Offering Circular

Mitsubishi Chemical Holdings Corporation

(incorporated with limited liability under the laws of Japan)

¥75,000,000,000 Zero Coupon Convertible Bonds due 2022
Offer price: 103.0 Per cent
¥75,000,000,000 Zero Coupon Convertible Bonds due 2024
Offer price: 103.0 Per cent

The ¥75,000,000,000 Zero Coupon Convertible Bonds due 2022 (the "2022 Bonds") and the ¥75,000,000,000 Zero Coupon Convertible bonds due 2024 (the "2024 Bonds") (each being bonds with stock acquisition rights, *tenkanshasaigata shinkabu yoyakuken-tsuki shasai*) (together, the "Bonds" (and each a "Series"), which term shall, unless the context requires otherwise, include the Stock Acquisition Rights (as defined below) incorporated in the Bonds) of Mitsubishi Chemical Holdings Corporation (the "Company") will be issued in registered form in the denomination of ¥10,000,000 each with a stock acquisition right (*shinkabu yoyakuken*) (a "Stock Acquisition Right", and, collectively, the "Stock Acquisition Rights") exercisable from and including 13 April 2017 to and including 16 March 2022, in the case of the 2022 Bonds and from and including 13 April 2017 to and including 15 March 2024, in the case of the 2024 Bonds (unless the relevant Bonds have been previously redeemed or purchased and cancelled or become due and repayable), and entitling the Bondholder (as defined in the terms and conditions of the Bonds for the relevant Series (the "2022 Bond Conditions" and the "2024 Bonds Conditions, respectively and, collectively, the "Conditions")) to acquire fully paid and non-assessable shares of common stock of the Company (the "Shares") at an initial conversion price, subject to adjustment in certain events as set out herein, of ¥1,276 per Share in respect of the 2022 Bonds and ¥1,258 per Share in respect of the 2024 Bonds. However, prior to (but not including) 30 December 2021 (in the case of the 2022 Bonds) and 30 December 2023 (in the case of the 2024 Bonds), the Stock Acquisition Rights may be exercised by a holder of a Bond during any particular calendar quarter only if the Closing Price (as defined in the Conditions) of the Shares for any 20 consecutive Trading Days (as defined in the Conditions) in a period of 30 consecutive Trading Days ending on the last Trading Day of the immediately preceding calendar quarter is more than 130 per cent of the Conversion Price (as defined in the Conditions) on the last Trading Day of such immediately preceding calendar quarter. Such condition to the exercise of the Stock Acquisition Rights shall not be applicable in general (i) if a notice of redemption has been given to the Bondholders, (ii) if the Company is first required to give notice to the Bondholders of specified corporate transactions as set out in Condition 6.2 or (iii) during any period in which the ratings assigned to the Company by specified rating agencies is below a certain level or certain other rating events occur. The closing price of the Shares on 14 March 2017, as reported by Tokyo Stock Exchange, Inc. (the "Tokyo Stock Exchange"), was ¥899.0 per Share.

Unless previously redeemed or purchased and cancelled, the 2022 Bonds will be redeemed at 100 per cent of their principal amount on 30 March 2022 and the 2024 Bonds will be redeemed at 100 per cent of their principal amount on 29 March 2024. If at any time the outstanding principal amount of a Series is less than 10 per cent of the aggregate principal amount of such series as of the date of issue thereof, such Series may be redeemed 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, at the redemption prices specified 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-Japanese Taxation" and Condition 9 of each Series). If Japanese withholding taxes are imposed on payments in respect of the Bonds of a Series, the Company may, at any time, redeem all the Bonds of such Series at 100 per cent of their principal amount (as set out herein).

Approval in-principle has been received from the Singapore Exchange Securities Trading Limited (the "SGX-ST") for the listing and quotation of the Bonds on the Official List of the SGX-ST. The SGX-ST assumes no responsibility for the correctness of any of the statements made or opinions expressed or reports contained in this Offering Circular. Admission of the Bonds to the Official List of the SGX-ST and quotation of the Bonds on the SGX-ST is not to be taken as an indication of the merits of the Company its subsidiaries, its associated companies, or the Bonds.

Each Series will initially be represented by a global certificate (each, a "Global Certificate") evidencing the Bonds of the relevant Series 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 SA/NV ("Euroclear") and Clearstream Banking, S.A. ("Clearstream, Luxembourg") on or about 30 March 2017 (the "Closing Date") for the accounts of their respective accountholders. The Joint Lead Managers (as described in "Subscription and Sale") expect to deliver the Bonds to investors through the facilities of Euroclear and Clearstream, Luxembourg on or about the Closing Date. The 2022 Bonds and 2024 Bonds are not fungible with each other.

This Offering Circular does not constitute an offer of, or solicitation of an offer to buy or subscribe for, the Bonds or the Shares in any jurisdiction in which such offer or solicitation is unlawful. In particular, the Bonds and the Shares 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 under the Securities Act ("Regulation S")). In addition, the Bonds 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"), and may not be offered or sold within Japan or to, or for the account of, residents in Japan, unless otherwise permitted by the FIEA. For a summary of certain restrictions on the sale and transfer of the Bonds and the Shares, see "Subscription and Sale".

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

Joint Bookrunners and Joint Lead Managers

J.P. Morgan **Morgan Stanley**

Goldman Sachs International

The date of this Offering Circular is 14 March 2017

The Company accepts responsibility for the information contained in this Offering Circular. To the best of the knowledge and belief of the Company, 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, Group (as defined herein), the Bonds and the Shares which is material in the context of the issue and offering of the Bonds, the statements contained in it relating to the Company, the Group, the Bonds and the Shares are in every material particular true and accurate and not misleading, the opinions, intentions, beliefs or expectations 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.

This Offering Circular does not constitute an offer of, or an invitation by or on behalf of the Company or the Joint Lead Managers to subscribe for, or purchase, any of the Bonds or the Shares. The distribution of this Offering Circular and the offering of the Bonds and the Shares 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 the offer and sale of the Bonds and the Shares and distribution of this Offering Circular, see "Subscription and Sale".

No person has been 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 or on behalf of the Company, the Joint Lead Managers or the Trustee (as defined in the Conditions). 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 at any time subsequent to its date, nor does it imply that there has been no change in the affairs or the financial position of the Group since the date hereof.

To the fullest extent permitted by law, the Joint Lead Managers and the Trustee accept no 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 Joint Lead Manager and the Trustee accordingly disclaims all and any liability whether arising in tort or contract or otherwise in respect of this Offering Circular or any such statement.

The Bonds and the Shares are only being offered and sold outside the United States to non-U.S. persons in reliance on Regulation S. The Bonds and the Shares to be offered have not been and will not be registered under the FIEA and may not be offered or sold within Japan or to, or for the account of, residents in Japan, unless otherwise permitted by the FIEA.

No action is being taken to permit a public offering of the Bonds or the Shares 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 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 Switzerland and to persons connected therewith. See "Subscription and Sale".

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 (as defined in the Conditions of each Series) 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" and "issuable" shall be construed accordingly. In addition, references 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 and references to "delivery" used in respect of the Shares shall be read as including the transfer of Shares by way of the book entry system operated by Japan Securities Depository Center, Inc. (the "JASDEC").

In this Offering Circular, unless otherwise specified or the context requires, references to the "Group" are to the Company, its consolidated subsidiaries and its subsidiaries and affiliates accounted for by equity method taken as a whole.

Unless otherwise stated or the context requires, the description of the Company's business and financial information relating to the Company contained herein are given on a consolidated basis.

Unless otherwise specified or the context requires, references to "U.S.$", "dollars" and "U.S. dollars" are to United States dollars and references to "yen" and "¥" are to Japanese yen.

The Company's fiscal year end is 31 March. The Company's consolidated financial statements were prepared in accordance with generally accepted accounting principles in Japan ("Japanese GAAP") up to and including the year ended 31 March 2016, which differ in certain respects from generally accepted accounting principles in certain other countries. From the year ending 31 March 2017, the Company's consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS"). Potential investors should consult their own professional advisers for an understanding of the difference between Japanese GAAP and IFRS, or generally accepted accounting principles in other jurisdictions, and an understanding of how those differences might affect the financial information contained herein.

In accordance with applicable Japanese legal requirements, for each fiscal year, the Company prepares audited consolidated and non-consolidated financial statements and unaudited quarterly condensed consolidated financial statements. The following financial statements are contained in this Offering Circular: (i) the audited consolidated balance sheets of the Company as at 31 March 2014, 2015 and 2016 and the related audited consolidated statements of income, comprehensive income, changes in net assets and cash flows for each of the years ended 31 March 2014, 2015 and 2016 and the notes thereto (the "Audited Consolidated Financial Statements"), and (ii) the unaudited quarterly condensed consolidated statement of financial position of the Company as at 31 December 2016, and the related unaudited quarterly condensed consolidated statements of income, comprehensive income and cash flows for each of the nine months ended 31 December 2015 and 2016 and the notes thereto (the "Unaudited Quarterly Condensed Consolidated Financial Statements"). The Audited Consolidated Financial Statements have been prepared in accordance with Japanese GAAP and the Unaudited Quarterly Condensed Consolidated Financial Statements have been prepared in accordance with IFRS. See Note 15 to the Unaudited Quarterly Condensed Financial Statements on page Q-43 for details in respect of differences between Japanese GAAP and IFRS and limited reconciliation of prior period figures (prepared in accordance with Japanese GAAP) to IFRS.

In this Offering Circular, unless otherwise specified or the context requires, where information, including information extracted from the Audited Consolidated Financial Statements, is presented in millions of yen, amounts of less than one million and, in the case of percentages, fractions of less than 1 per cent, one-tenth of 1 per cent or one-hundredth of 1 per cent have been truncated, whereas information extracted from the Unaudited Quarterly Condensed Consolidated Financial Statements has been rounded up or down, as the case may be. In some cases, figures presented in tables in this Offering Circular may not total due to rounding or truncating.

IN CONNECTION WITH THIS ISSUE OF THE BONDS, J. P. MORGAN SECURITIES PLC (THE "STABILISING MANAGER") (OR PERSONS ACTING ON BEHALF OF THE STABILISING MANAGER) MAY OVER-ALLOT THE BONDS OF THE RELEVANT SERIES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE BONDS OF THE RELEVANT SERIES 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 OF THE RELEVANT SERIES 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 OF THE RELEVANT SERIES AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE BONDS OF THE RELEVANT SERIES. 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.

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 “anticipate”, “believe”, “estimate”, “expect”, “intend”, “may”, “might”, “plan”, “project”, “will”, 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 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.

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Overview of the offering

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".

Mitsubishi Chemical Holdings Corporation

The Group operates in a broad range of business domains comprising chemicals, pharmaceuticals and industrial gases, with a diverse business portfolio consisting of electronic applications, designed materials, health care products, chemicals, polymers and other products. The Group operates under a holding company structure that separates business portfolio management functions and individual business management functions. As the holding company in charge of business portfolio management, the Company oversees the operations of six key operating companies, Mitsubishi Chemical Corporation, Mitsubishi Tanabe Pharma Corporation, Mitsubishi Plastics, Inc., Mitsubishi Rayon Co., Ltd., Life Science Institute, Inc. and Taiyo Nippon Sanso Corporation. The Company coordinates Group operations, categorizing each company's businesses by product and managing its portfolio based on those categories.

The Group's businesses are separated into three domains, which are further sub-categorised into reporting segments for financial reporting purposes:

Performance Products Domain: The Performance Products domain comprises two segments: "Electronics Applications" and "Designed Materials". These segments utilize differentiated technological clusters based on chemistry to provide products and technologies in a wide range of industries (see "Business—Performance Products Domain").

Industrial Materials Domain: The Industrial Materials Domain is comprised of two segments: "Chemicals", which handles a wide range of basic chemicals, carbon products and industrial gases and "Polymers", which provides synthetic resins that meet advanced and special needs. This domain covers the entire product chain from raw materials to derivatives and processing products (see "Business—Industrial Materials Domain").

Health Care Domain: The Health Care domain comprises the Health Care segment and covers a wide range of healthcare fields including pharmaceuticals, diagnostic reagents and instruments, clinical testing, self- health check services and other products (see "Business—Health Care Domain").

The Group also has an "Others" segment which includes companies offering engineering and logistics services.

Effective from the year ended 31 March 2015, the Company has reclassified some of its business (including one consolidated subsidiary) from the Health Care segment to the Designed Materials segment due to the establishment of Life Science Institute, Inc. as a consolidated subsidiary. Figures for the year ended 31 March 2014 have been reclassified to reflect the new classification, where appropriate.

Effective from the year ended 31 March 2016, certain businesses have been reclassified from the Chemicals segment to the Polymers and Designed Materials segments. In addition, certain businesses in the Others segment have been moved to the Designed Materials segment. Accordingly certain figures in the above segments for the year ended 31 March 2015 have been reclassified to reflect the new classification.

As at 31 December 2016, the Company had 578 subsidiaries as well as 147 associates. The Group had 68,531 employees as of the same date.

The offerings

Issuer	Mitsubishi Chemical Holdings Corporation
Securities offered	2022 Bonds: ¥75,000,000,000 in aggregate principal amount of Zero Coupon Convertible Bonds due 2022 (bonds with stock acquisition rights, *tenkanshasaigata shinkabu yoyakuken-tsuki shasai*). 2024 Bonds: ¥75,000,000,000 in aggregate principal amount of Zero Coupon Convertible Bonds due 2024 (bonds with stock acquisition rights, *tenkanshasaigata shinkabu yoyakuken-tsuki shasai*).
Issue prices	2022 Bonds: 100.5 per cent 2024 Bonds: 100.5 per cent
Offer prices	2022 Bonds: 103.0 per cent 2024 Bonds: 103.0 per cent
Closing date	On or about 30 March 2017.
Delivery	It is expected that each Global Certificate will be deposited with, and registered in the name of, or a nominee for, a common depositary for each of Euroclear and Clearstream, Luxembourg on or about the Closing Date.
Form	Each Series will be issued in registered form and evidenced by a Global Certificate. Definitive Certificates in respect of a Series will only be available in certain limited circumstances. See "Provisions Relating to the Bonds While in Global Form".
Listing	Approval in-principle has been received for the listing and quotation of each Series on the Official List of 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 Series is listed on the SGX-ST and the rules of the SGX-ST so require.
Lock-up	During the period commencing on the date of the Subscription Agreement (as defined in "Subscription and Sale") and ending 180 days after the Closing Date (both dates inclusive) the Issuer has agreed not to, and has agreed to procure that none of its subsidiaries will, without the prior written consent of J.P. Morgan Securities plc and Morgan Stanley & Co. International plc (i) directly or indirectly, issue, offer, pledge, lend, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase or otherwise transfer or dispose of, directly or indirectly, any Share or any other capital stock of the Issuer or any security that constitutes the right to receive Shares or any other capital stock of the Issuer or any securities convertible into or exercisable or exchangeable for Shares or any other capital stock of the Issuer, or (ii) enter into any swap or any other agreement or any transaction that transfers, in whole or in part, directly or indirectly, the economic consequence of ownership of Shares, or (iii) enter into any transaction with the same economic effect as, or which is designed to, or which may reasonably be expected to result in, or agree to do, any of the foregoing, whether any such swap or transaction described in clauses (i), (ii) or (iii) above is to be settled by delivery of Shares or such other securities, in cash or otherwise, or (iv) announce or otherwise make public an intention to do any of the foregoing. The foregoing shall not apply to: (a) the issue and sale by the Issuer of the Bonds or the issue or transfer of Shares upon exercise of the Stock Acquisition Rights, (b) the grant and issue of stock options or Stock Acquisition Rights exercisable for Shares to its and its subsidiaries' directors or employees

pursuant to the Issuer's stock option plans (and the issue or transfer of Shares pursuant thereto), (c) the sale of Shares by the Issuer to any holder of Shares constituting less than one unit for the purpose of making such holder's holding, when added to the Shares held by such holder, constitute one full unit of Shares, (d) the issue of Shares by the Issuer as a result of any stock split, (e) the issue or transfer of Shares in connection with corporate reorganizations including a merger, share exchange (*kabusiki-koukan*), share transfer (*kabushiki-iten*) and corporate split; and (f) any other issue or sale of Shares required by applicable Japanese laws.

Use of proceeds . . . . . The net proceeds of the issue of the Bonds are estimated to be approximately ¥150 billion and will be used primarily as follows:

- approximately ¥40 billion towards repayment of debt which was borrowed by the Company as funds for its subsidiaries, Mitsubishi Chemical Corporation and Mitsubishi Chemical Europe GmbH to acquire shares of The Nippon Synthetic Chemical Industry Co., Ltd. through a tender offer;
- approximately ¥80 billion towards repayment of borrowings and redemption of bonds to ensure flexible financing for (i) investments for strengthening its overseas business and developing a product line-up in the Health Care Domain and (ii) research and development expenses, capital expenditures, strategic investments and other expenses towards enhancing technologies in key areas including the Performance Products Domain; and
- up to ¥30 billion towards the repurchase of Shares by the Company in order to implement flexible capital management policies in response to changes in business environment (see "Information Concerning the Shares—Proposed Share Repurchase by the Company"). Where the aggregate value of Shares the Company is able to repurchase falls short of ¥30 billion, any amounts left over shall be applied towards the Company's and its subsidiaries' working capital.

Repurchase by the company of shares . . . . . The Company announced on 14 March 2017 that it intends to repurchase up to 33,370,400 Shares (approximately 2.3 per cent of the issued Shares (excluding treasury stock) as at 28 February 2017) at a maximum cost of ¥30 billion from the market at 8:45 a.m. (Tokyo time) on 15 March 2017 at the closing price of the Shares on the Tokyo Stock Exchange on 14 March 2017 through the off-market hour trading system of the Tokyo Stock Exchange (the "ToSTNeT-3 system") in order to implement flexible capital policies that meet changes in business environment.

The result of such repurchase will be announced on 15 March 2017. As the amount which the Company is able to repurchase through the ToSTNeT-3 system is dependent on the amount investors offer to sell the Shares at the relevant price and at the relevant time, there can be no assurance that such repurchase will be executed in full or at all.

Trustee, Registrar and Custodian . . . . . MUFG Union Bank, N.A.

Principal Agent . . . . . The Bank of Tokyo-Mitsubishi UFJ, Ltd., London Branch

Custodian's Agent . . . . . The Bank of Tokyo-Mitsubishi UFJ, Ltd.

The Bonds

Form and denomination . . The Bonds of each Series are issued in registered form in the denomination of ¥10,000,000 each.

Initial conversion prices . . 2022 bonds: ¥1,276 per Share
2024 bonds: ¥1,258 per Share

Subject in each case to adjustment in certain events. See Condition 5.2 of the relevant Series.

Coupon . . . . . 2022 Bonds: Zero
2024 Bonds: Zero

Exercise of Stock Acquisition Rights . . . . . Subject to and upon compliance with the provisions of Condition 5.1 of the relevant Series, any holder of a Bond may exercise the Stock Acquisition Right at any time during the period from, and including, 13 April 2017 to, and including, the close of business (in the case (at the place where the Stock Acquisition Right is to be exercised) on 16 March 2022, (in the case of the 2022 Bonds) and 15 March 2024 (in the case of the 2024 Bonds), in each case, to acquire fully-paid and non-assessable Shares.

Prior to (but not including) 30 December 2021 (in the case of the 2022 Bonds) and 30 December 2023 (in the case of the 2024 Bonds), a Bondholder may exercise its Stock Acquisition Rights only if, as at the last day of any calendar quarter, the Closing Price (as defined in Condition 3.1 of the relevant Series) of the Shares for any 20 consecutive Trading Days (as defined in Condition 3.1 of the relevant series) in a period of 30 consecutive Trading Days ending on the last Trading Day of such calendar quarter is more than 130 per cent of the Conversion Price (as defined in Condition 5.1 of the relevant Series) in effect on the last Trading Day of such calendar quarter (rounded down to the nearest yen). If this condition is satisfied, then a Bondholder may (subject to the Conditions) exercise its Stock Acquisition Rights on and after the first day of the following calendar quarter until the end of such quarter, provided the relevant Deposit Date (as defined in Condition 5.9.4 of the relevant Series) falls during the Exercise Period (as defined in Condition 5.1.4 of the relevant Series).

The above condition to the exercise of the Stock Acquisition Rights shall not be applicable if (i) a notice of redemption is given pursuant to Condition 7.2, 7.3, 7.4, 7.5 or 7.6 of the relevant Series, (ii) the Company is first required to give notice to the holders of the relevant Series of specified corporate transactions as set out in Condition 6.2 of the relevant Series or (iii) during any period in which (a) the issuer rating assigned to the Company by Rating and Investment Information, Inc. or its successors (together, "R&I") is BBB (or equivalent if the rating category is changed) or lower or the long-term issuer rating assigned to the Company by Japan Credit Rating Agency, Ltd. or its successors (together, "JCR") is BBB (or equivalent if the rating category is changed) or lower, (b) an issuer rating is no longer assigned to the Company by R&I and/or a long-term issuer rating is no longer assigned to the Company by JCR and/or (c) the issuer rating assigned to the Company by R&I and/or the long-term issuer rating assigned to the Company by JCR has been suspended or withdrawn. See Condition 5 of the relevant Series.

Status . . . . . The obligations of the Company in respect of the Bonds of each Series constitute direct, unconditional, unsubordinated and (subject to the provisions of Condition 2 of the relevant Series) unsecured obligations of the Company,

	ranking *pari passu* and rateably without any preference among themselves, and, except for the provisions of Condition 2 of the relevant Series 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 remains outstanding, the Company will not, and will procure that none of its Principal Subsidiaries (as defined in Condition 3.1 for the relevant Series) 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 for the relevant Series) unless the same security or such other security or guarantee as provided in Condition 2 for the Relevant Series is accorded to the Company's obligations under the Trust Deed and the relevant Bonds.
Redemption at maturity . .	Unless the Bonds have previously been redeemed, 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 30 March 2022 (in the case of the 2022 Bonds) and 29 March 2024 (in the case of the 2024 Bonds).
Early redemption—reduced outstanding amounts	The Company may, having given not less than 30 nor more than 60 days' prior notice of redemption to the Bondholders of the relevant Series in accordance with Condition 19 of the relevant Series (which notice shall be irrevocable), redeem all, but not some only, of the Bonds of the relevant Series 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 of the relevant Series is less than 10 per cent of the aggregate principal amount of such Bonds at the date of issue thereof. See Condition 7.2. of the relevant Series.
Early redemption—redemption for taxation reasons	If the Company satisfies the Trustee (as defined in the Conditions for each Series), immediately prior to giving the notice to the Bondholders of a Series, that (i) 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 14 March 2017, the Company has or will become obliged to pay any Additional Amounts (as defined in Condition 9 of each Series) in accordance with Condition 9 for the relevant Series 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 notice to the Bondholders for the relevant Series in accordance with Condition 19 for the relevant Series (which notice shall be irrevocable), redeem all, but not some only, of such Series then outstanding at 100 per cent of their principal amount. 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. See Condition 7.3 for each Series.

Early redemption—Corporate Events . . . . . In the case of a proposed Corporate Event (as defined in Condition 6.1 of each Series), the Company shall give notice of such proposed Corporate Event and the anticipated effective date of such transaction and the provisions set out in Condition 6 for each Series shall apply. See Condition 6 for each Series.

Upon or following the occurrence of a Corporate Event, the Company shall give not less than 14 Tokyo Business Days' (as defined in Condition 5.1.4 for the relevant Series) prior notice to the Bondholders in accordance with Condition 19 for each Series (which notice shall be irrevocable) to redeem all, but not some only, of the relevant Series then outstanding at a redemption price (expressed in yen) determined by reference to the table set out in Condition 7.4 for the relevant Series and in accordance with the provisions of Condition 7.4 for such Series on the Corporate Event Redemption Date (as defined in Condition 7.4 for each Series) 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 for each Series) 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 for the relevant Series; 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 for the relevant Series; or

(iii) despite the Company using its best endeavours pursuant to Condition 6.4.2 for the relevant Series, 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 for the relevant Series) has been obtained for the shares of common stock of the New Obligor (as defined in Condition 6.1 for the relevant Series), 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.

	See Condition 7.4 for the relevant Series.
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 7.5.1 for the relevant Series) 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 for the relevant Series) and the Offeror acquires any Shares pursuant to the offer, then the Company shall give notice to the Bondholders in accordance with Condition 19 for each Series, 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 relevant Series then outstanding at the redemption price (expressed in yen) calculated in the same manner as referred to in Condition 7.4 for the relevant Series (subject to the provisions of Condition 7.5 for the relevant Series). See Condition 7.5 for the relevant Series.
Early redemption—squeezeout redemption . . .	Upon the occurrence of a Squeezeout Event (as defined in Condition 3.1 for the relevant Series), the Company shall give notice to the Bondholders in accordance with Condition 19 for each Series, 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 the redemption price (expressed in yen) calculated in the same manner as referred to in Condition 7.4 for the relevant Series (subject to the provisions of Condition 7.6 for the relevant Series). See Condition 7.6 for the relevant Series.
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 Condition 10 of the relevant Series.
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 of the relevant Series.
Governing law	English law
Jurisdiction	English courts
International Securities Identification Numbers ("ISIN")	2022 Bonds: XS1580537642 2024 Bonds: XS1580542139
Common codes	2022 Bonds: 158053764 2024 Bonds: 158054213

Selected financial information

The following selected financial information should be read in conjunction with the Audited Consolidated Financial Statements and the Unaudited Quarterly Condensed Consolidated Financial Statements and the notes thereto appearing in this Offering Circular. Where the relevant financial line item appears in the Audited Consolidated Financial Statements or Unaudited Quarterly Condensed Consolidated Financial Statements, the corresponding financial information has been extracted without material adjustment from the Audited Consolidated Financial Statements or the Unaudited Quarterly Condensed Consolidated Financial Statements, as the case may be. The Audited Consolidated Financial Statements have been prepared in accordance with Japanese GAAP and the Unaudited Quarterly Condensed Consolidated Financial Statements have been prepared in accordance with IFRS. See Note 15 to the Unaudited Quarterly Condensed Consolidated Financial Statements on page Q-43 for details in respect of differences between Japanese GAAP and IFRS and limited reconciliation of prior period figures (prepared in accordance with Japanese GAAP) to IFRS.

From the year ended 31 March 2016, the Company applied the Accounting Standard for Business Combinations (ASBJ Statement No. 21, revised on 13 September 2013), the Accounting Standard for Consolidated Financial Statements (ASBJ Statement No. 22, revised on 13 September 2013), the Accounting Standard for Business Divestitures (ASBJ Statement No. 7, revised on 13 September 2013) and other standards. As a result, the presentation method of some line items have been amended. In particular, "Minority interests in consolidated subsidiaries" has been changed to "Non-controlling interests in consolidated subsidiaries", "Income before income taxes and minority interests in consolidated subsidiaries" to "Profit before income taxes", "Income before minority interests" to "Profit", "Minority interests in consolidated subsidiaries" to "Profit attributable to non-controlling interests" and "Net income" to "Profit attributable to owners of parent". Figures for the year ended 31 March 2014 and 2015 have been reclassified to reflect these changes.

	As at and for the year ended 31 March		
	2014	2015	2016
	(Yen in millions, except per share data, ratios and number of employees)		
Net sales	¥3,498,834	¥3,656,278	¥3,823,098
Operating income	110,460	165,681	280,026
Profit before income taxes(1)	116,594	165,621	198,248
Profit attributable to owners of parent(1)	32,248	60,859	46,444
Total comprehensive income	¥ 134,016	¥ 173,692	¥ 7,695
Increase in Tangible and Intangible Fixed Assets	133,339	165,057	176,508
Depreciation and amortization	131,571	151,253	180,374
Research and development	134,260	132,217	138,364
Net cash provided by operating activities	¥ 177,027	¥ 329,776	¥ 388,663
Net cash used in investing activities	(159,789)	(277,223)	(202,796)
Net cash used in financing activities	(8,307)	(2,061)	(156,957)
Total assets	¥3,479,359	¥4,323,038	¥4,061,572
Property, plant and equipment, net	1,118,050	1,498,146	1,390,727
Short-term and long-term debt	1,258,186	1,603,595	1,465,752
Total net assets	1,314,870	1,588,601	1,554,528
Per Share data:			
Profit attributable to owners of parent—basic	¥ 21.89	¥ 41.40	¥ 31.70
Net assets	611.95	669.77	636.43
Cash dividends	12.00	13.00	15.00
Ratios:			
Return on assets (ROA)(2)	3.4%	4.2%	4.7%
Return on equity (ROE)(3)(4)	3.7	6.4	4.8
Shareholders' equity ratio(4)	25.8	22.6	22.9
Number of employees	56,031	68,263	68,988

Notes:

(1) From the year ended 31 March 2016, the Company applied the Accounting Standard for Business Combinations (ASBJ Statement No. 21, revised on 13 September 2013), the Accounting Standard for Consolidated Financial Statements (ASBJ Statement No. 22, revised on 13 September 2013),

the Accounting Standard for Business Divestitures (ASBJ Statement No. 7, revised on 13 September 2013) and other standards. Among other features, the presentation method of net income and cash flows were amended. To reflect these changes in presentation, adjustments have been made to figures for the year ended 31 March 2015. See "Recent Business—Consolidated Results for the Year ended 31 March 2016 compared to the Year ended 31 March 2014 and 2015—Results—Changes in Accounting Policies".

(2) ROA is calculated as profit before income taxes divided by average total assets.

(3) ROE is calculated as profit attributable to owners of parent of the last 12 months divided by average shareholders' equity.

(4) Shareholders' equity, when used in the calculation of ROE and shareholders' equity ratio, represents the sum of total shareholders' equity and total accumulated other comprehensive income.

	As at and for the nine months ended 31 December	
	2015	2016
	(Yen in millions, except per Share data, ratios and number of employees)	
Revenue	¥2,681,442	¥2,450,610
Segment operating results(1)	248,754	230,123
Operating profit	229,163	210,380
Profit before tax	220,705	205,194
Net profit	80,828	179,828
Total comprehensive income	69,904	182,898
Capital expenditures	141,024	150,637
Depreciation and amortization	137,127	129,268
Research and development	93,065	89,361
Net cash provided by operating activities	165,527	254,567
Net cash used in investing activities	(87,962)	(161,333)
Net cash used in financing activities	43,360	(15,083)
Total assets	4,466,133	4,438,251
Property, plant and equipment	1,426,497	1,440,341
Bonds and borrowings (current liabilities)	834,950	693,044
Bonds and borrowings (non-current liabilities)	858,947	970,914
Total equity	1,632,814	1,682,950
Per Share data:		
Earnings—basic	23.09	89.94
Total equity	682.71	738.97
Cash dividends	7.00	8.00
Ratios:		
Return on assets (ROA)(2)	5.0%	4.7%
Return on equity (ROE)(3)	3.4	12.8
Equity ratio(4)	22.4	24.4
Number of employees	68,978	68,531

Notes:

(1) Segment operating results are operating profit in accordance with IFRS after excluding earnings from non-recurring factors, such as losses from business withdrawals and downsizings, representing core operating income.

(2) ROA is calculated as profit before tax of the last nine months divided by average total assets.

(3) ROE is calculated as net profit attributable to owners of the parent of the last nine months divided by average equity attributable to owners of the parent.

(4) Equity ratio is calculated as equity attributable to owners of the parent divided by total assets.

Set forth below is an extract of certain reconciliation data for financial information as at and for the year ended 31 March 2016 (prepared in accordance with Japanese GAAP) to IFRS, as set out more fully (including the notes thereto) in Note 15 to the Unaudited Quarterly Condensed Consolidated Financial Statements on page Q-43. Investors may refer to the table below for a reconciliation of certain of the financial information presented in Japanese GAAP as at and the for the year ended 31 March 2016 contained in "*Selected Financial Information*" to IFRS, but are cautioned against placing undue reliance on such reconciliation data, which has been provided on a voluntary basis here and is not intended to identify all quantitative differences between Japanese GAAP and IFRS.

In particular, investors should note that the line items set forth below have been extracted without material adjustment from Note 15 to the Unaudited Quarterly Condensed Consolidated Financial Statements on page Q-43 and may not correspond to line items contained in "*Selected Financial Information*" in all cases. See—"*Investment Considerations—The Group's unaudited quarterly condensed consolidated financial statements (prepared in accordance with IFRS) have not been audited and are not comparable with the audited annual consolidated financial statements (prepared in accordance with Japanese GAAP) included in this Offering Circular*".

Adjustment to net profit and comprehensive income for the year ended 31 March 2016

Millions of yen

Japanese GAAP line item	Japanese GAAP	Reclassification	Differences in recognition and measurement	IFRS	IFRS line item
Net sales	¥ 3,823,098	¥(157,743)	¥(122,003)	¥ 3,543,352	Revenue
Cost of sales	(2,779,584)	160,324	90,957	(2,528,303)	Cost of sales
Gross profit	1,043,514	2,581	(31,046)	1,015,049	Gross profit
Selling, general and administrative expenses	(763,488)	821	43,583	(719,084)	Selling, general and administrative expenses
	–	18,750	(147)	18,603	Other operating income
	–	(57,712)	(2,093)	(59,805)	Other operating expenses
	–	10,105	3,878	13,983	Share of profit in investments accounted for using the equity method
Operating income	280,026	(25,455)	14,175	268,746	Operating profit
Other income (expenses)	(81,778)	81,778	–	–	
	–	44,563	(35,644)	8,919	Finance income
	–	(28,153)	3,279	(24,874)	Finance costs
Profit before income taxes	198,248	72,733	(18,190)	252,791	Profit before tax
Income taxes	(92,648)	1,136	17,448	(74,064)	Income tax expense
	105,600	73,869	(742)	178,727	Profit from continuing operations
	–	(73,869)	–	(73,869)	Profit (loss) from discontinued operations
Profit	¥ 105,600	¥ –	¥ (742)	¥ 104,858	Net profit

Millions of yen

Japanese GAAP line item	Japanese GAAP	Reclassification	Differences in recognition and measurement	IFRS	IFRS line item
Profit	¥105,600	¥–	¥ (742)	¥104,858	Net Profit
Other comprehensive income (loss)					Other comprehensive income
Net unrealized holding gain (loss) on other securities	(29,729)	–	20,863	(8,866)	Net gain (loss) on revaluation of financial assets measured at fair value
Remeasurements of defined benefit plans	(26,328)	–	4,283	(22,045)	Remeasurements of defined benefit pensions plans
Foreign currency translation adjustments	(36,732)	–	1,031	(35,701)	Exchange differences on translation of foreign operations
Gain (loss) on deferred hedges	298	–	48	346	Net gain (loss) on derivatives designated as cash flow hedges
Other comprehensive income (loss) for affiliates accounted for using equity method	(5,414)	–	1,124	(4,290)	Share of other comprehensive income (loss) of investments accounted for using the equity method
Total comprehensive income	¥ 7,695	¥–	¥26,607	¥ 34,302	Total comprehensive income

Reconciliation of Equity as of 31 March 2016

Millions of yen

Japanese GAAP line item	Japanese GAAP	Reclassification	Differences in recognition and measurement	IFRS	IFRS line item
Assets:					Assets:
Current assets					Current assets
Cash and deposits	¥ 314,782	¥ (51,012)	¥ 3,378	¥ 267,148	Cash and cash equivalents
Trade receivables	703,996	(4,031)	69,129	769,094	Trade receivables
Securities	123,500	(123,500)	–	–	
Inventories:					
Finished goods	294,332	(294,332)	–	–	
Work in process	76,046	(76,046)	–	–	
Raw materials and supplies	176,922	366,111	6,428	549,461	Inventories
Land held for sale	526	(526)	–	–	
	–	220,794	(6,309)	214,485	Other financial assets
Deferred income taxes	32,339	(32,339)	–	–	
Other	99,091	(46,364)	464	53,191	Other current assets
Allowance for doubtful accounts	(4,032)	4,032	–	–	
Subtotal	1,817,502	(37,213)	73,090	1,853,379	
	–	3,338	–	3,338	Assets held for sale
Total current assets	1,817,502	(33,875)	73,090	1,856,717	Total current assets

Millions of yen

Japanese GAAP line item	Japanese GAAP	Reclassification	Differences in recognition and measurement	IFRS	IFRS line item
Non-current assets:					Non-current assets:
Property, plant and equipment					
Buildings and structure, net	340,070	(340,070)	–	–	
Machinery, equipment and vehicles, net	584,748	(584,748)	–	–	
Land	304,888	(304,888)	–	–	
Construction in progress	88,551	(88,551)	–	–	
Other, net	72,470	(72,470)	–	–	
	–	1,395,372	8,065	1,403,437	Property, plant and equipment
	–	248,164	19,686	267,850	Goodwill
	–	175,185	20,351	195,536	Intangible assets
Investments and other assets					
Investment securities	266,926	(161,703)	23,849	129,072	Investments accounted for using the equity method
Long-term loans receivable	5,084	(5,084)	–	–	
Net defined benefit assets	17,811	(17,811)	–	–	
Goodwill	248,164	(248,164)	–	–	
	–	229,594	22,208	251,802	Other financial assets
	–	29,857	532	30,389	Other non-current assets
Deferred income taxes	62,211	32,339	(5,579)	88,971	Deferred tax assets
Other	254,538	(254,538)	–	–	
Allowance for doubtful accounts	(1,391)	1,391	–	–	
Total non-current assets	2,244,070	33,875	89,112	2,367,057	Total non-current assets
Total assets	¥4,061,572	¥ –	¥162,202	¥4,223,774	Total assets

Millions of yen

Japanese GAAP line item	Japanese GAAP	Reclassification	Differences in recognition and measurement	IFRS	IFRS line item
					Liabilities and equity
Liabilities:					Liabilities:
Current liabilities:					Current liabilities:
Trade payables	¥ 408,315	¥ (11,937)	¥ (2,313)	¥ 394,065	Trade payables
Short-term debt	424,688	(424,688)	–	–	
Current portion of long-term debt	178,481	424,688	103,536	706,705	Bonds and borrowings
Accrued income taxes	39,914	(3,498)	18	36,434	Income tax payable
	–	208,121	(22,181)	185,940	Other financial liabilities
Accrued expenses	108,629	(108,629)	–	–	
	–	13,508	(9,905)	3,603	Provisions
Other	186,217	(97,406)	26,144	114,955	Other current liabilities
Total current liabilities	1,346,244	159	95,299	1,441,702	Total current liabilities
Long-term liabilities:					Non-current liabilities:
Long-term debt	862,583	1	10,286	872,870	Bonds and borrowings
	–	24,867	4,152	29,019	Other financial liabilities
Net defined benefit liabilities	143,713	–	466	144,179	Retirement benefit liabilities
	–	26,040	(2,424)	23,616	Provisions
Other	154,504	(128,260)	15,143	41,387	Other non-current liabilities
	–	77,193	(2,343)	74,850	Deferred tax liabilities
Total long-term liabilities	1,160,800	(159)	25,280	1,185,921	Total non-current liabilities
Total liabilities	2,507,044	–	120,579	2,627,623	Total liabilities
Net assets:					Equity
Common stock	50,000	–	–	50,000	Common stock
Additional paid-in capital	317,037	515	(8)	317,544	Additional paid-in capital
Treasury stock	(16,240)	–	–	(16,240)	Treasury stock
Retained earnings	549,430	–	61,479	610,909	Retained earnings
Accumulated other comprehensive income	32,025	–	(22,041)	9,984	Other components of equity
Warrants	515	(515)	–	–	
	932,767	–	39,430	972,197	Equity attributable to owners of the parent
Non-controlling interests in consolidated subsidiaries	621,761	–	2,193	623,954	Non-controlling interests
Total net assets	1,554,528	–	41,623	1,596,151	Total equity
Total liabilities and net assets	¥4,061,572	¥ –	¥162,202	¥4,223,774	Total liabilities and equity

Investment considerations

Prior to making an investment decision, prospective investors should carefully consider, along with other matters set out in this Offering Circular, the following factors. 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

Risks relating to the Group generally

The Group's management vision and strategies may not be successfully implemented

In December 2015, the Group announced its current medium- to long-term management vision "APTSIS20", with the aim of increasing profitability, pursuing innovation, contributing to suitability, and establishing the foundation to become the KAITEKI COMPANY (See "Business—Strategy"). The successful implementation of the Group's business plan and strategies (including the integration of the Group's three chemical operating companies effective 1 April 2017) and the attainment of its long-term management vision is subject to various internal and external factors. Such factors include general economic and market conditions in which the Group operates, the level of competition, demand for the Group's products as well as those of its customers and the development of markets which the Group is targeting. There can be no assurance that the Group's business plan and strategies will be implemented successfully, that the implementation of its business plan or strategies will have its intended effect, that the assumptions underlying the plan will not differ from actual figures, that targets (whether quantitative or qualitative, and whether in the long-term or short-term) set by the Group (in the business plan or elsewhere) will be met in time or at all, or that such targets and aims will not be further revised in the future by the Company's management.

The Group's businesses are affected by general economic conditions

The Group manufactures, markets and sells its products in Japan and various countries around the world. As a consequence, the Group's operations and business performance are affected by the economic conditions prevailing in Japan, as well as those in the other countries or regions in which the Group operates.

Volatility in crude oil and other commodity prices, the fall out from the results of the national referendum in the United Kingdom to leave the European Union as well as fears of an economic slowdown in China, Brazil, Russia and other emerging markets have contributed to a mixed outlook for the global economy. Uncertainty over the path of interest rate hikes in the United States and the Trump administration's fiscal and other policies such as trading policies have also contributed to uncertainty in the global economy. Domestically, recent optimism due to the implementation of new policies to end deflation and promote economic growth have been tempered by concerns over the actual efficacy of such policies. Any continued weakness in the global economy or lingering concern over the state of the Japanese economy may negatively affect demand for the Group's products and have an adverse effect on the Group's business, financial condition and results of operations.

The Group's business is subject to the risks generally associated with international business operations

The Group engages in manufacturing and other business activities worldwide, both directly and through joint ventures with local partners. The Group's principal foreign manufacturing facilities are located in China, the United States and Europe. In addition, many of the Group's suppliers are located outside Japan, including suppliers of naphtha, one of the primary raw materials in the Group's Industrial Materials domain. Suppliers of naphtha are primarily located in the Middle East. As a result, the Group's business is and will continue to be subject to the risks generally associated with international manufacturing and other business operations, including:

- restrictions resulting from, or changes in, local regulation, trade policies, taxation laws, business and investment permit approval requirements, foreign exchange controls, import or export controls and rules on the repatriation of profits;
- political or economic instability, uncertainty or turmoil;
- trade barriers and changes in tariffs;

- difficulties associated with staffing and managing international operations;
- litigious consumers and competitors;
- underdeveloped infrastructure in certain countries leading to supply chain disruptions, unexpected delays in production processes and other operational difficulties;
- limited protection for intellectual property rights in certain countries;
- earthquakes, typhoons, floods, tornados, tsunamis or other natural disasters;
- terrorist attacks and other incidents;
- epidemics, pandemics, and outbreak of contagious diseases; and
- international currency fluctuations.

Any or all of these risks, individually or in the aggregate, may adversely affect the Group's business, financial condition and results of operations.

The Group's operational success is largely dependent on its ability to keep pace with technological innovations

The Group manufactures and sells products that require advanced technologies, therefore, technological superiority is a vital element of the Group's competitiveness. The rapid rate of technological innovation required in the Group's business domains, however, means that the Group must incur substantial research and development costs, undertake long-term capital investments and planning based on product predictions in order to respond swiftly to technological developments and advancements. While the Group makes efforts to monitor and advance technological innovation, if the Group is unable to introduce new products or services in a timely manner to keep pace with and to stay at the forefront of technological innovation, its operating results may be adversely affected. Moreover, in areas of advanced technology, product life cycles tend to be short, and market trends may be difficult to predict. If product life cycles turn out to be shorter than expected or if the Group's products do not generate the level of demand that it has expected, the Group's ability to recover its investments may be significantly affected.

The Group is subject to risks relating to strategic alliances, investments and acquisitions

The Group undertakes many activities through strategic alliances, joint ventures and investments, tie-ups and collaborative arrangements with other companies. Moreover, growing through mergers and acquisitions and realizing synergies is one of the core strategies in the Group's medium-term management plan (see "Business—Strategy"). For instance, as part of the Group's medium-term management plan, in the Health Care domain, the Group intends on establishing a sustainable growth platform of pharmaceutical products in the United States by setting up a business platform through strategic investments in aggregate of ¥200 billion or more, including mergers and acquisitions and building a product line-up through open shared businesses. These activities form a significant component of the Group's overall strategy as they enable it to access new technologies, introduce new products, improve existing products general synergies, access new markets and customers, strengthen its competitiveness and improve its profitability.

However, the success of such strategies is contingent on the Group being able to successfully identify and execute alliance, investment or acquisition opportunities on terms favourable to, and consistent with the strategies of, the Group. Moreover, because results from these activities are dependent in part on business trends and in part on the financial condition of partner companies or acquisition targets, weak trends or the disappointing performance of such partners or acquisition targets may adversely affect the success of these activities. The success of these activities may also be adversely affected by the inability of the Group and its partners or targets to successfully define and attain their common objectives, which often takes considerable time. If the Group or its partners change strategy or fail to perform, or other challenges arise, these activities may not achieve their intended objectives. Furthermore, although the Group strives to avoid business duplication amongst its subsidiaries, business overlaps and inefficiencies may arise as a result of the entry into such alliances, joint ventures and strategic investments and the consummation of acquisitions. Any or all of such failures may have a material adverse effect on the Group's business, financial condition and results of operations.

The Group's businesses face operating risks arising from natural disasters, accidents, unscheduled maintenance or repair shutdowns or other disruptions that may cause significant business interruptions and expose the Group to losses and liability

The Group's businesses are subject to a variety of potentially severe operating risks arising from natural disasters, accidents or other disruptions. Natural disasters include earthquakes, tsunamis and typhoons as well as related fires and explosions striking its facilities, particularly its production facilities in Japan, a highly earthquake prone country. In addition, the Group's facilities have in the past been subject to a variety of accidents as a result of human, machine or other errors, and such accidents may occur in the future. Many of the Group's businesses are subject to hazards related to the handling and transportation of raw materials, products and wastes, particularly in its Industrial Materials domain, which requires the processing and transportation of highly toxic, volatile or flammable chemical substances and gases. These hazards include, among other things:

- pipeline and storage tank leaks and ruptures;
- explosions and fires; and
- discharges or releases of toxic or hazardous substances.

The Group's production facilities are also subject to unscheduled maintenance or repair shutdowns that occur due to unexpected accidents and other problems with its facilities. This is particularly the case with the Group's production facilities for petrochemicals and derivative products thereof (including polyolefins and MMA monomers and polymers) and industrial gases, which require substantial time to restart production due to the high temperatures and pressures that are required in the production processes and other factors. In addition, the Group's facilities are subject to various safety regulations that require it to shut down operations for maintenance or repairs and submit to regulatory inspections in the event of certain gas and chemical leaks and other circumstances, and this could significantly delay the restarting of the facilities. The Group is also subject to operating risks resulting from labour disruptions. If any of these operating risks occur, there may be protracted interruptions in the Group's business operations, including facility shutdowns.

In addition to interruptions in the Group's business operations, such operating risks may expose it to significant losses resulting from serious personal injury or loss of life, severe damage to or destruction of property, pollution or other environmental damage, cleanup responsibilities, regulatory investigation and penalties. In accordance with what the Group believes is industry practice, it maintains insurance against some, but not all, of the losses related to these operating risks. See "Business—Insurance". However, there can be no assurance that the Group's insurance will be adequate to cover losses or liabilities that may arise. Also, the Group cannot predict the continued availability of insurance at premium levels that are not prohibitively expensive.

The Group faces intense competition in each of the business domains in which it operates

The Group produces a diverse range of products and faces intense competition in various industries. The Group faces competition from many different types of competitors, from large global manufacturers of diversified materials, chemical and/or pharmaceutical products to smaller, specialised manufacturers, in each of its business domains. Some of these competitors may have developed more advanced or alternative technology or have a greater ability to develop innovative new products or lower cost production process and therefore may be able to compete for customers more effectively. Some of the competitors of the Group have or may have substantially greater capital, human and other resources, higher production capabilities or manufacturing bases that are located closer to the Group's customers, more advanced technologies, more efficient cost structures, higher brand recognition, larger customer bases and more diversified product lines than the Group in each market and product area in which the Group operates. Further, the balance of supply relative to demand within the industries in which the Group competes may be significantly impacted by the addition of new capacity, especially if capacity is added in large increments. This may disrupt industry balances and result in downward pressure on prices due to the increase in supply. Pricing pressures or loss of current or potential customers resulting from the Group's failure to compete effectively may adversely affect its business, result of operations and financial condition.

The Group may not be able to effectively hire or retain the personnel required to operate its businesses

The Group's success largely depends on its ability to attract and retain highly skilled employees, including research scientists and other technical personnel with advanced knowledge and skills in each of the Group's

business domains. The Group also requires large numbers of talented management personnel with the ability to oversee a business that spans numerous product categories and business sectors. Competition to hire highly skilled personnel is intense, and competition to retain such personnel is also increasing. There can be no assurance that the Group can successfully and consistently meet its personnel recruitment and retention goals. Further, the Group's ability to meet its labour needs, including its ability to find qualified personnel to fill positions that become vacant at the same time as controlling its personnel costs, is generally subject to numerous external factors, including the availability of a sufficient number of qualified people in the work force in the regions in which the Group's operations are located, unemployment levels within those regions, prevailing salary rates, changing demographics, health and other insurance costs and changes in employment legislation. If the Group is unable to locate, attract or retain suitable personnel, or if costs relating to locating, recruiting and retaining suitable employees were to increase significantly, the Group's business, results of operations and financial condition may be materially and adversely affected.

Risks relating to the Group's performance products domain

Failure to develop new products and production technologies or to implement productivity initiatives successfully may harm the Group's competitive position

The markets for many of the Group's electronic applications and designed materials products require continuous advances in quality and performance, and the Group needs to develop and market products that meet market needs on a timely basis in order to stay competitive. Many of such products are used in cutting-edge industrial and consumer electronic applications (see "Business—Performance Products Domain"), and market needs often evolve rapidly or change suddenly based on technological advances or shifts in consumer tastes. As a result, many of these products have relatively short product life cycles, and in the event market needs shift in a manner that the Group did not anticipate or the Group is otherwise incapable of providing products that meet market needs on a timely basis, the Group's results of operations could be materially and adversely affected. In addition, the Group may not be able to recoup research and development costs or capital investments related to specific products if their product life cycles are shorter than its expectations.

The Group relies to a significant extent on third parties for certain aspects of its manufacturing processes and procurement of raw materials, and this subjects it to certain risks

The Group outsources certain portions of its commercial production processes, particularly with respect to its information and electronics-related products, to third-party manufacturers located in Asia. The Group is also reliant on certain suppliers to source the necessary raw materials for the various products manufactured in the Group's Performance Products domain primarily in the Middle East. The Group does not have direct control over such manufacturers' or suppliers' production capacity, logistical capability, quality control and/or financial condition, and such manufacturers or suppliers may voluntarily or involuntarily terminate their relationships with the Group. If the ability of such manufacturers or suppliers to provide the Group with products and/or raw materials in a satisfactory manner is disrupted for a prolonged period due to lack of production capacity, quality problems or financial difficulties, natural disasters or other problems outside of the Group's or such manufacturers' or suppliers' control, the Group's results of operations could be materially and adversely affected.

Demand for many of the Group's products are reliant on demand for certain end products, which are outside of the Group's control

Many of the Group's products in the Performance Products domain form components of or are intermediate materials used in the manufacture of certain end products. For instance, in the electronics applications segment, the Group's LED lighting and materials, thin-film type organic photovoltaics and organic light emitting diode (OLED) lighting form key components in electronics, construction materials and home appliances, respectively. In the designed materials segment, the Group's alumina fibres, advanced engineering plastics and pitch based carbon fibres from key components in automobiles, aeroplanes and industrial materials. As a result, demand for many of the Group's products is heavily dependent on demand for the corresponding end product for which the relevant Group product is used. Any deterioration in demand for certain end products may therefore materially and adversely affect the Group's results of operations and financial condition.

Risks relating to the Group's Industrial Materials domain

Any fluctuations in the price of raw materials may have an impact on the Group's production costs or inventory valuations

The primary raw materials required by the Industrial Materials domain's products include naphtha (for the production of petrochemicals and other derivative products thereof, including polyolefins and methyl methacrylate ("MMA") monomers and polymers), which is produced primarily from crude oil. An increase in the price of such materials would increase the Group's costs to produce such products. Factors affecting the price the Group pays for naphtha include the price of crude oil, which has seen significant volatility over the past few years, the level of demand for such materials, which may increase, and the value of the yen against the U.S. dollar, which has significantly declined (and remains volatile) in the past few years due to the monetary easing policies adopted by the Bank of Japan. In addition, naphtha and other petrochemical feedstocks currently benefit from certain tax exemptions in Japan, and the price paid by the Group for such raw materials is dependent on the continued application of such exemptions. The Group also consumes significant amounts of energy, both in the form of steam and electricity, required in its production processes (in particular, electricity is the major component of the cost of manufacturing core products in the industrial gases sub-segment, such as oxygen, nitrogen and argon). The cost of these raw materials and energy, in the aggregate, represents a substantial portion of its operating expenses. Although the prices of the Group's products in the Industrial Materials domain generally take into account changes in the market prices of primary raw materials and energy, the manner and timing in which such products and raw materials are priced may result in gaps between changes in raw material and energy prices and the sales price of the Group's products. For example, the timing within which the Group implements sales price adjustments varies by product and by customer, and some contracts adjust the relevant sales price on a quarterly or other regular interval based on a formula that reflects the average raw material market prices during the prior quarter while some other contracts are renegotiated with respect to price only upon initiation by one of the parties. Furthermore, current price adjustment arrangements could be altered in the future due to increased competitive pressures and other changes in the market environment. As a result of the foregoing factors, the Group may not be able to adjust its product prices in a timely manner, or at all, which may in turn materially and adversely affect the Group's financial condition and results of operations.

Separately, the Group maintains a substantial inventory of raw materials, including naphtha in order to meet its production needs for the Group's products in the Industrial Materials domain. Where raw material prices decline rapidly, as has been the case over the past few years as part of a general fall in commodity prices, the Group may incur losses resulting from declines in the value of its raw materials inventory stockpile. Although such losses are short-term in nature (as the Group procures raw materials at regular intervals), there can be no assurance that continued weakness in commodity prices will not result in additional losses on valuation losses related to its inventory.

The Group depends on general levels of industrial output for many of its products in the Industrial Materials domain

The Group sells a variety of petrochemical products, derivative products thereof, gases and other materials for industrial use. The demand for these gases and materials is highly dependent on general levels of manufacturing production, which is in turn affected by the general state of the economy. In addition, with respect to certain products, the Group is reliant on the performance of specific industry participants, as well as general levels of manufacturing activity. For instance, the coke business depends greatly on specific steelmakers, so if the steel output of those companies declines, such as due to fluctuations in the demand and supply of raw steel, the performances of such business partners may have a knock-on effect on the Group's results of operations.

Any interruption in the supply of raw materials could disrupt production of key products

Naphtha forms the core raw material for a substantial portion of the Group's petrochemical products and other derivative products thereof, including polyolefins and MMA monomers and polymers, which constitute a significant majority of the Group's Industrial Materials domain. Almost all of the naphtha that the Group sources is produced either by Japanese petroleum companies from crude oil sourced from the Middle East or by Middle Eastern petroleum companies. In the event supplies from these sources are interrupted for any reason,

including natural disasters, military hostilities, terrorist attacks or crude oil production adjustments, the Group may be unable to source in a timely manner a sufficient amount of naphtha from other suppliers, and this could disrupt its production activities, which may in turn materially and adversely affect the Group's financial condition and results of operations.

Increases in, and improvements related to, the Group's products in the Industrial Materials domain generally require significant investments

The Group's products in the Industrial Materials domain generally require significant capital expenditure in order to increase and upgrade production capacity and capabilities. The Group may be unable to realize the expected return on its investments in the event of adverse developments in the markets for such products, including if its decisions relating to the timing or the manner of such investments are based on projections regarding future market demands or developments that prove to be inaccurate, and this could have an adverse effect on the Group's results of operations, including as a result of asset impairment charges.

The domestic petrochemical industry has in the past suffered from overcapacity, which may adversely affect pricing and future prospects of the Group's Industrial Materials domain

The domestic petrochemical industry has in the past suffered from chronic overcapacity resulting in government initiatives to reduce capacity and domestic petrochemical makers voluntarily closing or cutting additional petrochemical producing capacity. The Group has taken steps to increase competitiveness and enhance earnings ability, such as unifying its production facilities in the Mizushima industrial zone in western Japan with Asahi Kasei Corporation and its subsidiary. Although such steps and the general weakness of the Japanese yen over the past few years has enabled the Group and other domestic producers to compete for demand overseas, there can be no assurance that domestic overcapacity will not be an issue in the future or that the Group will be able to offset such conditions through overseas sales.

Risks relating to the Group's Health Care domain

If the Group is unable to successfully research, develop or obtain regulatory approval for the Group's Health Care domains' products, its results of operations will suffer

The process of developing pharmaceutical products for commercialization is extremely complex, costly and time-consuming. Although details vary from country to country, in general, identification of targets, and development of new pharmaceutical products takes 10 to 15 years. Only a small fraction of compounds which enter the expensive clinical trial phases result in commercially viable products (see "Business—Health Care"). This risk particularly exists with respect to the development of proprietary products because of the uncertainties, higher costs and lengthy timeframes associated with research and development of such products and the inherent unproven market acceptance of such products. The initial identification of pharmaceutical products is difficult because it requires a combination of significant technical skills to identify effective substances with minimal side effects and an appropriate focus on the product characteristics that will gain market acceptance at the time when the product would be commercialized. As such, the Group's future results of operations in its Health Care domain will depend to a significant extent upon its ability to successfully research, develop and obtain regulatory approval for new products in a timely manner.

The regulatory approval process in Japan and elsewhere involves significant uncertainties in terms of the length of time required for the approval and whether the products meet the criteria of regulatory authorities, especially with respect to efficacy and safety requirements, and the Group may not be able to obtain or renew approval after significant investments of financial and human resources. In particular, approval processes with respect to proprietary products are highly discretionary and the time for approval varies from case to case. Even where a promising substance or product is developed, the Group faces significant uncertainty as to the type of and number of clinical trials and clinical data required by such authorities. For instance, each relevant regulator may impose different safety standards for specific procedural methodology in clinical trials on a case-by-case basis. The authorities may also approve a particular product for fewer indications than applied for by the Group or make the authorisation conditional upon the performance of aftermarket studies. Moreover, even where regulatory approval has been granted, there can be no assurance that such approval will not be modified or withdrawn. The multi-jurisdictional nature of the process may cause further delays as the requirements for medical products are not internationally standardised. The safety standards for specific

procedural methodology in clinical trials may be different from regulator to regulator. Moreover, a regulatory authority may refuse to approve a product even where the relevant product may have been approved by another jurisdiction's equivalent authority.

If the Group fails in researching, developing or obtaining regulatory approval for its products in a timely manner or at all, the Group's financial condition and results of operations may be adversely affected.

Marketability, price pressure and commercial success of pharmaceutical products are determined by a variety of factors

Even if regulatory approval is obtained and a pharmaceutical product is launched, there can be no assurance that the Group's pharmaceutical products will be accepted by doctors, patients and other stake holders or that such products will be commercially successful. Market acceptance of a pharmaceutical product will depend on a number of factors relating to the product, including:

- ability to produce acceptable proof of safety and efficacy;
- convenience and simplicity of administration;
- incidence and degree of any negative side effects; and
- effectiveness of the Group's own sales and marketing strategy.

Moreover, even if a pharmaceutical product proves commercially viable, external factors may adversely affect the profitability of such products, including:

- availability of alternative or competing treatments;
- price and cost effectiveness and availability of subsidies from national healthcare systems, including coverage by private or state payment systems within the healthcare sector, which regimes vary significantly between countries, requiring time-consuming and mandatory reviews for qualification;
- new side effects which only become apparent when a particular product is administered more widely; and
- effectiveness of the Group's development partners' or licensees' sales and marketing strategy and activities.

Government price control in Japan exerts downward pressures on the Group's operating margins in the Health Care domain

In certain cases, pricing is subject to state price controls or mandatory price reductions. In Japan, all prescribed pharmaceuticals are required to be on a price list administered by the Minister of Health, Labour and Welfare of Japan. Price reviews are currently conducted once every two calendar years and generally results in lowered prices for a considerable number of items on the list. Moreover, as part of measures to rein in rising healthcare costs for a rapidly aging nation, the Japanese government has unveiled plans to step up the scope and pace of drug price reviews commencing after the 2018 review. Details of the review criteria are expected to be determined in 2017 and there can be no assurance that any changes in the current scope and pace of price reviews will not adversely affect the Group's financial condition and results of operations.

In addition, in Japan, the price for drugs is determined by the Minister of Health, Labour and Welfare of Japan. For a drug or other pharmaceutical product without any comparable products on sale to present a reference price, pricing for the new drug will largely be based on manufacturing and sales costs, which is generally insufficient to recoup the significant outlays required to develop a pharmaceutical product. It is vital for the Group that pricing of its products is at levels that are sufficient to recoup its development costs and ultimately generate a profit. However, with respect to pricing in Japan, the Group is not able to exert any control over the pricing process and uncertainty over the ultimate price at which the Group is able to sell its products in Japan constitutes a significant external factor that may determine the commercial viability of any of the Group's products which are approved in Japan.

The expiration or loss of patent protection of certain of the Group's products and development of generic substitutes could lead to significant competition from generic versions of such products

Certain of the Group's pharmaceutical products are protected for a certain period by various patents and/or certain regulatory forms of exclusivity, which are intended to provide it with exclusive rights to market the products for the duration of the relevant period. In most of the markets in which the Group operates, the loss of

market exclusivity of pharmaceutical products opens such products to competition from generic substitutes that are typically priced significantly lower, which adversely affect the market share and prices of the Group's original products.

Generic substitutes have high market shares in a number of key markets, including the United States, and the adverse effects of the launch of generic products are particularly significant in such markets. In Japan, although market shares of generic drugs are generally not as high as they are in many other developed countries, the Japanese government is implementing various measures to control drug costs, including by encouraging medical practitioners to use and prescribe generic drugs with the aim of raising the share of generic substitutes being prescribed to 80 per cent between fiscal year 2018 and 2020.

While the Group takes active measures to extend product life cycles and maintain the competitiveness of its products (including through the addition of new indications and formulations and by concluding in-licensing agreements, partnership agreements or acquisitions to create new sources of income or to effectively prolong the exclusivity of its pharmaceutical products) if the dominance of generic drugs continues to contribute to increased competition, the Group's business, financial condition and results of operations could be materially and adversely affected.

The Group depends on third-party suppliers for a portion of the raw materials and compounds used in some of the products it produces

Although the Group develops and manufactures the active ingredients used in some of its pharmaceutical products at its own facilities, the Group is dependent on third-party suppliers for a portion of the raw materials and compounds used in some of the products it produces. In the event that any of its third-party suppliers is delayed in its delivery of such raw materials or compounds or is unable to deliver the full quantity ordered by the Group at the quality level it requires, or at all, the Group's ability to produce the related products could be impeded and its results of operations could be adversely affected.

Financial risks relating to the Group's business

The Group's results of operations will be negatively affected if it is required to reduce its deferred tax assets

Pursuant to IFRS, the Group establishes deferred tax assets for tax benefits that are expected to be realized during a period that is reasonably foreseeable. The calculation of deferred tax assets is based upon various assumptions, including assumptions with respect to future taxable income. Actual results may differ significantly from these assumptions. If the Group concludes, based on a variety of factors, including its projections of future taxable income and the amount of deferred tax assets that it is able to record as a result of changes in accounting standards, that the Group's deferred tax assets may be reduced, its financial condition and results of operations may be materially and adversely affected.

The Group's consolidated results of operations may be adversely affected by foreign currency fluctuations

The Group has significant assets and liabilities that are denominated in foreign currencies as well as expenses and revenues arising from business transactions denominated in foreign currencies. Fluctuations in foreign exchange rates may, therefore, adversely affect the yen-equivalent values of such assets, liabilities, expenses and revenues. In addition, foreign exchange rate fluctuations may have an effect on the yen-equivalent values of the assets, liabilities, income and expenses of consolidated foreign subsidiaries and affiliates whose reporting currencies are not Japanese yen. In addition, the Group is exposed to transaction risk to the extent that the amounts and proportions of various currencies in which sales are denominated differ from the amounts and proportions of the currencies in which costs are denominated. Moreover, because many of the Group's customers are domestic corporations (over half of the Group's sales are generated domestically) and many of them have significant export businesses, an increase in the value of the Japanese yen could lead to decreased customer demand for the Group's products, as the customers' price competitiveness in foreign markets would be adversely affected. As a result of the above factors, fluctuations in the exchange rate between the Japanese yen against other currencies, primarily the U.S. dollar, could adversely affect its financial condition and results of operations.

The Group's indebtedness and lease obligations are substantial, and this could affect its ability to execute its strategy and grow its business

The Group's interest-bearing debt are substantial at ¥1,579,575 million as at 31 March 2016. Furthermore, in order to maintain and expand its business operations and meet its capital requirements, the Group may incur additional interest-bearing debt in the future.

The Group's significant amount of interest-bearing debt and lease obligations could have important consequences due, for example, to the following:

- a significant portion of the Group's net cash provided by operating activities is used to pay interest on borrowings, which reduces the funds available to finance its operations, capital expenditures and other business activities;
- the Group's high level of debt may impair its ability to obtain additional financing in the future for working capital, capital expenditures, general corporate or other purpose on favorable terms or at all;
- the Group's leveraged financial position may make it more vulnerable to economic downturns, interest rate movements and ratings downgrades and may limit its ability to withstand competitive pressures compared to less leveraged competitors;
- the Group's high level of debt may limit its flexibility in planning for or reacting to changes in its business environment; and
- the Group's high level of debt may limit its ability to pursue strategic acquisitions of businesses.

Declines in the Group's pension assets or revisions in actuarial assumptions could increase its pension obligations

The Group has incurred in the past, and may incur in the future, losses relating to its pension plans due to changes in the market value of, or a decline in returns on, the Group's plan assets or changes in the assumptions and investment returns on which the calculation of the projected pension benefit obligation is based. The Group may also experience unrecognized prior service costs in the future resulting from amendments to its pension plans.

The Group may experience losses from devaluation or impairment of its equity securities portfolio

The Group maintains minority investments in the equity securities of some of its customers and bank lenders to enhance long-term relationships with such parties. As at 31 March 2016, the Group had a total of ¥117,271 million in marketable equity securities, and it holds almost all of such securities for the above purpose. Declines in the market values of such securities would adversely affect shareholders' equity.

The Group may incur losses resulting from declines in the value of its assets

Any declines in the value of the Group's assets, including goodwill, may require it to incur valuation or impairments losses. For example, during the fiscal year ended 31 March 2016, the Group recognised ¥78,992 million in impairment losses with respect to certain of its assets (primarily in connection with its withdrawal from its PTA business in India and China). This was the result of a study on the recoverability of fixed assets held by certain subsidiaries of the Company operating the Group's PTA business and in consideration of the significantly deteriorating business situation and the difficulties of a recovery in the future business environment. The Group also has a substantial amount of goodwill recognised upon mergers and acquisitions effected by the Group (¥248,164 million as at 31 March 2016).

Legal and regulatory risks relating to the Group's business

Environmental laws and regulations as well as societal pressures relating to environmental issues could adversely affect the Group's operations

The Group's businesses are subject to extensive environmental protection and other laws and regulations in Japan and the other countries where the Group operates or has working interests. Environmental protection-related laws and regulations generally:

- set standards and reporting requirements with respect to emissions and contamination levels;

- require disposal of industrial waste and clean-up of the discharge of waste substances;
- require the payment of fines and damages for environmental pollution; and
- provide that the government may, at its discretion, issue orders to cease or cure operations causing environmental damage or to close or suspend any facility which fails to comply with such orders.

There can be no assurance that the Group's systems and procedures will be sufficient to maintain compliance with regulatory standards, and any failure to comply with such standards may result in regulatory sanctions, such as temporary suspension of operations and mandatory clean-up of contamination. Moreover, the Group may discover previously unknown environmental contamination which could subject it to additional expense and liability.

In addition, environmental regulations are complex, change frequently and have tended to become more stringent over time. Moreover, there can also be no assurance that Japanese or other authorities will not impose additional regulations or that compliance with existing or future environmental regulations will not result in significant additional expenditures. In particular, initiatives to counter global warming may force the Group to curtail its production as Japan and other nations develop costly regulations that limit greenhouse gas emissions or impose new carbon taxes. Liabilities and obligations relating to environmental regulations and compliance may have a material effect on the Group's business, financial condition and results of operations.

Separately, with the increasing recognition of the economic and environmental impact of global climate change, which is a factor that the Group also considers a critical component in shaping its policies and strategies (see "Business—Strategy"), the Group's future operations will potentially be shaped by changes in customer demands and expectations. This may present significant additional risks and may lead to higher operating costs, reduced demand for the Group's products and operational constraints for certain of the Group's activities and assets.

Failure by the Group to adapt to changing regulatory landscape and/or customer preferences and behaviour as a result of global climate change, and increased awareness of the environmental impact of the Group's activities, may have an adverse effect on the Group's reputation, business, results of operations, and overall financial condition.

Product liability claims particularly in the Health Care domain may adversely affect the Group's operations and reputation

The Group is exposed to the risk of product liability or other claims in the event that the use of its products results, or is alleged to result, in safety issues or damage. Although the Group maintains certain insurance policies covering product liability or other claims, not all losses of the Group can be fully recovered. A product liability or other claim against the Group could result in reputational damage, legal costs in connection with such claims or allegations, liability for damage or settlement and costs incurred in connection with product recalls or rectification of any product defects, any of which could negatively affect the Group's business, results of operations and financial condition.

The risk of product liability is particularly acute with respect to the Group's products in the Health Care domain, as the potential for direct harm to health and safety is significant. In particular, unexpected side effects, including those known to the Group but revealed to have effects more severe than originally expected, manifesting themselves after the commercialization of a pharmaceutical product could give rise to significant claims and even cause the withdrawal of regulatory approval. Insurance coverage is expensive and may be difficult to obtain, and may not be available in the future on acceptable terms, or at all. Although the Group maintains product liability insurance for its pharmaceutical products, if the coverage limits of these insurance policies are not adequate, a claim brought against the Group could have a material adverse effect on its results of operations, financial condition and cash flows.

Third parties may claim that the Group has infringed their proprietary rights and may prevent it from manufacturing and selling some of its products

The manufacture, use and sale of new products that are the subject of conflicting patent rights have been the subject of substantial litigation in the industries in which the Group operates, particularly the pharmaceutical

products industry. These lawsuits relate to the validity and infringement of patents or proprietary rights of third parties. The Group may be required to defend against charges that it violated patents or proprietary rights of third parties. Litigation may be costly and time-consuming and could divert the attention of management and technical personnel. In addition, if the Group infringes the rights of others, it could lose the right to develop or manufacture products or could be required to pay monetary damages or royalties to license proprietary rights from third parties, or even suspend production and marketing of the challenged products.

If the Group fails to obtain a license where one is required, it could be forced to suspend the production and marketing of the challenged products. Although the parties to patent and intellectual property disputes have often settled their disputes through licensing or similar arrangements, the costs associated with these arrangements may be substantial and could include ongoing royalties. Furthermore, the Group cannot be certain that the necessary licenses would be available on acceptable terms. As a result, an adverse determination in a judicial or administrative proceeding or failure to obtain necessary licenses could prevent the Group from manufacturing and selling its products, which could harm its business, financial condition, results of operations and cash flows.

The Group may not be able to legally protect and make full use of its intellectual property rights and licenses

The Group relies in part on its intellectual property rights and licenses in the operations of its businesses. In particular, the Group relies on patents, trade secrets and trademarks for many of the products within its three main business domains. However, there can be no assurance that its patents, trade secrets and trademarks will be sufficient to protect the Group's intellectual property. Any of the Group's patents could be challenged, invalidated or circumvented, and effective patent and trade secret protection is unavailable or limited in some countries. The Group's trade secrets may also be vulnerable to disclosure or misappropriation by employees, contractors or other parties. Moreover, it is uncertain whether the Group's pending patent, trademark or other applications for our intellectual property will be granted on a timely basis or at all, and obtaining patent and other protections for intellectual property for which the Group has not yet filed applications or which the Group may develop in the future may be a long and expensive process.

The Group also licenses technology from third parties, and there can be no assurance that it will be able to renew such licenses on the same terms or at all. The protection afforded by the Group's intellectual property rights and licenses may also be undercut or made irrelevant by rapid technological advances in the industries in which it operates. The Group's inability to legally protect and make full use of the intellectual property necessary to conduct its operations could harm the Group's business, financial condition and results of operations.

The Group may be subject to liability and regulatory action if it is unable to protect personal and other confidential information

In the course of its businesses, the Group may retain, store and maintain personal and other confidential information concerning customers and employees or other confidential information relating to know how and/ or technologies. Any unauthorised access, leakage or misuse of such information, whether by the Group's employees or third parties, could harm the Group's reputation and could lead to loss of business opportunities and otherwise adversely affect the Group's operations. The Group has been implementing appropriate measures to improve data security and the confidentiality of personal or other information received or obtained in the course of its operations, but there can be no assurance that unauthorised access, leakage or misuse of such information will not occur.

Under the Act Concerning Protection of Personal Information of Japan, if personal information is leaked or improperly accessed and subsequently misused, the Group may be held responsible and may further be subject to civil liability and regulatory action. Moreover, such incidents could damage the credibility and reputation of the Group's services and negatively affect its operating results.

Any failures or defects in the Group's compliance and risk management framework may adversely affect the Group's reputation and financial condition

The Group is subject to a broad range of laws and regulations applicable to its diverse business operations, including but not limited to the manufacturing and sale of pharmaceutical products, the safe handling of

chemicals and other hazardous materials, the sale and distribution of certain other products, workplace safety and various licensing and compliance requirements applicable to the regulated industries in which it engages. In addition, the Group is expected to comply with certain socially accepted norms in relation to its corporate activities. The Group believes it has taken strong measures to ensure legal and regulatory compliance and adherence to ethical standards, including through its compliance committee and internal ethical guidelines. Nonetheless, in the event of any breach or violations of law, rule or such standards, the Group may be subject to regulatory sanctions or civil actions, or may suffer reputational damage, as a result of which its business, results of operations and financial condition may be negatively affected.

The Group is involved in litigation which could result in financial losses or harm its businesses

The Group is involved in a number of potentially significant litigation proceedings (See "Business—Litigation"). The Group may be subject to other litigation in the future. While the Group cannot predict the outcome of any pending or future litigation, an adverse outcome could have a material adverse effect on the Group's financial condition and results of operations.

Considerations relating to financial information

Differences in Japanese GAAP and financial reporting standards in other jurisdictions

Up to and including the year ended 31 March 2016, the Group's audited annual consolidated financial statements were prepared and presented in accordance with Japanese GAAP, which differs in certain material respects from IFRS and generally accepted accounting principles and financial reporting standards in other jurisdictions. The Group's annual consolidated financial statements may therefore differ from those prepared for companies outside Japan in those and other respects. Commencing the year ending 31 March 2017, the Group has voluntarily adopted IFRS in preparing and presenting its consolidated financial statements. Although this Offering Circular does include a limited reconciliation of the Group's financial statements for the year ended 31 March 2016 to IFRS, such reconciliation has been provided only with respect to significant items and is not intended to identify all quantitative differences between Japanese GAAP and IFRS.

The Group's unaudited quarterly condensed consolidated financial statements (prepared in accordance with IFRS) have not been audited and are not comparable with the audited annual consolidated financial statements (prepared in accordance with Japanese GAAP) included in this Offering Circular

This Offering Circular contains quarterly condensed consolidated financial statements as at 31 December 2016 and for the nine months ended 31 December 2015 and 2016, which have not been, and are not required to be, audited by the Company's independent auditors. In addition, the quarterly condensed consolidated financial statements may reflect seasonal factors and/or may reflect temporary economic or market trends that cannot be extrapolated. Certain adjustments, accruals and deferrals which are made in the audited consolidated financial statements have been estimated in a simplified manner in respect of the quarterly condensed consolidated financial statements. In addition, commencing the year ending 31 March 2017, the Group has voluntarily adopted IFRS in preparing and presenting its consolidated financial statements (see "Recent Business—Transition to IFRS"). As a result, the unaudited quarterly condensed consolidated financial statements included in this Offering Circular have been prepared in accordance with IFRS, whereas the audited annual consolidated financial statements included in this Offering Circular have been prepared in accordance with Japanese GAAP and the two are not directly comparable. Although the notes to the unaudited quarterly condensed consolidated financial statements (see Note 15 on page Q-43) contain limited reconciliation of the Group's financial statements for the year ended 31 March 2016 to IFRS, such reconciliation has been provided only with respect to significant items and is not intended to identify all quantitative differences between Japanese GAAP and IFRS. Accordingly, the unaudited quarterly condensed consolidated financial statements contained in this Offering Circular are not comparable with the audited annual consolidated financial statements contained in this Offering Circular and should not be so compared.

