including a shift in consumer preference to lower-price, lower-margin products, as well as the overall consumer demand for the Group's home and personal care products, including a shift in consumer purchasing patterns to lower-price products of competitors. A slower than expected recovery of, or any deterioration in, the Japanese economy may therefore have a material adverse effect on the Group's business, results of operations and financial condition.

Risks relating to the procurement of raw materials and fuel

The Group purchases raw materials such as woodchips, recovered paper and chemicals from suppliers in Japan and overseas. Prices for many of the Group's raw materials have seen significant volatility in the past, and in recent years have been showing an increasing trend, particularly for woodchip and recovered paper. Prices of recovered paper have been increasing in the domestic market as well due to increased exports (in terms of both volume and price) against a background of the increased demand in China. These materials are subject to price fluctuations based on availability, supplier capacity, demand level, changes in fuel and other transportation costs and other factors (including actions taken to address climate change and related market responses). Suppliers may, due to supply shortages, cost increases or other reasons, limit the amount of raw materials available to the Group, and/or the Group may not be able to obtain the raw materials needed to operate its business at favourable prices or without delays. Increases in raw material prices or limits in their availability could adversely affect the Group's profitability if selling prices for its finished products are not adjusted or if the timing of such adjustments significantly trails the increases in raw material prices. Any of these factors may materially adversely affect the Group's business, results of operations and financial condition.

In addition, fuel and energy comprise some of the most significant components of the Group's production costs. As such, increases in prices for fuel have had a significant impact on the Group's production costs in the past, and may continue to have such impact in the future. The Group generates almost all of its own energy needs at the generators located at its production sites, while it also purchases electricity in respect of certain of its manufacturing sites. The fuel used by the Group for energy generation primarily comprises coal, which has experienced significant price volatility in the past, and may in particular be affected by factors such as increased demand overseas (especially in China), as well as the promotion of environmental regulations in or outside Japan (which may lead to increased demand for more environmentally-friendly (high-grade) coal in countries currently relying on low-grade coal (which may adversely affect industrial activities in Japan, which generally rely on high-grade coal), or which may affect the costs of coal-powered generation (through imposition of measures such as carbon tax)). The Group is also affected by prices and supply of other fuel such as oil and biomass. Increases in fuel prices could have a material adverse effect on the Group's business, profitability, results of operations and financial condition, especially if the Group is unable to increase its product prices sufficiently or in a timely manner in order to maintain its margins.

Technological development and the introduction of new products

The markets for the Group's products in the home and personal care segment are characterised by the frequent introduction of new products, improvement of existing products and other innovations, including as regards the level and speed of absorbency and gentleness on the skin. The success of new or enhanced products is highly dependent on consumer acceptance, the effectiveness of the Group's marketing efforts, and the technology, competitiveness and the actions of the Group's competitors. The Group incurs development costs in introducing innovative products and technologies, and the introduction of a new or improved consumer product often requires expenditures for advertising and marketing to gain recognition in the relevant market and/or to maintain its relative market position. Some of the Group's competitors are larger and may have better access to financial resources and may be able to spend more aggressively on research, development, advertising and promotional activities, introduce competing products more quickly, provide a wider variety of products and respond more effectively to changing business and economic conditions than the Group. Alternatively, some of these competitors may have significantly lower product development and manufacturing costs, particularly with respect to private label products, allowing them to offer products at a lower price. The ability of the Group to develop innovative or improved products which can successfully compete in the market is affected by whether it can anticipate consumer needs and preferences successfully and in a timely manner, develop and fund technological innovations, and receive and maintain necessary intellectual property protection. If the Group is unable to successfully anticipate consumer demand and develop and offer innovative or improved products in a timely manner, or to advertise, market and launch its products effectively, the Group's business, results of operations and financial condition may be materially adversely affected.

Changing demographic trends and welfare service policies

As set out above, most of the Group's current business comprises sales within Japan, and many of its products, including paper and paperboard products such as newsprint, printing paper, communication paper and wrapping paper, and home and personal care products such as facial tissue, toilet tissue, disposable diapers, light incontinence products and feminine hygiene products, are affected by the level of population and, to some extent, the number of households in Japan. Changes in demographic trends in Japan may therefore materially affect the Group's business. For example, due to Japan's declining birth-rate and ageing population which has been continuing for an extended period of time, the percentage of babies and menstruating women in the domestic population has been continuing to decrease, and this has generally had the effect of reducing the number of customers for baby diapers and feminine hygiene products in Japan, which may negatively affect demand for the Group's products in such markets. There has been some positive effects on the demand for the Group's adult diaper and light incontinence products from the ageing of the Japanese population, and the increased popularisation of their usage. However, if the Japanese government were to drastically reduce welfare spending due to financial concerns, demand for such products, especially from hospitals and nursing homes, may decline; further, if the Japanese government were to change its policies with respect to promotion of home care and home healthcare, demand for such products from consumers may decline; or, in either case, demand for higher value-added products may decline in favour of lower-price products. A declining population in Japan generally has a negative effect on the demand for many of the Group's products, and such a decline as well as a change in welfare service policies in Japan may materially adversely affect the Group's business, results of operations and financial condition.

Material change in the relationships with retail trade customers

The Group's business success, in particular in the home and personal care business, is dependent on its ability to successfully manage relationships with its retail trade customers such as pharmacies, supermarkets, general merchandise stores, convenience stores, discount outlets and speciality stores. This includes the ability to offer trade terms that are acceptable to the Group's retail trade customers which are at the same time aligned with the Group's pricing and profitability targets. The Group's business could suffer if the Group is unable to reach agreement with major retail trade customers based on the Group's trade terms and principles. In addition, there is a continuing trend towards retail trade consolidation, and very large retailers may have a greater bargaining power than the Group, and may be in a position to demand higher trade discounts, leading to reduced profitability for the Group. The Group may also be negatively affected by changes in the policies of its major retail trade customers, such as inventory de-stocking, limitations on access to shelf space, or other conditions. If the Group were to lose a significant retail trade customer or if sales of its products to a significant retail trade customer were to decrease materially, the Group's business, results of operations and financial condition may be materially adversely affected. In addition, the emergence of new sales channels may affect customer preferences and market dynamics and could adversely impact the Group's business. These new channels include sales of consumer and other products via e-commerce channels. Any of these factors may adversely affect the Group's business, results of operations and financial condition.

Risks relating to the Group's overseas business

The Group's growth strategy includes expanding its overseas business, in particular with regard to its home and personal care business, in places such as China, Thailand, South Korea and Indonesia, as well as other Asian countries and Russia. The Group currently has manufacturing facilities in Thailand and China, and is establishing a manufacturing facility in Indonesia (which is expected to become a joint venture operation with Mitsubishi Corporation in November 2015), each relating to its home and personal care business, and also engages in forestry in Chile. The Group's overseas operations are subject to risks similar to those affecting its Japanese operations as well as a number of additional risks including:

- changes in the economic environment, income levels and living standards which affect demand;
- increasing price competition with regional and local manufacturers, especially in the lower price products;
- delays or difficulties in obtaining licences, consents or other required approvals from foreign governments in the relevant jurisdictions, which may delay or hinder the Group's operations in such jurisdictions;
- changes in the regulatory environment due to the acts of foreign governments such as impositions of, or increases in, trade, investment, legal, regulatory and other restrictions and barriers or tariffs, customs and duties;
- changes in costs and revenues translated into Japanese yen, and the local currency price of exported products, due to fluctuating exchange rates;
- various and changing requirements of applicable foreign laws and regulations, and relatively limited effective protection for intellectual property rights;
- labour disputes such as industrial action and general strikes or other disruptions in working conditions, and significant increases in labour costs;
- difficulties associated with managing local personnel and operations, including retention, supervision, monitoring and management control;
- inability to effectively tailor the Group's products to the differing demands in new overseas markets, or recover in a timely fashion the promotional expenses spent in order to gain market recognition and market share in new markets;
- unexpected events and accidents caused in particular by less developed infrastructure (such as power failures);
- political or social instability or turmoil, due to terrorism, war, natural disasters, adverse weather conditions, infectious diseases, epidemics or other factors; and
- changes in the political and/or economic relationship between Japan and the countries in which the Group or its customers operate, such as China and South Korea.

The Group's business, results of operations and financial condition may be affected by any or all of these factors, individually or in the aggregate.

Foreign exchange risk

Most of the Group's sales are made in yen, while the Group purchases most of its raw materials and fuel from overseas sources in foreign currencies, primarily the U.S. dollar and, to some extent, the Australian dollar. As such, fluctuations in foreign exchange rates, particularly between the yen and the U.S. dollar, may materially affect the Group's profitability. In particular, in the current environment where the Japanese yen is trading more weakly than previously against the U.S. dollar, the Group's raw material costs in yen terms have been increasing and the effect of the decline in oil and other fuel prices has been offset by the weakening of the yen against the U.S. dollar, and it may not always be possible to pass on such increased yen costs to yen sales prices of the Group's products promptly, or at all. To a lesser extent, the Group also sells products in local currency in various overseas countries including Asia, and incurs certain local currency costs, and holds certain foreign currency-denominated assets and liabilities, in its overseas business bases, in particular the manufacturing facilities in China and Thailand and, going forward, in Indonesia where it is currently building a factory. Foreign exchange rate fluctuations may have an effect on the amounts translated into yen in respect of such items that are not denominated in yen, and this may affect the Group's results of operations and financial condition, even if the values of these items remain unchanged in local currency or U.S. dollar terms. While the Group uses hedging instruments to mitigate the impact of exchange rate fluctuations, there can be no assurance that it will always be able to manage its foreign exchange risk successfully and/or on favourable terms. As a result of all the above factors, currency exchange rate fluctuations may have a material adverse effect on the Group's business, results of operations and financial condition.

Natural or other disasters, accidents and similar events

Japan and certain other parts of the world in which the Group operates have historically experienced earthquakes and other natural disasters, including typhoons, floods, droughts, landslides, tidal waves, volcanic eruptions, heavy rain and other extreme weather conditions, infectious diseases and epidemics. In addition, other events outside the control of the Group or its suppliers (such as power outage, deliberate acts of sabotage, or the spreading of a computer virus) or accidents (whether due to human or equipment error) could damage, cause operational interruptions or otherwise adversely affect any of the Group's operations, the manufacturing or other facilities of its suppliers or its own or its suppliers' distribution systems. For example, following the Great East Japan Earthquake in March 2011, the manufacturing facilities of Iwaki Daio Paper Corporation ("Iwaki Daio Paper"), a consolidated subsidiary of the Company, suffered some damage, in particular to the industrial water supply facilities, and had to halt operations for some periods, not only due to such damage to facilities but also due to the concerns relating to radiation leakage from the Fukushima Dai-ichi Nuclear Power Plant in the same prefecture. Any such natural or other disasters, accidents and similar events may lead to losses and expenses to repair or replace the Group's facilities, losses due to the disruption of the production process and distribution systems, delay in delivery of products to its customers, losses in inventory and losses of sales opportunities. In particular, as a substantial part of the Group's manufacturing activities occur at the Group's Mishima Mill in Ehime prefecture, any such disasters, accidents or events affecting the Mishima Mill may have a particularly acute adverse effect on the Group's operations. The Group has insurance to cover certain potential losses at its facilities, but such insurance policies do not cover earthquake risk and generally may not be adequate to cover all possible losses and expenses. Any of these factors may disrupt the Group's business and materially adversely affect the Group's business, results of operations and financial condition.

Legal and regulatory risk

The Group's business and operations are subject to various forms of government regulation in countries in which the Group does business, including required business/investment approvals, as well as export/import regulations such as tariffs. In addition, commercial, antitrust, anti-corruption, patent, consumer, labour, taxation, exchange control, environmental/recycling and climate change laws and regulations also apply. In addition, new regulations relevant to the Group's business may be introduced or existing regulations may be amended to be more stringent. Compliance with those existing and any future regulations so introduced or amended could serve to limit the Group's activities or result in increased costs. Further, if the Group unintentionally fails to comply with these regulations, the Group may become subject to sanctions or penalties imposed by governmental authorities or courts. For example, in June 2014, Daio Package received an order from the Fair Trade Commission of Japan ("JFTC") to eliminate anti-competitive measures in connection with the pricing of corrugated containers and corrugated sheets, and received an order to pay a surcharge of approximately

¥213 million. Following the incident, the Group has put in place further strengthened internal control and compliance procedures designed to prevent such suspicions or allegations of anti-competitive behaviour from recurring. However, as the Group cannot predict the manner in which laws and regulations may be administered or interpreted in the future, or the nature, scope or effect of any future legal and regulatory requirements to which its operations may become subject, it cannot be certain that its internal control and compliance procedures will always be effective. Accordingly, any legal or regulatory developments relevant to the Group could materially adversely affect the Group's business, reputation, results of operations and financial condition.

Product safety and reputational risk

As a manufacturer and purveyor of consumer products, the Group is susceptible to adverse publicity regarding the quality or safety of its products and the raw materials used in its products, in particular in its home and personal care business. Product liability or other claims challenging the safety of the Group's products or those of its competitors (to the extent that such claims affect the relevant product category as a whole), particularly in the home and personal care business, may result in a sharp decline in sales for certain products of the Group, which may materially negatively affect the Group's business, results of operations and financial condition. This is true even if the claims themselves are ultimately settled for non-material amounts or are found to be without merit. The Group's business and results of operations could also be negatively impacted by the effects of a significant product recall, product-related litigation, allegations of product tampering or contamination, or the distribution and sale of counterfeit products. There can be no assurance that any adverse publicity of this nature will not occur or that any significant claims will not be made in the future or as to their impact on the Group. Although the Group takes particular care to ensure that the quality of the products it manufactures is high, there can be no assurance that unexpected quality problems will not occur. If the Group's products are found not to have met certain quality criteria, the Group's reputation and its brand value may be materially damaged. If one of the Group's leading brands or the "Daio Paper" brand itself were to suffer a substantial impediment to its reputation due to actual or perceived quality issues, the Group's business, results of operations and financial condition may be materially adversely affected.

Intellectual property rights and knowhow

Certain of the Group's product offerings are subject to frequent technological innovations, and patents and other intellectual property rights are important competitive factors in relation thereto. Further, the Group also holds significant operational knowhow which also aids the Group in maintaining competitiveness. The Group relies on technology it has itself developed or developed in conjunction with third parties such as suppliers of raw materials, and seeks to protect such technology through a combination of patents, trademarks and other intellectual property rights. Although the Group does not consider any single patent or other such right owned by itself or suppliers of raw materials to be material, it does own what it considers to be a number of key technologies which are based on a combination of patent or other proprietary rights. Such technologies include technologies relating to manufacturing processes, as well as other matters such as designs of home and personal care products. While the Group is not aware of any actual or potential significant impairment of, or adverse claim to, the Group's rights in such technologies or other matters, any interference in the Group's rights to use such technologies or other matters could make the Group vulnerable to increased competition in respect of the products that utilise the relevant technologies. At the same time, there is also the possibility that the Group may be unknowingly infringing upon the intellectual property rights of a third party.

The Group holds registered trademarks such as *Elleair*, *GOO.N*, *Attento*, *Natura* and *elis* in respect of its home and personal care products which it believes have acquired good levels of market recognition and significantly contribute to the sales of such products. Trademark infringements by manufacturers of counterfeit products made to appear similar to the Group's products may have an adverse effect on the sales of the Group's products, as well as the Group's reputation. Further, parallel imports of the Group's products manufactured only for sale in Japan into places such as China and Russia have been increasingly of concern to the Group, as such products undermine the Group's legitimate distribution channels, quality control and pricing models.

Any of these factors may adversely affect the Group's business, reputation, results of operations and financial condition.

Internal controls and governance

The Company's corporate governance structure includes the Board of Directors comprising 14 Directors (of whom two are independent directors), responsible for, among other things, oversight of the Group's business, and the Audit & Supervisory Board comprising five Audit & Supervisory Board Members (of whom three are independent Audit & Supervisory Board Members), responsible for, among other things, reviewing the internal control systems of the Group through internal audits and external accounting audits. See "Management and Employees — Corporate Governance". Within such framework, the Group has established risk management, compliance and internal control systems and procedures with the aim of ensuring the effectiveness and efficiency of business operations, reliability of financial reporting, compliance with applicable laws and regulations relevant to business activities and safeguarding of assets. However, such systems and procedures, no matter how sophisticated in design, still contain inherent limitations caused by misjudgement or fault, or deliberate acts of misconduct or fraud. Further, certain aspects of such systems and procedures may require constant monitoring, maintenance and continual improvements by the Group's senior management and staff, and if the efforts to maintain these systems and procedures are found to be ineffective or inadequate, the Group may be subjected to inappropriate activities such as fraudulent acts or corruptive practice (whether by its employees or third parties), or be found not to be in compliance with laws and regulations. (See "— Legal and regulatory risk" in relation to a recent allegation of anti-competitive behaviour by one of the consolidated subsidiaries of the Company.) Following the discovery in September 2011 of the fact that Mr. Mototaka Ikawa, the then-Chairman and Representative Director of the Company, had illegally borrowed ¥10,680 million of funds from the Company's consolidated subsidiaries, the Company has, in relation thereto, published amendments to its historical financial statements in December 2011 and May 2012, and in relation to the fiscal years ended 31st March, 2009, 2010, 2011 and 2012, has filed internal control reports (or amendment reports in relation thereto) to the effect that the internal controls regarding the Group's financial reporting as at the end of each such fiscal year were not effective. (See "Business — Unlawful Activities by the Company's Former Chairman and Representative Director Discovered in 2011"). In response to these issues, the Company has changed its independent auditor from the fiscal year ended 31 March 2013, and has been working to improve its internal control and compliance structures. However, the Group cannot give assurance that its internal control measures will always ensure the implementation and maintenance of adequate controls over its financial reporting processes or that its operational risk management procedures will detect and prevent misbehaviour by individual employees. Any failure by the Group to comply with applicable laws and other standards could subject it to penalties, sanctions and fines, loss of operating licenses and reputational harm. Inadequate, or perception of inadequate, internal controls could also cause investors and other third parties to lose confidence in the Group's management and reported financial information. All of these factors may have a material adverse effect on the Group's business, reputation, results of operations and financial condition.

Relationship with the Company's principal shareholder

The Company's principal shareholder, Hokuetsu Kishu Paper Co., Ltd. ("Hokuetsu Kishu Paper"), is a paper manufacturer in Japan and is one of the Group's competitors. In August 2012, Hokuetsu Kishu Paper acquired 12,052 thousand Shares from Mr. Takao Ikawa (who had previously acted as, among others, the Company's President and Representative Director) and his related parties, and as at 31st March, 2015, Hokuetsu Kishu Paper and its subsidiaries held 31,717 thousand Shares (comprising 21.96 per cent. of the total voting rights of the Company). Hokuetsu Kishu Paper currently seconds an outside Director to the Company, and treats the Company as an affiliate accounted for by the equity method. When the Company conducted a public offering of Shares in 2014, Hokuetsu Kishu Paper acquired further Shares by way of third-party allotment by the Company; however, there are no agreements between the Company and Hokuetsu Kishu Paper with regard to the acquisition, the holding or the disposal of the Shares by Hokuetsu Kishu Paper. In addition, the Company and Hokuetsu Kishu Paper have entered into a basic technological alliance agreement in December 2006 and a comprehensive technological alliance agreement in November 2012, pursuant to which they cooperate on technological matters with the aim of realising cost reductions.

In February 2013, following media coverage of a document entitled "Accusation" drafted by an employee of the Company, Hokuetsu Kishu Paper publicly requested an investigation into the Group's corporate governance and compliance systems. In response thereto, the Company set up an external review committee (the "External Review Committee") comprised of third parties; following an investigation, such External Review Committee confirmed in May 2013 that it found no major problems with the Company's corporate governance and compliance systems. Further, from around April 2015, Hokuetsu Kishu Paper has requested a meeting with the Company's President, but the Company, considering the above issues and the background to the meeting request, has refused to meet such request on the basis that there was no reasonable cause to conduct such a meeting. Hokuetsu Kishu Paper has publicly expressed its critical views regarding such actions of the Company, and at the Company's annual general meeting held in June 2015, voted against the election of the Company's president as a Director of the Company. It is possible that Hokuetsu Kishu Paper will continue to take actions, or exercise voting rights or other rights as a shareholder of the Company in a critical or inimical manner in relation to the Company's management policies (including capital policies), decision-making and other actions. There can also be no assurance that Hokuetsu Kishu Paper, which is not subject to any lock-up arrangement in connection with the issue and offering of the Bonds, will not dispose of the Shares held by it at any time, which may materially adversely affect the market price of the Shares, which may in turn have a material adverse effect on the trading price of the Bonds.

Relationship with Mr. Takao Ikawa

Mr. Takao Ikawa, who is the eldest son of the Company's founder Mr. Isekichi Ikawa and who has previously acted as, among others, the President and Representative Director of the Company, has brought certain legal proceedings against the Company as well as against Mr. Masayoshi Sako (the current President and Representative Director of the Company) acting personally, in relation to the termination by the Company of the advisory agreement between the Company and Mr. Takao Ikawa. (See "Business — Legal Proceedings" for further details.) As at 31st March, 2015, Mr. Takao Ikawa held 4 million Shares (comprising 2.68 per cent. of the issued Shares of the Company), and a company which the Company believes is a related company of Mr. Takao Ikawa, his wife and his two sons (being Mr. Mototaka Ikawa, a former Chairman and Representative Director of the Company, and Mr. Takahiro Ikawa, a former Director of the Company), also held 93 thousand Shares (comprising 0.06 per cent. of the issued Shares of the Company) as at such date. While the Company believes that there is no reasonable basis for the above-mentioned proceedings, it is possible that Mr. Takao Ikawa will continue to take actions, or exercise voting rights or other rights as a shareholder of the Company in a critical or inimical manner in relation to the Company.

Legal proceedings and litigation

The Group continues to work to strengthen its compliance system for complying with various laws and regulations, environmental regulations and social norms, and makes efforts to implement this system effectively. However, as with any major business, the Group faces risks of disputes or litigation both in Japan and overseas, with or without merit, in the course of its business, and the costs and other effects of any litigation and proceedings involving the Group generally cannot be determined with certainty at any point in time, until its conclusion. If legal or regulatory proceedings were to be commenced by regulatory authorities or if lawsuits were to be filed in relation to the Group's business activities, the Group may need to spend significant management time and attention as well as costs to deal with such matters, and this, as well as any unfavourable outcomes in respect of such proceedings or lawsuits, may materially adversely affect the Group's business, reputation, results of operations and financial condition. See also "— Relationship with Mr. Takao Ikawa" and "Business — Legal Proceedings" for further details in relation to certain ongoing litigations involving the Group and its former officer and employees.

Impairment losses

The Group holds various long-lived assets, including property, plant and equipment and goodwill, and is required to make significant capital expenditures to maintain, update and improve its plant and manufacturing equipment, at the same time as making new investments in significant new facilities, such as those recently completed in Iwaki (Fukushima prefecture). The Group reviews its long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognised if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group or its or their net selling price, and measured at the difference between such amount and the carrying amount. In particular, if unforeseen market changes and corresponding declines in demand result in a mismatch between sales volumes and anticipated production volumes, or if sales prices were to decline due to market oversupply, the Group may not be able to recover its capital expenditures, or the recovery of such capital expenditures or investments may take longer than anticipated, and the carrying value of the related assets may be subject to impairment charges. The Group may also incur impairment losses in relation to goodwill which has been recorded in relation to various M&A activities effected by the Group, where future expected cash flows from the acquired business were to decline due to the business environment and other factors. For example, in the fiscal year ended 31st March, 2014, the Group recorded ¥5,727 million in impairment losses, principally relating to impairment of, among others, certain properties held in Hawaii and certain properties, warehouses, machinery and equipment held in Japan, and in the fiscal year ended 31st March, 2015, the Group recorded ¥1,453 million in impairment losses, principally relating to certain properties, machinery and equipment held in Japan. Any such impairment may materially adversely affect the Group's results of operations and financial condition.

Market value fluctuations on available-for-sale securities

As at 31st March, 2015, the Group held ¥39,410 million of available-for-sale securities, principally comprising shares of financial institutions and customers held for the purposes of strengthening the relationship between the Group and such issuers. While the Group does not hold available-for-sale securities for trading purposes, all the securities that it holds which have market prices, are marked-to-market. If the market value of these securities declines materially below the book value at which the Group accounts for these securities, the Group may be required to recognise impairment losses on the securities or incur losses upon the sale thereof. Even if impairment is not required, the unrealised losses will negatively affect net assets, by affecting the level of valuation differences on available-for-sale securities. Declines in the value of such securities could therefore have a material adverse effect on the Group's results of operations and financial condition.

High proportion of fixed costs and depreciation costs

Due to the nature of its operations, the Group tends to incur significant fixed costs, including with respect to manufacturing plants and equipment and personnel, as well as significant depreciation costs arising mainly from the Group's manufacturing plants and equipment and goodwill. Accordingly, fluctuations in net sales significantly affect the Group's profitability when production capacity is not fully utilised. In addition, the Group may from time to time establish new manufacturing plants in respect of products and regions in which the Group believes there will be growth. Such new plants may require some lead time before operating at full capacity, or if the demand expectations of the Group in respect of such product or regions were not to materialise fully, may not reach operations at or near full capacity. Any low levels of average productivity in the Group's assets may have a material adverse effect on the Group's results of operations and financial condition.

Funding, interest rates, credit ratings and financial covenants

The Group's strategies and its business as a whole continue to require significant investments. The Group's ability to meet these capital requirements depends on a number of factors, such as the availability of cash flows from operations and access to additional debt and equity financing, and there can be no assurance that such funds will always be available, or available on terms acceptable to the Group. The Group's ability to refinance its debt and incur additional debt, the terms of its existing and future debt and its liquidity could be affected by a number of adverse developments. Any future adverse developments in the credit market caused by factors such as a deterioration in the financial markets and a worsening of general economic conditions, may negatively impact the Group's ability to borrow additional funds as well as the terms of the funding. The failure by the Group to obtain sufficient funds necessary for its operations and investments, or the increased costs or unfavourable terms of financing, could have a material adverse effect on the Group's business, results of operations and financial condition. Further, if the Group were to encounter difficulties in financing its capital expenditures, this may prevent the realisation of its strategic plans and could force the Group to forego opportunities that may arise in the future. This could, in turn, have a negative impact on the Group's competitive position.

As at 31st March, 2015, the Group had ¥341,274 million outstanding in terms of short-term and long-term borrowings principally from Japanese financial institutions and ¥25,340 million outstanding in terms of bonds. Certain of such borrowings relate to a syndicated loan contract which contains certain restrictive covenants that require the Company to maintain certain levels of consolidated net assets and income as at the end of, or for, any given fiscal year. If the Company were found to be in breach of any such covenants, the lenders could request repayment of such loans; moreover, such breach may potentially trigger cross defaults in other loans and bonds outstanding. Following the incident concerning the Company's former Chairman in 2011 (see "— Internal controls and governance"), due to the restatements of the Group's consolidated and non-consolidated financial statements for prior years required to reflect the facts of such incident as well as certain other factors, the Group on several occasions had to negotiate for a waiver and an adjustment of the terms of certain restrictive covenants with the relevant financial institutions in order to avoid a breach of such covenants. A significant or prolonged downturn in general business and economic conditions may affect the Company's ability to comply with these covenants and could require the Company to take action to reduce its debt or to take other action which may not be in line with its then current strategies. In such cases, the Group's business, results of operations and financial condition may be materially adversely affected.

As at 31st March, 2015 and 30th June, 2015, the Group's interest-bearing debt (being short-term loans payable, long-term loans payable, bonds payable, lease obligations and long-term accounts payable — facilities) amounted to ¥375,024 million and ¥368,557 million, respectively. The Group is working to reduce its interest-bearing debt, but if interest rates were to rise significantly, or if the Group needs to incur additional interest-bearing debt for investment and other purposes, this may increase the amounts of interest which the Group must pay to service its debt obligations. Although the Group hedges against the risk of interest rate fluctuations on certain of its asset and liabilities holdings, such hedging activities may not, or may only partially cover, the risks relating to interest payable by the Group. Further, any negative movements in any credit ratings obtained by the Company (whether due to factors relating to the Group or due to changes in the relevant rating agency's policies) may increase the Group's funding or refinancing costs, in particular, where the Group is involved in obtaining debt funding through the capital markets such as by issuing corporate bonds. Any such factors may adversely affect the Group's results of operations and financial condition.

Deferred tax assets

The Group's management assesses whether or not the Group will be able to recognise all or a portion of the Group's deferred tax assets. The ultimate recognition of the Group's deferred tax assets is dependent on whether it is able to generate sufficient future taxable income in specific tax jurisdictions during the periods in which temporary differences become deductible or in which net operating loss carryforwards can be utilised. If the Group does not expect to generate the estimated future taxable income during the relevant future periods as originally expected, an additional valuation allowance for the deferred tax assets on the Group's balance sheets may need to be recorded to the relevant extent, and the amount of any such increase in valuation allowance may be recorded as a tax expense in the relevant year. Any such valuation allowance for deferred tax assets in the future may negatively affect the Group's results of operations and financial condition.

Mergers and acquisitions, business alliances, divestments and other similar activities

The paper and paperboard industry in Japan is generally considered to be an industry with a relatively high likelihood of reorganisations or consolidation of market players through measures such as M&A and alliances, as the market is generally shrinking and competition is increasingly intense. The Group may, when suitable opportunities arise, engage in business acquisitions, capital participations, tie-ups, joint ventures and alliances with other companies. However, there can be no assurance that such activities will achieve the desired results, that the Group will be able to recoup the value of the investments made by the Group, or that the Group will not terminate such tie-ups, alliances or other relationships. Risks relating to M&As and similar activities include unidentified liabilities of the companies which the Group may acquire or merge with, the possible inability to successfully integrate and manage acquired operations and personnel as well as the risk that the anticipated economies of scale or synergies do not materialise. In addition, the Group may not be able to identify attractive M&A opportunities and might not be able to carry out M&As on attractive terms, or not be successful in its bid for a target. A failure to participate in industry consolidation may have an adverse effect on the Group's competitive position. If the Group fails to successfully manage any acquired business, or otherwise fails to achieve the intended results of such activities, the Group's business, results of operations and financial condition may be adversely affected.

The Group may also, depending on circumstances, decide to divest a part of its operations to improve the Group's operational efficiency. Any future divestments may be affected by many factors, such as the availability of bank financing to potential buyers, interest rates and competitors' capacity, which are beyond the Group's control and may also lead to exposure to indemnity claims. There can be no assurance that the Group will succeed in divestments of any assets in a profitable way or that such divestments will be at all possible on acceptable terms.

Risks relating to the implementation of strategies

The Group is currently implementing certain business strategies (see "Business — Strategy"), and has set certain aims and targets, both quantitative and qualitative. The successful implementation of the Group's strategies and achievement of its aims and targets is subject to various internal and external factors, including increases in costs of imported raw materials and fuel due to the depreciation of the yen and other factors, increases in prices of recovered paper, difficulties in obtaining sufficient supplies of raw materials, increased volumes of imported paper due to the strengthening yen, a greater than expected reduction in demand in the domestic paper and paperboard market, changes in demand due to demographic and other factors (such as changes in government welfare policies), natural disasters and accidents at manufacturing facilities, increased price competition, risks relating to overseas operations, decreased sales due to reputational issues (including but not limited to material complaints about quality), inability to implement cost reduction measures due to legal or other concerns, inability to recruit and retain sufficient appropriate personnel and inability to obtain sufficient funding at appropriate costs. There can be no assurance that the Group's strategies will be implemented successfully, that the implementation of the Group's strategies will have its intended effect, that the assumptions underlying them will not differ from actual figures, that any aims and targets set by the Group will be met in time or at all, or that such aims and targets will not be changed in the future.

Environmental risk

As a product manufacturer, the Group is expected to abide by certain environmental standards both in Japan and overseas. These standards include the handling and disposal of air pollution, CO_2 emissions, effluent emissions and waste matter. The risk of substantial environmental costs and liabilities is inherent in industrial operations, and there can be no assurance that the Group will not incur significant environmental costs and liabilities in the future in connection with its operations, or that the adoption of increasingly strict environmental laws, regulations and enforcement policies will not result in substantially increased costs and liabilities in the future. Similarly, the interpretation of the existing laws and regulations may change, which may require stricter controls and increase the Group's costs. Further, the Group uses a variety of materials and chemicals in its manufacturing activities and although the Group takes measures to reduce the risk of emission of hazardous substances (such as regular inspection of equipment and investigations at manufacturing facilities), in the event of an accidental emission of hazardous materials, the Group may be liable for increased costs for removal or retreatment of such substances, or health-related claims in relation thereto. Additionally, certain of the Group's manufacturing sites have been in industrial use for decades and may give rise to unanticipated environmental liabilities as scientific knowledge, environmental laws and regulations develop. Higher regulatory, environmental and similar costs may reduce the Group's profit margins and earnings. The Group expects to continue to incur significant expenditures and may face operational constraints to maintain compliance with applicable environmental laws, to upgrade manufacturing facilities, to clean up sites where required, and to meet new regulatory requirements. If any environmental damage is discovered, the Group may incur penalties, damages and compensation or remediation costs, or lead to disputes or legal proceedings, or otherwise have a negative impact on the Group's reputation or its relationship with communities neighbouring those of the Group's manufacturing sites. Significant increases in environmental remediation and compliance costs could have a material adverse effect on the Group's business, results of operations and financial condition.

Personnel risk

The Group's success depends in part upon the continued contributions of its management and certain other employees, many of whom have many years of experience with the Group and would be difficult to replace. The Group must also attract and retain experienced and highly skilled R&D, engineering, sales and marketing, business administration and managerial personnel. Competition for qualified personnel is intense in the industries in which the Group operates, and the Group may not be successful in hiring and retaining these people or may have to pay a significant amount of salary for them. If the Group loses the services of its highly qualified and experienced employees, in particular to competitors, or cannot attract and retain other qualified personnel, the Group's business could suffer through competitors gaining a competitive advantage by obtaining the technologies and knowledge held by such personnel, less successful products due to a reduced ability to design, manufacture and market its products, or through less effective management due to loss of accumulated knowledge of the Group's business. Any such factors may materially adversely affect the Group's business, results of operations and financial condition.

Leakage of confidential information

In its home and personal care business, the Group collects some personal information of consumers, which is generally stored in a separate information server managed by the Group to prevent leakage of information through accidents and cyber-attacks. The Group is also in possession of a variety of other valuable information, including but not limited to data generated within the Group as well as those acquired through confidentiality agreements or with the consent of clients. Any leakage or misuse of such personal, confidential or proprietary information, whether through a breach in the Group's information technology security systems, accidents or deliberate misconduct by persons involved, may damage the Group's reputation, lead to liabilities for compensation of breach of confidentiality laws, loss of valuable information or loss of revenue, and could result in large expenditures to investigate or remediate, to recover data, to repair or replace networks or information systems, or to protect against similar future events. The occurrence of any such event may adversely affect the Group's results of operations and financial condition.

Information technology systems

The Group's information technology systems, some of which are dependent on services provided by third parties, serve an important role in the efficient and effective operation and administration of its business. These systems could be damaged or cease to function properly due to a variety of causes, such as catastrophic events, power outages, security breaches, computer viruses or cyber-based attacks. While the Group has contingency plans in place to prevent or mitigate the impact of these events, if they were to occur and its disaster recovery plans do not effectively address the issues on a timely basis, it could suffer interruptions in its ability to manage its operations, which may adversely affect the Group's business, results of operations and financial condition.

Employees' Retirement Benefit Plans

Costs related to the Group's employee retirement benefit plans may increase if the fair value of its pension plan assets declines or if there is a change in the actuarial assumptions on which the calculations of the retirement benefit obligation are based, such as changes in assumptions about demography, years of service or salary levels, a change in the assumed discount rate, or a decline in the expected rate of return on plan assets. As such, changes in the interest rate environment and other factors may also adversely affect the amount of unfunded retirement benefit obligations and the resulting annual amortisation expense. In addition, the Group may be required to recognise expenses related to the recognition of previously unrecognised service costs as a result of plan amendments. Further, changes in accounting standards and guidance relating to retirement benefits may also affect the Group's results of operations, financial condition and net assets.

Considerations Relating to the Consolidated Group's Financial Statements

Differences in generally accepted accounting principles

The Company's consolidated financial statements are prepared and presented in accordance with Japanese GAAP, which differs in certain respects from IFRS and generally accepted accounting principles and financial reporting standards in other jurisdictions. The Company's financial statements may therefore differ from those prepared for companies outside Japan in those and other respects. This Offering Circular does not include a reconciliation of the financial statements of the Company or the Company and its consolidated subsidiaries (the "Consolidated Group") to IFRS or to any other generally accepted accounting principles or reporting standards. If the Company or the Consolidated Group were to use IFRS for its financial reporting, the reported financial information of the Company and/or the Consolidated Group may differ materially from prior years' financial information prepared under Japanese GAAP, which may make comparisons to prior years (for which no financial results prepared under IFRS are available) difficult.

Unaudited quarterly consolidated financial statements

This Offering Circular contains quarterly consolidated financial statements of the Company in respect of the three-month periods ended 30th June, 2014 and 2015, which are not required to be, and have not been, audited by the Company's independent auditor. The unaudited quarterly consolidated financial statements of the Group as at 30th June, 2015 and for the three-month periods ended 30th June, 2014 and 2015 prepared by the Company and included in this Offering Circular, which are derived from the Japanese language unaudited quarterly consolidated financial statements prepared pursuant to the FIEA by the Company in accordance with the accounting principles for quarterly consolidated financial statements generally accepted in Japan, have been reviewed by the Company's independent auditor in accordance with the quarterly review standards generally accepted in Japan.

The quarterly consolidated financial statements contained in this Offering Circular are not wholly comparable with the annual financial statements contained in this Offering Circular and should not be so compared. Certain adjustments, accruals and deferrals which are made in the annual audited financial statements have been estimated or are not made in respect of such quarterly consolidated financial statements.

Considerations Relating to the Bonds and the Shares

Issues relating to the issue of Stock Acquisition Rights

The Companies Act provides that certain important matters shall be approved by a special resolution of a general meeting of shareholders. Under the Company's Articles of Incorporation, the quorum for a special resolution is one-third of the total number of voting rights and the approval of at least two-thirds of the voting rights represented at the meeting is required for adopting a special resolution. Such important matters include, but are not limited to, the issue of stock acquisition rights (including those incorporated in bonds with stock acquisition rights such as the Bonds) to persons other than the shareholders under "specially favourable" conditions (see "Description of the Shares and Certain Regulations — Voting Rights"). The Board of Directors has resolved to issue the Bonds on the basis that such issue is not under "specially favourable" conditions, nor using a method that is grossly unfair to shareholders. However, a shareholder may, during the period before the

Closing Date, request a court for an injunction or a preliminary injunction with regard to such issue on the ground that a special resolution of a general meeting of shareholders has not been obtained while the stock acquisition rights incorporated in the Bonds are issued under "specially favourable" conditions, or that such stock acquisition rights are issued in a grossly unfair manner and to the detriment of such shareholder. Any such proceedings, even if totally unfounded, may materially disrupt the market price of the Shares or the trading of Bonds in the grey market prior to issuance, or thereafter.

Limitations on the timing of exercise of Stock Acquisition Rights

Since the coming into effect of the Act on Book-Entry Transfer of Company Bonds, Shares, Etc. of Japan (Act No. 75 of 2001, as amended) (including regulations promulgated thereunder, the "Book-Entry Act") in January 2009, under the current rules and practices of the Japan Securities Depository Center, Inc. ("JASDEC") it will take at least three business days for the delivery of the Shares to the Bondholders after the Stock Acquisition Date. In order to avoid any JASDEC system processing errors around the record date, the Stock Acquisition Rights have been designed under Condition 5.1.4 so that they may not be exercised during such period whereby the relevant Stock Acquisition Date (or, if the Stock Acquisition Date would not be a Tokyo Business Day, the immediately following Tokyo Business Day) would fall on a date falling within any Shareholder Determination Date Restriction Period. Bondholders should therefore note in particular that exercises of Stock Acquisition Rights are restricted in the period around any record date in respect of Shares set by the Company (under the Company's Articles of Incorporation as at the date of this Offering Circular, 31st March in each year).

No cash amounts in respect of non-unit Shares

Since the coming into effect of the Book-Entry Act, making it possible for listed shares of Japanese companies comprising less than one whole unit to be delivered through the JASDEC book-entry transfer system, JASDEC has given guidance to the effect that stock acquisition rights of Japanese companies issued since then should be structured so that exercising holders should have shares not constituting one whole unit delivered to their accounts, instead of automatically selling back such shares to the issuer of such stock acquisition rights and receiving cash amounts in respect of them. Bondholders exercising their Stock Acquisition Rights will therefore not be receiving cash amounts in respect of the Shares of less than one whole unit which would have been issuable upon such exercise, which had been paid, in the practice before the Book-Entry Act came into effect, but will be receiving those Shares themselves. Currently, the Company's Articles of Incorporation provide that one unit comprises of 1,000 Shares (see also "— Expected change in the number of Shares comprising one unit"). Accordingly, the holders of Shares constituting less than one unit will need to request the Company to purchase them in accordance with the Companies Act, the rules of the JASDEC book-entry transfer system, the Company's Articles of Incorporation and the Company's Share Handling Regulations if they would like the Company to do so. The rights of holders of Shares not constituting one whole unit are limited under the Company's Articles of Incorporation, and may not be tradable on the stock exchanges on which they are listed. See "Description of the Shares and Certain Regulations — Unit Share System".

Expected change in the number of Shares comprising one unit

As at the date of this Offering Circular, the Articles of Incorporation of the Company specify that one unit of Shares is comprised of 1,000 Shares. However, the Company has announced on 1st September, 2015, that effective as of 1st October, 2015, it will amend its Articles of Incorporation to change the number of Shares that comprise one unit of Shares from 1,000 Shares to 100 Shares. To the extent that such change in the number of Shares comprising one unit of Shares takes effect on such date, no notice is expected to be given to Bondholders by the Company in relation thereto.

Limitations on anti-dilution protection for Bondholders

The Conversion Price at which the Stock Acquisition Rights may be exercised will be adjusted in certain events having a dilutive impact on the Shares, to the extent described in the Conditions. There is no requirement that there should be an adjustment for every corporate or other event that may affect the value of the Shares. Events in respect of which no adjustment is made may materially adversely affect the value of the Shares and, therefore, materially adversely affect the value of the Bonds.

Trading market for the Bonds

Prior to the issue of the Bonds, there has been no trading market for the Bonds. Although approval in-principle has been received for the listing of the Bonds on the SGX-ST, there can be no assurance that an active trading market for the Bonds will develop. Furthermore, even if such a market does develop, it may not be liquid.

Market price of the Bonds

The market price of the Bonds is expected to be affected by fluctuations in the market price of the Shares and it is impossible to predict whether the price of the Shares will rise or fall. Any decline in the price of the Shares will have an adverse effect on the market price of the Bonds. Trading prices of the Bonds and Shares will be influenced by, among other things, the financial position and results of operations of the Group, including the reporting of its financial results. In addition, the market price of the Bonds is expected to be affected by any downgrade or other events negatively affecting the Company's credit rating.

Rights of shareholders under Japanese law

The corporate affairs of the Company are governed by and in accordance with the Company's Articles of Incorporation, Regulations of the Board of Directors and Share Handling Regulations and other related regulations thereunder of the Company, as well as the Companies Act. Legal principles relating to such matters as the validity of corporate procedures, directors' and officers' fiduciary duties (including actions that may legitimately be taken by them in respect of unsolicited takeover attempts) and liabilities, and shareholders' rights under Japanese law may be different from those that apply to companies incorporated in other jurisdictions. Holders who acquire the Shares upon exercise of the Stock Acquisition Rights may have more difficulty in asserting their rights as a shareholder than they would as a shareholder of a corporation organised in other jurisdictions. In addition, Japanese courts may not be willing to enforce judgments of non-Japanese courts against the Company which are based on non-Japanese securities laws.

Future changes in Japanese law

Future changes to provisions relating to Stock Acquisition Rights may have mandatory effect under Japanese law. Condition 15.2 provides for amendments to be made to the Conditions relating to the Stock Acquisition Rights where those amendments are required in order to comply with mandatory provisions of Japanese law even if those amendments are materially prejudicial to the interests of Bondholders.

Forward-looking Statements

Statements in this Offering Circular with respect to the Group's plans (including its medium-term business plan), strategies, projected financial information and beliefs, as well as other statements that are not historical facts, are forward-looking statements involving risks and uncertainties. These statements are based on assumptions and beliefs derived from information currently available to the Group, and as such actual results may differ, in some cases significantly, from these forward-looking statements. The Group does not undertake to release the results of any revision of forward-looking statements which may be made to reflect future events or circumstances. Important factors that could cause actual results to differ materially from such statements include, but are not limited to, increases in costs of imported raw materials and fuel due to the depreciation of the yen and other factors, increases in prices of recovered paper, difficulties in obtaining sufficient supplies of raw materials, increased volumes of imported paper due to the strengthening yen, a greater than expected reduction in demand in the domestic paper and paperboard market, changes in demand due to demographic and other factors (such as changes in government welfare policies), natural disasters and accidents at manufacturing facilities, increased price competition, risks relating to overseas operations, decreased sales due to reputational issues (including but not limited to material complaints about quality), inability to implement cost reduction measures due to legal or other concerns, inability to recruit and retain sufficient appropriate personnel and inability to obtain sufficient funding at appropriate costs. The Company cautions prospective investors in the offering not to place undue reliance on these forward-looking statements. All written and oral forward-looking statements attributable to the Company or persons acting on the Company's behalf are qualified in their entirety by these cautionary statements.

TERMS AND CONDITIONS OF THE BONDS

The following terms and conditions (the "Conditions") of the Bonds will, subject to completion and amendment, and, save for the paragraphs in italics, be endorsed on the Certificates (as defined herein):

The ¥30,000,000,000 Zero Coupon Convertible Bonds due 2020 (bonds with stock acquisition rights, *tenkanshasaigata shinkabu yoyakuken-tsuki shasai*) (the "Bonds", which term shall, unless the context requires otherwise, include Stock Acquisition Rights (as defined below) incorporated in the Bonds) in the denomination of ¥10,000,000 each issued by Daio Paper Corporation (the "Company") are constituted by a trust deed (the "Trust Deed") dated 17th September, 2015 made between the Company and MUFG Union Bank, N.A. (the "Trustee", which expression shall include its successors as trustee under the Trust Deed, as trustee for the holders of the Bonds). Each Bond is issued in the denomination of ¥10,000,000 each and a stock acquisition right (*shinkabu yoyakuken*) (the "Stock Acquisition Right"), entitling the Bondholder (as defined in Condition 1.2) to acquire fully paid and non-assessable shares of common stock of the Company (the "Shares") as described below, is incorporated in each Bond as an integral part thereof. Copies of the Trust Deed and of the agency agreement (the "Agency Agreement") dated 17th September, 2015 relating to the Bonds between, *inter alios*, the Company, the Trustee, the principal agent (the "Principal Agent"), the registrar (the "Registrar") and the other agents referred to therein are available for inspection by Bondholders by prior appointment during normal business hours at the specified office for the time being of the Trustee, being at the date of issue of the Bonds at 120 South San Pedro Street, 4th Floor, Los Angeles, CA 90012, U.S.A., and at the specified office(s) of each of the Principal Agent and the Agents (as defined below). References herein to the "Agents" shall, unless the context otherwise requires, include the Principal Agent and any other or further agent(s) appointed by the Company in connection with the Bonds for the purpose of making payments and transfers and acceptance of notices of the exercise of the Stock Acquisition Rights from time to time.

The Bondholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and are deemed to have notice of all those provisions of the Agency Agreement applicable to them. The statements in these terms and conditions (the "Conditions") include summaries of, and are subject to, the detailed provisions of the Trust Deed. Any terms defined in the Trust Deed and not in these Conditions shall have the same meanings when used herein except where otherwise indicated.

1. Form, Denomination, Issue Price, Title, Status, Transfers of Bonds and Relationship between Bonds and Stock Acquisition Rights

1.1 *Form, Denomination and Issue Price*

The Bonds are issued in registered form in the denomination of ¥10,000,000 each and are not exchangeable for bonds with stock acquisition rights in bearer form. The issue price of the Bonds (excluding the Stock Acquisition Rights) (the "Issue Price") is 100.5 per cent. of the principal amount of the Bonds. The issue price of the Stock Acquisition Rights is zero.

A bond certificate (each, a "Certificate") will be issued in respect of each Bond. Each Certificate will be numbered serially with an identifying number which will be recorded on the relevant Certificate and in the register (the "Register") of holders of Bonds to be kept by the Registrar in accordance with Condition 1.4.1.

1.2 *Title*

Title to the Bonds will pass only by transfer and registration of title in the Register. The holder of any Bond will (except as otherwise declared by a court of competent jurisdiction or required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust, or any interest in it, or any writing on, or theft or loss of, the Certificate issued in respect of it) and no person will be liable for so treating the holder.

In these Conditions, a "Bondholder" and (in relation to a Bond) a "holder" mean the person in whose name a Bond is registered in the Register (or in the case of a joint holding, the first name thereof).

Upon issue, the Bonds will be evidenced by a global certificate (the "Global Certificate") deposited with and registered in the name of, or a nominee for, a common depositary for Euroclear and Clearstream, Luxembourg.

The Conditions are modified by certain provisions contained in the Global Certificate. Except in the limited circumstances described in the Trust Deed, owners of interests in the Bonds represented by the Global Certificate will not be entitled to receive definitive Certificates in respect of their individual holdings of the Bonds.

1.3 ***Status***

The Bonds are direct, unconditional, unsubordinated and (subject to the provisions of Condition 2) unsecured obligations of the Company, ranking *pari passu* and rateably without any preference among themselves, and, except for the provisions of Condition 2 and with the exception of obligations in respect of national and local taxes and certain other statutory exceptions, equally with all other present and future unsecured obligations (other than subordinated obligations, if any) of the Company from time to time outstanding.

1.4 ***Transfers of Bonds***

1.4.1 *The Register*: The Company will cause to be kept at the specified office of the Registrar, and in accordance with the terms of the Agency Agreement, the Register on which shall be entered the names and addresses of the Bondholders and the particulars of the Bonds held by them and of all transfers and redemptions of the Bonds and the exercises of the Stock Acquisition Rights.

Each Bondholder shall be entitled to receive one Certificate in respect of each Bond held by such holder.

1.4.2 *Transfers*: A Bond may be transferred upon the surrender (at the specified office(s) of the Registrar, the Principal Agent or any other Agent) of the Certificate evidencing such Bond, together with the form of transfer endorsed on such Certificate (or another form of transfer substantially in the same form and containing the same representations and certifications (if any), unless otherwise agreed by the Company), duly completed and executed and any other evidence as the Registrar or the relevant Agent (as the case may be) may reasonably require. No transfer of a Bond will be valid unless and until entered on the Register. Upon such transfer, a new Certificate will be issued to the transferee in respect of the Bond so transferred. All transfers of the Bonds and entries on the Register will be made subject to the detailed regulations concerning transfer of the Bonds scheduled to the Agency Agreement. The regulations may be changed by the Company, with the prior written approval of the Registrar, the Principal Agent and the Trustee. A copy of the current regulations will be made available during normal business hours by the Principal Agent or the Registrar to any Bondholder upon prior written request.

Transfers of interests in the Bonds evidenced by the Global Certificate will be effected in accordance with the rules of the relevant clearing systems, as described in "Summary of Provisions Relating to the Bonds While in Global Form".

1.4.3 *Delivery of New Certificates*: Each new Certificate to be issued pursuant to Condition 1.4.2 shall be available for delivery within five Transfer Business Days (as defined below) of receipt of the duly completed and signed form of transfer, and surrender of the original Certificate for exchange. Delivery of the new Certificate(s) shall be made at the specified office of the Registrar or any of the Agents to whom delivery or surrender of such form of transfer and Certificate shall have been made, or if so requested in the form of transfer, be mailed by uninsured post at the risk of the holder entitled to the new Certificate to such address so specified unless such holder requests otherwise and pays in advance to the Registrar or relevant Agent (as the case may be) the costs of such other method of delivery and/or such insurance as it may specify. In these Conditions, "Transfer Business Day" means a day, other than a Saturday or Sunday, on which banks are open for business in the place of the specified office of the Registrar or the relevant Agent (as the case may be).

1.4.4 *Formalities Free of Charge*: Registration of a transfer of Bonds and issuance of new Certificates shall be effected without charge by or on behalf of the Company, the Registrar or the Agents, but subject to (i) payment of any tax or other governmental charges that may be imposed in relation to it (or the giving of such indemnity as the Registrar or the relevant Agent may require); and (ii) the Company and the Registrar or the relevant Agent being satisfied that the regulations concerning transfer of Bonds having been satisfied.

1.4.5 *No Registration of Transfer*: No Bondholder may require the transfer of a Bond to be registered (i) during the period of 7 days ending on (and including) the date for redemption pursuant to Condition 7.1, 7.6, 7.7 or 7.8, (ii) after a Conversion Notice (as defined in Condition 3.1) has been given with respect to such Bond pursuant to Condition 5.9.1 (unless such Conversion Notice is withdrawn pursuant to Condition 5.9.4, in which event registration of transfer of such Bond may be made on or after the date on which such Conversion Notice is withdrawn), or (iii) after a notice of redemption has been given pursuant to Condition 7.2, 7.3, 7.4 or 7.5 (except for any Bond held by a Bondholder who has given notice to the Company pursuant to the second paragraph of Condition 7.5).

1.5 ***Relationship between Bonds and Stock Acquisition Rights***

The obligations of the Company in respect of the Bonds and the Stock Acquisition Rights incorporated therein shall arise and shall be extinguished or cease to be exercisable simultaneously subject as provided herein.

The Bonds and the Stock Acquisition Rights incorporated therein may not be transferred or dealt with separately from each other.

2. Negative Pledge

So long as any of the Bonds remains outstanding (as defined in the Trust Deed), the Company will not, and will procure that none of its Principal Subsidiaries (as defined in Condition 3.1) will, create or permit to subsist any mortgage, charge, pledge or other security interest for the benefit of the holders of any Relevant Debt (as defined below) upon the whole or any part of the Company's or such Principal Subsidiary's property or assets, present or future, to secure (i) payment of any sum due in respect of any Relevant Debt or (ii) any payment under any guarantee of any Relevant Debt or (iii) any payment under any indemnity or other like obligation in respect of any Relevant Debt, without in any such case at the same time according or procuring to be accorded to the Bonds, (x) to the satisfaction of the Trustee or as shall be approved by an Extraordinary Resolution (as defined in Condition 3.1), the same security as is granted to or subsists in respect of such Relevant Debt or such guarantee, indemnity or other like obligation or (y) such other security or guarantee as the Trustee may in its absolute discretion deem to be not materially less beneficial to the interests of the Bondholders or as shall be approved by an Extraordinary Resolution.

For the purposes of this Condition 2, "Relevant Debt" means any present or future indebtedness in the form of, or represented or evidenced by, bonds, debentures, notes or other similar securities of any person with a stated maturity of more than one year from the creation thereof and which:

(a) either are by their terms payable, or confer a right to receive payment, in any currency other than yen, or are denominated in yen and more than 50 per cent. of the aggregate principal amount thereof is initially distributed outside Japan by or with the authorisation of the Company or the relevant Principal Subsidiary; and

(b) are for the time being, or are intended to be, quoted, listed, ordinarily dealt in or traded on any stock exchange or over-the-counter or other similar securities market outside Japan.

3. Definitions and Construction of References

3.1 ***Definitions***

In these Conditions (unless the context otherwise requires):

"Account Management Institution" means an account management institution (*koza-kanri-kikan*) which is an entity entitled under the Book-Entry Act to open and maintain an account for another person or entity;

"Additional Amounts" has the meaning provided in Condition 9;

"Additional Shares" has the meaning provided in Condition 5.3;

"Annual Fiscal Period" means a period commencing on 1st April and ending on 31st March of the immediately succeeding year; provided that, if the Company shall change its financial year so as to end on a date other than 31st March, "Annual Fiscal Period" shall be deemed to be amended *mutatis mutandis* and any such change shall be promptly notified by the Company to the Trustee in writing;

"Articles of Incorporation" means the articles of incorporation of the Company from time to time in effect;

"Asset Transfer Event" means the passing of a resolution at a general meeting of shareholders of the Company (or, where a resolution of a general meeting of shareholders is not required, at a meeting of the Board of Directors of the Company) for the sale or transfer of all or substantially all of the assets of the Company to another entity (the "Asset Transferee"), pursuant to the terms of which the Company's obligations under the Bonds are to be transferred to or assumed by the Asset Transferee;

"Asset Transferee" has the meaning provided in the definition of Asset Transfer Event;

"Auditors" means the independent auditors for the time being of the Company or, if there shall be joint independent auditors, any one or more of such independent auditors or, if they are unable or unwilling to carry out any action requested to them, such other auditors or firm of auditors as may be appointed by the Company and promptly notified in writing to the Trustee by the Company;

"Authorised Officer" means any one of the directors or officers of the Company or the New Obligor (as the case may be) or any other person whom the Company or the New Obligor (as the case may be) shall have identified to the Trustee by notice in writing as being duly authorised to sign any document or certificate on behalf of the Company or the New Obligor (as the case may be);

"Bankruptcy Act" means the Bankruptcy Act of Japan (Act No. 75 of 2004, as amended);

"Base Dividend" has the meaning provided in Condition 5.2.4;

"Board of Directors", in respect of any company, means the board of directors of such company within the meaning of the Companies Act;

"Bondholder" and "holder" have the meaning provided in Condition 1.2;

"Book-Entry Act" means the Act on Book-Entry Transfer of Company Bonds, Shares, etc. of Japan (Act No. 75 of 2001, as amended);

"Business Day" has the meaning provided in Condition 8.3;

"Certificate" has the meaning provided in Condition 1.1;

"Civil Rehabilitation Act" means the Civil Rehabilitation Act of Japan (Act No. 225 of 1999, as amended);

"Clean-up Redemption Notice" has the meaning provided in Condition 7.4;

"Closed Period" has the meaning provided in Condition 7.11;

"Closing Date" means 17th September, 2015;

"Closing Price" means, in respect of the Shares or the shares of common stock of the New Obligor (as the case may be), for any Trading Day, the last reported selling price (regular way) of the Shares or the shares of common stock of the New Obligor (as the case may be) on the Relevant Stock Exchange on such Trading Day or, if the Shares or the shares of common stock of the New Obligor (as the case may be) are not listed or admitted to trading on the Relevant Stock Exchange, the average of the closing bid and offered prices of the Shares or the shares of common stock of the New Obligor (as the case may be) for such Trading Day as furnished by any trading participant of the Relevant Stock Exchange selected from time to time by the Company or the New Obligor (as the case may be);

"Companies Act" means the Companies Act of Japan (Act No. 86 of 2005, as amended);

"Company's Territory" has the meaning provided in Condition 12.2;

"Consolidated Financial Statements" means, in relation to any Fiscal Period of the Company, the unaudited consolidated financial statements of the Company prepared in accordance with the Relevant GAAP or, if in respect of such Fiscal Period audited consolidated financial statements have been prepared, the audited consolidated financial statements of the Company prepared as aforesaid;

"Consolidated Subsidiary" means, in relation to a Fiscal Period of the Company, Subsidiaries consolidated in the relevant Consolidated Financial Statements;

"Controlling Shareholder" means a shareholder holding, directly or indirectly, 90 per cent. (or such other percentage more than 90 per cent. as provided in the Articles of Incorporation) or more of the Company's voting rights as calculated in accordance with the Companies Act;

"Conversion Notice" means the written notice required to accompany any Bonds deposited for the purposes of the exercise of the Stock Acquisition Rights, the current form of which is set out in the relevant schedule to the Agency Agreement;

"Conversion Price" has the meaning provided in Condition 5.1.3;

"Corporate Event" has the meaning provided in Condition 6.1;

"Corporate Event Effective Date" has the meaning provided in Condition 6.3;

"Corporate Event Redemption Date" has the meaning provided in Condition 7.6;

"Corporate Event Redemption Price" has the meaning provided in Condition 7.6;

"Corporate Reorganisation Act" means the Corporate Reorganisation Act of Japan (Act No. 154 of 2002, as amended);

"Corporate Split Counterparty" has the meaning provided in the definition of Corporate Split Event;

"Corporate Split Event" means the passing of a resolution at a general meeting of shareholders of the Company (or, where a resolution of a general meeting of shareholders is not required, at a meeting of the Board of Directors of the Company) for any corporate split (*shinsetsu bunkatsu* or *kyushu bunkatsu*) in which the Company's obligations under the Bonds are to be transferred to or assumed by the corporation which is the counterparty to such corporate split (the "Corporate Split Counterparty");

"Current Market Price per Share" has the meaning provided in Condition 5.2.9;

"Custodian" means MUFG Union Bank, N.A. at its specified office at 120 South San Pedro Street, 4th Floor, Los Angeles, CA 90012, U.S.A. or such other custodian as may from time to time be appointed, or at such other specified office as may from time to time be designated, by or on behalf of the Company, in each case with the prior written approval of the Trustee, and notice of whose appointment or designation has been given to the Bondholders in accordance with Condition 19 and shall, unless the context otherwise requires, include the nominee of the Custodian;

"Custodian's Agent" means The Bank of Tokyo-Mitsubishi UFJ, Ltd. at its specified office at 7-1, Marunouchi 2-chome, Chiyoda-ku, Tokyo, 100-8388, Japan or such other agent of the Custodian in Japan as may from time to time be appointed, or at such other specified office as may from time to time be designated, by or on behalf of the Custodian, in each case with the prior written approval of the Trustee, and notice of whose appointment or designation has been given to the Bondholders in accordance with Condition 19;

"Delisting Redemption Date" has the meaning provided in Condition 7.7.1;

"Deposit Date" has the meaning provided in Condition 5.9.4;

"Due Date" has the meaning provided in Condition 9;

"Exercise Period" has the meaning provided in Condition 5.1.4;

"Extraordinary Dividend" has the meaning provided in Condition 5.2.4;

"Extraordinary Resolution" means a resolution passed at a meeting of the Bondholders duly convened (including the satisfaction of the quorum requirements set out in the Trust Deed) and held in accordance with the provisions contained in the Trust Deed by a majority consisting of not less than three-quarters of the votes cast thereon;

"FATCA withholding" has the meaning provided in Condition 9;

"Financial Instruments and Exchange Act" means the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended);

"Fiscal Period" means, as the context may require, (i) a period commencing on 1st April and ending on 31st March of the immediately succeeding year; or (ii) three month periods each commencing on 1st April, 1st July, 1st October and 1st January; provided that, if the Company shall change its financial year so as to end on a date other than 31st March, the provisions of items (i) and (ii) above shall be deemed to be amended *mutatis mutandis* and any such change shall be promptly notified by the Company to the Trustee in writing;

"Holding Company" has the meaning provided in the definition of Holding Company Event;

"Holding Company Event" means the passing of a resolution at a general meeting of shareholders of the Company (or, where a resolution of a general meeting of shareholders is not necessary, at a meeting of the Board of Directors of the Company) for the Company to become a wholly-owned subsidiary of another corporation (the "Holding Company") by way of share exchange (*kabushiki-kokan*) or share transfer (*kabushiki-iten*);

"Independent Financial Adviser" means an independent investment bank, securities company, accounting firm or consultancy firm of established repute appointed by the Company at its own expense and notified in writing to the Trustee or, if the Company fails to make such appointment and such failure continues for a reasonable period (as determined by the Trustee in its absolute discretion) and the Trustee is indemnified and/or secured and/or prefunded to its satisfaction against the costs, fees and expenses of such adviser, appointed by the Trustee in accordance with Condition 18 and notified to the Company;

"Issue Price" has the meaning provided in Condition 1.1;

"Listing" has the meaning provided in Condition 6.4.2;

"Merged Company" means the corporation formed by the relevant Merger Event or the corporation into which the Company shall have merged following a Merger Event;

"Merger Event" means the passing of a resolution at a general meeting of shareholders of the Company (or, where a resolution of a general meeting of shareholders is not necessary, at a meeting of the Board of Directors of the Company) for any consolidation or amalgamation (*shinsetsu gappei*) of the Company with, or merger (*kyushu gappei*) of the Company into any other corporation (other than a consolidation, amalgamation or merger in which the Company is the continuing corporation);

"New Obligor" has the meaning provided in Condition 6.1;

"New Obligor Current Market Price per Share" has the meaning provided in Condition 6.5.3;

"New Stock Acquisition Rights" has the meaning provided in Condition 12.2;

"New Territory" has the meaning provided in Condition 12.2;

"Non-unit Shares" has the meaning provided in Condition 5.1.2;

"Number of Deliverable Shares" has the meaning provided in Condition 6.5.3;

"Number of Held Shares" has the meaning provided in Condition 6.5.3;

"Offeror" has the meaning provided in Condition 7.7.1;

"Optional Redemption Notice" has the meaning provided in Condition 7.2;

"Principal Subsidiary" means any Consolidated Subsidiary of the Company, (i) whose net sales as shown by the annual non-consolidated financial statements (or, where the Consolidated Subsidiary in question itself prepares consolidated financial statements, the annual consolidated financial statements) of such Consolidated Subsidiary used for the purposes of the latest audited annual Consolidated Financial Statements being made up, are 5 per cent. or more of the net sales of the Company and its Consolidated Subsidiaries as shown by such audited annual Consolidated Financial Statements, or (ii) whose total assets as shown by the annual non-consolidated financial statements (or, as the case may be, the annual consolidated financial statements) of such Consolidated Subsidiary used for the purposes of the latest audited annual Consolidated Financial Statements being made up, are 5 per cent. or more of the total assets of the Company and its Consolidated Subsidiaries as shown by such audited annual Consolidated Financial Statements. A certificate signed by a Representative Director or an Authorised Officer of the Company that in the Company's opinion, a Consolidated Subsidiary is or is not or was or was not at a specified date a Principal Subsidiary shall, in the absence of manifest error, be conclusive and binding on all parties;

"Proceedings" has the meaning provided in Condition 21.2;

"Record Date" means the date fixed by the Articles of Incorporation or otherwise specified by the Company for the purpose of determining entitlements to dividends or other distributions to, or rights of, holders of Shares; provided, however, that if the Company has fixed no such record date and the context so requires, the "Record Date" shall be construed as a reference to the date of any event in question coming into effect;

"Reference Parity" has the meanings provided in Conditions 7.6, 7.7 and 7.8 (as the case may be);

"Register" has the meaning provided in Condition 1.1;

"Registered Account" has the meaning provided in Condition 8.1;

"Relevant Debt" has the meaning provided in Condition 2;

"Relevant GAAP" means the accounting principles which are adopted by the Company or the New Obligor (as the case may be) for the preparation of the Consolidated Financial Statements under the Financial Instruments and Exchange Act, being one of those generally accepted in Japan or the United States or International Financial Reporting Standards (as issued by the International Accounting Standards Board (or any successor thereto) or, if applicable, as adopted or endorsed by Japan including those modified by the Accounting Standards Board of Japan (or any successor thereto));

"Relevant Number of Shares" has the meaning provided in Condition 5.2.4;

"Relevant Securities" has the meaning provided in Condition 5.2.8;

"Relevant Stock Exchange" means the Tokyo Stock Exchange or, if at the relevant time the Shares or the shares of common stock of the New Obligor (as the case may be) are not listed on the Tokyo Stock Exchange, the principal stock exchange or securities market in Japan on which the Shares or the shares of common stock of the New Obligor (as the case may be) are then listed or quoted or dealt in;

"Representative Director" means a director of the Company (or the New Obligor, as the case may be) who is for the time being a representative director within the meaning of the Companies Act or, where applicable, a representative statutory executive officer of the Company (or the New Obligor, as the case may be) within the meaning of the Companies Act;

"Retroactive Adjustment" has the meaning provided in Condition 5.3;

"Securities" includes, without limitation, Shares, other shares, options, warrants or other rights (including stock acquisition rights) to subscribe for or purchase or acquire Shares and securities convertible into or exchangeable for Shares;

"Shareholder Determination Date" has the meaning provided in Condition 5.1.4;

"Shareholder Determination Date Restriction Period" has the meaning provided in Condition 5.1.4;

"Squeezeout Effective Date" has the meaning provided in Condition 7.8.1;

"Squeezeout Event" has the meaning provided in Condition 7.8.1;

"Squeezeout Redemption Date" has the meaning provided in Condition 7.8.1;

"Stock Acquisition Date" has the meaning provided in Condition 5.9.4;

"Stock Split" means any kind of stock split in relation to the Shares, including a free share distribution to the holders of Shares, a stock dividend or a sub-division of Shares;

"Subsidiary" means a company, more than 50 per cent. of the outstanding shareholders' voting rights of which is at any given time owned by the Company, by one or more other Subsidiaries or by the Company and one or more other Subsidiaries, or any other company which is otherwise considered to be controlled by the Company under the Relevant GAAP (and, for this purpose, "voting rights" means the voting power attached to stocks or shares for the election of directors, officers or trustees of such company, other than voting powers attached to stocks or shares outstanding having such power by reason of the happening of a contingency);

"Tax Redemption Date" has the meaning provided in Condition 7.5;

"Tax Redemption Notice" has the meaning provided in Condition 7.5;

"Tokyo Business Day" has the meaning provided in Condition 5.1.4;

"Tokyo Stock Exchange" means Tokyo Stock Exchange, Inc. (or its successor);

"Trading Day" means, in respect of the Shares or the shares of common stock of the New Obligor (as the case may be), a day on which the Relevant Stock Exchange is open for business, but does not include a day on which (a) no last selling price (regular way) for the Shares or the shares of common stock of the New Obligor (as the case may be) is reported by the Relevant Stock Exchange and (b) if the Shares or the shares of common stock of the New

Obligor (as the case may be) are not listed or admitted to trading on the Relevant Stock Exchange, no closing bid or offered price is furnished as provided in the definition of Closing Price;

"Transfer Business Day" has the meaning provided in Condition 1.4.3; and

"yen" and "¥" mean Japanese yen, the lawful currency of Japan.