Considerations relating to Bonds and the Shares

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 for each Series. 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 adversely affect the value of the Shares and, therefore, adversely affect the value of the Bonds.

Repurchase of Shares by the Company

The Company announced that it intends to repurchase up to 33,370,400 Shares (approximately 2.3 per cent of the issued Shares (excluding treasury stock) as at 28 February 2017) at a maximum cost of ¥30 billion from the market at 8:45 a.m. (Tokyo time) on 15 March 2017 at the closing price of the Shares on the Tokyo Stock Exchange on 14 March 2017 through the ToSTNeT-3 system in order to implement flexible capital policies that meet changes in business environment. The result of such repurchase will be announced by the Company on 15 March 2017. As the amount which the Company is able to repurchase through the ToSTNeT-3 system is dependent on the amount market investors offer to sell the Shares at the relevant price at the relevant time, there can be no assurance that such repurchase will be executed in full or at all.

The Company does not undertake to review or revise this Offering Circular to reflect any repurchase of Shares (or lack thereof) as referred to above. Even if the Company is able to successfully repurchase its Shares as originally planned, it will result in decreased shareholders' equity and increased cash outflow through financial activities. Although the Company believes such changes will not materially affect its creditworthiness, there can be no assurance that rating agencies, banks, other financial institutions or investors will view any share repurchase similarly, which may have a negative impact on its credit rating, financing, share prices or investor relations.

Future changes to Japanese law relating to Stock Acquisition Rights and the Shares may have a mandatory effect under Japanese law

Future changes to provisions relating to Stock Acquisition Rights and/or the Shares issuable upon the exercise of Stock Acquisition Rights may have a 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.

The rights of shareholders under Japanese law may be different from those that apply to companies incorporated in other jurisdictions

The corporate affairs of the Company are governed by, and in accordance with, the Articles of Incorporation, Regulations of the Board of Directors and Share Handling Regulations of the Company 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. Bondholders who acquire Shares may have more difficulty in asserting their rights as a shareholder of the Company than they would as a shareholder of a corporation organised in other jurisdictions.

A trading market for the Bonds may not develop

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, there can be no assurance that the Bonds will not trade at prices lower than the initial Offer Prices (as defined in "Summary Information—The Offering").

The trading price of the Bonds will be affected by fluctuations in the trading price of the Shares

The trading price of the Bonds is expected to be affected by fluctuations in the trading price of the Shares and it is impossible to predict whether the trading price of the Shares will rise or fall. Any decline in the trading price of the Shares will have an adverse effect on the trading 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 Company, including the reporting of financial results.

There are limitations on the timing of exercise of Stock Acquisition Rights that will affect Bondholders' rights

Since the introduction 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 JASDEC it will take at least three business days for the delivery of the Shares to the Bondholders after the Stock Acquisition Date (as defined in Condition 5.9.4). In connection with the Shares to be delivered to the Bondholders upon their exercise of the Stock Acquisition Rights, the Stock Acquisition Rights may not be exercised during any such period in which 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 in Condition 5.1.4. Bondholders should therefore note in particular that exercises of Stock Acquisition Rights are restricted during the period surrounding any record date in respect of Shares set by the Company (as of the date of this Offering Circular, 31 March and 30 September in each year).

No cash amounts will be payable in respect of non-unit shares

Currently, the Company's Articles of Incorporation provide that one unit comprises 100 Shares. Since the introduction of the Book- Entry Act, making it possible for listed shares of Japanese companies comprising less than one full unit to be delivered through the JASDEC book-entry transfer system, JASDEC's guidance is that stock acquisition rights issued by Japanese companies should be structured so that exercising holders should shares not constituting one full 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 receive cash amounts in respect of the Shares of less than one full unit. The rights of holders of Shares that constitute less than one full unit are limited under the Company's Articles of Incorporation, and Shares that constitute less than one full unit may not be tradable on the stock exchange on which they are listed. Accordingly, holders of Shares constituting less than one unit will need to request the Company to purchase such Shares in accordance with the rules of the JASDEC book-entry transfer system and the Company's Share Handling Regulations; alternatively, such holders may require the Company to sell to it a sufficient number of Shares in order to make its holding a whole unit. See "Description of the Shares and Certain Regulations—Unit Share System".

The Bonds are unsecured

The Bonds do not benefit from any security and the Bondholders' claims will rank behind any secured creditors in the event of the Company's liquidation or bankruptcy.

Forward-looking statements in this Offering Circular involve risks and uncertainties

Statements in this Offering Circular with respect to the Group's plans, strategies, projected financial figures and beliefs, as well as other statements that are not historical facts are forward-looking statements involving risks and uncertainties. The important factors that could cause actual results to differ materially from such statements include, but are not limited to, the impact of general economic and market conditions in the markets where the Group operates, the level of demand for the Group's products, fluctuations in exchange rates and interest rates, raw material costs and the Group's ability to adapt itself to market, industry and general economic, political and business conditions.

Terms and conditions of the 2022 Bonds

The following terms and conditions of the 2022 Bonds, subject to completion and amendment, and, save for the paragraphs in italics, will be endorsed on the Certificates (as defined herein):

The ¥75,000,000,000 Zero Coupon Convertible Bonds due 2022 (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 Mitsubishi Chemical Holdings Corporation (the "Company") are constituted by a trust deed (the "Trust Deed") dated 30 March 2017 made between the Company and MUFG Union Bank, N.A. (the "Trustee", which expression shall include its successors as trustee or trustees appointed 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 the agency agreement (the "Agency Agreement") dated 30 March 2017 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 prior appointment during normal business hours at the registered office for the time being of the Trustee, being at the date of issue of the Bonds at 445 South Figueroa Street, Suite 401, Los Angeles, CA 90071, U.S.A., and at the registered 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) "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 2022 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 2022 Bonds represented by a Global Certificate will not be entitled to receive definitive Certificates in respect of their individual holdings of the 2022 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 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 Principal Agent, the Registrar 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 relevant Agent or the Registrar (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 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 of receipt of the duly completed and executed 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 (at the Company's expense) unless such holder requests otherwise and pays in advance to the Registrar or the relevant Agent (as the case may be) the costs of such other method of delivery as agreed between such holder and the Registrar or relevant Agent 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 relevant Agent, but upon (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 reasonably 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 seven days ending on (and including) the date for redemption pursuant to Condition 7.1, 7.4, 7.5 or 7.6, (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 or 7.3 (except for any Bond held by a Bondholder who has given notice to the Company pursuant to the second paragraph of Condition 7.3).

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 or prior thereto, according or procuring to be accorded to the Company's obligations under the Trust Deed and the Bonds, (x) to the satisfaction of the Trustee or 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 of the Bondholders. 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-kanrikikan*) 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 1 April and ending on 31 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 31 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 5.2.5;

"Board of Directors" of a company means the board of directors of that 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 Concerning Book-Entry Transfer of Corporate Bonds, Stocks, 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 7.2;

"Closed Period" has the meaning provided in Condition 7.9;

"Closing Date" means 30 March 2017;

“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 a duly completed and signed notice of conversion 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 Schedule A 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 7.4;

“Corporate Event Redemption Price” has the meaning provided in Condition 7.4;

“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 5.2.10;

“Custodian” means MUFG Union Bank, N.A. at its specified office at 445 South Figueroa Street, Suite 401, Los Angeles, CA 90071, 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 7.5.1;

"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 5.2.5;

"Extraordinary Resolution" means a resolution passed (i) at a meeting of the Bondholders duly convened 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 or (ii) by a written resolution or electronic consent in accordance with the Trust Deed;

"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 1 April and ending on 31 March of the immediately succeeding year; or (ii) three month periods each commencing on 1 April, 1 July, 1 October and 1 January; provided that, if the Company shall change its financial year so as to end on a date other than 31 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 required, 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 or accounting firm of international repute appointed by the Company at its own expense and approved in writing by 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;

"Maturity Date" has the meaning provided in Condition 7.1;

"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 required, 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 7.5.1;

“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, those annual consolidated financial statements) of such Consolidated Subsidiary used for the purposes of the latest audited annual Consolidated Financial Statements being made up, are 10 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 10 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 meaning provided in Conditions 7.4, 7.5 and 7.6;

“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 International Financial Reporting Standards (as issued by the International Accounting Standards Board or, if applicable, as adopted or endorsed by Japan);

“Relevant Number of Shares” has the meaning provided in Condition 5.2.5;

“Relevant Securities” has the meaning provided in Condition 5.2.9;

“Relevant Stock Exchange” means Tokyo Stock Exchange, Inc. 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 Tokyo Stock Exchange, Inc., 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 7.6.1;

"Squeezeout Event" has the meaning provided in Condition 7.6.1;

"Squeezeout Redemption Date" has the meaning provided in Condition 7.6.1;

"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 7.3;

"Tax Redemption Notice" has the meaning provided in Condition 7.3;

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

"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, and 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 *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 having 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 Company's Articles of Incorporation provide that 100 Shares constitute one unit. Under the book-entry transfer system established pursuant to the Book-Entry Act, Shares constituting less than one unit are transferable. Under the rules of the Japanese stock exchanges, however, Shares constituting less than one unit do not comprise a

trading unit, except in limited circumstances, and accordingly may not be sold on the Japanese stock exchanges. Further, a holder of Shares representing less than one unit cannot exercise any voting rights pertaining to those Shares. A holder of Shares representing less than one unit may at any time require the Company to purchase such Shares through the relevant Account Management Institution. The Company's Articles of Incorporation currently provide that a holder of Shares representing less than one unit may also request the Company to sell to such holder Shares constituting less than one unit which, when added to the Shares held by such holder, shall constitute one full unit.

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 ¥1,276 per Share, subject to adjustment in the manner provided in Condition 5.2.

5.1.4 *Exercise period*: Subject to Condition 5.1.5, each Stock Acquisition Right may be exercised at any time during the period from, and including, 13 April 2017 to, and including, the close of business (at the place where the Stock Acquisition Right is to be exercised) on 16 March 2022, or:

(i) if the relevant Bond shall have been called for redemption pursuant to Condition 7.2 or 7.3, 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 7.3, 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 7.4, 7.5 or 7.6, 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 7.7, 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 16 March 2022;

(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, 7.5 and 7.6); and

(c) the Stock Acquisition Right 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 the Trustee in writing and 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 the Trustee in writing and 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 two 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.

As of the date of this Offering Circular, the Record Dates fixed by the Articles of Incorporation are 31 March and 30 September. By way of example, in respect of the Record Date falling on 31 March 2017, 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) 29 March 2017 to (and including) 31 March 2017.

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 *Condition to conversion*: Prior to (but not including) 30 December 2021, a Bondholder may exercise its Stock Acquisition Rights only if, as of the last day of any calendar quarter, the Closing Price of the Shares for any 20 consecutive Trading Days in a period of 30 consecutive Trading Days ending on the last Trading Day of such calendar quarter is more than 130 per cent of the Conversion Price in effect on the last Trading Day of such calendar quarter (rounded down to the nearest yen), as determined by the Principal Agent and notified to the Bondholders in accordance with Condition 19, subject to adjustment in the manner provided in Condition 5.2. If this condition is satisfied, then a Bondholder may (subject to these Conditions) exercise the Stock Acquisition Rights on and after the first day of the following calendar quarter until the end of such quarter, provided the relevant Deposit Date falls during the Exercise Period. For the avoidance of doubt, even where a condition to the exercise of the Stock Acquisition Rights set forth in this Condition 5.1.5 is not applicable by virtue of Condition 5.1.6, 5.1.7 or 5.1.8, the Stock Acquisition Rights shall not be exercisable after the expiration of the Exercise Period.

5.1.6 *Ratings requirements*: The condition to the exercise of the Stock Acquisition Rights set forth in Condition 5.1.5 shall not be applicable during any period in which (i) the issuer rating assigned to the Company by Rating and Investment Information, Inc. or its successors (together, "R&I") is BBB (or equivalent if the rating category is changed) or lower, (ii) the long-term issuer rating assigned to the Company by Japan Credit Rating Agency, Ltd. or its successors (together, "JCR") is BBB (or equivalent if the rating category is changed) or lower, (iii) an issuer rating is no longer assigned to the Company by R&I and/or a long-term issuer rating is no longer assigned to the Company by JCR and/or (iv) the issuer rating assigned to the Company by R&I and/or the long-term issuer rating assigned to the Company by JCR has been suspended or withdrawn. Upon the occurrence of any of the events set out in (i), (ii), (iii) or (iv) above, the Company shall forthwith give notice thereof to the Trustee and (unless the Trustee is also the Principal Agent) the Principal Agent in writing and to the Bondholders in accordance with Condition 19.

5.1.7 *Redemption events*: If a notice of redemption is given pursuant to Condition 7.2, 7.3, 7.4, 7.5 or 7.6, the condition to the exercise of the Stock Acquisition Rights set forth in Condition 5.1.5 shall not be applicable on and after the date of notice of such redemption except in the case of the Stock Acquisition Rights attaching to the Bonds elected by the relevant Bondholders not to be redeemed pursuant to Condition 7.3.

5.1.8 *Corporate events*: Subject to the suspension by the Company as referred to in Condition 5.1.4(b), the condition to the exercise of the Stock Acquisition Rights set forth in Condition 5.1.5 shall not be applicable during the period from (and including) the date upon which the Company is first required to give notice to the Bondholders in accordance with Condition 6.2 to (and including) the relevant Corporate Event Effective Date.

5.1.9 *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 any securities convertible into or exchangeable for Shares which requires an adjustment of the Conversion Price pursuant to Condition 5.2.6 or 5.2.9, 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 5.2.7 or 5.2.9, or

(iv) the date of issue of any rights or warrants which requires an adjustment of the Conversion Price pursuant to Condition 5.2.8 or 5.2.9,

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, 5.2.6, 5.2.7, 5.2.8 or 5.2.9, 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 5.2.11) 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 5.2.12) 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 5.2.11) 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 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 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 5.2.11) 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 5.2.12) 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 5.2.11) 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 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*: 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 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 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), 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.

fmv = 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 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.

Such adjustment shall become effective immediately after the Record Date for the determination of shareholders entitled to receive such distribution; 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.

5.2.5 *Distribution to shareholders of Extraordinary Dividends*: if the Company shall distribute any Extraordinary Dividend to the holders of Shares, 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:

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

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 of Extraordinary Dividend.

ED = 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 of Extraordinary Dividend; provided, however, that 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.

"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 Base Dividend and (ii) the amount, if any, previously determined to be an Extraordinary Dividend in respect of that Annual Fiscal Period.

"Base Dividend" means ¥156,720.

The Base Dividend is the amount obtained by multiplying the Relevant Number of Shares (calculated at the initial Conversion Price) by ¥20.

"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.

5.2.6 *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 and the bonds with stock acquisition rights due 2024 issued by the Company on the Closing Date, 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 5.2.11) 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 5.2.9, 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 5.2.12) 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 5.2.11) 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;

5.2.7 *Issue to non-shareholders 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 5.2.11) 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 5.2.9, 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 5.2.12) 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 5.2.11) 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;

5.2.8 *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) to subscribe for, purchase or otherwise acquire Shares or securities convertible into or exchangeable for Shares (other than the Stock Acquisition Rights and the stock acquisition rights incorporated in the bonds with stock acquisition rights due 2024 issued by the Company on the Closing Date, or in any of the circumstances described in Conditions 5.2.2, 5.2.3, 5.2.4 and 5.2.6) and the consideration per Share receivable by the Company (determined as provided in Condition 5.2.11) 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 5.2.9, 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 5.2.12) 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 5.2.11) 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;

5.2.9 *Combined adjustment*: if the Company shall issue or transfer (as the case may be) securities of a type falling within Condition 5.2.6, 5.2.7 or 5.2.8 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 5.2.6, 5.2.7 and/or 5.2.8 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 5.2.12) 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 5.2.11) 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 5.2.11) 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 5.2.11) 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.

5.2.10 *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;

5.2.11 *Consideration per Share*: for the purposes of any calculation of the consideration per Share receivable pursuant to Conditions 5.2.2, 5.2.3, 5.2.6, 5.2.7, 5.2.8 and 5.2.9, 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 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 issue 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 grant, issue or offer of rights or warrants (including stock acquisition rights) 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 5.2.11 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 5.2.11 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;

5.2.12 *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 5.2.9 (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 issue 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, 5.2.6, 5.2.7, 5.2.8 and 5.2.9, the Shares held by the Company as treasury stock on the relevant date shall be deemed not to be outstanding;

5.2.13 *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;

5.2.14 *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;

5.2.15 *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 to be in its opinion appropriate to give the intended result; and

5.2.16 *Adjustment during the relevant period*: for the purposes of Condition 5.1.5, if the Conversion Price in effect on the last Trading Day of the period of 30 consecutive Trading Days referred to therein (the "Relevant Period") reflects any adjustment which has become effective pursuant to this Condition 5.2 during the Relevant Period, then the Closing Price of the Shares for each Trading Day which occurs during the Relevant Period but before the effective date of such adjustment shall be adjusted to reflect the same adjustment.

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, corporate executive officer 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. Neither the Trustee, the Principal Agent, the Registrar, the Custodian nor the other Agents shall be under any duty to determine, calculate or verify the adjusted Conversion Price or whether any adjustment is required to be made and will not be responsible 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 relevant 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) arising upon exercise of any Stock Acquisition Rights.

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 relevant 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, Articles of Incorporation, the share handling regulations of the Company 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, 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) the Company shall deliver to the Custodian's Agent, securities (other than 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 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) 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 7.4(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 that which would have been received by a holder of 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; the exercise of the New Stock Acquisition Rights shall be subject to conditions substantially the same as those described in Conditions 5.1.5 to 5.1.8;

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, 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 30 March 2022 (the "Maturity Date"). 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 reduced outstanding amounts

The Company may, 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 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.

7.3 Redemption for taxation reasons

The Company may, 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 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 (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 14 March 2017, 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 obligation referred to in (i) above has arisen and cannot be avoided by the Company taking reasonable measures available to it and the Trustee shall be entitled to accept and rely on 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.

7.4 Corporate Event Redemption

Upon or following the occurrence of a Corporate Event, the Company shall (subject to Condition 7.11) 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 below and in accordance with the provisions of this Condition 7.4 (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 7.4(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 7.4 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 7.4(iii) or 7.4(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 16 March 2022, the Corporate Event Redemption Price shall be determined by reference to the following table:

Corporate Event Redemption Date	Reference Parity (Percentage)															
	50.00	60.00	70.00	80.00	90.00	100.00	110.00	120.00	130.00	140.00	150.00	160.00	170.00	180.00	190.00	200.00
30 March 2017	98.21	100.18	103.08	106.90	111.60	117.11	123.35	130.21	137.64	145.55	153.87	162.56	171.57	180.87	190.41	200.15
30 March 2018	98.30	99.93	102.49	106.03	110.53	115.92	122.11	129.00	136.49	144.51	152.97	161.82	171.01	180.48	190.18	200.04
30 March 2019	98.44	99.65	101.77	104.93	109.16	114.39	120.53	127.47	135.09	143.29	151.97	161.06	170.49	180.17	190.03	200.00
30 March 2020	98.68	99.38	100.89	103.48	107.28	112.28	118.39	125.45	133.31	141.84	150.89	160.35	170.09	180.00	190.00	200.00
30 March 2021	99.20	99.36	99.98	101.57	104.55	109.13	115.24	122.63	131.11	140.41	150.09	160.00	170.00	180.00	190.00	200.00
16 March 2022	99.97	99.97	99.97	99.97	99.97	100.54	110.00	120.00	130.00	140.00	150.00	160.00	170.00	180.00	190.00	200.00

"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 7.4, 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 7.4, is more than 200 per cent, the Corporate Event Redemption Price shall be 200 per cent.

If the Corporate Event Redemption Date falls during the period from (and including) 17 March 2022 to (and including) 29 March 2022, the Corporate Event Redemption Price shall be 100.00 per cent.

7.5 Redemption on delisting of the shares

7.5.1 *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 give notice 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 shall be entitled to assume until it has actual notice to the contrary and without further enquiry and without liability to any person that the Offeror has not so acquired any Shares.

7.5.2 *Redemption price*: The redemption price applicable to the redemption under this Condition 7.5 shall be calculated in the same manner as provided in Condition 7.4, 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.

7.5.3 *Offer followed by Corporate Event or Squeezeout Event*: Notwithstanding the above provisions of this Condition 7.5, 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 or Squeezeout 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 7.5 shall not apply (but, for the avoidance of doubt, the provisions of Conditions 6 and 7.4 or 7.6, as the case may be, shall be applicable to such Corporate Event or Squeezeout Event, as the case may be) unless such Corporate Event or Squeezeout Event does not occur within 60 days after the date of such acquisition, in which case the Company shall give notice 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 7.5.2 (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 7.5.1 without being subject to the provisions of this Condition 7.5.3), 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).

7.5.4 *Irrevocable notice*: Any notice of redemption given under this Condition 7.5 shall be irrevocable and the Company shall be bound to redeem the Bonds in accordance with such notice.

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

(a) any of the events set out in (i) through (iv) of Condition 7.5.1; or

(b) any of the events set out in Condition 7.5.3 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.

7.5.6 *Condition*: If the Company becomes obliged to redeem the Bonds pursuant to both Conditions 7.4 and 7.5, the procedure pursuant to Condition 7.4 shall apply.

7.6 Squeezeout redemption

7.6.1 *Redemption:* Upon the occurrence of a Squeezeout Event (as defined below), the Company shall (subject to Condition 7.11) give notice 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 Condition 7.6.2, 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 or the effective date of consolidation of Shares, as the case may be) 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, (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 (*kabushikitou uriwatashi seikyu*) under the Companies Act or (iii) the passing of a resolution at a general meeting of shareholders of the Company approving its consolidation of Shares (*kabushiki no heigo*) which is expected to cause the Shares to cease to be listed, quoted or dealt in on the Relevant Stock Exchange or to be disqualified from such listing, quotation or dealing.

7.6.2 *Redemption price*: The redemption price applicable to the redemption under this Condition 7.6 shall be calculated in the same manner as provided in Condition 7.4, 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, the amount of cash which the holder of a Share would receive in exchange for shares to be transferred or a fraction of shares which would arise as a result of the consolidation of Shares, as the case may be, following 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 7.4 shall apply to the above redemption price without any adjustment.

7.7 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.

7.8 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 7.7 shall be forwarded to the Principal Agent for cancellation.

7.9 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 or 7.3 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.

7.10 Calculations

The Trustee, the Principal Agent and the other Agents are not liable to determine or calculate 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).

7.11 Priorities among redemption

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

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

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 (i) any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 9 and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the "Code") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 9) any law implementing an intergovernmental approach thereto. 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

The initial Principal Agent and the 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, 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; and (iv) such other agents as may be required by the rules of any stock exchange on which the Bonds are listed. 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 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, 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 7.3, 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; or

(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.

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 7.3.

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.

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 of the Bondholders 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 at their principal amount together with accrued interest (if any) to the date of payment 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 7.3 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 the 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 or on demand (as the case may be) (or at the expiration of any applicable grace period as originally provided); 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 or reorganisation 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 or reorganisation 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 7.4, 7.5 or 7.6 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 of the Bondholders; 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 or reorganisation 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 7.4, 7.5 or 7.6 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 of the Bondholders; 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, 10.5 and 10.11, and (if the events relate only to a Principal Subsidiary) Conditions 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.

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 Company and notified to the Trustee.

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 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 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 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 7.4 or Condition 7.5 (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 7.4(iv), or (y) taking any action provided in items (ii) and (iii) of Condition 7.5.1); and

(iii) the Company's obligations under this Condition 11.1.4 shall not apply if the Bonds are to be redeemed under Condition 7.4 (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 (*kabushikitou uriwatashi seikyu*), proposing the consolidation of Shares (*kabushiki no heigo*) which is expected to cause the Shares to cease to be listed, quoted or dealt in on the Relevant Stock Exchange or to be disqualified from such listing, quotation or dealing for the purpose of squeeze out, 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 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 7.4 or 7.5); 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 2022 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 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 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, 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 obtain and rely on such directions from the Bondholders and/or expert advice as it considers appropriate and rely 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) 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 of the Company that, as of the Corporate Event Effective Date, any rating which would be assigned to the New Obligor's 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 making this determination, the Company shall consult 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 7.3 in relation to payment of Additional Amounts by the New Obligor (and/ or the guarantor, if any);

(iv) a Representative Director 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) 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

Claims in respect of the Bonds hereunder will become void unless made within the period of 10 years from the Due Date for the payment thereof.

14 Replacement of bonds

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 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 the 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 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, 7.4 and/or 7.6 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 advisors of recognised standing to the effect that such change has occurred) would make it necessary to amend and/or supplement the provisions of Condition 7.5, 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 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 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 (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 of the Bondholders 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 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 unless (a) it shall have been so directed by an Extraordinary Resolution of the Bondholders 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 steps to enforce the provisions of the Trust Deed or the terms of the Bonds. 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 on any certificate or report prepared by the Auditors pursuant to these Conditions and/or the Trust Deed, whether or not addressed to the Trustee and whether or not the Auditors' liability in respect thereof is limited by a monetary 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 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 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, the Agency Agreement 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 ("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 Hackwood Secretaries Limited as its agent in England to receive service of process in any Proceedings in England. If for any reason Hackwood Secretaries 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.

Terms and conditions of the 2024 Bonds

The following terms and conditions of the 2024 Bonds, subject to completion and amendment, and, save for the paragraphs in italics, will be endorsed on the Certificates (as defined herein):

The ¥75,000,000,000 Zero Coupon Convertible Bonds due 2024 (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 Mitsubishi Chemical Holdings Corporation (the "Company") are constituted by a trust deed (the "Trust Deed") dated 30 March 2017 made between the Company and MUFG Union Bank, N.A. (the "Trustee", which expression shall include its successors as trustee or trustees appointed 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 the agency agreement (the "Agency Agreement") dated 30 March 2017 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 prior appointment during normal business hours at the registered office for the time being of the Trustee, being at the date of issue of the Bonds at 445 South Figueroa Street, Suite 401, Los Angeles, CA 90071, U.S.A., and at the registered 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) "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 2024 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 2024 Bonds represented by a Global Certificate will not be entitled to receive definitive Certificates in respect of their individual holdings of the 2024 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 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 Principal Agent, the Registrar 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 relevant Agent or the Registrar (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 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 of receipt of the duly completed and executed 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 (at the Company's expense) unless such holder requests otherwise and pays in advance to the Registrar or the relevant Agent (as the case may be) the costs of such other method of delivery as agreed between such holder and the Registrar or relevant Agent 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 relevant Agent, but upon (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 reasonably 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 seven days ending on (and including) the date for redemption pursuant to Condition 7.1, 7.4, 7.5 or 7.6, (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 or 7.3 (except for any Bond held by a Bondholder who has given notice to the Company pursuant to the second paragraph of Condition 7.3).

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 or prior thereto, according or procuring to be accorded to the Company's obligations under the Trust Deed and the Bonds, (x) to the satisfaction of the Trustee or 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 of the Bondholders. 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-kanrikikan*) 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 1 April and ending on 31 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 31 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 5.2.5;

"Board of Directors" of a company means the board of directors of that 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 Concerning Book-Entry Transfer of Corporate Bonds, Stocks, 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 7.2;

"Closed Period" has the meaning provided in Condition 7.9;

"Closing Date" means 30 March 2017;

"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 a duly completed and signed notice of conversion 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 Schedule A 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 7.4;

"Corporate Event Redemption Price" has the meaning provided in Condition 7.4;

"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 5.2.10;

"Custodian" means MUFG Union Bank, N.A. at its specified office at 445 South Figueroa Street, Suite 401, Los Angeles, CA 90071, 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 7.5.1;

“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 5.2.5;

“Extraordinary Resolution” means a resolution passed (i) at a meeting of the Bondholders duly convened 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 or (ii) by a written resolution or electronic consent in accordance with the Trust Deed;

“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 1 April and ending on 31 March of the immediately succeeding year; or (ii) three month periods each commencing on 1 April, 1 July, 1 October and 1 January; provided that, if the Company shall change its financial year so as to end on a date other than 31 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 required, 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 or accounting firm of international repute appointed by the Company at its own expense and approved in writing by 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;

“Maturity Date” has the meaning provided in Condition 7.1;

“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 required, 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 7.5.1;

“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, those annual consolidated financial statements) of such Consolidated Subsidiary used for the purposes of the latest audited annual Consolidated Financial Statements being made up, are 10 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 10 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 meaning provided in Conditions 7.4, 7.5 and 7.6;

“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 International Financial Reporting Standards (as issued by the International Accounting Standards Board or, if applicable, as adopted or endorsed by Japan);

“Relevant Number of Shares” has the meaning provided in Condition 5.2.5;

“Relevant Securities” has the meaning provided in Condition 5.2.9;

“Relevant Stock Exchange” means Tokyo Stock Exchange, Inc. 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 Tokyo Stock Exchange, Inc., 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 7.6.1;

"Squeezeout Event" has the meaning provided in Condition 7.6.1;

"Squeezeout Redemption Date" has the meaning provided in Condition 7.6.1;

"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 7.3;

"Tax Redemption Notice" has the meaning provided in Condition 7.3;

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

"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, and 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 *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 having 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 Company's Articles of Incorporation provide that 100 Shares constitute one unit. Under the book-entry transfer system established pursuant to the Book-Entry Act, Shares constituting less than one unit are transferable. Under the rules of the Japanese stock exchanges, however, Shares constituting less than one unit do not comprise a trading unit, except in limited circumstances, and accordingly may not be sold on the Japanese stock exchanges. Further, a holder of Shares representing less than one unit cannot exercise any voting rights pertaining to those Shares. A holder of Shares representing less than one unit may at any time require the Company to purchase such Shares through the relevant Account Management Institution. The Company's Articles of Incorporation currently provide that a holder of Shares representing less than one unit may also request the Company to sell to such holder Shares constituting less than one unit which, when added to the Shares held by such holder, shall constitute one full unit.

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 ¥1,258 per Share, subject to adjustment in the manner provided in Condition 5.2.

5.1.4 *Exercise Period*: Subject to Condition 5.1.5, each Stock Acquisition Right may be exercised at any time during the period from, and including, 13 April 2017 to, and including, the close of business (at the place where the Stock Acquisition Right is to be exercised) on 15 March 2024, or:

(i) if the relevant Bond shall have been called for redemption pursuant to Condition 7.2 or 7.3, 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 7.3, 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 7.4, 7.5 or 7.6, 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 7.7, 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 15 March 2024;

(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, 7.5 and 7.6); and

(c) the Stock Acquisition Right 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 the Trustee in writing and 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 the Trustee in writing and 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 two 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.

As of the date of this Offering Circular, the Record Dates fixed by the Articles of Incorporation are 31 March and 30 September. By way of example, in respect of the Record Date falling on 31 March 2017, 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) 29 March 2017 to (and including) 31 March 2017.

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 *Condition to conversion*: Prior to (but not including) 30 December 2023, a Bondholder may exercise its Stock Acquisition Rights only if, as of the last day of any calendar quarter, the Closing Price of the Shares for any 20 consecutive Trading Days in a period of 30 consecutive Trading Days ending on the last Trading Day of such calendar quarter is more than 130 per cent of the Conversion Price in effect on the last Trading Day of such calendar quarter (rounded down to the nearest yen), as determined by the Principal Agent and notified to the Bondholders in accordance with Condition 19, subject to adjustment in the manner provided in Condition 5.2. If this condition is satisfied, then a Bondholder may (subject to these Conditions) exercise the Stock Acquisition Rights on and after the first day of the following calendar quarter until the end of such quarter, provided the relevant Deposit Date falls during the Exercise Period. For the avoidance of doubt, even where a condition to the exercise of the Stock Acquisition Rights set forth in this Condition 5.1.5 is not applicable by virtue of Condition 5.1.6, 5.1.7 or 5.1.8, the Stock Acquisition Rights shall not be exercisable after the expiration of the Exercise Period.

5.1.6 *Ratings requirements*: The condition to the exercise of the Stock Acquisition Rights set forth in Condition 5.1.5 shall not be applicable during any period in which (i) the issuer rating assigned to the Company by Rating and Investment Information, Inc. or its successors (together, "R&I") is BBB (or equivalent if the rating category is changed) or lower, (ii) the long-term issuer rating assigned to the Company by Japan Credit Rating Agency, Ltd. or its successors (together, "JCR") is BBB (or equivalent if the rating category is changed) or lower, (iii) an issuer rating is no longer assigned to the Company by R&I and/or a long-term issuer rating is no longer assigned to the Company by JCR and/or (iv) the issuer rating assigned to the

Company by R&I and/or the long-term issuer rating assigned to the Company by JCR has been suspended or withdrawn. Upon the occurrence of any of the events set out in (i), (ii), (iii) or (iv) above, the Company shall forthwith give notice thereof to the Trustee and (unless the Trustee is also the Principal Agent) the Principal Agent in writing and to the Bondholders in accordance with Condition 19.

5.1.7 *Redemption Events*: If a notice of redemption is given pursuant to Condition 7.2, 7.3, 7.4, 7.5 or 7.6, the condition to the exercise of the Stock Acquisition Rights set forth in Condition 5.1.5 shall not be applicable on and after the date of notice of such redemption except in the case of the Stock Acquisition Rights attaching to the Bonds elected by the relevant Bondholders not to be redeemed pursuant to Condition 7.3.

5.1.8 *Corporate Events*: Subject to the suspension by the Company as referred to in Condition 5.1.4(b), the condition to the exercise of the Stock Acquisition Rights set forth in Condition 5.1.5 shall not be applicable during the period from (and including) the date upon which the Company is first required to give notice to the Bondholders in accordance with Condition 6.2 to (and including) the relevant Corporate Event Effective Date.

5.1.9 *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 any securities convertible into or exchangeable for Shares which requires an adjustment of the Conversion Price pursuant to Condition 5.2.6 or 5.2.9, 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 5.2.7 or 5.2.9, or

(iv) the date of issue of any rights or warrants which requires an adjustment of the Conversion Price pursuant to Condition 5.2.8 or 5.2.9,

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, 5.2.6, 5.2.7, 5.2.8 or 5.2.9, 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 5.2.11) 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 5.2.12) 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 5.2.11) 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 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 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 5.2.11) 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 5.2.12) 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 5.2.11) 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 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*: 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 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 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), 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.
fmv	=	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 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.

Such adjustment shall become effective immediately after the Record Date for the determination of shareholders entitled to receive such distribution; 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.

5.2.5 *Distribution to shareholders of extraordinary dividends*: if the Company shall distribute any Extraordinary Dividend to the holders of Shares, 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:

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

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 of Extraordinary Dividend.

ED = 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 of Extraordinary Dividend; provided, however, that 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.

"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 Base Dividend and (ii) the amount, if any, previously determined to be an Extraordinary Dividend in respect of that Annual Fiscal Period.

"Base Dividend" means ¥158,980.

The Base Dividend is the amount obtained by multiplying the Relevant Number of Shares (calculated at the initial Conversion Price) by ¥20. "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.

5.2.6 *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 and the bonds with stock acquisition rights due 2022 issued by the Company on the Closing Date, 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 5.2.11) 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 5.2.9, 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 5.2.12) 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 5.2.11) 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;

5.2.7 *Issue to non-shareholders 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 5.2.11) 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 5.2.9, 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 5.2.12) 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 5.2.11) 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;

5.2.8 *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) to subscribe for, purchase or otherwise acquire Shares or securities convertible into or exchangeable for Shares (other than the Stock Acquisition Rights and the stock acquisition rights incorporated in the bonds with stock acquisition rights due 2022 issued by the Company on the Closing Date, or in any of the circumstances described in Conditions 5.2.2, 5.2.3, 5.2.4 and 5.2.6) and the consideration per Share receivable by the Company (determined as provided in Condition 5.2.11) 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 5.2.9, 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 5.2.12) 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 5.2.11) 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;

5.2.9 *Combined adjustment*: if the Company shall issue or transfer (as the case may be) securities of a type falling within Condition 5.2.6, 5.2.7 or 5.2.8 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 5.2.6, 5.2.7 and/or 5.2.8 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 5.2.12) 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 5.2.11) 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 5.2.11) 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 5.2.11) 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.

5.2.10 *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;

5.2.11 *Consideration per Share*: for the purposes of any calculation of the consideration per Share receivable pursuant to Conditions 5.2.2, 5.2.3, 5.2.6, 5.2.7, 5.2.8 and 5.2.9, 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 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 issue 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 grant, issue or offer of rights or warrants (including stock acquisition rights) 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 5.2.11 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 5.2.11 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;

5.2.12 *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 5.2.9 (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 issue 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, 5.2.6, 5.2.7, 5.2.8 and 5.2.9, the Shares held by the Company as treasury stock on the relevant date shall be deemed not to be outstanding;

5.2.13 *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;

5.2.14 *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;

5.2.15 *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 to be in its opinion appropriate to give the intended result; and

5.2.16 *Adjustment during the Relevant Period*: for the purposes of Condition 5.1.5, if the Conversion Price in effect on the last Trading Day of the period of 30 consecutive Trading Days referred to

therein (the "Relevant Period") reflects any adjustment which has become effective pursuant to this Condition 5.2 during the Relevant Period, then the Closing Price of the Shares for each Trading Day which occurs during the Relevant Period but before the effective date of such adjustment shall be adjusted to reflect the same adjustment.

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, corporate executive officer 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. Neither the Trustee, the Principal Agent, the Registrar, the Custodian nor the other Agents shall be under any duty to determine, calculate or verify the adjusted Conversion Price or whether any adjustment is required to be made and will not be responsible 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 relevant 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) arising upon exercise of any Stock Acquisition Rights.

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 relevant 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, Articles of Incorporation, the share handling regulations of the Company 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, 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) the Company shall deliver to the Custodian's Agent, securities (other than 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 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) 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 7.4(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 that which would have been received by a holder of 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; the exercise of the New Stock Acquisition Rights shall be subject to conditions substantially the same as those described in Conditions 5.1.5 to 5.1.8;

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, 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 29 March 2024 (the "Maturity Date"). 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 reduced outstanding amounts

The Company may, 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 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.

7.3 Redemption for taxation reasons

The Company may, 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 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 (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 14 March 2017, 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 obligation referred to in (i) above has arisen and cannot be avoided by the Company taking reasonable measures available to it and the Trustee shall be entitled to accept and rely on 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.

7.4 Corporate event redemption

Upon or following the occurrence of a Corporate Event, the Company shall (subject to Condition 7.11) 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 below and in accordance with the provisions of this Condition 7.4 (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 7.4(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 7.4 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 7.4(iii) or 7.4(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 15 March 2024, the Corporate Event Redemption Price shall be determined by reference to the following table:

Corporate Event Redemption Date	Reference Parity (Percentage)															
	50.00	60.00	70.00	80.00	90.00	100.00	110.00	120.00	130.00	140.00	150.00	160.00	170.00	180.00	190.00	200.00
30 March 2017	96.68	99.18	102.58	106.83	111.88	117.64	124.03	130.98	138.43	146.31	154.57	163.16	172.06	181.23	190.66	200.29
30 March 2018	96.90	99.16	102.34	106.41	111.32	116.99	123.34	130.28	137.75	145.68	154.00	162.67	171.66	180.93	190.45	200.17
30 March 2019	97.13	99.10	102.01	105.86	110.61	116.18	122.48	129.42	136.93	144.92	153.33	162.11	171.22	180.62	190.26	200.07
30 March 2020	97.38	99.00	101.57	105.14	109.67	115.11	121.36	128.32	135.90	144.00	152.55	161.49	170.77	180.33	190.10	200.01
30 March 2021	97.72	98.92	101.05	104.24	108.50	113.77	119.98	126.98	134.67	142.94	151.70	160.87	170.37	180.11	190.01	200.00
30 March 2022	98.19	98.88	100.39	103.00	106.83	111.87	118.03	125.15	133.07	141.66	150.77	160.28	170.06	180.00	190.00	200.00
30 March 2023	98.95	99.10	99.71	101.29	104.30	108.94	115.12	122.58	131.11	140.40	150.09	160.00	170.00	180.00	190.00	200.00
15 March 2024	99.95	99.95	99.95	99.95	99.95	100.52	110.00	120.00	130.00	140.00	150.00	160.00	170.00	180.00	190.00	200.00

"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 7.4, 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 7.4, is more than 200 per cent, the Corporate Event Redemption Price shall be 200 per cent.

If the Corporate Event Redemption Date falls during the period from (and including) 16 March 2024 to (and including) 28 March 2024, the Corporate Event Redemption Price shall be 100.00 per cent.

7.5 Redemption on delisting of the Shares

7.5.1 *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 give notice 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 shall be entitled to assume until it has actual notice to the contrary and without further enquiry and without liability to any person that the Offeror has not so acquired any Shares.

7.5.2 *Redemption price*: The redemption price applicable to the redemption under this Condition 7.5 shall be calculated in the same manner as provided in Condition 7.4, 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.

7.5.3 *Offer followed by Corporate Event or Squeezeout Event*: Notwithstanding the above provisions of this Condition 7.5, 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 or Squeezeout 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 7.5 shall not apply (but, for the avoidance of doubt, the provisions of Conditions 6 and 7.4 or 7.6, as the case may be, shall be applicable to such Corporate Event or Squeezeout Event, as the case may be) unless such Corporate Event or Squeezeout Event does not occur within 60 days after the date of such acquisition, in which case the Company shall give notice 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 7.5.2 (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 7.5.1 without being subject to the provisions of this Condition 7.5.3), 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).

7.5.4 *Irrevocable notice*: Any notice of redemption given under this Condition 7.5 shall be irrevocable and the Company shall be bound to redeem the Bonds in accordance with such notice.

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

(a) any of the events set out in (i) through (iv) of Condition 7.5.1; or

(b) any of the events set out in Condition 7.5.3 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.

7.5.6 *Condition*: If the Company becomes obliged to redeem the Bonds pursuant to both Conditions 7.4 and 7.5, the procedure pursuant to Condition 7.4 shall apply.

7.6 Squeezeout Redemption

7.6.1 *Redemption:* Upon the occurrence of a Squeezeout Event (as defined below), the Company shall (subject to Condition 7.11) give notice 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 Condition 7.6.2, 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 or the effective date of consolidation of Shares, as the case may be) 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, (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 (*kabushikitou uriwatashi seikyu*) under the Companies Act or (iii) the passing of a resolution at a general meeting of shareholders of the Company approving its consolidation of Shares (*kabushiki no heigo*) which is expected to cause the Shares to cease to be listed, quoted or dealt in on the Relevant Stock Exchange or to be disqualified from such listing, quotation or dealing.

7.6.2 *Redemption price*: The redemption price applicable to the redemption under this Condition 7.6 shall be calculated in the same manner as provided in Condition 7.4, 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, the amount of cash which the holder of a Share would receive in exchange for shares to be transferred or a fraction of shares which would arise as a result of the consolidation of Shares, as the case may be, following 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 7.4 shall apply to the above redemption price without any adjustment.

7.7 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.

7.8 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 7.7 shall be forwarded to the Principal Agent for cancellation.

7.9 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 or 7.3 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.

7.10 Calculations

The Trustee, the Principal Agent and the other Agents are not liable to determine or calculate 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).

7.11 Priorities among redemption

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

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

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 (i) any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 9 and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the "Code") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 9) any law implementing an intergovernmental approach thereto. 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

The initial Principal Agent and the 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, 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; and (iv) such other agents as may be required by the rules of any stock exchange on which the Bonds are listed. 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 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, 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 7.3, 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; or

(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.

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 7.3.

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.

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 of the Bondholders 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 at their principal amount together with accrued interest (if any) to the date of payment 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 7.3 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 the 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 or on demand (as the case may be) (or at the expiration of any applicable grace period as originally provided); 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 or reorganisation 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 or reorganisation 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 7.4, 7.5 or 7.6 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 of the Bondholders; 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 or reorganisation 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 7.4, 7.5 or 7.6 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 of the Bondholders; 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, 10.5 and 10.11, and (if the events relate only to a Principal Subsidiary) Conditions 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.

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 Company and notified to the Trustee.

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 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 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 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 7.4 or Condition 7.5 (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 7.4(iv), or (y) taking any action provided in items (ii) and (iii) of Condition 7.5.1); and

(iii) the Company's obligations under this Condition 11.1.4 shall not apply if the Bonds are to be redeemed under Condition 7.4 (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 (*kabushikitou uriwatashi seikyu*), proposing the consolidation of Shares (*kabushiki no heigo*) which is expected to cause the Shares to cease to be listed, quoted or dealt in on the Relevant Stock Exchange or to be disqualified from such listing, quotation or dealing for the purpose of squeeze out, 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 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 7.4 or 7.5); 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 2024 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 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 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, 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 obtain and rely on such directions from the Bondholders and/or expert advice as it considers appropriate and rely 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) 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 of the Company that, as of the Corporate Event Effective Date, any rating which would be assigned to the New Obligor's 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 making this determination, the Company shall consult 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 7.3 in relation to payment of Additional Amounts by the New Obligor (and/ or the guarantor, if any);

(iv) a Representative Director 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) 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

Claims in respect of the Bonds hereunder will become void unless made within the period of 10 years from the Due Date for the payment thereof.

14 Replacement of Bonds

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 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 the 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 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, 7.4 and/or 7.6 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 advisors of recognised standing to the effect that such change has occurred) would make it necessary to amend and/or supplement the provisions of Condition 7.5, 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 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 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 (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 of the Bondholders 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 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 unless (a) it shall have been so directed by an Extraordinary Resolution of the Bondholders 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 steps to enforce the provisions of the Trust Deed or the terms of the Bonds. 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 on any certificate or report prepared by the Auditors pursuant to these Conditions and/or the Trust Deed, whether or not addressed to the Trustee and whether or not the Auditors' liability in respect thereof is limited by a monetary 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 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 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, the Agency Agreement 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 ("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 Hackwood Secretaries Limited as its agent in England to receive service of process in any Proceedings in England. If for any reason Hackwood Secretaries 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.

Provisions relating to the bonds while in global form

The Trust Deed and the Global Certificates contain provisions which apply to the Bonds in respect of which the Global Certificates are issued, some of which modify the effect of the Conditions of the relevant Series set out in this Offering Circular. Terms defined in the Conditions of the relevant Series have the same meanings in the paragraphs below. The following is a summary of those provisions and applies separately in respect of each Series of Bonds:

Notices

So long as the Bonds are evidenced by a Global Certificate and the Global Certificate is registered in the name of a nominee on behalf of Euroclear and/or Clearstream, Luxembourg or any other clearing system as shall have been approved by the Trustee (the "Alternative Clearing System"), notices to 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 of the relevant Series. Such notices shall be deemed to have been given in accordance with the Conditions of the relevant Series on the date of delivery to the relevant clearing system.

Meetings

The registered holder (as defined in the Conditions of the relevant Series) of the Bonds (or any proxy or representative appointed by it) in respect of which a Global Certificate is issued shall (unless a Global Certificate represents only one Bond) be treated as being 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 a 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 a Global Certificate has been issued to attend and speak (but not to vote) at a meeting of Bondholders on appropriate proof of his identity.

Exercise of stock acquisition rights

Subject to the requirements of Euroclear and Clearstream, Luxembourg or any Alternative Clearing System, the Stock Acquisition Right incorporated in a Bond in respect of which a 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 Bond. Deposit of a 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 a Global Certificate.

Payments

Payments of principal and premium (if any) and any other amounts, in respect of Bonds evidenced by a 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, a Global Certificate to or to the order of the Principal Agent or such other Agent as shall have been notified to the Bondholders for such purpose.

Each payment will be made to, or to the order of, the person whose name is entered in the Register on the close of business on the Clearing System Business Day immediately prior to the date of payment, where "Clearing System Business Day" means Monday to Friday inclusive, except 25 December and 1 January. A "Business Day" for the purposes of Condition 5.1.4 of the relevant Series shall be any day on which dealings in foreign currency may be carried on in Tokyo.

Transfers

Transfers of interests in the Bonds with respect to which a Global Certificate is issued shall be effected through the records of Euroclear or Clearstream, Luxembourg (or an Alternative Clearing System) and their respective participants in accordance with the rules and procedures of the relevant clearing system and their respective direct and indirect participants.

Prescription

Claims in respect of the Bonds in respect of which the Global Certificate is issued shall become void unless made within a period of 10 years from the appropriate Due Date (as defined in the Conditions of the relevant Series) in respect of such Bonds.

Trustee's powers

In considering the interests of Bondholders while a Global Certificate is registered in the name of a nominee for a 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 such clearing system or its operator as to the identity of its accountholders (either individually or by category) with entitlements to the relevant Bonds and may consider such interests as if such accountholders were the holders of the relevant Bonds.

Cancellation

Cancellation of any Bond in respect of which a Global Certificate is issued pursuant to the Conditions of the relevant Series following its redemption, exercise of the relevant Stock Acquisition Rights or purchase by the Company or any subsidiary will be effected by a reduction in the principal amount of the Bonds in the register of Bondholders.

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 and 7.6 shall be exercised or performed by the Company giving notice to the Bondholders within the time limits set out therein and containing the information required of the Company in accordance with the relevant Condition.

Election of bondholders

The election option of the Bondholders provided for in Condition 7.3 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 the relevant clearing systems in the form acceptable thereto from time to time.

Electronic consent

While the Global Certificate is registered in the name of any nominee for, or a nominee for any common depositary for, Euroclear or Clearstream, or any Alternative Clearing System , then (a) approval of a resolution proposed by the Company or the Trustee (as the case may be) given by way of electronic consents communicated through the electronic communications systems of the relevant clearing system in accordance with their operating rules and procedures by or on behalf of the holders of not less than 90 per cent in nominal amount of the Bonds then outstanding (an "Electronic Consent" as defined in the Trust Deed) shall, for all purposes (including matters that would otherwise require an Extraordinary Resolution to be passed at a meeting subject to a special quorum), take effect as an Extraordinary Resolution passed at a meeting of Bondholders duly convened and held, and shall be binding on all Bondholders whether or not they participated in such Electronic Consent; and (b) where Electronic Consent is not being sought, for the purpose of determining whether a Written Resolution (as defined in the Trust Deed) has been validly passed, subject to certain requirements set out in the Trust Deed, the Company and the Trustee shall be entitled to rely on consent or instructions given in writing directly to the Company and/or the Trustee, as the case may be, by accountholders in the relevant clearing system with entitlements to Bonds evidenced by the Global Certificate or, where the accountholders hold any such entitlement on behalf of another person, on written consent from or written instruction by the person for whom such entitlement is ultimately beneficially held, whether such beneficiary holds directly with the accountholder or via one or more intermediaries.

Use of proceeds

The net proceeds of the issue of the Bonds are estimated to be approximately ¥150 billion and will be used primarily as follows:

- approximately ¥40 billion towards repayment of debt which was borrowed by the Company as funds for its subsidiaries, Mitsubishi Chemical Corporation and Mitsubishi Chemical Europe GmbH to acquire shares of The Nippon Synthetic Chemical Industry Co., Ltd. through a tender offer;
- approximately ¥80 billion towards repayment of borrowings and redemption of bonds to ensure flexible financing for (i) investments for strengthening overseas business bases and developing a product line-up in the Health Care Domain and (ii) research and development expenses, capital expenditures, strategic investments and other expenses towards enhancing technologies in key areas including the Performance Products Domain; and
- up to ¥30 billion towards the repurchase of Shares by the Company in order to implement flexible capital management policies in response to changes in business environment (see "Information Concerning the Shares—Proposed Share Repurchase by the Company"). Where the aggregate value of Shares the Company is able to repurchase falls short of ¥30 billion, any amounts left over shall be applied towards the Company's and its subsidiaries' working capital.

Information concerning the shares

Changes in issued share capital

As of 31 December 2016, the Company has an authorized share capital consisting of 6,000,000,000 Shares, of which 1,506,288,107 Shares were outstanding. The following table shows the changes in the Company's issued share capital as at the periods indicated:

Period	Description	Number of new shares	Total number of shares issued
		(Thousands)	
31 October 2007	Cancellation of treasury stock	(300,000)	1,506,288

There has been no change in issued share capital of the company since 31 December 2016. See "Proposed Share Repurchase by the Company" below with respect to proposed additional changes to the Company's issued share capital.

Dividends

The Company generally pays cash dividends semi-annually, at mid-fiscal year and at fiscal year-end, taking into consideration its aim for a consolidated payout ratio of at least 30 per cent of net income over the medium-term, the desire to pay stable dividends and the need to maintain internal reserves for business development going forward, among other factors. Pursuant to its Articles of Incorporation, the Company may make dividend payments pursuant to a resolution of its Board of Directors. The year-end dividend is paid to shareholders of record as of 31 March and the interim dividend is paid to shareholders of record as of 30 September. See "Description of the Shares and Certain Regulations—Distributions of Surplus".

The following table sets forth the dividends paid by the Company to shareholders of record as at the dates indicated:

Record Date	Dividend per Share
	(Yen)
30 September 2010	¥5.0
31 March 2011	5.0
30 September 2011	5.0
31 March 2012	5.0
30 September 2012	6.0
31 March 2013	6.0
30 September 2013	6.0
31 March 2014	6.0
30 September 2014	6.0
31 March 2015	7.0
30 September 2015	7.0
31 March 2016	8.0
30 September 2016	8.0

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:

Calendar period	Price per share		Nikkei stock average		TOPIX	
	High	Low	High	Low	High	Low
				(Yen)		(Points)
2012	¥ 493	¥ 275	¥10,395.18	¥ 8,295.63	872.42	695.51
2013	593	393	16,291.31	10,486.99	1,302.29	871.88
2014	654.9	402	17,935.64	13,910.16	1,447.58	1,132.76
2015						
1st quarter	758.4	560.5	19,754.36	16,795.96	1,592.25	1,357.98
2nd quarter	806.3	681.7	20,868.03	19,034.84	1,679.89	1,528.99
3rd quarter	847	598.4	20,841.97	16,930.84	1,691.29	1,375.52
4th quarter	836.5	604.5	20,012.40	17,722.42	1,605.94	1,442.74
2016						
1st quarter	768.2	541.1	18,450.98	14,952.61	1,509.67	1,196.28
2nd quarter	617	437.3	17,572.49	14,952.02	1,407.50	1,204.48
3rd quarter	661.5	440.7	17,081.98	15,106.98	1,352.67	1,209.88
4th quarter	797.7	616.1	19,494.53	16,251.54	1,552.36	1,301.16
2017						
1st quarter (up to 14 March)	907.4	750.7	19,633.75	18,787.99	1,577.40	1,506.33

On 14 March 2017, the last reported closing price of the Shares on the Tokyo Stock Exchange was ¥899.0 per Share, and the Nikkei Stock Average and TOPIX closed at ¥19,609.5 and 1,574.9, respectively.

Principal shareholders and other information

As at 30 September 2016, the Company had 168,912 shareholders of record, excluding those holders of 1,138,987 Shares not constituting a full unit. The 10 largest shareholders of record, the number of Shares held by them and their shareholding percentages as at 30 September 2016, were as follows:

Shareholder	Number of shares held	Percentage of total shares in issue
	(Thousands)	(Per cent)
The Master Trust Bank of Japan, Ltd. (Trust account)	86,657	5.75
Japan Trustee Services Bank, Ltd. (Trust account)	82,812	5.49
Meiji Yasuda Life Insurance Company	64,388	4.27
Nippon Life Insurance Company	42,509	2.82
Japan Trustee Services Bank, Ltd. (Trust account 9)	24,155	1.60
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	24,149	1.60
Tokio Marine & Nichido Fire Insurance Co., Ltd.	23,074	1.53
Japan Trustee Services Bank, Ltd. (Trust account 4)	21,129	1.40
The Bank of New York Mellon SA/NV 10	20,259	1.34
CBNY Government of Norway	19,296	1.28
Total	408,433	27.11

Notes:

(1) Apart from the above, the Company held 41,425 thousand Shares (2.75 per cent) of treasury stock as of 30 September 2016, which do not hold voting rights as under Article 308 (2) of the Companies Act. Subsequently, on 26 December 2016, the Company disposed of 7,744,392 Shares of treasury stock to its subsidiary, Mitsubishi Chemical Corporation, by way of third party allotment for the purpose of delivering the consideration for Mitsubishi Chemical Corporation's acquisition of Nippon Kasei Chemical Company, Limited through share exchange.

(2) As at 30 September 2016, 2,375 thousand Shares (0.15 per cent) are held by The Bank of Tokyo-Mitsubishi UFJ, Ltd., as part of its retirement pension fund (registered shareholder is Nomura Trust & Banking Co., Ltd. (The Bank of Tokyo-Mitsubishi Retirement Pension Trust account)). Voting rights associated to these shares are held by the Bank of Tokyo-Mitsubishi UFJ, Ltd. according to the relevant trust agreement.

The ownership distribution of the Shares by category of shareholders as at 30 September 2016 was as follows:

	Number of shares held (Unit shares)	Percentage of total units of shares in issue (Per cent)
Governmental and Local government	50	0.00
Japanese financial institutions	6,107,377	40.63
Japanese securities corporations	309,361	2.05
Other Japanese corporations	874,210	5.81
Japanese individuals and others	3,009,489	20.02
Foreign corporations and individuals	4,729,446	31.46
Total	15,029,933	100.00

Notes:

(1) 100 Shares constitute one unit of Shares. See "Description of the Shares and Certain Regulations—Unit Share System".

(2) As at 30 September 2016, the Company held 41,425,975 Shares of treasury stock, of which 414,259 units of Shares were included under the Japanese individuals and others category. Subsequently, on 26 December 2016, the Company disposed of 7,744,392 Shares of treasury stock by allotment to third party.

(3) As at 30 September 2016, of the 35,830 Shares held by JASDEC, 358 units of Shares were included in Other Japanese corporations category.

As at 31 March 2016, the Company's Directors held 278 thousand Shares, representing 0.018 per cent of total Shares in issue at that date.

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.

Proposed share repurchase by the company

The Company announced on 14 March 2017 that it intends to repurchase up to 33,370,400 Shares (approximately 2.3 per cent of the issued Shares (excluding treasury stock) as at 28 February 2017) at a maximum cost of ¥30 billion from the market at 8:45 a.m. (Tokyo time) on 15 March 2017 through the ToSTNeT-3 system in order to implement flexible capital policies that meet changes in the business environment. The result of such repurchase will be announced by the Company on 15 March 2017. As the amount which the Company is able to repurchase through the ToSTNeT-3 system is dependent on the amount market investors offer to sell the Shares at the relevant price at the relevant time, there can be no assurance that such repurchase will be executed in full or at all.

Stock acquisition rights

See "Management and Employees—Stock Option" for details of the Company's outstanding stock acquisition rights issued as stock options.

Capitalisation and indebtedness

The following table shows the consolidated capitalisation and indebtedness of the Company as at 31 December 2016, which has been extracted without material adjustment from the Company's Unaudited Quarterly Condensed Consolidated Financial Statements, and as adjusted to give effect to the issue of the Bonds:

	As at 31 December 2016	
(Millions of yen)	Actual	As adjusted
Current liabilities:		
Bonds and borrowings	¥ 693,044	¥ 693,044
Total short-term debt	693,044	693,044
Non-current liabilities:		
Bonds and borrowings	970,914	970,914
The Bonds now being issued	–	150,000
Total long-term debt	970,914	1,120,914
Equity:		
Common stock:		
Authorized: 6,000,000,000 Shares		
Issued and outstanding: 1,506,288,107 Shares	50,000	50,000
Additional paid-in capital	316,457	316,457
Treasury stock	(16,228)	(16,228)
Retained earnings	730,471	730,471
Other components of equity	1,784	1,784
Equity attributable to owners of the parent	1,082,484	1,082,484
Non-controlling interests	600,466	600,466
Total equity	1,682,950	1,682,950
Total capitalisation and indebtedness	¥3,346,908	¥3,496,908

Notes:

(1) As at 31 December 2016, the Group had contingent liabilities of ¥18,436 million, which consisted of guarantees of ¥18,309 million and stand-by guarantees of ¥127 million.

(2) Total capitalisation and indebtedness is a total of short-term debt, long-term debt and total equity.

(3) As mentioned in "Information Concerning the Shares—Proposed Share Repurchase by the Company", the Company intends to repurchase up to 33,370,400 Shares from the market at 8:45 a.m. (Tokyo time) on 15 March 2017 through the ToSTNeT-3 system. Any such repurchase, to the extent completed, will have the effect of increasing the amount of the Company's treasury stock and thereby reducing its total net assets and total capitalisation and indebtedness. Such potential changes are not reflected in the above table.

(4) The Bonds now being issued refers to the aggregate principal amount of the Bonds before deducting the estimated expenses payable in connection with the offering. Under IFRS, a convertible bond may be separated into an equity and a liability component. For illustrative purposes only, the aggregate principal amount of the Bonds to be issued has been presented as a liability in the above table.

(5) Save as disclosed above, there has been no material adverse change in the capitalisation, indebtedness or contingent liabilities of the Group since 31 December 2016.

Recent business

The Company's consolidated financial statements were prepared in accordance with Japanese GAAP up to and including the year ended 31 March 2016. From the year ending 31 March 2017, the Company decided to voluntarily adopt IFRS, with the aim of improving international comparability of financial statements in capital markets and unify accounting procedures within the Group.

Information contained herein has been extracted from the Audited Consolidated Financial Statements or the Unaudited Quarterly Condensed Consolidated Financial Statements, as the case may be. The Audited Consolidated Financial Statements have been prepared in accordance with Japanese GAAP and the Unaudited Quarterly Condensed Consolidated Financial Statements have been prepared in accordance with IFRS. See Note 15 to the Unaudited Financial Statements on page Q-43 for details in respect of differences between Japanese GAAP and IFRS and limited reconciliation of prior period figures (prepared in accordance with Japanese GAAP) to IFRS. See also—Investment Considerations—*The Group's unaudited quarterly condensed consolidated financial statements (prepared in accordance with IFRS) have not been audited and are not comparable with the audited annual consolidated financial statements (prepared in accordance with Japanese GAAP) included in this Offering Circular*".

Consolidated results for the nine months ended 31 December 2016 compared to the nine months ended 31 December 2015 prepared in accordance with IFRS

Overview

Looking at the business environment surrounding the Group during the third quarter of the fiscal year ending 31 March 2017, domestic and overseas demand in the Performance Products Domain remained firm, despite the impact of the rising yen compared to the same period of the previous fiscal year. Sales in the Health Care domain also remained firm, despite the negative impact of the NHI drug price revisions in Japan, which took effect in April 2016.

Despite decreases in sales revenue and core operating income, profit attributable to owners of the parent increased significantly due to a decrease in impairment losses in the discontinued business recorded during the second quarter of fiscal year 2016 and a decrease in tax expenses associated with recognition of deferred tax assets relating to the PTA business transfer in India and China. Furthermore, the Group has categorized the PTA business in India and China as discontinued businesses, based on the decision to transfer that business in both countries (announced on July 27, 2016). Therefore, sales revenue, core operating income, operating income, and earnings before taxes are recorded without including such discontinued businesses. In addition, the Group made the same revisions in respect of the financial results for the same period in the previous fiscal year.

Results

Revenue

Revenues for the nine months ended 31 December 2016 decreased by ¥230,832 million, or 8.6 per cent, to ¥2,450,610 million, compared to ¥2,681,442 million for the nine months ended 31 December 2015.

Cost of sales

Cost of sales for the nine months ended 31 December 2016 decreased by ¥201,242 million, or 10.5 per cent, to ¥1,709,479 million, compared to ¥1,910,721 million for the nine months ended 31 December 2015. Cost of sales as a percentage of revenue was lower in the nine months ended 31 December 2016.

Selling, general and administrative expenses

Selling, general and administrative expenses for the nine months ended 31 December 2016 decreased by ¥10,975 million, or 2.1 per cent, to ¥520,467 million, compared to ¥531,442 million for the nine months ended 31 December 2015. Selling, general and administrative expenses accounted for 21.2 per cent of the Group's revenue for the nine months ended 31 December 2016.

Core operating income

Core Operating income for the nine months ended 31 December 2016 decreased by ¥18,631 million, or 7.5 per cent, to ¥230,123 million, compared to ¥248,754 million for the nine months ended 31 December 2015. Core operating income as a percentage of sales revenue 9.4 per cent for the nine months ended 31 December 2016, compared to 9.3 per cent for the nine months ended 31 December 2015.

Profit before tax

Profit before tax for the nine months ended 31 December 2016 decreased by ¥15,511 million, or 7.0 per cent, to ¥205,194 million, compared to ¥220,705 million for the nine months ended 31 December 2015.

Income tax expense

Income tax expense for the nine months ended 31 December 2016 decreased by ¥40,258 million, or 59.0 per cent, to ¥28,005 million, compared to ¥68,263 million for the nine months ended 31 December 2015.

Profit from continuing operations

Profit from continuing operations for the nine months ended 31 December 2016 increased by ¥24,747 million, or 16.2 per cent, to ¥177,189 million, compared to ¥152,442 million for the nine months ended 31 December 2015.

Profit (loss) from discontinued operations

There was a profit from discontinued operations of ¥2,639 million for the nine months ended 31 December 2016, whereas there was a net loss of ¥71,614 million for the nine months ended 31 December 2015.

Profit attributable to owners of the parent

Profit attributable to owners of the parent for the nine months ended 31 December 2016 increased by ¥97,926 million, or 289.5 per cent, to ¥131,751 million, compared to ¥33,825 million for the nine months ended 31 December 2015.

Net profit attributable to non-controlling interests

Net profit attributable to non-controlling interests for the nine months ended 31 December 2016 increased by ¥1,074 million, or 2.3 per cent, to ¥48,077 million, compared to ¥47,003 million for the nine months ended 31 December 2015.

Net profit

Net profit for the nine months ended 31 December 2016 increased by ¥99,000 million, or 122.5 per cent, to ¥179,828 million, compared to ¥80,828 million for the nine months ended 31 December 2015.

Operating results by business segment

Electronics applications

In the Electronics Applications segment, revenues from external customers for the nine months ended 31 December 2016 decreased by ¥9,061 million, or 10.4 per cent, to ¥78,224 million, compared to ¥87,285 million for the nine months ended 31 December 2015. Revenues from external customers decreased primarily due to declining sales volumes of certain imagining supply products, as well as the negative impact from the appreciation of the Japanese yen, in addition to lower sales prices in information and electronics-related materials including display materials.

In the Electronics Applications segment, there was a core operating expense of ¥1,330 million for the nine months ended 31 December 2016 whereas there was a core operating income of ¥379 million for the nine months ended 31 December 2015, primarily due to the impact of the yen's appreciation.

Designed materials

In the Designed Materials segment, revenues from external customers for the nine months ended 31 December 2016 decreased by ¥23,133 million, or 3.7 per cent, to ¥596,268 million, compared to ¥619,401 million for the nine months ended 31 December 2015. Revenues from external customers decreased primarily due to a negative impact from the appreciation of Japanese yen and lower sales prices, despite higher sales volumes of films for display applications and other products.

In the Designed Materials segment, core operating income for the nine months ended 31 December 2016 increased by ¥5,376 million, or 9.2 per cent, to ¥63,822 million, compared to ¥58,446 million for the nine months ended 31 December 2015, primarily due to higher sales volumes, a decline in raw material costs and other factors, despite the negative impact from the appreciation of the Japanese yen.

Chemicals

In the Chemicals segment, revenues from external customers for the nine months ended 31 December 2016 decreased by ¥99,372 million, or 12.2 per cent, to ¥714,040 million, compared to ¥813,412 million for the nine months ended 31 December 2015. Revenues from external customers decreased primarily due to lower sales prices stemming from a decline in raw material costs as well as the negative impact from the appreciation of the Japanese yen.

In the Chemicals segment, core operating income for the nine months ended 31 December 2016 decreased by ¥14,837 million, or 29.1 per cent, to ¥36,115 million, compared to ¥50,952 million for the nine months ended 31 December 2015, primarily due to the narrowing in price differential between raw materials and product sales prices, as well as the larger than anticipated scale of scheduled maintenance and repairs in basic petrochemicals and chemical derivative, offsetting the increase in core operating income in the industrial gasses and the impact of including the results of Air Liquide after acquiring its business, which was consolidated at the end of the second fiscal quarter.

Polymers

In the Polymers segment, revenues from external customers for the nine months ended 31 December 2016 decreased by ¥70,576 million, or 12.1 per cent, to ¥514,467 million, compared to ¥585,043 million for the nine months ended 31 December 2015. Revenues from external customers decreased primarily due to lower sales prices from a decline in raw material costs.

In the Polymers segment, core operating income for the nine months ended 31 December 2016 increased by ¥11,115 million, or 27.8 per cent, to ¥51,137 million, compared to ¥40,022 million for the nine months ended 31 December 2015, due in part to continued steady sales of MMA monomers in the U.S. and Europe and a decline in raw material costs, despite a larger than anticipated scale of scheduled maintenance and repairs of production facilities.

Health care

In the Health Care segment, revenues from external customers for the nine months ended 31 December 2016 decreased by ¥10,577 million, or 2.5 per cent, to ¥414,898 million, compared to ¥425,475 million for the nine months ended 31 December 2015. Revenues from external customers decreased primarily due to there being a recording of lump-sum royalty revenues from products licensed out overseas in the nine months ended 31 December 2015 and the negative impact of drug price revisions in Japan.

In the Health Care segment, core operating income for the nine months ended 31 December 2016 decreased by ¥17,569 million, or 17.6 per cent, to ¥81,983 million, compared to ¥99,552 million for the nine months ended 31 December 2015, primarily due to the decline in revenue.

Others

In the Others segment, revenues from external customers for the nine months ended 31 December 2016 decreased by ¥18,113 million, or 12.0 per cent, to ¥132,713 million, compared to ¥150,826 million for the nine months ended 31 December 2015.

In the Others segment, core operating income for the nine months ended 31 December 2016 decreased by ¥559 million, or 13.2 per cent, to ¥3,946 million, compared to ¥4,545 million for the nine months ended 31 December 2015.

Consolidated results for the year ended 31 March 2016 compared to the year ended 31 March 2015 prepared in accordance with Japanese GAAP

Change in Accounting Policy

Effective from the year ended 31 March 2016, the Company has adopted the "Accounting Standard for Business Combinations (ASBJ Statement No. 21, 13 September 2013), "Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22, 13 September 2013), "Accounting Standard for Business Divestitures" (ASBJ Statement No. 7, 13 September 2013) and others. As a result, the presentation method of some line items such as "net income" and "minority interests" as well as classification of cash flows have been amended. Figures for the year ended 31 March 2015 has been reclassified to reflect these changes.

Overview

The business environment surrounding the Group during year ended 31 March 2016 saw generally favorable conditions resulting from an overall trend toward a moderate economic recovery in Japan and overseas, despite some signs of weakness including the slowdown of the Chinese economy. Market conditions for petrochemical-related products remained firm, while raw material costs are declining in the Performance Products and Industrial Materials domains. The Health Care domain remained favorable due in part to higher royalty revenues, despite the unfavorable impact of measures to reduce spending on pharmaceuticals and other factors.

Results

Net sales

Net sales for the year ended 31 March 2016 increased by ¥166,820 million, or 4.5 per cent, to ¥3,823,098 million, compared to ¥3,656,278 million for the year ended 31 March 2015. This primarily reflected the consolidation of Taiyo Nippon Sanso in the third quarter of the previous fiscal year.

Cost of sales

Cost of sales for the year ended 31 March 2016 decreased by ¥46,613 million, or 1.6 per cent, to ¥2,779,584 million, compared to ¥2,826,197 million for the year ended 31 March 2015. Cost of sales as a percentage of net sales was lower in the year ended 31 March 2016 primarily due to a decrease in crude oil prices.

Selling, general and administrative expenses

Selling, general and administrative expenses for the year ended 31 March 2016 increased by ¥99,088 million, or 14.9 per cent, to ¥763,488 million, compared to ¥664,400 million for the year ended 31 March 2015. Selling, general and administrative expenses accounted for 19.9 per cent of the Group's net sales for the year ended 31 March 2016. This was primarily due to the consolidation of Taiyo Nippon Sanso Corporation.

Operating income

As a result of the above, operating income for the year ended 31 March 2016 increased by ¥114,345 million, or 69.0 per cent, to ¥280,026 million, compared to ¥165,681 million for the year ended 31 March 2015. Operating income as a percentage of net sales was 7.3 per cent for the year ended 31 March 2016, compared to 4.5 per cent for the year ended 31 March 2015. The increase in operating income was primarily due to the consolidation of Taiyo Nippon Sanso Corporation as well as steady market conditions in the petrochemical market.

Other income (expenses)

Other expenses for the year ended 31 March 2016 was ¥81,778 million, an increase of ¥81,718 million, compared to ¥60 million for the year ended 31 March 2015. This was primarily due to an increase in impairment loss and special retirement expenses.

Profit before income taxes

As a result of the above, profit before income taxes for the year ended 31 March 2016 increased by ¥32,627 million, or 19.6 per cent, to ¥198,248 million, compared to ¥165,621 million for the year ended 31 March 2015.

Income taxes

Income taxes for the year ended 31 March 2016 increased by ¥23,477 million, or 33.9 per cent, to ¥92,648 million, compared to ¥69,171 million for the year ended 31 March 2015.

Profit attributable to owners of parent

As a result of the above, profit attributable to owners of parent for the year ended 31 March 2016 decreased by ¥14,415 million, or 23.6 per cent, to ¥46,444 million, compared to ¥60,859 million for the year ended 31 March 2015. This was primarily due to restructuring costs and impairment loses in connection with the Group's petrochemical business.

Operating results by business segment

Effective from the year ended 31 March 2016, certain businesses of one consolidated subsidiary has been reclassified from the Chemicals segment to the Polymers and Designed Materials segments. In addition, certain consolidated subsidiaries in the Others segment has been moved to the Polymers segment. Accordingly certain figures in the above segments for the year ended 31 March 2015 have been reclassified to reflect the new classification.

Electronics applications

In the Electronics Applications segment, net sales to outside customers for the year ended 31 March 2016 decreased by ¥3,103 million, or 2.6 per cent, to ¥115,649 million, compared to ¥118,752 million for the year ended 31 March 2015. The decrease was primarily due to the decline in sales of information and electronic-related material as market for optical discs recording media continued to fall, as well as a decrease in sales volumes for optical photoconductor drums and toners, despite an increase in sales of display materials and precision cleaning and recycling of wafers for semiconductors.

In the Electronics Applications segment, segment loss for the year ended 31 March 2016 decreased by ¥1,737 million, or 63.7 per cent, to ¥988 million, compared to ¥2,725 million for the year ended 31 March 2015, primarily due to the Group's efforts to reduce fixed costs.

Designed materials

In the Designed Materials segment, net sales to outside customers for the year ended 31 March 2016 increased by ¥33,974 million, or 4.1 per cent, to ¥852,565 million, compared to ¥818,591 million for the year ended 31 March 2015. Net sales increased primarily due to the continued high demand for high-performance films, as well as an increase in sales volume for engineering plastic-related products, aluminium composite materials, automobile batteries and alumina fibres. Steady sales in coating materials and composite materials such as carbon fibres also contributed to the increase in net sales for the segment.

In the Designed Materials segment, operating income for the year ended 31 March 2016 increased by ¥20,084 million, or 36.1 per cent, to ¥75,713 million, compared to ¥55,629 million for the year ended 31 March 2015, primarily due to a decline in raw material costs.

Chemicals

In the Chemicals segment, net sales to outside customers for the year ended 31 March 2016 increased by ¥207,160 million, or 18.5 per cent, to ¥1,321,112 million, compared to ¥1,113,952 million for the year ended 31 March 2015. Net sales increased primarily due to the increase in sales of industrial gases, which have been included in this business segment from this fiscal year.

In the Chemicals segment, operating income for the year ended 31 March 2016 increased by ¥48,433 million, or 548.9 per cent, to ¥57,256 million, compared to ¥8,823 million for the year ended 31 March 2015, primarily due to steady market conditions as well as a decrease in costs resulting from the scale-down of regular maintenance of production facilities.

Polymers

In the Polymers segment, net sales to outside customers for the year ended 31 March 2016 decreased by ¥99,939 million, or 11.4 per cent, to ¥773,672 million, compared to ¥873,611 million for the year ended 31 March 2015. This was primarily due to lower income from sales of synthetic resins, including polyolefins, MMA monomers and other products as unit prices were revised adjusting to decrease in raw material costs.

In the Polymers segment, operating income for the year ended 31 March 2016 increased by ¥15,371 million, or 54.9 per cent, to ¥43,340 million, compared to ¥27,969 million for the year ended 31 March 2015, primarily due to an improvement in price differences between raw materials and products in polyolefin and other products.

Health care

In the Health Care segment, net sales to outside customers for the year ended 31 March 2016 increased by ¥22,123 million, or 4.1 per cent, to ¥554,056 million, compared to ¥531,933 million for the year ended 31 March 2015. This increase was primarily due to higher sales volumes for key products such as *Tenelia*, and gain in royalty revenues for *Invokana* and for *Gilenya*, an increase in lump sum royalty revenues from products licensed out overseas, as well as higher sales in diagnostic reagent and clinical testing sales, all offsetting the impacts of expanded generic drug use and a decline in sales associated with the ending of the sales alliance for plasma fractionation products at the end of March 2015.

In the Health Care segment, operating income for the year ended 31 March 2016 increased by ¥26,405 million, or 34.2 per cent, to ¥103,417 million, compared to ¥77,012 million for the year ended 31 March 2015, primarily due to the increase in royalty revenue.

Others

In the Others segment, net sales to outside customers for the year ended 31 March 2016 increased by ¥6,605 million, or 3.3 per cent, to ¥206,044 million, compared to ¥199,439 million for the year ended 31 March 2015.

In the Others segment, operating income for the year ended 31 March 2016 increased by ¥1,228 million, or 20.2 per cent, to ¥7,284 million, compared to ¥6,056 million for the year ended 31 March 2015.

Quarterly condensed consolidated statement of financial position as at 31 December 2016 compared to quarterly condensed consolidated statement of financial position as at 31 March 2016 prepared in accordance with IFRS

Total assets as at 31 December 2016 increased by ¥214,477 million, or 5.1 per cent, to ¥4,438,251 million, compared to ¥4,223,774 million as at 31 March 2016. This was primarily due to an increase in receivables with the end of the term date falling on a holiday and the acquisition of an overseas industrial gas business by Taiyo Nippon Sanso Corporation.

Total liabilities as at 31 December 2016 increased by ¥127,678 million, or 4.9 per cent, to ¥2,755,301 million, compared to ¥2,627,623 million as at 31 March 2016. This was primarily due to the increase in interest-bearing debt.

Total equity as at 31 December 2016 increased by ¥86,799 million, or 5.4 per cent, to ¥1,682,950 million, compared to ¥1,596,151 million as at 31 March 2016. This was primarily due to increase in profit attributable to the owners of the parent.

Consolidated balance sheet as at 31 March 2016 compared to consolidated balance sheet as at 31 March 2015 prepared in accordance with Japanese GAAP

Total assets as at 31 March 2016 decreased by ¥261,466 million, or 6.0 per cent, to ¥4,061,572 million, compared to ¥4,323,038 million as at 31 March 2015. This primarily reflected the decline in assets of overseas

consolidated subsidiaries upon conversion to yen because of the stronger yen, as well as a decrease in trade receivables and inventories mainly reflecting lower costs for raw materials.

Total liabilities as at 31 March 2016 decreased by ¥227,393 million, or 8.3 per cent, to ¥2,507,044 million, compared to ¥2,734,437 million as at 31 March 2015. This primarily reflected the decrease in trade payables mainly because of lower raw material costs, as well as a decrease in interest-bearing debt. There was also a decrease in deferred tax liabilities mainly due to lower market valuations of securities held.

Total net assets as at 31 March 2016 decreased by ¥34,073 million, or 2.1 per cent, to ¥1,554,528 million, compared to ¥1,588,601 million as at 31 March 2015. This was primarily due to a decrease in foreign currency translation adjustment as the yen was stronger than the year ended 31 March 2015, and a decrease in net unrealised holding gain on other securities reflecting the sale of securities held and lower market valuations. There was also a decrease in remeasurement of defined benefit plans, due mainly to a decline in the discount rate used in calculating retirement benefit obligations and a downturn in the management of pension assets.

Cash flows for the nine months ended 31 December 2016 compared to the nine months ended 31 December 2015 prepared in accordance with IFRS

Net cash provided by operating activities for the nine months ended 31 December 2016 increased by ¥89,040 million, or 53.8 per cent, to ¥254,567 million, compared to ¥165,527 million for the nine months ended 31 December 2015. This reflected the elimination of the increase in operating costs caused by the recording of credit liquidity transactions as a result of adopting IFRS.

Net cash used in investing activities for the nine months ended 31 December 2016 increased by ¥73,371 million, or 83.4 per cent, to ¥161,333 million, compared to ¥87,962 million for the nine months ended 31 December 2015. This reflected the increase in cash outflows due to the acquisition of subsidiaries, as well as the decrease in proceeds from sales of securities.

Net cash used in financing activities for the nine months ended 31 December 2016 was ¥15,083 million whereas ¥43,360 million were provided for the nine months ended 31 December 2015. This was primarily due to the acquisition of The Nippon Synthetic Chemical Industry Co., Ltd.

As a result of the foregoing factors, cash and cash equivalents as at 31 December 2016 decreased by ¥41,625 million, or 11.3 per cent, to ¥327,687 million, compared to ¥369,312 million as at 31 December 2015.

Cash flows for the year ended 31 March 2016 compared to the year ended 31 March 2015 prepared in accordance with Japanese GAAP

Net cash provided by operating activities for the year ended 31 March 2016 increased by ¥58,887 million, or 17.8 per cent, to ¥388,663 million, compared to ¥329,776 million for the year ended 31 March 2015. This reflected inflow from profit before income taxes, depreciation and amortization, impairment loss and a decrease in working capital associated with lower costs for raw materials and fuel, which offset the impact of income taxes.

Net cash used in investing activities for the year ended 31 March 2016 decreased by ¥74,427 million, or 26.8 per cent, to ¥202,796 million, compared to ¥277,223 million for the year ended 31 March 2015. This reflected the acquisition of Taiyo Nippon Sanso Corporation, as well as there being a recording of sales income from securities transactions in the year ended 31 March 2015.

Net cash used in financing activities for the year ended 31 March 2016 increased by ¥154,896 million, or 7,515.5 per cent to ¥156,957 million, compared to ¥2,061 million for the year ended 31 March 2015. This reflected the repayment of interest-bearing liabilities from the sales income from investment securities.

As a result of the foregoing factors, cash and cash equivalents as at 31 March 2016 increased by ¥20,715 million, or 8.5 per cent, to ¥263,770 million, compared to ¥243,055 million as at 31 March 2015.

Funding

The Group's principal source of funding include short and long-term borrowings from financial institutions, the issuance of corporate bonds and cash flows from operations. The Company has commitment lines of credit in place for funding its operations and, as at 31 December 2016, ¥35,000 million in commitment lines from six banks was available.

As at 31 March 2016 and 31 December 2016, the Group's short-term debt (including current portion) amounted to ¥706,705 million and ¥693,044 million, respectively, and its long-term debt (excluding current portion) amounted to ¥872,870 million and ¥970,914 million, respectively. Interest-bearing debt (including lease obligations) as at 31 March 2016 and 31 December 2016 amounted to ¥1,579,575 million and ¥1,663,958 million, respectively, which were 36.1 per cent and 37.5 per cent of the Group's total assets as at 31 March 2016 and 31 December 2016, respectively.

Capital Expenditure

The following table gives information with respect to the Group's capital expenditure for the periods indicated:

	Year ended 31 March		
(Millions of yen)	**2014**	**2015**	**2016**
Capital expenditures	¥133,339	¥165,057	¥176,508

Note:

(1) "Capital expenditure" is equivalent to "Increase in Tangible and Intangible Fixed Assets".

The Group's capital expenditure is generally funded by internally generated funds. The Group's capital expenditure during the two fiscal years ended 31 March 2015 and 2016 primarily related to constructing new or expanding existing manufacturing facilities in growth business areas as well as investments towards energy saving and streamlining of its business.

The capital expenditure plans referred to above represent the management's current plans and may be subject to substantial changes, both in terms of the amount and the planned usage, dependent on, among other things, changes in market, industry and economic conditions.

Business

Overview

The Group operates in a broad range of business domains comprising chemicals, pharmaceuticals and industrial gases, with a diverse business portfolio consisting of electronic applications, designed materials, health care products, chemicals, polymers and other products. The Group operates under a holding company structure that separates business portfolio management functions and individual business management functions. As the holding company in charge of business portfolio management, the Company oversees the operations of six key operating companies, Mitsubishi Chemical Corporation, Mitsubishi Tanabe Pharma Corporation, Mitsubishi Plastics, Inc., Mitsubishi Rayon Co., Ltd., Life Science Institute, Inc. and Taiyo Nippon Sanso Corporation. The Company coordinates Group operations, categorizing each company's businesses by product and managing its portfolio based on those categories.

The Group's businesses are separated into three domains, which are further sub-categorised into reporting segments for financial reporting purposes:

Performance Products Domain: The Performance Products domain comprises two segments: "Electronics Applications" and "Designed Materials". These segments utilize differentiated technological clusters based on chemistry to provide products and technologies in a wide range of industries (see "Business—Performance Products Domain").

Industrial Materials Domain: The Industrial Materials Domain is comprised of two segments: "Chemicals", which handles a wide range of basic chemicals, carbon products and industrial gases, and "Polymers", which provides synthetic resins that meet advanced and special needs. This domain covers the entire product chain from raw materials to derivatives and processing products (see "Business—Industrial Materials Domain").

Health Care Domain: The Health Care domain comprises the Health Care segment and covers a wide range of healthcare fields including pharmaceuticals, diagnostic reagents and instruments, clinical testing, self- health check services and other products (see "Business—Health Care Domain").

The Group also has an "Others" segment which includes companies offering engineering and logistics services.

Effective from the year ended 31 March 2015, the Company has reclassified some of its business (including one consolidated subsidiary) from the Health Care segment to the Designed Materials segment due to the establishment of Life Science Institute, Inc. as a consolidated subsidiary. Figures for the year ended 31 March 2014 have been reclassified to reflect the new classification, where appropriate.

Effective from the year ended 31 March 2016, certain businesses have been reclassified from the Chemicals segment to the Polymers and Designed Materials segments. In addition, certain businesses in the Others segment have been moved to the Designed Materials segment. Accordingly certain figures in the above segments for the year ended 31 March 2015 have been reclassified to reflect the new classification.

As at 31 December 2016, the Company had 578 subsidiaries as well as 147 associates. The Group had 68,531 employees as of the same date.

History

The Company was incorporated on 3 October 2005 as the holding company for Mitsubishi Chemical Corporation and Mitsubishi Pharma Corporation pursuant to a share transfer (*kabushiki iten*) transaction in which the shareholders of Mitsubishi Chemical Corporation and Mitsubishi Pharma Corporation received shares of the Company's common stock for each share of common stock held by them. In connection with this transaction, Mitsubishi Chemical Corporation and Mitsubishi Pharma Corporation became wholly owned subsidiaries of the Company and delisted from the Tokyo Stock Exchange. In February 2007, the Company commenced a cash tender offer for the shares of common stock of Mitsubishi Plastics, Inc., then a 52.6 per cent subsidiary and listed on the Tokyo Stock Exchange, with the goal of making it a wholly owned subsidiary. Mitsubishi Plastics, Inc. was delisted in July 2007 and on 1 October 2007 the merger of Mitsubishi Pharma Corporation and Tanabe Seiyaku was consummated to form Mitsubishi Tanabe Pharma Corporation.

The Group has since added a number of operating companies to bring the number of operating companies under the Company to its current total of six. On 1 April 2008, the functional products businesses of Mitsubishi Chemical Corporation, Mitsubishi Plastics, Inc., Mitsubishi Polyester Film Corporation, Mitsubishi Chemical Functional Products, Inc., and Mitsubishi Chemical MKV Company were amalgamated to become a consolidated new company, Mitsubishi Plastics, Inc. On 30 March 2010, Mitsubishi Rayon Co., Ltd. became a consolidated subsidiary of Mitsubishi Chemical Holdings Corporation. On 1 April 2014, the healthcare solutions and related businesses of the Group were integrated and to become Life Science Institute, Inc. and on 12 November 2014, Taiyo Nippon Sanso Corporation became a consolidated subsidiary of the Company.

The Group also established a number of regional control companies to oversee formulation and implementation of Group strategies, with Mitsubishi Chemical Holdings America, Inc. established in 2010, Mitsubishi Chemical Holdings (Beijing) Co., Ltd. established in 2011 and Mitsubishi Chemical Holdings Europe GmbH established in 2012.

In April 2009, the KAITEKI Institute, Inc. was established as a hub to coordinate the activities of Group companies under the shared corporate brand "The KAITEKI Company".

Strategy

The Group Vision—"The KAITEKI Company"

The Group's corporate activities are based on the three decision criteria of "Sustainability [Green]", "Health" and "Comfort". While corporations are expected to find solutions to global scale problems, they must devise a new key performance axis that goes beyond the pursuit of profit alone for sustainable growth. Under this idea, the Group has adopted an approach called KAITEKI management—enhancing corporate value by applying time frames to the management of three aspects of the Group's business: Management of Sustainability ("MOS"), which aims to enhance sustainability for people, society and the planet, Management of Economics ("MOE"), which emphasizes capital efficiency using financial indices such as operating income and return on assets and Management of Technology ("MOT"), which fosters the creation of innovative technologies. The Group has settled on "THE KAITEKI COMPANY" as its corporate brand and the basis upon which it will work to further raise its Group value.

KAITEKI means "a sustainable condition which is comfortable for people, society and the Earth, transcending time and generations." It is an original concept of the Group that proposes a way forward in the sustainable development of society and the planet, in addition to serving as a guide for solving environmental and social issues. To realize this vision, the Group engages in corporate activities that provide products, technologies and services based on the comprehensive capabilities of the Group in the Performance Products domain, Industrial Materials domain and Health Care domain, with chemistry as the basis of its activities.

One of the driving forces supporting the sustainable growth of the Group and thereby maximizing KAITEKI value is innovation. Based on the Group's strengths in molecular design, function creation, further value addition, processing and device technologies, and research and development systems consisting of approximately 4,500 people across the Group, the Group continues to be at the forefront of technologies and know how in the business domains in which it operates. In addition, the Group takes advantage of a framework called, "Open Shared Business" (OSB) where it does not restrict itself to independent in-house development but partners with other companies/organizations having technologies not available to it or other unique expertise. Such collaboration on a business level and on a research and development level to quickly create products and services that cannot easily be duplicated is a core tenet of the Group's operations and one of its key strengths.

The Group is a collection of operating companies engaged in a diverse array of businesses, the corollary of which is that formulation of Group strategies, optimal allocation of resources and overall supervision is critical to ensuring that the Group's strategies, philosophy and vision are being effectively implemented. Accordingly, in order to ensure effective implementation of the Group's vision, strategies and philosophies, the Group utilizes its bespoke portfolio management method tool, which consists of a four-quadrant business portfolio management model, which promotes sustained growth through business restructuring and portfolio optimization. Under this management tool, the individual businesses, products and services in each of the Group's business domains and reporting segments are allocated to each of four quadrants—(a) "next-generation growth businesses" (businesses under development that the Group prioritizes for strengthening the

development of “growth business” candidates) (b) “growth businesses” (businesses that require concentrated injections of management resources with the aim of further expanding profits), (c) “cash-generating businesses” (businesses that are responsible for creating a stable profit base using limited resource investments) and (d) “businesses to be restructured” (businesses that are aiming to revise the structure of their business and organization to develop more efficient businesses)—according to product life cycles and business growth potential and profitability.

The Group’s individual strategies, philosophy and vision are then tailored to fit the particular circumstances applicable to any individual business, product or service, as identified by the portfolio management tool. For instance, growth businesses and next-generation growth businesses are prime candidates for mergers, acquisitions and alliances. On the other hand, with respect to businesses to be restructured, the Group may make a strategic decision to scale down production or withdraw from a business from the standpoint of optimal allocation of limited management resources. This is particularly critical for the Group, as the life cycle of each business within the Group can fluctuate dramatically, from growth period to weakening demand period, as competitiveness is lost amid accelerating globalization and demand for products fades in line with market changes.

APTSIS 15

Overall Strategy

The year ended 31 March 2016 was the final year of the five-year medium term management plan APTSIS 15. Under the Group vision of realisation of KAITEKI, the Group implemented APTSIS 15 since 2011. In consideration of changes in the business environment, the Group reconsidered the plan (APTSIS 15 Step 2), covering the period from 31 March 2013 to 31 March 2016, in March 2013. In addition to recalibrating financial targets, APTSIS 15 Step 2 introduced volatility management as a concept with the aim of managing the Group’s businesses on a more stable basis.

APTSIS 15 focused on strengthening the Group’s fundamentals, accelerating growth, innovation to unlock new growth drivers and strategic allocation of resources to alliances and acquisitions.

Through APTSIS 15, the Group strengthened high-performance, high-value-added businesses in the Performance Products domain, which include polyester film and carbon fibre and strengthened the earning capability of its overseas businesses, while streamlining and rebuilding unprofitable businesses (particularly in relation to its petrochemical business). In addition, the Group continued to reform its business portfolio by expanding and reinforcing the earnings foundation through the acquisitions of Qualicaps Co., Ltd., a manufacturer of capsules for pharmaceutical and nutraceutical industries in 2013, as well as Taiyo Nippon Sanso Corporation, a manufacturer of industrial gases and related equipment and devices in 2014. The Group also implemented measures to cut costs and scale down non-performing assets while pursuing these reforms.

As a result, in the year ended 31 March 2016, the Group’s consolidated financial results recorded net sales of ¥3,823.0 billion, an increase of ¥166.8 billion (4.5 per cent) from the previous fiscal year. Operating income totalled ¥280.0 billion, an increase of ¥114.3 billion (69.0 per cent), and ordinary income amounted to ¥270.6 billion, an increase of ¥107.5 billion (65.9 per cent) from the previous fiscal year. Accordingly, the Group was able to achieve its target for operating income in the final fiscal year of APTSIS 15. ROA and the net D/E ratio have improved since the year ended 31 March 2011, the first fiscal year of APTSIS 15, but not enough to reach their targets, owing to expansion in total assets and interest-bearing debt from acquisitions, as well as the posting of extraordinary losses related to restructuring. The ratio of overseas net sales increased by 9.1 per cent compared with the year ended 31 March 2011, owing to a faster pace of global business development.

APTSIS 20

In December 2015, the Group announced its current Medium-Term Management Plan (“APTSIS 20”), which is in effect for the five-year period from the year ending 31 March 2017 to 31 March 2021, as set out below. Through increasing profitability, pursuing innovation and contributing to suitability, the Group aims to establish the foundation to become THE KAITEKI COMPANY, and recognized at a global level.

Basic Outline

Building on progress from APTSIS 15, the Group aims to remain a high growth/high profit-model company through businesses in the Performance Products, Industrial Materials and Health Care domains, through emphasis on:

(a) "growth", including enhancement of sustainable growth and profitability through portfolio management (careful selection of investment targets), improvement of profitability of overseas businesses, making new energy businesses competitive sooner, promotion of synergies in the Group and enhancement of competitiveness by the integration of the Group's three chemical operating companies, Mitsubishi Chemical Corporation, Mitsubishi Plastics, Inc. and Mitsubishi Rayon Co., Ltd.);

(b) "efficiency", including realization of high-productivity corporate structures and implementation of fundamental measures for unprofitable businesses and low-profit businesses; and

(c) "strengthening foundations", including enhancing safety and compliance measures, improvement of global management systems and strengthening the Group's financial position.

Particular emphasis will be on aiming for sustainable improvement in corporate value thorough implementation of ROE management which is underpinned by business and financial strategies. Through the above measures, the Group aims to increase profit on sales and total asset turnover and improve its financial leverage in order to raise capital efficiencies. The Group aims to allocate ¥500 billion to strategic investments including mergers and acquisitions, with priority areas being new markets and new technologies (including high performance films, food ingredients, performance polymers, high-performance engineering plastics, carbon fibre and composite materials and performance chemicals) in the Performance Products domain), overseas development (including industrial gases) in the Industrial Materials domain and development in new markets (in particular North America) (including ethical pharmaceuticals and healthcare, medical ICT) in the Health Care domain. The Group is considering a further increase of ¥100 billion to ¥200 billion in its budget for mergers and acquisitions, with a focus on the Performance Products domain.

The Group also aims to allocate up to ¥1 trillion in capital expenditure (evenly allocated across growth and strategic investments) and inject up to ¥700 billion in research and development investment. Capital expenditure will be allocated across all three business domains, although it is expected that a greater proportion of the Group's capital expenditure will be allocated to its Performance Products and Industrial Materials domains (in order of percentage of total), with the remainder being allocated to the Health Care domain. On the other hand, it is expected that a majority of the research and development investment will be concentrated in the Health Care domain, with the Performance Products and Industrial Materials domains (in order of percentage of total) rounding up the remainder. From a financial perspective, the Group aims to reduce interest-bearing debt and improve its capital adequacy ratio. The Group also aims to improve shareholder value through a dividend policy which takes into consideration a balance between improvements in investments for business growth and in financial position.

Principal Measures

The principal measures under APTSIS 20 are as follows:

Strengthen and expand business base by promoting portfolio reforms: Building on the management strategies developed under APTSIS 15, the Group aims to utilize its portfolio management techniques to transform into a high-growth, high-profit entity and to implement thorough business portfolio management to ensure that optimal resource allocation is being achieved. In addition, through implementing such techniques, the Group aims to give consideration to and appropriately position contributory factors (such as growth opportunities, competitive environment and business characteristics) based on evaluations of return on invested capital, growth and return on sales in order to better position itself for future growth. Following a comprehensive assessment of its operations, management has categorized its various businesses as follows for the purposes of portfolio management:

Next-generation businesses	Growth businesses
• Healthcare solutions	• High-performance polymers(1)
• Bio solutions	• High-performance chemicals(1)
• Gas solutions	• High-performance films(1)
• New energy and frontier materials	• Environment and living solutions(1)
• Solutions integrating big data and ICT	• Advanced moldings and composites(1)
	• New energy(1) (Lithium-ion battery materials, Optoelectronics materials)
	• Ethical pharmaceuticals(3)
	• Life science (Healthcare and medical ICT)(3)
Businesses to be restructured(4)	**Cash-generating businesses**
	• Electronics and displays(1)
	• Petrochemicals(2)
	• Carbon products(2)
	• MMA(2)
	• Industrial gases(2)
	• Life science (Drug discovery solutions)(3)

Notes:

(1) Performance Products Domain

(2) Industrial Materials Domain

(3) Health Care Domain

(4) See "—Strategy" for details in respect of businesses already restructured

As set forth in the tables above, the Group identified the following as incubation businesses which should be instrumental to growth in 2020–2025 and intends on promoting business development of such businesses using an "Open Shared Business" framework:

- Healthcare solutions (Regenerative medicine, Diagnostic support systems, Plant-derived vaccines)
- Bio solutions (Functional vegetables and growth factors, using plant factories, Plant-derived monomers and polymers, Effective usage of enterobacterium)
- Gas solutions (CO_2 enriched water system, Cryopreservation-related technologies, Hydrogen stations, Medical applications of gases, Stable isotope pharmaceuticals, Gas/liquid separation materials)
- New energy and frontier materials (Organic photovoltaic materials, Silicon-related materials)
- Solutions integrating big data and ICT (Proactive utilization of big data/ICT for all activities ranging from manufacturing, research and development to businesses and services)

Integration of Three Chemical Operating Companies: The Group has decided to integrate its three chemical operating companies (Mitsubishi Chemical Corporation, Mitsubishi Plastics, Inc. and Mitsubishi Rayon Co., Ltd.) through a merger, with Mitsubishi Rayon Co., Ltd. as the merging company, effective 1 April 2017 in order to build a framework to be able to take full advantage of the three companies' business resources (including personnel, technologies and information), rebuild their business portfolio with a clearer view on the direction of each business and strengthen cost-competitiveness by improving productivity. The key measures to achieve such objectives in the Group's chemical business are as follows: (a) accelerated transition to core businesses (including internal consolidation, concentration of business resources on businesses with high growth potential and businesses capable of establishing competitive advantages, whilst reconsidering unprofitable businesses and low profit businesses), (b) implementation of growth strategies (including drawing on synergies generated within the Group and enhancing competitiveness of existing businesses, and (c) global expansion of business (including expanding the Group's business presence in markets with high growth potential (such as Asia) and coordinating the Group's global operations network). Specific focus markets and solutions include automobiles and aircraft, packaging, labels and films, IT, electronics and displays, environment and energy, medical, food and bio products and fundamental materials (including petrochemicals, carbon products and MMA). Across such markets, the Group aims to accelerate growth based on the most effective growth drivers in each specific market, while generating synergy among related business divisions.

The Group also intends on establishing regional headquarters in four global areas to support each regional business to achieve overseas business growth and the enhancement of profitability (in America, Europe, Asia Pacific and China). Following integration, the Group intends on increasing management effectiveness by avoiding waste through streamlining existing work policies and procedures.

Global Development: The Group aims to increase its overseas sales ratio from 43 per cent to 50 per cent, enhance the business support functions in each region and promote collaboration across business units. In the Asia Pacific region, the Group aims to bring together its comprehensive capabilities and expand its businesses in the ASEAN and Indian markets where demand is growing, with an emphasis on development of growth fields such as automobiles, packaging and the environment and a proactive focus on MMA and industrial gases. Elsewhere, despite a slowing growth rate, China's presence in the global economy continues to expand, and the Group aims to position itself to capture demand from growth fields. In Europe and the Americas, the Group aims to develop high profit fields, including leading edge fields such as medical, aircraft parts and automobile related products, as well as to strengthen its pharmaceutical business foundation in the United States.

Strengthen the interconnection among MOE/MOT/MOS: The Group's corporate activities are based on the three decision criteria of "Sustainability [Green]", "Health" and "Comfort". While corporations are expected to find solutions to global scale problems, they must devise a new key performance axis that goes beyond the pursuit of profit alone for sustainable growth. Under this idea, the Group has adopted an approach called KAITEKI management—enhancing corporate value by applying time frames to the management of three aspects of the Group's business: Management of Sustainability ("MOS"), which aims to enhance sustainability for people, society and the planet, Management of Economics ("MOE"), which emphasizes capital efficiency using financial indices such as operating income and return on assets and Management of Technology ("MOT"), which fosters the creation of innovative technologies. Within the MOS indices, the Group has also selected quantifiable criteria as indicators of how its corporate activities have had a major impact on solving a broad range of environmental and social issues. These are separated into three decision criteria: sustainability, health and comfort.

Domain specific strategies

Performance Products domain: In the Performance Products domain, the Group aims to accelerate growth by generating synergies and supplying high performance products and solutions globally to growth markets (including through the conversion of The Nippon Synthetic Chemical Industry Co., Ltd. and Nippon Kasei Chemical Company Limited into wholly-owned subsidiaries). The Group's focus in this business domain will be to expand its high performance, high value added products businesses and solutions (including high performance engineering plastics, organic synthesis and food ingredients), accelerate global development and profitability of its overseas businesses (particularly with respect to performance polymers, carbon fiber composite materials, polyester films, high-performance films and high-performance engineering plastics), strengthen innovation by integration of the Group's three chemical operating companies and achieve profitability of new energy

businesses at an early stage (including lithium-ion battery materials and optoelectronics materials). Recent highlights include expansion of polyester film production and carbon fibre production lines in the United States, the acquisition of Piper Plastics, Inc. in the United States and the establishment of a joint venture with Ube Industries, Ltd. in China in connection with the production of electrolytes for use in lithium-ion batteries.

Industrial Materials domain: In the Industrial Materials domain, the Group aims to stabilize earnings by strengthening of cost-competitiveness and accelerate growth and profitability and strengthen presence in the global markets. The Group's focus in this business domain will be strengthening its growth business (including in relating to MMA, polypropylene ("PP") compounds, functional resins and industrial gases), cash-generating business (including in relation to carbon and various plastics) and businesses to be restructured (including in relation to PTA). Recent highlights include the acquisition of part of Air Liquide's industrial gas business and related business assets in the United States and unification of ethylene production facilities in Mizushima. The Group also withdrew from the PTA business in India and China.

Health Care domain: In the Health Care domain, the Group aims to generate worldwide growth in its ethical drug business and to establish and expand its healthcare and medical businesses. The Group's focus in this business domain will be on promoting overseas businesses (mainly in the United States), strengthening its drug discovery and development capabilities, maximizing product potential in new drugs and priority products by strengthening value development and sales, expanding the healthcare and medical businesses utilizing ICT, promoting its regenerative medicine business and enhancing business productivity. Recent highlights include reaching a basic agreement on the establishment of a joint venture for the manufacture of vaccines, establishment of a sales company in the United States, the Food and Drug Administration's acceptance of a filing for Edaravone (Radicut) to treat Amyotrophic Lateral Sclerosis.

Operations

The Group's businesses are separated into three business domains, which are further sub-categorised into reporting segments for financial reporting purposes (See "—Overview"):

Performance Products Domain: For the year ended 31 March 2016, the Performance Products domain accounted for 25.3 per cent of the Group's sales (with the Electronic Applications and Designed Materials segments accounting for 3.0 per cent and 22.3 per cent, respectively).

Industrial Materials Domain: For the year ended 31 March 2016, the Industrial Materials domain accounted for 54.7 per cent of the Group's sales (with the Chemicals and Polymers segments accounting for 34.5 per cent and 20.2 per cent, respectively).

Health Care Domain: For the year ended 31 March 2016, the Health Care domain accounted for 14.4 per cent of the Group's sales.

For the year ended 31 March 2016, the "Others" segment accounted for 5.3 per cent of the Group's sales.

The tables below set forth net sales and operating income for each reporting segment for each of the three years ended 31 March 2016 (prepared in accordance with Japanese GAAP):

					Year ended 31 March	
	2014(1)(2)		2015(3)		2016	
(Millions of yen)	Net sales	Operating income	Net sales	Operating income	Net sales	Operating income
Electronics Applications	¥ 133,675	¥ (5,519)	¥ 118,752	¥ (2,725)	¥ 115,649	¥ (988)
Designed Materials	799,130	47,476	818,591	55,629	852,565	75,713
Chemicals	955,088	710	1,113,952	8,823	1,321,112	57,256
Polymers	858,435	2,307	873,611	27,969	773,672	43,340
Health Care	523,056	67,300	531,933	77,012	554,056	103,417
Others	229,450	5,675	199,439	6,056	206,044	7,284
Subtotal	3,498,834	117,949	3,656,278	172,764	3,823,098	286,022
Adjustments	—	¥ (7,489)	—	¥ (7,083)	—	¥ (5,996)
Total	¥3,498,834	¥110,460	¥3,656,278	¥165,681	¥3,823,098	¥280,026

Notes:

(1) Effective from the year ended 31 March 2015, the Company has reclassified some of its businesses (including one consolidated subsidiary) from the Health Care to the Designed Materials segment due to the establishment of Life Science Institute, Inc. as a consolidated subsidiary. Certain figures for the year ended 31 March 2014 have been reclassified to reflect the new classification.

(2) The figures in the above segments for the year ended 31 March 2014 are presented on a different basis from those for the years ended 31 March 2015 and 2016.

(3) Effective from the year ended 31 March 2016, certain businesses have been reclassified from the Chemicals segment to the Polymers and Designed Materials segments. In addition, certain businesses in the Others segment have been moved to the Designed Materials segment. Accordingly certain figures in the above segments for the year ended 31 March 2015 have been reclassified to reflect the new classification.

The tables below set forth sales revenue and core operating income for each reporting segment for the nine months ended 31 December 2015 and 2016 (prepared in accordance with IFRS):

	Nine months ended 31 December			
	2015		2016	
(Millions of yen)	Revenues	Core operating income(1)	Revenues	Core Operating income(1)
Electronics Applications	¥ 87,285	¥ 379	¥ 78,224	¥ (1,330)
Designed Materials	619,401	58,446	596,268	63,822
Chemicals	813,412	50,952	714,040	36,115
Polymers	585,043	40,022	514,467	51,137
Health Care	425,475	99,552	414,898	81,983
Others	150,826	4,545	132,713	3,946
Subtotal	2,681,442	253,896	2,450,610	235,673
Adjustments	–	(5,142)	–	(5,550)
Total	¥2,681,442	¥248,754	¥2,450,610	¥230,123

Note:

(1) Commencing the year ending 31 March 2017, the Group introduced the concept of "core operating income" for the purposes of reporting segment results. Core operating income is operating income excluding gains or losses incurred by non-recurring factors.

Performance products domain

The Group's performance products domain comprises of two segments: Electronic Applications and Designed Materials, which together utilise differentiated technological clusters based on chemistry to provide products and technologies in a wide range of industries. Such products and technologies are produced and sold to customers in Japan, Asia, Europe, North America and elsewhere in the world.

Electronic applications

In the Electronic Applications segment, the Group makes use of the technology for designing and processing materials and creating materials for devices to provide high value added products. The key products and technologies of the Group's electronic applications segment and their principal uses are as set out below:

Main business area	Products and services	Main uses
LED lighting and materials	Phosphors, encapsulant, LED lighting and equipment	Electronics, IT, automobiles, home appliances
Gallium nitride	Gallium nitride (GaN) substrates	Electronics, IT, energy, automobiles
Organic photovoltaic modules and materials	Thin-film type organic photovoltaics (OPVs), OPV wall units, OPV modules	Energy, environment, construction materials
Organic photo-semiconductors	Organic light emitting diode (OLED) lighting	Home appliances

One key product area is the flat panel display, and the Group expects demand to increase for each application, especially for LCD TVs in light of their large screen sizes. The Group also anticipates stronger demand related to tablets and new types of flat panel displays, such as OLED displays.

Production

The Group's principal production facilities for electronic applications products include a number of plants in Japan, as well as facilities overseas. The Group outsources substantially all of the production of optical recording media to third-party manufacturers located in Asia. The Group sources the raw materials, including petrochemical products, for its production facilities in Japan from its petrochemicals business as well as from third-party suppliers. Raw materials for the Group's overseas facilities are generally supplied from third-party suppliers.

Sales and distribution

The Group has an extensive network of sales offices in Japan and overseas. Many of the Group's customers require highly customized products or products that meet precise specifications. The Group's sales personnel work closely with such customers, including in many cases beginning from the research and development stage, to provide them with the optimal product for their needs.

Research and development

The success of the Group's business operations in the electronic applications business is largely dependent on its ability to develop, manufacture and successfully commercialize new products in response to changing consumer demand in a timely manner. The Group makes significant research and development expenditures to maintain a competitive edge in marketing innovative performance products. Many of the Group's products have a short average product life-span, which increases the importance of developing new products and technologies based on changes in the market environment. Some of the Group's achievements include trial sales of organic film solar cells with a high photoelectronic conversion efficiency developed through the Group's organic semi conductor technology and know how.

Designed materials

In the designed materials segment, the Group makes use of technologies accumulated over many years, including molecular design technology, functional design technology and polymer processing technology to develop a variety of products including composite materials and inorganic chemicals and polymer processing films. The designed materials segment is further separated into the functional products and performance chemicals sub segments. The functional products sub segment focuses on various plastic and industrial materials, including polyester films, alumina fibers, engineering plastic products, carbon fiber and composite materials, water treatment systems and services, electronic and industrial films, fibers and agribusiness solutions. The performance chemicals sub segment focuses on a wide range of inorganic and organic chemicals, including lithium-ion battery materials, specialty chemicals, organic synthesis and food ingredients.

The tables below set forth net sales and operating income for the functional products and performance chemicals sub segments for each of the three years ended 31 March 2016 (prepared in accordance with Japanese GAAP):

					Year ended 31 March	
	2014(1)(2)		2015(3)		2016	
(Millions of yen)	Net sales	Operating income	Net sales	Operating income	Net sales	Operating income
Functional Products	¥544,148	¥22,230	¥570,375	¥31,317	¥602,683	¥44,417
Performance Chemicals	254,982	25,246	248,216	24,312	249,882	31,296
Total	¥799,130	¥47,476	¥818,591	¥55,629	¥852,565	¥75,713

Notes:

(1) Effective from the year ended 31 March 2015, the Company has reclassified some of its businesses (including one consolidated subsidiary) from the Health Care to the Designed Materials segment due to the establishment of Life Science Institute, Inc. as a consolidated subsidiary. As such, the results for the year ended 31 March 2014 have been reclassified to reflect the new classification.

(2) The figures in the above segments for the year ended 31 March 2014 are presented on a different basis from those for the years ended 31 March 2015 and 2016.

(3) Effective from the year ended 31 March 2016, certain businesses have been reclassified from the Chemicals segment to the Polymers and Designed Materials segments. In addition, certain businesses in the Others segment have been moved to the Designed Materials segment. Accordingly, certain figures in the above segments for the year ended 31 March 2015 have been reclassified to reflect the new classification.

The tables below set forth revenues and core operating income for the functional products and performance chemicals sub segments for the nine months ended 31 December 2015 and 2016 (prepared in accordance with IFRS):

	Nine months ended 31 December			
	2015		2016	
(Millions of yen)	Revenues	Core Operating income(1)	Revenues	Core Operating income(1)
Functional Products	¥437,320	¥34,132	¥411,203	¥36,997
Performance Chemicals	182,081	24,314	185,065	26,825
Total	¥619,401	¥58,446	¥596,268	¥63,822

Note:

(1) Commencing the year ending 31 March 2017, the Group introduced the concept of "core operating income" for the purposes of reporting segment results. Core operating income is operating income excluding gains or losses incurred by non-recurring factors.

The key products and technologies of the Group's designed materials segment and their principal uses are as set out below:

Main business area	Products and services	Main uses
Functional Products		
Polyester film	Polyester film	FPDs(1), electrical and electronic components, industrial materials, packaging materials
Alumina fibers	Support mat	Automobiles, industrial materials
Engineering plastic products	Advanced engineering plastics, general engineering plastics	Automobiles, electronics, industrial materials, medical care
Carbon fiber and composite materials	PAN(2) -based carbon fiber, pitch-based carbon fiber	Automobiles, aircraft, industrial materials, sporting goods
Water treatment systems and services	Plant engineering for water treatment, separation and purification process, hollow fiber membrane, ion-exchange resins, household water filters, polymer flocculants	Environment, infrastructure, daily necessities
Electronic and industrial films	Optical clear adhesive sheet, moisture transmission film	Smartphones, electrical and electronic components, medical, daily necessities
Fibers	Acrylic fiber, acetate fiber	Clothing, industrial materials
Agribusiness solutions	Fully artificial light-type plant factory, greenhouse plant system with solar light	Agriculture
Performance Chemicals		
Lithium-ion battery materials	Electrolytes, anode materials, separators	Automobiles, electronics, IT, energy
Specialty chemicals	Environment-friendly o/w emulsions, solvent coating materials, hard coats for LCDs(3), curing agents, coating materials	Electronics, IT, daily necessities, construction materials
Organic synthesis	Optical PVOH(4) film, EVOH(5)	Material for polarizing film, packaging materials
Food ingredients	Emulsifier (sugar ester), lactic acid bacteria, enzyme preparations	Processed foods (beverages, confectionery, etc.)

Notes:

(1) Flat Panel Display

(2) Polyacrylonitrile

(3) Liquid crystal display

(4) Polyvinyl Alcohol

(5) Ethylene-vinyl alcohol copolymer

Production

The Group's principal manufacturing facilities for designed materials products include its domestic plants as well as plants overseas. The Group supplies various petrochemicals and other raw materials for its plants from third-party suppliers as well as from its own petrochemicals business and performance chemicals businesses.

Sales and distribution

The Group has an extensive network of sales offices in Japan and overseas. Some of the Group's customers, such as flat panel display manufacturers and industrial materials manufacturers, require highly customized products or products that meet precise specifications. The Group's sales personnel work closely with such customers, including in many cases beginning from the research and development stage, to provide them with the optimal product for their needs.

Research and development

The Group continues to conduct research and development activities to meet the specific needs of its customers. For example, the Group cooperates with its major customers to improve its polyester film products, which utilise a fusion of the Group's proprietary material technologies, long standing film production technologies and surface treatment technologies with innovative coatings. Carbon fibre is one of the key products being developed in this segment and the Group has decided to expand production capacity of its carbon fibre plant at Mitsubishi Rayon Carbon Fiber and Composites, Inc. to service growing global demand, as well as to acquire a 51 per cent share in Wethje Holding GmbH, a German manufacturer of carbon fiber reinforced parts for automobile applications.

Industrial material domain

The Group's industrial materials domain comprises of two segments: chemicals, which handles a wide range of basic chemicals and carbon products and polymers, which provides synthetic resins that meet advanced and special needs.

Chemicals

The Group's chemicals segment is further separated into three sub-segments: (a) petrochemicals (which includes basic petrochemicals and terephthalic acid), (b) carbon and (c) industrial gases.

The table below sets forth net sales and operating income for the petrochemicals, carbon and industrial gases sub segments for each of the three years ended 31 March 2016 (prepared in accordance with Japanese GAAP):

						Year ended 31 March
	2014(1)		2015(2)		2016	
(Millions of yen)	Net sales	Operating income	Net sales	Operating income	Net sales	Operating income
Petrochemicals	¥750,343	¥(8,970)	¥ 631,437	¥(19,551)	¥ 503,769	¥ 6,577
Carbon	204,745	9,680	195,656	9,991	183,135	6,450
Industrial Gases	–	–	286,859	18,383	634,208	44,229
Total	¥955,088	¥ 710	¥1,113,952	¥ 8,823	¥1,321,112	¥57,256

Notes:

(1) The figures in the above segments for the year ended 31 March 2014 are presented on a different basis from those for the years ended 31 March 2015 and 2016.

(2) Effective from the year ended 31 March 2016, certain businesses have been reclassified from the Chemicals segment to the Polymers and Designed Materials segments. In addition, certain businesses in the Others segment have been moved to the Designed Materials segment. Accordingly, certain figures in the above segments for the year ended 31 March 2015 have been reclassified to reflect the new classification.

The table below sets forth the revenues and core operating income for the petrochemicals, carbon and industrial gases sub segments for the nine months ended 31 December 2015 and 2016 (prepared in accordance with IFRS):

	Nine months ended 31 December			
	2015		2016	
(Millions of yen)	Revenues	Core Operating income(1)	Revenues	Core Operating income(1)
Petrochemicals	¥246,238	¥10,612	¥174,396	¥ (4,794)
Carbon	140,476	5,765	128,657	2,023
Industrial Gases	426,698	34,575	410,987	38,886
Total	¥813,412	¥50,952	¥714,040	¥36,115

Note:

(1) Commencing the year ending 31 March 2017, the Group introduced the concept of "core operating income" for the purposes of reporting segment results. Core operating income is operating income excluding gains or losses incurred by non-recurring factors.

The key products and technologies of the Group's chemicals segment and their principal uses are as set out below:

Main business area	Products and services	Main uses
Petrochemicals		
Basic petrochemicals	Ethylene, propylene	Polyolefin, basic petrochemical materials
Carbon	Coke, needle coke, pitch coke	Steel raw materials, electrode materials
Industrial gases	Separate gas (oxygen, nitrogen, argon), special gas for electronics	Steel, chemicals, electronics, automobiles, food, medical care

The Group is the leading provider of petrochemical products in Japan. It produces and sells a wide range of petrochemical products mainly in Japan and in other Asian countries. The Group also processes naphtha, one of its principal raw materials, to produce olefins such as ethylene and propylene, aromatics and crude C4. The Group produces its petrochemical products mainly in major production plants in Japan and principal plants in other Asian countries.

The Group's principal carbon product is blast furnace coke used primarily in the steel manufacturing process which is sold directly to Japanese, American and European steel manufacturers.

The Group also produces carbon black, which is a black colouring agent used in various industrial applications such as tires and pigments.

In the industrial gases area, the Group produces industrial gases (such as oxygen, nitrogen, argon, carbon dioxide and hydrogen), plant and engineering related products (such as cryogenic air separation units and cryogenic vacuum equipment), electronics related products, including high purity nitrogen and argon, LP gas, medical gases such as medical related oxygen and synthesized air supply facilities and thermos products, including stainless steel vacuum bottles and cooking implements.

Production

The primary raw materials for the Group's products in this business domain include naphtha and coal. The Group procures naphtha, the primary raw material for most of its major petrochemical products, mainly from a number of Japanese petroleum companies pursuant to term supply contracts. The Group also purchases naphtha on the spot market and from foreign, mostly middle-Eastern, suppliers. In addition to these raw materials, the Group procures a significant amount of fuel oil, liquefied natural gas and coal for use at the co-generation facilities located at its production plants based on term supply contracts.

The Group produces its petrochemical products mainly at its major production plants in Japan. These plants are adjacent to, and connected through pipes with, some of the Group's main raw material suppliers and main industrial customers. Operating its plants in proximity to such refineries allows for the efficient supply of

naphtha. All of the Group's ethylene production is conducted at the Group's domestic plants. The manufacture of the Group's carbon products process involves carbonization of coal to high temperatures in an oxygen deficient atmosphere in order to concentrate the carbon and is carried on primarily in production plants in Japan. With respect to industrial gases, the Group has gas production and supply capabilities in Japan, the United States and across Asia, including in China and India.

Sales and distribution

The Group directly sells ethylene and propylene and certain other products to petrochemical, plastics and textile companies that neighbour the Group's plants. The Group's carbon products are primarily distributed to steel manufacturers.

With respect to its industrial gas products, the Group has an extensive nationwide network of production and sales bases, enabling it to provide industrial gases to a wide range of customers, from major manufacturers in the steel, chemicals and electronics industries, to small and medium-sized users. Formats for delivering gases include on-site plants, that is, air separation units built on or adjacent to customers' production facilities from which the Group supply separated gases directly via pipeline, and tanker trucks, which enable the Group to supply liquefied gases in bulk.

Research and development

The Group continually strives to develop production technologies that strengthen the competitiveness of its products, reduce production costs and enhance the safety of its production plants. In addition, as part of its initiative to move away from raw materials produced from mineral resources such as oil and coal and towards other organic environmentally conscious materials, the Group is in the process of developing renewable polyols, such as Carbon Black, a type of fine carbon material made from vegetable oil that is used in black colour pigments and electric conductive agents.

Polymers

The Group's polymers segment is further separated into two sub-segments: (a) polyolefins and advanced polymers (which includes polyethylene and polypropylene) and (b) MMA monomers and polymers.

The tables below set forth net sales and operating income for the polyolefins and advanced polymers and MMA monomers and polymers sub segments for each of the three years ended 31 March 2016 (prepared in accordance with Japanese GAAP):

	Year ended 31 March					
	2014(1)		2015(2)		2016	
(Millions of yen)	Net sales	Operating income	Net sales	Operating income	Net sales	Operating income
Polyolefins and Advanced Polymers	¥510,864	¥2,910	¥515,862	¥11,695	¥460,648	¥30,066
MMA Monomers and Polymers	347,571	(603)	357,749	16,274	313,024	13,274
Total	¥858,435	¥2,307	¥873,611	¥27,969	¥773,672	¥43,340

Notes:

(1) The figures in the above segments for the year ended 31 March 2014 are presented on a different basis from those for the years ended 31 March 2015 and 2016.

(2) Effective from the year ended 31 March 2016, certain businesses have been reclassified from the Chemicals segment to the Polymers and Designed Materials segments. In addition, certain businesses in the Others segment have been moved to the Designed Materials segment. Accordingly, certain figures in the above segments for the year ended 31 March 2015 have been reclassified to reflect the new classification.

The table below sets forth the revenues and core operating income for the polyolefins and advanced polymers and MMA monomers and polymers sub segments for the nine months ended 31 December 2015 and 2016 (prepared in accordance with IFRS):

	Nine months ended 31 December			
	2015		2016	
(Millions of yen)	Revenues	Core Operating income(1)	Revenues	Core Operating income(1)
Polyolefins and Advanced Polymers	¥347,632	¥25,231	¥306,151	¥22,783
MMA Monomers and Polymers	237,411	14,791	208,316	28,354
Total	¥585,043	¥40,022	¥514,467	¥51,137

Note:

(1) Commencing the year ending 31 March 2017, the Group introduced the concept of "core operating income" for the purposes of reporting segment results. Core operating income is operating income excluding gains or losses incurred by non-recurring factors.

The key products and technologies of the Group's chemicals segment and their principal uses are as set out below:

Main business area	Products and services	Main uses
Polyolefins and advanced polymers		
Performance polymers	Thermoplastic elastomers, functional polyolefins, PVC(1) compounds	Automobiles, packaging materials, daily necessities, electronics, medical care
Polyethylene and polypropylene	High-density polyethylene, low-density polyethylene, polypropylene	Automobiles, daily necessities, packaging materials, electronics, medical care
Phenol and PC(2) chain	Phenol, bisphenol A, polycarbonate	Chemicals for industrial, automobiles, electronics, medical care
Sustainable resources	Bio-based engineering plastics, biodegradable plastics	Automobiles, electronics, daily necessities, industrials materials
MMA(3)/PMMA(4)	Methyl methacrylate monomers, acrylic resins	Automobiles, electronics, daily necessities, construction materials

Notes:

(1) Polyvinyl chloride

(2) Polycarbonate

(3) Methyl methacrylate monomer

(4) Polymethyl methacrylate

The Group's polyolefin products principally consists of derivative products from petrochemicals, including ethylene derivatives (in the form of various plastics) and propylene derivatives (including polypropylene. With respect to MMA monomers and polymers, the Group produces MMA, which is by far the most produced methacrylate monomer and which is used to manufacture PMMA (also commonly known as acrylic glass).

Production

The Group's polyolefin products, MMA monomers, and polymers primarily consist of derivative products from petrochemicals, and therefore the primary raw materials for such products are similar to those in relation to its petrochemical products (principally, isobutene (C-4) and ethylene).

Sales and distribution

The Group directly sells polyolefin products, MMA monomers, polymers, and certain other products to petrochemical, plastics and textile companies that neighbour the Group's plants. The Group also sells such products to other customers in and outside of Japan to which the products are distributed by ships and trucks.

Research and development

The Group continually strives to develop production technologies that strengthen the competitiveness of its products, reduce production costs and enhance the safety of its production plants. In addition, in the area of MMA monomer production, the Group holds three different types of manufacturing methods and was successful in industrialising production by using easily accessible general-purpose chemical products such as methanol and ethylene as a raw material. Also, the Group developed DURABIO®, a plant-derived polymer with high durability and heat resistance and features high transparency and optical properties using renewable plant-based isosorbide.

Health care domain

The Group's health care domain capitalizes on the Group's comprehensive capabilities and network and develops businesses for pharmaceuticals, diagnostic reagents and instruments, clinical testing support for new pharmaceutical development, active pharmaceutical ingredients and intermediates, pharmaceutical formulation materials such as capsules, pharmaceutical equipment and self-health check services. The Group is also expanding into new business areas dedicated to personalized medicine. The health care segment is further separated into the pharmaceuticals and diagnostics, clinical testing and active pharmaceutical ingredients and intermediates ("API") sub-segments.

Health care

The tables below set forth net sales and operating income for the pharmaceuticals and diagnostics, clinical testing and API sub segments for each of the three years ended 31 March 2016 (prepared in accordance with Japanese GAAP):

					Year ended 31 March	
	2014(1)		2015		2016	
(Millions of yen)	Net sales	Operating income	Net sales	Operating income	Net sales	Operating income
Pharmaceuticals	¥412,564	¥63,785	¥414,774	¥71,491	¥431,623	¥ 99,271
Diagnostics, Clinical Testing and active pharmaceutical ingredients and intermediates ("API")	110,492	3,515	117,159	5,521	122,433	4,146
Total	¥523,056	¥67,300	¥531,933	¥77,012	¥554,056	¥103,417

Note:

(1) Effective from the year ended 31 March 2015, the Company has reclassified some of its businesses (including one consolidated subsidiary) from the Health Care to the Designed Materials segment due to the establishment of Life Science Institute, Inc. as a consolidated subsidiary. Certain figures for the year ended 31 March 2014 have been reclassified to reflect the new classification.

The table below set forth revenues and core operating income for the pharmaceuticals and diagnostics, clinical testing and API sub segments for the nine months ended 31 December 2015 and 2016 (prepared in accordance with IFRS):

	Nine months ended 31 December			
	2015		2016	
(Millions of yen)	Revenues	Core Operating income(1)	Revenues	Core Operating income(1)
Pharmaceuticals	¥334,479	¥95,302	¥324,287	¥79,956
Diagnostics, Clinical Testing and API	90,996	4,250	90,611	2,027
Total	¥425,475	¥99,552	¥414,898	¥81,983

Note:

(1) Commencing the year ending 31 March 2017, the Group introduced the concept of "core operating income" for the purposes of reporting segment results. Core operating income is operating income excluding gains or losses incurred by non-recurring factors.

The key products and technologies of the Group's Health Care domain and their principal uses are as set out below:

Main business area	Products and services	Main uses
Pharmaceuticals	Treatment of autoimmune diseases, treatment of diabetes and kidney diseases, treatment of central nervous system diseases, vaccines	Medical care, health
Diagnostics, Clinical Testing and API		
Diagnostics and support for new pharmaceutical development	Diagnostic reagents and instruments, clinical testing, support for new pharmaceutical development	Medical care, health
Active pharmaceutical ingredients and intermediates	Active pharmaceutical ingredients and intermediates	Medical care, health
Pharmaceutical formulation materials	Gelatin capsules, HPMC(1) capsules, pharmaceutical equipment	Medical care, health
Healthcare solutions	Self-health check services	Health

Note:

(1) Hydroxypropyl methylcellulose

Pharmaceutical products generate a significant majority of the Group's Health Care domain's revenues and the Group has developed a number of pharmaceutical products which have been successfully commercialized. These include *Imusera* which is the world's first orally administered treatment for multiple sclerosis (and has been administered to more than 140,000 patients in over 80 countries) and *Remicade,* which is a treatment for autoimmune disease with potential efficacy in a variety of patients (and which now covers six indications). The Group also has the number one share in the world for HPMC capsules made of plant derived raw materials, after being the first in the world to successfully commercialize such products.

The Group's principal pharmaceutical products are as set forth below:

Name	Year of launch	Description	Net sales in the fiscal year ended 31 March 2016(1)
			(Billions of yen)
Remicade (Infliximab)	2002	Anti-TNFα monoclonal antibody	¥69.4
Talion (Bepotastine)	2000	Agent for treatment of allergic disorders	16.9
Ceredist (Taltirelin)	2000	Agent for treatment of spinocerebellar degeneration	14.2
Maintate (Bisoprolol)	1990	Selective ß1 antagonist (treatment of hypertension, angina pectoris, arrhythmias and chronic heart failure)	13.5
Simponi (Golimumab)	2011	Anti-TNFα monoclonal antibody	12.9
Kremezin	2011	Agent for treatment of chronic renal failure	9.3
Urso (Ursodeoxycholic Acid)	1962	Agent for improving hepatic, biliary and digestive functions	8.2

Note:

(1) After deduction of rebates

The Group also provides medical service providers with a diverse range of clinical testing services and diagnostic reagents and instruments. Based on its extensive experience as a provider of clinical testing services and diagnostic reagents and instruments, the Group also provide diagnostic solutions that respond to the diverse needs of medical institutions ranging from clinical testing services to the introduction of diagnosis support systems.

Research and development

Research and development is the cornerstone of the Group's Health Care business and is important to its long-term growth and profitability. The Group's research and development capabilities cover a wide range of disease areas, with a robust line up of principal pharmaceutical products and pipeline of promising product candidates (see above and below). The Group focuses on the discovery of pharmaceuticals being able to "be the first to deliver its own unique value" in four high priority areas: autoimmune diseases, diabetes and kidney diseases, nervous system diseases and vaccines. In addition, the Group actively engages in open shared business through the licensing-in of discovery seeds and the implementation of collaboration with other organizations, and continues to work for enhancing its pipeline by utilizing the optimal method for each candidate. Following drug price revisions implemented in April 2014 in Japan, successful research and development will only become increasingly important to the Group's Health Care domain's ability to generate stable revenue.

The Group also conduct research and development in connection with the Group's clinical testing and diagnostic reagents and instruments business. For example, the Group conducts research in identifying new biological markers in connection with the Group's diagnostic reagents business.

Research and development process

The process of developing pharmaceutical products for commercialization is extremely complex, costly and time-consuming. Although details vary from country to country, in general, identification of targets, and development of new pharmaceutical products takes 10 to 15 years. Only a small fraction of compounds which enter the expensive clinical trial phases result in commercially viable products.

Generally, the first two to three years of researching and developing a new drug are spent searching for compounds that may be suitable candidates for development. When a compound is found to be effective in treating a certain condition, animal testing is conducted to determine such efficacy in relation to the compound's toxicity. Only a very few compounds pass this first animal testing phase. For those that do pass this phase, an appropriate patent is typically filed to cover these compounds.

Generally, the next three to five years are spent continuing animal testing to make detailed determinations as to the compound's efficacy and toxicity, how it is metabolized in animal testing and other characteristics. Again, the proportion of compounds that pass this phase in relation to those that enter this phase is very low.

The next set of procedures generally takes three to seven years. For those compounds that pass the animal testing process, we then commence the clinical study process. We conduct clinical studies based on informed consent. This process is time-consuming and the cost of conducting clinical studies represents a large portion of our overall research and development expenses. The three phases of human clinical studies, which may overlap with each other, are:

Phase I clinical studies The drug candidate is tested on healthy human volunteers for safety, adverse effects, dosage, tolerance, absorption, distribution, metabolism, excretion and other elements of clinical pharmacology.

Phase II clinical studies Efficacy and safety are tested and evaluated on a limited number of patients to assess the efficacy of the compound for a specific indication, to determine dose tolerance and the optimal dose range as well as to gather additional information relating to safety and potential adverse effects.

Phase III clinical studies A large number of patients are treated with the drug candidate in order to demonstrate efficacy and safety in an expanded patient population at geographically-dispersed study sites in order to determine the overall risk benefit balance of the compound and to provide an adequate basis for product labelling.

Of these three phases, Phase III requires the largest expenditures and thus the decision to proceed with Phase III testing is a critical business decision in the drug development process.

Current pipeline status

The following table represents the clinical development stage of various compounds currently in the Group's research and development pipeline, in Japan and overseas. The countries in which clinical studies are conducted do not necessarily indicate the final target market for drugs the Group develops. The content of the Group's drug development portfolio will change over time as new compounds progress from discovery to development and from development to market, and as it discontinues testing of product candidates that do not prove to be promising or feasible to develop or market.

Development code (Generic name)	Category (Indications)	Region	Stage	Origin
Remicade (inflixmab)	Anti-human TNFα monoclonal antibody (Crohn's disease, increased dose)	Japan	NDA Filed (September 2016)	Licensed from Janssen Biotech (US)
Imusera/Gilenya (fingolimod)	S1P receptor functional antagonise (Chronic inflammatory demylelinating polyradiculoneuropathy)	Japan, US, Europe and others	Phase 3 (Global clinical trial)	Discovered in-house, co-developed with Novartis Pharma (Japan) in Japan, licensed to Novartis (Switzerland) overseas
MT-1303 (amiselimod)	S1P receptor functional antagonist (Multiple sclerosis)	Europe	Phase 2	In-house
	(Psoriasis)	Europe	Phase 2	
	(Crohn's disease)	Japan, Europe	Phase 2	
	(Inflammatory diseases, autoimmune diseases)	Japan, Europe, US	Phase 1	
MT-7117	Dermatologicals, etc. (Inflammatory diseases, autoimmune diseases, etc)	Europe	Phase 1	In-house
TA-7284 (canagliflozin)	SGLT2 inhibitor (Type 2 diabetes mellitus)	Taiwan	Filed (March 2015)	In-house
	(Diabetic nephropathy)	Japan, US, Europe and others	Phase 3 (Global clinical trial)	Discovered in-house; Sponsor: Janssen Research & Development (US)
	(Type 1 Diabetes Mellitus)	US, Canada	Phase 2	Discovered in-house; licensed to Janssen Pharmaceuticals (US)
	(Obesity/ co-administration with phentermine)	US	Phase 2	

Development code (Generic name)	Category (Indications)	Region	Stage	Origin
MP-513 (teneligliptin)	DPP-4 inhibitor (Type 2 diabetes mellitus)	Indonesia	Filed (April 2015)	In-house
		Europe	Phase 2	
		US	Phase 2	
MT-2412 (teneligliptin, canagliflozin)	Fixed-dose combination of DPP-4 inhibitor and SGLT2 inhibitor (Type 2 diabetes mellitus)	Japan	Filed (August 2016)	In-house
MT-3995	Selective mineralocorticoid receptor antagonist (Diabetic nephropathy)	Europe	Phase 2	In-house
		Japan	Phase 2	
		US	Phase 1	
MCI-186 (edaravone)	Free radical scavenger (Amyotrophic lateral sclerosis)	US	NDA Filed (June 2016)	In-house
MP-214 (cariprazine)	Dopamine D3/D2 receptor partial agonist (Schizophrenia)	Japan, Asia	Phase 2b/3	Hungary: Gedeon Richter (Hungary)
MT-210	5-HT2A/Sigma 2 receptor antagonist (Schizophrenia)	Europe	Phase 2	Licensed to Minerva Neurosciences (US)
Wf-516	Multiple mechanisms on several receptors (Depression)	Europe	Phase 2	Licensed to Minerva Neurosciences (US)
MP-124	Nervous system	US	Phase 1	In-house
MT-8554	Nervous system, etc.	Europe	Phase 1	In-house
MT-5199	Nervous system	Japan	Phase 1	Licensed from Neurocrine Biosciences (US)
MT-2301	Haemophilus influenza type b (Hib) vaccine (Prophylaxis of paediatric Hib infection)	Japan	Phase 2	Licensed from Nuron Biotech (US)
Influenza vaccine	Plant-based VLP vaccine (Prophylaxis of H5N1 influenza)	Canada	Phase 2	In-house
Influenza vaccine	Plant-based VLP vaccine (Prophylaxis of seasonal influenza)	USA, Canada	Phase 2	In-house
Influenza vaccine	Plant-based VLP vaccine (Prophylaxis of H7N9 influenza)	Canada	Phase 1	In-house
TAU-284 (bepotastine)	Selective histamine H1 receptor antagonist, anti-allergic agent (Pediatric allergic rhinitis, Pediatric atopic dermatitis)	China	Filed March 2016	Licensed from Ube Industries (Japan)

Development code (Generic name)	Category (Indications)	Region	Stage	Origin
MT-4580	Ca sensing receptor agonist (Secondary hyperparathyroidism in hemodialysis patients)	Japan	Phase 3	Licensed to Kyowa Hakko Kirin (Japan
Y-39983	ROCK (rho-kinase) inhibitor (Glaucoma)	Japan	Phase 2	Licensed to Senju Pharmaceutical (Japan)
MCC-847 (masilukast)	Leukotriene D4 receptor antagonist (Asthma)	Korea	Phase 2	Licensed to SAMA Pharma (Korea)
GB-1057 (recombinant human serum albumin)	Blood and blood forming organs	USA	Phase 1	In-house
MP-157	Cardiovascular system	Europe	Phase 1	In-house
MT-0814	Ophthalmologicals	Japan	Phase 1	In-house
sTU-199 (tenatoprazole)	Alimentary tract and metabolism	Europe	Phase 1	Licensed to Negma/Sidem (France)

Manufacturing

The Group manufactures most of its pharmaceutical products in its facilities in Japan. The Group also outsources a portion of the manufacturing of its pharmaceutical products, although the Group performs the final packaging and quality control. The Group's facilities and other facilities that manufacture the Group's products strictly adhere to "good manufacturing practice", which is a set of standards established by the Japanese government regarding organization and personnel, facilities and equipment and control of manufacturing methods to ensure that a product is consistently manufactured pursuant to a standard level of quality. All of these facilities satisfy the current standards corresponding to the applicable geographic region through measures such as validation and calibration, personnel training, sanitation and cleaning, high-level quality control and maintenance of facilities and equipment and good reporting systems.

Sales and marketing

The Group's marketing efforts for prescription pharmaceutical products in Japan are conducted through teams of sales representatives assigned to specific disease areas. Pharmaceutical companies in Japan employ sales representatives to provide medical institutions and individual doctors and pharmacists with product information on, and to promote proper use of, new and existing products of their respective manufacturers, encouraging those doctors and pharmacists to use our pharmaceutical products. The Group currently maintain a limited sales and marketing force overseas, and also licenses its products to overseas pharmaceutical companies and receive licensing fees.

Other businesses

The Group conducts a number of activities primarily to provide support for other businesses, including logistics, engineering, research, consulting and environment and application analyses. The principal business lines within this segment are logistics and engineering. The Group provides on-land and marine logistics for a wide range of industries. In addition, the Group offers engineering solutions, particularly within the chemical engineering field, ranging from consulting to design, procurement, construction, operation and maintenance.

Competition

Due to the breadth of its business activities and the wide range of business domains in which it operates, the Group competes with a wide range of businesses, ranging from multinational conglomerate corporations, manufacturers of electronic applications, diversified chemical manufacturers, speciality chemical

manufacturers, commodity chemical manufacturers, industrial gas companies, pharmaceutical companies and health care providers, in each case, both domestically and overseas. The Group believes, however, that in the aggregate it competes successfully and has a major position in many of the principal product lines in which it is engaged, although the strength of its position varies with products and geographic markets.

Property, plant and equipment

The functions, approximate land space and book values of the Group's principal facilities as at 31 March 2016 were as follows:

Name of facility (or name of subsidiary owning the facility)	Location	Main business segment	Description of property	Land space	Book value(1)
				(thousands of m²)	(Millions of yen)
Mitsubishi Chemical Holdings Corporation	Tokyo, Japan	All businesses	Other facilities	–	2,955
Mitsubishi Chemical Corporation	Fukuoka, Japan	Polymers	Manufacturing facility for polymers, functional chemistry and electronic information device	2,457	34,563
Mitsubishi Chemical Corporation	Mie, Japan	Designed Materials, Chemicals	Manufacturing facility for functional chemistry, carbon, and basic chemicals	2,137	36,238
Mitsubishi Chemical Corporation	Okayama, Japan	Chemicals	Manufacturing facility for basic chemicals	1,932	30,699
Mitsubishi Chemical Corporation	Ibaraki, Japan	Chemicals, Polymers	Manufacturing facility for polymers and basic chemicals	2,173	51,697
Mitsubishi Chemical Corporation	Kagawa, Japan	Chemicals	Manufacturing facility for carbon	1,707	32,941
Mitsubishi Chemical Corporation	Tokyo, Japan	All businesses	Other facility	1,325	39,192
Japan Polypropylene Corporation	Ibaraki, Japan	Polymers	Manufacturing facility for polypropylene	–	11,009
Japan Polyethylene Corporation	Ibaraki, Japan	Polymers	Manufacturing facility for polyethylene	–	11,664
Kansai Coke and Chemicals Co., Ltd.	Hyogo, Japan	Chemicals	Manufacturing facility for coke	1,078	24,313

Name of facility (or name of subsidiary owning the facility)	Location	Main business segment	Description of property	Land space	Book value(1)
				(thousands of m²)	(Millions of yen)
Taiyo Nippon Sanso Corporation	Osaka, Japan	Chemicals	Manufacturing facility for industrial gases	1,099	67,216
Sakai Gas Centre	Osaka, Japan	Chemicals	Manufacturing facility for industrial gases	–	16,584
Nippon Kasei Chemical Co., Ltd.	Fukushima, Japan	Designed Materials	Manufacturing facility for inorganic chemistry	493	10,590
The Nippon Synthetic Chemical Industry Co., Ltd.	Okayama, Japan	Designed Materials	Manufacturing facility for PVOH	787	38,316
Mitsubishi Plastics, Inc.	Shiga, Japan	Designed Materials	Manufacturing facility for synthetic resin products	1,038	71,150
Mitsubishi Rayon Co., Ltd.	Hiroshima, Japan	Designed Materials, Polymers	Manufacturing facility for chemical and resin products	2,527	94,238
Mitsubishi Tanabe Pharma Corporation	Osaka, Japan	Health Care	Manufacturing facility for medical products and research facility	963	45,219
Mitsubishi Tanabe Pharma Corporation	Yamaguchi, Japan	Health Care	Manufacturing facility for medical products	307	17,844
LSI Medience Corporation	Tokyo, Japan	Health Care	Clinical testing facility and manufacturing facility for diagnostic medicine	148	17,604
Mitsubishi Chemical Logistics Corporation	Tokyo, Japan	Other	Land and sea logistics business	177	9,514
Dia Rix Co., Ltd.	Tokyo, Japan	Other	Real estate leasing business	559	15,283
Matheson Tri-Gas, Inc.	U.S.A.	Chemicals	Manufacturing facility for industrial gases	945	157,521

Name of facility (or name of subsidiary owning the facility)	Location	Main business segment	Description of property	Land space	Book value(1)
				(thousands of m²)	(Millions of yen)
Mitsubishi Rayon Lucite Group	United Kingdom	Polymers	Manufacturing facility for MMA monomers	2,173	126,764
Nippon Gohsei U.K., Ltd., Noltex L.L.C.	United Kingdom, U.S.A.	Designed Materials	Manufacturing facility for EVOH	58	35,906
Quadrant AG	Switzerland	Designed Materials	Manufacturing facility for engineering plastics	692	15,841
MC Pet Film Indonesia, Mitsubishi Polyester Film GmbH, Mitsubishi Polyester Film, Inc., Mitsubishi Polyester Film Suzhou Co., Ltd.	Indonesia, Germany, U.S.A., Peoples Republic of China	Designed Materials	Manufacturing facility for polyester film	728	30,647

Note:

(1) Includes property, plant and equipment and intangible assets.

Intellectual property

As of 31 March 2016, the Group owned 13,176 registered Japanese patents and 9,352 registered foreign patents. Patent protection is particularly important with respect to pharmaceutical products in the Group's health care business. The Group also holds trademarks regarding the names of its various products, particularly in our performance and functional products business and health care business.

The Group has entered into a number of licensing and cross-licensing arrangements with other companies which are important for manufacturing its products and processes.

Insurance

The Group maintains a range of insurance policies which it believes are comparable to those of other companies with similar operations, covering the value, or portion of the value, of buildings, plant and machinery, stocks and goods-in-transit and other coverage. The Group also maintains coverage for business interruption with respect to its facilities in Japan and product liability with respect to its pharmaceutical products. Although these insurance policies generally cover losses related to the weather conditions, earthquakes, electrically or mechanically induced accidents, environmental contamination and certain other events, the maximum amount of coverage is generally lower compared to other more conventional losses such as losses from fires, lightening and explosions.

The Group does not maintain coverage for floods.

Government regulations

Regulation of the health care domain

Business Regulation

Manufacturers and sellers of pharmaceuticals, quasi-pharmaceuticals, medical equipments and cosmetics in Japan are subject to the supervision of the Ministry of Health, Labor and Welfare (the "MHLW"), primarily under the Act on Ensuring the Quality, Efficacy and Safety of Pharmaceutical Products and Medical Equipment, etc.("Pharmaceutical and Medical Device Act"). Part of the work performed under the authority of the Minister of Health, Labor and Welfare (the "Minister") is delegated to prefectural governors.

Under the Pharmaceutical and Medical Device Act, a person is required to obtain from the Minister a manufacturing and sales license (which is generally granted for a period of five years and is renewable), in order to conduct the business of selling, leasing or providing pharmaceuticals, quasi-pharmaceuticals, medical equipments or cosmetics, as the case may be, that are manufactured (or outsourced to a third party for manufacturing) or imported by such person. In order to conduct the business of manufacturing pharmaceuticals, quasi-pharmaceuticals or cosmetics, as the case may be, a person is also required to obtain from the Minister a manufacturing license (which is generally granted for a period of five years and is renewable) for each factory, which is classified in accordance with the ministerial ordinance of the MHLW. In addition, in order to manufacture (including through outsourcing of manufacturing to a third party), import and sell, lease or provide pharmaceuticals, quasi-pharmaceuticals, medical equipments or cosmetics, as the case may be, it is necessary under the Pharmaceutical and Medical Device Act to obtain product approval from the Minister for manufacturing and sales of each new kind of product (other than those specified by the Act or by the Minister). An application for approval must be accompanied by the data of results of clinical trials and other pertinent data. If the pharmaceuticals or medical equipments under application is of a type designated by ministerial ordinance of the MHLW, the accompanying data mentioned above must be obtained in compliance with the standards established by the Minister, such as the Good Laboratory Practices (GLPs) and the Good Clinical Practices (GCPs) stipulated by the ministerial ordinances of the MHLW. GLPs are the standards for non-clinical safety studies on pharmaceuticals or medical equipments which provide the standards for the organization and operation of testing institutions, as well as for buildings and facilities for testing. GCPs are the standards for clinical safety studies on pharmaceuticals or medical equipments for planning, implementation and supervision of clinical trials. An application for the approval must be made the Pharmaceuticals and Medical Devices Agency (PMDA), an incorporated administrative agency, which implements the approval review as set out above.

Any manufacturer or seller that obtained product approval for manufacturing and sale of a new kind of pharmaceutical product as described in the immediately preceding paragraph must have such pharmaceutical product re-examined by the Minister or PMDA after a period ranging from six to ten years (depending on the type of product) from date of the product approval if the pharmaceutical product is an innovative product designated by the Minister. In addition, pharmaceutical and medical equipment will be subject to re-evaluation by the Minister if the Minister so designates in consultation with Pharmaceutical Affairs and Food Sanitation Council (PAFSC) after the designated period.

Furthermore, under the Pharmaceutical and Medical Device Act, the Minister or a prefectural governor may take various measures to supervise manufacturers or sellers of pharmaceuticals, quasi-pharmaceuticals, medical equipments or cosmetics. For example, the Minister or a prefectural governor may require licensed manufacturers and sellers of pharmaceuticals, quasi-pharmaceuticals, medical equipment or cosmetics to submit reports, and carry out inspections at their factories or offices, if deemed necessary to monitor their compliance with the laws and regulations. The Minister has authority to order manufacturers or sellers to temporarily suspend the selling, leasing or providing of the pharmaceuticals, quasi-pharmaceuticals, medical equipments or cosmetics or take emergency measures in order to prevent risks, or increases in risks, to the public health. Also, the Minister may revoke a license or approval granted to a manufacturer or seller or order a temporary business suspension under certain limited circumstances such as violation of laws relating to pharmaceuticals.

Price regulation

In Japan, public medical insurance systems cover virtually the entire Japanese population. The public medical insurance system, however, is not applicable to any pharmaceutical product which is not listed on a National Health Insurance ("NHI") price list published by the Minister. To sell a pharmaceutical product in Japan, a manufacturer or a seller of pharmaceutical products must first have a new pharmaceutical product listed on the NHI price list for coverage under the public medical care insurance systems. Most prescription pharmaceutical products are used in medical services under the public medical insurance systems. The NHI price list provides rates for calculating the costs of pharmaceutical products used in medical services which may be charged to insurers, such as the national government, local government and health insurance societies, under the public medical insurance systems.

When a new pharmaceutical product is listed on the NHI price list, the price of the pharmaceutical product is determined either by daily price comparison of comparable pharmaceutical products with necessary adjustments for innovativeness, usefulness or size of the market, or, in the absence of comparable pharmaceutical products, by the cost calculation method, after consideration of the opinion of the manufacturer. Prices on the price list are subject to revision, generally once every two years, on the basis of the actual prices at which the pharmaceutical products are purchased by medical institutions.

Other domains

The Group's manufacturing operations use many chemicals and gases, and as such the Group is subject to a variety of governmental regulations relating to the use, storage, discharge and disposal of such chemicals and gases as well as other emissions and waste disposals from our manufacturing operations. Additionally, we are subject to a wide variety of laws, regulations and industry standards relating to energy and resource conservation, recycling, pollution prevention, environment, health and safety. The Group's operations in Japan are subject to environmental regulations under the Air Pollution Control Act, the Water Pollution Control Act, the Noise Regulation Act, the Vibration Regulation Act, the Waste Disposal and Public Cleansing Act, the Soil Contamination Control Act, the Act for Promotion of Effective Utilization of Resources, the Act Concerning the Promotion of the Measures to Cope with Global Warming and other laws. The Group is also subject to local regulations which in some cases impose requirements more stringent than the national requirements. The Group's manufacturing operations outside Japan are subject to and affected by a variety of applicable environmental and other laws and regulations relating to the discharge, treatment, storage, disposal, investigation and remediation of certain materials, substances and wastes.

Risk management

The Group defines risks as potential events that could, during the course of corporate activities, undermine public trust in or the corporate value of the Group. The Group identifies, evaluates and analyses risks and prevent materialization of significant risks and takes measures to minimize the personal, economic and social damage arising in case of materialization.

Under this basic approach to risk management, the Group has compiled the Group Risk Management Basic Rule, and has in place a risk management framework covering the whole Group. In line with the basic policy and procedures for risk management at the Group, major matters relating to risk management are discussed by the Management Committee. Decisions are made by the President, who is responsible for the entire Group's risk management. From time to time, reports on risk status are submitted to the Board of Directors, and decisions are made by the Board of Directors regarding particularly significant issues.

Process

Risks are identified, analysed and evaluated from three perspectives, and the Group take measures for each kind of risk:

Risks to be identified by individual departments: Identification of risks is undertaken each year at every company of the Group. It includes consideration of frequency and degree of impact from the personal, economic and public reputational perspectives. Risks revealed in this process are graded according to significance, and appropriate measures are taken by the management of the department responsible. The Internal Control Office serves as the risk management secretariat. The corporate executive officer in charge of the Internal Control Office assists the President, and deals with all kinds of risk management across the board. The Group takes measures to ensure that employees of the Group follow risk management rules and work to prevent risk materialization at all times in the operations for which they are themselves responsible. In the event of a major incident, they are encouraged to promptly submit reports to the department in charge of risk management through their superior.