3.2 ***Construction of Certain References***

References to any statute or provision of any statute shall be deemed to include a reference to any statute or the provision of any statute which amends, extends, consolidates or replaces the same, or which has been amended, extended, consolidated or replaced by the same, and shall include any ordinances, regulations, instruments or other subordinate legislation made under the relevant statute.

Except where the context requires otherwise, references to the "issue" of Shares shall include the transfer and/or delivery of Shares by the Company, whether newly issued or previously issued and held by or on behalf of the Company (and the words "issue", "issued" and "issuable" shall be construed accordingly), and references in these Conditions to the word "acquire" used in conjunction with the Shares shall be read as including both the words "issue" and "transfer", and the words "acquired" and "acquisition" shall be construed accordingly. References to "delivery" used in respect of the Shares shall be read as including the transfer of Shares by way of the book-entry transfer system operated by the Japan Securities Depository Center, Inc. The words "substitution" and "grant" used in relation to the exchange of the Company's obligations in respect of the Bonds for those of a New Obligor following a Corporate Event shall be read as including the necessary legal concepts for such exchange to occur under both Japanese law and English law.

The headings in these Conditions are for convenience only and shall be ignored in construing these Conditions.

4. Default Interest

The Bonds do not bear interest unless payment of any amount in respect of any Bond is improperly withheld or refused, in which case such unpaid amount will bear interest (both before and after judgment) from the date of default to the earlier of (i) the day on which all sums due in respect of such Bond up to but excluding that day are received by or on behalf of the relevant Bondholder, and (ii) the day seven days after the Principal Agent has notified Bondholders of receipt of all sums due in respect of all the Bonds up to but excluding that seventh day (except to the extent that there is a failure in the subsequent payment to the relevant Bondholders under these Conditions) at the rate of interest per annum determined by the Principal Agent as being equal to the offered rate quoted by a leading bank in the Euro-yen market selected by the Principal Agent for deposits in yen for the period of three months, as at 11:00 a.m. (London time) on the date of such default. If interest is required to be calculated for a period of less than one year, it will be calculated on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed on the basis of a month of 30 days.

5. Exercise of Stock Acquisition Rights

5.1 ***Conversion Price, Exercise Period, Shares Issuable and Procedure***

5.1.1 *Exercise of the Stock Acquisition Rights and the Contribution of the Bond*: Subject to and upon compliance with the provisions of this Condition 5, each Bondholder is entitled to exercise the Stock Acquisition Right incorporated in each Bond held by it in accordance with and subject to these Conditions. The Bond, the Certificate in respect of which has been deposited with an Agent for exercise of the relevant Stock Acquisition Right pursuant to Condition 5.9.1, shall be deemed to be acquired by the Company as a capital contribution in kind by such Bondholder at the price equal to the principal amount of the Bond as of the Stock Acquisition Date.

5.1.2 *Number of Shares*: The number of Shares to be acquired by a Bondholder exercising its Stock Acquisition Rights will be determined by dividing the aggregate principal amount of the Bonds deposited by such Bondholder at the same time upon exercise of the Stock Acquisition Rights by the Conversion Price applicable on the Stock Acquisition Date. Fractions of a Share will not be issued upon exercise of any Stock Acquisition Right and no adjustment or cash payment will be made in respect thereof. However, if two or more Stock Acquisition Rights are exercised at any one time by the same Bondholder, the number of Shares which shall be acquired upon exercise of such Stock Acquisition Rights shall be calculated on the basis of the aggregate principal amount of the Bonds in which the Stock Acquisition Rights so exercised are incorporated.

For the avoidance of doubt, if a Bondholder would receive a number of Shares ("Non-unit Shares") not constituting a unit (*tangen*) of Shares or integral multiples thereof upon exercise of the Stock Acquisition Right(s) or upon a Retroactive Adjustment, such Non-unit Shares shall be delivered to the relevant Bondholder in the same manner as the Shares constituting a whole unit of Shares, and no cash amounts shall be paid by the Company in respect of such Non-unit Shares.

As at the date of this Offering Circular, the Articles of Incorporation specify that one unit of Shares is comprised of 1,000 Shares. However, the Company has announced on 1st September, 2015 that, effective as of 1st October, 2015, its Articles of Incorporation will be amended to change the number of Shares that comprise one unit of Shares from 1,000 Shares to 100 Shares. To the extent that such change in the number of Shares comprising one unit of Shares takes effect on such date, no notice is expected to be given to Bondholders by the Company in relation thereto.

5.1.3 *Conversion Price*: The price at which Shares shall be acquired upon exercise of the Stock Acquisition Rights (the "Conversion Price") shall initially be ¥1,443 per Share, subject to adjustment in the manner provided in Condition 5.2.

5.1.4 *Exercise Period*: Each Stock Acquisition Right may be exercised at any time during the period from, and including, 1st October, 2015 to, and including, the close of business (at the place where the Stock Acquisition Right is to be exercised) on 3rd September, 2020, or:

(i) if the relevant Bond shall have been called for redemption pursuant to Condition 7.2, 7.3, 7.4 or 7.5, then up to the close of business (at the place as aforesaid) on the third Tokyo Business Day prior to the date fixed for redemption thereof (unless, in the case of such Bond being called for redemption pursuant to Condition 7.5, the relevant Bondholder has elected that such Bond shall not be redeemed); or

(ii) if the Bonds shall become due to be redeemed pursuant to Condition 7.6, 7.7 or 7.8, then up to the close of business (at the place as aforesaid) on the third Tokyo Business Day prior to the date fixed for redemption thereof; or

(iii) if the relevant Bond shall have been purchased by the Company or a Subsidiary and cancelled by the Company pursuant to Condition 7.9, then up to the time when such Bond is so cancelled; or

(iv) if the relevant Bond shall become due and repayable pursuant to Condition 10, then up to the time when such Bond becomes so due and repayable,

provided that:

(a) in no event shall the Stock Acquisition Rights be exercised after 3rd September, 2020;

(b) the Stock Acquisition Rights may not be exercised for such period as may be designated by the Company, which period may not exceed 30 days, and which period shall end on a date not later than 14 days after the Corporate Event Effective Date if the Company reasonably determines that such suspension is necessary in order to consummate the relevant transaction in compliance with these Conditions (including Conditions 6.4.1, 7.6 and 7.7); and

(c) the Stock Acquisition Rights may not be exercised during such period whereby the relevant Stock Acquisition Date (or, if the Stock Acquisition Date would not be a Tokyo Business Day, the immediately following Tokyo

Business Day) would fall on a date falling within any Shareholder Determination Date Restriction Period (as defined below); provided that if there is a change to the mandatory provisions of Japanese law and regulation or practice relating to the delivery of shares upon exercise of stock acquisition rights through book-entry transfer system established pursuant to the Book-Entry Act, then this Condition 5.1.4(c) and the definition of Shareholder Determination Date Restriction Period may be amended to the extent permitted by applicable law, regulation and practice by the Company to reflect such change in law, regulation or practice without the consent of the Trustee or the Bondholders and notice thereof shall be given promptly by the Company to the Bondholders in accordance with Condition 19 and to the Trustee in writing.

In these Conditions:

"Shareholder Determination Date" means (i) any Record Date, and (ii) any other date set for the purpose of determination of holders of Shares in connection with Paragraph 1 of Article 151 of the Book-Entry Act;

"Shareholder Determination Date Restriction Period" means the period from and including the second Tokyo Business Day falling immediately prior to any Shareholder Determination Date to and including such Shareholder Determination Date (provided that if such Shareholder Determination Date falls on a date that is not a Tokyo Business Day, then the Shareholder Determination Date Restriction Period means the period from and including the third Tokyo Business Day falling immediately prior to such Shareholder Determination Date to and including the Tokyo Business Day immediately following such Shareholder Determination Date); and

"Tokyo Business Day" means any day (other than a Saturday, Sunday or a day which shall be a legal holiday in Tokyo or a day on which banking institutions in Tokyo are obliged or authorised by law or executive order to close) on which banks are open for business in Tokyo.

The Company shall give to the Trustee in writing and to the Bondholders in accordance with Condition 19 a notice of the determination and period referred to in Condition 5.1.4(b) above (together with a description of the days included in such period) at least 30 days prior to the commencement of such period.

The Company shall give to the Trustee in writing and to the Bondholders in accordance with Condition 19 a notice of the determination of any Shareholder Determination Date Restriction Period (together with a description of the days included in such Shareholder Determination Date Restriction Period) at least three Tokyo Business Days prior to the commencement of such Shareholder Determination Date Restriction Period, provided that no such notice is required where the Shareholder Determination Date Restriction Period in question relates to a Record Date that has been fixed by the Articles of Incorporation then in effect.

So long as the Bonds are evidenced by the Global Certificate, the Company will be required to give notice to the Trustee in writing and to the Bondholders in accordance with Condition 19, of the determination of any Shareholder Determination Date Restriction Period (together with a description of the days included in such Shareholder Determination Date Restriction Period) at least three business days prior to the commencement of such Shareholder Determination Date Restriction Period (provided that no such notice is required where the Shareholder Determination Date Restriction Period in question relates to a Record Date that has been fixed by the Articles of Incorporation then in effect); "business day" in this paragraph means any day on which banks are open for business in Tokyo, Brussels and Luxembourg.

As of the date of this Offering Circular, the Record Dates fixed by the Articles of Incorporation are 31st March and 30th September. By way of example, in respect of the Record Date falling on 31st March, 2016, it is currently anticipated that the Stock Acquisition Rights will not be exercisable where the Stock Acquisition Date would fall on any day from (and including) 29th March, 2016 to (and including) 31st March, 2016.

The period during which the Stock Acquisition Rights are exercisable pursuant to this Condition 5.1.4 is hereinafter referred to as the "Exercise Period" (for the avoidance of doubt, the Exercise Period in respect of any Stock Acquisition Right may stop and restart from time to time). Upon final expiration of the Exercise Period, the Stock Acquisition Rights incorporated in the relevant Bonds will lapse and cease to be exercisable or valid for any purpose.

5.1.5 *Rights Attached to Shares Acquired upon Exercise of Stock Acquisition Rights*: Shares acquired upon exercise of the Stock Acquisition Rights shall have the same rights in all respects (including in relation to any distribution of dividends) as the Shares outstanding on the relevant Stock Acquisition Date (except for any right the Record Date for which precedes such Stock Acquisition Date and any other right excluded by mandatory provisions of applicable law).

5.2 ***Adjustments of the Conversion Price***

Upon the happening of any of the events described below, the Conversion Price shall be adjusted as follows:

5.2.1 *Stock Split and Consolidation of Shares*: if the Company shall (a) make a Stock Split, (b) consolidate its outstanding Shares into a smaller number of shares, or (c) re-classify any of its Shares into other securities of the Company, then the Conversion Price shall be appropriately adjusted so that the holder of any Bond, the Stock Acquisition Date in respect of which occurs after the coming into effect of the adjustment described in this Condition 5.2.1, shall be entitled to receive the number of Shares and/or other securities of the Company which it would have held or have been entitled to receive after the coming into effect of any of the events described above had the Stock Acquisition Right in respect of such Bond been exercised immediately prior to the coming into effect of such event (or, if the Company has fixed a prior Record Date for the determination of shareholders entitled to receive any such Shares or other securities issued upon any such Stock Split, consolidations or re-classification, immediately prior to such Record Date), but without prejudice to the effect of any other adjustment to the Conversion Price made with effect from the date of the coming into effect of such event (or such Record Date) or any time thereafter. An adjustment made pursuant to this Condition 5.2.1 shall become effective immediately on the relevant event becoming effective or, if a prior Record Date is fixed therefor, immediately after the Record Date; provided that, in the case of a relevant transaction which must, under applicable Japanese law, be approved by a general meeting of shareholders or the Board of Directors of the Company before being legally effective, and which is so approved after the Record Date fixed for the determination of shareholders entitled to receive such Shares or other securities, such adjustment shall, immediately upon such approval being given, become effective retroactively to immediately after such Record Date.

If the Company shall make a Stock Split and the Record Date therefor is also:

(i) the Record Date for the issue of any rights or warrants (including stock acquisition rights) which requires an adjustment of the Conversion Price pursuant to Condition 5.2.2 or 5.2.3, or

(ii) the last date (in the place of issue) of the period during which payment may be made for the issue of any securities convertible into or exchangeable for Shares which requires an adjustment of the Conversion Price pursuant to Condition 5.2.5 or 5.2.8, or

(iii) the last date (in the place of issue) of the period during which payment may be made for the issue or transfer of any Shares which requires an adjustment of the Conversion Price pursuant to Condition 5.2.6 or 5.2.8, or

(iv) the date of issue of any rights or warrants which requires an adjustment of the Conversion Price pursuant to Condition 5.2.7 or 5.2.8,

then (except where such Stock Split gives rise to a Retroactive Adjustment of the Conversion Price under this Condition 5.2.1) no adjustment of the Conversion Price in respect of such Stock Split shall be made under this Condition 5.2.1, but in lieu thereof an adjustment shall be made under Condition 5.2.2, 5.2.3, 5.2.5, 5.2.6, 5.2.7 or 5.2.8, as the case may be, by including in item "n" of the formula described therein the aggregate number of additional Shares to be delivered pursuant to such Stock Split;

5.2.2 *Issue to Shareholders of Rights or Warrants to Acquire Shares*: if the Company shall allot, grant, issue or offer to the holders of Shares rights or warrants (including stock acquisition rights) entitling them to subscribe for, purchase or otherwise acquire Shares:

(i) at a consideration per Share receivable by the Company (determined as provided in Condition 5.2.10) which is fixed on or prior to the Record Date mentioned below and is less than the Current Market Price per Share on such Record Date, or

(ii) at a consideration per Share receivable by the Company (determined as aforesaid) which is fixed after the Record Date mentioned below and is less than the Current Market Price per Share on the date in Japan on which the Company fixes the said consideration,

then the Conversion Price in effect (in a case within (i) above) on the Record Date for the determination of shareholders entitled to receive such rights or warrants or (in a case within (ii) above) on the date in Japan on which the Company fixes the said consideration shall be adjusted in accordance with the following formula:

$$NCP = OCP \times \frac{N + v}{N + n}$$

where:

NCP = the Conversion Price after such adjustment.

OCP = the Conversion Price before such adjustment.

N = the number of Shares outstanding (having regard to Condition 5.2.11) at the close of business in Japan (in a case within (i) above) on such Record Date or (in a case within (ii) above) on the date in Japan on which the Company fixes the said consideration, but excluding the number of Shares, if any, contained in the definition of "n" immediately below, but only to the extent that such Shares are then issued and outstanding.

n = the number of Shares to be allotted, issued or acquired on exercise of all such rights or warrants at the initial subscription, purchase or acquisition price.

v = the number of Shares which the aggregate consideration receivable by the Company (determined as provided in Condition 5.2.10) would purchase at such Current Market Price per Share specified in (i) above or, as the case may be, (ii) above.

Such adjustment shall become effective (in a case within (i) above) immediately after the Record Date for the determination of shareholders entitled to receive such rights or warrants or (in a case within (ii) above) immediately after the day upon which the Company fixes the said consideration but retroactively to immediately after the Record Date for the said determination.

If, in connection with an allotment, grant, issue or offer to the holders of Shares of rights or warrants (including stock acquisition rights) entitling them to subscribe for, purchase or otherwise acquire Shares, any such rights and/or warrants which are not subscribed for, purchased or otherwise acquired by the persons entitled thereto are offered to and/or subscribed for, purchased or otherwise acquired by others (whether as placees or members of the public or pursuant to underwriting arrangements or otherwise), no further adjustment shall be required or made to the Conversion Price by reason of such offer and/or subscription, purchase or acquisition;

5.2.3 *Issue to Shareholders of Rights or Warrants to Acquire Convertible/Exchangeable Securities*: if the Company shall grant, issue or offer to the holders of Shares rights or warrants (including stock acquisition rights) entitling them to subscribe for, purchase or otherwise acquire any securities convertible into or exchangeable for Shares (including bonds with stock acquisition rights):

(i) at a consideration per Share receivable by the Company (determined as provided in Condition 5.2.10) which is fixed on or prior to the Record Date mentioned below and is less than the Current Market Price per Share on such Record Date, or

(ii) at a consideration per Share receivable by the Company (determined as aforesaid) which is fixed after the Record Date mentioned below and is less than the Current Market Price per Share on the date in Japan on which the Company fixes the said consideration,

then the Conversion Price in effect (in a case within (i) above) on the Record Date for the determination of shareholders entitled to receive such rights or warrants or (in a case within (ii) above) on the date in Japan on which the Company fixes the said consideration shall be adjusted in accordance with the following formula:

$$NCP = OCP \times \frac{N + v}{N + n}$$

where:

NCP = the Conversion Price after such adjustment.

OCP = the Conversion Price before such adjustment.

N = the number of Shares outstanding (having regard to Condition 5.2.11) at the close of business in Japan (in a case within (i) above) on such Record Date or (in a case within (ii) above) on the date in Japan on which the Company fixes the said consideration.

n = the number of Shares to be acquired upon conversion or exchange of all such convertible or exchangeable securities at the initial conversion or exchange price or ratio following the exercise of all such rights or warrants at the initial subscription, purchase or acquisition price.

v = the number of Shares which the aggregate consideration receivable by the Company (determined as provided in Condition 5.2.10) would purchase at such Current Market Price per Share specified in (i) above or, as the case may be, (ii) above.

Such adjustment shall become effective (in a case within (i) above) immediately after the Record Date for the determination of shareholders entitled to receive such rights or warrants or (in a case within (ii) above) immediately after the day upon which the Company fixes the said consideration but retroactively to immediately after the Record Date for the said determination.

If, in connection with a grant, issue or offer to the holders of Shares of rights or warrants (including stock acquisition rights) entitling them to subscribe for, purchase or otherwise acquire securities convertible into or exchangeable for Shares (including bonds with stock acquisition rights), any such securities convertible into or exchangeable for Shares (including bonds with stock acquisition rights) which are not subscribed for, purchased or otherwise acquired by the persons entitled thereto are offered to and/or subscribed for, purchased or otherwise acquired by others (whether as placees or members of the public or pursuant to underwriting arrangements or otherwise), no further adjustment shall be required or made to the Conversion Price by reason of such offer and/or subscription, purchase or acquisition;

5.2.4 *Distribution to Shareholders of Assets (including Extraordinary Dividends)*: if the Company shall distribute to the holders of Shares (i) evidences of its indebtedness (such as bonds), (ii) shares of capital stock of the Company (other than the Shares), (iii) cash or assets of the Company, or (iv) rights or warrants (including stock acquisition rights) to subscribe for, purchase or otherwise acquire shares (other than the Shares) or securities of the Company (other than those rights and warrants referred to in Conditions 5.2.2 and 5.2.3), in each of the cases set out in (i) through (iv) above, excluding dividends (being "distribution of surplus" within the meaning of, and subject to the limitation on amounts prescribed by, the Companies Act) other than Extraordinary Dividends, then the Conversion Price in effect on the Record Date for the determination of shareholders entitled to receive such distribution shall be adjusted in accordance with the following formula:

$$NCP = OCP \times \frac{CMP - fmv}{CMP}$$

where:

NCP = the Conversion Price after such adjustment.

OCP = the Conversion Price before such adjustment.

CMP = the Current Market Price per Share on the Record Date for the determination of shareholders entitled to receive such distribution, including a distribution of an Extraordinary Dividend.

fmv = (i) in cases other than an Extraordinary Dividend, the fair market value ((a) as determined by the Company in consultation with an Independent Financial Adviser (whose advice the Company will take fully into account), or (b) if pursuant to applicable Japanese law such determination is to be made by application to a court of competent jurisdiction, as determined by such court or by an appraiser appointed by such court, and in each of the cases set out in (a) and (b) above, described in a certificate of the Company signed by a Representative Director or an Authorised Officer and delivered by the Company to the Trustee) of the portion of the evidences of indebtedness, shares, cash, assets, rights or warrants so distributed applicable to one Share or, (ii) in the case of an Extraordinary Dividend, the amount of such Extraordinary Dividend divided by the Relevant Number of Shares used in the calculation thereof.

Such adjustment shall become effective immediately after the Record Date for the determination of shareholders entitled to receive such distribution (including a distribution of an Extraordinary Dividend); provided, however, that (a) if such distribution must, under applicable Japanese law, be approved by a general meeting of shareholders or the Board of Directors of the Company before being legally made, and if such distribution is so approved after the Record Date fixed for the determination of shareholders entitled to receive such distribution, such adjustment shall, immediately upon such approval being given, become effective retroactively to immediately after such Record Date and (b) if the fair market value of the evidences of indebtedness, shares, cash or assets, rights or warrants so distributed cannot be determined until after the Record Date fixed for the determination of shareholders entitled to receive such distribution, such adjustment shall, immediately upon such fair market value being determined, become effective retroactively to immediately after such Record Date.

"Extraordinary Dividend" means, in relation to an Annual Fiscal Period ending on or after the last day of the Annual Fiscal Period in which the Closing Date falls, the part of any dividend (such dividend being the historical dividend without making any retroactive adjustment resulting from Stock Splits or otherwise) in respect of any number of Shares amounting to the Relevant Number of Shares, the Record Date for which falls within such Annual Fiscal Period which, when aggregated with the amount of all other dividends the Record Date for which falls within such Annual Fiscal Period in respect of such number of Shares amounting to the Relevant Number of Shares, is in excess of the sum of (i) the amount obtained by multiplying the Base Dividend by the relevant percentage set out below and (ii) the amount, if any, previously determined to be an Extraordinary Dividend in respect of that Annual Fiscal Period:

Annual Fiscal Period ending on 31st March,	Percentage
2016	110
2017	121
2018	133
2019	146
2020	161
2021	177

"Base Dividend" means ¥58,905.

The Base Dividend is the amount obtained by multiplying the Relevant Number of Shares (calculated at the initial Conversion Price) by ¥8.5.

"Relevant Number of Shares" means, such number of Shares (disregarding fractions of a Share) as Bondholders would be entitled to receive in respect of each Bond deposited (were it to be so deposited) for exercise of the Stock Acquisition Right incorporated therein at the Conversion Price in effect at the Record Date in respect of the relevant dividend.

5.2.5 *Issue to Non-shareholders of Convertible/Exchangeable Securities*: if the Company shall issue any securities convertible into or exchangeable for Shares, including bonds with stock acquisition rights (other than the Bonds or in any of the circumstances described in Conditions 5.2.2 and 5.2.3), and the consideration per Share receivable by the Company (determined as provided in Condition 5.2.10) shall be less than the Current Market Price per Share on the date in Japan on which the Company fixes the said consideration (or, if the issue of such convertible or exchangeable securities is subject to approval by a general meeting of shareholders, on the date in Japan on which the Board of Directors of the Company fixes the consideration to be recommended at such meeting), then the Conversion Price in effect on the last day of the period during which payment may be made in respect of the issue of such convertible or exchangeable securities shall, subject to Condition 5.2.8, be adjusted in accordance with the following formula:

$$\mathrm{NCP} = \mathrm{OCP} \times \frac{\mathrm{N} + \mathrm{v}}{\mathrm{N} + \mathrm{n}}$$

where:

NCP = the Conversion Price after such adjustment.

OCP = the Conversion Price before such adjustment.

N = the number of Shares outstanding (having regard to Condition 5.2.11) at the close of business in Japan on the last day of the period during which payment may be made in respect of such convertible or exchangeable securities.

n = the number of Shares to be acquired upon conversion or exchange of all such convertible or exchangeable securities at the initial conversion or exchange price or rate.

v = the number of Shares which the aggregate consideration receivable by the Company (determined as provided in Condition 5.2.10) would purchase at such Current Market Price per Share.

Such adjustment shall become effective immediately after the calendar day in Japan corresponding to the last day (in the place of issue) of the period during which payment may be made in respect of such convertible or exchangeable securities;

5.2.6 *Issue of Shares*: if the Company shall issue or transfer any Shares (other than Shares issued or transferred (i) on conversion or exchange of any convertible or exchangeable securities (including the Bonds) allotted, granted, issued or offered by the Company, (ii) on the exercise of any rights or warrants (including stock acquisition rights) allotted, granted, issued or offered by the Company, (iii) to the extent permitted by the Articles of Incorporation, to any holder of Non-unit Shares for the purpose of making such holder's holding, when added to the Shares held by such holder, constitute a full one unit, (iv) in any of the circumstances described in Conditions 5.2.1, 5.2.2 and 5.2.3, (v) to shareholders of any corporation which merges into the Company upon such merger or which becomes a wholly-owned subsidiary of the Company by a share exchange (*kabushiki-kokan*), in proportion to their shareholding in such corporation immediately prior to such merger or such exchange or (vi) to any corporation or to shareholders of any corporation which transfers its business to the Company following the split of such corporation's business (*kyushu bunkatsu*)), and the consideration per Share receivable by the Company (determined as provided in Condition 5.2.10) shall be less than the Current Market Price per Share on the date in Japan on which the

Company fixes the said consideration (or, if the issue or transfer of such Shares is subject to approval by a general meeting of shareholders, on the date in Japan on which the Board of Directors of the Company fixes the consideration to be recommended at such meeting), then the Conversion Price in effect on the last day of the period during which payment may be made in respect of the issue or transfer of such Shares shall, subject to Condition 5.2.8, be adjusted in accordance with the following formula:

$$NCP = OCP \times \frac{N + v}{N + n}$$

where:

NCP = the Conversion Price after such adjustment.

OCP = the Conversion Price before such adjustment.

N = the number of Shares outstanding (having regard to Condition 5.2.11) at the close of business in Japan on the last day of the period during which payment may be made in respect of the issue or transfer of such Shares, but excluding the number of Shares, if any, contained in the definition of "n" immediately below, but only to the extent that such Shares are then issued and outstanding.

n = the number of Shares being issued or transferred as aforesaid.

v = the number of Shares which the aggregate consideration receivable by the Company (determined as provided in Condition 5.2.10) would purchase at such Current Market Price per Share.

Such adjustment shall become effective immediately after the calendar day in Japan corresponding to the last day (in the place of issue) of the period during which payment may be made in respect of the issue or transfer of such Shares;

5.2.7 *Issue to Non-shareholders of Rights or Warrants to Acquire Shares or Convertible/ Exchangeable Securities*: if the Company shall issue any rights or warrants (including stock acquisition rights) entitling holders to subscribe for, purchase or otherwise acquire Shares or securities convertible into or exchangeable for Shares (other than the Stock Acquisition Rights or in any of the circumstances described in Conditions 5.2.2, 5.2.3, 5.2.4 and 5.2.5) and the consideration per Share receivable by the Company (determined as provided in Condition 5.2.10) shall be less than the Current Market Price per Share on the date in Japan on which the Company fixes the said consideration (or, if the issue of such rights or warrants is subject to approval by a general meeting of shareholders, on the date in Japan on which the Board of Directors of the Company fixes the consideration to be recommended at such meeting), then the Conversion Price in effect on the date of the issue of such rights or warrants shall, subject to Condition 5.2.8, be adjusted in accordance with the following formula:

$$NCP = OCP \times \frac{N + v}{N + n}$$

where:

NCP = the Conversion Price after such adjustment.

OCP = the Conversion Price before such adjustment.

N = the number of Shares outstanding (having regard to Condition 5.2.11) at the close of business in Japan on the date of the issue of such rights or warrants.

n = the number of Shares to be acquired on exercise of all such rights or warrants at the initial subscription, purchase or acquisition price, or upon conversion or exchange of all such convertible or exchangeable securities at the initial conversion or exchange price or rate following the exercise of all such rights or warrants.

v = the number of Shares which the aggregate consideration receivable by the Company (determined as provided in Condition 5.2.10) would purchase at such Current Market Price per Share.

Such adjustment shall become effective immediately after the calendar day in Japan corresponding to the calendar day at the place of the issue of such rights or warrants;

5.2.8 *Combined Adjustment*: if the Company shall issue or transfer (as the case may be) securities of a type falling within Condition 5.2.5, 5.2.6 or 5.2.7 which otherwise require an adjustment to the Conversion Price pursuant thereto and the date of issue or transfer of such securities or, if applicable, the last day of the period during which payment may be made in respect thereof (in each case, referred to as the "relevant date") is also the relevant date in respect of securities of another type or types (including a different tranche or issue of a same type) falling within Conditions 5.2.5, 5.2.6 and/or 5.2.7 which otherwise require an adjustment to the Conversion Price pursuant thereto (all such securities being hereafter referred to as "Relevant Securities"), then any adjustment of the Conversion Price shall not be made separately under each such Condition but in one calculation in accordance with the following formula:

$$NCP = OCP \times \frac{N + v1 + v2 + v3}{N + n1 + n2 + n3}$$

where:

NCP = the Conversion Price after such adjustment.

OCP = the Conversion Price before such adjustment.

N = the number of Shares outstanding (having regard to Condition 5.2.11) at the close of business in Japan on the relevant date but excluding the number of Shares contained in the definition of "n2" below to the extent that such Shares are then issued and outstanding.

n1 = the number of Shares to be acquired upon conversion or exchange of any convertible or exchangeable securities (included within the Relevant Securities) at the initial conversion or exchange price or rate.

n2 = the number of any Shares (included within the Relevant Securities) being issued or transferred.

n3 = the number of Shares to be acquired on exercise of any rights or warrants (included within the Relevant Securities) at the initial subscription, purchase or acquisition price, or upon conversion or exchange of any convertible or exchangeable securities at the initial conversion or exchange price or rate following the exercise of such rights or warrants.

v1 = the number of Shares which the aggregate consideration receivable by the Company for such convertible or exchangeable securities (determined as provided in Condition 5.2.10) would purchase at the Current Market Price per Share on the date in Japan on which the Company fixes the said consideration (or, if the issue of such convertible or exchangeable securities is subject to approval by a general meeting of shareholders, on the date in Japan on which the Board of Directors of the Company fixes the consideration to be recommended at such meeting).

v2 = the number of Shares which the aggregate consideration receivable by the Company for the issue or transfer of such Shares (determined as provided in Condition 5.2.10) would purchase at the Current Market Price per Share on the date in Japan on which the Company fixes the said consideration (or, if the issue or transfer of such Shares is subject to approval by a general meeting of shareholders, on the date in Japan on which the Board of Directors of the Company fixes the consideration to be recommended at such meeting).

v3 = the number of Shares which the aggregate consideration receivable by the Company for the issue or transfer of the total number of Shares to be acquired on exercise of such rights or warrants and (if applicable) upon conversion or exchange of such convertible or exchangeable securities (determined as provided in Condition 5.2.10) would purchase at the Current Market Price per Share on the date in Japan on which the Company fixes the said consideration (or, if the issue of such rights or warrants is subject to approval by a general meeting of shareholders, on the date in Japan on which the Board of Directors of the Company fixes the consideration to be recommended at such meeting).

Any such adjustment shall become effective immediately after the calendar day in Japan corresponding to the calendar day at the relevant place of issue which is the relevant date.

5.2.9 *Current Market Price per Share*: for the purpose of these Conditions, "Current Market Price per Share" on any date shall be deemed to be the average of the daily Closing Prices of the Shares for the 30 consecutive Trading Days commencing 45 Trading Days before such date.

If, during the said 45 Trading Day period or any period thereafter up to but excluding the date as of which the adjustment of the Conversion Price in question shall be effected, any event (other than the event which requires the adjustment in question) shall occur which gives rise to a separate adjustment (excluding a Retroactive Adjustment to take effect on or after such date) to the Conversion Price under the provisions of this Condition 5.2, the Current Market Price per Share as determined above shall be adjusted in such manner and to such extent as the Company in consultation with an Independent Financial Adviser (whose advice the Company will take fully into account) shall deem to be appropriate and fair in order to compensate for the effect of such event;

5.2.10 *Consideration per Share*: for the purposes of any calculation of the consideration per Share receivable pursuant to Conditions 5.2.2, 5.2.3, 5.2.5, 5.2.6, 5.2.7 and 5.2.8, the following provisions shall be applicable:

(i) in the case of the issue or transfer of Shares for cash, the consideration shall be the amount of such cash, provided that in no case shall any deduction be made for any commissions or any expenses paid or incurred by or on behalf of the Company for any underwriting of the issue or transfer or otherwise in connection therewith;

(ii) in the case of the issue or transfer of Shares for a consideration in whole or in part other than cash, the consideration other than cash shall be deemed to be the fair value thereof as determined by the Company in consultation with an Independent Financial Adviser (whose advice the Company will take fully into account) or, if pursuant to applicable Japanese law such determination is to be made by application to a court of competent jurisdiction, as determined by such court or an appraiser appointed by such court, irrespective of the accounting treatment thereof. Such determination shall be final and binding on the Company, the Trustee and the Bondholders;

(iii) (a) in the case of the issue by the Company of securities convertible into or exchangeable for Shares, including bonds with stock acquisition rights, the aggregate consideration receivable by the Company shall be deemed to be the consideration for any such securities plus the additional consideration (if any) to be received by the Company upon (and assuming) the conversion or exchange of such securities at the initial conversion or exchange price or rate, and (b) in the case of the grant, issue or offer of rights or warrants, including stock acquisition rights, to subscribe for, purchase or otherwise acquire securities convertible into or exchangeable for Shares, the aggregate consideration receivable by the Company shall be the consideration (if any) received by the Company for any such rights or warrants plus the additional consideration to be received by the Company upon (and assuming) the exercise thereof at the initial subscription, purchase or acquisition price and (if applicable) upon the following conversion or exchange of such securities at the initial conversion or exchange price or rate. The consideration per Share receivable by the Company shall be such aggregate consideration divided by the number of Shares to be acquired upon (and assuming) such conversion or exchange at the initial conversion or exchange price or rate (if applicable) following the exercise of such rights or warrants at the initial subscription, purchase or acquisition price (the consideration in each case to be determined in the same manner as provided in sub-paragraphs (i) and (ii) above);

(iv) in the case of the allotment, grant, issue or offer of rights or warrants (including stock acquisition rights) entitling holders to subscribe for, purchase or otherwise acquire Shares, the aggregate consideration receivable by the Company shall be deemed to be the consideration (if any) received by the Company for any such rights or warrants plus the additional consideration to be received by the Company upon (and assuming) the exercise of such rights or warrants at the initial subscription, purchase or acquisition price (the consideration in each case to be determined in the same manner as provided in sub-paragraphs (i) and (ii) above), and the consideration per Share receivable by the Company shall be such aggregate consideration divided by the number of Shares to be acquired upon (and assuming) such exercise at the initial subscription, purchase or acquisition price; and

(v) if any consideration referred to in the foregoing provisions of this Condition 5.2.10 is receivable in a currency other than yen, such consideration shall, in any case where there is a fixed rate of exchange between yen and the relevant currency provided for the purposes of the issue of such Shares or the conversion or exchange of such securities or the exercise of such rights or warrants, be translated into yen for the purposes of this Condition 5.2.10 at such fixed rate of exchange and shall, in all other cases, be so translated at the mean of the exchange rate quotations (being quotations for the cross rate through U.S. dollars if no direct rate is quoted) by a leading bank in Japan for buying and selling spot units of the relevant currency by telegraphic transfer against yen on the date as at which such consideration is required to be calculated;

5.2.11 *Later Adjustments*: if, at the time of computing an adjustment (the "later adjustment") of the Conversion Price pursuant to any of Conditions 5.2.2 to 5.2.8 (both inclusive), the Conversion Price already incorporates an adjustment made (or taken into account pursuant to the proviso to Condition 5.6) to reflect the issue or transfer of such Shares, or the allotment, grant, issue or offer of rights or warrants (including stock acquisition rights) to subscribe for, purchase or otherwise acquire such Shares or other securities convertible into or exchangeable for such Shares, but such Shares are not outstanding at the time relevant for ascertaining the number of outstanding Shares for the purposes of computing the later adjustment, such Shares shall be deemed to be outstanding for the purposes of making such computation to the extent that the number of the Shares so deemed to be outstanding exceeds the actual number of Shares in issue as a result thereof at the time of making such computation. For the purposes of determining the number of Shares outstanding in Conditions 5.2.2, 5.2.3, 5.2.5, 5.2.6, 5.2.7 and 5.2.8, the Shares held by the Company as treasury stock on the relevant date shall be deemed not to be outstanding;

5.2.12 *Meaning of "Fixed"*: any reference in this Condition 5.2 to the date on which the consideration is "fixed" shall be construed as a reference to the first day on which such consideration in a cash amount can be ascertained, where the consideration is originally expressed by reference to a formula and not then ascertainable in a cash amount;

5.2.13 *Other Events*: if the Company determines at its sole discretion that a downward adjustment should be made to the Conversion Price as a result of one or more events or circumstances not otherwise referred to in this Condition 5.2, the Company shall, at its own expense, request an Independent Financial Adviser to determine as soon as practicable what adjustment (if any) to the Conversion Price is fair and reasonable to take account thereof and, if the adjustment would result in a reduction in the Conversion Price, the date on which such adjustment should take effect and, upon such determination, such downward adjustment (if any) shall be made and shall take effect in accordance with such determination; and

5.2.14 *Modification to Operation of Adjustment Provisions*: notwithstanding the foregoing, where the circumstances giving rise to any adjustment pursuant to this Condition 5.2 have already resulted or will result in an adjustment to the Conversion Price or where the circumstances giving rise to any adjustment arise by virtue of other circumstances which have already given rise or will give rise to an adjustment to the Conversion Price, such modification (if any) shall be made to the operation of the provisions of this Condition 5.2 as may be advised by an Independent Financial Adviser (whose advice the Company will take fully into account) to be in its opinion appropriate to give the intended result.

5.3 ***Retroactive Adjustments***

If the Stock Acquisition Date in relation to a Stock Acquisition Right shall be on or after a date with effect from which an adjustment to the Conversion Price takes retroactive effect pursuant to any of the provisions of Condition 5.2 and the relevant Stock Acquisition Date falls on a date before the relevant adjustment becomes effective under Condition 5.2 (such adjustment, a "Retroactive Adjustment"), the Company shall procure that the provisions of Condition 5.9.5 shall be applied, *mutatis mutandis*, to such number of Shares ("Additional Shares") as is equal to the excess of the number of Shares which would have been acquired upon exercise of such Stock Acquisition Right if the relevant Retroactive Adjustment had been given effect as of the said Stock Acquisition Date over the number of Shares previously acquired pursuant to such exercise, and in such event and in respect of such Additional Shares, references in Condition 5.9.5 to the Stock Acquisition Date shall be deemed to refer to the date upon which such Retroactive Adjustment is first reflected in the Conversion Price.

5.4 ***Limitation on Reduction of Conversion Price***

Notwithstanding the provisions of this Condition 5, the Conversion Price will not be reduced as a result of any adjustment made hereunder to such an extent that, under applicable law then in effect, the Stock Acquisition Rights may not be permitted to be exercised at such lower Conversion Price into legally issued, fully paid and non-assessable Shares.

5.5 ***Employee Share Schemes***

Notwithstanding the provisions of this Condition 5, no adjustment will be made to the Conversion Price where Shares or other Securities are issued, offered, exercised, allotted, appropriated, modified or granted to, or for the benefit of, employees, former employees, corporate auditors or directors (including directors holding or formerly holding executive office or the personal service company of any such person) of the Company or any of its Subsidiaries or affiliates, their spouses or relatives, or any associated companies of any such person, or to any trustee or trustees for the benefit of any such person, in any such case, pursuant to any employees' or executives' share or option scheme.

5.6 ***Minimum Adjustments***

No adjustment of the Conversion Price shall be required unless such adjustment would result in an increase or decrease in such Conversion Price of at least ¥1 provided that any adjustment which by reason of this Condition 5.6 is not required to be made shall be carried forward and taken into account (as if such adjustment were made at the time when it would be made but for the provisions of this Condition 5.6) in any subsequent adjustment.

5.7 ***Calculations***

All calculations (including, without limitation, calculations of the Conversion Price and the Current Market Price per Share) under this Condition 5 shall be made to the nearest one-tenth of a yen with five one-hundredths or more of a yen to be considered a full tenth. All calculations relating to the adjustment of the Conversion Price will be performed by the Company. None of the Trustee, the Registrar, the Principal Agent or the other Agents shall be under any duty to determine, calculate or verify the adjusted Conversion Price or to monitor or make enquiries as to whether any adjustment is required to be made and will not be responsible or liable in any respect to Bondholders for any loss arising from any failure by it to do so.

5.8 ***Notification of Adjustments***

Whenever the Conversion Price is adjusted as herein provided, the Company shall promptly notify the Trustee, the Principal Agent, the other Agents, the Custodian and the Custodian's Agent in writing setting forth the Conversion Price after such adjustment and setting forth a brief statement of the facts requiring such adjustment and the effective date thereof, and shall promptly give notice to the Bondholders in accordance with Condition 19 stating that the Conversion Price has been adjusted and setting forth the Conversion Price in effect prior to such adjustment, the adjusted Conversion Price and the effective date of such adjustment.

5.9 ***Procedure for Conversion***

5.9.1 *Conversion Notice*: To exercise a Stock Acquisition Right, the exercising Bondholder shall complete, sign and deposit at the specified office of an Agent at its own expense during normal business hours of the Agent with which the deposit is being made a Conversion Notice, in the form obtainable from any Agent, together with the Certificate evidencing the relevant Bond. No Stock Acquisition Right may be exercised in part only.

5.9.2 *Custodian and Custodian's Agent*: The initial Custodian and its initial specified office are set out at the end of these Conditions. The Company reserves the right, subject to the prior written approval of the Trustee, at any time to vary or terminate the appointment of the Custodian and to appoint another Custodian; provided that there shall always be a Custodian, being a non-resident of Japan and having a specified office outside Japan. Notice of any such termination or appointment and of any changes in the specified office of the Custodian will be given to the Bondholders in accordance with Condition 19. The Custodian has, pursuant to the Agency Agreement, initially appointed The Bank of Tokyo-Mitsubishi UFJ, Ltd. as the Custodian's Agent at its initial specified office set out at the end of these Conditions and may, with the prior written approval of the Trustee, alter such appointment at any time. The Company shall give notice to the Bondholders in accordance with Condition 19 of any change in the Custodian's Agent and/or its specified office. The Custodian shall have no liability to Bondholders for any loss suffered by them as a result of any failure on the part of the Custodian's Agent to perform its functions pursuant to these Conditions and the Agency Agreement, nor shall the Custodian have any obligation to perform those functions should the Custodian's Agent not do so.

The Custodian shall not be liable for monitoring or supervising the performance by the Custodian's Agent of such functions. The Contracts (Rights of Third Parties) Act 1999 applies to this Condition 5.9.2 for the benefit of the Custodian.

5.9.3 *Conditions Precedent*: As conditions precedent to the exercise of the Stock Acquisition Right, the Bondholder must pay to the relevant Agent (or make arrangements satisfactory to such Agent or its delegate for the payment of) all stamp, issue, registration or other similar taxes and duties (if any), together with any incidental expenses in connection therewith, arising on such exercise in the country in which the Stock Acquisition Right is to be exercised or payable in any jurisdiction consequent upon the issue or delivery of Shares to or to the order of a person other than the exercising Bondholder together with an amount sufficient to pay the expenses of delivery pursuant to Condition 5.9.5(ii). The Bondholder (and, if applicable, the person other than the Bondholder to whom the Shares are to be issued or transferred) must provide the Agent with details of the relevant tax authorities to which the Agent must pay moneys received. The Agent is under no obligation to determine whether a Bondholder is liable to pay stamp, issue, registration or similar taxes and duties or the amounts payable (if any).

For the avoidance of doubt, the exercising Bondholder shall bear any costs and expenses which relate to the account at the Account Management Institution into which it receives the Shares acquired upon the exercise of the Stock Acquisition Right pursuant to Condition 5.9.5(i). Except as aforesaid, the Company will pay the expenses arising on the acquisition of Shares upon exercise of the Stock Acquisition Rights and all charges of the Agents in connection therewith.

5.9.4 *Deposit Date and Stock Acquisition Date*: The date on which the Certificate evidencing any Bond and the Conversion Notice relating thereto are deposited with an Agent, or on which all conditions precedent to the exercise of the relevant Stock Acquisition Right are fulfilled, whichever shall be later, is hereinafter referred to as the "Deposit Date" applicable to such Bond. The request for exercise of the Stock

Acquisition Right shall be deemed to have been made, and accordingly the exercise of the Stock Acquisition Right and the delivery of the Certificate will become effective, at 23:59 hours (London time) on the Deposit Date applicable to the relevant Bond (and the next calendar day, being the calendar day in Japan on which such time in London falls, is herein referred to as the "Stock Acquisition Date" applicable to such Bond). A Conversion Notice once deposited shall not be withdrawn without the consent in writing of the Company.

If delivery of the Conversion Notice is made after the end of normal business hours or on a day which is not a business day in the place of the specified office of the Agent, such delivery shall be deemed for all purposes of these Conditions to have been made on the next following such business day.

At any time when the relevant Bond(s) is/are evidenced by the Global Certificate, the exercising Bondholder must deposit the Conversion Notice in the manner aforesaid with any Agent, together with an authority to Euroclear to debit, or to procure Clearstream, Luxembourg to debit, the Bondholder's account pro tanto. With effect from the relevant Stock Acquisition Date, Euroclear or Clearstream, Luxembourg, as the case may be, shall debit the Bondholder's account with the number of the Bond(s) the Stock Acquisition Right(s) incorporated in which has/have been exercised and the Register shall be amended accordingly.

5.9.5 *Delivery of Shares*: The Company shall procure that the relevant Agent shall, with effect as of the Stock Acquisition Date, endorse the Conversion Notice on behalf of the Custodian. With effect from the Stock Acquisition Date (or as soon as practicable thereafter under Japanese law, regulation and practice relating to the delivery of shares and the register of shareholders), the Company shall deem the Custodian or its nominee to have become the holder of record of the number of Shares to be acquired upon such exercise of the Stock Acquisition Right (disregarding any fraction of a Share resulting from such exercise, and also disregarding any Retroactive Adjustment of the Conversion Price prior to the time when such Retroactive Adjustment is first reflected in the Conversion Price).

Thereafter, subject to any applicable limitations then imposed by Japanese law, regulation or practice, or the Articles of Incorporation:

(i) in accordance with the book-entry transfer system established pursuant to the Book-Entry Act, as soon as practicable and in any event within 14 days after the Stock Acquisition Date, the Company shall issue and deliver the relevant Shares to the Custodian or its nominee at the account maintained with the Custodian's Agent (as an Account Management Institution) and the Custodian's Agent shall transfer the relevant Shares to or to the order of the exercising Bondholder at such account maintained with an Account Management Institution, in Japan as specified in the relevant Conversion Notice (unless the Company fails to make delivery thereof to the relevant account at the Custodian's Agent as aforesaid or such instruction given by the exercising Bondholder in the relevant Conversion Notice is inaccurate, incomplete or insufficient for the purpose of such transfer); and

(ii) as soon as practicable the Company shall deliver to the Custodian's Agent for the account of the Custodian or its nominee, securities (other than the Shares), property or cash required to be delivered upon such exercise of the Stock Acquisition Rights, if any, and the Custodian's Agent shall, according to the request made in the relevant Conversion Notice, either:

(a) as soon as practicable, and in any event within 14 days after the Stock Acquisition Date (unless the Company fails to make delivery thereof to the Custodian's Agent as aforesaid) deliver or cause to be delivered to the order of the person named for that purpose in the relevant Conversion Notice at the specified office in Japan for the time being of the Custodian's Agent, any such securities (other than the Shares), property or cash required to be delivered on exercise and such assignments and other documents (if any) as may be required by law to effect the transfer thereof; or

(b) as soon as practicable, and in any event within 21 days after the Stock Acquisition Date (unless the Company fails to make delivery thereof to the Custodian's Agent as aforesaid), despatch or cause to be despatched to, or to the order of the person named for that purpose in the relevant Conversion Notice and at the place in Japan (not being the specified office in Japan for the time being of the Custodian's Agent) and in the manner specified in the relevant Conversion Notice (the expense and risk of despatch at any such place being that of the exercising Bondholder), any such securities (other than the Shares), property or cash required to be delivered on exercise and such assignments and other documents (if any) as may be required by law to effect the transfer thereof;

provided, however, that if such securities (other than the Shares) are subject to the book-entry transfer system established pursuant to the Book-Entry Act, such delivery or despatch will be implemented in accordance therewith.

5.9.6 *Amount of Stated Capital and Additional Paid-in Capital*: With effect as of the Stock Acquisition Date, one-half of the "maximum capital and other increase amount", as calculated pursuant to Article 17 of the Rules of Account Settlement of Corporations (Ordinance of Ministry of Justice No. 13 of 2006, as amended) in respect of such exercise (with any fraction of less than one yen being rounded up) shall be accounted for as stated capital, and the rest of such amount shall be accounted for as additional paid-in capital.

6. Certain Corporate Events

6.1 ***Corporate Events***

In the case of a proposal for:

(i) any Merger Event; or

(ii) any Asset Transfer Event; or

(iii) any Corporate Split Event; or

(iv) any Holding Company Event; or

(v) the passing of a resolution at a general meeting of shareholders of the Company (or, where such a resolution is not required, at a meeting of the Board of Directors of the Company) for any other corporate reorganisation procedure then provided for under Japanese law (such passing of the resolution of such other reorganisation and any Merger Event, any Asset Transfer Event, any Corporate Split Event and any Holding Company Event being together referred to in these Conditions as a "Corporate Event") pursuant to which the obligations under the Bonds and/or the Stock Acquisition Rights are proposed to be transferred to or assumed by another entity (such other entity and any Merged Company, any Asset Transferee, any Corporate Split Counterparty and any Holding Company being together referred to as a "New Obligor"),

the following provisions of this Condition 6 shall apply.

6.2 ***Notice of Proposal***

The Company shall give notice to the Trustee in writing and to the Bondholders in accordance with Condition 19 of a proposed Corporate Event at the same time as it gives notice to the holders of Shares (or, if no such notice is required, or if a public announcement of such proposed Corporate Event is made on a date earlier than the date of such notice, promptly after the first public announcement of such proposed Corporate Event) and, as soon as practicable thereafter, of its proposals in relation to the Bonds (including the Stock Acquisition Rights). Such notice shall specify the anticipated Corporate Event Effective Date. If those proposals and/or that date have not been determined, the notice shall state that fact.

6.3 ***Notice of Passing of Resolution***

Upon the occurrence of a Corporate Event, the Company shall forthwith give a further notice to the Trustee in writing and to the Bondholders in accordance with Condition 19 of that fact, the Company's proposals in relation to the Bonds (including the Stock Acquisition Rights) and the anticipated effective date of the transaction, and, if such anticipated effective date or proposals are changed or fixed, a further notice to such effect shall be given in the same manner. The effective date of the transaction contemplated by the relevant Corporate Event is referred to herein as its "Corporate Event Effective Date".

6.4 ***Transfer of Obligations Following a Corporate Event***

6.4.1 *Transfer*: If a Corporate Event occurs and

(i) it is legally possible under the then applicable laws (taking into account the then official or judicial interpretation or application of such laws) to effect substitution of the New Obligor for the Company and the grant of the New Stock Acquisition Rights in such a manner as set out in Conditions 6.5 and 12.2;

(ii) a practical structure for such substitution and grant has been or can be established; and

(iii) such substitution and grant can be consummated without the Company or the New Obligor incurring costs or expenses (including taxes) which are in the opinion of the Company unreasonable in the context of the entire transaction,

then the Company shall use its best endeavours to cause the New Obligor to be substituted as the principal obligor under the Bonds and the Trust Deed pursuant to Condition 12.2 and the Trust Deed and for the grant of the New Stock Acquisition Rights in relation to the Bonds in place of the Stock Acquisition Rights in the manner described in Condition 6.5. Such substitution and grant shall take effect on the relevant Corporate Event Effective Date, or, in the case of a Merger Event, a Holding Company Event or a Corporate Split Event where the Merged Company, the Holding Company or the Corporate Split Counterparty (as the case may be) is established on or immediately after the relevant Corporate Event Effective Date, as soon as practicable on or after, but in any event no later than 14 days after, the relevant Corporate Event Effective Date.

6.4.2 *Listing*: In connection with the substitution and grant described in Condition 6.4.1, the Company shall also use its best endeavours to ensure that the shares of common stock of the New Obligor will be listed on any stock exchange in Japan or be quoted or dealt in on any securities market in Japan (such listing, quotation and dealing being hereinafter collectively referred to as "Listing") on the relevant Corporate Event Effective Date.

6.4.3 *Condition*: The obligations of the Company pursuant to this Condition 6.4 shall not apply if the Company delivers a certificate to the Trustee pursuant to Condition 7.6(iv).

6.5 ***New Stock Acquisition Rights***

At the time of the substitution of (or assumption by) the New Obligor as principal obligor under Condition 12.2 and the Trust Deed, New Stock Acquisition Rights will be granted, in place of the Stock Acquisition Rights, to the Bondholders by the New Obligor, in accordance with the following terms:

6.5.1 *Number of the New Stock Acquisition Rights to be Granted*: The number of New Stock Acquisition Rights to be granted will be equal to the number of the Stock Acquisition Rights incorporated in the Bonds outstanding immediately prior to the relevant Corporate Event Effective Date;

6.5.2 *Class of Shares to be Issued or Transferred upon Exercise of the New Stock Acquisition Rights*: Upon exercise of the New Stock Acquisition Rights, shares of common stock of the New Obligor shall be issued or transferred;

6.5.3 *Number of Shares to be Issued or Transferred upon Exercise of the New Stock Acquisition Rights*: The number of shares of the New Obligor to be issued or transferred upon exercise of the New Stock Acquisition Rights shall be determined by reference to these Conditions taking into account the terms of the transaction contemplated under the relevant Corporate Event, and

(i) in the case of a Merger Event or a Holding Company Event, the conversion price for the New Stock Acquisition Rights shall be such that the holder of a New Stock Acquisition Right would upon its exercise immediately after the Corporate Event Effective Date receive the number of shares of common stock of the New Obligor (the "Number of Deliverable Shares") receivable upon the relevant Corporate Event by a holder of the number of Shares (such number being the "Number of Held Shares") which a holder of a Stock Acquisition Right would have received had such Stock Acquisition Right been exercised immediately prior to the relevant Corporate Event Effective Date. If securities (other than shares of common stock of the New Obligor) or other property shall be delivered to such holder of the Number of Held Shares upon the taking effect of the Merger Event or the Holding Company Event (as the case may be), such number of shares of common stock of the New Obligor shall form part of the Number of Deliverable Shares as shall be calculated by dividing the fair market value of such securities or properties delivered to such holder of the Number of Held Shares by the New Obligor Current Market Price per Share, such fair market value to be determined by the Company, provided that in determining such fair market value, the Company shall, at its own expense, consult with an Independent Financial Adviser and shall take fully into account the advice of the Independent Financial Adviser; or

(ii) in the case of any other Corporate Event, the conversion price for the New Stock Acquisition Rights shall be such that the holder of a New Stock Acquisition Right shall upon its exercise immediately after the Corporate Event Effective Date receive an equivalent economic interest to be determined by the Company as having the number of Shares which a holder of a Stock Acquisition Right would have received had such Stock Acquisition Right been exercised immediately before the relevant Corporate Event Effective Date, provided that, in determining such equivalent economic interest, the Company shall, at its own expense, consult with an Independent Financial Adviser and shall take fully into account the advice of such Independent Financial Adviser.

For the purpose of this Condition 6, the "New Obligor Current Market Price per Share" means (i) the average of the daily Closing Prices of the shares of common stock of the New Obligor for the 30 consecutive Trading Days commencing 45 Trading Days immediately before the relevant Corporate Event Effective Date, or (ii) if such market price shall not be available, such price as is determined by the Company, provided that in determining such price, the Company shall, at its own expense, consult with an Independent Financial Adviser and shall take fully into account the advice of such Independent Financial Adviser.

The conversion price for the New Stock Acquisition Rights shall be subject to adjustment which shall be as nearly equivalent as may be practicable to the adjustments provided in Condition 5.2;

6.5.4 *Description of the Asset to be Contributed upon Exercise of the New Stock Acquisition Rights and the Amount or the Calculation Method Thereof*: Upon exercise of each New Stock Acquisition Right, the relevant Bond shall be deemed to be acquired by the New Obligor as a capital contribution in kind by the relevant Bondholder at the price equal to the principal amount of the Bond;

6.5.5 *Exercise Period of the New Stock Acquisition Rights*: The New Stock Acquisition Rights may be exercised at any time during the period from, and including, the later of the relevant Corporate Event Effective Date or the date of implementation of the scheme described in Condition 6.4.1 up to, and including, the last day of the Exercise Period of the Stock Acquisition Rights;

6.5.6 *Other Conditions for the Exercise of the New Stock Acquisition Rights*: No New Stock Acquisition Right may be exercised in part;

6.5.7 *Amount of Stated Capital and Additional Paid-in Capital*: As of the date on which the exercise of a New Stock Acquisition Right becomes effective, one-half of the "maximum capital and other increase amount" as calculated pursuant to Article 17 of the Rules of Account Settlement of Corporations (Ordinance of Ministry of Justice No. 13 of 2006, as amended) in respect of such exercise (with any fraction of less than one yen being rounded up) shall be accounted for as stated capital, and the rest of such amount shall be accounted for as additional paid-in capital; and

6.5.8 *Others*: Fractions of a share of common stock of the New Obligor will not be issued upon exercise of the New Stock Acquisition Rights and no adjustment or cash payment will be made in respect thereof. The holder of each bond assumed (by way of substitution or otherwise only for the purposes of Japanese law), or bond provided, by the New Obligor may not transfer such bond separately from the New Stock Acquisition Rights. In cases where such restriction on transfer of the bond would not be effective under the then applicable law, a stock acquisition right incorporated in a bond equivalent to the Bond may be issued to the holder of each Bond outstanding immediately prior to the Corporate Event Effective Date in place of the Stock Acquisition Right and the Bond.

6.6 ***No Statutory Put Rights***

Each Bondholder by accepting or acquiring any Bond agrees that its remedies if a Corporate Event or a Squeezeout Event occurs shall not include any statutory rights provided by Japanese law to require the Company to repurchase such Bond at fair market value, such rights being waived to the fullest extent permitted by applicable law.

6.7 ***Subsequent Corporate Events***

The above provisions of this Condition 6 shall apply in the same way to any subsequent Corporate Events.

7. Redemption, Purchase and Cancellation

7.1 ***Final Maturity***

Unless the Bonds have previously been redeemed, or purchased and cancelled, or become due and repayable, and unless the Stock Acquisition Rights incorporated therein have previously been exercised (in each case as provided in these Conditions), the Company will redeem the Bonds at 100 per cent. of their principal amount on 17th September, 2020. The Bonds may not be redeemed at the option of the Company other than in accordance with this Condition 7.

7.2 ***Redemption at the Option of the Company upon Increased Share Prices***

At any time on or after 15th September, 2017, the Company may (subject to Condition 7.13), but shall not be bound to, having given not less than 30 nor more than 60 days' prior notice (the "Optional Redemption Notice") to the Trustee in writing and to the Bondholders in accordance with Condition 19 (which notice shall be irrevocable), redeem all, but not some only, of the Bonds then outstanding at 100 per cent. of their principal amount on the date fixed for such redemption in the Optional Redemption Notice, provided, however, that no such redemption may be made unless the Closing Price of the Shares for each of the 20 consecutive Trading Days, the last of which occurs not more than 30 days prior to the date upon which the Optional Redemption Notice is first published, is at least 130 per cent. of the Conversion Price in effect on each such Trading Day (taking into account any Retroactive Adjustment not then reflected in the Conversion Price).

7.3 ***Redemption at the Option of the Company***

On or after 14th September, 2018, and prior to maturity, the Company may (subject to Condition 7.13), having given not less than 30 nor more than 60 days' prior notice to the Bondholders in accordance with Condition 19 (which notice shall be irrevocable), redeem all, but not some only, of the Bonds then outstanding at 100 per cent. of their principal amount.

7.4 ***Redemption at the Option of the Company upon Reduced Outstanding Amounts***

The Company may (subject to Condition 7.13), but shall not be bound to, having given not less than 30 nor more than 60 days' prior notice (the "Clean-up Redemption Notice") to the Trustee in writing and to the Bondholders in accordance with Condition 19 (which notice shall be irrevocable), redeem all, but not some only, of the Bonds then outstanding at 100 per cent. of their principal amount on the date fixed for such redemption in the Clean-up Redemption Notice, if at any time prior to the date upon which the Clean-up Redemption Notice is given, the outstanding principal amount of the Bonds is less than 10 per cent. of the aggregate principal amount of the Bonds as of the date of issue thereof.

7.5 ***Redemption for Taxation Reasons***

The Company may (subject to Condition 7.13), but shall not be bound to, at any time, having given not less than 30 nor more than 60 days' prior notice (the "Tax Redemption Notice") to the Trustee in writing and to the Bondholders in accordance with Condition 19 (which notice shall be irrevocable), redeem all, but not some only, of the Bonds then outstanding at 100 per cent. of their principal amount on the date fixed for redemption in the Tax Redemption Notice (the "Tax Redemption Date"), if the Company satisfies the Trustee immediately prior to the giving of the Tax Redemption Notice (i) that it has or will become obliged to pay Additional Amounts as provided or referred to in Condition 9 as a result of any change in, or amendment to, the laws or regulations of Japan or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after 1st September, 2015, and (ii) that such obligation cannot be avoided by the Company taking reasonable measures available to it; provided that no Tax Redemption Notice shall be given earlier than 90 days prior to the earliest date on which the Company would be obliged to pay such Additional Amounts were a payment in respect of the Bonds then due. Prior to the giving of any Tax Redemption Notice, the Company shall deliver to the Trustee a certificate signed by a Representative Director or an Authorised Officer stating that the Company has or will become obliged to pay Additional Amounts as a result of such change or amendment and that the obligation referred to in (i) above cannot be avoided by the Company taking reasonable measures available to it and the Trustee shall be bound to accept such certificate as sufficient evidence of the satisfaction of the conditions precedent set out in (i) and (ii) above, in which event it shall be conclusive and binding on the Bondholders and the Trustee shall not be responsible for any loss occasioned by acting on such certificate. Upon the giving of the Tax Redemption Notice to the Bondholders, the Company shall be bound to redeem the Bonds then outstanding at 100 per cent. of their principal amount on the Tax Redemption Date.

Notwithstanding the foregoing, if the Company shall have given a Tax Redemption Notice, and if the outstanding principal amount of the Bonds at the time when such Tax Redemption Notice is given is 10 per cent. or more of the aggregate principal amount of the Bonds as of the date of issue thereof, each holder of the Bonds will have the right to elect, and the Tax Redemption Notice shall state that such Bondholder will have the right to elect, that its Bonds should not be redeemed and that the provisions set forth in Condition 9 shall not apply in respect of payment of any amount to be made in respect of the Bonds which will fall after the Tax Redemption Date and payment of all amounts due on such Bonds thereafter shall be made subject to the withholding of, or deduction for or on account of, Japanese taxes, duties, assessments and governmental charges referred to in Condition 9. Such right of the Bondholder shall be exercised by the Bondholder giving notice to the Company in the form (for the time being current) obtainable from any Agent no later than 20 days prior to the Tax Redemption Date.

7.6 ***Corporate Event Redemption***

Upon or following the occurrence of a Corporate Event, the Company shall (subject to Condition 7.13) give not less than 14 Tokyo Business Days' prior notice to the Trustee in writing and to the Bondholders in accordance with Condition 19 to redeem all, but not some only, of the Bonds then outstanding at a redemption price (expressed as a percentage of the principal amount of the Bonds) determined by reference to the table set out below and in accordance with the provisions of this Condition 7.6 (the "Corporate Event Redemption Price"), together with all Additional Amounts due on the Bonds (if any), on the date (the "Corporate Event Redemption Date") specified for redemption in such notice (such Corporate

Event Redemption Date shall be a date falling on or prior to the relevant Corporate Event Effective Date or, if such Corporate Event Effective Date occurs earlier than the 14th Tokyo Business Day from the date of occurrence of the Corporate Event, such Corporate Event Redemption Date shall be the 14th Tokyo Business Day from the date of the notice of such redemption, which notice shall be given as soon as practicable after the date of occurrence of the Corporate Event) if any of the following conditions is satisfied:

(i) it is not legally possible under the then applicable laws (taking into account the then official or judicial interpretation of such laws) to effect a scheme provided for by Condition 6.4.1; or

(ii) it is legally possible as aforesaid but, despite the Company using its best endeavours, the Company cannot effect such a scheme in compliance with Condition 6.4.1; or

(iii) despite the Company using its best endeavours pursuant to Condition 6.4.2, on (a) the date of occurrence of the relevant Corporate Event or (b) the 25th day prior to the relevant Corporate Event Effective Date, whichever occurs later, (x) no Listing has been obtained for the shares of common stock of the New Obligor, and (y) no confirmation has been obtained by the New Obligor from any stock exchange in Japan or the governing body of any securities market in Japan that such Listing will be obtained on or prior to such Corporate Event Effective Date; or

(iv) the Company has delivered to the Trustee, on or prior to the date of occurrence of the relevant Corporate Event, a certificate signed by a Representative Director or an Authorised Officer stating that the Company does not currently anticipate that a Listing will be obtained or maintained for the shares of common stock of the New Obligor on the relevant Corporate Event Effective Date for any reason stated in such certificate. The Trustee and the Bondholders shall be bound to accept such certificate as sufficient and conclusive evidence of the satisfaction of the condition set out in this Condition 7.6(iv) and the Trustee shall not be responsible for any loss occasioned by acting on such certificate.

Any notice of redemption given under this Condition 7.6 shall be irrevocable and the Company shall be bound to redeem the Bonds in accordance with such notice even if (in the case of Condition 7.6(iii) or 7.6(iv) above) a Listing for the shares of common stock of the New Obligor is subsequently obtained.

If the Corporate Event Redemption Date falls on or prior to 3rd September, 2020, the Corporate Event Redemption Price shall be determined by reference to the following table:

Corporate Event Redemption Date	Reference Parity (Percentage)										
	70.00	**80.00**	**90.00**	**100.00**	**110.00**	**120.00**	**130.00**	**140.00**	**150.00**	**160.00**	**170.00**
17th September, 2015	94.58	97.38	101.46	106.85	113.50	121.32	130.19	140.00	150.00	160.00	170.00
17th September, 2016	95.08	97.38	101.09	106.30	112.97	120.95	130.07	140.00	150.00	160.00	170.00
17th September, 2017	95.62	97.13	100.16	105.09	111.92	120.35	130.00	140.00	150.00	160.00	170.00
17th September, 2018	96.66	97.22	98.34	100.00	110.00	120.00	130.00	140.00	150.00	160.00	170.00
17th September, 2019	98.13	98.32	98.90	100.00	110.00	120.00	130.00	140.00	150.00	160.00	170.00
3rd September, 2020	100.00	100.00	100.00	100.00	110.00	120.00	130.00	140.00	150.00	160.00	170.00

In the above table:

"Reference Parity" means:

(i) if the consideration payable to holders of the Shares in connection with the relevant Corporate Event consists of cash only, the amount of such cash per Share divided by the Conversion Price in effect on the date of occurrence of the relevant Corporate Event (expressed as a percentage), with any fractional percentage of less than one-hundredth being rounded to the nearest one-hundredth with five one-thousandths or more to be considered a full one-hundredth; and

(ii) in all other cases, the average of the Closing Prices of the Shares for the five consecutive Trading Days commencing on the Trading Day immediately following:

(a) the date on which the terms and conditions of the relevant Corporate Event (including the consideration payable or deliverable to holders of the Shares in connection therewith) are approved at a meeting of the Board of Directors of the Company, as required under the Companies Act; or

(b) (if the terms and conditions of the relevant Corporate Event are announced to the public later than that date) the date of such public announcement,

divided by the Conversion Price in effect on the last day of such five consecutive Trading Day period (expressed as a percentage), with any fractional percentage of less than one-hundredth being rounded to the nearest one-hundredth with five one-thousandths or more to be considered a full one-hundredth; provided that if, during the said five consecutive Trading Day period, any event shall occur which gives rise to an adjustment (excluding a Retroactive Adjustment to take effect on or after such date) to the Conversion Price under the provisions of Condition 5.2, the Reference Parity so determined shall be adjusted in such manner and to such extent as the Company in consultation with an Independent Financial Adviser (whose advice the Company will take fully into account) shall determine to be appropriate and fair in order to compensate for the effect of such event.

If the Reference Parity or Corporate Event Redemption Date does not appear in the above table, and:

(x) if the Reference Parity falls between two numbers in the first row of the above table and/ or the Corporate Event Redemption Date falls between two dates in the above table, then the Corporate Event Redemption Price shall be determined by straight-line interpolation between such two numbers and/or two dates, on the basis of a 365 day year, as the case may be, with any fractional percentage of less than one-hundredth being rounded to the nearest one-hundredth with five one-thousandths or more to be considered a full one-hundredth;

(y) if the Reference Parity is higher than the number in the far right column in the first row of the above table, the Reference Parity shall be deemed to be equal to that number; and

(z) if the Reference Parity is less than the number set forth in the far left column in the first row of the above table, the Corporate Event Redemption Price shall be 100.00 per cent.