Risks of current concern in social situation: The Group pre-assumes certain risks, such as political and social risks in each country and global warming, while keeping an eye on rapidly changing social trends. The Group takes a range of measures to prepare for materialization of such risks within the Group.

Risks pre-assumed by top management: With regard to the execution of business and duties under their management, the top management at the Company indicates the appropriate measures to be taken in their departments to deal with any risk that could have a major impact on Group operations, taking the two categories above into account.

Major risks facing the group

Through the risk management process, the Group has isolated the following categories of risk as warranting priority measures. After identification of such risks, the Group takes measures to avoid their incidence or to minimize the resulting damage if the risks materialize.

Compliance violations: In order to entrench compliance within the Group, the Company and its operating companies have compiled rules and standards, such as the Group Charter of Corporate Behavior, published a compliance guidebook, provided education, training and seminars on compliance, performed audits, and operated a compliance hotline. At overseas Group companies as well, the Group endeavors to strengthen compliance by compiling rules and codes of conduct in accordance with the laws, regulations and social norms of each country.

Accidents in the Group's facilities and injuries in the workplace: Each Group operating site endeavors to prevent facility-related accidents by ensuring the soundness of facilities and equipment and the proper operation through their appropriate maintenance as well as extensive education and training of their operators. If an accident occurs, the Group works to avoid recurrence by analyzing the cause, taking countermeasures, and verifying their effectiveness through inspections or maintenance patrols. Moreover, the Group works to prevent accidents by applying these countermeasures laterally to similar facilities and equipment or operations.

Information security breaches: The Group has formulated an Information Security Policy in order to protect its information systems and assets from internal and external threats, with the aim of maintaining and improving the corporate value. We have established the Information Security Committee according to this policy and charged it with reinforcing the management of information security at our business sites inside and outside Japan. The Group periodically conduct educational and training sessions for all employees including those overseas on our Information Security Policy to ensure employee awareness and compliance with the policy.

Overseas business development risks: As Group companies become more active overseas, the Group has created the Global Risk Map as a collection of publically available case studies of significant problems and legal violations that have occurred in each country, to prevent lapses in awareness of the serious risks related to the particular laws, regulations and systems of the country in which they do business. This is distributed to Group companies overseas. The Group aims to enhance the content of the publication by increasing the number of countries covered. In addition, the Group has established a communications system for local companies, the head offices of operating companies, and the Company to use in the event of disruption in the country, such as political turmoil.

Natural disasters: Learning lessons from the Great East Japan Earthquake in 2011, which damaged a number of the Group's business sites and facilities, the Group has made improvements to its business continuity plan (BCP). In the event that it is impossible to continue operations in Tokyo where the head office of the Company is located, the Group has made plans to transfer head office functions to a temporary backup site with the aim of minimizing damage and ensuring business continuity in a disaster situation. The Group is also examining ways to maintain the procurement of raw materials and the responsibilities for supply products by procuring from several suppliers as a part of business continuity planning.

Litigation

In October 2002, patients who allege they were treated with plasma-derived fibrinogen, a blood-clotting protein, and other blood products between the years 1980 and 1988 and were infected with Hepatitis C as a result, filed lawsuits against Mitsubishi Pharma Corporation, its consolidated subsidiary Benesis Corporation and the Japanese government. In 2008, Mitsubishi Pharma Corporation entered into an agreement with plaintiffs to resolve the cases. The Group continues to maintain reserves in connection with possible losses that may arise in the future from a settlement of lawsuits filed by plaintiffs infected by Hepatitis C, based on an estimated amount for payments related to such settlements based on estimates of the number of people

receiving relief and the amount of relief payments required under a law which stipulates that relief be provided to people who contracted Hepatitis C from specific fibrinogen products or specific coagulation factor IX products. As at 31 March 2016, the Group maintained a balance of ¥5,020 million as reserves in connection with any potential litigation.

In 1989, a number of plaintiffs filed suit against the government and Midori Juji Co., Ltd. (a predecessor of Mitsubishi Pharma Corporation) and three other companies, alleging infection from the HIV virus from the use of non-heat treated blood products manufactured and marketed by certain of the defendants, including Midori Juji. The Group continues to maintain reserves to provide for future payments of health management allowances and settlement payments (including attorney fees) in connection with lawsuits for damages filed by plaintiffs infected with HIV. As at 31 March 2016, the Group maintained a balance of ¥1,564 million as reserves in connection with any potential litigation.

The Company's consolidated subsidiary, Verbatim Corporation (US) was sued for trademark infringement in Brazil. In May 2007, a court in Manaus, in the Brazilian state of Amazonas, ruled in favor of the plaintiff and ordered Verbatim Corporation to pay 377 million Brazilian real (¥14,031 million at then prevailing exchange rates). Verbatim Corporation, believing that no trademark infringement took place, and dissatisfied with the fact that reasons for recognizing the plaintiff's monetary claim were not disclosed, immediately filed an appeal with Brazil's Supreme Court. In February 2008, the Supreme Court ruled in favor of Verbatim Corporation and returned the case to the Manaus court for retrial. In the following proceedings, the court ruled against Verbatim. However, dissatisfied with the ruling, Verbatim made a special appeal to Brazil's Supreme Court, requesting that the case be tried in that court. In June 2011, the Supreme Court dismissed the charges of trademark infringement filed against Verbatim, and overruled the lower court's order for Verbatim to pay the abovementioned damages. However, in April 2012 the plaintiff requested that the Supreme Court clarify its ruling, and the Company cannot deny the possibility that the plaintiff will oppose this ruling in the future.

Management and employees

As at 24 June 2015, the Company has adopted a "Company with a Nominating Committee, etc" corporate governance system under the Companies Act and related regulations which separate the functions of supervision and execution of business in order to enhance management transparency and openness, strengthen management oversight functions and improve management agility by accelerating the decision-making process. Under this system, management supervision will be undertaking by the Board of Directors and three committees (the Nominating Committee, the Audit Committee and the Compensation Committee), corporate executive officers make business decisions and are in charge of business execution.

The Board of Directors (i) determines (a) fundamental management policy, such as setting medium- to long-term business strategies and (b) other important matters related to the management of the Company and the Group, such as adoption of corporate governance policy, decision of annual budgets and dividends of surplus and important merger and acquisition, and (ii) supervises the execution of business by the corporate executive officers, who are responsible, in principle, for deciding on business execution based on the abovementioned fundamental management policy, with the exception of matters that must be legally resolved by the Board of Directors. The term of office of Directors expires at the conclusion of the Ordinary General Meeting of Shareholders held with respect to the last business year ending within one year after their election.

The Nominating Committee decides on (i) proposals to the General Meeting of Shareholders for the appointment and dismissal of directors of the Company and (ii) proposals to the Board of Directors of the Company for the appointment and dismissal of corporate executive officers of the Company. It also approves the selection and dismissal of presidents at the major unlisted subsidiaries directly owned by the Company (i.e. Mitsubishi Chemical Corporation, Mitsubishi Plastics, Inc., Mitsubishi Rayon Co., Ltd. and Life Science Institute, Inc.). To enhance transparency and fairness in the process of selecting executives, an outside director serves as the head of the Nominating Committee.

The Audit Committee audits the execution of duties by the corporate executive officers and directors and reviews the Group's internal control system. A meeting of the Audit Committee is held once every month. The Audit Committee consists of five members including three outside directors, and two members are appointed as full-time members.

The Compensation Committee determines the policy and the content of compensation, bonus and any other benefits (including equity-related rights or options given for the purpose of stock incentive options) to be received by each director and corporate executive officer of the Company. It also determines the individual amount of compensation for the presidents of the major unlisted subsidiaries directly owned by the Company (i.e. Mitsubishi Chemical Corporation, Mitsubishi Plastics, Inc., Mitsubishi Rayon Co., Ltd. and Life Science Institute, Inc.). An outside director serves as the head of the Compensation Committee to increase transparency and fairness in the decision-making process for executive remuneration.

Corporate executive officers, under the guidance of the President, are in charge of deciding on and executing the businesses of the Company entrusted by the Board of Directors. To increase efficiency, the scope of authority and areas of responsibility are defined for each corporate executive officer. However, to ensure appropriate decision-makings, important business decisions shall be approved by the President.

Important matters related to the management of the Company and the Group are discussed by the Management Committee and decided by the President to facilitate proper decision-making. The Management Committee is comprised of the President, corporate executive officers and the presidents of major subsidiaries directly owned by the Company. The Management Committee in general meets approximately twice each month.

The names and titles of the Directors of the Company as at the date of this Offering Circular are as follows:

Name	Title
Yoshimitsu Kobayashi	Member of the Board, Chairperson
Hiroaki Ishizuka	Member of the Board, Vice Chairperson
Takumi Ubagai	Member of the Board, Vice Chairperson
Hitoshi Ochi	Member of the Board
Masayuki Mitsuka	Member of the Board
Yujiro Ichihara	Member of the Board
Glenn H. Fredrickson	Member of the Board
Yoshihiro Umeha	Member of the Board
Hisao Urata	Member of the Board
Takeo Kikkawa	Outside Member of the Board
Taigi Ito	Outside Member of the Board
Kazuhiro Watanabe	Outside Member of the Board
Hideko Kunii	Outside Member of the Board
Takayuki Hashimoto	Outside Member of the Board

The names and titles of the Corporate Executive Officers of the Company as at the date of this Offering Circular are as follows:

Name	Title
Hitoshi Ochi	Representative Corporate Executive Officer, President and Chief Executive Officer
Noriyoshi Ohira	Representative Corporate Executive Officer, Senior Managing Corporate Executive Officer, Chief Compliance Officer
Kenkichi Kosakai	Representative Corporate Executive Officer, Senior Managing Corporate Executive Officer, Chief Financial Officer
Masanori Karatsu	Senior Managing Corporate Executive Officer
Shushichi Yoshimura	Managing Corporate Executive Officer
Glenn H. Fredrickson	Managing Corporate Executive Officer
Steve P. Yurich	Managing Corporate Executive Officer

The current business address of each of the Directors is 1-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-8251, Japan.

As at the date of this Offering Circular, there were no outstanding loans granted by the Company to the Directors nor any guarantees provided by the Company for their benefit.

The aggregate remuneration paid to the Company's Directors by the Company in their capacities as such was ¥254 million for the year ended 31 March 2016. The aggregate remuneration paid to the Company's Corporate Auditors in their capacities as such before the adoption of the "Company with a Nominating Committee, etc" corporate governance system by the Company was ¥28 million for the year ended 31 March 2016.

Under the Articles of Incorporation of the Company, the Company may, by resolution of the Board of Directors, exempt any of its Directors and Corporate Executive Officers from liability in connection with their failure to execute their duties in good faith and without gross negligence, to the extent permitted by laws and regulations. Further, under the Articles of Incorporation of the Company, the Company may enter into liability limitation contracts with any of its Directors (excluding Executive Directors, etc.) in order to limit the abovementioned liability to the minimum liability amount provided for by Article 425, Paragraph 1 of the Companies Act.

Employees

The total number of full-time employees of the Group was 68,531 as at 31 December 2016.

Stock options

The Company has a stock option plan (comprising the issue of stock acquisition rights) that provides Directors and Executive Officers of the Company and Mitsubishi Chemical Corporation with options to acquire Shares from the Company. The following table sets out a summary of the Company's stock option plans as of 31 December 2016:

Date of meeting of Board of Directors or Compensation Committee at which authorisation was given or decision by Representative Corporate Executive Officer	Exercise period	Exercise price per Share	Number of Shares to be acquired upon exercise of options outstanding as at 31 December 2016
28 June 2005(1)	28 June 2006 ~ 27 June 2026	¥1	1,371
27 November 2006	16 December 2006~15 December 2026	¥1	814
26 November 2007	13 December 2007~12 December 2027	¥1	794
	15 December 2007~14 December 2027	¥1	1,839
25 August 2008	11 September 2008~10 September 2028	¥1	525
	13 September 2008~12 September 2028	¥1	2,809
30 August 2010	15 September 2010~14 September 2030	¥1	894
	16 September 2010~15 September 2030	¥1	2,500
30 August 2011	15 September 2011~14 September 2031	¥1	960
	15 September 2011~14 September 2031	¥1	540
28 August 2012	13 September 2012~12 September 2032	¥1	430
	13 September 2012~12 September 2032	¥1	90
28 August 2014	13 September 2014~12 September 2034	¥1	320
	13 September 2014~12 September 2034	¥1	410
11 September 2015	29 September 2015~28 September 2035	¥1	630
	29 September 2015~28 September 2035	¥1	1,560
1 July 2016	20 July 2016~19 July 2036	¥1	1,560
	20 July 2016 ~ 19 July 2036	¥1	1,548

Note:

(1) The Company has succeeded the obligation pertaining to such stock acquisition rights issued by Mitsubishi Chemical Corporation to its directors and employees in June 2005 due to the stock transfer between Mitsubishi Chemical Corporation and Mitsubishi Pharma Corporation on 3 October 2005.

Subsidiaries and affiliates

As at 31 March 2016, the Company had 522 subsidiaries and 76 affiliates. The following table sets out some of the Company's major subsidiaries and affiliates as at 31 March 2016:

Name	Location	Major products or lines of business	Issued share capital as at 31 March 2016	Percentage of voting rights owned, directly or indirectly, by the Company
			(Yen unless otherwise specified)	(Per cent)
Major subsidiaries				
Direct Investees				
Mitsubishi Chemical Corporation(1)	Tokyo, Japan	Manufacture and marketing of chemical products	50.0 billion	100.0
Mitsubishi Tanabe Pharma Corporation	Osaka, Japan	Manufacture and marketing of pharmaceuticals	50.0 billion	56.3
Mitsubishi Plastics, Inc.(1)	Tokyo, Japan	Manufacture and marketing of polymer processing products	21.5 billion	100.0
Mitsubishi Rayon Co., Ltd.(1)	Tokyo, Japan	Manufacture and marketing of chemical products	53.2 billion	100.0
Life Science Institute, Inc.	Tokyo, Japan	Management of the healthcare solutions business	3.0 billion	100.0
Taiyo Nippon Sanso Corporation	Tokyo, Japan	Manufacture and marketing of industrial gases	37.3 billion	50.5 (14.0)(2)
The KAITEKI Institute, Inc.	Tokyo, Japan	Research and investigation into future societal trends	10 million	100.0

Notes:

(1) As described in the section "Business – Strategy", the Group has decided to integrate Mitsubishi Chemical Corporation, Mitsubishi Plastics, Inc. and Mitsubishi Rayon Co., Ltd. through a merger, with Mitsubishi Rayon Co., Ltd. as the merging company, effective 1 April 2017.

(2) Figures in parentheses denotes indirect holdings.

Name	Location	Major products or lines of business	Issued share capital as at 31 March 2016	Percentage of voting rights owned, directly or indirectly, by the Company
			(Yen unless otherwise specified)	(Per cent)
Indirect Investees				
Electronics Applications Segment				
Verbatim Limited	United Kingdom	Marketing of recording media and computer peripheral equipment	€ 3 million	100.0
Designed Materials Segment				
The Nippon Synthetic Chemical Industry Co., Ltd.	Osaka, Japan	Manufacture and marketing of polymer processing products	17.9 billion	50.9(1)
Quadrant AG	Switzerland	Management of subsidiaries that engage in the engineering plastic business	CHF27 million	100.0
Chemicals Segment				
Kansai Coke and Chemicals Co., Ltd.	Hyogo, Japan	Manufacture and marketing of coke	6.0 billion	51.0
Matheson Tri-Gas, Inc.	U.S.A.	Manufacture and marketing of industrial gases	US$ 42	100.0
Polymers Segment				
Japan Polypropylene Corporation	Tokyo, Japan	Manufacture and marketing of polypropylene	11.7 billion	65.0
Japan Polyethylene Corporation	Tokyo, Japan	Manufacture and marketing of polyethylene	7.5 billion	58.0
Mitsubishi Rayon Lucite Group Limited	United Kingdom	Management of subsidiaries that engage in the MMA business	£ 246 million	100.0
Health Care Segment				
API Corporation	Tokyo, Japan	Manufacture and marketing of active pharmaceutical ingredients and intermediates	4.0 billion	100.0

Name	Location	Major products or lines of business	Issued share capital as at 31 March 2016	Percentage of voting rights owned, directly or indirectly, by the Company
			(Yen unless otherwise specified)	(Per cent)
LSI Medience Corporation	Tokyo, Japan	Clinical testing and medical support services; marketing of in vitro diagnostic agents	3.0 billion	100.0
Qualicaps Co., Ltd.	Nara, Japan	Manufacture and marketing of capsules for pharmaceuticals and health food, and pharmaceutical processing equipment	2.8 billion	100.0
Others				
Mitsubishi Chemical Logistics Corporation	Tokyo, Japan	Logistics and warehouse services	1.5 billion	100.0
Mitsubishi Chemical Engineering Corporation	Tokyo, Japan	Engineering and construction services	1.4 billion	100.0

Note:

(1) Became a wholly-owned subsidiary of the Company in 2016.

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 in effect as of the date of this Offering Circular.

General

All issued Shares are fully paid and non-assessable, and are in registered form.

The shares of all Japanese companies listed on any Japanese stock exchange, including the Shares, are subject to the central clearing system for shares of Japanese listed companies under the Book-Entry Act. 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 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 management institution unless such person has an account at JASDEC. "Account management 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 under the rules of JASDEC ("JASDEC rules") 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 management institution. The holder of an account at an account management 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 shareholder must have his or her name and address registered in the Company's register of shareholders, except in limited circumstances. Under the 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, generally through the account management institution and JASDEC. See "— Record Date" below for more information.

Non-resident shareholders are also required to appoint a standing proxy in Japan or provide a mailing address in Japan and to file their standing proxy or a mailing address with the Company, generally through the account management institution and 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, located at 4-5, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-8212, Japan.

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" ("Surplus" is defined in "—Restriction on 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".

Distributions of Surplus are required in principle to be authorised by a resolution of a general meeting of shareholders, but in accordance with the provisions of its Articles of Incorporation, the Company may authorise distributions of Surplus by a resolution of the Board of Directors as long as (a) its 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 (b) if the distributions of Surplus are made in kind, shareholders are granted a right to require the Company to make such distributions in cash instead of in kind, upon approval of a resolution of the Board of Directors.

Under the Company's Articles of Incorporation, a year-end dividend and interim dividend may be distributed to shareholders of record as of 31 March and 30 September of each year, respectively, pursuant to a resolution of the Board of Directors. The Company is not obliged to pay any dividends unclaimed for a period of three years after the date on which they first became payable in cash.

Distributions of Surplus may be made in cash or in kind in proportion to the number of Shares held by each shareholder. A resolution of the Board of Directors or (as the case may be) 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 or (as the case may be) a general meeting of shareholders, grant a right to its shareholders to require the Company to make such distributions 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 additional paid-in capital and legal reserve reaches one-quarter of its stated capital, set aside in its additional paid-in capital and/or legal reserve an amount equal to one-tenth of the amount of Surplus so distributed in accordance with the Companies Act and 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 stated capital after the end of the last fiscal year) the amount of such reduction less the portion thereof that has been transferred to additional paid-in capital or legal reserve (if any);

"D" = (if the Company has reduced its additional paid-in capital or legal reserve after the end of the last fiscal year) the amount of such reduction less the portion thereof that has been transferred to stated capital (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 stated capital, additional paid-in capital or legal reserve 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 additional paid-in capital or legal reserve (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 distribution;

(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 stated capital, additional paid-in capital and legal reserve, 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.

If 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*), it will be 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 interim financial statements (*rinji keisan shorui*) as described below, and if such interim 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 interim financial statements have been prepared. The Company may prepare non-consolidated interim 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. Interim financial statements prepared by the Company must be audited by the Audit Committee and independent auditors, 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 stated capital, although the Company may account for an amount not exceeding one-half of the amount of such subscription money or other assets as additional paid-in capital by a resolution of the Board of Directors.

The Company may reduce its additional paid-in capital or legal reserve 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 stated capital. On the other hand, the Company may reduce its stated capital 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 additional paid-in capital. In addition, the Company may reduce its Surplus and increase either (i) its stated capital or (ii) additional paid-in capital and/ or legal reserve 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 the determination of the Corporate Executive Officer (upon delegation by the 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 the record date therefor, not less than two weeks prior to such record date. Under the JASDEC rules, the Company must also inform JASDEC of certain matters regarding a stock split promptly after a determination of 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 management institutions or JASDEC will be increased in accordance with the applicable ratio.

Consolidation of shares

The Company may at any time consolidate issued shares into a smaller number of shares by a special resolution of a general meeting of shareholders. The Company is required to explain the reason why such consolidation of shares is necessary at such general meeting of shareholders. Where a consolidation of shares is to be made, the Company must give public notice or notice to each shareholder at least two weeks prior to the effective date of the consolidation of shares, and prepare and display documents describing certain matters for the perusal of shareholders. Shareholders who dissent have the right to request the Company to purchase their shares at fair value. Under the JASDEC rules, the Company must also inform JASDEC of certain matters regarding a consolidation of shares at least two weeks prior to the effective date of the consolidation of shares. On the effective date of the consolidation of shares, the numbers of Shares recorded in all accounts held by holders of Shares at account management institutions or JASDEC will be decreased in accordance with the applicable ratio.

Unit share system

The Company's Articles of Incorporation provide that 100 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, in principle. The number of Shares constituting a unit may not exceed the lesser of 1,000 and one-two hundredth of the total number of issued 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. Holders of Shares constituting less than one unit have no shareholder rights other than certain rights specified in the Companies Act, an ordinance of the Ministry of Justice or the Company's Articles of Incorporation, including the right to receive distribution of Surplus.

Holders of Shares constituting less than one unit may at any time request the Company to purchase Shares held by them. Pursuant to the Company's Articles of Incorporation and Share Handling Regulations, any such holder may also request the Company to sell to such holder Shares constituting less than one unit which, when added to the Shares held by such holder, shall constitute one full unit. Such purchase or sale of Shares will be effected, in general, 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 or sale may not be withdrawn without the Company's consent.

General meetings of shareholders

In accordance with the Company's Articles of Incorporation, the ordinary general meeting of shareholders of the Company is held in June each year. 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. Such notice may be given to shareholders by electronic means, subject to the consent of the relevant shareholders. The record date for an ordinary general meeting of shareholders is 31 March of each year.

Any shareholder holding at least 300 voting rights or 1 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 Corporate Executive Officer 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, one-quarter or more of the total voting rights of which 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 holder 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 Corporate Auditors 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) exemption from a portion of liability of the Directors, Corporate Executive Officers or independent auditors of the Company;

(vi) 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;

(vii) reduction of stated capital;

(viii) amendment to the Company's Articles of Incorporation;

(ix) transfer of the whole or a substantial part of the Company's business;

(x) transfer of the whole or a part of the Company's equity interests in any of the Company's significant subsidiaries whereby the Company will not hold more than half of the total voting rights of such subsidiaries;

(xi) taking over of the whole of the business of another company;

(xii) merger;

(xiii) corporate split;

(xiv) establishment of a parent and wholly-owned subsidiary relationship by way of a share exchange (*kabushiki-kokan*);

(xv) establishment of a parent and wholly-owned subsidiary relationship by way of a share transfer (*kabushiki-iten*);

(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 (vii) to (xiv) above, and such matter may be decided by the Corporate Executive Officer or (as the case may be) the Board of Directors, if it satisfies certain criteria prescribed by the Companies Act.

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 Corporate Executive Officer (upon delegation by its Board of Directors) determines, subject to the limitations as to the issuance of new Shares at a "specially favourable" price mentioned in "—Voting Rights". In the case of an issuance or transfer of shares or stock acquisition rights whereby any subscriber will hold more than 50 per cent of the voting rights of all shareholders, the Company shall give public notice at least two weeks prior to the payment date for such issuance or transfer stating the detail of such subscriber and certain other prescribed matters. If shareholders who hold one-tenth or more of the voting rights of all shareholders object to such issuance or transfer of shares or stock acquisition rights, the approval by a resolution of a general meeting of shareholders with a quorum of one-third of total voting rights is required in principle before the payment date. In addition, in the case of an issuance of shares (including a transfer of treasury shares) of the Company or its stock acquisition rights by way of an allotment to a third-party which would dilute the outstanding voting shares by 25 per cent or more or result in a change in controlling shareholder, in addition to a determination of the Corporate Executive Officer (upon delegation by the Board of Directors), the approval of the shareholders or opinion from a person independent of the management is required in principle pursuant to the rules of the Tokyo Stock Exchange. The Corporate Executive Officer 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 Corporate Executive Officer (upon delegation by its Board of Directors) unless it is made under "specially favourable" conditions, as described in "– voting Rights".

Record date

As mentioned above, 31 March and 30 September are the record dates for the payment of year-end dividends and interim dividends, respectively. 31 March is also the record date for the determination of shareholders entitled to vote at the ordinary general meeting of shareholders.

In addition, 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 JASDEC rules, the Company is required to give notice of each record date to JASDEC promptly after the determination 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 determination of the Corporate Executive Officer (upon delegation by 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) and (y) if the Shares are subject to a tender offer on the day immediately preceding the date on which the resolution mentioned in (ii) above was adopted, the tender offer price 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 determination of the Corporate Executive Officer (upon delegation by the Board of Directors).

Request by controlling shareholder to sell all shares

A shareholder holding, directly or indirectly, 90 per cent (or such other percentage above 90 per cent as may be provided in the Company's Articles of Incorporation) or more of the Company's voting rights (the "Controlling Shareholder") has the right to request, subject to approval by the Company's Board of Directors, that the other shareholders and (if the Controlling Shareholder so determines) all holders of stock acquisition rights of the Company (in each case other than the Company and, if the Controlling Shareholder so determines, the Controlling Shareholder's wholly-owned subsidiaries) sell to the Controlling Shareholder all shares and all stock acquisition rights, as the case may be, held by them (*kabushiki tou uriwatashi seikyu*). If the Controlling Shareholder requests to sell stock acquisition rights incorporated in bonds with stock acquisition rights, the Controlling Shareholder, shall, in general, request to sell the bonds, concurrently with the stock acquisition rights. If the approval is granted by resolution of the Company's Board of Directors, the Company will be required to give public notice thereof to all holders and registered pledgees of shares (and stock acquisition rights, as the case may be) not later than 20 days prior to the effective date of such sales, as proposed by the Controlling Shareholder.

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 issued voting shares (excluding treasury stock) amounting to more than 5 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. Any report so filed will be made available for public inspection. Reports are required to be filed through the Electronic Disclosure for Investors' Network, known as the EDINET system.

Taxation

Japanese taxation

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, 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 and interpreted by the Japanese taxation authorities 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, 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 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 from another individual as legatee, heir or done 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 Japanese companies to a non-resident Holder is generally 20 per cent under Japanese law. However, with respect to dividends paid on shares listed on stock exchanges (such as Shares) to any non-resident Holders, except for any individual shareholder who holds 3 per cent or more of the total issued Shares, the said 20 per cent withholding tax rate is reduced to 15 per cent. A special reconstruction surtax (2.1 per cent of the original applicable tax rate) is added to the original withholding tax rate from and including 1 January 2013 to and including 31 December 2037, so that the original withholding tax rate of 20 per cent and 15 per cent, as applicable, is effectively increased, respectively, to 20.42 per cent and 15.315 per cent during that period. The withholding tax under Japanese tax law mentioned above may be exempted or reduced under an applicable tax treaty between Japan and the country of tax residence of a non-resident Holder.

Gains derived from the sale of Shares by a non-resident Holder thereof, who is a portfolio investor, 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 from another individual as legatee, heir or done even if the individual is not a Japanese resident.

U.S. foreign account tax compliance withholding

Pursuant to the foreign account tax compliance provisions of the Hiring Incentives to Restore Employment Act of 2010, the Company and other non-U.S. financial institutions through which payments on the Bonds are made may be required to withhold U.S. tax at a rate of 30 per cent on all, or a portion of, payments made after

31 December 2018 in respect of (i) any Bonds issued or materially modified on or after the date that is six months after the date on which the final regulations applicable to "foreign passthru payments" are filed in the Federal Register and (ii) any Bonds which are treated as equity for U.S. federal tax purposes, whenever issued. Under existing guidance, this withholding tax may be triggered on payments on the Bonds if (i) the Company is a foreign financial institution ("FFI") (as defined in FATCA) which (a) enters into and complies with an agreement (an "FFI Agreement") with the IRS to provide certain information on its account holders (making the Company a "Participating FFI") or (b) complies with the provisions of the intergovernmental agreement between the United States and Japan regarding the implementation of FATCA to be treated as a "Reporting Japanese Financial Institution", (ii) the Company is required to withhold on "foreign passthru payments", and (iii)(a) an investor does not provide information sufficient for the relevant Participating FFI to determine whether the investor is subject to withholding under FATCA, or (b) any FFI to or through which payment on such Bonds is made is not a Participating FFI or otherwise exempt from FATCA withholding.

Whilst the Bonds are in global form and held by Euroclear and Clearstream, Luxembourg, it is expected that FATCA will not affect the amount of any payments made under, or in respect of, the Bonds by the Company, any paying agent and the common depositary, given that each of the entities in the payment chain beginning between the Company and the participants in Euroclear and Clearstream, Luxembourg is a major financial institution whose business is dependent on compliance with FATCA and that any alternative approach introduced under an intergovernmental agreement will be unlikely to affect the Bonds. It is possible that the Bonds may be exchanged into definitive form and therefore that they may be taken out of Euroclear and Clearstream, Luxembourg. If this were to happen, then a non-FATCA compliant holder could be subject to withholding. However, definitive Bonds will only be printed in remote circumstances.

The proposed financial transactions tax ("FTT")

On 14 February 2013, 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"). However, Estonia has since stated that it will not participate.

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 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 1 January 2016.

However, the FTT proposal remains subject to negotiation between 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

Pursuant to a subscription agreement dated 14 March 2017 in respect of the Bonds (the "Subscription Agreement") among the Company, J.P. Morgan Securities plc, Morgan Stanley & Co. International plc and Goldman Sachs International (together, the "Joint Lead Managers"), the Joint Lead Managers have agreed with the Company, subject to the satisfaction of certain conditions, severally but not jointly, to purchase the percentages of the aggregate principal amount of the Bonds as indicated in the table below at the issue price of (i) 100.5 per cent of the principal amount of the 2022 Bonds and (ii) 100.5 per cent of the principal amount of the 2024 Bonds (collectively the "Issue Prices"), and to offer the Bonds at the Offer Prices as stated on the cover page of this Offering Circular (the "Offer Prices").

	Percentage of the Principal Amount of the 2022 Bonds	Percentage of the Principal Amount of the 2024 Bonds
Joint Lead Managers		
J.P. Morgan Securities plc	60%	60%
Morgan Stanley & Co. International plc	35%	35%
Goldman Sachs International	5%	5%
Total	100%	100%

No selling concession or combined management and underwriting commission will be payable by the Company in respect to the offering of the Bonds. The difference between the Offer Price and the Issue Price will be distributed among the Joint Lead Managers in the manner agreed by them.

The Company has agreed to pay certain costs in connection with the issue and offering of the Bonds. 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 to the Company as set out therein. The Company has agreed to indemnify the Joint Lead Managers against certain liabilities in connection with the issue and offering of the Bonds.

Lock up

During the period commencing on the date of the Subscription Agreement and ending 180 days after the Closing Date (both dates inclusive) the Issuer has agreed not to, and has agreed to procure that none of its subsidiaries will, without the prior written consent of J.P. Morgan Securities plc and Morgan Stanley & Co. International plc (i) directly or indirectly, issue, offer, pledge, lend, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase or otherwise transfer or dispose of, directly or indirectly, any Share or any other capital stock of the Issuer or any security that constitutes the right to receive Shares or any other capital stock of the Issuer or any securities convertible into or exercisable or exchangeable for Shares or any other capital stock of the Issuer, or (ii) enter into any swap or any other agreement or any transaction that transfers, in whole or in part, directly or indirectly, the economic consequence of ownership of Shares, or (iii) enter into any transaction with the same economic effect as, or which is designed to, or which may reasonably be expected to result in, or agree to do, any of the foregoing, whether any such swap or transaction described in clauses (i), (ii) or (iii) above is to be settled by delivery of Shares or such other securities, in cash or otherwise, or (iv) announce or otherwise make public an intention to do any of the foregoing. The foregoing shall not apply to: (a) the issue and sale by the Issuer of the Bonds or the issue or transfer of Shares upon exercise of the Stock Acquisition Rights, (b) the grant and issue of stock options or Stock Acquisition Rights exercisable for Shares to its and its subsidiaries' directors or employees pursuant to the Issuer's stock option plans (and the issue or transfer of Shares pursuant thereto), (c) the sale of Shares by the Issuer to any holder of Shares constituting less than one unit for the purpose of making such holder's holding, when added to the Shares held by such holder, constitute one full unit of Shares, (d) the issue of Shares by the Issuer as a result of any stock split, (e) the issue or transfer of Shares in connection with corporate reorganizations including a merger, share exchange (*kabushiki-koukan*), share transfer (*kabushiki-iten*) and corporate split; and (f) any other issue or sale of Shares required by applicable Japanese laws.

Selling restrictions

General

No action has been or will be taken in any jurisdiction that would permit a public offering of the Bonds or the Shares, or the possession, circulation or distribution of this Offering Circular or any other material relating to the Company, the Bonds or the Shares in any jurisdiction where action for such purpose is required. Accordingly, neither the Bonds nor any Shares may be offered or sold, directly or indirectly, and neither this Offering Circular nor any other offering material or advertisement in connection with the Bonds or the Shares may be distributed or published, in or from any country or jurisdiction, except in compliance with all applicable rules and regulations of any such country or jurisdiction.

Neither the Company nor the Joint Lead Managers represent that the Bonds or the Shares 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.

United States

Neither the Bonds nor the Shares 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 or sold and will not offer or sell the Bonds or the Shares (i) as part of their 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, and only 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 during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Bonds or the Shares 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 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.

United Kingdom

Each Joint Lead Manager has represented, warranted and agreed that:

(a) it has only communicated or caused to be communicated and 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 Financial Services and Markets Act 2000 (the "FSMA")) received by it in connection with the issue or sale of the Bonds or the (the "Securities") 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 Securities in, from or otherwise involving the United Kingdom.

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 was 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 as implemented in the Relevant Member State;

(b) to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive), subject to obtaining the prior consent of the Joint Lead Managers for any such offer; 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, 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.

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.

Singapore

Each Joint Lead Manager has acknowledged that this Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Joint Lead Manager has represented and agreed that it has not offered or sold any Bonds or caused such Bonds to be made the subject of an invitation for subscription or purchase and will not offer or sell the Bonds or cause the Bonds to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, 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, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the "SFA"), (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), 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 subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(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 of the trust is an individual who is an accredited investor,

securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred 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 or to a relevant person defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;

(2) where no consideration is or will be 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 and agreed that:

(i) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Bonds other than (a) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance; or (b) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and

(ii) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Bonds, 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 securities laws of Hong Kong) other than with respect to Bonds which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the Securities and Futures Ordinance and any rules made under that Ordinance.

Switzerland

This Offering Circular is not intended to constitute an offer or solicitation to purchase or invest in the Bonds described herein. The Bonds may not be publicly offered, sold or advertised, directly or indirectly, in, into or from Switzerland and will not be listed on the SIX Swiss Exchange or on any other exchange or regulated trading facility in Switzerland. Neither this Offering Circular nor any other offering or marketing material relating to the Bonds constitutes a prospectus as such term is understood pursuant to Article 652a or Article 1156 of the Swiss Code of Obligations or a listing prospectus within the meaning of the listing rules of the SIX Swiss Exchange or any other regulated trading facility in Switzerland or a simplified prospectus or a prospectus as such term is defined in the Swiss Collective Investment Scheme Act, and neither this Offering Circular nor any other offering or marketing material relating to the Bonds may be publicly distributed or otherwise made publicly available in Switzerland.

Neither this Offering Circular nor any other offering or marketing material relating to the offering, nor the Company nor the Bonds have been or will be filed with or approved by any Swiss regulatory authority. The Bonds are not subject to the supervision by any Swiss regulatory authority, for example, the Swiss Financial Market Supervisory Authority (FINMA), and investors in the Bonds will not benefit from protection or supervision by such authority.

Other relationships

In connection with the offering, any Joint Lead Manager may for its own account act as investor or enter into asset swaps, credit derivatives or other derivatives relating to the Bonds and/or components of the Bonds and/or the Shares at the same time as the offer and sale of the Bonds or in secondary market transactions, including facilitating short sales of the Shares by investors who are allocated Bonds. Such transactions would be carried out as bilateral trades with selected counterparties and separately from any existing sale or resale of Bonds to which this Offering Circular relates (notwithstanding that such selected counterparties may also be purchasers of 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.

The Joint Lead Managers or their respective 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. Interests may evolve out of these transactions that could potentially conflict with the interests of investors.

The Joint Lead Managers and their respective affiliates may also make investment recommendations and/or publish or express independent research views with respect to such securities or financial instruments and may hold, or recommend to clients that they acquire long and/or short positions in such securities and instruments.

The Joint Lead Managers or certain of their respective affiliates may purchase the Bonds and be allocated the Bonds for asset management and/or proprietary purposes but not with a view to distribution.

General information

(1) The Company has obtained all necessary consents, approvals and authorisations in Japan in connection with the issue and performance of the Bonds. The issue of the Bonds was authorised by resolutions of the Board of Directors of the Company dated 24 June 2015 and a determination by the Representative Corporate Executive Officer, President and Chief Executive Officer of the Company dated 14 March 2017.

(2) The Bonds have been accepted for clearance through Euroclear and through Clearstream, Luxembourg. The International Securities Identification Number (ISIN) is XS1580537642 in respect of the 2022 Bonds and XS1580542139 in respect of the 2024 Bonds and the Common Code is 158053764 in respect of the 2022 Bonds and 158054213 in respect of the 2024 Bonds.

(3) The Securities Identification Code for the Shares is 4188.

(4) Approval in-principle has been received for the listing of the Bonds of each Series on the SGX-ST. For so long as the Bonds of each Series are listed on the SGX-ST and the rules of the SGX-ST so require, in the event that the Global Certificate for such Series is exchanged for definitive Certificates, the Company will appoint and maintain a paying agent in Singapore, where the definitive Certificates in respect of such Series may be presented or surrendered for payment or redemption. In addition, in the event that the Global Certificate for a Series is exchanged for definitive Certificates, an announcement of such exchange will 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. The Bonds of each Series 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 any of the Bonds for that Series are listed on the SGX-ST and the rules of the SGX-ST so require.

(5) There has been no significant change in the financial or trading position of the Group and no material adverse change in the financial position or prospects of the Group since 31 December 2016.

(6) There are no, nor have there been any, governmental, legal, arbitral, administrative or other proceedings involving the Company or any other member of the Group which may have, or have had during the 12 months immediately preceding the date of this Offering Circular, a material effect on the financial position or the profitability of the Company or the Group and, so far as the Company is aware, there are no such proceedings pending or threatened.

(7) Copies of the latest annual report in English (including the audited consolidated financial statements of the Company), and English summary translations of the latest unaudited consolidated interim financial results announcement of the Company (*kessan tanshin*) published subsequently to such annual report, 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 of each Series, the Conditions of each Series do not provide for participating rights in the event of a takeover of the Company.

(9) The consolidated financial statements of the Company as at and for each of the years ended 31 March 2014, 2015 and 2016, included in this Offering Circular, have been audited by Ernst & Young ShinNihon LLC, an independent auditor, as stated in their reports appearing herein.

(10) The unaudited quarterly condensed consolidated financial statements of the Company as at and for the nine-month period ended 31 December 2015 and 2016, included in this Offering Circular, have been reviewed by Ernst & Young ShinNihon LLC, an independent auditor, as stated in its quarterly review report appearing herein.

(11) The Trustee is entitled under the Trust Deed to rely on certificates, reports or advice addressed and/or delivered to it, or any other expert, whether or not the same are subject to any limitation on the liability and whether by reference to a monetary cap or otherwise.

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Independent auditor's report

The Board of Directors
Mitsubishi Chemical Holdings Corporation

We have audited the accompanying consolidated financial statements of Mitsubishi Chemical Holdings Corporation and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2016 and 2015, and the consolidated statements of income, comprehensive income, changes in net assets, and 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 designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the 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 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. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Mitsubishi Chemical Holdings Corporation and its consolidated subsidiaries as at March 31, 2016 and 2015, and their consolidated financial performance and cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

/s/ Ernst & Young ShinNihon LLC
June 24, 2016
Tokyo, Japan

Consolidated balance sheets
Mitsubishi Chemical Holdings Corporation and consolidated subsidiaries

As of March 31

Millions of yen	2016	2015
Assets		
Current assets:		
Cash and deposits (Notes 8,10)	¥ 314,782	¥ 236,186
Trade receivables (Note 8)	703,996	759,850
Securities (Notes 8,9)	123,500	127,805
Inventories:		
Finished goods	294,332	330,029
Work in process	76,046	83,603
Raw materials and supplies	176,922	180,821
Land held for sale	526	1,052
Deferred income taxes—current (Note 14)	32,339	36,482
Prepaid expenses and other current assets	99,091	106,119
Allowance for doubtful accounts	(4,032)	(4,698)
Total current assets	1,817,502	1,857,249
Property, plant and equipment:		
Land	304,888	308,995
Buildings	1,067,788	1,087,046
Machinery and equipment	3,259,981	3,271,982
Construction in progress	88,551	101,649
	4,721,208	4,769,672
Accumulated depreciation	(3,330,481)	(3,271,526)
Property, plant and equipment, net	1,390,727	1,498,146
Investments and other assets:		
Investment securities (Notes 8,9)	266,926	355,743
Long-term loans receivable	5,084	2,983
Deferred income taxes—noncurrent (Note 14)	62,211	62,804
Net defined benefit assets (Note 12)	17,811	31,494
Goodwill	248,164	243,797
Other	254,538	272,290
Allowance for doubtful accounts	(1,391)	(1,468)
Total investments and other assets	853,343	967,643
Total assets	¥ 4,061,572	¥ 4,323,038

The accompanying notes are an integral part of these consolidated financial statements.

Millions of yen	2016	2015
Liabilities and Net Assets		
Current liabilities:		
Short-term debt (Notes 8,17)	¥ 424,688	¥ 544,985
Current portion of long-term debt (Notes 8,17)	178,481	198,667
Trade payables (Note 8)	408,315	459,345
Accrued expenses (Note 1)	108,629	108,115
Accrued income taxes	39,914	36,224
Other current liabilities (Notes 1,14)	186,217	218,611
Total current liabilities	1,346,244	1,565,947
Long-term liabilities:		
Long-term debt (Notes 8,17)	862,583	859,943
Net defined benefit liabilities (Note 12)	143,713	132,921
Other noncurrent liabilities (Notes 1,14)	154,504	175,626
Total long-term liabilities	1,160,800	1,168,490
Net assets:		
Shareholders' equity:		
Common stock:		
Authorized—6,000,000 thousand shares:		
Issued and outstanding—1,506,288 thousand shares at March 31, 2016 and 2015	50,000	50,000
Additional paid-in capital	317,037	317,714
Retained earnings	549,430	523,149
Less, treasury stock at cost—41,485 thousand shares at March 31, 2016 and 41,624 thousand shares at March 31, 2015	(16,240)	(16,236)
Total shareholders' equity	900,227	874,627
Accumulated other comprehensive income:		
Net unrealized holding gain (loss) on other securities	16,011	40,308
Gain (loss) on deferred hedges	139	(26)
Land revaluation surplus	790	1,682
Foreign currency translation adjustments	32,261	59,947
Remeasurements of defined benefit plans (Note 12)	(17,176)	4,455
Total accumulated other comprehensive income	32,025	106,366
Warrants (Notes 6,13)	515	471
Non-controlling interests in consolidated subsidiaries	621,761	607,137
Total net assets	1,554,528	1,588,601
Total liabilities and net assets	¥4,061,572	¥4,323,038

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated statements of income
Mitsubishi Chemical Holdings Corporation and consolidated subsidiaries

Years ended March 31

Millions of yen	2016	2015
Net sales	**¥3,823,098**	¥3,656,278
Cost of sales	**2,779,584**	2,826,197
Gross profit	**1,043,514**	830,081
Selling, general and administrative expenses (Note 4)	**763,488**	664,400
Operating income	**280,026**	165,681
Other income (expenses):		
Interest and dividend income	**12,430**	12,164
Equity in earnings of affiliates, net	**10,105**	3,843
Foreign exchange gain (loss), net	**(7,094)**	8,339
Interest expense	**(19,293)**	(17,599)
Gain on sales of investment securities, net	**30,196**	6,162
Gain on step acquisitions, net	**1,861**	34,144
Impairment loss	**(78,992)**	(31,183)
Special retirement expenses	**(15,502)**	(727)
Gain (loss) on sales and retirement of noncurrent assets, net	**(2,976)**	6,334
Provision for prospective loss on removal of fixed assets	**–**	(7,769)
Other, net	**(12,513)**	(13,768)
Profit before income taxes	**198,248**	165,621
Income taxes (Note 14):		
Current	**80,829**	60,481
Deferred	**11,819**	8,690
	92,648	69,171
Profit	**105,600**	96,450
Profit attributable to:		
Non-controlling interests	**59,156**	35,591
Owners of parent (Note 16):	**¥ 46,444**	¥ 60,859

Yen	2016	2015
Per share (Note 16):		
Profit attributable to owners of parent—Basic	**¥31.70**	¥41.40
—Diluted	**31.68**	41.37
Cash dividends	**15.00**	13.00

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated statements of comprehensive income
Mitsubishi Chemical Holdings Corporation and consolidated subsidiaries

Years ended March 31

Millions of yen	2016	2015
Profit	**¥105,600**	¥ 96,450
Other comprehensive income (loss):		
Net unrealized holding gain (loss) on other securities	**(29,729)**	24,299
Gain (loss) on deferred hedges	**298**	(562)
Foreign currency translation adjustments	**(36,732)**	40,733
Remeasurements of defined benefit plans	**(26,328)**	4,344
Other comprehensive income (loss) for affiliates accounted for using equity method	**(5,414)**	8,428
Other comprehensive income (loss), net (Note 5)	**(97,905)**	77,242
Total comprehensive income	**¥ 7,695**	¥173,692
Total comprehensive income (loss) attributable to:		
Owners of parent	**¥ (26,977)**	¥116,014
Non-controlling interests	**34,672**	57,678

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated statements of changes in net assets
Mitsubishi Chemical Holdings Corporation and consolidated subsidiaries

Years ended March 31

Millions of yen	2016	2015
Number of outstanding shares of common stock (thousands)		
Balance at beginning of year	1,506,288	1,506,288
Balance at end of year	1,506,288	1,506,288
Shareholders' equity:		
Common stock		
Balance at beginning of year	¥ 50,000	¥ 50,000
Cumulative effects of changes in accounting policies	–	–
Restated balance at beginning of year	50,000	50,000
Balance at end of year	¥ 50,000	¥ 50,000
Additional paid-in capital		
Balance at beginning of year	¥ 317,714	¥ 317,737
Cumulative effects of changes in accounting policies	–	–
Restated balance at beginning of year	317,714	317,737
Disposal of treasury stock	4	31
Change in treasury shares of parent arising from transactions with non-controlling shareholders	(681)	–
Reduction in additional paid-in capital due to acquisition of treasury stock from consolidated subsidiary	–	(54)
Balance at end of year	¥ 317,037	¥ 317,714
Retained earnings		
Balance at beginning of year	¥ 523,149	¥ 493,611
Cumulative effects of changes in accounting policies	–	(13,343)
Restated balance at beginning of year	523,149	480,268
Cash dividends	(20,507)	(17,637)
Profit attributable to owners of parent	46,444	60,859
Change in scope of consolidation	86	(341)
Change in scope of equity method	(504)	–
Reversal of revaluation reserve for land	762	–
Balance at end of year	¥ 549,430	¥ 523,149
Treasury stock at cost		
Balance at beginning of year	¥ (16,236)	¥ (11,756)
Cumulative effects of changes in accounting policies	–	–
Restated balance at beginning of year	(16,236)	(11,756)
Purchase of treasury stock	(48)	(2,705)
Disposal of treasury stock	11	16
Change in scope of consolidation	–	(1,791)
Change in scope of equity method	33	–
Balance at end of year	¥ (16,240)	¥ (16,236)
Total shareholders' equity		
Balance at beginning of year	¥ 874,627	¥ 849,592
Cumulative effects of changes in accounting policies	–	(13,343)
Restated balance at beginning of year	874,627	836,249
Cash dividends	(20,507)	(17,637)
Profit attributable to owners of parent for the period	46,444	60,859
Purchase of treasury stock	(48)	(2,705)
Disposal of treasury stock	15	47
Change in treasury shares of parent arising from transactions with non-controlling shareholders	(681)	–
Change in scope of consolidation	86	(2,132)
Change in scope of equity method	(471)	–
Reversal of revaluation reserve for land	762	–
Reduction in additional paid-in capital due to acquisition of treasury stock from consolidated subsidiary	–	(54)
Balance at end of year	¥ 900,227	¥ 874,627

The accompanying notes are an integral part of these consolidated financial statements.

Millions of yen	2016	2015
Accumulated other comprehensive income:		
Net unrealized holding gain on other securities		
Balance at beginning of year	¥ 40,308	¥ 20,748
Cumulative effects of changes in accounting policies	–	–
Restated balance at beginning of year	40,308	20,748
Net change in items other than those in shareholders' equity	(24,297)	19,560
Balance at end of year	¥ 16,011	¥ 40,308
Gain (loss) on deferred hedges		
Balance at beginning of year	¥ (26)	¥ 209
Cumulative effects of changes in accounting policies	–	–
Restated balance at beginning of year	(26)	209
Net change in items other than those in shareholders' equity	165	(235)
Balance at end of year	¥ 139	¥ (26)
Land revaluation surplus		
Balance at beginning of year	¥ 1,682	¥ 1,581
Cumulative effects of changes in accounting policies	–	–
Restated balance at beginning of year	1,682	1,581
Net change in items other than those in shareholders' equity	(892)	101
Balance at end of year	¥ 790	¥ 1,682
Foreign currency translation adjustments		
Balance at beginning of year	¥ 59,947	¥ 25,556
Cumulative effects of changes in accounting policies	–	–
Restated balance at beginning of year	59,947	25,556
Net change in items other than those in shareholders' equity	(27,686)	34,391
Balance at end of year	¥ 32,261	¥ 59,947
Remeasurements of defined benefit plans		
Balance at beginning of year	¥ 4,455	¥ 3,117
Cumulative effects of changes in accounting policies	–	–
Restated balance at beginning of year	4,455	3,117
Net change in items other than those in shareholders' equity	(21,631)	1,338
Balance at end of year	¥ (17,176)	¥ 4,455
Total accumulated other comprehensive income		
Balance at beginning of year	¥ 106,366	¥ 51,211
Cumulative effects of changes in accounting policies	–	–
Restated balance at beginning of year	106,366	51,211
Net change in items other than those in shareholders' equity	(74,341)	55,155
Balance at end of year	¥ 32,025	¥ 106,366
Warrants		
Balance at beginning of year	¥ 471	¥ 496
Cumulative effects of changes in accounting policies	–	–
Restated balance at beginning of year	471	496
Net change in items other than those in shareholders' equity	44	(25)
Balance at end of year	¥ 515	¥ 471
Non-controlling interests in consolidated subsidiaries		
Balance at beginning of year	¥ 607,137	¥ 413,571
Cumulative effects of changes in accounting policies	–	(3,807)
Restated balance at beginning of year	607,137	409,764
Net change in items other than those in shareholders' equity	14,624	197,373
Balance at end of year	¥ 621,761	¥ 607,137
Total net assets		
Balance at beginning of year	¥1,588,601	¥1,314,870
Cumulative effects of changes in accounting policies	–	(17,150)
Restated balance at beginning of year	1,588,601	1,297,720
Cash dividends	(20,507)	(17,637)
Profit attributable to owners of parent for the period	46,444	60,859
Purchase of treasury stock	(48)	(2,705)
Disposal of treasury stock	15	47
Change in treasury shares of parent arising from transactions with non-controlling shareholders	(681)	–
Change in scope of consolidation	86	(2,132)
Change in scope of equity method	(471)	–
Reversal of revaluation reserve for land	762	–
Reduction in additional paid-in capital due to acquisition of treasury stock from consolidated subsidiary	–	(54)
Net change in items other than those in shareholders' equity	(59,673)	252,503
Balance at end of year	¥1,554,528	¥1,588,601

The accompanying notes are an integral part of these consolidated financial statements.

Note: Reduction in additional paid-in capital due to acquisition of treasury stock from consolidated subsidiary
MCHC deducted taxes applicable to gains on transfers of shares in consolidated subsidiaries from capital surplus based on the Practical Guidelines for Tax Effect Accounting on the Consolidated Financial Statements (Report No. 6 of the JICPA Accounting System Committee). This was in keeping with the acquisition of the Company's shares from a consolidated subsidiary, Taiyo Nippon Sanso Corporation, and was pursuant to a resolution of the Board of Directors on February 4, 2015 in accordance with the provisions of Article 156-1 and Article 163 of the Companies Act of Japan.

Consolidated statements of cash flows
Mitsubishi Chemical Holdings Corporation and consolidated subsidiaries

Years ended March 31

Millions of yen	2016	2015
Cash flows from operating activities:		
Profit before income taxes	¥ 198,248	¥ 165,621
Adjustments for:		
Depreciation and amortization	180,374	151,253
Amortization of goodwill	20,379	21,144
Interest expense	19,293	17,599
Interest and dividend income	(12,430)	(12,164)
Equity in (earnings) losses of affiliates, net	(10,105)	(3,843)
Foreign exchange (gains) losses, net	1,311	(672)
Impairment loss	78,992	31,183
(Gain) loss on sales and retirement of noncurrent assets, net	2,976	(6,334)
Provision for prospective loss on removal of fixed assets	–	7,769
(Gain) loss on sales of investment securities, net	(30,196)	(6,162)
(Gain) loss on step acquisitions, net	(1,861)	(34,144)
(Increase) decrease in trade receivables	56,353	4,302
(Increase) decrease in inventories	39,783	58,975
Increase (decrease) in trade payables	(46,301)	(38,092)
Increase (decrease) in net defined benefit liabilities	(22,199)	8,326
Other, net	(1,946)	18,778
Subtotal	472,671	383,539
Interest and dividend income received	17,095	14,378
Interest expenses paid	(19,576)	(18,057)
Income taxes paid	(81,527)	(50,084)
Net cash provided by operating activities	388,663	329,776
Cash flows from investing activities:		
Payment for time deposits	(150,895)	(29,365)
Proceeds from repayment of time deposits	58,875	7,967
Purchase of short-term investment securities	(142,500)	(122,300)
Proceeds from sales and redemption of securities	183,800	95,871
Purchase of property, plant and equipment	(177,228)	(157,265)
Proceeds from sales of property, plant and equipment	11,822	15,587
Purchase of intangible assets	(3,412)	(3,423)
Purchase of investment securities	(6,744)	(4,583)
Proceeds from sales and redemption of investment securities	66,415	14,639
Purchase of investments in subsidiaries resulting in change in scope of consolidation	(44,279)	(70,527)
Proceeds from sales of investments in subsidiaries resulting in change in scope of consolidation	–	4,467
Payment for investments in capital of subsidiaries and affiliates	–	(18,377)
(Increase) decrease in loans receivable, net	17	(6,826)
Purchase of long-term prepaid expenses	(1,904)	(6,990)
Other, net	3,237	3,902
Net cash used in investing activities	(202,796)	(277,223)

The accompanying notes are an integral part of these consolidated financial statements.

Millions of yen	2016	2015
Cash flows from financing activities:		
Increase (decrease) in short-term debt, net	**(102,314)**	93,773
Proceeds from issuance of long-term debt	**197,915**	202,702
Repayment of long-term debt	**(205,569)**	(262,845)
Proceeds from stock issuance to non-controlling shareholders	**3,699**	2,602
Cash dividends paid	**(20,507)**	(17,637)
Cash dividends paid to non-controlling interests	**(23,322)**	(17,602)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	**(2,747)**	–
Proceeds from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	**9**	–
Purchase of treasury stock	**(48)**	(38)
Proceeds from sales of treasury stock	**1**	36
Other, net	**(4,074)**	(3,052)
Net cash used in financing activities	**(156,957)**	(2,061)
Effect of exchange rate changes on cash and cash equivalents	**(8,502)**	11,807
Net increase (decrease) in cash and cash equivalents	**20,408**	62,299
Cash and cash equivalents at beginning of the year	**243,055**	179,556
Net increase (decrease) in cash and cash equivalents resulting from change in scope of consolidation	**307**	1,200
Cash and cash equivalents at end of period (Note 10)	**¥ 263,770**	¥ 243,055

The accompanying notes are an integral part of these consolidated financial statements.

Notes to consolidated financial statements
Mitsubishi Chemical Holdings Corporation and consolidated subsidiaries

March 31, 2016

Note 1 Significant accounting policies

(a) Basis of presentation

The accompanying consolidated financial statements are compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Law of Japan and are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects from the application and disclosure requirements of International Financial Reporting Standards (IFRS). In presenting the accompanying consolidated financial statements, certain items have been reclassified for the convenience of readers outside Japan. As permitted, amounts of less than one million yen have been omitted. As a result, the totals shown in the accompanying consolidated financial statements do not necessarily agree with the sum of the individual amounts. Certain amounts from the prior year have been reclassified to conform to the current year's presentation.

(b) Principles of consolidation and accounting for investments in unconsolidated subsidiaries and affiliates

The accompanying consolidated financial statements include the accounts of MCHC and all significant subsidiaries over which substantial control is exerted either through majority ownership of voting stock and/or by other means. Investments in certain unconsolidated subsidiaries and significant affiliates are accounted for by the equity method. Other investments in unconsolidated subsidiaries and affiliates are stated at cost or less. Where there has been a permanent decline in the value of such investments, MCHC has written them down to reflect the impairment.

All significant intercompany balances and transactions have been eliminated in consolidation. On acquisition, the assets and liabilities of the consolidated subsidiaries are valued at fair value.

Goodwill on acquisition of underlying net equity in consolidated subsidiaries and the excess of cost over fair value in affiliates accounted for by the equity method is amortized on a straight-line basis over a period of less than 20 years depending on the source.

(c) Securities

Investment securities are classified as either held-to-maturity debt securities or other securities. Held-to-maturity debt securities are either amortized or accumulated to face value. Other securities with quoted market prices are carried at market value. The difference between the acquisition cost and the carrying value of other securities, including unrealized gain and loss, net of the applicable income taxes, is recognized as a component of net assets and is reflected as "Net unrealized holding gain or loss on other securities." The cost of other securities sold is computed by the moving average method. Other securities without quoted market prices are stated at cost based on the moving average method.

Held-to-maturity debt securities due within one year are presented as "Current assets" in the accompanying consolidated balance sheets. All other securities are presented as "Investments and other assets" in the accompanying consolidated balance sheets.

(d) Derivative transactions

Derivative transactions are measured at fair value.

(e) Inventories

Finished goods, work in process, raw materials, and other inventory assets are stated principally at cost based on the average cost. Supplies (excluding packaging materials and deteriorated assets) are stated primarily at cost based on the moving average method.

Balance sheet amounts are calculated by writing down their book values in accordance with decreases in profitability.

(f) Property, plant and equipment

Property, plant and equipment is stated at cost. Depreciation of property, plant and equipment is principally calculated using the straight-line method.

Principal estimated useful lives of the assets are as follows:

Buildings:	3–50 years
Machinery and equipment:	3–22 years

(g) Allowance for doubtful accounts

Allowance for doubtful accounts is provided for at an amount estimated with reference to individual accounts deemed uncollectible plus an amount calculated by a historical rate based on the actual uncollectible amounts in prior years.

(h) Accrued bonuses to employees

To provide for payments of bonuses to its employees, bonuses and related social insurance premium are accrued and recorded at the amount expected to be paid.

The corresponding balances of ¥42,516 million and ¥39,286 million are included in "Accrued expenses" in the accompanying consolidated balance sheets as of March 31, 2016 and 2015, respectively.

(i) Reserves for possible losses in connection with litigation

Reserves for possible losses in connection with litigation are set aside for payments to settle lawsuits and in preparation for payments that may arise in the future.

1. Reserve for health management allowances for HIV compensation

Balances of ¥1,564 million and ¥1,700 million are included in "Other noncurrent liabilities" in the accompanying consolidated balance sheets as of March 31, 2016 and 2015, respectively.

To provide for future payments of health management allowances and settlement payments (including attorney fees) in connection with a lawsuit for damages filed by plaintiffs infected with HIV, the consolidated subsidiary, Mitsubishi Tanabe Pharma Corporation (MTPC) has set aside an estimated amount for such future payments.

2. Reserve for HCV litigation

Balances of ¥5,020 million and ¥2,036 million are included in "Other noncurrent liabilities" in the accompanying consolidated balance sheets as of March 31, 2016 and 2015, respectively.

To provide for losses that may arise in the future from a settlement of lawsuits filed by plaintiffs infected with HCV (hepatitis C virus), MTPC has set aside an estimated amount for payments related to such settlement based on estimates of the number of people receiving relief and the amount of relief payments required under a law which stipulates that relief be provided to people who contracted hepatitis C from specific fibrinogen products or specific coagulation factor IX products.

3. Reserve for health management allowances for Sub-acute Myelo-Optical Neuropathy (SMON) compensation

Balances of ¥2,522 million and ¥2,731 million are included in "Other noncurrent liabilities" in the accompanying consolidated balance sheets as of March 31, 2016 and 2015, respectively.

MTPC pays health management allowances and nursing expenses for plaintiffs covered under the compromise settlement reached in the SMON litigation.

MTPC has made a provision in the accompanying consolidated financial statements for the estimated future medical treatment payments to be made over the remaining lives of the parties entitled to such payments under the compromise settlement.

(j) Reserve for periodic repairs

Several consolidated subsidiaries provide for costs of periodic repairs of production facilities in plants and oil tanks. The corresponding balances of ¥8,254 million and ¥8,617 million are included in "Other current liabilities" and "Other noncurrent liabilities" in the accompanying consolidated balance sheets as of March 31, 2016 and 2015, respectively.

(k) Directors' retirement benefits

Accrued lump-sum retirement benefits for directors, executive officers and corporate auditors are determined based on internal regulations. The corresponding balances of ¥2,146 million and ¥2,258 million are included in "Other noncurrent liabilities" in the accompanying consolidated balance sheets as of March 31, 2016 and 2015, respectively.

(l) Reserve for costs associated with liquidation of subsidiaries and affiliates

Several consolidated subsidiaries provide for estimated costs derived from liquidation of its subsidiaries and affiliates. The corresponding balances of ¥415 million and ¥476 million are included in "Other noncurrent liabilities" in the accompanying consolidated balance sheets as of March 31, 2016 and 2015, respectively.

(m) Reserve for prospective loss on removal of fixed assets

Several consolidated subsidiaries provide for prospective loss on removal of fixed assets. The corresponding balances of ¥4,875 million and ¥8,527 million are included in "Other current liabilities" and "Other noncurrent liabilities" in the accompanying consolidated balance sheets as of March 31, 2016 and 2015, respectively.

(n) Provision for environmental measures

Provision is made to cover estimated future losses from environmental measures work. Balances of ¥2,334 million and ¥2,338 million are included in "Other noncurrent liabilities" in the accompanying consolidated balance sheets as of March 31, 2016, and 2015, respectively.

(o) Retirement benefits

1. Period attribution method for expected post-retirement benefit obligation

The Group uses the benefit formula standard as the period attribution method through the end of the fiscal year ended March 31, 2016 to calculate the expected post-retirement benefit obligation.

2. Amortization method for actuarial gain or loss, service cost and differences from accounting policy transitions

The Group amortizes actuarial gains or losses beginning in the year following that in which they are incurred by using the straight-line method over a certain period (in principle, five years) that is shorter than the remaining average service period from the date incurred. The Group amortizes prior service cost by using the straight-line method over a certain period (in principle, five years) that is shorter than the remaining average service period from the date incurred.

(p) Foreign currency translation

Current and noncurrent monetary assets and liabilities denominated in foreign currencies of MCHC and its domestic consolidated subsidiaries are translated into yen at the exchange rates in effect at the balance sheet date. Gains and losses arising from foreign exchange differences are credited or charged to income in the year in which they are made or incurred.

(q) Foreign currency financial statements

The balance sheet accounts of foreign consolidated subsidiaries and affiliates are translated into yen at the exchange rates in effect at the balance sheet date, except for the components of net assets excluding non-controlling interests, which are translated at their historical exchange rates. Revenue and expense accounts of foreign consolidated subsidiaries and affiliates are translated into yen at the average exchange rates in effect during the year.

Translation adjustments resulting from the process of translating the financial statements of foreign consolidated subsidiaries and affiliates into yen are accumulated and presented under “Non-controlling interests in consolidated subsidiaries” and “Foreign currency translation adjustments” as a component of net assets.

(r) Principal hedge accounting methods

1. Hedge accounting method

The Group defers recognition of gains or losses related to fair or appraised value hedges. For receivables and payables denominated in foreign currencies, such as those with foreign exchange contracts, deferral hedging is used where satisfying deferral hedging criteria, while specific matching is used for interest rate swaps meeting specific matching criteria.

2. Hedging instruments and targets

The Group uses foreign exchange contracts and currency swaps to reduce exposure to foreign exchange risks arising from transactions denominated in foreign currencies, notably imports and exports, financing, and funds management. The Group similarly uses interest rate swaps to lower exposure to interest rate fluctuations in financing and funds management transactions. The Group also uses commodity futures contracts to hedge against the risks of fluctuations in the purchase costs of raw materials.

3. Hedging policy

The Group maintains a policy of limiting the use of derivative transactions to actual demand and does not engage in such transactions for speculative purposes. The Group minimizes credit risk stemming from breaches of contract of counterparties by restricting its use of derivative transactions to financial institutions with high credit ratings.

4. Method of assessing hedge effectiveness

The Group has confirmed that the hedging instruments and targets used in executing derivative transactions nearly match crucial requirements, and it can offset the effects of market fluctuations on and after implementing hedges.

The Group decides on whether to engage in planned transactions after assessing whether or not such transactions are extremely feasible.

(s) Amortization of goodwill

Goodwill is amortized on a straight-line basis over less than 20 years, depending on the source. Goodwill related to the launch of consolidated subsidiary Mitsubishi Tanabe Pharma Corporation is being amortized over 15 years. Goodwill from making Mitsubishi Plastics, Inc., into a wholly owned subsidiary is being amortized over 10 years. Goodwill from making Mitsubishi Rayon Co., Ltd. and Qualicaps Co., Ltd. into wholly owned consolidated subsidiaries and Taiyo Nippon Sanso Corporation into a consolidated subsidiary is being amortized over 20 years.

(t) Cash equivalents

All highly liquid investments, generally with a maturity of three months or less when purchased, which are readily convertible into known amounts of cash and are so near maturity that they represent only an insignificant risk of any change in value attributable to changes in interest rates, are considered cash equivalents.

(u) Research and development

Expenses related to research and development activities are charged to income as incurred.

(v) Distribution of retained earnings

Cash dividends are recorded in the fiscal year in which they are approved at the relevant shareholders' meeting or, in the case of interim dividends, the respective years in which they are declared by the Board of Directors.

(w) Income taxes

Deferred income taxes are recognized by the asset and liability method under which deferred tax assets and liabilities are determined based on the differences between financial reporting and the tax bases of the assets and liabilities, and are measured using the enacted tax rates and laws which will be in effect when the differences are expected to reverse.

A valuation allowance is provided against the deferred tax assets where it is considered more likely than not that they will not be realized.

Additional information

Several consolidated subsidiaries' year-end switched to March 31

During the fiscal year ended March 31, 2016, Quadrant AG and 112 other companies switched their fiscal year-end from December 31 to March 31. The Company thus prepared consolidated financial statements based on the financial statements for those companies for the 12 months ended December 31, 2015, and three months through March 31, 2016.

The fiscal year-end of Mitsubishi Chemical Performance Polymers (China) Co., Ltd. and 12 other companies is December 31, but from this fiscal year the Company started to prepare its consolidated financial statements using provisional settlements of accounts for those companies as of March 31.

Change in accounting policy

Application of accounting standard for business combinations

From the year ended March 31, 2016, the Company applied the Accounting Standard for Business Combinations (Accounting Standards Board of Japan (ASBJ) Statement No. 21, revised on September 13, 2013), the Accounting Standard for Consolidated Financial Statements (ASBJ Statement No. 22, revised on September 13, 2013), the Accounting Standard for Business Divestitures (ASBJ Statement No. 7, revised on September 13, 2013), and other standards. As a result, any change in the Company's ownership interests in a subsidiary when the Company retains control over the subsidiary is accounted for in capital surplus, and acquisition-related costs are expensed in the year in which costs are incurred. For any business combinations on or after the beginning of the fiscal year ended March 31, 2016, subsequent measurement of the provisional amount recognized based on the revision of the purchase price allocation due to the completion of accounting for the business combination is reflected in the consolidated financial statements for the period in which the business combination occurs. In addition, the presentation of net income was amended and "minority interests" was changed to "non-controlling interests". To reflect these changes in presentation, adjustments have been made to the consolidated financial statements for the previous fiscal year ended March 31, 2015.

In the consolidated statement of cash flows for the fiscal year ended March 31, 2016, cash flows from changes in ownership interests in subsidiaries that do not result in a change in the scope of consolidation are recognized

under “cash flows from financing activities.” Cash flows for costs related to the purchase of ownership interests in subsidiaries that result in a change in the scope of consolidation are recognized under “cash flows from operating activities.”

The aforementioned accounting standards were adopted from the beginning of the fiscal year ended March 31, 2016, according to the transitional treatment provided for in Paragraph 58-2 (4) of the Accounting Standard for Business Combinations, Paragraph 44-5 (4) of the Accounting Standard for Consolidated Financial Statements and Paragraph 57-4 (4) of the Accounting Standard for Business Divestitures.

The effects of these changes on operating income, ordinary income, and profit before income taxes in the fiscal year ended March 31, 2016, and on capital surplus at the end of that period were immaterial.

Accounting standards yet to be applied

Guidance on recoverability of deferred tax assets (ASBJ guidance no. 26, March 28, 2016)

(1) Outline

Entities are classified in five categories under the framework of Auditing Guidance No. 66, Auditing Treatment for Judgment of Recoverability of Deferred Assets, for treating the recoverability of deferred tax assets. The Company basically follows the framework for estimating deferred tax asset totals in keeping with the relevant categories, making the necessary reviews for the following treatments:

1. Treatment for entities that do not satisfy criteria for categories 1 through 5
2. Criteria for categories 2 and 3
3. Treatment for deductible temporary differences for which scheduling is impossible at category 2 entities
4. Treatment for periods for which reasonable estimates are possible for taxable income prior to deductible temporary differences at category 3 entities
5. Treatment where entities are in categories 2 or 3 and satisfy criteria for category 4

(2) Impact of scheduled application

The MCHC Group will voluntarily apply IFRS from the first quarter of the year ending March 31, 2017, and has not evaluated the impact on the consolidated financial statements because it has no plans to adopt this standard.

Note 2 Impairment losses

In principle, the MCHC Group maintains its grouping of assets in terms of operational, manufacturing process, and regional relevance based on business units. The Group recognizes impairment losses for idle assets by individual asset. The Group posted ¥78,992 million and ¥31,183 million in impairment losses as part of other expenses for the fiscal years ended March 31, 2016 and 2015, respectively. The main assets for which impairment losses were recognized are as follows:

Year ended March 31, 2016

Use	Location	Category	Impairment loss
Terephthalic acid production facilities	MCC PTA India Corp. Private Limited (West Bengal State, India)	Machinery and equipment, Others	¥43,217 million
Terephthalic acid production facilities	Ningbo Mitsubishi Chemical Co., Ltd. (Zhejiang Province, China)	Machinery and equipment, Others	¥20,435 million
Recombinant human serum albumin production facilities	Bipha Corporation (Chitose, Hokkaido)	Buildings and structures, Land, Others	¥3,329 million
Electrolyte production facilities	MC Ionic Solutions UK, Ltd. (Stockton-on-Tees, United Kingdom)	Machinery and equipment, Others	¥3,076 million
Toner production facilities, product warehousing, and common buildings	Mitsubishi Kagaku Imaging Corp. (Virginia, USA)	Buildings and structures, Machinery and equipment, Others	¥2,033 million
Industrial gases production facilities	Leeden National Oxygen Ltd. (Singapore)	Machinery and equipment	¥1,386 million
Specialty resin production facilities	Lucite International Inc. (West Virginia, USA)	Machinery and equipment, Others	¥1,145 million

Composition of impairment losses

Terephthalic acid production facilities (India)

The impairment loss of ¥43,217 million includes ¥37,100 million for machinery and equipment, and ¥6,117 million for others.

Performance was sluggish at the terephthalic acid production facilities of MCC PTA India Corp. Private Limited, and a recovery in the business climate was unlikely. Because it was unlikely that investments would therefore be recoverable, the book value was reduced to the recoverable amount. That amount was based on the value in use. The discounted future cash flows were negative, so the discount rate is not presented.

Terephthalic acid production facilities (China)

The impairment loss of ¥20,435 million includes ¥18,652 million for machinery and equipment, and ¥1,783 million for others.

Performance was sluggish at the terephthalic acid production facilities of Ningbo Mitsubishi Chemical Co., Ltd., in China, and a recovery in the business climate was unlikely. Because it was unlikely that investments would therefore be recoverable, the book value was reduced to the recoverable amount. That amount is the net selling price.

Recombinant human serum albumin production facilities

The impairment loss of ¥3,329 million includes ¥2,019 million for buildings and structures, ¥594 million for land, ¥548 million for machinery and equipment and vehicles, and ¥168 million for others.

As the Mitsubishi Tanabe Pharma Group pushed ahead with preparations to restart production of recombinant human serum albumin, it became clear that there would be delays with these plans during the year ended March 31, 2016, prompting its management to revise such plans. With a resulting shift in focus away from therapeutic to non-therapeutic applications, it became likely that there would be a greater business scaling back than originally planned for the recombinant human serum albumin production facilities of Bipha Corporation. Because the future cash flow estimate was below the book value, which was therefore reduced to the recoverable amount. That amount is the net selling price, and is based on reasonably calculated prices (including real estate appraisals).

Electrolyte production facilities

The impairment loss of ¥3,076 million includes ¥2,804 million for machinery and equipment, and ¥272 million for others.

Sales volume had not grown at the electrolyte production facilities of MC Ionic Solutions UK, Ltd., and management decided to remit operations at the facilities because a large increase was unlikely in the foreseeable future. Because it was unlikely that investments would therefore be recoverable, the book value was reduced to the recoverable amount. That amount was based on the value in use. The discounted future cash flows were negative, so the discount rate is not presented.

Toner production facilities, product warehousing, and common buildings

The impairment loss of ¥2,033 million includes ¥1,668 million for buildings and structures, ¥255 million for machinery and equipment, and ¥110 million for others.

Management decided to halt operations at the Mitsubishi Kagaku Imaging Corp.'s toner production facilities, product warehousing, and common buildings because profitability plummeted amid a deteriorating market environment. Because it was unlikely that investments would therefore be recoverable, the book value was reduced to the recoverable amount. That amount was based on the value in use and calculated by discounting future cash flows by 12.5%.

Industrial gases production facilities

The impairment loss of ¥1,386 million is all for machinery and equipment.

It became apparent that the profitability of industrial gases production facilities at Leeden National Oxygen Ltd. in Singapore would decline owing to changes in the business climate. Because the future cash flow estimate was below the book value, which was therefore reduced to the recoverable amount. That amount was based on the value in use and calculated by discounting future cash flows by 10.1%.

Specialty resin production facilities

The impairment loss of ¥1,145 million includes ¥1,102 million for machinery and equipment, and ¥43 million for buildings and structures.

Management decided to shut down specialty resin production facilities at Lucite International Inc. Because it was therefore unlikely that investments would be recoverable, the book value was reduced to the recoverable amount. That amount was based on the value in use. The discounted future cash flows were negative, so the discount rate is not presented.

Year ended March 31, 2015

Use	Location	Category	Impairment loss
Terephthalic acid production facilities	MCC PTA India Corp. Private Limited (West Bengal State, India)	Machinery and equipment, Others	¥10,430 million
Pharmaceuticals research facilities	Kazusa Plant of Mitsubishi Tanabe Pharma Corporation (Kisarazu-City, Chiba Prefecture)	Land, Buildings, Structures, Others	¥4,432 million
Pharmaceuticals production facilities	Kashima Plant of Mitsubishi Tanabe Pharma Corporation and Mitsubishi Tanabe Pharma Factory Ltd. (Kamisu-City, Ibaraki Prefecture)	Buildings, Structures, Machinery and equipment, Vehicles, Others	¥2,161 million
Anode materials production facilities	Qingdao Anode Kasei Co., Ltd. (Shandong Province, China)	Construction in progress, Others	¥1,742 million
Cathode materials production facilities	Mizushima Plant of Mitsubishi Chemical Co., Ltd. (Kurashiki-City, Okayama Prefecture)	Machinery and equipment, Buildings, Structures, Others	¥1,739 million
Exclusive right for sales of ethical drugs	Mitsubishi Tanabe Pharma Corporation (Chuo-Ku, Osaka)	Distributorship	¥1,600 million
Facilities for pharmaceuticals business management and sales	Hirano-Cho No. 1 building of Mitsubishi Tanabe Pharma Corporation (Chuo-Ku, Osaka)	Land, Buildings, Structures	¥1,215 million
Industrial gases production facilities	Leeden National Oxygen, Ltd. (Pahang State, Malaysia)	Machinery and equipment	¥1,189 million

Composition of impairment losses

Terephthalic acid production facilities

The impairment loss of ¥10,430 million includes ¥9,196 million for machinery and equipment, and ¥1,234 million for others.

The profitability of the terephthalic acid production facilities of MCC PTA India Corp. Private Limited declined substantially owing to sluggish market conditions. Prospects for a turnaround were low, making it unlikely that some investments would be recoverable. The book value was thus reduced to the recoverable amount. That amount was based on the value in use and calculated by discounting future cash flows by 11.9%.

Pharmaceuticals research facilities

The impairment loss of ¥4,432 million includes ¥1,870 million for land, ¥1,845 million for buildings and structures, and ¥717 million for others.

With a decision to close the Kazusa Plant, the facilities are expected to be idle, so the book value was reduced to the recoverable amount. That amount is the net selling price, and is based on reasonably calculated prices (including real estate appraisals, etc.).

Pharmaceuticals production facilities

The impairment loss of ¥2,161 million includes ¥1,048 million for buildings and structures, ¥901 million for machinery and equipment, and vehicles, and ¥212 million for others.

The book value of production and other facilities of Mitsubishi Tanabe Pharma Corporation and Mitsubishi Tanabe Pharma Factory Ltd. was reduced to the recoverable amount in line with the decision to sell the Kashima Plant. That amount is the net selling price, and is based on the projected selling price.

Anode materials production facilities

The impairment loss of ¥1,742 million includes ¥1,620 million for construction in progress, and ¥122 million for others.

Sales volumes from the anode materials production facilities of Qingdao Anode Kasei Co., Ltd., in China failed to grow, and were significantly below initial targets. Management revised sales targets after concluding that significant increases were unlikely in the near future, as a result of which the book value was reduced to the recoverable amount for some facilities because management did not envisage that some of them would be used under future production plans.

Cathode materials production facilities

The impairment loss of ¥1,739 million includes ¥1,207 million for machinery and equipment, ¥502 million for buildings and structures, and ¥30 million for others.

With sales volumes sluggish at cathode materials production facilities, management concluded that significant increases were unlikely in the near future and decided to halt operations at these facilities after reviewing groupings. As a result, the book value was reduced to the recoverable amount because it was unlikely that investments could be recovered. The recoverable amount was based on the usage value. The discounted future cash flows were negative, so the discount rate is not presented.

Exclusive right for sales of ethical drugs

The impairment loss of ¥1,600 million includes ¥1,600 million for investments of other assets.

Management lowered the book value of the exclusive right for sales of ethical drugs to the recoverable amount (nominal value, etc.), as the future estimated cash flow for this right was less than the book value.

Facilities for pharmaceuticals business management and sales

The impairment loss of ¥1,215 million includes ¥1,161 million for land, and ¥54 million for buildings and structures.

Mitsubishi Tanabe Pharma Corporation consolidated and relocated head office functions during the year ended March 31, 2015. As the Hirano-cho No. 1 building was to become an idle asset owing to such factors as consolidation and relocation, management lowered the book value to the recoverable amount. That amount is the net selling price, and is based on reasonably calculated prices (including real estate appraisals, etc.).

Industrial gases production facilities

The impairment loss of ¥1,189 million includes ¥1,189 million for machinery and equipment.

Leeden National Oxygen, Ltd. in Malaysia lowered the book value of idle gases production facilities to the recoverable amount. That amount is the net selling price, and is based on reasonably calculated prices (including market valuations, etc.).

Note 3 Contingent Liabilities

MCHC and its consolidated subsidiaries were guarantors for the following borrowings principally incurred by unconsolidated subsidiaries, affiliates and others:

Year ended March 31, 2016

	Gross including third parties' liabilities	Net MCHC's and consolidated subsidiaries' own liabilities
	Millions of yen	Millions of yen
Guarantees	**¥37,187**	**¥37,013**
Stand-by guarantees	**175**	**160**

Year ended March 31, 2015

	Gross including third parties' liabilities	Net MCHC's and consolidated subsidiaries' own liabilities
	Millions of yen	Millions of yen
Guarantees	¥23,411	¥22,915
Stand-by guarantees	155	138

Trademark Infringement Lawsuit

Year ended March 31, 2016

The consolidated subsidiary Verbatim Corporation (US) was sued for trademark infringement in Brazil. In May 2007, a court in Manaus, in the Brazilian state of Amazonas, ruled in favor of the plaintiff and ordered Verbatim Corporation to pay 377 million Brazilian real, or ¥11,811 million. Verbatim Corporation, believing that no trademark infringement took place, and dissatisfied with the fact that reasons for recognizing the plaintiff's monetary claim were not disclosed, immediately filed an appeal with Brazil's Supreme Court. In February 2008, the Supreme Court ruled in favor of Verbatim Corporation and returned the case to the Manaus court for retrial.

In the following proceedings, the court ruled against Verbatim. However, dissatisfied with the ruling, Verbatim made a special appeal to Brazil's Supreme Court, requesting that the case be tried in that court. In June 2011, the Supreme Court dismissed the charges of trademark infringement filed against Verbatim, and overruled the lower court's order for Verbatim to pay the abovementioned damages. However, in April 2012 the plaintiff requested that the Supreme Court clarify its ruling, and the Company cannot deny the possibility that the plaintiff will oppose this ruling in the future.

Year ended March 31, 2015

The consolidated subsidiary Verbatim Corporation (US) was sued for trademark infringement in Brazil. In May 2007, a court in Manaus, in the Brazilian state of Amazonas, ruled in favor of the plaintiff and ordered Verbatim Corporation to pay 377 million Brazilian real, or ¥14,031 million. Verbatim Corporation, believing that no trademark infringement took place, and dissatisfied with the fact that reasons for recognizing the plaintiff's monetary claim were not disclosed, immediately filed an appeal with Brazil's Supreme Court. In February 2008, the Supreme Court ruled in favor of Verbatim Corporation and returned the case to the Manaus court for retrial.

In the following proceedings, the court ruled against Verbatim. However, dissatisfied with the ruling, Verbatim made a special appeal to Brazil's Supreme Court, requesting that the case be tried in that court. In June 2011, the Supreme Court dismissed the charges of trademark infringement filed against Verbatim, and overruled the lower court's order for Verbatim to pay the abovementioned damages. However, in April 2012 the plaintiff requested that the Supreme Court clarify its ruling, and the Company cannot deny the possibility that the plaintiff will oppose this ruling in the future.

Note 4 Selling, general and administrative expenses

For the years ended March 31, 2016 and 2015, the following items were recorded in the consolidated statements of income:

Millions of yen	March 31, 2016	March 31, 2015
Transportation costs	¥119,864	¥102,210
Labor costs	205,949	163,530
Research and development	138,364	132,217

Notes: 1. Labor costs include a provision for bonuses of ¥19,470 million and ¥15,238 million for the years ended March 31, 2016 and 2015, respectively.

2. "Research and development" includes expenditures on personnel, and depreciation and amortization of research facilities.

Note 5 Supplementary information for consolidated statements of comprehensive income

Millions of yen	March 31, 2016	March 31, 2015
Net unrealized holding gain (loss) on other securities:		
Amount arising during the period	¥ (14,823)	¥ 39,527
Reclassification adjustment	(29,202)	(3,991)
Before tax effect	(44,025)	35,536
Tax effect	14,296	(11,237)
Net unrealized holding gain (loss) on other securities	¥ (29,729)	¥ 24,299
Gain (loss) on deferred hedges:		
Amount arising during the period	¥ 85	¥ 633
Reclassification adjustment	392	(1,318)
Amount of acquisition cost adjustment	(11)	(210)
Before tax effect	466	(895)
Tax effect	(168)	333
Gain (loss) on deferred hedges	¥ 298	¥ (562)
Foreign currency translation adjustments:		
Amount arising during the period	¥ (36,732)	¥ 41,575
Reclassification adjustment	–	(842)
Before tax effect	(36,732)	40,733
Tax effect	–	–
Foreign currency translation adjustments	¥ (36,732)	¥ 40,733
Remeasurements of defined benefit plans:		
Amount arising during the period	¥ (38,062)	¥ 8,234
Reclassification adjustment	56	(1,601)
Before tax effect	(38,006)	6,633
Tax effect	11,678	(2,289)
Remeasurements of defined benefit plans	¥ (26,328)	¥ 4,344
Other comprehensive income (loss) for affiliates accounted for using equity method:		
Amount arising during the period	¥ (4,851)	¥ 11,085
Reclassification adjustment	(563)	(2,657)
Other comprehensive income (loss) for affiliates accounted for using equity method:	(5,414)	8,428
Other comprehensive income (loss), net	¥(97,905)	¥ 77,242

Note 6 Supplementary information for consolidated statements of changes in net assets

Year ended March 31, 2016

(a) Type and number of outstanding shares

Number of shares (Thousands)	Balance at beginning of year	Increase in shares during the year	Decrease in shares during the year	Balance at end of year
Type of shares				
Issued stock:				
Common stock	1,506,288	–	–	1,506,288
Total	1,506,288	–	–	1,506,288
Treasury stock:				
Common stock1, 2	41,624	64	203	41,485
Total	41,624	64	203	41,485

1. A 64 thousand increase in the number of shares of common stock held in treasury was as follows:
   Purchases of fractional shares of less than one unit — 64 thousand
2. A 203 thousand decrease in the number of shares of common stock held in treasury was as follows:
   Sales of fractional shares of less than one unit — 2 thousand
   Withdrawal related to the exercise of stock options — 28 thousand
   Removals from scope of equity method — 172 thousand

(b) Warrants

Number of outstanding shares (Thousands)	Description	Type of outstanding shares	Balance at beginning of year	Increase (Decrease)	Balance at end of year	Millions of yen
MCHC	Warrants as stock options			–		¥515
Consolidated subsidiaries	–			–		–
Total				–		¥515

(c) Dividends

(1) Dividends paid to shareholders

Date of approval	Resolution approved by	Type of shares	Amount (Millions of yen)	Amount per share (Yen)	Entitlement date	Effective date
June 24, 2015	Annual general meeting of shareholders	Common stock	¥10,253	¥7	March 31, 2015	June 25, 2015
November 5, 2015	Board of Directors	Common stock	¥10,253	¥7	September 30, 2015	December 2, 2015

(2) Dividends whose entitlement date was in the year ended March 31, 2016, and whose effective date will be in the subsequent fiscal year

Date of approval	Resolution approved by	Type of shares	Amount (Millions of yen)	Paid from	Amount per share (Yen)	Entitlement date	Effective date
May 18, 2016	Board of Directors	Common stock	¥11,718	Retained earnings	¥8	March 31, 2016	June 3, 2016

Note: The Japanese Corporate Law provides that an amount equal to 10% of the amount to be distributed as distributions of capital surplus (other than the capital reserve) and retained earnings (other than the legal reserve) be transferred to the capital reserve and the legal reserve, respectively, until the sum of the capital reserve and the legal reserve equals 25% of the common 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, but neither the capital reserve nor the legal reserve is available for distributions.

Year ended March 31, 2015

(a) Type and number of outstanding shares

Number of shares (Thousands)	Balance at beginning of year	Increase in shares during the year	Decrease in shares during the year	Balance at end of year
Type of shares				
Issued stock:				
Common stock	1,506,288	–	–	1,506,288
Total	1,506,288	–	–	1,506,288
Treasury stock:				
Common stock1, 2	34,268	7,446	90	41,624
Total	34,268	7,446	90	41,624

1. A 7,446 thousand increase in the number of shares of common stock held in treasury was as follows:

Purchases of fractional shares of less than one unit	71 thousand
Increase associated with transition from equity method affiliate to consolidated subsidiary	2,401 thousand
Increase attributable to acquisition of treasury stock from consolidated subsidiary	4,972 thousand

2. A 90 thousand decrease in the number of shares of common stock held in treasury was as follows:

Sales of fractional shares of less than one unit	1 thousand
Withdrawal related to the exercise of stock options	61 thousand
Consolidated subsidiary sales of treasury stock	26 thousand

(b) Warrants

Number of outstanding shares (Thousands)	Description	Type of outstanding shares	Balance at beginning of year	Increase (Decrease)	Balance at end of year	Millions of yen
MCHC	Warrants as stock options			–		¥471
Consolidated subsidiaries	–			–		–
Total				–		¥471

(c) Dividends

(1) Dividends paid to shareholders

Date of approval	Resolution approved by	Type of shares	Amount (Millions of yen)	Amount per share (Yen)	Entitlement date	Effective date
June 25, 2014	Annual general meeting of shareholders	Common stock	¥8,849	¥6	March 31, 2014	June 26, 2014
October 31, 2014	Board of Directors	Common stock	¥8,849	¥6	September 30, 2014	December 2, 2014

Note: The discrepancy between the dividend amount and dividends from retained earnings in the consolidated statements of changes in net assets reflects the elimination of dividends for MCHC stock held by consolidated subsidiaries.

(2) Dividends whose entitlement date was in the year ended March 31, 2015, and whose effective date will be in the subsequent fiscal year

Date of approval	Resolution approved by	Type of shares	Amount (Millions of yen)	Paid from	Amount per share (Yen)	Entitlement date	Effective date
June 24, 2015	Annual general meeting of shareholders	Common stock	¥10,253	Retained earnings	¥7	March 31, 2015	June 25, 2015

Note: The Japanese Corporate Law provides that an amount equal to 10% of the amount to be distributed as distributions of capital surplus (other than the capital reserve) and retained earnings (other than the legal reserve) be transferred to the capital reserve and the legal reserve, respectively, until the sum of the capital reserve and the legal reserve equals 25% of the common 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, but neither the capital reserve nor the legal reserve is available for distributions.

Note 7 Lease transactions

At March 31, 2016 and 2015, as lessee, noncancellable operating lease obligations were accounted for as follows:

Future minimum lease payments for the remaining lease periods

Millions of yen	March 31, 2016	March 31, 2015
Due within one year	**¥11,614**	¥11,762
Due after one year	**22,347**	22,462
	¥33,961	¥34,224

At March 31, 2016 and 2015, as lessor, finance leases other than those deemed to transfer the ownership of the leased assets to the lessees were accounted for as operating leases, and the details were as follows:

Acquisition costs, accumulated depreciation, accumulated impairment loss and balance at year-end

Millions of yen	March 31, 2016	March 31, 2015
Buildings		
Acquisition costs	**¥965**	¥920
Accumulated depreciation	**454**	429
Accumulated impairment loss	**–**	–
Balance at year-end	**¥ 511**	¥491

Future minimum sublease income for the remaining lease periods

Millions of yen	March 31, 2016	March 31, 2015
Due within one year	**¥ 66**	¥ 66
Due after one year	**150**	215
	¥216	¥281

Sublease income, amortization expense, depreciation expense and impairment loss

Millions of yen	March 31, 2016	March 31, 2015
Sublease income	**¥66**	¥66
Amortization expense amount	**–**	–
Depreciation expense amount	**25**	24
Impairment loss on leased assets	**¥ –**	¥ –

Note: Depreciation expense is calculated using the straight-line method with the lease period as the useful life with a nil residual value.

At March 31, 2016 and 2015, noncancellable operating lease receivables were accounted for as follows:

Future minimum sublease income for the remaining lease periods

Millions of yen	March 31, 2016	March 31, 2015
Due within one year	¥ 240	¥ 250
Due after one year	1,984	2,196
	¥2,224	¥2,446

Note 8 Financial instruments

Overview

(1) Policy for financial instruments

MCHC's policy is to manage highly stable financial assets, centered on investments in short-term deposits, and raise funds largely by obtaining bank loans, issuing commercial papers and corporate bonds. MCHC deployed a cash management system to facilitate intragroup lending and borrowing and use funds more efficiently and reduce financial costs, engaging in intragroup lending and borrowing. Other policies are to ensure that derivatives transactions purely accommodate actual demand and to refrain from speculative trading.

(2) Financial instruments and risks

Trade receivables are exposed to customer credit risk. As MCHC operates globally, foreign currency denominated trade receivables are subject to foreign exchange fluctuations. MCHC hedges the resulting risks, net of trade payables in those currencies, with forward foreign exchange contracts. Marketable and investment securities are subject to market risk. Those securities mainly comprise held-to-maturity debt securities and shares in other companies with which the Group does business or has capital affiliations.

Most trade payables are due within one year. While partly exposed to foreign exchange risks from imports of raw materials and other items, MCHC hedges with forward foreign exchange contracts as it does with trade receivables.

Borrowings and corporate bonds are to secure the funding needed for operations and capital investments. Some of these instruments are subject to interest rate fluctuation risks, which MCHC hedges using interest rate swaps.

MCHC engages in various types of derivatives transaction. They include forward foreign exchange contracts and currency swaps to hedge foreign exchange fluctuation risks associated with foreign currency denominated trade receivables and payables, borrowings and loans. MCHC also uses interest rate swaps to hedge fluctuations in interest rates on borrowings and loans, as well as commodity futures contracts to hedge the risks of price fluctuations from raw materials purchases.

(3) Financial instrument risk management structure

a. Credit risk management (including risks of customers breaching contracts)

In keeping with its credit management rules, MCHC regularly monitors the statuses of key customers with outstanding trade and long-term receivables and oversees dates and balances while endeavoring to swiftly identify and ameliorate collection concerns that could stem from deteriorating financial positions or other factors.

The credit risks of held-to-maturity debt securities are insignificant, as MCHC's portfolio includes only instruments with high credit ratings.

MCHC minimizes credit risks relating to counterparty breaches of contract with derivatives by transacting solely with highly creditworthy financial institutions.

The maximum credit risk amount at March 31, 2016, is the balance sheet value of financial assets exposed to such risks.

b. Market risk management (foreign exchange and interest rate risks)

Where necessary, MCHC uses forward exchange contracts and currency swaps to hedge foreign currency denominated operating receivables, debt and loans. It uses interest rate swaps to minimize the risks of interest payment fluctuations for debt and corporate bonds.

MCHC regularly assesses the prices of marketable and investment securities and the financial positions of issuers (business partners). It factors in relationships with business partners in constantly reviewing the necessity of instruments other than held-to-maturity debt securities.

In keeping with internal rules on transaction rights and limitations, reports on the contract balances and market prices of derivative transactions are submitted regularly to the director in charge of such matters.

c. Funding-related liquidity risk management (risk of inability to settle by payment dates)

MCHC is exposed to liquidity risk for customer credit and debt, managing them by producing and managing funding plans.

(4) Supplementary explanation of the estimated fair value of financial instruments

The fair value of financial instruments is based on their quoted market price, if available. When there is no quoted market price available, fair value is reasonably estimated. Since various assumptions and factors are reflected in estimating the fair value, different assumptions and factors could result in different fair value.

Estimated fair value of financial instruments

The carrying value of financial instruments in the consolidated balance sheets as of March 31, 2016 and 2015, and estimated fair value are shown in the following table. The table below excludes instruments whose fair value is extremely difficult to determine.

Millions of yen March 31, 2016	Carrying value	Fair value	Difference
Cash and deposits	¥ 314,782	¥ 314,782	¥ –
Trade receivables	703,996	703,996	–
Marketable and investment securities:			
Held-to-maturity debt securities	4,759	4,925	166
Shares of affiliates	839	1,508	669
Other marketable securities	245,428	245,428	–
Total assets	¥1,269,804	¥1,270,639	¥ 835
Trade payables	¥ 408,315	¥ 408,315	¥ –
Short-term loans	394,688	394,688	–
Current portion of long-term loans	138,471	138,471	–
Commercial papers	30,000	30,000	–
Bonds due in one year or less	40,010	40,010	–
Corporate bonds	325,000	332,505	7,505
Long-term loans	537,583	543,903	6,320
Total liabilities	¥1,874,067	¥1,887,892	¥13,825
Derivatives transactions:			
Hedge accounting not applied	¥ 1,163	¥ 1,163	¥ –
Hedge accounting applied	(8)	(8)	–
Total derivatives transactions	¥ 1,155	¥ 1,155	¥ –

Note: Net receivables and payables from derivatives transactions are presented, with net payables in totals shown in parentheses.

Millions of yen March 31, 2015	Carrying value	Fair value	Difference
Cash and deposits	¥ 236,186	¥ 236,186	¥ –
Trade receivables	759,850	759,850	–
Marketable and investment securities:			
Held-to-maturity debt securities	12,450	12,780	330
Shares of affiliates	6,832	4,002	(2,830)
Other marketable securities	325,607	325,607	–
Total assets	¥1,340,925	¥1,338,425	¥ (2,500)
Trade payables	¥ 459,345	¥ 459,345	¥ –
Short-term loans	518,985	518,985	–
Current portion of long-term loans	178,627	178,627	–
Commercial papers	26,000	26,000	–
Bonds due in one year or less	20,040	20,040	–
Corporate bonds	305,010	311,297	6,287
Long-term loans	554,933	558,736	3,803
Total liabilities	¥2,062,940	¥2,073,030	¥10,090
Derivatives transactions:			
Hedge accounting not applied	¥ (217)	¥ (217)	¥ –
Hedge accounting applied	102	102	–
Total derivatives transactions	¥ (115)	¥ (115)	¥ –

Note: Net receivables and payables from derivatives transactions are presented, with net payables in totals shown in parentheses.

1. Method to determine the estimated fair values of financial instruments and other matters related to securities and derivatives transactions

Assets

Cash and deposits

Book value is used, as it approximates market value because of the short maturities of these instruments.

Trade receivables

Book value is used, as it approximates market value because of the short maturities of these instruments.

Marketable and investment securities

The fair value of stocks is based on quoted market prices, while the fair value of debt securities is based on quoted market prices or the prices provided by the financial institutions with which MCHC conducts transactions. Book value is used for negotiable certificates of deposit and commercial papers, as it approximates market value because of the short settlements of these instruments. For information on securities classified by holding purpose, please refer to Note 10, Securities.

Liabilities

Trade payables, short-term loans, current portion of long-term loans, commercial papers, and bonds due in one year or less.

Book value is used, as it approximates market value because of the short maturities of these instruments.

Corporate bonds

The market price of corporate bonds is based on the quoted market price.

Long-term loans

Market value is based on the present value of principal and interest, discounted using current assumed rates for similar new loans.

Long-term loans are subject to special procedures for interest rate swaps (see Note 12, Derivative Financial Instruments and Hedge Accounting) and the total principal and interest for these swaps are discounted using rationally estimated interest rates for similar new loans.

Derivative transactions

Please refer to Note 12, Derivative Financial Instruments and Hedge Accounting.

2. Financial instruments for which it is extremely difficult or impossible to determine the fair value

Millions of yen	March 31, 2016	March 31, 2015
Unlisted shares	**¥137,525**	¥136,249
Investment securities	**1,875**	2,410

These instruments are omitted from marketable and investment securities because they have no market price and it is extremely difficult or impossible to estimate forward cash flows or assess their fair value.

3. Projected redemptions of monetary claims and marketable securities due after March 31, 2016

Millions of yen March 31, 2016	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and deposits	**¥ 314,782**	**¥ –**	**¥–**	**¥ –**
Trade receivables	**703,996**	**–**	**–**	**–**
Marketable and investment securities				
Held-to-maturity debt securities				
(1) Government bonds	**–**	**2,749**	**–**	**–**
(2) Others	**–**	**–**	**–**	**2,000**
Other securities with maturities				
(1) Government bonds	**–**	**4,400**	**–**	**–**
(2) Others	**123,500**	**–**	**–**	**–**
Total	**¥1,142,278**	**¥ 7,149**	**¥–**	**¥2,000**

Millions of yen March 31, 2015	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and deposits	¥ 236,186	¥ –	¥–	¥ –
Trade receivables	759,850	–	–	–
Marketable and investment securities				
Held-to-maturity debt securities				
(1) Government bonds	–	2,932	–	–
(2) Others	–	3,500	–	6,000
Other securities with maturities				
(1) Government bonds	7,300	6,400	–	–
(2) Others	120,500	–	–	–
Total	¥1,123,836	¥12,832	¥–	¥6,000

4. Scheduled repayments of corporate bonds, long-term loans and other interest-bearing debt after March 31, 2016

Millions of yen March 31, 2016	Due in one year or less	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
Short-term loans	¥394,688	¥ –	¥ –	¥ –	¥ –	¥ –
Current portion of long-term loans	138,471	–	–	–	–	–
Commercial papers	30,000	–	–	–	–	–
Bonds due in one year or less	40,010	–	–	–	–	–
Corporate bonds	–	40,000	65,000	60,000	55,000	105,000
Long-term loans	–	134,154	102,931	157,619	80,326	62,553
Total	¥603,169	¥174,154	¥167,931	¥217,619	¥135,326	¥167,553

Millions of yen March 31, 2015	Due in one year or less	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
Short-term loans	¥518,985	¥ –	¥ –	¥ –	¥ –	¥ –
Current portion of long-term loans	178,627	–	–	–	–	–
Commercial papers	26,000	–	–	–	–	–
Bonds due in one year or less	20,040	–	–	–	–	–
Corporate bonds	–	40,010	40,000	65,000	60,000	100,000
Long-term loans	–	138,612	137,144	97,765	106,295	75,117
Total	¥743,652	¥178,622	¥177,144	¥162,765	¥166,295	¥175,117

Note 9 Securities

Held-to-maturity debt securities are measured at amortized cost in the accompanying balance sheets.

However, certain held-to-maturity debt securities have fair value. The carrying value, gross unrealized gains, gross unrealized losses and estimated fair value of held-to-maturity debt securities at March 31, 2016 and 2015, are summarized as follows:

Millions of yen March 31, 2016	Carrying value	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Held-to-maturity debt securities:				
Government bonds	¥ 2,759	¥141	¥–	¥2,900
Corporate bonds	–	–	–	–
Other debt securities	2,000	25	–	2,025
	¥ 4,759	¥166	¥–	¥ 4,925

Millions of yen March 31, 2015	Carrying value	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Held-to-maturity debt securities:				
Government bonds	¥ 2,949	¥264	¥ –	¥ 3,213
Corporate bonds	–	–	–	–
Other debt securities	9,501	193	(127)	9,567
	¥12,450	¥457	¥(127)	¥12,780

Other marketable securities with quoted market prices are measured at fair value. Differences between fair value and acquisition costs are recorded as a component of net assets. The differences at March 31, 2016 and 2015, are summarized as follows:

Millions of yen March 31, 2016	Acquisition costs	Fair value	Net differences	(Breakdown) Gross gains	Gross losses
Other marketable securities:					
Equity securities	**¥ 85,809**	**¥ 117,271**	**¥ 31,462**	**¥38,940**	**¥ (7,478)**
Government bonds	–	–	–	–	–
Corporate bonds	–	–	–	–	–
Other debt securities	**128,028**	**128,157**	**129**	**130**	**(1)**
	¥ 213,837	**¥ 245,428**	**¥ 31,591**	**¥39,070**	**¥ (7,479)**

Millions of yen March 31, 2015	Acquisition costs	Fair value	Net differences	(Breakdown) Gross gains	Gross losses
Other marketable securities:					
Equity securities	¥ 93,933	¥190,721	¥96,788	¥97,090	¥ (302)
Government bonds	1	3	2	2	–
Corporate bonds	–	–	–	–	–
Other debt securities	134,561	134,883	322	324	(2)
	¥228,495	¥325,607	¥97,112	¥97,416	¥ (304)

Sales of other securities for the fiscal year ended March 31, 2016 and 2015 are shown below:

Millions of yen	Sales	Gains	Losses
Year ended March 31, 2016	**¥57,491**	**¥28,734**	**¥(98)**

Millions of yen	Sales	Gains	Losses
Year ended March 31, 2015	¥11,265	¥6,027	¥(27)

Investment securities of unconsolidated subsidiaries and affiliates at March 31, 2016 and 2015 are shown below:

Millions of yen	March 31, 2016	March 31, 2015
Stock	**¥111,659**	¥116,181
Capital	**20,602**	22,458

Impairment of investment securities for the fiscal year ended March 31, 2016 are shown below:

Millions of yen March 31, 2016	
Available-fur-sales securities	**¥1,845**

Note 10 Supplementary cash flow information

Cash and cash equivalents as of March 31, 2016 and 2015, are reconciled to the accounts reported in the consolidated balance sheets as follows:

Millions of yen	March 31, 2016	March 31, 2015
Cash and deposits	**¥314,782**	¥236,186
Time deposits with maturities of more than three months	**(121,012)**	(30,131)
Cash equivalents included in securities1	**70,000**	37,000
Cash and cash equivalents	**¥263,770**	¥243,055

1. This represents short-term, highly liquid investments readily convertible into cash held by overseas subsidiaries.

Assets and liabilities of acquired company which became consolidated subsidiary via stock acquisition

The composition of the assets acquired and liabilities assumed of Renegade Gas Pty Ltd. (RGP) upon consolidation in line with the acquisition of stock and the relationship between the acquisition cost for RGP shares and the net expenditure on the acquisition are as follows:

Millions of yen	
Current assets	**¥ 1,954**
Noncurrent assets	**8,487**
Goodwill	**10,939**
Current liabilities	**(1,796)**
Noncurrent liabilities	**(4,623)**
Total cost of stock acquisition	**14,961**
Cash and cash equivalents	**(249)**
Shares issued by stock exchange	**(2,244)**
Less: Purchase of investments in subsidiaries resulting in change in scope of consolidation	**¥12,468**

Note 11 Derivative financial instruments and hedge accounting

Derivative transactions

1. Derivative transactions (Hedge accounting not applied)

(1) Currency-related transactions

Millions of yen Year ended March 31, 2016	Notional value	Maturing after one year	Fair value	Appraised gains/losses
Off-market transactions				
Forward exchange agreements				
Put				
U.S. dollars	**¥117,309**	**¥–**	**¥1,171**	**¥1,171**
Euros	**372**	**–**	**(2)**	**(2)**
British pounds	**74**	**–**	**1**	**1**
Yen	**3**	**–**	**0**	**0**
Call				
U.S. dollars	**717**	**–**	**(1)**	**(1)**
Thai baht	**25**	**–**	**0**	**0**
Currency options				
Call				
Canadian dollars	**135**	**–**	**(6)**	**(6)**

Millions of yen Year ended March 31, 2015	Notional value	Maturing after one year	Fair value	Appraised gains/losses
Off-market transactions				
Forward exchange agreements				
Put				
U.S. dollars	¥24,324	¥ –	¥(207)	¥(207)
Euros	357	–	8	8
Yen	9	–	0	0
Call				
U.S. dollars	38	19	7	7
Thai baht	150	–	0	0
Currency swaps				
Receive U.S. dollars, pay Thai baht	1,473	0	(25)	7

Note: Fair value calculations are based on quoted prices from financial and other institutions with which MCHC conducts transactions.

2. Hedged derivative transactions

(1) Currency-related transactions

Millions of yen Year ended March 31, 2016	Hedged items	Notional amounts	Maturing after one year	Fair value
Hedge accounting method				
Principle-based accounting				
Forward exchange agreements				
Put				
U.S. dollars	Accounts receivable trade	¥ 635	¥–	¥ 6
Euros	Accounts receivable trade	28	–	(2)
Call				
British pounds	Accounts payable trade	927	–	(49)
Malaysian ringgit	Accounts payable trade	414	–	7
Euros	Accounts payable trade	1,121	–	28
Tai baht	Accounts payable trade	7	–	0
Yen	Accounts payable trade	43	–	1
Hedge accounting method				
Forward exchange deferral accounting				
Forward exchange contracts				
Put				
U.S. dollars	Accounts receivable trade	3,409	–	*
Euros	Accounts receivable trade	1,192	–	*
Taiwan dollars	Accounts receivable trade	4	–	*
Call				
U.S. dollars	Accounts payable trade	7,198	–	*
Euros	Accounts payable trade	131	–	*
Taiwan dollars	Accounts payable trade	1,576	–	*
Swiss franc	Accounts payable trade	292	–	*
Singapore dollars	Accounts payable trade	31	–	*

Millions of yen Year ended March 31, 2015	Hedged items	Notional amounts	Maturing after one year	Fair value
Hedge accounting method				
Principle-based accounting				
Forward exchange agreements				
Call				
U.S. dollars	Accounts payable trade	¥10,732	¥ –	¥160
British pounds	Accounts payable trade	686	–	23
Malaysian ringgit	Accounts payable trade	161	53	4
Yen	Accounts payable trade	155	–	1
Hedge accounting method				
Forward exchange deferral accounting				
Forward exchange contracts				
Put				
U.S. dollars	Accounts receivable trade	26,624	–	*
Euros	Accounts receivable trade	11,200	–	*
Malaysian ringgit	Accounts receivable trade	664	–	*
Call				
U.S. dollars	Accounts payable trade	1,374	–	*
Euros	Accounts payable trade	160	–	*
Taiwan dollars	Accounts payable trade	1,624	–	*
Swiss franc	Accounts payable trade	46	–	*
Singapore dollars	Accounts payable trade	4	–	*
Currency swaps				
Receive yen, pay U.S. dollars	Long-term debt	50	–	*
Receive Singapore dollars, pay yen	Long-term debt	30	–	*

Notes: 1. Fair value calculations are based on quoted prices from financial and other institutions with which MCHC conducts transactions.

2. MCHC accounts for forward exchange deferrals by together accounting for hedged long-term debt* and trade receivables* and payables*, and thus presents fair values that include the fair values of those instruments.

3. With deferral accounting procedures for currency swaps, MCHC accounts for hedged long-term debt* and trade receivables* and payables*, and thus presents fair values that include the fair values of the relevant long-term debt.

(2) Interest-related transactions

Millions of yen Year ended March 31, 2016	Hedged items	Notional amounts	Maturing after one year	Fair value
Hedge accounting method				
Principle-based accounting				
Interest rate swaps				
Pay fixed rate, receive floating rate	Long-term debt	**¥ 3,488**	**¥ –**	**¥(1)**
Special accounting procedures for interest rate swaps				
Interest rate swaps				
Pay fixed rate, receive floating rate	Long-term debt	**156,381**	**134,424**	*
Combined accounting procedures for interest rate and currency swaps (special and deferral accounting procedures)				
Interest rate and currency swaps				
Pay fixed rate, receive floating rate Receive U.S. dollars, pay yen	Long-term debt	**5,700**	**5,700**	*
Pay floating rate, receive floating rate Receive U.S. dollars, pay yen	Long-term debt	**8,300**	**8,300**	*

Millions of yen Year ended March 31, 2015	Hedged items	Notional amounts	Maturing after one year	Fair value
Hedge accounting method				
Principle-based accounting				
Interest rate swaps				
Pay fixed rate, receive floating rate	Long-term debt	¥ 7,001	¥ 3,732	¥(87)
Special accounting procedures for interest rate swaps				
Interest rate swaps				
Pay fixed rate, receive floating rate	Long-term debt	192,109	86,378	*
Combined accounting procedures for interest rate and currency swaps (special and deferral accounting procedures)				
Interest rate and currency swaps				
Pay fixed rate, receive floating rate Receive U.S. dollars, pay yen	Long-term debt	5,700	5,700	*
Pay floating rate, receive floating rate Receive U.S. dollars, pay yen	Long-term debt	8,300	8,300	*

Notes: 1. Fair value calculations are based on quoted prices from financial and other institutions with which MCHC conducts transactions.

2. With special accounting procedures for interest rate swaps and combined (special and deferral) accounting procedures for interest rate and currency swaps, MCHC accounts for hedged long-term debt* and trade receivables* and payables*, and thus presents fair values that include the fair values of the relevant long-term debt.

(3) Commodity-related transactions

Millions of yen Year ended March 31, 2016	Hedged items	Notional amounts	Maturing after one year	Fair value
Hedge accounting method				
Principle-based accounting				
Forward transactions for aluminum ingots				
Put	Aluminum ingot trading	**¥172**	**¥–**	**¥2**

Millions of yen Year ended March 31, 2015	Hedged items	Notional amounts	Maturing after one year	Fair value
Hedge accounting method				
Principle-based accounting				
Forward transactions for aluminum ingots				
Put	Aluminum ingot trading	¥215	¥–	¥1

Note: Fair value calculations are based on quoted prices from financial and other institutions with which MCHC conducts transactions.

Note 12 Pension and severance plans

Information on pension and severance plans for the years ended March 31, 2016, and 2015 are shown below:

1. Overview

Consolidated subsidiaries adopt or combine cash balance pension plans, corporate pension plans, and welfare pension plans as defined benefits plans, and/or lump-sum retirement benefits and defined contribution plans.

Consolidated subsidiaries may pay premium benefits to employees on retirement.

Some domestic consolidated subsidiaries have established retirement benefits trusts.

2. Defined benefit plans

(1) Reconciliation of retirement benefit obligations at beginning and end of year

Millions of yen	March 31, 2016	March 31, 2015
Retirement benefit obligations at beginning of year	**¥ 654,331**	¥575,390
Cumulative effects of changes in accounting policies	**–**	25,960
Restated balance at beginning of year	**654,331**	601,350
Service cost	**19,370**	18,350
Interest expense	**7,216**	8,556
Actuarial gain or loss	**18,603**	28,163
Retirement benefit payments	**(40,449)**	(39,178)
Prior service cost	**260**	31
Effect of business combination*	**114**	33,429
Other	**(8,418)**	3,630
Retirement benefit obligations at end of year	**¥ 651,027**	¥654,331

Notes: 1. Some domestic consolidated subsidiaries use the simplified method to calculate retirement benefit obligations.

2. Other includes translation differences for foreign subsidiaries.

3. The increase in the fiscal year ended March 31, 2015 is attributable to the inclusion of Taiyo Nippon Sanso Corporation and its subsidiaries in the scope of consolidation.

(2) Reconciliation of plan assets at beginning and end of year

Millions of yen	March 31, 2016	March 31, 2015
Plan assets at beginning of year	¥552,904	¥484,924
Expected return on assets	11,232	13,019
Actuarial gains and losses	(19,314)	37,142
Contributions from employer	19,057	13,143
Retirement benefit payments	(33,310)	(31,251)
Effect of business combination*	–	34,882
Other	(5,444)	1,045
Plan assets at end of year	¥ 525,125	¥552,904

Notes: 1. Other includes translation differences for foreign subsidiaries.

2. Includes plans applying the simplified method.

3. The increase in the fiscal year ended March 31, 2015 is attributable to the inclusion of Taiyo Nippon Sanso Corporation and its subsidiaries in the scope of consolidation.

(3) Reconciliation of retirement benefit obligations and plan assets at year-end and net defined benefit liabilities and assets in consolidated balance sheets

Millions of yen	March 31, 2016	March 31, 2015
Retirement benefit obligations of funded plans	¥588,186	¥ 593,811
Plan assets	(525,125)	(552,904)
	63,061	40,907
Retirement benefit obligations of unfunded plans	62,841	60,520
Net liabilities and assets in consolidated balance sheets	¥125,902	¥ 101,427

Millions of yen	March 31, 2016	March 31, 2015
Net defined benefit liabilities	¥143,713	¥132,921
Net defined benefit assets	(17,811)	(31,494)
Net liabilities and assets in consolidated balance sheets	¥125,902	¥101,427

Note: Includes plans applying the simplified method.

(4) Retirement benefit costs and charges by category

Millions of yen	March 31, 2016	March 31, 2015
Service cost*	¥19,024	¥ 18,063
Interest expense	7,216	8,556
Expected return on plan assets	(11,232)	(13,019)
Amortization of actuarial gains and losses	(1,649)	(2,300)
Amortization of prior service cost	1,705	2,199
Amortization of transition amount under post-employment benefit accounting	–	770
Retirement benefit costs of defined benefit plans	¥15,064	¥ 14,269

Notes: 1. Employee contributions to defined benefits plans are deducted.

2. The retirement benefit expenses of consolidated subsidiaries using the simplified method are stated in service cost.

3. In addition to the above retirement benefit costs, the Company recorded ¥15,502 million and ¥727 million for the years ended March 31, 2016 and 2015, respectively, for special retirement expenses.

(5) Remeasurements of defined benefit plans

Components (before tax effect) of remeasurements of defined benefit plans in other comprehensive income are as follows.

Millions of yen	March 31, 2016	March 31, 2015
Actuarial gains and losses	**¥ (39,141)**	¥3,298
Prior service cost	**1,135**	2,565
Transition amount under post-employment benefit accounting	**–**	770
Total	**¥(38,006)**	¥6,633

(6) Accumulated remeasurements of defined benefit plans

Components (before tax effect) of remeasurements of defined benefit plans in accumulated other comprehensive income are as follows.

Millions of yen	March 31, 2016	March 31, 2015
Unrecognized actuarial gains and losses	**¥(32,035)**	¥7,106
Unrecognized prior service cost	**993**	(142)
Total	**¥(31,042)**	¥6,964

(7) Plan assets

① *Main components of plan assets*

Ratios for main components of plan assets are as follows.

	March 31, 2016	March 31, 2015
Bonds	**44%**	44%
Stocks	**34%**	34%
Life insurance company general accounts	**18%**	13%
Other	**15%**	9%
Total	**100%**	100%

Note: Retirement benefit trusts for corporate pension plans account for 11% and 10% of the plan assets total as of March 31, 2016 and 2015, respectively.

② *Methodology for setting expected long-term rates of return*

The long-term expected rates of return for plan assets are determined by considering current and projected plan asset allocations and current and anticipated long-term rates of return from diverse plan assets.

(8) Actuarial assumptions

The principal actuarial assumptions (represented by weighted averages) at the end of fiscal years ended March 31, 2016 and 2015 were as follows.

	March 31, 2016	March 31, 2015
Discount rate	**Principally 0.3%**	Principally 0.6%
Expected long-term rate of return on plan assets	**Principally 2.5% or 2.8%**	Principally 2.0% or 2.5%

Note: Assumed rates of salary increases are principally 1.4% to 4.8%.

3. Defined contribution plans

The required contributions of the Company and consolidated subsidiaries to defined contribution plans totaled ¥5,159 million and ¥4,190 million for the fiscal year ended March 31, 2016 and 2015, respectively.

Note 13 Stock-based compensation plan

Stock option expenses of ¥58 million and ¥17 million are included in general and administrative expenses for the years ended March 31, 2016 and 2015, respectively.

Information on stock-based compensation plans at March 31, 2016, is shown below:

	2015 plan	2015 plan
Grantees	1 director of MCHC	1 executive officer of MCHC 1 retiring director of MCHC 4 retiring executive officers of MCHC
Type of stock	Common stock	Common stock
Date of grant	September 28, 2015	September 28, 2015
Number of shares granted	31,500	78,000
Exercisable period	from September 29, 2015 to September 28, 2035	from September 29, 2015 to September 28, 2035

	2014 plan	2014 plan
Grantees	2 directors of MCHC	3 executive officers of MCHC 1 retiring director of MCHC 1 retiring executive officer of MCHC
Type of stock	Common stock	Common stock
Date of grant	September 12, 2014	September 12, 2014
Number of shares granted	16,000	20,500
Exercisable period	from September 13, 2014 to September 12, 2034	from September 13, 2014 to September 12, 2034

There were no stock-based compensation plans granted during the fiscal year ended March 31, 2014.

	2012 plan	2012 plan
Grantees	3 directors of MCHC	1 executive officer of MCHC
Type of stock	Common stock	Common stock
Date of grant	September 12, 2012	September 12, 2012
Number of shares granted	21,500	4,500
Exercisable period	from September 13, 2012 to September 12, 2032	from September 13, 2012 to September 12, 2032

	2011 plan	2011 plan
Grantees	2 directors of MCHC	1 executive officer of MCHC 1 retiring director of MCHC
Type of stock	Common stock	Common stock
Date of grant	September 14, 2011	September 14, 2011
Number of shares granted	48,000	27,000
Exercisable period	from September 15, 2011 to September 14, 2031	from September 15, 2011 to September 14, 2031

	2010 plan	2010 plan	2010 plan
Grantees	3 directors of MCHC	1 executive officer of MCHC 1 retiring director of MCHC	4 directors of a subsidiary 12 executive officers of a subsidiary 4 retiring executive officers of a subsidiary
Type of stock	Common stock	Common stock	Common stock
Date of grant	September 14, 2010	September 14, 2010	September 15, 2010
Number of shares granted	44,700	20,500	144,450
Exercisable period	from September 15, 2010 to September 14, 2030	from September 15, 2010 to September 14, 2030	from September 16, 2010 to September 15, 2030

There were no stock-based compensation plans granted during the fiscal year ended March 31, 2010.

	2008 plan	2008 plan	2008 plan
Grantees	3 directors of MCHC	1 retiring director of MCHC	1 director of a subsidiary 1 retiring director of a subsidiary 20 executive officers of a subsidiary 4 retiring executive officers of a subsidiary
Type of stock	Common stock	Common stock	Common stock
Date of grant	September 10, 2008	September 10, 2008	September 12, 2008
Number of shares granted	32,650	12,800	227,700
Exercisable period	from September 11, 2008 to September 10, 2028	from September 11, 2008 to September 10, 2028	from September 13, 2008 to September 12, 2028

	2007 plan	2007 plan	2007 plan
Grantees	2 directors of MCHC	1 executive officer of MCHC 2 retiring directors of MCHC	1 director of a subsidiary 1 retiring director of a subsidiary 20 executive officers of a subsidiary 5 retiring executive officers of a subsidiary
Type of stock	Common stock	Common stock	Common stock
Date of grant	December 12, 2007	December 12, 2007	December 14, 2007
Number of shares granted	39,700	49,450	311,100
Exercisable period	from December 13, 2007 to December 12, 2027	from December 13, 2007 to December 12, 2027	from December 15, 2007 to December 14, 2027

	2006 plan	2006 plan	2006 plan	2005 plan
Grantees	3 directors of MCHC	1 executive officer of MCHC 1 retiring director of MCHC	2 directors of a subsidiary 1 retiring director of a subsidiary 19 executive officers of a subsidiary 4 retiring executive officers of a subsidiary	7 directors of a subsidiary 19 executive officers of a subsidiary 3 retiring executive officers of a subsidiary
Type of stock	Common stock	Common stock	Common stock	Common stock
Date of grant	December 13, 2006	December 13, 2006	December 15, 2006	July 1, 2005
Number of shares granted	70,400	28,200	331,000	466,050
Exercisable period	from December 14, 2006 to December 13, 2026	from June 28, 2007 to June 27, 2027	from December 16, 2006 to December 15, 2026	from June 28, 2006 to June 27, 2026

Number, movement and price of stock options were as follows:

1. Number of stock options

Number of shares	2005 plan	2006 plan	2007 plan	2008 plan	2010 plan	2011 plan	2012 plan	2014 plan	2015 plan
Before vesting									
Outstanding as of March 31, 2015	58,200	68,400	91,700	127,450	161,950	75,000	26,000	36,500	–
Granted	–	–	–	–	–	–	–	–	109,500
Expired	–	–	–	–	–	–	–	–	–
Vested	–	–	–	11,700	12,450	–	–	–	–
Outstanding as of March 31, 2016	58,200	68,400	91,700	115,750	149,500	75,000	26,000	36,500	109,500
After vesting									
Outstanding as of March 31, 2015	10,350	18,150	59,650	76,200	25,000	–	–	–	–
Vested	–	–	–	11,700	12,450	–	–	–	–
Rights exercised	–	–	–	21,400	7,000	–	–	–	–
Expired	–	–	–	–	–	–	–	–	–
Outstanding as of March 31, 2016	10,350	18,150	59,650	66,500	30,450	–	–	–	–

Note: Number of stock options are listed after conversion to share numbers

2. Price information

Yen	2005 plan	2006 plan	2007 plan	2008 plan	2010 plan	2011 plan	2012 plan	2014 plan	2015 plan
Exercise price	1	1	1	1	1	1	1	1	1
Average share price on exercising options	–	–	–	674.4	588.3	–	–	–	–
Fair valuation on grant date	–	682	887	514	396	486	281	485	530

3. Method for estimating fair value of stock options

Options pricing model used: Black-Scholes model
Main basic factors and estimation method:

	2015 stock options
Share price volatility (note 1)	33.643%
Expected term (note 2)	6.75 years
Expected dividends (note 3)	¥13 per share
Risk-free interest rate (note 4)	0.092%

Notes: 1. Calculated based on the daily share price over the past six years and 9 months (closing price each trading day from December 26, 2008, to September 28, 2015).

2. Using a period up to the expected average exercise time from the grant date.

3. Based on interim dividends of ¥6 and year-end dividends of ¥7 per share in the fiscal year ended March 31, 2015.

4. The yield on government bonds for the expected term.

4. Since it is fundamentally difficult to reasonably estimate the number of options that will expire in the future, the Company uses a method that only reflects actual expiration numbers.

Note 14 Income taxes

At March 31, 2016 and 2015, significant components of deferred tax assets and liabilities were as follows:

Millions of yen	March 31, 2016	March 31, 2015
Deferred tax assets:		
Tax loss carryforwards	¥ 137,189	¥ 150,560
Net defined benefit liabilities	46,970	40,007
Impairment loss on fixed assets	26,853	10,203
Accrued bonuses to employees	13,745	13,519
Depreciation	8,319	7,185
Unrealized profit on sale of fixed assets	6,601	6,594
Loss on liquidation of subsidiaries and affiliates	5,782	6,048
Write-downs of investment securities	4,280	6,655
Other	73,891	67,593
Gross deferred tax assets	¥ 323,630	¥ 308,364
Valuation allowance	(147,084)	(128,271)
Total deferred tax assets	¥ 176,546	¥ 180,093
Deferred tax liabilities:		
Accelerated tax depreciation	¥ (54,559)	¥ (61,764)
Valuation of assets	(53,677)	(56,479)
Valuation gain on investment securities	(17,446)	(35,483)
Tax deductible reserve	(6,608)	(7,919)
Other	(26,900)	(15,769)
Total deferred tax liabilities	¥(159,190)	¥(177,414)
Net deferred tax assets	¥ 17,356	¥ 2,679

At March 31, 2016 and 2015, deferred tax assets and liabilities included in the consolidated balance sheets are summarized as follows:

Millions of yen	March 31, 2016	March 31, 2015
Deferred income taxes—current	¥ 32,339	¥ 36,482
Deferred income taxes—noncurrent	62,211	62,804
Other current liabilities	(200)	(262)
Other noncurrent liabilities	(76,994)	(96,345)

A reconciliation of the statutory tax rates to the effective tax rates for the years ended March 31, 2016 and 2015, was as follows:

	March 31, 2016	March 31, 2015
Statutory tax rate	33.1%	35.6%
Increase (decrease) in taxes resulting from:		
Increase in valuation allowance for cumulative losses of consolidated subsidiaries	15.6	8.3
Amortization of goodwill	3.3	3.8
Permanent differences	2.2	2.2
Tax credits for research and development costs	(3.2)	(3.2)
Valuation allowance	(2.9)	(1.0)
Difference of statutory tax rate in overseas subsidiaries	(1.8)	(2.5)
Equity in earnings of affiliates, net	(1.2)	(0.5)
Other	1.6	(0.9)
Effective tax rate	46.7%	41.8%

(Impact of Change etc. in Corporate Tax Rate)

March 29, 2016, saw the enactments of the Partial Amendment of the Income Tax Act (Act No. 15 of 2016) and the Partial Revision of the Local Corporation Tax Act (Act No. 13 of 2016), which changed corporate tax rates as of the start of the fiscal year beginning April 1, 2016. The resulting deferred tax assets and liabilities as of March 31, 2016 were calculated using the applicable statutory tax rates to be in effect after the rate revisions for fiscal years in which it would be expected that the temporary differences would be resolved.

From the fiscal year that started on April 1, 2016, the loss carry-forward system limited the proportion of the carry-forward to 60% of income before deductions. The proportion will decline to 55% from the year starting on April 1, 2017, and to 50% from the year starting on April 1, 2018.

The impacts of these changes on the consolidated financial statements for the year ended March 31, 2016 were immaterial.

Note 15 Business combinations, etc.

1. Acquisition of Renegade Gas Pty Ltd. by Taiyo Nippon Sanso Corporation

(Business Combination through Acquisition)

On July 21, 2015, the Board of Directors of consolidated subsidiary Taiyo Nippon Sanso Corporation decided to acquire all of the shares of Renegade Gas Pty Ltd. (RGP), which sells LPG and industrial gases in Australia, through TNSC (Australia) Pty Ltd. (in which Taiyo Nippon Sanso has 85% ownership), which was established to acquire and hold RGP's shares. RGP became a consolidated subsidiary of the Company on July 31, 2015.

(1) Overview of business combination

1. Name and business description of acquired company

Name:	Renegade Gas Pty Ltd
Business description:	Filling and sales of LPG and industrial gases, and sales and rentals of related equipment

2. Main reason for business combination

Consolidated subsidiary Taiyo Nippon Sanso Corporation is exploring ways to expand its operations into new countries to broaden its regional scope as part of efforts to reach the globalization objectives that are part of its Ortus Stage 1 medium-term management plan. Australia has the 12th largest GDP in the world and a population growth rate of 1% to 2% annually, a high level among advanced nations. Its economy is set to expand at around 3% annually over the next few years, reflecting growth in housing investment and personal consumption. The industrial gas market should benefit from steady growth in housing construction and infrastructure-related demand and from new demand from mining and energy sectors.

Taiyo Nippon Sanso will position RGP as a beachhead for cultivating the industrial gas markets of Australia and the rest of Oceania, leveraging that company's existing network to broaden its product lineup and expand its geographic reach.

The MCHC Group will launch efforts to materialize synergies from RGP and establish a solid footing in the Australian industrial gas business.

3. Date of business combination

July 31, 2015

4. Legal form of business combination

Acquisition of shares for cash and exchange of shares through consolidated subsidiary TNSC (Australia)

5. Percentage of voting rights acquired

100%

(2) The acquired company's financial results included in the consolidated statement of income correspond to the following period:

July 1 to December 31, 2015

(3) Acquisition cost of the company and its breakdown

	Millions of Australian dollars	Millions of yen
	March 31, 2016	March 31, 2016
Consideration for acquisition		
Cash	A$142	¥ 12,717
TNSC (Australia) shares	25	2,244
Acquisition cost	A$167	¥14,961

(4) Share exchange ratio by share class and its calculation method, and number of shares issued

1. Share exchange ratio by share class

1 share of RGP common stock for 100 shares of TNSC (Australia) common stock

2. Calculation method for share exchange ratio

Calculated as a result of discussions with the relevant parties referring to stock valuation reports submitted by third-party appraisal institutions and other sources.

3. Number of shares issued

TNSC (Australia) shares: 15,868,013

(5) Breakdown of transaction-related costs

Millions of yen	March 31, 2016
Financial advisory remuneration and fees, etc.	¥226
Attorney remuneration and fees, etc.	79

(6) Amount of goodwill recognized, reason for recognition, method of amortization, and period of amortization

1. Amount of goodwill recognized

A$124 million (¥10,939 million)

2. Reason for recognition

Goodwill was recognized due to the difference between the Company's interest in the acquired company and the acquisition cost.

3. Method of amortization and period of amortization

Straight-line method over 20 years

(7) Amount of assets acquired and liabilities assumed on the date of business combination and its breakdown

	Millions of Australian dollars	Millions of yen
	March 31, 2016	March 31, 2016
Current assets	A$ 20	¥ 1,954
Noncurrent assets	91	8,487
Total assets	A$111	¥10,441
Current liabilities	A$ 19	¥ 1,796
Noncurrent liabilities	49	4,623
Total liabilities	A$ 68	¥ 6,419

(8) Estimated impact on Consolidated Statements of Income for year ended March 31, 2016, and method of calculating such impact assuming that the business combination was completed on the first day of the year ended March 31, 2016

	Millions of Australian dollars	Millions of yen
	March 31, 2016	March 31, 2016
Net sales	A$43	¥3,920
Operating income	6	630
Profit before income taxes	4	426
Profit attributable to owners of parent	A$ 1	¥ 64

Note: Method for calculating estimates

Based on the consolidated sales and income information of RGP from January 1, 2015, through June 30, 2015, estimates reflect amortization of the goodwill that was recognized at the time of the business combination on the assumption that the goodwill had arisen on the first day of the fiscal year ended March 31, 2016.

These estimates are unaudited.

Note 16 Per share information

Yen	March 31, 2016	March 31, 2015
Net assets	¥636.43	¥669.77
Profit attributable to owners of parent—Basic	31.70	41.40
—Diluted	31.68	41.37

1. The basis for calculating profit attributable to owners of parent per share for the year ended March 31, 2016 and diluted profit attributable to owners of parent per share was as follows:

Millions of yen Profit attributable to owners of parent per share	March 31, 2016	March 31, 2015
Profit attributable to owners of parent	¥ 46,444	¥ 60,859
Profit attributable to owners of parent applicable to common shares	46,444	60,859
Average number of common shares during period (thousands of shares)	1,464,811	1,469,998
Increase in number of common shares: (thousands of shares)	887	842
Warrants	(887)	(842)

2. The basis for calculating net assets per share as of March 31, 2016 was as follows:

Millions of yen Net assets per share	March 31, 2016	March 31, 2015
Total net assets	¥ 1,554,528	¥1,588,601
Amounts deducted from total net assets:	622,276	607,608
Warrants	515	471
Non-controlling interests in consolidated subsidiaries	621,761	607,137
Net assets applicable to common shares	932,252	980,993
Number of common shares at the end of the fiscal year used in calculation of net assets per share (thousands of shares)	1,464,802	1,464,664

Note 17 Short-term debt and long-term debt

At March 31, 2016 and 2015, short-term debt of MCHC and its consolidated subsidiaries consisted of the following:

Millions of yen	March 31, 2016	March 31, 2015
Short-term loans principally from banks and other financial institutions at average interest rate of:		
0.910% at March 31, 2016, and 0.889% at March 31, 2015	¥394,688	¥518,985
Commercial papers	30,000	26,000
	¥424,688	¥544,985

At March 31, 2016 and 2015, long-term debt of MCHC and its consolidated subsidiaries consisted of the following:

Millions of yen	March 31, 2016	March 31, 2015
Debt issued by MCHC:		
0.499% notes due 2016	¥ 20,000	¥ 20,000
1.204% notes due 2021	10,000	10,000
0.366% notes due 2017	15,000	15,000
0.556% notes due 2019	10,000	10,000
0.439% notes due 2017	15,000	15,000
0.665% notes due 2019	10,000	10,000
0.615% notes due 2018	20,000	20,000
0.948% notes due 2020	10,000	10,000
1.226% notes due 2023	10,000	10,000
0.319% notes due 2018	10,000	10,000
0.604% notes due 2020	15,000	15,000
0.918% notes due 2023	15,000	15,000
0.319% notes due 2019	25,000	25,000
0.482% notes due 2021	15,000	15,000
0.800% notes due 2024	15,000	15,000
0.433% notes due 2022	10,000	–
0.755% notes due 2025	10,000	–
0.281% notes due 2020	20,000	–
0.476% notes due 2022	10,000	–
0.711% notes due 2025	10,000	–
Debt issued by MCC:		
2.010% notes due 2016	¥ –	¥ 20,000
2.050% notes due 2016	10,000	10,000
2.030% notes due 2018	20,000	20,000
2.020% notes due 2019	10,000	10,000
Debt issued by consolidated subsidiaries other than MCC, due 2021 or before at interest rates ranging from 0.319% to 1.940% at March 31, 2016, and 2015, respectively.	50,010	50,050
Loans, principally from banks and insurance companies due 2016 to 2035:		
Collateralized	8,408	9,357
Non-collateralized	667,646	724,203
	¥1,041,064	¥1,058,610
Less current portion	(178,481)	(198,667)
	¥ 862,583	¥ 859,943

Note: The average interest rates of loans were as follows:
March 31, 2016
Current portion 1.757%
Less current portion 1.235%

Secured assets as of March 31, 2016 and 2015, are shown below:

Millions of yen	March 31, 2016	March 31, 2015
Buildings	¥ 8,085	¥ 9,858
Land	10,191	10,343
Machinery and equipment	36,467	78,553
Total	¥54,743	¥98,754

Secured liabilities as of March 31, 2016 and 2015, are shown below:

Millions of yen	March 31, 2016	March 31, 2015
Short-term debt	¥ 6,357	¥ 7,658
Long-term debt	6,323	4,883
Trade payables	405	366
Total	¥13,085	¥12,907

The aggregate annual maturities of long-term debt are summarized as follows:

Millions of yen	March 31, 2016
2016	¥174,154
2017	167,931
2018	217,619
2019	135,326
2020 and thereafter	167,553
	¥862,583

Note 18 Segment information

1. Overview of reporting segments

The Company's reporting segments comprise financial information that can be segregated, and the Board of Directors regularly assess this information in deciding how to allocate resources and evaluate results.

MCHC is a holding company for six key businesses. They are Mitsubishi Chemical Corporation, Mitsubishi Tanabe Pharma Corporation, Mitsubishi Plastics, Inc., Mitsubishi Rayon Co., Ltd., Life Science Institute, Inc., and Taiyo Nippon Sanso Corporation. MCHC coordinates Group operations, categorizing each company's businesses by product and managing its portfolio based on those categories. Accordingly, MCHC's segments comprise product-specific business categories. The five principal reporting segments are Electronics Applications, Designed Materials, Health Care, Chemicals, and Polymers.

The main products in each reporting segment are as follows.

Reporting Segment	Main Products
Electronics Applications	Recording media, Information and electronics-related materials, Imaging supplies
Designed Materials	Food ingredients, Battery materials, Fine chemicals, Polymer processing products, Composite materials, Inorganic chemicals, Fibers
Health Care	Pharmaceuticals, Diagnostic reagents and instruments, Clinical testing, Pharmaceutical formulation materials
Chemicals	Basic petrochemicals, Chemical derivatives, Synthetic fiber materials, Carbon products, Industrial gases
Polymers	Synthetic resins

2. Basis for calculating sales, earnings or losses, assets, liabilities, and other amounts by reporting segment

The Company accounts for its reported business segments as described in Note 1. Inter-segment sales and transfers are based mainly on prevailing market prices.

3. Information on sales, earnings or losses, assets, liabilities and other financials by reporting segment

	Net Sales*		Inter-segment Sales and Transfers	
	Millions of yen		Millions of yen	
Reporting segment	March 31, 2016	March 31, 2015	March 31, 2016	March 31, 2015
Electronics Applications	¥ 115,649	¥ 118,752	¥ 4,337	¥ 4,895
Designed Materials	852,565	818,591	33,262	30,281
Health Care	554,056	531,933	2,258	1,985
Chemicals	1,321,112	1,113,952	121,290	156,738
Polymers	773,672	873,611	68,873	81,615
Others	206,044	199,439	124,933	119,581
Subtotal	3,823,098	3,656,278	354,953	395,095
Adjustments	–	–	(354,953)	(395,095)
Total	¥3,823,098	¥3,656,278	¥ –	¥ –

* Inter-segment sales and transfers are not included.

	Segment Earnings		Segment Assets	
	Millions of yen		Millions of yen	
Reporting segment	March 31, 2016	March 31, 2015	March 31, 2016	March 31, 2015
Electronics Applications	¥ (988)	¥ (2,725)	¥ 102,769	¥ 117,474
Designed Materials	75,713	55,629	834,760	841,498
Health Care	103,417	77,012	1,059,035	1,050,987
Chemicals	57,256	8,823	1,296,916	1,421,283
Polymers	43,340	27,969	743,781	822,070
Others	7,284	6,056	658,865	603,121
Subtotal	286,022	172,764	4,696,126	4,856,433
Adjustments	(5,996)	(7,083)	(634,554)	(533,395)
Total	¥280,026	¥165,681	¥4,061,572	¥4,323,038

Reporting segment	Depreciation and Amortization		Amortization of Goodwill	
	Millions of yen		Millions of yen	
	March 31, 2016	March 31, 2015	March 31, 2016	March 31, 2015
Electronics Applications	¥ 6,231	¥ 6,134	¥ 4	¥ 4
Designed Materials	42,079	40,181	4,903	4,456
Health Care	16,219	15,712	7,812	8,243
Chemicals	71,153	46,189	4,909	2,143
Polymers	40,010	38,150	2,749	2,735
Others	3,059	3,097	2	59
Subtotal	178,751	149,463	20,379	17,640
Adjustments	1,623	1,790	–	–
Total	¥180,374	¥151,253	¥20,379	¥17,640

Reporting segment	Investment in Equity Method Affiliates		Increase in Tangible and Intangible Fixed Assets*	
	Millions of yen		Millions of yen	
	March 31, 2016	March 31, 2015	March 31, 2016	March 31, 2015
Electronics Applications	¥ 85	¥ 227	¥ 5,056	¥ 5,889
Designed Materials	11,210	11,754	49,676	53,666
Health Care	257	264	21,302	24,608
Chemicals	40,922	44,766	73,562	44,666
Polymers	50,536	39,615	21,861	30,191
Others	893	5,349	3,510	3,642
Subtotal	103,903	101,975	174,967	162,662
Adjustments	–	–	1,541	2,395
Total	¥103,903	¥101,975	¥176,508	¥165,057

* "Increase in Tangible and Intangible Fixed Assets" is equivalent to "Capital Expenditures."

Notes:

1. The Others category is a business segment excluded from reporting segments and mainly encompasses engineering, transportation, and warehousing operations.
2. Adjustments are as follows:
   (1) The ¥5,996 million and ¥7,083 million adjustment for segment earnings or losses includes ¥6,666 million and ¥7,345 million in corporate costs not allocated to each reporting segment and ¥670 million and ¥262 million in inter-segment eliminations for the fiscal years ended March 31, 2016 and 2015, respectively. Corporate costs include expenditures on basic testing, research, and other activities not allocated to reporting segments.
   (2) The segment asset adjustment of ¥634,554 million and ¥533,395 million includes corporate assets of ¥135,870 million and ¥211,221 million not allocated to reporting segments and inter-segment eliminations of ¥770,424 million and ¥744,616 million for the fiscal years ended March 31, 2016 and 2015, respectively.
   (3) Adjustments to depreciation and amortization of ¥1,623 million and ¥1,790 million are corporate costs that are not allocated to reporting segments for the fiscal years ended March 31, 2016 and 2015, respectively.
   (4) Adjustments to increase in tangible and intangible fixed assets of ¥1,541 million and ¥2,395 million are capital expenditures against corporate assets that are not allocated to reporting segments for the fiscal years ended March 31, 2016 and 2015, respectively.
3. Total segment earnings and adjustments match operating income in the consolidated financial statements.
4. In light of business repositioning within the Group of some operations of one consolidated subsidiary and the operations of three other consolidated subsidiaries, from the fiscal year ended March 31, 2016, the Company reclassified some businesses of one consolidated subsidiary from Chemicals to Polymers and Designed Materials. The Company reclassified the businesses of the other three consolidated subsidiaries from the Others category to Polymers. The Company has reconfigured segment information for the previous fiscal year to reflect the new classification.

4. Related information

Geographic information

(1) Sales

Millions of yen	Japan	U.S.A.	Other	Total
Year ended March 31, 2016	**¥2,164,021**	**¥442,826**	**¥1,216,251**	**¥3,823,098**

Millions of yen	Japan	U.S.A.	Other	Total
Year ended March 31, 2015	¥2,137,195	¥288,066	¥1,231,017	¥3,656,278

Note: Sales are based on the locations of customers and categorized according to country or region.

(Changes in presentation)

"PRC," which was presented separately in the fiscal year ended March 31, 2015, was included in "Other" in the fiscal year ended March 31, 2016, as it accounted for less than 10% of consolidated net sales in the fiscal year ended March 31, 2016. "U.S.A.," which was included in "Other" in the fiscal year ended March 31, 2015, was presented separately in the fiscal year ended March 31, 2016, as it accounted for more than 10% of consolidated net sales in the fiscal year ended March 31, 2016.

Results for the fiscal year ended March 31, 2015, have been restated to reflect these changes in presentation. As a result, ¥332,259 million included in "PRC" sales in the fiscal year ended March 31, 2015, was included in "Other," and ¥288,066 million included in "Other" sales in the fiscal year ended March 31, 2015, was included in "U.S.A."

(2) Tangible fixed assets

Millions of yen	Japan	U.S.A.	Other	Total
March 31, 2016	**¥883,236**	**¥230,163**	**¥277,328**	**¥1,390,727**

Millions of yen	Japan	U.S.A.	Other	Total
March 31, 2015	¥902,880	¥237,784	¥357,482	¥1,498,146

5. Information on impairment loss by reporting segment

	Impairment Loss	
	Millions of yen	
Reporting segment	March 31, 2016	March 31, 2015
Electronics Applications	**¥ 2,104**	¥ 362
Designed Materials	**4,588**	4,749
Health Care	**4,664**	10,980
Chemicals	**65,994**	13,278
Polymers	**1,636**	1,768
Others	**6**	46
Corporate and Eliminations	**–**	–
Total	**¥78,992**	¥31,183

6. Information on amortization of goodwill and unamortized balance by reporting segment

Millions of yen	Balance at year-end	
Reporting segment	March 31, 2016	March 31, 2015
Electronics Applications	¥ 4	¥ 8
Designed Materials	39,977	44,247
Health Care	74,169	78,042
Chemicals	96,627	81,346
Polymers	37,397	40,173
Others1	(10)	(19)
Corporate and Eliminations	–	–
Total	¥248,164	¥243,797

Note 19 Significant subsequent events

On April 28, 2016, the Board of Directors of consolidated subsidiary Taiyo Nippon Sanso Corporation resolved to have Matheson Tri-Gas, Inc., its wholly owned subsidiary, purchase certain American industrial gas operations and related business assets from Air Liquide Industrial U.S. LP and Airgas, Inc. Accordingly, the company signed a contract. On May 13, the U.S. Federal Trade Commission (FTC) approved of American Air Liquide Holdings, Inc.'s acquisition of Airgas, Inc., subject to the sale of certain assets to a third party buyer, the execution of such sale being a requirement for the FTC's approval.

(1) Reason for business transfer

Expand the U.S. industrial gas business to become a national supplier and reinforce the position of Taiyo Nippon Sanso as a manufacturer, enhancing its ability to maintain stable supplies and enhance customer trust around the United States

(2) Names of companies selling divested assets

Air Liquide Industrial U.S., LP, and Airgas, Inc.

(3) Main businesses to be acquired

Gas separation business, carbon dioxide business, packaged gases business, and nitrous oxide business

(4) Value of assets to be acquired and liabilities to be assumed and acquisition cost

The asset and liability values have yet to be determined. The acquisition cost cannot be disclosed owing to confidentiality requirements in the contract with the acquired companies.

(5) Acquisition timing

To be determined upon the FTC's approval.

(6) Payment funding and payment method

Management plans to procure internal and external funding for the acquisition.

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Independent auditor's report

The Board of Directors
Mitsubishi Chemical Holdings Corporation

We have audited the accompanying consolidated financial statements of Mitsubishi Chemical Holdings Corporation and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2015 and 2014, and the consolidated statements of income, comprehensive income, changes in net assets, and 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 designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the 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 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. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Mitsubishi Chemical Holdings Corporation and its consolidated subsidiaries as at March 31, 2015 and 2014, and their consolidated financial performance and cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

Emphasis of matter

1. As described in Note 1, "Significant Accounting Policies", effective from April 1, 2013, the domestic subsidiaries of Mitsubishi Chemical Holdings Corporation (the "Company"), excluding the Company, Mitsubishi Tanabe Pharma Corporation and its consolidated subsidiaries in Japan, the Company's consolidated subsidiaries in Japan in the Chemicals and Polymers segments (except Mitsubishi Rayon Co., Ltd. and its consolidated subsidiaries), and the overseas consolidated subsidiaries of the Company, changed their depreciation method for property, plant and equipment from the declining-balance to the straight-line method.
2. As Described in Note 20, "Significant Subsequent Event", the Company resolved to implement a tender offer for common shares of Taiyo Nippon Sanso Corporation at its board of director's meeting held on May 13, 2014.

Our opinion is not qualified in respect of these matters.

/s/ Ernst & Young ShinNihon LLC
June 24, 2015
Tokyo, Japan

Consolidated balance sheets
Mitsubishi Chemical Holdings Corporation and consolidated subsidiaries

As of March 31

Millions of yen	2015	2014
Assets		
Current assets:		
Cash and deposits (notes 8,10)	¥ 236,186	¥ 137,664
Trade receivables (note 8)	759,850	615,737
Securities (notes 8,9)	127,805	112,570
Inventories:		
Finished goods	330,029	323,344
Work in process	83,603	80,051
Raw materials and supplies	180,821	186,577
Land held for sale	1,052	1,135
Deferred income taxes—current (note 14)	36,482	31,014
Prepaid expenses and other current assets	106,119	77,461
Allowance for doubtful accounts	(4,698)	(2,144)
Total current assets	1,857,249	1,563,409
Property, plant and equipment:		
Land	308,995	244,441
Buildings	1,087,046	935,275
Machinery and equipment	3,271,982	2,530,928
Construction in progress	101,649	76,005
	4,769,672	3,786,649
Accumulated depreciation	(3,271,526)	(2,668,599)
Property, plant and equipment, net	1,498,146	1,118,050
Investments and other assets:		
Investment securities (notes 8,9)	355,743	333,599
Long-term loans receivable	2,983	1,331
Deferred income taxes—noncurrent (note 14)	62,804	77,543
Net defined benefit assets (note 12)	31,494	31,240
Goodwill	243,797	180,092
Other	272,290	175,800
Allowance for doubtful accounts	(1,468)	(1,705)
Total investments and other assets	967,643	797,900
Total assets	¥4,323,038	¥ 3,479,359

The accompanying notes are an integral part of these consolidated financial statements.