If the Corporate Event Redemption Price, as determined by reference to the above table and in accordance with the above provisions of this Condition 7.6, is less than 100.00 per cent., the Corporate Event Redemption Price shall be 100.00 per cent. Conversely, if the Corporate Event Redemption Price, as determined by reference to the above table and in accordance with the above provisions of this Condition 7.6, is more than 170.00 per cent., the Corporate Event Redemption Price shall be 170.00 per cent.

If the Corporate Event Redemption Date falls during the period from (and including) 4th September, 2020 to (and including) 16th September, 2020, the Corporate Event Redemption Price shall be 100.00 per cent.

7.7 ***Redemption on Delisting of the Shares***

7.7.1 *Offers and Redemption*: If:

(i) any offer is made by a party or parties (the "Offeror") other than the Company in accordance with the Financial Instruments and Exchange Act to all holders of Shares (or all such holders other than the Offeror and/or any company controlled by the Offeror and/or persons associated or acting in concert with the Offeror) to acquire all or a portion of the Shares;

(ii) the Company expresses its opinion to support such offer in accordance with the Financial Instruments and Exchange Act;

(iii) the Company or the Offeror states in the relevant tender offer registration statement or any amendment thereto, or otherwise publicly announces or admits, that the Shares may cease to be listed, quoted or dealt in on the Relevant Stock Exchange or may be disqualified from such listing, quotation or dealing, as a result of the acquisition of Shares pursuant to the offer (unless the Company or the Offeror publicly expresses its intention to use its best endeavours to continue such listing, quotation or dealing after such acquisition); and

(iv) the Offeror acquires any Shares pursuant to the offer,

then the Company shall (subject to Condition 7.13) give notice to the Trustee in writing and to the Bondholders in accordance with Condition 19, as soon as practicable but within 14 days after the date of acquisition of those Shares pursuant to the offer, to redeem all, but not some only, of the Bonds then outstanding at the redemption price (expressed as a percentage of the principal amount of the Bonds) calculated in accordance with the provisions below, together with all Additional Amounts due on the Bonds (if any), on the date (the "Delisting Redemption Date") specified for redemption in such notice (which shall be a date falling not earlier than 14 Tokyo Business Days, nor later than 30 Tokyo Business Days, from the date of such notice). The Trustee may assume until it has received actual written notice to the contrary that the Offeror has not so acquired any Shares.

7.7.2 *Redemption Price*: The redemption price applicable to the redemption under this Condition 7.7 shall be calculated in the same manner as provided in Condition 7.6, except that references to the Corporate Event Redemption Date shall be replaced by the Delisting Redemption Date and the Reference Parity shall mean, if the offer price consists of cash only, the offer price in effect on the last day of the offer divided by the Conversion Price in effect on the same day (expressed as a percentage) and, in all other cases, the average of the Closing Prices of the Shares for the five consecutive Trading Days ending on the last day of the offer divided by the Conversion Price in effect on the last day of the offer (expressed as a percentage), with any fractional percentage of less than one-hundredth being rounded to the nearest one-hundredth with five one-thousandths or more to be considered a full one-hundredth; provided that if, during the said five consecutive Trading Day period, any event shall occur which gives rise to an adjustment (excluding a Retroactive Adjustment to take effect on or after such date) to the Conversion Price under the provisions of Condition 5.2, the Reference Parity so determined shall be adjusted in such manner and to such extent as the Company in consultation with an Independent Financial Adviser (whose advice the Company will take fully into account) shall determine to be appropriate and fair in order to compensate for the effect of such event.

For the avoidance of doubt, the last paragraph of Condition 7.6 shall apply to the above redemption price without any adjustment.

7.7.3 *Offer Followed by Corporate Event*: Notwithstanding the above provisions of this Condition 7.7, if the Company or the Offeror states in the relevant tender offer registration statement or any amendment thereto, or otherwise publicly announces, that it intends to effect a Corporate Event after the date of acquisition of any Shares pursuant to the offer, then the Company's obligation to redeem the Bonds under this Condition 7.7 shall not apply (but, for the avoidance of doubt, the provisions of Conditions 6 and 7.6 shall be applicable to such Corporate Event) unless such Corporate Event does not occur within 60 days after the date of such acquisition, in which case the Company shall give notice to the Trustee in writing and to the Bondholders in accordance with Condition 19, as soon as practicable but within 14 days after the last day of such 60-day period, to redeem all, but not some only, of the Bonds then outstanding at the redemption price set out in Condition 7.7.2 (for the avoidance of doubt, the Reference Parity applicable to such redemption being equal to the Reference Parity that would have been applicable had the Bonds been redeemed under Condition 7.7.1 without being subject to the provisions of this Condition 7.7.3), together with all Additional Amounts due on the Bonds (if any), on the date (for the avoidance of doubt, the Delisting Redemption Date applicable to such redemption being such date) specified for redemption in such notice (which shall be a date falling not earlier than 14 Tokyo Business Days, nor later than 30 Tokyo Business Days, from the date of such notice).

7.7.4 *Irrevocable Notice*: Any notice of redemption given under this Condition 7.7 shall be irrevocable and the Company shall be bound to redeem the Bonds in accordance with such notice.

7.7.5 *Notice to Bondholders*: Upon the occurrence of:

(a) any of the events set out in (i) through (iv) of Condition 7.7.1; or

(b) any of the events set out in Condition 7.7.3 which results in the cancellation or revival of the Company's obligation to redeem the Bonds,

the Company shall as soon as practicable give notice thereof to the Trustee in writing and to the Bondholders in accordance with Condition 19.

7.8 ***Squeezeout Redemption***

7.8.1 *Redemption*: Upon the occurrence of a Squeezeout Event (as defined below), the Company shall (subject to Condition 7.13) give notice to the Trustee in writing and to the Bondholders in accordance with Condition 19, as soon as practicable but within 14 days after the date on which the Squeezeout Event occurs, to redeem all, but not some only, of the Bonds then outstanding at a redemption price (expressed as a percentage of the principal amount of the Bonds) calculated in accordance with the provisions below, together with all Additional Amounts due on the Bonds (if any), on the date (the "Squeezeout Redemption Date") specified for redemption in such notice (which shall be a date falling not earlier than 14 Tokyo Business Days, nor later than 30 Tokyo Business Days, from the date of such notice and in any event before the effective date (the "Squeezeout Effective Date") of the acquisition of the Shares with respect to the Squeezeout Event, provided, however, that if the Squeezeout Effective Date falls earlier than 14 Tokyo Business Days from the date of such notice, the Squeezeout Redemption Date shall be accelerated to the extent necessary to ensure that it shall fall on a date earlier than the Squeezeout Effective Date).

"Squeezeout Event" means either (i) the passing of a resolution at a general meeting of shareholders of the Company approving its acquisition of all of the outstanding Shares in exchange for a consideration, following the outstanding Shares being transformed into callable shares (*zenbushutokujoko tsuki shuruikabushiki*) by way of an amendment to the Articles of Incorporation, for the purpose of, including but not limited to, making the Company a wholly-owned subsidiary of another corporation, or (ii) the passing of a resolution by the Board of Directors of the Company approving a request by the Controlling Shareholder that the other shareholders of the Company (other than the Company and, if the Controlling Shareholder so determines, the Controlling Shareholder's wholly-owned subsidiaries) sell to the Controlling Shareholder all of the shares of the Company held by them (*kabushiki uriwatashi seikyu*) under the Companies Act.

7.8.2 *Redemption Price*: The redemption price applicable to the redemption under this Condition 7.8 shall be calculated in the same manner as provided in Condition 7.6, except that references to the Corporate Event Redemption Date shall be replaced by the Squeezeout Redemption Date and the Reference Parity shall mean, if the assets to be delivered to the holders of Shares consist of cash only (or if the holders of Shares which are being squeezed out are to effectively receive cash only in respect of such Shares), the cash amount which the holder of a Share would receive in exchange for Shares to be transferred as a result of the Squeezeout Event divided by the Conversion Price in effect on the date of the Squeezeout Event (expressed as a percentage) and, in all other cases, the average of the Closing Prices of the Shares for the five consecutive Trading Days ending on the date of the Squeezeout Event divided by the Conversion Price in effect on the date of the Squeezeout Event (expressed as a percentage), with any fractional percentage of less than one-hundredth being rounded to the nearest one-hundredth with five one-thousandths or more to be considered a full one-hundredth; provided that if, during the said five consecutive Trading Day period, any event shall occur which gives rise to an adjustment (excluding a Retroactive Adjustment becoming effective during such period, where the event requiring such Retroactive Adjustment takes place after such period) to the Conversion Price under the provisions of Condition 5.2, the Reference Parity so determined shall be adjusted in such manner and to such extent as the Company in consultation with an Independent Financial Adviser (whose advice the Company will take fully into account) shall determine to be appropriate and fair in order to compensate for the effect of such event.

For the avoidance of doubt, the last paragraph of Condition 7.6 shall apply to the above redemption price without any adjustment.

7.9 *Purchase*

Subject to the requirements (if any) of any stock exchange on which the Bonds may be listed at the relevant time, the Company and/or any of its Subsidiaries may at any time purchase Bonds in the open market or otherwise. Such Bonds may, at the option of the Company or the relevant Subsidiary, be held or resold. The Bonds so purchased, while held by or on behalf of the Company or any of its Subsidiaries, shall not entitle the Bondholder to vote at any meeting of Bondholders and shall be deemed not to be outstanding for the purpose of calculating the quorum at a meeting of Bondholders or for the purposes of these Conditions. Bonds that have been purchased by the Company may, at the option of the Company, be cancelled. Bonds that have been purchased by any Subsidiary may, at the option of such Subsidiary, be delivered to the Company for cancellation.

7.10 *Cancellation*

All Bonds which are redeemed or with respect to which the Stock Acquisition Rights have been exercised shall forthwith be cancelled and such Bonds may not be reissued or resold. All Certificates in respect of Bonds so cancelled and Certificates in respect of Bonds purchased and cancelled pursuant to Condition 7.9 shall be forwarded to the Principal Agent for cancellation.

7.11 *Notice of Redemption*

All notices of redemption given by or on behalf of the Company pursuant to this Condition 7 will specify the Conversion Price as of the date of the relevant notice, the Closing Price of the Shares as of the latest practicable date prior to the publication of the relevant notice, the applicable date fixed for redemption and the redemption price of the Bonds, the last day on which the Stock Acquisition Rights may be exercised and the aggregate principal amount of the Bonds outstanding as of the latest practicable date prior to the publication of the relevant notice. No notice of redemption given under Condition 7.2, 7.3, 7.4 or 7.5 shall be effective if it specifies a date for redemption which falls during a period (a "Closed Period") in which Stock Acquisition Rights may not be exercised pursuant to Condition 5.1.4(b) or within 15 days following the last day of a Closed Period.

7.12 *Calculations*

The Trustee, the Custodian, the Registrar, the Principal Agent and the other Agents are not liable to determine or calculate the Reference Parity, any redemption amount or price under these Conditions (howsoever expressed or defined) or to make any other calculations required to be made under these Conditions other than in such cases as specifically stated herein (if any) and shall have no responsibility to verify or monitor such calculations.

7.13 *Priorities Among Redemption*

If any notice of redemption is given by the Company pursuant to Condition 7.2, 7.3, 7.4, 7.5, 7.6, 7.7 or 7.8, no other notice may be, or, as the case may be, is required to be, given pursuant to any other provisions of such Conditions, except in relation to Bonds in respect of which the relevant Bondholder has elected not to be redeemed pursuant to Condition 7.5.

If (a) the Company becomes obliged to give notice of redemption pursuant to Condition 7.6 or 7.8, or (b) the events set out in (i) through (iv) of Condition 7.7.1 occur, then a notice pursuant to Condition 7.2, 7.3, 7.4 or 7.5 may not subsequently be given.

If the Company becomes obliged to redeem the Bonds pursuant to both Condition 7.7 and either 7.6 or 7.8, the procedure pursuant to Condition 7.6 or 7.8, as the case may be, shall apply.

8. Payments

8.1 *Method of Payment*

Payments in respect of principal, default interest (if any) and premium (if any) will be made against presentation and (if no further payments are due in respect of the Bonds evidenced by the relevant Certificates) surrender of the Certificates in respect of the relevant Bonds at any specified office outside Japan of the Registrar or any Agent. Such payments will be made by transfer to its Registered Account subject in all cases to any fiscal or other laws and regulations applicable thereto in the place of payment but without prejudice to the provisions of Condition 9. Save as provided in Condition 9, such payments will be subject in all cases to any other applicable fiscal or other laws and regulations in the place of payment and the Company will not be liable for any taxes or duties of whatever nature imposed or levied by such laws, regulations or agreements. If an amount which is due in respect of the Bonds is not paid in full, the Registrar will annotate the Register with a record of the amount (if any) in fact paid.

"Registered Account" means a yen account maintained by the payee with a bank in Japan, details of which appear on the Register at the close of business on the sixth Transfer Business Day before the due date of payment.

8.2 *Agents and Registrar*

The initial Principal Agent and the initial Registrar and their respective initial specified offices are set out at the end of these Conditions. The Company reserves the right, subject to the prior written approval of the Trustee, at any time to vary or terminate the appointment of the Principal Agent, the Registrar or any other Agent and to appoint other or further Agents or Registrar (as the case may be), provided that it will at all times maintain (i) a Principal Agent; (ii) a Registrar; (iii) an Agent having a specified office in Singapore, so long as the Bonds are listed on the Singapore Exchange Securities Trading Limited and the rules of that exchange so require; (iv) such other agents as may be required by the rules of any stock exchange on which the Bonds are listed; and (v) an Agent with a specified office in a European Union member state, if any, that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive. Notice of any such termination or appointment and of any changes in the specified offices of the Principal Agent, the Registrar or any other Agent will be given to the Trustee in writing and to the Bondholders in accordance with Condition 19.

8.3 *Payments on Business Days*

If the due date for payment of any amount in respect of any Bond is not a Business Day (as defined below), then the holder of such Bond shall not be entitled to payment of the amount due until the next following Business Day and no other payment will be made as a consequence of the day on which the relevant Bond may be presented for payment under this Condition 8.3 falling after the due date. "Business Day" means any day on which banks are open for business in the place of the specified office of the Agent at which (where required) the Certificate is presented for payment and (in the case of payment by transfer to a Registered Account as referred to in Condition 8.1) on which dealings in foreign currency may be carried on both in Tokyo and in such place.

9. Taxation

All payments by the Company in respect of the Bonds, subject to Condition 7.5, will be made without withholding of, or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of Japan, or any political subdivision or any authority thereof or therein having power to tax unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. If such withholding or deduction is so required, the Company will pay such additional amounts ("Additional Amounts") as may be necessary in order that the net amounts received by the Bondholders after such withholding or deduction shall equal the amounts which would have been receivable in respect of the Bonds in the absence of such withholding or deduction; except that no such Additional Amounts shall be payable with respect to any Bond:

(i) held by or on behalf of a Bondholder (a) who is for Japanese tax purposes treated as an individual resident of Japan or a Japanese corporation, or (b) who fails to comply with the

Japanese tax law requirements in respect of the exemption from such withholding or deduction, or (c) who is otherwise subject to such taxes, duties, assessments or governmental charges by reason of its being connected with Japan (including carrying on a business or maintaining a permanent establishment in Japan) otherwise than by reason only of the holding of any Bond or enforcement of rights thereunder or the receipt of payment in respect of any Bond;

(ii) where the relevant Certificate is presented for payment more than 30 days after the Due Date (as defined below) except to the extent that the holder thereof would have been entitled to such Additional Amounts on presenting the Certificate in respect of such Bond for payment as of the expiry of such 30-day period;

(iii) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or

(iv) held by or on behalf of a Bondholder who would have been able to avoid such withholding or deduction by presenting the Certificate in respect of such Bond to another Agent in a European Union member state.

If the Company becomes obliged to pay Additional Amounts in accordance with this Condition 9, then it will have the right to redeem the Bonds, subject to the right of the Bondholders to retain the Bonds without entitlement to such Additional Amounts in accordance with Condition 7.5.

As used herein, the “Due Date” means the date on which such payment first becomes due, except that, if the full amount of the moneys payable has not been duly received by the Principal Agent or the Trustee on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect shall have been duly given to the Bondholders in accordance with Condition 19.

Any reference in these Conditions and the Trust Deed to principal, premium (if any) or default interest in respect of the Bonds shall be deemed also to refer to any Additional Amounts which may be payable under this Condition 9 or any undertakings or covenants given in addition thereto or in substitution therefor pursuant to the Trust Deed.

No additional amounts will be payable for or on account of any deduction or withholding from a payment on, or in respect of, any Bond where such deduction or withholding is imposed pursuant to Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986, any regulation or agreement thereunder, any inter-governmental agreement or implementing legislation adopted by another jurisdiction in connection with these provisions or any agreement with the U.S. Internal Revenue Service (“FATCA withholding”). Further, the Company will have no obligation to otherwise indemnify an investor for any such FATCA withholding deducted or withheld by the Company, the Agents or any other party that is not an agent of the Company.

10. Events of Default

The Trustee at its discretion may, and if so requested in writing by the holders of at least one-quarter in principal amount of the Bonds then outstanding or if so directed by an Extraordinary Resolution shall, subject in each case to being indemnified and/or secured and/or prefunded to its satisfaction, give notice in writing to the Company that the Bonds are due and repayable on the occurrence of any of the following events:

10.1 *Non-payment*

The Company defaults in the payment of the principal of any of the Bonds under Condition 7.5 as and when the same shall become due and payable, and such default is not remedied within 14 days; or

10.2 *Breach of Obligations*

The Company defaults in the performance or observance of any covenant, condition or provision contained in the Trust Deed or in the Bonds and on its part to be performed or observed (other than the covenant to pay the principal of any of the Bonds), which default is, in the opinion of the Trustee, incapable of remedy, or if, in the opinion of the Trustee, capable of remedy, is not remedied within 30 days (or such longer period as the Trustee may permit) next following the service by the Trustee on the Company of notice requiring such default to be remedied; or

10.3 ***Cross Default on Indebtedness***

The obligation to repay any indebtedness for money borrowed by the Company or any Principal Subsidiary and having an aggregate outstanding principal amount of at least ¥1,000,000,000 (or its equivalent in any other currency or currencies as determined in accordance with this Condition 10) is accelerated or capable of being accelerated prior to its stated maturity as a result of a default in respect of the terms thereof, or any such indebtedness due (on demand or otherwise) having an aggregate outstanding principal amount of at least ¥1,000,000,000 (or its equivalent in any other currency or currencies as determined in accordance with this Condition 10) is not paid when due (whether on demand (if applicable) or at the expiration of any applicable grace period as originally provided (if applicable)); or

10.4 ***Cross Default on Guarantee/Indemnity***

The Company or any Principal Subsidiary fails to pay or otherwise defaults in making any payment due under any guarantee and/or any indemnity given by it in respect of any obligation or indebtedness for money borrowed having an aggregate outstanding principal amount of at least ¥1,000,000,000 (or its equivalent in any other currency or currencies as determined in accordance with this Condition 10); or

10.5 ***Initiation of Insolvency Proceedings***

Proceedings shall have been initiated against the Company or any Principal Subsidiary seeking with respect to the Company or such Principal Subsidiary a decree of commencement of bankruptcy, reorganisation, rehabilitation or special liquidation procedures or adjustment under the Bankruptcy Act, the Corporate Reorganisation Act, the Civil Rehabilitation Act, the Companies Act or any other similar applicable law of Japan or any other jurisdiction and such proceedings shall not have been discharged or stayed within a period of 60 days; or

10.6 ***Decree of Insolvency/Dissolution***

A final decree or order is made or issued by a court of competent jurisdiction adjudicating the Company or any Principal Subsidiary bankrupt or insolvent, or approving a petition seeking with respect to the Company or any Principal Subsidiary a decree of commencement of bankruptcy, reorganisation, rehabilitation or special liquidation procedures or adjustment under the Bankruptcy Act, the Corporate Reorganisation Act, the Civil Rehabilitation Act, the Companies Act or any other similar applicable law of Japan or any other jurisdiction or a final decree or order is made or issued by a court of competent jurisdiction for the appointment of a receiver or liquidator or trustee or assignee in bankruptcy or insolvency of the Company or any Principal Subsidiary or of all or any material (in the opinion of the Trustee) part of the property of any of them, or for the winding-up, dissolution or liquidation of the Company or any Principal Subsidiary in its bankruptcy or insolvency; or

10.7 ***Resolution for Dissolution***

A resolution is passed for the winding-up, dissolution or liquidation of the Company or any Principal Subsidiary except:

10.7.1 in the case of the Company, in connection with or in pursuance of a merger, consolidation, amalgamation, reorganisation or reconstruction (including the Company becoming, or becoming a subsidiary of, a holding company) upon which:

(a) the continuing corporation or the corporation formed thereby effectively assumes (as a matter of English law) the entire obligations of the Company under the Trust Deed and the Bonds (and Condition 6.4 is satisfied); or

(b) the Bonds will be redeemed pursuant to Condition 7.6, 7.7 or 7.8 prior to the date or proposed date of such winding-up, dissolution or liquidation; or

10.7.2 in the case of a Principal Subsidiary, where the undertaking, business and assets of such Principal Subsidiary are transferred or are otherwise vested in, or the proceeds of sale are received by (including upon a merger, consolidation, amalgamation, reorganisation or reconstruction), the Company or any other Subsidiary of the Company or the Holding Company, in any such case, in proportion to the ownership interest held by the Company, such other Subsidiary or Holding Company (as the case may be) in the relevant Principal Subsidiary; or

10.7.3 in any case, where the terms have previously been approved by the Trustee in writing or by an Extraordinary Resolution; or

10.8 ***Institution of Insolvency Proceedings***

The Company or any Principal Subsidiary institutes proceedings seeking with respect to the Company or any Principal Subsidiary an adjudication of bankruptcy or seeking with respect to the Company or any Principal Subsidiary a decree of commencement of bankruptcy, reorganisation, rehabilitation or special liquidation procedures or adjustment under the Bankruptcy Act, the Corporate Reorganisation Act, the Civil Rehabilitation Act, the Companies Act or any other similar applicable law of Japan or any other jurisdiction, or consents to the institution of any such proceedings, or consents to, or acquiesces in, the appointment of a receiver or liquidator or trustee or assignee in bankruptcy or insolvency of it or of all or any material (in the opinion of the Trustee) part of its property, or makes a general assignment for the benefit of its creditors; or

10.9 ***Stop Payment***

The Company or any Principal Subsidiary stops payment (within the meaning of the Bankruptcy Act or any applicable law of any other jurisdiction); or

10.10 ***Cessation of Business***

The Company or any Principal Subsidiary ceases, or through an official action of its Board of Directors threatens to cease to carry on business, except:

10.10.1 in the case of the Company, in connection with or in pursuance of a merger, consolidation, amalgamation, reorganisation or reconstruction (including the Company becoming, or becoming a subsidiary of, a holding company) upon which:

(a) the continuing corporation or the corporation formed thereby effectively assumes (as a matter of English law) the entire obligations of the Company under the Trust Deed and the Bonds (and Condition 6.4 is satisfied); or

(b) the Bonds will be redeemed pursuant to Condition 7.6, 7.7 or 7.8 prior to the date or proposed date of such cessation of business; or

10.10.2 in the case of a Principal Subsidiary, where the undertaking, business and assets of such Principal Subsidiary are transferred or are otherwise vested in, or the proceeds of sale are received by (including upon a merger, consolidation, amalgamation, reorganisation or reconstruction), the Company or any other Subsidiary of the Company or the Holding Company, in any such case, in proportion to the ownership interest held by the Company, such other Subsidiary or Holding Company (as the case may be) in the relevant Principal Subsidiary; or

10.10.3 in any case, where the terms have previously been approved by the Trustee in writing or by an Extraordinary Resolution; or

10.11 ***Encumbrancer***

Any encumbrancer takes possession of the whole or any material (in the opinion of the Trustee) part of the assets or undertakings of the Company or any Principal Subsidiary or a distress, execution or other similar process is levied or enforced upon or sued out against the whole or any material (in the opinion of the Trustee) part of the assets of the Company or any Principal Subsidiary and is not removed, discharged or paid out within 60 days or such longer period as the Trustee may consider appropriate in relation to the jurisdiction concerned having taken appropriate legal advice upon which the Trustee shall be entitled to rely absolutely;

and, in the case of any of the events described in Conditions 10.2, 10.3, 10.4 and 10.11, and (if the events relate only to a Principal Subsidiary) Conditions 10.5, 10.6, 10.7, 10.8, 10.9 and 10.10, the Trustee shall have certified in writing to the Company that the event is, in its opinion, materially prejudicial to the interests of the Bondholders. The Trustee, in forming such an opinion, or making any determination under these Conditions, may exercise all or any of its rights, powers and discretions vested in it under and in accordance with the Trust Deed and applicable law, including but not limited to obtaining and relying on such directions from the Bondholders and/or expert advice as it considers appropriate and relying thereon without any responsibility for delay occasioned for doing so.

For the purposes of Conditions 10.3 and 10.4, any indebtedness which is in a currency other than Japanese yen may be translated into Japanese yen at the spot rate for the sale of relevant currency against the purchase of Japanese yen quoted by any leading bank selected by the Trustee at its absolute discretion on any day when the Trustee requests such a quotation for such purpose.

Upon any such notice being given to the Company, the Bonds shall immediately become due and repayable at 100 per cent. of their principal amount (together with Additional Amounts, if any, premium, if any, and default interest) as provided in the Trust Deed.

11. Undertakings

11.1 *Undertakings with Respect to the Stock Acquisition Rights*

While any Stock Acquisition Rights are, or are capable of being, exercisable, the Company will, save with the approval of an Extraordinary Resolution or with the prior written approval of the Trustee where, in the opinion of the Trustee, it is not materially prejudicial to the interests of the Bondholders to give such approval:

11.1.1 *Shares*: issue, register and deliver Shares upon exercise of Stock Acquisition Rights in accordance with these Conditions, and keep available free from pre-emptive or other rights for the purpose of effecting the exercise of the Stock Acquisition Rights such number of its Shares (whether authorised and unissued or in issue and held in treasury) as would be required to be acquired upon exercise of all of the Stock Acquisition Rights outstanding from time to time and will ensure that all Shares delivered upon exercise of the Stock Acquisition Rights pursuant to these Conditions will be duly and validly issued and fully-paid and non-assessable;

11.1.2 *Transfers*: not close its register of shareholders or take any action which prevents the transfer of its Shares generally unless, under Japanese law and the Articles of Incorporation as then in effect, the Stock Acquisition Rights may be exercised legally for Shares and the Shares issued upon exercise, may (subject to any limitation imposed by law) be transferred (as between transferor and transferee although not as against the Company) at all times while such action is effective, nor take any action which prevents exercise of the Stock Acquisition Rights or the issue or transfer of Shares in respect thereof, except as permitted under Condition 5.1.4;

11.1.3 *Financial Year and Record Date*: give notice to the Trustee in writing and to the Bondholders in accordance with Condition 19 as soon as practicable after it effects any change in its financial year or in the Record Date (including the setting of new Record Dates) for the payment of any cash dividend;

11.1.4 *Listing*: use its best endeavours to obtain and maintain the listing, quotation or dealing in on the Relevant Stock Exchange for the Shares or, if it is unable to do so having used such best endeavours, use its best endeavours to obtain and maintain the listing, quotation or dealing in of the Shares on such other stock exchange or securities market in Japan as the Company with the prior written approval of the Trustee (acting as instructed by an Extraordinary Resolution) may from time to time reasonably determine and give notice of the identity of such stock exchange or securities market to the Bondholders in accordance with Condition 19; provided that,

(i) so long as the Company is not in breach of its obligations under Condition 6 in the case of any Corporate Event where the obligations under the Bonds and/or Stock Acquisition Rights are proposed to be transferred to or assumed by a New Obligor, then the Shares may be delisted with effect from the date falling no earlier than 30 days prior to the relevant Corporate Event Effective Date or such earlier date as may be determined by the Relevant Stock

Exchange and (unless shares of common stock of the New Obligor are then listed or quoted or dealt in on any stock exchange or securities market) the Company shall use its best endeavours to cause the obtaining of a listing, quotation or dealing in of the shares of common stock of the New Obligor on any stock exchange or securities market in Japan;

(ii) the Company's obligations under this Condition 11.1.4 shall not apply if the Bonds are to be redeemed under Condition 7.6 or Condition 7.7 (for the avoidance of doubt, the provisions of this Condition 11.1.4 shall not prevent the Company from (x) delivering a certificate to the Trustee, as provided in Condition 7.6(iv), or (y) taking any action provided in items (ii) and (iii) of Condition 7.7.1); and

(iii) the Company's obligations under this Condition 11.1.4 shall not apply if the Bonds are to be redeemed under Condition 7.8 (for the avoidance of doubt, the provisions of this Condition 11.1.4 shall not prevent the Company from, among other things, proposing an amendment to the Articles of Incorporation for transforming the Shares into callable shares (*zenbushutokujoko tsuki shuruikabushiki*), approving a request by the Controlling Shareholder that the other shareholders of the Company (other than the Company and, if the Controlling Shareholder so determines, the Controlling Shareholder's wholly-owned subsidiaries) sell to the Controlling Shareholder all of the shares of the Company held by them (*kabushiki uriwatashi seikyu*), or announcing or admitting that the Shares may cease to be listed, quoted or dealt in on the Relevant Stock Exchange or be disqualified from such listing, quotation or dealing as a result of the acquisition of Shares pursuant to the Squeezeout Event);

11.1.5 *Other Securities*: procure that no securities of the Company convertible into, or exchangeable for, by their terms, Shares are, without the prior written consent of the Trustee (and in compliance with the conditions attached to such consent, if any), converted into or exchanged for Shares and that no rights or warrants to subscribe for, purchase or otherwise acquire Shares are, without the prior written consent of the Trustee (and in compliance with the conditions attached to such consent, if any), exercised otherwise than, in each case, in accordance with the terms of issue thereof (for the avoidance of doubt, such terms may be amended as a result of any change in or bringing into force of Japanese law, including but not limited to certain tax qualification requirements relating to incentive stock options);

11.1.6 *Capital*: not create or issue any class of share capital other than Shares, without giving notice to the Trustee in writing and to the Bondholders in accordance with Condition 19, at least 14 days prior to the date of such creation or issue;

11.1.7 *Conversion Price Adjustments*: not take any action which would result in an adjustment of the Conversion Price if, after giving effect thereto, the Conversion Price would (but for the provisions of Condition 5.4) be decreased to such an extent that the Shares to be acquired on exercise of the Stock Acquisition Right could not, under any applicable law then in effect, be legally issued as fully-paid and non-assessable;

11.1.8 *Corporate Event*: if a Corporate Event occurs, use its best endeavours to obtain all consents which may be necessary or appropriate under Japanese law to enable the relevant company to give effect to the relevant arrangement, and to take all other action, as required by Condition 6 in a timely manner (unless, for the avoidance of doubt, the Bonds will be redeemed pursuant to Condition 7.6 or 7.7); and

11.1.9 *Consents*: obtain and maintain all consents, clearances, approvals, authorisations, orders, registrations or qualifications (if any) required to be obtained or maintained by the Company on exercise of the Stock Acquisition Rights.

The Trust Deed contains certain other undertakings in relation to the Bonds and the Stock Acquisition Rights.

11.2 ***Charges***

Except as otherwise provided in Condition 5.9, the Company will pay all charges of the Trustee, the Registrar, the Principal Agent, the other Agents, the Custodian and the Custodian's Agent (including the cost of SWIFT message or fax notices by the Trustee or the Agents to the Registrar, the Principal Agent, the Company or the Custodian's Agent and by the Custodian to the Company or the Custodian's Agent) and all issue, transfer and other similar taxes payable with respect to the deposit of Bonds pursuant to Condition 5.9.3, and the issue and delivery of Shares and the delivery of any other securities, property or cash pursuant to Condition 5.9.5 following such deposit.

12. Substitution

12.1 ***Substitution other than under a Corporate Event***

The Trustee may, in its absolute discretion without the consent of the Bondholders, agree with the Company to the substitution in place of the Company (or any previous substitute under this Condition 12) as the principal obligor under the Bonds and the Trust Deed of any Subsidiary of the Company subject to (i) the Bonds continuing to be convertible into Shares as provided in these Conditions, with such amendments as the Trustee shall consider appropriate, and (ii) the Trustee being satisfied that the interests of the Bondholders will not be materially prejudiced by the substitution. In the case of such a substitution the Trustee may agree, without the consent of the Bondholders, to a change of the law governing the Bonds and/or the Trust Deed provided that such change would not in the opinion of the Trustee be materially prejudicial to the interests of the Bondholders. Any such substitution shall be binding on the Bondholders and shall be notified promptly to the Bondholders in accordance with Condition 19. When determining, pursuant to this Condition, whether a circumstance is materially prejudicial to the interests of the Bondholders, the Trustee may exercise all or any of its rights, powers and discretions vested in it under and in accordance with the Trust Deed and applicable law, including but not limited to obtaining and relying on such directions from the Bondholders and/or expert advice as it considers appropriate and relying thereon without any responsibility for delay occasioned for so doing.

Further conditions to such substitution are set out in the Trust Deed.

12.2 ***Substitution under a Corporate Event***

Prior to a Corporate Event Effective Date the Trustee may, if so requested by the Company, agree with the Company, without the consent of Bondholders, to the substitution in place of the Company of the New Obligor subject to a trust deed supplemental to the Trust Deed (which shall include the provisions described below), providing that the Company's obligations under the Bonds and the Trust Deed shall be assumed by the New Obligor by way of substitution (which, for the purposes of Japanese law, may be deemed to be a transfer or assumption of such obligations to or by the New Obligor), and that the New Obligor shall grant stock acquisition rights (the "New Stock Acquisition Rights") to all holders of the Bonds then outstanding, in place of the Stock Acquisition Rights incorporated in the Bonds held by them, being executed on or prior to the relevant Corporate Event Effective Date or (in the case of a Merger Event, a Holding Company Event or a Corporate Split Event where the Merged Company, the Holding Company or the Corporate Split Counterparty (as the case may be) is established on or immediately after the relevant Corporate Event Effective Date) within 14 days after the relevant Corporate Event Effective Date. The Trustee may enter into such supplemental trust deed without consent of Bondholders only if:

(i) under such supplemental trust deed, the New Obligor agrees, in form and manner satisfactory to the Trustee, to be bound by the Trust Deed and the Bonds (with consequential amendments as the Trustee may deem appropriate in its absolute discretion) with effect (as specified in this Condition 12.2) as if the New Obligor had been named in the Trust Deed and the Bonds as the principal obligor in place of the Company and providing that the holders of the Bonds then outstanding shall be granted New Stock Acquisition Rights;

(ii) except in the case of a Merger Event, pursuant to such supplemental trust deed the Company guarantees, in a form and manner satisfactory to the Trustee, the payment obligations of the New Obligor under the Trust Deed and the Bonds with effect as specified in this Condition 12.2, provided that no such guarantee will be required if the Company determines and has delivered to the Trustee no later than 10 calendar days prior to the relevant Corporate Event Effective Date a certificate of the Company signed by a Representative Director or an Authorised Officer of the Company that, as of the Corporate Event Effective Date, any rating which would be assigned to the New Obligor's long-term, unsecured and unsubordinated debt is unlikely to be lower than the rating then currently assigned to the Company's long-term, unsecured and unsubordinated debt, in which case the Trustee shall be entitled to rely upon such certificate without incurring any liability to any person for doing so. In making this determination, the Company shall consult with an Independent Financial Adviser and shall take fully into account the advice of such Independent Financial Adviser;

(iii) if the New Obligor is subject generally to the taxing jurisdiction of a territory or any authority of or in that territory with power to tax (the "New Territory") other than the territory to the taxing jurisdiction of which (or to any such authority of or in which) the Company is subject generally (the "Company's Territory"), the New Obligor will (unless the Trustee otherwise agrees) give to the Trustee an undertaking satisfactory to the Trustee in terms corresponding to Condition 9 with the substitution for, or addition to, in relation to the New Obligor, references in Condition 9 to the Company's Territory of references to the New Territory whereupon the Trust Deed and the Bonds will be read accordingly, and corresponding amendments shall be made to Condition 7.5 in relation to payment of Additional Amounts by the New Obligor (and/ or the guarantor, if any);

(iv) a Representative Director or an Authorised Officer of the New Obligor certifies that it will be solvent immediately after such substitution, and the Trustee shall not have regard to the New Obligor's financial condition, profits or prospects or compare them with those of the Company;

(v) the Company shall have certified (by a certificate of a Representative Director or an Authorised Officer) to the Trustee that the New Stock Acquisition Rights satisfy the provisions of Condition 6.5;

(vi) the Company and the New Obligor comply with such other requirements as the Trustee may direct in the interests of the Bondholders; and

(vii) such substitution and grant of New Stock Acquisition Rights become effective on the Corporate Event Effective Date (or in the case of a Merger Event, a Holding Company Event or a Corporate Split Event where the Merged Company, the Holding Company or the Corporate Split Counterparty (as the case may be) is established on or immediately after the relevant Corporate Event Effective Date, within 14 days after the relevant Corporate Event Effective Date).

12.3 ***Release of Obligations***

An agreement by the Trustee pursuant to Condition 12.2 will (except in respect of any guarantee under Condition 12.2(ii)), if so expressed, release the Company (or a previous substitute) from any or all of its obligations under the Trust Deed and the Bonds.

12.4 ***Deemed Amendment***

On completion of the formalities set out in Condition 12.2, the New Obligor will be deemed to be named in the Trust Deed and the Bonds as the principal obligor in place of the Company (or of any previous substitute) and the Trust Deed and the Bonds will be deemed to be amended as necessary to give effect to the substitution. In particular and without limitation:

(i) the terms "Stock Acquisition Rights" and "Shares" shall, where the context so requires, include the New Stock Acquisition Rights and shares of common stock to be issued by the New Obligor; and

(ii) references to the Company in Condition 10, in the definition of Principal Subsidiary and in the Trust Deed shall also include any guarantor pursuant to Condition 12.2(ii) except where the context requires otherwise.

13. Prescription

Each Bond will become void unless presented for payment within the period of 10 years from the Due Date for the payment thereof.

14. Replacement of Certificates

Should any Certificate be lost, stolen, destroyed, mutilated or defaced, it may be replaced at the specified office of the Principal Agent upon payment by the claimant of the expenses incurred in connection therewith and on such terms as to evidence, security, indemnity and otherwise as the Company may require. Mutilated or defaced Certificates must be surrendered before replacements will be issued.

15. Meetings of Bondholders; Modification and Waiver

15.1 *Meetings of Bondholders*

The Trust Deed contains provisions for convening meetings of the Bondholders to consider any matter affecting their interests, including the sanctioning by an Extraordinary Resolution of a modification of any provision of these Conditions or of the Trust Deed. The quorum for any such meeting convened to consider any matter requiring an Extraordinary Resolution shall be two or more persons holding or representing not less than 50 per cent. in principal amount of the Bonds for the time being outstanding, or for any adjourned meeting two or more persons being or representing Bondholders (whatever the principal amount of Bonds held or represented) except that at any meeting the business of which includes the modification of certain provisions of the Bonds or of the Trust Deed (including, *inter alia*, modifying the date of maturity of the Bonds, reducing or cancelling the principal amount of, or any premium payable in respect of, the Bonds, modifying the method or basis of calculating the rate or amount of default interest in respect of the Bonds, altering the currency of payment of the Bonds or (to the extent permitted by applicable law) abrogating or modifying any Stock Acquisition Right), the necessary quorum for passing an Extraordinary Resolution shall be two or more persons holding or representing not less than 75 per cent., or at any adjourned such meeting not less than 50 per cent., in principal amount of the Bonds for the time being outstanding. An Extraordinary Resolution duly passed at any such meeting shall be binding on all the Bondholders, whether present or not.

Notwithstanding the above provisions, any resolution in writing signed by or on behalf of the holders of not less than 90 per cent. in principal amount of the Bonds for the time being outstanding shall for all purposes be as valid and effectual as an Extraordinary Resolution passed at a meeting of such Bondholders duly convened and held in accordance with the provisions contained in these Conditions and in the Trust Deed. Any resolution in writing may be contained in one document or in several documents in like form each signed by or on behalf of one or more of the Bondholders.

15.2 *Modification and Waiver*

The Trustee may, without the consent of the Bondholders, agree to any modification (except as aforesaid and as set out in the Trust Deed) of the Trust Deed or the Bonds (including these Conditions) or to any waiver or authorisation of any breach or potential breach by the Company of the provisions of the Trust Deed or the Bonds which, in the opinion of the Trustee, is not materially prejudicial to the interests of the Bondholders or to any modification of the Trust Deed or the Bonds (including these Conditions) which is, in the opinion of the Trustee, of a formal, minor or technical nature or which is made to correct a manifest error or is necessary in order to comply with mandatory provisions of Japanese law or pursuant to Condition 6 or 12. Any such modification, waiver or authorisation shall be binding on the Bondholders and shall (unless the Trustee agrees otherwise) be notified to the Bondholders in accordance with Condition 19 as soon as practicable thereafter.

If there is a change to the mandatory provisions of (i) Japanese law which in the reasonable opinion of the Company after obtaining advice from legal advisers (evidenced by (a) a certificate of a Representative Director or an Authorised Officer, and (b) an opinion addressed to the Company and the Trustee of legal advisers of recognised standing to the effect that such change has occurred) would make it necessary to amend and/or supplement the provisions of

Conditions 1.1, 1.5, 5, 6, 7.6 and/or 7.8 or (ii) the Financial Instruments and Exchange Act which in the reasonable opinion of the Company (evidenced by (a) a certificate of a Representative Director or an Authorised Officer, and (b) an opinion addressed to the Company and the Trustee of legal advisers of recognised standing to the effect that such change has occurred) would make it necessary to amend and/or supplement the provisions of Condition 7.7, the relevant Conditions shall be amended and/or supplemented to reflect that change by means of a trust deed supplemental to the Trust Deed. The Trustee (unless in its sole opinion such supplemental trust deed imposes obligations, responsibilities or liabilities on it which are greater than those it has as Trustee under the Trust Deed) shall be obliged (subject to being indemnified and/or secured and/or prefunded by the Company to its satisfaction) to enter into such supplemental trust deed (in a form satisfactory to it) to effect such change (even if, in the opinion of the Trustee, that change may be materially prejudicial to the interests of the Bondholders) without the consent of the Bondholders, but the Trustee shall have no responsibility or liability to any person for so doing. The Trustee, in forming such opinion or making any determination may exercise any or all of its rights, powers and discretions vested in it under and in accordance with the Trust Deed and applicable law including but not limited to obtaining such expert advice as it considers appropriate and relying thereon without any responsibility for any delay occasioned for doing so. The Company shall forthwith give notice to the Bondholders following the execution of any such supplemental trust deed in accordance with Condition 19.

15.3 ***Entitlement of the Trustee***

In connection with the exercise of its functions, rights, powers and discretions (including but not limited to those referred to in these Conditions), the Trustee shall have regard to the interests of the Bondholders as a class and shall not have regard to the interests of individual Bondholders and the Trustee shall not be entitled to require, nor shall any Bondholder be entitled to claim, from the Company any indemnification or payment in respect of any tax consequence of any such exercise upon individual Bondholders.

15.4 ***Authority to the Trustee***

To the fullest extent permitted by applicable law, by accepting the Bond, the Bondholder irrevocably authorises and instructs the Trustee (without its direction whether by Extraordinary Resolution or otherwise) to take any action before a Japanese court on behalf of and in the name of the Bondholder which the Trustee considers to be necessary or desirable in the interests of the Bondholders. The Trustee shall not be bound to take any such action unless (a) so directed by an Extraordinary Resolution or so requested in writing by holders of at least one-quarter in principal amount of Bonds then outstanding, and (b) it shall have been indemnified and/or secured and/or prefunded to its satisfaction, and shall incur no liability in taking or refraining from taking such action. The Trustee shall not take any action on behalf of a Bondholder in respect of the statutory rights referred to in Condition 6.6, such rights having been irrevocably waived by the Bondholder to the fullest extent permitted by applicable law.

16. Enforcement

At any time after the Bonds shall have become due and repayable, the Trustee may, at its absolute discretion and without further notice, take such proceedings, actions or steps against the Company as it may think fit to enforce repayment of the Bonds, together with accrued default interest, if any, pursuant to Condition 4 and to enforce the provisions of the Trust Deed and the Bonds, but it shall not be bound to take any such proceedings, actions or steps unless (a) it shall have been so directed by an Extraordinary Resolution or so requested in writing by the holders of at least one-quarter in principal amount of the Bonds then outstanding, and (b) it shall have been indemnified and/or secured and/or prefunded to its satisfaction. No Bondholder shall be entitled to proceed directly against the Company unless the Trustee, having become bound so to proceed, fails to do so within 30 days of such direction or request or provision of indemnity and/or security and/or prefunding (whichever is the latest) and such failure shall be continuing.

17. Indemnification of the Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking proceedings, actions or steps to enforce the provisions of the Trust Deed or the terms of the Bonds and to be paid its costs and expenses in priority to the claims of Bondholders. The Trustee is entitled to enter into business transactions with the Company or any person or body corporate associated with the Company without accounting for any profit resulting therefrom.

The Trustee may rely without liability to Bondholders or any other person on any certificate or report prepared by the Auditors or any Independent Financial Adviser or other expert (as the case may be) pursuant to these Conditions and/or the Trust Deed, whether or not addressed to the Trustee and whether or not the liability of the Auditor or any Independent Financial Adviser or other expert (as the case may be) in respect thereof is limited by a monetary (or any other) cap or otherwise and shall be obliged to do so where the certificate or report is delivered pursuant to the obligation of the Company to procure such delivery under these Conditions and/or the Trust Deed and in the absence of manifest error; any such certificate or report shall be conclusive and binding on the Company, the Trustee, and the Bondholders.

18. Independent Financial Adviser

If any doubt shall arise as to the appropriate adjustment to the Conversion Price or in relation to any other matter which is reserved in these Conditions for a decision of an Independent Financial Adviser, a written opinion of such Independent Financial Adviser in respect of such adjustment to the Conversion Price or other matter shall be conclusive and binding on the Company, the Trustee and the Bondholders in the absence of manifest error.

If the Company shall fail to appoint an Independent Financial Adviser when required to do so and such failure continues for a reasonable period (as determined by the Trustee in its absolute discretion) and the Trustee is indemnified and/or secured and/or prefunded to its satisfaction against the costs, fees and expenses of such Independent Financial Adviser, the Trustee shall have the power, but shall not be obligated, to make such appointment in its absolute discretion.

19. Notices

All notices to the Bondholders will be valid if mailed to them at their respective addresses in the Register and published in a leading newspaper having general circulation in London (which is expected to be the Financial Times). If publication in any of such newspapers is not (in the opinion of the Trustee) practicable, notices will be given in such other newspaper or newspapers as the Company, with the approval of the Trustee, shall determine. Such notices shall be deemed to have been given on the later of (i) the date of their publication or, if published more than once or on different dates, on the first date on which publication shall have been made in the newspaper or newspapers in which publication is required and (ii) the seventh day after being so mailed.

So long as the Bonds are evidenced by the Global Certificate and such Bonds are held on behalf of a clearing system, notices to Bondholders shall be given by delivery of the relevant notice to the relevant clearing system for communication by it to entitled accountholders in substitution for mailing and publication required by the Conditions.

20. Contracts (Rights of Third Parties) Act 1999

Except as provided herein, no person shall have any right to enforce any term or condition of the Bonds under the Contracts (Rights of Third Parties) Act 1999.

21. Governing Law and Submission to Jurisdiction

21.1 *Governing Law*

The Trust Deed and the Bonds and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law.

21.2 *Jurisdiction*

The courts of England are to have jurisdiction to settle any disputes which may arise out of or in connection with the Trust Deed and the Bonds (including any non-contractual obligation arising out of or in connection with the Trust Deed and the Bonds) and accordingly any legal action or proceedings arising out of or in connection with the Trust Deed or the Bonds (including any non-contractual obligation arising out of or in connection with the Trust Deed and the Bonds) ("Proceedings") may be brought in such courts. The Company has in the Trust Deed submitted to the jurisdiction of such courts and has waived any objection to Proceedings in such courts whether on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum. This submission has been made for the benefit of the Trustee and each of the Bondholders and shall not limit the right of any of them to take Proceedings in any other court of competent jurisdiction nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not).

21.3 ***Agent for Service of Process***

The Company has irrevocably appointed TMF Corporate Services Limited, whose office is at present at 6 St. Andrew Street, 5th Floor, London EC4A 3AE, United Kingdom, as its agent in England to receive service of process in any Proceedings in England. If for any reason TMF Corporate Services Limited ceases to be able to act as such or no longer has an address in England, the Company irrevocably agrees to appoint a substitute process agent acceptable to the Trustee and shall immediately notify the Trustee of such appointment. Nothing herein or in the Trust Deed shall affect the right to serve process in any other manner permitted by law.

SUMMARY OF PROVISIONS RELATING TO THE BONDS WHILE IN GLOBAL FORM

The Global Certificate contains provisions which apply to the Bonds in respect of which the Global Certificate is issued, some of which modify the effect of the Conditions set out in this Offering Circular. Terms defined in the Conditions have the same meaning in the paragraphs below. The following is a summary of those provisions:

Meetings

The registered holder (as defined in the Conditions) of the Bonds in respect of which the Global Certificate is issued shall (unless the Global Certificate evidences only one Bond) be treated as two persons for the purposes of any quorum requirements of a meeting of Bondholders and, at any such meeting, as having one vote in respect of each Bond in respect of which the Global Certificate is issued. The Trustee may allow any accountholder (or the representative of such person) of a clearing system entitled to Bonds in respect of which the Global Certificate is issued to attend and speak (but not vote) at a meeting of Bondholders on appropriate proof of his identity.

Exercise of Stock Acquisition Rights

Subject to the requirements of Euroclear or Clearstream, Luxembourg or such other clearing system as shall have been approved in writing by the Trustee (an "Alternative Clearing System"), the Stock Acquisition Right incorporated in a Bond in respect of which the Global Certificate is issued may be exercised by the presentation to, or to the order of, any Agent of one or more Conversion Notices duly completed by, or on behalf of, an accountholder in such system with an entitlement to such Bonds. Deposit of the Global Certificate with an Agent together with the relevant Conversion Notice shall not be required. The exercise of the Stock Acquisition Right shall be notified by the Agent to the Registrar and the holder of the Global Certificate.

Payments

Payments in respect of Bonds evidenced by the Global Certificate shall be made against presentation of or, if no further payment falls to be made in respect of such Bonds, against presentation and surrender of, the Global Certificate to or to the order of the Principal Agent or such other Agent as shall have been notified to the Bondholders for this purpose.

All payments in respect of Bonds evidenced by the Global Certificate will be made to, or to the order of the person whose name is entered on the Register at the close of business on the Clearing System Business Day immediately prior to the date for payment. For the purposes of this paragraph, "Clearing System Business Day" means Monday to Friday inclusive, excluding 25th December and 1st January in each year.

For the purpose of any payments made in respect of the Global Certificate, the relevant place of presentation shall be disregarded in the definition of "Business Day" as set out in Condition 8.3.

Notices

So long as the Bonds are evidenced by the Global Certificate and the Global Certificate is held on behalf of Euroclear and/or Clearstream, Luxembourg or any Alternative Clearing System, notices required to be given to the Bondholders shall be given by delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg or, as the case may be, the Alternative Clearing System, for communication by it to entitled accountholders in substitution for publication and mailing as required by the Conditions. Such notices shall be deemed to have been given in accordance with the Conditions on the date of delivery to Euroclear, Clearstream, Luxembourg or such Alternative Clearing System.

So long as the Bonds are evidenced by the Global Certificate, the Company will be required to give notice to the Trustee and to the Bondholders in accordance with Condition 19, of the determination of any Shareholder Determination Date Restriction Period (together with a description of the days included in such Shareholder Determination Date Restriction Period) in accordance with Condition 5.1.4 at least three business days prior to the commencement of such Shareholder Determination Date Restriction Period (provided that no such notice is required where the Shareholder Determination Date Restriction Period in question relates to a Record Date that has been fixed by the Company's Articles of Incorporation then in effect); "business day" in this paragraph means any day on which banks are open for business in Tokyo, Brussels and Luxembourg.

Transfers

Transfers of interests in the Bonds in respect of which the Global Certificate is issued shall be effected through the records of Euroclear and Clearstream, Luxembourg or any Alternative Clearing System and their respective participants in accordance with the rules and procedures of Euroclear and Clearstream, Luxembourg or any Alternative Clearing System, as the case may be, and their respective direct and indirect participants.

Prescription

Claims against the Company for payment in respect of principal and premium (if any) and any other amounts due in respect of the Bonds evidenced by the Global Certificate shall become void unless made within a period of 10 years from the appropriate Due Date (as defined in the Conditions).

Trustee's Powers

In considering the interests of Bondholders while the Global Certificate is registered in the name of a nominee for any one or more of Euroclear, Clearstream, Luxembourg and an Alternative Clearing System, the Trustee may, to the extent it considers appropriate to do so in the circumstances, have regard to and rely upon any information made available to it by or on behalf of the relevant clearing system or its operator as to the identity of its accountholders (either individually or by way of category) with entitlements to the relevant Bonds evidenced by the Global Certificate, and may consider such interests as if such accountholders were the holder of the relevant Bonds.

Cancellation

Cancellation of any Bond evidenced by the Global Certificate which is required by the Conditions to be cancelled will be effected by reduction in the principal amount of the Bonds in the Register and the endorsement (for information only) of the Global Certificate by the Registrar.

Early Redemption by the Company

The options and obligations of the Company to redeem the Bonds prior to maturity provided for in Conditions 7.2, 7.3, 7.4, 7.5, 7.6, 7.7 and 7.8 shall be exercised or performed by the Company giving notice (as applicable) to the Trustee, the Principal Agent and the Bondholders within the time limits relating thereto set out in and containing the information required of the Company in accordance with the relevant Condition in accordance with the paragraph entitled "Notices" above.

Election of Bondholders

The election option of the Bondholders provided for in Condition 7.5 may be exercised by the holder of the Bonds evidenced by the Global Certificate by giving notice to the Principal Agent within the time limits relating thereto set out in that Condition and otherwise in accordance with the procedures of Euroclear, Clearstream, Luxembourg or any Alternative Clearing System (as the case may be) in the form acceptable thereto from time to time.

Enforcement

For purposes other than with respect to the payment of principal and premium (if any) on the Bonds in respect of which the Global Certificate is issued, each person who is for the time being shown in the records of Euroclear and Clearstream, Luxembourg or Alternative Clearing System as the holder of a particular principal amount of such Bonds (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg or Alternative Clearing System as to the principal amount of Bonds in respect of which the Global Certificate is issued standing to the account of any person shall be conclusive and binding for all purposes) shall be recognised as the holder of such principal amount of Bonds.

DAIO PAPER CORPORATION

The following summary of the Group's activities and results of operations is qualified in its entirety by, and subject to, the more detailed information and financial statements included in this Offering Circular. The description of the Group's operations in this Offering Circular is on a consolidated basis unless otherwise indicated.

Overview

The Group is one of the leading paper manufacturers in Japan, being one of the only three full-range paper manufacturers in Japan, involved in the manufacture and sale of a wide variety of paper and paperboard, as well as certain home and personal care products. The Group engages in all of the processes of paper-making, from the manufacturing of pulp to the manufacturing and sale of the final paper products. Leveraging on its strengths as an integrated and full-range paper manufacturer with the ability to offer a wide variety of products, the Group is able to adapt flexibly to changing market needs to compete effectively primarily in the Japanese paper market.

The Group's operations are divided into the following two segments for financial reporting purposes:

- *Paper and paperboard*, engaged in the manufacture and sale of paper and paperboard products such as newsprint, coated paper, uncoated wood-free paper, publication paper, PPC paper, carbonless paper, adhesive printing paper, wrapping paper, functional specialty paper, kraft linerboard and corrugating medium, and various types of pulp. Customers for these products include newspaper publishers, printing companies, paper processing companies and corrugated container manufacturers.
- *Home and personal care*, engaged in the manufacture and sale of household paper products such as facial tissue, toilet tissue, kitchen towels, baby and adult disposable diapers, light incontinence products and feminine hygiene products, marketed under brands such as *Elleair*, *GOO.N*, *Attento*, *Natura* and *elis*. Customers for these products are general consumers, as well as nursing homes, hospitals, hotels and restaurants.

In addition, businesses which do not qualify as a reportable segment, such as the Group's woodchip, forestry, machinery, logistics, electricity sales and the golf club businesses, are categorised as "Other".

As at 30th June, 2015, the Company had 29 consolidated subsidiaries.

The Company is incorporated under Japanese law with limited liability as a joint stock corporation (*kabushiki kaisha*). The registered head office of the Company is at 2-60, Mishima Kamiya-cho, Shikokuchuo-shi, Ehime 799-0492, Japan, and its Tokyo Headquarters is currently located at Yaesu Mitsui Building, 7-2, Yaesu 2-chome, Chuo-ku, Tokyo 104-8468, Japan (the Tokyo Headquarters is due to move to Iidabashi Grand Bloom, 10-2, Fujimi 2-chome, Chiyoda-ku, Tokyo 102-0071, Japan on or around 24th September, 2015). The Shares are listed on the First Section of the Tokyo Stock Exchange. The market capitalisation of the Company based on the closing price of the Shares on the Tokyo Stock Exchange on 1st September, 2015 was approximately ¥213,419 million.

Selected Consolidated Financial Data

The following selected consolidated financial information should be read in conjunction with the Group's audited annual consolidated financial statements, and "Recent Business" included elsewhere in this Offering Circular. The consolidated statements of income data and cash flows data for the fiscal years ended 31st March, 2013, 2014 and 2015 and the consolidated balance sheets data as at 31st March, 2013, 2014 and 2015 are extracted without material adjustment from the audited annual consolidated financial statements of the Consolidated Group included elsewhere in this Offering Circular. The quarterly consolidated statements of income data and cash flow data for the three-month periods ended 30th June, 2014 and 2015 and the consolidated balance sheet data as at 30th June, 2015 have been extracted without material adjustment from the unaudited quarterly consolidated financial statements of the Group included elsewhere in this Offering Circular. The quarterly consolidated balance sheet data as at 30th June, 2014 have been extracted from the unaudited quarterly consolidated financial statements of the Group as at 30th June, 2014 prepared in Japanese (but with rounding consistent with the unaudited quarterly consolidated financial statements of the Group included elsewhere in this Offering Circular).

The consolidated financial statements of the Group have been prepared and presented in accordance with Japanese GAAP, which differs in certain respects from IFRS. The historical results are not necessarily indicative of results to be expected for future periods.

	Fiscal year ended/as at 31st March,			Three-month period ended/as at 30th June,	
	2013	2014	2015	2014	2015
	(Millions of yen, except per Share data and ratios)				
Operating Results for the Period:					
Net sales[(1)]	¥407,362	¥430,055	¥450,239	¥103,253	¥112,957
Operating income	11,577	16,049	21,796	4,407	4,610
Ordinary income[(2)]	6,637	11,257	21,784	3,179	4,413
Income before income taxes and minority interests[(3)]	20,682	6,609	17,373	3,254	3,945
Net income	15,109	6,293	13,209	2,354	1,896
EBITDA[(4)]	43,638	47,180	59,139	12,538	13,418
Capital expenditures	21,727	24,948	31,587	6,780	5,654
Depreciation	26,410	26,404	27,203	6,692	6,643
Per Share Data (Yen):					
Net income per Share (basic)	126.51	51.52	93.48	18.36	13.01
Cash dividends per Share	8.50	8.50	8.50	—	—
Cash Flows for the Period:					
Net cash provided by operating activities	50,805	58,091	44,740	—	—
Net cash used in investing activities	(41,455)	(26,826)	(28,581)	—	—
Net cash used in financing activities	(13,441)	(37,242)	(29,429)	—	—
Cash and cash equivalents, at the end of the period	82,457	79,046	69,073	—	—
Financial Position at Period-end:					
Total assets	659,112	646,113	652,745	651,591	651,316
Total net assets	107,969	119,253	164,495	138,626	167,495
Interest-bearing debt[(5)]	449,744	417,664	375,024	407,559	368,557
Net interest-bearing debt[(6)]	363,534	331,826	292,466	314,225	290,923
Financial Ratios:					
Debt to equity ratio (times)[(7)]	4.6	3.8	2.4	3.2	2.3
Net debt to equity ratio (times)[(8)]	3.7	3.0	1.9	2.4	1.9
Equity ratio (%)[(9)]	14.7	17.0	23.7	19.8	24.1
Return on equity (ROE) (%)[(10)]	16.8	6.1	10.0	—	—

Notes:

(1) Consumption tax and local consumption tax amounts are not included in the net sales amounts.

(2) Ordinary income is the sum of operating income and non-operating income less non-operating expenses.

(3) In respect of the three-month periods ended 30th June, 2014 and 2015, income before income taxes.

(4) EBITDA stands for earnings before interest, taxes, depreciation and amortisation, and has been calculated by adding interest payable, depreciation costs and amortisation of goodwill to ordinary income and subtracting the gain on bargain purchase (and where relevant, subtracting equity in net income of affiliates accounted for by the equity method).

(5) Interest-bearing debt consists of short-term loans payable, long-term loans payable, bonds payable, commercial paper (if any), lease obligations and long-term accounts payable — facilities.

(6) Net interest-bearing debt consists of the interest-bearing debt, less cash and cash equivalents.

(7) Debt to equity ratio has been calculated by dividing interest-bearing debt at the end of the period by net assets less minority interests at the end of the period.

(8) Net debt to equity ratio has been calculated by dividing net interest-bearing debt at the end of the period by net assets less minority interests at the end of the period.

(9) Equity ratio has been calculated by dividing total net assets less minority interests by total assets.

(10) ROE has been calculated by dividing the net income for the period by the average of total net assets less minority interests as at the beginning and at the end of the period.

RECENT BUSINESS

Overview

The Group is one of the leading paper manufacturers in Japan, engaged in the manufacture and sale of paper and paperboard products such as newsprint, printing paper, communication paper, wrapping paper and kraft linerboard, principally in Japan, as well as the manufacture and sale of home and personal care products such as facial tissue, toilet tissue, kitchen towels, baby and adult disposable diapers, light incontinence products and feminine hygiene products in Japan and, in the case of principally disposable diapers, in certain countries and regions overseas.

Changes in the Presentation of Segment Income by Reportable Segment

From the three-month period ended 30th June, 2015, the Group, with the objective of monitoring the operating performance of each business segment more appropriately, decided to allocate corporate expenses to each relevant reportable segment. The segment income for the three-month period ended 30th June, 2014 has been presented by reflecting such change in calculating segment income. See "Presentation of Financial and Other Information — Presentation of Segment Income by Reportable Segment".

Changes in Accounting Policies

Set out below are certain material changes in accounting policies recently adopted by the Group as also discussed in Notes 2D and 2G to the audited consolidated financial statements for the fiscal years ended 31st March, 2013, 2014 and 2015 included in this Offering Circular. See also Note 3 to the unaudited quarterly consolidated financial statements for the three-month periods ended 30th June, 2014 and 2015 included in this Offering Circular for the other recent change in accounting policies applied by the Group.

Method of Depreciation of Property, Plant and Equipment

The Group had previously applied the declining-balance method to some items of property, plant and equipment, but effective from the first quarter of the fiscal year ended 31st March, 2014, it has changed the accounting policy and applied the straight-line method to all the items of property, plant and equipment.

On 15th August, 2012 the Company acquired the shares of its associates and other companies that the Company's founding family had owned (see "Business — The Company's Relationship with the Founding Family"), and since then it has been striving to rebuild its business foundation under the new group structure by streamlining the organisation and reviewing the manufacturing, sales and distribution network. In April 2013, the Company merged 27 subsidiaries into eight companies according to business segment, in order to allow the Group to rebuild the manufacturing and sales structure through consolidating and rationalising the manufacturing bases (including the manufacturing subsidiaries and manufacturing facilities), as well as optimising the logistics and distribution network. Given the above-mentioned opportunities for consolidation and rationalisation of the manufacturing bases and manufacturing facilities and the rebuilding of the manufacturing and sales structures, as well as the integration of the group finance functions with aim of improving the capital efficiency of the Group and strengthening cash management capabilities of the subsidiaries and associates, the Group reconsidered the depreciation method used from the perspective of unifying accounting policies within the Group, and to ensure appropriate matching of periodic revenues and expenses.

The Group has come to believe after careful consideration that since property, plant and equipment of the Group is utilised in a stable and consistent manner throughout its useful life, spreading the cost evenly throughout the period of use is a more reasonable method to reflect the economic substance of the business. Thus, the Group's unified and principal depreciation method is established as the straight-line method.

Compared to the operating results that would have been recorded had the previous method continued to be used, operating income increased by ¥1,189 million while ordinary income as well as income before income taxes and minority interests increased by ¥1,218 million for the fiscal year ended 31st March, 2014.

See also Note 23 to the audited consolidated financial statements for the fiscal years ended 31st March, 2013, 2014 and 2015.

Accounting Standard for Retirement Benefits

See Note 2G to the audited consolidated financial statements included in this Offering Circular for changes relating to the application of the accounting standard for retirement benefits in the fiscal years ended 31st March, 2014 and 2015.

Consolidated Results for the Fiscal Year Ended 31st March, 2015 Compared to Consolidated Results for the Fiscal Year Ended 31st March, 2014

Overview of the Fiscal Year Ended 31st March, 2015

In the fiscal year ended 31st March, 2015, the Japanese economy continued to recover slowly despite the increase in consumption tax rate in April 2014. While the U.S. economy continued its gradual recovery, the European economy gave rise to deflationary concerns and had been subject to uncertainty caused by the Greek financial crisis and the pace of the Chinese economy's growth had slowed down, rendering the global economic outlook uncertain.

In the paper industry, the business environment continued to be challenging: domestic demand stagnated as a reaction to the spike in consumption ahead of the rise in consumption tax rate in April 2014, and the cost of raw materials rose due to the weakening of the yen and the higher price of recovered paper.

Under these circumstances, the Group worked to implement cost reductions in excess of increases in raw material costs in the paper and paperboard business, as well as working to meet profitability improvement measures across all mills within the Group, with the result that the cost of sales ratio declined by 1.2 percentage points compared to the previous fiscal year, leading to an improvement in profits.

Further, in the Group's growth area of home and personal care business, the Group expanded the sales of baby and adult disposable diapers in Japan, as well as promoting overseas business centred around the baby diaper business by strengthening the facilities in the Thailand Factory, starting operations of the China Factory, and establishing an Indonesian manufacturing subsidiary. Further, in order to fund the building of a new factory in Fukushima for manufacturing feminine hygiene products and baby disposable diapers, expansion of the manufacturing facilities for facial tissue production at the Group's Kani Mill in Gifu prefecture, and expansion of the production capacity for baby diaper production at the China Factory, the Company raised ¥18,584 million by July 2014 through a public offering and third-party allotments of new Shares.

Results

Net Sales

In the fiscal year ended 31st March, 2015, consolidated net sales amounted to ¥450,239 million, an increase of ¥20,184 million, or 4.7 per cent., compared to ¥430,055 million in the previous fiscal year. This principally reflected increases in volume and unit prices of products sold in both the paper and paperboard segment and the home and personal care segment.

Cost of Sales

Cost of sales for the fiscal year ended 31st March, 2015 amounted to ¥344,237 million, an increase of ¥10,124 million, or 3.0 per cent., compared with ¥334,113 million in the previous fiscal year, principally reflecting the increase in net sales, as well as increase in fuel and raw material costs.

Selling, General, and Administrative Expenses

Selling, general and administrative expenses were ¥84,206 million for the fiscal year ended 31st March, 2015, an increase of ¥4,314 million, or 5.4 per cent., compared with ¥79,892 million in the previous fiscal year. This principally reflected an increase in transportation and warehousing costs.

Operating Income

As a result of the above, the operating income was ¥21,796 million for the fiscal year ended 31st March, 2015, an increase of ¥5,747 million, or 35.8 per cent., compared to ¥16,049 million in the previous fiscal year.

Non-operating Income and Non-operating Expenses

Total non-operating income was ¥7,608 million for the fiscal year ended 31st March, 2015, an increase of ¥3,787 million, or 99.1 per cent., compared with ¥3,821 million in the previous fiscal year. This principally reflected increases in foreign exchange gains and subsidy income.

Total non-operating expenses were ¥7,620 million for the fiscal year ended 31st March, 2015, a decrease of ¥993 million, or 11.5 per cent., compared with ¥8,613 million in the previous fiscal year. This principally reflected a decrease in interest expenses.

Ordinary Income

As a result of the above, the Group's ordinary income was ¥21,784 million for the fiscal year ended 31st March, 2015, an increase of ¥10,526 million, or 93.5 per cent., compared to ¥11,257 million in the previous fiscal year.

Extraordinary Income and Extraordinary Losses

Total extraordinary income was ¥840 million for the fiscal year ended 31st March, 2015, a decrease of ¥2,835 million, or 77.1 per cent., compared with ¥3,675 million in the previous fiscal year. This principally reflected a decrease in gain on bargain purchase related to the acquisition of subsidiary shares which took place in the fiscal year ended 31st March, 2014.