Millions of yen	2015	2014
Liabilities and net assets		
Current liabilities:		
Short-term debt (notes 8,17)	¥ 544,985	¥ 392,838
Current portion of long-term debt (notes 8,17)	198,667	172,619
Trade payables (note 8)	459,345	413,405
Accrued expenses (note 1)	108,115	80,732
Accrued income taxes	36,224	21,660
Other current liabilities (notes 1,14)	218,611	178,111
Total current liabilities	1,565,947	1,259,365
Long-term liabilities:		
Long-term debt (notes 8,17)	859,943	692,729
Net defined benefit liabilities (note 12)	132,921	121,706
Other noncurrent liabilities (notes 1,14)	175,626	90,689
Total long-term liabilities	1,168,490	905,124
Net assets:		
Shareholders' equity:		
Common stock:		
Authorized—6,000,000 thousand shares:		
Issued and outstanding—1,506,288 thousand shares at March 31, 2015 and 2014	50,000	50,000
Additional paid-in capital	317,714	317,737
Retained earnings	523,149	493,611
Less, treasury stock at cost—41,624 thousand shares at March 31, 2015 and 34,268 thousand shares at March 31, 2014	(16,236)	(11,756)
Total shareholders' equity	874,627	849,592
Accumulated other comprehensive income:		
Net unrealized holding gain (loss) on other securities	40,308	20,748
Gain (loss) on deferred hedges	(26)	209
Land revaluation surplus	1,682	1,581
Foreign currency translation adjustments	59,947	25,556
Remeasurements of defined benefit plans (note 12)	4,455	3,117
Total accumulated other comprehensive income	106,366	51,211
Warrants (notes 6,13)	471	496
Minority interests in consolidated subsidiaries	607,137	413,571
Total net assets	1,588,601	1,314,870
Total liabilities and net assets	¥4,323,038	¥ 3,479,359

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated statements of income
Mitsubishi Chemical Holdings Corporation and consolidated subsidiaries

Years ended March 31

Millions of yen	2015	2014
Net sales	**¥3,656,278**	¥3,498,834
Cost of sales	**2,826,197**	2,791,433
Gross profit	**830,081**	707,401
Selling, general and administrative expenses (note 4)	**664,400**	596,941
Operating income	**165,681**	110,460
Other income (expenses):		
Interest and dividend income	**12,164**	9,893
Equity in earnings (losses) of affiliates, net	**3,843**	(382)
Foreign exchange gains, net	**8,339**	11,236
Interest expense	**(17,599)**	(16,390)
Gain on step acquisitions, net	**34,144**	930
Gain (loss) on sales and retirement of noncurrent assets, net	**6,334**	(1,987)
Gain on sales of investment securities, net	**6,162**	12,982
Profit on arbitration award	**–**	11,011
Impairment loss	**(31,183)**	(3,133)
Provision for prospective loss on removal of fixed assets	**(7,769)**	(887)
Special retirement expenses	**(727)**	(3,421)
Adjustment for prospective salaries for employees on secondment	**–**	(4,984)
Contribution for loss on removal of fixed assets	**–**	(3,080)
Other, net	**(13,768)**	(5,654)
Income before income taxes and minority interests in consolidated subsidiaries	**165,621**	116,594
Income taxes (note 14):		
Current	**60,481**	43,204
Prior periods	**–**	2,612
Deferred	**8,690**	10,519
	69,171	56,335
Income before minority interests	**96,450**	60,259
Minority interests in consolidated subsidiaries	**35,591**	28,011
Net income	**¥ 60,859**	¥ 32,248

Yen	2015	2014
Per share (note 16):		
Net income—Basic	**¥41.40**	¥21.89
—Diluted	**41.37**	21.45
Cash dividends	**13.00**	12.00

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated statements of comprehensive income
Mitsubishi Chemical Holdings Corporation and consolidated subsidiaries

Years ended March 31

Millions of yen	2015	2014
Income before minority interests	**¥ 96,450**	¥ 60,259
Other comprehensive income (loss):		
Net unrealized holding gain (loss) on other securities	**24,299**	7,537
Gain (loss) on deferred hedges	**(562)**	(1,212)
Foreign currency translation adjustments	**40,733**	58,817
Remeasurements of defined benefit plans	**4,344**	1,430
Other comprehensive income (loss) for affiliates accounted for using equity method	**8,428**	7,185
Other comprehensive income (loss), net (note 5)	**77,242**	73,757
Total comprehensive income	**¥173,692**	¥134,016
Total comprehensive income attributable to:		
Shareholders of the parent	**¥116,014**	¥ 96,844
Minority interests	**57,678**	37,172

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated statements of changes in net assets
Mitsubishi Chemical Holdings Corporation and consolidated subsidiaries

Years ended March 31

Millions of yen	2015	2014
Number of outstanding shares of common stock (thousands)		
Balance at beginning of year	**1,506,288**	1,506,288
Balance at end of year	**1,506,288**	1,506,288
Shareholders' equity:		
Common stock		
Balance at beginning of year	**¥ 50,000**	¥ 50,000
Cumulative effects of changes in accounting policies		
Restated balance at beginning of year	**50,000**	50,000
Balance at end of year	**¥ 50,000**	¥ 50,000
Additional paid-in capital		
Balance at beginning of year	¥ 317,737	¥ 317,693
Cumulative effects of changes in accounting policies	–	–
Restated balance at beginning of year	**317,737**	317,693
Disposal of treasury stock	**31**	44
Reduction in additional paid-in capital due to acquisition of treasury stock from consolidated subsidiary	**(54)**	–
Balance at end of year	**¥ 317,714**	¥ 317,737
Retained earnings		
Balance at beginning of year	**¥ 493,611**	¥ 479,083
Cumulative effects of changes in accounting policies	**(13,343)**	–
Restated balance at beginning of year	**480,268**	479,083
Cash dividends	**(17,637)**	(17,700)
Net income	**60,859**	32,248
Change in scope of consolidation	**(341)**	–
Change in scope of equity method	–	(20)
Balance at end of year	**¥ 523,149**	¥ 493,611
Treasury stock at cost		
Balance at beginning of year	**¥ (11,756)**	¥ (11,280)
Cumulative effects of changes in accounting policies	–	–
Restated balance at beginning of year	**(11,756)**	(11,280)
Purchase of treasury stock	**(2,705)**	(538)
Disposal of treasury stock	**16**	62
Change in scope of consolidation	**(1,791)**	–
Balance at end of year	**¥ (16,236)**	¥ (11,756)
Total shareholders' equity		
Balance at beginning of year	**¥ 849,592**	¥ 835,496
Cumulative effects of changes in accounting policies	**(13,343)**	–
Restated balance at beginning of year	**836,249**	835,496
Cash dividends	**(17,637)**	(17,700)
Net income	**60,859**	32,248
Purchase of treasury stock	**(2,705)**	(538)
Disposal of treasury stock	**47**	106
Change in scope of consolidation	**(2,132)**	–

The accompanying notes are an integral part of these consolidated financial statements.

Millions of yen	2015	2014
Change in scope of equity method	–	(20)
Reduction in additional paid-in capital due to acquisition of treasury stock from consolidated subsidiary	(54)	–
Balance at end of year	¥ 874,627	¥ 849,592
Accumulated other comprehensive income:		
Net unrealized holding gain on other securities		
Balance at beginning of year	¥ 20,748	¥ 13,959
Cumulative effects of changes in accounting policies	–	–
Restated balance at beginning of year	20,748	13,959
Net change in items other than those in shareholders' equity	19,560	6,789
Balance at end of year	¥ 40,308	¥ 20,748
Gain (loss) on deferred hedges		
Balance at beginning of year	¥ 209	¥ 1,018
Cumulative effects of changes in accounting policies	–	–
Restated balance at beginning of year	209	1,018
Net change in items other than those in shareholders' equity	(235)	(809)
Balance at end of year	¥ (26)	¥ 209
Land revaluation surplus		
Balance at beginning of year	¥ 1,581	¥ 1,581
Cumulative effects of changes in accounting policies	–	–
Restated balance at beginning of year	1,581	1,581
Net change in items other than those in shareholders' equity	101	–
Balance at end of year	¥ 1,682	¥ 1,581
Foreign currency translation adjustments		
Balance at beginning of year	¥ 25,556	¥ (31,639)
Cumulative effects of changes in accounting policies	–	–
Restated balance at beginning of year	25,556	(31,639)
Net change in items other than those in shareholders' equity	34,391	57,195
Balance at end of year	¥ 59,947	¥ 25,556
Remeasurements of defined benefit plans		
Balance at beginning of year	¥ 3,117	¥ (4,912)
Cumulative effects of changes in accounting policies	–	–
Restated balance at beginning of year	3,117	(4,912)
Net change in items other than those in shareholders' equity	1,338	8,029
Balance at end of year	¥ 4,455	¥ 3,117
Total accumulated other comprehensive income		
Balance at beginning of year	¥ 51,211	¥ (19,993)
Cumulative effects of changes in accounting policies	–	–
Restated balance at beginning of year	51,211	(19,993)
Net change in items other than those in shareholders' equity	55,155	71,204
Balance at end of year	¥ 106,366	¥ 51,211
Warrants		
Balance at beginning of year	¥ 496	¥ 565
Cumulative effects of changes in accounting policies	–	–
Restated balance at beginning of year	496	565
Net change in items other than those in shareholders' equity	(25)	(68)
Balance at end of year	¥ 471	¥ 496

Millions of yen	2015	2014
Minority interests in consolidated subsidiaries		
Balance at beginning of year	¥ 413,571	¥ 387,248
Cumulative effects of changes in accounting policies	(3,807)	–
Restated balance at beginning of year	409,764	387,248
Net change in items other than those in shareholders' equity	197,373	26,323
Balance at end of year	¥ 607,137	¥ 413,571
Total net assets		
Balance at beginning of year	¥ 1,314,870	¥1,203,316
Cumulative effects of changes in accounting policies	(17,150)	–
Restated balance at beginning of year	1,297,720	1,203,316
Cash dividends	(17,637)	(17,700)
Net income	60,859	32,248
Purchase of treasury stock	(2,705)	(538)
Disposal of treasury stock	47	106
Change in scope of consolidation	(2,132)	–
Change in scope of equity method	–	(20)
Reduction in additional paid-in capital due to acquisition of treasury stock from consolidated subsidiary	(54)	–
Net change in items other than those in shareholders' equity	252,503	97,458
Balance at end of year	¥ 1,588,601	¥1,314,870

The accompanying notes are an integral part of these consolidated financial statements.

Note: Reduction in additional paid-in capital due to acquisition of treasury stock from consolidated subsidiary MCHC deducted taxes applicable to gains on transfers of shares in consolidated subsidiaries from capital surplus based on the Practical Guidelines for Tax Effect Accounting on the Consolidated Financial Statements (Report No. 6 of the JICPA Accounting System Committee). This was in keeping with the acquisition of the Company's shares from a consolidated subsidiary, Taiyo Nippon Sanso Corporation, and was pursuant to a resolution of the Board of Directors on February 4, 2015 in accordance with the provisions of Article 156-1 and Article 163 of the Companies Act of Japan.

Consolidated statements of cash flows
Mitsubishi Chemical Holdings Corporation and Consolidated Subsidiaries

Years ended March 31

Millions of yen	2015	2014
Cash flows from operating activities:		
Income before income taxes and minority interests in consolidated subsidiaries	¥ 165,621	¥ 116,594
Adjustments for:		
Depreciation and amortization	151,253	131,571
Amortization of goodwill	21,144	14,708
Interest expense	17,599	16,390
Interest and dividend income	(12,164)	(9,893)
Equity in (earnings) losses of affiliates, net	(3,843)	382
Foreign exchange (gains) losses, net	(672)	(3,501)
Impairment loss	31,183	3,133
Provision for prospective loss on removal of fixed assets	7,769	887
Contribution for prospective loss on removal of fixed assets	–	3,080
(Gain) loss on step acquisitions, net	(34,144)	(930)
(Gain) loss on sales and retirement of noncurrent assets, net	(6,334)	1,987
(Gain) loss on sales of investment securities, net	(6,162)	(12,982)
(Increase) decrease in trade receivables	4,302	4,762
(Increase) decrease in inventories	58,975	(18,335)
Increase (decrease) in trade payables	(38,092)	(38,377)
Increase (decrease) in provision for retirement benefits	–	(126,713)
Increase (decrease) in net defined benefit liabilities	8,326	132,669
Other, net	18,778	11,030
Subtotal	383,539	226,462
Interest and dividend income received	14,378	12,697
Interest expenses paid	(18,057)	(16,258)
Income taxes paid	(50,084)	(45,874)
Net cash provided by operating activities	329,776	177,027
Cash flows from investing activities:		
Payment for time deposits	(29,365)	(11,874)
Proceeds from repayment of time deposits	7,967	10,808
Purchase of short-term investment securities	(122,300)	(38,000)
Proceeds from sales and redemption of securities	95,871	60,371
Purchase of property, plant and equipment	(157,265)	(132,182)
Proceeds from sales of property, plant and equipment	15,587	7,073
Purchase of intangible assets	(3,423)	(2,910)
Purchase of investment securities	(4,583)	(67,421)
Proceeds from sales and redemption of investment securities	14,639	40,182
Purchase of investments in subsidiaries resulting in change in scope of consolidation	(70,527)	(25,564)
Proceeds from sales of investments in subsidiaries resulting in change in scope of consolidation	4,467	–
Payment for investments in capital of subsidiaries and affiliates	(18,377)	–
(Increase) decrease in loans receivable, net	(6,826)	112
Purchase of long-term prepaid expenses	(6,990)	(3,648)
Other, net	3,902	3,264
Net cash used in investing activities	(277,223)	(159,789)

The accompanying notes are an integral part of these consolidated financial statements.

Millions of yen	2015	2014
Cash flows from financing activities:		
Increase (decrease) in short-term debt, net	**93,773**	56,149
Proceeds from issuance of long-term debt	**202,702**	201,123
Repayment of long-term debt	**(262,845)**	(235,035)
Proceeds from stock issuance to minority shareholders	**2,602**	5,437
Cash dividends paid	**(17,637)**	(17,700)
Cash dividends paid to minority shareholders	**(17,602)**	(16,508)
Purchase of treasury stock	**(38)**	(120)
Proceeds from sales of treasury stock	**36**	5
Other, net	**(3,052)**	(1,658)
Net cash used in financing activities	**(2,061)**	(8,307)
Effect of exchange rate changes on cash and cash equivalents	**11,807**	17,505
Net increase (decrease) in cash and cash equivalents	**62,299**	26,436
Cash and cash equivalents at beginning of the year	**179,556**	153,120
Net increase (decrease) in cash and cash equivalents resulting from change in scope of consolidation	**1,200**	–
Cash and cash equivalents at end of period (note 10)	**¥ 243,055**	¥ 179,556

The accompanying notes are an integral part of these consolidated financial statements.

Notes to consolidated financial statements
Mitsubishi Chemical Holdings Corporation and consolidated subsidiaries

March 31, 2015

Note 1 Significant accounting policies

(a) Basis of presentation

The accompanying consolidated financial statements are compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Law of Japan and are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects from the application and disclosure requirements of International Financial Reporting Standards. In presenting the accompanying consolidated financial statements, certain items have been reclassified for the convenience of readers outside Japan. As permitted, amounts of less than one million yen have been omitted. As a result, the totals shown in the accompanying consolidated financial statements do not necessarily agree with the sum of the individual amounts. Certain amounts from the prior year have been reclassified to conform to the current year's presentation.

(b) Principles of consolidation and accounting for investments in unconsolidated subsidiaries and affiliates

The accompanying consolidated financial statements include the accounts of MCHC and all significant subsidiaries over which substantial control is exerted either through majority ownership of voting stock and/or by other means. Investments in certain unconsolidated subsidiaries and significant affiliates are accounted for by the equity method. Other investments in unconsolidated subsidiaries and affiliates are stated at cost or less. Where there has been a permanent decline in the value of such investments, MCHC has written them down to reflect the impairment.

All significant intercompany balances and transactions have been eliminated in consolidation. On acquisition, the assets and liabilities of the consolidated subsidiaries are valued at fair value.

Goodwill on acquisition of underlying net equity in consolidated subsidiaries and the excess of cost over fair value in affiliates accounted for by the equity method is amortized on a straight-line basis over a period of less than 20 years depending on the source.

(c) Securities

Investment securities are classified as either held-to-maturity debt securities or other securities. Held-to-maturity debt securities are either amortized or accumulated to face value. Other securities with quoted market prices are carried at market value. The difference between the acquisition cost and the carrying value of other securities, including unrealized gain and loss, net of the applicable income taxes, is recognized as a component of net assets and is reflected as "Net unrealized holding gain or loss on other securities." The cost of other securities sold is computed by the moving average method. Other securities without quoted market prices are stated at cost based on the moving average method.

Held-to-maturity debt securities due within one year are presented as "Current assets" in the accompanying consolidated balance sheets. All other securities are presented as "Investments and other assets" in the accompanying consolidated balance sheets.

(d) Derivative transactions

Derivative transactions are measured at fair value.

(e) Inventories

Finished goods, work in process, raw materials, and other inventory assets are stated principally at cost based on the average cost. Supplies (excluding packaging materials and deteriorated assets) are stated primarily at cost based on the moving average method.

Balance sheet amounts are calculated by writing down their book values in accordance with decreases in profitability.

(f) Property, plant and equipment

Property, plant and equipment is stated at cost. Depreciation of property, plant and equipment is principally calculated using the straight-line method.

Principal estimated useful lives of the assets are as follows:

Buildings:	3–50 years
Machinery and equipment:	4–20 years

(Changes in Accounting Policies that are Difficult to Distinguish from Changes in Accounting Estimates)

(1) Change in depreciation method for significant depreciable assets

MCHC, Mitsubishi Tanabe Pharma Corporation and its consolidated subsidiaries in the health care segment, the Company's consolidated subsidiaries in Japan in the chemicals and polymers segments (except Mitsubishi Rayon Co., Ltd., and its consolidated subsidiaries), and the Company's overseas consolidated subsidiaries have been using the straight-line method for depreciation of property, plant and equipment. On the other hand, other consolidated subsidiaries in Japan principally had used the declining-balance method for the depreciation previously. However, these companies have changed to the straight-line method from the year under review. In December 2010, the MCHC Group announced APTSIS 15, a medium-term management plan. Under the five-year initiative, which began in fiscal 2011, the Group has reformed the business structure to shift to high-performance, high-value-added fields while continuing to invest extensively overseas. As a result, the Group has transformed its business structure so overseas operations have become more important in recent years, with domestic businesses maturing and contributing to long-term earnings stability. Management reviewed APTSIS 15 in March 2013, announcing the deployment of APTSIS 15 Step 2, a three-year second-stage initiative beginning in fiscal 2013. Based on APTSIS 15 Step 2, the Group will address changes in the industrial structure and in the business climate owing to declining demand and excess supply and will continue to expand overseas. In Japan, the Group focuses on businesses with stable, long-term earnings potential and on maintaining or upgrading domestic infrastructure, leveling out production. After evaluating depreciation methods in light of the deployment of APTSIS 15 Step 2, management concluded that switching to the straight-line method would be a rational cost allocation approach from the standpoints of optimizing earnings and unifying Group accounting policies in view of projections for stable operating rates and profits at domestic facilities in the years ahead. In comparison with the previous method, this change had the effect of increasing consolidated operating income by ¥12,467 million and income before income taxes and minority interests in consolidated subsidiaries by ¥12,670 million.

(g) Allowance for doubtful accounts

Allowance for doubtful accounts is provided for at an amount estimated with reference to individual accounts deemed uncollectible plus an amount calculated by a historical rate based on the actual uncollectible amounts in prior years.

(h) Accrued bonuses to employees

To provide for payments of bonuses to its employees, bonuses and related social insurance premium are accrued and recorded at the amount expected to be paid.

The corresponding balances of ¥39,286 million and ¥35,501 million are included in "Accrued expenses" in the accompanying consolidated balance sheets as of March 31, 2015 and 2014, respectively.

(i) Reserves for possible losses in connection with litigation

Reserves for possible losses in connection with litigation are set aside for payments to settle lawsuits and in preparation for payments that may arise in the future.

1. Reserve for health management allowances for HIV compensation

Balances of ¥1,700 million and ¥1,576 million are included in "Other noncurrent liabilities" in the accompanying consolidated balance sheets as of March 31, 2015 and 2014, respectively.

To provide for future payments of health management allowances and settlement payments (including attorney fees) in connection with a lawsuit for damages filed by plaintiffs infected with HIV, the consolidated subsidiary, Mitsubishi Tanabe Pharma Corporation (MTPC) has set aside an estimated amount for such future payments.

2. Reserve for HCV litigation

Balances of ¥2,036 million and ¥2,634 million are included in "Other noncurrent liabilities" in the accompanying consolidated balance sheets as of March 31, 2015 and 2014, respectively.

To provide for losses that may arise in the future from a settlement of lawsuits filed by plaintiffs infected with HCV (hepatitis C virus), MTPC has set aside an estimated amount for payments related to such settlement based on estimates of the number of people receiving relief and the amount of relief payments required under a law which stipulates that relief be provided to people who contacted hepatitis C from specific fibrinogen products or specific coagulation factor IX products.

3. Reserve for health management allowances for sub-acute myelo-optical neuropathy (SMON) compensation

Balances of ¥2,731 million and ¥2,976 million are included in "Other noncurrent liabilities" in the accompanying consolidated balance sheets as of March 31, 2015 and 2014, respectively.

MTPC pays health management allowances and nursing expenses for plaintiffs covered under the compromise settlement reached in the SMON litigation.

MTPC has made a provision in the accompanying consolidated financial statements for the estimated future medical treatment payments to be made over the remaining lives of the parties entitled to such payments under the compromise settlement.

(j) Reserve for periodic repairs

Several consolidated subsidiaries provide for costs of periodic repairs of production facilities in plants and oil tanks. The corresponding balances of ¥8,617 million and ¥9,279 million are included in "Other current liabilities" and "Other noncurrent liabilities" in the accompanying consolidated balance sheets as of March 31, 2015 and 2014, respectively.

(k) Directors' retirement benefits

Accrued lump-sum retirement benefits for directors, executive officers and corporate auditors are determined based on internal regulations. The corresponding balances of ¥2,258 million and ¥1,316 million are included in "Other noncurrent liabilities" in the accompanying consolidated balance sheets as of March 31, 2015 and 2014, respectively.

(l) Reserve for costs associated with liquidation of subsidiaries and affiliates

Several consolidated subsidiaries provide for estimated costs derived from liquidation of its subsidiaries and affiliates. The corresponding balances of ¥476 million and ¥1,511 million are included in "Other noncurrent liabilities" in the accompanying consolidated balance sheets as of March 31, 2015 and 2014, respectively.

(m) Reserve for prospective loss on removal of fixed assets

Several consolidated subsidiaries provide for prospective loss on removal of fixed assets. The corresponding balances of ¥8,527 million and ¥4,900 million are included in "Other current liabilities" and "Other noncurrent liabilities" in the accompanying consolidated balance sheets as of March 31, 2015 and 2014, respectively.

(n) Provision for environmental measures

Provision is made to cover estimated future losses from environmental measures work. Balances of ¥2,338 million and ¥2,339 million are included in "Other noncurrent liabilities" in the accompanying consolidated balance sheets as of March 31, 2015, and 2014, respectively.

(o) Retirement benefits

1. Period attribution method for expected post-retirement benefit obligation

The Group uses the benefit formula standard as the period attribution method through the end of the fiscal year ended March 31, 2015 to calculate the expected post-retirement benefit obligation.

2. Amortization method for actuarial gain or loss, service cost and differences from accounting policy transitions

The Group amortizes actuarial gains or losses beginning in the year following that in which they are incurred by using the straight-line method over a certain period (in principle, five years) that is shorter than the remaining average service period from the date incurred. The Group amortizes prior service cost by using the straight-line method over a certain period (in principle, five years) that is shorter than the remaining average service period from the date incurred. Differences from accounting policy transitions are charged over an average of 15 years, in principle.

(Change in Accounting Policy)

(1) Adoption of retirement benefit accounting standards, etc.

From the fiscal year ended March 31, 2015, MCHC applied the main clause of Article 35 of the "Accounting Standard for Retirement Benefits" and the main clause of Article 67 of the "Guidance on Accounting Standard for Retirement Benefits" (Accounting Standards Board of Japan (ASBJ) Statement No. 26, May 17, 2012) and (ASBJ Guidance No. 25, March 26, 2015). MCHC accordingly reviewed its methods for calculating retirement benefit obligations and service costs and changed its period attribution method for projected retirement benefits from the straight-line method to the benefit formula standard. It also changed the method for determining the discount rate from one based on the approximate average remaining service period of employees to a single weighted average discount rate reflecting the projected timing and amount of the retirement benefits. The Accounting Standard for Retirement Benefits and its guidance are applied with transitional treatments stipulated in Article 37 of the Accounting Standard for Retirement Benefits. As of April 1, 2014, the impact of the changes in methods for calculating retirement benefit obligations and service costs was reflected in retained earnings. This resulted in a ¥13,343 million reduction in retained earnings as of April 1, 2014. The impacts on earnings and segment information for the year ended March 31, 2015 were immaterial. The impact on per-share information is presented in the relevant sections.

(p) Foreign currency translation

Current and noncurrent monetary assets and liabilities denominated in foreign currencies of MCHC and its domestic consolidated subsidiaries are translated into yen at the exchange rates in effect at the balance sheet date. Gains and losses arising from foreign exchange differences are credited or charged to income in the year in which they are made or incurred.

(q) Foreign currency financial statements

The balance sheet accounts of foreign consolidated subsidiaries and affiliates are translated into yen at the exchange rates in effect at the balance sheet date, except for the components of net assets excluding minority interests, which are translated at their historical exchange rates. Revenue and expense accounts of foreign consolidated subsidiaries and affiliates are translated into yen at the average exchange rates in effect during the year.

Translation adjustments resulting from the process of translating the financial statements of foreign consolidated subsidiaries and affiliates into yen are accumulated and presented under "Minority interests in consolidated subsidiaries" and "Foreign currency translation adjustments" as a component of net assets.

(r) Principal hedge accounting methods

1. Hedge accounting method

The Group defers recognition of gains or losses related to fair or appraised value hedges. For receivables and payables denominated in foreign currencies, such as those with foreign exchange contracts, deferral hedging is used where satisfying deferral hedging criteria, while specific matching is used for interest rate swaps meeting specific matching criteria.

2. Hedging instruments and targets

The Group uses foreign exchange contracts and currency swaps to reduce exposure to foreign exchange risks arising from transactions denominated in foreign currencies, notably imports and exports, financing, and funds management. The Group similarly uses interest rate swaps to lower exposure to interest rate fluctuations in financing and funds management transactions. The Group also uses commodity futures contracts to hedge against the risks of fluctuations in the purchase costs of raw materials.

3. Hedging policy

The Group maintains a policy of limiting the use of derivative transactions to actual demand and does not engage in such transactions for speculative purposes. The Group minimizes credit risk stemming from breaches of contract of counterparties by restricting its use of derivative transactions to financial institutions with high credit ratings.

4. Method of assessing hedge effectiveness

The Group has confirmed that the hedging instruments and targets used in executing derivative transactions nearly match crucial requirements, and it can offset the effects of market fluctuations on and after implementing hedges.

The Group decides on whether to engage in planned transactions after assessing whether or not such transactions are extremely feasible.

(s) Amortization of goodwill

Goodwill is amortized on a straight-line basis over less than 20 years, depending on the source. Goodwill related to the launch of consolidated subsidiary Mitsubishi Tanabe Pharma Corporation is being amortized over 15 years. Goodwill from making Mitsubishi Plastics, Inc., into a wholly owned subsidiary is being amortized over 10 years. Goodwill from making Mitsubishi Rayon Co., Ltd. and Qualicaps Co., Ltd. into wholly owned consolidated subsidiaries and Taiyo Nippon Sanso Corporation into a consolidated subsidiary is being amortized over 20 years.

(t) Cash equivalents

All highly liquid investments, generally with a maturity of three months or less when purchased, which are readily convertible into known amounts of cash and are so near maturity that they represent only an insignificant risk of any change in value attributable to changes in interest rates, are considered cash equivalents.

(u) Research and development

Expenses related to research and development activities are charged to income as incurred.

(v) Distribution of retained earnings

Cash dividends are recorded in the fiscal year in which they are approved at the relevant shareholders' meeting or, in the case of interim dividends, the respective years in which they are declared by the Board of Directors.

(w) Income taxes

Deferred income taxes are recognized by the asset and liability method under which deferred tax assets and liabilities are determined based on the differences between financial reporting and the tax bases of the assets and liabilities, and are measured using the enacted tax rates and laws which will be in effect when the differences are expected to reverse.

A valuation allowance is provided against the deferred tax assets where it is considered more likely than not that they will not be realized.

Additional information

Several Consolidated Subsidiaries' Year-end Switched to March 31

During the fiscal year ended March 31, 2015, Medicago Inc. and 7 other companies switched their fiscal year-end from December 31 to March 31. The Company thus prepared consolidated financial statements based on the financial statements for those companies for the 12 months ended December 31, 2014, and three months through March 31, 2015.

Accounting standards yet to be applied

Accounting standard for business combinations

- Revised Accounting Standard for Business Combinations (ASBJ Statement No. 21, September 13, 2013)
- Revised Accounting Standard for Consolidated Financial Statements (ASBJ Statement No. 22, September 13, 2013)
- Revised Accounting Standard for Business Divestitures (ASBJ Statement No. 7, September 13, 2013
- Revised Accounting Standard for Earnings Per Share (ASBJ Statement No. 2, September 13, 2013)
- Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures (ASBJ Guidance No. 10, September 13, 2013)
- Revised Guidance on Accounting Standard for Earnings Per Share (ASBJ Guidance No.4, September 13, 2013)

(1) Outline

The principal accounting standard revisions were 1) accounting for changes in a parent's holdings in a subsidiary when control is retained in the acquisition of additional shares in that subsidiary, 2) the corresponding accounting for acquisition costs, 3) net income disclosure and revising terminology from minority interests to non-controlling interests, and 4) provisional accounting.

(2) Date of application

The changes will be applied from the beginning of the fiscal year ending March 31, 2016. Provisional accounting will apply to business combinations occurring on or after the start of the fiscal year ending March 31, 2016.

(3) Effects of adoption of the accounting standards, etc.

The effects of the adoption of the accounting standard are currently being evaluated.

Note 2 Impairment losses

In principle, the MCHC Group maintains its grouping of assets in terms of operational, manufacturing process, and regional relevance based on business units. The Group recognizes impairment losses for idle assets by individual asset. In the fiscal year ended March 31, 2015, the Group posted ¥31,183 million in impairment losses as part of other expenses. The main assets for which impairment losses were recognized are as follows:

Use	Location	Category	Impairment loss
Terephthalic acid production facilities	MCC PTA India Corp. Private Limited (West Bengal State, India)	Machinery and equipment, Others	¥10,430 million
Pharmaceuticals research facilities	Kazusa Plant of Mitsubishi Tanabe Pharma Corporation (Kisarazu-City, Chiba Prefecture)	Land, Buildings, Structures, Others	¥4,432 million
Pharmaceuticals production facilities	Kashima Plant of Mitsubishi Tanabe Pharma Corporation and Mitsubishi Tanabe Pharma Factory Ltd. (Kamisu-City, Ibaraki Prefecture)	Buildings, Structures, Machinery and equipment, Vehicles, Others	¥2,161 million
Anode materials production facilities	Qingdao Anode Kasei Co., Ltd. (Shandong Province, China)	Construction in progress, Others	¥1,742 million
Cathode materials production facilities	Mizushima Plant of Mitsubishi Chemical Co., Ltd. (Kurashiki-City, Okayama Prefecture)	Machinery and equipment, Buildings, Structures, Others	¥1,739 million
Exclusive right for sales of ethical drugs	Mitsubishi Tanabe Pharma Corporation (Chuo-Ku, Osaka)	Distributorship	¥1,600 million
Facilities for pharmaceuticals business management and sales	Hirano-Cho No. 1 building of Mitsubishi Tanabe Pharma Corporation (Chuo-Ku, Osaka)	Land, Buildings, Structures	¥1,215 million
Industrial gases production facilities	Leeden National Oxygen, Ltd. (Pahang State, Malaysia)	Machinery and equipment	¥1,189 million

Composition of impairment losses

Terephthalic acid production facilities

The impairment loss of ¥10,430 million includes ¥9,196 million for machinery and equipment, and ¥1,234 million for others.

The profitability of the terephthalic acid production facilities of MCC PTA India Corp. Private Limited declined substantially owing to sluggish market conditions. Prospects for a turnaround were low, making it unlikely that some investments would be recoverable. The book value was thus reduced to the recoverable amount. That amount was based on the value in use and calculated by discounting future cash flows by 11.9%.

Pharmaceuticals research facilities

The impairment loss of ¥4,432 million includes ¥1,870 million for land, ¥1,845 million for buildings and structures, and ¥717 million for others.

With a decision to close the Kazusa Plant, the facilities are expected to be idle, so the book value was reduced to the recoverable amount. That amount is the net selling price, and is based on reasonably calculated prices (including real estate appraisals, etc.).

Pharmaceuticals production facilities

The impairment loss of ¥2,161 million includes ¥1,048 million for buildings and structures, ¥901 million for machinery and equipment, and vehicles, and ¥212 million for others.

The book value of production and other facilities of Mitsubishi Tanabe Pharma Corporation and Mitsubishi Tanabe Pharma Factory Ltd. was reduced to the recoverable amount in line with the decision to sell the Kashima Plant. That amount is the net selling price, and is based on the projected selling price.

Anode materials production facilities

The impairment loss of ¥1,742 million includes ¥1,620 million for construction in progress, and ¥122 million for others.

Sales volumes from the anode materials production facilities of Qingdao Anode Kasei Co., Ltd., in China failed to grow, and were significantly below initial targets. Management revised sales targets after concluding that significant increases were unlikely in the near future, as a result of which the book value was reduced to the recoverable amount for some facilities because management did not envisage that some of them would be used under future production plans.

Cathode materials production facilities

The impairment loss of ¥1,739 million includes ¥1,207 million for machinery and equipment, ¥502 million for buildings and structures, and ¥30 million for others.

With sales volumes sluggish at cathode materials production facilities, management concluded that significant increases were unlikely in the near future and decided to halt operations at these facilities after reviewing groupings. As a result, the book value was reduced to the recoverable amount because it was unlikely that investments could be recovered. The recoverable amount was based on the usage value. The discounted future cash flows were negative, so the discount rate is not presented.

Exclusive right for sales of ethical drugs

The impairment loss of ¥1,600 million includes ¥1,600 million for investments of other assets.

Management lowered the book value of the exclusive right for sales of ethical drugs to the recoverable amount (nominal value, etc.), as the future estimated cash flow for this right was less than the book value.

Facilities for pharmaceuticals business management and sales

The impairment loss of ¥1,215 million includes ¥1,161 million for land, and ¥54 million for buildings and structures.

Mitsubishi Tanabe Pharma Corporation consolidated and relocated head office functions during the year ended March 31, 2015. As the Hirano-cho No. 1 building was to become an idle asset owing to such factors as consolidation and relocation, management lowered the book value to the recoverable amount. That amount is the net selling price, and is based on reasonably calculated prices (including real estate appraisals, etc.).

Industrial gases production facilities

The impairment loss of ¥1,189 million includes ¥1,189 million for machinery and equipment.

Leeden National Oxygen, Ltd. in Malaysia lowered the book value of idle gases production facilities to the recoverable amount. That amount is the net selling price, and is based on reasonably calculated prices (including market valuations, etc.).

Note 3 Contingent Liabilities

MCHC and its consolidated subsidiaries were guarantors for the following borrowings principally incurred by unconsolidated subsidiaries, affiliates and others:

Year ended March 31, 2015

	Gross including third parties' liabilities	Net MCHC's and consolidated subsidiaries' own liabilities
	Millions of yen	Millions of yen
Guarantees	**¥23,411**	**¥22,915**
Stand-by guarantees	**155**	**138**

Year ended March 31, 2014

	Gross including third parties' liabilities	Net MCHC's and consolidated subsidiaries' own liabilities
	Millions of yen	Millions of yen
Guarantees	¥4,015	¥2,930
Stand-by guarantees	142	142

Trademark Infringement Lawsuit

Year ended March 31, 2015

The consolidated subsidiary Verbatim Corporation (US) was sued for trademark infringement in Brazil. In May 2007, a court in Manaus, in the Brazilian state of Amazonas, ruled in favor of the plaintiff and ordered Verbatim Corporation to pay 377 million Brazilian real, or ¥14,031 million ($116,925 thousand). Verbatim Corporation, believing that no trademark infringement took place, and dissatisfied with the fact that reasons for recognizing the plaintiff's monetary claim were not disclosed, immediately filed an appeal with Brazil's Supreme Court. In February 2008, the Supreme Court ruled in favor of Verbatim Corporation and returned the case to the Manaus court for retrial.

In the following proceedings, the court ruled against Verbatim. However, dissatisfied with the ruling, Verbatim made a special appeal to Brazil's Supreme Court, requesting that the case be tried in that court. In June 2011, the Supreme Court dismissed the charges of trademark infringement filed against Verbatim, and overruled the lower court's order for Verbatim to pay the abovementioned damages. However, in April 2012 the plaintiff requested that the Supreme Court clarify its ruling, and the Company cannot deny the possibility that the plaintiff will oppose this ruling in the future.

Year ended March 31, 2014

The consolidated subsidiary Verbatim Corporation (US) was sued for trademark infringement in Brazil. In May 2007, a court in Manaus, in the Brazilian state of Amazonas, ruled in favor of the plaintiff and ordered Verbatim Corporation to pay 377 million Brazilian real, or ¥17,161 million. Verbatim Corporation, believing that no trademark infringement took place, and dissatisfied with the fact that reasons for recognizing the plaintiff's monetary claim were not disclosed, immediately filed an appeal with Brazil's Supreme Court. In February 2008, the Supreme Court ruled in favor of Verbatim Corporation and returned the case to the Manaus court for retrial.

In the following proceedings, the court ruled against Verbatim. However, dissatisfied with the ruling, Verbatim made a special appeal to Brazil's Supreme Court, requesting that the case be tried in that court. In June 2011, the Supreme Court dismissed the charges of trademark infringement filed against Verbatim, and overruled the lower court's order for Verbatim to pay the abovementioned damages. However, in April 2012 the plaintiff requested that the Supreme Court clarify its ruling, and the Company cannot deny the possibility that the plaintiff will oppose this ruling in the future.

Note 4 Selling, general and administrative expenses

For the years ended March 31, 2015 and 2014, the following items were recorded in the consolidated statements of income:

Millions of yen	March 31, 2015	March 31, 2014
Transportation costs	¥102,210	¥ 89,676
Labor costs	163,530	135,977
Research and development	132,217	134,260

Notes: 1. Labor costs include a provision for bonuses of ¥15,238 million and ¥14,316 million for the years ended March 31, 2015 and 2014, respectively.

2. "Research and development" includes expenditures on personnel, and depreciation and amortization of research facilities.

Note 5 Supplementary information for consolidated statements of comprehensive income

Millions of yen	March 31, 2015	March 31, 2014
Net unrealized holding gain (loss) on other securities:		
Amount arising during the period	¥ 39,527	¥12,503
Reclassification adjustment	(3,991)	(5,152)
Before tax effect	35,536	7,351
Tax effect	(11,237)	186
Net unrealized holding gain (loss) on other securities	¥24,299	¥ 7,537
Gain (loss) on deferred hedges:		
Amount arising during the period	¥ 633	¥ 1,518
Reclassification adjustment	(1,318)	(3,440)
Amount of acquisition cost adjustment	(210)	(114)
Before tax effect	(895)	(2,036)
Tax effect	333	824
Gain (loss) on deferred hedges	¥ (562)	¥ (1,212)
Foreign currency translation adjustments:		
Amount arising during the period	¥ 41,575	¥58,774
Reclassification adjustment	(842)	43
Before tax effect	40,733	58,817
Tax effect	–	–
Foreign currency translation adjustments	¥40,733	¥58,817
Remeasurements of defined benefit plans:		
Amount arising during the period	¥ 8,234	¥ 2,025
Reclassification adjustment	(1,601)	–
Before tax effect	6,633	2,025
Tax effect	(2,289)	(595)
Remeasurements of defined benefit plans	¥ 4,344	¥ 1,430
Other comprehensive income (loss) for affiliates accounted for using equity method:		
Amount arising during the period	¥ 11,085	¥ 7,451
Reclassification adjustment	(2,657)	(266)
Other comprehensive income (loss) for affiliates accounted for using equity method:	8,428	7,185
Other comprehensive income (loss), net	¥77,242	¥73,757

Note 6 Supplementary information for consolidated statements of changes in net assets

Year ended March 31, 2015

(a) Type and number of outstanding shares

Number of shares (Thousands)	Balance at beginning of year	Increase in shares during the year	Decrease in shares during the year	Balance at end of year
Type of shares				
Issued stock:				
Common stock	1,506,288	–	–	1,506,288
Total	1,506,288	–	–	1,506,288
Treasury stock:				
Common stock1, 2	34,268	7,446	90	41,624
Total	34,268	7,446	90	41,624

1. A 7,446 thousand increase in the number of shares of common stock held in treasury was as follows:

Purchases of fractional shares of less than one unit	71 thousand
Increase associated with transition from equity method affiliate to consolidated subsidiary	2,401 thousand
Increase attributable to acquisition of treasury stock from consolidated subsidiary	4,972 thousand

2. A 90 thousand decrease in the number of shares of common stock held in treasury was as follows:

Sales of fractional shares of less than one unit	1 thousand
Withdrawal related to the exercise of stock options	61 thousand
Consolidated subsidiary sales of treasury stock	26 thousand

(b) Warrants

Number of outstanding shares (Thousands)	Description	Type of outstanding shares	Balance at beginning of year	Increase (Decrease)	Balance at end of year	Millions of yen
MCHC	Warrants as stock options			–		¥471
Consolidated subsidiaries	–			–		–
Total				–		¥471

(c) Dividends

(1) Dividends paid to shareholders

Date of approval	Resolution approved by	Type of shares	Amount (Millions of yen)	Amount per share (Yen)	Entitlement date	Effective date
June 25, 2014	Annual general meeting of shareholders	Common stock	¥8,849	¥6	March 31, 2014	June 26, 2014
October 31, 2014	Board of Directors	Common stock	¥8,849	¥6	September 30, 2014	December 2, 2014

Note: The discrepancy between the dividend amount and dividends from retained earnings in the consolidated statements of changes in net assets reflects the elimination of dividends for MCHC stock held by consolidated subsidiaries.

(2) Dividends whose entitlement date was in the year ended March 31, 2015, and whose effective date will be in the subsequent fiscal year

Date of approval	Resolution approved by	Type of shares	Amount (Millions of yen)	Paid from	Amount per share (Yen)	Entitlement date	Effective date
June 24, 2015	Annual general meeting of shareholders	Common stock	¥10,253	Retained earnings	¥7	March 31, 2015	June 25, 2015

Note: The Japanese Corporate Law provides that an amount equal to 10% of the amount to be distributed as distributions of capital surplus (other than the capital reserve) and retained earnings (other than the legal reserve) be transferred to the capital reserve and the legal reserve, respectively, until the sum of the capital reserve and the legal reserve equals 25% of the common 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, but neither the capital reserve nor the legal reserve is available for distributions.

Year ended March 31, 2014

(a) Type and number of outstanding shares

Number of shares (Thousands)	Balance at beginning of year	Increase in shares during the year	Decrease in shares during the year	Balance at end of year
Type of shares				
Issued stock:				
Common stock	1,506,288	–	–	1,506,288
Total	1,506,288	–	–	1,506,288
Treasury stock:				
Common stock1, 2	33,053	1,426	211	34,268
Total	33,053	1,426	211	34,268

1. A 1,426 thousand increase in the number of shares of common stock held in treasury was as follows:
   Purchases of fractional shares of less than one unit . . . . . 252 thousand
   Changes in equity . . . . . 1,173 thousand
2. A 211 thousand decrease in the number of shares of common stock held in treasury was as follows:
   Sales of fractional shares of less than one unit . . . . . 12 thousand
   Withdrawal related to the exercise of stock options . . . . . 101 thousand
   Disbursements through share exchange . . . . . 97 thousand

(b) Warrants

Number of outstanding shares (Thousands)	Description	Type of outstanding shares	Balance at beginning of year	Increase (Decrease)	Balance at end of year	Millions of yen
MCHC	Warrants as stock options			–		**¥496**
Consolidated subsidiaries	–			–		–
Total				–		**¥496**

(c) Dividends

(1) Dividends paid to shareholders

Date of approval	Resolution approved by	Type of shares	Amount (Millions of yen)	Amount per share (Yen)	Entitlement date	Effective date
June 25, 2013	Annual general meeting of shareholders	Common stock	¥8,850	¥6	March 31, 2013	June 26, 2013
October 31, 2013	Board of Directors	Common stock	¥8,849	¥6	September 30, 2013	December 3, 2013

(2) Dividends whose entitlement date was in the year ended March 31, 2015, and whose effective date will be in the subsequent fiscal year

Date of approval	Resolution approved by	Type of shares	Amount (Millions of yen)	Paid from	Amount per share (Yen)	Entitlement date	Effective date
June 25, 2014	Annual general meeting of shareholders	Common stock	¥8,849	Retained earnings	¥6	March 31, 2014	June 26, 2014

Note: The Japanese Corporate Law provides that an amount equal to 10% of the amount to be distributed as distributions of capital surplus (other than the capital reserve) and retained earnings (other than the legal reserve) be transferred to the capital reserve and the legal reserve, respectively, until the sum of the capital reserve and the legal reserve equals 25% of the common 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, but neither the capital reserve nor the legal reserve is available for distributions.

Note 7 Lease transactions

At March 31, 2015 and 2014, as lessee, noncancellable operating lease obligations were accounted for as follows:

Future minimum lease payments for the remaining lease periods

Millions of yen	March 31, 2015	March 31, 2014
Due within one year	¥ 11,762	¥ 9,188
Due after one year	22,462	19,077
	¥34,224	¥28,265

At March 31, 2015 and 2014, as lessor, finance leases other than those deemed to transfer the ownership of the leased assets to the lessees were accounted for as operating leases, and the details were as follows:

Acquisition costs, accumulated depreciation, accumulated impairment loss and balance at year-end

Millions of yen	March 31, 2015	March 31, 2014
Buildings		
Acquisition costs	¥920	¥920
Accumulated depreciation	429	404
Accumulated impairment loss	–	–
Balance at year-end	¥491	¥516

Future minimum sublease income for the remaining lease periods

Millions of yen	March 31, 2015	March 31, 2014
Due within one year	¥ 66	¥ 66
Due after one year	215	281
	¥281	¥347

Sublease income, amortization expense, depreciation expense and impairment loss

Millions of yen	March 31, 2015	March 31, 2014
Sublease income	¥66	¥66
Amortization expense amount	–	–
Depreciation expense amount	24	24
Impairment loss on leased assets	¥ –	¥ –

Note: Depreciation expense is calculated using the straight-line method with the lease period as the useful life with a nil residual value.

At March 31, 2015 and 2014, noncancellable operating lease receivables were accounted for as follows:

Future minimum sublease income for the remaining lease periods

Millions of yen	March 31, 2015	March 31, 2014
Due within one year	¥ 250	¥153
Due after one year	2,196	425
	¥2,446	¥578

Note 8 Financial instruments

Overview

(1) Policy for financial instruments

MCHC's policy is to manage highly stable financial assets, centered on investments in short-term deposits, and raise funds largely by obtaining bank loans, issuing commercial papers and corporate bonds. MCHC deployed a cash management system to facilitate intragroup lending and borrowing and use funds more efficiently and reduce financial costs, engaging in intragroup lending and borrowing. Other policies are to ensure that derivatives transactions purely accommodate actual demand and to refrain from speculative trading.

(2) Financial instruments and risks

Trade receivables are exposed to customer credit risk. As MCHC operates globally, foreign currency denominated trade receivables are subject to foreign exchange fluctuations. MCHC hedges the resulting risks, net of trade payables in those currencies, with forward foreign exchange contracts. Marketable and investment securities are subject to market risk. Those securities mainly comprise held-to-maturity debt securities and shares in other companies with which the Group does business or has capital affiliations.

Most trade payables are due within one year. While partly exposed to foreign exchange risks from imports of raw materials and other items, MCHC hedges with forward foreign exchange contracts as it does with trade receivables.

Borrowings and corporate bonds are to secure the funding needed for operations and capital investments. Some of these instruments are subject to interest rate fluctuation risks, which MCHC hedges using interest rate swaps.

MCHC engages in various types of derivatives transaction. They include forward foreign exchange contracts and currency swaps to hedge foreign exchange fluctuation risks associated with foreign currency denominated trade receivables and payables, borrowings and loans. MCHC also uses interest rate swaps to hedge fluctuations in interest rates on borrowings and loans, as well as commodity futures contracts to hedge the risks of price fluctuations from raw materials purchases.

(3) Financial instrument risk management structure

a. Credit risk management (including risks of customers breaching contracts)

In keeping with its credit management rules, MCHC regularly monitors the statuses of key customers with outstanding trade and long-term receivables and oversees dates and balances while endeavoring to swiftly identify and ameliorate collection concerns that could stem from deteriorating financial positions or other factors.

The credit risks of held-to-maturity debt securities are insignificant, as MCHC's portfolio includes only instruments with high credit ratings.

MCHC minimizes credit risks relating to counterparty breaches of contract with derivatives by transacting solely with highly creditworthy financial institutions.

The maximum credit risk amount at March 31, 2015, is the balance sheet value of financial assets exposed to such risks.

b. Market risk management (foreign exchange and interest rate risks)

Where necessary, MCHC uses forward exchange contracts and currency swaps to hedge foreign currency denominated operating receivables, debt and loans. It uses interest rate swaps to minimize the risks of interest payment fluctuations for debt and corporate bonds.

MCHC regularly assesses the prices of marketable and investment securities and the financial positions of issuers (business partners). It factors in relationships with business partners in constantly reviewing the necessity of instruments other than held-to-maturity debt securities.

In keeping with internal rules on transaction rights and limitations, reports on the contract balances and market prices of derivative transactions are submitted regularly to the director in charge of such matters.

c. Funding-related liquidity risk management (risk of inability to settle by payment dates)

MCHC is exposed to liquidity risk for customer credit and debt, managing them by producing and managing funding plans.

(4) Supplementary explanation of the estimated fair value of financial instruments

The fair value of financial instruments is based on their quoted market price, if available. When there is no quoted market price available, fair value is reasonably estimated. Since various assumptions and factors are reflected in estimating the fair value, different assumptions and factors could result in different fair value.

Estimated fair value of financial instruments

The carrying value of financial instruments in the consolidated balance sheets as of March 31, 2015 and 2014, and estimated fair value are shown in the following table.

The table below excludes instruments whose fair value is extremely difficult to determine.

Millions of yen March 31, 2015	Carrying value	Fair value	Difference
Cash and deposits	¥ 236,186	¥ 236,186	¥ –
Trade receivables	759,850	759,850	–
Marketable and investment securities:			
Held-to-maturity debt securities	12,450	12,780	330
Shares of affiliates	6,832	4,002	(2,830)
Other marketable securities	325,607	325,607	–
Total assets	¥ 1,340,925	¥ 1,338,425	¥ (2,500)
Trade payables	¥ 459,345	¥ 459,345	¥ –
Short-term loans	518,985	518,985	–
Current portion of long-term loans	178,627	178,627	–
Commercial papers	26,000	26,000	–
Bonds due in one year or less	20,040	20,040	–
Corporate bonds	305,010	311,297	6,287
Long-term loans	554,933	558,736	3,803
Total liabilities	¥2,062,940	¥2,073,030	¥10,090
Derivatives transactions:			
Hedge accounting not applied	¥ (217)	¥ (217)	¥ –
Hedge accounting applied	102	102	–
Total derivatives transactions	¥ (115)	¥ (115)	¥ –

Note: Net receivables and payables from derivatives transactions are presented, with net payables in totals shown in parentheses.

Millions of yen March 31, 2014	Carrying value	Fair value	Difference
Cash and deposits	¥ 137,664	¥ 137,664	¥ –
Trade receivables	615,737	615,737	–
Marketable and investment securities:			
Held-to-maturity debt securities	12,034	12,055	21
Shares of affiliates	83,580	99,016	15,436
Other marketable securities	256,917	256,917	–
Total assets	¥1,105,932	¥1,121,389	¥15,457
Trade payables	¥ 413,405	¥ 413,405	¥ –
Short-term loans	357,838	357,838	–
Current portion of long-term loans	117,579	117,579	–
Commercial papers	35,000	35,000	–
Bonds due in one year or less	55,040	55,040	–
Corporate bonds	225,050	230,803	5,753
Long-term loans	467,679	475,831	8,152
Total liabilities	¥1,671,591	¥1,685,496	¥13,905
Derivatives transactions:			
Hedge accounting not applied	¥ 19	¥ 19	¥ –
Hedge accounting applied	618	618	–
Total derivatives transactions	¥ 637	¥ 637	¥ –

Note: Net receivables and payables from derivatives transactions are presented, with net payables in totals shown in parentheses.

1. Method to determine the estimated fair values of financial instruments and other matters related to securities and derivatives transactions

Assets

Cash and deposits

Book value is used, as it approximates market value because of the short maturities of these instruments.

Trade receivables

Book value is used, as it approximates market value because of the short maturities of these instruments.

Marketable and investment securities

The fair value of stocks is based on quoted market prices, while the fair value of debt securities is based on quoted market prices or the prices provided by the financial institutions with which MCHC conducts transactions. Book value is used for negotiable certificates of deposit and commercial papers, as it approximates market value because of the short settlements of these instruments. For information on securities classified by holding purpose, please refer to Note 10, Securities.

Liabilities

Trade payables, short-term loans, current portion of long-term loans, commercial papers, and bonds due in one year or less.

Book value is used, as it approximates market value because of the short maturities of these instruments.

Corporate bonds

The market price of corporate bonds is based on the quoted market price.

Long-term loans

Market value is based on the present value of principal and interest, discounted using current assumed rates for similar new loans.

Long-term loans are subject to special procedures for interest rate swaps (see Note 12, Derivative Financial Instruments and Hedge Accounting) and the total principal and interest for these swaps are discounted using rationally estimated interest rates for similar new loans.

Derivative transactions

Please refer to Note 12, Derivative Financial Instruments and Hedge Accounting.

2. Financial instruments for which it is extremely difficult or impossible to determine the fair value

Millions of yen	March 31, 2015	March 31, 2014
Unlisted shares	**¥136,249**	¥91,152
Investment securities	**2,410**	2,486

These instruments are omitted from marketable and investment securities because they have no market price and it is extremely difficult or impossible to estimate forward cash flows or assess their fair value.

3. Projected redemptions of monetary claims and marketable securities due after March 31, 2015

Millions of yen March 31, 2015	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and deposits	**¥ 236,186**	**¥ –**	**¥–**	**¥ –**
Trade receivables	**759,850**	**–**	**–**	**–**
Marketable and investment securities				
Held-to-maturity debt securities				
(1) Government bonds	**–**	**2,932**	**–**	**–**
(2) Others	**–**	**3,500**	**–**	**6,000**
Other securities with maturities				
(1) Government bonds	**7,300**	**6,400**	**–**	**–**
(2) Others	**120,500**	**–**	**–**	**–**
Total	**¥1,123,836**	**¥12,832**	**¥–**	**¥6,000**

Millions of yen March 31, 2014	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and deposits	¥137,664	¥ –	¥–	¥ –
Trade receivables	615,737	–	–	–
Marketable and investment securities				
Held-to-maturity debt securities				
(1) Government bonds	–	2,512	–	–
(2) Others	–	3,500	–	6,000
Other securities with maturities				
(1) Government bonds	50,300	6,400	–	–
(2) Others	56,000	–	–	–
Total	¥ 859,701	¥12,412	¥–	¥6,000

4. Scheduled repayments of corporate bonds, long-term loans and other interest-bearing debt after March 31, 2015

Millions of yen March 31, 2015	Due in one year or less	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
Short-term loans	¥518,985	¥ –	¥ –	¥ –	¥ –	¥ –
Current portion of long-term loans	178,627	–	–	–	–	–
Commercial papers	26,000	–	–	–	–	–
Bonds due in one year or less	20,040	–	–	–	–	–
Corporate bonds	–	40,010	40,000	65,000	60,000	100,000
Long-term loans	–	138,612	137,144	97,765	106,295	75,117
Total	¥743,652	¥178,622	¥177,144	¥162,765	¥166,295	¥175,117

Millions of yen March 31, 2014	Due in one year or less	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
Short-term loans	¥357,838	¥ –	¥ –	¥ –	¥ –	¥ –
Current portion of long-term loans	117,579	–	–	–	–	–
Commercial papers	35,000	–	–	–	–	–
Bonds due in one year or less	55,040	–	–	–	–	–
Corporate bonds	–	20,040	30,010	30,000	50,000	95,000
Long-term loans	–	138,828	87,625	93,495	68,980	78,751
Total	¥565,457	¥158,868	¥117,635	¥123,495	¥118,980	¥173,751

Note 9 Securities

Held-to-maturity debt securities are measured at amortized cost in the accompanying balance sheets.

However, certain held-to-maturity debt securities have fair value. The carrying value, gross unrealized gains, gross unrealized losses and estimated fair value of held-to-maturity debt securities at March 31, 2015 and 2014, are summarized as follows:

Millions of yen March 31, 2015	Carrying value	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Held-to-maturity debt securities:				
Government bonds	¥ 2,949	¥264	¥ –	¥ 3,213
Corporate bonds	–	–	–	–
Other debt securities	9,501	193	(127)	9,567
	¥12,450	¥457	¥(127)	¥12,780

Millions of yen March 31, 2014	Carrying value	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Held-to-maturity debt securities:				
Government bonds	¥ 2,532	¥284	¥ –	¥ 2,816
Corporate bonds	–	–	–	–
Other debt securities	9,502	32	(295)	9,239
	¥12,034	¥316	¥(295)	¥12,055

Other marketable securities with quoted market prices are measured at fair value. Differences between fair value and acquisition costs are recorded as a component of net assets. The differences at March 31, 2015 and 2014, are summarized as follows:

Millions of yen March 31, 2015	Acquisition costs	Fair value	Net differences	(Breakdown) Gross gains	Gross losses
Other marketable securities:					
Equity securities	¥ 93,933	¥190,721	¥96,788	¥97,090	¥(302)
Government bonds	1	3	2	2	–
Corporate bonds	–	–	–	–	–
Other debt securities	134,561	134,883	322	324	(2)
	¥228,495	¥325,607	¥ 97,112	¥ 97,416	¥(304)

Millions of yen March 31, 2014	Acquisition costs	Fair value	Net differences	(Breakdown) Gross gains	Gross losses
Other marketable securities:					
Equity securities	¥ 135,131	¥200,008	¥64,877	¥65,599	¥(722)
Government bonds	43,371	43,473	102	102	–
Corporate bonds	13,400	13,436	36	44	(8)
Other debt securities	–	–	–	–	–
	¥191,902	¥ 256,917	¥65,015	¥65,745	¥(730)

Sales of other securities for the fiscal year ended March 31, 2015 and 2014, are shown below:

Millions of yen	Sales	Gains	Losses
Year ended March 31, 2015	¥11,265	¥6,027	¥(27)

Millions of yen	Sales	Gains	Losses
Year ended March 31, 2014	¥24,794	¥1,428	¥(24)

Investment securities of unconsolidated subsidiaries and affiliates at March 31, 2015 and 2014, are shown below:

Millions of yen	March 31, 2015	March 31, 2014
Stock	¥116,181	¥159,975
Capital	22,458	1,157

Note 10 Supplementary cash flow information

Cash and cash equivalents as of March 31, 2015 and 2014, are reconciled to the accounts reported in the consolidated balance sheets as follows:

Millions of yen	March 31, 2015	March 31, 2014
Cash and deposits	¥236,186	¥137,664
Time deposits with maturities of more than three months	(30,131)	(6,208)
Cash equivalents included in securities[1]	37,000	48,100
Cash and cash equivalents	¥243,055	¥179,556

1. This represents short-term, highly liquid investments readily convertible into cash held by overseas subsidiaries.

Assets and liabilities of acquired company which became consolidated subsidiary via stock acquisition

The composition of the assets acquired and liabilities assumed of Taiyo Nippon Sanso Corporation upon consolidation in line with the acquisition of stock and the relationship between the acquisition cost for Taiyo Nippon Sanso shares and the net expenditure on the acquisition are as follows:

Millions of yen	
Current assets	¥ 229,682
Noncurrent assets	489,735
Goodwill	83,206
Current liabilities	(161,904)
Noncurrent liabilities	(266,544)
Minority interests	(155,368)
Total cost of stock acquisition	218,807
Consolidated book value before additional acquisition	(78,800)
Gain on step acquisition	(34,144)
Cash and cash equivalents	(36,613)
Less: Purchase of investments in subsidiaries resulting in change in scope of consolidation	¥ 69,250

Note 11 Derivative financial instruments and hedge accounting

Derivative transactions

1. Derivative transactions (hedge accounting not applied)

(1) Currency-related transactions

Millions of yen Year ended March 31, 2015	Notional value	Maturing after one year	Fair value	Appraised gains/losses
Off-market transactions				
Forward exchange agreements				
Put				
U.S. dollars	¥24,324	¥ –	¥(207)	¥(207)
Euros	357	–	8	8
Yen	9	–	0	0
Call				
U.S. dollars	38	19	7	7
Thai baht	150	–	0	0
Currency swaps				
Receive U.S. dollars, pay Thai baht	1,473	0	(25)	7

Millions of yen Year ended March 31, 2014	Notional value	Maturing after one year	Fair value	Appraised gains/losses
Off-market transactions				
Forward exchange agreements				
Put				
U.S. dollars	¥ 244	¥ –	¥ (1)	¥ (1)
Euros	24,265	–	(86)	(86)
Currency swaps				
Receive U.S. dollars, pay Euros	5,533	4,058	134	134
Receive U.S. dollars, pay Thai baht	2,524	1,262	(28)	(28)

Note: Fair value calculations are based on quoted prices from financial and other institutions with which MCHC conducts transactions.

2. Hedged derivative transactions

(1) Currency-related transactions

Millions of yen Year ended March 31, 2015	Hedged items	Notional amounts	Maturing after one year	Fair value
Hedge accounting method				
Principle-based accounting				
Forward exchange agreements				
Call				
U.S. dollars	Accounts payable trade	¥ 10,732	¥ –	¥160
British pounds	Accounts payable trade	686	–	23
Malaysian ringgit	Accounts payable trade	161	53	4
Yen	Accounts payable trade	155	–	1
Hedge accounting method				
Forward exchange deferral accounting				
Forward exchange contracts				
Put				
U.S. dollars	Accounts receivable trade	26,624	–*	
Euros	Accounts receivable trade	11,200	–*	
Malaysian ringgit	Accounts receivable trade	664	–*	
Call				
U.S. dollars	Accounts payable trade	1,374	–*	
Euros	Accounts payable trade	160	–*	
Taiwan dollars	Accounts payable trade	1,624	–*	
Swiss franc	Accounts payable trade	46	–*	
Singapore dollars	Accounts payable trade	4	–*	
Currency swaps				
Receive yen, pay U.S. dollars	Long-term debt	50	–*	
Receive Singapore dollars, pay yen	Long-term debt	30	–*	

Millions of yen Year ended March 31, 2014	Hedged items	Notional amounts	Maturing after one year	Fair value
Hedge accounting method				
Principle-based accounting				
Forward exchange agreements				
Put				
U.S. dollars	Accounts receivable trade	¥ 152	¥ –	¥ 1
Euros	Accounts receivable trade	588	–	(3)
British pounds	Accounts receivable trade	96	–	0
Call				
U.S. dollars	Accounts payable trade	8,836	–	794
Canadian dollars	Accounts payable trade	652	–	8
Malaysian ringgit	Accounts payable trade	1,187	160	55
Yen	Accounts payable trade	783	–	(54)
Currency swaps				
Receive yen, pay U.S. dollars	Long-term debt	613	–	9
Currency options				
Put				
U.S. dollars	Accounts payable trade	118	–	1
Call				
U.S. dollars	Accounts payable trade	118	–	(0)
Hedge accounting method				
Forward exchange deferral accounting				
Forward exchange contracts				
Put				
U.S. dollars	Accounts receivable trade	1,685	–	*
Euros	Accounts receivable trade	1,545	–	*

Notes: 1. Fair value calculations are based on quoted prices from financial and other institutions with which MCHC conducts transactions.

2. MCHC accounts for forward exchange deferrals by together accounting for hedged long-term debt* and trade receivables* and payables*, and thus presents fair values that include the fair values of those instruments.

3. With deferral accounting procedures for currency swaps, MCHC accounts for hedged long-term debt* and trade receivables* and payables*, and thus presents fair values that include the fair values of the relevant long-term debt.

(2) Interest-related transactions

Millions of yen Year ended March 31, 2015	Hedged items	Notional amounts	Maturing after one year	Fair value
Hedge accounting method				
Principle-based accounting				
Interest rate swaps				
Pay fixed rate, receive floating rate	Long-term debt	**¥ 7,001**	**¥ 3,732**	**¥(87)**
Special accounting procedures for interest rate swaps				
Interest rate swaps				
Pay fixed rate, receive floating rate	Long-term debt	**192,109**	**86,378**	*
Combined accounting procedures for interest rate and currency swaps (special and deferral accounting procedures)				
Interest rate and currency swaps				
Pay fixed rate, receive floating rate Receive U.S. dollars, pay yen	Long-term debt	**5,700**	**5,700**	*
Pay floating rate, receive floating rate Receive U.S. dollars, pay yen	Long-term debt	**8,300**	**8,300**	*

Millions of yen Year ended March 31, 2014	Hedged items	Notional amounts	Maturing after one year	Fair value
Hedge accounting method				
Principle-based accounting				
Interest rate swaps				
Pay fixed rate, receive floating rate	Long-term debt	¥ 8,558	¥ 6,054	¥(187)
Special accounting procedures for interest rate swaps				
Interest rate swaps				
Pay fixed rate, receive floating rate	Long-term debt	175,531	146,797	*
Combined accounting procedures for interest rate and currency swaps (special and deferral accounting procedures)				
Interest rate and currency swaps				
Pay fixed rate, receive floating rate Receive U.S. dollars, pay yen	Long-term debt	5,700	5,700	*
Pay floating rate, receive floating rate Receive U.S. dollars, pay yen	Long-term debt	8,300	8,300	*

Notes: 1. Fair value calculations are based on quoted prices from financial and other institutions with which MCHC conducts transactions.

2. With special accounting procedures for interest rate swaps and combined (special and deferral) accounting procedures for interest rate and currency swaps, MCHC accounts for hedged long-term debt* and trade receivables* and payables*, and thus presents fair values that include the fair values of the relevant long-term debt.

(3) Commodity-related Transactions

Millions of yen Year ended March 31, 2015	Hedged items	Notional amounts	Maturing after one year	Fair value
Hedge accounting method				
Principle-based accounting				
Forward transactions for aluminum ingots				
Put	Aluminum ingot trading	¥215	¥–	¥ 1

Millions of yen Year ended March 31, 2014	Hedged items	Notional amounts	Maturing after one year	Fair value
Hedge accounting method				
Principle-based accounting				
Forward transactions for aluminum ingots				
Put	Aluminum ingot trading	¥176	¥–	¥(6)

Note: Fair value calculations are based on quoted prices from financial and other institutions with which MCHC conducts transactions.

Note 12 Pension and severance plans

Information on pension and severance plans for the years ended March 31, 2015, and 2014 are shown below:

1. Overview

Consolidated subsidiaries adopt or combine cash balance pension plans, corporate pension plans, and welfare pension plans as defined benefits plans, and/or lump-sum retirement benefits and defined contribution plans.

Consolidated subsidiaries may pay premium benefits to employees on retirement.

Some domestic consolidated subsidiaries have established retirement benefits trusts.

2. Defined Benefit Plans

(1) Reconciliation of retirement benefit obligations at beginning and end of year

Millions of yen	March 31, 2015	March 31, 2014
Retirement benefit obligations at beginning of year	¥575,390	¥561,031
Cumulative effects of changes in accounting policies	25,960	–
Restated balance at beginning of year	601,350	561,031
Service cost	18,350	15,901
Interest expense	8,556	13,098
Actuarial gain or loss	28,163	6,410
Retirement benefit payments	(39,178)	(36,891)
Prior service cost	31	(2,482)
Effect of business combination*	33,429	185
Other	3,630	18,138
Retirement benefit obligations at end of year	¥654,331	¥ 575,390

Notes: 1 Some domestic consolidated subsidiaries use the simplified method to calculate retirement benefit obligations.

2. Other includes translation differences for foreign subsidiaries.

3. The increase in the fiscal year ended March 31, 2015, is attributable to the inclusion of Taiyo Nippon Sanso Corporation and its subsidiaries in the scope of consolidation.

(2) Reconciliation of plan assets at beginning and end of year

Millions of yen	March 31, 2015	March 31, 2014
Plan assets at beginning of year	¥484,924	¥448,115
Expected return on assets	13,019	12,364
Actuarial gains and losses	37,142	25,001
Contributions from employer	13,143	14,500
Retirement benefit payments	(31,251)	(29,079)
Effect of business combination*	34,882	75
Other	1,045	13,948
Plan assets at end of year	¥552,904	¥484,924

Notes: 1. Other includes translation differences for foreign subsidiaries.

2. Includes plans applying the simplified method.

3. The increase in the fiscal year ended March 31, 2015, is attributable to the inclusion of Taiyo Nippon Sanso Corporation and its subsidiaries in the scope of consolidation.

(3) Reconciliation of retirement benefit obligations and plan assets at year-end and net defined benefit liabilities and assets in consolidated balance sheets

Millions of yen	March 31, 2015	March 31, 2014
Retirement benefit obligations of funded plans	¥ 593,811	¥ 519,350
Plan assets	(552,904)	(484,924)
	40,907	34,426
Retirement benefit obligations of unfunded plans	60,520	56,040
Net liabilities and assets in consolidated balance sheets	¥ 101,427	¥ 90,466

Millions of yen	March 31, 2015	March 31, 2014
Net defined benefit liabilities	¥132,921	¥121,706
Net defined benefit assets	(31,494)	(31,240)
Net liabilities and assets in consolidated balance sheets	¥101,427	¥ 90,466

Note: Includes plans applying the simplified method.

(4) Retirement benefit costs and charges by category

Millions of yen	March 31, 2015	March 31, 2014
Service cost*	¥18,063	¥ 15,663
Interest expense	8,556	13,098
Expected return on plan assets	(13,019)	(12,364)
Amortization of actuarial gains and losses	(2,300)	9,554
Amortization of prior service cost	2,199	2,490
Amortization of transition amount under post-employment benefit accounting	770	817
Retirement benefit costs of defined benefit plans	¥14,269	¥ 29,258

Notes: 1. Employee contributions to defined benefits plans are deducted.

2. The retirement benefit expenses of consolidated subsidiaries using the simplified method are stated in service cost.

3. In addition to the above retirement benefit costs, the Company recorded ¥727 million and ¥3,426 million for the years ended March 31, 2015 and 2014, respectively, for special retirement expenses.

(5) Remeasurements of defined benefit plans

Components (before tax effect) of remeasurements of defined benefit plans are as follows.

Millions of yen	March 31, 2015	March 31, 2014
Actuarial gains and losses	¥3,298	¥–
Prior service cost	2,565	–
Transition amount under post-employment benefit accounting	770	–
Total	¥6,633	¥–

(6) Accumulated remeasurements of defined benefit plans

Components (before tax effect) of remeasurements of defined benefit plans are as follows.

Millions of yen	March 31, 2015	March 31, 2014
Unrecognized actuarial gains and losses	¥ 7,106	¥ 3,808
Unrecognized prior service cost	(142)	(2,707)
Unrecognized transition amount under post-employment benefit accounting	–	(770)
Total	¥6,964	¥ 331

(7) Plan assets

① *Main components of plan assets*

Ratios for main components of plan assets are as follows.

	March 31, 2015	March 31, 2014
Bonds	44%	47%
Stocks	34%	34%
Life insurance company general accounts	13%	12%
Other	9%	7%
Total	100%	100%

Note: Retirement benefit trusts for corporate pension plans account for 10% of the plan assets total as of March 31, 2015 and 2014, respectively.

② *Methodology for setting expected long-term rates of return*

The long-term expected rates of return for plan assets are determined by considering current and projected plan asset allocations and current and anticipated long-term rates of return from diverse plan assets.

(8) Actuarial assumptions

The principal actuarial assumptions (represented by weighted averages) at the end of fiscal years ended March 31, 2015 and 2014 were as follows.

	March 31, 2015	March 31, 2014
Discount rate	**Principally 0.6%**	Principally 2.0% or 1.8%
Expected long-term rate of return on plan assets	**Principally 2.0% or 2.5%**	Principally 2.0% or 2.5%

Note: Assumed rates of salary increases are principally 1.4% to 5.0%.

3. Defined Contribution Plans

The required contributions of the Company and consolidated subsidiaries to defined contribution plans totaled ¥4,190 million and ¥4,985 million as of March 31, 2015 and 2014, respectively.

Note 13 Stock-based compensation plan

Stock option expenses of ¥17 million are included in general and administrative expenses for the year ended March 31, 2015. There were no stock option expenses in the year ended March 31, 2014.

Information on stock-based compensation plans at March 31, 2015, is shown below:

	2014 plan	2014 plan
Grantees	2 directors of MCHC	3 executive officers of MCHC 1 retiring director of a subsidiary 1 retiring executive officer of a subsidiary
Type of stock	Common stock	Common stock
Date of grant	September 12, 2014	September 12, 2014
Number of shares granted	16,000	20,500
Exercisable period	from September 13, 2014 to September 12, 2034	from September 13, 2014 to September 12, 2034

There were no stock-based compensation plans granted during the fiscal year ended March 31, 2014.

	2012 plan	2012 plan
Grantees	3 directors of MCHC	1 executive officer of MCHC
Type of stock	Common stock	Common stock
Date of grant	September 12, 2012	September 12, 2012
Number of shares granted	21,500	4,500
Exercisable period	from September 13, 2012 to September 12, 2032	from September 13, 2012 to September 12, 2032

	2011 plan	2011 plan
Grantees	2 directors of MCHC	1 executive officer of MCHC 1 retiring director of MCHC
Type of stock	Common stock	Common stock
Date of grant	September 14, 2011	September 14, 2011
Number of shares granted	48,000	27,000
Exercisable period	from September 15, 2011 to September 14, 2031	from September 15, 2011 to September 14, 2031

	2010 plan	2010 plan	2010 plan
Grantees	3 directors of MCHC	1 executive officer of MCHC 1 retiring director of MCHC	4 directors of a subsidiary 12 executive officers of a subsidiary 4 retiring executive officers of a subsidiary
Type of stock	Common stock	Common stock	Common stock
Date of grant	September 14, 2010	September 14, 2010	September 15, 2010
Number of shares granted	44,700	20,500	144,450
Exercisable period	from September 15, 2010 to September 14, 2030	from September 15, 2010 to September 14, 2030	from September 16, 2010 to September 15, 2030

There were no stock-based compensation plans granted during the fiscal year ended March 31, 2010.

	2008 plan	2008 plan	2008 plan
Grantees	3 directors of MCHC	1 retiring director of MCHC	1 director of a subsidiary 1 retiring director of a subsidiary 20 executive officers of a subsidiary 4 retiring executive officers of a subsidiary
Type of stock	Common stock	Common stock	Common stock
Date of grant	September 10, 2008	September 10, 2008	September 12, 2008
Number of shares granted	32,650	12,800	227,700
Exercisable period	from September 11, 2008 to September 10, 2028	from September 11, 2008 to September 10, 2028	from September 13, 2008 to September 12, 2028

	2007 plan	2007 plan	2007 plan
Grantees	2 directors of MCHC	1 executive officer of MCHC 2 retiring directors of MCHC	1 director of a subsidiary 1 retiring director of a subsidiary 20 executive officers of a subsidiary 5 retiring executive officers of a subsidiary
Type of stock	Common stock	Common stock	Common stock
Date of grant	December 12, 2007	December 12, 2007	December 14, 2007
Number of shares granted	39,700	49,450	311,100
Exercisable period	from December 13, 2007 to December 12, 2027	from December 13, 2007 to December 12, 2027	from December 15, 2007 to December 14, 2027

	2006 plan	2006 plan	2006 plan	2005 plan
Grantees	3 directors of MCHC	1 executive officer of MCHC 1 retiring director of MCHC	2 directors of a subsidiary 1 retiring director of a subsidiary 19 executive officers of a subsidiary 4 retiring executive officers of a subsidiary	7 directors of a subsidiary 19 executive officers of a subsidiary 3 retiring executive officers of a subsidiary
Type of stock	Common stock	Common stock	Common stock	Common stock
Date of grant	December 13, 2006	December 13, 2006	December 15, 2006	July 1, 2005
Number of shares granted	70,400	28,200	331,000	466,050
Exercisable period	from December 14, 2006 to December 13, 2026	from June 28, 2007 to June 27, 2027	from December 16, 2006 to December 15, 2026	from June 28, 2006 to June 27, 2026

Number, movement and price of stock options were as follows:

1. Number of stock options

Number of shares	2005 plan	2006 plan	2007 plan	2008 plan	2010 plan	2011 plan	2012 plan	2014 plan
Before vesting								
Outstanding as of March 31, 2014	58,200	84,000	117,600	148,200	176,650	75,000	26,000	–
Granted	–	–	–	–	–	–	–	36,500
Expired	–	–	–	–	–	–	–	–
Vested	–	15,600	25,900	20,750	14,700	–	–	–
Outstanding as of March 31, 2015	58,200	68,400	91,700	127,450	161,950	75,000	26,000	36,500
After vesting								
Outstanding as of March 31, 2014	10,350	20,700	59,650	60,800	22,750	–	–	–
Vested	–	15,600	25,900	20,750	14,700	–	–	–
Rights exercised	–	18,150	25,900	5,350	12,450	–	–	–
Expired	–	–	–	–	–	–	–	–
Outstanding as of March 31, 2015	10,350	18,150	59,650	76,200	25,000	–	–	–

Note: Number of stock options are listed after conversion to share numbers

2. Price information

Yen	2005 plan	2006 plan	2007 plan	2008 plan	2010 plan	2011 plan	2012 plan	2014 plan
Exercise price	1	1	1	1	1	1	1	1
Average share price on exercising options	–	469.3	542.2	616.5	502.6	–	–	–
Fair valuation on grant date	–	682	887	514	396	486	281	485

3. Method for estimating fair value of stock options

Options pricing model used: Black-Scholes model
Main basic factors and estimation method:

	2014 stock options
Share price volatility (note 1)	32.386%
Expected term (note 2)	4.92 years
Expected dividends (note 3)	¥12 per share
Risk-free interest rate (note 4)	0.174%

Notes: 1. Calculated based on the daily share price over the past four years and 11 months (closing price each trading day from October 9, 2009, to September 12, 2014).

2. Using a period up to the expected average exercise time from the grant date.

3. Based on interim and year-end dividends of ¥6 per share each in fiscal year ended March 31, 2014.

4. The yield on government bonds for the expected term.

4. Since it is fundamentally difficult to reasonably estimate the number of options that will expire in the future, the Company uses a method that only reflects actual expiration numbers.