Total extraordinary losses were ¥5,251 million for the fiscal year ended 31st March, 2015, a decrease of ¥3,072 million, or 36.9 per cent., compared with ¥8,323 million in the previous fiscal year. This principally reflected a decrease in impairment loss, offset to a certain extent by foreign exchange losses recorded for the fiscal year ended 31st March, 2015, relating to the liquidation of four out of five Elleair Hawaii Inc. group companies.

Income before Income Taxes and Minority Interests

As a result of the above, income before income taxes and minority interests was ¥17,373 million for the fiscal year ended 31st March, 2015, an increase of ¥10,764 million, or 162.9 per cent., compared to ¥6,609 million in the previous fiscal year.

Income Taxes

Income taxes for the fiscal year ended 31st March, 2015 amounted to ¥3,755 million, compared to a gain of ¥843 million in the previous fiscal year.

Net Income

As a result of the above factors, the Group recorded a net income of ¥13,209 million for the fiscal year ended 31st March, 2015, an increase of ¥6,915 million, or 109.9 per cent., compared to ¥6,293 million in the previous year.

Results by Business Segments

Paper and paperboard

Net sales to external customers in this segment increased by ¥6,523 million, or 2.3 per cent., compared to the previous fiscal year, to ¥290,035 million for the fiscal year ended 31st March, 2015. Segment income (before intersegment eliminations) for the fiscal year ended 31st March, 2015 amounted to ¥13,988 million, an increase of ¥2,616 million, or 23.0 per cent., compared to the previous fiscal year.

In the newsprint business in the fiscal year ended 31st March, 2015, although the volume of advertising copies were around the same as the previous fiscal year, due to a decrease in the number of copies issued, both sales volume and sales amount decreased compared to the previous fiscal year. Domestic demand for printing paper contracted, but due to the Group's efforts to expand higher value-added products and to adjust prices, the Group's sales of the product increased compared to the previous fiscal year, although volumes stayed much the same as the previous fiscal year.

With regard to containerboard and corrugated container businesses, although demand for products such as drinks cartons decreased due to a cold summer, as online shopping demand increased, and as the new production machine commenced operation at the Company's subsidiary Iwaki Daio Paper, the volume sold remained around the same as the previous fiscal year, but amount of sales increased due to increase in prices of containerboard (although the adjustment of pricing of corrugated containers saw some delay).

Home and personal care

Net sales to external customers in this segment increased by ¥11,934 million, or 8.8 per cent., compared to the previous fiscal year, to ¥146,836 million for the fiscal year ended 31st March, 2015. Segment income (before intersegment eliminations) for the fiscal year ended 31st March, 2015 amounted to ¥11,154 million, an increase of ¥1,467 million, or 15.1 per cent., compared to the previous fiscal year.

In the facial tissue and toilet tissue business in the fiscal year ended 31st March, 2015, the Group introduced new products such as facial tissue with a faint fragrance called *Kaoru+ Tissue* and toilet rolls that are twice as long as normal products called *i:na Toilet*, in addition to expanding sales of high value-added products such as *Elleair+Water*, *Luxury Moisture Tissue* and *Flower Print Toilet Tissue*. As a result, sales volume remained around the same as the previous fiscal year, while sales amount increased from the previous fiscal year.

In the consumer adult incontinence product business, the Group introduced a new diaper product as well as working to expand sales of light incontinence products, with the result that both sales volume and sales amount improved from the previous fiscal year. In terms of products for care homes, the Group started sales of *Attento S-Care Longer Relief Pad Double Block Type*, developed with the support of Tottori University, and both sales volume and sales amount increased as compared to the previous fiscal year.

With regard to the baby disposable diaper business, overseas sales remained favourable. In the domestic market, the Group worked towards differentiation by offering a new product *GOO.N Aromagic*, which turns nasty smells into good fragrance, as well as working to expand sales through selling seasonally designed products. As a result, both sales volume and sales amount in the fiscal year ended 31st March, 2015 improved from the previous fiscal year.

In the feminine care business, the Group worked to further improve the product quality of the *elis Megami* sanitary napkins, and started sales of the light incontinence product *Natura*, with the result that the sales volume in the fiscal year ended 31st March, 2015 remained around the same as the previous fiscal year while sales amount increased from the previous fiscal year.

In the overseas business in the fiscal year ended 31st March, 2015, sales within China, Thailand, South Korea and Indonesia where the Group has local presence, as well as exports from Japan, increased steadily, with the result that overseas sales as a whole greatly improved compared to the previous fiscal year. In China, the Group commenced local manufacturing, producing products that are of even higher quality than those manufactured in Japan. In Thailand, the Group commenced sales of a second brand *GOO.N FRIEND* targeting the economy market which is rapidly expanding in the neighbouring countries. In terms of exports from Japan, the Group's efforts to increase the categories and items of products sold had a beneficial effect.

As the Group expects demand to continue to rise in China and Thailand, it has been strengthening the manufacturing facilities in those two countries. In addition, the Company established PT. Elleair International Manufacturing Indonesia for the purpose of commencing production of baby diapers in Indonesia (expected commencement of production being end of 2015), where domestic demand is increasing rapidly. In addition, the Group is working to increase sales of adult disposable diapers in East Asia, which is experiencing an ageing society most notably in Japan, and commenced full-scale sales of *Attento* adult disposable diapers in South Korea. In the future, the Group also intends to export higher value-added *Elleair* products such as moisturised facial tissue, with a view to developing further product offering abroad.

Other

Net sales to external customers in this segment increased by ¥1,727 million, or 14.8 per cent., compared to the previous fiscal year, to ¥13,369 million for the fiscal year ended 31st March, 2015. Segment income (before intersegment eliminations) for the fiscal year ended 31st March, 2015 amounted to ¥2,131 million, an increase of ¥1,041 million, or 95.5 per cent., compared to the previous fiscal year.

Consolidated Results for the Three-month Period Ended 30th June, 2015 Compared to Consolidated Results for the Three-month Period Ended 30th June, 2014

Overview of the Three-month Period Ended 30th June, 2015

In the three-month period ended 30th June, 2015, although the Japanese economy has continued to see a gradual recovery, with improvements in corporate profits and the employment situation due to the economic and fiscal policies adopted by the government and the Bank of Japan, the economic outlook continues to be uncertain due to factors such as the slowing pace of the Chinese economy's growth and the prolongation of the Greek government debt risk.

Under these circumstances, the Group has been working to implement its strategies, including a structural shifting of the paper business, thorough cost reductions and strengthening the containerboard and corrugated container business, as well as expanding the Group's growth area of home and personal care business.

In terms of the Group's efforts in the paper business in the three-month period ended 30th June, 2015, the Group has been working on the shifting of its product mix from coated paper to uncoated paper and wrapping paper, as well as increasing the sheets/rolls ratio to meet market trends. In the containerboard and corrugated container business, the Group has been working towards further stabilisation of supplies through the introduction of new machinery at Iwaki Daio Paper, as well as gaining strength by striving towards realisation of synergies through the integration of the corrugated container manufacturing subsidiaries into Daio Package.

In the home and personal care business, the Group is establishing a new factory in Iwaki, Fukushima prefecture to expand production capacity. In addition, the Group has been revising prices of facial tissue and toilet tissue and promoting sales centred around baby disposable diapers and light incontinence products that were redesigned in the spring of 2015. As facial tissue and toilet tissue are seeing increasing growth in demand for higher value-added products, the Group is also installing new tissue manufacturing facilities at its Kani Mill.

Further, in the rapidly-growing Asian markets, the Group is aiming to commence production at PT. Elleair International Manufacturing Indonesia by the end of 2015, as well as strengthening the facilities at Elleair International China (Nantong) Co., Ltd. and Elleair International (Thailand) Co., Ltd., in order to promote the business expansion of baby disposable diapers quickly. The Group is working to extend markets in East Asia, which is experiencing an ageing society most notably in Japan, and commenced full-scale sales of *Attento* adult disposable diapers in South Korea and China.

Results

Net Sales

For the three-month period ended 30th June, 2015, consolidated net sales amounted to ¥112,957 million, an increase of ¥9,704 million, or 9.4 per cent., compared to ¥103,253 million for the three-month period ended 30th June, 2014. This principally reflected increases in volume of products sold in both the paper and paperboard segment and the home and personal care segment, as well as increases in unit prices of certain home and personal care products.

Cost of Sales

Cost of sales for the three-month period ended 30th June, 2015 amounted to ¥86,869 million, an increase of ¥7,471 million, or 9.4 per cent., compared with ¥79,398 million for the three-month period ended 30th June, 2014, principally reflecting the increase in net sales, as well as increase in fuel and raw material costs.

Selling, General, and Administrative Expenses

Selling, general and administrative expenses were ¥21,478 million for the three-month period ended 30th June, 2015, an increase of ¥2,030 million, or 10.4 per cent., compared with ¥19,448 million for the three-month period ended 30th June, 2014. This principally reflected an increase in transportation and warehousing costs.

Operating Income

As a result of the above, the operating income was ¥4,610 million for the three-month period ended 30th June, 2015, an increase of ¥203 million, or 4.6 per cent., compared to ¥4,407 million for the three-month period ended 30th June, 2014.

Non-operating Income and Non-operating Expenses

Total non-operating income was ¥1,334 million for the three-month period ended 30th June, 2015, an increase of ¥378 million, or 39.5 per cent., compared with ¥957 million for the three-month period ended 30th June, 2014. This principally reflected increases in dividend income and insurance income.

Total non-operating expenses were ¥1,531 million for the three-month period ended 30th June, 2015, a decrease of ¥654 million, or 29.9 per cent., compared with ¥2,185 million for the three-month period ended 30th June, 2014. This principally reflected a decrease in interest expenses.

Ordinary Income

As a result of the above, the Group's ordinary income was ¥4,413 million for the three-month period ended 30th June, 2015, an increase of ¥1,234 million, or 38.8 per cent., compared with ¥3,179 million in the previous fiscal year.

Extraordinary Income and Extraordinary Losses

Total extraordinary income was ¥8 million for the three-month period ended 30th June, 2015, a decrease of ¥123 million, or 93.7 per cent., compared with ¥131 million for the three-month period ended 30th June, 2014, principally reflecting the recording of a higher gain on sales of non-current assets for the three-month period ended 30th June, 2014.

Total extraordinary losses were ¥476 million for the three-month period ended 30th June, 2015, an increase of ¥420 million, or 754.9 per cent., compared with ¥56 million for the three-month period ended 30th June, 2014, principally reflecting an increase in retirement benefit expenses.

Income before Income Taxes

As a result of the above, income before income taxes was ¥3,945 million for the three-month period ended 30th June, 2015, an increase of ¥691 million, or 21.2 per cent., compared to ¥3,254 million for the three-month period ended 30th June, 2014.

Income Taxes

Total income taxes for the three-month period ended 30th June, 2015 amounted to ¥1,930 million, compared to ¥812 million for the three-month period ended 30th June, 2014. This principally reflected an increase in income taxes deferred.

Net Income Attributable to Owners of the Parent

As a result of the above factors, the Group recorded a net income attributable to owners of the parent of ¥1,896 million for the three-month period ended 30th June, 2015, a decrease of ¥458 million, or 19.5 per cent., compared to ¥2,354 million for the three-month period ended 30th June, 2014.

Results by Business Segments

From the three-month period ended 30th June, 2015, the Group, with the objective of monitoring the operating performance of each business segment more appropriately, decided to allocate corporate expenses to each relevant reportable segment. The segment income for the three-month period ended 30th June, 2014 has been presented by reflecting such change in calculating segment income. See "Presentation of Financial and Other Information — Presentation of Segment Income by Reportable Segment".

Paper and paperboard

Net sales to external customers in this segment increased by ¥3,805 million, or 5.5 per cent., compared to the previous fiscal year, to ¥72,771 million for the three-month period ended 30th June, 2015. Segment income (before intersegment eliminations) for the three-month period ended 30th June, 2015 amounted to ¥2,112 million, a decrease of ¥393 million, or 15.7 per cent., compared to the three-month period ended 30th June, 2014.

In the newsprint business for the three-month period ended 30th June, 2015, both sales volume and sales amount decreased as compared to the three-month period ended 30th June, 2014 due to a decrease in the number of copies issued.

Domestic demand for printing paper contracted, but due to the Group's efforts to expand its sales of higher value-added products and to improve the product mix, volumes sold stayed much the same as the three-month period ended 30th June, 2014, while the sales amount increased as compared to the three-month period ended 30th June, 2014 due to the effect of price adjustment in the previous fiscal year.

With regard to containerboard and corrugated container businesses, although demand from products such as fruits and vegetables decreased due to factors such as bad weather, as demand from processed food area such as drinks increased steadily and the new machine commenced operation at Iwaki Daio Paper, both sales volume and sales amount increased as compared to the three-month period ended 30th June, 2014.

Home and personal care

Net sales to external customers in this segment increased by ¥5,735 million, or 18.3 per cent., compared to the three-month period ended 30th June, 2014, to ¥37,144 million for the three-month period ended 30th June, 2015. Segment income (before intersegment eliminations) for the three-month period ended 30th June, 2015 amounted to ¥2,109 million, an increase of ¥569 million, or 36.9 per cent., compared to the three-month period ended 30th June, 2014.

With regard to the paper category such as facial tissue, toilet tissue and kitchen towels, both sales volumes and sales amount increased as compared to the three-month period ended 30th June, 2014 as the Group has worked to adjust prices and to expand markets by shifting sales to valued-added products. *Dekiruco!*, a new kitchen towel product, has a higher wet-strength and revitalised the kitchen towel market by offering user-friendliness that makes cooking more fun with the product with the bright print.

For adult disposable diapers, both sales volume and sales amount increased as compared to the three-month period ended 30th June, 2014, contributed by the redesigning of the *Attento Usugata Sarasara Pants* with an aim to relieve dissatisfaction and anxiety for leakage.

For baby disposable diapers, as the Group focused on skin-friendliness as an important point for disposable diapers, both sales volume and sales amount increased as compared to the three-month period ended 30th June, 2014 by fully redesigning *GOO.N* using "*Massarasara*" as a key word.

For feminine hygiene products, in addition to focusing on sales promotional activities at stores with the *elis* brand, the Group promoted the expansion of distribution and sales by widening its selection of the light incontinence product *Natura*, with the result that both sales volume and sales amount increased as compared to the three-month period ended 30th June, 2014.

In the overseas business, sales within South Korea, China, Thailand and Indonesia where the Group has local presence increased steadily with baby disposable diapers as a key product, and, in terms of exports from Japan, the Group's efforts to increase the categories and items of products sold had a beneficial effect. As a result, both sales volume and sales amount increased as compared to the three-month period ended 30th June, 2014 for overseas sales as a whole. By country, in South Korea, the sales increased greatly as compared to the three-month period ended 30th June, 2014 due to recovery of sales. In China, sales of pants-type diapers and *GOO.N Angel* series of ultra premium grade baby diapers expanded and, in Thailand and its neighbouring countries, sales of a second brand *GOO.N FRIEND* targeting the economy market expanded.

Other

Net sales to external customers in this segment increased by ¥164 million, or 5.7 per cent., compared to the previous fiscal year, to ¥3,042 million for the three-month period ended 30th June, 2015. Segment income (before intersegment eliminations) for the three-month period ended 30th June, 2015, amounted to ¥333 million, an decrease of ¥10 million, or 2.8 per cent., compared to the three-month period ended 30th June, 2014.

Financial Condition

Consolidated Balance Sheet as at 31st March, 2015 Compared to Consolidated Balance Sheet as at 31st March, 2014

Total assets as at 31st March, 2015 amounted to ¥652,745 million, an increase of ¥6,632 million, or 1.0 per cent., compared to ¥646,113 million as at 31st March, 2014. Total current assets as at 31st March, 2015 increased by ¥8,618 million, or 3.5 per cent., to ¥252,490 million compared to the previous fiscal year mainly due to an increase in notes and accounts receivable-trade and merchandise and finished goods, partially offset by a decrease in cash and cash equivalents. Net property, plant and equipment as at 31st March, 2015 amounted to ¥287,491 million, an increase of ¥1,200 million, or 0.4 per cent., compared to ¥286,291 million as at 31st March, 2014, principally reflecting an increase in machinery, equipment and vehicle, partially offset by a decrease in land. Total intangible assets as at 31st March, 2015 amounted to ¥62,676 million, a decrease of ¥4,345 million, or 6.5 per cent., compared to ¥67,021 million as at 31st March, 2014, principally reflecting a decrease in goodwill. Total investments and other assets as at 31st March, 2015 amounted to ¥49,948 million, an increase of ¥1,097 million, or 2.2 per cent., compared to ¥48,852 million as at 31st March, 2014, principally reflecting an increase in investment securities.

Total liabilities as at 31st March, 2015 amounted to ¥488,250 million, a decrease of ¥38,610 million, or 7.3 per cent., compared to ¥526,860 million as at 31st March, 2014, principally reflecting a decrease in interest bearing debt, partially offset by increases in accounts payable-trade.

Total net assets as at 31st March, 2015 amounted to ¥164,495 million, an increase of ¥45,242 million, or 37.9 per cent., compared to ¥119,253 million as at 31st March, 2014, principally reflecting an increase in common stock and capital surplus from the issue of Shares, an increase in retained earnings and an increase in valuation difference on available-for-sale securities (mainly due to the initial public offering and listing of certain shares held for strategic purpose).

Consolidated Balance Sheet as at 30th June, 2015 Compared to Consolidated Balance Sheet as at 31st March, 2015

Total assets as at 30th June, 2015 amounted to ¥651,316 million, an decrease of ¥1,429 million, or 0.2 per cent., compared to ¥652,745 million as at 31st March, 2015, principally reflecting decreases in cash and deposits and notes and accounts receivable — trade, offset to a certain extent by an increase in investments and other assets.

Total liabilities as at 30th June, 2015 amounted to ¥483,821 million, a decrease of ¥4,429 million, or 0.9 per cent., compared to ¥488,250 million as at 31st March, 2015, principally reflecting a decrease of ¥6,400 million in short-term loans payable.

Total net assets as at 30th June, 2015 amounted to ¥167,495 million, an increase of ¥3,000 million, or 1.8 per cent., compared to ¥164,495 million as at 31st March, 2015, principally reflecting an increase of ¥1,735 million in valuation difference on available-for-sale securities and an increase of ¥1,242 million in retained earnings. Equity ratio as at 30th June, 2015 increased by 0.5 percentage points compared to the previous fiscal year, to 24.1 per cent.

Liquidity and Capital Resources

Cash Flows for the Fiscal Year Ended 31st March, 2015 Compared to the Fiscal Year Ended 31st March, 2014

Net cash provided by operating activities for the fiscal year ended 31st March, 2015 was ¥44,740 million, a decrease of ¥13,351 million, or 23.0 per cent., compared with ¥58,091 million in the previous fiscal year principally due to an increase in working capital.

Net cash used in investing activities for the fiscal year ended 31st March, 2015 amounted to ¥28,581 million, an increase of ¥1,755 million, or 6.5 per cent., compared with ¥26,826 million in the previous fiscal year. Purchases of property, plant and equipment were the principal contributing factor for the net cash used in investing activities for the fiscal year ended 31st March, 2015.

Net cash used in financing activities for the fiscal year ended 31st March, 2015 amounted to ¥29,429 million, a decrease of ¥7,813 million, or 21.0 per cent., compared with ¥37,242 million in the previous fiscal year. Net cash used by financing activities for the fiscal year ended 31st March, 2015 principally reflected increases in long-term bank loans, repayment of long-term bank loans, repayment of bonds, proceeds from the issue of the new Shares and payment of interest.

Funding

As at 31st March, 2015, the Group's interest-bearing debt (being short-term loans payable, long-term loans payable, bonds payable, lease obligations and long-term accounts payable — facilities) amounted to ¥375,024 million, compared with ¥417,664 million as at 31st March, 2014.

The Group derives the funds it requires for its operations from cash flow from operations, borrowings from financial institutions and issues of bonds. The Group has also derived the funds it requires from the issue of Shares in the fiscal year ended 31st March, 2015 and the issue of commercial paper in July 2015. The Group has also received subsidies in respect of the Group's installation of a new manufacturing facility in Iwaki, Fukushima prefecture. As at 31st March, 2015, ¥100 million of the Group's consolidated short-term loans payable, ¥79,976 million of the Group's consolidated long-term loans payable (including current portion) and ¥4,202 million of the Group's long-term accounts payable — facilities (including current portion) were secured on certain buildings and structures, machinery, equipment and vehicles, land and other items of property, plant and equipment of the Group. As is customary in Japan, domestic bank loans are made under general agreements which provide that collateral and guarantees (or additional collateral or guarantees, as appropriate) with respect to present and future indebtedness will be given at the request of a lending bank, and that the bank shall have the right, as the obligations become due or in the event of default, to offset any cash deposited against such obligations.

As at 31st March, 2015, the Group had ¥341,274 million outstanding of short-term and long-term borrowings principally from Japanese financial institutions and ¥25,340 million in aggregate principal of bonds payable outstanding. Certain of such borrowings relate to a syndicated loan contract with financial institutions principally in Japan. Such contract contains certain restrictive covenants that require the Company to meet certain levels of consolidated net assets and income as at the end of, or for, any given fiscal year. If the Company were found to be in breach of any such covenants, the lenders could request repayment of such loans; moreover, such breach may potentially trigger cross defaults in other loans and bonds outstanding.

The Group has in place ¥30 billion in aggregate principal amount of commitment lines with financial institutions in Japan, of which none was drawn as at 31st March, 2015.

Capital Expenditures

The following table gives information with respect to the Group's capital expenditures (on an accrual basis) by reportable segment for the periods indicated:

	For the fiscal year ended 31st March,		
	2013	2014	2015
	(Millions of yen)		
Paper and paperboard	¥19,715	¥18,688	¥23,822
Home and personal care	1,410	5,499	7,067
Other	602	762	698
Total consolidated capital expenditures	¥21,727	¥24,948	¥31,587

In the fiscal year ended 31st March, 2013, capital expenditures principally related to strengthening cost competitiveness and quality improvement. In the paper and paperboard segment, capital expenditures principally related to increased production of breached hardwood kraft pulp with a view to decreasing costs. In the home and personal care segment, capital expenditures principally related to reconstruction of production facilities and improvements to existing production facilities in relation to redesigning of adult diapers. In the other segment, capital expenditures principally related to forestation. Such capital expenditures were funded principally by internally-generated funds, borrowings and subsidies received.

In the fiscal year ended 31st March, 2014, capital expenditures principally related to strengthening cost competitiveness and quality improvement. In the paper and paperboard segment, capital expenditures principally related to increased production of bleached softwood kraft pulp and installation of additional winders. In the home and personal care segment, capital expenditures principally related to expansion of production facilities for adult diapers. In the other segment, capital expenditures principally related to forestation. Such capital expenditures were funded principally by internally-generated funds, borrowings and subsidies received.

In the fiscal year ended 31st March, 2015, capital expenditures principally related to improvement of cost competitiveness and enhancement of production facilities. In the paper and paperboard segment, capital expenditures principally related to structural shifting of the product mix and increase in production. In the home and personal care segment, capital expenditures principally related to expansion of production facilities for baby diapers in China and South East Asia. In the other segment, capital expenditures principally related to forestation. Such capital expenditures were principally funded by internally-generated funds, borrowings and subsidies received, as well as the issue of new Shares.

In the fiscal year ending 31st March, 2016, the Group's current plans with regard to capital expenditures are expected to amount to approximately ¥34 billion, principally in relation to the establishment of a new manufacturing facility for the production of home and personal care products in Indonesia (which is expected to become a joint venture operation with Mitsubishi Corporation in November 2015), investments in respect of new manufacturing facilities for disposable diapers and feminine hygiene products at the Iwaki Factory of Elleair Product at Fukushima prefecture, investments in respect of new manufacturing facilities for wet tissue and wipe at the Mishima Factory of Elleair Product in Ehime prefecture, investments in respect of new manufacturing facilities for facial tissue at the Group's Kani Mill in Gifu prefecture, the strengthening of manufacturing capabilities in respect of the Group's corrugated container products, and the renewal of aged facilities. The actual amount of the Group's capital expenditures and its actual implementation may differ from the above plans and estimates.

USE OF PROCEEDS

The net proceeds from the issue of the Bonds are estimated to amount to approximately ¥30 billion, and are expected to be used primarily as follows:

(i) approximately ¥7 billion in total (approximately ¥4 billion by the end of March 2016 and approximately ¥3 billion by the end of February 2017), for capital expenditures in the home and personal care business (being the Group's growth business) for the purposes of, among other things, expanding the manufacturing facilities and building and/or expanding warehousing facilities of the Group including at the Company's Kani Mill (in Gifu prefecture), and at the Mishima Factory (in Ehime prefecture) and the Iwaki Factory (in Fukushima prefecture) of Elleair Product, a consolidated subsidiary of the Company;

(ii) approximately ¥7 billion in total (approximately ¥2 billion by the end of March 2016, approximately ¥3 billion by the end of March 2017 and approximately ¥2 billion by the end of November 2017), for capital expenditures (through Daio Package, a consolidated subsidiary of the Company) in the corrugated container business (being one of the Group's strategic focal businesses for strengthening under the Group's medium-term business plan) for the purposes of reinforcing and renewing the manufacturing facilities at each of the Group's corrugated container manufacturing locations with the aim of strengthening competitiveness in the business;

(iii) approximately ¥9 billion in total (approximately ¥6 billion by the end of March 2017 and approximately ¥3 billion by the end of March 2018), for part of the funds required for building a black liquor power generation plant aimed at utilising the FIT system for renewable energy, at the Company's Mishima Mill (in Ehime prefecture);

(iv) approximately ¥2 billion in total (approximately ¥1 billion by the end of March 2016 and approximately ¥1 billion by the end of March 2017), with the aim of strengthening the competitiveness of the paper and paperboard business, for capital expenditures for the renewal of facilities at the Mishima Mill (in Ehime prefecture) and Kani Mill (in Gifu prefecture), the Group's principal manufacturing facilities; and

(v) the balance (being approximately ¥5 billion) for repayment of the Company's Series 16 unsecured straight bonds which are due to be redeemed at maturity on 17 December 2015.

Capital expenditures by the Company's subsidiaries mentioned above will be funded by way of an intra-group loan from the Company.

CAPITALISATION AND INDEBTEDNESS

The following table sets out the Company's consolidated capitalisation and indebtedness as at 30th June, 2015, which has been extracted without material adjustment from the Company's unaudited quarterly consolidated financial statements as at the same date, and as adjusted to give effect to the issue of the Bonds:

	As at 30th June, 2015(1)	
	Actual	As adjusted
	(Millions of yen)	
Short-term debt(2):		
Current portion of bonds payable	¥ 15,020	¥ 15,020
Short-term loans payable	30,960	30,960
Current portion of long-term loans payable	92,323	92,323
Current portion of lease obligations	363	363
Current portion of long-term accounts payable — facilities	2,429	2,429
Total short-term debt.	141,096	141,096
Long-term debt(2):		
Bonds payable (excluding current portion)	10,320	10,320
Long-term loans payable (excluding current portion)	211,483	211,483
Lease obligations (excluding current portion)	800	800
Long-term accounts payable — facilities (excluding current portion)	4,858	4,858
The Bonds now being issued.	—	30,000
Total long-term debt	227,461	257,461
Net assets:		
Shareholders' equity:		
Capital stock:		
Authorised: 300,000,000 Shares		
Issued: 149,348,785 Shares(4)	39,707	39,707
Capital surplus	39,586	39,586
Retained earnings	71,654	71,654
Less: Treasury shares, at cost (4,181,000 Shares)	(2,902)	(2,902)
Total shareholders' equity	148,045	148,045
Accumulated other comprehensive income:		
Valuation difference on available-for-sale securities	12,338	12,338
Foreign currency translation adjustments	(2,153)	(2,153)
Remeasurements of defined benefit plans	(1,005)	(1,005)
Non-controlling interests	10,270	10,270
Total net assets	167,495	167,495
Total capitalisation and indebtedness(5)(7)	¥536,052	¥566,052

Notes:

(1) The above table should be read in conjunction with the unaudited quarterly consolidated financial statements of the Company as at and for the three-month period ended 30th June, 2015 contained herein.

(2) Certain of the Group's short-term and long-term debt are secured on certain buildings and structures, machinery, equipment and vehicles, land and other items of property, plant and equipment of the Group.

(3) As at 30th June, 2015, the Group had ¥100 million of contingent liabilities, comprising of guarantees of borrowings of certain unconsolidated subsidiaries from financial institutions.

(4) All of the issued Shares are fully-paid and non-assessable.

(5) Total capitalisation and indebtedness is a total of total short-term debt, total long-term debt and total net assets.

(6) In July 2015, the Company issued ¥10,000 million of commercial paper (maturing on 25th September, 2015).

(7) Other than as set out above, there has been no material change in the Company's consolidated capitalisation, indebtedness, contingent liabilities and guarantees since 30th June, 2015.

INFORMATION CONCERNING THE SHARES

Changes in Issued Share Capital

The Company has an authorised share capital of 300,000,000 Shares, of which 149,348,785 Shares (including 2,904,000 Shares of treasury stock held by the Company and 1,271,000 Shares in total held by certain subsidiaries of the Company) were in issue as at 30th June, 2015. The following table shows the changes in the issued share capital of the Company as at the dates indicated below:

Date	Type of issue	Number of Shares issued	Total number of Shares in issue
17th June, 2014	Public offering of Shares	14,000,000	143,018,785
17th June, 2014	Third party allotment(1)	4,230,000	147,248,785
16th July, 2014	Third party allotment(2)	2,100,000	149,348,785

Notes:

(1) A third-party allotment to Hokuetsu Kishu Paper.

(2) A third-party allotment in relation to the exercise of an over-allotment option in connection with the public offering of shares mentioned above.

As at 30th June, 2015, there has been no change in issued share capital of the Company since 16th July, 2014.

Dividends

Under the Company's Articles of Incorporation, a year-end dividend may be distributed to shareholders and pledgees of record as at 31st March in each year pursuant to a resolution of a general meeting of shareholders; however, an interim cash dividend may also be distributed to shareholders and pledgees of record as at 30th September in each year pursuant to a resolution of the Board of Directors. The Company may also declare dividends other than those described above with the resolution of a general meeting of shareholders subject to certain restrictions. See "Description of the Shares and Certain Regulations — Distributions of Surplus".

The following table shows the cash dividends on the Shares paid by the Company to shareholders or pledgees of record as at the dates indicated below:

Date	Dividends per Share
	(Yen)
30th September, 2010	¥4.00
31st March, 2011	4.50
30th September, 2011	4.00
31st March, 2012	4.50
30th September, 2012	4.00
31st March, 2013	4.50
30th September, 2013	4.00
31st March, 2014	4.50
30th September, 2014	4.00
31st March, 2015	4.50

The Company recognises that returning profits to shareholders is one of the most important management issues, and the Company's basic policy is to continue to distribute stable dividends twice a year, at the same time as taking into consideration factors such as the status of business and the sufficiency of retained earnings. The Company intends to utilise its retained earnings for further strengthening the Group's foundation, including advance investments into new business areas, capital expenditures for strengthening the future competitiveness of the Group, and improving the financial strength of the Group.

Japanese Stock Market and Price Range of the Shares

The Shares are listed on the First Section of the Tokyo Stock Exchange. The following table shows the highs and lows of the reported sales prices of the Shares on the Tokyo Stock Exchange as well as the highs and lows of the closing Nikkei Stock Average and the closing level of the Tokyo Stock Price Index ("TOPIX"), for the periods indicated:

	Price per Share		Nikkei Stock Average		TOPIX	
Calendar Year	High	Low	High	Low	High	Low
	(Yen)		(Yen)		(Points)	
2011	745	433	10,857.53	8,160.01	974.63	706.08
2012	640	390	10,395.18	8,295.63	872.42	695.51
2013:						
First quarter	697	561	12,635.69	10,486.99	1,058.10	871.88
Second quarter	679	503	15,627.26	12,003.43	1,276.03	991.34
Third quarter	667	524	14,808.50	13,338.46	1,222.72	1,106.05
Fourth quarter	1,083	585	16,291.31	13,853.32	1,302.29	1,147.58
2014:						
First quarter	1,256	810	16,121.45	14,008.47	1,306.23	1,139.27
Second quarter	1,247	902	15,376.24	13,910.16	1,269.04	1,132.76
Third quarter	948	875	16,374.14	14,778.37	1,346.43	1,228.26
Fourth quarter	1,079	864	17,935.64	14,532.51	1,447.58	1,177.22
2015:						
First quarter	1,117	924	19,754.36	16,795.96	1,592.25	1,357.98
Second quarter	1,466	1,016	20,868.03	19,034.84	1,679.89	1,528.99
Third quarter (up to 1st September)	1,701	1,058	20,841.97	17,806.70	1,691.29	1,432.65

On 1st September, 2015, the reported closing price of the Shares on the Tokyo Stock Exchange was ¥1,429 per Share. The closing Nikkei Stock Average and TOPIX on the same date were ¥18,165.69 and 1,478.11, respectively.

Principal Shareholders and Distribution of Shares

As at 31st March, 2015, the Company had 3,716 shareholders of record, excluding those holders of 748,785 Shares (including 889 Shares held as treasury stock) not constituting a whole unit. As at 31st March, 2015, the 10 largest shareholders of record and the number and percentage of Shares held by them were as follows:

Shareholder	Number of Shares held	Percentage of total Shares in issue
	(Thousands of Shares)	(Per cent.)
Hokuetsu Kishu Paper Co., Ltd.(1)	31,707	21.23%
The Iyo Bank, Ltd. (standing proxy: Trust & Custody Services Bank, Ltd.)	7,072	4.74
The Ehime Bank, Ltd.	6,920	4.63
Daio Kaiun Co., Ltd.	5,442	3.64
Ehime Paper MFG Co., Ltd.	5,331	3.57
Kami Shoji Co., Ltd.	4,700	3.15
Takao Ikawa(2)	4,000	2.68
Japan Trustee Services Bank, Ltd. (Trust Account)(3)	3,946	2.64
Tokushu Tokai Paper Co., Ltd.	3,871	2.59
Hyogo Paper Manufacturing Co., Ltd.	3,373	2.26
Total	76,366	51.13%

Notes:

(1) The Company recognises Hokuetsu Kishu Paper as a related party for the purposes of its financial reporting.

(2) A member of the founding family of the Company, who has in the past held the posts of, among others, the Director and Adviser of the Company. For a description of the relationship between the Company and its founding family, see "Business — The Company's Relationship with the Founding Family".

(3) Held as part of this holder's trust business.

(4) The FIEA requires any person who has become, beneficially and solely or jointly, a holder of more than five per cent. of the total issued voting Shares to file a report concerning such shareholdings with the director general of a competent Local Finance Bureau, and also

requires such person to file a similar report concerning one per cent. or more changes in such substantial shareholdings or any changes in material matters set out in the reports previously filed (see "Description of the Shares and Certain Regulations — Reporting of Substantial Shareholders"). As at 1st September, 2015, the Company has not received such reports since 31st March, 2015.

(5) Except as stated above, the Company is not aware of any change in the information provided above.

The ownership distribution of the Shares by category of shareholders of record of the Company as at 31st March, 2015 was as follows:

Category	Number of Unit Shareholders	Number of Shares held	Percentage of total Units of Shares in issue
		(Units of one thousand Shares)	(Per cent.)
Japanese financial institutions.	58	42,033	28.29%
Japanese financial instruments business operators	28	1,245	0.84
Other Japanese corporations(1)	665	77,611	52.23
Foreign corporations and others (including foreign individuals)	151	9,376	6.31
Japanese individuals and others(2)	2,814	18,335	12.34
Total	3,716	148,600	100.00%

Notes:

(1) Includes 1 unit of Shares registered in the name of Japan Securities Depository Center, Inc.

(2) Includes 2,904 units of Shares of treasury stock held by the Company.

As at 31st March, 2015, the current Directors and Audit & Supervisory Board Members of the Company together held 56 thousand Shares, or 0.04 per cent. of the total issued Shares.

As at the date of this Offering Circular, the Company is not aware of any person who, directly or indirectly, jointly or severally, exercises or could exercise control over the Company.

Stock Acquisition Rights

The Group currently has no outstanding stock acquisition rights.

Change in the Number of Shares of One Unit

As at the date of this Offering Circular, the Articles of Incorporation specify that one unit of Shares is comprised of 1,000 Shares. However, the Company has announced on 1st September, 2015, that effective as of 1st October, 2015, it will amend its Articles of Incorporation to change the number of Shares that comprise one unit of Shares from 1,000 Shares to 100 Shares. To the extent that such change in the number of Shares comprising one unit of Shares takes effect on such date, no notice is expected to be given to Bondholders by the Company in relation thereto.

Relationship with Hokuetsu Kishu Paper

The Company recognises Hokuetsu Kishu Paper as a related party for the purposes of its financial reporting. Hokuetsu Kishu Paper is a manufacturer of printing paper, communication paper, wrapping paper, specialty paper and white paperboard listed on the First Section of the Tokyo Stock Exchange, and acquired the Company's Shares in 2012 following the discovery in September 2011 of the fact that Mr. Mototaka Ikawa, the then-Chairman and Representative Director of the Company, had illegally borrowed ¥10,680 million of funds from the Company's consolidated subsidiaries (see "Business — Unlawful Activities by the Company's Former Chairman and Representative Director Discovered in 2011"). At the time of the initial acquisition, Hokuetsu Kishu Paper acquired 19.6 per cent. of issued Shares (comprising 22.29 per cent. of the voting rights of the Company) as well as shares of the Company's subsidiaries and affiliates from Mr. Takao Ikawa and Family (as defined in "Business — The Company's Relationship with the Founding Family — The Families of Mr. Takao Ikawa"), and the Company purchased the shares of such subsidiaries and affiliates from Hokuetsu Kishu Paper with a view to strengthening the internal controls that apply to such subsidiaries and affiliates.

As at 31st March 2015, Hokuetsu Kishu Paper, together with its subsidiary, held 21.96 per cent. of the Company's voting rights, and the Group held 2.05 per cent. of Hokuetsu Kishu Paper's issued shares. Neither the Company nor Hokuetsu Kishu Paper has any financial interest in the other such as by way of loans or guarantees. One of the Company's independent Directors is the chief compliance officer of Hokuetsu Kishu Paper. The Company and Hokuetsu Kishu Paper have entered into a comprehensive technological alliance agreement. The Group maintains an independence in respect of its business activities and management decisions and business transactions between the Company and Hokuetsu Kishu Paper are on arm's-length bases.

In February 2013, following media coverage of a document entitled "Accusation" drafted by an employee of the Company, Hokuetsu Kishu Paper publicly requested an investigation into the Group's corporate governance and compliance systems. In response thereto, the Company set up the External Review Committee, comprised of third parties; following an investigation, such External Review Committee confirmed in May 2013 that it found no major problems with the Company's corporate governance and compliance systems. Further, from around April 2015, Hokuetsu Kishu Paper has requested a meeting with the Company's President, but the Company, considering the above issues and the background to the meeting request, has refused to meet such request on the basis that there was no reasonable cause to conduct such a meeting. Hokuetsu Kishu Paper has publicly expressed its critical views regarding such actions of the Company, and at the Company's annual general meeting held in June 2015, voted against the appointment of the Company's president as a Director of the Company.

BUSINESS

Overview

The Group is one of the leading paper manufacturers in Japan, being one of the only three full-range paper manufacturers in Japan involved in the manufacture and sale of a wide variety of paper and paperboard, as well as certain home and personal care products. The Group engages in all of the processes of paper-making, from the manufacturing of pulp to the manufacturing and sale of the final paper products. Leveraging on its strengths as an integrated and full-range paper manufacturer with the ability to offer a wide variety of products, the Group is able to adapt flexibly to changing market needs to compete effectively primarily in the Japanese paper market.

The Group's operations are divided into the following two segments for financial reporting purposes: (i) paper and paperboard, and (ii) home and personal care. In addition, businesses which do not qualify as a reportable operating segment are categorised as "Other".

As at 30th June, 2015, the Company had 29 consolidated subsidiaries. The Company's consolidated net sales, operating income, ordinary income and net income for the fiscal year ended 31st March, 2015 amounted to ¥450,239 million, ¥21,796 million, ¥21,784 million and ¥13,209 million, respectively. The Company's consolidated net sales, operating income, ordinary income and net income for the three-month period ended 30th June, 2015 amounted to ¥112,957 million, ¥4,610 million, ¥4,413 million and ¥1,896 million, respectively.

The Company is incorporated under Japanese law with limited liability as a joint stock corporation (*kabushiki kaisha*). The registered head office of the Company is at 2-60, Mishima Kamiya-cho, Shikokuchuo-shi, Ehime 799-0492, Japan, and its Tokyo Headquarters is currently located at Yaesu Mitsui Building, 7-2, Yaesu 2-chome, Chuo-ku, Tokyo 104-8468, Japan (the Tokyo Headquarters is due to move to Iidabashi Grand Bloom, 10-2, Fujimi 2-chome, Chiyoda-ku, Tokyo 102-0071, Japan on or around 24th September, 2015). The Shares are listed on the First Section of the Tokyo Stock Exchange.

History

The Company's roots can be traced back to 1928, when the Company's founder, Isekichi Ikawa, commenced his papermaking materials business in Mishima, Ehime prefecture in 1928. The Company was incorporated in May 1943, when 14 paper manufacturers merged pursuant to a governmental notification relating to the streamlining of the paper manufacturing companies, with the object of manufacturing and selling *washi* (traditional Japanese paper). In 1945, the manufacturing facilities of the Group were aggregated in the Mishima Mill, and from 1947, the Group started turning its business from the manufacturing of *washi* to the manufacturing of *yoshi* (paper made in the western way). In 1950, the Group entered into the market for newsprint, and in 1953, it commenced the manufacture and sale of woodfree paper. In 1954, the Group commenced manufacturing of unbleached kraft pulp, and commenced manufacturing of bleached kraft pulp in the following year. The Group commenced marketing of kraft linerboard made by all virgin pulp, and high-quality newsprint paper with kraft pulp, both in 1957.

In 1975, the Company established a sales headquarters in its head office and set up its own sales network as an integrated and full-range paper manufacturer. The Group entered the PPC paper market in 1978, and in 1979, entered the home and personal care market, with the commencement of the manufacture and sale of *Elleair* facial tissue as well as toilet tissue. The Group's offering continued to expand in the 1980s and 1990s, entering the coated paper and baby disposable diaper market in 1980, the carbonless paper market in 1981, the feminine hygiene market in 1982, and the adhesive paper market in 1992 (through the establishment of a subsidiary). Having become 100 per cent. self-sufficient in terms of its electricity needs in the Mishima Mill by 1988 through the installation of turbines, the Group commenced sales of electricity to other private sector companies in 2004. In 2002, the Group rebranded its baby disposable diapers to the current *GOO.N* brand, and in 2007, the Group acquired the business relating to the manufacture and sale of *Attento* adult disposable diapers from The Proctor & Gamble Company.

The Company entered into a basic technological alliance agreement with Hokuetsu Paper Mills, Ltd. (the predecessor of Hokuetsu Kishu Paper) in 2006, followed by a comprehensive technological alliance agreement in 2012, at which time Hokuetsu Kishu Paper became a major shareholder of the Company through the purchase of Shares from the Company's founding family (see "Information Concerning the Shares — Relationship with Hokuetsu Kishu Paper"). In terms of international expansion, the Company established its first overseas manufacturing and sales subsidiary (involved in the manufacturing and sales of disposable baby diapers) in Thailand in 2011, followed by a sales subsidiary in South Korea in 2012, a manufacturing and sales subsidiary in China in 2012, and a sales subsidiary in 2013 and a manufacturing subsidiary in 2014, both in Indonesia.

The Shares were first listed on the Osaka Securities Exchange in 1956 followed by a listing on the Tokyo Stock Exchange in 1957, but following the commencement of corporate reorganisation procedures in 1962, the Shares were delisted from both exchanges in 1963. The Company relisted its Shares on the Second Section of the Osaka Securities Exchange in 1982 (and moved to its First Section in 1984) and gained a listing on the First Section of the Tokyo Stock Exchange in 1988, but the Shares were delisted from the Osaka Securities Exchange in 2007.

The Company's Relationship with the Founding Family

The Families of Mr. Takao Ikawa

After the Company's founder, Mr. Isekichi Ikawa, passed away, his eldest son, Mr. Takao Ikawa, had taken the various positions of President and Representative Director, Chairman and Adviser of the Company, with strong influence over the management of the Company. Further, his sons, Mr. Mototaka Ikawa and Mr. Takahiro Ikawa, had also taken positions as Directors of the Company.

Even after Mr. Mototaka Ikawa took office as the Company's President and Representative Director in 2007 (then as Chairman in 2011), Mr. Takao Ikawa, in addition to Mr. Mototaka Ikawa and Mr. Takahiro Ikawa, continued to exert a strong influence on the management of the Company.

However, following the discovery in September 2011 of the fact that Mr. Mototaka Ikawa had illegally borrowed ¥10,680 million of funds from the Company's consolidated subsidiaries, Mr. Mototaka Ikawa resigned from his post as Chairman and Representative Director of the Company in September 2011, and in October 2011, the Company dismissed Mr. Takao Ikawa from his post as Adviser of the Company. Further, Mr. Takahiro Ikawa, the brother of Mr. Mototaka Ikawa, later also resigned from his post as Director of the Company. Later, in August 2012, Mr. Takao Ikawa, his wife and his two sons (together, "Mr. Takao Ikawa and Family"), and companies controlled by them, transferred the Shares held by them (with the exception of certain Shares held by affiliated companies) to Hokuetsu Kishu Paper, at the same time as transferring shares of the Company's then subsidiaries and affiliates held by them to the Company via Hokuetsu Kishu Paper. At this time, the Company entered into an advisory agreement with Mr. Takao Ikawa, who had taken office as an Adviser of the Company, but the Company believes that there was no particular influence on the Company exerted by Mr. Takao Ikawa and Family following the entry into such advisory agreement.

On the other hand, around July to September 2013, Mr. Takao Ikawa started to buy the Shares from the market, and as at 31st March, 2015, he held 4 million Shares (comprising 2.68 per cent. of the issued Shares of the Company), and together with the 93 thousand Shares (comprising 0.06 per cent. of issued Shares of the Company) which the Company believes are held by a company related to Mr. Takao Ikawa and Family, he held 2.74 per cent. of the issued Shares of the Company as at such date.

In October 2014, the Company terminated the advisory agreement with Mr. Takao Ikawa by reason of, among others, his default. Mr. Takao Ikawa has brought legal proceedings against Mr. Masayoshi Sako (the Company's current President and Representative Director) in his personal capacity in relation to his dismissal from his appointment as an Adviser of the Company in October 2011, and has also brought legal proceedings against the Company and Mr. Masayoshi Sako in his personal capacity in relation to the termination of the above-mentioned advisory agreement. (See "Business — Legal Proceedings" for further details.)

The Sons of Mr. Isekichi Ikawa Other Than Mr. Takao Ikawa and Their Respective Families

The sons of Mr. Isekichi Ikawa and their respective families other than Mr. Takao Ikawa and Family (the "Other Ikawa Families"), and related companies of the Other Ikawa Families (including Kami Shoji Co., Ltd. and Hyogo Paper Manufacturing Co., Ltd., which are principal shareholders of the Company), hold a certain amount of the Shares of the Company. Certain members of the Other Ikawa Families have acted as Directors or other officers of the Company, and two of them currently act as the Company's Advisers. Further, two members of the Other Ikawa Families act as directors of the Company's subsidiaries, and three members of the Other Ikawa Families act as advisers of the Company's subsidiaries. The Company believes that there are no disputes between the Company and the Other Ikawa Families and that the relationship with them is amicable.

Related Party Transactions

In the fiscal year ended 31st March, 2015, the Group had entered into certain related party transactions with Mr. Takao Ikawa and Family, the Other Ikawa Families and their related companies, and the details of those of such transactions which must be disclosed pursuant to Japanese GAAP are set out in Note 24 to the audited consolidated financial statements of the Company for the fiscal years ended 31st March, 2013, 2014 and 2015 included in this Offering Circular. The Group continues to have some transactions with Shikoku Paper Sales Corporation, which is a related company of the Other Ikawa Families. Further, the Group has a significant amount of transactions with Tokyo Pulp & Paper Corporation ("Tokyo Pulp & Paper"), 21.50 per cent. of whose issued shares are directly or indirectly held by the Company, and the majority of whose issued shares are held by a member (the "Relevant Member") of the Other Ikawa Families. The net sales of Tokyo Pulp & Paper for the fiscal year ended 31st March, 2015 amounted to 14.04 per cent. of the Group's consolidated net sales. As the Relevant Member has agreed to exercise his vote in respect of Tokyo Pulp & Paper in the same manner as the Company's intentions, Tokyo Pulp & Paper is treated as a consolidated subsidiary of the Company, and as such, details of the transactions between Tokyo Pulp & Paper and the Group are not disclosed in Note 24 to the audited consolidated financial statements of the Company for the fiscal years ended 31st March, 2013, 2014 and 2015 included in this Offering Circular.

Unlawful Activities by the Company's Former Chairman and Representative Director Discovered in 2011

Following the discovery in September 2011 of the fact that Mr. Mototaka Ikawa, the then-Chairman and Representative Director of the Company, had illegally borrowed ¥10,680 million of funds from the Company's consolidated subsidiaries, the Company set up a special investigation committee (the "Special Investigation Committee") to ascertain the facts involved in the incident, and to consider appropriate recurrence prevention measures, among others. Following the findings of the Special Investigation Committee, and as a result of investigating the effects of the incident on the Group's financial results, certain other inappropriate accounting practices, in addition to the fact that a part of such illegal borrowings were not reflected in the Group's accounts, were discovered. As a result, in December 2011, the Group published amendments to its historical financial statements, and in relation to the fiscal years ended 31st March, 2009, 2010 and 2011, filed amendments to the relevant internal control reports to the effect that the internal controls regarding the Group's financial reporting as at the end of each such fiscal year were not effective.

When the Group later added certain other items for confirmation within its consolidated accounts closing procedures, applied such procedures to past accounts closings and performed a comprehensive verification, the Group found some further inappropriate accounting practices, and following such findings, the Company published further amendments to its historical financial statements in May 2012, and filed an internal control report in respect of the fiscal year ended 31st March, 2012 to the effect that the internal controls regarding the Group's financial reporting as at 31st March, 2012 were not effective.

In response to these issues, the Company has changed its independent auditor from the fiscal year ended 31st March, 2013, and has been working to improve its internal control and compliance structures, including, among other measures, by strengthening the Company's governance over its subsidiaries through purchasing the shares of the Company's then subsidiaries and affiliates held by Mr. Takao Ikawa and Family and companies controlled by them through Hokuetsu Kishu Paper. From and including the fiscal year ended 31st March, 2013, the Company has filed internal control reports in respect of each completed fiscal year to the effect that the internal controls regarding the Group's financial reporting as at the end of each such fiscal year were effective.

In response to the above-mentioned incidents, the Tokyo Stock Exchange designated the Shares as securities under supervision, and Rating and Investment Information, Inc. ("R&I") and Japan Credit Rating Agency, Ltd. ("JCR") downgraded the Company's issuer rating and long-term issuer rating, respectively. However, the Tokyo Stock Exchange's designation was lifted in just over a month after such designation, and in 2014, R&I and JCR upgraded the Company's issuer rating to BBB– and long-term issuer rating to BBB, respectively, giving reasons such as the stabilisation of the Company's corporate governance, reduction of debt and strengthened capitalisation.

Strategy

In May 2015, the Company announced the Group's medium-term business plan covering the three fiscal years ending 31st March, 2018. Under such plan, the Group intends to implement the following principal strategies:

Structural shifting of the paper business

While the Japanese paper market in general has been seeing a decline in demand over the last few years, the Group's volume of sales of paper products have been steady, with some products such as wrapping paper and uncoated printing paper seeing an increase in the Group's sales volume despite a decline in the industry sales volume. With a view to maintaining the profitability of the paper business, the Group intends to implement a further shift in the types of products offered. In this regard, the Group intends to shift its focus further to higher value-added products, strengthen sales efforts for uncoated paper, and further expand sales of wrapping paper. At the same time, the Group intends to shift the manufacturing of further product types to the Group's Mishima Mill in Ehime prefecture, which is a cost-competitive manufacturing site and to keep a full-capacity operation of the paper machines at such mill, with a view to further expanding the Group's sales and profit.

Strengthening the containerboard and corrugated container business

According to the statistics of the Japan Corrugated Case Association, demand in Japan for corrugated containers over the last few years have been relatively flat or showing a slight increase, but the Group's sales volume of containerboard and corrugated containers have been steadily increasing over those years. Even though the Group expects demand to be relatively flat, the Group intends to work to increase sales volume of these products over the period covered by the medium-term business plan. In particular, the Group intends to keep the full-capacity operation of, and sales of products made by, the new manufacturing machine at the Iwaki Mill which commenced operation in October 2014. The Group is manufacturing both linerboard and corrugating medium at its two separate mills in eastern and western Japan, thus providing "one-stop" regional services. Further, the Group intends to expand its corrugated container business through enhancing the integrated strengths of Daio Package, through measures such as:

- strengthening the manufacturing and sales structure leveraging on the network of its 13 factories;
- implementation of a strategic capital expenditures of approximately ¥12 billion for the purposes of further improving the quality of, and adding value to, corrugated containers. The Group intends to renew and/or build new machines such as carton formers, platen presses and printers, at its various factories; and
- pursue the synergies of aggregating the 13 factories in the one company.

Further growth and acceleration of the home and personal care business

Due to Japan's declining birth-rate and ageing population which has been continuing for an extended period of time, the percentage of babies and menstruating women in the domestic population has been continuing to decrease, and this has generally had the effect of reducing the number of customers for baby diapers and feminine hygiene products in Japan, although the ageing of the population has had some positive effects on the demand for the Group's adult diaper and light incontinence products. As a declining population in Japan generally tends to have a negative effect on demand for home and personal care products, the Group has been focusing on expanding sales of higher value-added products in Japan as well as tapping demand in overseas countries and regions where population is increasing and there is a greater scope for penetration of home and personal care products.

In the domestic home and personal care business, the Group intends to improve its competitive position in the areas where it expects demand to increase, namely adult diapers (produced under the *Attento* brand by the Group), baby diapers (produced under the *GOO.N* brand by the Group) and feminine hygiene products (produced under the *elis* brand by the Group). Further, with the aim of reaching the top-class competitive position across all categories of tissue paper products such as facial tissue, toilet tissue and kitchen towel, the Group intends to further strengthen competitiveness and expand sales of higher value-added products. The Group also intends to further strengthen the production of wet tissue and wipe. In order to achieve this, the Group intends to implement capital expenditures at the new Iwaki Factory of Elleair Product, the Company's consolidated subsidiary, at the Group's Kani Mill in Gifu prefecture, and Elleair Product's Mishima Factory in Ehime prefecture, with a view to further strengthening or increasing production.

In the overseas home and personal care business, the Group intends to expand earnings through measures such as the following:

- increase exports from Japan to places such as Russia, South Korea and Taiwan, and offer more categories of products in respect of such exports;
- increase manufacturing and warehousing capacity in Thailand, at the same time as increasing the categories of products manufactured, so that the Thai factory can act as a "hub factory" within the ASEAN region;

- increase manufacturing and warehousing capacity for baby products in China and expand the sales area in China;
- build a new factory in Indonesia for the production of baby diapers (expected to become a joint venture operation with Mitsubishi Corporation in November 2015), aiming to commence production around December 2015 and to commence distribution around January 2016; and
- make efforts to enter new markets such as the Middle East.

Pursuing efficiency and diversity in human resource utilisation

The Group intends to enliven its organisation through a promotion of diversity, promoting opportunities for women to take active part, and to encourage women to reach more management roles. The Company was given a fiscal year 2014 "*Nadeshiko*" brand designation by the Ministry of Economy, Trade and Industry and the Tokyo Stock Exchange; the *Nadeshiko* brand consists of enterprises which encourage women to play active roles in the workplace, including the development of environments in which such women are able to further their careers, and which are selected from those listed on the First Sections of the Tokyo Stock Exchange on an industry basis.

The Group also intends to promote the shortening of total number of hours worked per year, including through encouraging the taking of paid leave, as well as to promote globalisation measures for the purpose of expanding the Group's overseas business, including seconding employees overseas and to employ more non-Japanese personnel. Further, the Group intends to develop employees' capabilities further towards strengthening leadership, and to promote "a healthy management" (the Group's slogan under which the Group aims to enhance healthiness of its employees and their families through measures such as good workplace environment, improving lifestyle habit and promoting mental healthcare) with a view to improving productivity. The Group is also working towards further efficiency and sophistication of headquarters operations, as well as seeking opportunities for business process outsourcing.

Further improving the Group's financial strength

With a view to further improving the Group's financial strength, the Group intends to take measures such as the following:

- decreasing interest-bearing debt, through ensuring positive free cash flow in each fiscal period and decreasing working capital, in addition to selling off idle assets. At the same time, the Group intends to continue to promote its cash management system to aim for further efficiency of funds available within the Group;
- suppressing fundraising costs and achieve stable fundraising. The Group intends to further diversify the method of raising funds directly from the market through utilising methods such as issues of bonds, convertible bonds and commercial paper;
- selection and concentration of investment activities and active investment in growth areas and achieving investment effects at an early stage; and
- strengthening the management oversight over its overseas businesses.

Forming the basis for new business

With a view to forming the basis for new businesses, the Group intends to:

- work towards the development of new materials which may form the basis for potential new businesses, such as the development of cellulose nano-fibre which is currently being sampled;
- leverage on the manufacturing skills gained through years of experience in the paper manufacturing industry to provide operational and maintenance advice to both domestic and overseas manufacturing companies;
- increase the sales of electricity to electric utilities utilising the FIT system in Japan, with a view to selling the electricity generated during the process of recovering and recycling black liquor (by-product from the kraft pulp process when digesting pulpwood into paper pulp) at its Mishima Mill in Ehime prefecture; and
- consider new uses of the planted trees owned by Forestal Anchile Ltda., the Company's consolidated subsidiary in Chile, including sales of logs to local forestry and pulp businesses, and the sales of woodchips to other Asian paper businesses.

Operations

General

The Group's operations are divided into the following two segments for financial reporting purposes: (i) paper and paperboard, and (ii) home and personal care. In addition, businesses which do not qualify as a reportable segment are categorised as "Other".

The table below shows the Group's net sales to external customers by each segment for the periods indicated:

	Fiscal year ended 31st March,					
	2013		2014		2015	
	Net Sales to External Customers	Percentage of Consolidated Net Sales	Net Sales to External Customers	Percentage of Consolidated Net Sales	Net Sales to External Customers	Percentage of Consolidated Net Sales
	(Millions of yen)	(Per cent.)	(Millions of yen)	(Per cent.)	(Millions of yen)	(Per cent.)
Paper and paperboard	¥277,970	68.2%	¥283,512	65.9%	¥290,035	64.4%
Home and personal care	120,662	29.6	134,902	31.4	146,836	32.6
Other	8,730	2.1	11,642	2.7	13,369	3.0
Total consolidated net sales ..	¥407,362	100.0%	¥430,055	100.0%	¥450,239	100.0%

	3-month period ended 30th June,			
	2014		2015	
	Net Sales to External Customers	Percentage of Consolidated Net Sales	Net Sales to External Customers	Percentage of Consolidated Net Sales
	(Millions of yen)	(Per cent.)	(Millions of yen)	(Per cent.)
Paper and paperboard	¥ 68,966	66.8%	¥ 72,771	64.4%
Home and personal care	31,409	30.4	37,144	32.9
Other	2,878	2.8	3,042	2.7
Total consolidated net sales	¥103,253	100.0%	¥112,957	100.0%

The table below shows the Group's segment income for the periods indicated:

	Fiscal year ended 31st March,		
	2013	2014	2015
	(Millions of yen)		
Paper and paperboard	¥10,926	¥11,372	¥13,988
Home and personal care	5,100	9,687	11,154
Other	883	1,090	2,131
Elimination of intersegment transactions	226	36	451
Corporate expenses[(1)]	(5,558)	(6,137)	(5,928)
Total operating income	¥11,577	¥16,049	¥21,796

Note:
(1) General and administrative expenses which are not attributable to any reportable segment.

	3-month period ended 30th June,	
	2014[1]	2015[1]
	(Millions of yen)	
Paper and paperboard	¥2,506	¥2,112
Home and personal care	1,540	2,109
Other	343	333
Elimination of intersegment transactions	18	55
Total operating income	¥4,407	¥4,610

Note:

(1) From the three-month period ended 30th June, 2015, the Group, with the objective of monitoring the operating performance of each business segment more appropriately, decided to allocate corporate expenses to each relevant reportable segment. The segment income for the three-month period ended 30th June, 2014 has been presented by reflecting such change in calculating segment income. See "Presentation of Financial and Other Information — Presentation of Segment Income by Reportable Segment".

Paper and Paperboard Business

The Group is engaged in the manufacture and sale of paper and paperboard products such as newsprint, publication paper, printing paper, communication paper, wrapping paper, containerboard and functional materials, as well as various types of pulp which form the raw material for paper and paperboard products as well as certain home and personal care products. Customers for these products include newspaper publishers, printing companies, paper processing companies and corrugated container manufacturers. In the fiscal year ended 31st March, 2015, net sales to outside customers from this segment comprised 64.4 per cent. of total consolidated net sales of the Group.

Newsprint

With the promotion of high-speed colour rotary printing presses and requirements for weight reduction, the needs of the newsprint market is changing, requiring higher qualities in terms of both paper strength and printing finish. The Group, which leverages on its cutting-edge technologies to manufacture around 550,000 tonnes of newsprint per year, was the first in the Japanese industry to achieve 100 per cent. usage of recovered paper as the raw material for environmentally-friendly newsprint, and works to provide customers with both quality and quantity in a stable manner.

The Group's newsprint products include 43g/m^2 extra light newsprint, the domestic norm, as well as light newsprint and ultra light newsprint. The Group also produces higher-white newsprint suitable for colour printing, for use in free papers and flyers, among others.

The Group's newsprint is manufactured at the Group's Mishima Mill in Ehime prefecture, and at the mill of Iwaki Daio Paper.

Publication paper

Publication paper is required to meet the differing needs of magazine and book publishers, where the paper used in a photograph-based magazine are quite different in terms of quality from a text-based magazine. The Group provides a wide variety of printing paper, differing by raw materials, coating and other qualities, depending on the requirements of the customers, whether they be publishers of weekly magazines, monthly magazines or textbooks. The Group is also actively developing environmentally-friendly printing paper which utilises a high proportion of recovered paper as raw material, as well as bulky printing paper (which gives books and magazines a higher volume), according to the needs of customers.

The Group's publication paper is principally manufactured at the Group's Mishima Mill in Ehime prefecture.

Printing Paper

The Group offers the *Utrillo* series of high-grade coated printing paper, the *Gloss-Matte* series of matte coated printing paper with good printing results, the *Excel* series of light weight coated paper ("*bitokoshi*" in Japanese), and the *Green 70* series of coated paper which uses pulp made from recovered paper as over 70 per cent. of its raw material, taking into account the wide range of customers' needs as regards quality of printing, ease of printing and processing and environmental friendliness.

The Group's printing paper is principally manufactured at the Group's Mishima Mill in Ehime prefecture.

Communication paper

The Group's communication paper offering includes the PPC paper, carbonless paper and tack paper (adhesive paper) principally for labelling use.

The Group's *Kini Naru Kami* (which means "paper that becomes a tree" in Japanese) PPC paper, of which the raw material comprises 70 per cent. pulp made from recovered paper and 30 per cent. thinned wood credit, making the series a product in conformity with the Act on Promotion of Procurement of Eco-Friendly Goods and Services by the State and Other Entities of Japan (so-called Act on Promoting Green Purchasing), is sold principally to government and municipal offices. The Group's PPC paper products are manufactured at the Group's Mishima Mill in Ehime prefecture.

The Group also offers its carbonless paper (a type of paper designed to transfer information written on the front onto sheets beneath, with a view to streamlining administration and shortening the time taken on manual tasks). The Group's carbonless paper has high-concentration and vivid colour-developing properties based on its own technologies, as well as having other beneficial properties such as quick colour development even in low temperatures and higher stiffness of paper to enable ease of printing. The Group's carbonless paper products are manufactured at the Group's Kani Mill in Gifu prefecture.

The Group's tack paper offering includes coated adhesive paper used in food, cosmetic and toiletries labelling, as well as labels adapted for use in chilled foods which maintain adhesiveness even in cold temperatures, and re-peeling labels for use in PET bottles and other recycling products. The Group's tack paper products are manufactured at the factory of the Company's subsidiary Elleair Texel Corporation located in Kani-shi, Gifu prefecture.

Wrapping Paper

The Group is an integrated and full-range wrapping paper manufacturer, manufacturing a wide range of wrapping paper including heavy-duty sacks (for holding cement, feed and other similar heavy materials), light wrapping (such as shopping bags), semi-bleached kraft products (such as envelopes), bleached kraft products (such as shopping bags and envelopes), coloured kraft products (such as envelopes) and ribbed and coated products. The Group's wrapping paper products are manufactured at the Group's Mishima Mill in Ehime prefecture and Kani Mill in Gifu prefecture.

Containerboard (paperboard for corrugated containers)

The Group's containerboard uses pulp made from recovered paper for 95 per cent. of its raw materials, and include exterior liners such as kraft linerboard, test linerboard, white-top linerboard and coloured linerboard.

The Company was the first company in Japan to manufacture kraft linerboard in 1957, and revolutionalised the packaging market, accelerating the move from use of wooden boxes to corrugated containers made of containerboard. In recent years, the use of corrugated containers has been increasing particularly with the increased popularisation of Internet shopping. Exterior liners are manufactured at the Group's Mishima Mill in Ehime prefecture, as well as by the Company's subsidiaries Iwaki Daio Paper, Taisei Paper Corporation and Harima Paper Tech. Corporation.

The Group's corrugating medium is used in the fluted section of corrugated containers, designed to provide strength and cushioning effects. Corrugating medium is manufactured at the Group's Mishima Mill in Ehime prefecture, as well as at Iwaki Daio Paper's mill in Fukushima prefecture.

Functional Materials

The Group offers a variety of functional materials, which have been specially treated to meet a variety of functions. The Group's functional materials include blacked package paper, one-side glazed paper for use in food packaging (including grease-proof paper) and industrial use (including metal interleaving paper and paper for building material), chemical fibre paper with water resistance for use in products such as teabags, and optical clear adhesives and protection film used for touch panels and displays, among others.

The Group's functional materials are manufactured at the Group's Kani Mill in Gifu prefecture, and by the Company's subsidiary Dainichi Paper Corporation, Marubishi Paper Tec Corporation and Elleair Texel Corporation.

Home and Personal Care Business

The Group is engaged in the manufacture and sale of household paper products such as facial tissue, toilet tissue, kitchen towels, wet tissue and wipe, baby and adult disposable diapers, light incontinence products and feminine hygiene products, marketed under brands such as *Elleair*, *GOO.N*, *Attento, Natura* and *elis*. Customers for these products are general consumers, as well as nursing homes, hospitals, hotels and restaurants. In the fiscal year ended 31st March, 2015, net sales to outside customers from this segment comprised 32.6 per cent. of total consolidated net sales of the Group.

Facial Tissue and Toilet Tissue

The *Elleair* brand of facial tissue is one of the best selling brands of facial tissue in Japan. The offering of *Elleair* facial tissue products include *Elleair + Water* facial tissue with infused moisturisers especially suitable for facial use and for blowing noses, *Elleair Luxurious Moisturising* series of facial tissue with infused collagen extracts as well as moisturising ingredients, especially suitable for delicate skin users and during the hay fever season or bouts of cold when users are frequently blowing noses. The Group also offers *Elleair* brand 100 per cent. pulp toilet tissue. The *Elleair* brand paper products are manufactured by the Company's subsidiary Ohmiya Paper Corporation, Akabira Paper Corporation, Taisei Paper Corporation and Elleair Product as well as at the Group's Kani Mill in Gifu prefecture.

Kitchen Towels

The Group offers a range of fast-absorbing kitchen towels made of 100 per cent. pulp, making them stronger and less likely to rip even when wet. The kitchen towels are offered in rolls, sheets and boxes, and are sold under the *Elleair Super Absorb* brand.

Wet Tissue and Wipe

The Group offers a series of alcoholic and non-alcoholic wet tissue under the *Elleair* brand, manufactured by the Kitsuregawa Factory of the Company's subsidiary Elleair Product. The Group offers alcoholic wet tissue and wipe for sterilising bacteria and removing viruses, as well as non-alcoholic wet tissue using natural ingredients.

The Group also offers toilet cleaning wet wipe under the *Michigaeru* brand, and is expecting to launch a new toilet cleaning wipe product under a new brand, "*KireKira!*", on or around 21st September, 2015.

Baby Disposable Diapers

The Group offers a range of baby disposable diapers under the brand name *GOO.N*. The *GOO.N* brand baby diapers include tape-type diapers, pants-type diapers for baby boys and baby girls, and disposable swimming pants for baby boys and baby girls. *GOO.N* products are manufactured by Elleair Product in Japan, as well as by the Company's overseas subsidiaries Elleair International (Thailand) Co., Ltd in Thailand and Elleair International China (Nantong) Co., Ltd. in China. The Group is also building a factory in Indonesia for the manufacture of *GOO.N* brand baby disposable diapers.