Note 14 Income taxes

At March 31, 2015 and 2014, significant components of deferred tax assets and liabilities were as follows:

Millions of yen	March 31, 2015	March 31, 2014
Deferred tax assets:		
Tax loss carryforwards	¥ 150,560	¥ 149,091
Net defined benefit liabilities	40,007	38,485
Accrued bonuses to employees	13,519	11,994
Impairment loss on fixed assets	10,203	6,247
Depreciation	7,185	5,138
Write-downs of investment securities	6,655	6,977
Unrealized profit on sale of fixed assets	6,594	5,560
Loss on liquidation of subsidiaries and affiliates	6,048	6,637
Other	67,593	55,589
Gross deferred tax assets	¥ 308,364	¥ 285,718
Valuation allowance	(128,271)	(105,555)
Total deferred tax assets	¥ 180,093	¥ 180,163
Deferred tax liabilities:		
Accelerated tax depreciation	¥ (61,764)	¥ (28,262)
Valuation of assets	(56,479)	(27,715)
Valuation gain on investment securities	(35,483)	(32,994)
Tax deductible reserve	(7,919)	(4,285)
Other	(15,769)	(12,727)
Total deferred tax liabilities	¥(177,414)	¥(105,983)
Net deferred tax assets	¥ 2,679	¥ 74,180

At March 31, 2015 and 2014, deferred tax assets and liabilities included in the consolidated balance sheets are summarized as follows:

Millions of yen	March 31, 2015	March 31, 2014
Deferred income taxes—current	¥ 36,482	¥ 31,014
Deferred income taxes—noncurrent	62,804	77,543
Other current liabilities	(262)	(374)
Deferred tax liabilities-noncurrent	(96,345)	(34,003)

A reconciliation of the statutory tax rates to the effective tax rates for the years ended March 31, 2015 and 2014, was as follows:

	March 31, 2015	March 31, 2014
Statutory tax rate	**35.6%**	38.0%
Increase (decrease) in taxes resulting from:		
Increase in valuation allowance for cumulative losses of consolidated subsidiaries	**8.3**	10.7
Downward revision of term-end deferred income tax assets owing to tax reforms	**4.3**	1.3
Amortization of goodwill	**3.8**	4.9
Permanent differences	**2.2**	1.6
Gain on step acquisitions, net	**(7.3)**	(0.3)
Tax credits for research and development costs	**(3.2)**	(5.6)
Difference of statutory tax rate in overseas subsidiaries	**(2.5)**	(2.9)
Other	**0.6**	0.6
Effective tax rate	**41.8%**	48.3%

(Impact of Change in Corporate Tax Rate)

March 31, 2015, saw the enactments of a Partial Amendment of the Income Tax Act (Act No. 9 of 2015) and the Partial Revision of the Local Corporation Tax Act (Act No. 2 of 2015), which changed corporate tax rates as of the start of the fiscal year beginning April 1, 2015. The resulting deferred tax assets and liabilities in the year ended March 31, 2015 were calculated using the applicable statutory tax rates after the rate revisions for fiscal years in which it is expected that the temporary differences would be resolved.

From the fiscal year starting on April 1, 2015, the tax loss carry-forward system limited the proportion of the carry-forward of income before deductions to 65%. The proportion will be declined to 50% from the year starting on April 1, 2017.

As a result of these factors, deferred income tax assets (net of deferred income tax liabilities) were ¥3,639 million lower at year-end than under the previous method, while deferred income taxes and the net unrealized holding gain (loss) on other securities were ¥7,167 million and ¥3,595 million higher.

Note 15 Business combinations, etc.

1. Acquisition of Taiyo Nippon Sanso Corporation

(Business Combination through Acquisition)

MCHC and its equity-method affiliate, Taiyo Nippon Sanso Corporation (TNSC) executed a master agreement to enhance their capital and business alliances and improve their corporate values based on resolutions of their respective boards of directors' meetings held on May 13, 2014. MCHC made a tender offer for the common shares of TNSC from September 30 through November 5, 2014 (hereinafter, the "Tender Offer"), with a view to acquiring a majority of voting rights in that company.

As a result of the Tender Offer, MCHC and consolidated subsidiary Mitsubishi Chemical together obtained a majority of voting rights in TNSC, which thereby became a consolidated subsidiary as of November 12, 2014.

(1) Overview of Business Combination

1. Name and business of acquired company

Name:	Taiyo Nippon Sanso Corporation
Business:	Production and sales of industrial gases and related equipment and devices

2. Main reason for business combination

As described in 1. Acquisition of Taiyo Nippon Sanso Corporation

3. Date of business combination

November 12, 2014

4. Legal form of business combination

Acquisition of shares for cash

5. Percentages of voting rights acquired

Percentage of voting rights held immediately before business combination: 27.0%

Percentage of voting rights added on business combination date: 23.6%

Percentage of voting rights held upon acquisition: 50.6%

(2) The acquired company's financial results included in the consolidated statement of income correspond to the following period:

October 1, 2014, to March 31, 2015.

(3) Acquisition cost of the company and its breakdown

Millions of yen	March 31, 2015
Consideration for acquisition	¥218,209
Expenses directly related to acquisition	598
Acquisition cost	¥218,807

Shares held (27.0%) before acquiring control of acquired company are posted at market value as of the deemed control acquisition date (October 1, 2014).

(4) Difference between acquisition cost of acquired company and the total costs of individual transactions leading to obtaining control

¥34,144 million

(5) Amount of goodwill recognized, reason for recognition, method of amortization, and period of amortization

1. Amount of goodwill recognized

¥83,206 million

2. Reason for recognition

Goodwill was recognized due to the difference between the Company's interest in the acquired company and the acquisition cost.

3. Method of amortization and period of amortization

Straight-line method over 20 years

(6) Amount of assets acquired and liabilities assumed on the date of business combination and its breakdown

Millions of yen	March 31, 2015
Current assets	¥229,682
Noncurrent assets	489,735
Total assets	¥719,417
Current liabilities	¥161,904
Noncurrent liabilities	266,544
Total liabilities	¥428,448

(7) Estimated impact on Consolidated Statements of Income for year ended March 31, 2015, and method of calculating such impact assuming that the business combination was completed on the first day of year ended March 31, 2015

Millions of yen	March 31, 2015
Net sales	¥268,911
Operating income	15,309
Income before income taxes and minority interests in consolidated subsidiaries	12,866
Net income	¥ 1,214

Note: Method for calculating estimates Based on the consolidated sales and income information of TNSC from April 1, 2014, through September 30, 2014, estimates reflect amortization of the goodwill that was recognized at the time of the business combination on the assumption that the goodwill had arisen on the first day of the fiscal year ended March 31, 2015.

These estimates are unaudited.

Note 16 Per share information

Yen	March 31, 2015	March 31, 2014
Net assets	¥669.77	¥611.95
Net income—Basic	41.40	21.89
—Diluted	41.37	21.45

1. The basis for calculating net income per share for the year ended March 31, 2015 and diluted net income per share was as follows:

Millions of yen Net income per share	March 31, 2015	March 31, 2014
Net income	¥ 60,859	¥ 32,248
Net income applicable to common shares	60,859	32,248
Average number of common shares during period (thousands of shares)	1,469,998	1,472,574
Increase in number of common shares: (thousands of shares)	842	30,642
Bonds with subscription rights to shares	—	29,736
Warrants	842	906

2. The basis for calculating net assets per share as of March 31, 2015 was as follows:

Millions of yen Net assets per share	March 31, 2015	March 31, 2014
Total net assets	¥1,588,601	¥1,314,870
Amounts deducted from total net assets:	607,608	414,067
Warrants	471	496
Non-controlling interests in consolidated subsidiaries	607,137	413,571
Net assets applicable to common shares	980,993	900,803
Number of common shares at the end of the fiscal year used in calculation of net assets per share (thousands of shares)	1,464,664	1,472,019

Note: As described in Change in Accounting Policy, the Company applied accounting treatment included in Accounting Standard for Retirement Benefits and adhered to transitional treatment provisions of Article 37 of the Accounting Standard for Retirement Benefits.

As a result, net assets per share decreased ¥9.85 as of March 31, 2015.

As a result, net assets per share increased ¥4.48 in the year under review. (2014)

Note 17 Short-term debt and long-term debt

At March 31, 2015 and 2014, short-term debt of MCHC and its consolidated subsidiaries consisted of the following:

Millions of yen	March 31, 2015	March 31, 2014
Short-term loans principally from banks and other financial institutions at average interest rate of:		
0.889% at March 31, 2015, and 0.995% at March 31, 2014	¥518,985	¥357,838
Commercial papers	26,000	35,000
	¥544,985	¥392,838

At March 31, 2015 and 2014, long-term debt of MCHC and its consolidated subsidiaries consisted of the following:

Millions of yen	March 31, 2015	March 31, 2014
Debt issued by MCHC:		
0.499% notes due 2016	¥ 20,000	¥ 20,000
1.204% notes due 2021	10,000	10,000
0.366% notes due 2017	15,000	15,000
0.556% notes due 2019	10,000	10,000
0.439% notes due 2017	15,000	15,000
0.665% notes due 2019	10,000	10,000
0.615% notes due 2018	20,000	20,000
0.985% notes due 2020	10,000	10,000
1.226% notes due 2023	10,000	10,000
0.319% notes due 2018	10,000	10,000
0.604% notes due 2020	15,000	15,000
0.918% notes due 2023	15,000	15,000
0.319% notes due 2019	25,000	–
0.482% notes due 2021	15,000	–
0.800% notes due 2024	15,000	–
Debt issued by MCC:		
1.90% notes due 2014	¥ –	¥ 10,000
2.02% notes due 2014	–	10,000
2.01% notes due 2016	20,000	20,000
2.05% notes due 2016	10,000	10,000
2.03% notes due 2018	20,000	20,000
2.02% notes due 2019	10,000	10,000
1.20% notes due 2014	–	15,000
Debt issued by consolidated subsidiaries other than MCC, due 2021 or before at interest rates ranging from 0.319% to 1.94% at March 31, 2015, and 2014, respectively.	50,050	25,090
Loans, principally from banks and insurance companies due 2014 to 2033:		
Collateralized	9,357	10,058
Non-collateralized	724,203	575,200
	¥1,058,610	¥ 865,348
Less current portion	(198,667)	(172,619)
	¥ 859,943	¥ 692,729

Note: The average interest rates of loans were as follows:
March 31, 2015
Current portion 1.500%
Less current portion 1.391%

Secured assets as of March 31, 2015 and 2014, are shown below:

Millions of yen	March 31, 2015	March 31, 2014
Buildings	¥ 9,858	¥ 8,711
Land	10,343	9,987
Machinery and equipment	78,553	75,438
Total	¥98,754	¥94,136

Secured liabilities as of March 31, 2015 and 2014, are shown below:

Millions of yen	March 31, 2015	March 31, 2014
Short-term debt	¥ 7,658	¥ 8,228
Long-term debt	4,883	6,002
Trade payables	366	682
Total	¥12,907	¥14,912

The aggregate annual maturities of long-term debt are summarized as follows:

Millions of yen	March 31, 2015
2016	¥178,622
2017	177,144
2018	162,765
2019	166,295
2020 and thereafter	175,117
	¥859,943

Note 18 Segment information

1. Overview of reporting segments

The Company's reporting segments comprise financial information that can be segregated, and the Board of Directors regularly assess this information in deciding how to allocate resources and evaluate results.

MCHC is a holding company for six key businesses. They are Mitsubishi Chemical Corporation, Mitsubishi Tanabe Pharma Corporation, Mitsubishi Plastics, Inc., Mitsubishi Rayon Co., Ltd., Life Science Institute, Inc., and Taiyo Nippon Sanso Corporation. MCHC coordinates Group operations, categorizing each company's businesses by product and managing its portfolio based on those categories. Accordingly, MCHC's segments comprise product-specific business categories. The five principal reporting segments are Electronics Applications, Designed Materials, Health Care, Chemicals, and Polymers.

The main products in each reporting segment are as follows.

Reporting Segment	Main Products
Electronics Applications	Recording media, Information and electronics-related materials, Imaging supplies
Designed Materials	Food ingredients, Battery materials, Fine chemicals, Polymer processing products, Composite materials, Inorganic chemicals, Fibers
Health Care	Pharmaceuticals, Diagnostic reagents and instruments, Clinical testing, Pharmaceutical formulation materials
Chemicals	Basic petrochemicals, Chemical derivatives, Synthetic fiber materials, Carbon products, Industrial gases
Polymers	Synthetic resins

2. Basis for calculating sales, earnings or losses, assets, liabilities, and other amounts by reporting segment

The Company accounts for its reported business segments as described in Note 1. Inter-segment sales and transfers are based mainly on prevailing market prices.

3. Information on sales, earnings or losses, assets, liabilities and other financials by reporting segment

	Net Sales*		Inter-segment Sales and Transfers	
	Millions of yen		Millions of yen	
Reporting segment	March 31, 2015	March 31, 2014	March 31, 2015	March 31, 2014
Electronics Applications	¥ 118,752	¥ 133,675	¥ 4,895	¥ 4,232
Designed Materials	811,399	799,130	30,245	25,192
Health Care	531,933	523,056	1,985	2,156
Chemicals	1,139,395	955,088	157,010	179,486
Polymers	834,608	858,435	77,053	77,432
Others	220,191	229,450	119,807	124,573
Subtotal	3,656,278	3,498,834	390,995	413,071
Adjustments	–	–	(390,995)	(413,071)
Total	¥3,656,278	¥3,498,834	¥ –	¥ –

* Inter-segment sales and transfers are not included.

	Segment Earnings		Segment Assets	
	Millions of yen		Millions of yen	
Reporting segment	March 31, 2015	March 31, 2014	March 31, 2015	March 31, 2014
Electronics Applications	¥ (2,725)	¥ (5,519)	¥ 117,474	¥ 116,108
Designed Materials	56,090	47,476	837,350	819,837
Health Care	77,012	67,300	1,050,987	1,023,152
Chemicals	9,161	710	1,435,730	670,909
Polymers	26,764	2,307	801,479	799,640
Others	6,462	5,675	612,048	663,686
Subtotal	172,764	117,949	4,855,068	4,093,332
Adjustments	(7,083)	(7,489)	(532,030)	(613,973)
Total	¥165,681	¥110,460	¥4,323,038	¥3,479,359

	Depreciation and Amortization		Amortization of Goodwill	
	Millions of yen		Millions of yen	
Reporting segment	March 31, 2015	March 31, 2014	March 31, 2015	March 31, 2014
Electronics Applications	¥ 6,134	¥ 5,677	¥ 4	¥ 223
Designed Materials	39,864	38,534	4,456	4,030
Health Care	15,712	15,969	8,243	7,794
Chemicals	47,346	28,005	2,143	18
Polymers	37,163	38,390	2,735	2,562
Others	3,244	3,161	59	81
Subtotal	149,463	129,736	17,640	14,708
Adjustments	1,790	1,835	–	–
Total	¥151,253	¥131,571	¥17,640	¥14,708

Reporting segment	Investment in Equity Method Affiliates		Increase in Tangible and Intangible Fixed Assets*	
	Millions of yen		Millions of yen	
	March 31, 2015	March 31, 2014	March 31, 2015	March 31, 2014
Electronics Applications	¥ 227	¥ 126	¥ 5,889	¥ 6,678
Designed Materials	11,754	11,009	53,354	51,183
Health Care	264	244	24,608	20,307
Chemicals	44,766	30,060	45,632	25,517
Polymers	39,615	35,243	29,325	25,493
Others	5,349	82,009	3,854	3,226
Subtotal	101,975	158,691	162,662	132,404
Adjustments	–	–	2,395	935
Total	¥101,975	¥158,691	¥165,057	¥133,339

* "Increase in Tangible and Intangible Fixed Assets" is equivalent to "Capital Expenditures."

Notes:

1. The Others category is a business segment excluded from reporting segments and mainly encompasses engineering, transportation, and warehousing operations.
2. Adjustments are as follows:
   (1) The ¥7,083 million and ¥7,489 million adjustment for segment earnings or losses includes ¥7,345 million and ¥7,011 million in corporate costs not allocated to each reporting segment and ¥262 million and ¥478 million in inter-segment eliminations for the fiscal years ended March 31, 2015 and 2014, respectively. Corporate costs include expenditures on basic testing, research, and other activities not allocated to reporting segments.
   (2) The segment asset adjustment of ¥532,030 million and ¥614,006 million includes corporate assets of ¥211,221 million and ¥127,258 million not allocated to reporting segments and inter-segment eliminations of ¥743,251 million and ¥741,264 million for the fiscal years ended March 31, 2015 and 2014, respectively.
   (3) Adjustments to depreciation and amortization of ¥1,790 million and ¥1,835 million are corporate costs that are not allocated to reporting segments for the fiscal years ended March 31, 2015 and 2014, respectively.
   (4) Adjustments to increase in tangible and intangible fixed assets of ¥2,395 million and ¥935 million are capital expenditures against corporate assets that are not allocated to reporting segments for the fiscal years ended March 31, 2015 and 2014, respectively.
3. Total segment earnings and adjustments match operating income in the consolidated financial statements.
4. In light of the establishment of consolidated subsidiary Life Science Institute, Inc., from the year ended March 31 , 2015 the Company reclassified some businesses (including one consolidated subsidiary) from Health Care to Designed Materials. The Company has reconfigured segment information for the previous fiscal year to reflect the new classification.

4. Related information

Geographic information

(1) Sales

Millions of yen	Japan	PRC	Other	Total
Year ended March 31, 2015	¥2,137,195	¥332,259	¥1,186,824	¥3,656,278

Millions of yen	Japan	PRC	Other	Total
Year ended March 31, 2014	¥2,031,616	¥354,280	¥1,112,938	¥3,498,834

Note: Sales are based on the locations of customers and categorized according to country or region.

(2) Tangible fixed assets

Millions of yen	Japan	U.S.A.	Other	Total
March 31, 2015	¥ 902,880	¥237,784	¥ 357,482	¥1,498,146

Millions of yen	Japan	U.S.A.	Other	Total
March 31, 2014	¥ 741,057	¥ 85,107	¥ 291,886	¥1,118,050

5. Information on impairment loss by reporting segment

	Impairment Loss	
	Millions of yen	
Reporting segment	March 31, 2015	March 31, 2014
Electronics Applications	¥ 362	¥ 155
Designed Materials	4,749	1,138
Health Care	10,980	1,355
Chemicals	13,278	217
Polymers	1,768	268
Others	46	–
Corporate and Eliminations	–	–
Total	¥ 31,183	¥3,133

6. Information on amortization of goodwill and unamortized balance by reporting segment

	Balance at year-end	
	Millions of yen	
Reporting segment	March 31, 2015	March 31, 2014
Electronics Applications	¥ 8	¥ 12
Designed Materials	44,247	47,332
Health Care	78,042	90,011
Chemicals	81,346	16
Polymers	40,173	42,749
Others[1]	(19)	(28)
Corporate and Eliminations	–	–
Total	¥243,797	¥180,092

Note 19 Related party information

1. Transactions with related parties

(1) Transactions between related parties and company submitting consolidated financial statements

1. Nonconsolidated subsidiaries and affiliates, etc., of company submitting consolidated financial statements

Year ended March 31, 2015

Not applicable

Year ended March 31, 2014

Category	Name of company or person	Location	Paid-in capital or capitalization (millions of yen)	Details of business or occupation	Percentage of voting rights owned	Relationship with related party	Transaction details	Transaction amount (millions of yen)	Account name	Balance at year-end (millions of yen)
Affiliate	Taiyo Nippon Sanso Corporation	Shinagawa-ku, Tokyo	37,344	Production and sales of industrial gases	Directly: 13 Indirectly: 14	Interlocking directorate	Underwriting of capitalization increase (see note)	30,980	–	–

Note: MCHC underwrote TNSC's issuance of new shares and disposition of treasury shares under a third-party allotment for ¥687 per share.

(2) Transactions between related parties and consolidated subsidiaries of the company submitting consolidated financial statements

Not applicable

2. Notes regarding parent company and significant affiliates

Not applicable

Note 20 Significant subsequent event

Execution of master agreement in connection with tender offer for shares of Taiyo Nippon Sanso Corporation

MCHC and its equity-method affiliate, Taiyo Nippon Sanso Corporation (TNSC) executed a master agreement to enhance their capital and business alliances and improve their corporate values based on resolutions of their respective boards of directors' meetings held on May 13, 2014. MCHC will take steps to acquire a majority of voting rights in TNSC through a tender offer (hereinafter, "Tender Offer") for common shares of that company.

The board of directors of TNSC resolved that it intends to approve of the Tender Offer.

1. Purposes of tender offer

The Tender Offer aims to enhance the capital and business alliances and corporate value of MCHC and TNSC through MCHC acquiring a majority of voting rights of TNSC and reorganizing that company as a consolidated subsidiary.

Both companies will thoroughly explore ways to use each other's distribution channels. Specifically, they will look into collaborations and transactions in all business segments. Prospects could include expanding sales of medical gases and related equipment from TNSC's medical business through MCHC's distribution channel and using TNSC's distribution channels for MCHC's artificial spa generators and CFRP pressure vessels.

TNSC has stably piped gases over many years through on-site plants, mainly to large customers in Japan, and intends to expand its overseas operations by applying that expertise at overseas manufacturing bases that MCHC plans to set up. TNSC will secure a stable long-term base load from piping gases while absorbing demand for liquefied and cylinder gases and gas-related equipment in neighboring markets, thereby expanding sales through synergies with existing products and businesses.

2. Outline of Taiyo Nippon Sanso Corporation

As of March 31, 2014

(1)	Name	Taiyo Nippon Sanso Corporation
(2)	Location	1-3-26, Koyama, Shinagawa-ku, Tokyo
(3)	Paid-in capital	¥37,344 million
(4)	Number of issued and outstanding shares	433,092,837
(5)	Consolidated net assets	¥298,475 million
(6)	Consolidated total assets	¥731,677 million
(7)	Consolidated net sales	¥522,746 million (for the year ended March 31, 2014)
(8)	Consolidated net income	¥20,194 million (for the year ended March 31, 2014)
(9)	Details of Business	Production and sales of industrial gases and related equipment/devices
(10)	Title and name of representative	Shinji Tanabe, President and Representative Director
(11)	Number of employees	12,955 (consolidated) 1,366 (non-consolidated)

3. Outline of tender offer

(1)	Number of shares to be purchased through Tender Offer	Maximum of 104,079,476 and minimum of 99,748,549
(2)	Commencement of Tender Offer	Planned for early November 2014
(3)	Planned Tender Offer price	1,030 yen per TNSC share

Since MCHC intends to maintain TNSC's listing after completing the Tender Offer, MCHC has set 104,079,476 shares (with the TNSC shares that MCHC and Mitsubishi Chemical currently hold, the stake after the Tender Offer would be 51%) as the maximum number of shares it would purchase through the Tender Offer, while the minimum would be 99,748,549 shares. While MCHC plans to double the number of TNSC directors it appoints to two after completing the Tender Offer, it will respect the autonomy of TNSC's management.

MCHC and TNSC have agreed that MCHC will maintain its ownership ratio in TNSC after completing the Tender Offer. MCHC does not plan to acquire additional TNSC shares after the Tender Offer, and intends to maintain long-term ownership of all the TNSC shares that the MCHC Group (including through Mitsubishi Chemical) holds currently, as well as all of the TNSC shares that it may acquire through the Tender Offer.

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Independent auditor's quarterly review report

The Board of Directors
Mitsubishi Chemical Holdings Corporation

We have reviewed the accompanying quarterly condensed consolidated statement of financial position of Mitsubishi Chemical Holdings Corporation and its consolidated subsidiaries as at December 31, 2016, the quarterly condensed consolidated statements of income and comprehensive income for the three-month and the nine-month periods ended December 31, 2016 and 2015, and the quarterly condensed consolidated statements of changes in equity and cash flows for the nine-month periods ended December 31, 2016 and 2015, and the related notes.

Management's Responsibility for the Quarterly Condensed Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these quarterly condensed consolidated financial statements in accordance with International Accounting Standard 34, Interim Financial Reporting, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the quarterly condensed 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 condensed consolidated financial statements based on our review. We conducted our review in accordance with review standards for quarterly financial statements generally accepted in Japan.

A review of quarterly condensed 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.

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

Auditor's Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the quarterly condensed consolidated financial statements referred to above do not present fairly, in all material respects, the consolidated financial position of Mitsubishi Chemical Holdings Corporation and its consolidated subsidiaries as at December 31, 2016, their consolidated financial performance for the three-month and the nine-month periods ended December 31, 2016 and 2015, and cash flows for the nine-month periods ended December 31, 2016 and 2015 in conformity with International Accounting Standard 34, Interim Financial Reporting.

/s/ Ernst & Young ShinNihon LLC
February 13, 2017
Tokyo, Japan

Quarterly condensed consolidated statements of income (unaudited)
Mitsubishi Chemical Holdings Corporation and consolidated subsidiaries

For the nine months ended December 31

Millions of yen	Nine months ended December 31, 2016	Nine months ended December 31, 2015
Continuing operations:		
Revenue (Note 4)	¥ 2,450,610	¥ 2,681,442
Cost of sales	(1,709,479)	(1,910,721)
Gross profit	741,131	770,721
Selling, general and administrative expenses	(520,467)	(531,442)
Other operating income (Note 6)	5,892	14,090
Other operating expenses (Note 6)	(28,998)	(34,973)
Share of profit of investments accounted for using the equity method	12,822	10,767
Operating profit	210,380	229,163
Finance income	6,945	7,857
Finance costs	(12,131)	(16,315)
Profit before tax	205,194	220,705
Income tax expense	(28,005)	(68,263)
Profit from continuing operations	177,189	152,442
Discontinued operations:		
Profit (loss) from discontinued operations (Note 9)	2,639	(71,614)
Net profit	¥ 179,828	¥ 80,828
Net profit attributable to:		
Owners of the parent	¥ 131,751	¥ 33,825
Non-controlling interests	48,077	47,003
Net profit	¥ 179,828	¥ 80,828
Earnings per share:		
Basic (Note 8):		(Yen)
Continuing operations	¥ 88.14	¥ 70.64
Discontinued operations	1.80	(47.55)
Total Basic profit attributable to owners of the parent	¥ 89.94	¥ 23.09
Diluted (Note 8):		(Yen)
Continuing operations	¥ 88.08	¥ 70.60
Discontinued operations	1.80	(47.52)
Total Diluted profit attributable to owners of the parent	¥ 89.88	¥ 23.08

The accompanying notes to the third quarter condensed consolidated financial statements are an integral part of the third quarter condensed consolidated financial statements.

Quarterly condensed consolidated statements of income (unaudited)
Mitsubishi Chemical Holdings Corporation and consolidated subsidiaries

For the three months ended December 31

Millions of yen	Three months ended December 31, 2016	Three months ended December 31, 2015
Continuing operations:		
Revenue	¥ 864,351	¥ 903,519
Cost of sales	(598,416)	(631,916)
Gross profit	265,935	271,603
Selling, general and administrative expenses	(176,426)	(179,940)
Other operating income	1,748	5,160
Other operating expenses	(6,415)	(23,750)
Share of profit of investments accounted for using the equity method	5,470	2,719
Operating profit	90,312	75,792
Finance income	7,083	2,846
Finance costs	(3,821)	(5,524)
Profit before tax	93,574	73,114
Income tax expense	(25,647)	(23,209)
Profit from continuing operations	67,927	49,905
Discontinued operations:		
Profit (loss) from discontinued operations	2,754	(65,762)
Net profit (loss)	¥ 70,681	¥ (15,857)
Net profit (loss) attributable to:		
Owners of the parent	¥ 52,597	¥ (34,024)
Non-controlling interests	18,084	18,167
Net profit (loss)	¥ 70,681	¥ (15,857)
Earnings per share:		
Basic (Note 8):		(Yen)
Continuing operations	¥ 34.03	¥ 21.22
Discontinued operations	1.88	(44.45)
Total Basic profit (loss) attributable to owners of the parent	¥ 35.91	¥ (23.23)
Diluted (Note 8):		(Yen)
Continuing operations	¥ 34.00	¥ 21.21
Discontinued operations	1.88	(44.42)
Total Diluted profit (loss) attributable to owners of the parent	¥ 35.88	¥ (23.21)

The accompanying notes to the third quarter condensed consolidated financial statements are an integral part of the third quarter condensed consolidated financial statements.

Quarterly condensed consolidated statements of comprehensive income (unaudited)
Mitsubishi Chemical Holdings Corporation and consolidated subsidiaries

For the nine months ended December 31

Millions of yen	Nine months ended December 31, 2016	Nine months ended December 31, 2015
Net profit	**¥179,828**	¥ 80,828
Other comprehensive income:		
Items that will not be reclassified to profit or loss:		
Net gain (loss) on revaluation of financial assets measured at fair value	**12,695**	6,210
Remeasurements of defined benefit pensions plans	**11,018**	1,653
Share of other comprehensive income (loss) of investments accounted for using the equity method	**93**	(9)
Total items that will not be reclassified to profit or loss	**23,806**	7,854
Items that may be subsequently reclassified to profit or loss		
Exchange differences on translation of foreign operations	**(13,680)**	(16,410)
Net gain (loss) on derivatives designated as cash flow hedges	**1,162**	682
Share of other comprehensive income (loss) of investments accounted for using the equity method	**(8,218)**	(3,050)
Total items that may be subsequently reclassified to profit or loss	**(20,736)**	(18,778)
Total other comprehensive income (net of tax)	**3,070**	(10,924)
Total comprehensive income	**¥182,898**	¥ 69,904
Total comprehensive income attributable to:		
Owners of the parent	**¥135,057**	¥ 27,464
Non-controlling interests	**47,841**	42,440

The accompanying notes to the third quarter condensed consolidated financial statements are an integral part of the third quarter condensed consolidated financial statements.

Quarterly condensed consolidated statements of comprehensive income (unaudited)
Mitsubishi Chemical Holdings Corporation and consolidated subsidiaries

For the three months ended December 31

Millions of yen	Three months ended December 31, 2016	Three months ended December 31, 2015
Net profit (loss)	**¥ 70,681**	¥(15,857)
Other comprehensive income:		
Items that will not be reclassified to profit or loss:		
Net gain (loss) on revaluation of financial assets measured at fair value	**15,198**	16,135
Remeasurements of defined benefit pensions plans	**10,306**	5,524
Share of other comprehensive income (loss) of investments accounted for using the equity method	**95**	16
Total items that will not be reclassified to profit or loss	**25,599**	21,675
Items that may be subsequently reclassified to profit or loss		
Exchange differences on translation of foreign operations	**42,628**	(8,432)
Net gain (loss) on derivatives designated as cash flow hedges	**708**	684
Share of other comprehensive income (loss) of investments accounted for using the equity method	**1,041**	(862)
Total items that may be subsequently reclassified to profit or loss	**44,377**	(8,610)
Total other comprehensive income (net of tax)	**69,976**	13,065
Total comprehensive income	**¥140,657**	¥ (2,792)
Total comprehensive income attributable to:		
Owners of the parent	**¥103,492**	¥(24,088)
Non-controlling interests	**37,165**	21,296

The accompanying notes to the third quarter condensed consolidated financial statements are an integral part of the third quarter condensed consolidated financial statements.

Quarterly condensed consolidated statement of financial position (unaudited)
Mitsubishi Chemical Holdings Corporation and consolidated subsidiaries

Millions of yen	April 1,2015 (Transition date)	December 31, 2016	March 31, 2016
Assets			
Current assets:			
Cash and cash equivalents	¥ 252,749	**¥ 327,687**	¥ 267,148
Trade receivables	754,335	**842,178**	769,094
Inventories	593,780	**535,597**	549,461
Other financial assets	171,089	**135,384**	214,485
Other current assets	57,427	**63,159**	53,191
	1,829,380	**1,904,005**	1,853,379
Assets held for sale (Note 10)	8,752	**5,497**	3,338
Total current assets	1,838,132	**1,909,502**	1,856,717
Non-current assets:			
Property, plant and equipment	1,485,225	**1,440,341**	1,403,437
Goodwill	245,675	**319,031**	267,850
Intangible assets	198,345	**225,839**	195,536
Investments accounted for using the equity method	129,269	**129,019**	129,072
Other financial assets	339,876	**265,231**	251,802
Other non-current assets	46,893	**33,644**	30,389
Deferred tax assets	85,583	**115,644**	88,971
Total non-current assets	2,530,866	**2,528,749**	2,367,057
Total assets	¥4,368,998	**¥4,438,251**	¥4,223,774

The accompanying notes to the third quarter condensed consolidated financial statements are an integral part of the third quarter condensed consolidated financial statements.

Millions of yen	April 1,2015 (Transition date)	December 31, 2016	March 31, 2016
Liabilities and Equity			
Liabilities			
Current liabilities:			
Trade payables	¥ 452,856	**¥ 446,020**	¥ 394,065
Bonds and borrowings (Note 11)	742,712	**693,044**	706,705
Income tax payable	34,181	**13,636**	36,434
Other financial liabilities	236,783	**185,175**	185,940
Provisions	3,572	**8,677**	3,603
Other current liabilities	126,656	**126,296**	114,955
	1,596,760	**1,472,848**	1,441,702
Liabilities directly associated with assets held for sale (Note 10)	–	**2,554**	–
Total current liabilities	1,596,760	**1,475,402**	1,441,702
Non-current liabilities:			
Bonds and borrowings (Note 11)	859,216	**970,914**	872,870
Other financial liabilities	29,559	**27,616**	29,019
Retirement benefit liabilities	133,889	**133,669**	144,179
Provisions	21,372	**26,411**	23,616
Other non-current liabilities	34,657	**38,423**	41,387
Deferred tax liabilities	91,165	**82,866**	74,850
Total non-current liabilities	1,169,858	**1,279,899**	1,185,921
Total liabilities	2,766,618	**2,755,301**	2,627,623
Equity			
Common stock:	50,000	**50,000**	50,000
Additional paid-in capital	318,185	**316,457**	317,544
Treasury stock	(16,236)	**(16,228)**	(16,240)
Retained earnings	582,794	**730,471**	610,909
Other components of equity	58,268	**1,784**	9,984
Equity attributable to owners of the parent	993,011	**1,082,484**	972,197
Non-controlling interests	609,369	**600,466**	623,954
Total equity	1,602,380	**1,682,950**	1,596,151
Total liabilities and equity	¥ 4,368,998	**¥4,438,251**	¥ 4,223,774

The accompanying notes to the third quarter condensed consolidated financial statements are an integral part of the third quarter condensed consolidated financial statements.

Quarterly condensed consolidated statements of changes in equity (unaudited)
Mitsubishi Chemical Holdings Corporation and consolidated subsidiaries

For the nine months ended December 31

Millions of yen	Common stock	Additional paid-in capital	Treasury stock	Retained earnings
Balance at April 1, 2016	¥50,000	¥317,544	¥(16,240)	¥610,909
Net profit	–	–	–	131,751
Other comprehensive income	–	–	–	–
Total comprehensive income	–	–	–	131,751
Purchase of treasury stock	–	–	(20)	–
Disposal of treasury stock	–	(32)	32	–
Cash dividends (Note 12)	–	–	–	(23,437)
Share-based payment transactions	–	71	–	–
Changes in interests in subsidiaries	–	(1,126)	–	–
Changes in scope of consolidation	–	–	–	(258)
Transfer from other components of equity to retained earnings	–	–	–	11,506
Total transactions with owners	–	(1,087)	12	(12,189)
Balance at December 31, 2016	¥50,000	¥ 316,457	¥ (16,228)	¥ 730,471

	Other components of equity							
	Net gain (loss) on revaluation of financial assets measured at fair value	Remeasurements of defined benefit pensions plans	Exchange differences on translation of foreign operations	Net gain (loss) on derivatives designated as cash flow hedges	Total	Equity attributable to owners of the parent	Non-controlling interests	Total equity
Balance at April 1, 2016	¥37,054	¥ –	¥(25,246)	¥(1,824)	¥ 9,984	¥ 972,197	¥623,954	¥1,596,151
Net profit	–	–	–	–	–	131,751	48,077	179,828
Other comprehensive income	11,388	9,574	(18,717)	1,061	3,306	3,306	(236)	3,070
Total comprehensive income	11,388	9,574	(18,717)	1,061	3,306	135,057	47,841	182,898
Purchase of treasury stock	–	–	–	–	–	(20)	–	(20)
Disposal of treasury stock	–	–	–	–	–	–	–	–
Cash dividends (Note 12)	–	–	–	–	–	(23,437)	(26,717)	(50,154)
Share-based payment transactions	–	–	–	–	–	71	–	71
Changes in interests in subsidiaries	–	–	–	–	–	(1,126)	(44,612)	(45,738)
Changes in scope of consolidation	–	–	–	–	–	(258)	–	(258)
Transfer from other components of equity to retained earnings	(1,932)	(9,574)	–	–	(11,506)	–	–	–
Total transactions with owners	(1,932)	(9,574)	–	–	(11,506)	(24,770)	(71,329)	(96,099)
Balance at December 31, 2016	¥ 46,510	¥ –	¥ (43,963)	¥ (763)	¥ 1,784	¥1,082,484	¥600,466	¥ 1,682,950

Millions of yen	Common stock	Additional paid-in capital	Treasury stock	Retained earnings
Balance at April 1, 2015	¥50,000	¥318,185	¥(16,236)	¥582,794
Net profit	–	–	–	33,825
Other comprehensive income	–	–	–	–
Total comprehensive income	–	–	–	33,825
Purchase of treasury stock	–	–	(41)	–
Disposal of treasury stock	–	(4)	5	–
Cash dividends (Note 12)	–	–	–	(20,507)
Share-based payment transactions	–	58	–	–
Changes in interests in subsidiaries	–	(189)	–	–
Business combinations or business divestitures	–	–	33	–
Changes in scope of consolidation	–	–	–	202
Transfer from other components of equity to retained earnings	–	–	–	10,591
Total transactions with owners	–	(135)	(3)	(9,714)
Balance at December 31, 2015	¥50,000	¥ 318,050	¥ (16,239)	¥606,905

	Other components of equity							
	Net gain (loss) on revaluation of financial assets measured at fair value	Remeasurements of defined benefit pensions plans	Exchange differences on translation of foreign operations	Net gain (loss) on derivatives designated as cash flow hedges	Total	Equity attributable to owners of the parent	Non-controlling interests	Total equity
Balance at April 1, 2015	¥60,322	¥ –	¥ –	¥(2,054)	¥ 58,268	¥ 993,011	¥609,369	¥1,602,380
Net profit	–	–	–	–	–	33,825	47,003	80,828
Other comprehensive income	3,785	1,369	(12,093)	578	(6,361)	(6,361)	(4,563)	(10,924)
Total comprehensive income	3,785	1,369	(12,093)	578	(6,361)	27,464	42,440	69,904
Purchase of treasury stock	–	–	–	–	–	(41)	–	(41)
Disposal of treasury stock	–	–	–	–	–	1	–	1
Cash dividends (Note 12)	–	–	–	–	–	(20,507)	(21,948)	(42,455)
Share-based payment transactions	–	–	–	–	–	58	–	58
Changes in interests in subsidiaries	–	–	–	–	–	(189)	1,043	854
Business combinations or business divestitures	–	–	–	–	–	33	1,858	1,891
Changes in scope of consolidation	–	–	–	–	–	202	20	222
Transfer from other components of equity to retained earnings	(9,222)	(1,369)	–	–	(10,591)	–	–	–
Total transactions with owners	(9,222)	(1,369)	–	–	(10,591)	(20,443)	(19,027)	(39,470)
Balance at December 31, 2015	¥ 54,885	¥ –	¥ (12,093)	¥ (1,476)	¥ 41,316	¥1,000,032	¥ 632,782	¥ 1,632,814

Quarterly condensed consolidated statements of cash flows (unaudited)
Mitsubishi Chemical Holdings Corporation and consolidated subsidiaries

Millions of yen	Nine months ended December 31, 2016	Nine months ended December 31, 2015
Cash flows from operating activities:		
Profit before tax	¥ 205,194	¥ 220,705
Earnings (loss) before taxes from discontinued operations (Note 9)	2,393	(70,964)
Depreciation and amortization	129,268	137,127
Share of net profit of associates	(12,822)	(10,767)
Interest and dividend income	(5,718)	(7,812)
Interest expense	11,609	13,898
Impairment loss	10,036	70,201
Loss on sales and retirement of non-current assets	4,635	3,383
Loss on sales of shares of associates	109	1,404
Gain on sales of shares of associates	(2,341)	(1,717)
Gain on sales of non-current assets	(847)	(3,207)
Gain on step acquisitions, net	–	(1,861)
(Increase) decrease in trade receivables	(67,248)	(113,350)
(Increase) decrease in inventories	1,635	8,183
Increase (decrease) in trade payables	48,094	25,237
Increase (decrease) in net defined benefit liabilities	6	925
Other, net	3,979	(30,336)
Subtotal	327,982	241,049
Interest received	2,175	2,271
Dividends received	10,874	9,706
Interest paid	(11,661)	(13,167)
Income taxes (paid) received, net	(74,803)	(74,332)
Net cash provided by operating activities	254,567	165,527
Cash flows from investing activities:		
Purchase of property, plant and equipment	(141,141)	(135,162)
Proceeds from sales of property, plant and equipment	5,157	10,143
Purchase of intangible assets	(7,868)	(10,171)
Purchase of other financial assets	(146,156)	(90,666)
Proceeds from sales/redemption of other financial assets	115,023	168,164
Purchase of investments in subsidiaries (Note 5)	(26,226)	(26,403)
Proceeds from sales of investments in subsidiaries	5,025	–
Net (increase) decrease in time deposits	116,829	(5,909)
Payments for transfer of business (Note 5)	(77,000)	(156)
Other, net (Note 5)	(4,976)	2,198
Net cash used in investing activities	(161,333)	(87,962)
Cash flows from financing activities:		
Net increase (decrease) in short-term borrowings	(67,696)	21,642
Net increase (decrease) in commercial papers	46,000	(1,000)
Proceeds from long-term borrowings	192,520	80,646
Repayment of long-term borrowings	(125,108)	(72,536)
Proceeds from issuance of bonds	69,777	59,707
Redemption of bonds	(30,010)	(20)
Net (increase) decrease in treasury stock	(21)	(40)
Dividends paid (Note 12)	(23,437)	(20,507)
Dividends paid to non-controlling interests	(27,156)	(21,948)
Proceeds from stock issuance to non-controlling interests	2,181	2,885
Payment for acquisition of subsidiaries' interests from non-controlling interests	(48,800)	(2,716)
Other, net	(3,333)	(2,753)
Net cash used in financing activities	(15,083)	43,360

Millions of yen	Nine months ended December 31, 2016	Nine months ended December 31, 2015
Effect of exchange rate changes on cash and cash equivalents	**(11,460)**	(4,669)
Net increase (decrease) in cash and cash equivalents	**66,691**	116,256
Cash and cash equivalents at beginning of period	**267,148**	252,749
Net increase (decrease) in cash and cash equivalents resulting from transfer to assets held for sales	**(6,179)**	–
Net increase (decrease) in cash and cash equivalents resulting from change in scope of consolidation	**–**	307
Net increase in cash and cash equivalents resulting from merger and acquisition	**27**	–
Cash and cash equivalents at end of period	**¥327,687**	¥369,312

The accompanying notes to the third quarter condensed consolidated financial statements are an integral part of the third quarter condensed consolidated financial statements.

Notes to quarterly condensed consolidated financial statements Mitsubishi Chemical Holdings Corporation and consolidated subsidiaries

Note 1 Reporting entity

Mitsubishi Chemical Holdings Corporation (the "Company") is a corporation domiciled in Japan, whose shares are listed on the First Section of the Tokyo Stock Exchange. The registered address of its Head Office is presented on its website (http://www.mitsubishichem-hd.co.jp/). The Company's Third Quarter Condensed Financial Statements for the Nine Months Ended December 31, 2015 and 2016 comprise those of the Company, its subsidiaries and associates, and interests under joint arrangements (collectively, the "Group"). The Group's three principal domains are Performance Products, Health Care, and Industrial Materials. Further details are presented in Note 4 Segment Information.

Note 2 Basis of presentation

1. Compliance with IFRS

The quarterly condensed consolidated financial statements of the Group have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting, pursuant to the provisions set forth in Article 93 of the Ordinance on Terminology, Forms, and Preparation Methods of Quarterly Consolidated Financial Statements, as the Group meets the requirements for a "Specified Company applying Designated International Financial Reporting Standards" prescribed in Article 1-2 of said ordinance.

The Group adopted International Financial Reporting Standards (IFRS) from the fiscal year beginning April 1, 2016, preparing its consolidated financial statements for the first time under those standards from that date. The date of transition to IFRS (the "transition date") was April 1, 2015. The effects of the transition to IFRS on the Group's financial position, results of operations, and cash flows on the transition date and comparative periods are presented in Note 15 First-Time Adoption.

The significant accounting policies described in Note 3 are those the Company intends to apply in its first annual IFRS financial statements for the year ending March 31, 2017.

2. Approval of quarterly condensed consolidated financial statements

The Group's quarterly condensed consolidated financial statements were approved on February 13, 2017, by Hitoshi Ochi, Representative Corporate Executive Officer, President and Chief Executive Officer, and Kenkichi Kosakai, Representative Corporate Executive Officer, Senior Managing Corporate Executive Officer, and Chief Financial Officer.

3. Basis of measurement

The quarterly condensed consolidated financial statements are prepared on a historical cost basis, except for certain financial instruments measured at fair value.

4. Presentation currency

The quarterly condensed consolidated financial statements are presented in Japanese yen, which is the Company's functional currency, rounded to the nearest million yen.

5. Use of judgments, estimates and assumptions

Management has made a number of judgments, estimates and assumptions relating to the application of accounting policies, reporting of revenues and expenses and assets and liabilities in the preparation of these quarterly condensed consolidated financial statements in accordance with IFRS.

Estimates and underlying assumptions are continually evaluated. The effect of changes to accounting estimates is recognized in the reporting period in which the revision was made and in future periods.

Information regarding judgments, estimates, and assumptions used in applying accounting policies that could materially affect the Company's quarterly condensed consolidated financial statements is included in the following notes:

- Impairment of Non-Financial Assets
- Recoverability of Deferred Tax Assets
- Measurement of Defined Benefit Obligations
- Fair Value of Financial Instruments
- Contingent Liabilities

Note 3 Significant accounting policies

1. Basis of consolidation

(1) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group has control over an entity if it has exposure or rights to variable returns from its involvement with the investee and has the ability to affect those returns through its influence over the investee.

In preparing its consolidated financial statements, the Company based the financial statements of each Group company prepared as of the same closing date based on common Group accounting policies. Subsidiaries' financial statements are adjusted, if necessary, when their accounting policies differ from those of the Group.

The Group consolidates entities from the date on which it acquires control until the date on which it loses control.

All intergroup balances, outstanding receivables and obligations, unrealized gains and losses are eliminated on consolidation.

A change in ownership interest of a consolidated subsidiaries, without a loss of controls, is accounted for as an equity transactions. Differences between adjusted non-controlling interest amounts and fair value are recognized directly as equity attributable to the owner of the parent company.

In the event of a loss of control the Group measures and recognizes any remaining investments at fair value. Any gain or loss arising from loss of control is recognized in profit or loss.

Non-controlling interests in a subsidiary's net assets are recognized separately from those under the Group's control. The comprehensive income of consolidated subsidiaries is attributed to the owner of the parent company and non-controlling interests even if this results in the non-controlling interests having a deficit balance.

(2) Associates

Associates are entities in which the Group has significant influence over the financial and operational policies but does not have control or joint control. Normally, the Group is assumed to be able to exercise significant influence when it holds 20% to 50% ownership. Other factors considered in assessing whether or not the Group can exercise significant influence include sending any of its officers being on the Board of Directors. In such cases, the Group may be considered to be able to exercise significant influence over an associate even if its investment accounts for less than 20% of voting rights.

The Group accounts for investments in associates under the equity method. Such investments are recognized at cost upon acquisition. After acquisition, the Group's share of the net assets of associates are adjusted and recorded in the consolidated statements of financial position.

The consolidated financial statements reflect the Group's share of earnings in associates. If amounts recognized in other comprehensive income of associates change, the Group's share with respect to those changes is also recognized in other comprehensive income.

The Group's consolidated financial statements have been adjusted to eliminate its share in unrealized gains and losses arising from transactions between it and associates.

Associates prepare their financial statements of associates for the same reporting period as the Group, adjusting their accounting policies to align with those of the Group.

In the event that the Group loses significant control over an associate, it assesses and recognizes the remaining investment at fair value as of the day on which it lost such influence. Gains and losses arising from the loss of significant influence are recognized in profit or loss.

In preparing the consolidated financial statements, the requirements of local laws and shareholder agreements made it effectively impossible to match reporting dates of associates to that of the Group. For certain associates for which it was impracticable to provisionally settle accounts on the Group's reporting date owing to business or other factors, the Group uses relevant provisional financial statements for the period ending December 31. Significant transactions or events between the reporting dates of those associates and the consolidated closing date are reflected in the consolidated financial statements.

(3) Joint arrangements

A joint arrangement is an arrangement in which unanimous consensus from the parties that have joint control of decision-making over related activities is required.

A joint venture is a joint agreement through which parties with joint control over an arrangement have rights to the net assets of an arrangement.

The Group uses the equity method to account for its equity interests in joint ventures.

A joint operation is one in which parties with joint control of an arrangement have rights to assets and obligations for liabilities relating to the joint arrangement.

If the Group holds an interest in a joint operation, the Group recognizes assets, liabilities, revenues and expenses generated from joint operating activities only to the extent of its interest. Inter-company transactions among the Group's companies as well as receivable and payable balances and unrealized gains and losses arising from such transactions are eliminated.

The principal joint operation is The Saudi Methacrylates Company, in which the Group and Saudi Arabia have a 50-50 interest. That company is constructing production facilities, and plans to manufacture and sell methyl methacrylate monomer, acrylic resin, and other offerings.

2. Business combinations

The Group uses the acquisition method to account for business combinations.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts and adjusts the amounts in a measurement period that does not exceed one year from the acquisition date.

The Group measures the cost of an acquisition as the aggregate of the consideration transferred, measured at acquisition-date fair value and the amount of any non-controlling interest in the acquiree.

For each business combination, the Group measures components of non-controlling interests in the acquiree at fair value or the amounts of non-controlling interests in the acquiree's identifiable net assets.

The Group accounts for acquisition-related costs as expenses in the periods in which such costs are incurred.

When the Group acquires a business, the Group classifies or designates the identifiable assets acquired and liabilities assumed on the basis of the contractual terms, economic conditions and other pertinent conditions as they exist at the acquisition date. In principle, the Group measures the identifiable assets acquired and the liabilities assumed at their acquisition-date fair values, generally.

If a business combination is achieved in stages, the Group reassesses the equity of the acquiree before acquisition of control at fair value on acquisition date, and recognizes the resulting gain or loss in profit or loss.

The Group accounts for the equity interest of the acquiree booked in other comprehensive income before the acquisition on the same basis as would be required if the Group had disposed directly of the previously held equity interest.

Goodwill is measured as the difference by which total value recognized as transferred consideration and non-controlling interests exceeds the net value of identifiable assets acquired and liabilities assumed.

If the total amount recognized as transferred consideration and non-controlling interests is less than net amount of identifiable assets acquired and liabilities assumed, the Group recognizes the difference as profit or loss.

After initial recognition, the Group does not amortize goodwill acquired through business combination, but records goodwill at cost less any accumulated impairment loss. The Group conducts impairment tests annually or when there are signs of impairment.

3. Foreign currency translations

The consolidated financial statements of the Group are presented in Japanese yen, which is the Company's functional currency.

In addition, each company in the Group determines its individual functional currency and measures transactions using these functional currencies.

Foreign currency denominated transactions are translated into functional currencies at spot exchange rates as of the transaction dates or at similar rates.

Foreign currency monetary assets and liabilities are translated into the functional currency using the spot exchange rate on the date of end of the consolidated reporting period. Exchange differences arising from currency exchanges and settlement are recognized in profit or loss. However, exchange differences arising from financial instruments designated as hedging instruments of net investment in foreign operations (foreign subsidiaries, etc.), financial assets measured through other comprehensive income and cash flow hedges are recognized in other comprehensive income.

The Group translates assets and liabilities of foreign operations using the spot exchange rate on date of the end of the reporting period, and revenue and expenses using the spot exchange rate on the transaction date or an approximate rate in Japanese yen, respectively. The Group accounts for any exchange differences arising in such retranslation in other comprehensive income.

On the disposal of a foreign operation, accumulated exchange differences related to the foreign operation are recognized in profit or loss in the reporting period of disposal.

4. Revenue

(1) Recognition of revenue

The Group recognizes revenue when it is probable that future economic benefits will flow to the Group and these benefits can be measured reliably. The Group measures revenue at the fair value of a consideration received or receivable after deducting the amount of any trade discounts, volume rebates and value-added taxes.

(2) Sale of goods

The Group recognizes revenue from the sale of goods when it has transferred the significant risks and rewards of ownership of the goods to the buyer, it retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the Group, and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

(3) Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated, revenue associated with the transaction is recognized according to the stage of the transaction's completion. In principle, the Group

applies the method to estimate the stage of completion in proportion of the incurred cost at the closing date to the estimated total cost. If a milestone is specified at the start of a contract, the Group applies measurements using that milestone. When the stage of completion cannot be estimated reliably, the Group recognizes costs incurred as an expense in the reporting period and recognizes revenue only to the extent that recognized expenses are recoverable.

(4) Interest and dividends

The Group recognizes interest using the effective interest method and recognizes dividends when shareholder rights to payments are confirmed.

(5) Construction contracts

If the outcome of a construction contract transaction can be estimated reliably, revenue associated with the transaction is recognized according to the stage of completion of the transaction at the end of the reporting period. If the outcome of a construction contract transaction cannot be estimated reliably, revenue is recognized only to the extent of contract costs incurred that it is probable will be recoverable. If total contract costs will likely exceed total contract revenue, the expected loss is immediately recognized as an expense.

5. Government grants

Government grants are recognized at fair value when there is reasonable assurance that the Group will comply with grant terms and that the grant will be received.

Government grants related to income are recognized as income on a systematic basis over the periods in which the Group recognizes as expenses the related costs for which the grants are intended to compensate.

Government grants relating to assets are deducted from asset acquisition costs.

6. Borrowing costs

The Group capitalizes borrowing costs that are directly attributable to the acquisition, construction or production of assets that require considerable time before use as intended or sale as part of the cost of that asset. The Group recognizes all other borrowing costs as expenses in periods incurred.

7. Income taxes

The Group calculates current tax liabilities or assets for the current and prior periods as amounts that it expects to pay to or recover from taxation authorities. The Group uses tax rates and tax laws enacted or substantively enacted by the end of a reporting period to determine tax amounts.

The Group uses the asset and liability method to record deferred taxes for differences between carrying amounts of assets or liabilities on the accounts at the end of the reporting period and the tax basis (temporary differences).

In principle, the Group recognizes deferred tax liabilities for all future taxable temporary differences. Deferred tax assets are recognized to the extent that it is probably that taxable income will be available against which deductible temporary differences and for tax credit and loss carryforwards can be used.

As exceptions, however, the Group does not recognize deferred tax assets or deferred tax liabilities for the following temporary differences:

- The initial recognition of goodwill
- The initial recognition of assets or liabilities in transactions that are not business combinations and do not affect profits in the accounts at the time of transactions or taxable profits or losses.
- Deductible temporary differences arising from investments in subsidiaries and associates, and interests in joint venture to the extent that it is probable that the timing of the reversal of the temporary difference in the foreseeable future and it is not probable that future taxable profits will be available against which they can be utilized

- Taxable temporary differences arising from investments in subsidiaries and associates, and interests in a joint venture to the extent that the timing of the reversal of the temporary difference is controlled and that it is probable the temporary difference will not reverse in the foreseeable future.

The Group reviews the carrying amount of deferred tax assets and liabilities (including unrecognized deferred tax assets) at the end of each reporting period. The Group calculates deferred tax and liabilities based on tax rates that have been enacted or substantively enacted by the end of the reporting period, estimating tax rates at the time assets materialize or liabilities are settled.

8. Earnings per share

The Company calculates basic earnings per share by dividing the profit attributable to ordinary shareholders by the weighted average number of ordinary shares, adjusted for treasury stock during that period. The Company calculates diluted earnings per share by adjusting the effects of all potentially dilutive shares.

9. Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits, and short-term investments that are readily convertible to cash, which are subject to insignificant risks of changes in value, and whose maturities are three months or less from the date of acquisition.

10. Inventories

The cost of inventories comprises all purchase costs, processing costs, and all costs incurred in bringing the inventories to their present location and condition.

Inventories are measured at the lower of acquisition cost and net realizable value. The Company mainly uses the weighted average cost formula to calculate costs. The Company calculates the net realizable value by deducting the estimated selling price in the ordinary course of business from the estimated costs required to make a sale.

11. Non-current assets held for sale and discontinued operations

The Company classifies a non-current asset (or disposal group) as held for sale if its carrying amount is expected to be recovered principally through a sale transaction rather than through continuing use. This applies only if the asset (or disposal group) is available for immediate sale in its present condition and a sale is highly probable within one year. The Company measures a non-current asset (or disposal group) classified as held for sale at the lower of the carrying amount and fair value, less the cost to sell.

The Group does not depreciate or amortize property, plant or equipment or intangible assets classified as held for sale.

Discontinued operations include units that have been disposed of or are classified as held for sale. The Group recognizes an operation as discontinued if it is a Group business and is scheduled for disposal.

12. Property, plant and equipment

The Group applies the cost model to measure property, plant and equipment.

The Group carries property, plant and equipment at cost less accumulated amortization and accumulated impairment losses.

The acquisition cost includes direct costs of acquisition, estimated costs of dismantlement, removal and restoration, and borrowing costs that satisfy capitalization criteria.

Except for land, property, plant and equipment, less the residual value at the end of the reporting term, is depreciated using the straight-line method.

Depreciation is over the following estimated useful lives for the following major classes of assets:

Buildings and structures	3 to 50 years
Machinery, equipment and vehicles	2 to 22 years
Tools, furniture and fixtures	2 to 25 years

13. Intangible assets

The Group uses the cost model to measure intangible assets.

Intangible assets are stated at cost less accumulated amortization and impairment losses.

Separately acquired intangible assets are initially recognized at cost. The acquisition cost of an intangible asset acquired in a business combination is measured at fair value at the acquisition date.

Expenditure on an internally generated intangible asset is recognized as an expense when it is incurred, excluding development expenditures that satisfy the criteria for capitalization.

The Group depreciates intangible assets with finite useful lives on a straight-line basis over their useful lives. It tests intangible assets when there are indications of impairment. Amortization periods and methods for intangible assets with finite useful lives are reviewed at year-end. Any changes are applied to the future as changes in accounting estimates.

Amortization is over the following estimated useful lives for the following major classes of intangible assets:

Intangible technological assets	4 to 20 years
Intangible customer assets	5 to 19 years
Software	3 to 11 years

The Group does not amortize intangible assets with indefinite useful lives, and annually conducts impairment tests individually or by cash-generating unit (or groups of cash-generating units) where there are indications of impairment.

14. Impairment of assets

(1) Impairment of non-financial assets

The Group assesses whether indications of asset impairment exist at the end of each reporting period. If there are such indications and annual impairment testing is necessary, the Group estimates recoverable amounts, which are the higher amount of fair value less costs of disposal and value in use. If a recoverable amount of an asset cannot be estimated, the Group estimates the recoverable amount of each cash-generating unit or group of cash-generating units of the asset class. If the carrying amount of an asset exceeds its recoverable amount, the Group recognizes an impairment loss and reduces the carrying amount of the asset to its recoverable amount. In measuring value in use, the Group determines the present value of estimated future cash flows, discounted by pre-tax rates reflecting current market assessments of the time value of money and risks specific to the asset. The Group estimates future cash flows using a business plan for five years or less, in principle. Cash flow projections beyond the business plan period use long-term-average growth rates according to individual circumstances.

The Group uses an appropriate valuation model supported by an available fair value index to measure fair value less costs of disposal.

The Group allocates goodwill after acquisition dates to individual or groups of cash generating units expected to benefit from corporate combination synergies.

For goodwill, intangible assets with indefinite useful lives and intangible assets not yet available for use, the Group tests for impairment annually and when there are indications of impairment.

(2) Reversal of impairment loss

For assets other than goodwill, at the end of each reporting period the Group evaluates whether assumptions used to measure recoverable amounts have changed for impairment losses recognized in prior periods and if there are indications that such losses have decreased or disappeared.

If such indications exist, the Group reverses impairment losses if recoverable amounts exceed the Group's carrying amounts of assets or cash-generating units. Any reversal is limited to the lower of the estimated recoverable amount or the carrying value that would have been determined, net of accumulated depreciation, had no impairment loss been recognized in prior periods.

Impairment loss reversals are recognized in profit or loss.

Goodwill impairment losses are not reversed.

15. Leases

A lease contract is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of a leased asset to the Group. An operating lease is a lease other than a finance lease.

In finance lease transactions, leased assets and lease obligations are recognized in the consolidated statement of financial position at the lower of the fair value of the leased property or the present value of the minimum lease payments, each determined at the inception of the lease. Lease payments are apportioned between the financial cost and reduction of lease obligations based on the interest method. Financial costs are recognized in profit or loss. Leased assets are depreciated on a straight-line basis over the useful lives or lease term, whichever is shorter.

In operating lease transactions, lease payments are recognized as an expense in income statements on a straight-line basis over lease terms. Contingent rents are charged as expenses in the period when they are incurred.

Determining whether an arrangement is, or contains, a lease is based on the substance of the arrangement regardless of whether it takes the legal form of a lease.

16. Provisions

A provision is recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and the amount of the obligation can estimated reliability.

Where the effect of the time value of money is material, the provision is measured at the present value of the expenditures expected to be required to settle obligations. The discount rate used in measuring the present value is a pre-tax rate that reflects current market assessments of the time value of money and risks inherent in the liability.

17. Retirement benefits

The Group operates a defined benefit plan and defined contribution plan as employee retirement benefit plans.

The Group uses the projected unit credit method to determine the present value of its defined benefit obligations and the related current and past service costs for each plan.

The rate used to discount post-employment benefit obligations is determined by referring to market yields at the end of the reporting period on high quality corporate bonds.

The fair value of any plan assets is deducted from the present value of the defined benefit obligation in determining the amount of the net defined benefit liabilities or assets of defined benefit plans.

Remeasurements of liabilities and assets associated with defined benefit retirement plans are recognized in other comprehensive income in the period incurred and immediately reflected in retained earnings. Past services costs are recognized as expenses in the periods incurred.

The Group recognizes contribution payable to defined contribution plans as expenses at the time of contribution.

18. Capital

(1) Ordinary shares

The Company allocated the issue price of ordinary shares between common stock and additional paid-in capital.

(2) Treasury shares

Acquired treasury stock is recognized at cost and deducted from equity, while the difference between the carrying value of treasury stock and its value at the time of sale is recognized in additional paid-in capital.

19. Share-based payment

The Group calculates fair value of share options as of the grant date using the Black-Scholes model as an appropriate valuation model.

The fair value measured as of share option grant dates after considering of eventually projected numbers of vested stock option shares is recorded as an expense using the straight-line method over the vesting period and is recognized in additional paid-in capital.

The Group revises the estimated number of share options expected to be vested each period. Revisions to estimates corresponding to the effects of revised estimates are recognized in profit or loss in the period such that the revised estimates are reflected in accumulated expenses.

20. Financial instruments

(1) Financial assets (except derivatives)

(i) Initial recognition and measurement

The Group initially recognizes trade receivables at the date of occurrence. The Group initially recognizes all other financial assets on the transaction dates on which the Group becomes a contract party.

Financial assets are classified as financial assets measured at fair value through profit or loss or other comprehensive income and financial assets measured at amortized cost. The Group determines classifications at initial recognition.

Debt financial instruments are classified as financial assets measured at amortized cost if both of the following conditions are met.

- Financial assets are based on a business model where the aim is to hold financial assets to recover contractual cash flows
- Contractual terms of financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on principal amounts outstanding

Debt financial instruments meeting the following conditions and measured at fair value are classified as financial assets measured at fair value through other comprehensive income. Otherwise, they are classified as financial assets measured at fair value through profit or loss.

- Financial assets are based on a business model where the aim is to hold financial assets to collect contractual cash flows and sell assets
- Contractual terms of financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on principal amounts outstanding

Equity instruments other than those for trading purpose are designated as measured at fair value through profit or loss or as measured at fair value through other comprehensive income. Such designations are applied subsequently on a consistent basis.

Except for financial assets measured at fair value through profit or loss, financial instruments are measured at fair value plus transaction costs attributable directly to them.

(ii) Subsequent measurements

After initial recognition, financial assets are measured based on the following classifications:

(a) Financial assets measured at amortized cost

Financial assets measured at amortized cost are measured at amortized cost using the effective interest method.

(b) Other financial assets

Financial assets other than those measured at amortized cost are measured at fair value.

Changes in the fair value of financial assets measured at fair value are recognized as profit or loss or in other comprehensive income.

Changes in the fair value of equity instruments designated as measured at fair value through other comprehensive income are recognized as other comprehensive income and the amount in other comprehensive income is transferred to retained earnings when equity instruments are derecognized or when the fair value of equity instruments declines significantly.

(iii) Derecognition

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the financial asset expire or when the Group transfers the financial asset and the substantially all the risks and rewards of ownership of the financial asset are transferred.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership of a transferred asset and retains control of the transferred asset, the Group recognizes the residual interest in the transferred asset and the associated liability to be payable to the extent of the Group's continuing involvement.

(iv) Impairment

At each closing date, the Group assesses whether the credit risk on a financial asset or a financial asset group measured at amortized cost or a financial guarantee contract has increased significantly since initially recognizing the impairment of a financial asset or financial guarantee contract.

If, at the closing date, the credit risk of a financial asset or a financial asset group has not increased significantly since initial recognition, the Group measures the loss allowance for that financial asset at an amount equal to 12-month expected credit losses. However, the Group recognizes the expected credit losses of trade receivables over the remaining period from the initial recognition.

If a credit risk has increased significantly since initial recognition, the Group recognizes an expected credit loss over the remaining period as a loss allowance.

The Group assesses whether the credit risk has increased significantly using the change in the risk of default, and assesses whether the default risk has changed mainly using delinquent (past due information).

The Group measures a credit loss using the discounted present value of the difference between the contractual amount receivable and the estimate amount receivable based on the past credit loss.

(2) Financial liabilities (except derivatives)

(i) Initial recognition and measurement

Financial liabilities are classified into financial liabilities measured at fair value through profit or loss and financial liabilities measured at amortized cost. The Group determines classifications at initial recognition.

Although all financial liabilities are measured at fair value at initial recognition, financial liabilities measured at amortized cost are measured at cost after deducting, from the fair value, transaction costs that are directly attributable to the financial liabilities.

(ii) Subsequent measurement

After initial recognition, financial liabilities are measured based on classifications as follows:

(a) Financial liabilities measured at fair value through profit or loss

Financial liabilities measured at fair value through profit or loss are measured at fair value. After initial recognition, portions of changes in fair value and interest cost attributed to the change in credit risk of the Group are recognized as other comprehensive income, and the balance is recognized as profit or loss.

(b) Financial liabilities measured at amortized cost

After initial recognition, financial liabilities measured at amortized cost are measured at amortized cost using the effective interest method. Amortization under the effective interest method and gains or losses on derecognition is recognized as profit or loss.

(iii) Derecognition

Financial liabilities are derecognized when the obligation is discharged, canceled or expired, or when they are exchanged with substantially different terms or their terms are modified substantially.

(3) Offsetting of financial instruments

Financial assets and financial liabilities are offset and presented as a net amount in the consolidated statement of financial position only when there is a legally enforceable right to set off the recognized amounts and the Group intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

(4) Derivatives and hedge accounting

The Group uses derivatives, including forward foreign exchange contracts and interest rate swap contracts, to hedge foreign exchange and interest rate risks. These derivatives are initially measured at fair value when contracts are entered into and are subsequently remeasured at fair value.

Changes in the fair value of derivatives are recognized as profit or loss, although gains or losses on hedging instrument relating to effective portions of cash flow hedges and hedges of net investments in foreign operations are recognized as other comprehensive income.

At the inception of hedging relationships, the Group formally designates and documents relationships to which hedge accounting applies and the objectives and strategies of risk management for undertaking hedges. The documentation includes identifying hedging instruments, the hedged items or transactions, the nature of the risks being hedged and how the hedging instrument effectiveness (including its analysis of the sources of hedge ineffectiveness and how it determines the hedge ratio) is assessed in offsetting the exposure to changes in hedged item fair value or cash flows attributable to hedged risks. When designating a hedging relationship and on an ongoing basis, the Group analyses whether a derivative used to a hedge transaction is effective to offset the change in the fair value or the cash flow of a hedged item. The Group specifically determines that a hedge is effective when the economic relationship between the hedged item and the hedging instrument is offset.

Hedges that meet the requirements for hedge accounting are classified in the following categories and accounted for in accordance with IFRS 9.

(a) Fair value hedges

Changes in the fair value of derivatives are recognized as profit or loss. For changes in the fair value of hedged items attributable to the hedged risks, carrying amounts of hedged items are adjusted, with changes recognized as profit or loss.

(b) Cash flow hedges

The effective portion of gains or losses on hedging instruments is recognized as other comprehensive income, while the ineffective portion is recognized immediately as profit or loss.

Hedging instrument amounts recognized in other comprehensive income are reclassified as profit or loss when the transactions of the hedged items affect profit or loss. Where hedged items result in the recognition of non-financial assets or liabilities, the amounts recognized as other comprehensive income are accounted for as adjustments to the original carrying amount of non-financial assets or liabilities.

When forecast transactions are no longer expected to occur, any related cumulative gain or loss that has been recognized in equity as other comprehensive income is reclassified to profit or loss. When hedging instruments expire, are sold, terminated or exercised without the replacement or rollover of other hedging instruments, or when the hedge designation is revoked due to change in the risk management objective, accumulated amounts that have been recognized in other comprehensive income are continued to be recognized in other comprehensive income until the forecast transactions occur.

(c) Hedges of net investments in foreign operations

Translation differences resulting from the hedge of net investment in foreign operations are accounted for similarly to cash flow hedges. The effective portion of gains or losses on hedging instruments is recognized as other comprehensive income. The ineffective portion is recognized as profit or loss. At the time of the disposal of the foreign operations, any related cumulative gain or loss recognized in equity as other comprehensive income is reclassified as profit or loss.

(5) Fair value of financial instruments

The fair value of financial instruments that are traded in active financial markets at the fiscal year-end refers to quoted prices or dealer quotations.

If there is no active market, the fair value of financial instruments is determined referring to appropriate valuation models or prices presented by related financial institutions.

21. Early application of new standard

The Group applied IFRS 9 (Financial Instruments) in its entirety at the IFRS transition date.

Note 4 Segment information

1. Overview of reporting segments

The Group's reporting segments are the components for which separate financial information is available, and the Board of Directors regularly assess this information in deciding how to allocate resources and evaluate results. No operating segments or components have been aggregated in preparing the reporting segment information.

The Company is a holding company for six key subsidiaries' groups. These are Mitsubishi Chemical Corporation, Mitsubishi Tanabe Pharma Corporation, Mitsubishi Plastics, Inc., Mitsubishi Rayon Co., Ltd., Life Science Institute, Inc., and Taiyo Nippon Sanso Corporation. The Company coordinates Group operations, categorizing each company's businesses by product and managing its portfolio based on those categories. Accordingly, the reporting segments comprise product-specific business categories. The five principal reporting segments are Electronics Applications, Designed Materials, Health Care, Chemicals, and Polymers.

The main products in each reporting segment are as follows.

Reporting segment	Main products
Electronics Applications	Recording media, Information and electronics-related materials, Imaging supplies
Designed Materials	Food ingredients, Battery materials, Fine chemicals, Polymer processing products, Composite materials, Inorganic chemicals, Fibers
Health Care	Pharmaceuticals, Diagnostic reagents and instruments, Clinical testing, Pharmaceutical formulation materials
Chemicals	Basic petrochemicals, Chemical derivatives, Synthetic fiber materials, Carbon products, Industrial gases
Polymers	Synthetic resins

The Company applies the same method as used in preparing the consolidated financial statements for operating segment financial information. Inter-segment sales and transfers are based mainly on prevailing market prices.

The Company classified terephthalic acid businesses in India and China as discontinued operations in line with a decision announced on July 27, 2016, to dispose of its interests in this business. Segment revenues and operating results have been retrospectively adjusted to exclude discontinued operations. Details of discontinued operations are presented in Note 9. Discontinued Operations.

2. Revenues and operating results for the group's reporting segments

	Revenues from external customers*		Inter-segment revenues	
	Millions of yen		Millions of yen	
Reporting segment	Nine months ended December 31, 2016	Nine months ended December 31, 2015	Nine months ended December 31, 2016	Nine months ended December 31, 2015
Electronics Applications	¥ 78,224	¥ 87,285	¥ 3,562	¥ 3,102
Designed Materials	596,268	619,401	25,647	24,990
Health Care	414,898	425,475	1,607	1,522
Chemicals	714,040	813,412	67,595	94,357
Polymers	514,467	585,043	45,464	51,914
Others (Note 1)	132,713	150,826	92,790	92,883
Subtotal	2,450,610	2,681,442	236,665	268,768
Adjustments (Note 2)	—	—	(236,665)	(268,768)
Consolidated (Note 3)	¥2,450,610	¥ 2,681,442	¥ —	¥ —

* Inter-segment sales and transfers are not included.

	Segment operating results	
	Millions of yen	
Reporting segment	Nine months ended December 31, 2016	Nine months ended December 31, 2015
Electronics Applications	¥ (1,330)	¥ 379
Designed Materials	63,822	58,446
Health Care	81,983	99,552
Chemicals	36,115	50,952
Polymers	51,137	40,022
Others	3,946	4,545
Subtotal	235,673	253,896
Adjustments	(5,550)	(5,142)
Total	¥230,123	¥248,754

Notes:

1. The Others category consists of businesses not included in reporting segments and mainly includesengineering, transportation, and warehousing operations.
2. Adjustments to revenues included ¥5,521 million and ¥5,013 million in company-wide expenses and ¥29 million and ¥129 million in intersegment eliminations not allocated to reporting segments for the reporting period ended December 31, 2016 and 2015, respectively. Company-wide expenses include expenditures on basic testing, research, and other activities not allocated to reporting segments.
3. Segment Operating Results are Operating profit in accordance with IFRS after excluding earnings from non-recurring factors, such as losses from business withdrawals and downsizings, representing core operating income.

Adjustments to quarterly profit before tax from segment operating results are as follows:

Millions of yen	Nine months ended December 31, 2016	Nine months ended December 31, 2015
Segment operating results	**¥230,123**	¥248,754
Gain on sales of non-current assets	**679**	3,207
Gain on step acquisitions, net	**–**	1,861
Gain on sale of shares of associates	**–**	1,717
Impairment loss	**(9,803)**	(7,024)
Loss during business interruption largely stemming from earthquakes in Japan	**(2,252)**	–
Early retirement program expenses	**(2,084)**	(15,152)
Loss on sales and retirement of non-current assets	**(1,504)**	(727)
Loss on sale of shares of associates	**(109)**	(1,404)
Other	**(4,670)**	(2,069)
Operating profit	**210,380**	229,163
Finance income	**6,945**	7,857
Finance costs	**(12,131)**	(16,315)
Profit before tax	**¥205,194**	¥ 220,705

Note 5 Business combinations

Nine months ended December 31, 2016

1. Acquisition of industrial gas operations by Matheson Tri-Gas

Matheson Tri-Gas, Inc., a wholly owned subsidiary of consolidated subsidiary Taiyo Nippon Sanso Corporation, purchased part of the American industrial gas operations and related business assets of Air Liquide Industrial U.S. LP and Airgas, Inc.

(1) Overview of business combination

1. Name and business description of acquiree

Names: Air Liquide Industrial U.S. LP and Airgas, Inc.

Business description: Gas separation, carbon dioxide, packaged gases and nitrous oxide businesses

2. Main reason for business combination

The objective was to become a national supplier by expanding Matheson's gas separation business network in the East and Midwest of the United States, solidifying its position as a manufacturer, improving its supply stability and customer trust nationwide, reinforcing production capacity for its carbon dioxide business, and entering the packaged gas business in Alaska and the nitrous oxide business, thereby expanding into new domains and solidifying Matheson's foundations and profitability through expansion in the United States, the world's largest industrial gas market.

3. Acquisition date

September 8, 2016

4. Method for gaining control of acquiree

Consolidated subsidiary Matheson Tri-Gas acquired part of the American industrial gas operations and related business assets of Air Liquide Industrial and Airgas.