The Group also exports ultra premium-type *GOO.N* baby diapers to certain overseas countries such as China and Russia, offering highly value-added products to consumers in those countries.

Adult Disposable Diapers

Addressing the needs of the ageing society, the Group offers adult incontinence disposable diapers in Japan under the *Attento* brand. The Group offers tape-type powerful absorption *Attento* diapers for the bedbound and for sleep, as well as comfortable pants-type *Attento* diapers for active older men and women. The *Attento* brand products are manufactured at the Kitsuregawa Factory, the Fuji Kitayama Factory and the Sangawa Factory of the Company's subsidiary Elleair Product.

Light Incontinence Products

The ageing of the society in Japan, as well as the increased societal knowledge about light incontinence (in particular, how it is not uncommon even among people in their 30s and 40s) through dissemination of information and promotional efforts by manufacturers such as the Group, has been leading to increased popularisation of the use of light incontinence products in Japan. The Group offers a range of light incontinence products under its *Natura* brand, from very thin light incontinence pantyliners to more absorbent napkins and pads, each designed to be gentle to the skin while providing strong deodorising properties. The *Natura* brand products are manufactured at the Kitsuregawa Factory, the Fuji Factory and the Fuji Kitayama Factory of the Company's subsidiary Elleair Product.

Feminine Hygiene Products

The Group manufactures and sells the *elis* brand of sanitary napkins in Japan, offering a wide variety of choices to meet the diversified needs of women, with napkins varying in use, thickness, material and length. The *elis Megami* series of sanitary napkins offer comfortable wear and soft texture, while the *elis Asamade Chou Anshin* series of sanitary napkins provide powerful absorption to offer a sense of security on days of heavy flow. The Group's *elis* products are manufactured at the Kitsuregawa Factory, the Fuji Factory and the Fuji Kitayama Factory of the Company's subsidiary Elleair Product.

Other Businesses

The Company's subsidiary in Chile, Forestal Anchile Ltda., is involved in the forestry and woodchip business, with its forests covering approximately 59 thousand hectares distributed in La Araucanía, Los Lagos and Los Ríos regions. Currently Forestal Anchile Ltda. has plantations of approximately 30,000 hectares, mainly eucalyptus nitens, with the main business based on export of woodchip to Japan and other Asian countries, and also provides saw logs and pulp logs to the Chilean domestic market. Oregon Chip Terminal Inc., a subsidiary of the Company based in Oregon, United States, is also involved in the woodchip business.

The Group, utilising its power generation capacities at its manufacturing sites, is involved in the sales of electricity to other private sector companies, and is planning the sale of electricity to electric utilities utilising the FIT system in Japan in the future, with a view to selling the electricity generated during the process of recovering and recycling black liquor (by-product from the kraft pulp process when digesting pulpwood into paper pulp) at its Mishima Mill in Ehime prefecture.

The Group is also involved in machinery, logistics and golf club businesses.

Competition

In the paper and paperboard business, the Group comprises one of the only three full-range paper manufacturers in Japan, and competes with the other two Japanese full-range paper manufacturers, Oji Holdings Corporation and Nippon Paper Industries Co., Ltd., which have the leading market shares in the Japanese paper industry (and which in aggregate hold a majority market share in some products), as well as other specialised paper manufacturers and exporters into Japan. The Group's products compete with similar products produced by other competitor paper manufacturers, as well as, in some instances, with companies in other industries and against substitutes for paper products. Many factors influence the Group's competitive position, including price, cost, product quality and services.

In the home and personal care business, the markets for the principal products offered by the Group are highly competitive and characterised by the frequent introduction of new products, often accompanied by major advertising and promotional programmes. The Group has a leading share of the Japanese market in relation to certain of its home and personal care products, such as the *Elleair* brand facial tissue, toilet tissue and kitchen towels. In the home and personal care business, the Group competes primarily on the basis of product quality, price, product differentiation and brand name recognition supported by advertising and promotion. The Group's primary competitors in Japan are other Japanese and international home and personal care product manufacturers such as Unicharm Corporation, Kao Corporation and The Procter & Gamble group of companies ("P&G"). The Group is also subject to intensive competition in foreign markets in respect of its overseas baby diaper business from the local manufacturers, Japanese companies such as Unicharm Corporation and Kao Corporation and larger international manufacturers that are global players such as P&G and Kimberly Clark Corporation, while in the overseas adult diaper business, the market for which is increasing (in particular in Asia), the competition is growing from the same competitors.

Research and Development

The Group is focusing on the development and enhancement of products that respond to the changing needs of users and is pursuing the commercialisation of high value-added products, the development of new fields of business such as composite products and research and development relating to chemicals and new materials.

The following table shows the amount of the Group's expenditures on R&D activities and its percentage of consolidated net sales, broken down by reportable segment:

	Fiscal year ended 31st March,					
	2013		2014		2015	
	R&D Expenses	Percentage of Consolidated Net Sales	R&D Expenses	Percentage of Consolidated Net Sales	R&D Expenses	Percentage of Consolidated Net Sales
	(Millions of yen)	(Per cent.)	(Millions of yen)	(Per cent.)	(Millions of yen)	(Per cent.)
Paper and paperboard business	¥1,100	0.3%	¥1,402	0.3%	¥1,361	0.3%
Home and personal care business ..	955	0.2	1,316	0.3	1,217	0.3
Other	94	0.0	118	0.0	106	0.0
Total consolidated R&D expenses ..	¥2,150	0.5%	¥2,837	0.7%	¥2,683	0.6%

The R&D activities undertaken by the Group in the fiscal year ended 31st March, 2015 can be summarised as follows:

Paper and Paperboard Business

Following the establishment of "New Business Group" and the consolidation of the technology development departments of four consolidated subsidiaries of the Company into the Company's technology development department in April 2013, the Group has been rolling cost reduction and quality improvement out to the whole paper and paperboard production business as well as enhancing basic technology research and new products development. Further, the Group is promoting the development of new materials and new functional materials such as nano-cellulose in view of the outlook for the pulp and paper market.

Basic technology research

In basic technology research, the Group has reviewed the entire paper and paperboard business in terms of optimisation of digestion method of kraft pulp corresponding to the quality or nature of woodchips, improvement of deinking technology in respect of pulp made from recovered paper, and coating technology and paper-making technology to promote quality improvement and cost reduction.

New products development

For paper products, the Group has expanded the variety of its products including "Bright IJ White", a technical paper that can be used with industrial high-speed ink jet printers and "Bright Coat Matte", a coated paper used for compression bonding. For functional materials, the Group has expanded the variety of its products including greaseproof paper and heat seal paper, the demand for which is expected to increase for wrapping at locations such as convenience stores, and packaging paper suitable for paper containers and paper bags. Further, the Group is also developing industrial products such as metal interleaving paper and glass interleaving paper, sublimation ink jet print transfer paper and special-purpose heat-resistant paper.

New business

In terms of new business, the Group has worked to promote the R&D in respect of nano-cellulose and is providing outside companies with the samples of products made from chemical pulp and mechanical pulp for the commercialisation. Further, the Group has also promoted technology development that could lead to performance improvement and application development by coordinating with colleges and external research institutions.

Home and Personal Care Business

The Group has been working on product development of the following items as the major focal points of its R&D efforts:

- Developing and launching products that would satisfy customers' needs in the steadily-expanding market of light incontinence products and disposable diapers for adults;

- Product development to meet the needs of and practical usage in the Chinese and South-East Asian disposable baby diaper market, which is experiencing favourable sales, at the same time as strengthening the product development capabilities in the domestic baby diaper market;
- Leveraging on the Group's brand power and technological capability to shift from commoditised to higher value-added products with a view to enhancing profitability in respect of other products such as facial tissue and toilet tissue, feminine hygiene products and wet wipes.

Adult incontinence products

For the light incontinence products, the Group has developed the *Natura Sarahada Pad* that absorb urine six times faster than existing lines and made it available to people who have various symptoms of light incontinence by adding two new product line-ups including the *Natura Sarahada Sarari*.

For adult disposable diapers, the Group has improved anti-leakage functions with the *Attento Sarasara Pants*, which are slip but yet absorb urine three times faster than existing lines.

Baby disposable diapers

In respect of *GOO.N* baby diapers, the Group has developed a tape-type diaper with a patterned indented surface and a pants-type diaper with an improved absorbing structure, and improved the prevention of back-flow of urine for by 40 per cent. more than existing lines in an attempt to achieve further skin-friendliness.

Others

In the kitchen towel market, the Group has developed the *Dekiruco!* product which has a wet-strength two times greater than existing lines and launched the product with the bright print to make cooking more fun.

Sales and Marketing

The Group's basic philosophy is to "sell the products it has manufactured through its own hands". The Group's sales force is dispersed throughout Japan, and carries out sales activities that are directly connected to the relevant market and users, gathering market developments through daily sales activities and working to closely reflect the customers' needs in the Group's products.

Marketing of the Group's paper and paperboard products is conducted on a business-to-business basis by the Group to its end users together with, where appropriate, the Group's agents and wholesales. Most of the products are sold and delivered through the Group's agents or major wholesalers although some of the products, such as newsprint, are sold and delivered directly to end-users. Within the paper and paperboard business, general advertising is of little effect in promoting the Group's business; instead, the Group takes actions such as inviting agents, wholesalers and end-users to its mills to study the Group's manufacturing process, as well as taking care to fully explain the characteristics of the Group's products.

In the home and personal care business, the Group leverages on the well-known *Elleair* brand to market its products in a number of ways. The Group's marketing efforts include gathering and analysing customers' needs and requests for product improvements and development, thorough explanations of the Group's products to agents, wholesalers, retailers and stores, sales promotional activities at stores, seminars for store assistants and nursing home employees (especially with regard to adult incontinence products), providing samples to end-users, hospitals and nursing homes and organising campaigns and events, as well as television, newspaper, magazine and Internet advertising. Overseas, the Group conducts sales and marketing activities in respect of its baby and adult diaper business principally through the Company's foreign subsidiaries. The Group, based on the above-mentioned philosophy, generally makes sales promotion efforts directly to retailers such as chain or volume stores and other stores, including pharmacies, supermarkets, general merchandise stores, convenience stores, discount outlets, speciality stores and e-commerce stores, and price and volume discounts are typically negotiated with such retailers although actual distribution usually takes place through agents and wholesalers.

The Group's advertising and sales promotion expenditures for the fiscal year ended 31st March, 2015 amounted to ¥6,872 million, representing 1.5 per cent. of consolidated net sales.

Distribution

The Group's paper and paperboard products as well as its home and personal care products are distributed from the Group's own warehouses located at its mills or factories as well as its own and other parties' warehouses located around Japan to its customers' locations, utilising the logistics functions of Daio Logistics Co., Ltd., as well as third-party transporters.

Overseas distribution consist primarily of products manufactured by the Company or its foreign subsidiaries, which are then distributed by local distributors. The Group also exports its products to overseas customers through agents in Japan. In recent years, the Group has faced increasing issues with regard to parallel importers in certain countries such as China and Russia, importing the Group's products from Japan through distribution channels not authorised by the Group for sale of such products as such products undermine the Group's legitimate distribution channels, quality control and pricing models. The Group has been making attempts to stop such parallel imports, including taking proceedings against such parallel importers in China and Russia.

Manufacturing

The Group manufactures substantially all of the products it sells. As at 30th June, 2015, the Group had 38 manufacturing plants in Japan and two operating manufacturing plants overseas.

Mishima Mill

The Group's principal manufacturing facility is the Group's Mishima Mill located in Ehime prefecture in Japan, which has a pulp manufacturing capability of 2.3 million tonnes of pulp per year and 2.3 million tonnes of paper and paperboard per year. The mill is equipped with 17 boilers producing steam at 3,530 tonnes per hour, and 14 turbines, with the capacity to generate 500,000kW. The mill is involved in the manufacture of, among others, newsprint, publication paper, printing paper, communication paper, wrapping paper and paperboard. The Mishima Mill obtained ISO9001 certification in July 2000 and its ISO14001 certification in August 2000.

Kani Mill

The Group's other principal manufacturing facility is the Group's Kani Mill located in Gifu prefecture in Japan, which has a pulp manufacturing capability of 420 thousand tonnes of pulp per year and 340 thousand tonnes of paper per year. The mill is equipped with four boilers producing steam at 427 tonnes per hour, and five turbines, with the capacity to generate 70,000kW. The mill is involved in the manufacture of, among others, facial tissue, toilet tissue, printing paper, communication paper, wrapping paper and functional materials. The Kani Mill obtained ISO14001 certification in April 2001 and its ISO9001 certification in August 2002.

Others

The following table sets out certain information with respect to the other manufacturing bases of the Group as at 30th June, 2015:

Name of manufacturing company/plant name	Location	Description
Paper and Paperboard Business		
Iwaki Daio Paper Corporation	Fukushima, Japan	Manufacture of newsprint and containerboard
Dainichi Paper Corporation	Shizuoka, Japan	Manufacture of specialty paper and publication paper
Otsu Paper Board Co., Ltd.	Shiga, Japan	Manufacture of containerboard and other converting papers
Harima Paper Tech. Corporation	Hyogo, Japan	Manufacture of coloured linerboard, specialty linerboard and other converting papers
Taisei Paper Corporation	Okayama, Japan	Manufacture of white-top linerboard, facial tissue and toilet tissue
Marubishi Paper Tec. Corporation	Ehime, Japan	Manufacture of functional specialty paper

Name of manufacturing company/plant name	Location	Description
Elleair Texel Corporation	Gifu, Japan	Manufacture of adhesive products
Daio Package Corporation	13 factories around Japan	Manufacture of corrugated containers and sheets
Daio Printing Corporation	Four factories in Saitama, Japan and one factory in Osaka, Japan	Commercial/publication printing, manufacturing of business forms, stickers and self adhesive label
Elleair Printing Co., Ltd.	Ehime, Japan	Printing on linerboard and manufacture of functional linerboard
Home and Personal Care Business		
Ohmiya Paper Corporation, Fujinomiya Mill (and three other mills)	Shizuoka, Japan	Manufacture of facial tissue, toilet tissue, kitchen towels, and towel paper
Akabira Paper Corporation	Hokkaido, Japan	Manufacture of facial tissue, toilet tissue and kitchen towels
Elleair Product Co., Ltd., Mishima Factory (located in the Company's Mishima Mill)	Ehime, Japan	Manufacture of base paper for facial tissue, toilet tissue and kitchen towels
		Manufacture of wet tissue and wipe
Elleair Product Co., Ltd., Sangawa Factory	Ehime, Japan	Manufacture of baby and adult disposable diapers
Elleair Product Co., Ltd., Kitsuregawa Factory	Tochigi, Japan	Manufacture of adult disposable diapers, feminine hygiene products, light incontinence products and wet tissue and wipe
Elleair Product Co., Ltd., Fuji Factory	Shizuoka, Japan	Manufacture of feminine hygiene products and light incontinence products
Elleair Product Co., Ltd., Fuji Kitayama Factory	Shizuoka, Japan	Manufacture of adult disposable diapers, feminine hygiene products and light incontinence products
Elleair International (Thailand) Co., Ltd.	Rayong, Thailand	Manufacture of baby disposable diapers
Elleair International China (Nantong) Co., Ltd.	Nantong, China	Manufacture of baby disposable diapers

The Group is also building a manufacturing facility for the production of feminine hygiene products and baby disposable diapers in Iwaki, Fukushima prefecture, as well as a new baby diaper manufacturing facility in Indonesia.

See "— Property, Plant and Equipment" for further details regarding the Group's manufacturing facilities.

Property, Plant and Equipment

The following table sets out certain information relating to the principal property, plant and equipment of the Company by property as at 31st March, 2015:

				Book Value (Millions of yen)[1]					
Name of Property	Location	Business Divisions to which the Property Relates	Description of the Property (Principal Use)	Buildings and Structures	Machinery and Equipment	Land[2]	Lease Assets	Others[3]	Total
Mishima Mill	Ehime, Japan	Paper and paperboard	Manufacturing facilities	¥20,832	¥70,295	¥23,820 (1,258) [17]	¥ 35	¥244	¥115,226
Kani Mill	Gifu, Japan	Paper and paperboard	Manufacturing facilities	6,242	9,926	2,584 (237) [62]	7	43	18,802
Kani Mill Kawabe Manufacturing Division	Gifu, Japan	Paper and paperboard	Manufacturing facilities	1,008	813	1,258 (65) [2]	—	6	3,085

Notes:

(1) Does not include consumption tax amounts.

(2) Figures in round parentheses are land areas owned in thousands of square metres and figures in square brackets are land leased in thousands of square metres.

(3) "Others" in the book value means tools, furniture and fixtures.

The following table sets out certain information relating to the principal property, plant and equipment of the Company's subsidiaries by property as at 31st March, 2015:

				Book Value (Millions of yen)[1]					
Name of Subsidiary	Location	Business Divisions to which the Property Relates	Description of the Property (Principal Use)	Buildings and Structures	Machinery and Equipment	Land[2]	Lease Assets	Others[3]	Total
Iwaki Daio Paper Corporation.	Fukushima, Japan	Paper and paperboard	Manufacturing facilities	¥6,627	¥16,053	¥4,103 (204)	—	¥ 53	¥26,836
Elleair Product Co., Ltd.	Ehime, Japan	Home and personal care	Manufacturing facilities	4,939	11,907	3,848 (146) [20]	2	221	20,916

Notes:

(1) Does not include consumption tax amounts.

(2) Figures in round parentheses are land areas owned in thousands of square metres and figures in square brackets are land leased in thousands of square metres.

(3) "Others" in the book value means tools, furniture and fixtures.

(4) The domestic subsidiaries mentioned above also hold assets leased to others in connection with operating leases, and the annual rent is ¥235 million.

Raw Materials and Fuel

The Group purchases raw materials and fuel such as woodchips, coal and heavy oil principally from overseas suppliers, usually in foreign currencies, while the Group purchases recovered paper, biomass fuel and chemicals principally from domestic suppliers. The principal suppliers with which the Group transacts with regard to its purchases of raw materials and fuel from overseas are trading houses. The Group obtains woodchips from the Company's subsidiaries in Chile and United States, as well as from other suppliers in places such as Vietnam and Australia, and has been investigating other potential cost-effective places for supply. While most other raw materials, as well as woodchips not secured by the Company's subsidiaries, are purchased from outside sources, the Group is not dependent on any single supplier in any of its operations for any material essential to its business or not otherwise commercially available to the Group. The Group has been able to obtain an adequate supply of raw materials, and no shortage of such materials or interruption of such supply is currently anticipated.

Intellectual Property

The Group's policy is to promptly apply for, and maintain, patents and other intellectual property rights in Japan and overseas. The Group has also entered into licence agreements with Japanese and foreign entities.

The Group believes that its confidential information and other intellectual property are valuable assets, and that it should safeguard those assets. The Group also works not to improperly acquire confidential information and to respect the intellectual property of others.

The Group considers its registered trademarks (such as *Elleair*, *GOO.N*, *Attento*, *Natura* and *elis*) to be very important to its business. In terms of other intellectual property, although the Group considers the various patents, registered design rights, copyrights and licences important to the Group, the Group does not believe the Group's business, as a whole, is materially dependent on any particular patent, group of related patents, any registered design right, any copyright or any licence.

Environment

The Group strives to operate its business in an environmentally friendly manner, through measures such as recycling of industrial wastes at the same time as recycling recovered paper, forestry, chemicals and water in its pulp and paper manufacturing operations.

The Company's subsidiary in Chile, Forestal Anchile Ltda., boasts a global leading level incrementation of its forestry through leveraging on cutting-edge forestry technologies and selecting favourable tree species. Forestal Anchile Ltda. has received a certification from Forest Stewardship Council® in 2002 and a certification from the Programme for the Endorsement of Forest Certification Schemes ("PEFC") in 2008.

In terms of energy, the Group has been moving towards energy generation using renewable fuel such as biomass fuel with a view to reducing carbon dioxide emissions.

The Group is active in recycling of its industrial wastes and water. Wastes from the Group's pulp and paper manufacturing activities are recycled for use as raw materials for cement, construction material and land development. The Group has industry-leading technologies in waste water treatment, treating waste water from its operations in four separate processes before disposal with a view to reducing the environmental burden on the neighbouring seas. The Group also has an above-industry average recovered paper utilisation rate in its paper and paperboard manufacturing operations.

Regulation

The Group's business activities are subject to various governmental regulations in the countries in which it operates. These regulations are related to business and investment approvals, consumer protection including product liabilities and safety measures, export regulations, tariffs, antitrust, anti-dumping, corrupt business practices, labour relations, health and safety, intellectual property, transportation, taxation, exchange controls and environmental and recycling requirements as well as other matters.

For example, in relation to the Group's manufacturing and selling of certain products such as alcoholic wet tissue for sterilising, feminine hygiene products and baby wipes in Japan, the Group is required to obtain approval from the government under the Act on Securing Quality, Efficacy, and Safety of Pharmaceuticals and Medical Devices, etc. of Japan (Act No. 145 of 1960, as amended) (the "Pharmaceutical and Medical Device Act") since such products are regulated as "quasi-drugs" or "cosmetics" (as defined in the Pharmaceutical and Medical Device Act). The Pharmaceutical and Medical Device Act also requires the Group to appoint a chief expert to appropriately manage the quality and safety of these products pursuant to the ordinances of the Ministry of Health, Labour and Welfare.

In June 2014, the Company's consolidated subsidiary Daio Package received a cease and desist order and a fine from the JFTC with regard to certain transactions relating to corrugated sheets and corrugated containers. Although there were some differences of opinion between the Group and the JFTC with regard to the matter, with a view to an early recovery of trust and a long-term improvement of corporate value of the Group, and taking into account advice from external experts, the Company and Daio Package agreed to receive the order and not to make an appeal to the JFTC. The Group is taking the alleged incident seriously and is working to strengthen the Group-side compliance structure further.

Insurance

The Group maintains a range of insurance policies which cover certain liability risks, including general liabilities, workers' compensation, property liabilities and product liabilities. The insurance policies do not cover earthquake damage. The Company believes that its insurance coverage is comparable to other companies with similar operations.

Legal Proceedings

Following the discovery in September 2011 of the fact that Mr. Mototaka Ikawa, the then-Chairman and Representative Director of the Company, had illegally borrowed ¥10,680 million of funds from the Company's consolidated subsidiaries, the Company dismissed Mr. Takao Ikawa (who is the father of Mr. Mototaka Ikawa, and who had previously acted as the President and Representative Director of the Company) from his appointment as an Adviser of the Company. Although Mr. Takao Ikawa was later re-appointed as an Adviser of the Company, in October 2014, the Company terminated the advisory agreement with Mr. Takao Ikawa by reason of, among others, his default. Mr. Takao Ikawa has brought legal proceedings against Mr. Masayoshi Sako (the Company's current President and Representative Director) in his personal capacity in relation to his dismissal from his appointment as an Adviser of the Company in October 2011, and has also brought legal proceedings against the Company and Mr. Masayoshi Sako in his personal capacity in relation to the termination of the above-mentioned advisory agreement. Further, in connection with the disputes between the Company and Mr. Takao Ikawa, certain ex-employees of the Company and certain ex-directors of the Company's subsidiaries have brought proceedings for damages against the Company. The Company believes there is no reasonable cause for any of these legal proceedings, and further believes that even if any of these proceedings were to be decided adversely against the Company, the effect of such proceedings on the Company's business is insignificant.

Other than as set out above, Group is not involved in any litigation or other legal proceedings which, if determined against the Group, would individually or in the aggregate have a materially adverse effect on the Group or its operations.

MANAGEMENT AND EMPLOYEES

The Company's Board of Directors carries the ultimate responsibility for the management and administration of the affairs of the Company. The Company's Articles of Incorporation provide for not more than 20 Directors. Directors are elected at a general meeting of shareholders. The normal term of office of any Director expires at the close of the ordinary general meeting of shareholders held with respect to the last fiscal year ending within two years after such Director's appointment, although they may serve any number of consecutive terms. The Board of Directors elects from among its members one or more Representative Directors of the Company, who have the authority individually to represent the Company. The Board of Directors may also elect from among its members a Chairman of the Board and a President, and one or more Vice Presidents, Senior Managing Directors and Managing Directors. A recent amendment to the Companies Act (the "Companies Act Amendment"), which became effective as of 1st May, 2015, includes certain changes related to corporate governance structure of Japanese listed companies. Following the effectiveness of the Companies Act Amendment, if a listed Japanese company with capital stock or total liabilities exceeding thresholds prescribed under the Companies Act has an audit & supervisory board but no outside directors at the end of any fiscal year, it will be required to present an explanation as to why the appointment of outside directors is inappropriate at its ordinary general meeting of shareholders held with respect to such fiscal year. Currently, the Company has three outside Directors.

The Company's Articles of Incorporation also provide for not more than five Audit & Supervisory Board Members, who are elected at a general meeting of shareholders. The normal term of office of any Audit & Supervisory Board Member expires at the close of the ordinary general meeting of shareholders held with respect to the last fiscal year ending within four years after such Audit & Supervisory Board Member's appointment, although they may serve any number of consecutive terms. Under Japanese laws, the Audit & Supervisory Board Members are not required to be certified public accountants, and may not at the same time be directors or employees of the Company or any of its subsidiaries. In addition, at least half of the Audit & Supervisory Board Members are required to satisfy the requirements for an outside Audit & Supervisory Board Member under the Companies Act. Audit & Supervisory Board Members have the duties of supervising the administration by the Directors of the Company's affairs and of examining the financial statements and business reports of the Company to be submitted by the Representative Director to the general meetings of shareholders and of reporting their opinions thereon to the shareholders. They are required to attend meetings of the Board of Directors in general and to express their opinions when or if necessary at such meetings but they are not entitled to vote. In addition, they are required to elect from among themselves at least one full-time Audit & Supervisory Board Member. Audit & Supervisory Board Members also have a statutory duty to provide their report to the Audit & Supervisory Board, which must prepare and submit its auditing report to the relevant Director. The Audit & Supervisory Board will also determine matters relating to the duties of the Audit & Supervisory Board Member, such as audit policy and methods of investigation of the affairs and assets of the Company.

In addition, under the Securities Listing Regulations of the Tokyo Stock Exchange, listed companies in Japan, including the Company, are required to have at least one independent director or audit & supervisory board member. Such independent director or audit & supervisory board member is required under the regulations to be an outside Director (as defined under the Companies Act) or outside Audit & Supervisory Board Member who is unlikely to have conflicts of interest with the shareholders of the relevant company. The Securities Listing Regulations also require listed Japanese companies to make efforts to have at least one director who meets the requirements for an independent officer (the "Independent Director"). Further, a recent amendment to the listing rules, which became effective as of 1st June, 2015, includes certain changes related to corporate governance structure of listed Japanese companies. Following the effectiveness of the amendment, if a listed Japanese company does not have two or more Independent Directors, the listed company is required to publicly explain why it does not have two or more Independent Directors. Currently, the Company has two Independent Directors.

In addition to Audit & Supervisory Board Members, the Company must appoint by a resolution of a general meeting of shareholders independent certified public accountants as an independent auditor, who have the statutory duties of examining the financial statements to be submitted by the Representative Director to the general meetings of shareholders and reporting thereon to the relevant Audit & Supervisory Board Members and the relevant Directors. Currently, the Company's independent auditor is PricewaterhouseCoopers Aarata.

The Company's Directors and Audit & Supervisory Board Members as of the date of this Offering Circular are set out in the table below:

Name	Title
Masayoshi Sako	President and Representative Director
Toshihiro Adachi	Senior Managing Director
Kenichi Mori	Senior Managing Director
Kunihiro Okazaki	Senior Managing Director
Hideki Ohara	Managing Director
Akihiro Tsuzuki	Managing Director
Takashi Ono	Director
Hiroshi Yamasaki	Director
Yasunori Shimizu	Director
Yoshiyuki Shinohara	Director
Toshiki Yamagami	Director
Nobuhiko Yoshida(1)	Director
Yukimasa Yoneda(1)	Director
Yasuyuki Kondo(1)	Director
Tetsuya Uno	Full-time Audit & Supervisory Board Member
Susumu Ishimaru	Full-time Audit & Supervisory Board Member
Toshinori Ochi(2)	Outside Audit & Supervisory Board Member
Yoichiro Yamakawa(2)	Outside Audit & Supervisory Board Member
Yoshinobu Shimizu(2)	Outside Audit & Supervisory Board Member

Notes:
(1) Outside Directors under the Companies Act.
(2) Outside Audit & Supervisory Board Members under the Companies Act.

All the Directors of the Company, other than the outside Directors, are engaged in the business of the Company on a full-time basis.

The current business address for the Company's Directors and Audit & Supervisory Board Members (other than certain of the Directors) is Yaesu Mitsui Building, 7-2, Yaesu 2-chome, Chuo-ku, Tokyo 104-8468, Japan (such business address is expected to change on or around 24th September, 2015 to the address of the Company's new Tokyo Headquarters at Iidabashi Grand Bloom, 10-2, Fujimi 2-chome, Chiyoda-ku, Tokyo 102-0071, Japan).

The aggregate remuneration of the Directors (excluding the outside Directors), the Audit & Supervisory Board Members (excluding outside Audit & Supervisory Board Members) and outside Directors and outside Audit & Supervisory Board Members (together) paid by the Company or accrued during the fiscal year ended 31st March, 2015 was ¥182 million, ¥24 million and ¥54 million, respectively.

As at 31st March, 2015, no Director of the Company had an interest in any transaction which was unusual in its nature or conditions or significant to the Group's business which was effected by the Company. As at 31st March, 2015, there were no outstanding loans granted by any company of the Group to the Company's Directors nor any guarantees provided by any company of the Group for the benefit of any of the Directors of the Company.

The Articles of Incorporation of the Company provide that the Company may enter into liability limitation contracts with outside Directors and outside Audit & Supervisory Board Members in order to limit the maximum amount of such damages to the total amount stipulated in Article 425, Paragraph 1, Item 1 and Item 2 of the Companies Act or ¥10 million, whichever is higher.

Corporate Governance

The Board of Directors, from the viewpoint of strengthening corporate governance and adapting to rapidly changing managerial environments, strives for (i) soundness of management and ensuring transparency, (ii) swiftness of business execution, and (iii) supervision by Directors of business execution.

In addition to its Board of Directors, the Company has established and operates (i) a Management Committee consisting of the President and executive management, and (ii) Departmental Committees consisting of the relevant Director(s) and departmental heads, with a view to making swift decisions relating to organisational improvements and structural reform. Further, by establishing and operating a Compliance Committee (and sub-committees thereunder), the Company works to promote the maintenance of risk management and compliance structures, seeks to recognise managerial risks, and promote and implement improvement measures where necessary. The Audit & Supervisory Board liaises closely with the internal audit team and independent auditor in order to investigate internal control systems through business and accounting audits, and strives to further strengthen its supervisory function as regards the management.

Employees

The Consolidated Group had 8,174 full-time employees as at 31st March, 2015. The following table sets out the number of the employees of the Consolidated Group according to product lines as at the dates indicated:

	As at 31st March		
	2013	2014	2015
Paper and paperboard	4,564	4,304	4,304
Home and personal care	2,175	2,323	2,688
Other	368	885	950
Corporate	241	247	232
Total	7,348	7,759	8,174

Labour Relations

The Group considers its labour relations to be good. Certain of the employees of the Company and its domestic and overseas subsidiaries (other than certain overseas subsidiaries) are members of their respective labour unions.

Stock Option Plans

The Company has no stock option plans in place.

SUBSIDIARIES

As at 30th June, 2015, the Company had 29 consolidated subsidiaries.

The following table sets out certain information as at 31st March, 2015 with respect to the Company's principal subsidiaries:

Subsidiaries	Location	Principal business	Percentage of voting rights held by the Company(2)	Paid-in capital
			(Per cent.)	
Consolidated Subsidiaries				
Iwaki Daio Paper Corporation	Fukushima, Japan	Manufacturing of newsprint and containerboard	100.0	¥2,500 million
Otsu Paper Board Co., Ltd.	Shiga, Japan	Manufacturing and sales of containerboard	77.0 (4.6)	¥30 million
Taisei Paper Corporation	Okayama, Japan	Manufacturing of containerboard, facial tissue and toilet tissue	100.0	¥30 million
Dainichi Paper Corporation	Shizuoka, Japan	Manufacturing of specialty paper and publication paper	100.0 (21.4)	¥70 million
Marubishi Paper Tec Corporation	Ehime, Japan	Development, manufacturing and processing of specialty paper	100.0 (8.3)	¥30 million
Harima Paper Tech Corporation	Hyogo, Japan	Manufacturing of coloured linerboard and special feature linerboard	100.0 (100.0)	¥60 million
Ohmiya Paper Corporation	Shizuoka, Japan	Manufacturing of facial tissue, toilet tissue, kitchen towels and towel paper	100.0 (29.8)	¥30 million
Elleair Product Co., Ltd.	Ehime, Japan	Development and manufacturing of disposable diapers, feminine hygiene products, light incontinence products, wet tissue and wipe, and facial tissue, toilet tissue and kitchen towel	100.0 (3.6)	¥30 million
Akabira Paper Corporation	Hokkaido, Japan	Manufacturing of facial tissue, toilet tissue and kitchen towel	100.0 (28.0)	¥30 million

Subsidiaries	Location	Principal business	Percentage of voting rights held by the Company(2)	Paid-in capital
			(Per cent.)	
Oumi Daio Paper Package Co., Ltd.(3)	Shiga, Japan	Manufacturing and sales of corrugated containers and sheets	100.0	¥30 million
Daio Package Corporation	Tokyo, Japan	Manufacturing and sales of corrugated containers and sheets	100.0	¥310 million
Tokai Daio Paper Package Co., Ltd.(3)	Aichi, Japan	Manufacturing and sales of corrugated containers and sheets	100.0 (16.0)	¥30 million
Hanshin Daio Paper Package Co., Ltd.(3)	Hyogo, Japan	Manufacturing and sales of corrugated containers and sheets	100.0	¥80 million
Daio Printing Corporation	Tokyo, Japan	Planning, production, manufacturing, processing and sales of printed products	100.0	¥100 million
Daio Mill Support Co., Ltd.	Ehime, Japan	Manufacturing, processing and sales of paper/ paperboard products and packaging material	100.0 (42.7)	¥150 million
Elleair Texel Corporation	Gifu, Japan	Manufacturing of tack paper and adhesive products	100.0	¥30 million
Elleair Printing Co., Ltd.	Ehime, Japan	Printing on linerboard and manufacturing of functional linerboard	100.0 (60.0)	¥30 million
Tokyo Pulp & Paper Corporation	Tokyo, Japan	Purchase and sales of paper, paperboard, pulp and recovered paper	21.5 (9.5) [70.0]	¥50 million
Tokyo Pulp & Paper International Co., Ltd.	Tokyo, Japan	Import and sales of raw material, export and domestic sales of paper products	100.0 (20.0)	¥30 million
Daio Pulp & Paper Co., Ltd.	Tokyo, Japan	Sales of printing, wrapping, communication paper and containerboard	100.0 (12.3)	¥98 million

Subsidiaries	Location	Principal business	Percentage of voting rights held by the Company[(2)]	Paid-in capital
			(Per cent.)	
Elleair Business Support Co., Ltd.	Tokyo, Japan	Sales of household paper products	100.0 (30.0)	¥17 million
Daio Engineering Co., Ltd.	Ehime, Japan	Sales of environmental installation and inspection instrument and manufacturing, repair and sales of industrial power machinery	100.0 (10.6)	¥60 million
Daio Logistics Co., Ltd.	Ehime, Japan	Transport business, collection and transport for industrial waste, forwarding industry and warehouse industry	100.0 (33.6)	¥30 million
Elleair Paper Chemical Corporation	Ehime, Japan	Manufacturing and sales of chemical	100.0	¥30 million
Elleair Packaging Print Corporation	Gifu, Japan	Manufacturing and sales of raw material	100.0	¥25 million
Elleair Resorts Golf Club Co., Ltd.	Ehime, Japan	Management of golf course	100.0	¥25 million
Forestal Anchile Ltda.	Osorno, Chile	Forestation and production and sales of woodchip	90.2	U.S.$101,798 thousand
Oregon Chip Terminal INC.	Oregon, U.S.A	Production and sales of woodchip	100.0	U.S.$1
Elleair International (Thailand) Co., Ltd.	Rayong, Thailand	Manufacturing and sales of disposable diapers	86.3 (33.1)	THB945 million
Elleair International Korea Co., Ltd.	Seoul, South Korea	Import/export and sales of household paper products including disposable diapers, feminine hygiene products and facial tissue	100.0	KRW400 million
PT. Elleair International Trading Indonesia	Jakarta, Indonesia	Import and sales of disposable diapers	100.0	IDR383 billion
Elleair International China (Nantong) Co., Ltd.	Nantong, China	Manufacturing and sales of disposable diapers and import and sales of household paper products including disposable diapers and facial tissue	100.0	U.S.$30,000 thousand

Notes:

(1) In the above table, THB stands for Thai baht, KRW stands for South Korean won, and IDR stands for Indonesian Rupiah.

(2) Figures in parentheses denote indirect holding (included in the figures without parentheses or square brackets) and figures in square brackets denote holdings by closely-related party or parties (excluded from the figures without square brackets).

(3) These companies have now been merged into Daio Package Corporation and liquidated.

DESCRIPTION OF THE SHARES AND CERTAIN REGULATIONS

Set out below is certain information concerning the Shares, including brief summaries of certain provisions of the Company's Articles of Incorporation and Share Handling Regulations and of the Companies Act relating to joint stock corporations (*kabushiki kaisha*), and certain related legislation, all as currently in effect at the date of this Offering Circular.

General

All issued Shares are fully-paid and non-assessable, and are in registered form.

On 5th January, 2009, a new central clearing system for shares of Japanese listed companies was established pursuant to the Book-Entry Act, and the shares of all Japanese companies listed on any Japanese stock exchange, including the Shares, became subject to this new system. On the same day, all existing share certificates for such shares became null and void. At present, JASDEC is the only institution that is designated by the relevant authorities as a clearing house which is permitted to engage in the clearing operations of shares of Japanese listed companies under the Book-Entry Act. Under the new clearing system, in order for any person to hold, sell or otherwise dispose of shares of Japanese listed companies, they must have an account at an account managing institution unless such person has an account at JASDEC. "Account managing institutions" are financial instruments traders (being securities firms), banks, trust companies and certain other financial institutions which meet the requirements prescribed by the Book-Entry Act, and only those financial institutions that meet further stringent requirements of the Book-Entry Act can open accounts directly at JASDEC. For the purpose of the description under this section, the Company assumes that the relevant person has no account at JASDEC.

Under the Book-Entry Act, any transfer of shares is effected through book entry, and the title to the shares passes to the transferee at the time when the transferred number of shares is recorded in the transferee's account at an account managing institution. The holder of an account at an account managing institution is presumed to be the legal owner of the shares held in such account.

Under the Companies Act, in order to assert shareholders' rights against the Company, a transferee must have his or her name and address registered in the Company's register of shareholders, except in limited circumstances. Under the new clearing system, such registration is generally made upon an all shareholders notice from JASDEC. For this purpose, shareholders are required to file their names and addresses with the Company's transfer agent through the account managing institution and JASDEC. See "— Record Date" below for more information.

Non-resident shareholders are required to appoint a standing proxy in Japan or provide a mailing address in Japan. Each such shareholder must give notice of his or her standing proxy or a mailing address to the relevant account managing institution. Such notice will be forwarded to the Company's transfer agent through JASDEC. Japanese securities firms and commercial banks customarily act as standing proxy and provide related services for standard fees.

The transfer agent of the Company is Mitsubishi UFJ Trust and Banking Corporation.

Distributions of Surplus

General

Under the Companies Act, distributions of cash or other assets by joint stock corporations to their shareholders, so called "dividends", are referred to as "distributions of surplus". The Company may make distributions of surplus to its shareholders any number of times per fiscal year, subject to certain limitations described in "— Restriction on Distributions of Surplus".

The Companies Act requires a distribution of surplus to be authorised in principle by a resolution of a general meeting of shareholders. However, a distribution of surplus may also be made pursuant to a resolution of the Board of Directors but only if all the requirements described in (a) to (d) below are met:

(a) the Company's Articles of Incorporation provide that the Board of Directors has the authority to decide to make distributions of surplus;

(b) the normal term of office of each Director of the Company terminates on or prior to the date of conclusion of the ordinary general meeting of shareholders relating to the last year ending within the period of one year from the election of such Director;

(c) the Company's non-consolidated annual financial statements and certain documents for the latest fiscal year present fairly its assets and profit or loss, as required by ordinances of the Ministry of Justice; and

(d) if the distributions of surplus are made in kind, shareholders are granted the right to require the Company to make such distributions in cash instead of in kind.

At present, the requirements described in (a) and (b) above are not met. Nevertheless, the Company may make distributions of surplus in cash as an interim dividend to its shareholders by a resolution of the Board of Directors once per fiscal year under the Company's Articles of Incorporation and the Companies Act.

Under the Company's Articles of Incorporation, a year-end dividend may be distributed to shareholders of record as at 31st March of each year and pursuant to a resolution of the Board of Directors, an interim dividend may be distributed to shareholders of record as at 30th September of each year. The Company is not obliged to pay any dividends in cash unclaimed for a period of three years after the date on which they first became payable.

Distributions of surplus may be made in cash or (except for distributions as an interim dividend and cases where shareholders are granted the right to require the Company to make such distributions in cash instead of in kind, upon approval of a general meeting of shareholders) in kind in proportion to the number of Shares held by each shareholder. A resolution of the Board of Directors or a general meeting of shareholders authorising a distribution of surplus must specify the kind and aggregate book value of the assets to be distributed, the manner of allocation of such assets to shareholders, and the effective date of the distribution. If a distribution of surplus is to be made in kind, the Company may, pursuant to a resolution of the Board of Directors, grant a right to its shareholders to require the Company to make such distribution in cash instead of in kind. If no such right is granted to shareholders, the relevant distribution of surplus must be approved by a special resolution of a general meeting of shareholders (see "— Voting Rights" with respect to a "special resolution").

In Japan, the ex-dividend date and the record date for dividends precede the date of determination of the amount of the dividends to be paid. The price of the Shares goes ex-dividend generally on the second business day prior to the record date.

Restriction on Distributions of Surplus

When the Company makes a distribution of surplus, it must, until the sum of its legal capital surplus and legal retained earnings reaches one-quarter of its capital stock, set aside in its legal capital surplus and/or legal retained earnings the smaller of (i) an amount equal to one-tenth of the amount of surplus so distributed or (ii) an amount equal to one-quarter of its capital stock less the sum of its legal capital surplus and legal retained earnings as at the date of such distribution in accordance with an ordinance of the Ministry of Justice.

The amount of surplus at any given time must be calculated in accordance with the following formula:

$A + B + C + D - (E + F + G)$

In the above formula:

"A" = the total amount of other capital surplus and other retained earnings, as each such amount appears on the Company's non-consolidated balance sheet as at the end of the last fiscal year;

"B" = (if the Company has disposed of its treasury stock after the end of the last fiscal year) the amount of the consideration for such treasury stock received by the Company less the book value thereof;

"C" = (if the Company has reduced its capital stock after the end of the last fiscal year) the amount of such reduction less the portion thereof that has been transferred to legal capital surplus or legal retained earnings (if any);

"D" = (if the Company has reduced its legal capital surplus or legal retained earnings after the end of the last fiscal year) the amount of such reduction less the portion thereof that has been transferred to capital stock (if any);

"E" = (if the Company has cancelled its treasury stock after the end of the last fiscal year) the book value of such treasury stock;

"F" = (if the Company has distributed surplus to its shareholders after the end of the last fiscal year) the total book value of the surplus so distributed; and

"G" = certain other amounts set forth in ordinances of the Ministry of Justice, including (if the Company has reduced surplus and increased its capital stock, legal capital surplus or legal retained earnings after the end of the last fiscal year) the amount of such reduction and (if the Company has distributed surplus to its shareholders after the end of the last fiscal year) the amount set aside in its legal capital surplus or legal retained earnings (if any) as required by ordinances of the Ministry of Justice.

The aggregate book value of surplus distributed by the Company may not exceed a prescribed distributable amount (the "Distributable Amount"), as calculated on the effective date of such distribution. The Distributable Amount shall, at any given time, be equal to the amount of surplus less the aggregate of the following:

(a) the book value of the Company's treasury stock, as at the effective date of distributions;

(b) the amount of consideration for the Company's treasury stock disposed of by it after the end of the last fiscal year; and

(c) certain other amounts set forth in ordinances of the Ministry of Justice, including (if the sum of one half of goodwill and the deferred assets exceeds the total of capital stock, legal capital surplus and legal retained earnings, each such amount being that appearing on the non-consolidated balance sheet of the Company as at the end of the last fiscal year) all or certain part of such exceeding amount as calculated in accordance with the ordinances of the Ministry of Justice.

In addition, as the Company has, at its option, become a company with respect to which consolidated balance sheets should also be taken into consideration in the calculation of the Distributable Amount (*renketsu haito kisei tekiyo kaisha*), until it decides to cease to be such company in the future, it is required to further deduct from the amount of surplus the excess amount, if any, of (x) the total amount of shareholders' equity appearing on its non-consolidated balance sheet as at the end of the last fiscal year and certain other amounts set forth by an ordinance of the Ministry of Justice over (y) the total amount of shareholders' equity and certain other amounts set forth by an ordinance of the Ministry of Justice appearing on its consolidated balance sheet as at the end of the last fiscal year.

If the Company has prepared temporary financial statements (*rinji keisan shorui*) as described below, and if such temporary financial statements have been approved by the Board of Directors or (if so required by the Companies Act) by a general meeting of shareholders, then the Distributable Amount must be adjusted to take into account the amount of profit or loss, and the amount of consideration for the Company's treasury stock disposed of by it, during the period in respect of which such temporary financial statements have been prepared. The Company may prepare non-consolidated temporary financial statements consisting of a balance sheet as at any date subsequent to the end of the last fiscal year and an income statement for the period from the first day of the current fiscal year to the date of such balance sheet. Temporary financial statements prepared by the Company must be reviewed by its Audit & Supervisory Board Members and independent auditor, and approved by the Board of Directors and a general meeting of shareholders, as required by the Companies Act and ordinances of the Ministry of Justice.

Capital and Reserves

When the Company issues new Shares, the entire amount of money or other assets paid or contributed by subscribers for such Shares is required to be accounted for as capital stock, although the Company may account for an amount not exceeding one-half of the amount of such subscription money or other assets as legal capital surplus by a resolution of the Board of Directors.

The Company may reduce its legal capital surplus or legal retained earnings generally by a resolution of a general meeting of shareholders and, if so decided by the same resolution, may account for the whole or any part of the amount of such reduction as capital stock. On the other hand, the Company may reduce its capital stock generally by a special resolution of a general meeting of shareholders and, if so decided by the same resolution, may account for the whole or any part of the amount of such reduction as legal capital surplus. In addition, the Company may reduce its surplus and increase either (i) its capital stock or (ii) legal capital surplus and/ or legal retained earnings by the same amount, in either case, by a resolution of a general meeting of shareholders.

Stock Splits

The Company may at any time split the issued Shares into a greater number of Shares by a resolution of its Board of Directors. When a stock split is to be made, so long as the only type of the Company's outstanding stock is its common stock, it may increase the number of authorised shares to the extent that the ratio of such increase in authorised shares does not exceed the ratio of such stock split by amending its Articles of Incorporation, which amendment may be made without approval by shareholders.

Before a stock split, the Company must give public notice of the stock split, specifying certain matters such as the record date therefor, not less than two weeks prior to such record date. Under the rules relating to the new clearing system, the Company must also inform JASDEC of certain matters regarding a stock split promptly after a resolution of its Board of Directors determining such stock split. On the effective date of the stock split, the numbers of Shares recorded in all accounts held by holders of Shares at account managing institutions or JASDEC will be increased in accordance with the applicable ratio.

Unit Share System

The Company's Articles of Incorporation provide that 1,000 Shares constitute one "unit". Its Board of Directors is permitted to reduce the number of Shares that will constitute a unit or abolish the unit share system entirely by amending its Articles of Incorporation without approval by shareholders, while a special resolution of a general meeting of shareholders is required to increase the number of Shares that will constitute a unit. The number of Shares constituting a unit may not exceed the lesser of 1,000 or 0.5 per cent. of the total number of issued Shares. The Company has announced on 1st September, 2015, that effective as of 1st October, 2015, it will amend its Articles of Incorporation to change the number of Shares that comprise one unit of Shares from 1,000 Shares to 100 Shares.

Under the unit share system, a shareholder has one vote for each unit of Shares held by it, except as stated in "— Voting Rights". Shares constituting less than one unit will carry no voting rights and be excluded for the purposes of calculating the quorum for voting purposes. Moreover, holders of Shares constituting less than one unit will have no other shareholder rights if the Company's Articles of Incorporation so provide, except that such holders may not be deprived of certain rights specified in the Companies Act or an ordinance of the Ministry of Justice, including the right to receive distributions of surplus.

Holders of Shares constituting less than one unit may at any time request the Company to purchase Shares held by them. Such purchase of Shares will be effected at the last trading price of the Shares on the relevant stock exchange on the day such request is made (or, if there is no trading in the Shares on the stock exchange or if the stock exchange is not open on such day, the price at which the Shares are first traded on such stock exchange thereafter). The request for such purchase may not be withdrawn without the Company's consent.

General Meetings of Shareholders

The ordinary general meeting of shareholders of the Company is held in June each year under the Company's Articles of Incorporation. In addition, the Company may hold an extraordinary general meeting of shareholders whenever necessary. Notice of a general meeting of shareholders stating, among others, the place, time and purpose thereof must be given to each shareholder having voting rights (or, in the case of a non-resident shareholder, to its standing proxy or mailing address in Japan) at least two weeks prior to the date set for the meeting. The record date for an ordinary general meeting of shareholders is 31st March of each year.

Any shareholder holding at least 300 voting rights or one per cent. of the total number of voting rights for six months or longer may propose a matter to be considered at a general meeting of shareholders by submitting a request to a Representative Director at least eight weeks prior to the date of such meeting. If the Company's Articles of Incorporation so provide, any of the minimum percentages, time periods and number of voting rights necessary for exercising the minority shareholder rights described above may be decreased or shortened.

Voting Rights

A holder of Shares constituting one or more units is, in principle, entitled to one voting right for each unit of Shares. However, in general, neither the Company nor any corporate or certain other entity, where one- quarter or more of the total voting rights are directly or indirectly held by the Company, has voting rights in respect of Shares held by the Company or such entity.

Except as otherwise provided by law or in the Company's Articles of Incorporation, a resolution can be adopted at a general meeting of shareholders by the holders of a majority of the total number of voting rights represented at the meeting. The Company's Articles of Incorporation provide that the quorum for election of its Directors and Audit & Supervisory Board Members is one-third of the total number of voting rights. The Company's shareholders are not entitled to cumulative voting in the election of its Directors. The shareholders may exercise their voting rights in writing or through proxies, provided that the proxies are, in general, also shareholders who have voting rights.

The Companies Act provides that certain important matters shall be approved by a "special resolution" of a general meeting of shareholders. Under the Company's Articles of Incorporation, the quorum for a special resolution is one-third of the total number of voting rights and the approval of at least two-thirds of the voting rights represented at the meeting is required for adopting a special resolution. Such important matters include:

(i) purchase of Shares by the Company from a specific shareholder other than the Company's subsidiary;

(ii) consolidation of Shares;

(iii) issuance or transfer of new Shares or existing Shares held by the Company as treasury stock to persons other than the shareholders at a "specially favourable" price;

(iv) issuance of stock acquisition rights (including those incorporated in bonds with stock acquisition rights) to persons other than the shareholders under "specially favourable" conditions;

(v) removal of any of the Audit & Supervisory Board Members of the Company;

(vi) exemption from a portion of liability of the Directors, Audit & Supervisory Board Members or independent auditor of the Company;

(vii) distribution of surplus in kind with respect to which shareholders are not granted the right to require the Company to make distribution in cash instead of in kind;

(viii) reduction of capital stock;

(ix) amendment to the Company's Articles of Incorporation;

(x) transfer of the whole or a substantial part of the Company's business;

(xi) transfer of the whole or a part of the Company's equity interest in any subsidiary of the Company, resulting in the Company ceasing to hold a majority of the total voting rights in such subsidiary;

(xii) taking over of the whole of the business of another company;

(xiii) merger;

(xiv) corporate split;

(xv) establishment of a parent and wholly-owned subsidiary relationship by way of a share transfer (*kabushiki-iten*) or share exchange (*kabushiki-kokan*);

(xvi) consolidation; and

(xvii) dissolution.

However, under the Companies Act, no shareholder approval, whether by an ordinary resolution or a special resolution at a general meeting of shareholders, is required for any matter described in (viii) to (xv) above, and such matter may be decided by the Board of Directors, if it satisfies certain criteria prescribed by the Companies Act.

Issuance of new Shares or transfer of existing Shares held by the Company as treasury stock or issuance of stock acquisition rights (including those incorporated in bonds with stock acquisition rights such as the Bonds) may generally be decided by the Board of Directors; however, as described above, if the Shares or the stock acquisition rights are issued or transferred to persons other than the shareholders at a "specially favourable" price or under "specially favourable" conditions, a special resolution at a general meeting of shareholders is required. If the Board of Directors resolves to issue or transfer new Shares or treasury Shares or issue stock acquisition rights to persons other than the shareholders, a shareholder may, during the period before the Shares or the stock acquisition rights are issued, request a court for an injunction or a preliminary injunction with regard to such issue or transfer on the ground that a special resolution of a general meeting of shareholders has not been obtained while the Shares or the stock acquisition rights are issued or transferred at a "specially favourable" price or under "specially favourable" conditions, or that the Shares or the stock acquisition rights are issued in a grossly unfair manner and to the detriment of such shareholder.

Liquidation Rights

In the event of the liquidation of the Company, any assets remaining after payment of all debts, liquidation expenses and taxes will be distributed among holders of Shares in proportion to the respective number of Shares that they hold.

Subscription Rights

Holders of Shares have no pre-emptive rights. Authorised but unissued Shares may be issued at such times and upon such terms as the Board of Directors determines, subject to the limitations as to the issuance of new Shares at a "specially favourable" price mentioned in "— Voting Rights". The Board of Directors may, however, determine that shareholders be given subscription rights to new Shares, in which case they must be given on uniform terms to all holders of Shares as at a record date of which not less than two weeks' prior public notice must be given. Each of the shareholders to whom such rights are given must also be given at least two weeks' prior notice of the date on which such rights expire.

Stock Acquisition Rights

The Company may issue stock acquisition rights (*shinkabu yoyakuken*). Holders of stock acquisition rights are entitled to acquire Shares from the Company, upon payment of the applicable exercise price, and subject to other terms and conditions thereof. The Company may also issue bonds with stock acquisition rights (*shinkabu yoyakuken-tsuki shasai*). The issuance of stock acquisition rights and bonds with stock acquisition rights may be authorised by the Board of Directors unless it is made under "specially favourable" conditions, as described in "— Voting Rights".

Reports to Shareholders

The Company furnishes to its shareholders notices of shareholders' meetings, annual business reports, including financial statements, and notices of resolutions adopted at the shareholders' meetings, all of which are in Japanese. The Company may, if it so chooses, send such notices and reports by an electronic method, such as e-mail, to those shareholders who have approved such method.

Pursuant to the Company's Articles of Incorporation, public notice given by the Company shall be published by an electronic method; provided, however, that such notice shall be given by publication in the *Nihon Keizai Shimbun* if the method of electronically publishing notices is not available due to any technical problems or other unavoidable circumstances.

Record Date

As mentioned above, 31st March is the record date for the payment of year-end dividends and the determination of shareholders entitled to vote at the ordinary general meeting of shareholders, and 30th September is the record date for the payment of interim dividends.

In addition, by a resolution of the Board of Directors and after giving at least two weeks' prior public notice, the Company may at any time set a record date for determining the shareholders entitled to certain rights pertaining to Shares.

Under the rules relating to the new clearing system, the Company is required to give notice of each record date to JASDEC promptly after the resolution of the Board of Directors of the Company determining such record date. JASDEC is required to promptly give the Company notice of the names and addresses of holders of Shares, the numbers of Shares held by them and other relevant information as at such record date.

Acquisition of Shares by the Company

The Company may acquire Shares (i) from a specific shareholder other than any of the Company's subsidiaries (pursuant to a special resolution of a general meeting of shareholders); (ii) from any of the Company's subsidiaries (pursuant to a resolution of the Board of Directors) or (iii) by way of purchase on any Japanese stock exchange on which the Shares are listed or by way of tender offer (in either case pursuant to an ordinary resolution of a general meeting of shareholders or a resolution of the Board of Directors). In the case of (i) above, any other shareholder may make a request to the Company that such other shareholder be included as a seller in the proposed purchase, provided that no such right will be available if the purchase price or any other consideration to be received by the relevant specific shareholder will not exceed the higher of (x) the last trading price of the Shares on the relevant stock exchange on the day immediately preceding the date on which the resolution mentioned in (i) above was adopted (or, if there is no trading in the Shares on the stock exchange or if the stock exchange is not open on such day, the price at which the Shares are first traded on such stock exchange thereafter) or (y) if the Shares are subject to a tender offer on the day immediately preceding the date on which the resolution mentioned in (i) above was adopted, the price of the Shares under the agreement with respect to such tender offer on such day.

The total amount of the purchase price of Shares may not exceed the Distributable Amount, as described in "— Distributions of Surplus — Restriction on Distributions of Surplus".

The Company may hold the Shares acquired in compliance with the provisions of the Companies Act, and may generally dispose of or cancel such Shares by a resolution of the Board of Directors.

Disposal of Shares by the Company held by Shareholders whose Location is Unknown

The Company is not required to send notices to a shareholder if delivery of notices to such shareholder fails continuously for five years or more at his or her address registered in the Company's register of shareholders or otherwise notified to the Company.

In the above case, if the relevant shareholder to whom delivery of notices has failed also fails to receive distributions of surplus on the Shares continuously for five years or more at his or her address registered in the Company's register of shareholders or otherwise notified to the Company, then the Company may in general dispose of such Shares at their then market price and hold or deposit the proceeds of such disposition on behalf of the relevant shareholder.

Reporting of Substantial Shareholders

The FIEA and its related regulations require any person who has become, beneficially and solely or jointly, a holder of more than five per cent. of the total issued shares of capital stock of a company listed on any Japanese stock exchange to file a report concerning such shareholdings with the director of the relevant Local Finance Bureau of the Ministry of Finance of Japan within five business days. With certain exceptions, a similar report must also be filed in respect of any subsequent change of 1 per cent. or more in the holding or of any change in material matters set out in reports previously filed. For this purpose, shares issuable to such person upon his or her exchange of exchangeable securities, conversion of convertible securities or exercise of warrants or stock acquisition rights (including those incorporated in bonds with stock acquisition rights) are taken into account in determining both the number of shares held by such holder and the issuer's total issued share capital. These reports are required to be filed and made publicly available through the Electronic Disclosure for Investors' Network, known as the EDINET system.

TAXATION

Japan

The following is a summary of the principal Japanese tax consequences to Bondholders and owners of Shares, acquired upon the exercise of the Stock Acquisition Rights incorporated in the Bonds or delivered upon the acquisition of the Bonds by the Company as consideration therefor, who are non-resident individuals or non-Japanese corporations, in either case having no permanent establishment in Japan ("non-resident Holders").

The statements regarding Japanese tax laws set out below are based on the laws in force as at the date hereof and are subject to changes in the applicable Japanese laws or tax treaties, conventions or agreements or in the interpretation thereof after that date.

This summary is not exhaustive of all possible tax considerations which may apply to a particular investor and potential investors are advised to satisfy themselves as to the overall tax consequences of the acquisition, ownership and disposition of the Bonds and Shares acquired upon exercise of the Stock Acquisition Rights incorporated in the Bonds or delivered upon the acquisition of the Bonds by the Company as consideration therefor, including, specifically, the tax consequences under Japanese law, the laws of the jurisdiction of which they are resident, and any tax treaty between Japan and their country of residence, by consulting their own tax advisers.

Bonds

Receipts of premium (if any) upon redemption of the Bonds are subject to Japanese income tax (including corporate income tax) but are not subject to any withholding tax. If the recipient is a resident or a corporation of a country with which Japan has an income tax treaty, Japanese tax treatment may be modified by any applicable provisions of such income tax treaty. Bondholders are advised to consult with their legal, accounting or other professional advisers as to the applicable tax treatment.

Gains derived from the sale of Bonds, outside Japan by a non-resident Holder thereof, are, in general, not subject to Japanese income tax. Exercise of the Stock Acquisition Rights is not a taxable event in general.

Japanese inheritance and gift taxes at progressive rates may be payable by an individual, who has acquired Bonds as legatee, heir or donee even if the individual is not a Japanese resident.

Shares

Generally, a non-resident Holder of Shares is subject to Japanese withholding tax on dividends paid by the Company.

The rate of Japanese withholding tax applicable to dividends paid by the Company to a non-resident Holder of Shares is 20.42 per cent. on or before 31st December, 2037 and 20 per cent. thereafter, subject to any applicable income tax treaty. However, with respect to dividends paid by the Company to any non-resident Holders of Shares, except for any individual shareholder who holds 3 per cent. or more of the total issued Shares, the said 20.42 per cent. or 20 per cent. withholding tax rate is reduced to (i) 15.315 per cent. for dividends due and payable on or before 31st December, 2037 and (ii) 15 per cent. for dividends due and payable thereafter.

Gains derived from the sale of Shares, outside Japan, by a non-resident Holder thereof, are, in general, not subject to Japanese income tax.

Japanese inheritance and gift taxes at progressive rates may be payable by an individual who has acquired Shares as legatee, heir or donee even if the individual is not a Japanese resident.

Other

The proposed financial transactions tax ("FTT")

On 14th February, 2013, the European Commission published a proposal (the "Commission's Proposal") for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "participating Member States").

The Commission's Proposal has very broad scope and could, if introduced, apply to certain dealings in the Bonds (including secondary market transactions) in certain circumstances.

Under the Commission's Proposal the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Bonds where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

Joint statements issued by participating Member States indicate an intention to implement the FTT by 1st January, 2016.

However, the FTT proposal remains subject to negotiation between the participating Member States and the scope of any such tax is uncertain. Additional EU Member States may decide to participate. Prospective holders of the Bonds are advised to seek their own professional advice in relation to the FTT.

SUBSCRIPTION AND SALE

Daiwa Capital Markets Europe Limited and Morgan Stanley & Co. International plc (the "Joint Lead Managers") have entered into a subscription agreement in respect of the Bonds with the Company dated 1st September, 2015 (the "Subscription Agreement"). Pursuant to the Subscription Agreement, the Joint Lead Managers have agreed with the Company, subject to the satisfaction of certain conditions, severally but not jointly, to purchase the aggregate principal amount of Bonds as indicated in the table below at the issue price (the "Issue Price") of 100.5 per cent. of the principal amount of the Bonds and to offer the Bonds at the Offer Price as stated on the cover page of this Offering Circular (the "Offer Price").

Joint Lead Managers	Aggregate Principal Amount of the Bonds
Daiwa Capital Markets Europe Limited	¥20,000,000,000
Morgan Stanley & Co. International plc	10,000,000,000
Total	¥30,000,000,000

No selling concession, management commission or underwriting commission shall be payable by the Company with respect to the offering of the Bonds. The difference between the Offer Price and the Issue Price (which is 2.5 percentage points) will be retained by the Joint Lead Managers.

The Company has also agreed to pay certain costs in connection with the issue of the Bonds and to reimburse the Joint Lead Managers for certain of their expenses in connection with the issue of the Bonds in accordance with the Subscription Agreement. The Joint Lead Managers are entitled to be released and discharged from their obligations under the Subscription Agreement or to terminate the Subscription Agreement in certain circumstances prior to payment being made to the Company as set out therein. The Company has agreed to indemnify the Joint Lead Managers against certain liabilities in connection with the offering of the Bonds.

Lock-up Arrangements

In connection with the issue and offering of the Bonds, the Company has agreed that it will not, and will procure that none of its directors or officers or any person acting on the direction of or with the consent of the Company will, for a period beginning on the date of the Subscription Agreement and ending on the date 180 calendar days after the Closing Date:

(a) issue, offer, pledge, lend, sell, contract to sell, sell or grant any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant (including stock acquisition rights) to purchase, make any short sale or otherwise transfer or dispose of, directly or indirectly, any Shares or any other capital stock of the Company or any securities convertible into or exercisable or exchangeable for, or that constitutes the right to receive, Shares or any other capital stock of the Company or any securities convertible into or exercisable or exchangeable for Shares;

(b) enter into a transaction (including a derivative transaction) that transfers, in whole or in part, directly or indirectly, ownership (or any economic consequences thereof) of Shares or any other capital stock of the Company, or that has an effect on the market in the Shares similar to that of a sale;

(c) deposit any Shares (or any securities convertible into or exercisable or exchangeable for Shares or any other capital stock of the Company or which carry rights to subscribe or purchase Shares or any other capital stock of the Company) in any depositary receipt facility; or

(d) publicly announce any intention to do any of the above,

without the prior written consent of the Joint Lead Managers, other than:

(i) the issue and sale by the Company of the Bonds or the issue or transfer of Shares upon exercise of the Stock Acquisition Rights;

(ii) the grant of stock options or stock acquisition rights to directors, corporate auditors, executive officers and employees of the Company and directors and employees of the Company's affiliates pursuant to its stock option plans (if any);

(iii) the issue of Shares by the Company as a result of any stock split or the pro rata allocation of Shares or stock acquisition rights to holders of Shares without any consideration; and

(iv) any other issue or sale of Shares required by the Japanese laws and regulations.

Selling Restrictions

United States

Neither the Bonds nor the Shares issuable upon exercise of the Stock Acquisition Rights offered herein have been or will be registered under the Securities Act or may be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in accordance with Regulation S under the Securities Act or pursuant to an exemption from the registration requirements of the Securities Act. Each Joint Lead Manager has represented and agreed that it has not offered, sold or delivered and will not offer or sell the Bonds or the Shares issuable upon exercise of the Stock Acquisition Rights (i) as part of the distribution at any time or (ii) otherwise, until 40 days after the later of the commencement of the offering and the Closing Date, within the United States or to, or for the account or benefit of, U.S. persons, except in accordance with Rule 903 of Regulation S, and it will have sent to each distributor, dealer or person receiving a selling concession, fee or other remuneration to whom it sells the Bonds or the Shares issuable upon exercise of the Stock Acquisition Rights during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Bonds or the Shares issuable upon exercise of the Stock Acquisition Rights, as the case may be, within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S.

In addition, until 40 days after the commencement of the offering, an offer or sale of the Bonds or the Shares issuable upon exercise of the Stock Acquisition Rights within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S.

Japan

The Bonds have not been and will not be registered under the FIEA. Accordingly, each Joint Lead Manager has represented and agreed that, in connection with the initial offering of the Bonds, it has not, directly or indirectly, offered or sold and shall not, directly or indirectly, offer or sell any Bonds in Japan or to, or for the account or benefit of, any resident of Japan or to others for reoffering or resale, directly or indirectly, in Japan or to, or for the account or benefit of, any resident of Japan, except pursuant to an exemption available from the registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws, regulations and governmental guidelines in Japan. As used in this paragraph, "resident of Japan" means any person resident in Japan, including any corporation or other entity organised under the laws of Japan.

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "Relevant Member State"), each Joint Lead Manager has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State, it has not made and will not make an offer of Bonds which are the subject of the offering contemplated by this Offering Circular to the public in that Relevant Member State other than:

(a) to any legal entity which is a qualified investor as defined in the Prospectus Directive;

(b) to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive, subject to obtaining the prior consent of the Joint Lead Managers; or

(c) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Bonds shall require the Company or any Joint Lead Manager to publish a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an "offer of Bonds to the public" in relation to any Bonds in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Bonds to be offered so as to enable an investor to decide to purchase or subscribe the Bonds, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression "Prospectus Directive" means Directive 2003/71/EC (as amended, including by Directive 2010/73/EU), and includes any relevant implementing measure in the Relevant Member State.

United Kingdom

Each Joint Lead Manager has represented, warranted and agreed that:

(a) it has only communicated or caused to be communicated and it will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of the Bonds and the Shares to be issued upon exercise of the Stock Acquisition Rights in circumstances in which section 21(1) of the FSMA does not apply to the Company; and

(b) it has complied with and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Bonds or the Shares to be issued upon exercise of the Stock Acquisition Rights in, from or otherwise involving the United Kingdom.

Singapore

Each Joint Lead Manager has acknowledged that this Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore under the Securities and Futures Act, Cap. 289 of Singapore (the "SFA") and accordingly, the Bonds may not be offered or sold, nor may the Bonds be the subject of an invitation for subscription or purchase, nor may this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase of the Bonds be circulated or distributed, whether directly or indirectly, to any person in Singapore other than under exemptions provided in the SFA for offers made (i) to an institutional investor (as defined in Section 4A of the SFA) pursuant to Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to an offer referred to in Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Bonds are acquired by persons who are relevant persons specified in Section 276 of the SFA, namely:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary is an accredited investor,

the shares, debentures and units of shares and debentures of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferrable within six months after that corporation or that trust has acquired the Bonds pursuant to an offer made under Section 275 of the SFA except:

(1) to an institutional investor (under Section 274 of the SFA) or to a relevant person as defined in Section 275(2) of the SFA, or any person pursuant to an offer that is made on terms that such shares, debentures and units of shares and debentures of that corporation or such rights or interest in that trust are acquired at a consideration of not less than 200,000 Singapore dollars (or its equivalent in a foreign currency) for each transaction, whether such amount is to be paid for in cash or by exchange of securities or other assets and further for corporations, in accordance with the conditions specified in Section 275(1A) of the SFA;

(2) where no consideration is given for the transfer;

(3) where the transfer is by operation of law;

(4) as specified in Section 276(7) of the SFA; or

(5) as specified in Regulation 32 of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations 2005 of Singapore.

Hong Kong

Each Joint Lead Manager has represented, warranted and agreed that:

(i) the Bonds and the Shares to be issued upon exercise of the Stock Acquisition Rights may not be offered or sold by means of any document other than (a) to "professional investors" as defined in the

Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) (the "SFO") and any rules made under the SFO, or (b) in other circumstances which do not result in the document being a "prospectus" within the meaning of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32, Laws of Hong Kong) (the "Companies Ordinance") or which do not constitute an offer to the public within the meaning of the Companies Ordinance; and

(ii) no advertisement, invitation or document relating to the Bonds or the Shares to be issued upon exercise of the Stock Acquisition Rights may be issued or may be in the possession of any person for the purpose of issue (in each case whether in Hong Kong or elsewhere), which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the laws of Hong Kong) other than with respect to Bonds and Shares to be issued upon exercise of the Stock Acquisition Rights which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" within the meaning of the SFO and any rules made under the SFO.

General

Neither the Company nor any of the Joint Lead Managers represents that the Bonds may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction or pursuant to an exemption available thereunder, or assumes any responsibility for facilitating such sales.

Other Relationships

Certain of the Joint Lead Managers or their affiliates may purchase the Bonds and be allocated the Bonds for asset management and/or proprietary purposes but not with a view to distribution.

In connection with the offering, any Joint Lead Manager may purchase the Bonds for its or their own account and may for its or their own account enter into transactions, including credit derivatives, such as asset swaps, repackaging and credit default swaps or other derivatives relating to the Bonds and/or the Shares and/or other securities of the Company or its subsidiaries or affiliates and/or components of such Bonds and/or Shares and/or other securities, at the same time as the offer and sale of the Bonds or in secondary market transactions. Such transactions may be carried out as bilateral trades with selected counterparties and separately from any existing sale or resale of the Bonds to which this Offering Circular relates (notwithstanding that such selected counterparties may also be purchasers of the Bonds). As a result of such transactions any of the Joint Lead Managers may hold long or short positions in the Bonds and/or the Shares and/or derivatives relating thereto. No disclosure will be made of any such positions.

Certain of the Joint Lead Managers or their affiliates have in the past provided, are currently providing and may in the future provide, investment and commercial banking, underwriting, advisory and other services to the Company and its subsidiaries and affiliates for which they have received, expect to receive or may receive (as the case may be) customary compensation.

GENERAL INFORMATION

1. The Bonds have been accepted for clearance through Euroclear and through Clearstream, Luxembourg. The International Security Identification Number (ISIN) is XS1284548705 and the Common Code is 128454870.
2. The Securities Identification Code for the Shares given by Securities Identification Code Committee of Japan is 3880.
3. Approval in-principle has been received for the listing of the Bonds on the SGX-ST. The Bonds will be traded on the SGX-ST in a minimum board lot size of ¥200,000 with a minimum of 100 lots to be traded in a single transaction for so long as the Bonds are listed on the SGX-ST. For so long as the Bonds are listed on the SGX-ST and the rules of the SGX-ST so require, the Company will appoint and maintain a paying agent in Singapore, where the Bonds may be presented or surrendered for payment or redemption, in the event that the Global Certificate is exchanged for definitive Certificates. In addition, in the event that the Global Certificate is exchanged for definitive Certificates, an announcement of such exchange shall be made by or on behalf of the Company through the SGX-ST and such announcement will include all material information with respect to the delivery of the definitive Certificates, including details of the paying agent in Singapore.
4. The Company has obtained all necessary consents, approvals and authorisations in Japan, if any, in connection with the issue and performance of the Bonds. The issue of the Bonds was authorised by a resolution dated 1st September, 2015 of the Board of Directors of the Company.
5. Save as disclosed in this Offering Circular, there has been no significant change in the financial or trading position of the Group and no material adverse change in the prospects of the Group since 31st March, 2015.
6. Save as disclosed in this Offering Circular, neither the Company nor any of its subsidiaries is, or has been involved in, any legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company is aware) which may have, or have had during the 12 months preceding the date of this Offering Circular, a significant effect on the financial position or the profitability of the Group nor is the Company aware that any such proceedings are pending or threatened.
7. Copies of the Company's latest audited consolidated annual financial statements in English, and the Company's latest unaudited consolidated annual and quarterly financial statements in English (being English translations of the Company's financial statements included in *Kessan tanshin* (results announcements)) may be obtained, and copies of the Trust Deed and the Agency Agreement will be available for inspection, at the specified offices of each of the Agents during normal business hours, so long as any of the Bonds is outstanding.
8. Except to the extent provided in Condition 6, the Conditions do not provide for participating rights in the event of a take-over of the Company.
9. The consolidated financial statements of the Company for each of the three fiscal years ended 31st March, 2013, 2014 and 2015 included in this Offering Circular, have been audited by PricewaterhouseCoopers Aarata, the Company's independent auditor, as stated in its audit report appearing herein.
10. The consolidated quarterly financial statements of the Company for the three-month period ended 30th June, 2015, included in this Offering Circular, have been reviewed by PricewaterhouseCoopers Aarata, the Company's independent auditor, as stated in its review report appearing herein.
11. The Trustee is entitled under the Trust Deed to rely on reports and certificates addressed and/or delivered to it by the independent auditor to the Company whether or not the same are subject to any limitation on the liability of the independent auditor to the Company and whether by reference to a monetary cap or otherwise.

(This page is intentionally left blank)

INDEX TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS

(This page is intentionally left blank)

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Daio Paper Corporation

We have audited the accompanying consolidated financial statements of Daio Paper Corporation ("the Company") and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2013, 2014 and 2015, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in net assets and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company and its consolidated subsidiaries as at March 31, 2013, 2014 and 2015, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2 to the consolidated financial statements. Effective from the first quarter of the fiscal year ended March 31, 2014, the Company and its consolidated subsidiaries have changed their accounting policy for the depreciation method for property, plant and equipment.

Convenience translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2015 are presented solely for convenience. Our audit also included the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

/s/ PricewaterhouseCoopers Aarata
August 19, 2015

Consolidated Balance Sheets

Daio Paper Corporation and Consolidated Subsidiaries
As of March 31, 2013, 2014 and 2015

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
ASSETS	2013	2014	**2015**	**2015**
CURRENT ASSETS:				
Cash and deposits (Notes 4 and 19)	¥ 86,210	¥ 85,838	**¥ 82,558**	**$ 687,009**
Notes and accounts receivable—trade (Notes 5, 19 and 24)	90,109	86,195	**91,209**	**758,999**
Merchandise and finished goods (Note 6)	35,275	32,096	**38,594**	**321,163**
Work in process (Note 6)	5,067	4,457	**4,788**	**39,845**
Raw materials and supplies (Note 6)	21,050	22,038	**22,677**	**188,706**
Deferred tax assets (Note 22)	2,473	6,801	**5,017**	**41,752**
Other (Note 24)	6,101	6,459	**7,653**	**63,688**
Allowance for doubtful accounts	(27)	(12)	**(7)**	**(56)**
Total current assets	246,259	243,872	**252,490**	**2,101,106**
NON-CURRENT ASSETS:				
PROPERTY, PLANT AND EQUIPMENT:				
Buildings and structures	185,238	184,602	**186,435**	**1,551,426**
Accumulated depreciation	(120,343)	(121,472)	**(122,769)**	**(1,021,624)**
Buildings and structures, net (Note 8)	64,895	63,130	**63,666**	**529,802**
Machinery, equipment and vehicles (Note 9)	791,013	795,033	**805,920**	**6,706,496**
Accumulated depreciation	(662,196)	(667,978)	**(674,531)**	**(5,613,141)**
Machinery, equipment and vehicles, net (Note 8)	128,818	127,054	**131,388**	**1,093,355**
Land (Notes 8 and 9)	81,474	79,569	**75,513**	**628,385**
Construction in progress	8,622	7,768	**7,917**	**65,881**
Other (Note 9)	18,487	18,991	**18,739**	**155,939**
Accumulated depreciation	(10,083)	(10,223)	**(9,733)**	**(80,994)**
Other, net (Note 8)	8,403	8,769	**9,006**	**74,946**
Total property, plant and equipment	292,213	286,291	**287,491**	**2,392,368**
INTANGIBLE ASSETS:				
Goodwill (Note 3)	68,171	63,725	**59,000**	**490,969**
Other	3,248	3,296	**3,676**	**30,594**
Total intangible assets	71,419	67,021	**62,676**	**521,563**
INVESTMENTS AND OTHER ASSETS:				
Investment securities (Notes 7 and 19)	27,007	27,184	**39,410**	**327,948**
Long-term loans receivable (Note 19)	9,871	7,516	**3,912**	**32,554**
Deferred tax assets (Note 22)	2,581	2,747	**187**	**1,559**
Other	13,806	12,746	**7,665**	**63,787**
Allowance for doubtful accounts (Note 19)	(4,133)	(1,342)	**(1,226)**	**(10,201)**
Total investments and other assets	49,132	48,852	**49,948**	**415,648**
Total non-current assets	412,764	402,163	**400,115**	**3,329,578**
DEFERRED ASSETS	89	78	**139**	**1,160**
TOTAL ASSETS	¥ 659,112	¥ 646,113	**¥ 652,745**	**$ 5,431,844**

The accompanying notes are an integral part of these financial statements.

(Continued)

Consolidated Balance Sheets

Daio Paper Corporation and Consolidated Subsidiaries
As of March 31, 2013, 2014 and 2015

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
LIABILITIES AND NET ASSETS	2013	2014	**2015**	**2015**
CURRENT LIABILITIES:				
Accounts payable—trade (Notes 19 and 24)	¥ 36,230	¥ 44,700	**¥ 48,201**	**$ 401,111**
Short-term loans payable (Notes 8, 10 and 19)	66,790	58,950	**37,360**	**310,893**
Current portion of long-term loans payable (Notes 8, 10 and 19)	111,291	96,660	**96,364**	**801,901**
Current portion of bonds payable (Notes 10 and 19)	190	10,100	**15,020**	**124,990**
Accounts payable—other (Notes 19 and 24)	23,127	19,462	**20,575**	**171,216**
Current portion of long-term accounts payable—facilities (Notes 8, 10 and 19)	2,960	3,149	**2,346**	**19,521**
Income taxes payable (Note 19)	3,389	3,546	**1,320**	**10,986**
Provision for bonuses	3,777	4,066	**4,296**	**35,750**
Provision for directors' bonuses	100	128	**126**	**1,050**
Provision for loss on disaster	—	42	**—**	**—**
Provision for surcharge	—	213	**—**	**—**
Other (Notes 10, 19, 20 and 22)	12,526	12,229	**12,087**	**100,584**
Total current liabilities	260,381	253,244	**237,696**	**1,978,000**
NON-CURRENT LIABILITIES:				
Bonds payable (Notes 10 and 19)	35,740	25,640	**10,320**	**85,878**
Long-term loans payable (Notes 8, 10 and 19)	226,989	215,283	**207,550**	**1,727,133**
Long-term accounts payable—facilities (Notes 8, 10 and 19)	4,969	7,031	**4,865**	**40,486**
Provision for retirement benefits (Note 21)	14,782	—	**—**	**—**
Net defined benefit liability (Note 21)	—	17,396	**18,125**	**150,830**
Provision for directors' retirement benefits	594	341	**367**	**3,056**
Provision for environmental measures	267	199	**5**	**42**
Provision for loss on business of subsidiaries and associates	—	51	**243**	**2,018**
Other (Notes 10,19,20 and 22)	7,420	7,675	**9,079**	**75,551**
Total non-current liabilities	290,761	273,616	**250,554**	**2,084,994**
Total liabilities	551,143	526,860	**488,250**	**4,062,994**
NET ASSETS:				
SHAREHOLDERS' EQUITY (Note 12)**:**				
Capital stock: 300,000 thousand shares authorized as of March 31, 2013, 2014 and 2015; 129,019 thousand, 129,019 thousand and 149,349 thousand shares issued as of March 31, 2013, 2014 and 2015, respectively	30,415	30,415	**39,707**	**330,426**
Capital surplus	29,402	30,294	**39,586**	**329,414**
Retained earnings	52,967	58,320	**70,412**	**585,933**
Treasury shares, at cost; 10,839 thousand, 3,596 thousand and 3,609 thousand shares as of March 31, 2013, 2014 and 2015, respectively	(6,696)	(2,882)	**(2,896)**	**(24,097)**
Total shareholders' equity	106,089	116,146	**146,809**	**1,221,677**
ACCUMULATED OTHER COMPREHENSIVE INCOME:				
Valuation difference on available-for-sale securities	1,121	2,182	**10,603**	**88,229**
Foreign currency translation adjustment	(10,160)	(7,152)	**(1,867)**	**(15,537)**
Remeasurements of defined benefit plans (Note 21)	—	(1,383)	**(1,093)**	**(9,093)**
Total accumulated other comprehensive income	(9,039)	(6,353)	**7,643**	**63,600**
MINORITY INTERESTS	10,919	9,459	**10,043**	**83,573**
Total net assets	107,969	119,253	**164,495**	**1,368,849**
TOTAL LIABILITIES AND NET ASSETS	¥659,112	¥646,113	**¥652,745**	**$ 5,431,844**

The accompanying notes are an integral part of these financial statements.

(Concluded)

Consolidated Statements of Income

Daio Paper Corporation and Consolidated Subsidiaries
Years ended March 31, 2013, 2014 and 2015

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2013	2014	**2015**	**2015**
NET SALES (Note 23)	¥407,362	¥430,055	**¥450,239**	**$ 3,746,685**
COST OF SALES (Note 14)	325,339	334,113	**344,237**	**2,864,582**
Gross profit	82,023	95,942	**106,002**	**882,102**
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Notes 13 and 14)	70,446	79,892	**84,206**	**700,726**
Operating income (Note 23)	11,577	16,049	**21,796**	**181,376**
NON-OPERATING INCOME:				
Interest income	202	142	**164**	**1,367**
Dividend income	604	531	**546**	**4,540**
Foreign exchange gains	325	417	**1,598**	**13,298**
Purchase discounts	366	416	**346**	**2,881**
Subsidy income (Note 15)	71	447	**3,119**	**25,955**
Other	3,383	1,868	**1,835**	**15,269**
Total non-operating income	4,951	3,821	**7,608**	**63,310**
NON-OPERATING EXPENSES:				
Interest expenses	7,154	6,898	**5,826**	**48,483**
Other	2,737	1,715	**1,794**	**14,931**
Total non-operating expenses	9,891	8,613	**7,620**	**63,414**
Ordinary income	6,637	11,257	**21,784**	**181,273**
EXTRAORDINARY INCOME:				
Gain on sales of non-current assets (Note 16)	179	911	**359**	**2,986**
Gain on sales of investment securities (Note 7)	922	645	**38**	**313**
Insurance income	436	86	**138**	**1,151**
Reversal of allowance for doubtful accounts	3,100	—	**—**	**—**
Gain on step acquisitions (Note 3)	19,411	—	**—**	**—**
Gain on bargain purchase (Note 3)	156	1,891	**126**	**1,053**
Gain on liquidation of subsidiaries and associates	—	—	**116**	**968**
Other	943	142	**63**	**523**
Total extraordinary income	25,147	3,675	**840**	**6,994**
EXTRAORDINARY LOSSES:				
Loss on sales and retirement of non-current assets (Note 16)	799	578	**1,101**	**9,158**
Loss on valuation of investment securities	1,039	—	**—**	**—**
Loss on sales of investment securities	2,397	—	**—**	**—**
Loss on valuation of investments in capital	—	744	**—**	**—**
Loss on disaster	350	224	**105**	**877**
Impairment loss (Note 16)	2,663	5,727	**1,453**	**12,090**
Provision of allowance for doubtful accounts	2,332	—	**—**	**—**
Provision for surcharge	—	213	**—**	**—**
Early retirement expenses	—	223	**—**	**—**
Special investigation expenses	—	181	**—**	**—**
Foreign exchange losses (Note 16)	—	—	**2,273**	**18,916**
Provision for loss on business of subsidiaries and associates	—	—	**271**	**2,256**
Other (Note 7)	1,522	434	**48**	**401**
Total extraordinary losses	11,102	8,323	**5,251**	**43,698**
Income before income taxes and minority interests	20,682	6,609	**17,373**	**144,568**

The accompanying notes are an integral part of these financial statements.

(Continued)

Consolidated Statements of Income—(Continued)

Daio Paper Corporation and Consolidated Subsidiaries
Years ended March 31, 2013, 2014 and 2015

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2013	2014	**2015**	**2015**
INCOME TAXES (Note 22):				
Income taxes—current	4,361	3,900	**2,121**	**17,648**
Refund of income taxes for prior periods	(1,202)	—	**—**	**—**
Income taxes—deferred	(1,979)	(4,743)	**1,634**	**13,599**
Total income taxes	1,181	(843)	**3,755**	**31,246**
Income before minority interests	19,501	7,452	**13,618**	**113,322**
MINORITY INTERESTS IN INCOME	4,392	1,159	**409**	**3,406**
NET INCOME	¥ 15,109	¥ 6,293	**¥ 13,209**	**$ 109,915**

	Yen			U.S. Dollars (Note 1)
	2013	2014	2015	2015
PER SHARE INFORMATION (Note 25):				
Net income per share	¥ 126.51	¥ 51.52	**¥ 93.48**	**$ 0.78**

The accompanying notes are an integral part of these financial statements.

(Concluded)

Consolidated Statements of Comprehensive Income

Daio Paper Corporation and Consolidated Subsidiaries
Years ended March 31, 2013, 2014 and 2015

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2013	2014	**2015**	**2015**
INCOME BEFORE MINORITY INTERESTS	¥19,501	¥ 7,452	**¥13,618**	**$ 113,322**
OTHER COMPREHENSIVE INCOME (Note 17):				
Valuation difference on available-for-sale securities	919	1,074	**8,523**	**70,923**
Foreign currency translation adjustment	1,661	3,300	**5,512**	**45,866**
Share of other comprehensive income of associates accounted for using equity method	(7)	—	**—**	**—**
Remeasurements of defined benefit plans (Note 21)	—	—	**290**	**2,415**
Total other comprehensive income	2,574	4,373	**14,325**	**119,203**
COMPREHENSIVE INCOME	¥22,075	¥11,826	**¥27,943**	**$ 232,525**
COMPREHENSIVE INCOME ATTRIBUTABLE TO:				
Owners of the parent	¥17,605	¥10,350	**¥27,204**	**$ 226,378**
Minority interests	4,470	1,475	**739**	**6,147**

The accompanying notes are an integral part of these financial statements.

(Concluded)

Consolidated Statements of Changes in Net Assets

Daio Paper Corporation and Consolidated Subsidiaries
Years ended March 31, 2013, 2014 and 2015

	Thousands of shares	Millions of Yen											
		Shareholders' Equity					Accumulated Other Comprehensive Income						
	Number of shares of common stock outstanding	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total	Minority interests	Total net assets
BALANCE, MARCH 31, 2012	122,358	¥30,415	¥29,402	¥ 39,591	¥ (4,635)	¥ 94,773	¥ 254	¥ (11,788)	¥ —	¥(11,534)	¥ 14,075	¥ 97,314
Changes of items during period												
Dividends	—	—	—	(1,005)	—	(1,005)	—	—	—	—	—	(1,005)
Net income	—	—	—	15,109	—	15,109	—	—	—	—	—	15,109
Purchase of treasury shares	(12)	—	—	—	(6)	(6)	—	—	—	—	—	(6)
Disposal of treasury shares	8,234	—	(728)	—	4,105	3,377	—	—	—	—	—	3,377
Change of scope of consolidation	(12,400)	—	—	—	(6,159)	(6,159)	—	—	—	—	—	(6,159)
Transfer of loss on disposal of treasury shares	—	—	728	(728)	—	—	—	—	—	—	—	—
Net changes of items other than shareholders' equity	—	—	—	—	—	—	867	1,629	—	2,495	(3,156)	(660)
Total changes of items during period	(4,179)	—	—	13,377	(2,060)	11,316	867	1,629	—	2,495	(3,156)	10,656
BALANCE, MARCH 31, 2013	118,179	30,415	29,402	52,967	(6,696)	106,089	1,121	(10,160)	—	(9,039)	10,919	107,969
Changes of items during period												
Dividends	—	—	—	(1,004)	—	(1,004)	—	—	—	—	—	(1,004)
Net income	—	—	—	6,293	—	6,293	—	—	—	—	—	6,293
Purchase of treasury shares	(17)	—	—	—	(17)	(17)	—	—	—	—	—	(17)
Disposal of treasury shares	7,498	—	891	—	3,995	4,886	—	—	—	—	—	4,886
Change of scope of consolidation	(238)	—	—	63	(164)	(101)	—	—	—	—	—	(101)
Net changes of items other than shareholders' equity	—	—	—	—	—	—	1,061	3,008	(1,383)	2,686	(1,460)	1,226
Total changes of items during period	7,243	—	891	5,352	3,813	10,057	1,061	3,008	(1,383)	2,686	(1,460)	11,283
BALANCE, MARCH 31, 2014	125,423	30,415	30,294	58,320	(2,882)	116,146	2,182	(7,152)	(1,383)	(6,353)	9,459	119,253
Cumulative effects of changes in accounting policies	**—**	**—**	**—**	**(73)**	**—**	**(73)**	**—**	**—**	**—**	**—**	**—**	**(73)**
Restated balance	**125,423**	**30,415**	**30,294**	**58,246**	**(2,882)**	**116,073**	**2,182**	**(7,152)**	**(1,383)**	**(6,353)**	**9,459**	**119,179**
Changes of items during period												
Issuance of new shares	**20,330**	**9,292**	**9,292**	**—**	**—**	**18,584**	**—**	**—**	**—**	**—**	**—**	**18,584**
Dividends	**—**	**—**	**—**	**(1,143)**	**—**	**(1,143)**	**—**	**—**	**—**	**—**	**—**	**(1,143)**
Net income	**—**	**—**	**—**	**13,209**	**—**	**13,209**	**—**	**—**	**—**	**—**	**—**	**13,209**
Purchase of treasury shares	**(13)**	**—**	**—**	**—**	**(13)**	**(13)**	**—**	**—**	**—**	**—**	**—**	**(13)**
Change of scope of consolidation	**—**	**—**	**—**	**99**	**—**	**99**	**—**	**—**	**—**	**—**	**—**	**99**
Net change of items other than shareholders' equity	**—**	**—**	**—**	**—**	**—**	**—**	**8,420**	**5,285**	**290**	**13,995**	**584**	**14,579**
Total changes of items during period	**20,317**	**9,292**	**9,292**	**12,165**	**(13)**	**30,736**	**8,420**	**5,285**	**290**	**13,995**	**584**	**45,315**
BALANCE, MARCH 31, 2015	**145,740**	**¥39,707**	**¥39,586**	**¥ 70,412**	**¥ (2,896)**	**¥146,809**	**¥ 10,603**	**¥ (1,867)**	**¥ (1,093)**	**¥ 7,643**	**¥ 10,043**	**¥164,495**

The accompanying notes are an integral part of these financial statements.

(Continued)

Consolidated Statements of Changes in Net Assets

Daio Paper Corporation and Consolidated Subsidiaries
Years ended March 31, 2013, 2014 and 2015

	Thousands of U.S. Dollars (Note 1)										
	Shareholders' Equity					Accumulated Other Comprehensive Income					
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total	Minority interests	Total net assets
BALANCE, MARCH 31, 2014	**$253,103**	**$252,091**	**$485,309**	**$(23,986)**	**$ 966,516**	**$ 18,158**	**$ (59,515)**	**$ (11,508)**	**$ (52,864)**	**$ 78,714**	**$ 992,366**
Cumulative effects of changes in accounting policies	**—**	**—**	**(609)**	**—**	**(609)**	**—**	**—**	**—**	**—**	**—**	**(609)**
Restated balance	**253,103**	**252,091**	**484,700**	**(23,986)**	**965,907**	**18,158**	**(59,515)**	**(11,508)**	**(52,864)**	**78,714**	**991,757**
Changes of items during period											
Issuance of new shares	**77,324**	**77,324**	**—**	**—**	**154,647**	**—**	**—**	**—**	**—**	**—**	**154,647**
Dividends	**—**	**—**	**(9,508)**	**—**	**(9,508)**	**—**	**—**	**—**	**—**	**—**	**(9,508)**
Net income	**—**	**—**	**109,915**	**—**	**109,915**	**—**	**—**	**—**	**—**	**—**	**109,915**
Purchase of treasury shares	**—**	**—**	**—**	**(111)**	**(111)**	**—**	**—**	**—**	**—**	**—**	**(111)**
Change of scope of consolidation	**—**	**—**	**826**	**—**	**826**	**—**	**—**	**—**	**—**	**—**	**826**
Net change of items other than shareholders' equity	**—**	**—**	**—**	**—**	**—**	**70,071**	**43,978**	**2,415**	**116,464**	**4,859**	**121,323**
Total changes of items during period	**77,324**	**77,324**	**101,233**	**(111)**	**255,770**	**70,071**	**43,978**	**2,415**	**116,464**	**4,859**	**377,093**
BALANCE, MARCH 31, 2015	**$330,426**	**$329,414**	**$585,933**	**$(24,097)**	**$1,221,677**	**$ 88,229**	**$ (15,537)**	**$ (9,093)**	**$ 63,600**	**$ 83,573**	**$1,368,849**

The accompanying notes are an integral part of these financial statements.

(Concluded)

Consolidated Statements of Cash Flows

Daio Paper Corporation and Consolidated Subsidiaries
Years ended March 31, 2013, 2014 and 2015

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2013	2014	**2015**	**2015**
CASH FLOWS FROM OPERATING ACTIVITIES:				
Income before income taxes and minority interests	¥ 20,682	¥ 6,609	**¥ 17,373**	**$ 144,568**
Adjustments for:				
Depreciation and amortization	26,410	26,404	**27,203**	**226,368**
Impairment loss	2,663	5,727	**1,453**	**12,090**
Amortization of goodwill	3,802	4,512	**4,453**	**37,052**
Gain on bargain purchase	(156)	(1,891)	**(126)**	**(1,053)**
Increase (decrease) in allowance for doubtful accounts	(170)	164	**90**	**745**
Increase (decrease) in provision for loss on business of subsidiaries and associates	(2,008)	51	**191**	**1,592**
(Gain) loss on sales of investment securities	1,475	(519)	**(37)**	**(309)**
(Gain) loss on valuation of investment securities	1,039	146	**16**	**133**
Loss on valuation of investments in capital	—	744	**—**	**—**
(Gain) loss on step acquisitions	(19,411)	—	**—**	**—**
Increase (decrease) in provision for retirement benefits	682	—	**—**	**—**
Increase (decrease) in net defined benefit liability	—	657	**1,066**	**8,870**
Interest and dividend income	(806)	(673)	**(710)**	**(5,907)**
Interest expenses	7,154	6,898	**5,826**	**48,483**
Foreign exchange (gains) losses	(325)	(417)	**674**	**5,612**
Subsidy income	(71)	(447)	**(3,119)**	**(25,955)**
Insurance income	(436)	(86)	**(138)**	**(1,151)**
(Gain) loss on sales of property, plant and equipment	(49)	(866)	**323**	**2,687**
Loss on retirement of property, plant and equipment	669	533	**419**	**3,485**
(Increase) decrease in notes and accounts receivable—trade	11,132	7,308	**(4,782)**	**(39,794)**
(Increase) decrease in inventories	8,813	3,865	**(5,362)**	**(44,620)**
Increase (decrease) in accounts payable—trade	(6,871)	5,842	**2,172**	**18,071**
Increase/decrease in other assets/liabilities	(324)	(2,827)	**(3,310)**	**(27,540)**
Increase (decrease) in accrued consumption taxes	70	7	**1,911**	**15,905**
Other, net	(1,705)	(302)	**551**	**4,584**
Subtotal	52,259	61,440	**46,135**	**383,917**
Income taxes paid	(2,326)	(3,783)	**(4,481)**	**(37,288)**
Proceeds from subsidy income	103	281	**2,872**	**23,898**
Proceeds from insurance income	769	153	**214**	**1,780**
Net cash provided by (used in) operating activities	50,805	58,091	**44,740**	**372,308**

The accompanying notes are an integral part of these financial statements.

(Continued)

Consolidated Statements of Cash Flows

Daio Paper Corporation and Consolidated Subsidiaries
Years ended March 31, 2013, 2014 and 2015

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2013	2014	**2015**	**2015**
CASH FLOWS FROM INVESTING ACTIVITIES:				
(Increase) decrease in time deposits	3,192	(3,025)	**(3,329)**	**(27,705)**
Payments for purchase of property, plant and equipment	(17,395)	(21,891)	**(31,395)**	**(261,258)**
Proceeds from sales of property, plant and equipment	1,368	4,999	**6,959**	**57,908**
Payments for purchase of investment securities	(14)	(1,175)	**(166)**	**(1,379)**
Proceeds from sales of investment securities	4,708	852	**831**	**6,916**
Payments for purchase of shares of subsidiaries resulting in change in scope of consolidation	(30,911)	—	**—**	**—**
Proceeds from purchase of shares of subsidiaries resulting in change in scope of consolidation	2,830	—	**—**	**—**
Payments for sales of shares of subsidiaries resulting in change in scope of consolidation	—	(555)	**—**	**—**
Payments for purchase of shares of subsidiaries and associates	(7,449)	(2,019)	**(1,642)**	**(13,662)**
Payments for purchase of investments in capital of subsidiaries	(2,964)	—	**—**	**—**
Payments of loans receivable	(2,264)	(4,000)	**(2)**	**(13)**
Collection of loans receivable	7,009	267	**3**	**23**
Interest and dividend income received	1,202	1,088	**1,056**	**8,790**
Other, net	(768)	(1,366)	**(896)**	**(7,455)**
Net cash provided by (used in) investing activities	¥(41,455)	¥ (26,826)	**¥ (28,581)**	**¥ (237,836)**
CASH FLOWS FROM FINANCING ACTIVITIES:				
Proceeds from short-term loans payable	¥ 23,898	¥ 16,180	**¥ 7,230**	**¥ 60,165**
Repayments of short-term loans payable	(33,194)	(24,020)	**(28,820)**	**(239,827)**
Proceeds from long-term loans payable	99,753	92,540	**97,240**	**809,187**
Repayments of long-term loans payable	(88,301)	(118,877)	**(105,269)**	**(876,001)**
Redemption of bonds payable	(10,230)	(190)	**(10,400)**	**(86,544)**
Proceeds from issuance of common shares	—	—	**18,584**	**154,647**
Proceeds from sales of treasury shares	3,424	6,129	**—**	**—**
Interest expenses paid	(7,539)	(7,526)	**(6,232)**	**(51,861)**
Cash dividends paid	(1,005)	(1,004)	**(1,143)**	**(9,508)**
Other, net	(247)	(474)	**(619)**	**(5,155)**
Net cash provided by (used in) financing activities	(13,441)	(37,242)	**(29,429)**	**(244,897)**
EFFECT OF EXCHANGE RATE CHANGE ON CASH AND CASH EQUIVALENTS	216	490	**925**	**7,699**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(3,875)	(5,486)	**(12,345)**	**(102,726)**
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	86,332	82,457	**79,046**	**657,786**
INCREASE IN CASH AND CASH EQUIVALENTS FROM NEWLY CONSOLIDATED SUBSIDIARIES	—	1,052	**2,357**	**19,616**
INCREASE IN CASH AND CASH EQUIVALENTS RESULTING FROM MERGER WITH UNCONSOLIDATED SUBSIDIARIES	—	1,024	**14**	**115**
CASH AND CASH EQUIVALENTS AT END OF PERIOD (Note 4)	¥ 82,457	¥ 79,046	**¥ 69,073**	**$ 574,791**

The accompanying notes are an integral part of these financial statements.

(Concluded)

Notes to Consolidated Financial Statements

Daio Paper Corporation and Consolidated Subsidiaries
Years ended March 31, 2013, 2014 and 2015

1. Basis of presenting Consolidated Financial Statements

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

In preparing the consolidated financial statements, certain reclassification and rearrangements have been made to the financial statements issued in Japan in order to present these statements in a form which is more familiar to readers of these statements outside Japan.

In preparing the accompanying consolidated financial statements, Japanese yen figures less than one million yen have been rounded up or down to the nearest million yen. The translation of the Japanese yen amounts into U.S. dollars is included solely for the convenience of readers outside Japan, using the prevailing exchange rate as of March 31, 2015, which was ¥120.17 Japanese yen to $1.00 U.S. dollar. U.S. dollar figures less than one thousand dollars have been rounded up or down to the nearest thousand dollars. Therefore, total or subtotal amounts shown in the accompanying consolidated financial statements thereto are not necessarily equal to sum of individual amounts. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

2. Summary of Significant Accounting and Reporting Policies

A Principles of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries (hereinafter collectively referred to as "the Group"). The number of consolidated subsidiaries and the names of the main consolidated subsidiaries are as follows:

	March 31, 2013	March 31, 2014	March 31, 2015
Number of consolidated subsidiaries	43	33	32
Names of the main consolidated subsidiaries	Iwaki Daio Paper Corporation Tokyo Pulp & Paper Corporation Forestal Anchile Limitada	Iwaki Daio Paper Corporation Tokyo Pulp & Paper Corporation Elleair Product Co., Ltd. Forestal Anchile Limitada	Iwaki Daio Paper Corporation Tokyo Pulp & Paper Corporation Elleair Product Co., Ltd. Forestal Anchile Limitada

During the fiscal year ended March 31, 2013, the Company's scope of consolidation was changed with the number of consolidated subsidiaries increased from 19 as of March 31, 2012 to 43 as a result of acquisition of shares of its associates and other companies from Hokuetsu Kishu Paper Co., Ltd. in the second quarter of the period. This increase of 24 newly consolidated subsidiaries can further be sorted into 17 subsidiaries that were formerly equity-method associates of the Company and remaining 7 subsidiaries that were other companies. Please refer to Section *3. Business Combinations* for more details on the above transactions.

During the fiscal year ended March 31, 2014, the Company's scope of consolidation was changed with the number of consolidated subsidiaries reduced from 43 as of March 31, 2013 to 33 as a result of including two foreign subsidiaries, while merging 17 consolidated subsidiaries and 10 unconsolidated subsidiaries into 7 consolidated subsidiaries and one unconsolidated subsidiary, liquidating one consolidated subsidiary, and selling shares of one consolidated subsidiary such that it moved out of the scope of consolidation. Please refer to Section *3. Business Combinations* for more details on the above merger transactions.

During the fiscal year ended March 31, 2015, the Company's scope of consolidation was changed with the number of consolidated subsidiaries reduced from 33 as of March 31, 2014 to 32 as a result of including two foreign subsidiaries, while merging three consolidated subsidiaries and one unconsolidated subsidiary into one consolidated subsidiary and liquidating one consolidated subsidiary.

Subsidiaries such as Nagoya Paper Tec Corporation, which are small in terms of their total assets, net sales, net income or loss (amount corresponding to equity), retained earnings (amount corresponding to equity) and other indicators, and do not have a significant effect on the consolidated financial statements, are excluded from the scope of consolidation. Unconsolidated subsidiaries and associates, which are small in terms of their net income or loss (amount corresponding to equity), retained earnings (amount corresponding to equity) and other indicators, and do not have a significant effect on the consolidated financial statements, are excluded from the scope of application of the equity method.

There is no unconsolidated subsidiary or associate accounted for using the equity method as of March 31, 2013, 2014 and 2015.

For the purpose of preparing the consolidated financial statements, the Company used the financial statements of the following subsidiaries whose closing date differs from that of the Company. Adjustments to account for material transactions occurring between the actual closing dates and the consolidated closing date are recorded as necessary.

For the fiscal year ended March 31, 2013:

Company name	Closing date
Forestal Anchile Limitada	December 31

For the fiscal year ended March 31, 2014:

Company name	Closing date
Forestal Anchile Limitada	December 31
Elleair International (Thailand) Co., Ltd.	December 31

For the fiscal year ended March 31, 2015:

Company name	Closing date
Forestal Anchile Limitada	December 31
Elleair International (Thailand) Co., Ltd.	December 31
Elleair International China (Nantong) Co., Ltd.	December 31
PT. Elleair International Trading Indonesia	December 31

The Company made adjustment for certain items as necessary in the consolidation of its foreign subsidiaries based on "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" (ASBJ Practical Issues Task Force, No. 18 issued on February 19, 2010).

B Investment Securities

Investments in available-for-sale securities are stated at fair value based on the quoted market price as of the end of the fiscal year. The valuation differences are accounted for as a separate component of net assets and the cost of securities sold is calculated by using the moving-average method. Investments in securities without quoted market price are stated at cost using the moving-average method.

C Inventories

Inventories are stated at cost, determined primarily by the moving-average method after recording any write-downs appropriate as a result of the decline in profitability.

D Depreciation and amortization

(1) Property, plant and equipment (excluding leased assets)

Property, plant and equipment are depreciated mainly using the straight-line method for the fiscal year ended March 31, 2013. According to the change in accounting policies, as shown below, all the items of property, plant and equipment are depreciated using the straight-line method for the fiscal years ended March 31, 2014 and 2015.

(Changes in accounting policies)
For the fiscal year ended March 31, 2014
Change in depreciation method for property, plant and equipment
The Group had previously applied the declining-balance method to some items of property, plant and equipment, but effective from the first quarter of the fiscal year ended March 31, 2014 has changed the accounting policy and has applied the straight-line method to all the items of property, plant and equipment.

As publicly announced in the press release titled "Formulation of Medium-Term Business Plan" dated September 7, 2012, the Company acquired on August 15, 2012 the shares of both associate and other companies owned by former Advisor Takao Ikawa, former Chairman Mototaka Ikawa, Mr. Takahiro Ikawa and Ms. Yaeko Ikawa (hereinafter collectively referred to as "Mr. Takao Ikawa and Family"), and has since strived to re-establish the business foundations under this new group structure through streamlining the organization and reviewing the manufacturing, sales and distribution network. In April 2013, the Company merged 27 subsidiaries into 8 companies according to business segment, in order to allow the Group to rebuild the manufacturing and sales structure through consolidating and rationalizing the manufacturing bases (including the manufacturing subsidiaries and manufacturing facilities), as well as optimizing the logistics and distribution network. Given the abovementioned opportunities for consolidation and rationalization of the manufacturing bases and manufacturing facilities and the rebuilding of the manufacturing and sales structures, as well as the integration of the group finance functions with aim of improving the capital efficiency of the Group and strengthening cash management capabilities of the subsidiaries and associates, the Group reconsidered the depreciation method used from the perspective of unifying accounting policies within the Group, and to ensure appropriate matching of periodic revenues and expenses.

The Group has come to believe after careful consideration that since property, plant and equipment of the Group is utilized in a stable and consistent manner throughout its useful life, spreading the cost evenly throughout the period of use is a more reasonable method to reflect the economic substance of the business. Thus, the Group's unified and principal depreciation method is established as the straight-line method.

Compared to the operating results that would have been recorded had the previous method continued to be used, operating income increased by ¥1,189 million while ordinary income as well as income before income taxes and minority interests increased by ¥1,218 million for the fiscal year ended March 31, 2014.

For additional detail on the effect of this change on the segment performance, please refer to *23. Segment Information*.

(2) Intangible assets (excluding leased assets)
Intangible assets are amortized using the straight-line method.

(3) Leased assets
Leased assets arising from finance lease transactions in which ownership of the leased assets is not transferred to the lessee are depreciated or amortized using the straight-line method over the lease term with no residual value. Of those finance lease transactions in which ownership of the leased assets is not transferred to the lessee, lease transactions that commenced on or before March 31, 2008 are accounted for using the method applicable to ordinary rental transactions.

E Allowance for doubtful accounts
For receivables from insolvent debtors who are undergoing bankruptcy or other collection proceeding or who are in similar financial condition, the allowance for doubtful accounts is provided based on an evaluation of collectability of each debtor. For other receivables, the allowance is provided based on the Company's historical rate of uncollectible receivable amount.

F Provisions

The following are the significant provisions that the Company recorded in its consolidated financial statements for fiscal years ended March 31, 2013, 2014 and/or 2015.

(1) Provision for bonuses

To provide for payment of bonuses to employees, provision for bonuses is recorded in the amounts that are estimated to be paid as at the end of each fiscal year.

(2) Provision for directors' bonuses

To provide for payment of bonuses to directors and audit & supervisory board members, provision for directors' bonuses is recorded in the amounts that are estimated to be paid as at the end of each fiscal year.

(3) Provision for loss on disaster

To provide for payments related to restoration of damage caused by natural disaster, provision for loss on disaster is recorded for the fiscal year ended March 31, 2014 in the amount that is expected to be incurred for the restoration in the following fiscal year.

(4) Provision for surcharge

To account for the receipt of the draft surcharge payment order that was issued in accordance with the Anti-Monopoly Act of Japan, provision for surcharge is recorded for the fiscal year ended March 31, 2014 in the amount that is expected to be paid in the following fiscal year.

(5) Provision for retirement benefits

To provide for payment of retirement benefits to employees, provision for retirement benefits is recorded for the fiscal year ended March 31, 2013 based on the net of the estimated amounts of the retirement benefit obligation and plan assets at the end of the fiscal year ended March 31, 2013.

(6) Provision for directors' retirement benefits

To provide for payment of retirement benefits to directors and audit & supervisory board members, provision for directors' retirement benefits is recorded in the amounts that are required by the internal rule to be paid at the end of each fiscal year.

(7) Provision for environmental measures

To provide for payments related to treatment of the polychlorinated biphenyl (PCB) waste, provision for environmental measures is recorded in the amounts that are estimated to be incurred for the treatment in the future.

(8) Provision for loss on business of subsidiaries and associates

To provide for operating losses expected to be suffered by subsidiaries and associates in the future, provision for loss on business of subsidiaries and associates is recorded for the fiscal years ended March 31, 2014 and 2015 in the amounts that the Company is expected to incur in view of the financial position and other conditions of the subsidiaries and associates.

G Retirement benefits

For the fiscal years ended March 31, 2013 and 2014, in calculating retirement benefit obligation, the straight-line basis is applied to attribute the projected retirement benefits to the periods until the end of the respective fiscal year.

According to the changes in accounting policies, as shown below, for the fiscal year ended March 31, 2015, in calculating retirement benefit obligation, the benefit formula basis is applied to attribute the projected retirement benefits to the periods until the end of the current fiscal year.

Actuarial gain or loss is amortized from the following fiscal year of the fiscal year in which it is incurred using the straight-line method over a period (5 years) which is within the employees' average remaining years of service at the time of incurrence.

Prior service cost is amortized using the straight-line method over a period (5 years) which is within the employees' average remaining years of service at the time of incurrence.

(Changes in accounting policies)

For the fiscal year ended March 31, 2014

Application of the Retirement Benefits Standard and guidance

The Group has applied "Accounting Standard for Retirement Benefits" (ASBJ Statement No. 26, May 17, 2012, hereinafter "Retirement Benefits Standard") and "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25, May 17, 2012, hereinafter "Retirement Benefits Guidance"), effective from the end of the fiscal year ended March 31, 2014, with the exception of provisions set forth in Paragraph 35 of Retirement Benefits Standard and Paragraph 67 of Retirement Benefits Guidance. Under the revised accounting standard, the Group recognized the amount of retirement benefit obligation net of plan assets as net defined benefit liability. As the Group applied the Retirement Benefits Standard and guidance, in accordance with the transitional treatment set forth in Paragraph 37 of the Retirement Benefits Standard, the effect of the abovementioned change was presented as remeasurements of defined benefit plans in accumulated other comprehensive income at the end of the fiscal year ended March 31, 2014.

Consequently, as of the end of the fiscal year ended March 31, 2014, net defined benefit liability of ¥17,396 million was recognized and accumulated other comprehensive income decreased by ¥1,383 million.

Net assets per share as of March 31, 2014 decreased by ¥11.03.

For the fiscal year ended March 31, 2015

Application of the Retirement Benefits Standard and guidance

The Group has applied the provision set forth in Paragraph 35 of Retirement Benefits Standard and the provision set forth in Paragraph 67 of Retirement Benefits Guidance, effective from the fiscal year ended March 31, 2015. Accordingly, the Group revised the method of calculating retirement benefit obligations and service costs and changed the method of attributing estimated retirement benefits to accounting periods from the straight-line basis to the benefit formula basis. At the same time, the Group changed the method of determining the discount rate from the method in which the discount rate is determined based on the number of years that approximates the average remaining years of service of the employees to the method in which a single weighted average discount rate is used that reflects the estimated period for retirement benefit payments and the amount of retirement benefit payments for each estimated payment period.

As the Group has applied the Retirement Benefits Standard and guidance subject to the transitional treatment set forth in Paragraph 37 of Retirement Benefits Standard, the effect of the change in the method of calculating retirement benefit obligations and service costs has been recognized as an increase or a decrease in retained earnings as of the beginning of the fiscal year ended March 31, 2015.

Consequently, as of the beginning of the fiscal year ended March 31, 2015, net defined benefit liability increased by ¥73 million ($609 thousand) and retained earnings decreased by ¥73 million ($609 thousand). This change does not have a significant impact on operating income, ordinary income, income before income taxes and minority interests nor net assets per share for the fiscal year ended March 31, 2015.

H Foreign currency translation

Receivables and payables denominated in foreign currencies are translated into yen at the spot exchange rates in effect at the balance sheet date, and differences arising from the translation are recognized in profit or loss.

Assets, liabilities, revenues and expenses of the consolidated foreign subsidiaries are translated into yen at the spot exchange rates in effect at the balance sheet date. Differences arising from the translation are included in foreign currency translation adjustment and minority interests in the net assets section.

I Derivative and hedge accounting

Derivative financial instruments are stated at fair value. When derivative financial instruments are used for hedging purposes, they are accounted for in the following manner.

(1) Hedge accounting method

When the hedges against the foreign exchange rate fluctuation risk meet certain conditions to qualify for the deferral hedge accounting treatment ("*furiate shori*"), the Company adopts such treatment, by which foreign currency transactions hedged by forward exchange contracts are reported at the forward rate and the resulting differences between the spot rate and the forward rate are amortized over the life of each contract.

When an interest rate swap contract and an interest rate cap contract meet certain conditions to qualify for the exceptional hedge accounting treatment ("*tokurei shori*"), the Company adopts such treatment, by which the net amount to be paid or received under the contract is added to or deducted from the interest on the hedged items.

(2) Hedging instruments and hedged items

i)	Hedging instruments:	forward exchange contracts
	Hedged items:	foreign currency receivables resulting from export of finished goods and foreign currency payables resulting from import of raw materials
ii)	Hedging instruments:	interest rate swap and interest rate cap contracts
	Hedged items:	loans payable

(3) Hedging policy

Based primarily on the Derivatives Transaction Control Regulations, which is the Group's internal rule, the Group is party to the derivative transactions in order to hedge against foreign exchange rate fluctuation risk and interest rate fluctuation risk.

(4) Method for evaluation of hedge effectiveness

The evaluation of hedge effectiveness is not performed for the interest rate swap and interest rate cap transactions subject to the exceptional hedge accounting treatment ("*tokurei shori*") and for the hedging transactions subject to the deferral hedge accounting treatment ("*furiate shori*").

J Amortization of goodwill

Goodwill is amortized by the straight-line method over a period not exceeding 20 years, which is determined on a deal-by-deal basis.

K Cash and cash equivalents

For the purpose of the consolidated statements of cash flows, cash and cash equivalents consist of cash on hand, demand deposits, and short-term investments with a maturity of three months or less from the date of acquisition that are readily convertible into cash and are exposed to insignificant risk of changes in value.

L Accounting for taxes

(1) Consumption taxes

Transactions subject to consumption taxes are recorded at amounts exclusive of consumption taxes.

(2) Consolidated tax return

The Company has adopted the consolidated tax return system from the fiscal year ended March 31, 2015.

3. Business Combinations

(Business combinations that occurred during the fiscal year ended March 31, 2013)

Business combination through acquisition

The Company carried out the following business combinations in conjunction with purchase of the shares of its associates and other companies from Hokuetsu Kishu Paper Co., Ltd.

(1) Overview of business combination

i) Name and business of acquired companies

	Name of acquired company	Description of business
1	Taisei Paper Corporation	Manufacture, etc. of linerboard and tissue papers, etc.
2	Marubishi Paper Tec. Corporation	Development, manufacture and processing of specialty papers
3	Ohmiya Paper Corporation	Manufacture and processing of tissue papers, etc.
4	Daio Paper Converting Co., Ltd.	Development and manufacture of disposable diapers and paper products
5	Elleair Paper Tech Co., Ltd.	Manufacture of disposable diapers, napkins and wet tissues
6	Akabira Paper Corporation	Manufacture and processing of tissue papers, etc.
7	Oumi Daio Paper Package Co., Ltd.	Manufacture and sale of corrugated board sheets and cases
8	Daio Paper Design Package Corporation	Manufacture and sale of multicolor process corrugated board
9	Chugoku Daio Paper Package Co., Ltd.	Manufacture and sale of corrugated board sheets and cases
10	Hanshin Daio Paper Package Co., Ltd.	Manufacture and sale of corrugated board sheets and cases
11	Elleair Texel Corporation	Manufacture of tack papers and adhesive processed products
12	Osaka Kami Hanbai Co., Ltd.	Sale of printing papers, wrapping papers, digital & communication papers, and linerboard
13	Daiken Kami Hanbai Co., Ltd.	Sale of printing papers, wrapping papers, digital & communication papers, linerboard and corrugated medium
14	Shikoku Paper Sales Corporation	Purchase and sale, etc. of papers, paper boards and processed paper products
15	Fuji Paper Supply Co., Ltd.	Sale of paper products for family use
16	Daio Engineering Co., Ltd.	Sale of environmental equipment and test equipment
17	Daio Maintenance Corporation	Manufacture, repair, maintenance, sale, etc. of industrial machinery and power machinery
18	Daio Kami Unyu Co., Ltd.	Logistics, collection and transportation of industrial waste, rail transportation, warehousing, etc.
19	Elleair Sangyo Co., Ltd.	Holding 100% of shares issued respectively by Elleair Packaging Print Corporation and Elleair Resorts Golf Club Co., Ltd. (operating companies)
20	Elleair Resorts Golf Club Co., Ltd.	Golf club operations
21	Elleair Packaging Print Corporation	Manufacture of carton boxes for tissue papers
22	Elleair Co., Ltd.	Holding 100% of shares issued respectively by Elleair Shoko Co., Ltd. and Elleair Paper Chemical Corporation (operating companies)
23	Elleair Shoko Co., Ltd.	Golf club operations
24	Elleair Paper Chemical Corporation	Processing of chemicals
25	Chukyo Kami Pulp Hanbai Co., Ltd. (Note 1)	Sale of printing papers, wrapping papers, digital & communication papers and linerboard
26	Nagoya Kami Unyu Co., Ltd. (Note 1)	Logistics, warehousing, etc.
27	Kyoto Shoko Co., Ltd. (Note 1)	Real estate rental
28	Elleair Life Co., Ltd. (Note 1)	Sport club operations
29	Iwaki Daio Kami Unyu Co., Ltd. (Note 2)	Logistics, warehousing, etc.

(Notes) 1. Chukyo Kami Pulp Hanbai Co., Ltd., Nagoya Kami Unyu Co., Ltd., Kyoto Shoko Co., Ltd. and Elleair Life Co., Ltd. are treated as unconsolidated subsidiaries and thus not included in the scope of consolidation due to their financial insignificance.

2. Iwaki Daio Kami Unyu Co., Ltd. is treated as an entity that is not accounted for under the equity method and thus not included in the scope of consolidation due to its financial insignificance.

ii) Major reason for business combination

While the Company had 37 consolidated subsidiaries (of which 35 were domestic and two were foreign subsidiaries) as of September 30, 2011, there were only five subsidiaries where the majority of voting rights was owned directly and/or indirectly by the Company. The majority of the voting rights of the remaining 32 subsidiaries was held directly and/or indirectly by Mr. Takao Ikawa and Family as well as the companies whose shares were held by Mr. Takao Ikawa and Family (hereinafter referred to as "the family companies"). As a result of a change in subsidiaries, as was publicly announced in the press release titled "Notice of change of subsidiaries in conjunction with acquisition of shares from associates of the Company" dated February 3, 2012, the Company had a new group structure with 19 consolidated subsidiaries.

After the issue of an illegal loan to former Chairman Mototaka Ikawa by the Group companies arose, the Company had requested Mr. Takao Ikawa and Family to allow the Company to purchase the shares of its associates that Mr. Takao Ikawa and Family and the family companies owned. However, the Company received a written response from Mr. Takao Ikawa and Family on March 14, 2012 to the effect that they had no intention to sell their shares to the Company. Given such situation, the Company established a governance structure based on the company group consisting primarily of 19 consolidated subsidiaries and at the same time developed a framework for the future business plan, while continuing to prepare for the purchase of the shares of its associates.

The Company believed that the best way in which to achieve both corporate value maximization and the most effective corporate governance structure was to convert the existing associates to consolidated subsidiaries, and the abovementioned deal between Mr. Takao Ikawa and Family, Hokuetsu Kishu Paper Co., Ltd. and the Company was concluded with the involvement of Hokuetsu Kishu Paper Co., Ltd. with which the Company had long been involved in a technological and capital alliance.

As the deal allows the Company to own most of the shares of the associates, it will help to strengthen the capital ties within the Group. By converting the associates, or the Company's important business partners, to consolidated subsidiaries, the Company believes that it will help to enhance the Group's competitiveness by developing even more seamless integration of its manufacturing and sales network.

iii) Date of business combination

August 15, 2012

iv) Legal form of business combination

Acquisition of shares in exchange for cash

v) Name of post-combination company

No change

vi) Percentage of voting rights acquired

	Name of acquired company	Percentage of voting rights immediately before share acquisition	Percentage of voting rights acquired on the date of business combination	Percentage of voting rights immediately after acquisition	Percentage of voting rights immediately after acquisition (direct ownership + indirect ownership)
1	Taisei Paper Corporation	10.0%	62.5%	72.5%	72.5%
2	Marubishi Paper Tec. Corporation	16.7%	41.7%	58.3%	83.3%
3	Ohmiya Paper Corporation	15.3%	42.1%	57.4%	99.3%
4	Daio Paper Converting Co., Ltd.	14.3%	41.1%	55.4%	82.8%
5	Elleair Paper Tech Co., Ltd.	16.6%	59.5%	76.1%	100.0%
6	Akabira Paper Corporation	19.0%	53.0%	72.0%	100.0%
7	Oumi Daio Paper Package Co., Ltd.	25.0%	75.0%	100.0%	100.0%
8	Daio Paper Design Package Corporation	19.7%	69.6%	89.4%	100.0%
9	Chugoku Daio Paper Package Co., Ltd.	15.0%	80.0%	95.0%	95.0%
10	Hanshin Daio Paper Package Co., Ltd.	20.0%	80.0%	100.0%	100.0%
11	Elleair Texel Corporation	18.0%	82.0%	100.0%	100.0%
12	Osaka Kami Hanbai Co., Ltd.	45.0%	51.7%	96.7%	100.0%
13	Daiken Kami Hanbai Co., Ltd.	20.0%	66.0%	86.0%	100.0%
14	Shikoku Paper Sales Corporation	15.0%	27.5%	42.5%	65.0%
15	Fuji Paper Supply Co., Ltd.	10.0%	—	10.0%	100.0%
16	Daio Engineering Co., Ltd.	20.2%	2.8%	23.0%	71.4%
17	Daio Maintenance Corporation	26.7%	40.6%	67.3%	93.9%
18	Daio Kami Unyu Co., Ltd.	10.0%	20.0%	30.0%	95.0%
19	Elleair Sangyo Co., Ltd. (Note 1)	—	100.0%	100.0%	100.0%
20	Elleair Co., Ltd. (Note 2)	—	51.9%	51.9%	98.1%
21	Chukyo Kami Pulp Hanbai Co., Ltd.	15.0%	50.0%	65.0%	95.0%
22	Nagoya Kami Unyu Co., Ltd.	33.3%	25.0%	58.3%	96.7%
23	Kyoto Shoko Co., Ltd.	—	1.6%	1.6%	62.3%
24	Elleair Life Co., Ltd.	—	6.7%	6.7%	51.0%
25	Iwaki Daio Kami Unyu Co., Ltd.	10.0%	20.0%	30.0%	30.0%

(Notes) 1. Elleair Packaging Print Corporation and Elleair Resorts Golf Club Co., Ltd., both of which are 100% owned subsidiaries of Elleair Sangyo Co., Ltd., are also treated as subsidiaries of the Company.
2. Elleair Shoko Co., Ltd. and Elleair Paper Chemical Corporation, both of which are 100% owned subsidiaries of Elleair Co., Ltd., are also treated as subsidiaries of the Company.

vii) Basis for determination of acquiring company
Effective on August 15, 2012, the Company acquired shares of the 29 acquired companies as listed in Item i) above from Hokuetsu Kishu Paper Co., Ltd. in exchange for cash. As a result, the Company came to hold, on its own account, the majority of voting rights of the companies as shown in Item vi) above, making it an acquiring company.

(2) Period for which financial results of the acquired companies were consolidated
The financial results from July 1, 2012 through March 31, 2013 were consolidated as the acquisition date was deemed to be July 1, 2012.

(3) Acquisition cost of acquired companies and breakdown

		Millions of Yen
Consideration for acquisition	Cash	¥ 43,168
Cost directly attributable to the acquisition	Advisory fee	225
Total acquisition cost		¥ 43,393

(4) Difference between acquisition cost of acquired companies and total amount of acquisition cost of individual transactions leading to acquisition

Gain on step acquisition: ¥19,411 million

(5) Amount, cause, amortization method and amortization period of goodwill arising in the business combination

i) Amount of goodwill arising in the business combination

¥46,207 million

ii) Cause of goodwill arising in the business combination

As fair value of the identifiable net assets at the time of business combination fell below the amount of investment that reflected the future earning power of acquired companies at the time of valuation, the Company recognized the difference as goodwill.

iii) Amortization method and amortization period

Goodwill is amortized by the straight-line method over 20 years.

(6) Amounts of assets acquired and liabilities assumed on date of business combination and breakdown

	Millions of Yen
Current assets	¥ 46,948
Non-current assets	82,772
Total assets	¥ 129,719
Current liabilities	¥ 56,686
Non-current liabilities	43,456
Total liabilities	¥ 100,141

(7) Estimated amount of effect on the consolidated statement of income for the fiscal year ended March 31, 2013 under the assumption that the business combination was completed on the first day of the fiscal year ended March 31, 2013; and its calculation method

The description is omitted due to its insignificance. This note is not subject to audit certification.

Transactions under common control

(1) Overview of transaction

i) Name and business of combining companies concerned

	Name of combining company concerned	Description of business
1	Iwaki Daio Paper Corporation	Manufacture of newsprint and linerboard and corrugated medium
2	Otsu Paper Board Co., Ltd.	Manufacture and sale of linerboard
3	Dainichi Paper Corporation	Manufacture and sale of special papers and printing and writing papers
4	Harima Paper Tech. Corporation	Manufacture of color linerboards, functional specialty linerboards, etc.
5	Daio Paper Package Co., Ltd.	Manufacture and sale of corrugated board sheets and cases
6	Kansai Daio Paper Package Corporation	Manufacture and sale of corrugated board sheets and cases
7	Tokai Daio Paper Package Co., Ltd.	Manufacture and sale of corrugated board sheets and cases
8	Chubu Daio Paper Package Co., Ltd.	Manufacture and sale of corrugated board sheets and cases
9	Kyushu Daio Paper Package Co., Ltd.	Manufacture and sale of corrugated board sheets and cases
10	Suehiro Printing Co., Ltd.	Planning, manufacture, printing, processing and bookbinding of printing materials including books and flyers
11	Computer Printing Co., Ltd.	Manufacture, processing and sale of business forms, etc.
12	Bikodo, Inc.	Planning, manufacture and sale of seals and labels
13	Daio Paper Tech Co., Ltd.	Manufacture, processing and sale, etc. of papers, paper board products and packing materials
14	Elleair Printing Co., Ltd.	Printing, processing, etc. of packages
15	Tokyo Pulp & Paper Corporation	Purchase and sale of papers, paper boards, pulps, recycled papers, etc.
16	Tokyo Pulp & Paper International Co., Ltd.	Import sale of pulps, coals and wood chips and export sale of papers
17	Chugoku Kami Hanbai Co., Ltd.	Sale, etc. of printing and writing papers, paper boards and processed paper products
18	Daio Paper Package Unyu Co., Ltd.	Logistics
19	Chubu Daio Paper Package Unyu Co., Ltd.	Logistics
20	Suehiro Graphic Arts Co., Ltd.	Planning and manufacturing of printing materials including books
21	Sanwa Soko Sagyo Co., Ltd.	Receiving and storing of paper products, warehouse receiving and shipping service
22	Secondary Fiber Co., Ltd.	Receiving and shipping of recycled papers and chemicals, transportation of waste materials, etc.
23	Daio Packing System Co., Ltd.	Packing and finishing of paper products
24	Iwaki Eco-Pulp Corporation	Receiving and shipping of recycled papers, pulps and fuels; manufacturing of recycled paper tubes & cores

ii) Date of business combination
August 15, 2012

iii) Legal form of business combination
Acquisition of shares (additional acquisition)

iv) Name of post-combination company
No change

v) Other information related to the overview of transaction
The Company implemented the transaction by acquiring part of the shares owned by minority shareholders for the objective of enhancing governance, etc. and the aim of achieving further integration of the group operations.

(2) Outline of accounting treatment applied to the transaction

The transaction was accounted for as a transaction with minority shareholders that was treated as a transaction between entities under common control in accordance with the "Accounting Standard for Business Combinations" (ASBJ Statement No. 21, December 26, 2008) and the "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10, December 26, 2008).

(3) Information related to additional acquisition of subsidiary shares

i) Acquisition cost of acquired companies and breakdown

		Millions of Yen
Consideration for acquisition	Cash	¥ 5,224
Cost directly attributable to the acquisition	Advisory fee	28
Total acquisition cost		¥ 5,252

ii) Amount, cause, amortization method and amortization period of goodwill arising in the business combination

a) Amount of goodwill arising in the business combination

¥9,131 million

b) Cause of goodwill arising in the business combination

As acquisition cost of additionally acquired shares of the subsidiaries exceeded the amount of minority interests that was reduced as a result of the additional acquisition, the Company recognized the difference as goodwill.

c) Amortization method and amortization period

Goodwill is amortized by the straight-line method over 20 years.

(Business combinations that occurred during the fiscal year ended March 31, 2014)

Transactions under common control

A Merger of subsidiaries

(1) Overview of transaction

i) Name and business of combining companies concerned and post-combination company

a) Corrugated board companies

Combining company

Name	Description of business
Chubu Daio Paper Package Co., Ltd.	Manufacture and sale of corrugated board sheets and cases

Companies combined

Name	Description of business
Daio Paper Package Co., Ltd.	Manufacture and sale of corrugated board sheets and cases
Kansai Daio Paper Package Corporation	Manufacture and sale of corrugated board sheets and cases
Chugoku Daio Paper Package Co., Ltd.	Manufacture and sale of corrugated board sheets and cases
Kyushu Daio Paper Package Co., Ltd.	Manufacture and sale of corrugated board sheets and cases
Daio Paper Design Package Corporation	Manufacture and sale of multicolor process corrugated board

Name of post-combination company

Daio Package Corporation

b) Sales companies

Combining company

Name	Description of business
Daiken Kami Hanbai Co., Ltd.	Sale of printing papers, wrapping papers, digital & communication papers, linerboard and corrugated medium

Companies combined

Name	Description of business
Osaka Kami Hanbai Co., Ltd.	Sale of printing papers, wrapping papers, digital & communication papers and linerboard
Chugoku Kami Hanbai Co., Ltd.	Sale, etc. of printing and writing papers, paper boards and processed paper products
Chukyo Kami Pulp Hanbai Co., Ltd.	Sale of printing and writing papers, paper boards and specialty papers

Name of post-combination company

Daio Pulp & Paper Co., Ltd.

c) Logistics companies

Combining company

Name	Description of business
Daio Kami Unyu Co., Ltd.	Logistics, collection and transportation of industrial waste, rail transportation, warehousing, etc.

Companies combined

Name	Description of business
Nagoya Kami Unyu Co., Ltd.	Logistics and warehousing
Kita-Kanto Kami Unyu Co., Ltd.	Logistics, warehousing and paper processing
Omiya Unyu Co., Ltd.	Logistics
Elleair Logistics Co., Ltd.	Logistics
Sanwa Soko Sagyo Co., Ltd.	Warehousing

Name of post-combination company

Daio Logistics Co., Ltd.

d) Home and personal care product manufacturing companies

Combining company

Name	Description of business
Daio Paper Converting Co., Ltd.	Development and manufacture of disposable diapers and paper products

Company combined

Name	Description of business
Elleair Paper Tech Co., Ltd.	Manufacture of disposable diapers, feminine care products and wet tissues

Name of post-combination company

Elleair Product Co., Ltd.

e) Companies within the premises of Mishima Mill
(Raw materials related)

Combining company

Name	Description of business
Secondary Fiber Co., Ltd.	Collection and transportation of waste materials from the paper mill and support work for paper mill operations

Company combined

Name	Description of business
Shikoku Energy Sagyo Co., Ltd.	Maintenance and operation support of machine equipment of paper mill

Name of post-combination company
Daio Eco Work Corporation

(Papermaking process related)
Combining company

Name	Description of business
Daio Paper Tech Co., Ltd.	Manufacture, processing and sale, etc. of papers, paper board products and packing materials

Companies combined

Name	Description of business
Daio Packing System Co., Ltd.	Packing and finishing of paper roll products
Daio Mill Support Co., Ltd.	Winder operation at a paper mill of Daio Paper Corporation and minor repair, maintenance and operational environment management, etc. of equipment for winder operation

Name of post-combination company
Daio Mill Support Co., Ltd.

f) Engineering companies
Combining company

Name	Description of business
Daio Engineering Co., Ltd.	Sale of environmental equipment and test equipment

Company combined

Name	Description of business
Daio Maintenance Corporation	Manufacture, repair, maintenance, sale, etc. of industrial machinery and power machinery

Name of post-combination company
Daio Engineering Co., Ltd.

g) Golf club operating companies

Combining company

Name	Description of business
Elleair Resorts Golf Club Co., Ltd.	Golf club operations

Company combined

Name	Description of business
Elleair Shoko Co., Ltd.	Golf club operations

Name of post-combination company

Elleair Resorts Golf Club Co., Ltd.

ii) Date of business combination

April 1, 2013

iii) Legal form of business combination

The legal form of the transactions is an absorption-type merger in which the combining company is a company surviving the merger and companies combined are those absorbed in the merger.

iv) Other information related to the overview of transaction

By merging the subsidiaries that had previously operated in the same industry sector in order to integrate their operations, the Company can implement more broad-based business activities while pursuing operational efficiency.

(2) Outline of accounting treatment applied to the transaction

The merger was accounted for as a transaction between entities under common control in accordance with the “Accounting Standard for Business Combinations” (ASBJ Statement No. 21, December 26, 2008) and the “Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures” (ASBJ Guidance No. 10, December 26, 2008).