(2) Fair value of Consideration transferred

Millions of yen	Acquisition date (September 8, 2016)
Cash	¥77,000
Cost of the acquisition	¥77,000

(3) Goodwill, assets acquired and liabilities assumed, principally at fair value

Millions of yen	Acquisition date (September 8, 2016)
Current assets:	
Inventories	¥ 406
Non-current assets:	
Property, plant and equipment	24,826
Intangible assets	27,969
Acquired assets	53,201
Non-current liabilities	3,744
Liabilities assumed	3,744
Net assets acquired and liabilities assumed	49,457
Goodwill (see note)	27,543

The acquisition cost is allocated to acquired assets and liabilities assumed on the acquisition date based on fair value. As the cost allocation has yet to be completed, the amounts above are provisional fair values based on prevailing best estimates. Amounts may be revised one year after acquisition following an assessment of additional information relating to facts and circumstances at the acquisition date.

Note: Goodwill mainly comprises anticipated synergies and excess earnings capabilities arising from acquisition that do not match specific recognition criteria. Goodwill is deductible for a certain period under full taxation.

(4) Acquisition-related costs

Acquisition-related costs were ¥301 million, and are included in Selling, general and administrative expenses in the quarterly condensed consolidated income statement.

(5) Impact on the Group's results

The revenue, and profit and loss subsequent to the acquisition date and pro forma information assuming that the business combination were undertaken on April 1, 2016 is immaterial.

2. Acquisition of Supagas Holdings Pty Ltd by TNSC (Australia) Pty Ltd

Consolidated subsidiary Taiyo Nippon Sanso Corporation acquired Supagas Holdings Pty Ltd, an Australian industrial gases and LPG company, through subsidiary TNSC (Australia) Pty Ltd., making Supagas Holdings a consolidated subsidiary.

(1) Overview of business combination

1. Name and business description of acquired company

Name:	Supagas Holdings Pty Ltd and related properties
Business description:	Sells LPG, industrial gases (including oxygen, nitrogen, argon, and carbon dioxide), and related equipment

2. Main reason for business combination

Consolidated subsidiary Taiyo Nippon Sanso Corporation acquired Renegade Gas Pty Ltd in July 2015 to fully enter the Australian industrial gas market. Renegade Gas operates principally in New South Wales, Queensland,

and elsewhere on Australia's east coast. Taiyo Nippon Sanso Corporation planned to further expand its operations in Australia. In acquiring Supagas Holdings, Taiyo Nippon Sanso augmented existing operations, including in Victoria and Western Australia, to complete a nationwide sales network. It was thereby able to reinforce its national account efforts and its user supply structure. In leveraging a nationwide sales network, Taiyo Nippon Sanso is positioned to capitalize on infrastructural demand, which should continue to expand solidly, while cultivating new resources and energy-related demand. That company should also materialize synergies with Renegade Gas to boost earnings and undertake activities to further expand its Australian business.

3. Acquisition date

December 16, 2016

4. Method for gaining control of acquired company

Consolidated subsidiary TNSC (Australia) acquired all of the shares and related properties of Supagas Holdings by purchasing shares for cash and exchanging shares.

5. Percentage of voting rights acquired

100%

(2) Fair value of consideration transferred

Millions of yen	Acquisition date (December 16, 2016)
Cash	¥20,987
TNSC (Australia) shares	841
Cost of the acquisition	¥ 21,828

Note: In addition, the Group also made a cash loan of ¥7,698 million to the acquired company. This loan, which is repayable by the acquired company, is classified in the Quarterly Condensed Consolidated Statements of Cash Flows within Cash flows from investing activities as Other, net. The acquired company is using this loan to fund repayment of its debts.

(3) Number of shares transferred and method for measuring fair value thereof

A total of 9,158,348 shares of common stock were transferred to the former owners of Supagas Holdings Pty Ltd and the fair value, based on the financial position, results, and other numbers for TSNC (Australia), was agreed between the parties.

(4) Goodwill, assets acquired and liabilities assumed, principally at fair value

Millions of yen	Acquisition date (December 16, 2016)
Current assets:	
Cash and cash equivalents	¥ 734
Trade receivables	1,505
Inventories	318
Other	97
Non-current assets:	
Property, plant and equipment	9,295
Intangible assets	1,035
Acquired assets	12,984
Current liabilities	1,051
Non-current liabilities	8,116
Liabilities assumed	9,167
Net assets acquired and liabilities assumed	3,817
Goodwill (see note)	18,011

The acquisition cost is allocated to acquired assets and liabilities assumed on the acquisition date based on fair value. As the cost allocation has yet to be completed, the amounts above are provisional fair values based on

prevailing best estimates. Amounts may be revised one year after acquisition following an assessment of additional information relating to facts and circumstances at the acquisition date. The above initial provisional amounts recognized are subject to revisions within one year subsequent to the acquisition date owing to the completion of the acquisition cost allocation.

Note: Goodwill mainly comprises anticipated synergies and excess earnings capabilities arising from acquisition that do not match specific recognition criteria. Goodwill is not tax-deductible.

(5) Acquisition-related costs

Acquisition-related costs were ¥110 million, and are included in Selling, general and administrative expenses in the quarterly condensed consolidated income statement.

(6) Impact on the Group's results

The revenue, and profit and loss subsequent to the acquisition date and pro forma information assuming that the business combination were undertaken on April 1, 2016 is immaterial.

Nine months ended December 31, 2015

1. Acquisition of Renegade Gas Pty Ltd. by Taiyo Nippon Sanso Corporation

On July 21, 2015, the Board of Directors of consolidated subsidiary Taiyo Nippon Sanso Corporation decided to acquire all of the shares of Renegade Gas Pty Ltd. (RGP), which sells LPG and industrial gases in Australia, through TNSC (Australia) Pty Ltd. (in which Taiyo Nippon Sanso has 85% ownership), which was established to acquire and hold RGP's shares. RGP became a consolidated subsidiary of the Company on July 31, 2015.

(1) Overview of business combination

1. Name and business description of acquired company

Name:	Renegade Gas Pty Ltd
Business description:	Filling and sales of LPG and industrial gases, and sales and rentals of related equipment

2. Main reason for business combination

Consolidated subsidiary Taiyo Nippon Sanso Corporation is exploring ways to expand its operations into new countries to broaden its regional scope as part of efforts to reach the globalization objectives that are part of its Ortus Stage 1 medium-term management plan. Australia has the 12th largest GDP in the world and a population growth rate of 1% to 2% annually, a high level among advanced nations. Its economy is set to expand at around 3% annually over the next few years, reflecting growth in housing investment and personal consumption. The industrial gas market should benefit from steady growth in housing construction and infrastructure-related demand and from new demand from mining and energy sectors.

Taiyo Nippon Sanso will position RGP as a step in developing the industrial gas markets of Australia and the rest of Oceania, leveraging that company's existing network to broaden its product lineup and expanding its geographic reach.

The MCHC Group will launch efforts to materialize synergies from RGP and establish a solid footing in the Australian industrial gas business.

3. Acquisition date

July 31, 2015

4. Method for gaining control of acquired company

Acquisition of shares for cash and exchange of shares through consolidated subsidiary TNSC (Australia)

5. Percentage of voting rights acquired

100%

(2) Fair value of consideration transferred

Millions of yen	Acquisition date (July 31, 2015)
Cash	¥ 12,717
TNSC (Australia) shares	2,244
Cost of the acquisition	¥14,961

(3) Share exchange ratio by share class and its calculation method, and number of shares issued

1. Share exchange ratio by share class

1 share of RGP common stock for 100 shares of TNSC (Australia) common stock

2. Calculation method for share exchange ratio

Calculated as a result of discussions with the relevant parties referring to stock valuation reports submitted by third-party appraisal institutions and other sources.

3. Number of shares issued

TNSC (Australia) shares: 15,868,013

(4) Goodwill, assets acquired and liabilities assumed, principally at fair value

Millions of yen	Acquisition date (July 31, 2015)
Current assets:	
Cash and cash equivalents	¥ 249
Trade receivables	1,338
Inventories	279
Other	88
Non-current assets:	
Property, plant and equipment	7,787
Intangible assets	700
Acquired assets	10,441
Current liabilities	1,796
Non-current liabilities	4,623
Liabilities assumed	6,419
Net assets acquired and liabilities assumed	4,022
Goodwill (see note)	10,939

The acquisition cost is allocated to acquired assets and liabilities assumed on the acquisition date based on fair value. The initial provisional amount in the fourth quarter of the previous fiscal year has been revised owing to the completion of the acquisition cost allocation. The main changes were as follows:

Following additional analysis of the fair value of RGP, the Company increased property, plant and equipment by ¥816 million, intangible assets by ¥657 million, and deferred tax liabilities by ¥442 million, thereby lowering goodwill by ¥1,031 million.

Note: Goodwill mainly comprises anticipated synergies and excess earnings capabilities arising from acquisition that do not match specific recognition criteria. Goodwill is not tax-deductible.

(5) Acquisition-related costs

Acquisition-related costs were ¥256 million, and are included in Selling, general and administrative expenses in the quarterly condensed consolidated income statement.

(6) Impact on the Group's results

The revenue, and profit and loss subsequent to the acquisition date and pro forma information assuming that the business combination were undertaken on April 1, 2015 is immaterial.

Note 6 Other operating income and other operating expenses

The breakdown of other operating income is as follows:

Millions of yen	Nine months ended December 31, 2016	Nine months ended December 31, 2015
Rent income	**¥1,907**	¥ 2,009
Gain on sales of non-current assets	**847**	3,207
Gain on step acquisitions, net	**–**	1,861
Gain on sales of shares of associates	**–**	1,717
Other	**3,138**	5,296
Total	**¥5,892**	¥14,090

The breakdown of other operating expenses is as follows:

Millions of yen	Nine months ended December 31, 2016	Nine months ended December 31, 2015
Impairment loss	**¥ 9,997**	¥ 7,352
Loss on sales and retirement of non-current assets	**4,629**	3,349
Loss during business interruption largely stemming from earthquakes in Japan	**2,252**	–
Early retirement program expenses	**2,084**	15,017
Loss on sales of shares of associates	**109**	1,404
Other	**9,927**	7,851
Total	**¥28,998**	¥34,973

The Company has excluded the terephthalic business from other operating income and expenses as it classified that business as discontinued from the current fiscal year. Details of discontinued operations are presented in Note 9 Discontinued Operations.

Note 7 Impairment losses

In principle, the Group determines its cash-generating units considering operational, manufacturing process, and regional relevance based on business units. The Group recognizes impairment losses for idle assets by individual asset.

Nine months ended December 31, 2016

In the first nine months of the year ending March 31, 2017, the Group recognized ¥9,997 million in impairment losses within Other operating expenses in the Quarterly Condensed Consolidated Statement of income. The main assets for which impairment losses were recognized are as follows:

Use	Location	Category	Reporting segment	Impairment loss
Polytetramethylene ether glycol production facilities	MCC Advanced Polymers Ningbo Co., Ltd. (Zhejiang Province, China)	Machinery and equipment, Others	Chemicals	¥3,121 million
High-performance film production facilities	Nagahama and Asai plants of Mitsubishi Plastics, Inc. (Nagahama, Shiga Prefecture)	Machinery and equipment Buildings and structures, Others	Designed materials	¥3,017 million

Composition of impairment losses

- Polytetramethylene ether glycol production facilities

The impairment loss of ¥3,121 million includes ¥1,765 million for machinery and equipment, ¥1,005 million for buildings and structures, and ¥351 million for others.

With the business climate changing, there was no prospect of an improvement in earnings for MCC Advanced Polymers Ningbo Co., Ltd. It would also become necessary to make new investments for that company to continue operations independently after divestment, as it obtains utility supplies on the premises of Ningbo Mitsubishi Chemical Co., Ltd., where it is located. Management therefore decided to halt operations at MCC Advanced Polymers Ningbo and sell its stake in that company, reducing the book value to the recoverable amount. The recoverable amount was measured at fair value after deducting selling costs. Fair value is based on a price negotiated with the buyer and its hierarchical level is 3.

- High-performance film production facilities

The impairment loss of ¥3,017 million includes ¥1,966 million for machinery and equipment, ¥800 million for buildings and structures, and ¥251 million for others.

Mitsubishi Plastics, Inc., is restructuring operations because it expects that sales of some high-performance films will decline substantially amid sluggish sales volumes. The book value of facilities that were unlikely to be of use was reduced to nominal amounts.

The recoverable amount was based on the value in use, however future cash flows were negative. Accordingly, discount rate is not presented.

Nine months ended December 31, 2015

In the first nine months of the year ended March 31, 2016, the Group recognized ¥7,352 million in impairment losses within Other operating expenses in the Quarterly Condensed Consolidated Statements of income. The main assets for which impairment losses were recognized are as follows:

Use	Location	Category	Reportig Segment	Impairment loss
Toner production facilities, product warehousing, and common buildings	Mitsubishi Kagaku Imaging Corp. (Virginia, USA)	Buildings and structures, Machinery and equipment, Others	Electronics applications	¥1,920 million
Electrolyte production facilities	MC Ionic Solutions UK, Ltd. (Stockton-on-Tees, United Kingdom)	Machinery and equipment, Others	Designed materials	¥3,060 million
Specialty resin production facilities	Lucite International Inc. (West Virginia, USA)	Machinery and equipment, Others	Polymers	¥1,145 million

Composition of Impairment Losses

- Toner production facilities, product warehousing, and common buildings

The impairment loss of ¥1,920 million includes ¥1,668 million for buildings and structures, ¥232 million for machinery and equipment, and ¥20 million for others.

Management decided to halt operations at the Mitsubishi Kagaku Imaging Corp.'s toner production facilities, product warehousing, and common buildings because profitability plummeted amid a deteriorating market environment. Because it was unlikely that investments would therefore be recoverable, the book value was reduced to the recoverable amount. That amount was based on the value in use and calculated by discounting future cash flows by 12.5%.

- Electrolyte production facilities

The impairment loss of ¥3,060 million includes ¥2,788 million for machinery and equipment, and ¥272 million for others.

Sales volume had not grown at the electrolyte production facilities of MC Ionic Solutions UK, Ltd., and management decided to remit operations at the facilities because a large increase was unlikely in the foreseeable future. Because it was unlikely that investments would therefore be recoverable, the book value was reduced to nominal amounts. The recoverable amount was based on the value in use, however discounted future cash flows were negative. Accordingly, the discount rate is not presented.

- Specialty resin production facilities

The impairment loss of ¥1,145 million includes ¥1,102 million for machinery and equipment, and ¥43 million for buildings and structures.

Management decided to shut down specialty resin production facilities at Lucite International Inc. Because it was therefore unlikely that investments would be recoverable, the book value was reduced to nominal amounts. The recoverable amount was based on the value in use, however discounted future cash flows were negative. Accordingly, the discount rate is not presented.

Note 8 Per share information

The bases for calculating basic and diluted earnings per share attributable to owners of the parent were as follows:

1. Basic earnings per share

Millions of yen	Nine months ended December 31, 2016	Nine months ended December 31, 2015
Profit used to calculate basic earnings per share attributable to owners of the parent		
Profit from continuing operations attributable to owners of the parent	¥ 129,112	¥ 103,472
Profit (loss) from discontinued operations attributable to owners of the parent	2,639	(69,647)
Profit attributable to owners of the parent	¥ 131,751	¥ 33,825
Average number of ordinary shares during period (thousands of shares)	1,464,844	1,464,818
Basic earnings per share		(Yen)
Continuing operations	¥ 88.14	¥ 70.64
Discontinued operations	1.80	(47.55)
Basic earnings per share	¥ 89.94	¥ 23.09

2. Diluted earnings per share

Millions of yen	Nine months ended December 31, 2016	Nine months ended December 31, 2015
Profit used to calculate diluted earnings per share attributable to owners of the parent		
Profit from continuing operations used to calculate basic earnings per share	¥ 129,112	¥ 103,472
Adjustment	—	—
Profit from continuing operations used to calculate diluted earnings per share	129,112	103,472
Profit (loss) from discontinued operations used to calculate diluted earnings per share	2,639	(69,647)
Profit used to calculate diluted earnings per share attributable to owners of the parent	¥ 131,751	¥ 33,825
Average number of diluted common shares during period (thousands of shares)		
Average number of ordinary shares during period	1,464,844	1,464,818
Impact of potentially dilutive ordinary shares		
Subscription rights to shares	963	874
Average number of diluted ordinary shares during period	1,465,807	1,465,692
Diluted earnings per share		(Yen)
Continuing operations	¥ 88.08	¥ 70.60
Discontinued operations	1.80	(47.52)
Diluted earnings per share	¥ 89.88	¥ 23.08

1. Basic Earnings per Share

Millions of yen	Three months ended December 31, 2016	Three months ended December 31, 2015
Profit used to calculate basic earnings per share attributable to owners of the parent		
Profit from continuing operations attributable to owners of the parent	¥ 49,843	¥ 31,085
Profit (loss) from discontinued operations attributable to owners of the parent	2,754	(65,109)
Profit (loss) attributable to owners of the parent	¥ 52,597	¥ (34,024)
Average number of ordinary shares during period (thousands of shares)	1,464,865	1,464,804
Basic earnings per share		(Yen)
Continuing operations	¥ 34.03	¥ 21.22
Discontinued operations	1.88	(44.45)
Basic earnings (loss) per share	¥ 35.91	¥ (23.23)

2. Diluted Earnings per Share

Millions of yen	Three months ended December 31, 2016	Three months ended December 31, 2015
Profit used to calculate diluted earnings per share attributable to owners of the parent		
Profit from continuing operations used to calculate basic earnings per share	¥ 49,843	¥ 31,085
Adjustment	–	–
Profit from continuing operations used to calculate diluted earnings per share	49,843	31,085
Profit (loss) from discontinued operations used to calculate diluted earnings per share	2,754	(65,109)
Profit (loss) used to calculate diluted earnings per share attributable to owners of the parent	¥ 52,597	¥ (34,024)
Average number of diluted ordinary shares during period (thousands of shares)		
Average number of ordinary shares during period	1,464,865	1,464,804
Impact of potentially dilutive ordinary shares		
Subscription rights to shares	984	933
Average number of diluted ordinary shares during period	1,465,849	1,465,737
Diluted earnings per share		(Yen)
Continuing operations	¥ 34.00	¥ 21.21
Discontinued operations	1.88	(44.42)
Diluted earnings (loss) per share	¥ 35.88	¥ (23.21)

Note 9 Discontinued operations

1. Outline of discontinued operations

The company announced a decision on July 27, 2016, to transfer its interests in terephthalic acid businesses in India and China, completing the transfer in third quarter of the fiscal year. The company accordingly classified Materials Chemicals and Performance Intermediaries Private Limited (formerly MCC PTA India Corp. Private Limited) and earnings related to Ningbo Mitsubishi Chemical Co., Ltd., as discontinued operations in the period under review, and presents information on discontinued and continuing operations in the quarterly condensed consolidated financial statements.

2. Profit and loss from discontinued operations

Millions of yen	Nine months ended December 31, 2016	Nine months ended December 31, 2015
Profit and Loss from Discontinued Operations:		
Revenue	¥ 66,796	¥ 105,022
Cost of sales	(63,061)	(107,593)
Gross profit	3,735	(2,571)
Selling, general and administrative expenses	(2,523)	(3,264)
Other operating income (Note 1)	2,866	292
Other operating expenses (Note 2)	(424)	(63,107)
Operating profit	3,654	(68,650)
Finance income	55	297
Finance costs	(1,316)	(2,611)
Profit before tax	2,393	(70,964)
Income tax expense	246	(650)
Profit (loss) from discontinued operations	¥ 2,639	¥ (71,614)
Net profit attributable to:		
Owners of the parent	¥ 2,639	¥ (69,647)
Non-controlling interests	¥ –	¥ (1,967)
Earnings (loss) per share:		(Yen)
Basic	¥ 1.80	¥ (47.55)
Diluted	¥ 1.80	¥ (47.52)

Notes: 1. In the period under review, this included ¥2,341 million from the sale of subsidiary shares from the transfer of the terephthalic acid business.

2. In the previous corresponding period, other operating expenses included the following impairment losses.

Use	Location	Category	Reportig Segment	Impairment loss
Terephthalic acid production facilities	MCC PTA India Corp. Private Limited (West Bengal State, India)	Machinery and equipment, Others	Polymers	¥42,414 million
Terephthalic acid production facilities	Ningbo Mitsubishi Chemical Co., Ltd. (Zhejiang Province, China)	Machinery and equipment, Others	Polymers	¥20,435 million

Composition of impairment losses

- Terephthalic acid facilities (India)

The impairment loss of ¥42,414 million includes ¥36,297 million for machinery and equipment, and ¥6,117 million for others.

Performance was sluggish at the terephthalic acid production facilities of MCC PTA India Corp. Private Limited, and a recovery in the business climate was unlikely. Because it was unlikely that investments would therefore be recoverable, the book value was reduced to nominal amounts. The recoverable amount was based on the value in use, however discounted future cash flows were negative. Accordingly, the discount rate is not presented.

- Terephthalic acid production facilities (China)

The impairment loss of ¥20,435 million includes ¥18,652 million for machinery and equipment, and ¥1,783 million for others.

Performance was sluggish at the terephthalic acid production facilities of Ningbo Mitsubishi Chemical Co., Ltd., in China, and a recovery in the business climate was unlikely. Because it was unlikely that investments would therefore be recoverable, the book value was reduced to recoverable amount. The recoverable amount was

measured at fair value after deducting the cost of disposal. The fair value after such deduction was mainly calculated in line with valuation techniques based on the market approach. The fair valuation hierarchy is level 3.

Cash flows from discontinued operations are as follows:

Millions of yen	Nine months ended December 31, 2016	Nine months ended December 31, 2015
Cash flows from operating activities	**¥ (2,264)**	¥(6,800)
Cash flows from investing activities	**3,610**	(517)
Cash flows from financing activities	**(60,829)**	2,786
Total	**¥(59,483)**	¥(4,531)

Note 10 Assets held for sale and liabilities related directly to assets held for sale

The breakdown of assets held for sale and liabilities related directly to assets held for sale is as follows:

Millions of yen	As of April 1, 2015 (Transition date)	As of December 31, 2016	As of March 31, 2016
Assets held for sale:			
Inventories	¥2,767	¥ 445	¥ –
Property, plant and equipment	5,983	2,478	230
Other financial assets	–	2,123	3,108
Other	2	451	–
Total	¥8,752	¥5,497	¥3,338
Liabilities related directly to assets held for sale:			
Bonds and borrowings	¥ –	¥2,032	¥ –
Other	–	522	–
Total	¥ –	¥2,554	¥ –

At transition date, the principal assets held for sale were those assets subject related to the sale of the Kashima plant as part of the reorganization of the domestic manufacturing units carried out by Tanabe Mitsubishi Pharmaceutical Factory Ltd., a consolidated subsidiary in the Health Care segment and real estate transferred by Mitsubishi Chemical Corporation, also a consolidated subsidiary.

At the end of the previous fiscal year and the period under review, Other components of equity relating to assets held for sale were ¥591 million and ¥425 million, respectively.

Note 11 Bonds

Nine months ended December 31, 2016

Bond redemptions were as follows:

				Millions of yen
Company	Name of bond	Term	Rate	Amounts
MCHC	1st Non-collateralized bond	2011–2016	0.499%	¥20,000
Wellthy Corporation	8th Non-collateralized bond	2011–2016	0.650%	10
Mitsubishi Chemical Corporation	35th Non-collateralized bond	2006–2016	2.050%	10,000

Bond issues were as follows:

Company	Name of bond	Term	Rate	Millions of yen Amounts
MCHC	21st Non-collateralized bond	2016–2021	0.120%	¥10,000
MCHC	22nd Non-collateralized bond	2016–2026	0.320%	10,000
MCHC	23rd Non-collateralized bond	2016–2036	0.850%	20,000
TAIYO NIPPON SANSO CORPORATION	13th Non-collateralized bond	2016–2021	0.140%	15,000
TAIYO NIPPON SANSO CORPORATION	14th Non-collateralized bond	2016–2026	0.390%	15,000

Nine months ended December 31, 2015

Bond issues were as follows:

Company	Name of bond	Term	Rate	Millions of yen Amounts
MCHC	16th Non-collateralized bond	2015–2022	0.433%	¥10,000
MCHC	17th Non-collateralized bond	2015–2025	0.755%	10,000
MCHC	18th Non-collateralized bond	2015–2020	0.281%	20,000
MCHC	19th Non-collateralized bond	2015–2022	0.476%	10,000
MCHC	20th Non-collateralized bond	2015–2025	0.711%	10,000

Note 12 Dividends

Nine months ended December 31, 2016

1. Dividends paid to shareholders

Date of approval	Resolution approved by	Type of shares	Amount (Millions of yen)	Amount per share (Yen)	Entitlement date	Effective date
May 18, 2016	Board of Directors	Common stock	¥11,718	¥8	March 31, 2016	June 3, 2016
November 8, 2016	Board of Directors	Common stock	¥11,718	¥8	September 30, 2016	December 2, 2016

2. Dividends with a record date in the first nine months of the year ended March 31, 2017, and an effective date after the end of the third quarter

None

Nine Months ended December 31, 2015

1. Dividends paid to shareholders

Date of approval	Resolution approved by	Type of shares	Amount (Millions of yen)	Amount per share (Yen)	Entitlement date	Effective date
June 24, 2015	Annual general meeting of shareholders	Common stock	¥10,253	¥7	March 31, 2015	June 25, 2015
November 5, 2015	Board of Directors	Common stock	¥10,253	¥7	September 30, 2015	December 2, 2015

2. Dividends with a record date in the first nine months of the year ended March 31, 2016, and an effective date after the end of the third quarter

None

Note 13 Financial instruments

1. Fair values of financial instruments

Financial instruments are classified into the following three-level fair value hierarchy:

Level 1: Unadjusted quoted prices for identical assets or liabilities in active markets

Level 2: Valuations measured by direct or indirect observable inputs other than Level 1

Level 3: Valuations measured by significant unobservable inputs

Whether any financial instruments are determined to have been transferred between levels is considered at period-end. There were no significant transfers between levels in the previous fiscal year and in the period under review.

(1) Financial instruments measured at fair value on a recurring basis

Financial assets and liabilities measured at fair value on a recurring basis were as follows:

Transition date (April 1, 2015)

Millions of yen	Level 1	Level 2	Level 3	Total
Assets				
Stocks and investments	¥190,649	¥ –	¥80,175	¥270,824
Structured notes	–	–	6,062	6,062
Derivatives	–	1,653	–	1,653
Total	¥190,649	¥1,653	¥86,237	¥278,539
Liabilities				
Derivatives	¥ –	¥2,231	¥ –	¥ 2,231
Total	¥ –	¥2,231	¥ –	¥ 2,231

As of December 31, 2016

Millions of yen	Level 1	Level 2	Level 2	Total
Assets				
Stocks and investments	**¥120,773**	**¥ –**	**¥83,154**	**¥203,927**
Stocks and investments held for sale	**1,905**	**–**	**2**	**1,907**
Structured notes	**–**	**–**	**1,022**	**1,022**
Derivatives	**–**	**2,634**	**–**	**2,634**
Total	**¥122,678**	**¥2,634**	**¥84,178**	**¥209,490**
Liabilities				
Derivatives	**¥ –**	**¥1,292**	**¥ –**	**¥ 1,292**
Total	**¥ –**	**¥1,292**	**¥ –**	**¥ 1,292**

As of March 31, 2016

Millions of yen	Level 1	Level 2	Level 2	Total
Assets				
Stocks and investments	¥115,046	¥ –	¥75,766	¥190,812
Stocks and investments held for sale	3,108	–	–	3,108
Structured notes	–	–	2,025	2,025
Derivatives	–	3,171	–	3,171
Total	¥118,154	¥3,171	¥77,791	¥199,116
Liabilities				
Derivatives	¥ –	¥2,940	¥ –	¥ 2,940
Total	¥ –	¥2,940	¥ –	¥ 2,940

Stocks and investments

The fair value of marketable shares classified as Level 1 is based on unadjusted quoted prices in active markets for identical assets or liabilities.

The fair value of Level 3 unlisted shares and investments for which quoted prices in active markets are unavailable is calculated by using reasonably available inputs through similar company comparisons or other appropriate valuation techniques.

Structured notes

The fair value of Level 3 structured notes is calculated based on the prices provided by counterparty financial institutions. Significant unobservable inputs for measuring structured notes include information on parameters based on which counterparty financial institutions calculate prices, with fluctuations causing the fair value of structured notes to change.

Derivative assets and liabilities

The fair value of Level 2 derivative assets and liabilities is based on such observable inputs as prices provided by counterparty financial institutions or exchange and interest rates and such like.

The fair value of Level 3 financial instruments is calculated by valuation specialists determining valuation methods for each relevant financial instrument in accordance with valuation policies and procedures that include valuation methods for fair value calculations approved by suitably authorized personnel.

Changes in Level 3 financial instruments are as follows:

Millions of yen	Nine months ended December 31, 2016	Nine months ended December 31, 2015
Balance at beginning of period	**¥77,791**	¥86,237
Other comprehensive income (Note)	**4,129**	1,411
Purchases	**3,253**	946
Sales or redemptions	**(1,244)**	(4,184)
Other	**249**	(4,220)
Balance at end of period	**¥84,178**	¥80,190

Note: Included in "Financial assets measured at fair value through other comprehensive income" in the quarterly condensed consolidated statement of comprehensive income

(2) Financial Instruments measured at amortized cost

The carrying amounts and estimated fair values of the financial instruments measured at amortized cost are as follows:

Transition date (April 1, 2015)

Millions of yen	Carrying amounts	Fair value			
		Level 1	Level 2	Level 3	Total
Assets:					
Debt securities	¥ 20,160	¥3,213	¥ 11,453	¥5,810	¥ 20,476
Total	¥ 20,160	¥3,213	¥ 11,453	¥5,810	¥ 20,476
Liabilities:					
Long-term borrowings	¥ 737,614	¥ –	¥ 740,561	¥ –	¥ 740,561
Bonds	325,050	–	331,337	–	331,337
Total	¥1,062,664	¥ –	¥1,071,898	¥ –	¥1,071,898

As of December 31, 2016

Millions of yen	Carrying amounts	Fair value			
		Level 1	Level 2	Level 3	Total
Assets:					
Debt securities	¥ 7,257	¥2,912	¥ 3,417	¥1,011	¥ 7,340
Total	¥ 7,257	¥2,912	¥ 3,417	¥1,011	¥ 7,340
Liabilities:					
Long-term borrowings	¥ 759,791	¥ –	¥ 762,069	¥ –	¥ 762,069
Long-term borrowings related directly to assets held for sale	592	–	592	–	592
Bonds	405,000	–	409,955	–	409,955
Total	¥1,165,383	¥ –	¥1,172,616	¥ –	¥1,172,616

As of March 31, 2016

Millions of yen	Carrying amounts	Fair value			
		Level 1	Level 2	Level 3	Total
Assets:					
Debt securities	¥ 7,169	¥2,900	¥ 3,438	¥1,010	¥ 7,348
Total	¥ 7,169	¥2,900	¥ 3,438	¥1,010	¥ 7,348
Liabilities:					
Long-term borrowings	¥ 685,811	¥ –	¥ 690,862	¥ –	¥ 690,862
Bonds	365,010	–	372,515	–	372,515
Total	¥1,050,821	¥ –	¥1,063,377	¥ –	¥1,063,377

The carrying amounts of financial assets and liabilities measured at amortized cost, other than debt securities, long-term borrowings and bonds presented in the tables above, are approximately the same as the fair values of such financial assets and liabilities.

Bonds

The fair value of Level 1 bonds is based on the market price.

The fair value of Level 2 bonds is based on prices provided by counterparty financial institutions. The fair value of Level 3 subordinated and other bonds is calculated with reference to prices provided by counterparty financial institutions.

Long-term borrowings

The fair value of Level 2 long-term loans is based on the present value, calculated by discounting the total principal and interest by the interest rate assumed for similar new borrowings.

Corporate bonds

The fair value of Level 2 corporate bonds is based on the market price.

Note 14 Contingent Liabilities

1. Guarantee Obligations

Guarantees and similar undertakings for borrowings from joint ventures, associates and financial institutions of general business partners are as follows.

Millions of yen	As of December 31, 2016	As of March 31, 2016
Joint ventures	**¥14,460**	¥18,741
Associates	**580**	126
General business partners	**1,750**	1,860
Other	**1,646**	1,705
Total	**¥18,436**	¥22,432

2. Trademark infringement lawsuit

The consolidated subsidiary Verbatim Corporation (US) was sued for trademark infringement in Brazil. In May 2007, a court in Manaus, in the Brazilian state of Amazonas, ruled in favor of the plaintiff and ordered Verbatim Corporation to pay 377 million Brazilian real, or ¥13,497 million. Verbatim Corporation, believing that no trademark infringement took place, and dissatisfied with the fact that reasons for recognizing the plaintiff's monetary claim were not disclosed, immediately filed an appeal with Brazil's Supreme Court. In February 2008, the Supreme Court ruled in favor of Verbatim Corporation and returned the case to the Manaus court for retrial.

In the following proceedings, the court ruled against Verbatim. However, dissatisfied with the ruling, Verbatim made a special appeal to Brazil's Supreme Court, requesting that the case be tried in that court. In June 2011, the Supreme Court dismissed the charges of trademark infringement filed against Verbatim, and overruled the lower court's order for Verbatim to pay the abovementioned damages. However, in April 2012 the plaintiff requested that the Supreme Court clarify its ruling, and the Company cannot deny the possibility that the plaintiff will oppose this ruling in the future.

The Group operates globally under the guidance and supervision of regulatory authorities in Japan and other regions. Such activities entail risks, occasional litigation, and complaints. Although various issues remained unresolved at the end of the period under review, none posed material future impact on the Group's consolidated financial statements.

Note 15 First-time adoption

The Group began disclosing its quarterly condensed consolidated financial statements in accordance with IFRS from the first quarter of the fiscal period under review. The most recent consolidated financial statements for the fiscal year ended March 31, 2016 were prepared in conformity with Japanese generally accepted accounting principles (Japanese GAAP). The transition date to IFRS was April 1, 2015.

In principle, IFRS requires that companies adopting IFRS for the first time apply the standards retrospectively, although IFRS 1 First-time Adoption of International Financial Reporting Standards provides some exemptions to that requirement.

The Group applied the following exemptions in transitioning from J-GAAP to IFRS.

- Business Combinations

A company can elect not to apply IFRS 3 "Business Combinations" retrospectively to transactions prior to the IFRS transition date. The Group has elected to adopt this exemption, and conducted goodwill impairment tests at the transition date regardless of whether or not there were indications of impairment.

- Deemed Cost

IFRS 1 permits companies to use fair value as of the IFRS transition date as the deemed cost for property, plant and equipment and intangible assets as of that date. The Group used fair value as of the transition date for certain property, plant and equipment as a deemed cost under IFRS.

- Foreign Currency Translation Adjustments

As permitted under IFRS 1, the Group has elected to deem that cumulative foreign currency translation adjustments for overseas businesses are zero at the date of transition to IFRS.

- Designation of Financial Instruments Recognized Prior to IFRS Transition Date

For classifications under IFRS 9, IFRS 1 permits companies to make assessments based on facts and circumstances that exist as of the transition date instead of facts and circumstances that existed at the time of initial recognition of the financial instrument. Companies are also permitted to designate financial assets with the characteristics of equity as financial assets measured at fair value through other comprehensive income based on facts and circumstances existing at the transition date.

Accordingly, considering the facts and circumstances existing at the transition date for classification under IFRS 9, the Group elected to designate certain financial assets with the characteristics of equity as measured at fair value through other comprehensive income.

The reconciliation required on initial application of IFRS is as follows. The reclassification column in the reconciliation table below presents items that do not affect retained earnings and comprehensive income. The differences in recognition and measurement column represents items that do affect retained earnings and comprehensive income.

In the following reconciliations, Japanese GAAP line items are as in the Company's English Language Japanese GAAP consolidated financial statements, and accordingly certain line items are presented differently, for the convenience of readers outside Japan, as compared to the presentation in the Japanese language consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Law of Japan.

Adjustment to net profit and comprehensive income for the nine months ended December 31, 2015

Millions of yen

Japanese GAAP line item	Japanese GAAP	Reclassification	Differences in recognition and measurement	IFRS	Note	IFRS line item
Net sales	¥ 2,853,346	¥(134,967)	¥(36,937)	¥ 2,681,442	1	Revenue
Cost of sales	(2,077,168)	138,458	27,989	(1,910,721)	1	Cost of sales
Gross profit	776,178	3,491	(8,948)	770,721		Gross profit
Selling, general and administrative expenses	(547,879)	885	15,552	(531,442)	2	Selling, general and administrative expenses
	–	12,355	1,735	14,090	3	Other operating income
	–	(35,223)	250	(34,973)		Other operating expenses
	–	7,670	3,097	10,767	5	Share of profit in investments accounted for using the equity method
Operating income	228,299	(10,822)	11,686	229,163		Operating profit
Other income (expenses)	(68,706)	68,706	–	–		
	–	31,131	(23,274)	7,857	6	Finance income
	–	(18,284)	1,969	(16,315)	7	Finance costs
Profit before income taxes	159,593	70,731	(9,619)	220,705		Profit before tax
Income taxes	(76,552)	883	7,406	(68,263)	8	Income tax expense
	83,041	71,614	(2,213)	152,442		Profit from continuing operations
	–	(71,614)	–	(71,614)		Profit (loss) from discontinued operations
Profit	¥ 83,041	¥ –	¥ (2,213)	¥ 80,828		Net profit

Millions of yen

Japanese GAAP line item	Japanese GAAP	Reclassification	Differences in recognition and measurement	IFRS	Note	IFRS line item
Profit	¥ 83,041	¥–	¥ (2,213)	¥ 80,828		Net profit
Other comprehensive income (loss)					9	Other comprehensive income
Net unrealized holding gain (loss) on other securities	(7,759)	–	13,969	6,210		Net gain (loss) on revaluation of financial assets measured at fair value
Remeasurements of defined benefit plans	(114)	–	1,767	1,653		Remeasurements of defined benefit pensions plans
Foreign currency translation adjustments	(17,910)	–	1,500	(16,410)		Exchange differences on translation of foreign operations
Gain (loss) on deferred hedges	177	–	505	682		Net gain (loss) on derivatives designated as cash flow hedges
Other comprehensive income (loss) for affiliates accounted for using equity method	(3,761)	–	702	(3,059)		Share of other comprehensive income (loss) of investments accounted for using the equity method
Total comprehensive income	¥ 53,674	¥–	¥16,230	¥ 69,904		Total comprehensive income

Adjustment to net profit and comprehensive income for the three months ended December 31, 2015

Millions of yen

Japanese GAAP line item	Japanese GAAP	Reclassification	Differences in recognition and measurement	IFRS	Note	IFRS line item
Net sales	¥ 968,719	¥(46,585)	¥(18,615)	¥ 903,519	1	Revenue
Cost of sales	(689,757)	46,928	10,913	(631,916)	1	Cost of sales
Gross profit	278,962	343	(7,702)	271,603		Gross profit
Selling, general and administrative expenses	(187,014)	435	6,639	(179,940)	2	Selling, general and administrative expenses
	–	5,073	87	5,160		Other operating income
	–	(24,003)	253	(23,750)		Other operating expenses
	–	1,704	1,015	2,719	5	Share of profit in investments accounted for using the equity method
Operating income	91,948	(16,448)	292	75,792		Operating profit
Other income (expenses)	(66,815)	66,815	–	–		
	–	21,039	(18,193)	2,846	6	Finance income
	–	(5,999)	475	(5,524)		Finance costs
Profit before income taxes	25,133	65,407	(17,426)	73,114		Profit before tax
Income taxes	(30,501)	355	6,937	(23,209)	8	Income tax expense
	(5,368)	65,762	(10,489)	49,905		Profit from continuing operations
	–	(65,762)	–	(65,762)		Profit (loss) from discontinued operations
Profit	¥ (5,368)	¥ –	¥(10,489)	¥ (15,857)		Net profit

Millions of yen

Japanese GAAP line item	Japanese GAAP	Reclassification	Differences in recognition and measurement	IFRS	Note	IFRS line item
Profit	¥ (5,368)	¥–	¥(10,489)	¥(15,857)		Net profit
Other comprehensive income (loss)					9	Other comprehensive income
Net unrealized holding gain (loss) on other securities	3,539	–	12,596	16,135		Net gain (loss) on revaluation of financial assets measured at fair value
Remeasurements of defined benefit plans	279	–	5,245	5,524		Remeasurements of defined benefit pensions plans
Foreign currency translation adjustments	(10,441)	–	2,009	(8,432)		Exchange differences on translation of foreign operations
Gain (loss) on deferred hedges	285	–	399	684		Net gain (loss) on derivatives designated as cash flow hedges
Other comprehensive income (loss) for affiliates accounted for using equity method	(2,608)	–	1,762	(846)		Share of other comprehensive income (loss) of investments accounted for using the equity method
Total comprehensive income	¥(14,314)	¥–	¥ 11,522	¥ (2,792)		Total comprehensive income

Adjustment to net profit and comprehensive income for the year ended March 31, 2016

Millions of yen

Japanese GAAP line item	Japanese GAAP	Reclassification	Differences in recognition and measurement	IFRS	Note	IFRS line item
Net sales	¥ 3,823,098	¥(157,743)	¥(122,003)	¥ 3,543,352	1	Revenue
Cost of sales	(2,779,584)	160,324	90,957	(2,528,303)	1	Cost of sales
Gross profit	1,043,514	2,581	(31,046)	1,015,049		Gross profit
Selling, general and administrative expenses	(763,488)	821	43,583	(719,084)	2	Selling, general and administrative expenses
	–	18,750	(147)	18,603		Other operating income
	–	(57,712)	(2,093)	(59,805)	4	Other operating expenses
	–	10,105	3,878	13,983	5	Share of profit in investments accounted for using the equity method
Operating income	280,026	(25,455)	14,175	268,746		Operating profit
Other income (expenses)	(81,778)	81,778	–	–		
	–	44,563	(35,644)	8,919	6	Finance income
	–	(28,153)	3,279	(24,874)	7	Finance costs
Profit before income taxes	198,248	72,733	(18,190)	252,791		Profit before tax
Income taxes	(92,648)	1,136	17,448	(74,064)	8	Income tax expense
	105,600	73,869	(742)	178,727		Profit from continuing operations
	–	(73,869)	–	(73,869)		Profit (loss) from discontinued operations
Profit	¥ 105,600	¥ –	¥ (742)	¥ 104,858		Net profit

Millions of yen

Japanese GAAP line item	Japanese GAAP	Reclassification	Differences in recognition and measurement	IFRS	Note	IFRS line item
Profit	¥105,600	¥–	¥ (742)	¥104,858		Net Profit
Other comprehensive income (loss)					9	Other comprehensive income
Net unrealized holding gain (loss) on other securities	(29,729)	–	20,863	(8,866)		Net gain (loss) on revaluation of financial assets measured at fair value
Remeasurements of defined benefit plans	(26,328)	–	4,283	(22,045)		Remeasurements of defined benefit pensions plans
Foreign currency translation adjustments	(36,732)	–	1,031	(35,701)		Exchange differences on translation of foreign operations
Gain (loss) on deferred hedges	298	–	48	346		Net gain (loss) on derivatives designated as cash flow hedges
Other comprehensive income (loss) for affiliates accounted for using equity method	(5,414)	–	1,124	(4,290)		Share of other comprehensive income (loss) of investments accounted for using the equity method
Total comprehensive income	¥ 7,695	¥–	¥26,607	¥ 34,302		Total comprehensive income

Notes on adjustment to net profit and comprehensive income

(1) Revenue and cost of sales

Under Japanese GAAP, exchange transactions between companies in the same industry were presented on a gross basis as revenue and cost of sales, but these transactions are presented on a net basis under IFRS when appropriate. Matheson Tri-Gas, Inc. changed its fiscal year-end of December 31, which had been used as the closing date under Japanese GAAP, to the Company's year end date of March 31. As a result, the period consolidated under Japanese GAAP is different to that consolidated under IFRS. Overall, revenue and cost of sales declined as a result of those adjustments.

(2) Selling, general and administrative expenses

Although the Group amortized goodwill over a certain period under Japanese GAAP, it is not amortized under IFRS and, as a result, selling, general and administrative expenses have decreased.

(3) Other operating income

In applying IFRS, other operating income has increased due to changes in the scope of application of the equity method and due to the sale of shares in a new joint venture.

(4) Other operating expenses

Under Japanese GAAP, the Group recorded costs incurred in product and technology deployment agreements prior to seeking approval from the relevant authorities as part of research and development expenses. Under, IFRS, however, expenses meeting certain requirements are recognized as intangible assets. In applying IFRS, other operating expenses increased, largely because the Company reduced the carrying amounts of such recognized intangible assets for which it a decision to halt development was made and impairment losses were duly recognized.

(5) Share of profit of investments accounted for using the equity method

In adopting IFRS, profit of equity method investments increased following a review of the scope of application of equity method accounting, with SPDC Ltd. added as an associates.

(6) Finance income

Under Japanese GAAP, the Group recognized gains or losses on the sale of equity financial assets in profit or loss. Under IFRS, however, for equity financial assets designated as measured at fair value through other comprehensive income, it recognizes changes in fair value as other comprehensive income, which lowered finance income.

(7) Finance costs

Under Japanese GAAP, the Group recognized impairment losses on equity financial assets in profit or loss. Under IFRS, however, for equity financial assets designated as measured at fair value through other comprehensive income, it recognizes changes in fair value in other comprehensive income, which reduced finance costs.

(8) Income tax expense

The Group's income tax decreased owing to differences in recognition and measurements accompanying the adoption of IFRS, including for transfers of tax expenses to other comprehensive income associated with the sale of equity financial assets designated as measured at fair value through other comprehensive income.

(9) Other comprehensive income

- Financial assets measured at fair value through other comprehensive income

Under Japanese GAAP, the Group mainly measured unlisted shares at cost using the moving-average method. Under IFRS, however, such shares are measured at fair value, which increased other comprehensive income.

- Remeasurement of defined benefit plans

Under Japanese GAAP, the Group recognized interest expenses and expected returns on assets as profit or loss for postretirement benefits under the defined benefit plans. Under IFRS, however, the Group recognizes net interest expenses in profit or loss by multiplying net defined benefit assets (liabilities) by the discount rate, which increased other comprehensive income.

Under IFRS, the Group evaluates the fair value of plan assets on a quarterly basis, recognizing the resulting actuarial differences in other comprehensive income, which resulted in an increase in other comprehensive income.

- Foreign currency translation adjustments

Quadrant AG changed its fiscal year-end from December 31 under Japanese GAAP to the consolidated reporting date of March 31. The resulting difference between reporting periods used for the Japanese GAAP and IFRS led to an increase in other comprehensive income.

(10) Reclassifications

Discontinued operations are presented separately under IFRS, and taxes on income from those operations are included in reclassifications. The impacts are described in Note 9 Discontinued Operations.

Reconciliation of equity as of IFRS transition date (April 1, 2015)

Millions of yen

Japanese GAAP line item	Japanese GAAP	Reclassification	Differences in recognition and measurement	IFRS	Note	IFRS line item
Assets:						Assets:
Current assets						Current assets
Cash and deposits	¥ 236,186	¥ 6,868	¥ 9,695	¥ 252,749	1	Cash and cash equivalents
Trade receivables	759,850	(4,698)	(817)	754,335		Trade receivables
Securities	127,805	(127,805)	–	–		
Inventories:						
Finished goods	330,029	(330,029)	–	–		
Work in process	83,603	(83,603)	–	–		
Raw materials and supplies	180,821	407,959	5,000	593,780	2	Inventories
Land held for sale	1,052	(1,052)	–	–		
	–	171,159	(70)	171,089		Other financial assets
Other	142,601	(86,702)	1,528	57,427	3	Other current assets
Allowance for doubtful accounts	(4,698)	4,698	–	–		
Subtotal	1,857,249	(43,205)	15,336	1,829,380		
	–	8,676	76	8,752		Assets held for sale
Total current assets	1,857,249	(34,529)	15,412	1,838,132		Total current assets
Non-current assets:						Non-current assets:
Property, plant and equipment	1,498,146	(2,764)	(10,157)	1,485,225	4	Property, plant and equipment
	–	243,797	1,878	245,675	3	Goodwill
	–	187,477	10,868	198,345	5	Intangible assets
Investments and other assets:						
Investment securities	355,743	(249,555)	23,081	129,269	6	Investments accounted for using the equity method
Goodwill	243,797	(243,797)	–	–		
	–	321,708	18,168	339,876	7	Other financial assets
Other	369,571	(323,091)	413	46,893		Other non-current assets
	–	99,286	(13,703)	85,583	8	Deferred tax assets
Allowance for doubtful accounts	(1,468)	1,468	–	–		
Total non-current assets	2,465,789	34,529	30,548	2,530,866		Total non-current assets
Total assets	¥4,323,038	¥ –	¥ 45,960	¥4,368,998		Total assets

Japanese GAAP line item	Japanese GAAP	Reclassification	Differences in recognition and measurement	IFRS	Note	IFRS line item
						Liabilities and equity
Liabilities:						Liabilities
Current liabilities:						Current liabilities:
Trade payables	¥ 459,345	¥ (9,471)	¥ 2,982	¥ 452,856	2	Trade payables
Short-term debt	544,985	(544,985)	–	–		
Current portion of long-term debt	198,667	544,986	(941)	742,712		Bonds and borrowings
Accrued income taxes	36,224	(2,018)	(25)	34,181		Income tax payable
	–	229,504	7,279	236,783	9	Other financial liabilities
	–	10,060	(6,488)	3,572	10	Provisions
Accrued expenses	108,115	(108,115)	–	–		
Other	218,611	(119,861)	27,906	126,656	11	Other current liabilities
Total current liabilities	1,565,947	100	30,713	1,596,760		Total current liabilities
Long-term liabilities:						Non-current liabilities:
Long-term debt	859,943	–	(727)	859,216		Bonds and borrowings
	–	22,317	7,242	29,559	12	Other financial liabilities
Net defined benefit liabilities	132,921	(6)	974	133,889		Retirement benefit liabilities
	–	31,430	(10,058)	21,372	10	Provisions
Other	175,626	(150,453)	9,484	34,657	13	Other non-current liabilities
	–	96,612	(5,447)	91,165	8	Deferred tax liabilities
Total long-term liabilities	1,168,490	(100)	1,468	1,169,858		Total non-current liabilities
Total liabilities	2,734,437	–	32,181	2,766,618		Total liabilities
Net assets:						Equity
Common stock	50,000	–	–	50,000		Common stock
Additional paid-in capital	317,714	471	–	318,185		Additional paid-in capital
Treasury stock	(16,236)	–	–	(16,236)		Treasury stock
Retained earnings	523,149	–	59,645	582,794	14	Retained earnings
Accumulated other comprehensive income	106,366	–	(48,098)	58,268	15	Other components of equity
Warrants	471	(471)	–	–		
	981,464	–	11,547	993,011		Equity attributable to owners of the parent
Non-controlling interests in consolidated subsidiaries	607,137	–	2,232	609,369		Non-controlling interests
Total net assets	1,588,601	–	13,779	1,602,380		Total equity
Total liabilities and net assets	¥4,323,038	¥ –	¥ 45,960	¥4,368,998		Total liabilities and equity

Notes on reconciliation of equity

(1) Cash and cash equivalents

The Group reviewed the scope of application of the equity method in adopting IFRS.

The Saudi Methacrylates Company, which was an equity method associate under Japanese GAAP, became a joint operation under IFRS. This resulted in an increase of cash and cash equivalents.

(2) Inventories and trade payables

Under Japanese GAAP, the Group recognized revenue on sales mainly at the time of dispatch. Under IFRS, however, it recognizes revenue on sales when the significant risks and rewards associated with ownership of the goods is transferred, increasing inventories and trade payables.

(3) Other current assets and goodwill

Matheson Tri-Gas, Inc. changed its fiscal year-end from December 31 under Japanese GAAP to the consolidated reporting date of March 31 to align with the Company's year-end in conformity with IFRS. Transactions between the two dates thus increased other current assets and goodwill.

(4) Property, plant and equipment

In adopting IFRS, the Group utilized the deemed cost exemption in IFRS for certain property, plant and equipment. The carrying amount of the assets to which such deemed cost was applied was ¥41,010 million, and the corresponding fair value was ¥21,316 million. As a result, property, plant and equipment decreased.

(5) Intangible assets

Under Japanese GAAP, the Group recorded costs incurred in product and technology deployment agreements prior to seeking approval from the relevant authorities as part of research and development expenses. Under, IFRS, however, expenses meeting certain requirements are recorded as intangible assets, thus increasing intangible assets.

(6) Investments accounted for using equity method

In adopting IFRS, the Group increased its equity method investment income after reviewing the scope of application of the equity method, adding SPDC Ltd. as an affiliate.

(7) Other financial assets (non-current assets)

Under Japanese GAAP, the Group mainly measured unlisted shares at cost using the moving-average method. Under IFRS, however, the shares are measured at fair value, increasing other financial assets (non-current assets).

(8) Deferred tax assets and deferred tax liabilities

Under Japanese GAAP, the Group offset deferred tax assets and liabilities in their respective current and fixed classifications. Under IFRS, however, it has classified all deferred tax assets and liabilities as noncurrent, increasing offset amounts and decreasing deferred tax assets and deferred tax liabilities.

(9) Other financial liabilities (current liabilities)

Under Japanese GAAP, the Group applied special accounting procedures for interest rate swaps that satisfied certain requirements. Under IFRS, however, it measures these instruments at fair value, which increased other financial liabilities (current liabilities).

(10) Provisions for current and non-current liabilities

Under Japanese GAAP, the Group made provisions for large periodic repairs by posting to a reserve for periodical repairs. Under IFRS, however, the reserve does not satisfy the provision recognition requirements and has been reversed, thus decreasing provisions

(11) Other Current Liabilities

While Japanese GAAP did not recognize untaken paid leave, IFRS recognizes such entitlements as liabilities, thus increasing other current liabilities.

(12) Other Financial Liabilities (Non-Current Liabilities)

Under Japanese GAAP, the Group recognized expenses based on payments determined in operating lease agreements with free rents and other incentives. Under IFRS, however, it recognizes total lease payments, including incentives, on a straight-line basis throughout the lease periods, thus increasing other financial liabilities (non-current liabilities)

(13) Other Non-Current Liabilities

Under Japanese GAAP, the Group recognized lump-sum payments from technology licensing, joint sales and promotions as revenue at the time of receipt. Under IFRS, however, these items are booked as deferred revenue where contractual obligations are not fulfilled, and revenue is recognized throughout the periods in which the obligations are met, thus increasing other non-current liabilities.

(14) Retained Earnings

The impacts on retained earnings of reconciliations accompanying the adoption of IFRS are as follows. The amounts below are after adjustment for related tax effects and non-controlling interests.

Millions of yen	As of April 1, 2015 (Transition date)
Reconciliation of cumulative exchange differences on translation of foreign operations (Note 15)	¥ 57,567
Review of scope of equity method application (Note 6)	23,079
Reconciliation of large periodical repair costs (Note 10)	10,273
Reconciliation of paid leave obligations (Note 11)	(16,181)
Deemed cost (Note 4)	(14,615)
Other	(478)
Total reconciliation for retained earnings	¥ 59,645

(15) Other Components of Equity

The Group chose the exemption provisions under IFRS 1 transferring all cumulative exchange differences on translation of foreign operations to retained earnings as of the transition date of April 1, 2015.

(16) Reclassifications

In addition to the above classifications, the Group made reclassifications in conformity with IFRS requirements, of which the principal ones are set out below:

- Under Japanese GAAP, the Group included short-term time deposits with deposit terms exceeding three months in “cash and deposits,” but under IFRS they are included in “other financial assets” of current assets.
- Under Japanese GAAP, the Group included short-term investments with maturities of less than three months from the date of acquisition in “securities,” but under IFRS they are included in “cash and cash equivalents.”
- All of the current portion of deferred tax assets and liabilities has been reclassified as non-current.
- Assets that are very likely to be sold and readily available for sale are separately presented as “assets held for sale.”
- Subscription rights to shares were listed separately under Japanese GAAP but are included in “additional paid-in capital” under IFRS.

Reconciliation of Equity as of December 31, 2015

Millions of yen

Japanese GAAP line item	Japanese GAAP	Reclassification	Differences in recognition and measurement	IFRS	Note	IFRS line item
Assets:						Assets:
Current assets						Current assets
Cash and deposits	¥ 320,172	¥ 40,288	¥ 8,852	¥ 369,312	1	Cash and cash equivalents
Trade receivables	790,690	(4,366)	82,422	868,746	2	Trade receivables
Securities	137,502	(137,502)	–	–		
Inventories:						
Finished goods	306,603	(306,603)	–	–		
Work in process	91,273	(91,273)	–	–		
Raw materials and supplies	186,391	393,946	3,491	583,828	3	Inventories
Land held for sale	624	(624)	–	–		
	–	138,944	(6,184)	132,760	2	Other financial assets
Other	144,075	(79,027)	984	66,032		Other current assets
Allowance for doubtful accounts	(4,367)	4,367	–	–		
Subtotal	1,972,963	(41,850)	89,565	2,020,678		
	–	15,575	–	15,575		Assets held for sale
Total current assets	1,972,963	(26,275)	89,565	2,036,253		Total current assets
Non-current assets:						Non-current assets:
Property, plant and equipment	1,418,351	4,328	3,818	1,426,497	4	Property, plant and equipment
	–	250,140	15,304	265,444	5	Goodwill
	–	179,422	14,736	194,158	6	Intangible assets
Investments and other assets:						
Investment securities	312,307	(210,027)	27,332	129,612	7	Investments accounted for using the equity method
Goodwill	250,140	(250,140)	–	–		
	–	269,468	22,335	291,803	8	Other financial assets
Other	358,561	(310,485)	(2,202)	45,874	10	Other non-current assets
	–	92,274	(15,782)	76,492	9	Deferred tax assets
Allowance for doubtful accounts	(1,295)	1,295	–	–		
Total non-current assets	2,338,064	26,275	65,541	2,429,880		Total non-current assets
Total assets	¥ 4,311,027	¥ –	¥ 155,106	¥ 4,466,133		Total assets

Japanese GAAP line item	Japanese GAAP	Reclassification	Differences in recognition and measurement	IFRS	Note	IFRS line item
						Liabilities and equity
Liabilities:						Liabilities:
Current liabilities:						Current liabilities:
Trade payables	¥ 490,778	¥ (10,982)	¥ (4,340)	¥ 475,456	2	Trade payables
Short-term debt	442,915	(442,915)	–	–		
Current portion of long-term debt	271,505	442,915	120,530	834,950	2	Bonds and borrowings
Accrued income taxes	35,890	(2,194)	(1,511)	32,185	12	Income tax payable
	–	233,123	(26,801)	206,322	2	Other financial liabilities
	–	11,169	(5,108)	6,061	11	Provisions
Accrued expenses	91,575	(91,575)	–	–		
Other	217,706	(139,023)	28,219	106,902	13	Other current liabilities
Total current liabilities	1,550,369	518	110,989	1,661,876		Total current liabilities
Long-term liabilities:						Non-current liabilities:
Long-term debt	853,656	1	5,290	858,947	1	Bonds and borrowings
	–	24,506	2,292	26,798	14	Other financial liabilities
Net defined benefit liabilities	133,705	–	410	134,115		Retirement benefit liabilities
	–	27,665	(6,375)	21,290	11	Provisions
Other	171,429	(147,838)	18,258	41,849	15	Other non-current liabilities
	–	95,148	(6,704)	88,444	9	Deferred tax liabilities
Total long-term liabilities	1,158,790	(518)	13,171	1,171,443		Total non-current liabilities
Total liabilities	2,709,159	–	124,160	2,833,319		Total liabilities
Net assets:						Equity
Common stock	50,000	–	–	50,000		Common stock
Additional paid-in capital	317,535	523	(8)	318,050		Additional paid-in capital
Treasury stock	(16,239)	–	–	(16,239)		Treasury stock
Retained earnings	534,513	–	72,392	606,905	16	Retained earnings
Accumulated other comprehensive income	84,805	–	(43,489)	41,316	17	Other components of equity
Warrants	523	(523)	–	–		
	971,137	–	28,895	1,000,032		Equity attributable to owners of the parent
Non-controlling interests in consolidated subsidiaries	630,731	–	2,051	632,782		Non-controlling interests
Total net assets	1,601,868	–	30,946	1,632,814		Total equity
Total liabilities and net assets	¥ 4,311,027	¥ –	¥ 155,106	¥ 4,466,133		Total liabilities and equity

Note: Review of acquisition cost allocation

Although Japanese GAAP amounts in the above reconciliation table were based on the consolidated statements of financial position as of December 31, 2015, due to the completion of the acquisition cost allocation in respect of the business combination of Renegade Gas Pty Ltd at the end of the previous fiscal year, retrospective

amendments have been duly made. Accordingly, there have been increases of ¥816 million in property, plant and equipment, ¥657 million in other intangible fixed assets, and ¥442 million in deferred tax liabilities, and a decrease of ¥1,031 million in goodwill.

Notes on reconciliation of equity

(1) Cash and cash equivalents and bonds and borrowings (non-current liabilities)

The Group reviewed the scope of application of the equity method in adopting IFRS.

The Saudi Methacrylates Company, which was an equity method associate under Japanese GAAP, became a joint operation under IFRS. This resulted in an increase of cash and cash equivalents and bonds and borrowings (non-current liabilities).

(2) Trade receivables, other financial assets (current assets), operating liabilities, bonds and borrowings (current liabilities), and other financial liabilities (current liabilities)

Under Japanese GAAP, the Group derecognized all financial assets when transferring trade receivables used in securitized receivables transactions. Under IFRS, however, certain transfers do not meet the requirements for derecognition of financial assets for some trade receivables, so these assets are reported in both trade receivables and borrowings. Consequently, trade receivables and bonds and borrowings (current liabilities) increased, while other financial assets (current assets), trade payables and other financial liabilities (current liabilities) decreased.

(3) Inventories

Under Japanese GAAP, the Group recognized revenue on sales mainly at the time of dispatch. Under IFRS, however, it recognizes revenue on sales when the significant risks and rewards associated with ownership of the goods are transferred, thus increasing inventories.

(4) Property, plant and equipment

In adopting IFRS, the Group utilized the deemed costs exemption in IFRS for certain property, plant and equipment. The carrying amount of the assets to which such deemed cost was applied was ¥41,010 million, and the corresponding fair value was ¥21,316 million.

While the Group reviewed the scope of application in adopting IFRS, increasing property, plant and equipment by reclassifying The Saudi Methacrylates Company, which was an equity method associate under Japanese GAAP to a joint operation.

(5) Goodwill

The Group amortized goodwill over certain periods under Japanese GAAP, but under IFRS goodwill has increased because it is not amortized.

(6) Intangible assets

Under Japanese GAAP, the Group recorded costs incurred in product and technology deployment agreements prior to seeking approval from the relevant authorities as part of research and development expenses. Under, IFRS, however, expenses meeting certain requirements are recorded as intangible assets, thus increasing intangible assets.

(7) Investments accounted for using the equity method

In adopting IFRS, the Group increased its equity method investment income after reviewing the scope of application of the equity method, adding SPDC Ltd. as an associate.

(8) Other financial assets (non-current assets)

Under Japanese GAAP, the Group mainly measured unlisted shares at cost using the moving-average method. Under IFRS, however, such shares are measured at fair value, thus increasing other financial assets (non-current assets).

(9) Deferred tax assets and deferred tax liabilities

Under Japanese GAAP, the Group offset deferred tax assets and liabilities in their respective current and fixed classifications. Under IFRS, however, it has classified all deferred tax assets and liabilities as non-current, thus increasing offset amounts and decreasing deferred tax assets and deferred tax liabilities.

(10) Other non-current assets and retirement benefit liabilities

Under Japanese GAAP, the Group evaluated the defined benefit plan assets at fair value only at year-end. Under IFRS, however, it determines the fair value on a quarterly basis, causing other non-current assets to decrease.

(11) Provisions for current and non-current liabilities

Under Japanese GAAP, the Group made provisions for large periodic repairs by posting to a reserve for periodical repairs. Under IFRS, however, the reserve would not satisfy the provision requirements and has been reversed, thus decreasing provisions.

(12) Income tax payable

Under Japanese GAAP, the Group applied the same approach to calculating income taxes annually and quarterly. Under IFRS, however, it employs a convenient method using the estimated annual effective tax rate to calculate income tax expense, thereby decreasing income tax payable.

(13) Other current liabilities

While Japanese GAAP did not recognize untaken paid leave, IFRS recognizes such entitlements as liabilities, thus increasing other current liabilities.

(14) Other financial liabilities (non-current liabilities)

Under Japanese GAAP, the Group recognized expenses based on payments determined in operating lease agreements with free rents and other incentives. Under IFRS, however, it recognizes total lease payments, including incentives, on a straight-line basis throughout the lease periods, thus increasing other financial liabilities (non-current liabilities)

(15) Other non-current liabilities

Under Japanese GAAP, the Group recognized lump-sum payments from technology licensing, joint sales and promotions as revenue at the time of receipt. Under IFRS, however, these items are booked as deferred revenue where contractual obligations are not fulfilled, and revenue is recognized throughout the periods in which the obligations are met, thus increasing other non-current liabilities.

(16) Retained earnings

The impacts on retained earnings of reconciliations accompanying the adoption of IFRS are as follows. The amounts below are after adjustment for related tax effects and non-controlling interests.

Millions of yen	As of December 31, 2015
Reconciliation of cumulative exchange differences on translation of foreign operations (Note 17)	¥ 57,567
Review of scope of equity method application (Note 7)	26,785
Goodwill not amortized (Note 5)	14,516
Reconciliation of paid leave obligations (Note 13)	(16,221)
Deemed cost (Note 4)	(14,615)
Other	4,360
Total reconciliation for retained earnings	¥ 72,392

(17) Other components of equity

The Group chose exemption provisions under IFRS 1 transferring all cumulative exchange differences on translation of foreign operations to retained earnings as of the transition date of April 1, 2015.

(18) Reclassifications

In addition to the above classifications, the Group made reclassifications in conformity with IFRS requirements, of which the principal ones are set out below:

- Under Japanese GAAP, the Group included short-term time deposits with deposit terms exceeding three months in "cash and deposits," but under IFRS they are included in "other financial assets" of current assets.
- Under Japanese GAAP, the Group included short-term investments with maturities of less than three months from the date of acquisition in "securities," but under IFRS they are included in "cash and cash equivalents."
- All of the current portion of deferred tax assets and liabilities has been reclassified as non-current.
- Non-current assets that are highly likely to be sold and readily available for sale are separately presented as "assets held for sale."
- Subscription rights to shares were listed separately under Japanese GAAP but are included in "additional paid-in capital" under IFRS.

Reconciliation of Equity as of March 31, 2016

Millions of yen

Japanese GAAP line item	Japanese GAAP	Reclassification	Differences in recognition and measurement	IFRS	Note	IFRS line item
Assets:						Assets:
Current assets						Current assets
Cash and deposits	¥ 314,782	¥ (51,012)	¥ 3,378	¥ 267,148	1	Cash and cash equivalents
Trade receivables	703,996	(4,031)	69,129	769,094	2	Trade receivables
Securities	123,500	(123,500)	–	–		
Inventories:						
Finished goods	294,332	(294,332)	–	–		
Work in process	76,046	(76,046)	–	–		
Raw materials and supplies	176,922	366,111	6,428	549,461	3	Inventories
Land held for sale	526	(526)	–	–		
	–	220,794	(6,309)	214,485	2	Other financial assets
Deferred income taxes	32,339	(32,339)	–	–		
Other	99,091	(46,364)	464	53,191		Other current assets
Allowance for doubtful accounts	(4,032)	4,032	–	–		
Subtotal	1,817,502	(37,213)	73,090	1,853,379		
	–	3,338	–	3,338		Assets held for sale
Total current assets	1,817,502	(33,875)	73,090	1,856,717		Total current assets
Non-current assets:						Non-current assets:
Property, plant and equipment						
Buildings and structure, net	340,070	(340,070)	–	–		
Machinery, equipment and vehicles, net	584,748	(584,748)	–	–		
Land	304,888	(304,888)	–	–		
Construction in progress	88,551	(88,551)	–	–		
Other, net	72,470	(72,470)	–	–		
	–	1,395,372	8,065	1,403,437	4	Property, plant and equipment
	–	248,164	19,686	267,850	5	Goodwill
	–	175,185	20,351	195,536	6	Intangible assets
Investments and other assets						
Investment securities	266,926	(161,703)	23,849	129,072	7	Investments accounted for using the equity method
Long-term loans receivable	5,084	(5,084)	–	–		
Net defined benefit assets	17,811	(17,811)	–	–		
Goodwill	248,164	(248,164)	–	–		
	–	229,594	22,208	251,802	8	Other financial assets
	–	29,857	532	30,389		Other non-current assets
Deferred income taxes	62,211	32,339	(5,579)	88,971	9	Deferred tax assets
Other	254,538	(254,538)	–	–		
Allowance for doubtful accounts	(1,391)	1,391	–	–		
Total non-current assets	2,244,070	33,875	89,112	2,367,057		Total non-current assets
Total assets	¥4,061,572	¥ –	¥162,202	¥4,223,774		Total assets

Japanese GAAP line item	Japanese GAAP	Reclassification	Differences in recognition and measurement	IFRS	Note	IFRS line item
						Liabilities and equity
Liabilities:						Liabilities:
Current liabilities:						Current liabilities:
Trade payables	¥ 408,315	¥ (11,937)	¥ (2,313)	¥ 394,065	2	Trade payables
Short-term debt	424,688	(424,688)	–	–		
Current portion of long-term debt	178,481	424,688	103,536	706,705	2	Bonds and borrowings
Accrued income taxes	39,914	(3,498)	18	36,434		Income tax payable
	–	208,121	(22,181)	185,940	2	Other financial liabilities
Accrued expenses	108,629	(108,629)	–	–		
	–	13,508	(9,905)	3,603	10	Provisions
Other	186,217	(97,406)	26,144	114,955	11	Other current liabilities
Total current liabilities	1,346,244	159	95,299	1,441,702		Total current liabilities
Long-term liabilities:						Non-current liabilities:
Long-term debt	862,583	1	10,286	872,870	1	Bonds and borrowings
	–	24,867	4,152	29,019	12	Other financial liabilities
Net defined benefit liabilities	143,713	–	466	144,179		Retirement benefit liabilities
	–	26,040	(2,424)	23,616	10	Provisions
Other	154,504	(128,260)	15,143	41,387	13	Other non-current liabilities
	–	77,193	(2,343)	74,850	9	Deferred tax liabilities
Total long-term liabilities	1,160,800	(159)	25,280	1,185,921		Total non-current liabilities
Total liabilities	2,507,044	–	120,579	2,627,623		Total liabilities
Net assets:						Equity
Common stock	50,000	–	–	50,000		Common stock
Additional paid-in capital	317,037	515	(8)	317,544		Additional paid-in capital
Treasury stock	(16,240)	–	–	(16,240)		Treasury stock
Retained earnings	549,430	–	61,479	610,909	14	Retained earnings
Accumulated other comprehensive income	32,025	–	(22,041)	9,984	15	Other components of equity
Warrants	515	(515)	–	–		
	932,767	–	39,430	972,197		Equity attributable to owners of the parent
Non-controlling interests in consolidated subsidiaries	621,761	–	2,193	623,954		Non-controlling interests
Total net assets	1,554,528	–	41,623	1,596,151		Total equity
Total liabilities and net assets	¥4,061,572	¥ –	¥162,202	¥4,223,774		Total liabilities and equity

Notes on reconciliation of equity

(1) Cash and cash equivalents and bonds and borrowings (non-current liabilities)

The Group reviewed the scope of application of the equity method in adopting IFRS.

The Saudi Methacrylates Company, which was an equity method associate under Japanese GAAP, became a joint operation under IFRS. This resulted in an increase of cash and cash equivalents and bonds and borrowings (non-current liabilities).

(2) Trade receivables, other financial assets (current assets), operating liabilities, corporate bonds and borrowings (current liabilities), and other financial liabilities (current liabilities)

Under Japanese GAAP, the Group derecognized all financial assets when transferring trade receivables used in securitized receivables transactions. Under IFRS, however, certain transfers do not meet the requirements for derecognition of financial assets for some trade receivables, so these assets are reported in both trade receivables and borrowings. Consequently, trade receivables and bonds and borrowings (current liabilities) increased, while other financial assets (current assets), trade payables and other financial liabilities (current liabilities) decreased.

(3) Inventories

Under Japanese GAAP, the Group recognized revenue on sales mainly at the time of dispatch. Under IFRS, however, it recognizes revenue on sales when the significant risks and rewards associated with ownership of the goods are transferred, which increased inventories and trade payables.

(4) Property, plant and equipment

In adopting IFRS, the Group utilized the deemed cost exemption in IFRS for certain property, plant and equipment. The carrying amount of the assets to which such deemed cost was applied was ¥41,010 million and the corresponding fair value was ¥21,316 million. As a result, property, plant and equipment decreased.

While the Group reviewed the scope of application in adopting IFRS, increasing property, plant and equipment by reclassifying The Saudi Methacrylates Company, which was an equity method associate under Japanese GAAP to a joint operation.

(5) Goodwill

The Group amortized goodwill over certain periods under Japanese GAAP, but under IFRS goodwill has increased because it is not amortized.

(6) Intangible assets

Under Japanese GAAP, the Group recorded costs incurred in product and technology deployment agreements prior to seeking approval from the relevant authorities as part of research and development expenses. Under IFRS, however, expenses meeting certain requirements are recorded as intangible assets, thus increasing intangible assets.

(7) Investments accounted for using the equity method

In adopting IFRS, profit of equity-method investments increased following a review of the scope of application of the equity method with SPDC Ltd. added as an associate.

(8) Other financial assets (non-current assets)

Under Japanese GAAP, the Group mainly measured unlisted shares at cost using the moving-average method. Under IFRS, however, such shares are measured at fair value, which increased other financial assets (non-current assets).

(9) Deferred tax assets and deferred tax liabilities

Under Japanese GAAP, the Group offset deferred tax assets and liabilities in their respective current and fixed classifications. Under IFRS, however, it has classified all deferred tax assets and liabilities as non-current, which increased the offset amounts and decreased deferred tax assets and deferred tax liabilities.

(10) Provisions for current and non-current liabilities

Under Japanese GAAP, the Group made provisions for large periodic repairs by posting to a reserve for periodical repairs. Under IFRS, however, the reserve would not satisfy the provision recognition requirements and has been reversed, thus decreasing provisions.

(11) Other current liabilities

While Japanese GAAP did not recognize untaken paid leave, IFRS recognizes such entitlements as liabilities, thus increasing other current liabilities.

(12) Other financial liabilities (non-current liabilities)

Under Japanese GAAP, the Group applied special accounting procedures for interest rate swaps that satisfied certain requirements. Under IFRS, however, it measures these instruments at fair value, thus increasing other financial liabilities (non-current liabilities).

(13) Other non-current liabilities

Under Japanese GAAP, the Group recognized lump-sum payments from technology licensing, joint sales and promotions as revenue at the time of receipt. Under IFRS, however, these items are booked as deferred revenue where contractual obligations are not fulfilled, and revenue is recognized throughout the periods in which the obligations are met, thus increasing other non-current liabilities.

(14) Retained earnings

The impacts on retained earnings of reconciliations accompanying the adoption of IFRS are as follows. The amounts below are after adjustment for related tax effects and non-controlling interests.

Millions of yen	As of March 31, 2016
Reconciliation of cumulative exchange differences on translation of foreign operations (Note 15)	¥ 57,567
Review of scope of equity method application (Note 7)	23,462
Goodwill not amortized (Note 5)	20,115
Reconciliation of paid leave obligations (Note 11)	(16,119)
Deemed cost (Note 4)	(14,615)
Transfer to retained earnings of components of other capital resulting from remeasurements of defined benefit retirement plans	(11,799)
Other	2,868
Total reconciliation for retained earnings	¥ 61,479

(15) Other Components of Equity

The Group chose to utilize the exemption provision under IFRS 1 transferring all cumulative exchange differences on translation of foreign operations to retained earnings as of the transition date of April 1, 2015.

(16) Reclassifications

In addition to the above classifications, the Group made reclassifications in conformity with IFRS requirements, of which the principal ones are set out below:

- Under Japanese GAAP, the Group included short-term time deposits with deposit terms exceeding three months in “cash and deposits”, but under IFRS they are included in “other financial assets” of current assets.
- Under Japanese GAAP, the Group included short-term investments with maturities of less than three months from the date of acquisition in “securities,” but under IFRS they are included in “cash and cash equivalents.”
- All of the current portion of deferred tax assets and liabilities has been reclassified as non-current.
- Non-current assets that are very likely to be sold and readily available for sale are separately presented as “assets held for sale.”
- Subscription rights to shares were listed separately under Japanese GAAP but are included in “capital surplus” under IFRS.

Note on Reconciliation of Cash Flow for nine Months Ended December 31, 2015, and Year Ended March 31, 2016

The principal differences between consolidated statements of cash flows under Japanese GAAP and IFRS relate to receivable transferred without satisfying derecognition requirements for financial assets and changes to the reporting periods of consolidated subsidiaries.

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