B Additional acquisition of subsidiary shares

(1) Overview of transaction

i) Name and business of combining companies concerned

	Name of combining company concerned	Description of business	Percentage of voting rights immediately after acquisition (direct ownership + indirect ownership)
1	Iwaki Daio Paper Corporation	Manufacture of newsprint and linerboard and corrugated medium	100.0%
2	Taisei Paper Corporation	Manufacture of linerboard, tissue papers, toilet papers, etc.	100.0%
3	Elleair Product Co., Ltd.	Development and manufacture of disposable diapers, feminine care products, paper products, etc.	100.0%
4	Daio Package Corporation	Manufacture and sale of corrugated board sheets and cases	100.0%
5	Ohmiya Paper Corporation	Manufacture and processing of tissue papers, etc.	100.0%
6	Daio Pulp & Paper Co., Ltd.	Sale of printing papers, wrapping papers, digital & communication papers, and linerboard and corrugated medium	100.0%
7	Marubishi Paper Tec. Corporation	Development, manufacture and processing of specialty papers	100.0%
8	Daio Logistics Co., Ltd.	Logistics, collection and transportation of industrial waste, rail transportation, warehousing	100.0%
9	Elleair Printing Co., Ltd.	Printing, processing, etc. of packages	100.0%
10	Daio Engineering Co., Ltd.	Manufacture, repair, maintenance and sale of environmental equipment, test equipment, industrial machinery and power machinery, etc.	100.0%
11	Tokai Daio Paper Package Co., Ltd.	Manufacture and sale of corrugated board sheets and cases	100.0%
12	Elleair Paper Chemical Corporation	Processing and sale of chemicals	100.0%
13	Fuji Paper Supply Co., Ltd.	Sale of paper products for family use	100.0%
14	Tokyo Pulp & Paper International Co., Ltd.	Import sale of raw materials, export and domestic sale of paper products	100.0%
15	Computer Printing Co., Ltd.	Manufacture, processing and sale of business forms, etc.	100.0%
16	Otsu Paper Board Co., Ltd.	Manufacture and sale of linerboard	77.0%
17	Dainichi Paper Corporation	Manufacture and sale of specialty papers and printing and writing papers	100.0%
18	Harima Paper Tech. Corporation	Manufacture of color linerboards and functional specialty linerboards	100.0%
19	Akabira Paper Corporation	Manufacture and processing of tissue papers, etc.	100.0%
20	Daio Mill Support Co., Ltd.	Manufacture, processing and sale, etc. of papers, paper board products and packing materials	100.0%
21	Tokyo Pulp & Paper Corporation	Purchase and sale of papers, paper boards, pulps, recycled papers, etc.	21.5%
22	Elleair Co., Ltd.	Holding of shares of operating companies	98.1%
23	Elleair Resorts Golf Club Co., Ltd.	Golf club operations	100.0%
24	Elleair International (Thailand) Co., Ltd.	Manufacture and sale of disposable diapers	86.3%

ii) Date of business combination
February 28, 2014 and March 14, 2014

iii) Legal form of business combination
Acquisition of shares (additional acquisition)

iv) Name of post-combination company
No change

v) Other information related to the overview of transaction
The Company implemented the transaction by acquiring part of the shares owned by minority shareholders, which resulted in 28 out of 33 consolidated subsidiaries becoming 100% owned subsidiaries of the Company as of March 31, 2014, for the objective of enhancing the governance, etc. with an aim of achieving further integration of the Group operations.

(2) Outline of accounting treatment applied to the transaction
The transaction was accounted for as a transaction with minority shareholders that was treated as a transaction between entities under common control in accordance with the "Accounting Standard for Business Combinations" (ASBJ Statement No. 21, December 26, 2008) and the "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10, December 26, 2008).

(3) Information related to the additional acquisition of subsidiary shares
i) Acquisition cost of acquired companies and breakdown

		Millions of Yen
Consideration for acquisition	Cash and deposits	¥ 1,451
Total acquisition cost		¥ 1,451

ii) Amounts, cause, amortization method and amortization period of goodwill and gain on bargain purchase arising from the business combination

a) Amount of goodwill arising in the business combination
¥85 million

b) Amount of negative goodwill (gain on bargain purchase) arising in the business combination
¥1,794 million

c) Cause of goodwill arising in the business combination
Goodwill and negative goodwill arose as the difference between acquisition cost of additionally acquired shares of the subsidiaries and the amount of minority interests that was reduced as a result of the additional acquisition.

d) Amortization method and amortization period
Goodwill was written off in the fiscal year ended March 31, 2014 because the amount was insignificant.

4. Cash Flow Information

(1) Cash and cash equivalents in the consolidated statements of cash flows for the fiscal years ended March 31, 2013, 2014 and 2015 are reconciled to the accounts reported in the consolidated balance sheets as of March 31, 2013, 2014 and 2015 as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2013	2014	**2015**	**2015**
Cash and deposits	¥ 86,210	¥ 85,838	**¥ 82,558**	**$ 687,009**
Time deposits with maturities of more than three months	(3,753)	(6,792)	**(13,485)**	**(112,218)**
Cash and cash equivalents	¥ 82,457	¥ 79,046	**¥ 69,073**	**$ 574,791**

(2) As the Company acquired the shares of Elleair Paper Tech Co., Ltd. and other 23 companies in the second quarter of the fiscal year ended March 31, 2013 to make them consolidated subsidiaries, the breakdown of their assets and liabilities at the start of consolidation period as well as the amount of shares acquired and net cash payment for the acquisition are disclosed as follows:

	Millions of Yen
Current assets	¥ 46,948
Non-current assets	82,772
Goodwill	46,207
Current liabilities	(56,686)
Non-current liabilities	(43,456)
Minority interests	(2,242)
Amount of shares acquired	73,544
Existing equity interests (Note)	(30,774)
Cash and cash equivalents	(14,689)
Net cash payment for the acquisition	¥ (28,081)

(Note) Existing equity interests include the shares of subsidiaries that had been held by Elleair Paper Tech Co., Ltd. and a further 23 companies which became consolidated subsidiaries of the Company during the fiscal year ended March 31, 2013.

(3) Major assets and liabilities of a company that moved out of the scope of consolidation following the sales of shares.
Disclosure is omitted due to its immateriality as of March 31, 2014.

5. Notes Receivable

(Promissory notes that become due on the last day of the fiscal year)
Promissory notes that become due on the last day of the fiscal year are settled on the clearing date of the notes. As the last day of the fiscal year ended March 31, 2013 was a bank holiday, the notes receivable – trade in the amount of ¥1,728 million that were due on that day were included in the consolidated balance sheet as of March 31, 2013.

(Notes receivable discounted and transferred by endorsement)
The following are the balances of notes receivable discounted and notes receivable transferred by endorsement directly deducted from notes receivable as of March 31, 2013, 2014 and 2015.

	Millions of Yen			Thousands of U.S. Dollars
	2013	2014	**2015**	**2015**
Notes receivable discounted	¥ 1,702	¥ 625	**¥ 279**	**$ 2,319**
Notes receivable transferred by endorsement	766	700	**827**	**6,882**

6. Inventories

The amount of inventories stated on the consolidated balance sheets at the end of fiscal years is calculated by writing down the value based on any decreased profitability. Losses on valuation of inventories included in cost of sales for the fiscal years ended March 31, 2013, 2014 and 2015 are shown as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2013	2014	**2015**	**2015**
Loss on valuation of inventories	¥ 1,009	¥ 1,096	**¥ 492**	**$ 4,096**

7. Securities

(1) Available-for-sale securities

As of March 31, 2013

Classification	Type of securities	Millions of Yen Book value	Cost	Difference
Securities for which book value exceeds cost	(1) Equity securities	¥ 13,138	¥ 10,327	¥ 2,811
	(2) Debt securities			
	i) Government bonds, local government bonds and other	—	—	—
	ii) Corporate bonds	41	40	1
	iii) Others	—	—	—
	(3) Others	—	—	—
	Subtotal	13,179	10,367	2,812
Securities for which book value does not exceed cost	(1) Equity securities	3,655	4,288	(633)
	(2) Debt securities			
	i) Government bonds, local government bonds and other	—	—	—
	ii) Corporate bonds	—	—	—
	iii) Others	—	—	—
	(3) Others	—	—	—
	Subtotal	3,655	4,288	(633)
	Total	¥ 16,834	¥ 14,655	¥ 2,179

(Note) Non-marketable equity securities (with book value of ¥5,062 million) and preferred equity securities (with book value of ¥500 million) are not included in "available-for-sale securities" in the above table because they have no quoted market price and thus it is extremely difficult to determine their fair value.

As of March 31, 2014

Classification	Type of securities	Millions of Yen Book value	Cost	Difference
Securities for which book value exceeds cost	(1) Equity securities	¥ 15,480	¥ 11,633	¥ 3,847
	(2) Debt securities			
	i) Government bonds, local government bonds and other	—	—	—
	ii) Corporate bonds	40	40	0
	iii) Others	—	—	—
	(3) Others	—	—	—
	Subtotal	15,520	11,673	3,847
Securities for which book value does not exceed cost	(1) Equity securities	3,339	3,577	(237)
	(2) Debt securities			
	i) Government bonds, local government bonds and other	—	—	—
	ii) Corporate bonds	—	—	—
	iii) Others	—	—	—
	(3) Others	—	—	—
	Subtotal	3,339	3,577	(237)
	Total	¥ 18,859	¥ 15,250	¥ 3,610

(Note) Non-marketable equity securities (with book value of ¥5,209 million) and preferred equity securities (with book value of ¥500 million) are not included in "available-for-sale securities" in the above table because they have no quoted market price and thus it is extremely difficult to determine their fair value.

As of March 31, 2015

Classification	Type of securities	Millions of Yen		
		Book value	Cost	Difference
Securities for which book value exceeds cost	(1) Equity securities	¥ 31,119	¥ 15,162	¥ 15,957
	(2) Debt securities			
	i) Government bonds, local government bonds and other	—	—	—
	ii) Corporate bonds	—	—	—
	iii) Others	—	—	—
	(3) Others	—	—	—
	Subtotal	31,119	15,162	15,957
Securities for which book value does not exceed cost	(1) Equity securities	2,679	2,818	(139)
	(2) Debt securities			
	i) Government bonds, local government bonds and other	—	—	—
	ii) Corporate bonds	—	—	—
	iii) Others	—	—	—
	(3) Others	—	—	—
	Subtotal	2,679	2,818	(139)
	Total	¥ 33,798	¥ 17,980	¥ 15,818

Classification	Type of securities	Thousands of U.S. Dollars		
		Book value	Cost	Difference
Securities for which book value exceeds cost	(1) Equity securities	$ 258,960	$ 126,172	$ 132,788
	(2) Debt securities			
	i) Government bonds, local government bonds and other	—	—	—
	ii) Corporate bonds	—	—	—
	iii) Others	—	—	—
	(3) Others	—	—	—
	Subtotal	258,960	126,172	132,788
Securities for which book value does not exceed cost	(1) Equity securities	22,290	23,449	(1,159)
	(2) Debt securities			
	i) Government bonds, local government bonds and other	—	—	—
	ii) Corporate bonds	—	—	—
	iii) Others	—	—	—
	(3) Others	—	—	—
	Subtotal	22,290	23,449	(1,159)
	Total	$ 281,251	$ 149,622	$ 131,629

(Note) Non-marketable equity securities (with book value of ¥2,328 million ($19,369 thousand)) are not included in "available-for-sale securities" in the above table because they have no quoted market price and thus it is extremely difficult to determine their fair value.

(2) Available-for-sale securities sold

For the fiscal year ended March 31, 2013

Type of securities	Millions of Yen		
	Proceeds from sale	Gain on sale	Loss on sale
(1) Equity securities	¥ 4,708	¥ 922	¥ 2,397
(2) Debt securities			
i) Government bonds, local government bonds and other	—	—	—
ii) Corporate bonds	—	—	—
iii) Others	—	—	—
(3) Others	—	—	—
Total	¥ 4,708	¥ 922	¥ 2,397

For the fiscal year ended March 31, 2014

Type of securities	Millions of Yen		
	Proceeds from sale	Gain on sale	Loss on sale
(1) Equity securities	¥ 852	¥ 429	¥ 1
(2) Debt securities			
i) Government bonds, local government bonds and other	—	—	—
ii) Corporate bonds	—	—	—
iii) Others	—	—	—
(3) Others	—	—	—
Total	¥ 852	¥ 429	¥ 1

For the fiscal year ended March 31, 2015

Type of securities	Millions of Yen		
	Proceeds from sale	Gain on sale	Loss on sale
(1) Equity securities	**¥ 831**	**¥ 38**	**¥ 1**
(2) Debt securities			
i) Government bonds, local government bonds and other	**—**	**—**	**—**
ii) Corporate bonds	**—**	**—**	**—**
iii) Others	**—**	**—**	**—**
(3) Others	**—**	**—**	**—**
Total	**¥ 831**	**¥ 38**	**¥ 1**

Type of securities	Thousands of U.S. Dollars		
	Proceeds from sale	Gain on sale	Loss on sale
(1) Equity securities	**$ 6,916**	**$ 313**	**$ 4**
(2) Debt securities			
i) Government bonds, local government bonds and other	**—**	**—**	**—**
ii) Corporate bonds	**—**	**—**	**—**
iii) Others	**—**	**—**	**—**
(3) Others	**—**	**—**	**—**
Total	**$ 6,916**	**$ 313**	**$ 4**

(3) Impairment of investment in securities

For the fiscal year ended March 31, 2013, the Company recorded impairment loss of ¥1,039 million on securities (all of which was on available-for-sale securities).

For the fiscal year ended March 31, 2014, the Company recorded impairment loss of ¥146 million on securities (of which ¥87 million on available-for-sale securities).

For the fiscal year ended March 31, 2015, the Company recorded impairment loss ¥16 million ($133 thousand) on securities (all of which was on available-for-sale securities).

For securities whose fair values at the end of the fiscal year have declined by 50% or more compared with their cost, loss on impairment is recorded without exception. For securities whose fair value at the end of the fiscal year have declined by 30% or more but less than 50% compared with cost, loss on impairment is recorded if it is deemed necessary in consideration of the possibility of the fair values being restored.

(4) Investments in unconsolidated subsidiaries and associates

	Millions of Yen			Thousands of U.S. Dollars
	2013	2014	**2015**	**2015**
Investment securities (equity securities)	¥ 4,611	¥ 2,616	**¥ 3,284**	**$ 27,328**
Investments and other assets (investments in capital)	4,566	3,851	**1,353**	**11,258**

8. Assets Pledged as Collateral

Assets pledged as collateral and associated secured debt obligations as of March 31, 2013, 2014 and 2015 are as follows:

Assets pledged as collateral

	Millions of Yen						Thousands of U.S. Dollars	
	2013		2014		**2015**		**2015**	
Buildings and structures	¥ 41,007	¥ (38,311)	¥ 40,324	¥ (37,823)	**¥ 36,543**	**¥ (34,269)**	**$ 304,093**	**$ (285,170)**
Machinery, equipment and vehicles	73,035	(55,859)	68,857	(52,209)	**51,198**	**(45,174)**	**426,048**	**(375,918)**
Land	48,508	(39,132)	51,595	(42,100)	**48,626**	**(41,136)**	**404,644**	**(342,312)**
Other items of property, plant and equipment	122	(111)	230	(125)	**122**	**(117)**	**1,018**	**(972)**
Total	¥162,673	¥(133,413)	¥161,006	¥(132,257)	**¥136,489**	**¥(120,695)**	**$1,135,803**	**$(1,004,373)**

Associated secured debt obligations

	Millions of Yen						Thousands of U.S. Dollars	
	2013		2014		**2015**		**2015**	
Short-term loans payable	¥ 2,600	¥ (2,000)	¥ 2,680	¥ (2,000)	**¥ 100**	**¥ (100)**	**$ 832**	**$ (832)**
Long-term loans payable (including current portion)	149,475	(143,953)	114,294	(109,869)	**79,976**	**(76,315)**	**665,524**	**(635,060)**
Long-term accounts payable—facilities (including current portion)	7,120	(—)	6,409	(—)	**4,202**	**(—)**	**34,965**	**(—)**
Total	¥159,196	¥(145,953)	¥123,383	¥(111,869)	**¥ 84,278**	**¥ (76,415)**	**$ 701,321**	**$ (635,892)**

(Note) The figures in parentheses above indicate the factory foundation mortgage and the debt secured by the factory foundation mortgage.

9. Reduction Entry

The following are the amounts of the reduction entry associated with acquisition of property, plant and equipment using government subsidies.

	Millions of Yen						Thousands of U.S. Dollars	
	2013		2014		**2015**		**2015**	
Machinery, equipment and vehicles	¥ —	¥(4,350)	¥ —	¥(4,336)	¥ —	**¥(4,723)**	**$ —**	**$(39,303)**
Land	—	(463)	—	(463)	—	**(463)**	**—**	**(3,853)**
Other items of property, plant and equipment	—	(120)	—	(119)	—	**(119)**	**—**	**(994)**

(Notes)
1. The figures in parentheses above indicate the accumulated amounts of the reduction entry associated with acquisition of property, plant and equipment using the government subsidies.
2. The accumulated amount of the reduction entry at the end of the fiscal year ended March 31, 2013 increased by ¥657 million due to an increase in the number of consolidated subsidiaries as a result of a change in the scope of consolidation.
3. The amounts of land indicate those of the government subsidies deducted from the cost, which was received in compensation for expropriation.

10. Bonds and Loans Payable

For the fiscal year ended March 31, 2013

(1) Bonds Payable

			Millions of Yen		%		
Company	Name	Date of issue	Beginning balance	Ending balance	Interest rate	Collateral	Maturity
Daio Paper Corporation	Unsecured Straight Bond No. 10	April 18, 2005	¥ 10,000 (¥10,000)	¥ —	1.55	None	April 18, 2012
Daio Paper Corporation	Unsecured Straight Bond No. 15	April 26, 2007	10,000	10,000	2.48	None	April 25, 2014
Daio Paper Corporation	Unsecured Straight Bond No. 16	December 17, 2010	15,000	15,000	1.14	None	December 17, 2015
Daio Paper Corporation	Unsecured Straight Bond No. 17	September 20, 2011	10,000	10,000	1.00	None	September 20, 2016
Consolidated subsidiaries	Subsidiary Straight Bonds	From March 30, 2007 to March 27, 2012	1,160 (230)	930 (190)	0.46 — 1.96	None	From September 30, 2013 to March 30, 2017
Total	—	—	¥ 46,160 (¥10,230)	¥ 35,930 (¥190)	—	—	—

(Notes)
1. The amounts in parentheses above indicate redemption amounts due within one year.
2. Regarding the redemption schedule of bonds payable for five years subsequent to March 31, 2013, please refer to *19. Financial Instruments*.

(2) Loans Payable and others

Category	Millions of Yen		%	
	Beginning balance	Ending balance	Average interest rate	Maturity
Short-term loans payable	¥ 74,336	¥ 66,790	1.4	—
Current portion of long-term loans payable	64,511	111,291	1.7	—
Current portion of lease obligations	238	293	—	—
Long-term loans payable (excluding current portion)	211,367	226,989	1.6	Due 2014 through 2025
Lease obligations (excluding current portion)	416	522	—	Due 2014 through 2019
Other interest-bearing debt				
Current portion of long-term accounts payable—facilities	2,023	2,960	1.5	—
Long-term accounts payable—facilities (excluding current portion)	3,328	4,969	0.4	Due 2014 through 2018
Total	¥ 356,220	¥ 413,814	—	—

(Notes)

1. The average interest rate above represents the weighted-average interest rate for the ending balance of loans payable.
2. The average interest rate of the lease obligations is not presented because the lease obligations are stated in the consolidated balance sheet at the amount before deducting the amount equivalent to interest expenses that are included in the total lease payments.
3. Among the long-term loans payable outstanding at the end of the second quarter of the fiscal year ended March 31, 2013, the long-term borrowing agreement in the amount of ¥13,500 million contained the debt covenants requiring the Company:
   i) To maintain the balances of total net assets in the Company’s unconsolidated balance sheet as of the year-end and the second quarter-end of each fiscal year subsequent to the date of agreement at 75 percent or more of the higher of the balances of total net assets in the unconsolidated balance sheets as of the year-end and the second quarter-end of the fiscal year immediately before the year-end and the second quarter-end of the fiscal year in question or ¥119,036 million;
   ii) To maintain the balances of total net assets in the Company’s consolidated balance sheet as of the year-end and the second quarter-end of each fiscal year subsequent to the date of agreement at 75 percent or more of the higher of the balances of total net assets in the consolidated balance sheets as of the year-end and the second quarter-end of the fiscal year immediately before the year-end and the second quarter-end of the fiscal year in question or ¥127,202 million; and
   iii) Not to post ordinary loss in the year-end consolidated and unconsolidated statements of income for two consecutive fiscal years, respectively, subsequent to the date of agreement

   While the Company was not in compliance with Item i) of the debt covenants above as of the end of the second quarter of the fiscal year ended March 31, 2013, it reached the agreement with the financial institution, the lender of the abovementioned long-term loans payable, before the date of filing the Second Quarterly Securities Report to the Financial Services Agency of Japan, that the lender would waive the right to use the acceleration clause and agree to amend Item i) of the debt covenants above as shown below. Subsequently, the Company signed the agreement reflecting the following amendment with the financial institution on November 26, 2012.

   To maintain the balances of total net assets in the Company’s unconsolidated balance sheet as of the end of the second quarter ended September 2012 and the year-end and the second quarter-end of each fiscal year subsequent to the end of the second quarter ended September 2012 at 75 percent or more of the higher of (a) or (b) as described below:
   a) the balances of total net assets in the unconsolidated balance sheets as of the year-end and the second quarter-end of the fiscal year immediately before the year-end and the second quarter-end of the fiscal year in question, or
   b) the higher of the balance of total net assets in the unconsolidated balance sheet as of the end of the fiscal year ended March 2013 or ¥91,180 million,

   As of the end of the fiscal year ended March 31, 2013, the Company was in compliance with the amended debt covenants.

4. Regarding the redemption schedule of long-term loans payable, lease obligations and other interest-bearing debt (excluding current portions) for five years subsequent to March 31, 2013, please refer to *19. Financial Instruments.*

For the fiscal year ended March 31, 2014

(1) Bonds Payable

			Millions of Yen		%		
Company	Name	Date of issue	Beginning balance	Ending balance	Interest rate	Collateral	Maturity
Daio Paper Corporation	Unsecured Straight Bond No. 15	April 26, 2007	¥ 10,000	¥ 10,000 (¥10,000)	2.48	None	April 25, 2014
Daio Paper Corporation	Unsecured Straight Bond No. 16	December 17, 2010	15,000	15,000	1.14	None	December 17, 2015
Daio Paper Corporation	Unsecured Straight Bond No. 17	September 20, 2011	10,000	10,000	1.00	None	September 20, 2016
Consolidated subsidiaries	Subsidiary Straight Bonds	From March 30, 2007 to March 27, 2012	930 (190)	740 (100)	0.46 — 1.96	None	From June 30, 2014 to March 30, 2017
Total	—	—	¥ 35,930 (¥190)	¥ 35,740 (¥10,100)	—	—	—

(Notes)
1. The amounts in parentheses above indicate redemption amounts due within one year.
2. Regarding the redemption schedule of bonds payable for five years subsequent to March 31, 2014, please refer to *19. Financial Instruments*.

(2) Loans Payable and others

	Millions of Yen		%	
Category	Beginning balance	Ending balance	Average interest rate	Maturity
Short-term loans payable	¥ 66,790	¥ 58,950	1.4	—
Current portion of long-term loans payable	111,291	96,660	1.6	—
Current portion of lease obligations	293	324	—	—
Long-term loans payable (excluding current portion)	226,989	215,283	1.5	Due 2015 through 2025
Lease obligations (excluding current portion)	522	527	—	Due 2015 through 2023
Other interest-bearing debt				
Current portion of long-term accounts payable—facilities	2,960	3,149	1.7	—
Long-term accounts payable—facilities (excluding current portion)	4,969	7,031	1.1	Due 2015 through 2019
Total	¥ 413,814	¥381,924	—	—

(Notes)
1. The average interest rate above represents the weighted-average interest rate for the ending balance of loans payable.
2. The average interest rate of the lease obligations is not presented because the lease obligations are stated in the consolidated balance sheet at the amount before deducting the amount equivalent to interest expenses that are included in the total lease payments.
3. Regarding the redemption schedule of long-term loans payable, lease obligations and other interest-bearing debt (excluding current portions) for five years subsequent to March 31, 2014, please refer to *19. Financial Instruments*.

For the fiscal year ended March 31, 2015

(1) Bonds Payable

Company	Name	Date of issue	Millions of Yen Beginning balance	Millions of Yen Ending balance	% Interest rate	Collateral	Maturity
Daio Paper Corporation	Unsecured Straight Bond No. 15	April 26, 2007	**¥ 10,000** **(¥10,000)**	**¥ —**	2.48	None	April 25, 2014
Daio Paper Corporation	Unsecured Straight Bond No. 16	December 17, 2010	**15,000**	**15,000** **(15,000)**	1.14	None	December 17, 2015
Daio Paper Corporation	Unsecured Straight Bond No. 17	September 20, 2011	**10,000**	**10,000**	1.00	None	September 20, 2016
Consolidated subsidiaries	Subsidiary Straight Bonds	From March 30, 2007 to March 27, 2012	**740** **(100)**	**340** **(20)**	0.90 — 1.96	None	From March 27, 2017 to March 30, 2017
Total	—	—	**¥ 35,740** **(¥10,100)**	**¥ 25,340** **(¥15,020)**	—	—	—

Company	Name	Date of issue	Thousands of U.S. Dollars Beginning balance	Thousands of U.S. Dollars Ending balance	% Interest rate	Collateral	Maturity
Daio Paper Corporation	Unsecured Straight Bond No. 15	April 26, 2007	**$ 83,215** **($83,215)**	**$ —**	2.48	None	April 25, 2014
Daio Paper Corporation	Unsecured Straight Bond No. 16	December 17, 2010	**124,823**	**124,823** **(124,823)**	1.14	None	December 17, 2015
Daio Paper Corporation	Unsecured Straight Bond No. 17	September 20, 2011	**83,215**	**83,215**	1.00	None	September 20, 2016
Consolidated subsidiaries	Subsidiary Straight Bonds	From March 30, 2007 to March 27, 2012	**6,158** **(832)**	**2,829** **(166)**	0.90 — 1.96	None	From March 27, 2017 to March 30, 2017
Total	—	—	**$ 297,412** **($84,048)**	**$ 210,868** **($124,990)**	—	—	—

(Notes)
1. The amounts in parentheses above indicate redemption amounts due within one year.
2. Regarding the redemption schedule of bonds payable for five years subsequent to March 31, 2015, please refer to *19. Financial Instruments*.

(2) Loans Payable and others

Category	Millions of Yen Beginning balance	Millions of Yen Ending balance	% Average interest rate	Maturity
Short-term loans payable	**¥ 58,950**	**¥ 37,360**	0.9	—
Current portion of long-term loans payable	**96,660**	**96,364**	1.5	—
Current portion of lease obligations	**324**	**395**	—	—
Long-term loans payable (excluding current portion)	**215,283**	**207,550**	1.4	Due 2016 through 2022
Lease obligations (excluding current portion)	**527**	**805**	—	Due 2016 through 2023
Other interest-bearing debt				
Current portion of long-term accounts payable—facilities	**3,149**	**2,346**	0.8	—
Long-term accounts payable—facilities (excluding current portion)	**7,031**	**4,865**	0.8	Due 2016 through 2022
Total	**¥ 381,924**	**¥ 349,684**	—	—

Category	Thousands of U.S. Dollars Beginning balance	Thousands of U.S. Dollars Ending balance	% Average interest rate	Maturity
Short-term loans payable	**$ 490,555**	**$ 310,893**	0.9	—
Current portion of long-term loans payable	**804,357**	**801,901**	1.5	—
Current portion of lease obligations	**2,696**	**3,283**	—	—
Long-term loans payable (excluding current portion)	**1,791,491**	**1,727,133**	1.4	Due 2016 through 2022
Lease obligations (excluding current portion)	**4,385**	**6,696**	—	Due 2016 through 2023
Other interest-bearing debt				
Current portion of long-term accounts payable—facilities	**26,204**	**19,521**	0.8	—
Long-term accounts payable—facilities (excluding current portion)	**58,510**	**40,486**	0.8	Due 2016 through 2022
Total	**$ 3,178,198**	**$ 2,909,912**	—	—

(Notes)
1. The average interest rate above represents the weighted-average interest rate for the ending balance of loans payable.
2. The average interest rate of the lease obligations is not presented because the lease obligations are stated in the consolidated balance sheet at the amount before deducting the amount equivalent to interest expenses that are included in the total lease payments.
3. Regarding the redemption schedule of long-term loans payable, lease obligations and other interest-bearing debt (excluding current portions) for five years subsequent to March 31, 2015, please refer to *19. Financial Instruments*.

11. Guarantee Liabilities

The Company has committed to provide the following debt guarantees for loans taken out by companies other than the consolidated subsidiaries and associates from financial institutions as of March 31, 2013, 2014 and 2015.

	Millions of Yen 2013	Millions of Yen 2014	Millions of Yen **2015**	Thousands of U.S. Dollars **2015**
Otsu Kami Unyu Co., Ltd.	¥ 68	¥ 79	**¥ 52**	**$ 430**
Other	54	54	**54**	**447**
Total	¥ 122	¥ 132	**¥ 105**	**$ 878**

12. Shareholders' Equity

Under the Companies Act of Japan, the entire amount paid for new shares should, in principle, be designated as capital stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one-half of the issue price of the new shares as legal capital surplus, which is included in capital surplus. In cases where dividend distribution of surplus is made, an amount equal to 10 percent of the amount to be disbursed as distributions of capital surplus (other than the legal capital surplus) and retained earnings (other than the legal retained earnings) is transferred to the legal capital surplus and the legal retained earnings, respectively, until the sum of legal capital surplus and legal retained earnings equals to 25 percent of the capital stock account. Such distributions can be made at any time by resolution of the shareholders, or by the Board of Directors if certain conditions are met. Both appropriations of legal retained earnings and legal capital surplus to eliminate or reduce a deficit generally require a resolution at the general shareholders' meeting. Legal capital surplus and legal retained earnings may not be distributed as dividends. All legal capital surplus and legal retained earnings may be transferred to other capital surplus and other retained earnings, respectively, which are potentially available for dividends. The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with the Companies Act of Japan.

(1) Type and number of shares issued and type and number of treasury shares are summarized as follows:

For the fiscal year ended March 31, 2013

	Number of shares (in thousands)			
	March 31, 2012	Increase	Decrease	March 31, 2013
Shares issued:				
Common stock	129,019	—	—	129,019
Total	129,019	—	—	129,019
Treasury shares:				
Common stock (Notes 1 and 2)	6,661	12,412	8,234	10,839
Total	6,661	12,412	8,234	10,839

(Notes)
1. The increase in common stock as treasury shares of 12,412 thousand shares is due to an increase of 12,400 thousand shares following the change in the scope of consolidation and an increase of 12 thousand shares due to purchase of shares in less than standard units.
2. The decrease in common stock as treasury shares of 8,234 thousand shares is due to sale of the shares.

For the fiscal year ended March 31, 2014

	Number of shares (in thousands)			
	March 31, 2013	Increase	Decrease	March 31, 2014
Shares issued:				
Common stock	129,019	—	—	129,019
Total	129,019	—	—	129,019
Treasury shares:				
Common stock (Notes 1 and 2)	10,839	261	7,504	3,596
Total	10,839	261	7,504	3,596

(Notes)
1. The increase in common stock as treasury shares of 261 thousand shares is due to an increase of 244 thousand shares as a result of a change in the scope of consolidation and an increase of 17 thousand shares due to purchase of shares less than standard units.
2. The decrease in the common stock as treasury shares of 7,504 thousand shares is due to a decrease of 6 thousand shares as a result of a change in the scope of consolidation and a decrease of 7,498 thousand shares due to sale of the shares.

For the fiscal year ended March 31, 2015

	Number of shares (in thousands)			
	March 31, 2014	Increase	Decrease	March 31, 2015
Shares issued:				
Common stock (Note 1)	**129,019**	**20,330**	**—**	**149,349**
Total	**129,019**	**20,330**	**—**	**149,349**
Treasury shares:				
Common stock (Note 2)	**3,596**	**13**	**—**	**3,609**
Total	**3,596**	**13**	**—**	**3,609**

(Notes)

1. The increase in common stock of 20,330 thousand shares is due to an increase of 14,000 thousand shares as a result of the issue of new shares by public offering and an increase of 6,330 thousand shares as a result of the issue of new shares by third-party allotment.
2. The increase in common stock as treasury shares of 13 thousand shares is due to purchase of shares in less than standard units.

(2) Subscription rights to shares and treasury subscription rights to shares
Not applicable for the fiscal years ended March 31, 2013, 2014 and 2015.

(3) Dividends

i) Amount of cash dividends distributed

For the fiscal year ended March 31, 2013

Resolution	Type of shares	Total amount of dividends Millions of Yen	Dividends per share Yen	Record date	Effective date
General Shareholders' Meeting held on June 28, 2012	Common stock	¥ 568	¥ 4.50	March 31, 2012	June 29, 2012
Board of Directors' Meeting held on November 13, 2012	Common stock	¥ 505	¥ 4.00	September 30, 2012	December 7, 2012

For the fiscal year ended March 31, 2014

Resolution	Type of shares	Total amount of dividends Millions of Yen	Dividends per share Yen	Record date	Effective date
General Shareholders' Meeting held on June 27, 2013	Common stock	¥ 568	¥ 4.50	March 31, 2013	June 28, 2013
Board of Directors' Meeting held on November 11, 2013	Common stock	¥ 505	¥ 4.00	September 30, 2013	December 6, 2013

For the fiscal year ended March 31, 2015

		Total amount of dividends		Dividends per share			
Resolution	Type of shares	Millions of Yen	Thousands of U.S. Dollars	Yen	U.S. Dollars	Record date	Effective date
General Shareholders' Meeting held on June 27, 2014	Common stock	**¥ 568**	**$ 4,723**	**¥4.50**	**$ 0.04**	March 31, 2014	June 30, 2014
Board of Directors' Meeting held on November 11, 2014	Common stock	**¥ 586**	**$ 4,875**	**¥4.00**	**$ 0.03**	September 30, 2014	December 5, 2014

ii) Dividends with record date in the current fiscal year, and effective date in the following fiscal year.

For the fiscal year ended March 31, 2015

Resolution	Type of shares	Total amount of dividends: Millions of Yen	Total amount of dividends: Thousands of U.S. Dollars	Source of dividends	Dividends per share: Yen	Dividends per share: U.S. Dollars	Record date	Effective date
General Shareholders' Meeting held on June 26, 2015	Common stock	¥ **659**	$ **5,484**	Retained earnings	**¥4.50**	$ **0.04**	March 31, 2015	June 29, 2015

13. Selling, General and Administrative Expenses

Selling, general and administrative expenses for the fiscal years ended March 31, 2013, 2014 and 2015 mainly consist of the following:

	Millions of Yen			Thousands of U.S. Dollars
	2013	2014	**2015**	**2015**
Logistics and warehousing expenses	¥34,189	¥38,773	**¥40,033**	$ **333,141**
Salaries, allowances and bonuses	11,019	12,191	**12,507**	**104,074**
Provision for bonuses	1,398	1,471	**1,545**	**12,858**
Retirement benefit expenses	746	837	**1,006**	**8,371**

14. Research and Development

Research and development costs included in selling, general and administrative expenses and manufacturing costs for the fiscal years ended March 31, 2013, 2014 and 2015 are as follows:

Millions of Yen			Thousands of U.S. Dollars
2013	2014	**2015**	**2015**
¥2,150	¥ 2,837	**¥ 2,683**	$ **22,331**

15. Non-operating Income and Non-operating Expenses

Subsidy income included in non-operating income for the fiscal year ended March 31, 2015 consists mainly of the "subsidy for business location for the industrial recovery of Fukushima" granted to Iwaki Daio Paper Corporation (Iwaki City, Fukushima Prefecture), which is one of the Company's consolidated subsidiaries.

16. Extraordinary Income and Extraordinary Losses

(1) Gain on sales of non-current assets
The details of gain on sales of non-current assets included in extraordinary income for the fiscal years ended March 31, 2013, 2014 and 2015 are as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2013	2014	**2015**	**2015**
Gain on sales of land	¥ 115	¥ 468	¥ **247**	$ **2,052**
Gain on sales of buildings	41	143	**78**	**651**
Gain on sales of machinery and equipment	—	—	**34**	**283**
Gain on sales of vehicles	23	—	**—**	**—**
Gain on sales of tools, furniture and fixtures	—	299	**—**	**—**

(2) Loss on sales and retirement of non-current assets

The details of loss on sales and retirement of non-current assets included in extraordinary losses for the fiscal years ended March 31, 2013, 2014 and 2015 are as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2013	2014	2015	2015
Loss on sales and retirement of machinery and equipment	¥ 694	¥ 411	¥ **390**	$ **3,248**
Loss on sales and retirement of land	76	—	**535**	**4,448**
Loss on sales and retirement of buildings and structures	29	83	**176**	**1,461**
Loss on retirement of tools, furniture and fixtures	—	84	**—**	**—**

(3) Impairment loss

The Group recognizes impairment loss by grouping assets by business unit whose cash inflows and outflows are captured consistently for managerial accounting purposes. Assets that are not directly in use for business operations (consisting of idle assets, assets for rent and other assets) are grouped on an individual basis.

The Company recognized impairment losses for the following asset groups for the fiscal years ended March 31, 2013, 2014 and 2015.

For the fiscal year ended March 31, 2013

Use	Type	Location	Impairment loss Millions of Yen
Other assets	Real estate held for investment	Hawaii, U.S.A	¥ 1,804
Idle assets	Buildings and structures; land and other	Takamatsu City, Kagawa Prefecture and other	851

During the fiscal year ended March 31, 2013, the book values of idle assets and other that were not in use for business operations were written down to their recoverable amounts and the amounts written down were recognized as ¥2,663 million of impairment loss. This consisted of written down amounts of ¥155 million for buildings and structures, ¥155 million for machinery and equipment, ¥544 million for land, ¥1,804 million for real estate held for investment and ¥5 million for other.

The recoverable amount is measured at net selling price, while land is valued mainly using real estate appraisal value.

For the fiscal year ended March 31, 2014

Use	Type	Location	Impairment loss Millions of Yen
Idle assets	Machinery and equipment; tools, furniture and fixtures; land and other	Machida City, Tokyo; Kani City, Gifu Prefecture; Matsuyama City, Ehime Prefecture and other	¥ 3,418
Other assets	Land, real estate for investment	Hawaii, U.S.A	1,432
Other	Goodwill	—	877

During the fiscal year ended March 31, 2014, the carrying amount of land and other associated with the real estate business in Hawaii was written down to their recoverable amounts. Goodwill of Shikoku Paper Sales Corporation, which was the Company's consolidated subsidiary at the end of the third quarter of the fiscal year ended March 31, 2014, was written down to its recoverable amount. The Company sold the shares of Shikoku Paper Sales Corporation during the fourth quarter of the fiscal year ended March 31, 2014 and has since excluded it from the scope of consolidation as it is no longer a subsidiary of the Company.

The book values of idle assets that were not in use for business operations were written down to their recoverable amounts and the amounts written down were recognized as impairment loss.

The recoverable amount is measured at net selling price by valuing the assets at their estimated selling price.

For the fiscal year ended March 31, 2015

Use	Type	Location	Impairment loss Millions of Yen	Impairment loss Thousands of U.S. Dollars
Idle assets	Machinery and equipment; tools, furniture and fixtures; land and other	Fujinomiya City, Shizuoka Prefecture; Kan-onji City, Kagawa Prefecture and other	**¥ 1,453**	**$ 12,090**

During the fiscal year ended March 31, 2015, the book values of idle assets that were not in use for business operations were written down to their recoverable amounts and the amounts written down were recognized as impairment loss. This consisted of written down amounts of ¥21 million ($173 thousand) for buildings and structures, ¥24 million ($198 thousand) for machinery and equipment, ¥423 million ($3,520 thousand) for tools, furniture and fixtures, ¥975 million ($8,115 thousand) for land and ¥10 million ($85 thousand) for other.

The recoverable amount is measured at net selling price by valuing the assets at their estimated selling price.

(4) Foreign exchange losses
Foreign exchange losses that were recorded for the fiscal year ended March 31, 2015 is due to the liquidation of four of the five Elleair Hawaii Inc. Group companies.

17. Other Comprehensive Income

The reclassification and tax effects allocated to each component of other comprehensive income for the fiscal years ended March 31, 2013, 2014 and 2015 are as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2013	2014	**2015**	**2015**
Valuation difference on available-for-sale securities:				
Amount arising during the year	¥ (283)	¥1,804	**¥12,241**	**$ 101,865**
Reclassification adjustments	1,806	(374)	**(33)**	**(274)**
Before tax effect adjustment	1,523	1,430	**12,208**	**101,591**
Tax effect	(604)	(356)	**(3,685)**	**(30,669)**
Valuation difference on available-for-sale securities	919	1,074	**8,523**	**70,923**
Foreign currency translation adjustment:				
Amount arising during the year	1,661	3,300	**3,239**	**26,949**
Reclassification adjustments	—	—	**2,273**	**18,916**
Before tax effect adjustment	—	—	**5,512**	**45,866**
Tax effect	—	—	**—**	**—**
Foreign currency translation adjustment	1,661	3,300	**5,512**	**45,866**
Share of other comprehensive income of associates accounted for using equity method:				
Amount arising during the year	(7)	—	**—**	**—**
Reclassification adjustments	0	—	**—**	**—**
Share of other comprehensive income of associates accounted for using equity method	(7)	—	**—**	**—**
Remeasurements of defined benefit plans:				
Amount arising during the year	—	—	**(143)**	**(1,190)**
Reclassification adjustments	—	—	**541**	**4,505**
Before tax effect adjustment	—	—	**398**	**3,315**
Tax effect	—	—	**(108)**	**(900)**
Remeasurements of defined benefit plans	—	—	**290**	**2,415**
Total other comprehensive income	¥2,574	¥4,373	**¥14,325**	**$ 119,203**

18. Lease Transactions

Leased assets arising from finance lease transactions in which ownership of the leased assets is not transferred to the lessee are property, plant and equipment, which consists mainly of production facilities such as machinery, equipment and vehicles (for the fiscal years ended March 31, 2013, 2014 and 2015), and intangible assets which consists of software (for the fiscal years ended March 31, 2013 and 2014).

As described in Item *D. Depreciation and amortization* of Section *2. Summary of Significant Accounting and Reporting Policies*, leased assets are depreciated or amortized using the straight-line method over the lease term with no residual value.

Of those finance lease transactions in which ownership of the leased assets is not transferred to the lessee, lease transactions that commenced on or before March 31, 2008 are accounted for using the method applicable to ordinary rental transactions. The following are the details of such transactions on an "as if capitalized" basis for the fiscal years ended March 31, 2013, 2014 and 2015.

(1) Equivalents of acquisition cost, accumulated depreciation and ending balance of leased assets

For the fiscal year ended March 31, 2013

	Millions of Yen		
	Acquisition cost	Accumulated depreciation	Ending balance
Machinery, equipment and vehicles	¥ 2,259	¥ 1,696	¥ 562
Other	99	86	13
Total	¥ 2,358	¥ 1,782	¥ 576

For the fiscal year ended March 31, 2014

	Millions of Yen		
	Acquisition cost	Accumulated depreciation	Ending balance
Machinery, equipment and vehicles	¥ 1,581	¥ 1,353	¥ 228
Other	39	38	1
Total	¥ 1,620	¥ 1,391	¥ 229

For the fiscal year ended March 31, 2015

	Millions of Yen		
	Acquisition cost	Accumulated depreciation	Ending balance
Machinery, equipment and vehicles	**¥ 606**	**¥ 523**	**¥ 83**
Total	**¥ 606**	**¥ 523**	**¥ 83**

	Thousands of U.S. Dollars		
	Acquisition cost	Accumulated depreciation	Ending balance
Machinery, equipment and vehicles	**$ 5,039**	**$ 4,348**	**$ 691**
Total	**$ 5,039**	**$ 4,348**	**$ 691**

The acquisition costs equivalent above are calculated using the imputed interest method since the amount of future minimum lease payments at the end of the fiscal year are not material compared with the book values of property, plant and equipment at the end of the fiscal year.

(2) Future minimum lease payments equivalent at the end of the fiscal year

	Millions of Yen			Thousands of U.S. Dollars
	2013	2014	2015	2015
Future minimum lease payments equivalent				
Due within one year	¥ 286	¥ 146	¥ **60**	$ **502**
Due after one year	290	83	**23**	**189**
Total	¥ 576	¥ 229	¥ **83**	$ **691**

The future minimum lease payments equivalent above are calculated using the imputed interest method since the amount of future minimum lease payments at the end of the fiscal year are not material compared with the book values of property, plant and equipment at the end of the fiscal year.

(3) Lease expenses and depreciation expense equivalent

	Millions of Yen			Thousands of U.S. Dollars
	2013	2014	2015	2015
Lease expenses	¥ 350	¥ 276	¥ **143**	$ **1,189**
Depreciation expense equivalent	350	276	**143**	**1,189**

(4) Method for calculation of depreciation expense equivalent
The depreciation expense equivalent is calculated using the straight-line method over the lease term with no residual value.

19. Financial Instruments

(1) Group policy for financial instruments
The Group raises funds required to implement the capital investment plan through bank borrowings and bond issue. Also, the Group raises short-term working capital through bank borrowings. Derivative financial instruments are utilized to reduce risks and the Group does not hold or issue derivative financial instruments for speculative trading purposes.

(2) Details of financial instruments and risks
Trade receivables, presented as notes and accounts receivable—trade, are exposed to credit risk of customers. Investment securities are mostly stocks that are held by the Group in conjunction with the business or capital alliance with our business partners and are exposed to the risk of market price fluctuation. The Company is also a lender who delivers long-term loans to its subsidiaries and business partners.

Trade payables, presented as accounts payable—trade, are mostly due within one year. Loans and bonds payable are taken out primarily for the purpose of financing the Group's capital expenditures. While the floating-rate loans payable are exposed to interest rate fluctuation risk, part of the risks are hedged by using derivative financial instruments, i.e. interest rate swap and interest rate cap transactions.

As for derivative transactions, interest rate swap and interest rate cap transactions are utilized to reduce the risk of interest rate fluctuations on interest expenses from borrowings, and forward exchange contracts are utilized to reduce the risk of exchange rate fluctuations on foreign currency trade receivables and payables. Regarding hedging instruments and hedged items, hedging policy and method for evaluation of hedge effectiveness of hedging activities, please refer to Item *I. Derivative and hedge accounting* of Section *2. Summary of Significant Accounting and Reporting Policies*.

(3) Risk management for financial instruments

i) Management of credit risk (the risk of non-performance by business counterparts)
The Company protects and manages trade receivables by first establishing a credit limit of each customer based on the financial situation and creditworthiness, and then monitoring the due dates and the outstanding balance on a customer-by-customer basis primarily in accordance with the Credit Control Regulations, which is the Company's internal rule. Creditworthiness of each customer is measured by using credit information that is obtained through the credit-reporting agencies and is

collected by the Company on its own behalf. Furthermore, long-term loans receivable are controlled by regularly updating the borrowers' financial situation on top of monitoring the due dates and the outstanding balances so as to quickly detect and reduce concerns about collection. The consolidated subsidiaries also follow the same procedures in accordance with the Company's Credit Control Regulations.

ii) Management of market risk (the risk of foreign exchange and interest rate fluctuations)
The Company and certain consolidated subsidiaries use interest rate swap and interest rate cap transactions to reduce the risk of interest rate fluctuations on interest expense payable on borrowings.
Investment securities are subject to review on a regular basis to allow for appropriate portfolio decisions by monitoring their fair values and the financial situation of business partners whose shares are owned by the Company, and evaluating the relationship with them.
Regarding derivative transactions, the basic policy is determined by the Board of Directors and transactions are entered into by the Treasury Department in accordance with the Derivatives Transaction Control Regulations, which is the Company's internal rule.

iii) Management of liquidity risk related to financing activities (the risk of non-performance on a due date)
The Company manages liquidity risk, or the risk of non-performance by the Company on due dates, associated with trade payables and loans payable primarily through monthly preparation of a cash budget by the Treasury Department based on the reported forecasts received from each department. The consolidated subsidiaries also manage liquidity risk by preparing a cash budget in the same manner on a monthly basis.

(4) Supplementary explanation regarding fair value of financial instruments
Fair value of financial instruments is measured based on quoted market prices, if available, or reasonably assessed value if a quoted market price is not available. Fair value of financial instruments for which a quoted market price is not available is calculated based on certain assumptions, and the fair value might differ if different assumptions are used. The contract amounts and other items of derivative transactions as shown in Section *20. Derivative Transactions* do not represent the Company's exposure to market risk to derivative transactions.

(5) Matters related to fair values of financial instruments
Book value, fair value and their difference are summarized as follows. Financial instruments whose fair values are extremely difficult to determine are excluded from the following table. (See Note 2 for details.)

For the fiscal year ended March 31, 2013

	Millions of Yen		
	Book value	Fair value	Difference
(1) Cash and deposits	¥ 86,210	¥ 86,210	¥ —
(2) Notes and accounts receivable—trade	90,109	90,109	—
(3) Investment securities	16,834	16,834	—
(4) Long-term loans receivable	10,702		
Allowance for doubtful accounts (*1)	(3,778)		
Net amount	6,924	7,195	270
Total of assets	¥ 200,078	¥ 200,348	¥ 270
(1) Accounts payable—trade	¥ 36,230	¥ 36,230	¥ —
(2) Short-term loans payable	66,790	66,790	—
(3) Accounts payable—other	23,127	23,127	—
(4) Income taxes payable	3,389	3,389	—
(5) Bonds payable	35,930	34,301	(1,629)
(6) Long-term loans payable	338,280	338,545	265
(7) Long-term accounts payable—facilities	7,929	7,741	(188)
Total of liabilities	¥ 511,676	¥ 510,123	¥ (1,553)
Derivative transactions (*2)	¥ (2)	¥ (2)	¥ —

(*1) Allowance for doubtful accounts separately accounted for on long-term loans receivable is deducted.
(*2) Receivables and payables arising from derivative transactions are shown on a net basis. The parentheses indicate the total is net payable amount.

For the fiscal year ended March 31, 2014

	Millions of Yen		
	Book value	Fair value	Difference
(1) Cash and deposits	¥ 85,838	¥ 85,838	¥ —
(2) Notes and accounts receivable—trade	86,195	86,195	—
(3) Investment securities	18,859	18,859	—
(4) Long-term loans receivable	8,050		
Allowance for doubtful accounts (*1)	(991)		
Net amount	7,059	7,337	279
Total of assets	¥ 197,951	¥ 198,230	¥ 279
(1) Accounts payable—trade	¥ 44,700	¥ 44,700	¥ —
(2) Short-term loans payable	58,950	58,950	—
(3) Accounts payable—other	19,462	19,462	—
(4) Income taxes payable	3,546	3,546	—
(5) Bonds payable	35,740	33,986	(1,754)
(6) Long-term loans payable	311,943	312,123	180
(7) Long-term accounts payable—facilities	10,180	9,921	(260)
Total of liabilities	¥ 484,521	¥ 482,688	¥ (1,833)
Derivative transactions (*2)	¥ (0)	¥ (0)	¥ —

(*1) Allowance for doubtful accounts separately accounted for on long-term loans receivable is deducted.

(*2) Receivables and payables arising from derivative transactions are shown on a net basis. The parentheses indicate the total is net payable amount.

For the fiscal year ended March 31, 2015

	Millions of Yen		
	Book value	Fair value	Difference
(1) Cash and deposits	**¥ 82,558**	**¥ 82,558**	**¥ —**
(2) Notes and accounts receivable—trade	**91,209**	**91,209**	**—**
(3) Investment securities	**33,798**	**33,798**	**—**
(4) Long-term loans receivable	**3,913**		
Allowance for doubtful accounts (*1)	**(910)**		
Net amount	**3,004**	**3,200**	**196**
Total of assets	**¥ 210,568**	**¥ 210,765**	**¥ 196**
(1) Accounts payable—trade	**¥ 48,201**	**¥ 48,201**	**¥ —**
(2) Short-term loans payable	**37,360**	**37,360**	**—**
(3) Accounts payable—other	**20,575**	**20,575**	**—**
(4) Income taxes payable	**1,320**	**1,320**	**—**
(5) Bonds payable	**25,340**	**25,320**	**(20)**
(6) Long-term loans payable	**303,914**	**303,010**	**(904)**
(7) Long-term accounts payable—facilities	**7,211**	**7,104**	**(107)**
Total of liabilities	**¥ 443,922**	**¥ 442,890**	**¥ (1,032)**

(*1) Allowance for doubtful accounts separately accounted for on long-term loans receivable is deducted.

	Thousands of U.S. Dollars		
	Book value	Fair value	Difference
(1) Cash and deposits	**$ 687,009**	**$ 687,009**	**$ —**
(2) Notes and accounts receivable—trade	**758,999**	**758,999**	**—**
(3) Investment securities	**281,251**	**281,251**	**—**
(4) Long-term loans receivable	**32,565**		
Allowance for doubtful accounts (*1)	**(7,570)**		
Net amount	**24,995**	**26,628**	**1,634**
Total of assets	**$1,752,253**	**$1,753,887**	**$ 1,634**
(1) Accounts payable—trade	**$ 401,111**	**$ 401,111**	**$ —**
(2) Short-term loans payable	**310,893**	**310,893**	**—**
(3) Accounts payable—other	**171,216**	**171,216**	**—**
(4) Income taxes payable	**10,986**	**10,986**	**—**
(5) Bonds payable	**210,868**	**210,700**	**(168)**
(6) Long-term loans payable	**2,529,033**	**2,521,508**	**(7,526)**
(7) Long-term accounts payable—facilities	**60,006**	**59,115**	**(892)**
Total of liabilities	**$3,694,113**	**$3,685,528**	**$ (8,585)**

(*1) Allowance for doubtful accounts separately accounted for on long-term loans receivable is deducted.

Notes:

1. The method for measuring fair values of financial instruments and matters relating to securities and derivative transactions

Assets:

(1) Cash and deposits, (2) Notes and accounts receivable—trade
As these instruments are settled within a short term and their fair values approximate book values, their fair values are equal to their book values.

(3) Investment securities
Fair value of investment securities equals the price quoted in the stock exchange. Please refer to Section *7. Securities* regarding matters concerning the securities classified by holding purpose.

(4) Long-term loans receivable
Fair value of long-term loans receivable (including the current portion) is determined by discounting the total of principal and interest at the rate that consists of an appropriate rate such as the government bond yield plus an adjustment factor reflecting the credit risk.

Liabilities:

(1) Accounts payable—trade, (2) Short-term loans payable, (3) Accounts payable—other, (4) Income taxes payable
As these instruments are settled within a short term and their fair values approximate book values, their fair values are equal to their book values.

(5) Bonds payable
Fair value of corporate bonds (including the current portion) is determined based on a quoted market price if any. In cases where quoted market prices are not available, it is determined by discounting the total of principal and interest at the rate that reflects the remaining life of the bond and its credit risk.

(6) Long-term loans payable, (7) Long-term accounts payable—facilities
The fair values of long-term loans payable (including the current portion) and long-term accounts payable—facilities (including the current portion) are determined by discounting the total amount of principal and interest with an interest rate to be applied if similar new loans were entered into or similar new equipment were purchased.

Derivative transactions:

Please refer to Section *20. Derivative Transactions* for details.

2. Financial instruments whose fair values are deemed to be extremely difficult to determine

	Millions of Yen			Thousands of U.S. Dollars
	2013	2014	**2015**	**2015**
Non-marketable equity securities	¥5,062	¥5,209	**¥2,328**	**$ 19,369**
Shares of subsidiaries and associates	4,611	2,616	**3,284**	**27,328**
Preferred equity securities	500	500	**—**	**—**

As these financial instruments do not have quoted market prices and their fair values are deemed to be extremely difficult to determine, they are not included in “(3) Investment securities.”

3. Redemption schedule for financial receivables and securities with maturity dates after the consolidated balance sheet date

March 31, 2013	Millions of Yen			
	Due within one year	Due after one year through five years	Due after five years through ten years	Due after ten years
Deposits	¥ 86,091	¥ —	¥ —	¥ —
Notes and accounts receivable—trade	90,109	—	—	—
Investment securities				
Available-for-sale securities with maturity dates				
(1) Bonds (corporate bonds)	—	—	40	—
(2) Other	—	—	—	—
Long-term loans receivable	831	3,779	3,238	2,854
Total	¥ 177,031	¥ 3,779	¥ 3,278	¥ 2,854

March 31, 2014	Millions of Yen			
	Due within one year	Due after one year through five years	Due after five years through ten years	Due after ten years
Deposits	¥ 85,740	¥ —	¥ —	¥ —
Notes and accounts receivable—trade	86,195	—	—	—
Investment securities				
Available-for-sale securities with maturity dates				
(1) Bonds (corporate bonds)	—	—	40	—
(2) Other	—	—	—	—
Long-term loans receivable	534	3,247	3,278	991
Total	¥ 172,469	¥ 3,247	¥ 3,318	¥ 991

March 31, 2015	Millions of Yen			
	Due within one year	Due after one year through five years	Due after five years through ten years	Due after ten years
Deposits	**¥ 82,471**	**¥ —**	**¥ —**	**¥ —**
Notes and accounts receivable—trade	**91,209**	**—**	**—**	**—**
Investment securities				
Available-for-sale securities with maturity dates				
(1) Bonds (corporate bonds)	**—**	**—**	**—**	**—**
(2) Other	**—**	**—**	**—**	**—**
Long-term loans receivable	**1**	**2**	**3,000**	**910**
Total	**¥ 173,681**	**¥ 2**	**¥ 3,000**	**¥ 910**

March 31, 2015	Thousands of U.S. Dollars			
	Due within one year	Due after one year through five years	Due after five years through ten years	Due after ten years
Deposits	**$ 686,285**	**$ —**	**$ —**	**$ —**
Notes and accounts receivable—trade	**758,999**	**—**	**—**	**—**
Investment securities				
Available-for-sale securities with maturity dates				
(1) Bonds (corporate bonds)	**—**	**—**	**—**	**—**
(2) Other	**—**	**—**	**—**	**—**
Long-term loans receivable	**10**	**20**	**24,965**	**7,570**
Total	**$1,445,295**	**$ 20**	**$ 24,965**	**$ 7,570**

4. Repayment schedule for bonds payable, long-term loans payable and long-term accounts payable—facilities after the consolidated balance sheet date

March 31, 2013	Millions of Yen Due within one year	Between one to two years	Between two to three years	Between three to four years	Between four to five years	Over five years
Short-term loans payable	¥ 66,790	¥ —	¥ —	¥ —	¥ —	¥ —
Bonds payable	190	10,400	15,020	10,320	—	—
Long-term loans payable	111,291	79,549	61,728	44,136	34,103	7,472
Long-term accounts payable—facilities	2,960	1,984	1,147	938	817	83
Lease obligations	293	236	144	89	43	10
Total	¥ 181,524	¥ 92,169	¥ 78,040	¥ 55,484	¥ 34,963	¥ 7,565

March 31, 2014	Millions of Yen Due within one year	Between one to two years	Between two to three years	Between three to four years	Between four to five years	Over five years
Short-term loans payable	¥ 58,950	¥ —	¥ —	¥ —	¥ —	¥ —
Bonds payable	10,100	15,320	10,320	—	—	—
Long-term loans payable	96,660	79,471	63,248	50,797	16,945	4,822
Long-term accounts payable—facilities	3,149	2,315	2,106	1,985	597	28
Lease obligations	324	227	160	107	28	4
Total	¥ 169,182	¥ 97,334	¥ 75,835	¥ 52,890	¥ 17,569	¥ 4,854

March 31, 2015	Millions of Yen Due within one year	Between one to two years	Between two to three years	Between three to four years	Between four to five years	Over five years
Short-term loans payable	**¥ 37,360**	**¥ —**	**¥ —**	**¥ —**	**¥ —**	**¥ —**
Bonds payable	**15,020**	**10,320**	**—**	**—**	**—**	**—**
Long-term loans payable	**96,364**	**80,183**	**68,454**	**35,404**	**19,074**	**4,436**
Long-term accounts payable—facilities	**2,346**	**2,142**	**2,020**	**632**	**43**	**29**
Lease obligations	**395**	**289**	**254**	**171**	**64**	**27**
Total	**¥ 151,485**	**¥ 92,933**	**¥ 70,729**	**¥ 36,207**	**¥ 19,180**	**¥ 4,491**

March 31, 2015	Thousands of U.S. Dollars Due within one year	Between one to two years	Between two to three years	Between three to four years	Between four to five years	Over five years
Short-term loans payable	**$ 310,893**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**
Bonds payable	**124,990**	**85,878**	**—**	**—**	**—**	**—**
Long-term loans payable	**801,901**	**667,243**	**569,642**	**294,615**	**158,722**	**36,911**
Long-term accounts payable—facilities	**19,521**	**17,821**	**16,814**	**5,257**	**354**	**239**
Lease obligations	**3,283**	**2,402**	**2,115**	**1,424**	**529**	**226**
Total	**$1,260,587**	**$ 773,345**	**$ 588,571**	**$ 301,296**	**$ 159,605**	**$ 37,376**

20. Derivative Transactions

(1) Derivative contracts outstanding to which the hedge accounting was not applied

Interest rate-related derivatives

As of March 31, 2013

		Millions of Yen			
		Contract amount			
Category	Type of derivative transactions	Total	of which due after one year	Fair value	Unrealized gain (loss)
Transaction other than market transactions	Interest rate swap contract Floating rate receipt/ fixed rate payment	¥212	¥ 115	¥ (2)	¥ (2)

(Note) Fair value is determined based on the price quoted by counterparty financial institutions.

As of March 31, 2014

		Millions of Yen			
		Contract amount			
Category	Type of derivative transactions	Total	of which due after one year	Fair value	Unrealized gain (loss)
Transaction other than market transactions	Interest rate swap contract Floating rate receipt/ fixed rate payment	¥ 30	¥ —	¥ (0)	¥ (0)

(Note) Fair value is determined based on the prices quoted by counterparty financial institutions.

As of March 31, 2015
There were no relevant transactions during the period.

(2) Derivative contracts outstanding to which the hedge accounting was applied

i) Currency-related derivatives

As of March 31, 2013

			Millions of Yen		
			Contract amount		
Hedge accounting method	Type of derivative transactions	Major hedged item	Total	of which due after one year	Fair value
Deferral hedge accounting treatment (*furiate shori*) applicable to forward exchange contracts	Forward exchange contract				
	Sell				
	USD	Accounts receivable—trade	¥ 13	¥ —	¥ (Note 2)
	Buy				
	USD	Accounts payable—trade	460	—	(Note 2)
	EUR	Accounts payable—trade	0	—	(Note 2)
		Total	¥ 473	¥ —	¥ —

(Notes) 1. Fair values are determined based on the prices quoted by counterparty financial institutions.
2. The fair values of forward exchange contracts are included in those of accounts receivable and payable—trade because when forward exchange contracts qualify for deferral hedge accounting treatment (*furiate shori*), they are accounted for together with foreign currency denominated financial receivables and payables (the hedged items) as one set of transactions.

As of March 31, 2014

Hedge accounting method	Type of derivative transactions	Major hedged item	Millions of Yen: Contract amount: Total	Millions of Yen: Contract amount: of which due after one year	Millions of Yen: Fair value
Deferral hedge accounting treatment (*furiate shori*) applicable to forward exchange contracts	Forward exchange contract				
	Sell				
	USD	Accounts receivable—trade	¥ 25	¥ —	¥ (Note 2)
	Buy				
	USD	Accounts payable—trade	345	—	(Note 2)
	EUR	Accounts payable—trade	0	—	(Note 2)
		Total	¥ 370	¥ —	¥ —

(Notes)
1. Fair values are determined based on the prices quoted by counterparty financial institutions.
2. The fair values of forward exchange contracts are included in those of accounts receivable and payable—trade because when forward exchange contracts qualify for deferral hedge accounting treatment (*furiate shori*), they are accounted for together with foreign currency denominated financial receivables and payables (the hedged items) as one set of transactions.

As of March 31, 2015

Hedge accounting method	Type of derivative transactions	Major hedged item	Millions of Yen: Contract amount: Total	Millions of Yen: Contract amount: of which due after one year	Millions of Yen: Fair value
Deferral hedge accounting treatment (*furiate shori*) applicable to forward exchange contracts	Forward exchange contract				
	Sell				
	USD	Accounts receivable—trade	**¥ 9**	**¥ —**	¥ (Note 2)
	Buy				
	USD	Accounts payable—trade	**493**	**—**	(Note 2)
	EUR	Accounts payable—trade	**7**	**—**	(Note 2)
		Total	**¥ 509**	¥ **—**	¥ —

Hedge accounting method	Type of derivative transactions	Major hedged item	Thousands of U.S. Dollars: Contract amount: Total	Thousands of U.S. Dollars: Contract amount: of which due after one year	Thousands of U.S. Dollars: Fair value
Deferral hedge accounting treatment (*furiate shori*) applicable to forward exchange contracts	Forward exchange contract				
	Sell				
	USD	Accounts receivable—trade	**$ 73**	$ **—**	$ (Note 2)
	Buy				
	USD	Accounts payable—trade	**4,101**	**—**	(Note 2)
	EUR	Accounts payable—trade	**61**	**—**	(Note 2)
		Total	**$ 4,235**	$ **—**	$ —

(Notes)
1. Fair values are determined based on the prices quoted by counterparty financial institutions.
2. The fair values of forward exchange contracts are included in those of accounts receivable and payable—trade because when forward exchange contracts qualify for deferral hedge accounting treatment (*furiate shori*), they are accounted for together with foreign currency denominated financial receivables and payables (the hedged items) as one set of transactions.

ii) Interest rate-related derivatives

As of March 31, 2013

			Millions of Yen		
			Contract amount		
Hedge accounting method	Type of derivative transactions	Major hedged item	Total	of which due after one year	Fair value
Exceptional hedge accounting treatment (*tokurei shori*) applicable to interest rate swap contracts	Interest rate swap contract Floating rate receipt/ fixed rate payment	Long-term loans payable	¥ 77,603	¥ 64,058	¥ (Note 2)
Exceptional hedge accounting treatment (*tokurei shori*) applicable to interest rate cap contracts	Interest rate cap contract Buy	Long-term loans payable	585	585	(Note 2)
		Total	¥ 78,188	¥ 64,643	¥ —

(Notes)
1. Fair values are determined based on the prices quoted by counterparty financial institutions.
2. The fair values of interest rate swap and interest rate cap contracts are included in those of long-term loans payable because when interest rate swap and interest rate cap contracts qualify for exceptional hedge accounting treatment (*tokurei shori*), they are accounted for together with long-term loans payable (the hedged items) as one set of transactions.

As of March 31, 2014

			Millions of Yen		
			Contract amount		
Hedge accounting method	Type of derivative transactions	Major hedged item	Total	of which due after one year	Fair value
Exceptional hedge accounting treatment (*tokurei shori*) applicable to interest rate swap contracts	Interest rate swap contract Floating rate receipt/ fixed rate payment	Long-term loans payable	¥ 75,568	¥ 75,397	¥ (Note 2)
Exceptional hedge accounting treatment (*tokurei shori*) applicable to interest rate cap contracts	Interest rate cap contract Buy	Long-term loans payable	425	425	(Note 2)
		Total	¥ 75,993	¥ 75,822	¥ —

(Notes)
1. Fair values are determined based on the prices quoted by counterparty financial institutions.
2. The fair values of interest rate swap and interest rate cap contracts are included in those of long-term loans payable because when interest rate swap and interest rate cap contracts qualify for exceptional hedge accounting treatment (*tokurei shori*), they are accounted for together with long-term loans payable (the hedged items) as one set of transactions.

As of March 31, 2015

			Millions of Yen		
			Contract amount		
Hedge accounting method	Type of derivative transactions	Major hedged item	Total	of which due after one year	Fair value
Exceptional hedge accounting treatment (*tokurei shori*) applicable to interest rate swap contracts	Interest rate swap contract Floating rate receipt/ fixed rate payment	Long-term loans payable	**¥ 77,655**	**¥ 77,569**	**¥ (Note 2)**
Exceptional hedge accounting treatment (*tokurei shori*) applicable to interest rate cap contracts	Interest rate cap contract Buy	Long-term loans payable	**265**	**225**	**(Note 2)**
		Total	**¥ 77,920**	**¥ 77,794**	**¥ —**

			Thousands of U.S. Dollars		
			Contract amount		
Hedge accounting method	Type of derivative transactions	Major hedged item	Total	of which due after one year	Fair value
Exceptional hedge accounting treatment (*tokurei shori*) applicable to interest rate swap contracts	Interest rate swap contract Floating rate receipt/ fixed rate payment	Long-term loans payable	**$ 646,209**	**$ 645,493**	**$ (Note 2)**
Exceptional hedge accounting treatment (*tokurei shori*) applicable to interest rate cap contracts	Interest rate cap contract Buy	Long-term loans payable	**2,205**	**1,872**	**(Note 2)**
		Total	**$ 648,415**	**$ 647,365**	**$ —**

(Notes)
1. Fair values are determined based on the prices quoted by counterparty financial institutions.
2. The fair values of interest rate swap and interest rate cap contracts are included in those of long-term loans payable because when interest rate swap and interest rate cap contracts qualify for exceptional hedge accounting treatment (*tokurei shori*), they are accounted for together with long-term loans payable (the hedged items) as one set of transactions.

21. Retirement Benefits

For the fiscal year ended March 31, 2013

(1) The Company and its consolidated subsidiaries provide the following defined benefit plans: a defined benefit corporate pension plan, Employees' Pension Fund Plan, and a lump-sum retirement benefit plan.

(2) Defined benefit obligations

		Millions of Yen
		2013
(i) Retirement benefit obligation	¥	(21,393)
(ii) Plan assets at fair value		5,552
(iii) Unfunded retirement benefit obligation [(i)+(ii)]		(15,841)
(iv) Unrecognized actuarial (gain) loss		1,042
(v) Unrecognized past service cost		16
(vi) Net retirement benefit obligation [(iii)+(iv)+(v)]		(14,782)
(vii) Prepaid pension cost		—
(viii) Provision for retirement benefits [(vi) – (vii)]	¥	(14,782)

(3) Components of retirement benefit expenses

		Millions of Yen
		2013
(i) Service cost	¥	1,174
(ii) Interest cost		274
(iii) Expected return on plan assets		(43)
(iv) Amortization of actuarial (gain) loss		502
(v) Amortization of past service cost		5
(vi) Retirement benefit expenses [(i)+(ii)+(iii)+(iv)+(v)]	¥	1,911

(4) Assumptions used in actuarial calculations

i) Discount rate
1.13% ~ 1.69%

ii) Expected rate of return on plan assets
1.0%

iii) Periodic allocation method of estimated amount of retirement benefits
Straight-line method

iv) Amortization period of past service cost
Five years (amortized using the straight-line method over a period which is within the employees' average remaining years of service at the time incurred)

v) Amortization period of net actuarial gain or loss
Five years (amortized using the straight-line method over a period which is within the employees' average remaining years of service at the time incurred)

For the fiscal years ended March 31, 2014 and 2015

(1) The Company and its consolidated subsidiaries provide the following defined benefit plans: a contract-type corporate pension plan and a lump-sum retirement benefit plan. Some of the consolidated subsidiaries participate in the Small and Medium Enterprises' Retirement Allowance Mutual Aid System. The simplified method is applied by some of the consolidated subsidiaries to calculate the net defined benefit liability and retirement benefit expenses.

(2) Defined benefit plans

i) Reconciliation of beginning and ending balances of retirement benefit obligations

	Millions of Yen		Thousands of U.S. Dollars
	2014	**2015**	**2015**
Beginning balance of retirement benefit obligation	¥ 17,693	¥ **19,141**	$ **159,280**
Cumulative effect of changes in accounting policies	—	**74**	**613**
Restated beginning balance	17,693	**19,214**	**159,893**
Service cost	908	**972**	**8,089**
Interest cost	295	**179**	**1,489**
Actuarial (gain) loss	1,332	**474**	**3,941**
Benefits paid	(1,087)	**(543)**	**(4,520)**
Past service cost	—	**(29)**	**(244)**
Ending balance of retirement benefit obligation	¥ 19,141	¥ **20,266**	$ **168,648**

(Note) Retirement benefit obligations under the plans for which the simplified method is applied are not included in the table above.

ii) Reconciliation of beginning and ending balances of plan assets

	Millions of Yen		Thousands of U.S. Dollars
	2014	**2015**	**2015**
Beginning balance of plan assets	¥ 4,675	¥ **4,901**	$ **40,783**
Expected return on plan assets	47	**49**	**408**
Actuarial gain (loss)	160	**301**	**2,507**
Employer contributions	309	**320**	**2,660**
Benefits paid	(290)	**(149)**	**(1,244)**
Ending balance of plan assets	¥ 4,901	¥ **5,421**	$ **45,114**

(Note) Plan assets of ¥653 million ($5,436 thousand) for the fiscal year ended March 31, 2015 (¥560 million for the fiscal year ended March 31, 2014) under the plans for which the simplified method is applied are not included in the table above.

iii) Reconciliation of beginning and ending balances of net defined benefit liability for plans for which the simplified method is applied

	Millions of Yen		Thousands of U.S. Dollars
	2014	**2015**	**2015**
Beginning balance of net defined benefit liability	¥ 3,314	¥ **3,716**	$ **30,922**
Retirement benefit expenses	449	**453**	**3,769**
Benefits paid	(244)	**(235)**	**(1,959)**
Increase as a result of a change in the scope of consolidation	198	**—**	**—**
Ending balance of net defined benefit liability	¥ 3,716	¥ **3,933**	$ **32,732**

iv) Reconciliation of ending balances of retirement benefit obligations and plan assets, net defined benefit liability and net defined benefit asset reported on the consolidated balance sheets

	Millions of Yen		Thousands of U.S. Dollars
	2014	**2015**	**2015**
Funded retirement benefit obligation	¥ 6,418	¥ **6,819**	$ **56,746**
Plan assets	(5,461)	**(6,075)**	**(50,550)**
Subtotal	957	**745**	**6,196**
Unfunded retirement benefit obligation	16,439	**17,381**	**144,634**
Net asset or liability reported on the consolidated balance sheet	17,396	**18,125**	**150,830**
Net defined benefit liability	17,396	**18,125**	**150,830**
Net asset or liability reported on the consolidated balance sheet	¥ 17,396	¥ **18,125**	$ **150,830**

(Note) Retirement benefit obligation and plan assets under the plans for which the simplified method is applied are included in the reconciliation above.

v) Components of retirement benefit expenses

	Millions of Yen		Thousands of U.S. Dollars
	2014	**2015**	**2015**
Service cost	¥ 908	¥ **972**	$ **8,089**
Interest cost	295	**179**	**1,489**
Expected return on plan assets	(47)	**(49)**	**(408)**
Amortization of actuarial (gain) loss	396	**542**	**4,512**
Amortization of past service cost	5	**(1)**	**(7)**
Retirement benefit expenses calculated by the simplified method	449	**453**	**3,769**
Retirement benefit expenses related to defined benefit plans	¥ 2,006	¥ **2,096**	$ **17,444**

vi) Remeasurements of defined benefit plans in other comprehensive income (before tax effect)

	Millions of Yen		Thousands of U.S. Dollars
	2014	**2015**	**2015**
Actuarial (gain) loss	¥ —	¥ **370**	$ **3,078**
Past service cost	—	**28**	**237**
Total	¥ —	¥ **398**	$ **3,315**

vii) Remeasurements of defined benefit plans in accumulated other comprehensive income (before tax effect)

	Millions of Yen		Thousands of U.S. Dollars
	2014	**2015**	**2015**
Unrecognized actuarial (gain) loss	¥ 1,821	¥ **1,451**	$ **12,074**
Unrecognized past service cost	11	**(17)**	**(142)**
Total	¥ 1,832	¥ **1,434**	$ **11,932**

viii) Plan assets

a) Allocation of plan assets

	2014	**2015**
General account	58%	**56%**
Equity securities	20%	**21%**
Debt securities	15%	**18%**
Other	7%	**5%**
Total	100%	**100%**

(Note) Plan assets under the plans for which the simplified method is applied are not included in the table above.

b) Determination procedure of long-term expected rate of return on plan assets
In determining the long-term expected rate of return on plan assets, the Company considers the current and projected asset allocations as well as current and future expected long-term rate of returns from various assets that constitute the plan assets.

ix) Assumptions used in actuarial calculations

	2014	**2015**
Discount rate	1.05% – 1.50%	**0.67% – 1.06%**
Long-term expected rate of return on plan assets	1.00%	**1.00%**

(3) Defined Contribution Plan
The amounts required to contribute to defined contribution plans of the consolidated subsidiaries are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2015	**2015**
Amount required to contribute to defined contribution plan	¥ 31	**¥ 25**	**$ 208**

22. Income Taxes

The Company and its domestic consolidated subsidiaries are subject to corporation tax, inhabitants tax and enterprise tax, which, in the aggregate, resulted in the effective statutory tax rate in Japan of approximately 37.8%, 37.8% and 35.4% for the fiscal years ended March 31, 2013, 2014 and 2015, respectively.

(1) Significant components of deferred tax assets and liabilities

	Millions of Yen			Thousands of U.S. Dollars
	2013	2014	**2015**	**2015**
Deferred tax assets:				
Provision for bonuses	¥ 1,449	¥ 1,460	**¥ 1,445**	**$ 12,023**
Accrued enterprise tax	295	302	**224**	**1,862**
Net operating loss carryforwards	8,382	9,326	**6,896**	**57,382**
Loss on valuation of inventories	441	397	**286**	**2,380**
Provision for retirement benefits	5,281	—	**—**	**—**
Net defined benefit liability	—	5,987	**5,788**	**48,166**
Unrealized gains and losses on non-current assets and investment securities	270	270	**270**	**2,250**
Adjustments on non-current assets	2,604	656	**721**	**6,003**
Loss on valuation of investment securities	1,721	6,413	**1,255**	**10,442**
Valuation difference on available-for-sale securities	71	—	**—**	**—**
Impairment loss	2,357	2,881	**1,881**	**15,656**
Valuation difference on non-current assets for consolidated tax return	—	386	**150**	**1,248**
Other	3,345	2,371	**2,960**	**24,631**
Subtotal	26,217	30,450	**21,876**	**182,044**
Less valuation allowance	(20,175)	(15,957)	**(8,271)**	**(68,827)**
Total deferred tax assets	6,042	14,493	**13,605**	**113,217**
Deferred tax liabilities:				
Reserve for advanced depreciation of non-current assets	(439)	—	**—**	**—**
Reserve for special depreciation	(131)	—	**—**	**—**
Valuation difference on available-for-sale securities	(917)	(1,132)	**(5,073)**	**(42,214)**
Retained earnings of subsidiaries and associates	—	(2,836)	**(3,039)**	**(25,286)**
Valuation difference on non-current assets for consolidated tax return	—	(856)	**(1,292)**	**(10,750)**
Other	(575)	(1,470)	**(1,500)**	**(12,479)**
Total deferred tax liabilities	(2,063)	(6,294)	**(10,903)**	**(90,730)**
Net deferred tax assets	¥ 3,980	¥ 8,199	**¥ 2,702**	**$ 22,488**

Note: Net deferred tax assets as of March 31, 2013, 2014 and 2015 are included in the following accounts in the consolidated balance sheets.

	Millions of Yen			Thousands of U.S. Dollars
	2013	2014	**2015**	**2015**
Current assets—deferred tax assets	¥ 2,473	¥ 6,801	**¥ 5,017**	**$ 41,752**
Non-current assets—deferred tax assets	2,581	2,747	**187**	**1,559**
Current liabilities—other (deferred tax liabilities)	(26)	(27)	**(34)**	**(287)**
Non-current liabilities—other (deferred tax liabilities)	(1,049)	(1,323)	**(2,468)**	**(20,536)**

(2) Difference between the effective statutory tax rate and the Company's effective income tax rate

	2013	2014	**2015**
Effective statutory tax rate	37.8%	37.8%	**35.4%**
Adjustments:			
Per capita levy of inhabitants tax	0.4	1.6	**0.7**
Permanently non-deductible and non-taxable items	0.7	3.0	**(7.5)**
Increase (decrease) in valuation allowance	10.0	(59.7)	**(4.2)**
Amortization of goodwill	5.4	20.5	**7.3**
Gain on bargain purchase	(0.3)	(9.8)	**(0.3)**
Share of profit or loss of entities accounted for using equity method	(0.4)	—	**—**
Gain on step acquisitions	(35.4)	—	**—**
Refund of income taxes for prior periods	(5.9)	—	**—**
Deferred tax liabilities on retained earnings of subsidiaries and associates	(4.6)	42.9	**1.2**
Effect of liquidation of subsidiaries	—	(17.4)	**(2.9)**
Effect of changes in tax rate	—	9.1	**2.3**
Effect of consolidated tax return	—	(63.4)	**(11.1)**
Consolidation adjustment for sales of shares of parent	—	10.6	**—**
Consolidation adjustment for gains and losses on sales of shares of subsidiaries	—	7.6	**—**
Other	(2.1)	4.3	**0.8**
Effective income tax rate	5.7%	(12.8)%	**21.6%**

(3) Revision to the amounts of deferred tax assets and deferred tax liabilities due to the change in tax rates including primarily corporate taxes.

For the fiscal year ended March 31, 2014
The "Act for Partial Amendment of the Income Tax Act, etc." (Act No. 10 of 2014) was promulgated on March 31, 2014 and, as a result, the Company is no longer subject to the Special Reconstruction Corporation Tax effective for fiscal years beginning on or after April 1, 2014. In line with these revisions, the Company changed the effective statutory tax rate used to calculate deferred tax assets and liabilities from 37.8% for the previous fiscal year to 35.4% for temporary differences expected to be recovered after April 1, 2014.

As a result of this change, net deferred tax assets (after netting deferred tax liabilities) decreased by ¥599 million, and income taxes—deferred increased by ¥599 million.

For the fiscal year ended March 31, 2015
The "Act for Partial Amendment of the Income Tax Act, etc." (Act No. 9 of 2015) and the "Act for Partial Amendment of the Local Tax Act, etc." (Act No. 2 of 2015) were promulgated on March 31, 2015 and, the corporate tax rate etc. was reduced from the fiscal year beginning on or after April 1, 2015. As a result, the effective statutory tax rate which the Company used for calculation of deferred tax assets and deferred tax liabilities has been changed from 35.4% for the previous fiscal year to 32.8% for the temporary differences that are expected to be reversed in the fiscal year commencing on April 1, 2015 and to 32.1% for the temporary differences that are expected to be reversed in and after the fiscal year commencing on April 1, 2016.

As a result of this change, net deferred tax assets (after netting deferred tax liabilities) increased by ¥59 million ($489 thousand). At the same time, income taxes—deferred and valuation difference on available-for-sale securities increased by ¥394 million ($3,281 thousand) and ¥470 million ($3,907 thousand), respectively, while remeasurements of defined benefit plans decreased by ¥16 million ($137 thousand).

(Additional Information)

Application of consolidated tax return:
The Company and some of its consolidated subsidiaries obtained approval in March 2014 from the Commissioner of the National Tax Agency regarding the application of the consolidated tax return from the year ended March 31, 2015. Accordingly, effective the fiscal year ended March 31, 2014, the Company adopted

accounting treatments on the presumption that the consolidated tax return would be applicable in accordance with the "Practical Solution on Tentative Treatment of Tax Effect Accounting under Consolidated Taxation System (Part 1)" (PITF No. 5) and the "Practical Solution on Tentative Treatment of Tax Effect Accounting under Consolidated Taxation System (Part 2)" (PITF No. 7).

23. Segment Information

(1) Overview of reportable segments
As the Company is organized into business units or sale divisions by product line, each business unit or sales division is engaged in the business activities with a responsibility for formulating a comprehensive strategy for the products it carries.

The Company consists of two reportable segments, namely the Paper and paperboard business segment and the Home and personal care business segment, each of which comprises product line-based businesses that are similar in terms of the manufacture and distribution system and types of market or customers.

Each reportable segment of the Company is a component of an entity whose operating results are regularly reviewed by the budget meeting, which is a decision making body on the Company's financial performance, and therefore, for which financial information is available.

The products manufactured and distributed by the Paper and paperboard business segment include newsprints, printing papers, packaging papers, paperboards, corrugated containers and pulps, and the customers include newspaper companies, printing companies, processing companies and corrugated container companies. The products manufactured and distributed by the Home and personal care business segment include sanitary goods, disposable diapers and napkins, which are ultimately sold to consumers.

(2) Calculation method of net sales, income, assets, liabilities and other items by reportable segment
The accounting method for the reportable segments is the same as those described in Section *2. Summary of Significant Accounting and Reporting Policies*.

Segment income is based on operating income. Intersegment sales or transfers are based on the prevailing market price.

As described in Item *D. Depreciation and amortization* of Section *2. Summary of Significant Accounting and Reporting Policies*, the Group changed the method for depreciation of property, plant and equipment in the first quarter of the fiscal year ended March 31, 2014. Accordingly, the depreciation method applicable to the reportable segments was also changed. As a result, segment income of the Paper and paperboard business, the Home and personal care business and the Other businesses for the fiscal year ended March 31, 2014 increased by ¥919 million, ¥218 million and ¥52 million, respectively.

(3) Net sales, income, assets, liabilities and other items by reportable segment

For the fiscal year ended March 31, 2013

	Millions of Yen						
	Reportable Segment						
	Paper and paperboard	Home and personal care	Total	Other (Note 1)	Total	Adjust-ments (Note 2)	Consolidated (Note 3)
Net Sales							
Sales to external customers	¥ 277,970	¥ 120,662	¥398,632	¥ 8,730	¥407,362	¥ —	¥ 407,362
Intersegment sales and transfers	11,141	286	11,427	10,239	21,666	(21,666)	—
Total sales	¥ 289,111	¥ 120,948	¥410,060	¥18,968	¥429,028	¥(21,666)	¥ 407,362
Segment income	¥ 10,926	¥ 5,100	¥ 16,026	¥ 883	¥ 16,909	¥ (5,332)	¥ 11,577
Segment assets	478,640	143,873	622,513	40,496	663,008	(3,896)	659,112
Other items:							
Depreciation and amortization	22,286	3,826	26,112	298	26,410	—	26,410
Increase in property, plant and equipment and intangible assets	19,715	1,410	21,125	602	21,727	—	21,727

(Notes)

1. The "Other" category consists of the business segments that are not included in the reportable segments, and includes woodchip, forestry, machinery, electric power selling and golf club businesses.
2. Adjustments are as follows:
   i) Adjustments for segment income:
      Elimination of intersegment transactions: ¥226 million
      Subtraction of corporate expenses, which are selling, general and administrative expenses not attributable to any reportable segment: ¥(5,558) million
   ii) Adjustments for segment assets:
      Elimination of intersegment transactions: ¥(25,217) million
      Corporate assets, consisting primarily of investment securities, not attributable to any reportable segment: ¥21,321 million
3. Segment income is calculated by adjusting operating income presented in the consolidated statement of income.
4. As a result of a change in the scope of consolidation during the fiscal year ended March 31, 2013, segment assets of the Paper and paperboard business, Home and personal care business and Other businesses as of March 31, 2013 increased by ¥34,147 million, ¥34,580 million and ¥2,769 million, respectively, compared with segment assets as of March 31, 2012.

For the fiscal year ended March 31, 2014

	Millions of Yen						
	Reportable Segment						
	Paper and paperboard	Home and personal care	Total	Other (Note 1)	Total	Adjust-ments (Note 2)	Consolidated (Note 3)
Net Sales							
Sales to external customers	¥ 283,512	¥ 134,902	¥418,413	¥11,642	¥430,055	¥ —	¥ 430,055
Intersegment sales and transfers	14,602	1,098	15,700	45,004	60,705	(60,705)	—
Total sales	¥ 298,114	¥ 136,000	¥434,114	¥56,646	¥490,760	¥(60,705)	¥ 430,055
Segment income	¥ 11,372	¥ 9,687	¥ 21,060	¥ 1,090	¥ 22,150	¥ (6,100)	¥ 16,049
Segment assets	422,576	161,834	584,410	47,224	631,634	14,478	646,113
Other items:							
Depreciation and amortization	21,305	4,674	25,979	425	26,404	—	26,404
Increase in property, plant and equipment and intangible assets	18,688	5,499	24,186	762	24,948	—	24,948

(Notes) 1. The "Other" category consists of the business segments that are not included in the reportable segments, and includes woodchip, forestry, machinery ,logistics, electric power selling and golf club businesses.

2. Adjustments are as follows:

i) Adjustments for segment income:

Elimination of intersegment transactions: ¥36 million

Subtraction of corporate expenses, which are selling, general and administrative expenses not attributable to any reportable segment: ¥(6,137) million

ii) Adjustments for segment assets:

Elimination of intersegment transactions: ¥(16,285) million

Corporate assets, consisting primarily of investment securities, not attributable to any reportable segment: ¥30,763 million

3. Segment income is calculated by adjusting operating income presented in the consolidated statement of income.

For the fiscal year ended March 31, 2015

	Millions of Yen						
	Reportable Segment						
	Paper and paperboard	Home and personal care	Total	Other (Note 1)	Total	Adjustments (Note 2)	Consolidated
Net Sales							
Sales to external customers	¥ 290,035	¥ 146,836	¥ 436,871	¥ 13,369	¥ 450,239	¥ —	¥ 450,239
Intersegment sales and transfers	16,121	1,735	17,856	53,415	71,271	(71,271)	—
Total sales	¥ 306,155	¥ 148,571	¥ 454,726	¥ 66,784	¥ 521,510	¥ (71,271)	¥ 450,239
Segment income	¥ 13,988	¥ 11,154	¥ 25,142	¥ 2,131	¥ 27,274	¥ (5,478)	¥ 21,796
Segment assets	416,797	159,414	576,211	51,367	627,578	25,166	652,745
Other items:							
Depreciation and amortization	21,570	5,180	26,749	453	27,203	—	27,203
Increase in property, plant and equipment and intangible assets	23,822	7,067	30,890	698	31,587	—	31,587

	Thousands of U.S. Dollars						
	Reportable Segment						
	Paper and paperboard	Home and personal care	Total	Other (Note 1)	Total	Adjustments (Note 2)	Consolidated
Net Sales							
Sales to external customers	$2,413,537	$1,221,901	$3,635,437	$111,247	$3,746,685	$ —	$ 3,746,685
Intersegment sales and transfers	134,148	14,439	148,587	444,498	593,085	(593,085)	—
Total sales	$2,547,685	$1,236,340	$3,784,025	$555,745	$4,339,770	$(593,085)	$ 3,746,685
Segment income	$ 116,404	$ 92,818	$ 209,222	$ 17,736	$ 226,958	$ (45,582)	$ 181,376
Segment assets	3,468,395	1,326,572	4,794,966	427,453	5,222,420	209,424	5,431,844
Other items:							
Depreciation and amortization	179,492	43,104	222,596	3,772	226,368	—	226,368
Increase in property, plant and equipment and intangible assets	198,239	58,810	257,050	5,805	262,855	—	262,855

(Notes) 1. The "Other" category consists of the business segments that are not included in the reportable segments, and includes woodchip, forestry, machinery, logistics, electric power selling and golf club businesses.
2. Adjustments are as follows:
i) Adjustments for segment income:
Elimination of intersegment transactions: ¥451 million ($3,751 thousand)
Subtraction of corporate expenses, which are selling, general and administrative expenses not attributable to any reportable segment: ¥(5,928) million ($(49,333) thousand)
ii) Adjustments for segment assets:
Elimination of intersegment transactions: ¥(14,362) million ($(119,510) thousand)
Corporate assets, consisting primarily of investment securities, not attributable to any reportable segment: ¥39,528 million ($328,934 thousand)
3. Segment income is calculated by adjusting operating income presented in the consolidated statement of income.

(4) Related information

For the fiscal years ended March 31, 2013, 2014 and 2015

i) Information by product and service
This information is omitted because similar description has been disclosed in segment information.

ii) Information by geographical area

a) Net sales
This information is omitted because the Group's domestic sales exceed 90% of net sales presented in the consolidated statements of income.

b) Property, plant and equipment
This information is omitted because the amounts of the items of property, plant and equipment that are located in Japan exceed 90% of the amount of property, plant and equipment presented in the consolidated balance sheets.

iii) Information by major customer
This information is omitted because none of the external customers account for 10% or more of net sales presented in the consolidated statements of income.

(5) Impairment loss of non-current assets by reportable segment

For the fiscal year ended March 31, 2013

	Millions of Yen				
	Paper and paperboard	Home and personal care	Other (Note)	Corporate & elimination	Total
Impairment loss	¥ 772	¥ 82	¥ 1,808	¥ —	¥ 2,663

(Note) The amount of "Other" includes impairment loss associated with the golf club businesses.

For the fiscal year ended March 31, 2014

	Millions of Yen				
	Paper and paperboard	Home and personal care	Other (Note)	Corporate & elimination	Total
Impairment loss	¥ 2,519	¥ 1,751	¥ 1,457	¥ —	¥ 5,727

(Note) The amount of "Other" includes impairment loss associated with the real estate business in Hawaii.

For the fiscal year ended March 31, 2015

	Millions of Yen				
	Paper and paperboard	Home and personal care	Other	Corporate & elimination	Total
Impairment loss	**¥ 1,112**	**¥ 339**	**¥ 1**	**¥ —**	**¥ 1,453**

	Thousands of U.S. Dollars				
	Paper and paperboard	Home and personal care	Other	Corporate & elimination	Total
Impairment loss	**$ 9,258**	**$ 2,823**	**$ 10**	**$ —**	**$12,090**

(6) Amortization and unamortized balance of goodwill by reportable segment

For the fiscal year ended March 31, 2013

	Millions of Yen				
	Paper and paperboard	Home and personal care	Other (Note)	Corporate & elimination	Total
Amortization of goodwill	¥ 2,019	¥ 1,459	¥ 398	¥ —	¥ 3,876
Unamortized balance	30,486	28,487	10,215	—	69,188

(Note) The amount of "Other" includes amortization and unamortized balance associated with the machinery business.

The following are amortization and unamortized balance of negative goodwill arising in the business combinations that occurred before April 1, 2010.

	Millions of Yen				
	Paper and paperboard	Home and personal care	Other (Note)	Corporate & elimination	Total
Amortization of negative goodwill	¥ 12	¥ 0	¥ 62	¥ —	¥ 74
Unamortized balance	144	1	872	—	1,017

(Note) The amount of "Other" includes amortization and unamortized balance associated with the forestry business.

For the fiscal year ended March 31, 2014

	Millions of Yen				
	Paper and paperboard	Home and personal care	Other (Note)	Corporate & elimination	Total
Amortization of goodwill	¥ 2,344	¥ 1,700	¥ 541	¥ —	¥ 4,585
Unamortized balance	27,602	27,191	9,876	—	64,668

(Note) The amount of "Other" includes amortization and unamortized balance associated with the woodchip, forestry, machinery and logistics businesses.

The following are amortization and unamortized balance of negative goodwill arising in the business combinations that occurred before April 1, 2010.

	Millions of Yen				
	Paper and paperboard	Home and personal care	Other (Note)	Corporate & elimination	Total
Amortization of negative goodwill	¥ 11	¥ 0	¥ 62	¥ —	¥ 73
Unamortized balance	133	1	810	—	944

(Note) The amount of "Other" includes amortization and unamortized balance associated with the woodchip and forestry businesses.

For the fiscal year ended March 31, 2015

	Millions of Yen				
	Paper and paperboard	Home and personal care	Other (Note)	Corporate & elimination	Total
Amortization of goodwill	**¥ 2,284**	**¥ 1,700**	**¥ 541**	**¥ —**	**¥ 4,526**
Unamortized balance	**25,046**	**25,490**	**9,334**	**—**	**59,870**

	Thousands of U.S. Dollars				
	Paper and paperboard	Home and personal care	Other (Note)	Corporate & elimination	Total
Amortization of goodwill	**$ 19,010**	**$ 14,150**	**$ 4,501**	**$ —**	**$ 37,662**
Unamortized balance	**208,418**	**212,120**	**77,674**	**—**	**498,211**

(Note) The amount of "Other" includes amortization and unamortized balance associated with the woodchip, forestry, machinery and logistics businesses.

The following are amortization and unamortized balance of negative goodwill arising in the business combinations that occurred before April 1, 2010.

	Millions of Yen				
	Paper and paperboard	Home and personal care	Other (Note)	Corporate & elimination	Total
Amortization of negative goodwill	¥ 11	¥ 0	¥ 62	¥ —	¥ 73
Unamortized balance	122	1	747	—	870

	Thousands of U.S. Dollars				
	Paper and paperboard	Home and personal care	Other (Note)	Corporate & elimination	Total
Amortization of negative goodwill	$ 91	$ 1	$ 518	$ —	$ 610
Unamortized balance	1,016	6	6,220	—	7,242

(Note) The amount of "Other" includes amortization and unamortized balance associated with the woodchip and forestry businesses.

(7) Negative goodwill (gain on bargain purchase) by reportable segment

For the fiscal year ended March 31, 2013
The Company recognized gain on bargain purchase of ¥156 million in the Paper and paperboard business as a result of transactions in which the Company acquired additional shares of the consolidated subsidiaries and also acquired additional shares of the Group's equity-method associates to convert them into consolidated subsidiaries.

For the fiscal year ended March 31, 2014
The Company recognized gain on bargain purchase of ¥1,302 million in the Paper and paperboard business, ¥575 million in the Home and personal care business and ¥14 million in the Other businesses as a result of transactions in which the Company acquired additional shares of the consolidated subsidiaries.

For the fiscal year ended March 31, 2015
The Company recognized gain on bargain purchase of ¥126 million ($1,053 thousand) in the Other businesses.

24. Related Party Transactions

(1) Transactions between the company submitting consolidated financial statements and related parties

i) Transactions with parent company and major corporate shareholders, etc.

For the fiscal year ended March 31, 2013

Category	Name of company or individual	Location	Capital stock or investments in capital (Millions of Yen)	Business details or occupation	Voting rights of the Company owned by related party	Relation with related party	Transaction details	Transaction amount (Millions of Yen)	Account title	Year-end balance (Millions of Yen)
Other associated company	Hokuetsu Kishu Paper Co., Ltd.	Chuo-ku, Tokyo	¥ 42,021	Manufacture and sale of paper and pulp products	Direct 21.9%	Purchase of shares	Purchase of shares (Note 1)	¥ 48,392	—	—

(Notes)

1. The purchase price of shares is determined within a range of the results analyzed by the discounted cash flow method and the market multiple method.
2. The transaction amount does not include consumption taxes.

For the fiscal year ended March 31, 2014
None

For the fiscal year ended March 31, 2015
None

ii) Transactions with associates, etc.

For the fiscal year ended March 31, 2013
None

For the fiscal year ended March 31, 2014
None

For the fiscal year ended March 31, 2015
None

iii) Transactions with directors, etc. of the company submitting consolidated financial statements

For the fiscal year ended March 31, 2013

Category	Name of company or individual	Location	Capital stock or investments in capital (Millions of Yen)	Business details or occupation	Voting rights owned by the Company (Voting rights of the Company owned by related party)	Relation with related party	Transaction details	Transaction amount (Millions of Yen)	Account title	Year-end balance (Millions of Yen)
Directors and close members of their family	Hidetaka Ikawa	—	—	Senior Managing Director of the Company	Direct (0.1%)	—	Purchase of shares of subsidiaries (Note 3)	¥719	Accounts payable-other	¥636
	Toshitaka Ikawa	—	—	Special Advisor of the Company	Direct (0.1%)	—	Purchase of shares of subsidiaries (Note 3)	¥166	Accounts payable-other	¥166
	Takao Ikawa	—	—	Advisor of the Company	—	—	Sale of assets (Note 4)	¥115	—	—
							Gain on sale of assets (Note 4)	¥96		
Companies (including their subsidiaries) the majority of whose voting shares are owned by directors and close members of their family	Elleair Paper Chemical Corporation (Note 2)	Shikoku-Chuo City, Ehime Prefecture	¥30	Processing of chemicals	Indirect 100%	Purchase of raw materials	Purchase of raw materials (Note 5)	¥293 (Note 2)	—	— (Note 2)
							Processing of chemicals (Note 6)	¥102 (Note 2)	—	— (Note 2)
							Sale of electric power and steam (Note 7)	¥7 (Note 2)	—	— (Note 2)
							Leasing of real estate and machine equipment (Notes 8 & 9)	¥5 (Note 2)	—	— (Note 2)
	Elleair Resorts Golf Club Co., Ltd. (Note 2)	Matsuyama City, Ehime Prefecture	¥25	Golf club operations; purchase and sale of raw materials	Indirect 100%	Outsourcing of the Company's facilities operation	Outsourcing of the Company 's facilities operation (Note 10)	¥7 (Note 2)	—	— (Note 2)
	Elleair Packaging Print Corporation (Note 2)	Kamo-gun, Gifu Prefecture	¥25	Manufacture and sale of raw materials	Indirect 100%	Purchase of raw materials	Purchase of materials (Note 5)	¥212 (Note 2)	—	— (Note 2)
							Leasing of real estate (Note 8)	¥5 (Note 2)	—	— (Note 2)
	Elleair Foods Co., Ltd. (Note 2)	Shikoku-Chuo City, Ehime Prefecture	¥50	Operation of restaurants, catering service at highway service area	—	Leasing of real estate	Leasing of real estate (Note 8)	¥4 (Note 2)	—	— (Note 2)
	Elleair Life Co. Ltd. (Note 2)	Shikoku-Chuo City, Ehime Prefecture	¥30	Operation of fitness club and swimming school	Direct 6.7% Indirect 44.3%	Leasing of real estate	Leasing of real estate (Note 8)	¥7 (Note 2)	—	— (Note 2)
	Meigi Eco Pulp Co., Ltd. (Note 2)	Kani City, Gifu Prefecture	¥12	Provision of in-plant work	Indirect 50.5%	Outsourcing of in-plant work	Outsourcing of in-plant work (Note 11)	¥259 (Note 2)	—	— (Note 2)
	Fuji Paper Supply Co., Ltd. (Note 2)	Shinjuku-ku, Tokyo	¥18	Purchase and sale of paper products for family use	Direct 10.0% Indirect 90.0%	Sale of paper products for family use	Sale of paper products for family use (Note 12)	¥1,464 (Note 2)	—	— (Note 2)

(Notes)

1. Regarding the percentage of voting rights, indirect holding represents shareholding by the Company's consolidated subsidiaries.
2. As these companies were affected by a change in the scope of consolidation that took place during the second quarter of the fiscal year ended March 31, 2013, the transaction amounts and the year-end balances represent such amounts and balances that related to the period for which these companies corresponded to the category of the companies the majority of whose voting shares are owned by directors and close members of their family.
3. The prices of shares of the subsidiaries are determined at fair value using the cost approach in accordance with the Basic Interpretive Regulations on Asset Valuation issued by the National Tax Agency.
4. The selling price for the asset is determined by consultation between both parties in accordance with the asset purchase agreement signed on June 26, 2012.
5. The purchase prices of raw materials are determined in consideration of the prevailing market prices.
6. The chemicals processing cost is determined by consultation between both parties based on the total costs incurred by Elleair Paper Chemical Corporation.
7. The prices of electric power and steam are determined by consultation between both parties based on the production cost incurred by the Company.
8. The rent for real estate is determined by consultation between both parties.
9. The rent for machine and equipment is determined by consultation between both parties based on the maintenance cost incurred by the Company.

10. The Company outsources the operation and administration of the Company's facilities, and the outsourcing cost is determined by consultation between both parties based on the total costs incurred by Elleair Resorts Golf Club Co., Ltd.
11. The cost of outsourcing in-plant work is determined by consultation between both parties based on the total cost incurred by Meigi Eco Pulp Co., Ltd.
12. The prices of paper products for family use are determined in consideration of the prevailing market prices.
13. The transaction amounts do not include consumption taxes.

For the fiscal year ended March 31, 2014

Category	Name of company or individual	Location	Capital stock or investments in capital (Millions of Yen)	Business details or occupation	Voting rights owned by the Company (Voting rights of the Company owned by related party)	Relation with related party	Transaction details	Transaction amount (Millions of Yen)	Account title	Year-end balance (Millions of Yen)
Directors and close members of their family	Miyuki Ikawa (Note 1)	—	—	—	Direct (1.2%)	—	Purchase of shares of subsidiaries (Note 2)	¥453	—	—
							Sale of shares of subsidiaries (Note 2)	¥235	—	—
	Toshitaka Ikawa	—	—	Special Advisor of the Company	Direct (0.1%)	—	Purchase of shares of subsidiaries (Note 2)	¥163	—	—
	Junji Ikawa (Note 1)	—	—	—	Direct (0.1%)	—	Purchase of shares of subsidiaries (Note 2)	¥226	—	—
	Hidetaka Ikawa	—	—	Senior Managing Director of the Company	Direct (0.1%)	—	Purchase of shares of subsidiaries (Note 2)	¥70	—	—
	Takayuki Ikawa (Note 1)	—	—	President and Chief Executive Officer of Shikoku Paper Sales Corporation	Direct (0.1%)	—	Purchase of shares of subsidiaries (Note 2)	¥243	—	—
Companies (including their subsidiaries) the majority of whose voting shares are owned by directors and close members of their family	Shikoku Paper Sales Corporation	Shikoku-Chuo City, Ehime Prefecture	¥50	Purchase and sale of papers, paperboards and raw materials for papermaking	Direct 14.5% Direct (0.0%)	—	Sale of products (Note 3)	¥3,478 (Note 4)	Accounts receivable - trade	¥4,874 (Note 4)
							Purchase of raw materials (Note 3)	¥39 (Note 4)	Accounts payable - trade	¥17 (Note 4)
							Sale of raw materials (Note 3)	¥25 (Note 4)	Accounts receivable - other	¥27 (Note 4)

(Notes)
1. Ms. Miyuki Ikawa, Mr. Junji Ikawa and Mr. Takayuki Ikawa are family members within two degrees of familial separation from Mr. Hidetaka Ikawa, Senior Managing Director of the Company.
2. The prices of shares of the subsidiaries are determined at fair value using the cost approach in accordance with the Basic Interpretive Regulations on Asset Valuation issued by the National Tax Agency.
3. The selling prices of products, and purchase and selling prices of raw materials are determined in consideration of the prevailing market prices.
4. The transaction amounts and the year-end balances are those for the fourth quarter of the fiscal year ended March 31, 2014, during which period Shikoku Paper Sales Corporation was out of the scope of consolidation.
5. The transaction amounts do not include consumption taxes.

For the fiscal year ended March 31, 2015

Category	Name of company or individual	Location	Capital stock or investments in capital Millions of Yen (Thousands of U.S. Dollars)	Business details or occupation	Voting rights owned by the Company (Voting rights of the Company owned by related party)	Relation with related party	Transaction details	Transaction amount Millions of Yen (Thousands of U.S. Dollars)	Account title	Year-end balance Millions of Yen (Thousands of U.S. Dollars)
Directors and close members of their family	Takao Ikawa (Note 1)	—	—	—	Direct (2.8%)	—	Sale of assets (Note 2)	**¥20 ($167)**	—	—
Companies (including their subsidiaries) the majority of whose voting shares are owned by directors and close members of their family	Shikoku Paper Sales Corporation	Shikoku-Chuo City, Ehime Prefecture	**¥50 ($416)**	Purchase and sale of papers, paperboards and raw materials for papermaking	Direct 14.5% Direct (0.0%)	—	Sale of products and merchandise (Note 3)	**¥15,092 ($125,589)**	Accounts receivable - trade	**¥4,629 ($38,520)**
							Purchase of raw materials (Note 4)	**¥180 ($1,494)**	Accounts payable - trade	**¥8 ($70)**
							Sale of raw materials (Note 4)	**¥120 ($1,002)**	Accounts receivable - other	**¥32 ($265)**
							Payment of warehousing charge (Note 5)	**¥15 ($126)**	Accounts payable - other	**¥1 ($10)**
							Payment of subcontractor processing fee (Note 6)	**¥14 ($115)**	Accounts payable - other	**¥2 ($15)**

(Notes)
1. Mr. Takao Ikawa is a family member within two degrees of familial separation from Mr. Hidetaka Ikawa, Senior Managing Director of the Company.
2. The selling prices of assets are determined based on the assessment made by the third party.
3. The selling prices of the products and merchandise are determined in consideration of the prevailing market prices.
4. The purchase and selling prices of raw materials are determined in consideration of the prevailing market prices.
5. The warehousing charge is determined by consultation between both parties in consideration of the prevailing market prices.
6. The subcontractor processing fee is determined by consultation between both parties based on the total costs incurred by Shikoku Paper Sales Corporation.
7. The transaction amounts do not include consumption taxes.

(2) Transactions between the consolidated subsidiaries of the company submitting consolidated financial statements and related parties

i) Transactions with parent company and major corporate shareholders, etc.

For the fiscal year ended March 31, 2013

Category	Name of company or individual	Location	Capital stock or investments in capital (Millions of Yen)	Business details or occupation	Voting rights owned by the Company (Voting rights of the Company owned by related party)	Relation with related party	Transaction details	Transaction amount (Millions of Yen)	Account title	Year-end balance (Millions of Yen)
Other associated company	Hokuetsu Kishu Paper Co., Ltd.	Chuo-ku, Tokyo	¥42,021	Manufacture and sale of paper and pulp products	Direct (21.9%)	Sale of shares	Sale of shares (Note 1)	¥617	—	—
							Loss on sale of shares (Note 1)	¥499		

(Notes)
1. The selling price of shares are determined based on the results analyzed by the market multiple method.
2. The transaction amounts do not include consumption taxes.

For the fiscal year ended March 31, 2014
None

For the fiscal year ended March 31, 2015
None

ii) Transactions with directors and major individual shareholders, etc.

For the fiscal year ended March 31, 2013

Category	Name of company or individual	Location	Capital stock or investments in capital (Millions of Yen)	Business details or occupation	Voting rights owned by the Company (Voting rights of the Company owned by related party)	Relation with related party	Transaction details	Transaction amount (Millions of Yen)	Account title	Year-end balance (Millions of Yen)
Directors and close members of their family	Hidetaka Ikawa	—	—	Senior Managing Director of the Company	Direct (0.1%)	—	Sale of assets (Note 2)	¥199	—	—
							Gain on sale of assets (Note 2)	¥24		
	Mototaka Ikawa	—	—	Former Chairman and Chief Executive Officer of the Company	—	—	Collection of loans receivable (Note 3)	¥6,099	—	—
							Receipt of interest (Note 3)	¥44		
	Takao Ikawa	—	—	Advisor of the Company	—	—	Sale of assets (Note 4)	¥74	—	—
							Gain on sale of assets (Note 4)	¥2		
							Repayment of loans payable (Note 5)	¥200		
							Payment of interest (Note 5)	¥2		
Companies (including their subsidiaries) the majority of whose voting shares are owned by directors and close members of their family	Daio Shoko Co., Ltd. (Note 1)	Shikoku-Chuo City, Ehime Prefecture	¥100	Purchase and sale of raw materials	—	Purchase and sale of raw materials	Sale of raw materials (Note 6)	¥39 (Note 1)	—	— (Note 1)
	Creative World Co., Ltd.	Ota-ku, Tokyo	¥13	Purchase and sale of raw materials	—	Purchase and sale of raw materials	Payment of commission (Note 7)	¥86	—	—

(Notes)

1. As there was a change in shareholders of Daio Shoko Co., Ltd. during the second quarter of the fiscal year ended March 31, 2013, the transaction amount and the year-end balance represent such amount and balance that related to the period for which this company corresponded to the category of the companies the majority of whose voting shares are owned by directors and close members of their family.
2. The selling price for the asset is determined by consultation between both parties in accordance with the asset purchase agreement signed on March 29, 2013.
3. The interest rate for the loans receivable is reasonably determined in consideration of the market rate.
4. The selling price for the asset is determined by consultation between both parties in accordance with the asset purchase agreement signed on August 2, 2012.
5. The interest rate for the loans payable is reasonably determined in consideration of the market rate.
6. The purchase prices of raw materials are determined by consultation between both parties based on the total costs incurred by the consolidated subsidiaries.
7. The commission is determined by consultation between both parties.
8. The transaction amounts do not include consumption taxes.

For the fiscal year ended March 31, 2014

Category	Name of company or individual	Location	Capital stock or investments in capital (Millions of Yen)	Business details or occupation	Voting rights owned by the Company (Voting rights of the Company owned by related party)	Relation with related party	Transaction details	Transac-tion amount (Millions of Yen)	Account title	Year-end balance (Millions of Yen)
Directors and close members of their family	Miyuki Ikawa (Note 1)	—	—	—	Direct (1.2%)	—	Sale of shares of subsidiaries (Note 2)	¥196	—	—
	Takayuki Ikawa (Note 1)	—	—	President and Chief Executive Officer of Shikoku Paper Sales Corporation	Direct (0.1%)	—	Purchase of shares of subsidiaries (Note 2)	¥50	—	—
	Kimitake Miyazaki, Mitsuko Miyazaki (Notes 1 & 3)	—	—	President and Chief Executive Officer of Otsu Paper Board Co., Ltd. and his spouse	Direct (0.2%)	—	Sale of assets (Note 4)	¥40	—	—
Companies (including their subsidiaries) the majority of whose voting shares are owned by directors and close members of their family	Shikoku Paper Sales Corporation	Shikoku-Chuo City, Ehime Prefecture	¥50	Purchase and sale of papers, paperboards and raw materials for papermaking	Direct 14.5% Direct (0.0%)	—	Sale of products (Note 5)	¥138 (Note 6)	Accounts receivable - trade	¥41 (Note 6)
							Purchase of raw materials (Note 5)	¥35 (Note 6)	Accounts payable - trade	¥12 (Note 6)

(Notes)
1. Ms. Miyuki Ikawa, Mr. Takayuki Ikawa, Mr. Kimitake Miyazaki and Mrs. Mitsuko Miyazaki are family members within two degrees of familial separation from Mr. Hidetaka Ikawa, Senior Managing Director of the Company.
2. The prices of shares of the subsidiaries are determined at fair value using the cost approach in accordance with the Basic Interpretive Regulations on Asset Valuation issued by the National Tax Agency.
3. The transaction was entered into in their joint names.
4. The selling price of the asset is determined based on the book value.
5. The selling price of products and purchase price of raw materials are determined in consideration of the prevailing market prices.
6. The transaction amounts and the year-end balances are those for the fourth quarter of the fiscal year ended March 31, 2014, during which period Shikoku Paper Sales Corporation was out of the scope of consolidation.
7. The transaction amounts do not include consumption taxes.

For the fiscal year ended March 31, 2015

Category	Name of company or individual	Location	Capital stock or investments in capital Millions of Yen (Thousands of U.S. Dollars)	Business details or occupation	Voting rights owned by the Company (Voting rights of the Company owned by related party)	Relation with related party	Transaction details	Transac-tion amount Millions of Yen (Thousands of U.S. Dollars)	Account title	Year-end balance Millions of Yen (Thousands of U.S. Dollars)
Directors and close members of their family	Takao Ikawa (Note 1)	—	—	—	Direct (2.8%)	—	Sale of assets (Note 2)	**¥16 ($136)**	—	—
Companies (including their subsidiaries) the majority of whose voting shares are owned by directors and close members of their family	Shikoku Paper Sales Corporation	Shikoku-Chuo City, Ehime Prefecture	**¥50 ($416)**	Purchase and sale of papers, paperboards and raw materials for papermaking	Direct 14.5% Direct (0.0%)	—	Sale of products and merchandise (Note 3)	**¥360 ($2,995)**	Accounts receivable - trade	**¥16 ($129)**
							Purchase of raw materials (Note 4)	**¥171 ($1,425)**	Accounts payable - trade	**¥10 ($85)**
							Payment of subcontractor processing fee (Note 5)	**¥19 ($154)**	Accounts payable - other	**¥3 ($22)**
							Rent from real estate (Note 6)	**¥18 ($151)**	—	—

(Notes)
1. Mr. Takao Ikawa is a family member within two degrees of familial separation from Mr. Hidetaka Ikawa, Senior Managing Director of the Company.

2. The selling prices of assets are determined based on the assessment made by the third party.
3. The selling prices of the products and merchandise are determined in consideration of the prevailing market prices.
4. The purchase prices of raw materials are determined in consideration of the prevailing market prices.
5. The product processing costs are determined by consultation between both parties based on the total costs incurred by Shikoku Paper Sales Corporation.
6. The rent from real estate is determined by consultation between both parties.
7. The transaction amounts do not include consumption taxes.

25. Per Share Information

Amounts per share as of March 31, 2013, 2014 and 2015 and for the fiscal years then ended are summarized as follows:

	Yen			U.S. Dollars
	2013	2014	**2015**	**2015**
Net assets per share	¥ 821.21	¥ 875.39	**¥ 1,059.78**	**$ 8.82**
Net income per share	126.51	51.52	**93.48**	**0.78**

(Notes)
1. Fully diluted net income per share is not presented as the Company does not issue securities that have a dilutive effect.
2. Net income per share is calculated based on the following:

	Millions of Yen			Thousands of U.S. Dollars
	2013	2014	**2015**	**2015**
Net income	¥ 15,109	¥ 6,293	**¥ 13,209**	**$ 109,915**
Net income not attributable to common shareholders	—	—	**—**	**—**
Net income attributable to common shareholders	15,109	6,293	**13,209**	**109,915**
Average number of common stock outstanding during the period (in thousand shares)	119,429	122,149	**141,291**	

26. Subsequent Events

None

INDEX TO THE UNAUDITED QUARTERLY CONSOLIDATED FINANCIAL STATEMENTS

(This page is intentionally left blank)

INDEPENDENT AUDITOR'S QUARTERLY REVIEW REPORT

To the Board of Directors of Daio Paper Corporation

We have reviewed the accompanying quarterly consolidated financial statements of Daio Paper Corporation ("the Company") and its consolidated subsidiaries, which comprise the quarterly consolidated balance sheet as of June 30, 2015, and the quarterly consolidated statements of income and the quarterly consolidated statements of comprehensive income for the three-month periods ended June 30, 2014 and 2015, and the related notes.

Management's Responsibility for the Quarterly Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express a conclusion on these quarterly consolidated financial statements based on our reviews. We conducted our reviews in accordance with quarterly review standards generally accepted in Japan. A review of the quarterly consolidated financial statements consists of making inquiries, primarily of management and persons responsible for financial and accounting matters, and applying analytical and other quarterly review procedures. A review is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in Japan and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

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

Conclusion

Based on our reviews, nothing has come to our attention that causes us to believe that the accompanying quarterly consolidated financial statements do not present fairly, in all material respects, the consolidated financial position of the Company and its consolidated subsidiaries as of June 30, 2015 and their consolidated results of their financial performances for the three-month periods ended June 30, 2014 and 2015 in accordance with accounting principles for quarterly consolidated financial statements generally accepted in Japan.

Convenience translation

The U.S. dollar amounts in the accompanying quarterly consolidated financial statements with respect to the three-month period ended June 30, 2015 are presented solely for convenience. Our review also included the translation of Japanese yen amounts into U.S. dollar amounts and, based on our review, nothing has come to our attention that causes us to believe that such translation has not been made on the basis described in Note 1 to the quarterly consolidated financial statements.

/s/ PricewaterhouseCoopers Aarata
August 19, 2015

Quarterly Consolidated Balance Sheets (Unaudited)

Daio Paper Corporation and Consolidated Subsidiaries
As of March 31, 2015 and June 30, 2015

ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	as of March 31, 2015	**as of June 30, 2015**	**as of June 30, 2015**
CURRENT ASSETS:			
Cash and deposits	¥ 82,558	**¥ 77,634**	**$ 634,006**
Notes and accounts receivable—trade (Note 5)	91,209	**87,563**	**715,094**
Inventories	66,059	**70,307**	**574,169**
Other	12,671	**13,129**	**107,221**
Allowance for doubtful accounts	(7)	**(2)**	**(15)**
Total current assets	252,490	**248,632**	**2,030,475**
NON-CURRENT ASSETS:			
PROPERTY, PLANT AND EQUIPMENT:			
Buildings and structures, net	63,666	**62,833**	**513,133**
Machinery, equipment and vehicles, net	131,388	**130,093**	**1,062,415**
Land	75,513	**75,286**	**614,828**
Other, net	16,923	**17,916**	**146,313**
Total property, plant and equipment	287,491	**286,128**	**2,336,689**
INTANGIBLE ASSETS:			
Goodwill	59,000	**57,887**	**472,736**
Other	3,676	**3,626**	**29,615**
Total intangible assets	62,676	**61,513**	**502,351**
INVESTMENTS AND OTHER ASSETS (Note 6)	49,948	**54,922**	**448,523**
Total non-current assets	400,115	**402,562**	**3,287,563**
DEFERRED ASSETS	139	**122**	**995**
TOTAL ASSETS	¥ 652,745	**¥ 651,316**	**$ 5,319,033**

The accompanying notes are an integral part of these financial statements.

Quarterly Consolidated Balance Sheets (Unaudited)

Daio Paper Corporation and Consolidated Subsidiaries
As of March 31, 2015 and June 30, 2015

LIABILITIES AND NET ASSETS	Millions of Yen as of March 31, 2015	Millions of Yen as of June 30, 2015	Thousands of U.S. Dollars (Note 1) as of June 30, 2015
CURRENT LIABILITIES:			
Accounts payable—trade	¥ 48,201	¥ **48,928**	$ **399,576**
Short-term loans payable	37,360	**30,960**	**252,838**
Current portion of long-term loans payable	96,364	**92,323**	**753,967**
Income taxes payable	1,320	**1,058**	**8,640**
Provisions	4,422	**2,215**	**18,088**
Other	50,028	**52,032**	**424,923**
Total current liabilities	237,696	**227,516**	**1,858,030**
NON-CURRENT LIABILITIES:			
Bonds payable	10,320	**10,320**	**84,279**
Long-term loans payable	207,550	**211,483**	**1,727,095**
Long-term accounts payable—facilities	4,865	**4,858**	**39,675**
Net defined benefit liability	18,125	**18,405**	**150,309**
Provision for directors' retirement benefits	367	**266**	**2,176**
Provision for environmental measures	5	**3**	**24**
Provision for loss on business of subsidiaries and associates	243	**253**	**2,068**
Other	9,079	**10,716**	**87,512**
Total non-current liabilities	250,554	**256,305**	**2,093,138**
Total liabilities	488,250	**483,821**	**3,951,168**
NET ASSETS:			
SHAREHOLDERS' EQUITY (Note 8)**:**			
Capital stock	39,707	**39,707**	**324,274**
Capital surplus	39,586	**39,586**	**323,281**
Retained earnings	70,412	**71,654**	**585,170**
Treasury shares, at cost	(2,896)	**(2,902)**	**(23,700)**
Total shareholders' equity	146,809	**148,045**	**1,209,024**
ACCUMULATED OTHER COMPREHENSIVE INCOME:			
Valuation difference on available-for-sale securities	10,603	**12,338**	**100,758**
Foreign currency translation adjustment	(1,867)	**(2,153)**	**(17,586)**
Remeasurements of defined benefit plans	(1,093)	**(1,005)**	**(8,205)**
Total accumulated other comprehensive income	7,643	**9,180**	**74,967**
NON-CONTROLLING INTERESTS	10,043	**10,270**	**83,873**
Total net assets	164,495	**167,495**	**1,367,865**
TOTAL LIABILITIES AND NET ASSETS	¥ 652,745	¥ **651,316**	$ **5,319,033**

The accompanying notes are an integral part of these financial statements.

Quarterly Consolidated Statements of Income (Unaudited)

Daio Paper Corporation and Consolidated Subsidiaries
Three Months ended June 30, 2014 and 2015

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	Three Months ended June 30, 2014	**Three Months ended June 30, 2015**	**Three Months ended June 30, 2015**
NET SALES (Note 9)	¥ 103,253	**¥ 112,957**	**$ 922,473**
COST OF SALES	79,398	**86,869**	**709,424**
Gross profit	23,855	**26,088**	**213,049**
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	19,448	**21,478**	**175,402**
Operating income (Note 9)	4,407	**4,610**	**37,647**
NON-OPERATING INCOME:			
Interest income	72	**34**	**276**
Dividend income	281	**478**	**3,906**
Insurance income	—	**382**	**3,121**
Other	604	**440**	**3,593**
Total non-operating income	957	**1,334**	**10,896**
NON-OPERATING EXPENSES:			
Interest expenses	1,548	**1,249**	**10,201**
Other	637	**282**	**2,303**
Total non-operating expenses	2,185	**1,531**	**12,505**
Ordinary income	3,179	**4,413**	**36,039**
EXTRAORDINARY INCOME:			
Gain on sales of non-current assets	76	**1**	**10**
Insurance income	23	**7**	**57**
Other	32	**—**	**—**
Total extraordinary income	131	**8**	**67**
EXTRAORDINARY LOSSES:			
Loss on sales and retirement of non-current assets	13	**160**	**1,306**
Loss on valuation of investment securities	16	**1**	**8**
Impairment loss	12	**14**	**117**
Loss on disaster	8	**11**	**88**
Retirement benefit expenses	—	**289**	**2,358**
Other	8	**1**	**9**
Total extraordinary losses	56	**476**	**3,887**
Income before income taxes	3,254	**3,945**	**32,220**
INCOME TAXES:			
Income taxes—current	520	**782**	**6,384**
Income taxes—deferred	292	**1,148**	**9,375**
Total income taxes	812	**1,930**	**15,759**
NET INCOME	¥ 2,442	**¥ 2,016**	**$ 16,461**
NET INCOME ATTRIBUTABLE TO:			
Non-controlling interests	¥ 89	**¥ 120**	**$ 979**
Owners of the parent	2,354	**1,896**	**15,481**

	Yen		U.S. Dollars (Note 1)
	Three Months ended June 30, 2014	**Three Months ended June 30, 2015**	**Three Months ended June 30, 2015**
PER SHARE INFORMATION (Note 10):			
Net income per share	¥ 18.36	**¥ 13.01**	**$ 0.11**

The accompanying notes are an integral part of these financial statements.

Quarterly Consolidated Statements of Comprehensive Income (Unaudited)

Daio Paper Corporation and Consolidated Subsidiaries
Three Months ended June 30, 2014 and 2015

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	Three Months ended June 30, 2014	**Three Months ended June 30, 2015**	**Three Months ended June 30, 2015**
NET INCOME	¥ 2,442	**¥ 2,016**	**$ 16,461**
OTHER COMPREHENSIVE INCOME:			
Valuation difference on available-for-sale securities	168	**1,750**	**14,291**
Foreign currency translation adjustment	517	**(290)**	**(2,369)**
Remeasurements of defined benefit plans	104	**88**	**719**
Total other comprehensive income	789	**1,548**	**12,641**
COMPREHENSIVE INCOME	¥ 3,231	**¥ 3,563**	**$ 29,101**
COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Owners of the parent	¥ 3,160	**¥ 3,433**	**$ 28,033**
Non-controlling interests	71	**131**	**1,068**

The accompanying notes are an integral part of these financial statements.

Notes to Quarterly Consolidated Financial Statements (Unaudited)

1. Basis of presenting Quarterly Consolidated Financial Statements

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

In preparing the quarterly consolidated financial statements, certain reclassification and rearrangements have been made to the quarterly financial statements issued in Japan in order to present these statements in a form which is more familiar to readers of these statements outside Japan.

In preparing the accompanying quarterly consolidated financial statements, Japanese yen figures less than one million yen have been rounded up or down to the nearest million yen. The translation of the Japanese yen amounts into U.S. dollars is included solely for the convenience of readers outside Japan, using the prevailing exchange rate as of June 30, 2015, which was ¥122.45 Japanese yen to $1.00 U.S. dollar. U.S. dollar figures less than one thousand dollars have been rounded up or down to the nearest thousand dollars. Therefore, total or subtotal amounts shown in the accompanying quarterly consolidated financial statements thereto are not necessarily equal to sum of individual amounts. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

2. Change in the scope of consolidation and application of the equity method

Effective April 1, 2015, four consolidated subsidiaries of the Company, namely Daio Package Corporation, Tokai Daio Paper Package Co., Ltd., Hanshin Daio Paper Package Co., Ltd. and Oumi Daio Paper Package Co., Ltd., were merged into a consolidated subsidiary named Daio Package Corporation. As a result of this merger, the number of the consolidated subsidiaries as of the end of the first quarter of the current fiscal year became 29.

3. Change in accounting policies

Application of the Accounting Standard for Business Combinations and other related accounting standards and guidances

Effective from the first quarter of the current fiscal year, the Group has applied the "Accounting Standard for Business Combinations" (ASBJ Statement No. 21, September 13, 2013, hereinafter, "Business Combinations Standard"), "Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22, September 13, 2013, hereinafter, "Consolidated Financial Statements Standard") and "Accounting Standard for Business Divestitures" (ASBJ Statement No. 7, September 13, 2013, hereinafter, "Business Divestitures Standard") and other related accounting standards and guidances. Accordingly, the Group accounting policies have been changed; the difference arising from a change in the Company's ownership interest in a subsidiary over which the Company continues to have control is recorded as capital surplus and acquisition-related costs are expensed in the fiscal year in which they are incurred. In addition, for business combinations to be performed at and after the beginning of the first quarter of the current fiscal year, a method was changed to recognize an adjustment to the provisional amount arising from the finalization of the initial accounting relating to the allocation of acquisition cost in the consolidated financial statements for the quarter where the date of business combination belongs. In addition, the Company has changed the presentation of net income and other related items, and the presentation of "minority interests" to "non-controlling interests." To reflect these changes in presentation, the reclassification of accounts has been made to the quarterly consolidated statement of income and the quarterly consolidated statement of comprehensive income for the three months ended June 30, 2014 and the quarterly consolidated balance sheet as of March 31, 2015.

The Business Combinations Standard and other related accounting standards and guidances have been applied in accordance with transitional treatments set forth in Paragraph 58-2 (4) of the Business Combinations Standard, Paragraph 44-5 (4) of the Consolidated Financial Statements Standard and Paragraph 57-4 (4) of the Business Divestitures Standard, and they have been prospectively applied from the beginning of the first quarter of the current fiscal year.

These changes have no impact on the quarterly consolidated financial statements as of and for the three months ended June 30, 2015.

4. Cash Flow Information

While the Company did not prepare the quarterly consolidated statements of cash flows for the three months ended June 30, 2014 and 2015, depreciation (including amortization of intangible assets other than goodwill), amortization of goodwill and amortization of negative goodwill for the three months ended June 30, 2014 and 2015 are as follows.

	Millions of Yen		Thousands of U.S. Dollars
	Three months ended June 30, 2014	**Three months ended June 30, 2015**	**Three months ended June 30, 2015**
Depreciation	¥ 6,692	¥ **6,643**	$ **54,249**
Amortization of goodwill ..	1,137	**1,132**	**9,241**
Amortization of negative goodwill	18	**18**	**150**

5. Notes Receivable Discounted and Transferred by Endorsement

The following are the balances of notes receivable discounted and notes receivable transferred by endorsement directly deducted from notes receivable as of March 31 and June 30, 2015.

	Millions of Yen		Thousands of U.S. Dollars
	As of March 31, 2015	**As of June 30, 2015**	**As of June 30, 2015**
Notes receivable discounted ..	¥ 279	¥ **8**	$ **65**
Notes receivable transferred by endorsement	827	**649**	**5,296**

6. Allowance for Doubtful Accounts Directly Deducted from Assets

The following are the balances of allowance for doubtful accounts directly deducted from assets as of March 31 and June 30, 2015.

	Millions of Yen		Thousands of U.S. Dollars
	As of March 31, 2015	**As of June 30, 2015**	**As of June 30, 2015**
Investments and other assets ..	¥ 1,226	¥ **1,245**	$ **10,165**

7. Guarantee Liabilities

The Company has committed to provide the following debt guarantees for loans taken out by companies other than the consolidated subsidiaries and associates from financial institutions, as of March 31 and June 30, 2015.

	Millions of Yen		Thousands of U.S. Dollars
	As of March 31, 2015	**As of June 30, 2015**	**As of June 30, 2015**
Otsu Kami Unyu Co., Ltd. ..	¥ 52	¥ **47**	$ **380**
Other	54	**54**	**439**
Total	¥ 105	¥ **100**	$ **819**

8. Shareholders' Equity

For the three months ended June 30, 2014 (from April 1, 2014 to June 30, 2014)

(1) Amount of cash dividends distributed

Resolution	Type of shares	Total amount of dividends	Dividends per share	Record date	Effective date	Source of dividends
		Millions of Yen	Yen			
General Shareholders' Meeting held on June 27, 2014	Common stock	568	4.50	March 31, 2014	June 30, 2014	Retained earnings

(2) Significant change in the amount of shareholders' equity
Capital stock and capital surplus increased by the same amount of ¥6,342 million as a result of issuing new shares of common stock through a public offering with a payment date of June 17, 2014. Capital stock and capital surplus further increased by the same amount of ¥1,999 million as a result of issuing new shares of common stock through a third-party allotment with the same payment date.

Consequently, capital stock and capital surplus increased by the same amount of ¥8,341 million for the three months ended June 30, 2014 to reach ¥38,756 million and ¥38,634 million, respectively, as of June 30, 2014.

For the three months ended June 30, 2015 (from April 1, 2015 to June 30, 2015)

Amount of cash dividends distributed

		Total amount of dividends		Dividends per share				
Resolution	Type of shares	Millions of Yen	Thousands of U.S. Dollars	Yen	U.S. Dollars	Record date	Effective date	Source of dividends
General Shareholders' Meeting held on June 26, 2015	Common stock	¥ **659**	$ **5,382**	**¥4.50**	$ **0.04**	March 31, 2015	June 29, 2015	Retained earnings

9. Segment Information

For the three months ended June 30, 2014 (from April 1, 2014 to June 30, 2014)

(1) Net sales and income by reportable segment

	Millions of Yen						
	Reportable Segment						
	Paper and paperboard	Home and personal care	Total	Other (Note 1)	Total	Adjustments (Note 2)	Consolidated (Note 3)
Net Sales							
Sales to external customers	¥ 68,966	¥ 31,409	¥100,375	¥ 2,878	¥103,253	¥ —	¥ 103,253
Intersegment sales and transfers	3,827	458	4,286	12,464	16,750	(16,750)	—
Total sales	¥ 72,793	¥ 31,867	¥104,661	¥15,342	¥120,003	¥ (16,750)	¥ 103,253
Segment income	¥ 2,506	¥ 1,540	¥ 4,046	¥ 343	¥ 4,389	¥ 18	¥ 4,407

(Notes)
1. The "Other" category consists of the business segments that are not included in the reportable segments, and includes woodchip, forestry, machinery, logistics, electric power selling and golf club businesses.
2. Segment income is adjusted by eliminating intersegment transactions.
3. Segment income is calculated by adjusting operating income presented in the quarterly consolidated statement of income.

For the three months ended June 30, 2015 (from April 1, 2015 to June 30, 2015)

(1) Net sales and income by reportable segment

	Millions of Yen						
	Reportable Segment						
	Paper and paperboard	Home and personal care	Total	Other (Note 1)	Total	Adjustments (Note 2)	Consolidated
Net Sales							
Sales to external customers	¥ 72,771	¥ 37,144	¥109,915	¥ 3,042	¥ 112,957	¥ —	¥ 112,957
Intersegment sales and transfers	4,458	519	4,977	13,600	18,577	(18,577)	—
Total sales	¥ 77,229	¥ 37,663	¥114,892	¥ 16,642	¥ 131,534	¥ (18,577)	¥ 112,957
Segment income	¥ 2,112	¥ 2,109	¥ 4,221	¥ 333	¥ 4,555	¥ 55	¥ 4,610

	Thousands of U.S. Dollars						
	Reportable Segment						
	Paper and paperboard	Home and personal care	Total	Other (Note 1)	Total	Adjustment (Note 2)	Consolidated
Net Sales							
Sales to external customers	$ 594,290	$ 303,341	$897,632	$ 24,842	$ 922,473	$ —	$ 922,473
Intersegment sales and transfers	36,409	4,237	40,646	111,067	151,713	(151,713)	—
Total sales	$ 630,699	$ 307,578	$938,277	$135,909	$1,074,186	$ (151,713)	$ 922,473
Segment income	$ 17,251	$ 17,223	$ 34,473	$ 2,721	$ 37,195	$ 452	$ 37,647

(Notes)
1. The “Other” category consists of the business segments that are not included in the reportable segments, and includes woodchip, forestry, machinery, logistics, electric power selling and golf club businesses.
2. Segment income is adjusted by eliminating intersegment transactions.
3. Segment income is calculated by adjusting operating income presented in the quarterly consolidated statement of income.

(2) Matters concerning a change in reportable segment and other item

For the objective of monitoring the operating performance of each business segment more appropriately, effective from the first quarter of the current fiscal year, corporate expenses have been allocated to each business segment.

Accordingly, the segment information for the first quarter of the previous fiscal year is presented by reflecting the above change in calculating segment income.

10. Per Share Information

Amounts per share for the three months ended June 30, 2014 and 2015 are summarized as follows.

	Yen		U.S. Dollars
	Three months ended June 30, 2014	**Three months ended June 30, 2015**	**Three months ended June 30, 2015**
Net income per share	¥ 18.36	**¥ 13.01**	**$ 0.11**
(Calculation basis)			
Net income attributable to owners of the parent	2,354	**1,896**	**15,481**
Net income not attributable to common shareholders of the parent	—	**—**	**—**
Net income attributable to common shareholders of the parent	2,354	**1,896**	**15,481**
Average number of shares of common stock outstanding during the period (in thousand shares)	128,225	**145,736**	

(Notes) Fully diluted net income per share is not presented as the Company does not issue securities that have a dilutive effect.

11. Subsequent Events

None

THE COMPANY

Registered Office	*Tokyo Headquarters (up to 23rd September, 2015)*	*Tokyo Headquarters (from 24th September, 2015)*
2-60, Mishima Kamiya-cho Shikokuchuo-shi Ehime 799-0492 Japan	Yaesu Mitsui Building 7-2, Yaesu 2-chome Chuo-ku, Tokyo 104-8468 Japan	Iidabashi Grand Bloom 10-2, Fujimi 2-chome Chiyoda-ku, Tokyo 102-0071 Japan

TRUSTEE, CUSTODIAN AND REGISTAR

MUFG Union Bank, N.A.
120 South San Pedro Street, 4th Floor
Los Angeles, CA 90012
U.S.A.

PRINCIPAL AGENT

The Bank of Tokyo-Mitsubishi UFJ, Ltd.,
London Branch
Ropemaker Place
25 Ropemaker Street
London EC2Y 9AN
United Kingdom

CUSTODIAN'S AGENT IN JAPAN

The Bank of Tokyo-Mitsubishi UFJ, Ltd.
7-1, Marunouchi 2-chome
Chiyoda-ku, Tokyo 100-8388
Japan

LEGAL ADVISERS

To the Joint Lead Managers as to English law

Clifford Chance Law Office
(Gaikokuho Kyodo Jigyo)
Akasaka Tameike Tower, 7th Floor
17-7, Akasaka 2-chome
Minato-ku, Tokyo 107-0052
Japan

To the Company as to Japanese law

Mori Hamada & Matsumoto
Marunouchi Park Building
6-1, Marunouchi 2-chome
Chiyoda-ku, Tokyo 100-8222
Japan

To the Trustee as to English law

Clifford Chance Law Office
(Gaikokuho Kyodo Jigyo)
Akasaka Tameike Tower, 7th Floor
17-7, Akasaka 2-chome
Minato-ku, Tokyo 107-0052
Japan

INDEPENDENT AUDITOR

PricewaterhouseCoopers Aarata
Sumitomo Fudosan Shiodome Hamarikyu Building
21-1, Ginza 8-chome
Chuo-ku, Tokyo 104-0061
Japan

DAIO PAPER CORPORATION